

Green Line Regulation and Its Economic Implications in Cyprus

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Abstract: *For 30 years, the green-line stood as the internal border with almost no civilian traffic between the North and the South in Cyprus. In April 2003, the Turkish side unilaterally decided to open gates on the green-line. For a year, in an unregulated manner, then according to an EU Council Regulation people crossed the green line. I assess the economic implications of the green-line regulation by analyzing detailed data sets on the trade; crossings by persons—e.g., TC commuter workers and other nationals; and finally retail prices of a basket of commodities and per capita income in North and South. Following a sharp increase in trade, the number of products and their average value reached a ceiling of 8,000 CYP. TCs have consistently made up the majority of border crossers; the percentage of GCs crossing the border has decreased since 2003; and the percentage of “others” has doubled since 2003—as of June 2006, approximately equal to the percentage of GC border crossers. The average number of registered TC commuter workers crossing the border monthly has increased to 5,340 in May 2006. Finally, both the prices for goods and per capita income are converging rapidly between the North and South.*

JEL Classification: F2, F15, F51, J61

Keywords: Cyprus, Trade, Labor Mobility, Convergence

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1 Introduction

Cyprus declared independence in 1960 from the Great Britain. The Republic of Cyprus was based on power sharing between two ethnic communities—Greek Cypriots and Turkish Cypriots. According to the 1960 constitution, Great Britain, Greece, and Turkey were the guarantor countries. Three years after independence, following inter-communal violence, Turkish Cypriots withdrew from the government and set up a separate administration. Following a Greek Cypriot *coup d'etat* with backing from the military junta in Greece, Turkey militarily intervened and divided the island into two in 1974. Following a population exchange, the northern 38.4% of the island came under total Turkish control. For almost thirty years, the green-line stood as the internal border with almost no civilian traffic between the South and the North.¹

On April 23rd, 2003, the Turkish side unilaterally decided to open gates on the green line. Since then, eleven million crossings have taken place with no serious incidents. For a year, in an *unregulated* manner, people crossed the green line.

On April 24th, 2004, in two separate referenda, Greek Cypriots and Turkish Cypriots exercised their self determination rights. Less than 10 days before the official date to join the EU, they voted on the UN sponsored Annan plan for a new unified state, the United Cyprus Republic, and to enter the EU composed of two “constituent states,” one in the North governed predominantly by the Turkish Cypriots (TCs) and one in the South governed by the Greek Cypriots (GCs). TCs approved the Annan plan and GCs did not.

Accordingly, not the proposed United Republic of Cyprus, but the existing Republic of Cyprus became an EU member on May 4th, 2004.² As a result of this, although politically divided, the entire island, geographically, was now part of the EU. The members of the Turkish Cypriot Community (TCC) living in North became citizens of the EU. However, the application of the *acquis communautaire* in the northern part of the island was suspended because TCs and GCs had not yet come to a political agreement on a comprehensive political solution. To deal with this awkward situation, the EU did two things: introduced legislation, also known as the Protocol No 10; and designed a financial aid program to help Turkish Cypriots living in North.³

Accordingly, EU Protocol No 10 on Cyprus regulates the crossing of persons and goods at certain crossing points through the green line between the Republic of Cyprus government controlled areas in South and the areas in North that are not under the government’s control.⁴ This report assesses the economic implications of the green line regulation (GLR) by analyzing detailed data sets on (1) the GLR trade, (2) green line crossing by persons—in particular, (a) TC commuter workers from North, and (b) other nationals crossing the green line; (3) retail prices of a basket of 154 commodities both in North and South; and (4) per capita income statistics.

The rest of the report is organized in two main sections. Section 2 describes the green line regulation, and documents and analyses its results in terms of actual crossing of the goods and persons. The analyses in this section primarily focus on the economic implications of the crossing on the Northern part of Cyprus for the following reason: The population in North is approximately 24% of the population in South; and the size of the economic activities in the northern part is only 11-12 percent of the economic activities in the southern part of Cyprus. Therefore, in order to

¹ For detailed historical background on the Cyprus problem, see Crawshaw (2000), Hale (2000), Mavratsas (1997), Stefanidis (1999), Stephens (1996), and Volkan (1979).

² For the details of the Annan Plan for Cyprus, visit <http://www.annanplan.org>, and a commentary on the referenda results, see Bryant (2004).

³ As of today, November 25, 2006, out of promised 259 million euros, no money is dispersed.

⁴ Within time, the number of gates increased; and amendments were made to Protocol No 10. Yet, the main premise of Protocol No 10 stayed the same.

determine the implications, it makes sense to focus on the smaller economy where changes resulting from the new regulations are more likely. Finally, section 3 looks at the convergence in prices and income of the North and the South since 2003.

2 Green Line Regulation

Due to the fact that there was no comprehensive political solution prior to accession, the application of the *acquis communautaire* has been suspended in areas of the Republic of Cyprus where the government of the Republic of Cyprus does not exercise effective control, pursuant to Protocol 10, enacted April 29, 2004. Protocol 10 establishes the special rules concerning the crossing of goods, services and persons.

Protocol 10 states that measures promoting economic development in the areas not effectively controlled by the government of the Republic of Cyprus are not precluded by the suspension of the *acquis*. This regulation is intended to facilitate trade between the two areas. Goods entering areas not effectively under control of the government of the Republic of Cyprus are not subject to customs duties or charges, and are not subject to customs declaration; the quantities of goods, however, must be registered. Goods may only be introduced in this way if they were wholly obtained in the areas not effectively under the control of the GRC, or if they underwent their last, substantial, economically justified process in areas not effectively under the control of GRC. Goods crossing the line are accompanied with a document issued by the Turkish Cypriot Chamber of Commerce (TCCC), which is authorized to ensure that the guidelines above as well as quality and health standards are met.

The policy of the Government of the Republic of Cyprus currently allows all citizens of the Republic, EU citizens and third country nationals legally living in the North, and all EU citizens and third country nationals who entered the island through the Government Controlled Areas to cross the line.⁵

2.1 Green Line Regulation Trade

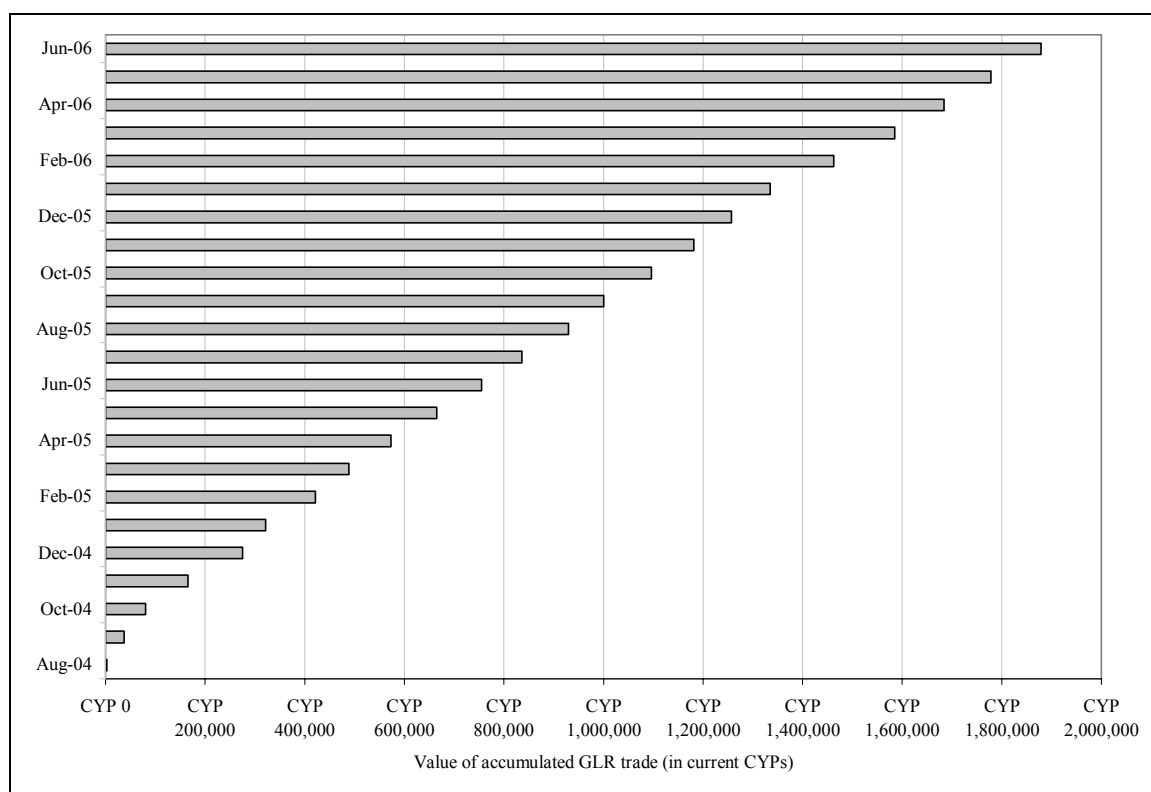
Although Protocol 10 was enacted in April 2004, it took some time before the appropriate institutions were put in place to facilitate trade under the guidelines of the Protocol. As described above, the TCCC is tasked with providing documentation for the goods crossing the line either originated within the areas not effectively controlled by the GRC, or underwent their last substantial value-added process in such areas. The first such documentation was not issued until August of 2004. As such, our examination of the data on GLR trade begins with August 2004 and ends in June 2006.

As can be seen in Figure 1, GLR trade has steadily grown since the implementation of the protocol. Though initial trade was slow, only 55, 116 CYP per month by December 2004, the monthly trade in the first six months of the 2006 was 103, 701 CYP, and the accumulated trade was nearing 2 million Cyprus pounds (CYP) as of June 2006.⁶

⁵ European Union, (2004). COUNCIL REGULATION (EC) No 866/2004 of 29.4.2004 on a regime under Article 2 of Protocol No 10 of the Act of Accession, *Official Journal of the European Union L 161 of 30 April 2004*, pp: 128-143.

⁶ On November 25, 2005, one Cyprus pound was about 2.06 US dollars. The value of the total exports of North in 2005 was 5.6 million U.S. dollar.

Figure 1. The accumulated GLR trade: August 2004 – June 2006 (in current CYPs).



Source: The Turkish Cypriot Chamber of Commerce.

Secondly, as Table 1 shows, not only has the *amount* of trade increased, but the *variety* of goods has also increased since the implementation of GLR trade. Table 1 divides the time since the start of GLR trade into 3 separate periods: August-December 2004, January-December 2005, and January-June 2006. For example, in the first period of trade, 37% of the trade was in vegetables, 16% paper goods such as kitchen towels, 10% in wooden goods and furniture, and 10% in building stones. As trade continued, however, we can see that the percentage of total trade in vegetables decreased to 14%, while the amount of trade in wooden goods, furniture, and building stones increased from 20% to 27%. Furthermore, this trend extends beyond the examples discussed; in fact, the emerging trend is significant growth in the percentage of trade in building and construction materials. Construction materials such as electrical equipment, aluminum/PVC/doors/windows together with these wooden goods/furniture and building stones constitute 53% of the GLR trade.

Table 1. The green line regulation trade: August 2004–June 2006 (in current CYPs).

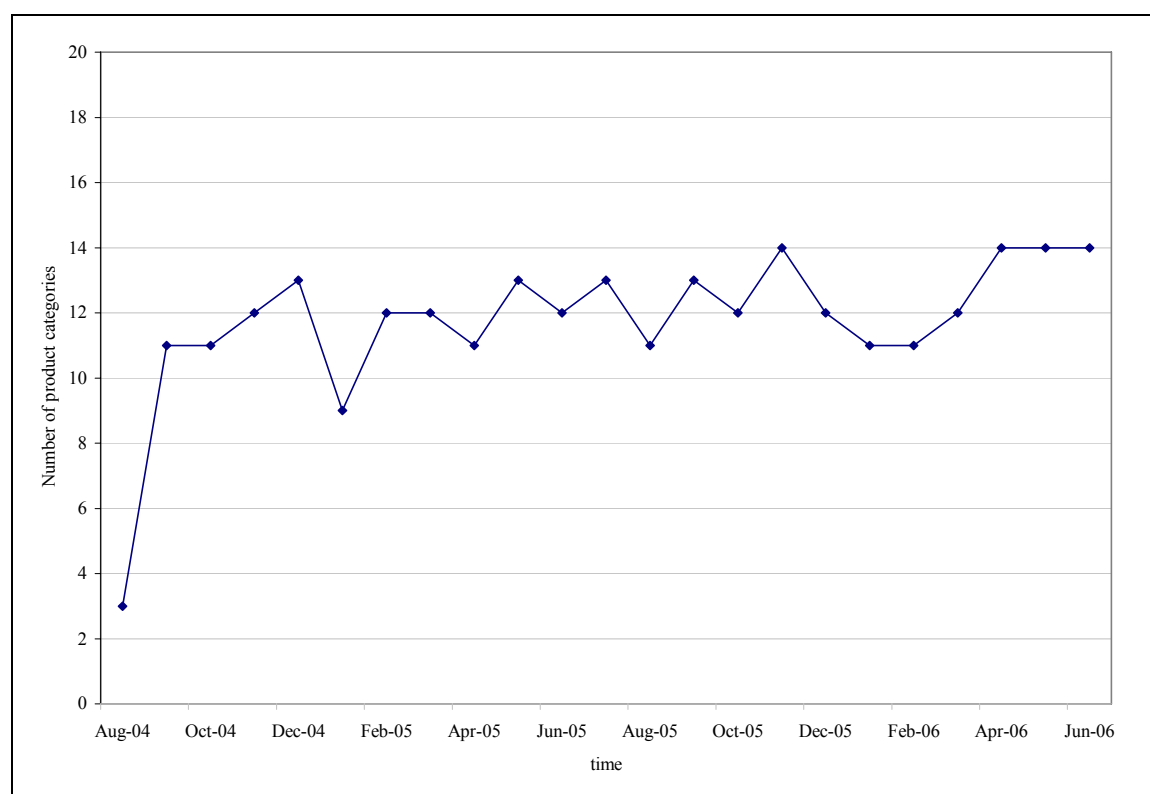
Product	2004 August – December	2005 January - December	2006 January – June	Total	Percent of the total	Traded in how many months (out of 23 months of trade)	Average value
Vegetables	103,037	167,436	90,173	360,646	19%	21	17,174
Wooden goods, furniture	26,485	179,952	94,754	301,191	16%	22	13,691
Building stone/articles of stone	27,524	123,247	73,493	224,264	12%	22	10,194
Paper goods/kitchen towels etc.	43,415	138,313	42,171	223,899	12%	22	10,177
Plastics	3,081	102,044	82,449	187,574	10%	20	9,379
Electrical equipment	0	35,209	132,375	167,584	9%	9	18,620

Raw metal	16,432	55,508	25,200	97,140	5%	19	5,113
Aluminum/PVC door and window	7,764	49,627	32,465	89,856	5%	23	3,907
Chemical goods	15,879	26,615	16,806	59,300	3%	20	2,965
Prefabricated buildings	0	35,966	0	35,966	2%	1	35,966
Iron/steel goods	4,755	23,469	1,910	30,134	2%	20	1,507
Clothing	9,113	16,496	1,758	27,367	1%	17	1,610
Handcrafted goods	3,785	13,828	7,603	25,216	1%	21	1,201
Industrial kitchen equipment	0	0	15,250	15,250	1%	1	15,250
Earth and stone	7,801	888	2,794	11,483	1%	9	1,276
Printed books, newspapers etc.	0	6,860	0	6,860	0%	1	6,860
Fruit	4,310	0	0	4,310	0%	3	1,437
Charcoal	1,796	1,793	700	4,289	0%	4	1,072
Food and drink	405	1,621	740	2,766	0%	9	307
Water storage and heating units	0	1,300	1,208	2,508	0%	3	836
Saddler and harness	0	1,342	356	1,698	0%	3	566
Total	275,582	981,514	622,205	1,879,301	100%	270	6,960
Per month	55,116	81,793	103,701	81,709			

Source: The Turkish Cypriot Chamber of Commerce.

While we have observed that the variety of goods traded and the amount of trade has increased since the August 2004 implementation of GLR trade, we can also observe that trade now appears to have reached a ceiling. As can be seen from Figure 2 the number of product categories in the GLR trade sharply increased in the first six month period, increasing from 3 categories to 13 per month. However, since that initial period, the number of categories traded has not surpassed 14 per month.⁷

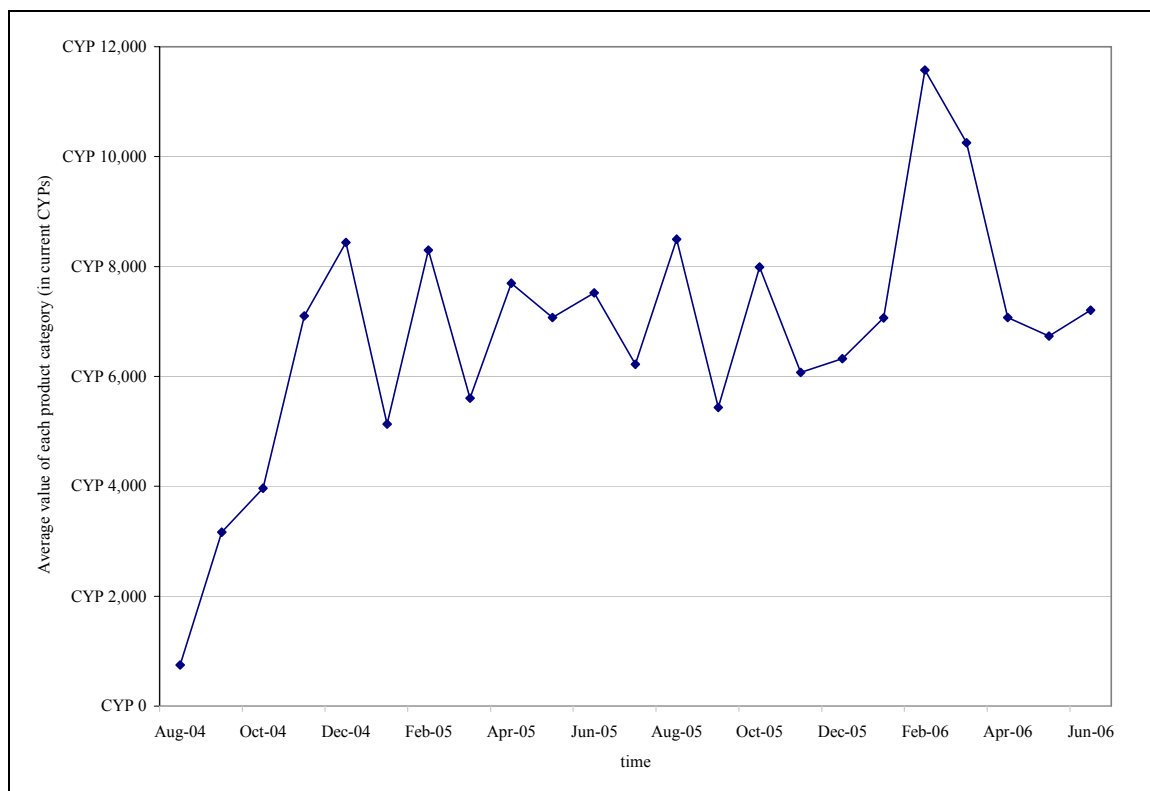
Figure 2. The number of product categories in the GRL trade.



⁷ For an excellent report on the constraints to intra-island trade, based on perceptions of the businessmen from the North and the South, see Dönmezer and Apostolides (2006).

A similar trend can be observed when we examine the average value of each product category in GLR trade in Figure 3.

Figure 3. The average value of each product category in GLR trade



Again, we can easily see that the value increased sharply in the first 6 months of GLR trade, going from less than 1,000 CYP to just over 8,000 CYP. With the exception of an unusually high period in the early months of 2006, the average value for each product category appears to be reaching a ceiling at approximately 8,000 CYP. These ceilings can likely be explained by the fact that the green line regulation only allows trade in a limited number of products. For instance, dairy and meat products, which are good candidates for trade, are prohibited. (Besides, GLR was put in place as a temporary mechanism until a comprehensive solution, which is expected to include a free-trade.)

Box 1. A TC construction materials manufacturer utilizing GLR trade facility

Growing up in a mixed village, Mehmet had more GC friends than TC friends, and his Greek was more fluent than his Turkish. At age eighteen, he left the island to study chemical engineering at a Turkish University. When he returned to the island, there were no big companies to employ him as an engineer, and because of his political views, he had no chance of getting a job in the public sector. He entertained the idea of joining his relatives in London, but his options there would largely have been limited to the fast food business. Also, Mehmet always wanted to be his own boss and implement his ideas to make money. He started thinking about different possibilities in different sectors to start his own small business. He finally settled in manufacturing wall paints. Initially, he used an existing facility to buy raw materials from local merchants and employed a handful of TCs.

The business was slowly growing. Yet, he was not satisfied. He talked with his friends and relatives who were involved in the construction business, and he realized that in addition to paints, there was an underserved market in

other construction materials such as powder paints, spackle, glues, etc. He also figured out a few ways to cut his costs: he found out that instead of buying from other merchants he could manage existing quarries to manufacture some of the main raw materials; he could import from nearby Turkey instead of European countries; and he could employ more guest workers from Turkey who were willing to accept much lower salaries. By implementing these cost cutting measures and increasing his operations, he started making more money and gaining a bigger market share.

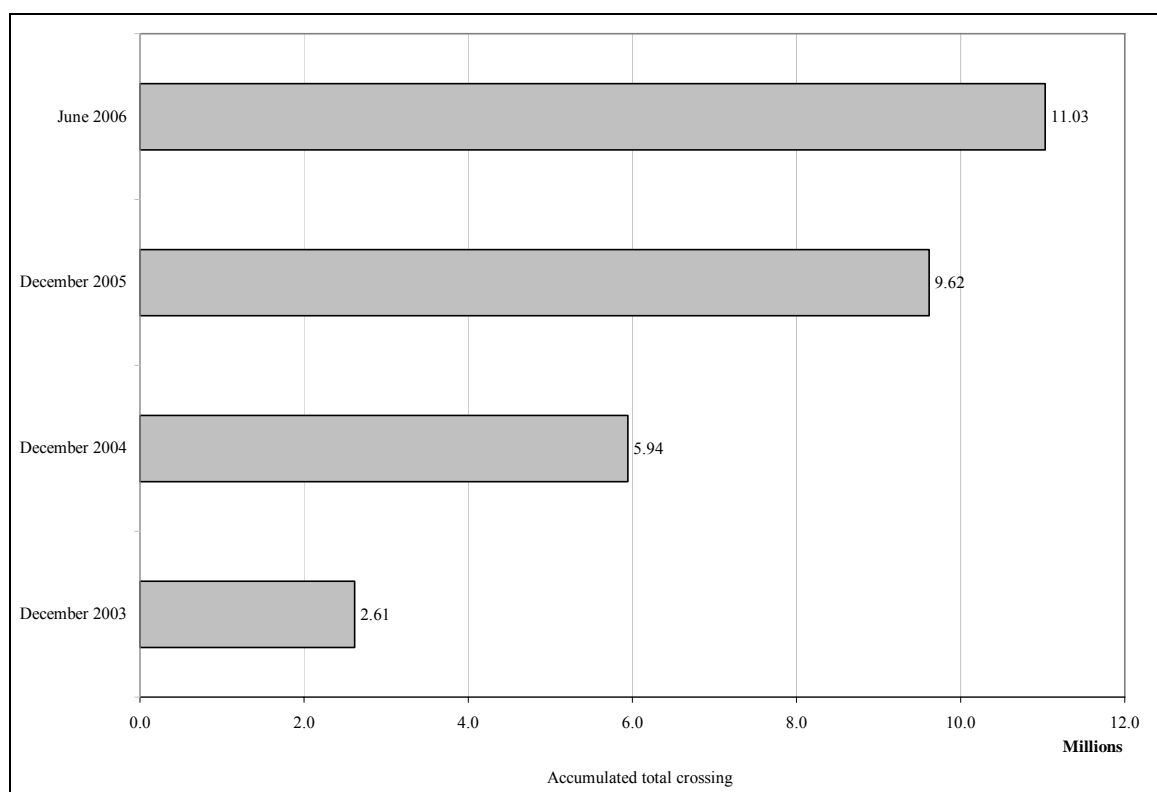
Even before the green line regulation was in place, for a year or so, he was visiting his childhood home in the South and talking with his old GC friends from his old village. He was also making some observations about the prices and cost of construction materials in South that he was manufacturing. He was getting excited: If he is allowed to sell his products in the South, he would double his operations and make much more money. When the green line regulation passed, he talked with the TCCC officials, hired a consultant, and also sought help from the USAID sponsored KOBİ center. They provided market research, packaging, advertising, etc. For instance, the KOBİ center took him to product expos in the South, arranged face-to-face meetings with potential GC buyers; provided guidance with packaging, completing the TCCC paperwork, and arranging shipping and payments.

Currently, after expanding his shipment by ten times, Mehmet is planning to expand the capacity of his existing business from 250 employee to 1000, and 40 percent of the new capacity will be fully devoted in maintaining the steady supply of daily shipments to the South and eventually to the international markets. He is also planning to establish a new company in the South to get into construction business by himself to take advantage of his position as a low cost supplier of construction materials.

2.2 People Crossing the Green Line

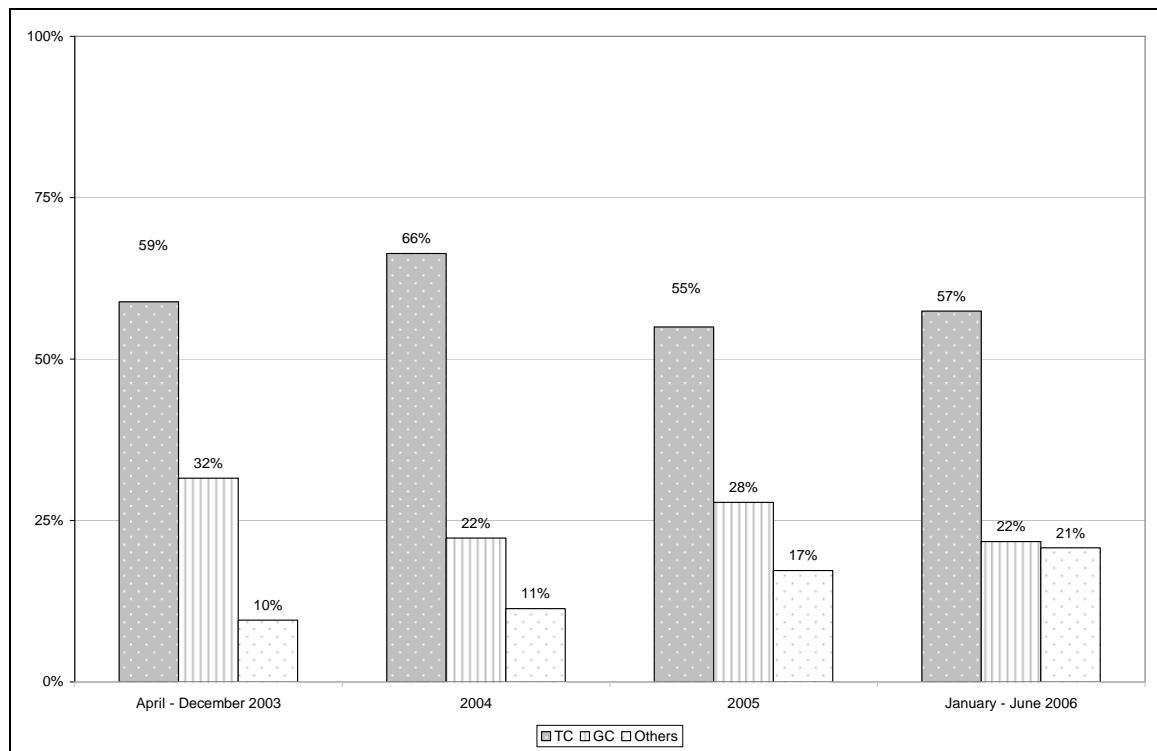
As discussed in the introduction, unregulated border crossings began in April 2003, however, the GRL protocol did not spell out the guidelines for border crossings until April 2004. Figure 4 shows the cumulative number of border crossings between April 2003 and June 2006. Two immediate points are important to note: (1) the total number of border crossings is extremely high—surpassing 11 million as of June 2006; (2) there have been *no* major incidents (e.g., violence, violations of the rules, etc) since April 2003.

Figure 4. Cumulative number of border crossings: April 2003 – June 2006.



We can also observe several interesting trends emerging from the data on border crossings. Figure 5 shows the composition of border crossings during the April 2003-June 2006 period. Here we can see that TCs have consistently made up the majority of border crossers and that this has not been significantly affected by Protocol 10. Secondly, we can observe that the percentage of GCs crossing the border has decreased since 2003. Finally, we can observe that the percentage of “others” (non TC or GC) has doubled since 2003 and as of June 2006 was approximately equal to the percentage of GC border crossers.

Figure 5. Composition of the border crossers: April 2003 – June 2006.



2.2. a. Commuting TC Workers

Though we observed above that the percentage of TCs crossing the border since 2003 has stayed relatively constant, Figure 6 demonstrates that the average number of registered TC commuter workers crossing the border monthly has increased since 2004.⁸ In the months of April and May of 2004, the average monthly number of registered commuter workers was 3091; for the same months in 2005⁹, the number increased to 4644; in 2006, the number again increased to 5340.

⁸ Beginning in March 2004, the authorities in the North decided to “register” TC commuter workers and offer them ID cards to increase the efficiency of the daily border crossings. Each ID card has a bar code which allows workers to simply “swipe” their card, instead of filling out paperwork and showing separate picture ID.

⁹ In 2005, there were 15,308 employed in construction and manufacturing sectors of the North. (6,775 were in construction sector and the remaining 8,533 were in the manufacturing sector.)

Figure 6. Average number of registered TC commuter workers: A yearly comparison.

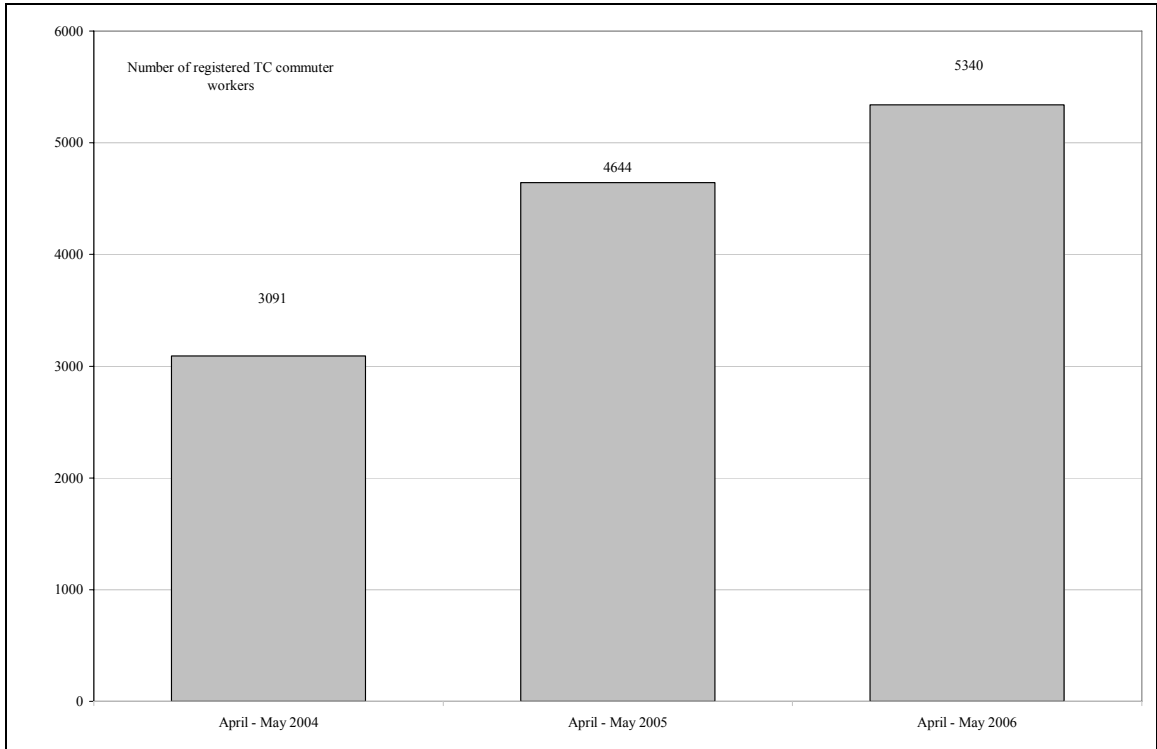
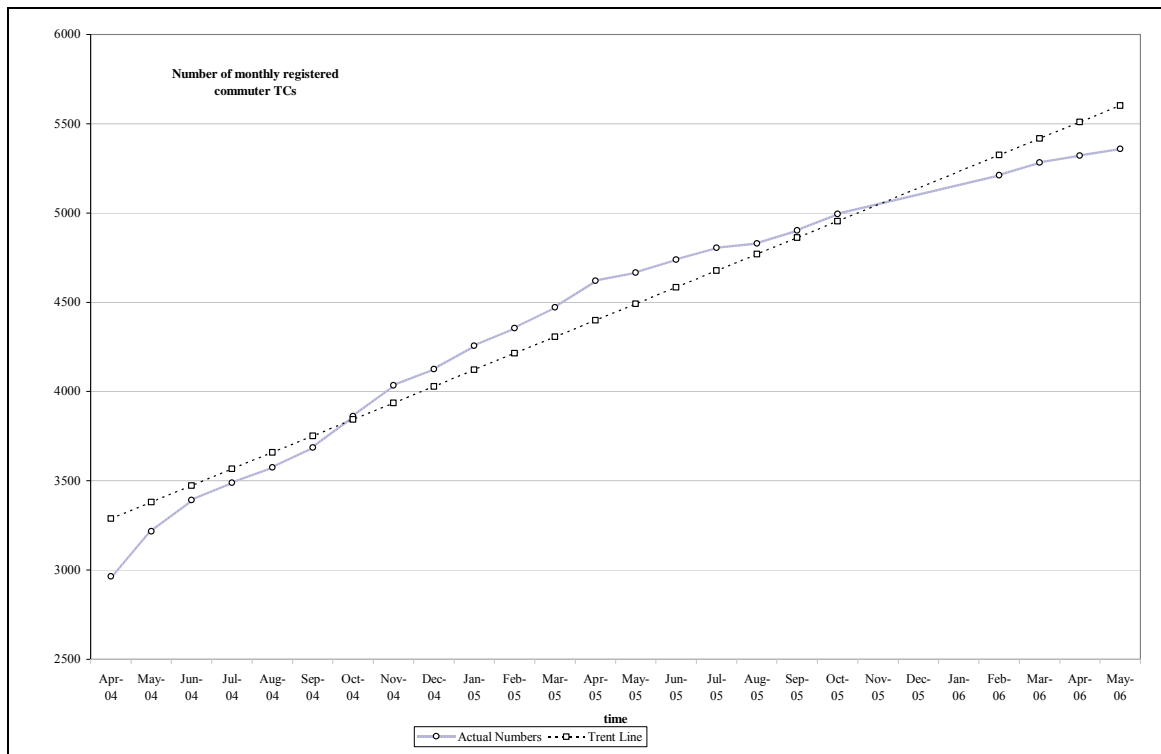


Figure 7. Monthly number of the registered TC commuter workers: April 2004 – May 2006.



Note. A representative TC commuting worker was a 36 year old, married, TC male, elementary school graduate working in South for more than 2 years, and paid weekly in construction or manufacturing sectors. The average commuter drives his own car to work, or rides in a shared car and travels less than 20 miles (Mehmet et al., 2006).

Figure 7 demonstrates a bit more clearly that in the first half of the period observed, the number of TC commuter workers crossing the border increased very sharply but in the second half of the period observed, the numbers have begun to slow. Still, from April 2004 till May 2006, approximately *100 additional workers* per month are crossing the border to work.

Box 2. A TC commuter worker from Gönyeli

Hasan was born in 1958 in Gönyeli, a small town next to the capital city Nicosia. His town was not a mixed town. It was an isolated TCC. He never had a chance to interact with GCs, and never learned to speak Greek. Hasan was not academically inclined and his parents, both illiterate, decided not to send him to middle school. Instead, at age 13 he started working as an apprentice at a local masonry contractor. Tall and strong, within a few years Hasan became one of the highly paid master masons. He was a sought after master and different contractors convinced him and lured him with attractive salaries to work for them. At 35, he started working as a very small contractor employing 2-4 workers. Hasan's net salary remained higher than his peers, yet he was having problems paying his workers and paying his bills. The payments for his services were not made regularly, and there were no stable flow of new contracts. Hasan was struggling. His wife and two kids were becoming more and more unsure of their future.

When the green line opened in April 2003, some of his friends—who were unemployed for some time, immediately started working in South. Their numbers were growing and at the coffee shop that they regularly attended, they were talking about how high the salaries were, and the fact that there was no problem working with their GC co-workers. In September 2003, Hasan started working for a GC construction company, which had already employed six TCs (out of total 30 employees.) It was a 20-minute commute from his home by car. Not knowing Greek did not cause a problem—his friends served as a translator while he was learning basic Greek to communicate with his GC boss and co-workers. At first, Hasan found the safety regulations at the work place excessive, however, he later began to understand and appreciate those regulations. Hasan also became a member of the labor union at the end of his second week. His salary from his new job was 3 times more than what he was bringing home in North. His GC boss, who was impressed with the quality of his work, assured him that as long as he wanted to work, he would be welcomed. He was also pleasantly surprised to find that he was going to enjoy 3 weeks of paid vacation like the rest of the workers—both GC and TC working in South. This was unprecedented in his 35 year career in construction sector. Finally, from the beginning, Hasan's employer deposited retirement and social security money into Hasan's account. Not having a regulation regarding transferability of the retirement benefits, Hasan finally decided to find out when he would be eligible to retire in North for his 32 years of work there. To his surprise, his employers had only deposited the benefits for 8 out of those 32 years of work in the North!

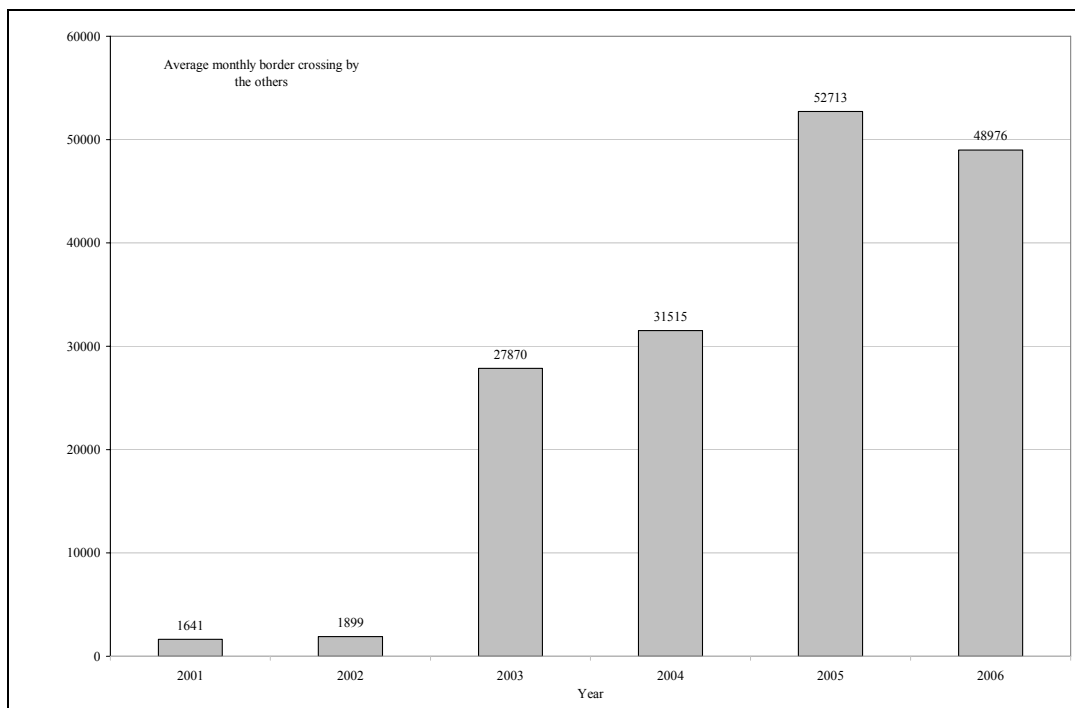
When he was asked if the conditions were identical in the North regarding job security, safety, commute time, retirement deposits, paid vacation, etc., at what salary he would be willing to go back to work in the North, he replied: "Even it pays a kuruş less, I will not. Besides, why should I even think about fixing something that isn't broke?"

2.2. b. Tourists and snow birds

Above, we observed that the percentage of "others" crossing the border had more than doubled between 2003 and 2006. Figure 8 provides a more detailed look into this phenomenon by showing the number of monthly border crossings by "others" before and after the Green Line Regulation. In 2001 and 2002, less than 2000 "others" were crossing the border on average each month. In 2003, when unregulated border crossings began, the number shot up to 27,870. In 2004, the year in which Protocol 10 was implemented, the number further increased to 31,515. Between 2004 and 2005, the average number of monthly border crossings by "others" increased nearly 60% from 31,515 to 51,713. Though the average number has decreased in the first 6 months of 2006 to 48,976, the number still remains higher than in 2004.¹⁰

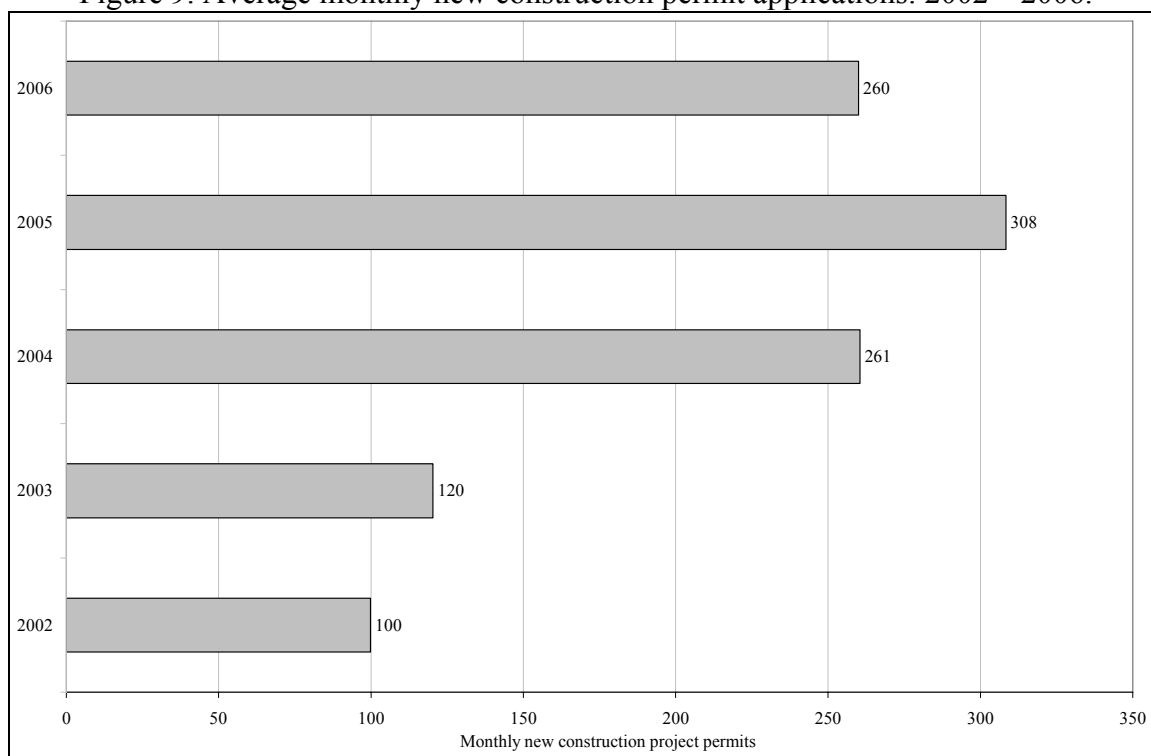
¹⁰ The 2006 data includes January through June; however, most of the travel by "others" takes place during the summer months (June, July, August) and it is thus very likely that the forthcoming numbers for 2006 will meet or exceed the numbers for 2005.

Figure 8. Monthly border crossings by the “Others”: Before and after the green line regulation.



A significant number of the “others” are British nationals. It is interesting to note that there is an increasing number of “snow birds” who buy/build homes in Cyprus for their retirement, or for extended vacations. Moreover, these snow birds host their families and friends, who are also primarily from Britain, and who also visit the island for long periods of time. Combined, these snow birds and their guests, account for the majority of the crossings by “others”. In addition to sharply increasing border crossings by “others”, we can also observe much high numbers of construction permit applications during the similar time period, as shown in Figure 9.

Figure 9. Average monthly new construction permit applications: 2002 – 2006.



Source: The Chamber of Turkish Cypriot Architectures and Engineers.

Box 3. Snow Birds in North

Mr. Smith retired in 2002 from his well paying government job in Britain. He always dreamed of living in a sunny Mediterranean island. His favorite spot was Cyprus. Until 1974, he had had many summer vacations in the Kyrenia area in the North; after 1974, he stayed mostly in the Ayia Napa area in the South. Mr. Smith decided in 2003 that he would buy a condo in Cyprus. Despite the high real estate prices in the South, Mr. Smith knew that the political situation surrounding the North was uncertain and he enjoyed the direct flights into the South. Thus, he decided to purchase his condo in a summer village in the Aya Napa area. Between 1974 and 2003, there were approximately 2500 registered home purchases by British retirees in the North; 300 of these retirees were living in the North year round.

Once the green line regulation passed, Mr. Smith, an EU citizen, could very easily cross the border to visit the North, relive his nice memories in Kyrenia area, and see where his compatriot snow birds were living. He was a little bit upset to find out how much less these snow birds paid for a similar house. Furthermore, they were lived in a quieter, cheaper and more beautiful environment. It did not take that long for him to make his mind up: He sold his condo in the Aya Napa area; he purchased one with a better view of the Mediterranean and a nicer backyard. In 2004, he was only one of the 10% of the 2,827 snow birds who sold their house in the South and registered their new home purchases in the North. In the same year, he became a part of a 5,000 member snow bird community in the North; in 2005, the community was 8,000 and growing. His only complaint is the noise coming from the new construction sites and heavy traffic next to his neighborhood. Mr. Smith paid approximately 40 percent less in 2004 than what the other snow birds are currently paying.

In 2006, the number of these snow birds was close to 10,000. Each one of them was spending approximately \$10,000 a year in the North. Now, they have an organization called “British Residence,” and its members are helping new comers make a smooth transition. More or more of their relatives and friends were coming to visit them during their vacation.

Source: Partly Ecoside (2006) and interviews the author conducted in the North.

3. Instead of Concluding Remarks, a Question: Are Prices and Incomes Converging?

Beyond the larger “lifestyle” changes accorded by Protocol 10, such as the increased number of snowbirds and TC commuter workers, the GLR have also affected the every day lives of TC and GCs. Since the GLR on border crossings, it is now much easier for TCs or GCs to spend money/consume goods and services on their other side of the GL.

Table 2 provides the total spent by TCs in the South and GCs in the North between June 2004 and June 2006. We can observe from the table that TCs are spending 34 CYP per transaction in the South compared to GCs who spend 120 CYP per transaction in the North. However, TCs have conducted almost 6 times as many transactions as GCs during this period. TCs have spent 12 million CYP and GCs have spent 7.7 million CYP.¹¹

Table 2. Credit card transactions of GC and TC in North and South: June 2004 - July 2006 (in current CYP).

Greek Cypriots in North		Turkish Cypriots in South	
Total	7,771,212	Total	12,016,000
Number of transactions	64650	Number of transactions	353690
Per transaction	120	Per transaction	34

Data Source: Saoulli (2006).

We can further observe *where* both of these constituencies are spending their money, based on July credit card transactions. From Table 3, we can clearly observe that TCs spending money in

¹¹ According to survey results reported in Christou (2005) the TCs total spending in South is 25 million CYP and GCs total spending in the North is also 25 million CYP.

the South primarily buying groceries, clothing, and other retail goods. Conversely, GCs are primarily consumers of the North services, such as hotels and entertainment.¹²

Table 3. Credit card transactions of GC and TC in North and South: July 2006 (in current CYP).

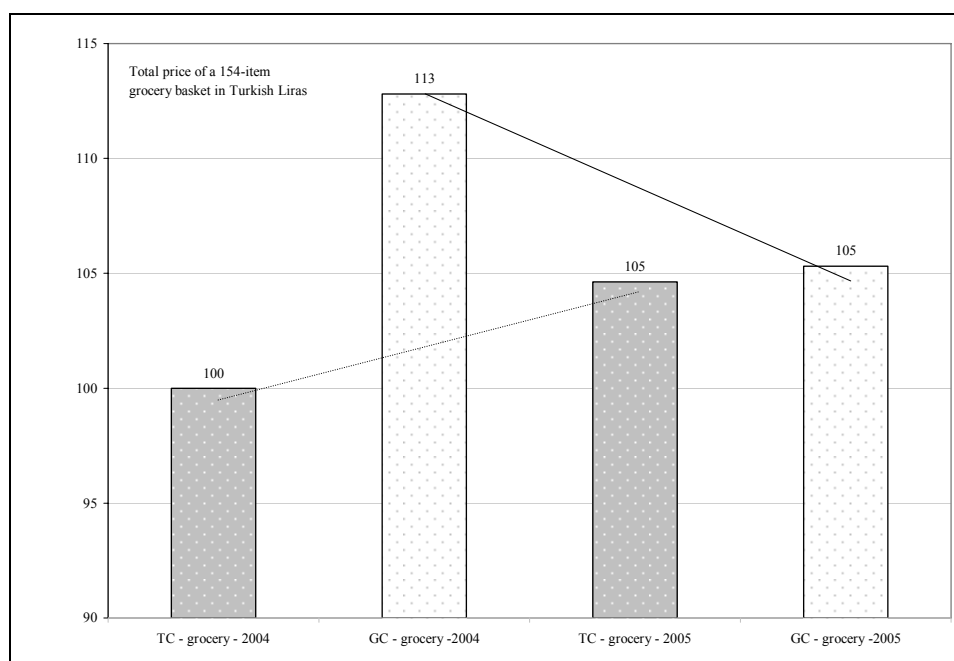
Greek Cypriots in North		Turkish Cypriots in South	
<i>Top categories</i>	<i>Total spending</i>	<i>Top categories</i>	<i>Total spending</i>
1. Entertainment	175,125	1. Supermarkets	98,430
2. Hotels	122,299	2. Clothing	84,560
3. Other retailers	30,746	3. Other retailers	76,924
4. Mail and telephone orders	17,586	4. DIY and household stores	42,316
5. Clothing	15,520	5. Department stores	30,932
Total	398,617	Total	411,014
Number of transactions	2788	Number of transactions	12434
Per transaction	143	Per transaction	33

Data Source: Saoulli (2006).

2.3 Prices

One of the most important considerations of the effects of the GLR trade and border crossings is the overall affect that the increased transactions between the two sides will have the prices of goods and services. Figure 10 provides some very interesting data to support the assertion that since the implementation of Protocol 10, retail prices are, in fact, converging. Figure 10 shows the total price of a 154-item grocery basket in Turkish Liras for identical items in a TC grocery store and a GC grocery store.¹³ As the figure shows, in February 2004, groceries in the GC grocery store were 13% more, in total, than in the TC grocery store. However, in March 2005, the prices in the North and the South had converged to 105% of the 2004 TC price. Although it is not evident in Figure 10, the Cyprus pound appreciated by 8% against Turkish Lira during this period, meaning that this time, while prices in North increased by 4.6%, prices in the South effectively decreased by 13.2% in CYP.

Figure 10. Retail Prices in North and South: 2004 and 2005.



Source: Turkish Cypriot Young Businessmen Association.

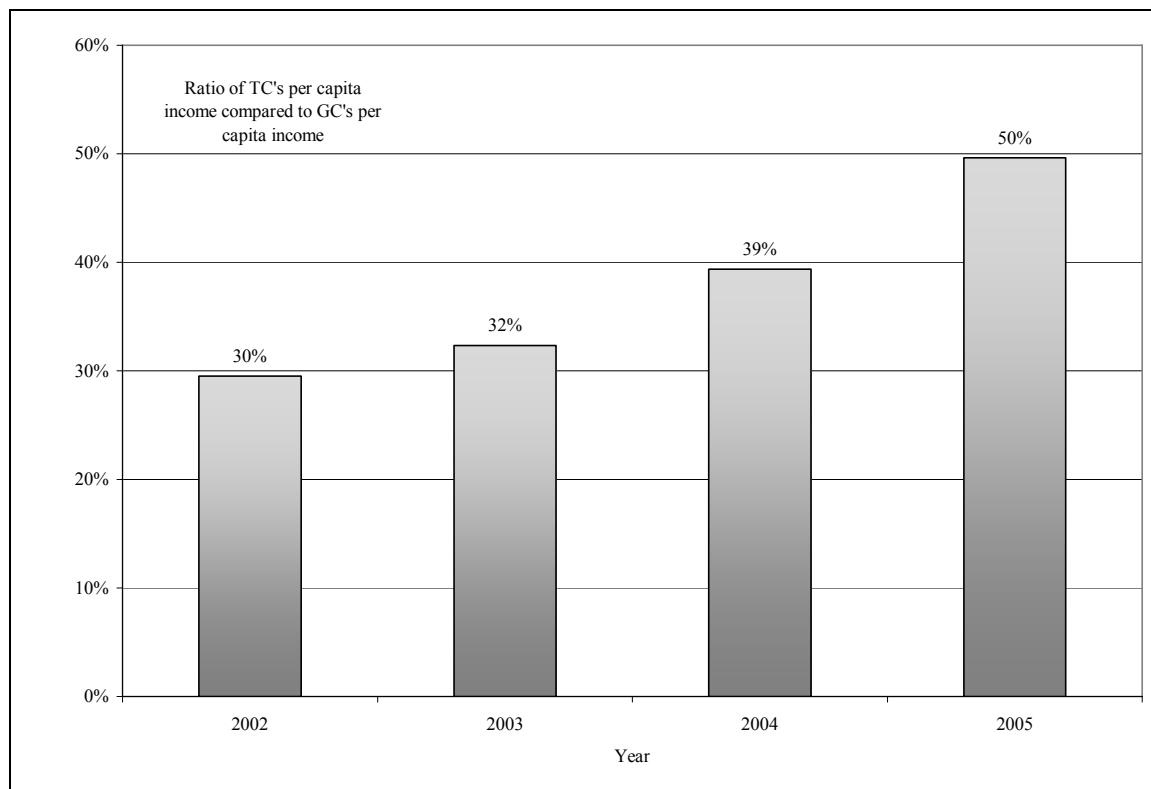
¹² One of the explanations for this is the fact that Casinos are illegal in the South, but legal in the North.

¹³ The prices for these identical 154 items were collected on the same day from two biggest supermarkets in Northern and Southern sections of Nicosia within 5 miles of perimeter.

2.4 Incomes

As discussed in the previous section, the prices for goods converged during the period of observation. In Table 4, we can observe that the per capita income between the North and South is also converging very rapidly: In 2002, the GDP per capita in the North was only 30% of the GDP/capita in the South. In 2004, the GDP/capita in the North had increased to 39%; and in 2005 to 50% of the GDP/capita in the South.

Figure 11. Per capita incomes (in U.S. Dollars).



Data Source: Department of Statistics and Research, Ministry of Finance of the Republic of Cyprus; and State Planning Organization, North Cyprus.

Given the convergence of the prices of goods and services, the increased number of snowbirds living in the North, and the fact that more TCs are working in the South, the fact that GDP/capita is beginning to converge is not surprising. Yet, compared to the various calculations and projections completed before the green line regulation, it becomes clear that these numbers were unimaginable.

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