

Full Length Research Paper

Economic and political attitudes of Turkish Cypriots towards European Union

Okan Veli İsafaklı

Faculty of Business and Economics, European University Of Lefke , Gemikonagi-Lefke , Northern Cyprus, Mersin 10 Turkey. E-mail: osafakli@eul.edu.tr. Tel: +90 392 660 2000. Fax: +90 392 727 75 28.

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Due to its unique political condition, Turkish Republic of Northern Cyprus (TRNC) can directly become a member of the European Union (EU) that will be identified as a Federal State without negotiation, due to the solution to Cyprus' problem. Accordingly, Northern Cyprus and Southern Cyprus together, as the constituent states of the Federal Government will be under the umbrella of the EU. However, it should be emphasized that, current economic performance such as price stability and budgetary discipline of Northern Cyprus is not enough, for meeting the convergence criteria of becoming a full member of the European Monetary Union (EMU). Therefore, potential problems of the Federal Government in qualifying for EMU should be proactively considered and consequently, corrective measures should be taken. In addition to reviewing the economic performance of Northern Cyprus, the study will focus on the research designed, as attitudes of Turkish Cypriot residents towards EU membership and Euro (€) usage. As a summary of the research, the psychological condition of Turkish Cypriot residents can be expressed as ontological uncertainty. Such that, while positive comments to EU membership and Euro usage are stated, Turkish Cypriots believe that neither the settlement of Cyprus issue nor the recognition of TRNC will become true.

Key words: Turkish Republic of Northern Cyprus (TRNC), people, European Union (EU) membership, European Monetary Union (EMU).

INTRODUCTION

As it is widely known, countries applying for European Union (EU) membership have the main target of promoting economic and social progress (help people earn enough money and get treated fairly).

As the preconditions for EU accession – the so-called Copenhagen criteria – also addressed the need for monetary policy convergences and included (Allam, 2009; ECB, 2009): the achievement of stable institutions guaranteeing democracy, the rule of law, respect for human rights and the protection of minorities; the existence of a functioning market economy; the capacity to cope with the pressure and market forces likely to be faced within the Union; and full acceptance of the *acquis communautaire*, that is the ability to take on the obligations of EU membership, including adherence to the aims of political economic and monetary union (cf. Conclusions of the Presidency SN 180/1/93).

It should be pointed out that, becoming a full EU member does not guarantee the usage of Euro. The ERM participation requirement is one of the convergence or Maastricht criteria, as described in article 121 (1) TEC.

The convergence criteria need to be fulfilled, in order to qualify for Euro zone membership (Allam, 2009; European Commission, 2007; Moffett et al., 2009) consists of price stability: For a year before assessment, the inflation rate must not exceed by more than 1.5 % that of the three best-performing member states; budget deficit: The budget deficit must not exceed 3% of GDP; national debt: Government debt must not exceed 60% of GDP; long-term interest rates: The long-term interest rate should not exceed more than 2% the average of the three member states with the lowest inflation rates; and participation in the exchange rate mechanism: The currency must stay within the narrow ranges of the ERM, with no realignment for at least two years.

Turkish Cypriot authorities are currently implementing "Programme for the Future Adoption of the *Acquis*" (PFAA) in order to fulfil the relevant economic and political criteria as the preconditions for EU accession. The institution founded and delegated for implementing the programme is European Union Coordination Center (EUCC). In this programme "Harmonisation with EU

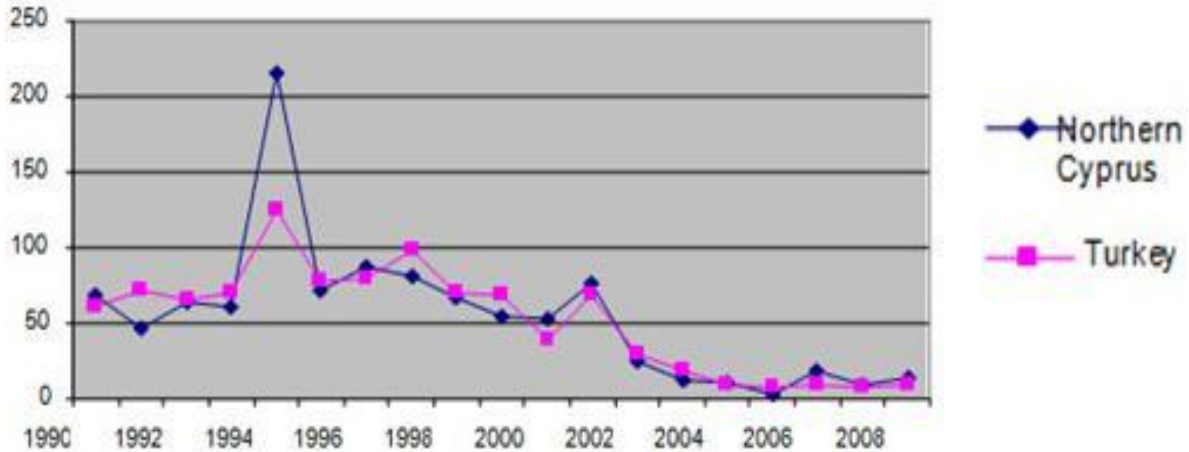


Figure 1. Inflation rate in Turkey and Northern Cyprus (1990-2008). Sources: Northern Cyprus State Planning Organization- State Statistical Institute of Turkey-Central Bank of Turkey.

legislation” and “Capacity Building” is scheduled under several chapters reflecting economic and political criteria, such as free movement of capital, public procurement, company law, competition policy, financial services, social policy and employment and consumer and health protection. Programme for the Future Adoption of the Acquis (PFAA) covers the years 2009 to 2011, despite the fact that timetable should be extended, due to the global financial crises and change of government in April 2009.

The strategies of the 12 chapters of the PFAA are composed of two main parts: The first part, includes the general sectoral analysis in the EU, EU Legislation to be harmonised and administrative requirements to implement the acquis while the second part, includes a brief overview of the current domestic situation and EU practices, in the identified priority areas and schedules respectively for legislative harmonisation, capacity building and financial requirements. In the programme, schedules for financial requirements are prepared only for 2009. In the schedule for harmonisation with EU Legislation, the date given for the primary legislation represents the date of submission to the Parliament and the date given for the secondary legislation, represents the date of submission to the Council of Ministers (EUCC, 2009).

Although the “Programme for the Future Adoption of the Acquis” (PFAA) is currently implemented, the potential of TRNC to fulfil the convergence criteria, in order to qualify for Euro zone membership is unfortunately not satisfactory. Turkish Cypriot (TC) economy is directly exposed to economic and financial crises in Turkey, due to the fact that, trade isolation, access to international markets via Turkey and the usage of TL as legal tender (dollarization) make TC economy highly vulnerable to Turkey’s economy. Therefore, convergence criteria of stability in prices, interest rates and exchange rates are directly related to Turkey’s macroeconomic indicators

(Besim et al., 2009). In TRNC, there is no relation between the inflation target and its monetary policy due to the fact that, Turkish Lira has been in circulation as a legal tender during the period of dollarization. This makes the inflation occurring within Turkey as the basic originator of inflation for TRNC. Figure 1 illustrates the inflation for Northern Cyprus and Turkey in parallel with respect to each others. Time-series analysis conducted to examine the interaction between the inflation rates of two countries shows that they are co-integrated (afakli and Özde er, 2010). However, it should be noted that lower inflation rates, followed by lower interest rates in TL, created certain stability as well as positive impacts on competitiveness (Süreç, 2009)

Similar to inflation rates, real growth rates in two countries are found to be significantly correlated ($r= 0.539$). As indicated in Figure 2 except 3 out of 21 years’ real growth rates in Turkey and Northern Cyprus, followed the same trend at different rates. According to period of 1998 to 2008 average growth rate in Turkey and Northern Cyprus became 4.014 and 4.9% respectively. Particularly for the period between 2003 and 2008 average growth rate in Northern Cyprus (8.7%) was greater than that of Turkey (5.8%) due to the positive effects of Annan Plan on the T/C investment climate.

When the convergence criteria of fiscal discipline is considered, it is clear that the position of TRNC is worst than Greece. As shown in Figure 3, the ratio of budget deficit of TRNC to GDP was 16% in 2009 while this ratio in Greece was 12.7% for the same year. This deficit is actually financed by Turkey’s donors even though the specified percentage is officially recorded as credit. Thus, there is no payment of debt stock declared by TC authorities and demanded by authorities of Turkey. As a final introductory remark, it should be stressed that the society of country applying for EU membership should also have positive attitudes towards EU membership, so as to smooth out social and physiological dimensions of

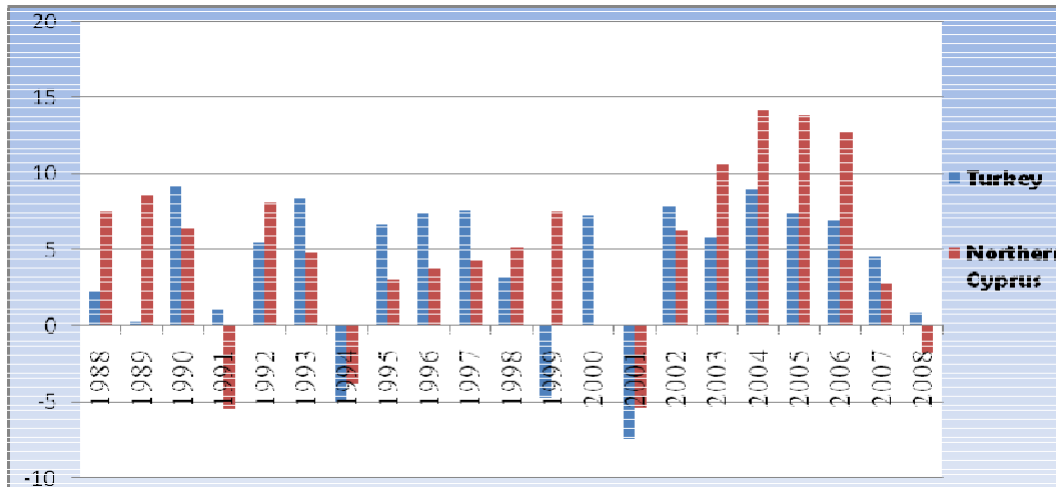


Figure 2. Real growth rates in Turkey and Northern Cyprus (%) (1988-2008). Source: Northern Cyprus state planning organization-state statistical institute of Turkey.

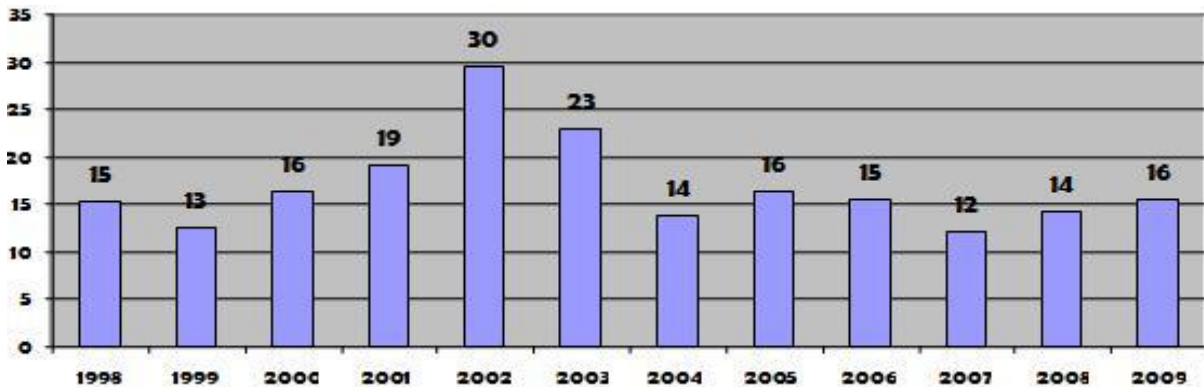


Figure 3. The ratio of TC budget deficit financed by Turkey to GDP (%). Source: Northern Cyprus State Planning Organization.

membership. This study researches attitudes of Turkish Cypriots, towards EU membership and Euro usage

Research study

In addition to examining the economic potential of TRNC in fulfilling convergence criteria of EU accession and adopting Euro, attitudes of Turkish Cypriot residents towards EU membership and Euro (€) usage had also been researched. In this respect, questionnaire consisted of demographic characteristics and questions related to EU membership, Euro usage, expectations of economic development, Cyprus question, recognition of TRNC and Turkey's probable reaction. The research applying non-probability convenience sampling towards Turkish Cypriots residing in various cities of Northern Cyprus was conducted during the period of September 2009, completing 823 valid questionnaires. Both demographic and other

items were tested, to check if they were parametric or not. According to "One-Sample Kolmogorov-Smirnov test" all variables proved not to be normally distributed. Therefore, in addition to percentage analysis, non-parametric tests of Kruskal-Wallis test and Friedman test will be applied.

According to answers of Turkish Cypriot residents shown in Table 1, ontological uncertainty reducing the people's motivation for efficiency and productivity is observed. Depending on the responses, a majority of Turkish Cypriots prefer to use Euro as stable currency, even though they think that Turkey will not permit the usage of Euro as a legal tender in TRNC. Therefore, as an alternative way they state that indexing TL to Euro at a fixed percentage will be beneficial to TRNC economy. The final part of the questionnaire reflects deadlock as a case of despair. Turkish Cypriots believing that TRNC should be full member of EU assert that, it is not possible for TRNC to develop or achieve prosperity without being

Table 1. Answers of Turkish Cypriot residents to questionnaire.

Questions	Percentage of yes
Do you prefer to use any stable currency rather than TL?	60
If your answer is “yes” in the first question do you prefer it to be Euro?	66
Can usage of Euro as a legal tender in TRNC damage national values?	42
Do you think that Turkey will permit the usage of Euro as a legal tender in TRNC?	35
If Turkey does not permit the usage of Euro as a legal tender in TRNC indexing TL to Euro at a fixed percentage will be beneficial to TRNC economy or not?	54
Do you think that TRNC should be full member of EU or not?	70
Do you think that TRNC will be internationally recognized or not?	46
Is it possible for TRNC to develop without being internationally recognized?	40
Solution of Cyprus problem is a precondition for the welfare of TRNC or not?	73
Dou you believe that Cyprus problem will be settled or not?	42

Table 2. Attitudes of Turkish Cypriots in relation to sex (Mann-Whitney U test)*.

Question	Sex	N	Mean rank
Is it possible for TRNC to develop without being internationally recognized?	Female	361	394.19
	Male	461	425.06
Do you believe that Cyprus problem will be settled or not?	Female	360	390.79
	Male	459	425.07

*Significance level is less than 0.05.

Table 3. Attitudes of Turkish Cypriots in relation to marital status (Mann-Whitney U test)*.

	Marital status	N	Mean rank
Do you prefer to use any stable currency rather than TL?	Single	345	367.22
	Married	453	424.08
If your answer is “yes” in the first question do you prefer it to be Euro?	Single	290	311.68
	Married	389	361.12
Can usage of Euro as a legal tender in TRNC damage national values?	Single	346	430.92
	Married	454	377.31

*Significance level is less than 0.05.

without being internationally recognized or solving Cyprus' problem whereas they do not state positive beliefs to international recognition and solution to Cyprus' problem.

Realising the fact that remarkable demographic differences exist among Turkish Cypriot residents, demographic reactions of them towards EU membership and Euro usage should also be analysed, to improve the reliability and comprehensiveness of the research study. Kruskal-Wallis test and Friedman test were utilized for this purpose. “No” and “Yes” answers were coded as “1” and “2” respectively in the SPSS program. Therefore, this coding should be considered when commenting on

rankings. Demographic reactions will be handled according to questions in Table 1.

Mann-Whitney U Test reported 2 questions differentiating according to sex. As seen in Table 2 positive responses of males are more than females. Mann-Whitney U Test reported 3 questions, differentiating according to marital status. As seen in Table 3, married ones showed a more sensitive behavior than singles due to their responsibilities. Married persons are more willing to use stable currency and Euro than single persons. Furthermore, married persons acting more positively than singles, think that usage of Euro as a legal tender in TRNC will not damage national values. Kruskal-Wallis

Table 4. Attitudes of Turkish Cypriots in relation to Profession (Kruskal-Wallis Test)*.

Question	Profession	N	Mean rank
Do you think that TRNC should be full member of EU or not?	State employees	174	366.86
	Private sector employees	383	378.35
	Shopkeepers and businessmen	149	394.00
	Retired	69	481.93
	Total	775	

*Significance level is less than 0.05.

Table 5. Attitudes of Turkish Cypriots in relation to Nationality (Kruskal-Wallis test)*.

Questions	Nationality	N	Mean rank
Do you prefer to use any stable currency rather than TL?	Turkey	81	277,76
	TRNC	582	422,85
	TRNC and Turkey	127	401,32
	Other	23	492,41
	Total	813	
If your answer is "yes" in the first question do you prefer it to be Euro?	Turkey	64	272,97
	TRNC	498	368,93
	TRNC and Turkey	114	313,09
	Other	21	303,05
	Total	697	
Can usage of Euro as a legal tender in TRNC damage national values?	Turkey	84	481,36
	TRNC	585	398,50
	TRNC and Turkey	126	413,36
	Other	22	386,86
	Total	817	
If Turkey does not permit the usage of Euro as a legal tender in TRNC indexing TL to Euro at a fixed percentage will be beneficial to TRNC economy or not?	Turkey	84	317,46
	TRNC	583	424,11
	TRNC and Turkey	127	407,30
	Other	23	369,72
	Total	817	
Solution of Cyprus problem is a precondition for the welfare of TRNC or not?	Turkey	84	411,38
	TRNC	585	418,34
	TRNC and Turkey	127	389,68
	Other	23	305,11
	Total	819	

*Significance level is less than 0.05.

test reported only 1 question differentiating according to profession. As seen in Table 4, it can be concluded that professional reactions reflect the potential threats of EU membership perceived by respective professions. In this regard, minimum and maximum threats perceived belong to state employees and retired persons respectively.

Kruskal-Wallis test reported 5 questions differentiating according to nationality (Table 5). When compared to

other nationalities, TRNC nationalities have more ambitions towards using stable currency, adopting Euro, finding solution to Cyprus' problem, indexing TL to Euro. Furthermore, they have less belief that using Euro as a legal tender will damage national values. Kruskal-Wallis test reported 6 questions differentiating according to political thought (Table 6). When political dynamics of Northern Cyprus is considered, it is not surprising to

Table 6. Attitudes of Turkish Cypriots in relation to political thought (Kruskal-Wallis test)*.

Questions	Political thought	N	Mean rank
Do you prefer to use any stable currency rather than TL?	Extreme left	91	404,56
	Left and Center left	362	438,86
	Right and Center right	263	358,41
	Extreme right	68	261,41
	Total	784	
If your answer is “yes” in the first question do you prefer it to be Euro?	Extreme left	87	386,57
	Left and center left	318	353,40
	Right and center right	220	319,76
	Extreme right	51	244,42
	Total	676	
Can usage of Euro as a legal tender in TRNC damage national values?	Extreme left	97	319,25
	Left and center left	362	377,20
	Right and center right	261	415,44
	Extreme right	68	513,55
	Total	788	
Do you think that Turkey will permit the usage of Euro as a legal tender in TRNC?	Extreme left	97	408,91
	Left and center Left	362	420,47
	Right and center right	263	371,00
	Extreme right	68	338,22
	Total	790	
If Turkey does not permit the usage of Euro as a legal tender in TRNC indexing TL to Euro at a fixed percentage will be beneficial to TRNC economy or not?	Extreme left	97	446,20
	Left and center left	361	404,19
	Right and center right	262	375,71
	Extreme right	68	341,71
	Total	788	
Do you think that TRNC should be full member of EU or not?	Extreme left	97	310,30
	Left and center left	362	375,61
	Right and center right	262	422,39
	Extreme right	68	513,50
	Total	789	

*Significance level is less than 0.05.

observe those identifying themselves as leftists to declare attitude similar to original TRNC nationalities. Such that, leftists have more ambitions towards stable currency, Euro usage, EU membership and indexing TL to Euro while having less belief that, using Euro as a legal tender will damage national values.

Conclusion

As a result of Annan plan and rising positive expectations of solution to Cyprus problem, authorities of TRNC put into practice the “Programme for the Future Adoption of

the Acquis” to harmonize with EU legislation and economic, social and democratic structure. However, the implementation of this program did not show significant phase due to governmental changes and the insensitive attitude of the European community towards Turkish Cypriots. Therefore, there are vital steps to be taken, so as to fulfil the requirements of EU accession – the so-called Copenhagen criteria. Parallel to the potential of becoming a full member of EU, TRNC is also not capable of qualifying for EMU. Even though TRNC can not be accused of price stability directly depending on the economy of Turkey, responsibility of fiscal discipline belongs entirely to the TRNC authorities. Budget deficit of

TRNC is worse than that of Greece. In other words, TRNC is technically bankrupt and can actually go into bankruptcy, if Turkey does not or cannot finance budget deficit of TRNC.

Despite the above cons of EU membership and adopting Euro, Turkish Cypriots stated positive opinion about EU membership and adopting Euro. But, they are in psychological dilemma. Their beliefs do not overlap with the aim of EU membership and adopting Euro. This is because their beliefs are contradictory to the economic structure necessitating either the solution of Cyprus problem or recognition of TRNC. The most striking demographic reactions of Turkish Cypriots are observed in terms of nationalities and political thought. Such that original TRNC nationalities and leftists almost declared the positive attitude towards EU membership and Euro usage, contrary to Turkey's probable reaction, due to nationalistic values relative to other nationalities and political thought.

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