

# Turkey tries to put northern Cypriots back on their feet

Ankara is prescribing harsh medicine, writes John Barham

Turkey wants to turn north Cyprus into a "showcase" of prosperity and dynamism enabling it, if necessary, to survive in isolation for many years to come.

An international embargo has brought the enclave's economy to its knees. But Mr Dervis Eroglu, northern Cyprus prime minister, says "our aim is to bring the economy to a position where it can stand on its own two feet".

Ironically, Ankara is promising \$250m in loans on condition that north Cyprus adopt tough economic policies that Turkey itself has resisted for years.

Although details are still being negotiated, Ankara demands reform of the public sector, particularly the state retirement fund, and privatisation of state-owned enterprises. Mr Erdal Onurhan, Turkish Cypriot economy minister, says the package will also help the government cut its debts, easing its interest burden, and provide subsidised loans to stimulate private business. These funds will boost the rate of growth and production, he says.

Although Ankara will disburse the money only as its conditions are fulfilled, few analysts expect the loans will ever be fully repaid or bring many changes. Yet action is badly needed. Living standards, once considerably higher than on the mainland, have slumped. Average income is barely \$4,000 a year, only slightly higher than in Turkey. Last year the economy shrank after growing weakly in 1995 and contracting sharply in 1996.

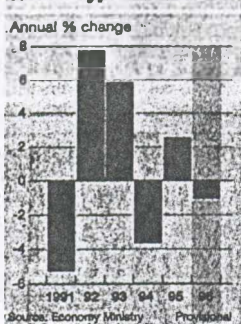
Northern Cyprus flourished in the aftermath of Turkey's 1974 invasion, even though this action sealed the north from the south and it became an outcast state, recognised only by Ankara. Fortunes were made by seizing property from fleeing Greek Cypriots.

The island became a duty-free entrepot for Turkey. Cereals farming recovered. Turkish Cypriot immigrants in Britain set up clothing factories to supply UK outlets. Polly Peck International, the business empire founded by Mr Asil Nadir and centred on north Cyprus, further invigorated the economy.

But the 1991 Gulf War, coinciding with Polly Peck's crash, plunged the enclave into crisis. Then came a 1994 ruling by the European Court of Justice effectively imposing an EU trade embargo. Severe recession in Turkey that year worsened conditions still further.

Now, agriculture is suffering from serious droughts. Confrontations with Greek Cypriots deter tourists. Five people died last year in

North Cyprus: GDP



clashes along the ceasefire line dividing the two communities. Tourism revenues fell by nearly a fifth to \$180m. Hoteliers fear 1997 will be worse.

North Cyprus has not attracted much investment. Its 200,000 people rely heavily on the public sector, and ultimately on Turkey. Almost every family receives a government pay cheque either as public employees, pensioners or veterans. Families of people killed in clashes with Greek Cypriots

also receive an allowance.

According to official data, Turkey injects \$50m a year into the economy through aid and the salaries of the 30,000 Turkish troops stationed there. More money comes from Turkish students studying at private universities.

The European Union will begin discussing membership for Cyprus next year. The EU hopes the prospect of membership and generous economic aid will help bring reunification. Incomes in the south are three times greater than in the north. Inflation is only 3 per cent against 80 per cent on the Turkish side.

Although a Turkish Cypriot newspaper editor says most people favour membership, "the government and Turkey say we can only enter the EU at the same time as Turkey". Diplomats say a settlement, ending the embargo and bringing EU membership, will not come soon, if ever.

Growing reliance on the mainland has its costs. Turkish settlers make up at least a quarter of the population.

Locals blame them for petty crime and driving down wages.

Loose government controls are attracting Turkish investments in casinos as Turkey cracks down on gambling. Northern Cyprus has 14 casinos and a further 11 are expected to open soon. A western diplomat says: "Cyprus is Turkey's Macao."

The enclave's decision to promote itself as an offshore centre is making it an international crime hub. It has 70 banks, many with a dubious pedigree. The diplomat says: "Northern Cyprus is a drugs centre. The drugs, mainly heroin, do not transit through Cyprus. But this is a distribution, logistical and finance centre linked to Turkish Cypriots in London and smugglers in Turkey."

Turkey's economy is in trouble and the government weak. Cypriots shuddering at what kind of showcase their mini-state will become are voting with their wallets by leaving their money in foreign bank accounts or by emigrating in increasing numbers.