

## GREEN-LINE REGULATION AND ITS ECONOMIC IMPLICATIONS IN CYPRUS

Omer Gokcekus,<sup>1</sup> John C. Whitehead School of Diplomacy and International Relations, Seton Hall University, USA

**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, and 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 that resulted; 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 the 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. While the percentage of GCs crossing the border has decreased since 2003, the percentage of “others” has doubled since 2003; in fact, as of June 2006, the percentage of “others” is approximately equal to the percentage of GC border crossers. The average number of registered TC commuter workers crossing the border monthly 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

---

<sup>1</sup> This report is peer reviewed by Professor Anthony Wanis-St. John (School of International Service, American University) and his comments and suggestions on an earlier draft is gratefully acknowledged. I would like to thank Necdet Ergün for providing research assistance during my visit to Cyprus in the summer of 2006; and also among others, Ayşe Dönmezer, Yenal Süreç, Michael Michael and Özey Mehmet who were very helpful in getting data and documents, and providing some insightful comments.

## Introduction

In 1960, Cyprus declared independence from 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.<sup>2</sup>

On April 23, 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 after the decision was taken, people crossed the green-line in an *unregulated* manner.

On April 24, 2004, in two separate referenda, Greek Cypriots (GCs) and Turkish Cypriots (TCs) exercised their self-determination rights. Less than ten days before the official date Cyprus was to join the European Union (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, and one in the South, governed by the Greek Cypriots. Although the TCs approved the Annan plan, the GCs did not.

Accordingly, not the proposed United Republic of Cyprus but rather, the existing Republic of Cyprus became an EU member on May 4, 2004;<sup>3</sup> although politically divided, the entire island, geographically, became part of the EU. Despite the fact that the members of the Turkish Cypriot Community (TCC) living in North became citizens of the EU, 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 complex and problematic situation, the EU did two things: introduced legislation, known as the Protocol Number 10, and designed a financial aid program to help Turkish Cypriots living in North.<sup>4</sup>

EU Protocol No. 10 on Cyprus regulates the crossing of persons and goods at certain designated points along the green-line between the Republic of Cyprus government-controlled areas in the South and the areas in North that are not under its control.<sup>5</sup> 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.

---

<sup>2</sup> For detailed historical background on the Cyprus problem, see Crawshaw (2000), Hale (2000), Mavratsas (1997), Stefanidis (1999), Stephens (1996), and Volkan (1979).

<sup>3</sup> For the details of the Annan Plan for Cyprus, visit <http://www.annanplan.org>, and a commentary on the referenda results, see Bryant (2004).

<sup>4</sup> As of today, November 25, 2006, out of promised 259 million euros, no money is dispersed.

<sup>5</sup> 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.

The report is organized in two main sections. Section 2, which follows, describes the green-line regulation and documents and analyzes its results in terms of actual crossing of goods and persons. The analysis in this section primarily focuses on the economic implications of the crossings of the Northern part of Cyprus for the following reason: the population in the North is approximately 24 percent 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 assess and determine the green-line regulation's implications, it makes intuitive 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.

### **Green-Line Regulation**

Due to the fact that there was no comprehensive political solution prior to Cyprus' EU 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 which was enacted April 29, 2004. Protocol 10 establishes the special rules concerning the crossing of goods, services, and persons between Northern and Southern Cyprus.

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, nor are they 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.<sup>6</sup>

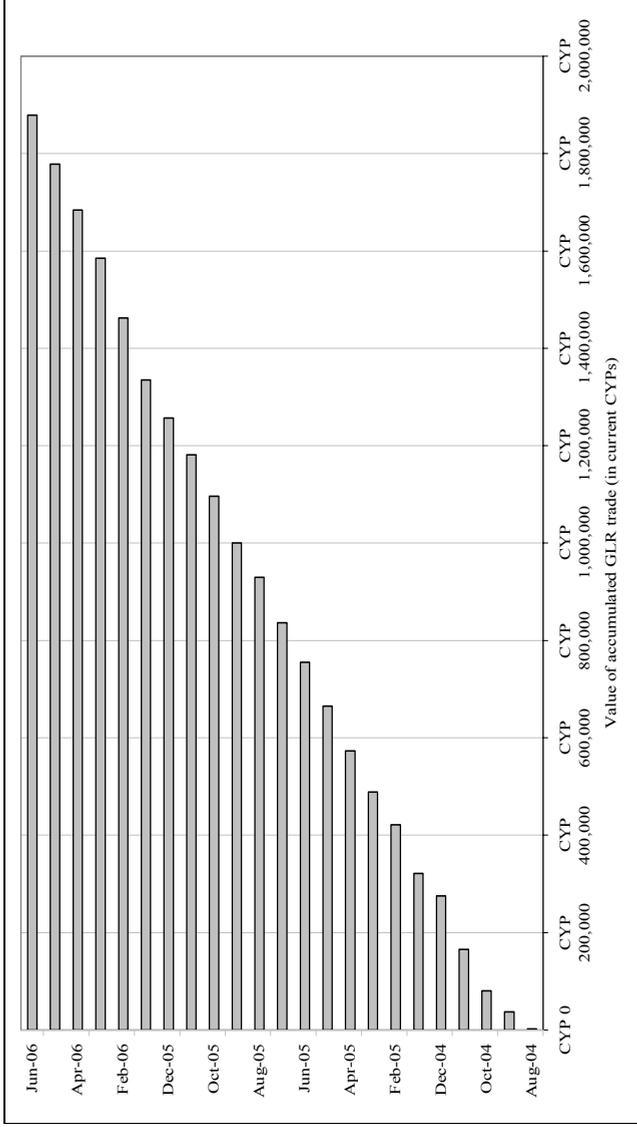
### **Green-Line Regulation Trade**

*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 originating within the areas not effectively controlled by the GRC, or those goods that 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.*

---

<sup>6</sup> 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.

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



Source: The Turkish Cypriot Chamber of Commerce.

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 Cyprus pounds (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 as of June 2006.<sup>7</sup>

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 period of 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 percent of the trade was in vegetables, 16 percent in paper goods such as kitchen towels, 10 percent in wooden goods and furniture, and 10 percent in building stones. As trade continued, however, we can see that the percentage of total trade in vegetables decreased to 14 percent, while the amount of trade in wooden goods, furniture, and building stones increased from 20 percent to 27 percent. 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 and aluminum/PVC/doors/windows, together with wooden goods/furniture and building stones, constitute 53 percent 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	Share of 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

<sup>7</sup> 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.

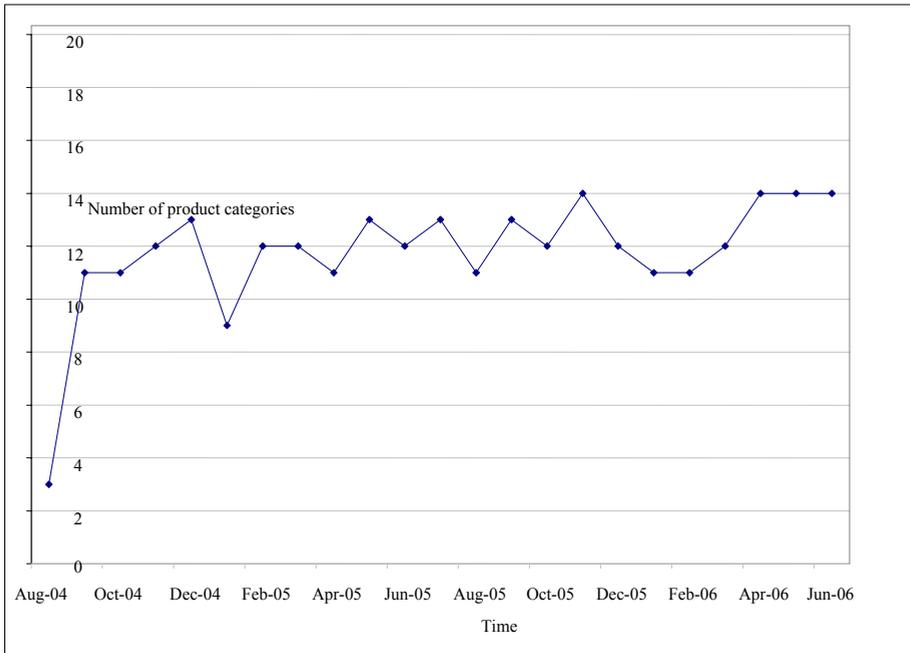
Clothing	9,113	16,496	1,758	27,367	1%	17	1,610
Handcrafted goods	3,785	13,828	7,603	25,216	1%	21	1,201
Industrial kitchen equipment	0	0	15,250	15,250	1%	1	15,250
Earth and stone	7,801	888	2,794	11,483	1%	9	1,276
Printed books, newspapers etc.	0	6,860	0	6,860	0%	1	6,860
Fruit	4,310	0	0	4,310	0%	3	1,437
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 three categories to thirteen per month. However, since that initial period, the number of categories traded has not surpassed fourteen per month.<sup>8</sup>

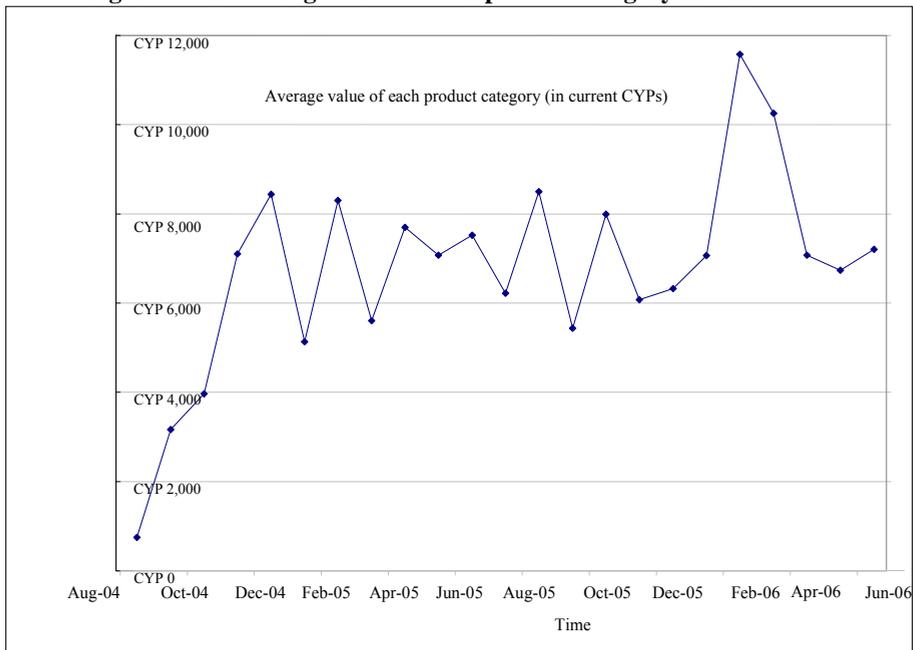
<sup>8</sup> For an excellent report on the constraints to intra-island trade, based on perceptions of the businessmen from the North and the South, see Dönmez and Apostolides (2006).

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



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 six 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. (Also, it is worth keeping in mind that GLR was put in place as a temporary mechanism until a comprehensive solution, which is expected to include free trade, is designed, approved, and implemented.)

#### **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 little chance of obtaining a position 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 slowly grew, but he was not satisfied. He spoke 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, and etc. Simultaneously, he figured out a few ways to cut his costs. He found that instead of buying from other merchants, for example, he could manage existing quarries to manufacture some of the main raw materials. He also discovered that he could cut costs by importing 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 such cost-cutting measures while concurrently increasing his operations, he began making more money and steadily gained a larger share of the market.

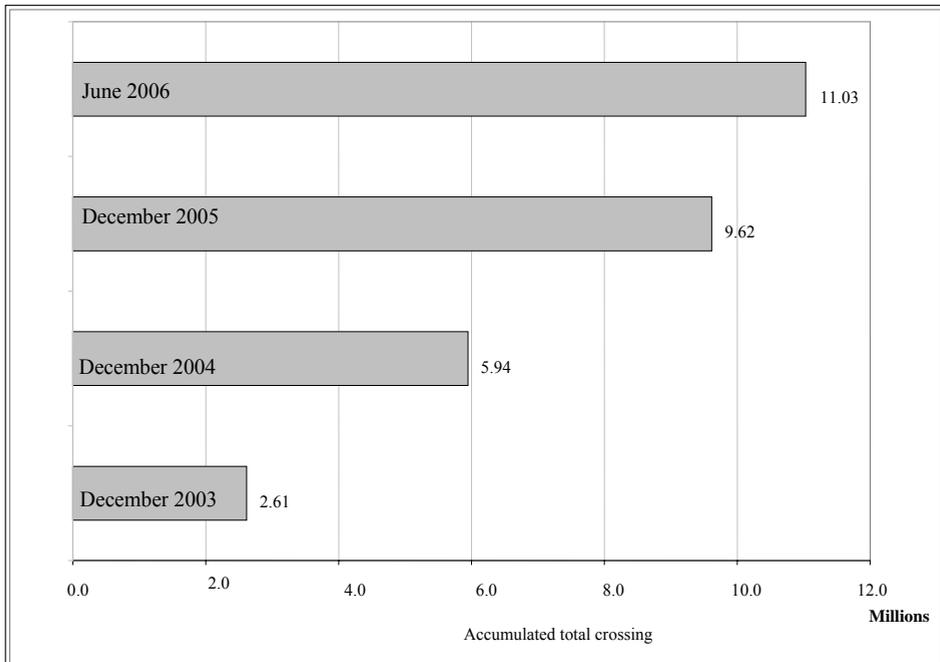
Even before the green-line regulation was put in place, for a year or so, he visited his childhood home in the South and spoke with his old GC friends from his village. He made some observations about the prices and costs of construction materials in the South and subsequently became excited at the realization that 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 spoke with TCCC officials, hired a consultant, and also sought help from the USAID-sponsored KOBİ Center. They provided him with valuable market research, packaging, advertising, and 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, completed TCCC paperwork, and arranged shipping and payments.

Currently, after expanding his shipment by ten times, Mehmet is planning to expand the capacity of his existing business from 250 employees to 1,000; 40 percent of this new capacity will be fully devoted to maintaining the steady supply of daily shipments to the South and eventually, to international markets. Mehmet is also planning to take advantage of his position as a low-cost supplier of construction materials by establishing a new company in the South's construction business.

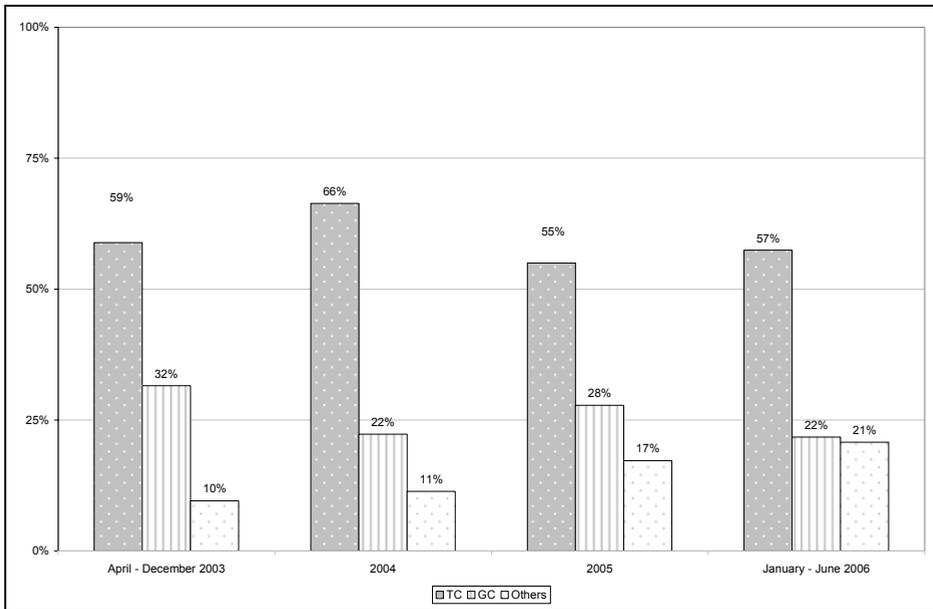
## People Crossing the Green-Line

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 particularly high—surpassing 11 million as of June 2006; (2) there have been *no* major incidents (e.g., violence, violations of the rules, and 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 it can be seen 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, is approximately equal to the percentage of GC border crossers.

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

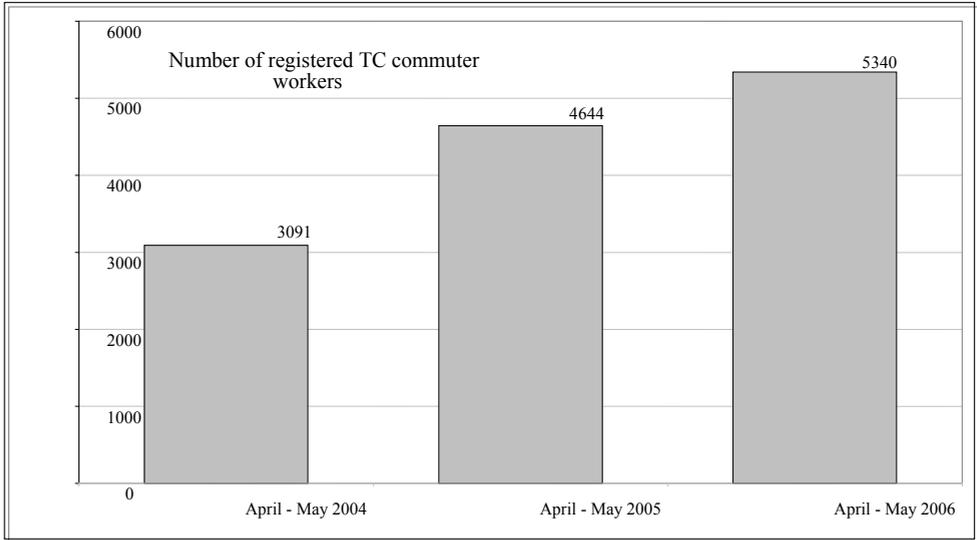
### 2.2. a. Commuting TC Workers

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.<sup>9</sup> In the months of April and May of 2004, the average monthly number of registered commuter workers was 3,091; for the same months in 2005,<sup>10</sup> the number increased to 4,644; in 2006, the number again increased to 5,340.

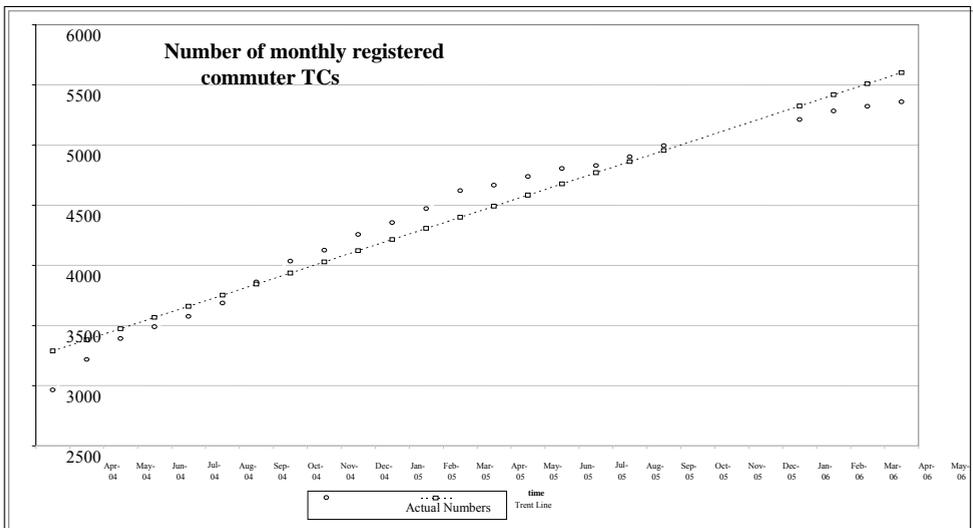
<sup>9</sup> Beginning in March 2004, the authorities in the North decided to “register” TC commuter workers and offer them ID cards to increase the efficiency of the daily border crossings. Each ID card has a bar code which allows workers to simply “swipe” their card, instead of filling out paperwork and showing separate picture ID.

<sup>10</sup> 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 is a 36 year old, married TC male and elementary school graduate working in South for more than 2 years; also, he is typically paid weekly in either the construction or manufacturing sectors. The average commuter drives his or her own car to work, or rides in a shared car, and travels less than twenty 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 began to slow. Still, from April 2004 till May 2006, approximately *100 additional workers* per month were 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 of 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 the age of 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 and lured him with attractive salaries to work for them. At 35, he started working as a very small contractor employing two to four workers. Hasan's net salary remained higher than his peers, yet he was having problems paying his workers as well as his bills. The payments for his services were not made regularly, and there was no stable flow of new contracts. While Hasan struggled, his wife and two children became increasingly unsure of their future.

When the green-line opened in April 2003, some of Hasan's friends, who were unemployed for some time, immediately started working in the South. Their numbers grew and at the coffee shop they regularly attended, they spoke about how high their salaries were and how they had no difficulties in 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 a total of thirty employees. It was a twenty-minute commute from his home by car. Fortunately, not knowing the Greek language did not cause any problems; Hasan's friends served as translators while he learned basic Greek to communicate with his GC boss and co-workers.

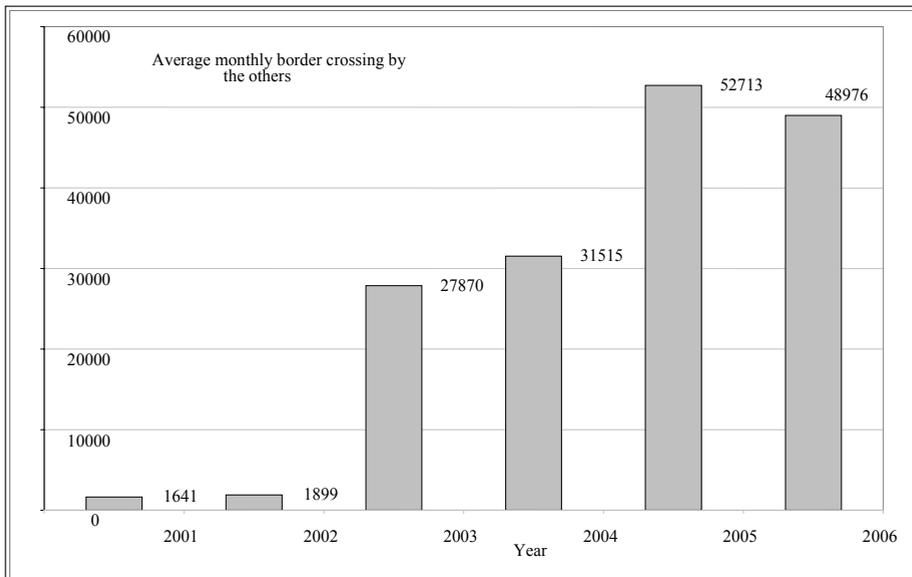
At first, Hasan found the safety regulations at the work place excessive; however, he later began to understand and appreciate those regulations. Hasan also became a member of the labor union by the end of his second week of work. His salary from his new job was three times more than what he was bringing home in the North, and his GC boss, who was impressed with the quality of his work, assured him that as long as Hasan wanted to work, he would be welcome. He was pleasantly surprised by this and also happy to learn that he would enjoy three weeks of paid vacation like the rest of the workers—both GCs and TCs working in South. For Hasan, this was unprecedented in his 35-year career in construction sector.

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

## 2.2. b. Tourists and Snow Birds

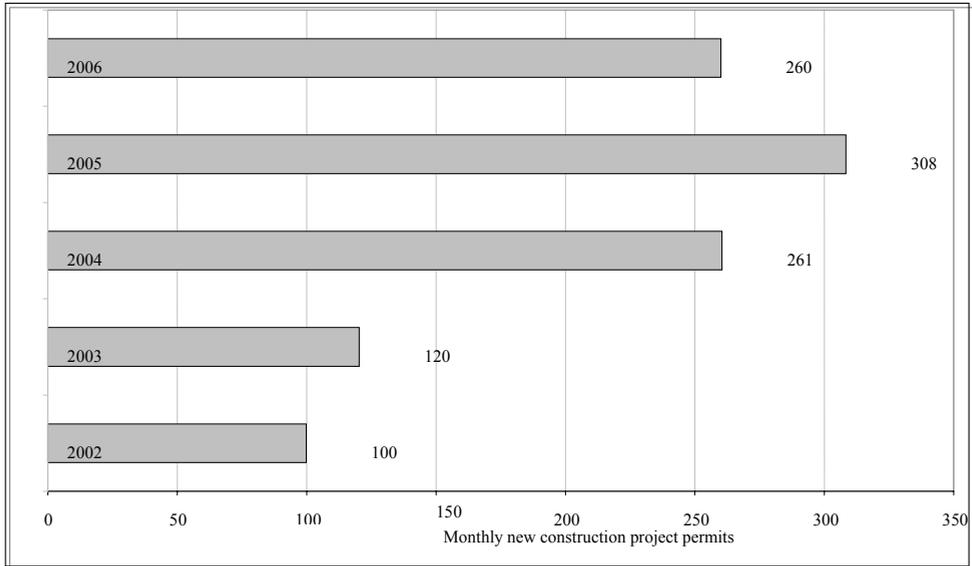
Above, we observed that the percentage of “others” crossing the border had more than doubled between 2003 and 2006. Figure 8 provides a more detailed look into this phenomenon by showing the number of monthly border crossings by “others” before and after the Green Line Regulation. In 2001 and 2002, less 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 percent from 31,515 to 51,713. Though the average number has decreased in the first six months of 2006 to 48,976, the number still remains higher than in 2004.<sup>11</sup>

**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 or 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 increasing numbers of construction permit applications during a similar time period, as shown in Figure 9.

<sup>11</sup> 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 9. Average monthly new construction permit applications: 2002 – 2006**

Source: *The Chamber of Turkish Cypriot Architectures and Engineers.*

### Box 3. Snow Birds in the 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. In 2003, Mr. Smith decided 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 convenience of direct flights into the South. Thus, Mr. Smith decided to purchase his condo in a summer village in the Aya Napa area.

After the green-line regulation passed, Mr. Smith, an EU citizen, was able to 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 bit upset to find out how much less these Northern snow birds paid for a similar house. Furthermore, they arguably lived in a quieter, cheaper, and more beautiful environment. It did not take long for Mr. Smith to make up his mind up: he decided to sell his condo in the Aya Napa area and subsequently purchased one in the North.

In 2004, Mr. Smith was only one of the 10 percent of 2,827 snow birds who sold their houses in the South and registered 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—a community which grew to 8,000 in 2005. His only complaint thus far has been the noise coming from the new construction sites and heavy traffic next to his neighborhood.

In 2006, the number of these Northern snow birds totaled close to 10,000. They now have an organization called “British Residence,” and its members are helping new comers make a smooth transition to living in the area.

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

### 3. Are Prices and Incomes Converging?

Beyond the larger “lifestyle” changes accorded by Protocol 10, such as the increased number of snow birds 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 and consume goods and services on the other side of the green-line.

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 six times as many transactions as GCs during this period. TCs have spent 12 million CYP and GCs have spent 7.7 million CYP<sup>12</sup>.

**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 the South are primarily buying groceries, clothing, and other retail goods. Conversely, GCs in the North are primarily consumers of the North services, such as hotels and entertainment.<sup>13</sup>

**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	
Top categories	Total spending	Top categories	Total spending
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

<sup>12</sup> 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.

<sup>13</sup> One of the explanations for this is the fact that Casinos are illegal in the South, but legal in the North.

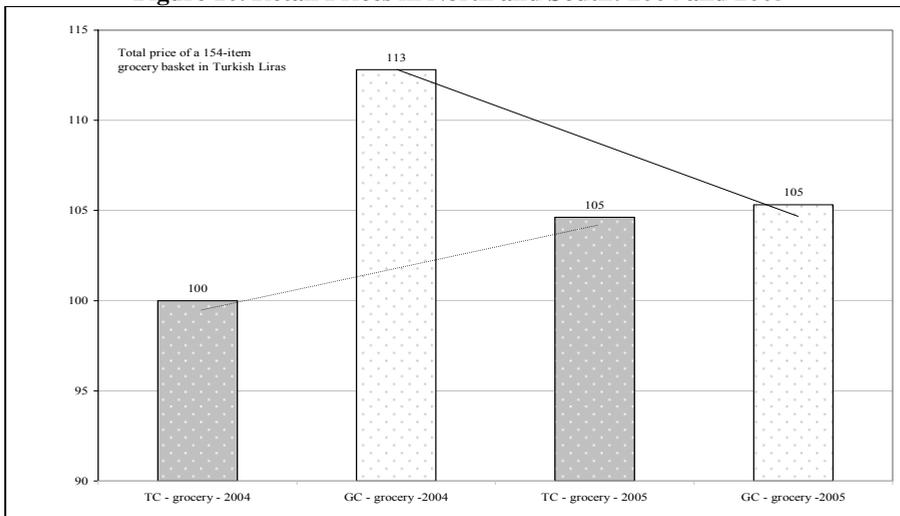
4. Mail and telephone orders	17,586	4. DIY and household stores	42,316
5. Clothing	15,520	5. Department stores	30,932
Total	398,617	Total	411,014
Number of transactions	2788	Number of transactions	12434
Per transaction	143	Per transaction	33

Data Source: Saoulli (2006).

### 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 on 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.<sup>14</sup> As the figure shows, in February 2004, groceries in the GC grocery store were 13 percent 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 percent of the 2004 TC price. Although it is not evident in Figure 10, the Cyprus pound appreciated by 8 percent against Turkish Lira during this period, meaning that this time, while prices in North increased by 4.6 percent, prices in the South effectively decreased by 13.2 percent in CYP.

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



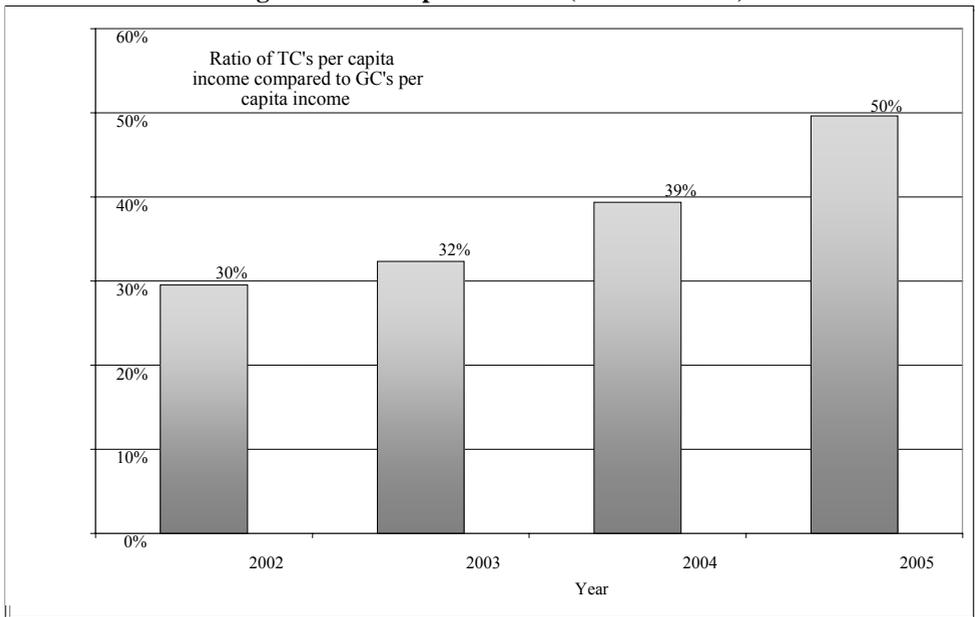
Source: Turkish Cypriot Young Businessmen Association.

<sup>14</sup> 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.

### *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 quite rapidly. In 2002, the GDP per capita in the North was only 30 percent of the GDP per capita in the South. In 2004, the GDP per capita in the North had increased to 39 percent and in 2005, to 50 percent of the GDP per 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 increasing number of snow birds living in the North, and the observation that more TCs are working in the South, the convergence of GDP per capita is not surprising. Yet, when compared to the various calculations and projections completed before the green-line regulation, it becomes clear that these numbers were viewed as unimaginable.

## REFERENCES

- Ayres, R. 2003, "*The Economic Costs of Separation: The North-South Development Gap in Cyprus*" *Ekonomia* 6(10), 39-52.
- Bryant, R., 2004., "*An Ironic Result in Cyprus*", Middle East Report Online, <http://www.merip.org/mero/mero051204.html>
- Christou, J., 2005, "*Spending up to £25 Million in the North*", Cyprus Mail, December 18, 2005, <http://www.cyprus-mail.com/news>
- Crawshaw, N., 1978, "*The Cyprus Revolt: An Account of the Struggle for Union with Greece*", London: George Allen & Unwin.
- Dönmezer, A. and C. Apostolides, 2006, "*Constraints to Intra-island Trade*", Edge, Nicosia, Unpublished document.
- Ecoside, 2006, "*Dosya: "Snow Birds" ekonomisi 100 milyon doları buldu*", *Ecoside* 2, 42-47.
- Eichengreen, B., R. Faini, J. von Hagen, C. Wyplosz, 2004, "*Economic Aspects of the Annan Plan for the Solution of the Cyprus Problem: Report to the Government of the Republic of Cyprus*", Unpublished manuscript.
- 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, 128-143.
- Hale, W., 2000, "*Turkey and Regional Politics after the Cold War: Greece, Cyprus*," *Turkish Foreign Policy, 1774-2000*, London: Frank Cass Publishers.
- Mavratsas, C. V., 1997, "*The Ideological Contest Between Greek-Cypriot Nationalism and Cypriotism 1974-1995: Politics, Social Memory and Identity*," *Ethnic and Racial Studies*, v 20 no 4.
- Mehmet, Ö., M. Tahiroğlu, F. Lisaniler, and S. Katırcıoğlu, 2006, "*Labour Mobility and Labour Market Convergence in a Possible United Republic of Cyprus*", The Management Centre of the Mediterranean, Nicosia, Cyprus, Unpublished manuscript.
- Mehmet, Ö., 2005, "*Managed Economic Convergence in a future Cyprus*", Unpublished manuscript.
- Noë, W. and M. Watson. 2005, "*Convergence and Reunification in Cyprus: Scope for a Virtuous Circle*", *ECFIN country Focus* 2 (3), 1-7.
- Saoulli, A., 2006, "*Greek Cypriots Spend on Entertainment in the North, Turkish Cypriots on Supermarkets in the South*", Cyprus Mail, Friday, August 25, 2006, <http://www.cyprus-mail.com/news/>

Stefanidis, I., 1999, "*Isle of Discord: Nationalism, Imperialism and the Making of the Cyprus Problem*", New York: New York University Press.

Stephens, R., 1996. "*Turkey and Greece: A History of Colliding*" in: *Cyprus: A Place of Arms*, London: Praeger.

Vassiliou, G., et al, 2003, "*The Economics of the Solution Based on the Annan Plan*", Unpublished manuscript.

Ugur, M., 2003, "*Convergence and the Cypriot Economies: Time Series Theory and Evidence: 1977-2000*", *Ekonomia* 6(1), 19-38.

Volkan, V., 1979, "*From Cyprus---War and Adaptation*", University Press of Virginia.

Wolfson Cyprus Group Conferences in 2004, 2005 and 2006. A number of unpublished papers by various participants, <http://www.mc-med.org>