

APPENDIX

The Shares of The Two Communities From The First Three Financial Protocols

Protocols	Turkish Cypriots		Greek Cypriots		Total	
	Million ECU	Percentage	Million ECU	Percentage	Million ECU	Percentage
First Protocol						
1979-1983	6	20	24	80	30	100
Second Protocol						
1984-1998	2.2	5	41.8	95	44	100
Third Protocol						
1990-1993	0	0	62	100	62	100
Total	8.2	6	127.8	94	136	100

Source; Christopher Brewin, **The European Union and Cyprus**, Eothen Press, 2000, p.56.

**Main Economic and Social Indicators of TRNC
(1977-1999)**

	1977	1996	1997	1998	1999
GNP (Current Prices Million TL)	3,810.5	63,576,940.3	117,683,403.8	233,660,805.3	407,069,775.4
GNP (1977 Prices Million TL)	3,810.5	7,673.4	7,990.4	8,468.1	9,090.8
GNP (Million \$)	209.4	773.9	759.8	890.5	963.9
Real Growth Rate (%)		2.9	4.1	6.0	7.4
GNP Per Capita (Current Prices TL)	26,279	346,865,297	582,839,247	1,144,134,192	1,970,690,521
GNP Per Capita (1977 Prices TL)	26,279	41,865	39,573	41,465	44,010
GNP Per Capita (\$)	1,444	4,222	3,763.6	4,361	4,666
Inflation Rate (%)		87.5	81.7	66.5	55.3
Budget Deficit (Million \$) ¹	20.0	32.0	38.7	91.8	114.1
Bank Deposits (Million \$) ²	93.4	581.3	659.1	735.7	837.2
Foreign Exchange Rezerves (Milyon \$)	2.4	513.8	510.0	622.3	654.4
Export (Million \$)	23.9	70.5	57.7	53.4	52.4
Import (Million \$)	82.0	318.4	356.6	430.5	412.7
Foreign Trade Balance (Million \$)	-58.1	-247.9	-298.9	-377.1	-360.3
Export / Import (%)	29.1	22.1	16.2	12.4	12.7
Tourist Arrivals	113,146	365,116	399,364	393,027	414,015
Turkey	108,016	289,131	326,364	315,797	334,400
Other	5,130	75,985	73,000	77,230	79,615
Net Tourism Revenues (Million \$)	30.2	175.6	183.2	186.0	192.8
Employment	44,795	80,314	83,204	85,013	87,515
Number of Unemployed	1,337	946	754	836	957
Unemployment Rate (%)	2.90	1.16	0.90	0.98	1.08
Net Electricity Consumption (Million KWH) ³	154.6	454.5	472.3	511.8	535.6
Electricity Consumption Per Capita (KWH)	1,066	2,480	2,339	2,506	2,593
Oil Product Consumption Per Capita (Lt.) ⁴	406	693	700	786	872
Automobile Per 1000 Person ⁵	87	327	336	360	384
Telephone Per 1000 Person	46	391	381	407	411
Cellular Phone Per 1000 Person		37	86	156	431

¹ Foreign aid is not included.

² Includes Turkish Lira and Foreign currency deposits.

³ Consumption within the power plant and network losses are excluded.

⁴ Benzine, diesel fuel and gasoline sales are considered.

⁵ Number of Saloon and estate cars is considered.

⁶ The sharp decline in GNP per Capita is due to the population estimate based on the 1996 General Census.

Source: http://www.devplan.org/eng_ind.html

**Main Economic and Social Indicators of TRNC
(2000-2004)**

	2000	2001	2002	2003	2004
GNP (Current Prices Million TL)	651,380,055.0	1,070,424,473.0	1,418,703,263.6	1,907,070,964.0	2,520,806,747.4
GNP (1977 Prices Million TL)	9,037.9	8,545.9	9,133.1	10,177.1	11,739.6
GNP (Million \$)	1,039.9	908.8	941.4	1,283.7	1,765.2
Real Growth Rate (%)	-0.6	-5.4	6.9	11.4	15.4
GNP Per Capita (Current Prices TL)	3,118,351,900	5,068,513,682	6,645,260,285	8,837,624,376	11,559,833,937
GNP Per Capita (1977 Prices TL)	43,267	40,465	42,780	47,162	53,835
GNP Per Capita (\$)	4,978	4,303	4,409	5,949	8,095
Inflation Rate (%)	53.2	76.8	24.5	12.6	11.6
Budget Deficit (Million \$) ¹	136.7	146.1	225.1	176.9	104.2
Bank Deposits (Million \$) ²	802.7	805.4	1,153.5	1,785.9	2,355.8
Foreign Exchange Reserves (Milyon \$)	631.9	722.6	941.6	1,222.6	1,544.6
Export (Million \$)	50.4	34.6	45.4	50.8	62.0
Import (Million \$)	424.9	272.0	309.6	477.8	853.1
Foreign Trade Balance (Million \$)	-374.5	-237.4	-264.2	-427.0	-791.1
Export / Import (%)	11.9	12.7	14.7	10.6	7.3
Tourist Arrivals	432,953	365,097	425,556	469,867	599,012
Turkey	347,712	277,739	316,193	340,083	434,744
Other	85,241	87,358	109,363	129,784	164,268
Net Tourism Revenues (Million \$)	198.3	93.7	114.1	178.8	288.3
Employment	89,327	90,366	93,114	98,860	104,873
Number of Unemployed	1,166	1,500	1,535	1,375	1,814
Unemployment Rate (%)	1.29	1.63	1.62	1.37	1.70
Net Electricity Consumption (Million KWH) ³	609.5	592.9	601.7	616.0	705.7
Electricity Consumption Per Capita (KWH)	2,918	2,807	2,818	2,854	3,236
Oil Product Consumption Per Capita (Lt.) ⁴	780	730	746	817	971
Automobile Per 1000 Person ⁵	402	407	415	432	475
Telephone Per 1000 Person	416	408	411	421	445
Cellular Phone Per 1000 Person	684	678	691	831	1,009

¹ Foreign aid is not included.

² Includes Turkish Lira and Foreign currency deposits.

³ Consumption within the power plant and network losses are excluded.

⁴ Benzine, diesel fuel and gasoline sales are considered.

⁵ Number of Saloon and estate cars is considered.

⁶ The sharp decline in GNP per Capita is due to the population estimate based on the 1996 General Census.

Source: http://www.devplan.org/eng_ind.html

Sectoral Developments in GNP (1977-1999)

Sectors	1977	1996	1997	1998	1999
1. Agriculture	619.3	6,129,290.1	8,278,463.6	18,075,858.1	32,647,771.2
1.1. Crop Production	453.8	3,427,117.1	3,912,750.6	9,129,001.3	17,057,377.7
1.2. Livestock Production	140.3	2,240,698.0	3,834,364.0	7,689,166.5	13,405,247.4
1.3. Forestry	4.2	139,271.5	42,850.9	74,315.8	294,344.2
1.4. Fishing	21.0	322,203.5	488,498.1	1,183,374.5	1,890,801.9
2. Industry	365.1	8,283,677.9	15,701,934.1	28,038,334.1	42,726,134.8
2.1. Quarrying	8.9	427,904.8	838,624.4	1,492,631.8	2,248,236.5
2.2. Manufacturing	317.2	4,952,157.2	9,499,365.3	15,710,065.3	25,314,468.5
2.3. Electricity-Water	39.0	2,903,615.9	5,363,944.4	10,835,637.0	15,163,429.8
3. Construction	153.0	1,880,364.5	5,132,410.1	10,131,978.4	16,468,983.9
4. Trade-Tourism	801.0	9,147,311.7	19,413,754.5	38,312,545.4	69,060,910.6
4.1. Wholesale and Retail Trade	701.3	6,400,410.6	14,061,675.1	27,157,588.3	46,746,132.2
4.2. Hotels and Restaurants	99.7	2,746,901.1	5,352,079.4	11,154,957.1	22,314,778.4
5. Transport-Communication	257.4	6,557,584.6	12,329,887.7	22,712,786.8	44,489,843.8
6. Financial Institutions	115.4	6,878,817.2	11,043,010.0	18,702,391.5	25,815,393.3
7. Ownership of Dwellings	355.3	1,340,915.2	3,102,953.6	6,375,054.6	10,302,508.9
8. Business and Personal Services	128.1	6,212,406.1	9,405,482.9	20,675,570.6	38,261,702.8
9. Public Services	752.7	12,323,927.4	22,577,205.8	49,485,813.4	91,039,028.9
10. Import Duties	228.2	4,526,903.8	10,362,183.0	18,823,123.7	32,815,649.5
11. GDP	3,775.5	63,281,198.5	117,347,285.3	231,333,456.6	403,627,927.7
12. Net Factor Income From Abroad	35.0	295,741.8	336,118.5	2,327,348.7	3,441,847.7
GNP	3,810.5	63,576,940.3	117,683,403.8	233,660,805.3	407,069,775.4

Source: http://www.devplan.org/eng_ind.html

Sectoral Developments in GNP (2000-2004)

Sectors	2000	2001	2002	2003	2004
1. Agriculture	44,740,397.7	78,627,217.0	125,668,938.8	176,365,031.8	222,993,161.4
1.1. Crop Production	23,638,689.0	41,011,860.7	75,400,813.5	109,587,114.6	135,405,526.6
1.2. Livestock Production	18,009,515.3	33,916,132.7	43,670,587.5	61,138,072.0	75,763,647.8
1.3. Forestry	484,005.8	253,430.7	389,327.1	365,732.3	813,571.0
1.4. Fishing	2,608,187.6	3,445,792.9	6,208,210.7	5,274,112.9	11,010,416.0
2. Industry	68,385,932.1	121,736,377.0	157,576,560.4	191,426,017.9	231,046,611.0
2.1. Quarrying	3,866,754.8	5,973,198.2	7,823,663.0	11,094,473.8	13,109,133.2
2.2. Manufacturing	36,853,966.9	57,236,816.9	74,178,656.2	97,153,553.3	118,634,340.9
2.3. Electricity-Water	27,665,210.4	58,526,361.9	75,574,241.2	83,177,990.8	99,303,136.9
3. Construction	28,934,272.9	38,923,294.0	62,012,967.1	93,301,912.1	106,808,649.0
4. Trade-Tourism	104,703,253.7	165,151,924.5	215,553,627.8	300,879,734.5	391,227,279.3
4.1. Wholesale and Retail Trade	65,005,980.0	109,111,187.1	134,383,446.5	180,437,962.2	264,236,699.3
4.2. Hotels and Restaurants	39,697,273.7	56,040,737.4	81,170,181.3	120,441,772.3	126,990,580.0
5. Transport-Communication	84,621,650.4	133,453,268.5	185,264,817.9	221,109,706.3	257,580,209.2
6. Financial Institutions	41,620,313.4	92,762,971.3	89,952,347.0	115,256,266.8	187,245,581.7
7. Ownership of Dwellings	15,787,564.6	28,508,816.3	41,431,859.9	50,851,059.5	61,591,937.3
8. Business and Personal Services	52,134,500.2	133,995,824.5	138,860,124.0	152,767,569.2	225,376,845.3
9. Public Services	155,998,145.8	199,156,534.7	277,867,134.2	404,604,239.3	510,392,550.4
10. Import Duties	53,038,365.4	76,836,146.0	113,513,407.6	170,842,157.1	262,481,261.1
11. GDP	649,964,396.2	1,069,152,373.8	1,407,701,784.7	1,877,403,694.5	2,456,744,085.7
12. Net Factor Income From Abroad	1,415,658.8	1,272,099.2	11,001,478.9	29,667,269.5	64,062,661.7
GNP	651,380,055.0	1,070,424,473.0	1,418,703,263.6	1,907,070,964.0	2,520,806,747.4

Source: http://www.devplan.org/eng_ind.html

Chronology of EU - Turkey relations:

- **February 1952:** Turkey becomes a full member of NATO.
- **September 1959:** Turkey applies to the European Economic Community to become an associate member.
- **September 1963:** The Ankara Agreement (an association agreement) is signed to take Turkey to Customs Union and finally to full EEC membership. The first financial protocol is also signed.
- **July 1970:** Turkey and the now-named European Communities sign an agreement foreseeing Turkey's eventual full membership of the block.
- **November 1970:** The Additional Protocol and the second financial protocol signed in Brussels.
- **January 1973:** The Additional Protocol enters into force. It sets out comprehensively how the Customs Union would be established.
- **July 1974:** Turkey invades Cyprus by sea and air following the failure of diplomatic efforts to resolve conflicts between Turkish and Greek Cypriots. After gaining control over 40% of the island, Turkey unilaterally declares a ceasefire.
- **February 1975:** Turkish Cypriots establish their own state in the north of the island. Later that year Turkey takes control of most of the US installations within that territory, except the joint defence base at Incirlik, which it reserves for "NATO tasks alone".
- **1978-79:** The EC suggests that Turkey applies for membership along with Greece. Ankara declines the suggestion.

- **During the first half of the 1980s** relations between Turkey and the Community come to a virtual freeze following the military coup d'état on 12 September 1980.
- **June 1980:** The Association Council decides to decrease customs duties on almost all agricultural products to “zero” by 1987.
- **1983:** Northern Cyprus declares its territory as the Turkish Republic of Northern Cyprus. The state is recognized by no one else but mainland Turkey.
- **May 1984:** The Council of Europe accepts the participation of Turkish parliamentarians.
- **September 1986:** The Turkey-EEC Association Council meeting revives the association process.
- **January 26 1987:** Turkey recognizes the right of its citizens to file complaints with the European human rights commission.
- **April 1987:** Turkey applies to the EC for full membership.
- **December 1989:** The European commission endorses Turkey's eligibility for membership but defers the assessment of its application.
- **March 1995:** Turkey-EU Association Council finalizes the agreement on the Customs Union, which enters into force on 1 January 1996.
- **January 1996:** A Customs Union between the now-named European Union and Turkey enters into force. Turkey abolishes duties on imports of industrial goods from EU nations, as other EU member states have already done.
- **December 1997:** At the Luxembourg Summit, EU leaders decline to grant candidate status to Turkey.

- **December 1999:** EU Helsinki Council decides on the candidate status to Turkey.
- **March 2001:** The EU Council of Ministers adopts EU-Turkey Accession Partnership.
- **March 2001:** The Turkish government adopts the National Programme of Turkey for the adoption of EU laws.
- **September 2001:** Turkish parliament adopts over 30 amendments to the constitution in order to meet the Copenhagen political criteria for EU membership.
- **October 2001:** Turkey overhauls much of its military-drafted constitution to fulfill EU political criteria.
- **August 2002:** The Turkish Parliament passes sweeping reforms to meet the EU's human rights criteria.
- **November 2002:** The conservative Justice and Development party, which has Islamic roots, wins a general election partially on a pledge to drive forward Turkey's sagging EU bid.
- **December 2002:** The Turkish Parliament overwhelmingly approves a package of human rights reforms, including sanctions against torture, but stops short of full ratification pending technical procedures.
- **December 2002:** The Copenhagen European Council resolves that if the European Council in December 2004, on the basis of a report and a recommendation from the Commission, decides that Turkey fulfills the Copenhagen political criteria, the EU would open accession negotiations with Turkey. In the meantime, EU leaders have agreed to extend and deepen co-operation on the EC-Turkey Customs Union and to provide Turkey with increased pre-accession financial assistance.

- **May 2003:** The EU Council of Ministers decides on the principles, priorities, intermediate objectives and conditions of the Accession Partnership with Turkey.
- **January 2004:** Turkey signs protocol banning death penalty in all circumstances, a move welcomed by the EU.
- **March 2004:** Council of Europe recommends ending monitoring of Turkey.
- **October 2004:** Commission issues progress report on Turkey.
- **December 2004:** European Council decided to open accession negotiations with Turkey on 3 October 2005 with strings attached.
- **May 2005:** Turkey names Economy Minister Ali BABACAN as the country's chief accession negotiator.
- **June 2005:** Turkey's revised penal code, first adopted in September 2004, enters into force.
- **June 2005:** The Council reiterates the EU's determination to proceed with the enlargement process.
- **June 2005:** The Commission presents its "rigorous" negotiating framework to Ankara.
- **July 2005:** Turkey signs protocol to Ankara agreement, extending EU-15 CU to the ten new member states including Cyprus, Ankara also issues a declaration on the non-recognition of Cyprus.
- **September 2005:** The EU approves its counter-declaration on Turkey's 29 July declaration.

- **October 2005:** Accession talks symbolically opened with Turkey.

PROTOCOL SIGNED BETWEEN TURKISH REPUBLIC AND TRNC

Milletlerarası Andlaşma

Karar Sayısı : 2005/9187

4 Haziran 2005 tarihinde Lefkoşa’da imzalanan ekli “Türkiye Cumhuriyeti Hükümeti ile Kuzey Kıbrıs Türk Cumhuriyeti Hükümeti Arasında Ekonomik ve Mali İşbirliği Protokolü’ne Ek Protokol”ün onaylanması; Dışişleri Bakanlığının 11/7/2005 tarihli ve KDGY/285316 sayılı yazısı üzerine, 31/5/1963 tarihli ve 244 sayılı Kanunun 3 üncü ve 5 inci maddelerine göre, Bakanlar Kurulu’nca 14/7/2005 tarihinde kararlaştırılmıştır.

Ahmet Necdet SEZER

CUMHURBAŞKANI

Recep Tayyip
ERDOĞAN Başbakan
A.GÜL

Dışişleri Bak. ve
Başb. Yrd.

A. BABACAN
Devlet Bakanı

C. ÇİÇEK
Adalet Bakanı
H.ÇELİK
Milli Eğitim Bakanı
M. M. EKER

A. ŞENER Devlet
Bak. ve Başb. Yrd.

M. AYDIN Devlet
Bakanı

M. V.GÖNÜL Milli
Savunma Bakanı

F. N.ÖZAK
Bayındırlık ve İskan
Bakanı

M. BAŞESGİOĞLU
Çalışma ve Sosyal
Güvenlik Bakanı

M. A. ŞAHİN

N. ÇUBUKÇU
Devlet Bakanı

A.AKSU
İçişleri Bakanı

R.AKDAĞ
Sağlık Bakanı

A. COŞKUN
Sanayi ve Ticaret
Bakanı

B. ATALAY

K. TÜZMEN
Devlet Bakanı

K.UNAKITAN
Maliye Bakanı

B. YILDIRIM
Ulaştırma Bakanı

Tarım ve Köyişleri
Bakanı

M.H.GÜLER

Enerji ve Tabii
Kaynaklar Bakanı

A. KOÇ
Kültür ve Turizm
bakanı

O. PEPE
Çevre ve Orman
Bakanı

**Türkiye Cumhuriyeti Hükümeti ile Kuzey Kıbrıs Türk Cumhuriyeti Hükümeti
Arasında Ekonomik ve Mali İşbirliği Protokolü'ne
Ek Protokol**

Türkiye Cumhuriyeti (T.C.) Hükümeti ile Kuzey Kıbrıs Türk Cumhuriyeti (KKTC) Hükümeti,

a) KKTC Ekonomisinin güçlendirilmesi, sürdürülebilir kalkınma hızına kavuşturulması, üretim düzeyi ve refah seviyesinin yükseltilmesi,

b) Kamunun tümüyle yeniden yapılandırılması ve bu suretle kamu kesiminin ekonomi içindeki payının küçültülmesi,

c) Kamu kesiminin küçültülmesi ile sağlanan tasarruflar da dahil olmak üzere sağlanacak kaynaklarla öncelikle Reel Sektörün desteklenmesi ve sorunlarının çözülmesi,

amacıyla işbu Ek Protokol içeriği hükümlerin ve bu Protokolün ekinde yer alan “Yeniden Yapılandırma ve Ekonomik Kalkınma Programı”nın uygulanmasını taahhüt etmişlerdir.

Bu çerçevede;

1- Kuzey Kıbrıs Türk Cumhuriyeti Hükümeti, “Yeniden Yapılandırma ve Ekonomik Kalkınma Programı”nda yer alan yükümlülüklerini ve Teknik Heyetler arasında mutabakat sağlanan hususları belirlenen takvim çerçevesinde yerine getirecektir.

2- Türkiye Cumhuriyeti Hükümeti, 18.4.2003 tarihli Protokolün süresi 2006 yılına uzatılmış olup, sözkonusu Protokol ile taahhüt edilen 450.000.000 ABD dolarlık finansman desteğinin bakiyesinin transferine ve teknik yardıma devam edecektir.

Ayrıca, sözkonusu miktarın transferinden sonra Türkiye Cumhuriyeti 2005 Mali Yılı Bütçesinin ilgili tertibinde yer alan ödenekten kalan miktar çerçevesinde ilave 100.000.000 ABD dolarına kadar bir miktar daha 2005 ve 2006 yıllarında kredi yardımıyla bulunacaktır. Bu yardım da Türkiye Cumhuriyeti ve Kuzey Kıbrıs Türk Cumhuriyeti Hükümetleri arasında koşulları ve karşılıklı mükellefiyetleri belirlenecek Kredi Anlaşmaları imzalanarak yapılacaktır.

3- 18.4.2003 tarihli Ekonomik ve Mali İşbirliği Protokolü ve bu Ek Protokolde taahhüt edilen finansman destekleri, programda öngörülen yükümlülüklerin KKTC tarafınca yerine getirilmesine paralel olarak, T.C. Teknik Heyeti Kararı ve Kıbrıs İşlerinden Sorumlu

Bakan'ın onayı ile dilimler halinde aktarılacak ve T.C. Lefkoşa Büyükelçiliği Yardım Heyeti Başkanlığınca serbest bırakılacaktır.

4- İş Bu Protokol, tarafların kendi mevzuatları uyarınca yasal işlemleri tamamladıklarını belirten son bildirim tarihinden itibaren yürürlüğe girecektir.

İşbu protokol 04/06/ 2005 tarihinde, Lefkoşa'da 2 asıl nüsha olarak imzalanmıştır.

TÜRKİYE CUMHURİYETİ

KUZEY KIBRIS TÜRK CUMHURİYETİ

HÜKÜMETİ ADINA

HÜKÜMETİ ADINA

Doç. Dr. Abdüllatif ŞENER

Ferdi Sabit SOYER

Devlet Bakanı ve

Başbakan

Başbakan Yardımcısı

Sayı: 44/1996

GÜMRÜK VERGİLERİ TARİFE YASASI

İKİNCİ KISIM Gümrük Vergileri

3. Bu Yasa'da veya diğer gümrük mevzuatında aksi kural bulunmadıkça, II. Cetvel'de belirtilen bütün malların:

- 1) Devlete ithal edilmelerinden sonar iç tüketime sunulmak üzere gümrüklenmeleri; veya
- 2) Gümrük ve İstihsal Yasası'nın 22'nci maddesinin, uygulandığı hallerde ibraz edilen giriş yük bildirgesinde (manifestosunda) gösterilmelerine karşın, sözkonusu Yasa'nın 29'uncu maddesinin (2)'nci fıkrasında öngörüldüğü şekilde izah ve hesabının verilmemesi halinde, bu Yasa'nın 9'uncu ve 10'uncu maddelerinin kapsamına giren sözkonusu Cetvel'deki malların yine aynı Cetvel'de karşılardaki sütunda sırasıyla gösterilen oranda ve bu Yasa'da bundan böyle gümrük vergisi olarak anılacak olan vergiler, Devlet yararına yüklenir, konur, tahsil edilir ve ödenir. Ancak, ithal edilen ve üzerinden alınması gereken Gümrük Vergisi'nin tutarı 10 ABD Doları Karşılığı TL'ni geçmeyen hediyeler üzerinden maddesi kuralları uyarınca mallara genel gümrük vergisi oranı uygulanır ve gümrükleme tarihinden başlayarak 3 ay içerisinde anılan belgelerin ibrazı ile fazla ödenen gümrük vergisi iade edilir.
- 3) (A) V. Cetvelde belirlenen ülkelerden, imal edilmiş tütün dışında, yolcu beriberi veya posta kanalıyla ithal edilmiş mallara, bu maddenin (1)'inci fıkrasında öngörülen ülkelerde yetiştirilen, üretilen veya imal edilen malların;
 - (a) Satış amacıyla getirilmiş olmaması; ve
 - (b) Gönderilen malın kıymetinin 10,000 ABD Dolarını veya yolcu beraberide getirilen malın kıymeti 50,000 ABD Doları'nın üzerinde olmaması; hallerinde Müdürün uygun görüp koyacağı koşullara bağlı kalınarak dolaşım ve menşee belgesi aranmadan bu Yasa'daki AB, EFTA Vergi oranları uygulanmasına gidilebilir.
 - (c) Yukarıda (a) ve (b) bendlerindeki kurallar T.C.'ne de uygulanır.

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CONCLUSION

Since Second World-War regional integration agreements have been formed between countries which are geographically close to each other and have social, economic, cultural and political ties.

In the case of TRNC, TRNC have been isolated from the world by non-recognition except Turkey and by economic and political embargoes with the propagandas of the GCA against the Turkish Cypriots. Because of her smaller size economies of scale TRNC needs an economic integration either with the EU or with her main land Turkey, in order to enlarge its market for the larger scale production and specializing on some products or services to overcome her isolation from the world both economically and politically.

Because of the Cyprus stayed at the colony of UK, strong links were established between UK and Cyprus between the periods 1924-1960 under common wealth. After the establishment of Cyprus Republic at 1960, the UK had become a very important market for Cyprus. An association agreement between Cyprus and the EC was signed on December 1972 and entered into force on 1 June 1973.²⁵⁷ This agreement was aimed to bereft both Turks and Greeks in Cyprus. But, when we look at the relationships between Cyprus and EU we can easily see that EU did not threat both communities (Turks and Greeks) equally. This point is clear, when the shares of TRNC inside the financial protocols (aids and credits) are analyzed (See Appendix). Furthermore, the court judgment, which banned the exports of agricultural products to the EU, is another unequal treatment to the Turkish Cypriots.

During 1980's while TRNC was only recognized by Turkey, Greek Cypriots acted like they were the only representative of the island. Not only the flag of Cyprus, but also ministries which belonged to Turkish Cypriots, military service, police etc were all invaded by the Greek Cypriots.²⁵⁸

²⁵⁷Christopher Brewin, *The European Union and Cyprus*, The Eothen Press, England, 2000, p.36.

²⁵⁸<http://www.usak.org.uk/junction.asp?mod=articles&st=PrintArticleDetail&id=169&lm=58649JLFD0932&ln=TR-29k> (20 July 2006)

Unrecognition was not the only problem Turkish Cypriots suffered. At first, their export of potatoes and citrus fruits to European countries was banned. They started to not to even post a letter. To send a postcard from Europe or USA to TRNC you needed to write Turkey's address first. World acted like TRNC do not exist. They acted like they do not see her. Sport teams of Turkish Cypriots could not even join to the sports competitions. It became impossible to have direct transportation by plane to TRNC.

Of course during 1980's, as she did in 1960's and 1970, United Nations (UN) continued their works as interventionist role, reconciler role etc. which were not useful.

Scenario continued in the same way 1990's. Meetings, failings, reconcilations, non ending plans...etc followed each other.

The GCA, on behalf of the island as a whole, submitted its application for full membership to the EU on 4 July 1990.²⁵⁹ The Turkish Cypriots did not accept the application of the GCA to become a member of the EU, and objected to the decision of the Council of Ministers.

The European Council decided in June 1994 at Corfu meeting that the next enlargement would include Cyprus.²⁶⁰ This decision was reconfirmed at the Essen Council meeting in December 1994.²⁶¹

In 1994, with the effort of Greek Cypriots and Greece, ECJ declared trading with TRNC is illegal. Strangely, ECJ prohibited Turkish Cypriots to sell their orange, potatoes etc... to the foreign countries. While trust is tried to be built up between two sides, neutrality of EU got a big harm because of this. While Turkish Cypriots were getting isolated inside EU, Greek Cypriots were made the only owner of the island. While EU's support was encouraging Greek Cypriots, Greek militants attacked to the borders.

²⁵⁹ http://www.tbmm.gov.tr/ul_kom/kpk/TurRep_2.Ks.doc (20 July 2006)

²⁶⁰ http://www.swp-berlin.org/produkte/diskussionspapier.php?PHPSESSID=c2b0fe321988ca0a7_aec4de631d7d1bc&id=1788&... - 34k (21 July 2006)

²⁶¹ http://www.ec.europa.eu/regional_policy/debate/document/futur/research/osteuropa_institut_munchen_02_en.pdf (25 July 2006)

In 1998, EU considered Cyprus (GCA) as potential member to the EU. But this was actually contrary to international justice; first of all, according to the EU documents, a country which has borderline crises was not possible to become an EU member. Secondly, according to the agreement which formed the Cyprus Republic and the other agreements, Cyprus's entrance to the new international formation without permission of Turkey and Greece, was not possible. So because Turkey was against an EU membership in this way, EU was challenging both her own laws and the international agreements.²⁶²

In 2001, UN had to renew her thirty-six yeared missions. In the same year, when Turkey could not persuade EU, she declared that she could unite Northern part of the island with Turkey. According to Turkey, by acting one sided and infringement of all international justice documents, EU was getting prepared to add South Cyprus to EU as she is the only legal owner of Cyprus.²⁶³

Since 1968, it is doing intercommunity negotiations in Cyprus for the aims of obtaining political solutions to Cyprus problems. In 2002, Greek and Turkish Cypriots governors, Klerides and Denktas, started to new negotiations sponsored by the UN consulate. In the same years, UN General Secretary Kofi Annan offered a widely inclusive plan to sides. Plan seemed as it was in favour of the Greek Cypriots. But not having a solution was more against the favour of Turkish Cypriots. Because of this Turkish Cypriots were more in favour of forming a federation which unites both sides underneath. While UN was facing both sides to agree this plan, same attitude was expected from both EU and USA as well. Especially EU could easily put pressure on the South Cyprus during all that complete membership period. But EU, in the Copenhagen summit, instead of choosing a path in this way, they invited Cyprus (Greek side) to be complete member of the EU. In this way, Greek Cypriots reached to everything they wanted, in other words, complete membership to EU and reached to complete membership status. So Greek Cypriots did not have any expectations from negotiations doing with Turkish Cypriots.²⁶⁴

A few weeks before UN's presentation of Annan Plan by referendum to both sides, in the South Cyprus Tassos Papadopoulos defeated Klerides, who was leading the

²⁶² [http://www.turkishweekly.net/turkce/yorum.php?id=296 - 79k](http://www.turkishweekly.net/turkce/yorum.php?id=296-79k) (3 July 2006)

²⁶³ "ibid"

²⁶⁴ [http://www.turkishweekly.net/turkce/yazarlar.php?type=3&id=135 - 65k](http://www.turkishweekly.net/turkce/yazarlar.php?type=3&id=135-65k) (5 July 2006)

negotiations. So, a person who is known by his negative views about this plan become the president of the Southern part of the island and UN's plans acceptance period got into danger. Before the referendum, EU and USA declared that the side, which accepts the plan, will be praised and the side which prohibits the peace will be punished. Especially to the Turkish side important promises were given. If a positive result came out from the Turkish side, they were going to start direct contacts with TRNC and they were going to remove the isolation from Turkish Cypriots.²⁶⁵

In April 2004, Turkish side gave a huge support to the UN's peace Plan (75.83 %). At the Greek side there was a negative view. Greek Cypriots gave a huge refuse to the Annan Plan, in other words to the unification of Cyprus (64.91%). TRNC and Turkey had hope from the results. They were expecting that the South part was going to face the consequences and the promises that were given to the Turkish side were going to be kept. At the end, the ones, who gave the promises, were EU and USA, who are the two biggest and most important powers of the world.²⁶⁶

Because of the reasons above, in May 2004 the Greek Cypriots controlled Republic of Cyprus become a full members of the EU. Greek Cypriots joined into EU at 1 May 2004 by separated, so the rules of the EU are only valid on the southern part of the island.

Actually before accepting the Annan Plan, Turkish side took some steps which were in favour of the peace. Council of ministers of TRNC, on the 16 April 2003, took a decision of freeing trading between two sides. Similarly on the 23 of April 2003, with the Turkish Cypriot governor's one sided decision, passages from the border line were getting free and according to the decision Greek Cypriots could stay in Turkish Cypriot's touristic places thrice a week. These were the most obvious positive steps Turkish Cypriots had taken. But, because of the entrance of Greek Cypriots to EU on the 1 of May 2004, with the works of the Turkish Cypriots, which caused the opening of the borders on the 23 of April, to be able to face with the problems which will come out with the complete membership of the Greek Cypriots to EU, EU needed a legal support. The result of this needed, the Green Line Regulations, while it is arranging free mobility of peoples, goods

²⁶⁵ “ibid”

²⁶⁶ “ibid”

and services inside the island, at the basis it is trying to protect economic benefits, public health and public security of EU.²⁶⁷

At 23 August 2004 Green Line Regulations entered into force. The green line regulation aims to regulate the movements of peoples, goods, and services over the green line, dividing the areas in which the Government of the Republic of Cyprus exercises effective control and the areas not under its effective control. With the application of green line regulations, it was investigating development from trade volumes with Southern Cyprus. However, whether Green Line regulations are not completely applied or the isolations are not removed to TRNC, Green Line regulations are far from replying the expectations.²⁶⁸

**Table.5.1. Trade with Southern Cyprus under Green Line Regulations.
(2002-2004)**

	2002	2003	2004	(US \$)
Imports	100,383.20	31,191.00	34,666.000	
Exports	54,020.00	183,144.00	443,066.00	

Source; Customs and Duty Office and Trade Office. Nicosia.

As it can be seen from the table, exports that were made in 2003 to South Cyprus was 183,141 US \$ and compare to 2003 this was a 142 % increase in 2004, which makes it 443,066 US \$. Imports that were made in 2003 was 31,191 US \$ and in 2004 there was an increase of 11.2 %, which makes it 34,666 US \$. The reason of why imports are small amount compared to exports is when the passage to the Greek side was started to be allowed the products were taken with the passengers, so their records were not taken efficiently. According to the Green Line Regulations, the exports which are made to the South Cyprus were mainly vegetables, fruits, toilet papers, aluminium and PVC doors and windows, wooden furniture, lead ingot and textile products.

In the content of regulations, except for the capital circulation with live stock products and some agricultural products, to the circulation of products which are made in

²⁶⁷ KKTC Başbakanlık Avrupa Birliği Koordinasyon Merkezi, **Yeşil Hat Tüzüğü'nün İşleyişinde Karşılaşılan Problemler**, Mart 2006, p.1

²⁶⁸ <http://www.devplan.org/Macro-eco/2-4.pdf> (13 January 2006)

the country (from North to South) a limit is put. But, except from the products and criteria which are shown in the regulations, some practical hardships and the circulation is prohibited by the Southern Cyprus. It is possible to examine these limits under three topics. Limits about the circulation of products, problems about the circulation of people and circulation of service.²⁶⁹

a) Difficulties Facing on Mobility of Goods²⁷⁰

- Cars which have Turkish Cypriot commercial number plate are not given permission to pass to the South Cyprus.

Transportation is a crucial part of trading. In the formation of trading, it is an important factor both in the meaning of physical conditions and in the meaning of commercial cost. Because of foretold limit that is on the transportation area, some products can reach to the South from the North with the Greek Cypriot transportation systems or, with the tracks which are smaller than 2.5 tons they can be transported at small amounts. This application increases the cost of the transportation and therefore has a bad effect on the trading.

- To advertise and marketing commercial products, the Greek Cypriot newspapers are not accepting advertisements.

To be able to make trading happen, the advertisement and marketing, which are crucial steps, are actually not able to be made in Southern Cyprus. Private printing and publishing offices deny to publish any Turkish Cypriot announcements (commercial, social, etc.). In the Northern side, on the daily newspapers, with the published south origin promotions, announcements and brochures, which are related to the south origin promotions, are published and also sometimes even official announcements are published with these.

²⁶⁹ KKTC Başbakanlık Avrupa Birliği Koordinasyon Merkezi, **Yeşil Hat Tüzüğü'nün İşleyişinde Karşılaşılan Problemler**, Mart 2006, p.1

²⁷⁰ "ibid pp.1-4"

- Passage of community goods, which came from Turkey or EU, to pass to the Southern side from the Northern side is not allowed.

While entrance permission is given to the citizens of EU, who enter North Cyprus, to enter to the Southern Cyprus, entrance of union goods from North to the South is not allowed (even transit).

- Psychological barriers putting by the Greek Cypriot consumers and wholesalers.

Whether Greek Cypriot shopping centre owners or distribution firm competent, even though found the quality and price of products are suitable, they are trying to keep away from showing the products and again they are reluctant of the reaction of the community.

- Tax Subjects.

Greek Cypriot government is not accepting the Green Line as an external border. This is stated in the regulations as well. When EU's benefits are discussed, by seeing it as external border, taxes and fees needed are stipulated to be collected. VAT is not collected from the Turkish products which enters to the South Cyprus's internal market but at the entrance of the Turkish products to EU countries payment of taxes for the products is a condition. In spite of, there is not a tax application from internal circulation of goods inside the EU, this condition is demanded from exports of TRNC origin products to EU via South Cyprus. This application means that, EU products status is not given to TRNC origin products.

- Smuggling

As a result of the restrictions applying from both sides separately, because of the excessive demand of some goods, smuggled trade is doing related with these products. Especially, some alcoholic drinks, some agricultural products, car repair parts, frozen meat and similar live-stock products are entering into North from South by illegal ways. On the other hand, some other products especially, cigarettes, fresh fish and some other live-stock and agricultural products are entering into South market from North by illegal ways. These

problems are occurring from inactivity and lack of regulations and serious health threats are arising from these problems.

b) Problems about mobility of persons²⁷¹

- Illegal people transition from North to South

At last years, people smuggling via North to South is become a serious problem in Cyprus, like all over the world. This event placed on the report of Commission, which was prepared about one year evaluation of Green Line Regulations. This report claimed that, near the half of the 10,922 refugee applicant was use this route. In to the near future, having more restrictions about this topic is evaluated for the aims of public health.

c) Problems about circulation of services²⁷²

- Commercial payments

Because of the lack of cooperation between two sides about banking and finance, at sometimes, both sides faced with the payment difficulties. As a result of the inactive banking system and lack of financial confidence or guarantee between consumers and producers, some problems can be arising.

- Communicaion

There is not any cooperation between two sides about communication. Communication between two sides obtained by international lines and this cause higher costs. And higher costs are one of the negative effects on trade.

- Lack of cooperation about tourism

Touristic activities reserves an important place from both sides of the island and visitors wants to visit whole island. Common activity and advertisement proposals of TRNC official's about this topic has rejected from Greek Cypriot firms. It is believed that, common advertisement and marketing activities about tourism can creates profitable situation for both sides.

²⁷¹ “ibid p.4”

²⁷² “ibid p.5”

At 2004, with the application of Green Line regulation, trade volume of TRNC with South Cyprus shows improvement. But, whether, Green Line Regulations are not carrying out completely, or, isolations, which are directed to TRNC, not removed, Green Line Regulations are far away from meeting expectations.²⁷³

Following the referenda, the Commission stated, in July 2004, that it was determined to put an end to the isolations of the Turkish Cypriot Community.

In 2004, the Commission proposed an aid package originally worth 259 Million Euro to the Turkish Community of Cyprus. The proposal come on the heels of the April 2004 referendum in both Cypriot Communities whose aims was to decide on the island's reunification along the lines of the UN's so-called Annan Plan. The Turkish Cypriots voted for reunification but the Greek Cypriots voted against.²⁷⁴

For this end, the Commission proposed an aid envelope of 259 million Euro for years 2004-2006. The package was to be completed with an agreement that would have allowed direct trade between the TRNC and the EU's 25 member states.²⁷⁵

Following several months of debates, the EU's foreign ministers approved on 27 February 2006 a financial aid package to Northern Cyprus. A total of 139 million Euro in financial aid will be released to the Turkish Cypriot Community in 2006 of the originally planned 259 million Euro purse, some 120 million Euro were lost as the deadline for using the funds from the EU's 2005 budget was missed.²⁷⁶ But these regulations has not been effective as a result of cyprus has blocked the aid. "The Greek Cypriots conveyed to the EU the message that they would approve the financial aid on the condition that the financial aid regulation and the Direct Trade Regulation are seperated from each other and the (closed city of) Varosha is handed over them."²⁷⁷ In addition to this Greek Cypriots demanded opening Famagusta ports to them for trade and removing embargoes applying to ships with Greek Cypriots flag from Turkey.

²⁷³ <http://www.devplan.org/Macro-eco/2-4.pdf> (13 January 2006)

²⁷⁴ <http://www.euractiv.com/en/enlargement/turkey-disappointed-eu-aid-deal-northern-cyprus/article-152958-30k> (25 July 2006)

²⁷⁵ "ibid p.5"

²⁷⁶ "ibid p.5"

²⁷⁷ <http://www.hri.org/news/cyprus/tcpr/2005/05-11-09.tcpr.html> (1 August 2006)

After the Turkey's publishing and signing of the Additional Protocol which consists of the enlargement of the number of members specified in Ankara Treaty in 1963 to include the ten new members of the EU (including Southern Cyprus) as well as the declaration that points out that the Southern Cyprus is not recognized as the legal authority in 29 of July 2005, the pressures towards Turkey to open its harbors and airports have become much more intense. It was stated that the embargoes towards the ships with 'Republic of Cyprus' banderoles should be abolished and the transfer of goods between Turkey and The Republic of Cyprus should be provided.²⁷⁸

The enlargement of the CU, which is brought about for the joining of Cyprus, and the opening of harbors are included in the short-term priorities of the Attendance Alliance Document. EU wants this to be actualized by the end of 2006. The statement is also mentioned in the documents that Turkey has signed.²⁷⁹ The developments about the latter may lead to undesired outcomes in the Turkey's EU negotiation process and may cause the TRNC' economy to be increasingly bounded with and dependent on the South side which in long run may lead to a political dependency.

The pressures applied for the signing of an additional protocol and the opening of harbors should not only be regarded among the relationships between Turkey, EU and the GCA. It's reflections towards the TRNC and the Cyprus Problem should be taken into account. Turkey's flexibility about the harbors is directly connected to the EU's activation of direct-trading-regulations. The fact of Greek Side's putting up embargoes against the Northern Cyprus should not be disregarded. If the important issue is the keeping of promises, then this applies for EU as well as it does for Turkey. Also if Turkey opens its harbors to Greek Cypriot ships while the isolation towards the Turkish Cypriots still goes on, this may cause an increase in the economical dependency of Turkish Cypriots. As Turkey has emphasized so many times, the only way of Turkish harbors to be opened to Greek Cypriot ships is the abolishment of isolations towards the Turkish Cypriots.²⁸⁰

²⁷⁸ <http://www.dypgenclik.org.tr/icerik.php?id=163-38k> (1 July 2006)

²⁷⁹ <http://www.turkishweekly.net/turkce/yorum.php?id=298-70k-> (3 July 2006)

²⁸⁰ Whether Turkish Prime Minister and Foreign Minister or TRNC President Mehmet Ali Talat informed in every way that it is not possible to open Turkish harbors to GCA while GCA side is boycotting Turkish Cyprus harbors and airports.

“According to the Enlargement Commissioner Olli Rehn, the EU’s accession negotiations with Turkey are heading for a train wreck unless Turkey has recognised the Republic of Cyprus and opened its ports to Greek Cypriot ships by the end of the year 2006.”²⁸¹

These are in themselves reasonable conditions to put to the candidate state. However Turkey is also making a reasonable request, namely that the EU removes its present embargo on traffic through northern Cypriot sea harbours and airports. The Commission proposed removing this embargo after the Annan Plan was rejected, but Greek Cyprus vetoed it.²⁸²

“The citizens of northern Cyprus are (or can be) passport-holding citizens of the Republic of Cyprus, and therefore also citizens of the EU. As a result the EU has its obligations to the citizens of northern Cyprus, first of all their right to enjoy all the four freedoms that are at the heart of the EU’s legal order. Northern Cyprus cannot be blamed for the continued division of the island since they voted for the Annan Plan, which is the only internationally recognised formula for resolving the conflict.”²⁸³

“The Greek Cypriots rejected the Annan Plan in a democratic referendum, whose legitimacy has not been contested. However the government of the Republic of Cyprus has not made clear how it would like to renegotiate the Annan Plan and has in the meantime blocked Commission proposals to lift the sea port and air embargoes.”²⁸⁴

“The stakes are high: the future of Turkey’s relations with the EU, Turkey’s future political orientations and even stability, and the EU’s reputation for effective and equitable policymaking. The future on all these accounts is now held hostage to Greek Cyprus’s wish to renegotiate the Annan Plan according to its (so far unspecified) wishes. This is a counterproductive and unacceptable situation. Counterproductive, because in overplaying its hand Greek Cyprus will get no benefits for itself, yet achieve huge collateral damage to

²⁸¹ http://www.shop.ceps.be/downfree.php?item_id=1357- (2 August 2006)

²⁸² “ibid”

²⁸³ “ibid”

²⁸⁴ “ibid”

wider European interests. Unacceptable, because northern Cyprus is being punished after accepting the Annan Plan by the Greek Cypriots, who did not.”²⁸⁵

What can be done? There are three alternatives for Turkish Cypriots.

“In principle, the first and best approach would be actually to get agreement to an amended version of the Annan Plan. The two presidents have agreed to meet to talk about this. But Greek Cypriot politics and discourse leaves little grounds for optimism, since the Greek Cypriot desire to revert to a much more strongly centralised federation would be unacceptable to the Turkish Cypriots, and fail in a referendum on their side.”²⁸⁶

“The second is for the rest of the EU to apply pressure on Greek Cyprus to agree to cancel all EU restrictions on movements in and out of the ports and airports of northern Cyprus. But the difficulty here is that the 24 other EU members states are disinclined to have an open confrontation with a fellow member state, something that would be contrary to EU values.”²⁸⁷

“The third approach would be to bypass and ignore the absurd legal blockage. A number of EU member states could open up bilateral channels of assistance to northern Cyprus. The legal blockade of northern Cypriot sea and air ports are pretty ineffective in any case. There are presumably many ships registered in Panama, as well as from Turkey, that are happy to visit Famagusta port. The use of the port might be legalised with the aid of some special international status. Tourists from the EU can fly into northern Cyprus with a short stop in Istanbul. At some point the Greek Cypriot leadership may appreciate that their blocking tactics are counterproductive, since in the meantime they will not have achieved any of the gains they could have got (for example territorial) through the Annan Plan. The Turkish government could go along with this approach, recognise the Republic of Cyprus, and welcome Greek Cypriot ships. Turkey would gain goodwill and secure continuation of the accession negotiations. The Northern Cypriot side for its part is already

²⁸⁵ “ibid”

²⁸⁶ “ibid”

²⁸⁷ “ibid”

proceeding with regularisation of the title and disposal of Greek properties in the North, which will progressively unwind an important problem in the status quo.”²⁸⁸

It has been more than a year that the Turkish Cypriots, responding to the calls of the international community and embracing the values of the EU integration process, convincingly voted in favor of the Annan Plan. However, the present state of affairs continues to reflect the absence of a comprehensive settlement, characterized acutely by a missed opportunity at uniting Cyprus, due to the rejection of the Annan Plan by Greek Cypriots. More importantly, the positive response by the EU to the constructive attitude of the Turkish Cypriots in the aftermath of the referenda, which included promises to relieve the isolation of the northern part of the Cyprus by undertaking new bilateral commercial and economic initiatives, has not materialized due to the obstructionist attitude of the Greek Cypriots side.²⁸⁹

Under these circumstances, what the Turkish Cypriots expected from the EU is quite clear: that the EU keep its promises of direct aid for encouraging socio-economic investments and the start of direct trade with the ultimate goal of free trade in line with its own expressed will, as well as that of the UN Secretary General’s, in order to end of the isolations of the Turkish Cypriots.²⁹⁰

²⁸⁸ “ibid”

²⁸⁹ http://www.turkishpolicy.com/default.asp?show=fall_2005_talat (5 August 2006)

²⁹⁰ “ibid”

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Danışman: Prof. Dr. Osman KÜÇÜKAHMETOĞLU

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INTRODUCTION

After Sicily and Sardinia, Cyprus is the third biggest island in Mediterranean. Because of her strategic importance, owner of Cyprus changed all the time in history.

Right now in Cyprus, because of the division of Cyprus Republic two 'de facto' autonomous republics came out. One of these is the Turkish Republic of Northern Cyprus (TRNC) and the other one is the Greek Cypriots' formation, Southern Cyprus Greek Administration (GCA).

With her small amount of land and small population TRNC has small island features. Production capacity of small islands is very limited. Because of their small amount of natural resources and other kind of resources above the ground their populations are small. So it is impossible to prevent these countries having small domestic market. Foreign dependency of these countries is in great amount as well. But TRNC is facing with problems which are other than being a small island. Economic embargo which is applied and the ECJ's decision which was taken in 1994 can be showed as examples of these problems.

Because Turkish Cypriots and Turkish people came from the same ethnic origin, they have very strong links in politics and economy. Because of this, TRNC tries to overcome these problems with the aids of Turkey. In every opportunity Turkey states that she will continue her helps to TRNC. TRNC accesses to the world via Turkey. Also Turkey is the leading trading partner of TRNC.

After the CU agreement being put into force between Turkey and EU in 1 of January 1996, a new question appeared. How will the CU affect the relations between TRNC and Turkey? This is the big question of the day. Many different figures gave different opinions about this question. According to some, Turkey will never be able to have the freedom of relation, not only with TRNC but with all the other countries, outside the union. According to some others, nobody can tell Turkey what to do. What is known is that, with the CU Agreement, commercial relations between Turkey and TRNC came in to a new dimension. The aim of our works is that we are trying to make it shown how CU

Agreement between EU and Turkey influenced TRNC. These effects are mainly examined in parallel with the trading between TRNC and Turkey. So, our work is formed by four main Parts. In First chapter the theory of the CU will be examined with its basics and with its static and dynamic effects. Then the CCP of the EU will be examined with its principles, instruments and characteristics. In Second chapter Turkey-EU relations will be examined in a historical perspective within its broad lines. Then their relations will be examined under the CU relationships. In this context the Ankara Agreement, the Additional Protocol and the EU-Turkey CU Agreement will be examined respectively. The aim of Third chapter is to examine the economical and commercial relations between TRNC-Turkey. This chapter forms from four sub-titles. First sub-title is related with the TRNC's economic table, in this part structural properties of TRNC economy is investigated with its important elements then the main sectors of the economy will be examined. Second sub-title is related with the external trade in TRNC, in this part external trade policy of TRNC, difficulties facing on external trade with TRNC and major trade items of TRNC will be examined respectively. Third sub-title is related with the economic relations between Turkey and TRNC. In this sub-title firstly the economic integration of TRNC with Turkey will be examined than mentioned to bilateral agreements between Turkey and TRNC. In the fourth sub-title trade between Turkey and TRNC will be examined than compare with EU countries. And finally in the Fourth chapter, I will try to analyze the implications on TRNC of the CU between Turkey and EU.

1-THE THEORY OF THE CUSTOMS UNION AND THE COMMON COMMERCIAL POLICY OF THE EUROPEAN UNION

The economic crises resulting from the affects of destructions during the second world war, caused European countries to search for ways to reform their economies and to strengthen their positions in the post war world.¹ In order to do so it was necessary to pool resources and to integrate their efforts with those of their neighbours. Consequently, most of the countries preferred economic integrations among themselves.

The dictionary meaning of integration is; the combination of parts into a whole. Universal approach, under the supervision of General Agreement on Tariffs and Trade (GATT), aims to liberalize international trades in such a way that it covers all the countries. Whereas, a scope of regional approach is limited with group of countries. Here, it is trying to obtain a freedom of trade between countries especially in same geographical region by remaining external trade impediments among them. In this way it is possible to say that an Economic Integration Activity means that; a certain group of countries forms an economic union by following policies to set free trade among them. Economic integrations make countries, which are politically independent, more dependent to each other from economic point of view. Countries aim to increase their production capacities, productivity of resources and especially their social welfare levels by joining economic integration trends.²

“More specifically, economic integration is concerned with the discriminatory removal of all trade impediments between at least two participating nations and with the establishment of certain element of cooperation and coordination between them”.³ After the terms of an economic integration entered into economic literature, there are different types of opinions came into existence about meaning and scope of this term.⁴ The term had been given specific definitions by economists specializing in international trade. Some of them are;

¹ Some nations possessed massive material resources, others possessed advanced technology and industrial resources, factories, laboratories, etc... and some had large labour forces. Some produced more food than their population need, whilst others starved.

² Halil Seyidođlu, **Uluslararası İktisat**, 11. baskı, Güzem yayınları, İstanbul, 1996, p.201.

³ Ali M.EL-Agraa, **The European Union**, 15th edn, Printice Hall, London, 1998, p.1.

⁴ Osman Küçükahmetođlu, **Gümrük Birliđi**, İstanbul, 2000,p.1.

Balassa; define economic integration as a process and a situation. Economic integration is a process aiming at abolishing discrimination between domestic and foreign goods, services and factors of production. Typically this process runs through four stages; Free Trade Areas (FTA), CU, Common Market (CM) and Economic and Monetary Union. Moreover, Balassa set forth five categories ranging from (1) no tariff or quotas, (2) Common External Tariffs (CET), (3) free flow of factors, (4) harmonization of economic policies, to (5) unification of policies and political institutions, respectively.⁵ The economic integration is a condition means; there are no different types of application shapes, that creating differences between member nations. In this definition it is not determined that whether economic integration is any intermediate point inside integration process or is a final phase reaching at the end of this process.⁶

Jan Tinbergen proposed a theory of the optimum regime. “The optimum regime is a bundle of institutions designed to maximize social welfare”.⁷ Tinbergen developed terms of negative integration and positive integration for the aims of exposing differences between applications occurring in different levels of economic integrations.⁸ The term negative integration refers to the removal of impediments on trade between the participating nations or to the elimination of any restrictions on the process of trade liberalization. Removing tariffs and quotas mutually in member nations can be the example of negative integration. In negative integration situation, some of the trade restrictive institutions are removed but new institutions are not replaced with removing ones. According to Tinbergen, negative integration provides rises in life-levels of member countries by realizing a formation of well international cooperation in these states. Thus, all of the member nations have been specializing on products having comparative advantages.⁹ “The term positive integration relates to the modification of existing instruments and institutions and, more importantly, to the creation of new ones so as to enable the market of the integrated area to function properly and effectively and also to promote other broader policy aims of the scheme”.¹⁰ In practice, negative integration has

⁵ Bela Balassa, **The Theory of Economic Integration**, Irwin, Homewood, Illinois, 1961, pp.1-2.

⁶ Osman Küçükahmetoğlu, **Gümrük Birliği**, Istanbul, 2000, p.2.

⁷ http://muse.jhu.edu/journals/international_organization/v056/56.4freeman.html (27 April 2006)

⁸ Jan Tinbergen, **International Economic Integration**, 2nd edn. Elsevier Publishing Co. Amsterdam, 1965, p.77.

⁹ Osman Küçükahmetoğlu, **Gümrük Birliği**, Istanbul, 2000, p.2.

¹⁰ Ali M.EL-Agraa, **The European Union**, 15th edn, Printice Hall, London, 1998, p.3.

been realizing easily than positive integration. Negative and positive integrations have always been occurring together inside the economic integration process. In the framework of definitions above, we can say that FTA have found in the scope of negative integration. On the other hand, integrations like CU, CM, Monetary Union and Economic Union have found in the scope of positive integration.

According to Machlup; the basic criteria for the fully economic integration is price equalization of similar products and services in different national market.¹¹ “Integrations of arrangements prompt free trade and free mobility of factors of production, they discriminate against non-members”.¹² Where as, the mobility of production factors are not circulating freely in some parts of the economic integration forms. For this reason, it is possible to say that the definition of Machlup has not contains both types of economic integration.

According to Pinder; “integration is a process towards union and economic integration is the removal of discrimination between the economic agents of the member countries and the creation and implementation of common policies”.¹³

Orantes explain economic integration with these sentences. Economic integration is a process that two or more countries are adopting precautions, which are strengthening dependencies to each other, with the help of the common institutions and providing them a mutual economic efficiency.¹⁴ In the definition of Orantes, economic integration is not only focused on removing trade barriers between member nations, economic gains (increases in the international bargaining power, scale economies, indirect gains) that will be obtaining from integration are emphasized more. So; decisions, taken at the framework of common institutions helps developing countries for the aims of completing their economic developments.¹⁵

¹¹ Fritz Machlup, “A History of Thought on Economic Integration”, in Fritz Machlup (Ed), **Economic Integration Worldwide, Regional, Sectoral**, Macmillan, London, 1976, p.65.

¹² <http://www.gwu.edu/~business/news/research/yang202.pdf> (1 May 2006)

¹³ John Pinder, “Problems of European Integration”, in G.R.Denton (Ed.), **Economic Integration in Europe**, Weidenfeld and Nicolson, London, 1969, p.143.

¹⁴ Isaac Cohen Orantes, “ The Concept of Integration”, in P.K. Ghosh (Ed), **Economic Integration and Third World Development**, Westport, Greenwood, 1984, p.58.

¹⁵ Osman Küçükahmetoğlu, **Gümrük Birliği**, Istanbul, 2000, p.4.

Pelkmans define economic integration as the elimination of economic barriers within a group of countries.¹⁶ According to Pelkmans, “economic boundary is a line that, any demarcation over which actual and potential mobility of goods, services and production factors, as well as communication flows, is relatively low”.¹⁷

Molle regarded integration as the process of gradual elimination of economic frontiers between countries.¹⁸ According to Molle; “at the first stage, goods’ traffic among partners is liberalized. This stage is followed by the liberalization of movement of production factors. Coordination of national policies, with regard to economic sectors but also to such aspects as exchange rate, is the objective at the third stage”.¹⁹

According to Swann; regarded economic integration as a state of affairs or a process that involves the combination of previously separated economies into larger arrangements. In these arrangements, the fundamental principle is equal treatment, or non-discrimination among member states.²⁰

Robson; regarded economic integration as a means to obtain efficiency in resource use. So, full integration should involve the free movement of factors of production as well as the free movement of goods and an absence of discrimination.²¹

El-Agraa explains economic integration with two different ways. According to first definition; two or more countries will come to an agreement for the aims of following common targets and policies. First definition is a wide extensive. In second definition; international economic integration is, obtaining a partnership and coordination in specific areas and removing all trade-restricted barriers between member nations.²² This definition foreseen, a free mobility of goods, services and production factors between member nations. Because of the determined reason, it is possible to say that the definition above comprises the integration types like; FTA and CU partially.

¹⁶ Jacques Pelkmans, **European Integration**, Longman, New York, 1997, p.2.

¹⁷ http://www.edu.cbs.dk/cm/aeef/program/3semester/N62_intronotes.doc – (27 April 2006)

¹⁸ William Molle, **The Economics of European Integration**, 3rd (ed), Ashgate, Aldershot, 1997, p.8.

¹⁹ <http://www.gwu.edu/~business/news/research/yang202.pdf> (1 May 2006)

²⁰ Dennis Swann, **European Economic Integration**, Edward Elgar, Cheltenham, 1996, p.3.

²¹ Peter Robson, **The Economics of International Integration**, 4th (ed), Routledge, London, 1998, pp.1-2.

²² Ali M.EL-Agraa, “General Introduction”, in Ali M.EL-Agraa (ed), **European Union**, 5th (ed), Prentice-Hall, London, 1998, p.1.

According to Jovanovic; economic integration has also been seen as one of the means for an increase in welfare.²³

As we can understand from definitions arranged, economic integration was explaining by different economists with different sentences. In spite of this, it is obtained a consensus between economists about definition of economic integration. There are wide consensuses on three issues;²⁴

1. Economic Integration refers basically to division of labors,
2. Economic Integration involves mobility of goods or factors or both,
3. Economic Integration related to discrimination or non-discrimination in the treatment.

According to Machlup these consensus does not means that an agreement about definition of economic integration.²⁵

There are several objectives of establishing an economic integration. Some of them are listed as; expanding the market, increasing the productivity of production factors and, thus, welfare, having a better resource allocation, spending the pace of industrialization and economic developments, specialization according to the rules of comparative advantage and, so forth. These objectives of economic integration depend on the participating countries' willingness, short and long run aims in forming an economic integration. Economic integration activities between nations can be changing from decreasing tariffs over limited number products, up to forming comprehensive economic unions. In some unification activities; freedom of goods and services movements between nations, in some; in addition to this, free mobility of production factors and finally, in some; together with these, obtaining harmony in the field of monetary, fiscal and economic policies are in question.

²³ Miroslav N.Jovanovic, **International Economic Integration**, 2nd (ed), Routledge, London, 1998, p.9.

²⁴ Osman Küçükahmetoğlu, **Gümrük Birliği**, İstanbul, 2000, p.7.

²⁵ "ibid p.7."

Economic integration or forming group of activities can be taken a different forms and it is possible to distinguish them as follows.²⁶

Preferential Trading Agreements; it is the example of more limited economic integration. Here, member nations go to reduction over specific goods (tariff concessions) unilaterally or mutually. (Lower tariffs on trade among member countries.)

CU; is created when a group of countries removes all restrictions on mutual trade and also adopt a common system of tariffs and quotas with respect to trade with third countries.

CM; A CU becomes a CM with the removal of all restrictions on the movement of factors.

EU; Supranational authorities coordinate economic policies. It requires a single monetary system, a central bank, a unified fiscal system and a common economic policy.

FTA; is a group of countries without any trade restrictions within the area, but each member country retains its own tariff and quota system on trade with third countries.

Total Economic and Monetary Union; in this final stage of economic integration, where national economies effectively merge into one another to be supplanted by a single, unified economy. A supranational authority takes all matters connected with economic policy including fiscal and monetary policies, although a significant degree of policy autonomy can be retained as lower levels within the hierarchy of governance. The area is likely to be a CU in which single currency circulates and where a Common Central Bank conducts all aspects of monetary policy.²⁷

²⁶ Halil Seyidođlu, **Uluslararası İktisat**, 11. baskı, Güzem yayınları, İstanbul, 1996, p.201.

²⁷ "ibid p. 202."

Table 1.1. Main Economic Integration Types and Their Characteristics.

Economic Integration Types	Free Trade among Member Nations	Common Custom Tariffs	Free movement of Production factors	Harmonization of economic policies
Free Trade Areas	X			
Customs Union	X	X		
Common Market	X	X	X	
Economic and Monetary Union	X	X	X	X
Complete Economic Integration	X	X	X	X

Source: Nahit Töre, Toplulukla 30 yıl ve Gümrük Birliği Paneli.

According to Table1.1, all stages will lay the groundwork to its following stages and their ability of following independent economic, monetary and financial policies are diminished when countries economic and political dependencies are increasing mutually.²⁸

As a result of the searching ways for the aims of reforming their economies and come to a stronger position, most of the countries established economic integrations among themselves and these economic integrations were transformed to political integrations inside time intervals. EU, which was the most important integration type, passing from many phases since its establishment in 1957.

The bases of this structure, which was mentioned as EU later, based on formation of CU that was envisaged on Article 9 of the Treaty of Rome. Turkey does not want to be outside of this formation.

In this chapter the theory of the CU will be examined with its basics and with its static and dynamic effects. Then the CCPP of the EU will be examined with its principles, instruments and characteristics.

²⁸ Nahit Töre, **Toplulukla 30 yıl ve Gümrük Birliği paneli**, İstanbul, Türkiye AT Derneği, 1993, p.9.

1.1- THE THEORY OF THE CUSTOMS UNION

1.1.1. Basics of the Customs Union in Theory

In this chapter the theory of the CU will be examined with its static and dynamic effects. One of the major methods of achieving a regional economic block is to create a CU. CU deals with the free mobility of goods. It means that two or more countries provide eliminating customs taxes and applying same custom taxes to remain countries. When the customs abolished from internal boundaries of CU formatting countries, there will be applying a customs to all goods coming from other countries and this custom tariffs are same in all CU countries. These tariffs are named as Common Custom Tariffs (CCT).

According to Article 9 of the treaty of Rome the bases of the EC is a CU “Which shall cover all trade in goods and which shall involve the prohibition between member state of customs duties on imports and exports and of all changes having equivalent effects, and the adoption of a CCT in their relations with third countries.”²⁹ As it can be understood from these provisions there are three important essentials for a CU; the elimination of tariffs on trade imports from member countries, the adoption of a CET on imports from the rest of the world and the apportionment of Customs revenue among the member states according to an agreed formula.³⁰

One of the major methods of achieving a regional economic bloc is to create a CU. A CU arises when countries join together to abolish all restrictions on trade between themselves while maintaining a CET on imports into the Union. The formation of a CU certainly breaches the principles of Universal free trade because it practices this crimation against non-members.³¹ However, the trade barriers between CU members are reduced and stimulated inter-block trade and reduce the share of trade with non-member countries.

²⁹ Jorgen Drud Hansen, Hans Heinrich, Jurgen Ulff - Moller Nielsen, **An Economic Analyses of the EC**, England, MC Graw Hill Book Company, Europe, England, 1992, p.13.

³⁰ Peter Robson, **The Economics of International Integration**, 3rd edition, Routledge, London, 1993, p. 12

³¹ Keith Penketh, “The Customs Union”, in Frank MC Donald & Stephan Dearden (eds), **European Economic Integration**, Longman, London and New York, 1992 p.1.

10 and 29 articles of Treaty of Rome give us details of CU. In the first part of the Treaty of Rome, which was determined under the name of CU, it is accepted that the CU is formed with the removal of customs duties between member nations and considered an acceptance of CCT by member nations.

Article 110 of Treaty of Rome determines the role of CU from relations of Community with third countries so Article 110 committed the EC to: “Contribute to the harmonious development of world trade, the gradual removal of obstacles to international trade, and dismantling of customs barriers.”³²

CU reduces trade barriers between member states and generally stimulates inter-block trade and reduces the share of trade with countries that are not in the union. As such a CU is aided to the economic integration of its members, but it may be harmful to the liberalization of trade on a global bases.

CU reduces tariffs to zero on intra-union trade but on extra-union trade a CET is adopted. It is the CET, which distinguishes a CU from a FTA, with the latter form of region economics associations; nation states are free to adopt their own tariff levels upon goods imported from the rest of the world. It is often claimed that a CU represents a movement towards free trade.

According to the Viner’s traditional analysis, the formation of a CU Combines elements of free trade with elements of greater protection and may either improve or worsen resource allocation and welfare and he demonstrated that the formation of CU may lead to either trade creation or trade diversion.³³ But whereas trade creation is good and tends to increase welfare, trade diversion is bad and tends to decrease welfare. Trade creation results in an increase in trade between two countries of the CU where domestic production is shifted from home country to the partner country and in trade diversion, supply shifts from the low-cost third country to the higher cost producer country which is member of the Union. In order to understand the economic effects of the forms of

³² “Article 110” of the treaty of Rome

³³ Miltiades Chacholiades. **International Economics**, Mc Graw-Hill publishing company, Singapore, 1990, p.228.

economic integration, the theory of CU is explained below. We can divide the effects of the CU into two groups as static and dynamic effects.

1.1.2. The Static Effects of Customs Union

CU means, both eliminate the; various customs tax, taxes which have similar effects of customs taxes (for example, fund, outlay ...etc,) amount restrictions and precisions which have similar effects of amount restrictions like; trade technical obstacles, standard harmonization and administrative measures. In addition to this, it is necessary to impose the CCT on imports coming from non-member countries.³⁴

So, they are creating a freedom of trade between members, on the other hand applying protectionist policies towards the non-members. CU theory builds on relatively strict assumptions such as perfect competition in commodity and factor markets and hence it is often referred to as Orthodox CU theory.³⁵ It also deals with the static welfare effects of a CU. It has both positive and negative welfare effects compared to a situation in which every member states practices protectionism. Therefore no conclusion can be drawn in advance as to the net welfare results of a CU. It must be mentioned that some alternative theories have appeared which tries to gives an economic explanations of protectionism including CU, but this shall not be discussed here. Realizing a CU, affect both importer country (A) and a country setting up a Union (B) economically.

CU caused both positive and negative effects. As results of a formation of CU two different kinds of effects are arising, trade creation effects and trade diversion effects.

At that chapter firstly we are studying the trade creation and trade diversion effects of CU under one country assumption then we are investigating the effects of CU under two country assumptions. In two country assumptions we are assuming that two countries of equal size create a small CU. Two countries that still face a perfectly elastic export supply curve from the outside world. However, the home country faces a less than perfectly elastic

³⁴ **Gümrük Birliği Sürecinde Türkiye**, Özel sayı, Mayıs, Haziran, Temmuz, Ağustos, Eylül, p.45.

³⁵ <http://www.maths.tcd.ie/loval/JUNK/econrev/ser/html/customs.html-18k-> (21 February 2004)

supply of exports from the partner country. On these assumptions the CU has measurable effects in the partner country too.³⁶

1.1.2.1. Trade Creation Effect of Customs Union

“Viner was able to analyze and illustrate that the formation of a CU was not necessarily advantageous to individual countries, to the union as a whole, or indeed to the world as a whole. In his analysis Viner developed the concepts of ‘Trade Creation’ and ‘Trade Diversion’. Although concerned initially with resource allocation effects, the concepts of trade creation and trade diversion have been used to analyze whether shifts in trading patterns lead to benefits or costs in terms of gains and losses of consumer and producer surpluses.”³⁷ If CU formation results in a shift in domestic consumptions away from relatively high cost domestic production to relatively low cost partner production, or rest of the world production, or both, then trade creation is set to arise.

Prior to the CU all external suppliers are excluded from the domestic market by a prohibitive tariff. After participation in the CU and the adoption by the CU of CET against non-members equal to that applied by the domestic economy before the union, then the commodity will be imported from the union partner. Domestic production as a source of domestic consumption has been displaced by partner country production. This switch from high cost domestic production to lower cost partner production is termed as trade creation.³⁸

³⁶ Jorgen Drud Hansen, Hans Heinrich, Jurgen Ulff - Moller Nielsen, **An Economic Analyses of the EC**, England, MC Graw Hill Book Company, Europe - England 1992, p.22.

³⁷ Frank Mc. Donald & Stephan Dearden (eds), **European Economic Integration**, Longman, London and New York, 1992 pp.2-3.

³⁸ “ibid pp.2-3.”

For example;

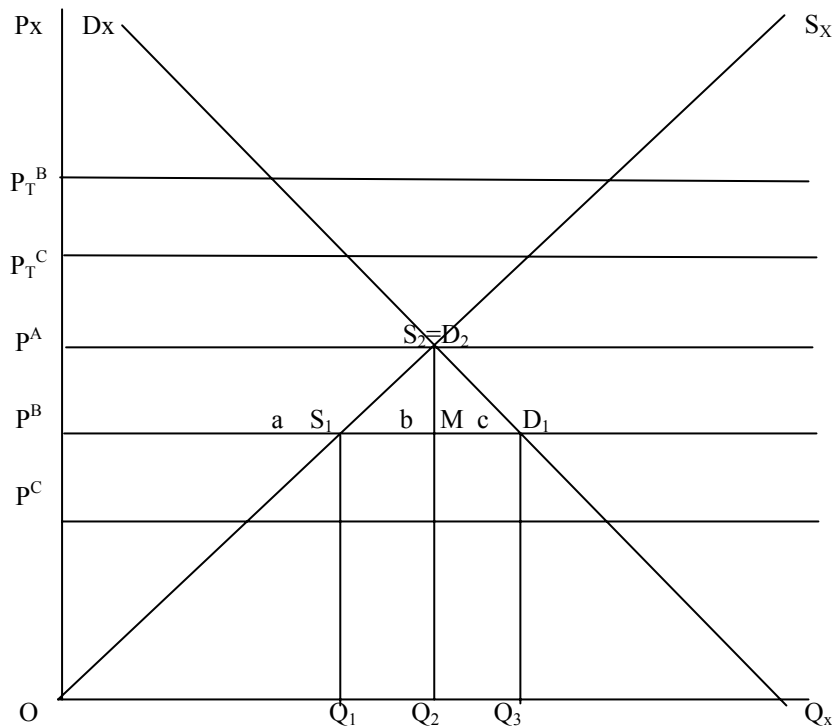
Countries	Unit Cost	Tariff in A	Before CU Prices in A	After CU Tariffs in A&B	After CU Prices in A
A (Home Country)	80	-	80	-	80
B (Partner Country)	60	100%	120	-	60
C (Rest of the World)	50	100%	100	100%	100

We assume that, there are three countries (A, B, C) producing the same commodity X. The price of commodity X is 80 US \$ in country A, 60 US \$ in country B and 50 US \$ in country C. Prior to the union, country A applies the same tariff to imports irrespective where they come from and it is 100%. In this case, the price of commodity X increases to 120 US \$ in country B and 100 US \$ in country C. In this condition, it will be a cheapest way to produce this good domestically for country A.

However, if countries A and B form a CU among themselves by leaving the country C outside the union, the country A will prefer to import the commodity X from the country B at the price of 60 US \$, since it is cheaper than both producing it domestically at 80 US \$ and importing it from the country C still with 100% tariff rate, at price of 100 US \$. In this case, there is a trade creation effects. Since, new trade is created between the countries A and B.

Graphically;

Figure 1.1 Trade Creation Effects of Customs Union.



In figure 1.1, S_X and D_X represent the Supply and Demand curves of commodity X in country A. P^B and P^C represent the free trade supply prices of the good from countries B and C respectively. Country C is assumed capable of supplying the product at a lower price than country B. We assume that, prior to the membership of the union, country A applies same tariff $t^B = t^C = t^*$ on imports where they come from both countries B and C. the tariff raises the domestic supply prices to P_T^B and P_T^C respectively. The size of tariff is shown by $t^* = P_T^B - P^B = P_T^C - P^C$. Since with the tariffs, the autarky price in country A, labeled P^A in the diagram, is less than the tariff – ridden prices P_T^B and P_T^C , the products will not be imported. So, the home country A is self sufficient at an equilibrium price of OP_A and equilibrium quantity of OQ_2 . With the membership of the union, countries A and B forms a Free Trade Area and country A eliminate the tariffs on imports from country B, but does not apply to the rest of the world C. Now $t^B = 0$ but remains at t^* . In this condition, the domestic prices of goods from countries B and C are now P^B and P_T^C , respectively. Domestic supply decrease from OQ_2 to OQ_1 , But domestic demand increases from OQ_2 to OQ_3 . Since $P^B < P^A$, country A would now import the product from country B. After the

CU the cost of resources for producing Q_1Q_2 goods have decreases from $Q_1S_1S_2Q_2$ to $Q_1S_1MQ_2$, a saving of S_1S_2M . This is beneficial in terms of both union's welfare and world's welfare, because of the less resources are used to produce this output. The home country A is clearly gained, for although for producer's surplus has decreased by $P_B S_1 S_2 P_A$ (area a), consumer surplus has increased by $P_B D_1 D_2 P_A$ (area a + b + c). Assume that these surpluses are equaled weighted, the net gain on the home economy is shown by the area b + c. At the lower domestic price P^B , imports would rise to $Q_3 - Q_1$. Since trade now occurs with the Free Trade Area, and it did not occur before, trade is said to be created.³⁹

Welfare effects of Customs Union formation Trade Creation Case:

Consumer Surplus	a+b+c
Producer Surplus	-a
Government Revenue	0
National Welfare	b+c

1.1.2.2. Trade Diversion Effect of Customs Union

In the CU, a paradox exists due to the exclusion of the third country. In such a case trade is diverted from lower production cost of third country to the higher cost of the partner country. In our example the same conditions as in the case of trade creation, stated above, can also be considered in this condition, except the tariff rate is 50% instead of 100%. In this case the price of commodity X become 90 US \$ in country B and 75 US \$ in country C. So, in a normal case importing of the community X from country C will be the most beneficial way for country A instead of producing it domestically.

Countries	Unit Cost	Tariff in A	Before CU Prices in A
A (Home Country)	80	-	80
B (Partner Country)	60	50%	90
C (Rest of the World)	50	50%	75

³⁹ Keith Penketh, "The Customs Union", in Frank Mc-Donald and Stephen Dearden (eds), **European Economic Integration**, 2nd (ed), London and New York, London, 1994, pp. 3-4.

However, when a CU is established between countries A and B, country C where the commodity is producing at cheapest cost, is excluded and country A will import it from country B. So, the trade is completely diverted from lower cost supplier, which was left out of the union to a higher cost supplier, which is a member of the union.

Countries	Unit Cost	Tariff in A	Before CU Prices in A	After CU Tariffs in A&B	After CU Prices in A
A (Home Country)	80	-	80	-	80
B (Partner Country)	60	50%	90	-	60
C (Rest of the World)	50	50%	75	50%	75

Graphically;

Figure 1.2 Trade Diversion Effects of Customs Union.

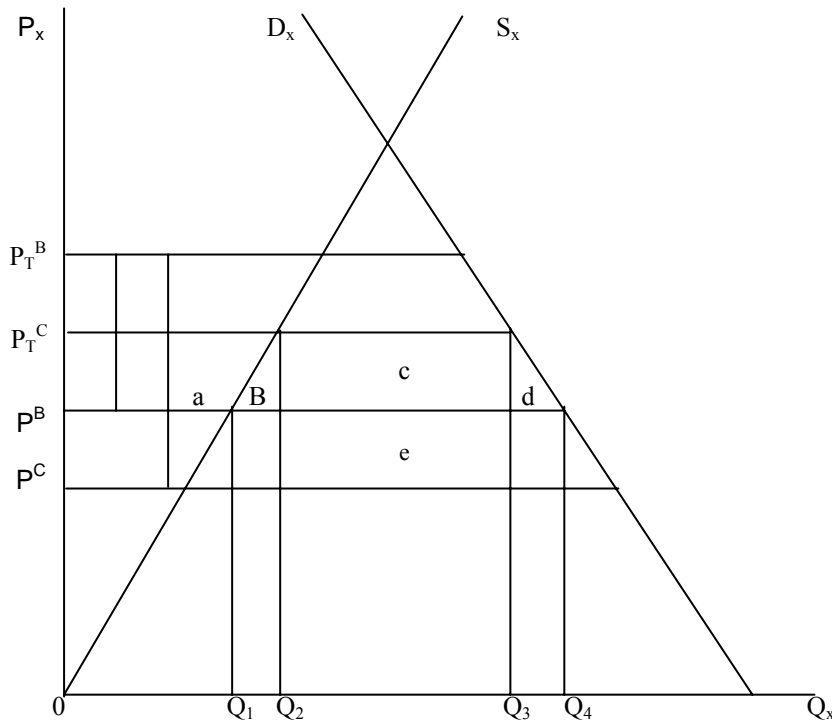


Figure 1.2, shows us the Supply and Demand curves for country A. P^B and P^C represents the free trade supply prices of the good from countries B and C respectively. It is assuming that country C is capable of supplying the product at a lower price than country B. We assume that A has apply same tariff $t^B = t^C = t^*$ on imports coming from both countries B and C. The tariff shifts the domestic supply prices to P_T^B and P_T^C respectively. The size of tariff is $t^* = P_T^B - P^B = P_T^C - P^C$. Since with the tariff, the product is cheapest in country C and country A will be importing the products from country C and will not trade initially with country B. Imports are Q_2Q_3 and domestic production is OQ_2 . Initial tariff revenue is given by the area $(c + e)$. When the home country A forms a CU with country B, A eliminates the tariff on imports coming from country B. Now $t^B = 0$ but t^C remains the same with t^* . The domestic prices on goods at countries B and C are now become P^B and P_T^C . Domestic production falls to OQ_1 but domestic consumption rise to OQ_4 . Since $P^B < P_T^C$ country A would impact all kind of products from country B after the FTA and would not importing anything from country C. At now imports come from the Union partner with reasonable domestic price, P^B , and imports would rise to $Q_1- Q_4$. Trade

diversion has been arising from a more efficient supplier to a less efficient supplier. The cost of the original quantity of imports Q_2Q_3 has risen by area e. There is a loss of tariff revenue to the domestic government of area $c + e$ and producer surplus has fallen by area a, but consumer's surplus has risen by area $a + b + c + d$.⁴⁰

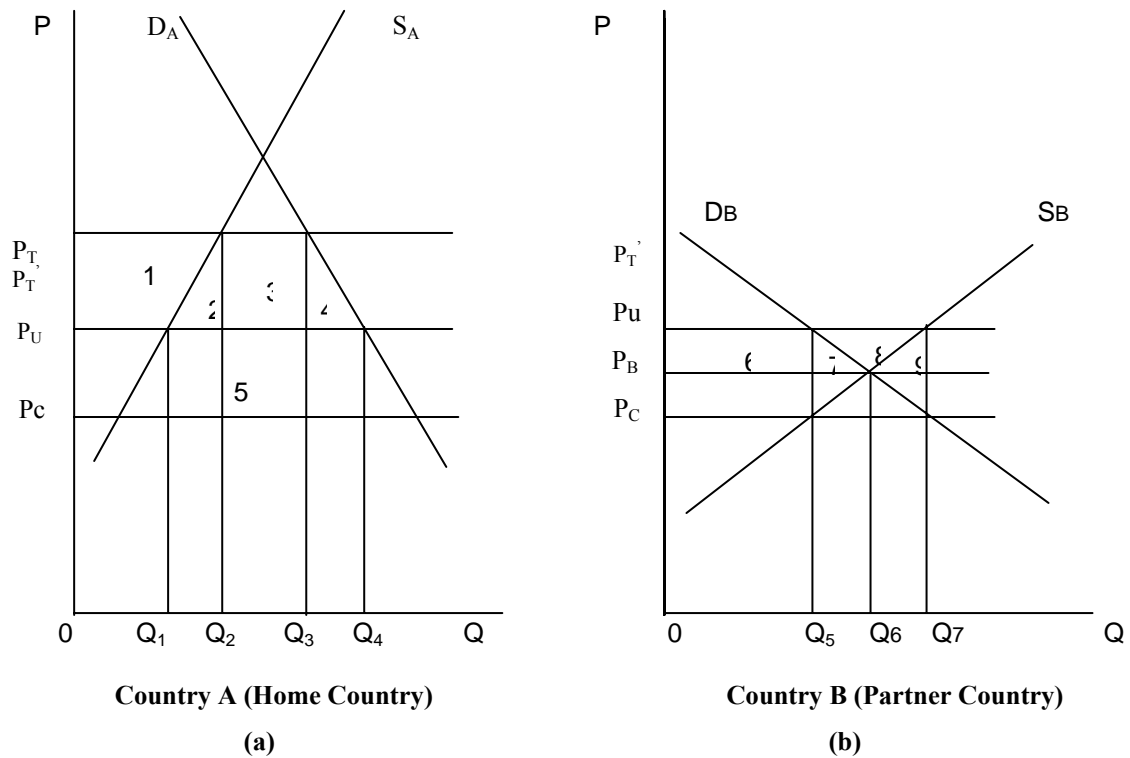
**Welfare effects of Customs Union formation
Trade Diversion Case:**

Consumer Surplus	$+(a+b+c+d)$
Producer Surplus	$-a$
Government Revenue	$-(c+e)$
National Welfare	$+(b+d)-e$

⁴⁰ "ibid pp.4-5."

The effects of CU in both the home country and the partner country are illustrated in Fig 1.3.

Figure 1.3 The Effects of CU in Both Home Country and Partner Country.



The conditions in the market for commodity X in countries A and B are shown separately in (a) and (b) of the Fig 1. S_A and S_B indicate the supply curves of the home country and the partner country. D_A and D_B indicate the demand curves of the home country, and partner country respectively. At the Pre-Customs Union, country A impose a tariff about $P_C P_T$, for the aim of protecting domestic industry, and the country B necessitate a tariff less then country A. (it is about $P_C P_B$), for the aim of protecting domestic industry against external competition. After tariff imposition in country A, domestic price become $O P_T$, production become $O Q_2$ and consumption become $O Q_3$ and the import about $Q_2 Q_3$ being covered from country C. On the other hand, country B was come to an adequate position for themselves with their applied tariff. Domestic price in country B is $O P_B$,

production is OQ_6 . Because of the production and consumption is equally to each other there is not any importing in country B.⁴¹

The formation of the CU between country A and B implies that the two countries impose a common tariff rate against third countries (Country C) on the commodity X. Imposed common tariff rate, formed from an average of national tariffs which countries applied before union. In this condition, price of country C, which include CCT is OP_T . because of the country B's equilibrium price level is lower then country A. In CU state country B gets comparative Supremacy according to country A. On the other side country C's, which include common customs tariff, price level (OP_T') exceeded price level of country B's (OP_B).⁴²

After realizing CU, prices will decrease from OP_T to OP_U in country A, and prices will increase to OP_U from OP_B in country B. Thus, the equilibrium price will be OP_U . This equilibrium is characterized by reduction in production from OQ_2 to OQ_1 and increase in consumption from OQ_3 to OQ_4 in home country. The difference Q_1Q_4 now being imported from country B. So home country (country A) will face with trade creation, which achieves welfare gain equal to the sum of the areas $Q_1Q_2+Q_3Q_4$. Before CU, country A did Q_2Q_3 import from country C. In the state of CU, country A is started to cover their Q_2Q_3 imports from country B, which is in more expensive source position, instead of country C. Because of the reason above, country A will face to trade diversion effects about Q_2Q_3 and this trade diversion causes a welfare loss equal to the area 5.⁴³

The effects in the partner country can be seen from Fig. 1.1(b). CU leads to an increase in price of X which makes this country a net supplier of X. price of X will increase from OP_B to OP_U . Production increases from OQ_6 to OQ_7 , while consumption is reduced from OQ_6 to OQ_5 . The difference, equal to Q_5Q_7 , is exported to the home country (country A). Because of the CU, country B's gain is equal to increase in export

⁴¹ Jeffrey Harrop, **The Political Economy of Integration in the European Union**, 3rd (ed.), MPG Books LTD, Great Britain, 2000, pp.60-61.

⁴² "ibid pp.60-61."

⁴³ "ibid pp.60-61."

about Q_5Q_7 . As a result of CU, prices in country A goes up and this increasing lead to increase in producer surplus (producer's surplus is corresponding to areas $6+7+8$) and leads to decrease in consumer's surplus (consumer's surplus is corresponding to the areas $6+7$). Hence, the net welfare gain in the partner country (Country B) is equal to areas $(6+7+8) - (6+7) = 8$. Area 8 shows the country B's gain from exports Q_5Q_7 making to country A. In the state of CU, increase in prices of country B causes increase in production about Q_6Q_7 because of this, increasing in production will lead to production efficiency loss (Area 9) in country B. Because of the gains of country B from exports making to country A is more than losses of producers and consumers. Country B is especially a profitable country as a result of the CU. When country C making Q_2Q_3 exports to country A before CU, in customs union situation it is obliged to stop their exports. So the effects of CU over country C is showing with trade diminishing shape. But this trade diminishing leads to trade diverting effect from the point of view of member countries. And these trade diminishing leads to trade diverting effects.⁴⁴

As it can be understood that, CU caused both positive and negative effects. As results of a formation of CU two different kinds of effects are arising, trade creation effects and trade diversion effects. Viner demonstrated that trade creation is good and tends to increase welfare, trade diversion is bad and tends to decrease welfare.⁴⁵ Trade creation effects occurred by shifts in production from a higher cost domestic producer to a lower cost producer in a partner country and trade diversion effect occurred by shifts in production from a lower cost producer in the rest of the world to a higher cost producer in a partner country.

Trade creation improves the international allocation of resources by shifting the national locus of production form a high-cost producer to low-cost producer. Thus, trade creation increases welfare by reducing costs or alternatively by increasing world income. In this sense trade creation is conceived to be beneficial to welfare. On the other hand, trade diversion worsens the international allocation of resources. Thus, trade diversion reduces welfare by increasing costs or, alternatively by reducing world income. It is in this

⁴⁴ "ibid pp.60-61."

⁴⁵ Miltiades Chacholiades, **International Economics**, Mc Graw-Hill publishing company, Singapore, 1990, p.228.

sense trade diversion is detrimental to welfare. On the other hand there are dynamic effects of CU.

1.1.3. Dynamic Effects of Customs Union

The so-called dynamic effects related with the numerous means by which CU may influence the rate of growth of Gross national Products (GNP) of the participating nations.⁴⁶

Three major dynamic effects of CU can be identified:⁴⁷

- a. Reducing monopoly power.
- b. Reducing levels of inefficiency-overmanning, excessive holdings of stocks and other types of slack management practices.
- c. Reaping economies of scale and learning effects.

The removal of barriers to trade can reduce monopoly power by increasing the possible sources of supply from other countries within the regional economic block. Reductions in monopoly power will lower prices and increase output thereby leading to net gains for consumers. Increasing the competitive environment may encourage producers to improve non-price competition factors such as the qualities of their products. This may also lead to benefits by increasing the demand for higher quality products. The removal of trade barriers should lead to the integration of fragmented markets and thereby create a larger market for products. If transport costs are low, it may be possible to serve the integrated market from existing or new plant and thereby allow companies to reap internal economies of scale. The size of the benefits from economies of scale depends upon the nature of the technical relationship between cost and output, in particular the rate of which costs fall as output is increased and by the level of output at which costs are minimized, that is, minimum efficiency scale. Therefore, the magnitude of the benefits from internal economies of scale is determined by the degree of integration of fragmental markets, the

⁴⁶ Ali M. El-Agraa, **The European Union Economics & policies**, 6th (ed), Prentice Hall, London, 2001, p.111.

⁴⁷ Frank MC Donald & Stephan Dearden, **European Economic Integration**, 3rd (ed) London and New York: Longman, 1999, pp.47-49.

significance of transport costs, and the technical relationships between costs and output. If the new larger markets are competitive, prices should be reduced as production costs fall down.⁴⁸

If production in national markets is characterized by large economies of scale, the competitive environment may be strongly oligopolistic if the market is only large enough to sustain a few plants. In these circumstances the creation of a large market by establishing a CU or a CM may allow an expansion of suppliers to the new larger market and thereby lead to a reduction in price. Thus the establishment of free movement can lead to benefits by increasing the number of suppliers to the market. The emergence of these benefits depends on the existence of a competition policy that is able to stop companies from acquiring control over plants and thereby preventing an increasing in the competitive environment.⁴⁹

Hence these dynamic effects include various and completely different phenomena. Apart from economies of scale, the possible gains are extremely long terms and can not be tackled in orthodox economic terms.⁵⁰

⁴⁸ “ibid pp.47-49.”

⁴⁹ “ibid pp.47-49.”

⁵⁰ Ali M. El-Agraa, **The European Union Economics & policies**, 6th (ed), Prentice Hall, London, 2001, p.111.

1.2. COMMON COMMERCIAL POLICY OF THE EUROPEAN UNION

In this part of the study CCP of the EU will be examined with its principles, instruments and characteristics. The EU is one of the world's biggest traders, accounting approximately for 20% of global imports and exports. Free trade among its members underpinned the successful launch nearly 50 years ago of the EU. The Union is therefore a leading player in efforts to liberalize world trade for the mutual benefit of rich and poor countries alike.⁵¹ In the founder agreement of EU, free mobility of goods in the frame of CU is foreseen. For this reason, member nations apply CCP against third countries together with the removal of mutual customs duties, duties having equal effect and quantity restrictions. Article 3 of the European Economic Community (EEC) Treaty envisages the establishment of CCP vis-à-vis the third countries as one of the objectives of the Community.

Table 1.2. Initial Objectives of the EEC

<p>The initial objectives of the EEC as stated in Article 3 of its treaty are the following;</p> <ul style="list-style-type: none"> • The establishment of free trade between the member nations such that all impediments on intra-union trade are eliminated. • The creation of an intra-union free market for all factors of production by providing the necessary prerequisites for ensuring perfect factor mobility. • The formation of common policies with regard to particular industries which members deemed it necessary to single out for special treatment namely agriculture and transport. • The application of produces by which the economic policies of the member nations could be coordinated and disequilibria in their balances of payments can be remedied. • The creation of a European Social Fund (ESF) in order to improve the possibilities of employment for workers and to contribute to the raising of their standards of living. • The establishment of a European Investment Bank (EIB) to facilitate the economic expansion of the EEC by opening up fresh resources. • The establishment of a Common Commercial Policy vis-à-vis the outside world.
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Source; <http://www.stanford.edu/class/e297b/progress%20of%20the%20European%20Union.htm-54k->
(15 December 2003)

CCP is complementary to the CCT which is imposed on the trade with the third countries and necessary for the formulation of CU as envisaged in Article 9. Article 9 of

⁵¹ http://www.europa.eu.int/pol/comm/index_en.htm (12 December 2003)

the Treaty of Rome stipulates that “The Community shall be based on a CU which shall cover all trade in goods and which shall involve the prohibition between member states of customs duties on imports and exports and of all charges having equivalent effects, and the adoption of a CCT in their relations with third countries”.⁵²

“The Treaty of Rome has provided the exclusive competence to the Union to conduct CCP on tariffs and trade and has regulated the key provisions for the CCP in Articles 110-116 of the Treaty of Rome”⁵³.

Article 110 contains the well-known aspiration: “By establishing a customs union between themselves member states aim to contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers.”⁵⁴

Article 113 is defined as the cornerstone of the CCP. It sets out the important rule that: “The CCP shall be based on uniform principles, particularly in regard to changes in tariff rates, the conclusion of tariff and trade agreements, the achievement of uniformity in measures of liberalization, export policy and measures to protect trade such as those to be taken in case of dumping or subsidies.”⁵⁵ Article 113 functions on the basis of qualified majority voting in the Council. Subject to the Council’s approval, the Commission is empowered to conduct negotiations in consultation with a special Committee appointed by the Council for this purpose, ‘the Article113 Committee’, and within the framework of such directives as the Council may issue to it. “Article 115 is another important Article for the EU’s trade policy. In order to ensure that the execution of measures of commercial policy taken in accordance with this Treaty by any Member State is not obstructed by deflection of trade, or where differences between such measures lead to economic difficulties in one or more of the Member States, the Commission shall recommend the methods for the requisite co-operation between Member States. Failing this, the Commission shall authorise Member States to take the necessary protective measures, the

⁵² “Article 9” of the Treaty of Rome.

⁵³ Keith Penketh, “The Customs Union”, in Frank Mc-Donald and Stephen Dearden (eds), **European Economic Integration**, 2nd (ed), London and New York, London, 1994, p. 239.

⁵⁴ “Article 110” of the Treaty of Rome.

⁵⁵ “Article 113” of the Treaty of Rome

conditions and details of which it shall determine. In cases of urgency, Member States shall request authorization to take the necessary measures from the Commission, which shall take a decision as soon as possible; the Member States concerned shall then notify the measure to the other Member States. The Commission may at any time decide that the Member States concerned shall amend or abolish the measures in question. In the selection of such measures, priority shall be given to those which cause the least disturbance to the functioning of the common market.”⁵⁶

CCP specially aims to prevent the cancellation of principles about free mobility of third country origin products inside the internal market and aims to prevent problems among member nations, which are arising from traffic diversion.⁵⁷

The necessities and wishes of taking preventive measurements for all member nations against destructive effects of unfair competition applications, which are meeting on external trade, are forming important point that gives direction to CCP. In addition to this, prevention of unfair enterprising actions of third countries, about destruction of competition among themselves inside third country markets, by the way of obtaining coordination of member nation’s exporting policies are one of the aims of CCP.⁵⁸

It is possible to say that the aims of CCP are directed to obtaining arrangements on Community’s external trade relations, on the way of serving more to Community’s profits. From this way, CCP have got different objectives than national trade policies. CCP aims to obtain protection of Community’s producers from harmful sides of external trade inside the same competition atmosphere, together with the aims of obtaining spreading of advantages of free trades to all member nations.⁵⁹

The application of CCP is only possible with the availability of necessary and adequate instruments on the authority fields of Community organs’. These instruments are stated below.

⁵⁶ “Article 115” of the Treaty of Rome

⁵⁷ Bayram Kaçar, “Avrupa Birliği Ortak Ticaret Politikası ve Türkiye’nin Uyumu”. M. Şükrü Erdem, Sibel Mehter Aykın, **Avrupa Birliği ve Türkiye**, 1. baskı, Akdeniz Üniversitesi Akdeniz Ülkeleri Economic Araştırmalar Merkezi, Ezgi Kitabevi, Antalya, Ağustos 2003, içinde, p.178.

⁵⁸ “ibid p.178.”

⁵⁹ “ibid p.178.”

1.2.1. Principles of Common Commercial Policy

The EU is an association of states with a particular legal character. Its members transferred some of their sovereign powers to Union, and these sovereign powers include foreign trade and right to conclude trade agreements with different countries.⁶⁰

“A common trade policy for the EU is necessary, because in its absence the purpose of a common market will be frustrated”⁶¹ and it is desirable in so far as it strengthens the bargaining power of the Community and small member countries benefit from this: on their own, they would be vulnerable to larger countries pressure.

Principles of CCP are put into effect by means of certain trade policy instruments. One instrument has already be mentioned, namely the conclusion of regional trade and cooperation agreements. Another instrument is the CET which applies to all imports entering the Community. A third one is the special tariff preferences provided to developing countries under the Generalized System of Preferences (GSP). Finally Non Tariff Barriers (NTB) is applied.⁶²

“A primary objective of the CCP is to secure uniformity of treatment across internal members in relation to third parties which is important and which gives commercial policy its commonality.”⁶³

1.2.2. The Common Commercial Policy Instruments

The instruments of EC trade policy are not exhaustively specified. Exhaustive specification is difficult because modern protectionism has been inventive in finding new tools. Another problem is that the scope of trade policy is steadily widening; increasingly it comprises regulatory barriers which have a domestic origin and are not necessarily enforced at borders. Furthermore, international services trade and issues of stretched the

⁶⁰ M. Brühlhart and D. McAleese, “EU external trade policy”, in Ali M.EL-Agraa (eds), **The EU, History, Institutions, Economy and Policies**, 5th (ed), Trawbridge Wiltshire, Printice Hall,1998, p.475.

⁶¹ “ibid. p.475.”

⁶² Keith Penketh, “The Customs Union”, in Frank Mc-Donald and Stephen Dearden (eds), **European Economic Integration**, 2nd (ed),London and New York, London, 1994, p. 242.

⁶³ “ibid.p.147.”

range of external measures for beyond the traditional boundaries of trade policy.⁶⁴ Because of the including importing as a whole, CCT are the most extensive application instruments.⁶⁵

We can distinguish four main policy instruments which the commission can employ to influence external trade:⁶⁶

- (a) Tariffs
- (b) Quotas
- (c) Voluntary Export Restraints (VER's) and
- (d) Anti-dumping measures.

This list is by no means exhaustive. Export promotion measures might also be included. Also trade sanctions can be imposed on countries for political reasons. Countervailing duties can be imposed where there is evidence of export subsidies in third countries. Safeguard clauses under World Trade Organization provisions allow signatories to take special measures in order to protect certain overriding interests. Rules of origin determine the proportion of the value of a product that must be added locally for a product to qualify as originating from a particular country. Such rules are important in the context of preferential trade agreements. The higher the required local content, the lower is the degree of preference granted to an exporting country.⁶⁷

1.2.3. Characteristics of Common Commercial Policy Instruments

“Trade policy touches on an ever wider range of economic issues. In the early years of the CCP, discussions concentrated almost uniquely on the level and structure of the CET. These questions could be analyzed within the established framework of trade theory. As tariffs were reduced in successive GATT rounds to near insignificance, other policy

⁶⁴ Jacques Pelkmans, **European Integration Methods and Economic Analysis**, Printice Hall, London, 2001, p.250.

⁶⁵ Bayram Kaçar, “Avrupa Birliği Ortak Ticaret Politikası ve Türkiye'nin Uyumu”. M. Şükrü Erdem, Sibel Mehter Aykın, **Avrupa Birliği ve Türkiye**, 1. baskı, Akdeniz Üniversitesi Akdeniz Ülkeleri Economic Araştırmalar Merkezi, Antalya, Ezgi Kitabevi, Ağustos 2003, içinde, p.181.

⁶⁶ M. Brühlhart and D. McAlesse, “EU external trade policy”, in Ali M.EL-Agraa (eds), **The European Union Economics & Policies**, 6th (ed), Printice Hall, Trawbridge Wiltshire, 2001, p.498.

⁶⁷ “ibid. p.498.”

areas have become increasingly relevant to international trade ; non-tariff barriers, taxation, industrial policy, exchange rates, competition policy, labor standards, consumer protection and environmental policy, to mention but a few. Most of these issues can not be analyzed through manipulation of the standard trade models, and it is no longer possible, therefore, to provide a unified theoretical background to the discussion of the CCP”⁶⁸.

“CCP is inherently complex being the outcome of different national legacies and numerous compromises at Council and Commission level. The Union is still in the process of defining its identity and forging solidarity among its members. Change in the CCP involves hard bargaining not just between the EU and non-member states, but between member states as well. The Union’s approach to trade matters can therefore appear piecemeal, and its untidy collection of regional and national trade agreements makes generalization difficult. For example, traditional ties with former colonies go far towards explaining the complex series of preferential trade arrangements with African and Mediterranean countries”⁶⁹.

EU policy makers frequently remain more concerned with the interests of their particular member states than with those of the union as a whole. Hence, a unique feature of the EU’s trade policy is that the impact of trade on the constituent national economies and regions weighs more heavily than in a unitary system. For example, in the United States, an employee who moves to San Francisco after being made redundant in Dallas enters the national statistics as a happy example of internal mobility. An Italian who moves to Munich after losing a job in Milan is seen in a different light. To the Italian government, emigration would have overtones of domestic policy failure and to the German government, the inflow of Italian workers might be seen as exacerbating Germany’s unemployment problem. Any analysis of the EU’s trade regime therefore has to take account of the particular political priorities and sensitivities prevailing in the Union.⁷⁰

⁶⁸ M. Brühlhart and D. McAleese, “EU external trade policy”, in Ali M.EL-Agraa (eds), **The EU, History, Institutions, Economy and Policies**, 5th (ed), Trawbridge Wiltshire, Printice Hall,1998, pp.474-475.

⁶⁹ “ibid pp.474-475.”

⁷⁰ “ibid. pp.474-475.”

2. TURKEY AND THE EUROPEAN UNION: CUSTOMS UNION RELATIONSHIPS

In this chapter Turkey-EU relations will be examined in a historical perspective within its broad lines. Then their relations will be examined under the CU relationships. In this context the Ankara Agreement, the Additional Protocol and the EU-Turkey CU Agreement will be examined respectively.

2.1. THE RELATIONSHIP BETWEEN TURKEY AND EUROPEAN UNION

Partnership agreement based on CU between Turkey and EEC, which makes Turkey an associate member to EEC, initiated in Brussels at 25 June 1963 than signed at 12 September 1963 in Ankara.⁷¹

Ankara agreement “included three phases through which the EC and Turkey would pass in order to achieve full economic integration with both sides making trade concessions and Turkey adopting its external tariff laws to match those of the EC. Because of disagreements on both sides, the Ankara agreement was eventually modified by the Additional protocol in 1970, which had as its ultimate goal the establishment of a CU between Turkey and the EC by 31 December 1995”⁷² There are three periods were defined in Ankara agreement for the final object of the CU; first period is a preparatory period. In this period Turkey will be trying to strengthen her economy and this period shall take five years. Principally second period shall take two years and CU will be establishing gradually. In last period coordination between economy policies will be obtaining and its duration is uncertain. After the completion of the preparatory period the Additional protocol, which describes the transition period, was signed on 1 September 1971 and entered into force on 1 January 1973. During the preparatory period of partnership imports was developing rapidly rather than exports and the portion of EEC in total imports of Turkey was raised (26% in 1963 and 42% in 1972). After the CU entered into force on 1 January 1996 relationship between Turkey and CU were entered into new period. Expectation of Turkey is to move ahead rapidly to full membership goal, but EU did not

⁷¹ <http://www.geocities.com/begunay/z13.htm>. (17 January 2004)

⁷² Turkey’s eventual membership of the EU; Turkish Elite perspectives on new issue.

determine a certain opinion to Turkey about this topic. Relations between Turkey and EU developed differently than their hopes. There are four basic reasons of them. One of them is an internal source of reason and the other three are external source of reasons. External source of reasons are; first one is the opposition of Greece. Greece shows a preventative attitude for Turkey EU relations. Second reason is attitudes of European Parliament against Turkey about subjects of violation of human rights and democracy. Third one is argument over European identity. In spite of acceptance of Cyprus, this is an eastern Mediterranean island, as a European, Turkey always be stay as a feature of foreign country in border. On the other hand, internal source of reason is; integration in Europe remains at second plan on the mind of academic environments, public mind, press and political staffs. Which countries take candidacy status from development strategy of EU and the calendar and process of joining to community determined on Luxembourg summit at 1997. Because of the reasons above, chance of Turkey are seen very little. Luxembourg summit gathered on 12-13 December 1997.⁷³ “Although the decisions of the Luxembourg Summit reflected by and large the contents of the Commission’s Agenda 2000, the following points related to Turkey need to be highlighted:”⁷⁴

1. Turkey’s eligibility was reconfirmed.
2. The EU decided to set up a strategy to prepare Turkey for accession and to create a special procedure to review the developments to be made.
3. Turkey was invited to the European Conference, but a number of unacceptable pre-conditions were put forward.
4. The developments of Turkey-EU relations were made conditional on certain economic, political and foreign policy questions.
5. The Commissions was asked to submit suitable proposals to enhance Turkey- EU relations.

“In a statement issued the day after the Summit, the Turkish Government criticized the EU’s attitude, stated that Turkey’s goal of full membership and Association would nevertheless be maintained, but that the development of bilateral relations as long as the EU did not change its attitude. In line with this statement Turkey did not participate in the

⁷³ T.C Dış Ticaret Müsteşarlığı-Türkiye Odalar ve Borsalar Birliği, **Avrupa Birliği ve Türkiye**, 5. baskı, Ankara, 2002, p.40.

⁷⁴ http://www.eic.org.tr/Eng/AbveTurkiye_1.aspx - 113k (3 May 2006)

inaugural meeting of the European Conference held in London on 12 March 1998. Turkey has thus made it clear that the way out of this difficult situation in the bilateral relations dependent on the political will to be displayed by the EU.”⁷⁵

“The Summit meeting held in Cardiff on 15-16 June 1998 offered a good opportunity to rectify the unwarranted difficult period which Turkey-EU relations entered into following the Luxembourg Summit. Although certain positive developments were achieved with regard to the language used for Turkey in the Presidency Conclusions of the Summit, there were no sufficient for Turkey to modify its policy outlined after the Luxembourg Summit”.⁷⁶ “An important result of the Cardiff Summit for Turkey-EU relations was the EU leaders’ endorsement of the Commission’s “European Strategy” for Turkey and the request made to the Commission to find solutions with a view to making available the financial resources required for the implementation of the European Strategy”.⁷⁷ EU Commission transmits progress report, which prepared for Turkey, to Turkey on 4 November 1998 with other candidate countries on the direction of Cardiff decisions.

In Vienna Summit on December 1998, the broadening process of EU was discussed and the implementation of the European strategy for Turkey’s preparation for accession was decided.⁷⁸

Helsinki Summit carries special importance for Turkey. The Helsinki European Council held on 10-11 December 1999 produced a breakthrough in Turkey-EU relations. At Helsinki, Turkey was officially recognized without any precondition as a candidate state on an equal footing with the other candidate states. While recognizing Turkey’s candidate status, the Presidency Conclusions of the Helsinki European Council endorsed the proposals of the Commission made on 13 October 1999. Thus, Turkey, like other candidate states, will reap the benefits from a pre-accession strategy to stimulate and support its reforms. This will also include an Accession Partnership, which will be drawn up accordingly, combined with a National Program for the adoption of the *acquis*. Turkey

⁷⁵ <http://www.anadolu.be/2004-07/6.html> - 18k - (3 May 2006)

⁷⁶ “*ibid*”

⁷⁷ http://www.eic.org.tr/Eng/AbveTurkiye_1.aspx - 113k - (3 May 2006)

⁷⁸ <http://www.ikv.org.tr/tarihce.php>- 33k - (8 May 2006)

will participate in Community programs open to other candidate countries and agencies. Turkey will be invited to the meetings between candidate states and the Union in the context of the accession process. A single framework for coordinating all sources of EU financial assistance for pre-accession will also be created.⁷⁹

In Feira Summit on June 2000, relating with Turkey, it is stated that to registered progresses on the positive aspect for the aims of harmony of membership criteria, but to expect concrete progresses on the field of human rights, superiority of law and judgment in accordance with Helsinki Summit decisions.⁸⁰

In Nice Summit on December 2000, the European Council welcomes the progress made in implementing the pre-accession strategy for Turkey. Turkey is requested swiftly to submit its national programme for adoption of the *acquis*, basing it on the Accession partnership.⁸¹

In Laken Summit on December 2001, it is underlined that Turkey get better on harmony of political criteria and it is stated that Turkey supported to move ahead on the way of harmonizing political criteria mainly on human rights together with economic criteria.⁸²

In Copenhagen Summit on December 2002, more extensive widen decisions of EU history are taken. The Copenhagen European Council resolves that if the European Council in December 2004, on the basis of a report and a recommendation from the Commission, decides that Turkey fulfills the Copenhagen political criteria, the EU would open accession negotiations with Turkey. In the meantime, EU leaders have agreed to extend and deepen co-operation on the EC-Turkey Customs Union and to provide Turkey with increased pre-accession financial assistance.⁸³

With the decisions of Brussels Summit on December 2004, Turkey-EU relations move to new phases. In its 17 December 2004 decisions, the European Council recognized

⁷⁹ “*ibid*”

⁸⁰ “*ibid*”

⁸¹ “*ibid*”

⁸² “*ibid*”

⁸³ “*ibid*”

Turkey's significant legislative progress in many areas but added that these need to be further consolidated and broadened. Furthermore, the report also took note of the improvements in the country's economic stability and predictability and the strengthened independence and efficiency of the judiciary. Regarding the respect for human rights and the exercise of fundamental freedoms. Turkey has needed to most relevant international and European conventions.⁸⁴

Most importantly for Ankara, Turkey got a fixed date (3 October 2005) for starting membership negotiations. The Turkish side had originally hoped for an earlier date, in view of the Copenhagen summit commitment that the EU would open talks without delay once Turkey is deemed to have made sufficient progress in its reforms.⁸⁵

Under the Council's decisions, a framework for Turkey's EU membership negotiations was established by the Commission. This document was released on 29 June 2005. "The negotiating framework, which has been described by Enlargement Commissioner Olli Rehn as 'rigorous', rests on the following elements":⁸⁶

1. The underlying and shared objective of the talks will be Turkey's accession. However, the negotiations will be 'open-ended', which means that their outcome cannot be guaranteed beforehand.
2. At the end of the talks, should Turkey fail to qualify in full for all obligations of EU membership as specified in the Copenhagen criteria, EU member states would still ensure that Ankara is 'fully anchored in the European structures through the strongest possible bond'.
3. The accession negotiations will be conducted in the framework of the Intergovernmental Conference with the participation of Turkey and all EU member states. The policy issues will be broken down into 35 policy areas (chapters) – more than ever before – and the decisions will require unanimity.
4. The EU may consider the inclusion of long transition periods, derogations, specific arrangements or permanent safeguard clauses in its proposals for each framework.

⁸⁴ "ibid"

⁸⁵ "ibid"

⁸⁶ <http://www.euractiv.com/Article?tcmuri=tcm:29-129678-16&type=LinksDossier> (19 February 2004)

5. Membership talks with candidates ‘whose accession could have substantial financial consequences’ (such as Turkey) can only be concluded after 2014, the scheduled date for the establishment of the EU’s new financial framework.
6. Accession negotiations can be suspended in case of a ‘serious and persistent breach of the principles of democracy, respect for human rights and fundamental freedoms and the rule of law on which the union is founded’. Suspension would require a Commission initiative or a request to that effect by one third of the member states. The final decision would be made by the Council by qualified majority, and the European Parliament would be informed.

“Under a compromise formula agreed at the December 2004 EU Council, before 3 October 2005 Turkey would have to sign a protocol that will adapt the 1963 Ankara Treaty to the ten new member states of the EU, including the Greek Cypriot government. For practical purposes this would amount to an implicit recognition of this government for the first time since the island’s division in 1974. ‘The adoption of this protocol is in no way recognition, and I have put this on the record,’ Turkish Prime Minister Recep TAYYIP ERDOGAN has said. The deal did not include a commitment from Ankara that the protocol would be ratified by the Turkish parliament before October 2005. As for the other key condition: Turkey on 1 June 2005 enacted the country’s revised penal code.”⁸⁷

“Throughout Europe, the arguments that surround Turkey’s projected accession revolve around a series of issues, ranging from demographic through geographic to political. One commonly raised point is that, if and when it was to join the EU, Turkey would become the EU’s most populated member state. Turkey’s current population is 71 million, and demographers project it to increase to 80-85 million in the next 20 years. This compares with the largest current EU member states Germany, which has 83 million people today, but whose population is projected to decrease to around 80 million by 2020.”⁸⁸

“Another argument is rooted in the age-old debate on whether it is possible to establish geographic borders for Europe, and whether Turkey fits within these borders.

⁸⁷ [http://www.euractiv.com/en//eu-turkey-relations/article-129678 - 64k - \(20 May 2006\)](http://www.euractiv.com/en//eu-turkey-relations/article-129678 - 64k - (20 May 2006))

⁸⁸ “ibid”

This is seen by many as a dispute that rests on philosophical and intellectual prejudgments, especially since the Treaty of Rome is widely accepted to aim for the construction of a union of European states based on shared common values.”⁸⁹

“Perhaps the most sensitive of all arguments centre on the cultural and religious differences. Since the EU identifies itself as a cultural and religious mosaic that that recognizes and respects diversity, the supporters of Turkey’s EU bid believe that, as long as both Turkey and the EU member states maintain this common vision, cultural and religious differences should be irrelevant.”⁹⁰

“The EU member states’ concerns over Turkey’s human rights record as well as global and regional security-related issues have also been key factors behind Turkey’s prolonged application process.”⁹¹

“The future of the divided island of Cyprus has also been a major sticking point. The Council’s December 2004 decision entailed a compromise formula on the Cyprus issue, under which the affected sides were expected to work towards a solution to the conflict before the scheduled 3 October 2005 launch of membership talks with Ankara. However, the accession talks will now open with the Cyprus conflict still unresolved.”⁹²

“The results of the referenda on the EU Constitution during the first half of 2005 - especially the No votes in France and the Netherlands- have been detrimental to Turkey’s EU bid. Although subsequent research and surveys have failed to prove that enlargement in general, and Turkey’s candidacy in particular, were key factors behind the public’s rejection of the Constitution, the summer of 2005 still witnessed an increase Europe-wide of scepticism towards Turkey’s European prospects.”⁹³

In July 2005, Turkey signed a protocol extending its CU to the EU-10 states, but at the same time Ankara issued a declaration saying that its signature did not mean its recognition of the Republic of Cyprus. Turkey also refused to open its ports and airports to

⁸⁹ “ibid”

⁹⁰ “ibid”

⁹¹ “ibid”

⁹² “ibid”

⁹³ “ibid”

Cyprus.⁹⁴ But Turkey needs approval of Cyprus Government at many times up to the approval of their membership. If Turkey wants to be carrying out she's membership process to the future, it is unavoidable to open its ports to Greek Cypriots. In any case the pressures of EU Associations are increasing continuously at that direction.

2.1.1. The Ankara Agreement

Ankara Agreement, which was establishing an association between the EEC and Turkey, was signed on 12 September 1963 in Ankara and entered into force on 1 December 1964. "According to its nature an association agreement is a Sui Generis international treaty and according to EC Law it signifies less than admission to the Community but more than a mere trade agreement."⁹⁵ These special characteristics will be seen more clearly in the light of the interpretation and application of the Ankara Agreement.

The purpose of Ankara Agreement clearly defined in Article 2. In Article 2 it is stated that: "the aim of this agreement is to promote the continuous and balanced Strengthening of trade and economic relations between the parties, while taking full account of the need to ensure an accelerated development of the Turkish economy and to improve the level of employment and the living conditions of the Turkish People."⁹⁶ And its principles arranged in its introduction chapter. Such as: elimination of the gaps between economies of Member States and Turkish Economies, by accelerating economic development and increasing trade harmoniously, establish closer bonds between the Turkish people and the people brought together in the economic Community, to facilitate full membership of Turkey's into Community in the future with support of EEC and Consolidation of peace and liberty guarantees by following ideas that inspired in Treaty of Rome.⁹⁷

⁹⁴ <http://www.euractiv.com/en/enlargement/turkey-accession-cyprus/article-135940-33k> (20 May 2006)

⁹⁵ Dominik Lasok, **The Ankara Agreement: principles and interpretation**, Marmara Journal of European Studies, vol: 1-2, 1991, p. 14.

⁹⁶ "Article 2(1)" of the Ankara Agreement.

⁹⁷ TC Dış Ticaret Müsteşarlığı Yayınları, **Avrupa Birliği ve Türkiye**, Ankara, Ekim 1999, p. 315.

Ankara Agreement, that aims to realize goals and principles stated above, formed from: Basic agreement (33 topic), Provisional Protocol (11 topic), Financial Protocol (9 topic).

Table 2.1 Scope of Ankara Agreement.

Scope of Ankara Agreement	
A)	Principles
B)	Application of transition Period
	<ul style="list-style-type: none"> • Customs Union • Agriculture • Other rules about economic Characteristics
C)	General and Last rules
D)	Appendix

Source: Arı Düşünce ve Toplumsal Gelişim Derneği, **Değişim ve Gelişim Sürecinde Avrupa Birliği ve Türkiye**, Form Matbaacılık, İstanbul, Kasım 2001,p.82.

According to Article 2(2). In order to attain the objectives set out in paragraph 1, a CU shall be progressively established in accordance with Articles 3, 4 and 5. Therefore partnership relations formed from three stages. These are Preparatory Stage, Transitional Stage and Final Stage.

Thus “during the preparatory stage Turkey shall, with aid of the Community, strengthen its economy. So as to enable it to fulfill the obligations this will devolve upon it during the transitional and final stages.”⁹⁸ The preparatory stage shall last five years, unless it should be extended. The detailed rules for this preparatory stage, in particular these, for aid from the Community, are set out in the provisional protocol and in the financial protocol to this agreement.⁹⁹

Inside the extra period of preparatory stage consultation with Community was started again on Turkey’s request for the aim of determine conditions, time and orders of the following period (transition period) and the Additional Protocol was signed on 23 November 1970 and came into force on 1 January 1973. Preparatory stage was ended and the transition stage was started actually with this agreement.

⁹⁸ “Article 3(1)” of the Ankara Agreement.

⁹⁹ Dominik Lasok, **The Ankara Agreement: principles and interpretation**, Marmara Journal of European Studies, vol: 1-2, 1991, p.15.

Article 4 of the Ankara Agreement defined the transitional stage. According to Article 4(1); “During the transitional stage the contracting parties shall, on the basis of mutual and balanced obligations. Such as; establish progressively a CU between Turkey and the Community; align the economic policies of Turkey and the Community more closely in order to ensure the proper functioning of the Association and the progress of the joint measures which this requires.”¹⁰⁰ This provision clearly implies that the elimination of customs duties and charges having equivalent affect, elimination of quantitative restrictions and all measures having equivalent affects in trade between Turkey and the Community. So the transitional stage would necessitate legislation on both sides and the adaptation of Customs Laws both substantive and procedural to ensure a free mobility of goods in both directions. All these requirements must have been fulfilled by two parties. So, the transition stage would include not unilateral, but bilateral relations. This stage should not last more than twelve years (ART. 4(2)) thought exceptions may be made by mutual agreement. The exceptions must not, impede the final establishment of the CU within a reasonable period. After the Completion of the transition stage, arrange with Additional Protocol, final stage was started. The final stage shall be based on the CU and shall entail closer coordination of the economic policies of the contracting parties. Ankara Agreement did not determine any duration for final stage and this duration were left to sides with Article 28.¹⁰¹ Article 28 stipulates that “as soon as the operation of the agreement has advanced for enough to justify envisaging full acceptance by Turkey of the obligations arising out of the treaty establishing the Community, the contracting parties shall examine the possibility of the accession of Turkey to the Community.”¹⁰² The basis of Ankara agreement is based on CU which was foreseen on Article 10.

Article 10 of the Ankara agreement regulates the procedure and defines the conditions of the CU. It is stated that the “CU shall cover all trade in goods and shall involve: The prohibition between member states of the Community and Turkey of Customs duties on imports and exports and of all charges having equivalent effects, quantitative restrictions, and all other measures having equivalent effect which are designed to protect national production in a manner contrary to the objectives of this agreement and the adoption by Turkey of the CCT of the Community in its trade with third countries, and an

¹⁰⁰ “Article 4(1)” of the Ankara Agreement.

¹⁰¹ <http://www.foreigntrade.gov.tr/ab/ankand.htm> (21February 2004)

¹⁰² <http://www.turkpulse.com/turkey13.htm-10k> (17 February 2004)

approximation to the other Community rules on external trade.”¹⁰³ This period, which was starting with CU come into force on 1 January 1996, are still continuing.

Article 6 of the Ankara agreement stated that; “to ensure the implementation and the progressive development of the association, the contracting parties shall meet in a Council of Association which shall act within the powers conferred upon it by this Agreement”¹⁰⁴ to help as well as the Council of Association may decided to set up committees to assist in the performance of its tasks with Article 24.

Table 2.2 Turkey- EC Association Bodies.

- Association Council: Responsible for the implementation of the agreement, taking of the decisions and approximation of the economic policies of Turkey to those of the Community and its decisions are binding for the parties.
- Association Committee: Responsible for technical aspects of the association relations; it is a supplementary body of the Association Council.
- Joint Parliamentarian Committee: Responsible for consultation, cooperation and political control.
- Customs Cooperation Committee: Responsible for the cooperation for a uniform implementation of the Customs Union.
- Turkey- EC customs Union Joint Committee: Responsible for the approximation of the Turkish legislation with that of the Community. (This was envisaged in the Articles 50-51 of the Decision 1/95)

Source; T.C Dış Ticaret Müsteşarlığı-Türkiye Odalar ve Borsalar Birliği yayımları, **Avrupa Birliği ve Türkiye**, 5. Baskı, Ankara, 2002, p.328.

Since the CU is the most important objective of the Ankara Agreement, it was specified a timetable. According to this timetable, the CU between two sides would be realized in three different stages; preparatory stage, transitional and final stages, all of which has included some rights and obligations. Thus, Article 3(1) stated that “during the preparatory stage Turkey, with aid from the Union shall strengthen its economy to enable it to fulfill the obligations which will devolve upon it during the transitional and final stages”.¹⁰⁵ So in this stage Turkey would not have any obligations, she would be benefiting

¹⁰³ Dominik Lasok, **The Ankara Agreement: Principles and Interpretation**, Marmara Journal of European Studies, vol:1, No: 1-2, 1991, p.17.

¹⁰⁴ “Article 6” of the Ankara Agreement.

¹⁰⁵ “Article 3(1) of the Ankara Agreement.

from the concessions given by the Union unilaterally for the aim of improving their economic conditions to decrease gaps between the economic development levels and to prepare itself for the following period (transitional period). On the other hand, the EU was responsible for reduction of quotas in four traditional exporting products of Turkey, such as; tobacco, raisins, dries figs and hazelnuts.¹⁰⁶

As Appendix to the Ankara Agreement, two Additional Protocols were included into the text of the agreement. Protocol number one has got provisions about the concessions for tobacco, raisins, dries figs and hazelnuts; and the protocol number two included the financial protocols granted to Turkey for strengthen its economy. In this framework, four different protocols have been accepted.

Accordingly, the first financial protocol signed together with the Association Agreement on 12 September 1963 provided for loans up to a total of 175 million units of account which may be committed in five years following the entry into force of this Agreement.¹⁰⁷

Agreement entered into force in December 1964 and lasted until 1969. The amount allocated, 175 million ECU, might seem to be a negligible amount today, at the time it played an important role. It should be noted that in 1964 Turkey's annual export figure was around 400 million US \$. The second financial protocol was signed on same day with Additional Protocol on November 1970 and would provide 220 million European Currency Unit (ECU). This amount allocated between 1971 and 1977 also a complementary protocol including 47 million ECU and allocated between 1972 and 1977. Third financial protocol would give 310 million ECU to Turkey between 1979 and 1981, which was aiming to help increase the productivity of the Turkish economy and in particular, aiming to provide Turkey with a better economic infrastructure, higher agricultural output and modern, efficiently running undertakings in the industrial and service sectors whether they are publicly or privately managed (as well as private cooperation fund including 75 million ECU in the same period). And the Community has accepted the fourth financial protocol

¹⁰⁶ Halil Seyidođlu, **Uluslararası İktisat**, 11. baskı, Güzem yayınları, İstanbul, 1996, p.262.

¹⁰⁷ Haluk Kabaalıođlu, **Turkey and the European Union, Converging or Drifting Apart?**, Marmara Journal of European Studies. Vol.7. No 1-2, 1999, p.112.

covering 600 million ECU in 1981, but it has never been realized because of the prevention of Greece and some political reasons.¹⁰⁸

Despite all its economic implications, Ankara agreement can not be accepted only as a CU agreement. This document allows; taking of all measures to form common market between the parties, following the establishment of the CU.¹⁰⁹ Ankara agreement facilitating the partial integration of Turkey into the EC so this agreement is one of the most important steps for the achievement of the final aim of Turkey, which is the membership.

2.1.2. The Additional Protocol

The Ankara agreement, which was signed on 12 September 1963 and come into force on 1 December 1964, was seen as the infrastructure of the relations between Turkey and EEC. Because of the reason above, it is thought that a more detailed agreement is necessary for the aim of determining necessary conditions for completing transition period.¹¹⁰

In this frame, negotiations were started in 1968 and ended with Additional Protocol, which was signed on 23 November 1970. But this protocol entered into force with temporary agreement on 1 September 1971. Additional Protocol is an agreement determining methods, orders, periods, procedures and realization provisions of transition period.¹¹¹ Development of balanced and mutual relations, strengthening the CU, approximation of economic policies between two sides and the development of common activities are the most important principles of the Additional Protocol¹¹² as indicated in the Article 17 of the Additional Protocol. Contents of the Additional Protocol can be summarized like below.

¹⁰⁸ Halil Seyidođlu, **Uluslararası İktisat**, 11. baskı, Güzem yayınları, İstanbul, 1996, pp.264-265.

¹⁰⁹ Tuđrul Arat, Türkiye ile Avrupa Topluluđu arasında Gmrk Birliđi ve Hukuki Uyum, **Gmrk Birliđi Srecinde Trkiye**, iki aylık Gmrk Birliđi Dergisi, Mayıs, Haziran, Temmuz, Ađustos, Eyll zel sayısı, İstanbul, 1995, p. 235.

¹¹⁰ Vakıfbank yayınları, **Gmrk Birliđi'nin Trkiye Eknomisine Muhtemel Etkileri**, 3.baskı, p.34.

¹¹¹ Halil Seyidođlu, **Uluslararası İktisat**, 11. baskı, Gzem Yayınları, İstanbul, 1996, p.263.

¹¹² TC Dış Ticaret Msteřarlıđı , **Avrupa Birliđi ve Trkiye**, Ankara, Ekim 1999, p.333.

The content of this protocol includes some provisions about policy approximation and these provisions can be summarized with these sentences; establishment of CU for industrial goods, implementation of a preferential regime for the agricultural goods, free movement of goods, labour, services and capital within a specific time schedule, foreign investment, right for residence, coordination of economic policies, competition and state aids, economic and export subventions.¹¹³ (Table 2.3)

Table 2.3. Contents of Additional Protocol.

Free Mobility of Goods	Free Mobility of Persons and Services	Approximation of the Economic Policies
<ul style="list-style-type: none"> • Customs Union: Removing Customs duties between Turkey and Community. • Acceptance of CCT by Turkey • Removing quantity restrictions between contracting parties. • Bring Common Agricultural Policy into force. 	<ul style="list-style-type: none"> • Free Mobility of Labour • Rights for residence, services and transportation. 	<ul style="list-style-type: none"> • Approximation of competition, taxation and laws. • Economy policy.

Source: Arı Düşünce ve Toplumsal Gelişim Derneği, **Değişim ve Gelişim Sürecinde Avrupa Birliği ve Türkiye**, Form Matbaacılık, İstanbul, Kasım 2001, p.86.

In Additional Protocol; Chapter I is related with the free mobility of goods, which includes the establishment of CU in Part I. In this part, Articles 7-16 are about the elimination of the customs duties and charges having equivalent effect between the Union and Turkey, Articles 17-35 defines the procedure for the elimination of the quantitative restrictions and adoption of the CCT by Turkey.¹¹⁴

According to Additional Protocol there are some commercial and financial responsibilities of Turkey and EU towards each other in transition period. These are;

a. Gradual CU about industrial products; On the entry into force of this protocol, the community shall abolish customs duties and charges having equivalent effects on imports from Turkey. But some industrial products based on agriculture like, olive oil, tomato sauces, sugar...etc, textile, petroleum products and cotton fiber are keeping on outside of this application for certain periods. With the signing of the additional protocol, Turkey has accepted abolishing customs duties on the EU's industrial exports and adopting

¹¹³ Arı Düşünce ve Toplumsal Gelişim Derneği, **Değişim ve Gelişim Sürecinde Avrupa Birliği ve Türkiye**, Form Matbaacılık, İstanbul, Kasım 2001, p.86.

¹¹⁴ <http://www.deltur.cec.eu.int/kitap/e-add.rtf> – (23 May 2006)

the CET of the EC that is applied to third countries. According to this a transition period of twelve years for lifting tariffs on industrial goods and a twenty-two year long tariff removal calendar for weak industrial sectors were foreseen.¹¹⁵ A calendar was determined for tariff reductions. The first reduction shall be made on the entry into force of this protocol. Each reduction shall be made by lowering the basic duty on each product by 10% in twelve years lists and 5% in twenty-two years lists. Secondly, it is foreseen that Turkey shall remove quantity restrictions and thirdly, the Turkish customs tariff shall be aligned on the CCT in accordance with certain calendar and it means reduction of duties against third countries. When the EU members completed the establishment of the CU among themselves by the date of 1 July 1968, they also adopted the CCT in their trade relations. With EU-Turkey Association council 1/95 decision Turkey also accepted the adoption of CCT in its relations with third countries. This situation is regulated in Articles 17-20 of the additional protocol.¹¹⁶

In summarize according to the decisions of additional protocol, Turkey shall abolish, over a period of twenty-two years, the basic duties on the industrial products importing from community and shall apply community's CCT against third countries. With the other words; CU between Turkey and EU on industrial products shall be setting up, up to the beginning of 1996¹¹⁷. Moreover, parties also accept to eliminate all kinds of export restrictions between them at the end of the transition period. However, there is an exception to this rule. After consulting association council both sides may apply same restrictive measures for their export within certain limits, first to promote the development of some of their industries and to resist any possible shortages in some strategic goods by preventing the discriminatory use of these resources.

¹¹⁵ Emlak Bankası Yayınları, **Gümrük Birliği Rehberi**, Ocak 1996, p.4.

¹¹⁶ Halil Seyidoğlu, **Uluslararası İktisat**, 11. baskı, Güzem Yayınları, İstanbul, 1996, pp.263-264.

¹¹⁷ "ibid p.264."

Table 2.4. The Reduction of the Customs Tariffs by Turkey

	<u>Lists for twelve years %</u>	<u>Lists for Twenty-Two years %</u>
1973	10	5
1976	20	10
1988	30	20
1989	40	30
1990	50	40
1991	60	50
1992	70	60
1994	90	80
1995	95	90
1996	100	100

Source: **Gümrük Birliği Rehberi**, Eğitim Müdürlüğü Yayınları Serisi 15, Emlak Bankası, Ocak 1996, p.6

Table 2.5. The Adoption of Turkey to Common Customs Tariff

	<u>Total in the lists for Twelve years %</u>	<u>Total in the lists for Twenty-Two years%</u>
1989	20	20
1991	40	20
1992	60	40
1994	80	70
1995	90	85

Source: **Gümrük Birliği Rehberi**, Eğitim Müdürlüğü Yayınları Serisi 15, Emlak Bankası, Ocak 1996, p.6

b. Application of preferential regime on the field of agricultural products; Forming CU about agricultural products is not stated in transition period. Community accepted to apply preferential customs tariffs to Turkey about some agricultural products instead of CU. In addition to this, it is suggested that Turkey shall adjust its agricultural policy with a view to adopting the Common Agricultural Policy (CAP) of community.¹¹⁸

c. Free mobility of factors; Freedom of movement for workers between member states of the community and Turkey shall be secured by progressive stages in accordance with the principles set out in Article 12 of the Agreement of Association between the end of the twelfth and the twenty-second year after the entry into force of Ankara Agreement. These provisions must enable workers of Turkish nationality, in accordance with arrangements to be laid down, to aggregate periods of insurance or employment completed in individual Member States in respect of old-age pensions, death benefits and invalidity pensions, and also as regards the provision of health services for workers and their families residing in the Community. These measures shall create no obligation on Member States to take into account periods completed in Turkey.¹¹⁹

¹¹⁸ “ibid p.264.”

¹¹⁹ “ibid p.264.”

d. Financial aids; In partnership agreement it is considered that, investment projects shall be eligible for financing where they help to increase the productivity of the Turkish economy and, in particular, aim to provide Turkey with a better economic infrastructure, higher agricultural output, and modern, efficiently-run public or private undertakings in the industrial and service sectors. Requests which have been approved shall be financed by loans from the European Investment Bank (EIB) acting on authority from the member states of the community. Up to day four different protocols signed with community.¹²⁰

Under the first financial protocol which covered the period 1963-1970, the EEC provided Turkey with loans worth 175 million ECU. Second financial protocol, signed with the additional protocol and came into force at the beginning of 1973. Afsin-Elbistan thermoelectric power plant, Petkim rubber institutions...etc were financed with this loan worth 229 million ECU, also third financial protocol was signed on 1977 and came into force after two years and obtained loan worth 310 million ECU. Finally fourth financial protocol was signed on 1980 dated partnership council meeting and loans worth 600 million ECU for five years period was foreseen with this protocol. But these credits has not used for the reason of the obstacles of Greece.¹²¹

e. Harmonization of economy policies; In accordance with the additional protocol, Turkey shall harmonize their own economy policies and legal laws with community's laws about subjects of competition and taxation.¹²²

Table 2.6. Projects Financed at the Frame of First Financial Protocol.

A) Public Sector Projects	
<u>Name of the Projects</u>	<u>Total amounts of Credits (ECU)</u>
Kovada II	5,000,000
Seka-Caycuma	10,300,000
Keban Barrage	30,000,000
Gediz Irrigation	15,000,000
Gökcekaya Barrage and Hydroelectric Power Plant	7,300,000
Seka-Dalaman I	14,000,000
Samsun-Nitrogen	5,600,000

¹²⁰ “ibid p.264.”

¹²¹ “ibid pp.264-265”

¹²² “ibid p.265.”

Table 2.6 (Contd.)

Gokcekaya-Izmir Energy Transfer Line	7,600,000
Bogaz Bridge	20,000,000
Petkim-Rubber I	9,290,000
Keban (Additional Financing)	<u>10,000,000</u>
Total	145,090,000
B) Private Sector Projects	
Steal Rope and Wire Industry	1,500,000
Tac Textile	190,000
Arcelik Enamel	245,000
Mannesman-Sumerbank Tube Project	430,000
Sise-Cam Fabric Project	2,125,000
Guney Industry	400,000
Turkish Pirelli	500,000
Sifas Thread 1	1,300,000
Textiles Power House	720,000
Staff agreements (24 projects)	<u>22,500,000</u>
Sub total	29,910,000
Total	175,000,000

Source; T.C Dış Ticaret Müsteşarlığı-Türkiye Odalar ve Borsalar Birliği, **Avrupa Birliği ve Türkiye**, 5. baskı, Ankara, 2002, p.337.

Table 2.7. Projects Financed at the Frame of Second Financial Protocol.

A) Special Conditional Loans	
<u>Name of the Projects</u>	<u>Total amounts of Credits (ECU)</u>
Petkim Rubber	6,400,000
TCDD-Electrification	4,350,000
THY F-28 purchase	8,650,000
TCDD-Dieselization	23,500,000
Gediz II	10,000,000
Berdan	11,000,000
Afsin-Elbistan I	58,000,000
Afsin-Elbistan II	19,000,000
Seka-Mediterranean I	20,000,000
Seka-Mediterranean II	5,000,000
Seka-Dalaman II	6,300,000
Prior investment I	2,000,000
Prior investment II	1,015,000
TSKB 1973 Global Loans	14,785,000

Table 2.7. (Contd.)

TSKB 1976 Global Loans	<u>5,000,000</u>
Total	195,000,000
B) Loans obtained by European Investment Bank Sources	
<u>Name of the Projects</u>	<u>Total amounts of Credits (ECU)</u>
TSKB 1974 Global Loans	20,000,000
SYKB 1974 Global Loans	<u>5,000,000</u>
Sub Total	25,000,000
Total	220,000,000

Source; T.C Dış Ticaret Müsteşarlığı-Türkiye Odalar ve Borsalar Birliği yayınları, **Avrupa Birliği ve Türkiye**, 5. baskı, Ankara, 2002, p.338.

Table 2.8. Projects Financed at the Frame of Third Financial Protocol.

<u>Name of the Projects</u>	<u>Total amounts of Credits (ECU)</u>
Seka-Dalaman	4,000,000
Seka-Mediterranean	16,000,000
TSKB 1979(A) Global loans	15,000,000
SKYB 1979(A) Global loans	5,000,000
TSKB 1979(B) Global loans	30,000,000
SKYB 1979(B) Global loans	10,000,000
Transmission lines	<u>10,000,000</u>
Total	90,000,000
B) Special Conditional Loans	
<u>Name of the Projects</u>	<u>Total amounts of Credits (ECU)</u>
Seka-Mediterranean sea	10,000,000
Keban Hydroelectric Power Plant	36,000,000
Afsin-Elbistan	75,000,000
Karakaya	85,000,000
Distribution of Load	<u>14,000,000</u>
Total	220,000,000
General Total	310,000,000

Source; T.C Dış Ticaret Müsteşarlığı-Türkiye Odalar ve Borsalar Birliği yayınları, **Avrupa Birliği ve Türkiye**, 5. baskı, Ankara, 2002, p.338.

Transition period necessitated also some other important policies and decisions different than others described above like, new import regime and CCP and competition policy. According to new import regime which was entered into force on 1 January 1996, prices of the imported goods to Turkey would only include a customs duty, varying according to the country and products, and a fund. In other word, some other measures

having equivalent effects with the customs duties would not been applied. With this new regulation, it was hoped that the import regime would gain a clear, easy and understandable characteristics. On the other hand, by accepting to form a CU, besides reductions in the customs duties and the adoption of the CCT, Turkey accepted to be bound by two important policies of the Community, the commercial policy and the competition policy that are two indispensable elements of a CU.¹²³

Additional protocol was working regularly till second half of 1970's. The political instabilities in Turkey increased the tension between two sides especially at late 1970's. At the end of 1970's, recession period started both in Turkey and Community. After Oil Crises, Community member nations accepted protective economy policies for the aims of eliminating both high inflation and unemployment rates. On the other hand, Turkey was continuing to carry out her import substitutions based on economic policies. So, partnership relations between Turkey and Community lost their development velocity. At that period certain Turkish origin products, especially textile products, started to be a topic of anti-dumping investigations and duty taxes.¹²⁴ Their event was the beginning of new trend like voluntary restrain agreements, which was threaten the balance of trade formation between Turkey and EEC. At October 1978 Turkey demanded from EEC both the suspension of its obligations during five years. Moreover, Turkey demanded 8 billion US \$ credit, which was thought as unacceptable.¹²⁵

At May 1979 the EEC council responded Turkey's requests officially. Then Turkey's exemption period was accepted. However, the military coup in Turkey on 12 September 1980 marked the beginning of a freeze in relations. Only after the multi-party elections in 1983 and the changing of administration from military administration to civilian administration did relations with Europe return to normal. At that time CU process gained momentum and decreases from customs duties started on January 1998. At the end of the twenty-two year, Turkey was providing 95% customs tariff reductions in twelve years list and 90% reductions in twenty-two years list.¹²⁶

¹²³ http://www.turkishembassy.org/index.php?option=com_content&task=view&id=233&Itemid=282-37k- (15 May 2006)

¹²⁴ <http://www.fatemi.com/CONFERENCES/turkey.html> - 59k - (25 May 2006)

¹²⁵ <http://www.hri.org/news/turkey/anadolu/1999/99-12-10.anadolu.html> - 84k - (28 May 2006)

¹²⁶ Vakıfbank Yayınları, **Gümrük Birliği'nin Türkiye Ekonomisine Muhtemel Etkileri**, 3. baskı, pp. 36-37.

2.1.3. The European Union-Turkey Customs Union Agreement

In its broad sense, the CU covers the mutual elimination of custom duties, tariffs and quotas between the EU and Turkey. It also covers the adaptation of Turkey to the CCP and to the common foreign trade policies of the EU.

The Association Council decision 1/95 ‘lays down the rules for implementing the final phase of the CU’ which was foreseen in the second and fifth Articles of the Ankara agreement and accepted in 36 period assembly of Association Council was came into force on 31 December 1995.¹²⁷

Decision No. 1/95 of the Association Council which refers the final aim of the agreement, the accession of Turkey to the Community, determined to establish closer bonds between Turkish peoples and peoples brought together in the EEC. To provide such an agreement, the EC Turkey Association Council met in Brussels on 6 March 1995 in its 36 period meeting, it has been considered that; “The objectives set out by the Ankara Agreement, and in particular by its Article 28, which established the Association between Turkey and the Community maintain their significance at this time of great political and economic transformation on the European scene; Recalling its resolution of 8 November 1993 in which it reaffirmed the will of the Parties to enter into the CU according to the calendar and modalities set out in the Ankara Agreement and its Additional Protocol; Considering that the Association relations as provided for in Article 5 of the Ankara Agreement are entering into their final phase based on the CU, which will complete the transitional phase through the fulfillment by the two parties of their reciprocal Obligations and which leads to the elaboration of the modalities for the effective functioning of the CU within the framework of the Ankara Agreement and Additional Protocol. It has been considered that the CU represents an important qualitative step, in political and economic terms, within the Association relations between the Parties.”¹²⁸

The decision 1/95 of the Council was taken in the date given above, but it came into force on 1 January 1996. The document started to be applied with reference to the CCT

¹²⁷ Halil Seyidođlu, **Uluslararası İktisat**, 11. baskı, Güzem Yayınları, İstanbul, 1996, p.268.

¹²⁸ http://www.gumruk.gov.tr/Turkish_Customs_English/ab/okk.htm (25 March 2004)

and other common policies of the EU in 1996. The most important part of the document covers the nature of foreign trade and the elimination of customs.

Generally, the document contains three decisions:¹²⁹

1. The decisions of the Association Council related with the free movement of goods.
2. The advisory decision related with the development of relations between Turkey and the EU.
3. The declaration concerning with the financial support of Turkey.

As of 1 January 1996, Turkey had taken or agreed to take action to:¹³⁰

1. Eliminate all customs duties and quantitative restrictions on trade in industrial commodities with the EU on 1 January 1996,
2. Introduce the common EU customs tariff rates against third countries and adopt all preferential agreements the EU has concluded with third countries by the year 2001,
3. Ensure adequate and effective protection and enforcement of intellectual, industrial and commercial property rights,
4. Adopt the EU competition rules, including measures regarding public aid, within two years (although aid given for structural adjustment purposes will be permitted for another five years).

“EU’s CU will also require harmonization of Turkish Laws and procedures in related areas including quantitative restrictions, anti-dumping rules, rules of origin, patents and licenses, etc. The agreement notably excludes trade in agriculture, which is under active negotiations, as well as trade in services, government procurement and the movement of capital and labor.”¹³¹

¹²⁹ Arı Düşünce ve Toplumsal Gelişim Derneği, **Değişim ve Gelişim Sürecinde Avrupa Birliği ve Türkiye**, Form Matbaacılık, İstanbul, Kasım 2001, p.85

¹³⁰ “ibid p.89.”

¹³¹ OECD Economic Survey, Turkey, September 1996, p.59.

The EU-Turkey Association Council 1/95 decision consists of 66 Articles and 10 Annexes. There are 11 announcements of Turkey and 4 announcements of Community to Association Council 1/95 Decision and two common announcements are in questions. It also includes the decision of the EU –Turkey Association Council 2/95 a resolution about the improvement of Turkish-EU relations and a financial protocol. With the Association Council 2/95 Decision, Turkey accepted to apply CCT against imports from third countries.

Chapter I is related with ‘free mobility of goods and commercial policy’. This chapter includes 23 articles. Article 2-3 are related with provisions about free mobility of goods and trade policy applying to goods produced in Turkey or Community, or goods which are from third country origin in free circulation except agricultural products. Articles 4-7 are about elimination of customs duties, quantity restrictions and charges having equivalent effects. It provides that customs duties on imports or exports and charges having equivalent effects shall be wholly abolished between the Community and Turkey on the date of entry into force of this decision (1 January 1996). Article 8-11 are related with removal technical barriers on trade, within five years from the date of entry into force of this decision, Turkey shall incorporate into its internal legal order the Community instruments relating to the removal of technical barriers to trade about the subjects of standardization, metrology and calibration, quality, accreditation, testing and certification. Turkey will not prevent Community’s products, which will certificate suitably to Community laws inside transition period. Articles 12-14 are related with commercial policy, CCT and preferential tariff policies.¹³² “Turkey aligned her customs tariff with the CCT in relation to countries which are not members of the Community.”¹³³

Adoption to the CCT and all the relevant customs legislation is not sufficient for the completion of the CU. The commercial policy of Turkey will also have to be harmonized with the CCP of the Community. This involves both the autonomous regimes and preferential agreements with third countries. In order to harmonize Turkish commercial policy with that of the EC, Turkey will negotiate agreements on a mutually advantageous

¹³² http://www.deltur.cec.eu.int/_webpub/documents/gb%20ortaklik%20konseyi%20karari.pdf – (30 May 2006)

¹³³ Article 13 of the EU-Turkey Association Council 1/95 Decision.

basis with the countries concerned.¹³⁴ Article 15 is related with sensitive products; Turkey has adopted the CCT of the Community for limited number of products like, motor gasoline, petroleum ether, gas oils, diesel oil, fuel oil, trunks, suitcases, bags, sacks, craft paper, footwear, porcelain, china, midi-bus, mini-bus, motor vehicles, motor cars, lorries. Turkey may retain customs duties higher than the CCT until 1 January 2001 in respect of third countries for products agreed by the Association Council.¹³⁵

In Article 16 it is stated that, as a result of consultations with third countries Turkey undertakes both the autonomous regimes and preferential agreements on a mutually advantageous basis with the countries that concerned. Article 16 stipulates that Turkey shall align itself progressively with the preferential customs regime of the Community within five years as from 1 January 1996. Articles 17-23 are related with systems applying on imports of processed agricultural products.¹³⁶

Chapter II is related with the ‘agricultural products’ and including Articles 24-27. Articles 24-27 are related with harmony of Turkey to Community’s CAP and preferential regime applying on trades of agricultural products. Turkey and the Community shall progressively improve the preferential arrangements, which they grant to each other for their trade on agricultural products, on the basis of mutually benefits.¹³⁷

Chapter III is related with the ‘customs provisions’ and includes Articles 28-30; As the CU is not mean only the elimination of customs duties, quantitative restrictions and measures having equivalent effects, there is also the alignment of the customs tariffs of Turkey to the CCT of the Community,¹³⁸ it was only natural that Turkey had to adopt legislation in line with the Community customs code in the following fields; origin of goods, customs value of goods, introduction of goods into the territory of the CU, customs declaration, release for free circulation, suspensive arrangements and customs procedures with economic impact, movement of goods, customs debt and the right of appeal.¹³⁹

¹³⁴ Haluk.A. Kabaalioglu; **the Customs Union, a Final Step before Turkey’s Accession to the European Union?**, Marmara Journal of European Studies. Vol 6. no.1 1998. p.119.

¹³⁵ Decision 2/95, 6th March 1996.

¹³⁶ http://www.deltur.cec.eu.int/_webpub/documents/gb%20ortaklik%20konseyi%20karari.pdf – (30 May 2006)

¹³⁷ “ibid”

¹³⁸ “ibid”

¹³⁹ “Article 28” of the EU-Turkey Association Council 1/95 Decision.

Chapter IV deals with the ‘Approximation of Laws’ including many articles. Article 31 is related with the protection of intellectual, industrial and commercial property. Contracting parties emphasizes the importance of protection and execution of intellectual, industrial and commercial property rights and recognize that the CU can be functioning properly only if equivalent levels of effective protection of intellectual property rights are provided in both constituent parts of the CU. Articles 32-38 are related with the competition rules of the CU. Turkey must bring their laws about competition rules harmonious with Community’s Laws for the aims of reaching to economic integration which was targeting with CU. Articles 39-43 are related with the approximation of legislation. Turkey accepted to harmonize their rules to EU rules about the subjects of competition for the aims of accomplish economic integration which was foreseen by CU. Articles 44-47 are related with trade defense instruments. Article 48 is about the public procurement and Articles 49-51 are related with direct and indirect taxation.¹⁴⁰

Chapter V is about the ‘institutional provisions’, including the EC-Turkey CU Joint Committee. In accordance with Article 24 of the Association agreement, an EC-Turkey CU Joint Committee is hereby established. Articles 52-60 stated that, the EC-Turkey CU Joint committee shall carry out exchange of views and information, formulae recommendations to the Association Council and providing running of CU regularly. Articles 61-62 are related with the settlement of disputes and Articles 63-64 are related with safeguard measures.¹⁴¹

Last Chapter, Chapter VI, deals with the general and final provisions about the entry into force of the decision and the interpretation in the Articles 65-66.¹⁴²

The recommendation Resolution of EU-Turkey Association Council primarily focused on the cooperation between Turkey and the Union on a wide range of issues: the macroeconomic policy, joining Turkey to Trans-European road networks, industry, energy, communication, telecommunication, environment and scientific research.¹⁴³

¹⁴⁰ http://www.deltur.cec.eu.int/_webpub/documents/gb%20ortaklık%20konseyi%20kararı.pdf – (30 May 2006)

¹⁴¹ “ibid”

¹⁴² “ibid”

¹⁴³ Halil Seyidođlu, **Uluslararası İktisat**, 11. baskı, Güzem yayınları, İstanbul, 1996,p.270.

The EU declaration also concerning with financial cooperation. According to this declaration, the EU decided to resume its financial cooperation with Turkey to improve infra-structure linkages, to reduce the differences between the economies of two sides and to help Turkey adopt the Turkish industrial sector to the new competitive conditions and solve its social and economic problems in the way of the CU. According to this decision, financial aids coming from the Union would depend on different sources; Substantial budgetary resources for five years between 1992-1996 about 375 million ECU; funds available on the frame of Mediterranean Policy about 300-400 million ECU; EIB loans for five years about 750 million ECU and the macroeconomic financial aids in the special needs.¹⁴⁴

The period, which follows the completion of the CU on industrial products, will provide several advantages to Turkish foreign trade. Because the CU depends on the free mobility of persons, services, capitals and goods without facing any customs duties or quantitative restrictions. It also covers the enlargement of autonomous regime in the trade of agricultural goods, the competition laws of Turkey, the empowerment of the coordination with the EU by means of economic and social policies. Therefore, these regulations and adaptations will, of course, directly affect the composition of Turkish foreign trade.

As a result of the CU Agreement in 1995, protective procedures, quotas and tariffs on industrial goods imported from the EU have been wholly removed and the CCT has been applied for the goods imported from third countries. These applications are still valid.

¹⁴⁴ “ibid p.270.”

3. TURKISH REPUBLIC OF NORTHERN CYPRUS AND TURKEY

Turkish Republic of Northern Cyprus (TRNC) economy carries special features of small developing island economy with its population¹⁴⁵ about 264,172 (De-facto population)¹⁴⁶ and 8,095 US \$ per capita income. TRNC has faced tremendous difficulties due to the political unsettlement of the Cyprus problem. TRNC is not recognized politically from other countries except Turkey. TRNC and Turkey have strong economic and socioeconomic links arising from cultural, religious, and ethnic relations. Because of the diplomatic non-recognition of TRNC and the Cyprus problem, Turkey and TRNC have established very strong relationships. TRNC can break the limitations on economic and social life through Turkey's help.

The aim of part 3 is to examine the economical and commercial relations between TRNC-Turkey. This chapter forms from four sub-titles. First sub-title is related with the TRNC's economic table, in this part structural properties of TRNC economy is investigated with its important elements then the main sectors of the economy will be examined. Second sub-title is related with the external trade in TRNC, in this part external trade policy of TRNC, difficulties facing on external trade with TRNC and major trade items of TRNC will be examined respectively. Third sub-title is related with the economic relations between Turkey and TRNC. In this sub-title firstly the economic integration of TRNC with Turkey will be examined than mentioned to bilateral agreements between Turkey and TRNC. And finally in the fourth sub-title, trade between Turkey and TRNC will be examined than compare with EU countries.

¹⁴⁵ Ertan Efegil ve İrfan Kaya Ülger, **AB ve Kıbrıs Bugünü ve Geleceği**, İstanbul, GündoğanYayınları, 2003, p.371.

¹⁴⁶ <http://nufussayimi.devplan.org/nufus%20ve%20konut%20sayımı.pdf> (5 May 2006)

3.1. TURKISH REPUBLIC OF NORTHERN CYPRUS'S ECONOMIC SITUATIONS

Cyprus Island is a small country situated in a very dynamic regional location on the Eastern Mediterranean. The republic of Cyprus was established by the Greek and Turkish Cypriots in 1960, after long talks and agreements signed in London and Zurich by Turkey, Greece, Great Britain, Greek and Turkish Cypriots. In this period between 1963 and 1974, Turkish Cypriots comprising about 18% of the island's population, were forced to live on 3% of the island in enclaves, and they were subject to frequent Greek Cypriots attacks. A coup, aiming to unit Cyprus with Greece, in 1974 by a group of Greek Cypriots (namely EOKA) had endangered the lives of the Turkish Cypriots. Turkey used its rights, coming from London and Zurich Agreements, to intervene the events.¹⁴⁷

After the peace operations in 1974 Cyprus Island divided into two parts. Turkish Cypriots are living on the northern part of the island and established their economy on the north and Greek Cypriots are living on the southern part of the island and established their economy on the south.

Since peace operations to today it has passed about 30 years. In 1976 Cyprus Turkish Federal State has been established, than in 1983 TRNC was establish in northern part of island which forms 36 percent of island. With the establishment of TRNC problems was not finish for Turkish Cypriots. This time it is obliged to struggle economic and political problems which were arising from recognition problems. On the other side of island South Cyprus Greek Administration (GCA) have got better welfare than some of other EU countries with she's 15,010 Euro per capita income coming from advantages of recognized in international area and external aids.¹⁴⁸ South Cyprus by being diplomatically recognized as the Republic of Cyprus has enjoyed the benefits of it. That is, they have used almost all of the financial aid and technical assistance from the world.

¹⁴⁷ http://www.cypnet.co.uk/ncyprus/economy/trnc_economic_indicators.doc (16 August 2004)

¹⁴⁸ "ibid"

3.1.1. Structural Properties of Turkish Republic of Northern Cyprus Economy

TRNC economy carries special features of small developing island economy with its population¹⁴⁹ about 264,172 (De-facto population)¹⁵⁰ and 8,095 US \$ per capita income.¹⁵¹ Small island economies have special constraints that restrict their development pace. It is possible to list those special constraints or problems of the TRNC economy under two headings as economic and political constraints or problems.¹⁵²

We can explain economic problems under eight headings:¹⁵³

a. Limited Natural Resources; TRNC has got limited natural resources like, water resources. Water is a crucial resource for all countries. Water sources of TRNC are limited for the agricultural production and do not cover TRNC's drinking-water needs. In addition to this TRNC does not have other natural resources like; coal, steal, iron...etc.

b. Limited Domestic Market and Lack of Economic Integration; The size of nation's plays important role in their development process. Large scale advantages do not exist only for production, also exists for the organization of some other economic activities like, marketing, research and development activities, administration, transportation, high-level training.

c. Limited Export Opportunities; TRNC is depended on few agricultural exports. TRNC's exports are depended mainly on citrus products, potatoes and textiles. Also, TRNC's export volume is very small-scale; she has not got control over her export prices. It is expressed in the international trade that small countries, like TRNC, are price-takers.

d. Serious Dependence on Some Imported Goods; Because of she's limited domestic market and limited or non-existing natural resources, TRNC is highly depended on importing goods.

¹⁴⁹ Ertan Efeğil ve İrfan Kaya Ülger, **AB ve Kıbrıs Bugünü ve Geleceği**, İstanbul, GündoğanYayınları, 2003, p.371.

¹⁵⁰ <http://nufussayimi.devplan.org/nufus%20ve%20konut%20sayımı.pdf> (5 May 2006)

¹⁵¹ <http://www.devplan.org/Frame-tr.html> (15 May 2006)

¹⁵² İktisadi Araştırma Vakfı Yayınları, **KKTC Ekonomisinin Yeniden Yapılanması**, İstanbul, 1993 p.72.

¹⁵³ "ibid p.2."

e. Dependence on Foreign Aids and Credits; Because of she's inability of paying personnel salaries of the public sector with her local revenues, she is highly dependent on foreign aids and credits.

f. Transportation and Energy problems; Because of these problems, many small islands have a high dependence on external sources for food and energy.

g. Because of she's population; large-scale economic activities can not be formed. TRNC is on the location of mini country and this position has been determining borders of economic life. And this was cause to be sensitive of economy excessively against external effects like; smallness of internal market has not permit to scale economy and dependence on imports on the point of raw materials and capital by the reason of lack of natural resources.

h. She is under the effects of external economic shocks. Both of these arranged problems accepted as major economic problems in front of TRNC.

On the other hand there are political problems or constraints in front of TRNC economy. TRNC has faced tremendous difficulties due to the political unsettlement of the Cyprus problem. TRNC is not recognized politically from other countries except Turkey. And this recognition problem prevents foreign investments coming to TRNC. Additional investment risks based on recognition problems causes investors, coming from other countries, to move higher profit margins parallel to higher risks. And this was cause to decrease competition powers of production inside international markets. TRNC economy grew slower due to being unrecognized internationally in addition of vulnerable and smaller size and the economic embargos applied. As a result of the economic embargos, limited amount of exports of TRNC become narrowing gradually and facing with continuously increasing external trade deficit. Besides, they faced some domestic problems such as over employment and inefficient public sector administration, and unprofitable state economic enterprises. On the other hand, Greek Cypriots have been receiving vast amount of foreign financial aids from various sources, and using all the privileges of being

recognized as the ‘Cyprus Government’, managed to achieve a fast rate of economic growth.¹⁵⁴

In TRNC, the economic and social developments are based on the rules of free market economic system. The economic development policy of the TRNC aims to achieve the highest possible rate of growth for economic stability, more equitable distribution of national income, and to raise the standards of living by improving the financial and social structure for the realization of these objectives, long-term plans and annual programs have been prepared and put into action since 1977 which make the beginning of the planning period.¹⁵⁵

Close political and economic relations and using same monetary unit with Turkey causes TRNC influencing from Turkey’s economy as structural and conjecture floating.¹⁵⁶ Because of the unrecognizing problem; difficulties of TRNC economies, facing from external trade and European Union Council of Justice (ECJ) decisions in 1994, influenced TRNC economy on negative way.¹⁵⁷ Because of the embargoes, it could not be forming an industry ground based on exports in spite of smallness of internal market, as a result of economic embargoes applying since 1974 and 1994 ECJ decisions, which limits exports directed to EU, limits country from external trade with she’s most important trading partner Europe. “The ECJ ruled on July 5, 1994 against the British practice of importing produce from the area based on certificates of origin and phytosanitary certificates granted by ‘TRNC’ authorities. The ECJ decisions stated that only goods bearing certificates of origin from the Government of Cyprus could be recognized for trade by EU member countries.”¹⁵⁸

On 5 July 1994 the ECJ issued its ruling on a preliminary reference made by Britain’s High Court of Justice requesting an interpretation of the relevant provisions of the EC-Cyprus Association Agreement of 1972 and EU Council Directive 77/93/EEC. Cypriot

¹⁵⁴ http://www.cypnet.co.uk/ncyprus/economy/trnc_economic_indicators.doc (16 August 2004)

¹⁵⁵ State Planning Organization, **Economic Developments in the Turkish Republic of Northern Cyprus**, Nicosia, December 1994, p. 7.

¹⁵⁶ <http://www.tusiad.org/turkish/rapor/kktc/html/sec4.html-64k-> (16 August 2004)

¹⁵⁷ Ertan Efeğil ve İrfan Kaya Ülger, **AB ve Kıbrıs Bugünü ve Geleceği**, Gündoğan Yayınları, İstanbul, 2003, p.371.

¹⁵⁸ http://www.cypnet.com/north_cyprus_about_cyprus_economy.php - 19k – (5 May 2006)

exporters of citrus fruit and potatoes had appealed to the British High Court disputing the practice of the British authorities to accept movement certificates from the northern part of Cyprus stamped in the name of the ‘Cyprus Customs Authorities’ but not issued by the legitimate authorities of the Republic of Cyprus.¹⁵⁹

“In its decision of the ECJ fully indicated the position of the government of Cyprus that only import and phytosanitary certificates issued by the competent authorities of the Republic of Cyprus, ‘the only Cypriot state the Community recognizes’ could be accepted by the EU member states.”¹⁶⁰ So ECJ has not accepted certificates given by TRNC’s competent authority. As a result of the decision of ECJ; exporting from northern side of island to EU countries, with benefiting from preferential regime, does not seem to be in question at now.

Actually the ECJ decision is not prohibiting import from TRNC. Because, by choosing its current regime TRNC denied the advantages she could gain, she is seen in the third country status. This means that when two products, one is made in TRNC and the other one is made in the South Cyprus, which are at the same quality, are tried to be sent to the member countries discrimination will occur. Then because the products of TRNC will face with the customs barrier, TRNC will not be a suitable country for the EU importers, because the current chosen regime of the Southern Cyprus will let her to sell her products cheaper than TRNC. Because of these, import between EU and TRNC will stop. United Kingdom (UK) is first country to apply this decision against TRNC. There are two choices for the TRNC importers. They need to either recognise Southern Cyprus as the Republic of Cyprus or confront a tax addition of approximately 14%. Because TRNC is in the third country status, for all of her products which enter to the EU countries, she should pay an additional tax of 14%. This agreement caused a huge stroke at imports of TRNC. For the agricultural imports it makes from the developing countries, EU is using another system different from the general trading regime it is using. With this regime, which is called the preferential regimes, for the previously written countries’ agriculture’s entrance to EU, some easiness is made. With help of this, EU, in parallel with the agreement it made about the agriculture and food with Cyprus, for vegetable, fruit, olive oil and wine (and some

¹⁵⁹[http://www.mfa.gov.cy/mfa/mfa.nsf/72A11E54AE961D94C2256B6700525B1E/\\$FILE/Judgment%20of%20the%20Court%20of%20Just...](http://www.mfa.gov.cy/mfa/mfa.nsf/72A11E54AE961D94C2256B6700525B1E/$FILE/Judgment%20of%20the%20Court%20of%20Just...) – (5 May 2006)

¹⁶⁰<http://www.btinternet.com/~argyros.argyrou/customs.htm-9k-> (5 May 2006)

other products) applied some privileges. But with this agreement TRNC will not be able to get benefit from these privileges. This is because TRNC is in the third country status. So she needs to pay a tax addition of 14% for entrance of her products to EU countries. This cause TRNC to loose all her competition chance. So due to this, this agreement is a big stroke to TRNC's trading. Because of this agreement the economic loss TRNC will suffer is huge. But actually more important will be the political problems TRNC will face because of this agreement. Because, EU is recognizing South Cyprus as the Republic of Cyprus. This decision soundly reconfirmed the sovereign rights of the Republic of Cyprus over the whole of the island and with regard to its relations with the EU. As a result of this, necessity of directing external trades to Turkey gains a vital importance.¹⁶¹ In spite of both negativeness (Economic embargoes applying since 1974 and 1994 ECJ decisions) and limited opportunities, TRNC shows considerable developments about improvements in GNP and per capita income inside last 27 years. GNP reached to 1,765.2 million US \$ at 2004 from 209 million US \$ at 1977, and per capita income reached to 8,095 US \$ at 2004 from 1433 US \$ at 1977. The aids of efforts showing to application of economic decisions taken at the framework of five yearly development plans are very important for this development. Infrastructure investments, which was seen necessary for developments, realized by governments at that period. These investments, which are necessary conditions for developments, can be classified as; motorway, energy, communication and transportation investments and, health and education investments directed to human factors.

Between 1986-2004 periods, opposite of increases about annually 2.24% in total exports of TRNC, imports of TRNC increase on average 13.65%. Basic reason of this; the competition powers of TRNC's exports, which are directed to Turkey, remains weaker than the other countries' in Turkey market. Because of the exporting products, mostly formed from agricultural products and ready-made clothes, does not compete with similar products in Turkey market, exports of TRNC did not increase on desired velocity. Fiscal and economic crises in Turkey, which forms an important market portion of TRNC especially in exporting service sector, living presently shows that there will be living serious problems in this sector and it is not to be possible to overcome these problems in short period basis. In country, necessary industrial structure can not be formed for

¹⁶¹ <http://www.manas.kg/pdf/sbdpdf6/Tamcelik.pdf> (7 May 2006)

development, and the basic infrastructure problems like; electricity, water and transportation problems are not solved completely. In country there is not any underground wealth, operating as economically. Today underground problems appear one of the most important problems for establishing various industries in TRNC. Now we are studying the important elements of TRNC economy.

3.1.1.1. Inflation

Price stability is an important component of realizing macro targets and obtaining macro equilibriums. Because of the reasons above, for the aim of continuing an economic life systematically; obtaining price stability is a crucial factor for both developing and developed countries.

TRNC is a non-recognized state. Although, its existence, all countries except Turkey insistently rejecting the existence of the TRNC. At the moment as a republic; TRNC does not own its currency and using the currency of Turkish Republic (TR), which is called New Turkish Lira (NTL). In other terms, TRNC does not have an efficient working central bank hence efficiently working monetary policy. A high level of inflation has been imported to TRNC because of the high inflation in Turkey since 1974.¹⁶² Due to its small economies, TRNC is dependent on imports at huge proportion. So, continuously loosing worth of NTL against foreign currency influences the inflation in TRNC. In addition to this; excessive public deficit, informed competition atmosphere in market, and an economic structure based on consumption are the main reasons of inflation in TRNC.

Inflation rates on TRNC calculated with consumer price index determined from conclusion of household consumption expenses questionnaire. Last public survey did on 1998-1999 period and the consumer price index, which was arranged according to this questionnaire, was starting to use since January 2001. Differences from consumer price index show us that it is living a higher rate of inflation in TRNC. Differences from consumer price index in years 2000, 2001, 2002, 2003, 2004 become 53.2%, 76.8%, 24.5%, 12.6%, 11.6% respectively.

¹⁶² Serdar Şahinkaya, "KKTC Finansal Piyasalarındaki Gelişmeler Üzerine Bazı Gözlemler", **Akdenizde Bir ADA, KKTC'nin Varoluş Öyküsü**, Derleyen Oktar Türel, Ankara, İmge Yayınları, 2002, içinde, p.252.

Table 3.1. Inflation Rates on TRNC

	1990	1991	1992	1993	1994	1995	1996
Inflation rate (%)	69.4	46.3	63.4	61.2	215.0	72.2	87.5

Table 3.1. (Contd.)

	1997	1998	1999	2000	2001	2002	2003	2004
Inflation rate (%)	81.7	66.5	55.3	53.2	76.8	24.5	12.6	11.6

Source; State Planning Organizations Unpublished Data. Nicosia

3.1.1.2. Economic Growth

An enlargement strategy based on market economy is adopted in TRNC. In this economic regime government has not an interventionist role. It takes on a guidance, encourager and helper role. In this applied policy it gives a necessary priority and importance to development of private sector, and suitable use of sources and encouraging foreign capitals directed to investment areas, which are appropriate to countries provisions. In this extension; tourism, industry, trade, transportation and higher education sectors carries a special importance.

Since 1974 peace operations, the economy of the TRNC has experienced a rapid changes and a reasonable high growth trend up to 1990's. But this rapid development leaves their situation gradually to unstable development trend; because of the political positions of country, depreciation in worth of NTL and financial and economic problems increasing internally. Gross National Product (GNP), created in TRNC, shows development continuously between 1975 and 2004 periods except 1981, 1991, 1994, 2000 and 2001 years. As a result of these four important recessions, reel narrowing occurred in economy about 7.5% in 1981, 5.3% in 1991, 3.7% in 1994, 0.6% in 2000 and 5.4% in 2001. (Table3.2)

Table 3.2. Macroeconomic Indicators for the North Cyprus Economy
(Million US \$)

Years	Population	GNP (Million US\$)	Economic Growth (%)	Export	Import	X/GNP (%)	M/GNP (%)
1977	145,000	209.4	-	23.9	82.0	11.4	39.1
1990	171,469	591.0	5.7	65.5	381.5	11.1	64.5
1991	173,756	541.4	-5.3	52.5	301.1	9.7	55.6
1992	175,118	585.5	7.8	54.6	371.4	9.3	63.4
1993	177,120	624.9	5.9	54.5	363.9	8.7	58.2
1994	179,208	554.3	-3.7	53.4	286.6	9.6	51.7
1995	181,363	755.7	2.6	67.3	366.1	8.9	48.4
1996	183,290	773.9	2.9	70.5	318.4	9.1	41.1
1997	201,914'	759.8	4.1	57.7	356.6	7.6	46.9
1998	204,225	890.5	6.0	53.4	430.5	6.0	48.3
1999	206,562	963.9	7.4	52.4	412.7	5.4	42.8
2000	208,886	1,039.9	-0.6	50.4	424.9	4.8	40.8
2001	211,191	909.8	-5.4	35.6	272.0	3.8	29.9
2002	213,491	941.4	6.9	45.4	309.6	4.8	32.9
2003	215,790	1,283.7	11.4	50.8	477.8	3.9	37.2
2004	218,066	1,765.2	15.4	62.10	853.1	3.5	48.3

'A new mid-year population estimate series has been prepared based on the 1996 general Census.

X; Import

M; Export

Source; Source; <http://www.devplan.org/Frame-tr.html> (21December 2005)

This narrowing causes problems not only economic also social problems, besides political location of TRNC started to discuss internally and in Turkey. In spite of the positive developments to perceive their effects since 2002, average annual reel growth rate stayed at 4.9% level between 1994-2004 years period. When last five years period investigated; because of the problems started at 2000 in financial sector and their negative effects on both sectors and reflection of negative effect of increases on prices caused from passing to undulated rate of exchange system in Turkey, economy regress to 0.6% and 5.4% respectively. At 2002; as a result of the economic programs applied both in Turkey and TRNC, negativeness were covered on a large scale and provided price stability then growth rate become 6.9%. At 2003; with the reflection of developments directed to political solutions in island, and increases living on production, consumption, investments and external trade volume, it was realizing 11.4% growing up. At 2004 growth rate of economy reached to 15.4%. At 2003 GNP reached to 1,2383.7 million US \$, which was 941.4 million US \$ in 2002, by increasing 36.4% and this amount was realizing 1,765.2 million US \$ with current prices in 2004. Most effective sectors with its portions in GNP are public sector, trade-tourism, transport-communication and industry sectors. The portions of these sectors inside GNP are respectively 13.9%, 17.5%, 11.40% and 11.2% in 2004. On the other hand the portion of agriculture sector realized with 10.0%. With the foundation of TRNC at 1983 it is observed stabilized increases in development speed of

economy. Protocol done with Turkey at 1983 accelerates the transition of TRNC to free market economy and performed economy. But, due to the Gulf War in 1990, Polly Peck crises in London and economic crises in Turkey at 1994 and in 2001, the economy of North Cyprus was adversely effected and its growth rate felt down.

3.1.1.3. Employment

The employment policy aims at attaining full employment and the systematic promotion of schemes for the training and re-training of the labor force for increasing productivity and eventually the most efficient utilization of manpower.¹⁶³

There is a qualified work power in TRNC. Higher quality in education system is on the direction of improving ability of persons. There are 13 professional and technical education institutions and 8 higher education institutions are available in TRNC. Five of them give education with English language. There is not any acute unemployment in the TRNC. In 2004, working population formed 48.1% of the population with 104,873 persons. Public sector forms 21.9% of this portion. And the distribution of other sectors are; construction with its 12.6%, agriculture with its 23.4%, business and personal services with its 9.6%, trade-tourism with its 10.6%, industry with its 10.8%, transport-communication with its 8.2%, manufacturing with its 7.9%, wholesale and retail trade with its 6.9%, hotels and restaurant with its 3.7%, financial institutions with its 2.9%, electricity water with its 1.6% and quarrying with its 1.3%. The average number of unemployed which was 1,337 in 1997 reached to 1,814 in 2004 and eventually the unemployment ratio which was 2.9% in 1977, dropped to only 1,70% in 2004. During the period of 1977-2004 the working population has increased by 134.00%. The working population, which was 44,795 in 1977, rose to 104,873 in 2004 and constituted 48.1% of the midyear population, which reached 218,066 in 2004. During this period 74,511 people were employed in the economy but they were mostly employed in the services sector (service sector in TRNC forms 75% of the total employment and 60% of GNP)¹⁶⁴ and consequently lack of productivity and disguised unemployment were two important question requiring solution. Large portion of total work power slides to services sector by increasing gradually.

¹⁶³ <http://www.trncinfo.com/tanitmadairesi/2002/ENGLISH/ECHONOMI/page11.htm-52k-> (10 May 2006)

¹⁶⁴ <http://www.devplan.org/Frame-tr.html> (15 May 2006)

Services sector forms 2/3 of total work power of country and this portion gives us signs that there is an injustice at income distribution in country. If, employment power of public sectors' decreased to about 10-12 %, which are from 20 %, both public deficits does not to be excessive inside the budget and total portion of services sector inside the total employment can be equal to their portion inside the GNP.¹⁶⁵ The Sectoral Distribution of Working Population is shown in table 3.3.

Table3.3. Sectoral Distribution of the Working Population

Sector	1996	%	1997	%	1998	%	1999	%	2000	%
1. Agriculture.	16,862	21.0	16,188	19.5	15,864	18.7	15,547	17.8	15,236	17.1
2. Industry.	8,356	10.4	8,428	10.1	8,481	10.0	8,552	9.8	8,715	9.6
2.1 Quarrying.	978	1.2	1,014	1.2	1,037	1.2	1,043	1.2	1,105	1.2
2.2 Manufacturing	6,107	7.6	6,120	7.3	6,125	7.2	6,153	7.0	6,234	7.0
2.3 Electricity-Water.	1,271	1.6	1,294	1.6	1,319	1.6	1,356	1.5	1,376	1.5
3. Construction.	9,792	12.2	11,547	13.9	12,177	14.3	12,361	14.1	14,104	15.8
4. Trade-Tourism										
(1).	8,367	10.4	8,730	10.5	9,095	10.6	9,536	10.9	9,630	10.8
4.1 Trade.	5,470	6.8	5,535	6.7	5,826	6.8	6,000	6.9	6,000	6.7
4.2 Tourism.	2,897	3.6	3,195	3.8	3,269	3.8	3,536	4.0	3,630	4.1
5. Transport and Communication.	6,734	8.4	7,192	8.6	7,389	8.7	7,747	8.8	8,104	9.1
6. Financial Institutions.	2,456	3.1	2,693	3.2	2,858	3.4	3,026	3.5	2,397	2.7
7. Professional Services.	10,848	13.5	11,454	13.8	11,750	13.8	13,057	14.9	13,057	14.6
8. Public Services (2).	16,899	21.0	16,972	20.4	17,399	20.5	17,869	20.2	18,084	20.2
Total	80,314	100.0	83,204	100.0	85,013	100.0	87,515	100.0	89,327	100.0

Table 3.3 (Contd.)

Sector	2001	%	2002	%	2003	%	2004	%
1. Agriculture	14,931	16.5	14,632	15.7	14,339	14.5	17,738	23.4
2. Industry	8,715	9.6	8,891	9.5	9,234	9.3	8,207	10.8
2.1 Quarrying	1,105	1.2	1,146	1.2	1,287	1.3	976	1.3
2.2 Manufacturing	6,234	6.9	6,364	6.8	6,534	6.6	6,000	7.9
2.3 Electricity-Water	1,376	1.5	1,318	1.5	1,413	1.4	1,231	1.6
3. Construction	14,104	15.6	15,768	17.0	19,433	19.7	9,584	12.6
4. Trade-Tourism (1)	9,630	10.7	10,520	11.3	11,088	11.2	8,004	10.6
4.1 Trade	6,000	6.7	6,325	6.8	6,742	6.8	5,182	6.9
4.2 Tourism	3,630	4.0	4,195	4.5	4,346	4.4	2,822	3.7
5. Transport and Communication	8,104	9.0	8,310	8.9	8,550	8.7	6,228	8.2
6. Financial Institutions	2,397	2.7	2,397	2.6	2,509	2.5	2,194	2.9

¹⁶⁵ Ahmet Yörükoğlu, "Türkiye-KKTC Ekonomik İşbirliği ve Avrupa Birliği", in İrfan Kaya-Ertan Efegil (ed), *AB ve KIBRIS Bugünü ve Geleceği*, 1st (ed), Gündoğan yayınları, İstanbul, 2002, pp.373-374.

Table 3.3 (Contd.)

Sector	2001	%	2002	%	2003	%	2004	%
7. Professional Services	14,104	15.9	14,494	15.6	15,089	15.3	7,266	9.6
8. Public Services (2)	18,084	20.0	18,084	19.4	18,618	18.8	16,589	21.9
Total	90,366	100.0	93,114	100.0	98,860	100.0	75,810	100.0

(1) Trade and tourism sectors were considered separately after 1982

(2) Includes employment in State Economic Enterprises (SEE) and municipalities.

Source; <http://www.devplan.org/Frame-tr.html> (21December 2005)

Because of the both capital/outcome proportions are lowest in small island economies, entrepreneurship in services sector are very easy and the production branches especially founding in comparative superiority of these countries are mainly at that sector. As conclusion, employment is intensifying mainly at service sector. Encouraging government at that sector is required for the aims of accelerated economic enlargement and these encouragements are applied as policy for the aims of providing equality of socio-economic stability.¹⁶⁶

3.1.1.4. Investment and Financial Sectors

The financial sector is one of the key sectors of the economy. In the case of the TRNC this sector is much more important since TRNC does not have its own currency but is dependent on the foreign sources for its financial needs.¹⁶⁷

The basic aim of the fiscal policy in the TRNC is the creation of the necessary conditions for internal monetary stability, supporting the more productive projects, reducing the budget deficits by limiting the rate of growth of current expenditures, transfers and increasing revenues.¹⁶⁸

Higher inflation, which are living longer periods because of the using NTL, and higher reel interest rates directed to areas having attractive interest yields mostly directed

¹⁶⁶ “ibid pp.373-374.”

¹⁶⁷ Serdar Şahinkaya, “KKTC Finansal Piyasalarındaki Gelişmeler Üzerine Bazı Gözlemler”, **Akdenizde Bir ADA, KKTC’nin Varoluş Öyküsü**, Derleyen Oktar Türel, Ankara, İmge Yayınları, 2002, içinde, p.252.

¹⁶⁸ [http://www.trncinfo.com/TANITIMDAIRESI/2002/ENGLISH/ECHONOMI/page01.htm-513k-\(10 may 2006\)](http://www.trncinfo.com/TANITIMDAIRESI/2002/ENGLISH/ECHONOMI/page01.htm-513k-(10 may 2006))

to money markets in Turkey with the intervention of banks in TRNC directly or indirectly instead of productive areas of economy.

The biggest obstacle for investment possibilities in TRNC economy is high interest rates for credits. The average nominal interest rate for credits is about %130-160 a year. These unacceptable high interest rates for investment credits more than an obstacle is causing the investment opportunities to be disappeared in TRNC economy. Many firms in TRNC, because of very high interest rates for credits are being closed because the firms can not be able to pay in return not only the main part of their credits; but the interest rate they are allowed to pay for their debts. This is directly creating huge macroeconomic problems for TRNC economy.¹⁶⁹

3.1.1.5. Money and Banking

The official currency of North Cyprus is NTL. However, the liberal foreign exchange regulations permit the inhibited in and out flow, and local circulation of Dollars, British Pounds, Euro and other currencies.

Exchange rates, which form the base of operations in TRNC, are determined daily by Central Bank and announced by official gazette. Banks, foreign exchange offices and Central Bank determines the selling and buying rates of foreign exchanges freely with the intention of their operations.¹⁷⁰

There is developed banking system in TRNC. Banks in TRNC are free for; keeping foreign currency in their stocks, functioning as a mediator in import and export transactions, accepting foreign currency deposits, buying and selling foreign currencies, mediating to selling foreign currency payment bond, giving credits as foreign currency, participating to money and foreign currency markets actively, doing all kinds of transactions by foreign currencies which are appropriate to international banking rules.¹⁷¹

¹⁶⁹ http://www1.dogus.edu.tr/dogustru/journal/sayi_6/M00079.pdf- (1 June 2006)

¹⁷⁰ Serdar Şahinkaya, "KKTC Finansal Piyasalarındaki Gelişmeler Üzerine Bazı Gözlemler", **Akdenizde Bir ADA, KKTC'nin Varoluş Öyküsü**, Derleyen Oktar Türel, Ankara, İmge Yayınları, 2002, içinde, p.254.

¹⁷¹ KKTC DPÖ, **Yatırımcılar için Yatırım ve Teşvik Rehberi**, Lefkoşa, Aralık 2002, p.2.

3.1.2. Main Sectors of Turkish Republic of Northern Cyprus Economy

Today main sectors of TRNC are forming from agriculture, manufacturing industry, tourism, trade and higher education.

3.1.2.1. Agriculture

In almost all countries, agriculture is a very important sector and sometimes called as the ‘backbone’ of the economy.¹⁷² This is simply because agriculture represents the culture of that nation and it feeds people and other sectors (for example; hotels, restaurants, manufacturing sector and so forth) plus it has strategic importance (during wars and natural disasters).¹⁷³ The agricultural sector is the backbone of the economy in the TRNC. Agriculture sector plays an important role inside the development process of TRNC economy. In spite of the agriculture have got an effective place inside economy, important bottle necks at that area limits sector both to be situated inside the economic developments and realizing rapid developments.¹⁷⁴ Although its share in the GDP is decreasing from year to year it is still of major importance especially as far as its contribution to GDP, employment, exports and supply of raw materials to the industry are concerned.¹⁷⁵

Out of the total area of the country, (2,465,552 land measure which equals 3,298,908 Da) 1,398,123 land measure (1,870,689 Da) is agricultural land and this amount is equal to 56.7% of total area of the country.(Table 3.4) But only 60.53% (846,262 land measures) of total agricultural area are cultivated and utilizing economically. Practically all products thriving in the temperate zone are grown in the country. Out of the total cultivated area around 9.04% is being used for intensive irrigated crop production which include citrus, potatoes, deciduous fruits, bananas, table grapes and variety of vegetables and the remaining area is used for the traditional dryland crop production which includes cereals, animal foddors, olives, carobs, almonds and wine grapes. Agricultural products for export

¹⁷² Export Promotion Center of Turkey and Turkish Exporter Unions, **Turkish Republic of Northern Cyprus 97**, Cem Ofset, istanbul, 1997,p.22.

¹⁷³ KKTC DPÖ, **2004 Geçiş yılı Programı**, p.69.

¹⁷⁴ “ibid p.69”

¹⁷⁵ Export Promotion Center of Turkey and Turkish Exporter Unions, **Turkish Republic of Northern Cyprus 97**, Cem Ofset, istanbul, 1997,p.22.

mostly derive from intensive irrigated crops. The main agricultural products for export in TRNC are citrus products, potatoes, carob seeds, and olives.¹⁷⁶

Table 3.4 Distribution of Total Areas on TRNC.

	Land Measure	Da	Portion (%)
1. Agricultural area	1,398,123	1,870,689	56.71
2. Forest	480,740	643,230	19.50
3. Empty and pasture area	122,157	163,446	4.95
4. Town, village, road, runnel areas	263,471	352,524	10.69
5. Unused areas	201,061	269,019	8.15
Total area	2,465,552	3,298,908	100.0

Source; Ministry of Agriculture and forestry.

The contribution of the agricultural sector to the GDP increased from 619.3 million NTL in 1977 to 1,147.2 million NTL in 2004 at constant prices of 1977 with an annual average increase of 1.9%. The export of the agricultural products accounted for 34.0% of the total domestic exports and 23.4% of the working population was employed in the agricultural sector in 2004.¹⁷⁷

Agriculture sector investigated under four sub sectors. These are; crop production, livestock production, forestry and fishing.¹⁷⁸

Table 3.5. Sectoral Developments in Gross National Product

Sectors	(1977 Prices Million NTL)							
	1977	1990	1991	1992	1993	1994	1995	1996
1. Agriculture.	619.3	639.7	580.4	827.0	891.1	781.1	799.8	870.8
1.1 Crop prod.	453.8	406.3	339.2	573.9	622.4	515.6	428.3	398.7
1.2 Livestock Prod	140.3	184.7	191.0	201.8	216.3	212.6	244.4	271.4
1.3 Forestry	4.2	6.4	7.7	8.1	9.1	9.2	81.5	155.3
1.4 Fishing	21.0	42.3	42.5	43.2	43.3	43.7	45.6	45.4

¹⁷⁶ "ibid p.22."

¹⁷⁷ <http://www.trncinfo.com/tanitmadairesi/2002/ENGLISH/ECHONOMI/page12.htm> (10 May 2006)

¹⁷⁸ KKTC DPÖ, **2004 Geçiş yılı Programı**, p.72.

Table 3.5 (Contd.)

Sectors	(1977 Prices Million NTL)							
	1997	1998	1999	2000	2001	2002	2003	2004
1. Agriculture.	601.0	636.2	822.0	713.5	828.4	985.3	1,057.5	1,147.2
1.1 Crop prod.	261.4	309.3	431.5	336.5	442.4	577.5	601.0	657.4
1.2 Livestock Prod	277.6	263.8	302.9	283.2	328.3	343.8	388.7	412.0
1.3 Forestry	14.9	15.7	40.0	42.9	12.7	15.7	13.1	26.1
1.4 Fishing	47.1	47.4	47.6	50.9	45.0	48.3	54.7	51.7

Source; Up to year 2002, TRNC State Planning Organization, **Economic and Social Indicators**, 2002, pp.8-9.

Years 2003, 2004; <http://www.devplan.org/Frame-tr.html> (21 December 2005)

Agriculture sector is still an important sector in the TRNC economy. However, it has some important problems like low productivity, water scarcity, inefficient economic policies (e.g. subsidies). “Main features of developing countries are; the big portion of agricultural value added to total GDP, high portion of population working in agriculture sector, big share of agricultural export in total export. Agriculture has an important role for the economic development of the North Cyprus. But, because of the important obstacles, the sector cannot improve itself. Government structures are designed to increase the agricultural production towards the development of economy. Governments aimed to increase productivity in agriculture, to improve technology used in agriculture and give subsidies to producers.”¹⁷⁹

Agriculture sector showed development about 7.3% at 2003. Increases at crop-production sub sector about 4.1% mainly based on the cereals production. Basic factors of increases happened on livestock production about 13.1% occurred from increases on the production of milk and meat. At forestry sub sector, it was seen recession about 16.6% as a result of the production decreases. At 2003, highest reel developments happened on fishing sectors with its ratio about 13.3%.

When we look at the 2004 values of agriculture sector; we can see that developments; about 9.4% from crop production sub sector, about 6% from livestock production sub sector, about 99.2% from forestry sub sector. On the other hand we can see decreases about 5.5% from fishing sub sector. As a result of the developments from sub sectors it was occurring about 8.5% growth rate at agriculture sector.

¹⁷⁹ http://www.akdeniz.edu.tr/ziraat/zdf/article/18_01_06.pdf- (5 June 2006)

3.1.2.2. Manufacturing Industry

Almost all of the ‘small states’ manufacturing industries have not demonstrated an important role regarding their economic growth, because of the original constraints of these countries, like economies of scale due to small domestic market, limited resource base and serious dependence on imports and other economic, political and administrative reasons. Exceptions to these small countries are the pacific region countries, which have a unique socio-economic structure, characterized by “low labor cost, high productivity, aggressive entrepreneurialship and job oriented high motivation. All economies in the region, large and small, benefit from this environment”.¹⁸⁰ However, it must be noted that the above argument does not mean that the manufacturing sector is not important but it is not the leading sector of the economy. This sector is currently the third largest sector of the TRNC economy, in terms of its share in GDP. The TRNC industry has developed very small, small and medium-sized enterprises, owing to the physical structure of the country. Industrial activities are mainly focused in food and beverages, furniture and fixtures, metal and non-metallic industries, textile and clothing and other such light industries.¹⁸¹

The manufacturing industry achieved one of the highest rates of growth during 1977-2004 periods. The value added of the sector increased from 317.2 million NTL in 1977 to 1,028.0 million NTL in 2004 with an annual average increase of 4.1% at constant prices of 1977.

The share of the sector in the GDP increased from 8.4% in 1977 to 9.0% in 2004 and the export of the industrial products accounted for 63.6% of the total domestic exports. From the year 1974 to the year 2004, the number of production units increased from 230 to 896 and the number of personnel employed in these units increased from 2,148 to 9,158 (Table 3.6)

¹⁸⁰ Clement Dodd (ed.), **The Political Social and Economic Development of Northern Cyprus**, The Eothen Press, England, 1993, p.311.

¹⁸¹ <http://www.trncinfo.com/tanitmadairesi/2002/ENGLISH/ECHONOMI/page12.htm-52k-> (10 May 2006)

Table 3.6. Units and Employment in Manufacturing Industry

	1977		1998		1999	
	Units	Emp.	Units	Emp.	Units	Emp.
1.Food, Beverages and Tobacco	185	2,150	197	2,977	264	2,964
2. Textile, Wearing Apparel and Leather Products	120	3,792	56	2,135	60	2,467
3. Forest Products and Furniture and Fixtures	70	530	62	445	87	483
4.Paper and Paper Products	30	420	39	485	68	436
5.Chemicals Petroleum and Plastics	43	537	40	516	46	588
6. Non metallic Mineral Products	56	825	51	1,028	88	1,014
7. Basic Metal Industry	43	413	22	218	85	242
8.Electrical Machinery and Applicants	8	88	6	57	9	64
9. Other Manufacturing Industry	57	530	26	349	33	313
Total	612	9,285	499	8,210	740	8,571

Table 3.6. (Contd.)

	2000		2001		2002	
	Units	Emp.	Units	Emp.	Units	Emp.
1.Food, Beverages and Tobacco	275	2,842	266	2,850	266	2,867
2. Textile, Wearing Apparel and Leather Products	56	1,950	55	1,963	56	1,967
3. Forest Products and Furniture and Fixtures	192	893	189	858	187	849
4.Paper and Paper Products	69	390	61	458	63	479
5.Chemicals Petroleum and Plastics	60	756	56	655	57	662
6. Non metallic Mineral Products	97	1,082	96	1,119	98	1,214
7. Basic Metal Industry	147	939	143	900	143	805
8.Electrical Machinery and Applicants	9	70	9	72	9	72
9. Other Manufacturing Industry	39	336	40	342	40	324
Total	944	9,258	915	9,297	919	9,239

Table 3.6. (Contd.)

	2003		2004	
	Units	Emp.	Units	Emp.
1.Food, Beverages and Tobacco	268	2822	268	2822
2. Textile, Wearing Apparel and Leather Products	53	1967	53	1967
3. Forest Products and Furniture and Fixtures	187	849	181	849
4.Paper and Paper Products	62	480	62	480
5.Chemicals Petroleum and Plastics	52	625	52	625

Table 3.6. (Contd.)

	2003		2004	
	Units	Emp.	Units	Emp.
6. Non metallic Mineral Products	91	1241	89	1241
7. Basic Metal Industry	149	805	149	805
8. Electrical Machinery and Applicants	9	72	9	72
9. Other Manufacturing Industry	40	324	40	324
Total	904	9,158	896	9,158

Emp: Employment

Source; Up to years 2002, KKTC DPÖ, **2004 Geçiş Yılı Programı**, Lefkoşa, 2004, p.12.

Year 2004; <http://www.devplan.org/Macro-eco/2-2.pdf> (21 December 2005)

There are some problems in front of manufacturing industry sector which restricts its future growth. These problems are; inefficient transportation, limited resources, market constraint on the economies of scale, political difficulties in exports (ECJ ruling on TRNC's exports), unattractiveness of the TRNC for foreign capital and technology, inability of government in guiding the domestic entrepreneurs, lack of administrative initiatives, and low productivity. Besides these problems, the competitive products of Turkey, also limits the prospects of growth of this sector.¹⁸²

3.1.2.3. Tourism

Tourism sector is un-abandon element for small islands economies and one of the main factors of economic developments. Cyprus is an ancient land of relies of Great Mediterranean cultures and civilizations. The territory of the TRNC extends from one end of the island to the other along the whole of the northern shore.¹⁸³ Geographical position of TRNC offers relative advantages to tourism sector investors with its history about nine-thousand years, its excellent climatic conditions offering brilliant sunshine and its good protected environment. With its 360 km coastline and 27 historical places, tourism sector contributes substantially to accomplish the planned economic growth for the TRNC.¹⁸⁴ The friendly environment, natural beauty, warm climate and rich historical heritage makes the

¹⁸² İhracatı Geliştirme Etüd Merkezi, **K.K.T.C. Kuzey Kıbrıs Türk Cumhuriyeti Ülke Raporu**, Lefkoşa, 1998, p.12.

¹⁸³ Export Promotion Center of Turkey and Turkish Exporter Unions, **Turkish Republic of Northern Cyprus 97**, Cem Ofset, İstanbul, 1997, p.28.

¹⁸⁴ İhracatı Geliştirme Etüd Merkezi, **K.K.T.C. Kuzey Kıbrıs Türk Cumhuriyeti Ülke Raporu**, Lefkoşa, 1998, p.12.

TRNC one of the most important tourism places of the world. In parallel to the economic programme adopted by the TRNC the tourism sector has been singled out as the most important sector for the improvement of the economy and the government is determined to provide all the necessary incentives for the prospective investors in the tourism sector. In line with this determination an act was passed by the Republican Assembly of the TRNC containing a wide range of incentives for the prospective investors. Some of these incentives are; import duty exemptions for investment goods concerning the projects, government contribution to charter-risk, exemption from income tax and corporate tax for a period of ten years, in case of investment in tourist accommodation units, and/or operating charter flights, employment of foreign qualified personnel who are not available locally.¹⁸⁵

The bed capacity in the TRNC has increased from 3,264 in 1977 to 12,222 in 2004. During the same period the number of accommodation establishments has increased from 46 to 128.

Table 3.7. Distribution of Accommodation Establishment and Bed Capacities

		1977	1990	1991	1992	1993	1994	1995	1996
1.Hotels	A...	21	29	31	33	40	41	40	41
	B...	2,463	3,088	3,542	3,814	4,139	4,291	4,299	4,463
2. Guest Houses	A...	21	34	21	18	19	15	15	18
	B...	470	711	621	457	445	345	321	446
3. Hotel-Apt.etc	A...	4	26	28	35	34	37	38	40
	B...	332	2,326	2,470	2,816	2,878	3,178	3,154	3,358
Total	A...	46	89	80	86	93	93	93	99
	B...	3,265	6,125	6,633	7,087	7,462	7,814	7,774	8,267

Table 3.7. (Contd.)

		1997	1998	1999	2000	2001	2002	2003	2004
1.Hotels	A...	43	47	52	51	53	55	57	
	B...	4,705	4,959	4,047	5,958	6,022	6,096	6,443	
2. Guest Houses	A...	17	16	13	13	13	13	13	12
	B...	436	393	375	307	291	305	308	296
3. Hotel-Apt.etc	A...	44	46	50	52	54	55	58	
	B...	3,799	4,013	5,510	2,816	4,485	4,515	5,107	
Total	A...	104	109	115	116	120	123	128	128
	B...	8,904	9,365	9,932	10,520	10,798	10,916	11,858	12,222

A; Establishment

B; Bed

Source; Up to year 2002 TRNC State Planning Organization, Economic and Social Indicators, 2002 pp.58-59
Years 2003 and 2004; Tourism planning office. Nicosia.

¹⁸⁵ <http://www.econturk.org/Turkiyeeconomisi/turizmsektoru.doc-> (10 June 2006)

The number of the tourists who visited TRNC and the net tourism revenues during the period of 1990-2004 can be seen in the table 3.8.

Table 3.8. Tourist Arrivals and Net Tourism Revenues

Tourist Arrivals	1990	1991	1992	1993	1994	1995	1996	1997
From Turkey	243,269	179,379	210,178	281,370	256,549	298,026	289,131	326,364
From Other	57,541	41,858	57,440	77,943	95,079	87,733	75,985	73,000
Total	300,810	220,237	267,618	359,313	351,628	385,759	365,116	399,364
Net Tourism Rev. (Million \$)	224.8	153.6	175.1	224.6	172.9	218.9	175.6	183.2

Table 3.8. (Contd.)

Tourist Arrivals	1998	1999	2000	2001	2002	2003	2004
From Turkey	315,797	334,400	347,712	277,739	316,193	340,083	434,744
From Other	77,230	79,615	85,241	87,358	109,363	129,784	164,268
Total	393,027	414,015	432,953	365,097	425,556	469,867	599,012
Net Tourism Rev. (Million \$)	186.0	192.8	198.3	93.7	114.1	178.8	271.1

Rev; Revenue.

Source; Tourism Planning Office-State Planning Organization. Nicosia. Unpublished Data.

At the end of the 2004 the total number of tourists arriving to the TRNC is about 599,012. Most of the tourists are coming from Turkey and it makes almost 72.6% of the total tourists. Access to the north part of Cyprus is unproblematic for Turks, so Turkey continues to be the main country of origin of tourists visiting the TRNC. Increase in the number of Turkish students in universities and families visiting their children contributed to the number of tourists substantially. One of the other factors that pull tourists, especially coming from Turkey, to TRNC is Casino Tourism. North Cyprus is a popular place with gamblers, since casinos are prohibited in Turkey.¹⁸⁶

As a result of the EU accession of the South, the opening of the Green Line to EU tourists for overnight travels to the North in May 2004 could give a substantial boost to tourism in the TRNC. The opening of the division line in April 2003 has led to a considerable inflow of Greek Cypriots to North Cyprus for tourism purposes.¹⁸⁷

¹⁸⁶ Meltem Dayıođlu, "KKTC Turizm Sektörüne Eleştirel Bir Bakış", **Akdeniz'de Bir Ada, KKTC'nin Varoluş Öyküsü**, Derleyen Oktar Türel, İmge Yayınları, Ankara, 2002, içinde, pp.210-213.

¹⁸⁷ http://www.turkishpolicy.com/default.asp?show=winter_2005_Arslan-54k- (7 June 2006)

Because of the bad situation to be found in, tourism sector continue to be a un-abandon foreign currency source of TRNC economy. At 2003 net tourism revenues realized 178.8 million US \$ and covers 41.9 % of foreign trade deficit (Table3.9) and in 2004 net tourism revenues realized 271.1 million US \$ and covers 34.3% of foreign trade deficit. Since 1978 external trade deficit covering rate of Tourism changes between 40% and 75% proportional with the balance of tourist numbers and the worth loss of NTL

Table 3.9. Foreign Currency Revenues and Expenditure of TRNC

	(Million US \$)								
	1996	1997	1998	1999	2000	2001	2002	2003	2004
Net Tourism Rev.	175.6	183.2	186.0	192.8	198.3	93.7	114.1	178.8	271.1
Total Foreign Currency Rev.	316.4	315.6	327.4	322.4	392.1	254.9	323.3	497.2	684.0
Imports	318.4	356.6	390.1	412.7	424.9	272.0	309.6	477.8	853.1
Exports	70.5	57.7	53.4	52.4	50.4	34.6	45.4	50.8	62.0
Foreign Trade Deficit	247.9	298.9	336.7	360.3	374.5	237.4	264.2	427.0	791.1
Net Tourism Rev./ Foreign Trade Deficit (%)	70.0	61.2	55.2	53.5	53.0	39.5	43.2	41.9	34.3

Rev; Revenue.

Source; Up to year 2003 KKTC DPÖ, **2004 Geçiş Yılı programı**, Lefkoşa, 2004, p.170.

2004; TRNC State Planning Organization, Nicosia. Unpublished Data.

At recent years, together with the increasing of sanctions directed to TRNC economy there were great decreases especially in exports of agricultural products. In the same way, negativeness living in textile sector, for example additional taxes applied to imports of TRNC origin products; bring this sector at standstill. So, the importance of Tourism sector, as foreign currency sources of country, increases more at recent years. It is difficult to claim that Tourism constitutes an important place in TRNC economy, in spite of the contribution of covering foreign trade deficit. Value added of Tourism realized at 309.5 million dollar in 2002, with 1977 prices (Table 3.10). This amount is equal to 3.4% of GDP. It is estimated that the value added of Tourism will be realizing 294.2 in 2003 and this amount will be 3.1% of GDP. In spite of the portion of tourism changes year to year the shares of Tourism in GDP is never exceeds 3.5%.

Table 3.10. Importance of Tourism Sector in TRNC Economy

	(With 1977 prices, Million NTL)							
	1996	1997	1998	1999	2000	2001	2002	2003'
1. Tourism sectors'								
Value added	211.5	241.7	249.5	277.8	288.2	254.6	309.5	294.2
2. GDP	7,745.8	7,943.4	8,313.0	9,013.9	9,018.2	8,535.7	9,026.3	9,523.6
3. GDP (%)	2.7	3.0	3.0	3.1	3.2	3.0	3.4	3.1

2003'; Estimated value.

Source; Tourism Planning Office- State Planning Organization, Nicosia. Unpublished Data

Tourism sector has key importance for the TRNC economy but at the same time this shows the risk of depending mainly on one sector, thus being vulnerable to world crisis. Although tourism sector is one of the growth poles of North Cyprus, it has a lot of problems like; (i) As a consequence of the isolation, the tourism industry, which is the largest sector of the TRNC economy, has deteriorated. Since direct flights to any countries except for Turkey are not possible, all planes that take off from the TRNC have to touch down briefly in Turkey and take off again under a new call sign. This means additional costs for the flight, (ii) Scarcity of water, insufficiency in electric power and communication, (iii) Insufficiency in the marketing and promotion Investors having financial problems not reinvesting on the tourist establishment, (v) Limited number of skilled personnel and low service standard, (vi) The infrastructure of the country is still not adequate for tourism purposes. For example, some of motorways are not in good conditions especially in Karpaz, (vii) Other problems are the lack of diversity in time (e.g. only summer tourism) and demand structure (approximately 80% of tourists are coming from Turkey). Similarly, international marketing activities are limited because of the diplomatic non-recognition and administrative problems.¹⁸⁸

3.1.2.4. Higher Education

Higher education is vital for economic development in TRNC. Higher education is very fast improving sector in TRNC and already making a significant contribution to economy. Approximately from ten years, Higher education appears to be a significantly income giving sector. Higher education is carried out mostly at universities offering

¹⁸⁸ Meltem Dayıođlu, "KKTC Turizm Sektörüne Eleştirel Bir Bakış", **Akdeniz'de Bir Ada, KKTC'nin Varoluş Öyküsü**, Derleyen Oktar Türel, İmge Yayınları, Ankara, 2002, içinde, pp.224-240.

instruction in English. Apart from the Teachers' Training College, there are six universities in TRNC. These are Eastern Mediterranean University (EMU), Anadolu University Open Faculty of Economics and Business Administration, Girne American University, Near East University, Lefke European University and International Cyprus University.¹⁸⁹ The Middle East Technical University from Turkey has a new campus with 450 students and aims to increase its capacity to 20,000 students in the near future. This sector has emerged right after the establishment of the EMU in 1986. The construction of new campuses and expansion of existing ones will further increase revenue.

“The universities of Northern Cyprus have attracted a significant number of students from abroad, especially from Turkey; due to the limited capacity of Turkish universities in comparison to the high demand for higher education. Turkish Cypriots prefer to stay on the Island rather than go abroad to study and every year 2,000 TRNC nationals attend universities in Northern Cyprus. Universities in Northern Cyprus have become increasingly important source revenue for the economy.”¹⁹⁰

The number of students pursuing higher education in these five universities (Eastern Mediterranean University, Girne American University, Near East University, Lefke European University and International Cyprus University) reached to 37,576 during the 2004-2005 academic years. The distribution of students can be seen in the table 3.11.

Table 3.11 Students in Higher Education Institutions

Academic Year	TRNC	T R	Third Countries	Total
1995–1996	3,501	9,189	739	13,429
1996–1997	4,062	10,973	894	15,929
1997–1998	4,978	11,539	1,021	17,538
1998–1999	5,669	11,233	1,305	18,207
1999–2000	6,644	12,583	1,649	20,876
2000–2001	7,452	13,595	1,877	22,924
2001–2002	7,767	13,488	1,925	23,180
2002–2003	8,150	13,799	2,277	24,226
2003–2004	12,243	18,398	2,285	32,926
2004–2005	12,474	22,626	2,476	37,576

Source: Ministry of Education and Culture- State Planning Organization, Nicosia. Unpublished Data

¹⁸⁹ Fikret Görün, “KKTC’de Eğitim”, *Akdeniz’de Bir Ada, KKTC’nin Varoluş Öyküsü*, Derleyen Oktar Türel, İmge Yayınları, Ankara, 2002, içinde, p.303.

¹⁹⁰http://www.turkishpolicy.com/default.asp?show=winter_2005_Arslan-54k- (7 June 2006)

The amount of higher education revenue has been calculated approximately 10,000 US \$ per student inside academic year.¹⁹¹

As it can be seen in the figure, approximately 60.0 % of these students are coming from Turkey. Thus Turkey is the main market of higher education sector. Other overseas students are coming from 76 different countries mainly from Pakistan and Middle-East countries. These students are main revenue sources of TRNC economy. They are like permanent tourists with their and their families expenditures. Their expenditures and universities fees (about 3500 US \$) are gains of foreign exchange of the economy, and encourages people and government to invest higher education sector more. Today, there is still excess demand for higher education in Turkey and it seems that the demand of the universities in TRNC will continue to rising in the near future.

Higher education is another important revenue-generating sector of the TRNC economy. There is not any official information about the sectoral contribution of the higher education to Gross Domestic Production (GDP), since it is not considered as a sector in the national income accounts of TRNC. There are serious differences between universities in TRNC about quality. For example in EMU, which is the most senior and the most developed one between existing universities, students/lecturer ratio is equal to 12. On the other hand, student/professor ratio is about 40. While the first ratio is less than the Turkey average, second one is equal to the Turkey's average. In addition to these, a student per computer is equal to 2.5.¹⁹²

¹⁹¹Tahir Çelik, "Üniversite Kent İlişkileri", **güzel yurdumuz**, Güzelyurt İlçesi Geliştirme ve Kalkındırma Derneği, Lefkoşa, içinde, p.20.

¹⁹² F. Görün, (2002), "KKTC'de Eğitim", **Akdeniz'de Bir Ada, KKTC'nin Varoluş Öyküsü**, Derleyen Oktar Türel, Ankara, İmge Yayınları, 2002, içinde, pp.306-308

3.2. EXTERNAL TRADE IN TURKISH REPUBLIC OF NORTHERN CYPRUS

Because of the TRNC economy has the peculiarities of a small island economy with its limited natural resources, limited export opportunities, transportation and energy problems and long periods of drought cause continuous dependency of production on climatic conditions. Because of this, foreign trades emerge as the major sector of the TRNC's economy, and it grew dramatically after 1974.

TRNC has adopted a liberal trade policy and practices no discrimination against any foreign country. In the 1970's the TRNC had limited trade relations with other countries. However, since then, she has succeeded in establishing trade relations with more than 60 countries all over the world.¹⁹³ Also, there were only 54 importers in the 1970's, but now there are about 7.000 of them.¹⁹⁴

Foreign trade retains its importance in the gross national product (GNP), in creating employment, and in its relations with the other sectors. During the period of 1977-2005 there was an increase in the volume of the foreign trade. The volume of foreign trade which was 105.9 million US \$ in 1977 rose to 1,244.4 million US \$ in 2005. During this period the imports of the TRNC increased from 82.0 million US \$ in 1977 to 1,177.9 million US \$ in 2005, while the exports raised from 23.9 million US \$ 1977 to 62.0 million US \$ in 2004. The foreign trade deficit which was 58.1 million US \$ in 1977, reached to 853.1 million US \$ in 2004. Due to the political and economic crisis in the world after 1990, her imports fluctuated during the 1990-1996 period.¹⁹⁵ The figures in the table below show the external trade trend of TRNC between 1990-2004 years.

Table 3.12. External Trade in TRNC 1990–2004

	(Million US \$)							
	1977	1990	1991	1992	1993	1994	1995	1996
Imports	82.0	381.5	301.1	371.4	363.9	286.6	366.1	318.4
Exports	23.9	65.5	52.5	54.6	54.5	53.4	67.3	70.5
Trade Volume	105.9	447.0	353.6	426.0	418.4	340.0	433.4	388.9
Deficit	58.1	316	248.6	316.8	309.4	233.2	298.8	247.9

¹⁹³ <http://www.trncinfo.com/tanitmadairesi/2002/ENGLISH/ECHONOMI/page01.htm> (10 May 2006)

¹⁹⁴ Export Promotion Center of Turkey and Turkish Exporter Unions, **Turkish Republic of Northern Cyprus 97**, Cem Ofset, Istanbul, 1997, p.38.

¹⁹⁵ "ibid p.38."

Table 3.12. (Contd.)

	(Million US \$)							
	1997	1998	1999	2000	2001	2002	2003	2004
Imports	356.6	430.5	412.7	424.9	272.0	309.5	477.8	853.1
Exports	57.7	53.4	52.4	50.4	34.6	45.4	50.8	62.0
Trade Volume	414.3	483.9	465.1	475.3	306.6	354.9	528.6	915.1
Deficit	298.9	377.1	360.3	374.5	237.4	264.1	427.0	791.1

Source: TRNC State Planning Organization, Statistics and Research Departments. Nicosia.

Table 3.13. Cover Ratio of External Trade in TRNC (X/M) (%)

1977	1990	1991	1992	1993	1994	1995	1996	1997
29.10	17.20	17.40	14.70	15.00	18.60	18.40	22.10	16.20

X; Export

M; Import

Table 3.13. (Contd.)

1998	1999	2000	2001	2002	2003	2004
12.40	12.70	11.90	12.70	14.70	10.60	7.30

X; Export

M; Import

Because of the higher dependency of TRNC economy to import and she's limited exporting opportunities, TRNC have external trade deficit continuously. The amount of this deficit is generally inside the rising tendency. Because of the economic crisis which was living on 2001, imports which was 272.0 million US \$ at 2001, reached to 853.1 million US \$ by increasing approximately 3.14 times. At the same period foreign trade deficit reached to 791.1 million US \$ by increasing 3.33 times. When we take countries as a base, TRNC was showing a trade deficit to Turkey continuously between 1977–1998 periods. On the other hand, when we take country groups as a base, TRNC was showing a trade deficit to EU and Far-East countries between these periods. But, TRNC was showing a trade surplus against England between 1979–1988 periods (except 1983). One of the reasons of this surplus is; Cyprus having special trade relations with England arising from Cyprus is a member of English Common Wealth Group country. Because of the Cyprus stayed as the colony of UK, strong links were established between UK and Cyprus. TRNC also benefited from advantages obtaining to island as a whole from England, up to 1994 ECJ Rules. In addition to this, intensive ties between TRNC citizens who are living in England and TRNC market also affect this surplus. TRNC also shows a trade surplus against Middle East countries from time to time. TRNC must be obliged to romp

restrictions coming from economic embargoes applying since 1974 and 1994 ECJ Judgments, which restricts exporting of TRNC origin products to EU countries by normal trade ways. Especially 1994 ECJ Judgments let TRNC economy to excessive financial straits.¹⁹⁶ Effects of ECJ Decisions can be seen clearly at Table 3.14 on 1996. External trade deficit, which was 247.9 million US \$ at 1996, reached to 791.1 million US \$ at 2004 by increasing annually. At that period average increasing rate of external trade deficits was more than the twice of average increasing rate of GNP.

Table 3.14. Foreign Trade Balance by Countries

	(Million US \$)							
Countries	1977	1990	1991	1992	1993	1994	1995	1996
I. Turkey	-24.3	-145.6	-135.7	-169.6	-138.4	-118.9	-174.6	-142.1
II. Other Countries	-33.8	-170.4	-112.9	-147.2	-171.0	-114.3	-124.2	-105.8
1. EU Countries	-22.0	-80.1	-50.9	-49.6	-85.3	-70.2	-65.5	-56.3
1.1. UK.	-9.0	-23.1	-10.3	-9.2	-38.7	-48.7	-25.6	-29.0
1.2. Other EU Countries	-13.0	-57.0	-40.6	-40.4	-46.6	-21.5	-39.9	-27.3
2. Middle East Countries	-2.2	-4.8	-4.0	-2.0	-1.0	3.7	-6.5	1.2
3. Far East Countries	-5.1	-52.3	-32.4	-37.8	-47.2	-25.0	-26.8	-15.4
4. USA	-0.2	-2.4	-3.1	-7.4	-3.2	-4.5	-2.7	-3.6
5. Other Countries	-4.3	-30.8	-22.5	-51.6	-34.5	-18.3	-22.7	-31.7
Total	-58.1	-316.0	-248.6	-316.8	-309.4	-233.2	-298.8	-247.9

Table 3.14. (Contd.)

	(Million US \$)							
Countries	1997	1998	1999	2000	2001	2002	2003	2004
I. Turkey	-174.9	-224.5	-228.5	-256.4	-160.7	-176.7	-276.4	-483.7
II. Other Countries	-124.0	-152.6	-131.8	-118.1	-76.7	-87.5	-150.6	-307.4
1. EU Countries	-63.6	-90.9	-79.4	-82.9	-50.9	-63.5	-102.4	-209.2
1.1. UK.	-30.1	-37.9	-31.5	-24.5	-17.1	-22.3	-37.4	-77.5
1.2. Other EU Countries	-33.5	-53.0	-47.9	-58.4	-33.8	-41.2	-65.0	-131.7
2. Middle East Countries	-3.5	-3.8	-2.7	-3.6	-7.6	-6.0	-8.9	-19.2
3. Far East Countries	-11.0	-8.2	-8.1	-6.3	-2.6	-2.5	-19.3	-40.7
4. USA	-2.6	-6.8	-6.3	-5.0	-3.6	-3.0	-3.7	-7.1
5. Other Countries	-43.3	-42.9	-35.3	-20.3	-12.0	-12.5	-16.3	-31.2
Total	-298.9	-377.1	-360.3	-374.5	-237.4	-264.2	-427.0	-791.1

Source: TRNC State Planning Organization, Statistics and Research Departments. Nicosia

¹⁹⁶ Aylin Ege (2002), "KKTC Ödemeler Dengesi 1977-2000", *Akdeniz'de Bir Ada, KKTC'nin Varoluş Öyküsü*, Derleyen Oktar Türel, Ankara, İmge Yayınları, 2002, içinde, pp.125-136.

The highest trade deficit is showing to Turkey and EU countries follows Turkey about the amount of external trade deficit.¹⁹⁷ In 2004, 483.7 million US \$ amount external trade deficit was showing against Turkey and this amount was occurring 209.2 million US \$ against EU countries (77.5 million US \$ for England), 40.7 million US \$ against Far-East countries, 7.1 million US \$ against USA and 19.2 million US \$ against Middle-East countries.

3.2.1. External Trade Policy of Turkish Republic of Northern Cyprus

External trade of TRNC, reached to today's liberal trade regime by various measurements and encouragements applied in the course of time. Today external trade in TRNC is regulated under the 12/1983 external trade (arrangements and control) law and 46/1990 numbered laws. According to import and export (arrangements and control) regulations, which are into force, real or juristic persons, whose are doing import and export, must be registering as importer and exporter.¹⁹⁸ On the applications about this subject real or juristic persons are necessary to be members of trade, industry or tradesmen and craftsmen offices. Presenting office register certificate, company register certificate, identity card of real persons and other related information and certificates are necessary for application of giving exporter or importer certificates. These certificates are valid from the beginning of the calendar year up to the end of the calendar year.¹⁹⁹

3.2.2. Difficulties Facing on External Trade with Turkish Republic of Northern Cyprus

Specific characteristic of trade sector is; it is forming from many smaller scale trading establishments. Same trading establishment crowd and their size increase their distribution cost, in addition of this, their prices increases. There are some problems living on external trade with TRNC. In spite of the smaller population and unfair and difficult embargos applying to TRNC; trade between Turkey and TRNC was facilitating, also

¹⁹⁷ "ibid p.135."

¹⁹⁸ V. Çekinmez, **KKTC Kuzey Kıbrıs Türk Cumhuriyeti Ülke Raporu**, İGEME-KKTC Türk Ticareti Geliştirme Ofisi, Lefkoşa, 1998. pp.37-42.

¹⁹⁹ İhracatı Geliştirme Etüd Merkezi, **K.K.T.C. Kuzey Kıbrıs Türk Cumhuriyeti Ülke Raporu**, Lefkoşa, 1998, p.6.

external trade of TRNC to third countries continue with the support of Turkey. Because of the smaller population and production scale and applying protectionist law there is a quite limited and higher costly internal market in TRNC according to world price. An important problem in trade relations of TRNC with third countries, especially development in exports, appears from transportation and communication activities.²⁰⁰ The country is an island, and its transportation has to do from air and sea ways. There are some principal problems appearing in this field. These are;²⁰¹

- Air cargo transportation's narrow capacity,
- In loading and pouring out errors. Because of this, the transportation of goods are not come on time,
- Loading and poring out prices are high.

Limited external trade amounts except in citrus fruits and ready-made clothes forms a problem in transportation and transportation can be doing directly to limited places mostly it is doing with indirectly. When the exporting goods, reach to consumers by following long distribution way, prices will get higher than others. This structure in TRNC influences price-quality relations negatively and not makes it attractive to open into foreign market. In spite of these conditions, TRNC's producing products can be entering into Turkey market on a large scale with the support of Turkey.²⁰²

Consumer rights and benefits, security and health protection truth came out against changeable conditions of market economy. There are some problems occurs because of the uncompleted legal arrangements about consumer protection and organizing trade.

Because of TRNC's geographical coordination, transit trade potential is very high. In this area trade should be cared and developed, and also in our harbors has not any liner connections, occupation prices are very high, there is no enough vehicles to do loading and pouring out, harbor deep is very low and there is no container quay and area. Like this obstacles trade does not developed and they should be solved urgently.

²⁰⁰ <http://www.bolcontact.com/ulkeler/KKTC/KKTC4.htm-101k> (15 September 2004).

²⁰¹ KKTC DPÖ, **2002 Geçiş Yılı Programı**, Lefkoşa, 2001, p.185.

²⁰² <http://www.bolcontact.com/ulkeler/KKTC/KKTC4.htm-101k> (15 September 2004).

3.2.3. Major Trade Items of Turkish Republic of Northern Cyprus

For today because of the interferences of the GCA, exports of TRNC are facing with considerable problems. Especially, unfair and difficult embargos coming from decisions of the ECJ are influential for these problems. Unrecognizing problem causes to live important problems in her exports. Especially, the obligation of move out from Turkey harbours causes to loading and pouring out merchandises at several times and creates loss of time and money. But exports are still continuing to stand by market possibilities and other supports which are obtaining from Turkey and Turkey emphasize that supports to TRNC has been continuing seriously.²⁰³ We can classifies important exporting items of TRNC with; Citrus, Concentrated Citrus, Grapes, Potatoes, Carobs (Seed and Grounded), Tobacco, Cigarette, Olive, Live Lamb and Kid, Wool, Hides, Leathers, Fresh Vegetable, Kolokacassy, Chocolates, Olive Oil, Halloumi, Cheese, Footwear, Clothes, Cosmetics Shampoo, Detergents, Craft Liner Paper, Medicine, Cola, Citrus Essential Oil, Cosmetics, Scrap Iron, Scrap Copper, Casing, Barley, Raki, Wheat, Other...

Table 3.15. Value of Exports by Commodity Groups

Commodity Groups	(Million US \$)									
	1990	%	1991	%	1992	%	1993	%	1994	%
1. Agricultural Prod.	29.8	45.5	27.0	51.4	31.0	56.8	24.3	44.6	25.7	48.1
1.1. Citrus	24.5	37.4	21.6	41.1	22.2	40.7	16.6	30.5	15.8	29.6
1.2. Potatoes	2.4	3.7	2.4	4.6	3.3	6.0	1.3	2.4	0.7	1.3
1.3. Live Animals	0.3	0.4	0.1	0.2	0.5	0.9	-	-	0.3	0.6
1.4. Other Agricultural Prod.	2.6	4.0	2.9	5.5	5.0	9.2	6.4	11.7	8.9	16.6
2. Industrial Prod.	35.2	53.7	25.2	48.0	23.4	42.8	30.0	55.0	27.4	51.3
2.1 Processed Industrial Prod.	11.9	18.1	8.4	16.0	7.1	13.0	8.2	15.0	7.1	13.3
2.2. Other Industrial Prod.	23.3	35.6	16.8	32.0	16.3	29.8	21.8	40.0	20.3	38.0
3. Minerals.	0.5	0.8	0.3	0.6	0.2	0.4	0.2	0.4	0.3	0.6
Total	65.5	100.0	52.5	100.0	54.6	100.0	54.5	100.0	53.4	100.0

²⁰³ KKTC DPÖ, 2004 Geçiş Yılı Programı, Lefkoşa, 2003, pp.155-158

Table 3.15. (Contd.)

(Million US \$)										
Commodity Groups	1995	%	1996	%	1997	%	1998	%	1999	%
1. Agricultural Prod.	26.9	40.0	31.0	44.0	18.5	32.1	14.8	27.7	20.1	38.4
1.1. Citrus	22.1	32.8	22.6	32.1	15.1	26.2	12.8	24.0	12.1	23.1
1.2. Potatoes	1.4	2.1	0.9	1.3	0.4	0.7	0.6	1.1	0.1	0.2
1.3. Live Animals	0.4	0.6	1.0	1.4	0.2	0.3	-	-	-	-
1.4. Other Agricultural Prod.	3.0	4.5	6.5	9.2	2.8	4.9	1.4	2.6	7.9	15.1
2. Industrial Prod.	39.8	59.1	38.4	54.5	38.5	66.7	38.3	71.7	32.1	61.2
2.1 Processed Industrial Prod.	11.9	17.7	13.2	18.7	11.8	20.4	13.6	25.5	12.5	23.8
2.2. Other Industrial Prod.	27.9	41.4	25.2	35.8	26.7	46.3	24.7	46.2	19.6	37.4
3. Minerals.	0.6	0.9	1.1	1.5	0.7	1.2	0.3	0.6	0.2	0.4
Total	67.3	100.0	70.5	100.0	57.7	100.0	53.4	100.0	52.4	100.0

Table 3.15. (Contd.)

(Million US \$)										
Commodity Groups	2000	%	2001	%	2002	%	2003	%	2004	%
1. Agricultural Prod.	16.0	31.7	12.3	35.5	18.9	41.6	20.9	41.1	21.1	34.0
1.1. Citrus	13.4	26.6	9.9	28.6	17.1	37.7	17.8	35.0	20.1	32.4
1.2. Potatoes	0.1	0.2	0.5	1.4	0.2	0.4	0.4	0.8	-	-
1.3. Live Animals	0.3	0.6	-	-	-	-	-	-	-	-
1.4. Other Agricultural Prod.	2.2	4.3	1.9	5.5	1.6	3.5	2.7	5.3	1.0	1.6
2. Industrial Prod.	34.2	67.9	21.9	63.3	26.1	57.5	29.2	57.5	39.4	63.6
2.1 Processed Industrial Prod.	12.2	24.2	8.1	23.4	12.2	26.9	16.6	32.7	24.9	40.2
2.2. Other Industrial Prod.	22.0	43.7	13.8	39.9	13.9	30.6	12.6	24.8	14.5	23.4
3. Minerals.	0.2	0.4	0.4	1.2	0.4	0.9	0.7	1.4	1.5	2.4
Total	50.4	100.0	34.6	100.0	45.4	100.0	50.8	100.0	62.0	100.0

Source; TRNC State Planning Organization, Statistics and Research Departments. Nicosia

When the agricultural products had most important shares inside TRNC exports, industrial products had less important shares up to 1986. Since 1987, it was seen that the shares of agricultural products shows decreasing tendency, on the other hand industrial products shows increasing tendency. While the shares of agricultural products inside exporting descended to approximately 40–45% at 1987–1996 periods, the shares of industrial products ascended to 40–60% levels. Shares of industrial products inside exporting was exceed shares of agricultural products for the first time at 1990 and this share has continuously excess the share of agricultural products after 1993. Applied policies on the direction of increasing the shares of industrial products inside exporting has been effective at following years of 1996 and when the shares of agricultural products

inside exporting has been decreasing to 30% level, the shares of industrial products reaches to 70% level. At the beginning from 1998 it was occurring increases about 10 point from shares of agricultural products and decreasing about 10 points on the shares of industrial products and these shares was reaching to 34.0% level for agricultural products and 63.6% level for industrial products at 2004. On the other hand, the share of minerals stays at unimportant level with its 1% shares inside the exporting. TRNC exported 21.1 million US \$ agricultural products and 39.4 million US \$ industrial products at 2004. Citrus products have important place inside exporting of agricultural products. On the other hand clothing, processed agricultural products and foodstuffs holds important place in industrial products. TRNC exported 20.1 million US \$ worth citrus products and 24.9 million US \$ worth processed industrial products at 2004. It is possible to say that 72.6% shares of exporting products are forming from these two product groups.

Table 3.16.Value of TRNC Imports by Commodity Groups

Commodity Groups	(Million US \$)									
	1990	%	1991	%	1992	%	1993	%	1994	%
1. Foods and Live Animals.	35.8	9.4	41.9	13.9	36.7	9.9	42.7	11.7	37.3	13.0
2. Beverages and Tobacco.	13.5	3.5	15.4	5.1	16.0	4.3	16.4	4.5	15.5	5.4
3. Crude Materials Inedible Other Than Fuels.	5.4	1.4	6.0	2.0	4.9	1.3	5.7	1.6	4.5	1.6
4.Mineral Fuels, Lubricants and Related Materials	35.5	9.3	34.9	11.6	30.5	8.2	28.2	7.7	26.1	9.1
5. Animal and Vegetable Oils and Fats.	2.1	0.6	1.8	0.6	2.2	0.6	2.1	0.6	3.3	1.2
6. Chemicals.	26.1	6.8	23.8	7.9	22.7	6.1	37.7	10.4	26.1	9.1
7. Manufactured Goods Classified mainly by Material	115.2	30.2	81.9	27.2	76.9	20.7	81.2	22.3	62.0	21.6
8. Machinery and Transport Equipment.	106.8	28.0	67.4	22.4	154.9	41.7	116.9	32.1	63.3	22.1
9. Miscellaneous Manufactured Goods	41.1	10.8	28.0	9.3	26.6	7.2	33.0	48.5	16.9	28.6
Total	381.5	100.0	301.1	100.0	371.4	100.0	363.9	100.0	286.6	100.0

Table 3.16. (Contd.)

Commodity Groups	(Million US \$)									
	1995	%	1996	%	1997	%	1998	%	1999	%
1. Foods and Live Animals.	54.3	14.8	53.1	16.7	60.2	16.9	70.3	16.3	53.0	12.8
2. Beverages and Tobacco.	20.0	5.5	19.2	6.0	22.1	6.2	28.4	6.6	26.5	6.4
3. Crude Materials Inedible Other Than Fuels.	5.9	1.6	5.7	1.8	6.3	1.8	6.7	1.5	5.6	1.4
4. Mineral Fuels, Lubricants and Related Materials	33.8	9.2	32.8	10.3	37.3	10.5	30.9	7.2	32.9	8.0
5. Animal and Vegetable Oils and Fats.	3.1	0.9	2.9	0.9	2.9	0.8	5.0	1.2	4.1	1.0
6. Chemicals.	27.2	7.4	29.2	9.2	33.1	9.3	36.5	8.5	35.9	8.7
7. Manufactured Goods Classified mainly by Material	94.5	25.8	77.4	24.3	81.1	22.7	94.2	21.9	85.4	20.7
8. Machinery and Transport Equipment.	98.7	27.0	73.5	23.1	85.5	24.0	126.0	29.3	135.9	32.9
9. Miscellaneous Manufactured Goods	28.6	7.8	24.6	7.7	28.1	7.9	32.5	7.5	33.4	8.1
Total	366.1	100.0	318.4	100.0	356.6	100.0	430.5	100.0	412.7	100.0

Table 3.16. (Contd.)

Commodity Groups	(Million US \$)									
	2000	%	2001	%	2002	%	2003	%	2004	%
1. Foods and Live Animals.	60.6	14.3	46.2	17.0	43.5	14.1	58.4	12.2	80.3	9.4
2. Beverages and Tobacco.	26.9	6.3	19.3	7.1	24.2	7.8	32.9	6.9	45.2	5.3
3. Crude Materials Inedible Other Than Fuels.	6.0	1.4	4.5	1.6	4.4	1.4	7.0	1.5	13.5	1.6
4. Mineral Fuels, Lubricants and Related Materials	44.4	10.5	32.6	12.0	27.4	8.9	36.6	7.7	68.9	8.1
5. Animal and Vegetable Oils and Fats.	3.5	0.8	3.0	1.1	3.6	1.2	4.7	1.0	5.3	0.6
6. Chemicals.	35.0	8.2	28.5	10.5	33.1	10.7	46.0	9.6	66.0	7.7
7. Manufactured Goods Classified mainly by Material	91.0	21.4	58.3	21.4	73.5	23.7	110.4	23.1	207.7	24.3
8. Machinery and Transport Equipment.	125.5	29.6	59.0	21.7	74.1	23.9	141.3	29.6	304.5	35.7
9. Miscellaneous Manufactured Goods	32.0	7.5	20.6	7.6	25.8	8.3	40.5	8.5	61.7	7.2
Total	424.9	100.0	272.0	100.0	309.6	100.0	477.8	100.0	853.1	100.0

Source; TRNC State Planning Organization, Statistics and Research Departments, Nicosia.

TRNC imports a lot of products from many countries at recent years. When we look at the structure of importing, it was seen that the maximum weight of imports is forming from machinery and transport equipments. The total shares of machinery and transport equipments inside the importing are about 28%. In year 2003 imports of machinery and transport equipments realized 29.6% of TRNC's imports share. This share was increasing to 35.7% at year 2004. On the other hand shares of food and live animals, beverages and tobacco inside the TRNC's import was about 19.1% in 2003 and this share decreased to 14.7% at 2004.

3.3. ECONOMIC RELATIONS BETWEEN TURKEY AND TURKISH REPUBLIC OF NORTHERN CYPRUS.

TRNC has faced tremendous difficulties due to the political unsettlement of the Cyprus problem. TRNC is not recognized politically from other countries except Turkey. As the GCA improved its economic and political relations with the EU for membership, TRNC and Turkey made a number of joint statements and stated that any economic and political integration formed between GCA and the EU will be followed by a similar economic integration between the TRNC and Turkey.²⁰⁴ At that part of the study the economic relations between TRNC and Turkey will be examined.

3.3.1. Economic Integration of Turkish Republic of Northern Cyprus with Turkey

TRNC and Turkey have strong economic and socioeconomic links arising from cultural, religious, and ethnic relations. Turkish Cypriots and Turks of Turkey are from the same ethnic root. Similarly, both of them are Moslems and speak same language. Furthermore, both of them have similar social structure and culture. Moreover, because of the mentioned relations, Turkey and TRNC have very close political and economic relations. As has been mentioned previously, because of the diplomatic non-recognition of TRNC and the Cyprus problem, Turkey and TRNC have established very strong relationships. TRNC can break the limitations on economic and social life through

²⁰⁴ Centre for Cyprus Studies (2000), Appendix, journal of Cyprus Studies, Eastern Mediterranean University, pp.192-193, 215-217, 230-233.

Turkey's help. Close economic and social relations with Turkey and using NTL as a monetary unit causes TRNC economy influencing from Turkey's economy whether structural or with conjuncture floating. Being unrecognized by international community is obliged TRNC to access to the world through Turkey. Exports and imports of TRNC to the world are realizing over Turkey and it is quite limited and difficult. External trade with Turkey carries a special importance for TRNC and the important portions of their needs are meeting by Turkey by the way of importing. In addition to this; Turkey obtains a great contribution to TRNC in possible areas against unfair and heavy embargos, applying to exporting, for the aims of improving their exports. Turkey market is crucial for TRNC's development. Opening of the 70 million people market could open new horizons for North Cyprus and contribute to the economic development of the North Cyprus economy substantially.²⁰⁵ In TRNC economy, because of the needs based on products provided from outside, especially from Turkey, external trade deficit is in favour of Turkey. But the foreign exchange needs of TRNC, arising from external trade deficit is eliminating with the help of the foreign currencies from visitors, who are coming from Turkey for the aim of tourism and education. Generally, external trade deficit of TRNC is not causes to living a problem in economy, with the help of the other foreign exchange obtainer activities. Also, bilateral agreements between Turkey and TRNC remove difficulties, on a large scale. There are too many protocols signed between Turkey and TRNC.

3.3.2. Bilateral Agreements between Turkey and Turkish Republic of Northern Cyprus

Since their establishment, TRNC has intensive commercial relations with Turkey. Too many mixed economy meetings done between Turkey and TRNC and signed protocols between themselves. After the explanation of the decision of ECJ in 1994, it is doing intensive studies between Turkish Republic government and TRNC governments for the aim of removing decisions of ECJ, which are affecting TRNC's external trade negatively and signing agreements and protocols about various subjects for the aims of developing commercial and economic relations between two countries. Since 1986 lot of financial, economic, social and cultural protocols were signed between the TRNC and

²⁰⁵ A.Altınay, H.A Bıçak, **Restructuring of the Northern Cyprus Economy: Stages to be followed**, working paper in Economics, Department of Economics, EMU, 1995, Famagusta, p.30

Turkey in order to cooperate in economic areas and finance some important projects in North Cyprus. These economic protocols reflect Turkey's technical assistance on some issues and financial assistance for the completion of the basic infrastructural needs of the TRNC like communication networks, highways, dams, improvement of external transportation and so forth. There are also some important policy decisions in these economic protocols. However, some of these policy decisions have been fully or partly implemented.²⁰⁶ These agreements gives many possible advantages to TRNC; a large market to solve limited domestic market problem, as a source to overcome its limited natural resources, and limited skilled labor problems. On the other hand, wasteful usage of the aids has brought many problems to TRNC's economy.

Some of these protocols should be listed as;

Economic Cooperation Protocol (December 1986); The first economic cooperation protocol between North Cyprus and Turkey aimed at transforming the Turkish Cypriot economy into one based on liberal economic doctrines. In this respect, some decisions have taken in the fields of trade, foreign exchange and banking, public finance, investment and incentives, state enterprises and infrastructure.²⁰⁷

Preventing Double Taxation Agreement (22 December 1987); In this agreement it was decided that the payments of incomes of Turkey and TRNC citizens 'income and association taxes' are collected in country where they get.²⁰⁸

Economic Cooperation Protocol (3 January 1997); It was signed in 1997 to sustain the macroeconomic stability and to increase the life standard of the society. The Turkey and North Cyprus have decided to strengthen the existing cooperation in the fields of money and banking, public housing, privatization, trade, tourism, agriculture, industry, investment, energy, transportation, communication education, credit and financing. In this protocol it is considered that; TRNC's companies would benefit from low interest rate credits of the Turkish Eximbank. With this agreement 250 million US \$ was granted to TRNC by Turkey for 1997–1999 periods and also 120 million US \$ for 1999–2000

²⁰⁶ <http://www.dtm.gov.tr/ead/DTDERGI/OCAK2003/kkctc.htm-104k-> (10 June 2006)

²⁰⁷ "ibid"

²⁰⁸ "ibid"

periods.²⁰⁹ In this protocol, it is aimed to obtain employment and structural changing. In this frame there are some goals like; closing public deficit, developing social security system, accelerating privatization, obtaining credit to TRNC selectively on the base of project and obtaining credit to private sector selectively on the base of project.

Agreement of State Aid to Investments (28 January 1998); It is preparing a special encouragement model for investments to TRNC. In this model it is stated that Turkish and Turkish Cypriot investors are supported with lower level interest credits on their investments in TRNC.²¹⁰

Trade and Economic Cooperation Agreement (26 February 1998); in this agreement it is decided that, realizing necessary application agreement and protocols with legal and technical arrangements inside two months about; taking all necessary measurements for the aims of pulling commercial and economic relations on top level, harmonization of laws related with commercial and economic activities and removing existing barriers, obtaining continuation of existing system about exporting TRNC origin products to third countries, to enable sending third country origin products to Turkey over TRNC, cooperation in all sectors of economy, establishing structure of economy, turned toward export, in TRNC, encouraging mutual investments, improving bilateral communication possibilities and obtaining support to TRNC in the field of housing estate.²¹¹

Application Agreement about arrangement of Commercial Relations (23 October 1998); Important arrangement and easiness, in accordance with agreement relating to application of articles, which takes part of the contents of Trade and Economic Cooperation Agreement, contains some subjects like; laws harmony about commercial topic and to undertaking CCP of TRNC, In TRNC tourism; providing attractive prices for tourists on their shopping, providing cheaper production and investment inputs, subjects relating to importing of Turkey from TRNC about sensitive products on the scope of CCP, taxes applying at imports of TRNC, facilitating custom controls about importing products, which are affecting human health directly, inside certain conditions, importing some basic

²⁰⁹ Directorate of Aid Board, Turkish Embassy in Nicosia (2000), infrastructure projects and Other Projects Realized in the TRNC by the contributions of the Turkish Republic in the period of 1996-2000, Nicosia, p.3

²¹⁰ Aylin Ege (2002), "KKTC Ödemeler Dengesi 1977-2000", **Akdeniz'de Bir Ada, KKTC'nin Varoluş Öyküsü**, Derleyen Oktar Türel, Ankara, İmge Yayınları, 2002, içinde, p.155

²¹¹ "ibid pp.155-156"

input products from Turkey to TRNC with lower custom taxes, facilitating transactions of TRNC, related with exporting to third countries, continue to provide existing easiness about exporting of TRNC to third countries over Turkey.²¹²

Loan Agreements (1999–2000); Besides the 250 million US \$ worth of credit within the scope of the Economic and Financial Protocol signed in 1997, TRNC signed a 20 million US \$ worth credit agreement with Turkey on December 1999. In addition to this, a 100 million US \$ worth credit agreements was signed with Turkey on March 2000.²¹³

Economic and Financial Cooperation Protocol (12 January 2001); Following policies and programs designed for strengthening economic balances between Turkey and North Cyprus, form joint economic area by increasing efforts directed towards the economic and financial integration and complete structural changes, increase production and welfare and have sustainable development.²¹⁴

Economic and Financial Protocols (April 2003); Two protocols were signed between the governments of Turkey and TRNC according to studies of technical delegations on investments, tourism sector and improvement of agricultural production. One of the protocols considers economic and financial cooperation and the other one considers cooperation in investments. This protocol signed for the aims of strengthening the TRNC economy.²¹⁵

There were significant investment projects in these protocols. One of them considers carrying water by pipes from Turkey to TRNC. Universities came one of the first among the projects. Turkey would extend all kinds of support to construction of the incomplete building of METU Guzelyurt campus to start the education year as soon as possible. For three years 450 million US \$ loan support would be provided.²¹⁶

²¹² “ibid p.156”

²¹³ Sabahattin Ismail, **TC-KKTC İkili Anlaşma, Protokol ve Sözleşmeler**, AHA Yayınları, 2001.

²¹⁴ “ibid”

²¹⁵ TRNC Ministry of Finance and Economy Unpublished Data.

²¹⁶ TRNC Ministry of Finance and Economy Unpublished Data.

Economic and Financial Additional Protocol (4 June 2005); Protocol is considering to add 100 million US \$ to 450 million US \$ worth financial support, which consider to give TRNC by Economic and Financial Protocol signed on April 2003, and to prolong Economic and Financial Cooperation Protocol up to the end of the year 2006.²¹⁷

Financial Protocol (30 January 2006); Protocol includes financial aids doing from budget of Turkey to TRNC. With the protocol came to force on 30 January 2006, it was planning to do 804,3 million NTL investment from Turkey to TRNC. According to this protocol 263,2 Million NTL of total amount will be used for substructure expenditures. There are 570 projects are situated on the scope of aids to TRNC.²¹⁸

The main objectives of Economic Cooperation Protocols, which were signed on 1986, 1997, 2001, 2003, 2005 and 2006 stated above, are to support the North Cyprus' economic and social development by extending bilateral aid in the form of grants, loans and project aid. Foreign aid from Turkey is provided to finance budget deficits and to support long-term infrastructural projects, such as transportation, water, energy, human resources and economic sectors. (See Appendix for Protocol sample)

3.4. TRADE WITH TURKEY AND COMPARISON WITH EU COUNTRIES

Trade with Turkey carries a crucial importance for TRNC and the important part of she's needs covered from Turkey by the way of importing. Together with this, Turkey contributes to the development of imports of TRNC by supporting them in all possible areas against unfair and heavy embargos applying to her imports. TRNC applies preferential customs tariff to Turkish products. These customs rates are equal with customs rates applying to EU and EFTA countries (See Appendix for related law).²¹⁹ Although the customs rate varies from one product to another.

Service sectors are developed in TRNC and because of the needs based on products are providing from abroad (mainly from Turkey), external trade deficit is in favor of Turkey. But the foreign currency needs arising from this deficit are covering with

²¹⁷ TRNC Ministry of Finance and Economy Unpublished Data.

²¹⁸ TRNC Ministry of Finance and Economy Unpublished Data.

²¹⁹ TRNC Official Gazette 19 November 1996

currencies obtaining from visitors coming from Turkey, for the aims of education and tourism, and economic aids. External trade deficit of TRNC is not cause to live problems from economy, with the helps of other foreign currency gainer activities, and bilateral agreements with Turkey also remove existing difficulties on a large scale.

When the export markets of TRNC are considered, there are two major markets. First one is Turkey. Turkey is the main trading partner of TRNC with its 60.1% share in her total imports and 46.3% shares in her total exports in 2004. EU countries are the second major group trading partners of TRNC with its 26.3% share in her total imports and 24.5% shares in her total exports in same year.²²⁰ The share of the EU countries in TRNC exports was higher than Turkey before 1995, but after that year as a result of the ECJ Ruling on the exports of TRNC that aggravated the economic embargoes on TRNC, the share of EU countries has been decline on contrary share of Turkey has increases.²²¹ Also Poly Peck Crises (bankruptcy of Poly Peck) is the other factor causing decline in export volume of the European Market.

When countries are taken up one by one, we saw that Turkey has got maximum share inside external trade volume of TRNC except one year (1990). When the share of Turkey inside external trade of TRNC was moving generally between 36% and 60%, this share exceed 60% in 2004 by increasing since 1995. And it is estimating that this share will be moving with same proportion at 2005. On the other hand, when EU countries taken up as a whole, the share of EU countries inside external trade of TRNC are over 40% until 1990 and exceed 50% from time to time. This portion was more than the Turkey's, which was moving about 35%-40%, inside same period. As from 1991, while the external trade volume of Turkey with TRNC was broaden, she's external trade volume with EU countries was generally narrowing and the share of Turkey inside external trade volume of TRNC exceeds the shares of EU countries. At recent years, while the share of Turkey is going up to over 50 %'s, shares of EU countries are falling down lower than 30%'s. Especially the border trade between Turkey and TRNC, which was beginning from 1995 against rules of ECJ that restricts exporting of TRNC to EU countries and removing their negative effects,

²²⁰ TRNC State Planning Organization, **Economic and Social Indicators 2004**, Nicosia, 2004, pp.52-53.

²²¹ H. Bıçak and B. Yeşilada, **The European Court of Justice Decision on Trade with Northern Cyprus: Implications for the Cyprus Conflict**, Presented to the Conference of the 91st Annual Meeting and Exhibition of the American Political Science Association, Chicago, 31st August- 3rd September 1995, Chicago, USA, p.26.

influenced this development. In spite of the share of Turkey inside external trade of TRNC was more than 60%, the share of EU Countries was about 24.1% in 2003. This share was 59.1% for Turkey and 26.2% for EU countries at 2004. As a result of the rules of ECJ on 1994, it was seen that the exports were tend to Turkey in the course of time. External trade of TRNC shows improvement by directing to Turkey as a result of decisive decisions taken by, for the aims of removing negative effects of ECJ Decisions that restrict exporting. According to 2004 years datum; Turkey's share is 60.1% and other countries shares are 39.9% inside total imports. On the other hand their shares are 46.3% and 53.7% respectively inside total exports.

Together with following fairly fluctuated progress, exports of TRNC, which is 24.9 million US \$ in 1977, reached to 45.4 million US \$ in 2002 by increasing yearly, approximately 0.74%. And this amount reached to 62.0 million US \$ in 2004. So exporting increased about two and a half times inside 27 yearly periods. Insufficient domestic production and higher transportation cost, restricts development of exporting and causes exporting to stay too much behind importing. Unrecognizing of TRNC on international platform restricts development of TRNC's exporting. Stop importing of TRNC origin agricultural products and applying tax about 14% to industrial products from EU countries causes decreases in exports of TRNC to EU countries and restricts the rising potential of she's exporting. Together with the increases in absolute value of export, proportion of exporting to GNP shows decreases parallel to the share of exports inside the external trade volume. Proportion of export to GNP, which was 11.9% in 1977, reached to near 20% in 1983 by increasing continuously, than it was falling down under 10% after 1990 by showing diminishing tendency and this ratio was reached to 3.5% in 2004.

Table 3.17. Value of TRNC Exports by Countries

	(Million US \$)						
Countries	1990	1991	1992	1993	1994	1995	1996
I. Turkey.	7.9	7.3	9.1	12.5	10.3	20.2	34.0
II. Other Countries.	57.6	45.2	45.5	42.0	43.0	47.1	36.5
1. EU Countries.	51.0	42.0	41.8	36.4	34.2	36.5	24.7
1.1. UK.	44.0	35.4	36.3	26.7	24.7	23.8	15.0
1.2. Other EU Countries	7.0	6.6	5.5	9.7	9.5	12.7	9.7
2. Middle East Countries	1.6	0.7	1.5	2.2	6.5	1.6	5.8
3. Far East Countries.	-	-	0.1	-	-	-	-
4. USA.	3.3	0.3	-	0.1	-	0.1	0.7
5. Other Countries.	1.7	2.2	2.1	3.2	2.3	8.9	5.3
Total	65.5	52.5	54.6	54.5	53.4	67.3	70.5

Table 3.17. (Contd.)

	(Million US \$)							
Countries	1997	1998	1999	2000	2001	2002	2003	2004
I. Turkey.	27.1	27.0	27.9	18.7	12.8	18.3	22.9	28.7
II. Other Countries.	30.6	26.4	24.5	31.7	21.8	27.1	27.9	33.3
1. EU Countries.	23.9	22.3	20.4	20.3	12.2	12.7	12.6	15.2
1.1. UK.	15.0	16.5	15.9	18.8	11.5	11.9	11.9	13.5
1.2. Other EU Countries	8.9	5.8	4.5	1.5	0.7	0.8	0.7	1.7
2. Middle East Countries	1.9	1.5	2.2	3.9	2.9	3.7	3.8	4.3
3. Far East Countries.	-	-	-	-	-	-	-	-
4. USA.	0.3	0.2	-	0.2	0.5	0.1	-	-
5. Other Countries.	4.5	2.4	1.9	7.3	6.2	10.6	11.5	13.8
Total	57.7	53.4	52.4	50.4	34.6	45.4	50.8	62.0

Source; Up to 2004 years; KKTC DPÖ, **2004 Geçiş Yılı Programı**, Lefkoşa, 2004, p.159
2004 Years; TRNC State Planning Organization, Nicosia. Unpublished Data

Table 3.18. Value of TRNC Imports by Countries

	(Million US \$)							
Countries	1990	1991	1992	1993	1994	1995	1996	1997
I. Turkey.	153.5	143.0	178.7	150.9	129.3	194.8	176.1	202.0
II. Other Countries.	228.0	158.1	192.7	213.0	157.3	171.3	142.3	154.6
1. EU Countries.	131.1	92.9	91.4	121.7	104.4	102.0	81.0	87.5
1.1. UK	67.1	45.7	45.5	65.4	73.4	49.4	44.0	45.1
1.2. Other EU Countries	64.0	47.2	45.9	56.3	31.0	52.6	37.0	42.4
2. Middle East Countries	6.4	4.7	2.3	3.2	2.8	8.1	4.6	5.4
3. Far East Countries.	52.3	32.4	37.9	47.3	25.0	26.8	15.4	11.0
4. USA.	5.7	3.4	7.4	3.1	4.5	2.8	4.3	2.9
5. Other Countries.	32.5	24.7	53.7	37.7	20.6	31.6	37.0	47.8
Total	381.5	301.1	371.4	363.9	286.6	366.1	318.4	356.6

Table 3.18. (Contd.)

	(Million US \$)						
Countries	1998	1999	2000	2001	2002	2003	2004
I. Turkey.	251.5	256.4	275.1	173.5	195.0	299.3	512.4
II. Other Countries.	179.0	156.3	149.8	98.5	114.6	178.5	340.7
1. EU Countries.	113.2	99.8	103.2	63.1	76.2	115.0	224.4
1.1. UK.	54.4	47.4	43.3	28.6	34.2	49.3	91.0
1.2. Other EU Countries	58.8	52.4	59.9	34.5	42.0	65.7	133.4
2. Middle East Countries	5.3	4.9	7.5	10.5	9.7	12.7	23.5
3. Far East Countries.	8.2	8.1	6.3	2.6	2.5	19.3	40.7
4. USA.	7.0	6.3	5.2	4.1	3.1	3.7	7.1
5. Other Countries.	45.3	37.2	27.6	18.2	23.1	27.8	45.0
Total	430.5	412.7	424.9	272.0	309.6	477.8	853.1

Source; Up to 2004 years; KKTC DPÖ, **2004 Geçiş Yılı Programı**, Lefkoşa, p.159
2004 Years; TRNC State Planning Organization, Nicosia. Unpublished Data

Turkey has got most important share inside imports of TRNC and she's importance inside TRNC imports has been increased in the course of time. England follows Turkey about the size of shares inside importing. When the portion of Turkey was below 40% in 1977-1978 periods, it was over 40% between 1974-1994 periods and it is moving over

50% after 1995. On the other hand, the portion of England had shown decreases in the course of time on the contrary of Turkey. She's share, which was moved about 20-25% between 1977 and 1983 periods, stayed below 20% after 1984 (except 1994). At now imports from Turkey are five or six times of imports from England.

Table 3.19. Shares of Turkey inside TRNC's External Trade.

(Million US \$)												
Countries	1977				1990				1991			
	Imp.	%	Exp.	%	Imp.	%	Exp.	%	Imp.	%	Exp.	%
Turkey	30.9	37.7	6.6	27.6	153.5	40.2	7.9	12.0	143.0	47.5	7.3	13.9
UK.	20.8	25.5	11.8	49.4	67.1	17.6	44.0	67.2	45.7	15.2	35.4	67.4
Other Countries	30.3	36.9	5.5	23.0	160.9	42.2	13.6	20.8	112.4	37.3	9.8	18.7
Total	82.0	100.0	23.9	100.0	381.5	100.0	65.5	100.0	301.1	100.0	52.5	100.0

Table 3.19. (Contd.)

(Million US \$)												
Countries	1992				1993				1994			
	Imp.	%	Exp.	%	Imp.	%	Exp.	%	Imp.	%	Exp.	%
Turkey	178.7	48.1	9.1	16.7	150.9	41.5	12.5	22.9	129.3	45.1	10.4	19.5
UK.	45.5	12.4	36.3	66.5	65.4	17.9	26.7	49.0	73.4	25.6	24.7	46.2
Other Countries	146.9	39.5	9.2	16.8	147.6	40.6	15.3	28.1	83.9	29.3	18.3	34.3
Total	371.4	100.0	54.6	100.0	363.9	100.0	54.5	100.0	286.6	100.0	53.4	100.0

Table 3.19. (Contd.)

(Million US \$)												
Countries	1995				1996				1997			
	Imp.	%	Exp.	%	Imp.	%	Exp.	%	Imp.	%	Exp.	%
Turkey	194.8	53.2	20.2	30.0	176.1	55.3	34.0	48.2	202.0	56.7	27.1	47.0
UK.	49.4	13.5	23.8	35.4	44.0	13.8	15.0	21.3	45.1	12.6	15.0	26.0
Other Countries	121.9	33.3	23.3	34.6	98.3	30.9	21.5	30.5	109.5	30.7	15.6	27.0
Total	366.1	100.0	67.3	100.0	318.4	100.0	70.5	100.0	356.6	100.0	57.7	100.0

Table 3.19. (Contd.)

(Million US \$)												
Countries	1998				1999				2000			
	Imp.	%	Exp.	%	Imp.	%	Exp.	%	Imp.	%	Exp.	%
Turkey	251.5	58.4	27.0	50.6	256.4	62.1	27.9	53.2	275.1	64.7	18.7	37.1
UK.	54.4	12.7	16.5	30.9	47.4	11.5	15.9	30.4	43.3	10.2	18.8	37.3
Other Countries	124.6	28.9	9.9	18.5	108.9	26.4	8.6	16.4	106.5	25.1	12.9	25.6
Total	430.5	100.0	53.4	100.0	412.7	100.0	52.4	100.0	424.9	100.0	50.4	100.0

Table 3.19. (Contd.)

(Million US \$)												
Countries	2001				2002				2003			
	Imp.	%	Exp.	%	Imp.	%	Exp.	%	Imp.	%	Exp.	%
Turkey	173.5	63.8	12.8	37.0	195.0	63.0	18.3	40.3	299.3	62.6	22.9	45.1
UK.	28.6	10.5	11.5	33.2	34.2	11.0	11.9	26.2	49.3	10.3	11.9	23.4
Other Countries	69.9	25.7	10.3	29.8	80.4	26.0	15.2	33.5	129.2	27.1	16.0	31.5
Total	272.0	100.0	34.6	100.0	309.6	100.0	45.4	100.0	477.8	100.0	50.8	100.0

Table 3.19. (Contd.)

(Million US \$)				
2004				
Countries	Imp.	%	Exp.	%
Turkey	512.4	60.1	28.7	46.3
UK:	91.0	10.7	13.5	21.8
Other Countries	249.7	29.2	19.8	31.9
Total	853.1	100.0	62.0	100.0

Imp: Import.

Exp: Export.

Source: TRNC State Planning Organization, Nicosia. Unpublished Data

When EU countries are taken into consideration as a whole, Turkey has also got a great share inside imports of TRNC in all years except in 1977, 1978 and 1982. When the shares of EU countries was over 40% in 1977–1982 periods, their portion was decreased to 30% in 1983–1994 periods and it was seen that the shares of EU countries has been decreasing continuously below 30% after 1995. In 2004, the share of Turkey is equal to 60.1% and the share of EU (only England) is equal to 10.7% inside the importing. In this state, we can easily say that more than 70% of the importing of TRNC is doing by Turkey and EU source.

Processed petroleum products, iron-steel industrial product, textile industry products and vehicles are the most importing products from Turkey.²²² TRNC imported 512.4 million US \$ worth of goods from Turkey in 2004. On the other hand, TRNC exported 28.7 million US \$ worth of goods to Turkey in same period. As we can understood that, Turkey has got special importance inside TRNC's external trade.

As it can be seen in Table 3.19; External trade volume of TRNC reached to 915.1 million US \$ at 2004 from 447.0 million US \$ at 1990. At 1994 it was living decreases on

²²² Aylin Ege (2002), "KKTC Ödemeler Dengesi 1977-2000", *Akdeniz'de Bir Ada, KKTC'nin Varoluş Öyküsü*, Derleyen Oktar Türel, Ankara, İmge Yayınları, 2002. İçinde, pp.125-134.

both imports and exports between Turkey and TRNC. It is possible to say that the ECJ decision is the main reason of decreases on exports. On the other hand, 5 April decisions taken in Turkey were seen the main reason of decreases on imports. 5 April decisions were taking fundamentally for the aims of decreases demands for consumption goods by felt down purchasing powers of citizens. From 1995 external trade volume of TRNC was increasing as a result of the border trade doing with Turkey. Border trade gives chance to export; TRNC origin 69 item goods, goods which are producing from TRNC and provides minimum 30% value added or products includes 40% local inputs, to Turkey without customs duty and funds. As a result of the external trade possibilities created from Turkey, for the aims of compensating losses coming from ECJ decisions, exports directed to Turkey increases from 10 million US \$ to 30 million US \$ between 1995-1997 periods. CU agreement between Turkey and EU at 1996 caused decreases on trade between Turkey and TRNC. Because of the economical standstills started from at the end of the 2000 and continuing at 2001, which was arising from banking crises at 1999 and problems started from financial sectors and affected all sectors negatively, it was occurring decreases from both imports and exports. On the other hand; increases on prices coming from wavy exchange rate system in Turkey at 2001 is the another factors of decreases on both imports and exports. At 2002 economy entered into developing process so it was investigating increases on both imports and exports. At 2003 and 2004, together with the growth at national income and stability lived in foreign exchange rates, it was living increases on both imports and exports volume. It is possible to explain increases on trade volume by stability at foreign exchange rates, decreases on effects of economic crises which was living in 2001 and free of passing between northern and southern parts of island.

In the final years, in TRNC import structure there is a structure which is in favour of industrial products. Between 2002–2004 periods, agricultural products exportation rate decreased 41.1% to 34%, however industrial products' importation rate increased 57.5% to 63.6%.

4. THE IMPLICATIONS ON TURKISH REPUBLIC OF NORTHERN CYPRUS OF THE CUSTOMS UNION BETWEEN TURKEY AND EUROPEAN UNION

After 1974 Peace Operations, economic conditions of Turkish Cypriots showed continuously improvement till 1990. In between those years average of % 6.5 growth has been recorded. With the 1991 Gulf War and 1994 economic crisis, that happened in Turkey, and after all at the beginnings of the year 1996 CU Agreement, which was signed between Turkey and EU, caused a decrease and a standstill in the economy of TRNC. Because of the inefficiency of the natural resources of TRNC, the country is mostly depending on importing goods.²²³ On the other hand, TRNC do not have any opportunity to trade anything except from traditional items. Because of this, the exporting items of TRNC are in limited quality and quantity. However, including the basic needs, the needs of the public is covered by the imports. Because the TRNC necessities supplied mostly from other countries especially from Turkey, the benefit of trade deficit is in favour of Turkey. When TRNC's external purchase and external sale structure is seen, it is seen that starting from 2004, at the external purchase the maximum amount at trading is car trading which is 145.6 million US \$. To look at it in an order, after the cars, fuel, constructing iron and industry machines are following. Fuel is 43.5 million US \$, constructing iron is 36.8 million US \$ and industry machines are 25.5 million US \$. Also when we look at the structure of the external purchase, we can see that, starting from 2004 TRNC exported citrus fruits about 20.1 million US \$. We can see that milk products and confection are following citrus fruits. Milk products export is 11.8 million US \$ and confection is 11.7 million US \$.

Table.4.1. Imports of TRNC (2000-2004)

Products	(Million US \$)				
	2000	2001	2002	2003	2004
Transportation Vehicles	47.8	15.6	24.7	59.6	145.6
Fuel Oil	35.1	22.6	17.6	23.5	43.5
Constructing Irons	2.4	4.9	5.5	11.4	36.8
Industrial Machines	5.7	3.3	4.7	8.3	25.5
Cigarettes	14.3	12.3	13.9	17.5	22.9
Textile	8.7	4.6	6.6	11.5	18.8
Drugs	8.0	7.8	8.9	13.8	18.3
Textures	9.2	4.3	7.1	8.3	16.4
Cement	3.5	2.7	2.6	4.4	15.0
Car Parts	6.9	4.8	7.4	8.7	14.5

²²³ <http://www.ekocerceve.com/img/haberler/KbrslkeRaporu.pdf> (21 June 2006)

Table.4.1. (Contd.)

Products	(Million US \$)				
	2000	2001	2002	2003	2004
Oil Cake	5.9	6.4	6.3	8.6	11.7
Timber	2.7	3.5	3.4	5.2	11.4
Information Operation Machines and Parts	9.0	5.2	5.2	8.5	10.8
Furniture and Parts	7.7	2.3	3.7	5.2	10.3
Electricity Materials	5.1	3.0	2.8	5.8	9.6
Plastic Goods	5.9	3.0	3.0	4.9	8.0
Electronic House Machine	3.8	2.7	3.0	5.5	7.9
Air-conditioning Machine	5.1	2.2	2.7	5.6	7.7
Wheat	3.5	4.8	4.2	4.7	7.4
Pipe and Parts	3.5	3.6	3.1	3.2	7.0
LPG Gases	4.4	4.3	4.2	5.3	7.0
Non-Alcoholic Drinks	3.4	2.1	2.3	3.7	6.8
Chemical Fertilizer	2.9	2.1	2.3	2.7	6.0
Cleaning Materials	4.5	2.2	2.4	3.4	5.7
Frigidaire and Freezer	3.9	2.0	2.9	3.9	5.5
Car Tire	2.7	2.0	2.6	3.7	5.5
Television	2.5	1.4	2.4	3.5	5.5
Aluminum Profiles	1.6	1.6	2.4	3.5	5.3
Corn	2.6	3.5	2.8	3.8	5.2
Alcoholic Drinks	3.1	1.9	3.1	3.2	5.0
Galvanize Iron	2.8	1.3	1.9	2.8	4.8
Cosmetics	2.7	1.6	1.6	2.9	4.8
Cement Raw-Materials	2.7	1.8	2.0	2.5	4.7
House Paints	1.9	1.2	1.7	2.6	3.9
Sugar	1.9	2.4	1.9	3.3	3.9
Beer	2.3	1.7	1.8	2.6	3.7
Biscuit	1.3	1.0	1.8	2.3	3.1
Sunflower Oil	2.0	1.8	1.5	2.7	2.9
Machine Grease	1.8	1.5	1.6	1.8	2.6
Tea	1.7	1.4	1.5	1.7	1.9
Banana	1.3	0.7	0.7	1.1	1.7
Beef	1.9	1.2	0.8	1.3	1.4
Coffee	1.6	1.0	0.9	0.8	1.3
Barley	9.8	3.1	0.8	0.6	0.8
Tailor Tools	2.3	0.4	0.4	0.3	0.2
Others	161.1	107.32	124.6	187.5	304.7
Total Imports	424.9	272.0	309.5	477.8	853.1

Source; TRNC Turkish Trade Promotion Office, Nicosia

Table.4.2. Exports of TRNC

Products	(Million US \$)				
	2000	2001	2002	2003	2004
Citrus Fruits	13.4	9.9	17.1	17.8	20.1
Milk Products	5.3	5.1	6.1	8.0	11.8
Textile	19.1	11.1	10.9	10.2	11.7
Raki	0.5	0.2	1.2	2.9	3.9
Concentrated Citrus Fruits	2.8	1.7	1.8	1.3	1.5
Drugs	1.3	1.2	0.9	1.0	1.4
Gypsum	0.7	0.7	0.9	0.7	0.9
Whisky	0.2	0.4	1.1	1.5	0.7
Leathers	0.7	0.7	0.9	0.6	0.7
Non-Alcoholic Drinks	2.1	0.1	0.1	0.1	-
Others	4.1	3.5	4.4	6.5	8.8
Total Exports	50.4	34.6	45.4	50.8	62.0

Source; TRNC Turkish Trade Promotion Office, Nicosia

Exportation in TRNC has recently been approximately 50-60 million US \$. As it is anticipated by the departments of exportation statistics through time that, this is a considerable increase, in terms of public side, it's not a positive increase because the department that intensively does the exportation consists of the products on the basis of immoral exportation, incitement and subsidy premium, which abuse the welfare of the public.²²⁴

When the exportation income-outcome is examined, actually outgoing welfare transmission opposite to incoming for the country has been observed. Shortly, exportation in these departments not help to the national surtax valve but, reversely be a leak. In the exportation which costs 62 million US \$ of TRNC in 2004, the first and second as follows; 20.1 million US \$, which means 51.5 percent of total exportation in TRNC. Citrus fruits and milk products departments in TRNC are the two most supported but unproductive processes, immoral incitements are given by government. In the same way, immoral premiums during exportation process (because, the products costs are more expensive than the other countries costs of which products are being marketed) are submitted by government. In other words, both producing and selling the products cost a lot to the citizens.²²⁵ For example, 8.4 million US \$ is paid to the citrus fruits producers and exporters in 2004 for total incitement and premium only the exportation, which is worth of 20.1 million US \$ has been carried out, so net profit was 11.7 million US \$.

²²⁴ http://www.kibrisgazetesi.com/index.php/cat/1/col/84/art/2890/PageName/Ana_sayfa - 61k - (21 June 2006)

²²⁵ "ibid"

The period until year 1986, with the state based mixed economy model frame, economy depended on; placing the working an state owned economic enterprises placing on the foundations that Greek Cypriots left while immigrating to the South, selling gift items and electronic equipments, which was imported by free import way from Far East and Europe, to the tourists coming from Turkey.²²⁶

With the Economic Cooperation Protocol assigned between Turkey and TRNC in 1986, the industrial exports became easier with the incitements to Turkey and that caused specific investments come to life in industrial area, infrastructure investments started, banking and trading turned to liberal system in specific rate.²²⁷

Throughout the period of 1990, there has been great problems in transportation. In this period, TRNC has achieved to cover the deficiency of trading in great deal with the investments on the basis of exportation to third world countries in textile and employing provided by Poly-Peck Firm, which is an industrial institution. First time industrial exportation has suppressed the agricultural exportation, however the precautions to provide institutionalization of private sector has been postponed due to the political reasons.²²⁸

During this period, Turkey has changed the rules unilaterally after being a candidate of EU membership that regulates the process of industrial foundations which has created employing for the country and had been found to encourage for exportation with Turkey. Some very important industrial attempts had to be stopped due to the embargo and high custom tax of Turkey. Despite the attempts and discussions done on this issue, industrial foundations aiming to export their products to Turkey has moved by ending the facilities one by one as no change has been done and most of them moved to Turkey.²²⁹ It can be shown as a dramatic example.

‘An entrepreneur known as Mehmet Cerkez built his own factory on a site left from Greek Cypriots in 1977. Mehmet Cerkez, became a market header in TRNC with two brands. One was Econowatt as refrigerator and other was Wash – Meiser as washing machine. He’s started exports to Turkey. At that time, TRNC’s businessmen Asil Nadir was established Vestel factory at Manisa. Those two

²²⁶ http://www.north-cyprus.net/kkctc/kurumlar/isad/turkiye_ile_iliskiler.htm – (15 June 2006)

²²⁷ “ibid”

²²⁸ “ibid”

²²⁹ “ibid”

businessmen made an agreement and Mehmet Cerkez started to export on Nadir's limited. First group of goods has sent, however, for TIR's which was carrying over 5 thousand washing machine they started to apply 9% customs by the authority's oral directions. In spite of this, Cerkez continued exporting but this time Turkey's Council of Ministers raised customs to 12 %. After this development Çerkez's factory went bankrupt'.²³⁰

There was once an industrial foundation rising but demolished. These foundations were closed and some were discouraged. Later, they were allotted to be stores. While TRNC had a wide exportation sector in Turkey, suddenly it was oppressed with an extending importation.

1994 ECJ Decisions caused restrictions to TRNC. The restrictions on exports of agricultural and textile products to members of EU countries caused most of the businesses and industrial establishments to be closed and workers become unemployed. At last by this way the transition period of decreasing in national income has started and as a result rate of development had negative values (See table 3.2).²³¹ That decisions increased Turkey's importance more than before. Until 1995, TRNC's export aiming to increase import to Turkey including maintaining 30 % value added and 40 % national income, customs duty and funds payments while importing covered from Turkey's budget named as 'Financial Aids for TRNC'. On the other hand, payment troubles time to time caused big problems in exporting. By passing over those troubles and aiming to slide the payments of reserved investments, which maintained by exporting produced goods and services, Turkey and TRNC started a border trade application with Council of Ministers decision on 7 September 1995. By this way, TRNC origin products that supplies 30% value added or 40% national income, while exporting to Turkey held free tax from customs duty and funds.²³² This contract in 1995 has increased the trading a little bit due to the low level of products both in quality and shortage of competition, so very less products has benefited.²³³

After the practice of CU carried out between Turkey and EU on 1 January 1996, TRNC had gone through big problems in local trade cause no customs were taken by

²³⁰ <http://www.milliyet.com/2003/12/11/business/abus.html> (23 June 2006)

²³¹ http://www.north-cyprus.net/kkctc/kurumlar/isad/turkiye_ile_iliskiler.htm – (15 June 2006)

²³² <http://www.foreigntrade.gov.tr/DUNYA/RAPOR/KIBRIS/ikili.HTM> - 96k – (25 June 2006)

²³³ http://www.radikal.com.tr/veriler/2003/12/24/haber_99994.php (25 June 2006)

Turkey. When Turkey has stopped customs, TRNC trading goods got more expensive. Therefore, tourism and luggage trading which was benefit for TRNC began to progress negatively. Before CU, Turkish people used to come Cyprus for shopping. Later, this traffic turned inside out. TRNC products get expensive and TRNC citizens began to go Turkey for shopping. It caused an unstable foreign trade.²³⁴ After contracting the CU, all contracts should be appropriate with the CU. While Turkey was signing the CU Agreement, Turkey has accepted the economic embargo of TRNC, which tells that no TRNC products are allowed to be market in Europe. Also, no reservation is done which means Turkey's relation is as it is with the TRNC and no extra privilege can be given.²³⁵ For some time, the border trade between Turkey and TRNC provided positive affects. This border trade had relived TRNC economy for some time but this application had demolished after a while.

It has been bureaucratic and legal difficulties in exporting TRNC products, which is a big marketing for TRNC but small for Turkey market. Turkey has put limitation and custom difficulties for TRNC products. Locally made raki is a typical example of not being able to export to Turkey.²³⁶ Turkish raki is the typical example for TRNC cannot make properly export to Turkey.

Firstly, a door started to open for exporting alcohol to Turkey; TRNC producers made their preparations and entered to Turkey's market. While producers started to take first steps, Turkey put a special consumption tax and a rise came according to past 15-20 times increased for alcohol. At whiskey the problem could not be solved and signed to turn lower tax. That's why because the special consumption tax is low for raki. At this point, a barrier waylay for producers. The raki, that will enter to Turkey's market have to produce in Turkey's borders. TRNC's producers offered to write another name on to the bottles. This time, the answer was if the raki is same but not named as raki, then it cannot have tax procedure in raki group. It enters another alcohol groups. That means paying nearly 2 more times consumption tax. Clearly, meaning a kind of embargo application.²³⁷

After deciding working together for decreasing negative effects of ECJ decisions to a minimum level which occurred with ECJ decision in 1994 on economy and export,

²³⁴ http://www.kibristatatil.com/aboutnc_economy.jsp – (27 June 2006)

²³⁵ <http://www.mesutyilmaz.gen.tr/YILMAZ/grup/97-01-15.htm> (27 June 2006)

²³⁶ <http://www.milliyet.com/2003/12/11/business/abus.html> - 43k – (23 June 2006)

²³⁷ <http://www.kibrisgazetesi.com/printa.php?col=80&art=3024> - 6k – (26 June 2006)

Turkey and TRNC signed lot of protocols and economic agreements (as economical relationship, government's aids, financial relationship and credit agreements) (See 3.3.2). Turkey for getting economical stability and structural reform in TRNC maintained continuity realizing funds.²³⁸

Turkey's economical support for TRNC basis on financial aids and infrastructure projects and come to these days. Meanwhile, especially Northern Cyprus business world never considered civilian community organizations warnings about usage of those funds. Another model of funds is planning and financing Northern Cyprus's infrastructure investments by Turkey. At the application phase of those projects put out to tender mostly opened in Ankara by related ministries and put into practice by the firms from Turkey. In fact, for local firms whether the precautions could be taken for decreasing input cost or could be encouraged those by those projects reciprocally partnerships could maintain an important input for economy and those subjects which are the point of criticism and exploit all be stopped.²³⁹

Realizing CU and free trading between Turkey and TRNC has been spoken from many years. Even, on 8 August 2003 a frame agreement signed between Turkey and TRNC in Kyrenia that give birth to CU. But, it couldn't get alive. That's because of commitments of Turkey with CU and EU are against the system of free trade between Turkey and TRNC. It is clear that a government which is not a member of EU can not enter to Turkey's CU as the norms of EU. Therefore, unless Turkey does not give up the EU membership, it is obvious that TR newer make CU with TRNC.²⁴⁰

After the Turkey's publishing and signing of the Additional Protocol which consists of the enlargement of the number of members specified in Ankara Treaty in 1963 to include the ten new members of the EU (including GCA) as well as the declaration that points out that the Southern Cyprus is not recognized as the legal authority in 29 of July 2005, the pressures towards Turkey to open its harbors and airports have become much more intense. It was stated that the embargoes towards the ships with 'Republic of Cyprus' banderoles should be abolished and the transfer of goods between Turkey and The

²³⁸ <http://www.radikal.com.tr/haber.php?haberno=99994-38k> – (1 July 2006)

²³⁹ http://www.north-cyprus.net/kkctc/kurumlar/isad/turkiye_ile_iliskiler.htm - 21k – (15 June 2006)

²⁴⁰ <http://www.radikal.com.tr/haber.php?haberno=100039-33k> – (1 July 2006)

Republic of Cyprus should be provided.²⁴¹ That means having CU between Turkey and GCA.

Why do they oppress on Greek's ship roaming within the Turkish harbors? Why do they insist that much? Situation's harbors part is completely financial based and it is about that when Bakü-Tiflis-Ceyhan petroleum pipeline starts to work Ceyhan will become one of the worlds rare petroleum loading harbor. Even, not all owners of the Greek ships are Greek. The owners are English, French, German or Americans and these people put the flag of GCA, which needs only a symbolic tax, called flag of convenient (like Panama or Liberia). In this way, Greeks earn a lot of money, also, owners of ships earns 2 million dollars profit for each ship in a year. Owners, who are not Greek, put Greek flags so that ships can travel around the world. Southern Cyprus, in which more than 2000 ships are enrolled with has the world's sixth greatest fleet and has an approximate income of 600 million Dollars per year that gains from maritime and navigation. Those ship owners now oppress Turkey over GCA to attain Bacu-Ceyhan tube line to carry oil and have incredible profit.²⁴² According to the current regulation of Turkey, ships registered to GCA can not benefit from this right. In other words, no matter who is the ship owner, they cannot utilize the right to carry oil especially in Turkish market. Pressures on this issue actually stems from the other countries to protect the rights of ship owners, who are not Greek Cypriots, as well.²⁴³ Turkey's restrictions towards the Greek Cypriot ships may lead to the Greek Cypriot ships carrying gas from Ceyhan to the world markets to abandon the Greek Cypriot banderoles and this can eventually lead to a massive destruction for the Southern Cyprus Maritime Sector and the advantages that would come up with the CU may disappear. Therefore even the very aim of Southern Cyprus to get use of the Baku-Ceyhan gas line may cause it to be persistent on Turkey's opening of its harbors.²⁴⁴

Although, actually there is no statement in the Treaty of Ankara which contains the condition of Turkey's allowance of ships belonging to the Republic of Cyprus to use its harbors. Ankara Treaty is about the free mobility of goods. There is a limitation applied for the good-transportation of Turkey although the European Market is open for the Turkish goods. The reason lying beyond this is that the transportation is out of this

²⁴¹ <http://www.dypgenclik.org.tr/icerik.php?id=163-38k> – (1 July 2006)

²⁴² GCA is aiming to gain 4 Million US \$ profit from oil transportation.

²⁴³ <http://www.onuroymen.com/docs/bodrumfm13haz.doc> (29 June 2006)

²⁴⁴ "ibid"

concept. Transportation is a part of service sector. Therefore the approaching of Cyprus-bandrolled ships to the Turkish harbors should be investigated under the conditions of The Ankara Treaty.²⁴⁵ The enlargement of the CU, which is brought about for the joining of Cyprus, and the opening of harbors are included in the short-term priorities of the Attendance Alliance Document. EU wants this to be actualized by the end of 2006. The statement is also mentioned in the documents that Turkey has signed.²⁴⁶ The developments about the latter may lead to undesired outcomes in the Turkey's EU negotiation process and may cause the TRNC economy to be increasingly bounded with and dependent on the South side which in long run may lead to a political dependency.

In case the application of protocol, because of not having CU between Turkey and TRNC or not having direct trading possibilities trading and investment with TRNC get out of rationality. For not paying custom taxes, importing and exporting with TRNC can only be over GCA, even by opening harbours to GCA via Greek ships. TRNC, that's not having any communication either sea or airway with other countries except Turkey, gradually become more dependent to Greeks, worse it means an embargo will be applied by Turkey.²⁴⁷ After signing this protocol Turkish businessmen will rush into South Cyprus to open companies. Most probably for making works more rapidly they will take Greek partnerships. They will make with zero custom over South that they will make expensive exports to TRNC and expensive imports from TRNC. They will use Greek banks for their activities. They will employ Greek personnel for their firms. They will organize tourist tours to South. They will put pressure to their government in order to use Greek airways and harbours for their comings-goings and economical activities. As a matter of fact, before signing additional protocol representatives from 200 Turkish firms went to South for taking information and making meetings. Greek Laiki Bank, for serving the Turkish businessmen who opened account in their bank takes 5 Turk employees. Turkish firms started to put out to tender in South and gain them. Turks ship transporting agencies are making applications for registration in Limassol.²⁴⁸

²⁴⁵ http://www.pusula.tv/modul_haber/tammetin.asp?Gudem=1770 – (5 July 2006)

²⁴⁶ <http://www.turkishweekly.net/turkce/yorum.php?id=298> - 71k – (3 July 2006)

²⁴⁷ <http://www.dypgenclik.org.tr/icerik.php?id=163> - 38k – (1 July 2006)

²⁴⁸ <http://kibris76.sitemynet.com/DAVAMIZ/id1.htm> - 32k – (2 July 2006)

In TRNC because the trading will get out of feasible, TRNC's businessmen who are fluttering and want to take benefit from zero custom will follow Turkey's businessmen and will open firms in South. For working easier, they will take Greek partnerships and employ Greek employees. Even Turkey will want from TRNC's businessmen Greek Government origin for making export from TRNC. TRNC'S businessmen will pay their taxes and fees to Greek Government. They will use Greek passports and harbours while entering or getting out from island. They will use Greek banks for their economical activities, and keep their money in Greek banks. Whereas, in North Cyprus there will be dealers of Greek companies and they will turn agents of Greeks. In time, the most important 2 component as labour and capital will slide to South and investments will stop. Unemployment in North will be upper limits, new employments will not take place.²⁴⁹

In order to remove negative effects, the protocols, agreements and engagements between Turkey and TRNC, they determined that exporting will increase however in real there is withdrawal. Instead of this, importing from Turkey is increasing and foreign trade deficit is growing between Turkey and TRNC.

Recently, in accordance with an agreement rules between Turkey and TRNC Governments in order to application of organizing trade relationship in second term meetings, which was signed on 23 October 1998 and renew all years with protocols, some decisions were taken. In respect, TRNC goods will export to Turkey with zero custom and fund, also accepted to apply re-export. With this agreement it's thought that the market will comfort. With this agreement, TRNC producers and exporters will have new possibilities, opportunities and will have fascinating economy quantity. Main aim in this agreement was, TRNC origin goods will go Turkey and over Turkey they will enter any country in world. It is emphasized that TRNC origin goods mean local supplementary value is 30% or local raw entering having 40%. Before that, Turkey was taking taxes and funds from those goods further on it are not going to have taxes and funds. The goods' TRNC origin has to approve by Turkey's Nicosia Ambassador and they will give a document for that. With this document the good entering Turkey will be national and can enter any place in world.²⁵⁰

²⁴⁹ "ibid"

²⁵⁰ <http://www.pubinfo.gov.nc.tr/3.htm> - 173k - (8 July 2006)

We can summarise the trade relationship between Turkey and TRNC in frame of trade agreements:

Goods that are produced in TRNC can achieve to Turkey market without paying any custom tax. That means, TRNC goods can enter Turkey market without tax or barriers (on paper). Because those achievements are one sided (from TRNC to Turkey), it can be understood as TRNC preferential trade privileged and by this way it can be achieve to Turkey market.²⁵¹ That's why Turkey origin goods do not have free enter to TRNC subjected to have tax and funds. Same regime, which applies to EU and EFTA origin products, has been applied to Turkey origin products.²⁵² In this frame, zero customs duty has been realizing to Turkey origin industrial goods (between chapter 25-29). But, for the aims of protecting domestic industry, it is doing deductions to price stability fund from importation of some products. In addition to this taking quay expenditure from importation of some products is discussed. Realizing various VAT for products to be imported.²⁵³

The goods that TRNC's import from third countries costs 30 million US \$ can freely strolling in Turkey. Those goods do not pay custom or fund for second time.²⁵⁴

TRNC, is applying CCT that Turkey and EU is applying until the time that Turkey have CU with EU.²⁵⁵

Actually, EU is aware of this application but does not object. The reason of why it did not object is 'de-minimize rule'. It means that Turkish exportation from TRNC about 25-30 million US \$ is a very small number that, it doesn't break the rule of justice that CU bases as to have zero custom. Actually, the trade between Turkey and TRNC is like a border trade which does not violate CU with EU.²⁵⁶

²⁵¹ <http://www.halkinsesi.org/?action=journalist&aid=274-107k> - (10 July 2006)

²⁵² Kuzey Kıbrıs Türk Cumhuriyeti Resmi Gazete, sayı 132, ek 1, 19 Kasım 1996

²⁵³ <http://www.igemekktc.org/tur/mevzuat.htm> - 17k - (15 July 2006)

²⁵⁴ <http://www.halkinsesi.org/?action=journalist&aid=274-107k> - (10 July 2006)

²⁵⁵ "ibid"

²⁵⁶ http://www.radikal.com.tr/veriler/2003/08/27/haber_86637.php (25 June 2006)

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ÖZET

Bu tezin yazılmasındaki amaç, Avrupa Birliği-Türkiye Cumhuriyeti Gümrük Birliği'nin Kuzey Kıbrıs Türk Cumhuriyeti üzerine olan etkilerinin incelenmesidir. Bu etkiler Türkiye Cumhuriyeti ile Kuzey Kıbrıs Türk Cumhuriyeti arasında gerçekleşmekte olan dış ticaret kapsamında incelenmiştir.

Avrupa Birliği-Türkiye Cumhuriyeti Ortaklık Konseyi'nin 1/95 sayılı kararı ile, 1959 yılında Ankara Anlaşması ile planlandığı gibi, Türkiye ile Avrupa Birliği arasındaki Gümrük Birliği 1 Ocak 1996 tarihinde yürürlüğe girdi. Gümrük Birliği'nin temel niteliği; taraflar arasındaki sanayi ürünleri ve işlenmiş tarım ürünleri ticaretinde uygulanan gümrük tarifelerinin kaldırılması ve Türkiye Cumhuriyeti'nin Avrupa Birliği kapsamı dışında kalan üçüncü ülkeler ile olan ticaretinde Avrupa Birliği'nin Ortak Gümrük Tarifesi'nin uygulanmasıdır.

Türkiye Cumhuriyeti ile Kuzey Kıbrıs Türk Cumhuriyeti aynı etnik kökenden gelmeleri sebebi ile politik ve ekonomik anlamda çok sıkı bir bağa sahiptirler. Kuzey Kıbrıs Türk Cumhuriyeti, sosyal ve ekonomik hayatındaki kısıtlamaları Türkiye Cumhuriyeti'nin yardımları ile aşmakta ve dünyaya Türkiye üzerinden açılmaktadır. Kuzey Kıbrıs Türk Cumhuriyeti'nin dış ticarete karşılaştığı güçlükler ve 1994 Avrupa Birliği Adalet Divanı kararları neticesinde ortaya çıkan ambargolar nedeni ile Kuzey Kıbrıs Türk Cumhuriyeti'nin Türkiye'ye olan ihracatını artırma zorunluluğu ortaya çıkmıştır.

Türkiye Cumhuriyeti'nin, Avrupa Birliği ile yapmış olduğu Gümrük Birliği Antlaşması neticesinde, Türkiye Cumhuriyeti ile Kuzey Kıbrıs Türk Cumhuriyeti arasındaki ticari ilişkilere yeni bir içerik gelmiştir. Artık Türkiye Cumhuriyeti'nin üçüncü ülkeler ile olan ticari ilişkilerindeki tüm kurallar Kuzey Kıbrıs Türk Cumhuriyeti için de geçerlidir. Bu durum Türkiye Cumhuriyeti ile Kuzey Kıbrıs Türk Cumhuriyeti arasındaki ticareti olumsuz yönde etkilemektedir.

Bütün bu olumsuzluklar, Türkiye Cumhuriyeti ile Kuzey Kıbrıs Türk Cumhuriyeti arasında imzalanan birtakım protokoller ve anlaşmalar ile aşılmaya çalışılmaktaysa da

başarılı olunduğunu söylemek pek de mümkün değildir. Yani bu protokol kurallarına anlaşmalara ve taahhütlere rağmen, Türkiye Cumhuriyeti'ne yönelik Kuzey Kıbrıs Türk Cumhuriyeti ihracatında artış yok aksine reel olarak gerileme vardır. Fakat Türkiye Cumhuriyeti'nden yapılan ithalatta Kuzey Kıbrıs Türk Cumhuriyeti ölçülerine göre fevkalade önemli bir artış yaşanmaktadır ve Kuzey Kıbrıs Türk Cumhuriyeti'nin dış ticaret açığı Türkiye Cumhuriyeti ile arasında gittikçe büyümektedir.

ABSTRACT

The purpose of this thesis is to study the implications on Turkish Republic of Northern Cyprus (TRNC) of the Customs Union (CU) between Turkey and European Union (EU). These effects are mainly examined in parallel with the trading between TRNC and Turkey.

The CU between Turkey and the EU, which was envisaged by the Ankara Agreement in 1959, entered into force in 1 January 1996 with the 1/95 Association Council Decision. The main features of the CU are the elimination of tariffs between the Parties and the adoption of Common External Tariff of the EU with respect to trade with third countries.

TRNC and Turkey have strong economic and social links that arises from their ethnic origin. TRNC brake limitations on her economic and social life through Turkey's helps and she accesses to the world via Turkey. Because of the embargos arising from EU Council of Justice Decisions on 1994 and difficulties of TRNC facing from external trade, obligations of increasing exports of TRNC to Turkey gains vital importance.

With the EU-Turkey CU Agreement, commercial relations between Turkey and TRNC came into a new dimension. Now all rules and regulations applying on Turkey's commercial relations with third countries are applying to TRNC. And this state is affecting trade between Turkey and TRNC on negative way.

Protocols, agreements and engagements, which are made between Turkey and TRNC for many years, are still trying to remove negativenesses. But even with all these protocols, agreements and engagements, an increase in exports between TRNC and Turkey did not happen and in reality but a decrease happened. But an increase in export made from Turkey happened in respect of her measurements, and trade deficit between Turkey and TRNC is increasing gradually.

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LIST OF ABBREVIATIONS

CCP	Common Commercial Policy
CCT	Common Customs Tariff
CET	Common External Tariff
CM	Common Market
CU	Customs Union
EC	European Community
ECJ	European Union Council of Justice
ECU	European Currency Unit
EEC	European Economic Community
EFTA	European Free Trade Area
EIB	European Investment Bank
ESF	European Social Funds
EU	European Union
FTA	Free Trade Area
GCA	South Cyprus Greek Administration
GDP	Gross Domestic Production
GNP	Gross National Production
GSP	Generalized System of Preferences
IMF	International Monetary Fund
NATO	North Atlantic Treaty Organization
NTB	Non Tariff Barriers
SPO	State Planning Organization
TR	Turkish Republic
TRNC	Turkish Republic of Northern Cyprus
UK	United Kingdom
UN	United Nations
USA	United States of America
NTL	New Turkish Liras

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