

STATEHOOD STRUGGLE WITHIN THE CONTEXT OF A PROTRACTED  
CONFLICT; POLITICAL ECONOMY OF THE TURKISH CYPRIOT CASE

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## ABSTRACT

STATEHOOD STRUGGLE WITHIN the CONTEXT of a PROTRACTED  
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The Cyprus Problem was predominantly studied as a protracted conflict of clashing nationalisms and the TRNC-Turkey relation was depicted as a “dependency relation” that developed between a core and a periphery. This thesis suggests an alternative reading for both issues and analyses their relationship from a critical political economy perspective based on a realist epistemology by using the “dialectical method of inquiry”. It considers the Cyprus problem not only as an intercommunal conflict but more pertinently as a statehood struggle that was shaped by, and also shaping in return, the uneven and combined development of capitalism (UCDC) on the island and by the contradictions of capitalism on a regional scale. TC statehood struggle is considered as a constellation of class struggle that was conditioned by cross-cutting and overlapping issues of ethnic cleavages and rising nationalisms and its closely linked to the GC statehood struggle hence they shall be analysed as complementary processes rather than competitive ones *vis a vis* UCDC on the island. The TC State is depicted as a capitalist social formation that is shaped by the changing relations of production,

and the TC State-Turkey relationship is regarded as an “internal relation”, whose form and essence are constantly reproduced by hegemonic relations within the power bloc in the north, providing relative autonomy to the TC State *vis a vis* this bloc. The state and society in Cyprus are undergoing a neoliberal transformation in parallel to the rise of a new form of imperialism in the South Eastern Mediterranean after the 2000s that deepened the divide on the island across hydrocarbon politics.

**Keywords:** Cyprus problem, statehood struggle, uneven and combined development, relative autonomy, internal relation.

## ÖZ

### ÇATIŞMALI BİR SÜREÇTE DEVLET OLMA MÜCADELESİ; KIBRIS TÜRK TOPLUMUNUN SİYASAL İKTİSADİ ANALİZİ

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Kıbrıs Sorunu literatürde ağırlıklı olarak, karşıt milliyetçiliklerin uzun süreli çatışması olarak incelenmiş ve KKTC-Türkiye ilişkisi bu sorun çerçevesinde “merkez ve çevre” arasında gelişen bir "bağımlılık ilişkisi" olarak tasvir edilmiştir. Bu tez, her iki mesele için de alternatif bir okuma önermekte ve bu meselelerin birbiriyle ilişkilerini “diyalektik sorgulama yöntemi” kullanarak gerçekçi bir epistemolojiye dayanan eleştirel bir politik ekonomi perspektifinden analiz etmektedir. Bu bağlamda Kıbrıs sorunu, yalnızca toplumlararası bir çatışma olarak değil, kapitalizmin eşitsiz ve bileşik gelişimi (KEBG) altında şekillenen -aynı zamanda onu şekillendiren- ve kapitalizmin bölgesel ölçekte ortaya çıkan çelişkileriyle koşullanan bir devlet olma mücadelesi olarak değerlendirmektedir. Kıbrıslı Türklerin devlet olma mücadelesi, etnik bölünmelerin ve yükselen milliyetçiliklerin kesişen ve örtüşen sorunları tarafından koşullandırılan sınıf mücadelelerinin birleşik kümesi olarak tanımlanmaktadır. Bu mücadele adada gene KEBG altında şekillenen Kıbrıslı Rumların devlet olma mücadelesiyle yakından bağlantılı olduğundan, iki mücadele yalnızca birbirleriyle

rakip süreçler olarak değil aynı zamanda birbirlerini tamamlayan süreçler olarak analiz edilmiştir. KT Devleti, değişen üretim ilişkileriyle şekillenen kapitalist bir toplumsal oluşum olarak tasvir edilmekte ve KT Devleti-Türkiye ilişkisi, biçimi ve özü ağırlıklı olarak iktidar bloğu içindeki hegemonik ilişkilerle sürekli yeniden üretilen bir "iç ilişki" olarak tanımlanmaktadır. Bu çerçevede şekillenen toplumsal oluşum KT Devletine zamanla Türkiye'nin de 1974'den sonra içerisinde hegemon bir güç haline geldiği kuzeydeki güç bloğu karşısında görece özerk bir konum sağlar. 2000'li yıllarla beraber Güneydoğu Akdeniz'de yeni bir emperyalizmin yükselişine paralel olarak Kıbrıs'ta devlet ve toplum neoliberal bir dönüşüm geçirmekte ve bu süreçte öne çıkan hidrokarbon politikaları sonucunda adadaki bölünme giderek derinleşmektedir.

**Keywords:** Kıbrıs sorunu, devlet olma mücadelesi, eşitsiz ve bileşik gelişme, görelî özerk, iç ilişki.

*To my dear Hayri Uzay,*

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## LIST OF ABBREVIATIONS

AKEL: Anorthotikó Kómma Ergazómenou Laoú-The Progressive Party of Working People

AKP: Adalet ve Kalkınma Partisi-Justice and Development Party

ANAP: Anavatan Partisi-Motherland Party

AP: Adalet Partisi-Justice Party

BDH: Barış ve Demokrasi Hareketi

BG: Birleşik Güçler-United Forces

CB: Central Bank of Republic of Turkey

CHP: Cumhuriyet Halk Partisi-Republican People's Party

CMoP: Capitalist Mode of Production

CTP: Cumhuriyetçi Türk Partisi-Republican Turkish Party

DECO: Development and Economic Cooperation- Kalkınma ve Ekonomik İşbirliği Ofisi

DIKO: Dimokratikó Kómma-Democratic Party

DISY: Dimokratikós Sinagermós-Democratic Rally

DP: Demokrat Parti-Democrat Party

DPT: Devlet Planlama Teşkilatı-State Planning Organization

DSP: Democratic Left Party-Demokratik Sol Parti

DYP: Doğru Yol Partisi-True Path Party

EDEK: Kinima Sosialdimokraton- Movement for Social Democracy

EEZ: Exclusive Economic Zone

EOKA: Ethnikí Orgánosis Kipriakou Agónos-National Organization of Cypriot Struggle

EU: European Union

FP: Fazilet Partisi-Virtue Party

FYDP: Five Year Development Plan

GC: Greek Cypriot

GCs: Greek Cypriots

GDP: Gross Domestic Product  
IMF: International Monetary Fund  
ISI: Import-Substituting Industrialization  
KEİ: Kalkınma ve Ekonomik İşbirliği Ofisi – Develeopment and Economic Association office  
KTAMS: Kıbrıs Türk Amme Memurları Sendikası-Turkish Cypriot Civil Servants Union  
KTİBK: Kıbrıs Türk İşçi Birlikleri Konfederasyonu-Central Committee of the Turkish Cypriot Unions  
KTTO: Kıbrıs Türk Ticaret Odası-Turkish Cypriot Chamber of Commerce  
MHP: Milliyetçi Hareket Partisi- Nationalist Action Party  
MÜSİAD: Müstakil Sanayici ve İş Adamları Derneği-Independent Industrialists and Businessmen's Association  
OECD: Organisation for Economic Co-operation and Development-Ekonomik Kalkınma ve İşbirliği Örgütü  
ÖRP: Özgürlük ve Reform Partisi-Freedom and Reform Party  
PEO: Pankýpria Ergatikí Omospondía-Pancyprian Federation of Labour  
PM: Prime Minister  
PTCA: Geçici Kıbrıs Türk Yönetimi-Provisional Turkish Cypriot Administration  
RoC: Republic of Cyprus  
RP: Refah Partisi-Welfare Party  
SEE: State Economic Enterprises  
SEM: South Eastern Mediterranean  
SME: Small and Medium Scale Enterprises  
SPO: State Planning Organization-Devlet Planlama Teşkilatı  
TC: Turkish Cypriot  
TCA: Turkish Cypriot Administration  
TCs: Turkish Cypriots  
TCC: Turkish Cypriot Community  
TCFS: Turkish Federated State of Cyprus-Kıbrıs Türk Federe Devleti  
TRNC: Turkish Republic of Northern Cyprus-Kuzey Kıbrıs Türk Cumhuriyeti  
TÜSİAD: Türkiye Sanayici ve İşadamları Derneği-Turkish Industrialists and Businessman Association

UBP: Ulusal Birlik Partisi-National Unity Party

UCDC: Uneven and Combined Development of Capitalism

WB: World Bank

## CHAPTER 1

### INTRODUCTION

#### 1.1 The Aim of the Thesis

The Cyprus problem has long been under the scrutiny of the international relations discipline, mainly under the domain of the security and international law studies that were seeking to find an answer, if not a solution, to this “protracted social conflict” (Azar, 1990: 146). However, despite being host to one of the longest UN peacekeeping missions, the small island was under the spotlights only with reference to its geopolitical role within the “strategic game” of the big powers, and even so, the island’s importance was regarded as “more imagined than real.” (Varnava, 2009: 3).

Although a respective amount of literature piled up after 1974 on the socio-cultural setting shaped by the ethnic and religious conflict and the rise of nationalism as a key component of the problem (cf. Bryant, 2004) the constitutive effect of the material conditions on the trajectory of the statehood struggle of the Turkish Cypriot and the Greek Cypriot communities and on the rising nationalisms remained unattended. Apparently, this had two main reasons; firstly, the island had been characterised as having a “simple economy” (Thorp, 1978) and the economy of the North was studied with reference to its “small market” (Warner & Akis, 1998: 1), in need of practical policy advices to cope with the restrictions that are imposed on it. Secondly, and probably more essentially, because of the bloodshed during the 1960s and 1970s, both sides could not leave aside their communal grievances, thus the ethnic and/or religious dimensions of the Cyprus problem would come to the fore.

In this context, a political economy perspective was largely neglected, even for positing it in relation to the rising nationalisms on the island, at least until it became imperative to analyse the neoliberal transformation in Cyprus after the mid-2000s due to four major developments. Firstly, the gap between the Northern and Southern economies became blatant after the EU membership of RoC as the sole representative of the island of Cyprus. Secondly, RoC had experienced its own sovereign debt crisis as part of the evolving Eurozone crisis in the wake of the 2008 global financial crisis. Thirdly, the privatization agenda for the TC SEEs was kick-started by the AKP governments in order to shrink the public sector in the north. And last but not least, the hydrocarbon discoveries around the island changed the trajectory of the negotiation process from a diplomatic marathon towards an open confrontation between the parties for exploiting the natural resources in the South Eastern Mediterranean (SEM) region with significant geopolitical implications.

The aim of this thesis is therefore to provide an alternative reading of the TC State-Turkey relationship from a critical political economy perspective and make a class-based analysis of the statehood struggle of the TCC *vis-à-vis* the uneven and combined development of capitalism on the island under the historical trajectory of the Cyprus problem. Adopting a critical political economy perspective, this thesis would contend that the theoretical debates retain their explanatory power for analysing the state of affairs on “such a small island”, where these more general theoretical controversies are condensed in a micro-scale yet immaculate and robust framework. With this effort, this thesis regards the Cyprus problem not merely as an intercommunal conflict triggered by ethnic/religious cleavages, but more pertinently as a statehood struggle, conditioned by UCDC in a specific conjuncture of clashing nationalisms, and by the contradictions of capitalism on a regional scale (cf. Peck, 2016).

In this regard, this thesis would try to point out that the rising nationalisms and the statehood struggle on the island were conditioned by the uneven and combined development of capitalism. In the same manner, the emergence of various TC administrations under different institutional forms will rather be considered as successive phases of a state-building process. Hence, an analysis of the Cyprus problem from an UCDC perspective requires an ontological mapping of the TC state-

society relations and their affinity with those of the RoC, Turkey, and the EU. It would thus regard the TC State as a “social relation” (cf. Poulantzas, 2000: 25), in which various contradictions are shaped by the relations of production, co-existing modes of production and the associated accumulation strategies on the island. With this purpose, this thesis addresses the TC State as its object of inquiry and tries to bring light to its historical formation as a capitalist type of state within the specific conjuncture of the Cyprus problem. Furthermore, it will be argued that the particular statehood strategies developed in a dynamic relationship of “mutual dependence” (Ollman, 1976: 18) with Turkey, and the changing modalities of this relationship had a critical impact on the trajectory of the Cyprus problem.

This perspective points to the need for a re-assessment of the relationship between the TC administrations and Turkey by looking beyond the traditional dependency approach that became dominant as a point of reference for defining this relationship since the 1980s. In this regard, this thesis attempts to reconsider the dependency narrative from a critical political economy perspective. It employs the concept of “relative autonomy” to characterise the TC State-Turkey relations in order to analyse the changing modalities of the TC State’s relations with Turkey and its effect on the Cyprus problem as a protracted conflict. The thesis would therefore adopt the strategic-relational approach as an analytical tool for an alternative reading of the Turkey-TC State relationship not in essentialist terms which posits moments of dependency and autonomy on a linear basis, but rather for analysing their conflicting and/or consensual co-existence in critical conjunctures.

This thesis will try to point out how this relative autonomy provided the TC State the capacity to prioritize its “strategic selectivities” (cf. Jessop, 2014) under different social formations with specific functions *vis-à-vis* Turkey and other fractions and interest groups in the north, as well as against the GC governments during the negotiation process. These strategic selectivities were historically conditioned by the tragic events that took place in Cyprus starting from 1960s onwards, which left the TCC unprotected under the GC ultranationalist aggression until 1974. Hence the TC entity was regarded by the Turkish people and governments as the “babyland” in despair, in need of Turkey’s protection.

Thereby, the thesis would attempt to problematize the relationship between the form and function since there is a predominant tendency in the literature concerned which, as Jessop (1990: 86) noted, “try to derive the state's necessary form from the functions it must perform”. This functionalism was also dominant in TÜSİAD’s (Turkish Industry and Business Association) reports that were prepared with a market-based approach which were also effective in shaping the Turkish governments’ Cyprus policies since the 1980s. It was also predominant in the EU documents and in the GC governments’ accounts during the negotiations, defining the TC State’s relations with Turkey as a dependency relation, regarding the TC State as a “satellite-state” under the protection of the “motherland” Turkey, or “those areas” “of the Republic of Cyprus in which “the Government of the Republic of Cyprus does not exercise effective control” (para. 3)<sup>1</sup>.

In the traditional “dependency” narrative, the TC Society appears as a homogeneous totality, the TC State as a “unitary thing” and Turkey as the “Motherland”. Turkey and the TC State are considered as the parts of an emergent social whole, not as autonomous parts that can be detached from each other. This perspective offers a limited and distorted understanding of the formation of the TC State, as well as the substance of its relationship with Turkey and its Greek Cypriot counterpart. It employs an essentialist view and defines this relation as a “one-way” and/or “top-down” relation; in which Turkey “provides and orders” and the north “accepts and obeys”, as if in a hierarchical chain of command.

Nevertheless, it should be pointed out that there are two strands of this dependency approach, which are closely related to each other in terms of their inferences. We can point to their peculiarities by using DeLanda’s reformulation of the Deleuzian Social Ontology by using the concepts of “relations of exteriority” and “relation of interiority” to define the social wholes (DeLanda, 2006: 1). The first strand is dominated by the functionalist perspective and guided by the market-capacity approach, that puts emphasis on the trade and aid relation between the north and Turkey. This denotes a one-way relation in which the north clearly is in a disadvantaged position, although it is the receiver of the financial “benefits” from

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<sup>1</sup> European Commission (EC), 2003, Protocol No 10 on Cyprus, [https://eur-lex.europa.eu/eli/treaty/acc\\_2003/act\\_1/pro\\_10/sign](https://eur-lex.europa.eu/eli/treaty/acc_2003/act_1/pro_10/sign), retrieved on 20.10.2019.

Turkey. The form of “dependency” that the functionalist perspective confers is a relation between a core (Turkey) and a periphery (TC State), hence it, actually denotes a “relation of exteriority” in which the periphery is dependent on the core, mainly in financial terms. From this perspective, Turkey and the TC State has “properties of a whole that are not present in its parts” (DeLanda, 2006) - such as Turkey’s Customs Union membership, or a TRNC’s EU membership under the RoC - hence this perspective attributes a relative autonomy to the parties of the whole, the capacity to enter into new relationships independently from each other.

The second strand is dominated by the nationalist perspective, which is guided by the “national cause” narrative, that puts emphasis on the ethnic, religious and cultural ties between Turkey and the north, in which Turkey is located in the “core”, this time as the generator and the guarantor of the common ideals and values around “Turkishness”. The form of “dependency” that the nationalist perspective confers denotes a “relation of interiority”, in which “being part of this whole” is a key characteristic of the parts that have “emergent properties” from this relationship and they “cannot subsist independently of the relations they have with each other” (DeLanda, 2006). This denotes a top-down relation, in which the TC State has no autonomy, hence directly adopts the policy decisions from Turkey. This perspective uses “dependency” for connoting the superior position of Turkey over the north, whose power transcends the “social whole” that it unites, yet, actually the “national cause” had become an “emergent property” and an existential part of Turkey’s national unity narrative since 1963, hence the TC State had become an innate part of this relationship and the social whole it constellates.

In this regard, this thesis aims to posit its theoretical, ontological and epistemological framework amidst the underlying processes as well as material conditions that constituted the TC State-Turkey relationship under the historical trajectory of the Cyprus problem. According to Yalman (2009: 110), “a realist epistemology is, therefore, necessary since essential relations, unlike phenomenal forms, need not be transparent to direct experience and observation.” Moreover, he suggested that we need to adopt a non-essentialist realism based on internal relations. This, in turn, implies that the state should not be conceived as “an ontologically distinct entity from the society and/or classes”. This would point, in the TC State context, the

re-conceptualization of its relationship with Turkey as a form of “internal relation” in the trajectory of the combined and uneven development of capitalism, deriving from Ollman’s “philosophy of internal relations” (Ollman, 1976; 2003), which suggests that the “particular ways in which things cohere become essential attributes of what they are” (Ollman, 2003: 72). Inspired by this realist methodology, the Turkey-TC State relationship shall henceforth be analysed as an internal relation, in which its parts are constituted in a dynamic relation of “mutual dependency” (cf. Ollman 1976: 18), rather than being “fixed” to their “original positions”<sup>2</sup> in a dependent relationship. It also implies the need to explore the peculiarities of their relationship in the context of UCD and the identity building processes on the part of the TC community, and the extent to these peculiarities and processes provided relatively autonomous spaces to the parties concerned.

Upon that basis, it will be argued in this thesis that the foundations of Turkey’s power in the north, which transcends its ostensible spheres of influence over the TC economy and/or politics, should be understood in relational terms. That is to say, Turkey’s “power” in the north - which is regarded as the substance of the dependency situation - could neither be reduced to military/political power, which is exerted upon the TC politics “from above”, nor to a financial power by which Turkey “directly” intervenes to the economic space in the north. Turkey’s power is rather generated from within the power bloc in the north and it is unevenly and indirectly distributed upon the political, economic and ideological instances of the TC social formation via the fractions of the power bloc only after being translated into the common interest narrative in the form of “national-popular programs” (cf. Poulantzas, 2000: 49). In the same manner, the TC statehood struggle is constantly (re)produced by class struggle that is waged both within and outside the power bloc in the north and it is not a set of policy decisions engendered either by Turkey’s power and/or by the TC State’s ruling elite, but rather an effect of a dynamic social contestation. It existed long before Turkey’s military intervention in 1974 and the establishment of the TC State in 1975,

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<sup>2</sup> In the case of Turkey-TC relationship the original position can be considered as Turkey’s guarantor status when the TCs were a legal community under the RoC. Ollman makes reference to Marx in this regard who argued that “The circumstances under which a relation occurs for the first time, “*by no means shows us that relation either in its purity or in its totality*” (Marx, 1971:205) in Ollman (2003).

hence was determinant in shaping the historical formation of the TC administrations and states, not *vice versa*.

### **1.1 The Methodological Framework and the Problematic of “Change”**

“Change” is a key phenomenon within the tradition of historical materialism. According to Holton (1981: 834), Marx’s views on the material conditions of social change, which Holton described as “brief and unsystematic”, evolved over time; from 1840s’ *German Ideology* in which the “exchange relations” was the basis when discussing the material conditions of change from a political economy perspective, to the 1860s’ *Capital* by which Marx coined the concept of “social relations of production” and re-casted the classical labour theory of value. On the other hand, Wright (1983: 35) pointed to the primacy of class in the analysis of social structure and social change for Marxism. Despite different contexts within which change may occur, Wright pointed that Marx described social change in relational terms, and for Marx social change always occurred as a result of class struggle.

By the same token, Ellen Wood (1984: 100) iterated that for Marx, change is an inexorable phenomenon; a historical process within which the productive activities in human social organizations are key for “discovering the logic of process in history”. Hence it could be argued that “change” is the standard for any society, not the aberrance. However, Wood pointed out that Marx’s theory of history doesn’t involve a linear trajectory of events but rather pointed to the material conditions and forces at work, which are the key constrains for analysing a particular transition phase.

From a Marxist philosophical perspective, using the dialectical method of inquiry, Ollman argued that Marx’s methodology aims to understand change through the process of abstraction. Marx’s method starts with the “real concrete” or what he calls “the world as it presents itself to us” and then proceeds through “abstraction”, “the intellectual activity of breaking this whole down into the mental units with which we think about it”, to the “thought concrete”, that Ollman described as “the reconstituted and now understood whole present in the mind” (cf. Ollman, 2003: 59). By the same token, in order to employ a dialectical approach for the analysis of the so-called “change process”, which the TC State and the Cyprus Problem was posited as going through after the 2000s, we need to point out to their relationship within a

historical and relational context and in doing so, we need to “parcel out” the “real concrete” into “thought concrete”.

Ollman also pointed out that (2003: 60) the “problem” for the proper use of the dialectical methodology is “how to think about change and interaction”. As he put it in his *Dance of the Dialectic* that “[e]veryone recognizes that everything in the world changes somehow and to some degree, and that the same holds true for interaction”. The real challenge is, therefore, “how” to capture it. This “challenge” is a prominent feature of the Cyprus problem too. Stavrou Michael (2009: 195) argued that “since the acceptance of a bicomunal/bizonal federation, negotiations followed a cyclical pattern where disagreements on the substantial issues saw both sides retreat to their entrenched positions”. The Cyprus problem may, at first glance, appear as a “paradox”, composed of a unilinear, path-dependent negotiation process that is determined by a set of fixed interests and behavioural patterns of the actors whose “intentions” are “well-known” and “fixed”, then we might suppose that nothing really changes in Cyprus. In fact, Yalman (2016) pointed out that the more “change” is epitomized as an ultimate goal, the more the state of affairs seemed to have stayed the same in the protracted conflict of Cyprus.

However, as Ollman (2015) proposes, if we replace “paradox” with “contradictions” and regard the Cyprus problem from a dialectical perspective as a “complex” process determined by the “contradictory” interplay between the economic, political and social considerations, then we may begin grasping the Cyprus problematic as divided into abstract categories by using the dialectical method of inquiry (Ollman, 1977), which would then allow us to return back to the “presentation” of the “Cyprus problem” in its “real concrete” forms. Obviously, it is not only contingent upon the changes in the internal balance of forces, but also upon the changing conjuncture, along with the forms and levels of dependency.

In similar terms, the “statehood struggle of the TCs” within the context of the Cyprus problem shall be understood in relational terms, rather than purely observing the “statehood struggle” as an abstract category. In this regard, the “statehood struggle” shall be understood not only as a struggle waged by the TCs *vis-à-vis* the GCs, or the vice versa, within a specific period of time, but rather in its relational terms and as an “ensemble” of class struggle waged by the social forces in the north against the interest

groups as well as towards the hegemonic formations within the power bloc in “overlapping episodes” *vis-à-vis*, and in parallel to the GC and Turkish practices. The narrative of “change” in the north is such an abstraction if we omit the material conditions under which “change” is configured, such as the mode of accumulation at that point in time, under the dominant mode of production experienced under different state formations.

## 1.2 The Design of the Field Study and the Research Questions

This thesis benefits from the findings of a longitudinal research project undertaken by the Center for European Studies at METU<sup>3</sup>. The aim of that particular research project has been to problematise the notion of “change” in the context of the protracted conflict, identified as the Cyprus Question. By conducting in-depth, semi-structured interviews during visits made at different intervals, with the opinion leaders of the Turkish Cypriot Community, namely, the politicians, journalists, businesspeople, trade unionists, bureaucrats and with the members of the academia, it tried to evaluate the underlying reasons of the changing narratives and the positions of these opinion leaders over more than a decade, lasting from 1999 to 2016.

When I joined the research team in 2013, I began to participate in the semi-structured in-depth interviews in Northern Cyprus. While the conceptual framework remained more or less the same, new questions were added that were shaped in line with the changing conjuncture on the island. The interviewees included a set of opinion leaders already acquainted with, plus new, additional ones, reflecting the changes in the posts occupied at the institutions concerned. I have benefited from having access to the materials compiled during this longitudinal research project, which allowed me to elaborate on the decades-old “change” phenomenon in the north for the 1999-2019 period. Moreover, I also had an opportunity to make interviews with some GC opinion leaders and with bureaucrats in the EU Commission’s TC Task Force in Brussels. The details of the interviews are provided in the Appendices.

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<sup>3</sup> This study was conducted by Prof. Dr. Ali Gitmez, Prof. Dr. Atila Eralp and Assoc. Prof. Galip Yalman at the Centre for European Studies of METU starting in 1999, “Avrupalaşma Sürecinde Kıbrıs’ta Değişim”, TÜBİTAK, Project No. 105K263, which incorporated a field survey with a sample of 1000 households in TRNC, conducted in the aftermath of the failed Annan Plan. The thesis also entailed a series of Scientific Research Projects that was supported by METU (BAP-Bilimsel Araştırma Projesi), BAP-07-03-2013-024.

Apart from this longitudinal research, I also used the findings of another project that I participated as a researcher, in cooperation with the METU and University of Cologne between 2015 and 2017. “Turkey as an Energy Hub” project focused on the potential role of Turkey as an energy hub in the region. One of the key findings of this project was the argument widely shared by the interviewees that; apart from the technical requirements for becoming an energy hub, which Turkey has a long way ahead to meet, she also needs to develop regional alliances and good neighbourhood relations in order to become a reliable energy hub. The Cyprus problem was regarded as a critical issue by the interviewees in Turkey, however the interviewees in the EU didn’t make any reference to the solution of the problem as a precondition for becoming a hub but rather prioritized the realization of TANAP. These interviews were conducted with the energy specialists and with the executives who are working in the private and the public sectors in Brussels and in Ankara as well as with the DG Energy of the EU Commission. These findings were partly used in the last chapter on the “Carbonization of the Cyprus Problem”.

### **1.2.1 Research Questions**

The following chapters would try to discuss the Cyprus problem as a statehood problem and conceptualise the TC State and the TC relationship from a historical materialist, critical political economy perspective. That is, one which does not neglect the security-identity dimension, but one which aims to look beyond these critical issues within the context of the uneven and combined development of capitalism on the island. This might help us to employ a different strategy for studying the state and society relations within the TCC, one that sees the TRNC as a capitalist State, a terrain of class struggle, in which Turkey as a hegemonic power, is part of the TC power bloc.

In this framework, it tries to pose three research questions that focus on the statehood struggle of the TCC that are posited *vis-à-vis* three main determinants, namely, relations with Turkey, relations with RoC and the EU and last but not least social relations of production within the TCC, to be reformulated as three hypotheses. These would be explored and explained on the basis of the research conducted entailing semi-structured interviews, primary and secondary sources.

The first research question focused on the TC State’s relations with Turkey in order to understand how the relationship between Turkey and the TC evolved into one

of dependency, and tried to understand the material conditions that constituted the basis of this dependency. Hence the first hypothesis purports to challenge the “essences” of the traditional dependency narrative which portrays a top-down, or a core-periphery relation in terms of its motherland-babyland rhetoric. Instead, the relationship would be proposed to be conceptualised as one of “mutual dependency” between the TC State-Turkey, the analysis of which will be grounded on the “philosophy of internal relations” with a realist epistemology. This would allow the contemplation of Turkey as a hegemonic power within the TC power bloc, and the primary anchor for the uneven and combined development of capitalism in the north. This also necessitated a focus on the social mechanisms and strategies that changed the trajectory and form of the TC statehood building process with an emphasis on the social relations of production within the TCC.

The second research question focused on the TCC’s relations with the global economy in general, and the EU and RoC in particular. This would entail putting the Cyprus problem into a historical perspective from the colonial period to the present. In this regard, the second hypothesis would, in particular, problematise the portrayal of the EU as a catalyst of the Cyprus problem, that is, a major driver for the rise of the “need for change” narrative.

In fact, this had significant implications for the emergence of an inter-class alliance in TCC at the onset of the Annan Plan, as reflected in the “common vision” platform, albeit temporarily. With the rejection of the Annan Plan by the GCC, this brought to an end not only the aspirations of this common vision platform that portrayed the EU membership as the way out of the decades long protracted conflict, but also the perception of the EU as a catalyst for the resolution of the conflict on the part of the outside observers.

The third research question further pursues the same theme that is, TCC’s relations with the world outside the north, but in a rather different conjuncture and within rather different parameters. For the hydrocarbon discoveries around the island by the 2010s would once again bring the Cyprus problem into the international agenda with a specific regional dimension. Put differently, it marked the beginning of a metaphorical “carbonization” and the “offshoring” of the Cyprus Problem, as the SEM turns out to be a hotbed of shifting regional alliances for the exploitation of the

hydrocarbon reserves with significant geopolitical consequences. Thereby, the third hypothesis would be the impact of this quest for hydrocarbon reserves not only as initiating a new chapter of this protracted conflict, but also as a new variant of “accumulation by dispossession”. Whether or not this would prove itself as a gamechanger, one of its immediate consequences has been paving the ground for the direct involvement of Turkey into the conflict in a rather qualitatively novel form, in contrast to its role as one of the three guarantor powers stipulated by London and Zürich Treaties of a bygone era.

### 1.3 Structure of the Thesis

This thesis aims to enclose the “context specific” nature of the dependent capitalist development in the TCC, by pointing to the historical background of the state building processes, social relations of production, uneven and combined development of capitalism on the island, the changes in the balance of forces in the north. It also contends that the process of state formation in the north, provided the TC State with a degree of “relative autonomy” in its relation with the power bloc in the north, whilst Turkey has become an integral part of that. Thus, a non-linear reading of the historical trajectory of the Cyprus Problem is attempted, within which the statehood struggle of the TCs and the relations of production in the north are analysed with a dialectical materialist conception of history and adopting a realist epistemology.

It should also be pointed out that there is a specific reason behind referring to the social formation in the north as “the north” “TC State” and “TRNC” interchangeably throughout the text. They are used to point the same social formation, however TFSC and TRNC are used in certain contexts in order to point to the fact that there existed a separate political entity in the north of the island, whether a *de facto* entity or not, a crucial part of the capitalist development in Cyprus. In the same manner the GC State in the south is referred as “the south” and “RoC” and they are used interchangeably, being aware of the fact that the RoC is a GC State since the partnership state ended by the intervention of the GC armed forces in 1963.

**Chapter 1:** This chapter is an introduction to the thesis, specifying the subject matter and the research question around key determinants of the TC statehood struggle. It also aims to provide the linkage between the following theoretical and thematic

chapters by pointing to the linkage between the theoretical, empirical and methodological framework and the structure of the thesis.

**Chapter 2:** This chapter aims to outline theoretical framework of the thesis. A critical political economy perspective with a relational, class-based analysis of the state-society relations that would conceive the TRNC-Turkey relationship as an internal relationship is forwarded as an alternative to the dominant perspectives in the relevant literature that shaped and was shaped by the trajectory of the Cyprus problem since the 1960s. Moreover, it is argued that the uneven and combined development of capitalism on the island conditioned the outbreak and the trajectory of the Cyprus Problem. In this regard, this thesis combines two main theoretical arguments as constitutive factors shaping the TC statehood struggle; the UCDC on the island and the relative autonomy of the TC State from the power bloc in the north. Turkey gradually became a hegemonic power within this power bloc and the relationship between Turkey and the TC State took the form of a mutual dependency.

**Chapter 3:** This chapter puts the Cyprus problem into a historical perspective by tracing the origins of the statehood struggle from the colonial period to the division the island from 1963 to 1974. In this regard, it will be contended that the outbreak of the Cyprus conflict in 1963 was not only the result of an inter-communal conflict but also “the geographical expression of the contradictions of capitalism” (Smith, 1990) and the rivalry over the sharing of the resources through “accumulation by dispossession” (Harvey, 2003). This would enable to decipher the roots of the uneven and combined development of capitalism on the island. The chapter would also characterise the RoC as a postcolonial capitalist state. Following the collapse of the mode of governance as stipulated by London and Zurich Treaties in 1963, which forced the TCC into living in enclaves, would eventually lead to the emergence of two distinct institutional forms in the aftermath of the events in 1974.

**Chapter 4:** The establishment of Turkish Federated State of Cyprus in 1975 could be considered as an important turning point as it took place when Turkey was struggling to cope with a very severe economic crisis that would eventually lead to a reorientation of economic policies, if not, to an adoption of a new accumulation regime in Turkey with the 24 January 1980 stabilisation programme. The latter set the stage for the transition to neoliberalism which gained pace with the establishment of a

military regime following the *coup d'état* in 12 September 1980. It could be said that thereby the statehood struggle in TCC met with the neoliberal agenda of Turkey. And right at the end of the military regime, the TRNC, the first “sovereign” TC State, was established in 15 November 1983. The chapter provides a detailed account of the developments for the next two decades. These decades witnessed a series of critical engagements entailing a change from the state-led capitalist development model of the late 1970s to different attempts by Turkish governments to transpose the neoliberal transformation to the TRNC, including an attempt by the Özal government to turn the north of the island into a “free trade zone”. The 1990s would not only coincide with the end of single party governments in Turkey, but the collapse of the Soviet Union would also instigate important changes in TC political environment, thereby weakening the opposition to the Denктаş regime. The decade would come to an end when both Turkey and TCC had been engulfed into another round of economic and political crises.

**Chapter 5:** This chapter would focus on the changing nature of TC state-society relations as well as the relations between Turkey and TCC in the midst of a series of economic and political crises, triggered by a banking crisis in the TRNC in early 1999. The latter would instigate the formation of ‘This Country Is Ours’ platform which brought together a panoply of opposition parties and trade unions against the Denктаş presidency at the peak of an economic crisis during the summer of 2000. This platform had made explicit, something which had brewing for some time, that is, the criticism of the involvement of the Turkish State in the running of the TCC, through its civil and military representatives in the north. With the imposition of a stabilisation program by the Turkish Government on the TCC in the autumn of 2000, the relations between the opposition and the Denктаş presidency had further deteriorated. After three tumultuous years which witnessed the loss of credibility of those in power in TRNC and Turkey, the end of 2002 could be seen as a watershed with two important developments, the change of government in Turkey and the introduction of Annan Plan for Cyprus. The triumph of the AKP in the 2002 General Elections had been perceived by the TC opposition groups as an opportunity to initiate radical change in the north. For the incoming AKP Government had attempted to instrumentalise the Cyprus issue in its quest for gaining the support of the West with its pro-EU rhetoric and supported

the TC opposition against the “*status quo*” regime. However, the rejection of the Annan Plan by the GCC would initiate yet another new phase in the statehood struggle for the TCC, since the AKP governments carried their privatisation drive at home, into the north as well. This signified the unique neoliberal experience of the TC economy not only with the privatization of the SEEs after the mid-2000s, but also with a new twist in the mutual dependency relationship. The 2007-2009 Association Protocol signed between Turkey and TRNC introduced the principle of “conditionality”, tying the continuity of the financial aid from Turkey to the north to a set of conditions, mainly to the shrinking of the public sector at the onset of privatizations. In short, this chapter provides a detailed account of the process of the neoliberal policy transfers during the first decade of the 21<sup>st</sup> Century.

**Chapter 6:** The outbreak of the financial crisis in the RoC coincided with the starting of the hydrocarbon drillings in the East Mediterranean as well as the so-called “Arab Spring” and the civil war in Syria, which led to further militarization and political turmoil in the region. This changing geopolitical conjuncture had repercussions on the Cyprus Problem as Turkey’s bid for becoming a regional power and RoC’s initiatives for becoming a part of regional alliances by ousting the TCC collided. It will be argued that this period that started by the discovery of the hydrocarbons in the SEM after 2011 was the inauguration of a new period in the trajectory of the problem, marking the “carbonization” phase of the Cyprus issue. This era marked the rise of “flexible accumulation” strategies on the island, characterized by the “offshoring” of the Cyprus Problem after the hydrocarbon discoveries in the SEM. It started by the quest for finding new (natural) resources around the island and for the re-allocation of capital and the sharing of the wealth by the regional and global powers. Consequently, the hydrocarbon discoveries started to have priority over the substantial issues of the Cyprus problem, such as the security, political equality, the rotating presidency, and governance issues. This chapter also puts emphasis on the end state of affairs of the Cooperatives system in Cyprus and the privatization process of the Cooperative Banks, as 2010s also marked the transformation of a specific mode of production that started by the beginning of the colonial era on the island in the 1920s.

**Chapter 7:** The conclusion chapter the puts emphasis on the contribution of the thesis and shares the findings of the interviews.

## CHAPTER 2

### BRINGING THE TURKISH CYPRIOT STATE INTO THE STATE DEBATE

Although the Cyprus problem is studied excessively for more than half a century, a number of substantive issues remained unattended, which should necessarily be tackled by the theoretical scope of the political economy perspective. This “negligence” was partly due to the domination of the foreign policy approach that was largely shaped by the “give-and-take” ordeal of the lengthy negotiation process between the leaders. Moreover, the “Cyprus Problem” denoted an inter-communal conflict after 1963<sup>4</sup> and soon sought to be a “national security” issue for Turkey hence the political economy dimension was rarely addressed by the research agendas in Turkey.

On the other hand, the classical identity-security perspectives principally focused on the ethnic cleavages and the geopolitics dimensions of the Cyprus problem. The inter-communal conflict in Cyprus and the security aspect of the Cyprus Problem was studied extensively by the mainstream approaches within the international relations discipline. There are studies focusing on the clashing nationalisms on the island (Ertekün, 1984; Loizos, 1988; Hadjipavlou-Trigeorgis & Trigeorgis, 1993; Ker-Lindsay, 2011) as well as those highlighting the impact of external factors and/or agencies on the trajectory of the Cyprus problem. In fact, as Trimikliniotis and Bozkurt (2012) observed, such “common sense” readings of the Cyprus question led to two sets of approaches. Firstly, there is the “liberal conflict resolution” model according to

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<sup>4</sup> “Cyprus Problem” until the 1960s was a part of the Eastern Question, denoting a “colony” problem for the UK which dated back to the 19<sup>th</sup> century. Hence it could be argued that the “Cyprus problem” of the late 20<sup>th</sup> century developed in parallel to the independence of Cyprus

which Cyprus issue is a problem of ethnic antagonism between Greeks and Turks, manifested as an identity conflict over the control of a state apparatus. In the second approach, which they call the “global/regional geopolitics model”, Cyprus question is portrayed as an outcome of the geopolitical conflicts within an externally imposed rigid constitutional structure, which failed due to the intervention of external forces against peaceful co-existence of the people of Cyprus.

Therefore, Lacher and Kaymak (2005) made a strong emphasis that “ethnic politics and nationalism need to be studied by the dynamic intersection of socio-economic interests and identity formation”. Considering the TC’s so-called “dramatic turn” to the pro-settlement parties in 2003, Lacher and Kaymak drew attention to the negligence of the social and political development of the Turkish Cypriot polity and society within academic work over Cyprus. They argued that the traditional approaches as well as their analytical foundations needs to be challenged with a new perspective which explores the “complex” relationship between TRNC and Turkey. This was a call for a theoretical “challenge” and it was pointing, although indirectly, to the need for a reassessment of the Turkey-TRNC relationship. As they put it:

“Instead of assuming, for instance, that Turkish Cypriot politics, and the Turkish/Turkish Cypriot negotiation strategy, is directly and exclusively determined by Ankara, one needs to develop a better understanding of the internal dynamics of Turkish Cypriot society and the complexities of the relationship between the TRNC and Turkey.” (p. 149).

Indeed, this could be considered as a confirmation for developing, as already stated in the previous chapter, an alternative reading of the TC State-Turkey relationship from a critical political economy perspective and make a class-based analysis of the statehood struggle of the TCC *vis-à-vis* the uneven and combined development of capitalism on the island. In this regard, the state debate of the 1970s with its reflections on the capitalist state as well as on the post-colonial state could provide useful theoretical insights for coming to terms with the statehood struggle of the TCC. That is to say, these could be instrumental to account for how and through which political and economic processes the governmental structures and the social forces in the north became agents of change, or lack of it, within the statehood struggle. In particular, Nicos Poulantzas’s (1975: 138) theory of the capitalist state with its emphasis on the “relative autonomy” as its distinctive structural characteristic, which regards the state

not as a “monolithic bloc but a strategic field” will be adopted in combination with Ollman’s philosophy of internal relations, as discussed in the first chapter.

## **2.1 Why Do We Need a Critical Political Economy Perspective?**

While the “Cyprus problem” became well-known as a protracted inter-communal conflict over the issues of territory/power sharing and ethnic cleavages between the TCC and the GCC since 1963, the political-economy dimension of the problem remained neglected and almost subordinate to the so-called “substantial issues” until recently. This thesis embraces a critical political economy perspective on the ground that such a perspective does not necessarily involve the separation of these domains, but to the contrary, offers an alternative perspective towards the Cyprus issue and the theoretical tools that would allow elaborating on their interconnectedness. Moreover, it would provide a mapping of the relations of production and the state-society relations in the north that dynamically shaped, and at the same time are shaped by the Cyprus problem which is a statehood struggle in essence. The *de facto* separation of the political and the economic dimension of the Cyprus issue confined its solution to the highly political space of the negotiation table, which disguised the underlying material conditions that were equally effective in building it. As Chandhoke (1994) pointed out the political economy perspective provides a powerful critique of the view that politics and economy can be seen in isolation from each other; “conceptualised as separate and autonomous disciplines, they are simply, inadequate modes of understanding the social world”. Accordingly, both the students of political science and economics needed to consider each other’s explanations in order to grasp a wider perspective on the problematic intersection points of the two disciplines regarding the issues such as; “presence of power relations in economic activity”, “material factors in political life” or “state intervention to the market”. In this regard, for Chandhoke, the term “political economy” points to a very broad context and although the term resonates a symbiotic relationship between politics and economy, this rather provides only a “theoretical space” for common sense. By the same token, Wood (1981) argued that their separation served the bourgeois ideology when the classical economists began using economy in its abstract form and “began emptying capitalism of its social and political content”.

In fact, there were periods in the evolution of this protracted conflict, where it is possible to observe an implicit reference made to link the political and economic dimensions of the conflict to pave the way for its resolution. A pertinent example is the reference made to the EU as a catalyst during the raising of expectations in the north in the wake of the announcement of the Annan Plan (Kyris, 2012; 2018). Similarly, there was strong enthusiasm for praising the discovery of the hydrocarbons around the island as the “new catalyser” of the negotiation process, less than a decade later. As it was the case in regards to Annan Plan, there emerged yet another round of contributions which discussed the economic “benefits” of a political settlement that would be ensuing from the “new catalyser” (Faustmann, Gürel & Reichberg, 2012; Gürel, Mullen & Tzimitras, 2013; Gürel & Le Cornu, 2014; Faustmann, 2015; Kahveci, 2018).

After being left adrift for a long time within the academic scholarship in Turkey, an initial attempt to bring forward a political economy perspective towards the state of affairs in the north and the Cyprus issue was made by Türel (2002). This was an effort to combine the political, economic and historical analyses with a critical perspective. Türel’s chapter in particular was important as it offered an alternative political economy projection, one that aspires a “positive sum” scenario (p. 8). What Türel called the “future self-design” of TRNC was in fact envisaging a critical role for TCs as agents of their own future. In this regard, this study was a pioneer in developing a historical comparative perspective for the analysis of the economic developments in the TC and its relationship to the Cyprus problem. On the other hand, Arslan’s unpublished thesis (2014) was the first attempt to focus on the state building process of the TCs in the critical period between 1960-1967 from the point of view of the Marxist theories of the state and critical political economy. He argued that the origins of the power relations and generalised crisis of statehood, characterising the state of affairs of the contemporary TC state and economy were laid during that period.

There was also another noteworthy study which attempted to analyse “the perpetuation of the stalemate” from a critical political economy perspective (Balkır & Yalman, 2009). Since the so-called banking crisis in the north 1999-2001 and its aftermath did not immediately bring forward several analyses that would highlight the predicaments faced by the policymakers in the TCC and Turkey at the time, this study

aimed “to fill that void” by analysing the period from that crisis until the referenda on the Annan Plan in 2004. Nonetheless, a political economy perspective was rare at least until the financial crisis hit the RoC as part of the Eurozone between 2011 and 2013<sup>5</sup>.

As the neoliberal agenda gained impetus with the cooperation agreements signed between the north and Turkey from the mid-2000s onwards, the number of academic studies focusing on the political economy dimension started to increase. Trimikliniotis and Bozkurt (2012) pointed to the lack of studies regarding the state formation in the north, which centered on the TC society as the subject of their analyses. While they agree that the latter may portray certain aspects of the problem, they argued that these failed to grasp the complexity of the relations between the local, the regional and the global forces, undermining the significance of the class relations and their connections with the global class interests (pp. 4-5). Thus, they offered an alternative approach for studying both the statehood formation in Cyprus and the Cyprus issue, one that focused on the state-society relations in Cyprus and in the north in an effort to overcome what they called “the long-term long-standing difficulty in theorizing the state formation[s] in Cyprus” which remained largely “descriptive”. Thereby, Bozkurt (2014) employed a class perspective, helping us to illustrate the theoretical framework of the neoliberal pathway that was paved from the beginning of the 1980s by focusing on the state-society dimension and discussed that Turkey’s role had evolved into becoming the IMF of TRNC thereafter. Whereas Tahsin (2014) specifically focused on the neoliberal process which started by the 1980s and the privatizations that were accelerated in the AKP era after the failure of the Annan Referenda. Tahsin put emphasis on the economic restructuring of the TRNC economy in parallel with AKP’s neoliberal agenda on the island, as a part of a hegemonic project which was shaped in accordance with the preferences of the state elite and capital groups.

Ioannou and Sonan (2017) provided a comparative study on the historical development of trade unions in Cyprus, by focusing on the current situation of the unions with a historical institutionalist approach. Their work was invaluable to the extent that it pointed out to the material conditions under which the organized class

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<sup>5</sup> See Tkachenko and Özsağlam 2011, Güray and Apostolides 2012, Trimikliniotis, Ioakimoglou, and Pantelides 2012, Bozkurt 2014, Tahsin 2014, Ioannou and Sonan 2017, Kaynak 2017, Ekici 2019.

struggle was shaped in Cyprus, which also gave hope for the flourishing and the re-establishment of similar future alliances. Ekici's work (2019) was a comprehensive and seminal historiography on the economic history and the political and state structure, labour market, social security, state economic enterprises, the privatizations and allocation of land in the north since the 1960s.

While the substantive issues such as territory, property, security and power sharing continued to dominate the course of the inter-communal negotiations, both communities suffered from the consequences of the financial crises, which had ramifications in terms of the rise in public debt, top-down austerity measures, deregulation, rise of precarious workers in the labour market as well as declining memberships to the trade unions in the north and in the south (Ioannou & Sonan 2017: 495). Put differently, the negotiation process would not necessarily entail the intricacies of the problems faced by the parties concerned. However, the hydrocarbon discoveries around the island once more revealed the fact that the Cyprus problem is a complex, dynamic and multidimensional issue which required an interdisciplinary perspective to deal with the unconventional issues such as environmental problems. This became urgent as a result of the extractivist nature which tended to characterise the neoliberal capitalism in its search for natural resources and markets worldwide.

But first, we need to shed light the extent to which this thesis would benefit from the conception of *uneven and combined development* as a theoretical construct to come to terms with the Cyprus Question in its broader international context by adopting a critical political economy perspective.

## **2.2 The Uneven and Combined Development of Capitalism**

“... the conditioning situation of uneven and combined development on a world scale - as the geographical expression of the contradictions of capitalism - shapes the spatial, territorial, and scalar configuration of state power. However, although shaped by the condition of uneven and combined development, it is also the balance of class forces within state spaces that alters the developmental trajectory and spatial form of statehood through emergent passive revolutionary class strategies defining the rise of a state in capitalist society.” (Morton, 2013: 253).

Although the UCD had a long history dating back to the philosophy of Hegel, and then to Marx and Engels, it was Trotsky who formulated this process as a theory in *History of the Russian Revolution* (Novack, 2002: 74). According to Rosenberg

(2013: 193), Trotsky's concept of UCD "builds 'the international' into a theory of social development", by pointing to the universal unevenness in the human social development and hence, it provides an alternative for detaching from the "ontological singularity" as "unevenness entails societal and hence geopolitical multiplicity". For Rosenberg, "geopolitical pressure", which was the first mechanism of "combined development", is one of the several reasons behind the international causes that is defined as a the "whip of external necessity" in Trotsky's work<sup>6</sup>. According to Allinson and Anievas (2009), the 'external' pressure" was reflected in Trotsky's notion of combined development, without undermining the role of the societal forces and the class struggle. As they put it: "A central concern of much contemporary Marxist scholarship in international relations is to internally relate global capitalism and the state system without reducing one of these systems to an epiphenomenon of the other".

On the other hand, Callinicos pointed to an important dilemma regarding the difficulty to explain the causal relationship between the internal and external factors that constitute the social change in a given society (Callinicos, 2007: 544). While capitalism brings the states under a global system, it also creates unequal conditions regarding their access to investments and markets which dramatically change depending on their geographical positions. Rather than spreading them evenly, the uneven concentration of capital in certain geographies produces the formation of specific spatial patterns and processes as a structural feature of capitalist development (cf. Callinicos, 2007; Smith, N., 2008).

### **2.2.1. Uneven and Combined Development in Cyprus: Statehood Struggle vs. Geopolitical Competition**

For Neil Smith (2008), "the uneven development is the systematic geographical expression of the contradictions inherent in the very constitution and structure of the capital (p. 4)". This indicates the unevenness in the production of space as a key signifier of the development of capitalism. This is critical in the context of Cyprus by pointing to the critical junctures that deepened the divide on the island,

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<sup>6</sup> However, Smith (1990) argued that the Trotskyist tradition gradually lost its influence and "the economic and the geographical content of UCDC was completely displaced" and "the concept fell into obscurity", nevertheless survived the tradition as a political term referring to the development of class relations and the anatomy of revolution.

initiated the neoliberal transformation on both sides of the divide and more recently, sharing the natural resources around the island.

For Harvey (2003), the specific forms of geographical space and the accumulation strategies are closely related. He also argued that states played an important role in primitive accumulation by using their power and capacity for making institutional arrangements and also acquire and privatize assets as the original basis for capital accumulation. Harvey (2006: pp. 153-156) coined the phrase “accumulation by dispossession” to indicate the “continuity and proliferation” of the primitive accumulation strategies, its four main elements being privatization, financialization, the management and manipulation of crises and state redistributions, thus facilitating the expanded reproduction of capitalist relations of production. In the case of Cyprus, this took the form of the forced enclavement of the TCs and their dispossession from their homes, businesses and offices after 1963, and through the acquisition of the GC land and installations and its re-distribution as *koçan* lands after 1974. After 2000s, what Harvey (1990) called “flexible accumulation” strategies through “accumulation by dispossession” were reflected to the island through financial crises, privatizations, property developments as well as exploitation of the natural resources around the island, which became the defining characteristics of the neoliberal transformation in the case of Cyprus. The GC Government’s unilateral action to invite the entry of the global oil and gas companies and Turkey’s response to these developments led to a “war of navtexes” in the Mediterranean which will be touched upon in Chapter 6.

From a critical political-economic geography perspective, Peck (2016) pointed to the fact that “uneven regional development refers not just to geographical inequality but to the mutual interdependence of localized growth and decline, to exploitative relations between regions of the core and the periphery” (p. 1). The UCDC perspective would thus provide a theoretical framework for the analysis of the “state of affairs” in Cyprus. Moreover, it would have saliency for the portrayal of the material conditions under which the Turkey TCC relationship evolved from a so-called “dependency” relationship towards neoliberal hegemony.

In this regard, the uneven and combined development (UCD) perspective provides us a theoretical basis for making an analysis of the historical formation of two similar but distinct forms of capitalist States, having distinct functions in their

relation to capital, amidst the trajectory of the Cyprus problem. The “Cyprus Problem” generated not only two competing nationalisms, but also a geopolitical and economic rivalry between the GCs and TCs in the form of statehood struggle. In order to understand the material conditions under which the Cyprus Problem broke out in the 1960s and eventually evolved into a “dead-lock” by the 2000s, it is necessary to make a comparative, historical analysis of the uneven and combined development of capitalism on the island. The UCD perspective allows us to discover the material conditions that initiated the economic gap between the TC economy, and the RoC. While the GC economy developed and prospered as an open-market economy that was directly connected to global capitalism and its networks, the TC economy become increasingly ever more dependent on Turkey. Borrowing Poulantzas’s terminology (1976: 10), “this specific form of dependence”<sup>7</sup>, came to define the relationship between Turkey and the TC State and in particular, the economic history of the north since 1974.

Peck (2010) pointed to “the uneven development of neoliberalism across geographical space and the temporal evolution of neoliberal ideology and practice” and the increasing number of its contextually specific ‘local’ forms and further argued that “local” neoliberalizations have become cumulatively intertwined and mutually referential. In the process, new historical geographies are, in effect, constantly in the making.” (xvii). Hence, in order to make a historical analysis of the neoliberal transformation, we should turn back to the 1970s, during which the institutional framework of a future form of the capitalist “Turkish Cypriot State” was in the making. The neoliberal transformation of the TC State had an incremental progress after the establishment of the TRNC in 1983. Bozkurt (2014: 85) argued that the neoliberal process in TRNC was an incomplete one, deriving from Jessop’s emphasis on Peck’s argument that “one should refer to diverse patterns of (always incomplete) neoliberalisation rather than assume that neoliberalism has an unchanging, context-free essence” (Jessop, 2013: 67).

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<sup>7</sup> Poulantzas used this concept to differentiate the dependence of Portugal, Spain and Greece in relation to the imperialist countries from other dependent countries of the periphery of the world capitalist system, since the first two as former colonial powers had “an old-established primitive accumulation of capital”, while the third one had a similar aspect deriving “from exploitation of the Eastern Mediterranean”.

TRNC became a *sui generis* case regarding the development of capitalism in the north and its transition to neoliberalism with crosscutting issues such as the ethnic cleavages and intercommunal conflict with the GCs. On the other hand, the geographical dimension is another important factor which reassures the peculiarity of the case. Bozkurt (2014: 85) argued that the peculiarity of TRNC partly stems from its isolation from the world, which prevents its financial integration with a global economy. However, when we delineate TRNC's peculiarities, we need to point to the interaction between the internal and external factors that helped to effectuate the uniqueness of its neoliberal transformation. In fact, as Bozkurt (2014: 102) stressed the neoliberal transformation of the TC economy was not "a top-down imposition of Turkey". While the so-called austerity measures deepened the class divisions in the north, the alliances made with the fractions of the TC bourgeoisie on the part of the AKP governments played a key role for the legitimization of these policies, thus enabling further neoliberal transformation in the north.

### **2.3. Problematizing the TC State: Form, Function and Accumulation**

TCs established their first "sovereign" state, the TRNC (Turkish Republic of Northern Cyprus-Kuzey Kıbrıs Türk Cumhuriyeti) in 1983, and following the UN's decision to renounce its establishment, it soon became a *de facto* state as a result of the UN Resolution in 1984, that was recognized and supported only by Turkey. Defining the historical formation of the TC State as a capitalist type of state is important in the sense that this categorization would enable us to make an analysis of the connection between its changing forms and function and the impact of this connection on its relationship with Turkey and on the protraction of the Cyprus problem. Moreover, it would enable us to grasp the changing of balance of forces within the TC State by establishing the link between the accumulation strategies and the state forms in the north.

Borrowing from Jessop's terminology (1983: 99), first we need to "problematize" the TC State in relational terms, and consider it not only as a "unitary thing" or a simple "container" of these power relations but a complex set of social relations. Jessop argued that although we may concede that the state "form" problematizes its "functions" and "political practices", "state power" should be conceived as a "form-determined social relation".

Furthermore, the analysis of the state formation process in Cyprus in general, and in the north in particular, can be elaborated by drawing insights from the post-colonial state debate (cf. Alavi, 1972; Leys, 1976). This would be especially pertinent for our analysis of the TC state since it mirrors an important feature of “the state in the post-colonial society” which, as characterised by Alavi, “directly appropriates a very large part of the economic surplus and deploys it in bureaucratically directed economic activity in the name of promoting economic development”. The centrality of the bureaucracy in the TC case, in turn, is closely related with the ways in which Turkey became a “powerful” actor in the north in an incremental process after the 1974 military intervention. Yet, while there are remnants of the British colonial administration in the TC state such as the Common Law being still the basis of the legal system, it is hardly plausible to suggest that the TC state could be described as an “overdeveloped” one, *pace* the post-colonial state thesis as advocated by Alavi and duly criticised by Leys.

According to Isachenko (2012), the economic situation in the TRNC shows that the state building process of the informal states are shaped not only by political rivalries and the debates on the various forms of statehood but also by the heavy reliance on the support of external states-such as Turkey (p. 8). While Isachenko described Turkey’s position as an external state, Turkey gradually became an internal actor after 1963. This “reliance” on Turkey narrative was rather referred by the majority of academic studies as a “dependency” relation focusing on the economic dimension of the relationship<sup>8</sup> (Michael, 2009; Michael & Vural, 2018). The widespread dependency narrative treated the TC public institutions either as empty containers of power politics, “mismanaged” by corrupt bureaucrats and politicians, or as “privileged” bodies that cause “unfair” competition in their sector *vis-à-vis* the commercial ones. From this institutionalist perspective, the “dependent” economy and the institutions in the north were regarded as an ill outcome of poor policies, bad governance and political clientelism, resulting from their dependency on Turkey for

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<sup>8</sup> On the other hand, the nationalist ideology instrumentalized this as a political discourse, and refused to call it a “dependency relation”, rather regarding it a national duty to protect and support this “infant” Turkish state, which was a part of the “Ottoman heritage”.

finance hence their proneness to Turkey's influence (Uğur, 2003; Özyiğit, 2008; Pelagidis, Theophanous, & Tirkides, 2008).

The institutionalist perspective and the path-dependency approach provides us an important, yet limited theoretical framework for the analysis of the changing state and society relations in the case of the TC State. The studies that employ an institutionalist perspective portrayed the institutions in the north as entities that were submerged in political clientelism, nepotism and open to Turkey's influence and/or direct control under incompetent political leaders and managers. From this perspective, the institutions in the north, regardless of the power struggle lying beneath, were totally deprived of off their capacity to initiate change and/or enter into alliances to become powerful agents of change. This approach tallied the neoliberal motto which considers the political "incompetencies" as the determinant factor of the "economic" failures. From this perspective, political change would automatically lead to economic success and such a "rupture" would eventually eliminate all the economic "barriers". It was evident in a decade that neither the results were generated automatically, nor the solutions were actor-based.

In his critique of the new institutionalist approach, Cammack (1990) argued that the advocates of this approach foresee institutions as relatively autonomous agents of path-dependent change that persists over time and that the domestic and international actors, as well as institutions themselves, limit and induce institutional change. Cammack's critique is based on their explicit focus on state-society relations, and divergence on the extent to which it is possible or appropriate to see the state as an actor. According to Cammack the theoretical problem of the new institutionalist approach is that unless the concept of "institutional persistence" is located in a broader theoretical framework, it is "... impossible to explain the periods of rapid change which do occur", which would otherwise "remain arbitrary at a macro-structural level" (p. 160). Cammack insisted on the "need to explore not only the roots of institutional persistence, but also its relationship to underlying forces for change, and the conditions under which it will be overcome.

In the case of Cyprus, the establishment of TFSC in 1975 dramatically changed the course of the Cyprus Problem and the relations of production in the north. Turkey provided technical support and guidance for the establishment of the SEEs in the north,

that aided the sudden industrialization of the TC economy after which the TC capitalist development was primarily anchored to the Turkish experience. This sudden transformation enabled the TC economy to posit itself as a geopolitical rival to the GC economy in the region via Turkey's capitalist development strategy, namely the state-led ISI model for development. Despite the rise in the industrial relations in the manufacturing sector, and in the number of trade unions and CMP in the north, the relations of production in the north were largely reproduced by the struggle over creating land ownership and land rent, within which primitive accumulation strategies were persistent after 1974. The establishment of the TC SEEs on the GC installations and the distribution of the *koçan* lands became the new pillars of the TC economic, social and institutional formation after 1974. The *koçan* lands provided power to the state elite as the re-distribution of the land in the north along partisanship within a system of patronage led to the institutionalization of the clientelist structure and instituted the basis of the economic dependency on Turkey as it stimulated dependent capitalism. Moreover, the absorption of "land rent" acted as a barrier against capital accumulation and an uneven division of labour, as it was pitted against the productive sectors and obstructed their growth. The reallocation of land and capital by the hand of the TC "state elite" within a semi-closed economy led to the further impoverishment/political pacification of the TC peasantry and weakened the TC bourgeoisie *vis-à-vis* the political structure in the north.

The subsequent forms of the TC State(s) since 1963, a provisional administration, an autonomous administration, a federated state and a republic, were not only the effects of TC statehood struggle conducted *vis-à-vis* the GCs, but they were also conditioned by the power struggle conducted within the power bloc in the north. The TC bourgeoisie, specifically the commercial bourgeoisie, was aware that overcoming this isolation required greater cooperation with Turkey, hence tended to have harmonious relations with the "motherland". Turkey gradually became a part of the power bloc in the north, and attained a hegemonic role after the military interventions of Turkey in 1974. The historical formation of the TC State as a capitalist type of state enabled the constitution of its relative autonomy *vis-à-vis* not only the TC capital but also the political, military and bureaucratic fractions in Turkey.

This hegemonic role within the power bloc provided Turkey the capacity to regulate the relations in between the ideological/economic/political terrains after 1974. Turkey's role was critical in configuring the TFSC as a national-popular program by instrumentalizing the ideological narratives (national cause) and economic institutions (the SEEs). While the debate around the "dependency of TRNC on Turkey" is mainly based on the financial and the military aspects of this relation, this perspective provides us only a partial account. "Turkey's power in the north" is a more complex phenomenon, which is not only military power in the form of coercion, or financial power in the form of monetary control, but it's rather contextual and it's reproduced through a dynamic mechanism of consent and coercion through class struggle. Put differently, although the TC State is posited as a "powerless" polity *vis-à-vis* Turkey and the TC capital, the power relation is dynamically constituted in a specific conjuncture, it's not pre-defined, and it is the underlying class struggle that determines the relative autonomy of the TC State *vis-à-vis* the dominant classes in the north.

In this regard, it should also be pointed out that there is a connection between the processes of reproduction of capital and the constitution of the form of the state. According to Clarke (1983) "As a moment of the reproduction of capital, the state is also a moment of the class struggle and the forms and limits of the state are themselves an object of that struggle" (p. 10). TFSC was established as a western type of democracy with a representative government, and its historical formation as a capitalist type of state enabled the constitution of its relative autonomy *vis-à-vis* the political, military and bureaucratic fractions in Turkey that became a hegemonic power within the power bloc in the north. The subsequent forms of the TC State(s) since 1963, a provisional administration, an autonomous administration, a federated state and a republic, were not only the effects of TC statehood struggle conducted *vis-à-vis* the GCs, but they were also the effects of class struggle conducted "*vis-à-vis*" and "within" the TC interest groups and the dominant classes. However, this intra-societal dimension and the differentiated interests of the dominant classes over statehood were neglected and the TC statehood struggle was often coupled by a nationalist discourse that enabled to mask the instances of conflict and consensus within the TC society during the hegemonic crises in the north.

Statehood struggle was “reduced” to the ideological instance, conducted *vis-à-vis* the GC nationalism for equality and towards the international community for recognition. This specific “form” of “statehood struggle” was epitomized by the nationalist discourse as a struggle, that aims to fulfil both the bourgeois-democratic tasks and the “national cause” narrative in the last instance. When the TRNC was established, the principal idea was to ensure its execution as a sovereign political entity under a dominant mode of production and related accumulation strategies, that is isolated, hence autonomous from the socio-economic relations, regardless of the dependency of its economic structure on Turkey. This “separation” of the economic and the political instances was peculiar to the capitalist type of state with the dominant CMoP, and this specific type and MoP was instrumental for the TC “state elite” to manipulate and mediate their interests *vis-à-vis* the military and the bureaucratic fractions of the ruling classes in Turkey.

As Jessop (2014) pointed out, the centrality of Poulantzas’s conception of the state as a social relation gains saliency in this regard. The strategic relational approach would provide us an analytical tool for an alternative reading of the Turkey-TC State relationship not in essentialist terms which posits moments of dependency and autonomy on a linear basis, but rather for analysing their conflicting co-existence in critical junctures. According to Jessop:

“We need first to examine the state form as a complex institutional ensemble with a specific pattern of ‘strategic selectivity’ which reflects and modifies the balance of class forces; and, second, to consider the constitution of these class forces and their strategies themselves, including their capacity to reflect on and respond to the strategic selectivities inscribed within the state apparatus as a whole.” (2014: para. 17).

The TC case, in fact, reflects what Brenner, Peck and Theodore (2010) called “the variegated nature of neoliberalism” (VNN). The VNN approach is concerned with finding out “how neoliberalism is specified in a variegated landscape of institutional, economic and political forms’ (p. 207). Brenner et al. focused on the capacity of neoliberalisation projects to exploit, transform and reproduce inherited geoinstitutional differences, having a “cumulative” impact on the particularly uneven context. The VNN approach on the other hand regard the neoliberalisation not simply as a path dependent process but rather as an ensemble of patterned differences in an unevenly developed landscape. This approach is in parallel to the assumption that the

relationship between Turkey and the TC State shall be considered as a form of “mutual dependency”, that was conditioned by the uneven and combined development of capitalism, rather than a top-down relation that was determined exclusively by the policy decisions and the neoliberal agenda of the so-called “motherland”. In this regard, the VNN approach provides us a framework to understand how the neoliberal transformation, through an irregular and uneven process, had developed within the specific context of the Cyprus problem, being conditioned by the ethnic cleavages and the statehood struggle on the island.

Therefore, it will be argued that the TC statehood struggle is a constellation of class struggle that was constantly conditioned by cross-cutting and overlapping issues of ethnic cleavages and rising nationalisms, and reproduced by hegemonic relations. From this perspective, the Cyprus Problem is a statehood problem in its essence, conducted by both the GCs and the TCs not only against each other, but also towards British Imperialism before 1960, and today towards a new form of imperialism rising in the South Eastern Mediterranean after the 2000s, that deepened the divide on the island across hydrocarbon politics. The statehood struggles of the GCC and the TCC are closely linked to each other as both are conditioned by the uneven and combined development of capitalism on the island. Hence, they shall be analysed as complementary processes rather than competitive ones. From this perspective, employing a class-based approach for studying the statehood struggle of the TCC would allow us to portray not only the relations of production in the north, but also point to the particularities and commonalities of the neoliberal transformation on the island. In short, a critical political economy perspective is demanded so as to demonstrate that the securitization and the neoliberal transformation were two closely interlinked processes in the north since the 1980s.

## CHAPTER 3

### THE POLITICAL ECONOMY OF THE DIVIDE IN CYPRUS

Cyprus was a part of the Vilayet of Archipelago of the Ottoman Empire until it rented the island to the British Empire in 1878, in return for Britain's support against the Russian occupation in Anatolia. When the Ottoman Empire sided with the Central Powers during WWI, Britain first annexed the island in 1914 and then declared it a Crown Colony in 1925. Although the capitalist relations, the accumulation regime, the Islamic pious endowments (*wakf-vakıf*) and the guild system under the Ottoman Empire were largely preserved, the arrival of British colonialism soon re-structured the relations of production on the island towards the constitution of wide-spread industrial relations and the creation of a large, organized and bicomunal industrial working class. The mass trade union strikes, guerilla warfare tactics against the British forces and Makarios's non-aligned diplomacy, as well as the independence movements in the colonies by late 1940s were effective for the establishment of the Republic of Cyprus (RoC) in 1960. Turkey, Greece and the UK became the guarantor states of the RoC according to the Treaty of Guarantee however, the RoC lasted only for three years as a bicomunal state. The GC Government took action to enforced some constitutional amendments and when the TCs rejected they were expelled from the government and public offices by force of arms after 1963. The TCs were pushed into enclaves away from their homes and businesses and were deprived of from their political and economic rights. The international community didn't take effective action to end the isolation of the TCC and the TC economy's ties with global capitalism was cut-off after 1963. Turkey provided financial and humanitarian aid for the TCC and gradually became the major political and economic power in the north. Turkey was the

“role model” for the establishment of the TC polities that were based on a western-liberal plural democracy for the Provisional Turkish Cypriot Administration in 1967 (PTCA-Geçici Kıbrıs Türk Yönetimi), and an anchor for capitalist development under the planned, state-led ISI development model for the Turkish Federated State of Cyprus in 1975 (TFSC- Kıbrıs Türk Federe Devleti). The military intervention of Turkey as a guarantor state to the Greece backed *junta* attempt changed the state of affairs on the island and divided it to the GC south and the TC north. The GC economy lost its major industrial and agricultural production as well as tourism sector however recovered in a few years by expansionary monetary and fiscal policies. The TC economy was anchored to the TL and the state-led ISI development model of Turkey until the 24 January decisions and the military coup that followed in 12<sup>th</sup> of September in 1980.

### **3.1 A Historical Background; Periodization through a Non-Linear Trajectory of the Cyprus Problem**

“Although it is important to analyse the never-ending changes of capitalism, periodization involves more than just tracking the process of change” (Wood, 1996; p. 2).

A dialectical approach for the periodization of the Cyprus problem can be illustrated with interrelated and overlapping political and economic layers of social formation(s) and their interdependence with one another in the various stages of a capitalist formation, one that is similar to Balibar’s perspective (1990) that opposes “temporal periodization” and “the spatial boundaries” of modern historiography. Employing a linear periodization of the Cyprus Problem, before and after 1963, fits into the path dependency approach, which regards the characteristic of each period “starting” and “ending” with critical junctures. While this type of linear periodization is used frequently in order to analyse the trajectory of the Cyprus Problem in a historical framework, it neglects the interconnectedness of the constitution of relations of production within specific modes of production and their continuity in specific social formations through capitalist development. According to Mavratsas (1995), the Greek-Cypriot irredentist nationalism began to be transformed into a mass movement with the arrival of British colonialism, which resulted in the rise of an opposing Turkish-Cypriot nationalism, both calling for partition of Cyprus along ethnic lines;

Mavratas argued that, the "Cyprus problem" as we understand it today, "emerged out of the clash between the two opposing nationalisms and, perhaps more importantly, out of the manipulation of this clash by the British administration (p. 77)". Mavratas's approach pointed to the key role of British Imperialism in fueling the intercommunal violence and in this regard shares a common ground with the studies on underdevelopment that focus on Imperialism as a means to study underdevelopment. However, this perspective omits the crucial role that the relations of production play, both prior to and after the establishment of RoC, in determining the trajectory of the intercommunal conflict. Moreover, although the manipulative power of imperialism was addressed as a key factor for deepening the cleavages, its detachment from capitalist development fails to clarify the problem. According to Fernández and Ocampo (1974), "Any attempt to separate imperialism from capitalism in the present stage results in the artificial separation of the economic struggle from the political struggle, i.e., 'economism', or more correctly, 'imperialist economism'" (p. 33).

In this regard, in order to understand the underlying relations and issues, each period in the trajectory of the Cyprus problem shall be studied as complementary political and economic pairings, rather than separate instances. However, in practice, they were regarded as if two separate domains, developing independent from each other and their interaction was limited to the particular negotiation topics. The "political" issues were in the headlines since 1963, such as the negotiation process that was the manifestation of clashing nationalisms, were observable as the never changing state of affairs on the island. On the other hand, the "economic" issues and the material conditions that constituted the state of affairs on the island which were determined by the changing relations of production in the north and in the south were almost invisible. Each critical juncture in the trajectory of the problem was presented as a political "rupture" however, these periods were interconnected in terms of the continuity of the social relations of production on the island. This non-linear sequence would help us to understand how the statehood struggles configured the particular historical formation of both the TC and the GC State as well as determined the trajectory of the Cyprus Problem.

For instance, although the establishment of RoC in 1960 marked the end of the colonial period, it may be argued that the Cyprus Problem today still pertains its

imperialist dimension due to the presence of the British Sovereign Bases in the south, which were actively used during the war in Syria (Smith, H., 2018). The late GC President Demetris Christofias, who was against the presence of all kinds of military bases on the island, both British and the Turkish, called the UK bases a "colonial bloodstain" (Smith, H., 2008). However, pointing solely towards colonialism for the outbreak of the ethnic conflict would fall short to grasp the contradictions of capitalism, relations of production, class divisions as well as the specific accumulation regimes that succumbed into an intercommunal conflict and caused to seal the ethnic divide after 1963.

The arrival of British Imperialism to the island was not only the beginning of colonialism in Cyprus, but it was also the commencement of unionism and organized class struggle. However, they neither existed *ipso facto* nor vanished partly but rather co-existed, such as the feudal relations and capitalist structure, or the primitive accumulation with feudal accumulation strategies. Trimikliniotis and Bozkurt (2012) argued that the capitalist structure in the Cypriot society could be traced back to the nineteenth century under Ottoman rule, even before the beginning of Britain's colonial rule in 1925. Arslan (2014) argued that, in the pre-1960 period *Evkaf* and "From the Turk, to the Turk" campaigns were the two pillars of the TC leadership's strategy of capital accumulation. According to Arslan, *Evkaf* was the key public entrepreneur in this public-led strategy, playing the role as a funder of and creditor to the cooperatives and private investors. Arslan pointed that state's absorption of the surplus production only became a major problem only after the foundation of the Republic of Cyprus in 1960, which was disrupted by the collapse of the common state in 1964 (p. 319).

The 1960 bicomunal state was a political break from the colonial rule, however the dominant mode of production on the island didn't vanish once and for all but rather coexisted with the postcolonial state's changing relations of production and accumulation regimes. This amalgamation largely determined RoC's state-building process, coupling the contradictions of the new capitalist development model with both the feudal and the colonial structures as well as the ethnic/religious cleavages. According to Thorp (1978), the head of the UN's mission to the island in 1960, the situation in Cyprus was alarming in many ways upon independence; he argued that Cyprus was an exceptional case within the British Colonies as the other colonies were

run either by the division of the responsibilities between the local forms and the British Government or sometimes with a local parliament in charge of the local problems.

The new system brought together too many irreconcilable elements among which sharing of the surplus product was the most problematic issue. Arslan (2014) pointed that “before the foundation of the Republic of Cyprus, the problem of state absorption of the surplus product was the concern of the British, not that of the TCs or GCs. According to Thorp (1978), Cyprus was left under the absolute rule of the Governor as the riots in early 1930s extinguished the Governor’s palace in fire, which led to the abolishment of the parliament by the British. Thorp argued that the GCs did not even know how to handle the daily affairs on the island when RoC was established; the power plant, the prisons, the banks and even how to run a government as it was the British officers who were in charge of the administration and the daily affairs. Despite being inexperienced in running the government, the GC bourgeoisie was unwilling to lose its hegemonic position over RoC’s administration and started to ignore the principles of power-sharing and equal opportunities for having access to the means of production, 80% to 20% principle in the public services and the institution of private property. The result was a power struggle between the two communities especially for government offices; eventually, extraction of the surplus through taxation and its redistribution by salaries increased the importance of the RoC bureaucracy and public sector employment and made them a battleground for the TCs and the GCs, which was one of the major reasons behind the conflict that ended the bicomunal republic in 1963. After the 1963 partnership state ended, the struggle over statehood surfaced, and as Lacher and Kaymak (2005) rightly pointed out, “the Cyprus conflict is a conflict over statehood, and as such it continues even as the guns remain silent on the island.” (p. 153).

### **3.2 Colonization, Conciliation and Conflict**

“...every class, once it begins the struggle against the class opposed to it, is involved in the struggle against the class below it.” (Marx, K., 1999, Vol. III, Part VII).

#### **3.2.1 Colonization**

Cyprus became an island with geostrategic importance for the imperial powers with its potential to expand their operational capacity in the region by the 19<sup>th</sup> and 20<sup>th</sup>

centuries. The British Empire was “interested” since the mid 19<sup>th</sup> century, not only for its strategic location which was close to the Middle East and to contain Russian expansion, but Cyprus also had natural resources such as copper (The Times Digital Archive, 1852; 1859), asbestos and crucial amounts of cash crops were imported from the island in times of drought in Ireland and Britain (Figure 3.1). In addition to this, there was also the psychological factor; Andrekos Varnava (2009) claims that “to the British there was an unequalled sense of possession over the Holy Land which included much of the eastern Mediterranean and especially Cyprus (p. 60)”. However, the British parliament as well as the public opinion were divided by different views on the strategic importance of Cyprus for Britain. According to editor of The Times, the daily journal published in Britain, although Cyprus was among the most beautiful places in the Mediterranean, the island’s infrastructure was neglected and in very poor conditions since the financial condition in the Ottoman Empire was not allowing the government to make any expenditure on useful public works.

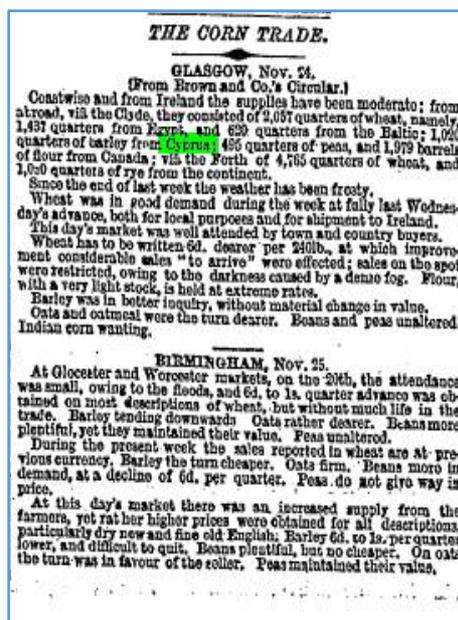


Figure 3.1 Barley from Cyprus<sup>9</sup>.  
Reprinted From: The Times (London, England), Friday, Nov 26, 1852; pg. 6; Issue 21283.

<sup>9</sup> This year roughly marked the end of the Great Famine in Ireland. While flour and wheat were scarce and the prices were rising due to rising demand, barley was imported from Cyprus in large amounts, hence there was no change in its value.

Moreover, there was a severe draught in the Anatolian region between 1873-75. According to Ertem (2016), at least 150,000-200,000 people were killed because of starvation and disease, and the disaster worsened by a second famine that struck a wide region in eastern Anatolia, Van, Erzurum, Diyarbakır and Mosul in 1880, starving nearly 10.000 in eastern Anatolia and 25.000 in Mosul. The Ottoman budget was eroding and the members of the House of Commons were aware that by 1878, “there was a pressure from İstanbul to drain every available penny from the provincial treasuries” (The Times Digital Archive, 1878). The defeat of the Ottoman Empire in the 1877-78 Russian-Ottoman war made it difficult for the Ottoman Government to balance its budget (Keskinkılıç, 2003: 333) and make the necessary investments for its provinces at the same time. According to the editor of the The Times Digital Archive (1878), who was obviously trying to make Cyprus more attractive for the public opinion in Britain, “the net revenue of Cyprus in the financial year 1876 was computed at over 20.000.000 piastres<sup>10</sup>, all of which were drained from the island to help imperial necessities at the capital” (See Figure 3.2).

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<sup>10</sup> The Ottoman piastre by the late 19th century was worth about two pence (2d) sterling.

RESOURCES OF THE ISLAND OF CYPRUS.—An English resident in Cyprus has favoured us with some interesting details relative to this valuable island. Cyprus has been subject to the dominion of the Turks since 1585, it having been taken from the Venetians. When it became a Turkish province the population was 2,000,000, but this has been reduced by tyranny, revolutions, and emigration to 150,000, which is the gross number of the present inhabitants—utterly insufficient for the cultivation of even one-third of the rich soil of the island, which is 164 miles long by 63 broad. The resources of Cyprus so large and so various, are consequently neglected, and our correspondent desires to awaken the interest of England with a view to promote the welfare of his adopted country. He says that Cyprus affords a large field for the cultivation of cotton, now so much in request, although the annual exports have declined from 30,000 to 5,000 bales, and the supply is yearly decreasing. Indolence and want of hands, as in the case of the West Indies, are the two evils to be encountered by enterprising men, energy and perseverance being qualities indispensable. The soil of Cyprus is fertile and well suited to the growth of cotton. The potato also flourishes to a great extent. It is believed that the Turkish Government would grant leases of land, subject to the usual imperial taxes. Not only to farmers, however, does Cyprus offer great inducements to settle, but also to families with small means desirous of living cheaply. The antiquarian, too, will meet with objects of interest at every step, while the mineralogist will find that the silver, lead, copper, and coal mines mentioned in Virgil are no myths. Butcher's meat may be had for 3d. per lb.; bread, 1d.; tea, 3s.; sugar, 6d.; coffee, 8d.; milk, 1d. per pint; oil 6d. per pint; wine, 2d. to 8d. per bottle; and spirits, 2s. per bottle. Fruit and vegetables may be had almost for the asking, the price being merely nominal. House rent is 10l. to 30l. a year, according to size and site. Water is plentiful and good, and French, Italian, Greek, and Turkish may be learnt at the rate of 8d. a lesson. The Government of the island is under a civil and a military Pasha, there being 500 troops in the chief towns. Nicosia, the capital, is well fortified, and holds about 15,000 inhabitants; it is 20 miles from Larnica, the chief seaport, where the military Pasha and the foreign Consuls reside. The laws are mildly and impartially administered, and crime is of rare occurrence, robbery and murder being unknown. The inhabitants are friendly to Europeans, and three-quarters are Christians of the Greek Church (except 1,500 Papists and 10 Protestants). Lastly—and who can resist this attraction?—the fair

Figure 3.2 The Times “Who can resist this attraction?”,  
 Source: The Times (London, England), Thursday, Jun 23, 1859; pg. 5; Issue 23340

On the other hand Sir Bernhard Samuelson claimed in his letter to the editor of The Times, who was cheering up for the occupation of Cyprus, that Turkey was in fact trying to “sell” the island for a long time to the British, which has been a drain on her sources by the recurring bad harvest which caused large numbers of the population to emigrate to Syria and Asia Minor while those who have remained had to be fed by the government to be kept from starvation, arguing that “Turkey will never insist ... to demand the retrocession of the island ... the Turkish Diplomats have not lost their cunning” (The Times, 1878).

The perceived Russian threat towards Balkans, Anatolia and Middle East increased pressure over the Ottoman Sultan who agreed to hand over Cyprus to Britain as a means to stop Russian expansion. Before the Berlin Congress started in 13 June 1878, the Ottomans had already had agreed to grant the administrative control of Cyprus to the British Empire by signing the Cyprus Convention on 4 June 1878. On the 9<sup>th</sup> of August 1878, the British forces “occupied” the island – it was called an occupation in the British press - and Admiral Lord John Hay formally took possession,

and hoisted the British flag (Illustrated London News, 1878), which ended the Ottoman rule after 307 years in Cyprus. Although the British Empire actually “rented” the island from the Ottomans in the beginning, mainly in return for protecting the region from the Russian dominance, it never returned it back to the Ottomans due to the outbreak of the WWI.

Disraeli’s conservative party was in power at the time, and there was strong opposition from the liberals in the British Parliament who were skeptical about the island’s real value and strategic importance for Britain. According to Solsten (1993), the British Government had already declined Ottoman Empire’s offer for Cyprus three times in 1833, 1841, and then in 1845, before they finally accepted it in 1878. It was not only the strategic importance of the island for the British, but the industrialised British economy was on the brink of the so-called second industrial revolution and needed new markets to expand as well. The opposition was not happy with the gloomy economic situation on the island, and criticised the government as the living and working conditions on the island were getting worse under the British rule, putting much more pressure on the Cypriots, who needed to work harder to pay the yearly payment to the Ottoman Sultan and sustain the imperialist exploitation. Sir Charles Dilke brought up the miserable condition in Cyprus to the public attention as a caution;

“we governed Cyprus by a military despotism less liberal than the rule of the Turks; that negro slavery existed in the island, and that a system of compulsory labour —enforced by flogging— had been introduced by us, which was necessitated by our compact to pay to Turkey the sum of 4.115,000 annually, which did not leave out of the taxes a sufficient margin for the necessary expenses of the Government.” (The Tablet, 1879).

After Cyprus was granted to the British Empire in 1878, the then Governor Sir Garnet Wolseley made a statement on the need for the establishment of a Legislative Council on the island. It consisted a High Commissioner, and not less than four or more than eight other members, one half being officials and the other un-officials who were nominated either by Her Majesty or provisionally appointed subject to the Majesty’s approval by the High Commissioner (Hill, 2010). Hill pointed that there were both unofficial and official members of this Council; the unofficial members were Mustafa Fuad Efendi (old family-Turkish Cypriot), George Glykys (merchant-Greek Cypriot) and Richard Mattei (who is the largest landed proprietor in Cyprus)

and three official members were British. The Council was composed of representatives of local power groups who were the members of upper classes of the Cypriot society as this was what was supposed to be in the minds of the British, who were not yet aware of the class cleavages within the Cypriot society. Akgün (2012) pointed out that under this system, if these local power groups and elected members proved their loyalty, they were given further rights, thus these groups established good relations with the British government in order to maintain their power over the political and economic relations. According to Akgün, those who proved their loyalty to the Colonial administration, were even granted titles of nobility; Mehmet Münir, who entered the Parliament of Cyprus in 1925 and served as a member of the Parliament for one term until 1930, was awarded the “Order of the British Empire” by the British Government in 1931, and in 1939 he was given the title of Sir by the British Government (Akgün, 2012)<sup>11</sup>.

In 1882, the British Government put in force a modification for the 1878 Constitution in Cyprus, which remained unchanged until the annexation of the island by the British in 1914. The modifications in the Constitution provided the basis for a change in the Legislative Council’s structure which was the basis of the divisive rule on the island; of twelve elected members and six appointees of the high commissioner; three of the elected members were to be Muslims (Turkish Cypriots), and the remaining nine non-Muslims (Hill, 2010). This weight in the Council was based on the British interpretation of the census, which was taken in 1881, by which the Muslim population was represented officially as a minority. On the Legislative Council, the British Administration designed a composition within the traditional religion-based political structure of Cyprus, considering the population ratio of the people, which it defined as Christians and Muslims. This distinction was identified as Muslim Turks and Orthodox Greeks; other minorities such as Maronites and Armenians were not represented. The British was not familiar to the societal structure and balance of forces on the island hence were determined to establish a system which was based on the majority rule. According to Varnava (2009), they had pre-concieved

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<sup>11</sup> It should be pointed out that in October 1931, a massive uprising led by the GCs against the British Governor and against the monopoly of the colonial administration over the supply of primary goods on the island took place which burned down his house and many other buildings.

notions about Cyprus which was apparently a romanticized version of the history of the island based on a modernist perspective which identified the races and was critical for it “politicised non-existent divisions between the Orthodox and Muslims” (p.35). Varnava argued that the British did not know how to handle the situation when Archbishop Sophronios III, accompanied by the Orthodox elite, welcomed the British and asked for the protection and advancement of both the Orthodox “and” Muslim societies (p. 33). In Cyprus, the first election was held on 28-29 May 1883 following the Regulation on the Legislative Council and the results of the election were published in the Official Gazette (Akgün, 2012).

“According to the US Library of Congress archives, “...in practice, the three Muslim members usually voted with the six appointees, bringing about a nine-to-nine stalemate that could be broken by the vote of the high commissioner. Because the high commissioners generally supported the Turkish Cypriots, the desires of the Greek Cypriot majority were somehow thwarted. When Cyprus became a crown colony after 1925, constitutional modifications enlarged the Legislative Council to twenty-four, but the same balance and resulting stalemate prevailed.” (US Library of Congress, n.d.)<sup>12</sup>.

Hence it may be argued that the stalemate over the power sharing issues regarding the Cyprus problem today were a continuation of the colonial rule’s governing strategy. Anagnostopoulou (2016) argued that, the 1882 constitution incorporated two irreconcilable elements: communalism, which was based on the former Ottoman *millet* system, and the modern principles of the representation and the rights of the majority, the two communities being represented in proportion to their percentage of the total population. Anagnostopoulou stated that this blend of political concepts such as the representative system and majority and minority with communalism formed the basis of the contradictions inherent in what he called the “*differentiated colonial modernity*”,

“...communalism, as a representative system, not only reinforced the ethno-religious division of society; it also caused traditional solidarity to break down, therefore increasing the paternalistic bonds to the respective leadership of each community.” (p. 347).

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<sup>12</sup> US Library of Congress, British Annexation <http://countrystudies.us/cyprus/9.htm>, retrieved on 17.01.2020.

Sir Samuelson's assessment on the Cyprus issue, who claimed that "Turkey will never insist ... to demand the retrocession of the island", was proved to have a ground as the political conjuncture didn't allow the Turkish diplomats to demand the island back after WWI ended. The outbreak of WWI and the Ottoman Empire's decision to join the Central Powers gave the British Empire the opportunity to fully annex Cyprus to the British Empire in November 1914. In the same year, rich copper sulphate deposits were discovered on the island and in 1916 the US owned Cyprus Mining Company (CMC) was established. The CMC established towns for the miners which reinvigorated the economy when compared to the pre-1914 period. There was a rise in the FDI to the island, yet it was not directly reflected to the wages and the miners were working under excruciating conditions. Cash crops that were destined to the European markets continued to be the main exporting product of Cyprus followed by the copper ore. The mines trade resulted in minor improvements regarding the infrastructure of the island such as transportation and roads, yet there was a remarkable rise in industrial relations.

Following the defeat of the Central Powers in WWI, parts of Anatolia and İstanbul were occupied by Greece and the Allied Powers. A national liberation movement started in 1919 under the leadership of Mustafa Kemal and the Committee of Representation. The Grand National Assembly was inaugurated in Ankara on the 23<sup>rd</sup> of April 1920 and the national liberation movement succeeded to end the occupation in Anatolia and in İzmir by September 1922. İstanbul was still under the occupation of the Allied Powers during the signing of the Treaty of Lausanne on the 24<sup>th</sup> of July 1923 by the Ankara Government, in which Turkey gave up its claims on Cyprus in line with Article 20 and drew most of the boundaries of the country. The Republic of Turkey was established on the 29<sup>th</sup> of October 1923 and in 1925, British proclaimed Cyprus as a Crown Colony, which marked the beginning of a new state of affairs in Cyprus which marked it as "a problematic territory".

The excruciating social and working conditions and poverty on the island were increasing the pressure over working population in Cyprus. They were reacting to their further impoverishment after the Colonial Administration imposed heavy taxes on them, added to the ordinary reimbursement that was paid to the Ottoman Sultan on a yearly basis before the island was annexed. When the Ottoman Empire handed the

island to the British, the TC bourgeoisie gradually lost its prominence within the island's "elite". While the Orthodox Church and the Greek merchants appeared to become the powerful interest groups in Cyprus, the TC bourgeoisie was confined to a group of land-owners and civil servants (Panayiotopoulos, 1999). The disintegration of the Ottoman Empire after WWI raised the hopes of the GCC for *enosis*, however the Greek population's demands for the unification of the island with Greece were rejected by the British. This demand turned into mass street demonstrations by the 1930s when it was joined by the demands of the working class. The development of copper industry had a substantial contribution to the economic growth of the island in the 1920s, however there was a reversal during the Great Depression (Apostolides, 2012: 9). The proletarianisation of the peasantry and the working class in mine towns resulted in a new division of labour and class structure. Despite the rise in the number of workers in the mining sector and intensive mining, the CMC strongly resisted unionism in the mines until 1939 (2012: 14). The deterioration of the economy, working conditions and the rejection of the *enosis* idea resulted in mass protests in Nicosia.

In October 1931 (*ta Octovriana*) the government house in Nicosia was set on fire by the demonstrations and the British Government took harsher measures for suppressing the uprising. According to Panayiotopoulos, the uprising was not only an expression of rising GC nationalism but also "a rural social discontent over the deteriorating economic and social conditions." Panayiotopoulos pointed that most of the cases that were convicted guilty in the Famagusta courts up to November 1931, "were found guilty of stealing salt" as the high tax amount on salt made it a very expensive consumer good. The tax system imposed a heavy burden on the Cypriot society which restrained the development of an indigenous bourgeoisie; according to Panayiotopoulos, it was estimated by 1928 that taxation was at the very high level of 20 to 25 per cent of gross domestic product which required the "expansion of the repressive apparatus of the colonial state in the form of courts and lawyers who profited from litigation". However, after the mid-1930s there was a rapid growth of the mining industry which largely relied on the CMC's production and the company became an important agent for the technological and social transformation of the island

(Christodolou, 1992), especially after the global demand for copper dramatically increased after WWII started.

The Colonial Office appears to be under a misapprehension as regards the real sentiments of the Cypriot people. This is probably because suppression of free speech has left only Government officials to act as spokesmen of the people. It is essential that the following should be adequately realized by the responsible authorities: (a) The Cypriots view with alarm the interested diatribes of the inspired German Press about Cyprus and with equal alarm the German machinations to win adherents inside the island; (b) whatever the national feelings of the people, either Greeks or Turks, there is no support whatsoever inside the island for a policy of change of the *status quo*. A distinction must be drawn here, between romantic political yearnings and practical political demands governed by the prevailing world exigencies; (c) the Cypriots do not nurse anti-British feelings, but have a grievance that they have received a raw deal. They demand the right to play their role in the administration of their affairs under the British Crown—i.e., they demand autonomy for Cyprus within the framework of the British Empire, by which all questions of internal administration will be in the hands of a Government elected by the people, while all questions of foreign policy and defence will be in the hands of Britain.

Figure 3.3 Greek Cypriots demand autonomy for Cyprus.  
Reprinted from: Joannides (1939) The Times (London, England), Saturday, May 06, 1939; pg. 8; Issue 48298.

In Britain the National Government was in power between 1931-1940, which appointed Sir Richmond Palmer as the governor to the island until his retirement in 1939, who took strict measures such as prohibiting the trade unions and limiting the associations in any forms to stop the local upheavals. Meanwhile the trade of copper sulphur ore was flourishing in Cyprus (The Times Digital Archive, 1939) however the economic and political atmosphere was in despair. “The Cyprus Question” was brought to the attention of the British public by a GC socialist, Evrodos Joannides in a letter he wrote to the editor of The Times in search for granting of basic constitutional rights to the Cypriots in 1939. Joannides (1939) justified his demand in his letter to convince the British, both as a tactical move toward settling the problem as well as halting *enosis* and raising a sense of justice after eight years of the so-called

“*Palmerokratia*” regime, which created deep grievances in the society. In his letter he demanded the granting of basic freedoms to the people of Cyprus, ensuring that both Greek and Turkish had no aim of overthrowing the British Administration but only demanding autonomy for Cyprus “within the framework of the British Empire” (See the letter at Figure 3.3);

Joannides also wrote an article for “The Labour Monthly”, which was titled “Terror in Cyprus”, summarizing the excruciating conditions on the island for the workers and the peasants which pointed not only the dire conditions, but also to the changing demography and the social relations of production in Cyprus. Despite the rise in the value added in mining and quarrying the wages were stagnant and usury was rampant. The establishment of cooperatives were supported by the British administration as a remedy for the worsening of the economic conditions and after the 1930s, which empowered the peasantry *vis-à-vis* the capitalist relations of production. Under this new “associated mode of production”<sup>13</sup> workers would have partial control over the means of production through the cooperatives which would alleviate the conditions of exploitation. Still, Joannides warned the British that poverty was spreading fast and Cyprus was reverting back to Feudalism.

“...Usury is rampant. The Government is delighted to keep it in protective obscurity. Not a single villager in need can borrow money without mortgaging his property. Interest is very high. The Government has fixed it as high as 12 per cent., but instances of 16 per cent, and 20 per cent, are not rare. As a result of this legalised bloodsucking a gradual process of expropriation has been going on for years. Whole territories in the district of Paphos, entire villages in the districts of Larnaca and Famagusta, belong to a relatively insignificant number of wealthy individuals. Cyprus is reverting, from the point of view of land-ownership, to Feudalism!..”. (The UNZ Review, 1934).

Joannides warned the socialists against the rise of Italian Fascism and the French Imperialism (which he defined as a semi-hostile capitalist group) and claimed that, “increasing decay and crisis of the capitalist system and the sharpening imperialist antagonisms will eventually find an outlet in war...” “...for an increased share of

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<sup>13</sup> For Marx, cooperative factories are the transition forms of transition from the CMoP towards the associated mode of production under capitalism, which enables the abolition of the oppositions in a positive way. Marx, Karl (1999). Capital Volume III, The Process of Capitalist Production as a Whole, p. 317, Vol. 3, Ch. 27.

colonial plunder, for the suppression of the proletarian movement...” which would also turn Cyprus into a military camp (The UNZ Review, 1934).

Cyprus fought its war of independence against the British Empire until 1960 with an intermittent change in the balance of class forces within the Cypriot statehood struggle that was closely related to the rising class struggle after the 1930s. The 1931 uprising was the beginning of the “*Palmerokratia*” regime of the British, during which Governor Palmers took strict measures after the uprisings that were reflected upon the daily lives of the Cypriots as increasingly authoritarian measures. Increasing poverty and suppression led to the upsurge of two consecutive social movements; one against the British Empire and the other one against bicomunalism.

Despite having a limited role on the liberation movement after the 1950s, the advancement of bicomunal class struggle against the colonial administration after 1930s was critical regarding the class earnings on the island, as well as weakening the authoritarian rule of the colonial administration. The rise of bicomunal trade unions was a rising threat for the British, who wanted to keep the TCC as an ally towards rising GC nationalism on the island. As the British increased pressure over the social forces, the reactionary uprisings turned into a guerilla warfare by the GCs.

According to the history archives of Türk-Sen (Kıbrıs Türk İşçi Sendikaları Federasyonu)<sup>14</sup>, the first Cypriot Union, the Nicosia Shoe Makers Union, was established in 1932, shortly after the enactment of the Law on Trade Unions in Cyprus. The mining sector and extraction of the copper and iron was owned by foreign capital, forcing the mineworkers to abide to increasingly poor and severe working conditions. In 1939 the first collective bargaining agreement was signed and by 1940, the number of unions amounted to forty, with 3.389 members. The most important moment in the history of joint struggle against the British Colonial Rule was the strike in 1944, which continued for 23 days and resulting in class earnings in the form of wage adjustments, limiting the workweek to 44 hours, improvement of the working conditions and acquisition of the death indemnity payments and many other rights.

The emergent industrial relations during the colonial era led to the rise of a labour class and bicomunal trade unions. The Communist Party of Cyprus was

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<sup>14</sup> Türk-Sen (2019) Tarihçe <http://turk-sen.org/turk-sen-tarihce/>.

established in 1926 and it was banned by the colonial administration in 1931 after *ta Octovriana* (the October uprising). AKEL (Anorthotikó Kómma Ergazómenou Laoú-The Progressive Party of Working People) was established in 1941 by the leaders of the Communist Party together with the PEO (Pankýpria Ergatikí Omospondía-Pancyprian Federation of Labour), which were two key bicomunal entities of class struggle against the British colonialism. In 1943 the TCs started to establish their own associations, unions and federations; the first step towards TC unionization was the establishment of the Carpenters Association in Nicosia (Lefkoşa Türk Dülgerler Birliđi) followed by the telephone and mine workers unions and then the Güneş Türk İşçileri Sendikası (Sun Turkish Workers Union) in 1944, which later established first KTİB (Kıbrıs Türk İşçi Birlikleri-TC Workers Association) and then the KTİBK (Kıbrıs Türk İşçi Birlikleri Konfederasyonu-Central Committee of the Turkish-Cypriot Unions) by the support of Turkey's Workers Federation (Türk-İş Federasyonu) in 1954 (Saygılı, Kampek & Balıkçiođlu, 2013).

According to Apostolides (2012: 14-15), CMC was the largest industrial employer on the island and it led to the establishment of a dynamic labour movement on the island. From 1929 onwards, the number of active mines doubled in a decade, and new companies were established for not only copper but also for the extraction of gold and silver. After WWII the miners became the the leading union in PEO, which was the chief engine of the Cypriot Labour movement. Yet, despite the tremendous rise in the price of copper in the world after the war, there wasn't any significant rise in the wages. In this regard although the impact of the mining industry was limited in terms of national income, the expanding copper industry established the link between the Cypriot labour force and the global markets, which constituted the basis of a strong and organized labour class on the island.

The GC and TC unions led the 1948 strikes that was organized against the brutal working conditions in the plantations of the Cyprus Mines Corporation. Prior to the big strike in March 1948, a co-operation protocol was signed between the newly established KTİBK and PEO in January, in order to "organise and lead strikes and other action at mines and ports, in transport, government and military works, in the clothing and footwear industry, in bakeries, on construction sites and elsewhere" (Varnava, 2000). 1948 was an important year in the sense that following the rise of the

workers' movement, the TCC also started to organize meetings that raised the nationalist sentiments within the community against the idea of *enosis*; In November Denktaş made a public appearance and speech in the first TC mass-meeting, which introduced him as one of the political figures within the TCC (Laptalı, 2010). As opposed to the bicomunal movement, Greek Cypriot (GC) nationalist movement was organized under EOKA (Ethnikí Orgánosis Kipriakoú Agónos-National Organization of Cypriot Struggle) with the aim of *enosis*, in which the GC peasantry played a key role in the fight against the colonial rule and began to target both colonialism and bicomunalism after 1955. While the political struggle under bicomunal unions was becoming increasingly effective until the mid-1950s, the reactionary nationalist faction was gradually dominating the GC struggle after the WWII ended, during which more than thirty thousand Cypriots joined the British armed forces. The *enosis* demands of the GCs turned into a mass movement from the 1950s onwards when AKEL decided to join the pro-*enosis* front which weakened the bicomunal movement on the island.

The post-war British Government decided to establish a constitutional government however, this was regarded as a late effort to stop the rise of the GC independence movement. The Secretary of the State for the Colonies, Creech Jones, wrote as a reply to a Parliamentary question in 23<sup>th</sup> of October 1946, that the government was seeking for opportunities to establish a more liberal and progressive regime on the island. He was inviting Sir Charles Woolley, the then Governor of Cyprus, to gather a "Consultative Assembly" which was composed of representatives of the island to consider the provisions of a constitutional reform and re-establishment of a central legislature (The Times Digital Archive, 1946). When India and Pakistan attained their independence in 1947, it was the beginning of a series of independence movements followed by Africa. This decolonization movement had its repercussions on the rise and effectiveness of a Cypriot anti-colonial movement in the 1950s. Occasional clashes between the GCs and TCs began to rise after the mid-1950s. Once the GCs started a guerilla war against the British, they also directed it towards the TCC, whom they accused for being in collaboration with the British Administration against the GC liberation movement.

The TCs started to establish their own unions by 1950s as the *enosis* movement was targeting bicomunalism. In 1954, ten TC workers unions came under a federation, which was later named as the TÜRK-SEN (Kıbrıs Türk İşçi Sendikaları Federasyonu- Turkish Cypriot Unions Federation). In 1956 the “Kıbrıs Türk Memurin Cemiyeti” (Turkish Cypriot Association of Civil Servants) was established which was later renamed as the KTAMS (Kıbrıs Türk Amme Memurları Sendikası-the Turkish Cypriot Civil Servants Union) in 1957. Establishment of KTAMS was an important event in the sense that civil servants were were traditionally an influential group within the TCC in Nicosia center during the Colonial rule. This was followed by the establishment of EL-SEN in 1957 (Kıbrıs Türk Elektrik Kurumu Çalışanları Sendikası-Turkish Cypriot Electric Workers Union). The unionization of the TC labor movement and the civil servants alarmed the small business owners on the island; they made their first meeting in Nicosia on the 15<sup>th</sup> of October 1958, and on the 15<sup>th</sup> of May 1959, the establishment of the KTTO (Turkish Cypriot Chamber of Commerce-Kıbrıs Türk Ticaret Odası) was announced and it soon became a member of the International Chamber of Commerce (ICC). Following the establishment of KTTO, the Cyprus Turkish Cooperative Central Bank commenced its operations on September 9, 1959.

Panayiotou (2006) pointed that the GC right, which aimed *Enosis*, established EOKA in 1953 to fight against the British Colonial rule and against the TCs, which they regard as the collaborators of the colonial administration, and the TC nationalist organization TMT was established in 1958 as a reactionary TC rightist organization as opposed to the separatist GC movement. Apart from their hostility towards each other, both organizations were known for their fierce attacks towards the opposition within their own communities, especially towards the leftists and unionists (Kızılyürek, 2015b). These attacks and assassinations created mayhem and fear on the island, which significantly curtailed the efforts for the re-establishment of an intercommunal interdependence movement. Although the establishment of a progressive workers party such as AKEL provided a window of opportunity for a bicomunal struggle against imperialism, AKEL’s decision to support *enosis* resulted in increasing pressure over the Turkish Cypriot members of the party from TMT (Türk Mukavemet Teşkilatı-Turkish Resistance Organisation) to quit from membership and in the assassinations

of Fazıl Önder in 1958 and then Derviş Ali Kavazoğlu in 1965<sup>15</sup>, who was the last TC member of AKEL. Himself a craftsman, Kavazoğlu was not only a prominent figure for bicommunality against raising nationalisms on the island, but he was also one of the important figures of unionist movement, who joined the big strike in 1948 in Cyprus against British Imperialism. According to An (2008b), TMT not only fought against the GC ultra-nationalist ideology, but, it also suppressed the TC opposition by using attacks and assassinations, targeting mainly the left-winged federalists and the socialists for suppressing the opposition.

There were different dominant groups in each period who were determinant over the power networks within the production relations on the island. In this regard, it could be argued that the joint class struggle became an effective force over the changing relations of production on the island during the 1940s. According to Loizos (1974, cited in Panayiotopoulos, 1999), the period between 1878-1931 was one in which the Church was dominant in Cyprus and the period between 1932-1954 was one in which the left emerged as a major 'claimant' of the support of the anti-colonial and social movement which enabled the TCs and the GCs to collaborate under bicommunal trade unions. Although the GCs and TCs carried out a collective struggle in joint labour unions from 1920s onwards, this class interdependence was curtailed as a result of rising nationalisms and the ultra-nationalist's attacks on the unionists on the island after the second half of the 1950s (Saygılı et al, 2013).

It could be argued that the joint class struggle was replaced by an ultra-nationalist form of statehood struggle in the 1950s, which in turn resulted in the suppression of the class movement in Cyprus. The dominancy of the ultranationalist camp on the political and economic structure of the RoC upon its establishment become one of the major reasons that led to the end of the RoC "settlement" in 1963. Loizos (1974) argued that while the labour union movement started on the island as a "cross-ethnic affair" in the 1920s, the TCs started to establish their separate unions in 1943, followed by the establishment of the umbrella organization called the Association of Turkish Cypriot Workers Unions (KTİBK) in 1945 (Ioannou & Sonan, 2017). KTİBK was established by the TC nationalists, who increasingly became the

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<sup>15</sup> Kavazoğlu was assassinated together with Kostas Mişaulis, a GC member of AKEL.

most influential group within the unionist movement in the north. TC nationalists, who were the first organized group in the labour movement in the north, and they succeeded to evolve the unionist movement from a class-based one into an ethnic based movement due to their anti-*enosis* stance (Ioannou & Sonan; 2017). In this regard despite the establishment of the KTIBK, the leftist TCs preferred to remain as members of the PEO, which pointed to the ideological division within the TC workforce.

According to Ioannou and Sonan there are two critical junctures underlining the significant impact of the broader politico-economic context in trade union development and their divergence;

“... first in the period between the mid-1940s and early 1960s when the ethnic conflict broke out and peaked, and the second in the 1970s when the separate paths of the trade unions were sealed along the de-facto partition of the country.” (2017: 485).

After the mid-1950s, the statehood struggle of the GCs took the form of armed rebellion and they started to use guerrilla warfare tactics against the British Rule which resulted in casualties from both sides. During 1950s, Makarios gradually increased his pressure on Greece to engage its full support for *enosis*; he campaigned for a referendum that was held in the GC churches for union with Greece and following the referenda he was elected as the Archbishop and served as the primate of the “autocephalous Church of Cyprus”, which granted him a superior role both within Greece and within the GCC. Makarios’s campaign over the Greek public was successful, however, both Greece and Turkey gave priority to the NATO membership. According to Clement Dodd (2010), Greece had its own agenda for the Balkans to counterfight the “communist threat” in its northern border together with Turkey and Yugoslavia, and it was not eager to have tense relations with the UK and with Turkey.

On the other hand, the Turkish governments, both during the CHP governments before 1950 and then under DP’s rule between 1950-1955, shared the same concerns with Greece over the perceived so-called “communist threat” in the Balkans and in Eastern Turkey and preferred to keep the *status quo* in Cyprus under Britain’s rule. Dodd (2010) argued that the Greek PM, Sophocles Venizelos was trying to resist the pressure from the Greek opposition in the parliament regarding the Cyprus issue, however the British Government’s refusal to discuss the Cyprus issue with Greece pushed Venizelos to declare that the Greek Government demanded the union of Cyprus

with its “mother country” Greece in February 1951 and he presented the Cyprus problem to the attention of the UN the same year. This marked the beginning of a process which turned Cyprus from a colonial issue into an international problem; Makarios was finally successful in his relentless diplomatic efforts, when Greece PM Papagu officially submitted the Cyprus case to the UN on the 20<sup>th</sup> of August, 1954 yet, the UN General assembly rejected the call.

The internationalization of the problem signaled, too much surprise, the end of bicomunalism that remained predominantly as leftist movement on the island. The last institutional bi-communal activity on the island before the establishment of RoC took place in May 1954, just before Greece’s initiative in the UN, when the United Cyprus football team composed of ten GCs, five TCs and one Armenian Cypriot, played against Israel in an international friendly match (An, 2008a). The Cypriot Football Federation was soon split into TC and GC federations in 1955 as a result of the outbreak of the intercommunal violence. After the RoC was established in 1960, the first official football match was played against Israel within the same year, however, according to Thorp (1978), due to the disagreements on how to implement the 80% 20% rule for composing a “national team”, the top Greek team played for Cyprus.

### **3.2.2 Conciliation; Establishing the Republic of Cyprus**

Greece brought the issue before the UN two times after 1954, in 1957 and 1958, however all these initiatives were rejected by the UN General Assembly, which rather called for negotiations between the parties. According to Bölükbaşı (1998), when the idea of *enosis* didn’t find popular support in the UN, both Greece and the GCs realized that they needed to accept a negotiated settlement with Turkey and Britain in order to stop Britain from unilaterally implementing the Macmillan Plan which would divide Cyprus among Greece, Turkey and Britain after a transition period of seven years. The negotiations between Turkey and Greece started in early February 1959 (Zurich Summit) followed by the participation of Britain and the Community leaders where the parties signed the agreements (Treaties of Guarantee and Alliance-London Agreement) for establishing a functional federation. The Turkish PM Menderes and Foreign Minister Fatin Rüştü Zorlu were the leading political figures who negotiated the terms of these treaties and signed them on behalf of Turkey. Zorlu was known as

the leading political figure behind the establishment of TMT, providing financial and military equipment to the TCC in close collaboration with Denktaş starting from 1958 onwards (Tansu, 2001).

Despite being central figures for the Cyprus issue, Zorlu and Menderes were under arrest when the RoC was established on the 16<sup>th</sup> of August, 1960. The Menderes Government was overthrown by a military *coup* in May 1960, its members were detained together with President Bayar and Chief of General Staff Erdelhun, and one year later in September 1961, Menderes, Zorlu and Polatkan were executed in Yassiada after being trialed under military rule of the National Unity Committee. The General Elections were held in October 1961 in Turkey, which meant that RoC was established in the absence of an elected government in power in Turkey, which would pave the ground of a path dependence in the announcement/establishment of the following TC administrations/states; TCA in 1971, TFSC in 1975 and then the TRNC in 1983. An independent, bicomunal state was established on the 16<sup>th</sup> of August 1960, and Britain, Greece and Turkey were the guarantor states of the RoC under the Treaty of Guarantee.

The Republic of Cyprus was contested in many ways upon its establishment; According to Thorp (1978), who was leading the UN mission that was sent to the island to make suggestions for the economic development of Cyprus, “the constitution was so written that it was bound to enhance the differences between the Greeks and the Turks”. Besides the unsettled issues of ethnic and religious cleavages, power sharing, taxation and governance, the allocation of the resources and sharing of the surplus product appeared to be problematical issues soon after its establishment. RoC was established as a bicomunal representative democracy, which was governed by a central presidential system and two autonomous communal chambers; it was a bicomunal state, hence it lacked the necessary national-popular narratives and “common interests” that would have acted as unifying factors for the formation of a bicomunal power bloc from within the Cypriot society. RoC was a capitalist type of state, and more specifically, in Prodromos’s conceptualization, a postcolonial state (Panayiotopoulos, 1999), within which the primitive accumulation strategies enabled the articulation of the non-capitalist modes of production to the dominant capitalist mode after the establishment. RoC had a large agricultural economy with a small

market, dependent mainly on the public revenues and import of raw materials, and its governance was based on power-sharing between a GC President and a TC Vice-President on the basis of equality and veto powers. The GCs constituted the majority of the population and they held the majority of the productive activities on the island; they were dominant both within the political (government) and the economic (production) spaces of the common State. Power-sharing, taxation and community quotas for civil services among TCs and GCs became the problematic issues after the establishment of RoC in 1960.

RoC's economy was largely dependent on the import of the raw materials and upon independence, the agricultural economy and the small market capacity of the island appeared as hindering factors for taking steps towards industrial development. After the RoC was established, the majority of the TC workforce was employed in agriculture and the TCC's contribution to the RoC's economy was limited in terms of creating surplus value. According to Arslan (2014), a major part of the TC economy was based on the small peasant production and moreover, the ratio of the TC population to overall population was 18%, while their share in the RoC's central state employment was 30%, creating "a 'relatively' bigger problem" for the TC leadership "of the state absorption of surplus product" (p. 431). Arslan pointed that the overall island economy in 1960 was mainly dependent on unproductive activities hence far from supporting a "modern state apparatus", however, the TC economy was substantially worse-off and the TC share in GDP was lower than its proportion in the total population (p. 432). The events in 1963 were the attempts by the GC nationalist elite not solely for establishing their hegemony over the political structure of the RoC by eliminating the veto power of the TC Vice-President, but the events that followed 1963 could also be regarded as an attempt over the establishment of a monopolistic market that would be totally dominated by the GC Church and capital on the island.

The class basis of this postcolonial state was dominated by the material power of the Greek Cypriot Church, personified in Makarios as the key political figure that rested largely on the support of the GC peasantry as an indigenous class. The Cypriot society didn't have a strong bourgeoisie which would have dominion over the "overdeveloped state" (Alavi, 1972) apparatus after independence, hence EOKA and its network within the GC peasantry was influential both in the making and the

breaking of the RoC. Although RoC was established in 1960 not as an effect of a bourgeois revolution from within, but as a result of bargains between the colonial administration, the “motherlands”, and with the ruling classes on the island, the class alliance in the form of GC armed struggle was also effective in bringing the sides to the table. According to Thorp (1978), it was the rising clashes and armed conflict which resulted in Britain’s approval for the establishment of an independent state on the island; “I never have understood the British. I can see why they took the action of approving the Cyprus constitution because they were so sick and tired of Cyprus-trying to keep peace there” (Tape 2, side 2, para. 15).

Upon its establishment, the postcolonial state inherited the majority of the colonial institutions, structure, markets as well as the social classes. The interest groups re-defined their class positions and alliances according to the fundamental changes in the relations of production in the postcolonial society. Intercommunal violence gave a break after the establishment of RoC in 1960 and intercommunal unionism with mass membership, that was in decline due to the intercommunal conflict before 1960, was partly revived despite the pressure exerted upon the unionists by the ex-EOKA members, who now held power in critical positions within the Cypriot State. According to Panayiotopoulos (1999), the postcolonial state in Cyprus was dominated by an alliance of Greek Cypriot peasantry, church and the ex-EOKA combatants, within which tripartism was used as a tool for oppressing and marginalizing the TCC. One of the largest co-operatives in Cyprus before Turkey’s intervention in 1974, the Tobacco Co-operative, was controlled by the ex-EOKA network. Panayiotopoulos pointed to the crucial and instrumental role of the ex-EOKA combatants - whom Panayiotopoulos defined as the main agents who linked the peasantry to the State - for marginalization of the TCs after independence. According to Panayiotopoulos their role diminished only after the 1974 intervention, when the GC peasantry were dispossessed by being removed from their farms and land, gradually losing their traditional role over the GC society due to the rising urbanization after the military intervention. Panayiotopoulos argued that 1974 marked the decline of the rural population and redistributory state of 1960, and gave rise to the urban population and the reconfiguration of a new social formation which defined itself as a developmental state.

The postcolonial state shouldered the capitalist development through the establishment of mechanisms that would ensure the continuity of capitalist accumulation strategies which would also require the re-definition of the relations between the capital and the labour within the Cypriot society. State capitalism became a characteristic model for the development of the postcolonial states in the world during the 1950s and 1960s, within which CMoP was under direct state control and Cyprus was no exception. Central planning was essential for bolstering economic growth hence it was a specific feature of the postcolonial states to have central-planning side by side a state-led capitalist development model. This “over-developed” state became the main employer for the majority of the workforce and the key provider for jobs and benefits, hence the state acted as the progenitor of a patronage system through the re-distribution of wealth and territory by using primitive accumulation strategies. As the state assumed a central role in directing the capitalist development, accumulation strategies and re-distribution mechanisms, attaining a powerful position over the state bureaucracy turned out to be the ultimate goal for the rising competition between the interest groups in Cyprus. The establishment of the RoC in 1960 was a giant step towards conciliation under a bicomunal republic, but it was also a “leap” towards a state-led capitalist development and western type of liberal democracy model by the means of a postcolonial state (Trotsky, 2008)<sup>16</sup>. Nonetheless, coupled by the inter-communal problems related to the sharing of the surplus product, the RoC’s Constitution had many weaknesses as it was a very complex one; according to Thorp (1978), its primary defect was its lack of establishing a central education system, which would expunge the communal differences hence it was a short-lived attempt as it failed to amalgamate the rising GC and TC nationalisms under an effective constitution, and conflict rather than consensus became the norm on the island.

The RoC’s economy had a chronic trade deficit stemming largely from trade with Britain, but RoC was able to compensate it with agreements it signed during independence to continue with the payments from Britain until 1965, based on an

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<sup>16</sup> Trotsky’s notion on “uneven and combined development” points us that the backward countries (in the capitalist development) are more sharply exposed to the unevenness of the historical process by making leaps rather than smooth transitions; According to Trotsky (2008), “The laws of history have nothing in common with a pedantic schematism. Unevenness, the most general law of the historic process, reveals itself most sharply and complexly in the destiny of the backward countries. Under the whip of external necessity, their backward culture is compelled to make leaps” (p. 5).

annual budgetary assistance of US\$ 8 (American University, Foreign Areas Studies Division; 1964). Moreover, Britain paid to the central government about “US\$ 45 million” annually for the activities of its military bases on the island (p.347). In 1961, RoC Government took strategic steps towards launching a state-centered capitalist development model. RoC prepared its first FYDP (1962-1966) for public investment, joined the IMF and established the par value of the Cypriot pound to US\$ 2.80 the same year (p.350). Although RoC got foreign assistance and vast amount of foreign aid mainly from the US, UN, Turkey and the IBRD (International Bank for Reconstruction and Development) upon its establishment, trade was the major sector for sustaining the island’s economic development and wealth accumulation. However, Arslan (2014) pointed to the fact that, the establishment of the Transnational Committee in Cyprus in this period, in which the policies shaping the accumulation strategies were established, made the TC economy and investment dependent upon the permits granted by the GC dominated state agencies, which had replaced the British colonial administration. According to Arslan, the Ministry of Trade and Industry that was under the GC domination created bureaucratic difficulties for the TC planned investments and machinery procurement, which eventually led to GC monopoly in certain critical markets, such as flour.

Hence, Arslan (2014) argued that what he called the “inter-nationalist civil war” that broke out in 1963 could be defined as a “monopolistic war (p.431)”, not only in economic but also in political terms. Kyris (2016) also argued that after 1963, the RoC Government was monopolized by the GCs. When the TCs were ousted from their government offices and ethnic clashes began in 1963, which pushed the TCC into enclaves, they were dispossessed from the means of production and from the public revenues. Moreover, the food aid from Turkey was also subject to a quota regime and difficulties for obtaining licenses that were provided by the GC authorities for even the substantial needs of the TCC such as flour, wheat, olive oil and legumes (Keser, 2013b), caused serious food shortages. Arslan pointed that the TC economy was mainly based upon pre-capitalist small peasant production, running a small size of capitalist activity on trade, which was unproductive of surplus value.

Although intercommunal violence gave a break after 1960, the power struggle within the TCC was triggered in parallel to the 1960 military *coup* in Turkey; there

was a growing opposition against the TC Leaders Rauf Denktaş and Fazıl Küçük from Cypriot lawyers Ayhan Hikmet and Ahmet Gürkan, who established the TC *Cumhuriyet* newspaper, which was not only the opponent of the *Nacak* newspaper that supported Denktaş, but also targeted the *enosis* ideals of the GC Church and the EOKA ideology. The *Cumhuriyet* newspaper gained the sympathy and the support of Turkish Ambassador Emin Dirvana who was supporting the continuity of the RoC in a similar line with Hikmet and Gürkan, who were known for their support bicomunalism and praising the Cypriot identity as opposed to Denktaş's Turkish nationalism. The two "camps" grew hostile towards each other especially after Hikmet and Gürkan started "blaming" Denktaş and Küçük for being cruel and supporting the "ousted dictator Menderes (Kızılyürek, 2015a). The hostility became an open confrontation after two Mosques were bombed in Nicosia in March 1962; while Denktaş and *Nacak* pointed to the ex-EOKA members as the perpetrators, Hikmet and Gürkan were blaming Denktaş and TMT for the bombings and argued that this aimed put an end to the bicomunal state. Following their article in *Cumhuriyet* that announced that the newspaper would "expose" the perpetrators, Hikmet and Gürkan were assassinated the same night, which was one of the major events that re-ignited the inter-communal as well as the intra-communal conflict on the island.

While the TCC was engaged in domestic problems regarding the power struggle for leadership, Makarios was establishing the foreign policy direction of the island. Makarios was following an anti-imperialist policy and he decided to join the non-alignment movement (NOM), despite the opposition by Dr. Küçük. In 1961 he joined the NOM meeting in Belgrade with 25 States, which was a critical juncture for the future of the island by providing Makarios the right amount of support from the international community both in 1967 and in 1974; preventing the establishment of a NATO base on the island in the former and preventing the international community, including the Muslim states, from recognizing the TRNC in 1983 in the latter (Ker-Lindsay, 2010). Besides domestic problems, there was a sharp contrast regarding the political alignment of the RoC between the TC leadership and Makarios.

### **3.2.3 Conflict; the End of Bi-communalism**

In February 1963, President Makarios came up with a proposal to make major amendments in the constitution, including curbing the veto right of the TC Vice

President Küçük besides many adjustments on critical issues such as taxation. According to Clarke (2017), the introduction of the income tax in Cyprus in 1941 by the colonial administration had long-term consequences such as fueling certain divisions, rather than reconciling them, between two communities on the island<sup>17</sup>. The TCs refused the revisionary attempts arguing that Makarios Regarding Makarios's "plans" for *enosis*, Güvenç (2006) argued that it was not "logical" anymore for such a prestigious leader within the NOM who stood strictly against NATO, and imperialism to pursue the *enosis* ideal. When GC President Makarios announced his list of amendments some of the TC members resigned from their posts to protest Makarios's attempts despite Turkish President İnönü's recommendations to the contrary (Kızılyürek, 2020), although the rest of the TCs were expelled from their offices by the GC armed forces. After violence broke out and violent attacks against the TC civilians created havoc in December 1963, the majority of the TCC were forced to leave their villages and started to live in small enclaves which was only the 3% of the island.

By 1965, nearly half of the TC population was living on the 1.6 per cent of the island's total land-mass and others in the ghettos of Nicosia (Panayiotopoulos, 1999). Starting from 1964 onwards, even the basic needs of the TCs were provided by Turkey and by the end of 1960s, TCC was largely dependent on Turkey's aid, and what is left for production as well as trade were subject to GC authorities' permits and licenses (Keser, 2013a). GCs remained as the sole recognized authority on the island while the TCs lost their representation rights in the partnership state. The UNFICYP, UN's peacekeeping force in Cyprus, stationed in the buffer zone in 1964 and is located on the island ever since, making the so-called "Cyprus Problem" one of the protracted conflicts under the aegis of the UN.

When the bicomunal statehood experience under the RoC failed due to Makarios's revisionary plans, the GCs seized the political and the economic power

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<sup>17</sup> According to the Article 188 (2) of the RoC Constitution, the British law on income tax was to stay in force until 31 December 1960. On 31 March 1961 House vote on a three-month extension of income tax where 25 Greek Cypriot representatives voted in favour but 11 Turkish Cypriot representatives opposed and the bill failed as the new Cypriot income tax legislation needed the consensus of both communities in Parliament according to Article 78 (2) on concurrent majority. Turkish Cypriots during the 1960s contributed the nine per cent of the income tax paid into the Treasury, whereas Greek Cypriots and others paid the remaining 91 per cent.

over the state “apparatus”, which started an endless struggle for statehood between the TCs and the GCs. The struggle was uneven in the sense that while the TCs lost their power in the government, economy as well as in the cultural space and largely persisted on agricultural production, the GCs occupied the vacant positions, and the GC economy succeeded to grow on agriculture, trade, industry, tourism as well as foreign aid. According to Panayiotopoulos (1999), the TC population was densely populated in Nicosia prior to 1960 (nearly one-third of the population compared with an all-Cyprus ratio of 20 per cent) and occupied major posts of the civil services in the city (26 per cent of all most senior grade posts), they were replaced by “the Greek Cypriot ex-combatants in the state sector and in particular the civil service” once the RoC was established. Panayiotopoulos argued that, the Greek Cypriot peasantry, who had organic ties with the GC Church, took an active role during the struggle against colonialism and became a powerful “client” group of RoC after independence; hence the pro-peasant policies were a characteristic feature of the post-colonial state as the material power of the GC Church at independence represented developing capitalism in industry and agriculture. Panayiotopoulos pointed that their privileged and dominant position continued to determine the redistributive policies after 1963 as the agricultural and extractive exports made up 99 per cent of the exports during the 1960s, which resulted in declining employment in light industry and slowing down of urbanization until 1974.

Capitalist mode of production became the dominant mode as RoC adopted an export-led development strategy; Gough (1992) pointed out that the capitalist mode of production in a given social formation becomes predominant over the previous modes of production, resulting in the proletarianization of the labour force. Gough argued that during this process the social classes are also restructured; while the size and importance of the traditional petty bourgeoisie declines, “a new middle class of technicians, professionals and administrators rapidly develops”. According to Gough, by means of colonialism new markets were opened to capitalist competition and it was not only the use of armed forces, but also the “market forces”, “which broke down previous modes of production across the globe”. Gough argued that “the creation of a proletariat and the relative autonomy of the capitalist state (both inherent features of the development of capitalism) thus brought about liberal democracy in the advanced

countries” in which “welfare becomes a means of integrating the enfranchised working class within the capitalist system”. This was accompanied by the rapid growth in the number of worker's parties in many countries among which AKEL was a strong representative in Cyprus.

After a short-termed federal practice, the outbreak of the violence in 1963 further weakened the inter-class alliances between the north and the south. The TCC, specifically the peasantry who were already living in poverty, were dispossessed and further impoverished after 1963 as they were forced to abandon their villages and live in the enclaves which constituted only the 1.6 per cent of the island in 1965. Panayiotopoulos (1999) pointed to the worse-off conditions of the TCs compared to the GCs in 1963, and the inverse relation between the TC population and agricultural production; the per capita income of TCs was one-fifth lower than the Greek Cypriots and although the TC population was around 20 per cent of the island population, their contribution to the total agricultural production was only 12 per cent.

The post-1963 period pushed aside the anti-colonial class alliance that led to the establishment of the RoC, and instead it positioned ethnic cleavages as the core phenomenon of the communal discord on the island. This cleavage within the class struggle had two important regressive consequences for the establishment of a federal Cyprus in the future; on the one hand it weakened the pro-federalist front within both communities and moreover, it helped to disguise the magnitude and the impact of the neoliberal transformation on the social relations of production on the island after 1980s. In this regard, it may be argued that the ethnic cleavages after 1974 made the divide among the working class and the communities permanent and acted as a conduit of uneven capitalist development on both sides of the island, while the consequent neoliberal transformation of both the TC and the GC states after 1980s consolidated the divide. According to Trimikliniotis and Bozkurt (2012), the internal class conflict between 1920–1950 transformed into a democratic anti-imperialist phase between 1960–1980, revealing “cleavages that are peculiar to non-Western contexts and of the specific area.” By tracing the cleavage that emerged between the internal and external dynamics, they also argued that “space” was a key variable, demarcating the geopolitical “value” of the island;

“On the other hand, the historical trajectory reveals cleavages that are peculiar to non-Western contexts and of the specific area in particular. The transformation of internal class conflict of the period 1920–1950 into a democratic anti-imperialist phase (1960–1980) is indicative of these transformations. What is more significant is the cleavage that emerges between internal and external dynamics. This dialectic, whose systemic roots have to be traced to the “value” of the borderline geopolitical position of the island, has created the conditions for a peculiar form of historical consciousness that focuses on space as a key variable” (p. 81).

The end of the bicommunality in 1963 started the political and economic ghettoization and marginalization of the TCC by pushing them to live in enclaves. According to Bryant (2012), “...an estimated 500 Greek Cypriots, 1,200 Armenians, and 25,000 Turkish Cypriots fled their villages and neighborhoods. In total, Turkish Cypriots ‘completely evacuated 72 mixed villages and abandoned 24 Turkish-Cypriot villages. In addition, they partially evacuated 8 mixed villages” (p. 7). Stavri (2005) argued that while the TCs were living in dire economic conditions the GCs were in charge of conducting all formal politic and economic activities with the outside world under the cloak of the Republic of Cyprus. After 1963, the economic gap between two communities widened, rendering the economic recovery of the TCC almost impossible without external aid. The weak agricultural economy of the TCC was in contrast to the capitalist development of the RoC economy by the mid-1960s, during which the church played a crucial role as the core institution for economic development. According to Panayiotopoulos (1999), one fifth of the arable land in 1960 belonged to the church, acquiring the support of the GC peasantry that was a dominant class within the postcolonial society, besides its control over the co-operatives, the mining and tourism industries which gave the church a key role in the development of capitalism. The GC Church’s material power over the means of production, played an important role on the economic marginalization of the TCC after 1960s and widened the economic gap, by not only making it difficult for the TCC to join the workforce but also holding their posts in the government offices. After 1963, the TCs were totally deprived off from political and economic power which pushed them in further poverty. The widening gap between two communities after the break-up and the uneven development of the capitalism on the island made it difficult to settle down a rapprochement between the TC and GC communities, sharing political equality under a federal republic.

After 1963, “state building” became an endless deed for the TCC, who lost all their presence in the governmental institutions, administrative mechanisms and constitutive bodies. The GCC was under the protection of the RoC hence were in an advantageous position while the state building practice became an organic part of the “peace building” process for the TCC. The lengthy and continuous struggle of the TCC was defined by Mümtaz Soysal (1999) as “the manifestation of the right to statehood”;

“It is obvious that such a process indicates a genuine effort at state-building and perhaps it is this spontaneous historical process, more than anything else, that entitles the Turkish Cypriots to claim legitimacy for their Republic” (p. 3).

The first UN Council action on Cyprus on the 4<sup>th</sup> of March 1964 was the resolution 186 which included the establishment of UNFICYP and the appointment of a mediator, Galo Plaza who became the special representative of the Secretary General in Cyprus. Resolution 186 was critical in the sense that it addressed the Makarios Government as “the Government of RoC” despite the unlawful intervention of the GC armed forces to the bicomunal state in 1963. The attacks on the TCC continued throughout 1964 and in August İnönü Government in Turkey decided to retaliate with airstrikes targeting the GC forces; there was a ceasefire soon after the Turkish airstrikes took place in Cyprus. Galo prepared his first report (S/6253) on 26 March 1965 which offered autonomy for the Turkish Cypriots in religion, education and personal status in a unitary state but declared that both partition and federation shall be excluded as an option which effectively strengthened the sovereignty and the territorial integrity of the RoC. The Turkish side strongly rejected the offer on the ground that a unitary state would not provide them security.

The reaction of both communities signaled that the Galo report was unable to satisfy the expectations of the respective communities; the Greek Cypriots were in favour of new foundations for keeping the *status quo* which served the transformation of the RoC into a Greek Cypriot State at that time. According to Dodd (2010), the 1964 conflict had led to a Greek Cypriot takeover of the state apparatus, which remained the only internationally recognized entity. According to Soysal (1999), the TCC and Turkey did not object to the 1960 RoC Constitution, but to the way it had been implemented by Greek Cypriot Administration.

After RoC became a *de facto* GC State, the Turkish Cypriot statehood struggle centered around the political struggle to demonstrate to the international community that they were not a minority but a community in their own right, a constituent part of the RoC. The TCC requested additional guarantees, in particular the geographical separation of the two communities coexisting in a federal state, however asserted that union with another state or partition should be prohibited and the 1960 treaties shall be maintained (Dodd, 2010). Although the UN's attempts for mediation failed to bring the sides to a common understanding in the following years, Theophanous and Christou (2014) argued that both sides kept their support for the UN involvement not with the hope for a settlement but with the motivation that UN mediation would prevent "the other side" from reaching their claims; as such "the peacemaking effort was not reformist in nature, and instead favored the *status quo* (p. 76)", which actually served to the GC interest in the long run. The division in 1963 created two uneven economies and it not only left the TCC Stateless, but also deprived them off of their right to access to the means of production in the RoC. The TCC was traumatized by the mounting violence in the post-1963 era which increased the "sensitivity" of the Turkish public opinion towards the "protection" of the TCC against a "potential" GC aggression. In this period, the "national cause" was embraced by wider masses in Turkey and this was pressurizing Turkish politicians to take steps for ending the atrocities towards the TCC.

Cyprus was epitomised as "the national cause" for Turkey since the 1950s (Bora, 1995), which was especially supported by the "pro-mainland" publications of the TC media (Ercan, 2018). Claiming to protect "the national cause" became a catch-phrase for all the political parties in the Turkish Parliament. The Turkish Labour Party-TİP (Türkiye İşçi Partisi) had a political rift within its administration, whether to side with the nationalist discourse or to embrace internationalism, regarding the Cyprus problem. Güvenç (2008) argued that Mehmet Ali Aybar proclaimed in one of his public speeches made in Bursa, "We don't have a Cyprus cause" and Aybar's statement received backlashes, both from his own party and from others, which later enforced TİP to make an inclination towards the nationalist discourse in defence of the Cyprus as a national cause, despite the initial statement by Aybar.

In February 1965 the İnönü Government that was in power in Turkey since the elections November 1961 resigned and the interim government under PM Hayri Suat Ürgüplü was established. In this period, Denктаş-Demirel relationship started when Demirel became the Vice PM responsible for the Cyprus Affairs in Ürgüplü's Government. In October 1965 General Elections took place in Turkey which brought Süleyman Demirel's AP (Adalet Partisi-Justice Party) to power. The first single party government was established under PM Demirel after the 1960 military *coup* and Demirel became an adamant supporter of the "National Cause" in Cyprus and also Denктаş, with whom Demirel established a close relationship during the period Denктаş was in exile in Ankara between 1964-1968 (Erol, 2015b). Meanwhile, the TCC's security concerns became a fundamental issue when a military *coup* took control in Athens in April 21, 1967 and soon after in November a combined group of Greek and Greek Cypriot forces organized attacks in the Turkish villages of Geçitkale, Boğaziçi, Çeşmem with casualties from the TC villages (Soysal, 1999). Following this attack, the PTCA (Provisional Turkish Cypriot Administration-Geçici Kıbrıs Türk Yönetimi) was established on December 28, 1967, and in 1968 the constitution of the provisional government was drafted, which was largely inspired by the democratic principles of the 1961 Constitution in Turkey, and was also the blueprint of the 1975 and then the 1983 TC Constitutions. The Provisional Turkish Cypriot Administration would be the first and the last TC entity that was established when there was an elected government in power in Turkey.

According to Kyris (2016), the GC Government's decision to place an embargo on the TC economy after the establishment of the PTCA led the TCC to be further dependent on Turkey's political, economic and military support. Kyris argued that as the TCC lacked international recognition, Turkey's influence what he defined as a "patron state" increased<sup>18</sup>. The TCC, who were stateless after 1963, became growingly dependent on Turkey's support for subsistence as the TCs didn't have access to the means of production in the RoC as well as to the world markets, due to economic restrictions imposed upon them by the GC government. Although the TC products were "allowed" to have access to the Turkish market and to a few European countries,

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<sup>18</sup> For further discussions on "patron state", see also Bryant and Hatay (2020).

the limited product diversification and production capacity restrained a full-scale capitalist development of the TC economy.

After the separation, the TC economy was largely restricted to agricultural production that was largely supported by the TC cooperative system and aid from, as well as trade with Turkey, until the capitalist mode of production gradually became dominant once again after the 1974 intervention. The TC cooperatives gained a dominant role in the enclavement years between 1963-1974, which provided the rise of a new mode of production from within the CMoP during the colonial era to both the GC and the TCs, under which the Cypriot workers were not only waged workers but became partners of the producer cooperatives in this market system (Jossa, 2005)<sup>19</sup>.

### **3.2.4 Containing Democratization; the 12 March Memorandum.**

Meanwhile the democratic political atmosphere, empowered by the 1961 Constitution in Turkey, enabled the rise of the socialist labor movement; DİSK (Devrimci İşçi Sendikaları Konfederasyonu-The Confederation of Progressive Trade Unions) was established by seceding from the Confederation of Turkish Trade Unions in 1967, which was going to work in collaboration with the trade unions in the north during the 1970s and played a key role in their establishment. Following the establishment of PTCA in 1967, the TC unionist movement that was stifled under intercommunal violence started to get organized; in 1968, the TC Teachers Union (KTOEÖS-Kıbrıs Türk Orta Eğitim Öğretmenler Sendikası) was established as a federalist union that was registered to the RoC, followed by the establishment of the Turkish Union of Famagusta Municipality workers (Mağusa Genel-İş) in 1969 that was closer to the right-wing TC politics. According to Hasgüler (1995), the power solely rested in Turkey both regarding the establishment of the TC Provisional Administration and in the following Vice-President elections in the TCC; Hasgüler (1995) argued that between 1963-1968 the TCs totally yielded their sovereignty to Turkey hence it was difficult to refer to Turkey's involvement to the north's politics and economy as an "external intervention". This was the "first" intervention by Turkey to the elections in the north and it signaled the antagonisms within the TC "elite", that

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<sup>19</sup> See Jossa 2005 for a detailed analysis of Marx's depiction of the producer cooperatives as a new MoP that is superior to that of capitalism.

would provide Turkey the political determination to steer the contradictions of political interest between sections of the TC indigenous bourgeoisie; The Turkish Ambassador to Cyprus at the time, Ercüment Yavuzalp stated in his memoirs how Ankara urged him to make a cogent “advise” to Mehmet Zekâ Bey, a TC lawyer who represented RoC in the Council of Europe, from entering the elections against Dr. Küçük. Mehmet Zekâ Bey was a prominent member of the TC bureaucracy, the head of the “Turkish Affairs Commission” that was established in 1948 as a part of the Constitutional Council established by Britain’s Governor to Cyprus Lord Winster, in which Denktaş also worked as Zekâ Bey’s undersecretary. Ankara’s support for Küçük in 1968 led to Denktaş’s success in the July 1970 elections under “The National Solidarity Group” against “The Green Island Group”. Following this defeat, despite Ankara’s dislike for the flourishing of a TC opposition in the north, the attempts for uniting the opposition under a political party started in 1970 by Ahmet Mithad Berberoğlu. Prior to the elections, the TC press workers established their union Basın-Sen in January as the pressure over the press was also rising after 1968. Berberoğlu believed that the withdrawal of the TCs from the RoC in 1963 was a mistake and that the establishment of a federalist TC political party would democratize the political structure of the TCC, and would lead to the re-establishment of bicomunalism on the island (Moudouros, 2020). CTP (Cumhuriyetçi Türk Partisi-Republican Turkish Party) was established as a pro-federalist party in December 1970, and it was the first political party that was established by the TCs, however, as a law for the regulation of the political parties ceased to exist prior to 1975, CTP was registered as an association and became a political party only in 1975 (Sonan, 2014). The establishment of CTP, as a petty bourgeois political party, despite Ankara’s opposition to the idea, was the extension of the TC political struggle to the political instance where it clashed with Turkey’s hegemonic power in the north. It was an important step towards the establishment of a TC State under a bourgeois democratic social formation.

This was a historic moment for the TC social formation as according to Poulantzas, the classes were determined by their political and ideological relations with the state apparatuses and the the analysis of social classes was only perceivable by this relationship. Although the establishment of TC trade unions and their alliances with the GC unions had an older background, the establishment of a TC political party

also provided the opportunity to make the distinction between “state power” and “state apparatuses”, as the latter don’t own a self-possessed “power”, but rather materialize their power through class relations. According to Poulantzas (1975), it is by this way the essence of the State is generated, as, “The state is not an 'entity' which an intrinsic instrumental essence, but it is itself a relation, more precisely the condensation of a class relation”.

“Given that the determination of classes involves political and ideological relations, and that the latter only exist in so far as they are materialized in the apparatuses, the analysis of social classes (class struggle) can only be undertaken in terms of their relationship with the apparatuses, and with the state apparatuses in particular. Social classes and their reproduction only exist by way of the relationship linking them to the state and economic apparatuses; these apparatuses are not simply 'added on' to the class struggle as appendices, but play a constitutive role in it. In particular, whenever we go on to analyse politico-ideological relations, from the division between manual and mental labour to the bureaucratization of certain work processes and the despotism of the factory, we shall be concretely examining the apparatuses” (p. 25).

CTP’s establishment was a major step towards democratization for the TCC however, the political atmosphere in Turkey was tending towards authoritarianism. On the 12<sup>th</sup> of March 1971, the Turkish Military gave a memorandum to prevent a leftist *coup* that was organized around the “National Democratic Revolution” idea. The memorandum forced the Demirel Government to resign and requested the establishment of a technocratic government under Nihat Erim, a politician who was closely engaged in the Cyprus problem<sup>20</sup>. Although the Turkish Parliament and the political parties were not closed, following the martial law in April, unionist meetings and democratic rights were banned and several intellectuals, writers and journalists were detained and tortured in Turkey. Necmettin Erbakan's National Order Party was shut down in May however he was not detained and returned back to politics in 1972.

TİP was closed in July 1971, its leaders were detained and imprisoned and was only able to re-assemble in 1975 as a weakened and divided political party. The leftist movement under TİP was largely suppressed by the military intervention, which led to the rise of CHP as the only alternative for the left winged voters. CHP embraced

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<sup>20</sup> As a professor of law, on 24 November 1956 Nihat Erim submitted to PM Menders the Cyprus report and he was the member of the constitutional committee that prepared the RoC’s constitution prior to its establishment.

İnönü's "left of the middle" idea and based its program on the promotion of this slogan. The slogan gained a wide-based support leading to the victory of CHP in 1973 General Elections with the support of DİSK. The erosion of the only socialist party in the Turkish Parliament and democratic rights in Turkey was reflected to the north as TİP under Mehmet Ali Aybar until 1969 was the only party in Turkey which voiced an alternative perspective for the Cyprus issue by embracing internationalism. After TİP was closed, the "National Cause" discourse became a common ground for consensus between the political parties in the Turkish Parliament who regarded Denктаş as the sole representative of the TCC.

The reflection of the military memorandum to the TCC was striking; on the 21<sup>st</sup> of April 1971, the TC Administration removed the term "provisional" and entitled themselves as the "Turkish Cypriot Administration" when the Erim Government was in power. Towards the mid-1970s, the intercommunal conflict was almost totally suspended and both communities were busy pursuing their own political and economic agendas on the island. Towards 1974, the GC Government was trying to tackle rising inflation, and the TC political elites were busy with the schism that was created by the 1973 ice-presidential elections. In 1972 CTP's Berberoğlu declared that he would become a candidate in the elections against Denктаş. He announced that his party would declare the Turkish Ambassador as "*persona non grata*" for exceeding the limits of his mandate and intervening the elections in favour of Denктаş in Cyprus. After this declaration, Berberoğlu was enforced to leave the race with the intervention of armed forces who detained him in his house prior to the elections and Denктаş entered the elections as the only candidate (Moudouros, 2020).

During the late 1960s, the TC bourgeoisie was engaged in establishing the political and democratic structures of statehood through the mediation of their contradictory interests by Turkey. Meanwhile, the GC economy was ahead of its capitalist development by steady growth via the mixed economic development model. The Planning Commission was already established in Cyprus in 1961, after the establishment of the State Planning Organization (DPT-Devlet Planlama Teşkilatı) in Turkey in September 1960. Following the implementation of the first two development plans, the GC economy remarkably flourished between 1961 and 1971 enjoying balance of payments and capital flows; besides an annually growth rate of 7.1 per cent

and GNP per capita of 5.9 per cent, the industrial output increased by 119 per cent in a decade (U. S. Committee on International Relations, 1975).

In 1971 there was a vast amount of inflow of foreign funds to the south, partly due to President Nixon's decision to end the US Dollar's convertibility to gold, hence ending the so-called stability of the post-war Bretton Woods financial era, marked with financial stability, regulation and fixed exchange rates. The US made direct investments particularly in the Cyprus Mines Cooperation and in the Cyprus Petroleum Refinery. In June 1972, the GC Government pegged the Cypriot Pound to US Dollars after the British Sterling began to float by June and according to the US Department of Commerce (1972), it started to cover its trade deficit by "foreign exchange earnings on invisibles, mainly foreign military expenditures, private remittances by ex-patriot Cypriot and tourism". GC Budget was balanced and was giving surplus by the beginning of the 1970s, obtained mainly from import duties and income taxes. However, the GC economy started suffering from an increasing rate of inflation in the first half of 1974, which was partly due to the global rise in the price of oil, that resulted in the slowing down of its economy and the balance of payment difficulties (Phylaktis, 2016).

### **3.3 Securitization and Dispossession: the Divide in 1974**

The post-republic period between 1963-1974 was marked with intercommunal violence and it ended after a GC ultranationalist junta attempt in Cyprus was prevented by the military intervention of Turkey in 1974. The events in 1974 drastically changed the state of affairs on the island; Cyprus was geographically divided into two ethnic communities and the economic empowerment of the north became the primary target for Turkey. A rapid state-led industrialization program was prepared by Turkey's State Planning Organization (SPO) for the backward agrarian economy in the north, which was in high contrast to the capitalist development model of the wealthy GC economy that was growing on trade, tourism, extraction industry as well as capitalist agricultural production with a policy of balanced budgets.

The economic gap between the TC and GC economies was widening in an incremental process until a *junta* attempt with the aim of *enosis*, supported by the military regime in Greece interrupted in July 15, 1974, during which Makarios III fled the country following the colonel's *coup*. The short-lived *coup* was backed by the

military regime in Athens and it came at a time when the GC economy was struggling with rising inflation and growing dependency on foreign exchange. The attempt was ousted by Turkey's two successive military operations on the 20<sup>th</sup> of July and 14<sup>th</sup> of August to the island, under the terms of the Treaty of Guarantee Article 4, which gave the guarantors states the right to act with the aim of re-establishing the state of affairs on the island (UN Peacemaker, 2019). The TCs first established the Autonomous Turkish Cypriot Administration (ATCA-Otonom Kıbrıs Türk Yönetimi) in October 1974, which was replaced by the Turkish Federated State of Cyprus in February 1975.

Turkey named the 1974 intervention the “peace operation” (Çetingüleç, 2018) as it targeted to prevent the military takeover in the south, which aimed to unite the island with Greece that was ruled by the junta regime since April 1967. Although Turkey's military operations was critical for restoring the democratic rule on the island after which Makarios was able to return back to the country, it led to the *de facto* division of Cyprus along ethnic lines and the Turkish Army permanently stationed in the north of the island. From that moment onwards, the stationing of the Turkish Military in the north and the “dependency” of the TFSC on Turkey were illustrated as having a contingent relationship. However, there were already restrictions and embargos that were exerted by the GC Government upon the TCC since 1963 that were broadened after 1967 and 1974, which made the TCs reliant on Turkey's aid to a large extent after 1963. In this conjuncture, Turkey gradually became a hegemonic power within the power bloc in the north.

The Turkish Federated State of Cyprus (TFSC–Kıbrıs Türk Federe Devleti) was established in 13<sup>th</sup> of February 1975 and approved its constitution in a popular referendum the same year. The establishment of the Turkish Federated State of Cyprus was announced when an interim government - Sadi Irmak Government (17.11.1974-31.03.1975) - was in power in Turkey. Ecevit, the “conqueror of Cyprus”, was not in power at the time of its establishment however it was known that he was supporting the idea of a federal state even before the military intervention. All the political party leaders at the time celebrated the establishment of the TFSC and congratulated Denktaş in person, but none of them were publicly involved in its establishment.

Following primitive accumulation strategies as a capitalist social formation, the GC industry that was left in the north was appropriated and a re-industrialization

period began by the partial financial assistance and technical know-how from Turkey. Although the 1974 intervention was a military intervention, it didn't change the traditional forms of governance under which the TC constituencies were assembled as representative democracies, and from 1975 onwards, this form accumulated into a particular "TC State formation". In this regard, it should be pointed out that as discussed in detail in Chapter 2, different state forms can problematize state functions (Jessop, 1983). The military presence of Turkey in the north, as the "acting" security forces of the TC State, had a limited impact on the form of the TC State regarding the transformation of the "provisional" state into a "federated" state, but it was primarily determinant on its functioning.

This raised the discussions on TFSC's limited state "capacity" to use its own "coercive apparatus" as a means of political force for constituting itself as a hegemonic power in the north. It should be noted that Robinson (2005) defined "force" and "hegemony" as two different ways of class domination<sup>21</sup>. Similarly, Jessop (1982) pointed to the particular distinction between force and hegemony in Gramsci's work; as "force" involves the use of a coercive apparatus and associated with the state in capitalist societies, "hegemony" involves the reproduction of the active consent of the people by moral or political leadership. In the TC context, while the coercive apparatus, in the form of military "force", was mainly under Turkey's control, it was the TC leadership's "duty" to ensure the production and the reproduction of the hegemonic relations; in Jessop's words; not only by "mere indoctrination" but by "the constitution and reproduction of a collective will, a 'national-popular' outlook, a common world-view, a shared perception of the world, which is adequate to the needs of social and economic reproduction" (p. 148).

The relationship between Turkey and the TCC was constituted as an internal relation<sup>22</sup> towards 1974 (Ollman, 2015). Besides the cultural and ethnic ties between the two, it was a relation that was growingly centered upon the capitalist exchange relations which rendered both parties mutually dependent on each other not only in

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<sup>21</sup> Robinson defines four types of hegemony in his global capitalism thesis in which his last definition classifies "ideological" hegemony via consent that is relatable to the TC experience; Hegemony as international domination, hegemony as state hegemony, hegemony as the exercise of leadership within historical blocs within a particular world order and hegemony as consensual domination or ideological hegemony.

<sup>22</sup> See Chapter II, Ollman's Philosophy of Internal Relations.

terms of trade but also in terms of foreign policy. While the TCC depended heavily on Turkey's aid for subsistence especially until 1974, Turkey was not only culturally and ethnically affiliated with the TCs around the "national cause", but it was also politically engaged in the Cyprus problem as a guarantor state. The Treaty of Guarantee defined Turkey as a "guarantor state" besides Greece and Britain hence Turkey held the responsibility to "recognize and guarantee the state of affairs" in Cyprus by ensuring the continuity of the constitutional order. Turkey was sending medical aid and clothing-food support in times of humanitarian crises and during natural disasters even before 1960, which continued after 1960 as well. However, this was an external relation in its essence since Turkey was only indirectly involved in the state of affairs on the island. After the divide in 1963, the amount of aid sent to the TC enclaves increased and became substantial since the TCC lost access to basic needs. Turkey surpassed its role as a guarantor state and its relationship with the TC administration gradually evolved into an internal relation, and when the TCFS was established in 1974, Turkey gradually became a hegemonic power within the newly configured power bloc in the north.

When the first wave of migration started from Turkey to the north after the 1974 military intervention, Turkey became the major workforce provider for agricultural production, besides the financial aid and technical supervision it gave for the establishment of the TC SEEs. However, despite the ethnic and cultural ties between the two people, and the feeling of "gratitude" towards Turkey, social cohesion between two societies and their interest groups outside the power bloc was not spontaneous. The Turkish immigrants were rather perceived as "outsiders" by the majority of the TCs, within which a common sense of "TC culture" emerged as a dominant identity (Konuk, 2018). It was soon apparent after the so-called "settlers" joined the TC workforce that a cultural integration might took longer than expected, however Turkey's rapid capitalist entrenchment of the TC economy via the SEEs sustained its material power within the economic space. After 1975, the so-called "dependency relation" between TCC and Turkey turned into a symbiotic relationship, rather a "mutual dependency"<sup>23</sup>, in which the military and the bureaucratic fractions of the

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<sup>23</sup> See Chapter II, Ollman's *Philosophy of Internal Relations*, (2015).

ruling classes in Turkey assumed a hegemonic role “within” the dominant power bloc in the north. In this regard, it should be pointed that the military intervention was not the cause but was rather the propulsive force that brought the “dependency” relationship on a par after 1974. Not only Turkey became a key actor in the policy-making decisions in the north, but the Cyprus issue began to determine Turkey’s foreign policy objectives and economy substantially. The 1974 intervention led to the enforcement of the US’s arms embargo in 1975 fueling the following economic and political crisis in Turkey that resulted in the 12 September military coup, which acted as a barrier for Turkey’s EU membership when Turkey made an appeal in 1987.

The military intervention by Turkey came at a time when Turkey-US relations were tense due to the cultivation of opium in Anatolia, which was the biggest exporter of the plant. Due to increasing pressure from the US (Zentner, 1973) and funding of \$35 million, followed by \$300.000 and \$400.000 concomitantly (Windle, 2013). With US’s inducement, Turkey put a ban on the cultivation of the plant, which was put in effect by gradually first by limiting the production after 1961 and then totally forbidding it by a decree in 1971 under PM Nihat Erim’s interim government, that was established following the 12 March military memorandum.

Despite the “generosity” of the US aid, this decision had far reaching negative consequences on Turkey’s economy, that outstripped the scope of US funding. According to Windle (2013), the ban costed Turkey “impoverished farmers and an estimated \$400 million (p.15)”, which was way over the total amount of US’s aid. When the Ecevit Government came to power after the 1973 General Elections, it decided to lift the ban in 1974 despite strong opposition from the US, as a remedy to rising inflation and foreign debt due to the oil embargo. After the decision of the Turkish Government to lift the ban on cultivation of opium in seven provinces by Decree No. 752 in 1 July 1974, the House passed Resolution No. 507 on August 6<sup>th</sup>, upon the Congress’s call, urging the President to “immediately initiate negotiations with the Turkish Government to prevent the resumption of the opium production and if such negotiations prove unfruitful, to terminate all assistance to Turkey” (p. 71) (Committee on Foreign Affairs, 1974).

The US-Turkey relations were getting tense due to the ongoing embargo debate, however on the day the Congress hearings were made, July 16, 1974, the Colonel’s

regime in Athens made a junta attempt in Cyprus on the 15<sup>th</sup> of July 1974. Turkey's call to Britain to take action against the junta remained unanswered hence the junta was contained and failed to assert its aims of *enosis* with Greece by Turkey's military intervention to the island on the 20<sup>th</sup> of July. Despite the ongoing negotiations in Geneva to establish a peaceful solution, the attacks by the GC ultranationalist groups on both the GC and TC civilians continued. After the junta attempt, there were thousands of civilian deaths and many injured, as well as missing persons, 1510 GCs and 492 TCs, that are still being investigated by the "Committee on Missing Persons" in Cyprus"<sup>24</sup>.

The enforcement of the US ban resulted in a hot debate between the Congress and the President, yet before the US Senate found time to impose its decisions, the second military intervention to Cyprus started on the 14<sup>th</sup> of August, which resulted in the enforcement of an arms sales embargo by the US Congress to be imposed on Turkey, this time due to its military action in Cyprus (Uslu, 2003), leading to the division of Cyprus along ethnic lines. Turkey was already on the brink of a political and economic impasse and the relations with US was at its worst since President Johnson's letter was sent to PM İsmet İnönü in 1964, "warning" Turkey not to use US weapons for a military intervention to Cyprus to stop the attacks on the TCC. After Turkey intervened to the *coup* attempt in Cyprus in July-August 1974, the economic bottleneck in the Turkish economy was accrued due to the sanctions imposed on Turkey by the US. The then Prime Minister Bülent Ecevit later stated in his memoirs that the worsening of the US-Turkey relations encouraged the military junta in Cyprus for taking action (SolHaber, 2010). On the other hand, Pylaktis (2016) pointed that in 1972 and 1973, the GC economy also had a budget deficit for the first time since 1964, due to the "expansionary effect of the liquidity derived from the financial transactions of the public sector", and it could be argued that the economic impasse in the GC economy towards the mid-1970s prepared a suitable background for the upcoming of the *junta* attempt in 1974.

After Turkey's military intervention to Cyprus, Missouri Senator Thomas F. Eagleton introduced the Senate Bill 397 to bar further military assistance to Turkey,

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<sup>24</sup> Committee on Missing Persons in Cyprus, <http://www.cmp-cyprus.org/>.

and despite President Gerald Ford's opposition, it went into effect on the 5<sup>th</sup> of February, 1975 (Brumage, 2015). Turkey's economy was suffering the consequences of the oils embargo and the US's embargo decisions; still, Turkey was determined to kick-start a financial and technical assistance program to the north, in line with the state-led planned development program in Turkey, in order to support the recovery of the TC economy. Following the embargo decision of the US; Denktaş announced the establishment of the TFSC (Turkish Federated State of Cyprus-Kıbrıs Türk Federe Devleti) on the 13<sup>th</sup> of February.

The US ban accelerated the weakening of the Turkish economy that was already suffering the consequences of the oil crisis of 1974 on the non-oil exporting developing countries as Turkey was forced to spend nearly 5 per cent of its GDP to defense expenditures in 1976 and 1977. IMF demanded an adaptive devaluation of the exchange rate, which was fulfilled three times in 1976, two times in 1977, three times in 1978 and three times in 1979, equating 1 US\$ to 26.50 TL by the end of 1979 and 1 USD to 70 TL in 1980 (Görmez & Yılmaz, 2007). The economic crisis fuelled the political turmoil in Turkey, resulting in the signing of a stand-by agreement with the IMF in 1978, in an effort to overcome the payment crisis of 1977-1978 (Lavy & Raport, 1992)<sup>25</sup>. According to Pamuk (2010), by the end of the 1970s Turkey faced the most severe balance of payments crisis since the end of WWII; the government used monetary expansion as a tool to tackle rising budget deficits which resulted in a jump in the inflation rate up to 90 per cent in 1979.

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<sup>25</sup> According to Lavy and Rapport, four external shocks were particularly detrimental to the Turkish economy; First, the two oil shocks, the continuous increase in the prices of imported industrial goods and the deterioration in Turkish terms of trade resulted in an estimated loss of 4.1 per cent of GNP for 1974-76.3 Second, the worldwide stagnation in demand contributed to a reduction in Turkish exports estimated at 0.4 per cent of GNP for 1974-76.4 Third, the world economy turned unfavourable to debtor countries at the end of the 1970s as the high rates of inflation and low levels of nominal interest rates of the early 1970s were replaced by rising nominal and real interest rates. The LIBOR jumped from an average 8 per cent in 1970-79 to 14.4 per cent in 1980 and 16.5 per cent in 1981.6 The loss to the Turkish economy from the rise in interest rates is estimated at 1.3 per cent of GNP for 1979-81.7 A fourth external shock was the negative impact of European stagnation on Turkish workers' remittances, which dropped from US\$1,430 million in 1974 to US\$980 million in 1976. They remained at this level until 1979. The fall in remittances is estimated at a cost of 1.7 per cent of GNP for 1974-1976.

### 3.3.1 The Making of a Capitalist Type of State

After the TFSC was established, the TCs took immediate action to establish a self-sufficient economic system by the support of Turkey. The TC State Planning Organization was established accordingly in 1976, following the same development strategy and principles of the State Planning Organization in Turkey that was targeted by the 1961 constitution in Turkey (Övgün & Çolakoğlu, 2018). It established semi-autonomous institutions and gave the state the duty to “remove all political, economic and social obstacles” for development (Constitution of the Republic of Turkey, 1961). Accordingly, Ziya Müezzinoğlu, who served as the Minister of Finance of Turkey between 1972-1973, was assigned by Ecevit as the head of the “Coordination Committee” to establish the economic pillars and the infrastructure of the TFSC in the north after 1974. Müezzinoğlu, a prominent Turkish diplomat, strongly emphasized Turkey’s target in the north was attaining the “economic independency” of the TCC, and soon after his arrival to the island by “proudly” announcing that, “The TCs get to the point which they would not to receive grants from us any more” (Özusu, 2018). Moreover, According to Oyan (1986), it was known in those days that PM Ecevit gave advices to the TCs to preserve their economic culture.

The Coordination Committee was surprised by the advanced economy and infrastructure in the GC parts of the north compared to the underdeveloped and poor TC villages, which revealed the fact that the economic activity on the island was almost totally under GC control. According to Müezzinoğlu (2009), Turkey started to use solar panels only after the Turkish technical committee saw them in Cyprus in 1974, and came back to Turkey to implement a similar system; the telephone lines were used wide-spread all over the island, and while there was only one Hilton Hotel in Istanbul, there were 98 similar sized hotels only in the Maraş Province, that were mostly US and European investments. TC economy was re-built from the start by using the GC infrastructure and installations while Turkey provided financial aid and technical know-how. Müezzinoğlu argued that although he insisted at the time that the aid from Turkey to the north shall be in the form of pay-back credits and the amount of financial aid to be limited, he “regrettably” witnessed later that this was reversed in time by the end of 1970s and financial aid became the predominant form of aid.

The practice of control and auditing by Turkey on the TC economy started right after the 1974 military operations. The members of the “Council of Aid”, were appointed by Turkey to the north and the representatives of the Turkish Embassy were occasionally attending the meetings with the Council of Ministers of the TCC to supervise and/or give advices to the TC Ministers. Soon after the intervention, Turkey founded the “Cyprus Board of Coordination” in September 1974 and institutionalized the “supervising committee” which was the predecessor of today’s KEİ, that was founded in 2016<sup>26</sup>. At first the establishment of the Council was necessary for the organization of the financial aid and credits to the north as before 1974, the aid was transferred via the Central Bank of Cyprus. However, in time the council became increasingly involved in the decision-making processes in the north. Soon after the establishment of TRNC in 1983, the Council of Aid’s strict control over the budgetary spending of TRNC was the major criticism directed against the TC governments by the TC opposition and the GC side.

In time the Council became one of the key actors shaping Northern Cyprus’s economy and politics and the TC opposition criticized the TC state “elite” for bargaining over TRNC’s sovereignty over financial aid from Turkey. In 2016, to withstand a part of this criticism, President Mustafa Akıncı and State Minister of Turkey, Tuğrul Türkeş, who himself was of TC origin, agreed in a meeting to change the Council’s name into KEİ (Kalkınma ve Ekonomik İşbirliği Ofisi-Development and Economic Cooperation Office), in order to put emphasis on the “sovereignty” issue and they announced that they changed the Council’s name “to stop the false perception that Turkey is disbursing gratuitous aid and subsidies to the TCC, which doesn’t reflect the reality, and which is humiliating.” (Mehmet, 2016: para. 5).

The Council’s key role for the distribution of the aid in a way to impose the economic reforms and its “remote” status was disturbing the TC opposition. One of the politician interviewees regarded the very existence of such a Council as the key symbol of TRNC’s economic and political “dependency” on Turkey. Actually, the Council’s presence was beyond symbolic and was rather the materialized form of

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<sup>26</sup> In 1995, it was decided by the Turkish Prime Ministry, decision number 381/95, stating that the coordination between Turkey and Northern Cyprus was to be conducted by the “Organization for Cyprus Affairs” which was founded in 1981, and was renamed as “Council of Cyprus Affairs” in 1984.

Turkey's hegemonic power in the north. However, we shall make a distinction here by pointing to the distinction between the Council's "role" and "function"; while the Council's "role" was advisory, it was functional for the reproduction of Turkey's hegemonic power in the north by continuously reproducing primarily the ideological, and then the political as well as the economic aspects of the Turkey-TRNC relationship by establishing and re-producing new control mechanisms and the training and the appointment of bureaucrats.

Turkey's military intervention was followed by the establishment of a state-led capitalist development model in the north, which was accompanied by a dominant party system, in which Denктаş and his UBP was supported by Turkey against Denктаş's political rivals, both within his own party, UBP, and against the TC opposition. Although an opposition party, CTP, was officially established in 1975, in addition to several trade unions mainly organized in public sector within the newly established TC SEEs, Denктаş remained the key interlocutor in the north for Turkey. Turkey became a cursor for the flourishing a planned development and democratic government within a short duration from 1974 to 1980, mainly by the establishment of the small-scale TC industry, an opposition party and trade unions in the north, yet Denктаş remained a close ally for the military and bureaucratic fractions of Turkey which provided him a dominant role over his rivals.

Following the establishment of the "Cyprus Board of Coordination", the economic pillars of the TC State started being established. The KTHY and Industrial Holding was established in 1975 following a mixed economic model of the public enterprises established in Turkey in the 1970s, with the aim to catch-up with the welfare regimes and the Keynesian development model of the western economies by an import-substitution industrialization strategy of the 1960s. Türkođlu (2015) pointed that the capital for Industrial Holding's establishment was provided by public enterprises in Turkey<sup>27</sup>, which became shareholders of the Industrial Holdings that was composed of eight public enterprises that were established at the TFSC by using the

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<sup>27</sup> "Turkish public enterprises were Sümerbank, Mechanical and Chemical Industry Cooperation (Makina Kimya Endüstrisi Kurumu, MKEK), Petrochemical Corporation (PETKİM Petrokimya Holding AS, PETKİM), Milk Industry Corporation (Türkiye Süt Endüstrisi Kurumu, SEK), Meat and Fish Board (Et ve Balık Kurumu, Et Balık), Turkey Agricultural Equipment Corporation (Türkiye Zirai Donatım Kurumu), and Cyprus Turkish Community Council Consolidated Fund Development Bank (Kıbrıs Türk Cemaat Meclisi İnkişaf Sandığı Konsolide Fonu, TCM Konsolide Fonu)".

installations and the material that the Greek Cypriots left behind in the north after the 1974 division of the island. The Cyprus Turkish Petroleum Ltd. Company (Kıbrıs Türk Petrolleri Ltd. Şirketi-December 17<sup>th</sup> 1974), Cyprus Turkish Tobacco Industry Ltd. Company (Kıbrıs Türk Tütün Endüstrisi Ltd. Şirketi-May 14<sup>th</sup> 1975), Cyprus Turkish Airlines (Kıbrıs Türk Hava Yolları-December 4<sup>th</sup> 1974), Cyprus Turkish Shipping Company (Kıbrıs Türk Denizcilik İşletmesi-March 12<sup>th</sup> 1975), Cyprus Turkish Tourism Enterprises Ltd. (Kıbrıs Türk Turizm İşletmeleri Ltd.), CypFruvex and Turkish Alcohol Drink and Wine Industry Ltd. (Türk Alkollü İçki ve Şarap Endüstrisi Ltd., Taşel Ltd.-established in 1961 but started its production in 1975 due to the outbreak of the inter-communal conflict in 1963) were established. Türkoğlu pointed that while the TC SEEs operating under the Industrial Holding were growing in number, (32 factories in 1975, 42 in 1976, and 51 factories in 1977), many of them remained obsolete either due to the lack of educated workforce and technical know-how or due to capital shortages.

For a short period of time during the late 1970s and 1980s, the Holding exported relatively cheap, high quality, high value-added products, such as bed mattresses, plastic and electronic goods, cosmetic products and even steel pipes (Gürsel, 2019) to the Turkish market, where product diversity was limited and these products were difficult to maintain from other countries, as well as to Iraq, Libya, Germany and Holland. Following the establishment of the TC SEEs, the Cyprus Turkish Chamber of Industry (KTSO-Kıbrıs Türk Sanayi Odası) was established in 1977. Yet the recovery of the TC economy with Turkey's technical assistance was soon to be downturned as Turkey's economy was suffering under the embargo decisions. The TC economy grew by 5.8% in 1978 and 4.4% in 1979, however it gradually dropped down to 0.9% (TRNC Central Planning Organization, 2016) after the military coup in 1980 in Turkey. The so-called "state-led economic miracle" was short-lived as it was soon to be replaced by a trade-led neoliberal agenda under the Özal Government.

The TC economy followed the state interventionist policies after the establishment of the SEEs, however according to Ekici (2019), the growth in the north was not state-led but rather state-hindered because the policymakers used these resources at their own disposal. Although the new model in the north aimed growth by

the help of the SEEs, these enterprises became the major institutions breeding the rentier economy and the vote reservoirs. Ekici argued although the budgets of the SEEs were supposed to be under the control of their board, the central governments transferred the revenues to the central budget for other purposes. UBP was trying to take control of the TFSC by repressing the trade unions and the opposition so as to be able to control the distribution of the “resources”, the *koçan* lands and other immovables, in the north, especially after it won the 1976 elections with a majority of 50.3% and 30 seats in the parliament.

The TC bureaucracy spend efforts to create an independent economic structure by establishing a TC Central Bank and a TC currency, however both initiatives proved futile as this wasn't the priority for Turkey. TFSC's Minister of Finance Rüstem Tatar tried to establish a TC Central Bank in the north and issue a separate TC currency in 1976 in order to overcome the liquidity crisis and overcome the exchange rate problem which occurred when converting the Cypriot Lira to TL (Özuslu, 2018). Both efforts failed, moreover, the TL was adopted as the official currency of the north, and according to Tatar, 1 Cyp Lira was fixed to 36 TL overnight, that was actually worth 38.7 TL at the time of the intervention in 1974 (Saydam, 2018). This event not only anchored the TC economy to Turkey, but it also signaled a transfer of the financial crises in Turkey to the north as the fluctuations in the TL began to be reflected to the TRNC economy in the form of crisis by the second half of the 1990s.

Nevertheless, after 1974, the use of the TL first replaced the Cypriot Lira and then became the *de facto* official currency in the north following the establishment of the Central Bank of TFSC in April and then the TRNC in November, 1983. In 1976, in order to avoid “further” losses by the TC depositors and enable the operation of the TC market and payment of the salaries, 1 CYP was fixed to 36 TL, however according to Ekici (2019) the exchange rate of 1 CYP was between 38-45 TL at the time and this caused losses on the part of the CYP holders who “had to” exchange for TL. Ekici pointed that as the TL depreciated over the years, this fixed exchange rate caused the eroding of the lira equivalent of accounts until the TC Government passed a bill in 1983 which updated the rate to 1 CYP to 200 TL when the actual rate was already 1 CYP=400 TL according to the numbers provided by the TRNC SPO.

Sustaining a “self-sufficient economy” had been the popular discourse since the establishment of TFSC in 1974 (Müezzinoğlu, 2009), however the moment the TC Government decided to abort its own national currency and adopt the Turkish Lira instead, the TC economy lost its monetary policy tools to determine the money supply to control inflation and stimulate the growth of the TC economy. Günçavdı and Küçükçiftçi (2009) explained the importance of holding “the weapons of monetary policy” for TRNC as follows;

“Economic growth in any economy shows the need for finance, which in practice could be provided in four different ways, namely domestic and foreign savings, aid, and inflation. In the case of North Cyprus, inflation is imported from Turkey due to the adaptation of the Turkish lira as a national currency and cannot be used for generating income in North Cyprus to finance economic growth. Utilizing foreign savings through borrowing and capital inflows is also restricted due to economic embargoes, and domestic savings seems to have been insufficient to finance high domestic expenditure and economic growth.” (p. 367).

According to Balkır and Yalman (2009), the parallelism in economic policy as well as the adoption of the TL as the official currency of the TC State had a series of adverse consequences among which the importing inflation from Turkey had critical results on the TC economy. On the other hand, after late 2000s the neoliberal adjustment programs that limited government’s capability to use the fiscal policy tools to balance the budget, government spending and transfer payments in order to influence aggregate demand, which would stimulate the stagnant economy. The TC institutions, stripped off of their monetary and fiscal tools to control and govern the political economic sphere, became growingly dependent on Turkish economy, hence the governmental structures lost their credibility, trustworthiness, and progressive duties, hence were rather regarded as containers of “clientelist relations”.

While the state-led capitalist development model was under Turkey’s guidance, one of the journalist interviewees described the years after 1974 as “post-war” years that the Turkish army had control over the media and politics in the north but didn’t interrupt to the development of democratic unionism as long as they remain out of “politics”. The establishment of the TFSC and the TC SEEs made a dramatic change in the relations of production by leading to the rise in the number of the TC

Unions in the north. In 1975, Bank-Sen (Kıbrıs Türk Banka Ticaret ve Büro Çalışanları Sendikası-TC Banking Trading and Office Workers Union) and Bel-Sen (Kıbrıs Türk Belediye Çalışanları Sendikası-TC Municipality Workers Union) were established followed by DAÜ-Sen (Doğu Akdeniz Üniversitesi Çalışanları Sendikası-Eastern Mediterranean University Workers Union) in 1979. Moreover, with the TC workers coming from the south of the island, the members of KTİSF (Kıbrıs Türk İşçi Sendikaları Federasyonu-TC Workers Union Federation) reached 15.000, while Türk-Sen which was a member of Türk-İş in Turkey, kept on with a right-wing Unionism policy and became a strong umbrella for the TC workers that were organized in the citrus/agriculture and small industrial holdings (Saygılı et al., 2013). On 30 November 1976, Dev-İş was created by the merger of DGİS (Devrimci Genel İş-Revolutionary General Work Trade Union), Emek-İş (The United Public, Cooperative, Agricultural & Other Services & Crafts Workers Trade Union) and Petrol-İş (the Cyprus Turkish Petroleum Workers Trade Union) (Türkoğlu, 2015). Dev-İş, which was politically close to CTP, was supported by the PEO and Turkey's DİSK (Devrimci İşçi Sendikaları Konfederasyonu-The Confederation of Progressive Trade Unions of Turkey) and they were the members of the World Federation of the Trade Unions, (WFTU) which was established in 1945 with the participation of the trade union centers in the countries of the anti-Hitler coalition (Turner, 2003).

The DGİS that was one of the founders of Dev-İş soon became the most widespread union among the TC SEEs which started a rivalry between Dev-İş and Türk-Sen. According to Türkoğlu, in the international context, the conflict between Dev-İş and Türk-Sen reflected the spirit of the cold war on a national basis (Türkoğlu, 2015). Although they still don't have an umbrella organization at the civil servant trade unions level at the moment, there was a short-lived attempt by KTAMS and KTÖS to form one; İSEF (İlerici Sendikalar Federasyonu-the Federation of Progressive Trade Unions) which was active for only a short period between 1979 and 1984 (Ioannou & Sonan, 2014).

TFSC largely inherited the characteristics of the postcolonial state of 1960 in terms of class formations and combined them with particular features of the developmental state that was driven by the state-led capitalist development model that was anchored to Turkey's capitalist development. The TC bourgeoisie, that attained a

central role after the establishment of the RoC either as civil servants in the government and/or small-scale producers in agriculture and industry, were forced to leave the partnership state in 1963, and they lost their ties with the RoC's metropolitan state bourgeoisie, who took an active role in the formation of the developmentalist GC state after 1974. This so-called TC indigenous bourgeoisie, weak and mostly composed of the petty bourgeois and state bureaucracy, clustered around the TC Provisional Administration until 1975. When the TFSC was established, they became a powerful interest group within the TC State and the TC SEEs, rendering the TC State an "overdeveloped state" when compared to the economic structure in the north. With the TC SEEs becoming key to the TC economic development, the TC State became "overdeveloped" by the state bureaucracy and the governmental structures that partake within the TC Development Fund (*İnkişaf Sandığı*), that was the shareholder of the TC SEEs on behalf of the TC Government.

When the TFSC was established in 1975, it embraced the state-led capitalist development model that was guided by Turkey's economic development agenda. Primitive accumulation strategies enabled the launching of the TC industry, that were mainly established upon the GC installations and arable land that were left in the north after the divide, yet the establishment of the SEEs were mainly sustained by Turkey's financial aid and technical assistance. Following Poulantzas's formulation (1976) in the case of Portugal, Spain and Greece, the economic embargos that were exerted upon the TC economy by the GCs, hindered a sudden and "an endogenous accumulation of capital at the right time." (p. 11). The "sudden" industrialization of the TC economy, aided by Turkey's financial and technical assistance, reinforced and also safeguarded the combined development of capitalism in the north. The TC State formations thereafter, including the TRNC, amalgamated some basic characteristics of the pre-capitalist, non-capitalist and the capitalist modes of production - that are differentiated by the particular social relations of production they reproduce- and the associated accumulation strategies.

The capitalist development in the north was regarded as dependent mainly by two reasons; Turkey was the leading force behind the establishment of the state-led capitalist development model and the TC industrialization after the 1974 military operation. This growth model was imposed by Turkey to the north via the

establishment of the TC SEEs, in order to increase the TC economy's competitiveness vis-à-vis the south and create a self supportive TC federated entity on the island. However, the Turkish SEEs, were partners to the TC SEEs which made the TC SEEs growingly dependent not only on Turkey's market for survival, but also to the privatization agenda in Turkey. Secondly, the coupling of this economic model with the neoliberal agenda after the 1980s resulted in the deepening of the clientalistic structures in the north and the patronage regime which made it even less likely for the sovereign TC State, the "TRNC", to become part of a federal solution as it increased the "economic costs" for the TC state elite and Turkey in case of a unification. According to Bryant and Hatay (2020), apart from the clientalistic relations within the TC State, TRNC itself was the client of a "larger patron state" which "often intervened in its operations". The growing involvement of Turkey to the decision-making processes as a hegemonic power to control the capitalist development model and the associated accumulation regime in the north was regarded as a typical "patron state" behaviour (Dağlı, 2019), or "paternal patron state" (Bryant & Hatay, 2020).

The TFSC's economic development was based on the co-existence of the subordinate pre-capitalist modes and forms of production with the capitalist mode, through the continuity of a primitive accumulation regime, a development "recipe" that was also adopted by RoC throughout the 1960s. It can be argued that the TFSC had some features that were specific to the TC context, but using Alavi's expression (1972) "*by no means unique (p. 59)*" in the postcolonial situation. The events of 1974 substantially changed the class structure, alliances and the relations of production within the TC society. In time the TC state "elite", which could be categorized as a class "for itself" (Marx, 1955: 256), or as a "class in the making", rising from within the ruling classes of the TC bourgeoisie attained a strong and a key position within the TC State, however it was under the firm control of the military and bureaucratic fractions of the ruling classes in Turkey.

Following Alavi's formulation, that is specific to the class formations in the postcolonial societies, it could be argued that the military and the bureaucratic fractions of the ruling classes in Turkey assumed a mediatory role between the interests and demands of the TC propertied classes; the indigenous TC bourgeoisie and the Metropolitan state bourgeoisie, and the landless proletariat (including the Turkish

immigrants after 1974) who became a land-owner class after possessing the “koçan lands” that were distributed within a system of patronage after 1974. The TC indigenous bourgeoisie was still weak and needed a relatively autonomous state apparatus which would enable them to pursue their class interests.

The so-called bureaucratic Kemalist “elite” in Turkey assumed a significant role in the making of the TC economy and constitution after 1974. Among them, Mümtaz Soysal<sup>28</sup>, a professor of constitutional law, human rights activist and a columnist in Turkey, was Denктаş’s advisor during the intercommunal negotiation process after 1978, until the junta regime in Turkey removed his title in 1980. Soysal was a member of the Grand National Assembly in the 1990s and later he voluntarily reassumed his role as an advisor to Denктаş during the Annan Plan process where he and a group of high-ranked military staff and ministry bureaucracy backed Denктаş in his front against the AKP Government and the yes vote in the referenda (Yıldız, 2019). When Denктаş fell in fault lines with the AKP leader Erdoğan on the EU agenda, Erdoğan advised Denктаş to “change his advisors” (Yıldız, 2019), which clearly targeted Soysal who was known for his “hardliner” stance in the Cyprus issue. In this regard, it can be argued that Turkey not only provided technical and financial assistance to the TFSC, but it also filled the gap of the “lack” of a strong military-bureaucratic elite in the north by appointing eminent Turkish bureaucrats as advisors to the north, who would play a special mediatory role between the interests of the TC State “elite” and the the ruling classes in Turkey until AKP came to power in 2002.

### **3.3.2 Towards Military Coup and Neoliberal Transformation; Centrifugal Forces of the TC State**

After 1974, Turkey gradually surpassed its novel role as the “motherland” of the north; the relation between them was no longer one of interiority once the agents of this relation, Turkey and the TFSC, began to identify themselves as components of a whole (Turkish identity), under two distinct entities. This “new” form of relationship had a hegemonic character and following Laclau and Mouffe’s argument (2014) which

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<sup>28</sup> Soysal was a member of the Constituent Assembly of 1961 and the Constitutional Commission that prepared the 1961 Constitution in Turkey, which was k the most democratic constitution in Turkey enabling a democratic and civil rights-based regime and a state-led economic development model, which was the predecessor of the TC Constitution.

pointed that, “the hegemonic relations supplement class relations”; it could be argued that the statehood struggle of the TCC was both constituted within this hegemonic relation, as well as against it, in the form of class struggle. The Turkish governments continued to provide aid for the infrastructural and economic development of the north, which became a priority especially after 1974, in order to give leverage to the TCC’s subsistence.

However, the traditional foreign policy of Turkey towards Cyprus since the 1960s had been security oriented besides economic growth and development, which in turn increased the prominence of the bureaucracy and the military *vis-à-vis* the business groups and market forces in the north paving the way for preserving, *inter alia*, the *status quo*. On the other hand, Bryant and Hatay (2015) argued that the securitization of the Cyprus issue in the post-1974 period created a sense of threat to the “national cause” of Turkey, which was maintained primarily through the collusion of Denктаş and other TC nationalist politicians with the military-bureaucratic establishment in Turkey; the alignment of Denктаş and the TC nationalist politicians with the state elites in Turkey, then, secured the Cyprus cause as a “national stance” by removing it from the realm of politics”. This alliance was regarded by the TC business groups as playing a pivotal role in the protraction of the Cyprus conflict, deterring a federal solution and a politically stable environment in the north, which inhibited the foray of foreign investment to the country and the growth of its market. Moreover, capital accumulation and surplus product through the small-scale industry and agricultural sectors was not effective for growth, where the wages were high hence curtailing the competitiveness of other sectors. This in turn would have entailed the development of a medium sized business bourgeoisie which made alliances with the Turkish/Global capital to endorse the injection of the neoliberal agenda to the TRNC after 1983.

The division in 1974 led to the development of two different variants of capitalist economy on the island. The south recovered from the devastation of the 1974 events with a mixed economic model; mainly by an export-led development with capital controls, and ended up with a western type of democracy and corporatist welfare state model (Ioannou, 2009; Shekeris, 1988). The GC state supported private entrepreneurship, hence increased the private sectors’ employment capacity.

On the other hand, the TC SEEs were the pillars of the economy, to which Turkey's SEEs were shareholders, and the use of TL in the north made it growingly dependent on Turkey's aid in the form of finance and credits. Turkey gave financial and technical support for the establishment of the TC State Economic Enterprises (SEEs) after 1975 and launched the Import Substitution Industrialization (ISI) model for economic development in the north, similar to that of Turkey's strategy for development after the 1960s. North became a state-led and planned market economy, in which employment was mainly in the public services and agriculture. Large numbers of workforce were transferred from Turkey to the north, who were mainly employed in the agricultural sector of the TC economy while the TCs were mainly employed in public services, and after 1980s they were "encouraged" by the Özal Government to become civil servants.

By the early 1970s the GC economy was growing on exports, mainly of the agricultural and manufacturing goods, as well as expanded production and on private investment. However, the junta attempt in 1974 and the following military intervention by Turkey, the GC economy severely suffered from the divide. According to Day (2003), The GCs lost 70% of their productive resources, 30% of the factories, 60% of the tourism industry, its main port in Famagusta, 66% of its crops land and 80% of the citrus fruit plantations after 1974. Despite the severe downturn of the GC economy, the GC Government decided to continue with export-oriented policies which aimed to recover from the losses of the 1974 divide. According to Pashardes and Hajispyrou (2003), before the 1974 intervention by Turkey, the average annual GDP growth rate of the GC economy was 7.4% for the period between 1960-73, mainly an export-led growth, with foreign demand increasing at an average annual growth rate of 10.2% in real terms.

After 1974, a major part of the agricultural land and the GC industry was left in the north that were the pillars of the GC trade, and the decrease in production led to a severe drop in GDP between 1974-75 by 17.9%, and resulting in a 25.2% decrease in exports (Pashardes & Hajispyrou, 2003). Although the unemployment rate jumped up to 25% in 1975, it fell down to 1.8% by 1979 largely due to the labour-intensive industry by low-waged workers and the expansion of the construction sector leading to full employment in 1977 (Day, 2003). Panayiotopoulos (1999) argued that, RoC's

rapid recovery after 1974 was a result of its commitment as a “developmental state” and “ascendancy of the urban” in contrast to the political decline of the rural and the Greek Cypriot peasantry, which was the dominant client group of the post-colonial state and its redistributory mechanisms before 1974. According to Panayiotopoulos, the rise in the urban population was partly due to the increase in the number of rural refugees after 1974, becoming self-employed in the cities or hotel/manufacture/construction workers, who were part of the economic miracle of the post-1974 period.

Berman (1984) pointed that the reproduction, rather than the expropriation, of the peasantry together with the continuation of the pre-capitalist forms of production in a continuing process of primitive accumulation is both necessary and also functional for capital. According to the data provided by the US Ministry of Trade, the construction sector was holding nearly half of the fixed capital formation since the early 1970s and a large amount (nearly \$40 million in 1971) was in land speculation (Loustaunau, 1972). According to Day (2003), the GC recovery was based on the labour-intensive production which was initially low, however it was followed by a steady increase in the real wages by 10% between 1976-1979 and 6.5% in 1980. In 1975 the GCs had lost 1/3 of their GDP when compared to 1973, however production soon recovered by 1976 and 1977 with an average of 18% per year. By 1977, the GC exports were destined to the EU and to the Middle East where the demand was high, and the civil war in Lebanon led to the flow of Lebanese investments and professionals towards the GC side. Nevertheless, the rise in the oil prices in the world and real wages in the south more than tripled the inflation rate, from 4 per cent in 1976 to 13.4 per cent in 1980.

Meanwhile the rate of inflation in the north was 77.7 per cent in 1979 and 93.0 per cent in 1980 (TRNC SPO, 2016). The TC economy was anchored to rising inflation rate in Turkey and the downturn of the economy was to the concern of the so-called UBP elite; According to Moudouros (2018) UBP used the “separate state” narrative for the consolidation of its nationalist voters as the TC economy started to lose its momentum by the late 1970s, despite the establishment of the SEEs to revive it.

The gap between the GC and TC economies kept on widening after the late 1970s, despite the balance of payment problems was a major concern of the GC

government starting from the mid-1970s onwards. Day (2003) pointed that the GC government soon started to experience balance of payment difficulties and budget deficits as it stimulated growth by tax intensives and direct investments which required extensive foreign borrowing, and decided to adopt a stabilization program to decrease imports and control inflation. In 1978 the GC government decided to restrict private bank loans for “low priority” items such as the imports and distribution of the automobiles, however was not able to limit the credits by the public sector (Phylaktis, 2016). In 1980 it adopted credit ceilings and signed a one-year stabilisation agreement with the IMF in July 1980.

At the macro-level, the crisis of Keynesianism led to the rise of neoliberal strategies on a transnational scale from the 1970s onwards, that was enchanted both as an “alternative” and also as a “remedy” for the global economic crisis of the 1970s. According to Brenner et al. (2010), in close conjunction with a series of political and financial crises in that era, these market-oriented strategies extended beyond the Keynesian heartlands of North America and Western Europe, into the post-developmental states of Latin America, South Asia and sub-Saharan Africa as well as eastern Europe and China, “*that had not ever experienced a comprehensive Keynesianization of regulatory arrangements and institutional forms (p.214)*”. They argued that the process was likewise reflected to platforms of postcolonial national-developmentalism and state socialism, following the exhaustion and crisis of the inherited institutional order, “that opened up a space for neoliberalized forms of regulatory experimentation” (p. 215). According to Brenner et al., the neoliberal trajectory in these national/regional contexts were “shaped by its combative, creatively destructive and path-dependent collision with the crisis-riven regulatory framework that was its negatively enabling yet positively enervating inheritance.” (p. 215).

Adopting Brenner et al.’s formulation on the development of a neoliberal formation in the postcolonial context to the case of Cyprus, it could be argued that the political and economic vacuum that was created within the TCC after 1963 was filled by the state-led capitalist development model of the Turkey after 1974, establishing a combination of the post-colonial institutional order and a planned capitalist development model. The amalgamation of the post-colonial institutional setup of the RoC and the planned development economy in the north after 1974 enabled the

establishment of the TC State, that was a capitalist type of which was instrumental in adjoining to the neoliberal agenda via Turkey after the military coup in 1980s.

The 1970s were a period during which the military *coups* acted as transmitters of the neoliberal currents to the states and societies in Latin America. According to Öniş (2010), “the underlying crisis of the ISI model and the associated political and distributional stalemate resulted in similar military interventions with drastic consequences in Turkey and in Latin American cases.” (p. 51). Şenses (1991) argued that Turkey put strong effort to establish an open democratic society after transition to multi-party regime in 1946, accompanied by economic support mechanisms to the countryside which prevented the rise of a “populist” regime similar to the ones in the Latin American context in the 1970s. In Chile, which was the single “bourgeois-democratic” regime among the Americas (Miliband, 1973), the 1973 military coup had long term repercussions not only in the region but also globally, marking the transformation of the relations between the military and bourgeoisie, towards the formation of a new alliance which was a warning sign for the other bourgeois democracies in the world which were planning “to bring about really serious changes in the social order and to move in socialist directions.” (p. 453).

Although Greece didn’t experience the neoliberal turn that marked the transformation in Chile, during which the military first reconstructed the Chilean capitalism after Allende and then sought for economic liberalization and fiscal austerity (Kurtz, 1999), the Greek junta’s economic program resulted in “increased defense expenditures, cuts in the public sector and a fiscal system that aimed to attract foreign investment by means of low taxes.” (p. 34). (Verberckmoes, 1967). Although the Latin American and the European cases had different characteristics regarding their ensuing institutional settings, economic programs and political outcomes, according to Poulantzas (1976) “they stand in a relationship” regarding their “dependence to the imperialist metropolises and are similarly marked by exceptional capitalist regimes.” (p. 7).

Turkey was among those countries which resorted to the ISI development model since the 1960s, targeting a self-sufficient economy and a rights-based democratic

society. A number of coalition governments under the CHP<sup>29</sup>, which was the victor of the 1973 and 1977 elections, took measures against the US domination in the economy. The coalition governments under CHP lifted the opium ban, made the ISI model work, supported unionism and intervened to Cyprus to stop the military junta attempt on the island despite the opposition of the US. The revival of the CHP's "left of the middle" policy in the early 1970s under Ecevit enabled to forward a pragmatic program, which consolidated both the right-wing and the left-wing urban poor voters in the ballots.

The 1974 Cyprus intervention fueled the nationalist ideology and sentiments in Turkey, and during the 1970s, an "anti-EEC", "anti-customs union" narrative as a part of the "anti-imperialist" discourse raised in Turkey. The Turkey-EEC relations were frozen in 1978, long before the military coup took place in Turkey in 1980. The Cyprus intervention in 1974 converged a large number of nationalist voters under CHP and CHP's support for the revolutionary labour union movement proved to be a strategic and successful maneuver, which eventually avoided the entry of a strong socialist alternative in the parliament, similar to TİP back in the 1960s. After TİP was left out of the parliament, Turkey's Cyprus policy came to be determined by a commonly shared "national cause" discourse of the political parties in Turkey. The ISI development model enabled the growth of Turkey's national industry, which led to the rise of an industrial labour movement that was supportive of CHP's economic programs and political discourse.

Although this populist alliance temporally coalesced around CHP, which united the nationalist voters and the labour movement, it was nonetheless weakened by the downturn of the economy and the rising number of clashes between the rightist and leftist groups towards the end of the 1970s. According to Öniş (2010), the first (1963-1967), the second (1967-1972) and the third (1973-1977) Five Year Development Plans (FYDP) represented "a shift to national developmentalism and ISI-based strong protectionism of the domestic market." (p. 48). While the Fourth FYDP (1978-1982) was forging ahead on a similar path, it was first interrupted by the 24 January decisions, and then nine months later the 12 September 1980 military *coup*

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<sup>29</sup> 37<sup>th</sup> Government was a coalition government between the National Salvation Party under Necmettin Erbakan, 40<sup>th</sup> Government was a minority government and the 42<sup>th</sup> Government was a coalition with some independents, CGP and DP.

overthrew the Demirel Government. The Fourth Five-Year Plan was first put to hold and then it was largely modified in favour of the private sector and for minimizing state interventionism (Ersoy, 2018).

The early stages of the ISI model brought economic growth as well as a democratic environment for the trade unions, which flourished largely “due to the shift of a labor force from the low productivity agricultural sector to the higher productivity urban sector.” (Pamuk, 2010: 27). The ISI model created a large market which contended everyone in parallel to the broadly practiced democratic rights by the rise in the memberships to the trade unions, despite the ideologic polarization and clashes with causalities between the left-wing and right-wing groups. The Confederation of Progressive Trade Unions of Turkey (DİSK - Türkiye Devrimci İşçi Sendikaları Konfederasyonu) was among the most influential umbrella organization by 1975 when the membership to the Confederation was over 500.000 (Şafak, 2012).

While the organized labour movement was struggling to become a major pressure group by the mid-1970s, the Turkish industrialists were also aware of the fact that they need to be more influential upon the decision-making processes in their own right. In 1975, TÜSİAD (Türkiye Sanayici ve İşadamları Derneği-Turkish Industrialists and Businessman Association) was established, however according to Yalman, they didn't necessarily represent “a group of interests” committed to the preservation of the *status quo* (Yalman, 2009). The big business and the industrialists were rather arguing for a “policy mix”, one that would promote export subsidies together with the deepening of the current ISI model. The economic rationale of the CHP governments in Turkey was opposed to joining the customs union of the EEC, under the slogan “they are the union, we are the market” (Bora, 2016), and DİSK was supporting CHP governments' anti-EEC narrative. According to Pamuk (2010), the reason behind this support was the fear of the industrialists as well as the organized labour that a shift to export orientation would end up in lowering down the wages which in turn created vested interests around the current regime, the domestic market-oriented model.

The ISI model in Turkey was supported in the beginning of the 1970s by the workers' remittances causing a surplus in the current account of Turkey for the first time in 1973, with US\$2 million (Lavy & Rapport, 1992), which mitigated the impact of the first oil shock that hit the global economy the same year. Şenses (1991) pointed

that the price of energy and the prices of commodities produced by the SEEs in Turkey was kept low by artificial interference of the Turkish Governments and the growing public sector debt was sustained by the central bank and short-term foreign borrowings. Şenses argued that as Turkey insisted on continuing with the “costly external borrowing schemes” to sustain the ISI model, the severe balance of payment problems and increasing inflation rates led the Turkish governments to seek for external debt mainly from IMF and Turkey had to sign three stand-by agreements with the IMF in close collaboration with the WB in 1978 and in 1979. Şenses, argued that these “half-hearted attempts” by the social democratic government for stabilization was regarded by the credit institutions as “too little, too late” and despite some measures taken by the government for stabilization, such as flexible interest rates and exchange rate polices, a decline in imports led to shortages in basic commodities and black market.

Although the foreign exchange problems and foreign debt was a critical issue which led to the resignation of the Ecevit government following the defeat in the 1979 by-elections in October, Yalman (2009) argued that these accounts are far from being satisfactory. According to Yalman, from 1979 onwards, the free market/open economy rhetoric was adopted both by Turkey’s big business (TÜSİAD) and later by the post-coup military and civilian governments in order to “establish the bourgeoisie’s political and ideological hegemony in the wake of the hegemonic crises of the 1970s.” (p. 237). The last civilian government under Süleyman Demirel came to power in November 1979 and stayed until the military coup in September 1980. According to Yalman, by announcing the 24<sup>th</sup> of January decisions, the new government gave assurance to the global finance institutions that they were committed to follow a new strategy for stabilisation, one that was in-line with the short-term balance of payments concerns of the WB and IMF and the reorientation of the big business’s interest, yet in contrast to the FYDP (1978-1982) of the Ecevit Government that set out the agenda for deepening of the industrial sector as a means to achieve economic independence. However, it should also be noted that it is difficult to argue that the 24<sup>th</sup> of January decisions adopted the outlook of the big business in Turkey, Yalman suggested that it was rather the big business becoming aware in their visits to the US that a policy-mix model “would not be feasible anymore”

Meanwhile the GC Government also signed a stabilization agreement in July 1980 in order to limit its rising inflation and maintain price stability. Both Greece and the Turkey were under the pressure of rising oil prices and inflation rates. However, while the pre-1980 Turkish governments used an anti-EEC narrative as a populist discourse, Greece took decisive steps towards democratization and liberalization of its economy after overthrowing the junta regime and became an EEC member state in January 1981. Greece's EEC membership was a critical juncture for the Cyprus problem as it played a facilitating role in RoC's EU membership without the solution of the Cyprus problem, as well as counteracting Turkey's future strategies towards becoming an EU member state.

The 1977 Denктаş-Makarios agreement was followed by the 1979 Denктаş-Kyprianou agreement in which the both sides agreed on the bicommunality principle during the High-Level Agreements. The first "mutual", yet still controversial, reference to a bi-communal and "bi-zonal" federation came under this economic atmosphere, when Turkey and TC economy were going through a relatively better off economic recovery period. However, the TCs were traumatized by their losses and the bloody events that took place since 1963 and didn't want to lose Turkey's support and protection afterwards. On the other hand, Turkey found the opportunity to return back to the SEM after nearly a century, since it "rented" the island to the British Empire in 1878, and didn't want to lose this strategic position in the Mediterranean. In time, the military presence of Turkey became permanent in the north as the bicommunal negotiations were stagnated around the ambiguity of the context of a "bi-communal-bi-zonal federation", during which the GC side was unwilling to settle down on the basis of political equality with the TC side.

The negotiations were interrupted by the military coup in Turkey which seized power on the 12<sup>th</sup> of September, 1980, but when the negotiations reassumed, these agreements were regarded by Turkey and the TC Leadership as providing references for the "bizonality" principle. The UN Resolution 649 in 1990, included the bicommunality principle and called for a "mutually acceptable" "bi-zonal", "bi-communal" solution, by making a reference to the High-Level Agreements made in the late 1970s, despite the GC side's rejection that there was by no means an explicit

reference to the “bi-zonality principle” in the High-Level Agreements (UN Security Council, 1990).

## CHAPTER 4

### ESTABLISHING THE TRNC-TURKEY CONNECTION; A STRATEGIC-RELATIONAL APPROACH (1980-2002)

The military coup in Turkey not only changed the state of affairs in Turkey, but it also determined the trajectory of the Cyprus issue. Turkey gradually assumed a new role as the “neoliberal anchor” of the north. This transformation period in Turkey co-opted a similar economic agenda in the north and kick-started a major shift from the ISI model for development of the 1970s towards the embracement of the neoliberal agenda and the deindustrialization of the TRNC economy by the mid-1980s. The economic projection of the pre-1980 Turkish governments was the creation and deepening of state capitalism in the north by a spurt of state-led industrialization, which was soon to be dispersed by the Özal Governments and replaced by a process of de-industrialization and market-led policies instead. The TC State became prone to the clashes of economic-corporate interests of the TC bourgeoisie and Turkish capital throughout the 1980s and 1990s, that was commenced by the completion of financial liberalization in the north. Turkey’s financial aid became instrumental for the manipulation of the clashing interests of the TC bourgeoisie in favor of the so-called *status quo* regime for keeping the power bloc intact, as well as for keeping the TC opposition inert. However, the Turkish economy entered into a crisis period following the devaluation of the TL in 1994 and it signed two stand-by agreements with the IMF in 1994 and in 1999 which aimed fiscal adjustments and the implementation of structural reforms. A series of financial/political crises between 1994-1999 in Turkey were followed by the outbreak of a severe banking crisis in the north. These financial crises were accompanied by political crises, and coupled by the onset of the EU

membership agenda, a change in the balance of forces kick-started a change process in the north and in Turkey.

#### **4.1 The Statehood Struggle vs. Structural Reforms**

1980s opened the way for a radical restructuring of the Turkish economy in line with the IMF, WB and the OECD policies and a shift towards the export orientation model (Öniş, 2010). The Fifth FYDP (1985-1989), that was prepared in line with neoliberal agenda of the 1980s, envisaged a market-led strategy for adapting to the Washington Consensus that brought about the “deregulation” of both the Turkish and the TC State. This period forwarded the common “myth” that the domination of the “political logic” over “economic rationality” perpetuated incentives for rent-seeking behaviour, which acted as an impediment for economic development (Nove, 1958; Elkin, 1985). The promotion of this “practical reasoning” as having an explanatory power for the bottlenecks in the economy was used wide-spread in the “developing” economies, which enabled the implementation of a neoliberal agenda in its different authoritarian forms. According to Green and Shapiro, this reasoning was typical for the deductive arguments and tendentious interpretations of the rational choice theory<sup>30</sup>.

The last civilian government in Turkey announced a stabilization package on the 24<sup>th</sup> of January 1980, in an effort to overcome the downturn of the economy as well as a sign of its commitment to the neoliberal agenda. This was promoted as a necessary step towards “economic stability”, which was supposed to bring about “political stability” in return, however, it was not perceived as a sufficient measure by the Armed Forces in Turkey, which staged a military junta in September 12<sup>th</sup> 1980. Six years after the 1974 military operation in Cyprus, a military *coup d’etat* in Turkey overthrew the civilian government on 12 September 1980, abandoned all the civil rights and kick-started a radical transformation process of the political and the economic agenda of Turkey and of the north. Although the implementation of the 24 January decisions was partly interrupted by the military coup, the military regime that banned all economic,

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<sup>30</sup> For a critique see, D.P. Green and I. Shapiro (1994), *Pathologies of rational choice theory: a critique of applications in political science*, Yale University press, pp, 6-7.

political, civil rights and activities, undertook the mission to initiate the neoliberal transformation of the Turkish economy and politics.

The new economic program of the stabilization package was opposed to the ISI development model of the 1960s and 1970s. It was gradually put into effect under the authoritarian rule of the National Security Council (NSC-Milli Güvenlik Konseyi), which safeguarded and supported the onset of the neoliberal agenda in Turkey. A radical transformation of the state and society in Turkey started after the 1980 military coup. The 24<sup>th</sup> of January 1980 decisions in Turkey were a radical break from a planned development economy and a decisive step towards the commitment to the neoliberal agenda that was driven by the “assumedly self-regulating” price mechanisms of the market. They were announced by the Demirel Government, the last civilian government before the military *coup*, in an effort to ensure the international finance institutions that Turkey was committed to fiscal discipline, trade liberalization and deregulation. These decisions enabled the neoliberal adjustment programs to transform the *rationale* of the Turkish economy from a state-led planned economy towards a market-led model, which would have a direct impact on Turkey’s policy for the “supervision” of the TC economy.

The 1982 Constitution opened the way for the Turkish economy’s restructuring under the aegis of the international finance institutions such as the WB and the IMF as well as the US Treasury, who were the pioneers of the so-called Washington Consensus. The programs were introduced as a remedy for the so-called high level of foreign debt and the macroeconomic imbalances, however the ratios of foreign and domestic debt to the national income after a quarter century under IMF guidance were higher than before. While the ratio in 1980 were 22% and 14%, they reached 69% and 79% at the end of the 2001 crisis in Turkey (Köse & Öncü; 2007: 68). Yalman (2009) pointed to the trajectory of military interventions in Turkey overlapping the stand-by agreements signed with the IMF since the 1960s, pressurizing the Turkish governments to implement the stabilization packages. Yalman, argued that, the priority of successive governments after the 24<sup>th</sup> of January decisions in 1980 was armored by the rhetoric of a “free-market”, which acted as a shield to follow an agenda “to establish the bourgeoisie’s political and ideological hegemony in the wake of the hegemonic crisis of the 1970s.” (p. 237).

Turkey had signed consequent agreements with the IMF in 1977, 1978 and in 1980 before the coup, however revised the last one in 1983 and signed a new one in 1984 under the Özal Government as a sign of its commitment to the neoliberal agenda. The civilian government, which came to power in the 1983 elections, was not only an adamant follower of the neoliberal agenda, but the newly elected Prime Minister Özal, one of the main figures who prepared the agenda, was the undersecretary of the Prime Ministry, the acting deputy undersecretary of the DPT before the coup, and the Minister of Economy under the NSC. The NSC used an economy-oriented propaganda and presented it to the Turkish public as a “cure” for the economic stagnation as well as to the rising terror between the rightist and leftist groups. Forwarding the argument that the political parties were “harmful” to the peace and prosperity of Turkey and were responsible for the rise of social conflict, the National Security Council immediately curtailed the practice of basic rights and freedoms besides unionism, banned the political parties and jailed its leaders; Ecevit, Demirel, Erbakan and many others and forbid their political rights until the 1987 referenda lifted the ban. The fundamental shift in the Turkish economy from a state-led ISI model to the market-led system of resource allocation and export-oriented strategy was soon to be reflected to the TC economy. The limited “market capacity” of the TC State and the international restrictions made it increasingly difficult for the TC goods for finding new markets and setting a “comparative advantage” *vis-à-vis* the rising competitiveness of the Turkish and GC economies after the 1980s.

The TC economy was in distress by the late 1970s and following the 1980 military coup in Turkey, the TC economy had a quick downturn in 1980 accompanied by the political uncertainty in Turkey; the growth rate fell from 4,4% in 1979, to 0,9% in 1980. The 1981 General Elections were held in the north under political and economic uncertainties. Despite Denктаş ensured the support of the military regime and the bureaucratic fractions of the ruling classes in Turkey and UBP won the elections with the open support of Turkey, Denктаş was only 700 votes ahead of his rival Özker Özgür (Hasgüler, 1995). There was a dramatic fall in the votes of the governing UBP in the 1981 elections due to the downturn of the economy; from 30/40 seats in 1976 to 18/40 seats in 1981.

Despite Turkey's support for Denktaş, it was apparent that this support had a limited impact. Denktaş was not able to establish a single party government but was compelled to establish a coalition government with TKP, which took Denktaş more than three months to end the negotiation process. According to Hasgüler (2019), the 1981 elections were important and military's support for Denktaş was crucial in the sense that it gave Denktaş the right to be re-elected in the future elections. Hasgüler (1995) argued that Turkey's involvement was not limited to pre-election interventions such as carrying UBP supporters from Turkey to the ballots and/or preventing the CTP electorate from voting in the elections, but was also extended to the post-election period when prominent Turkish bureaucrats and politicians came to north and played a critical role for the establishment of the UBP-TKP Government. Hasgüler argued that the reason for Turkey's opposition towards Özker Özgür's CTP at the time was mainly due to CTP's opposition towards NATO. Hasgüler pointed that Özgür (1992, cited in Hasgüler, 1995) stated in his memoirs that İlder Türmen, the Foreign Minister of Turkey, made a meeting with the leaders of the opposition after the elections, in which Türmen stated to the CTP leader that "Since CTP is against NATO and the NATO membership of Turkey, Ankara shall not allow CTP to enter the coalition." (para. 15).

While Özgür was informed by Türmen that CTP was not considered as an "ally" for Turkey, he was also confused by Ankara's contradictory attitude towards the TC opposition before and after the elections. Hasgüler quoted Özgür's memoirs, in which the opposition leader argued that there was no open statement by the Turkish politicians towards the CTP group in their visit to Ankara before the elections and the high-ranked military officers and bureaucrats. All of them claimed that they would respect the results of the elections, which was refuted by Türmen's open stance against CTP after the elections and Turkey's intervention to the composition of the coalition government in the north.

The 1982 Constitution in Turkey was prepared and brought to a popular referendum under the military rule; hence although the new constitution included serious drawbacks from the broader interpretation of the "rights and freedoms" under the 1961 constitution, it was accepted by the 91.4% of the votes. According to Soyak and Eroğlu (2008), one of the most important institutional outcomes of the 1982

Constitution was the changing of the fundamental duties of the state and reorganization of the economic clauses by ending development planning as one of state's duties, and stripping off DPT's (Central Planning Organization-Devlet Planlama Teşkilatı) central planning powers and annulling its position as a constitutional institution. The IMF and World Bank became the leading actors of the liberal economy programs in Turkey, and were influential in the preparing of a development model with three alternatives for the period 1982-1988 requesting the implementation of a mild growth scenario based on export (Saygın & Çimen, 2013).

This marked the beginning of a neoliberal era, guided initially by the stabilization programs of the IMF, later incorporated by the structural adjustment measures introduced by the World Bank. The last development plan before the coup, the Fourth Five-Year Development Plan (FYDP) was emphasizing on public sector and industrialisation, however it was totally abolished soon after the decisions were declared. The development plans of the DPT after the *coup* were mainly prepared with the target to adapt to the structural adjustment policies of the IMF and World Bank, therefore while the target to increase exports was at the top of the Fifth FYDP, the industrialization goal was put at the end of the list. While the Fifth and Sixth FYDPs were sectorial planning agendas in general, redirecting the state toward the infrastructure investments instead of the development of the industrial sector and privatizations were their main target (Soyak & Eroğlu, 2008). After mid 1990s, the State was no longer the forerunner for development and social welfare, or the guiding force to increase the structural competitiveness of the economy (Yalman, 2009). The ISI development model and central planning in Turkey was dramatically changed after the military coup by the ambition to integrate the Turkish economy with the world economy through export-oriented trade, in order to achieve macroeconomic stability; as Yalman argued, "assuming that stabilization and economic liberalization are two reconcilable objectives." (p. 4). According to Yalman, the Turkish governments were under pressure to sign and follow the IMF stabilization programs since the beginning of 1960s, and the civilian governments that were reluctant to sign these agreements were forced out of office by military interventions in each decade for about thirty years until the 12 September 1980 military coup.

In May 1983, the UN General Assembly Resolution A/RES/37/253 called Turkey an “occupation force” in Cyprus, to which Turkey and TC Government strongly reacted. This gave Turkish Cypriot leader Denktaş the opportunity to forward his will for the establishment of a sovereign TC State. Rauf Denktaş was seeking political support from the so-called “Motherland” since the late 1970s, for the declaration of a sovereign Turkish Cypriot State. Ecevit governments did not welcome this idea in the late 1970s (An, 2014), preferring a federal solution instead (Dodd, 2010). However, the political lacunae in Turkey that was created after three years of military rule in Turkey gave Denktaş the right moment to make the initiative after 1980. The state-led planned development model of TFSC was established on the exemplar of the “Turkish State of the 1970s”, and the TC society had high rates of unionization (Saygılı et al., 2013). However, an opposite tendency raised after the 1980 military coup in Turkey, which established an authoritarian rule and took undemocratic measures against unionism; closing down DİSK (the union that had the highest operational capacity in Turkey) and forbidding use of basic democratic rights and freedoms.

Although the NSC intended to take some extra security measures in the north similar to that of Turkey, Denktaş and TC PM Çağatay persuaded Kenan Evren that there was no need for such measures in the north as the TC leadership was ready to co-operate with Turkey (Kutay, 2019). The 1974 intervention to the island by Turkey had already prepared a secure ground in the north, although unwittingly, to forward the neoliberal agenda, even before Turkey initiated the securitization process in the 1980s.

Turkey lived under a military regime for three years, and resumed the first General Elections on 6 November 1983 under martial law. Although the pre-coup political parties and politicians were still banned from participating in the elections and in political activities, the elections signaled a return back to “normal”. Soon after the General Elections took place in Turkey, while the National Security Council (NSC-Milli Güvenlik Konseyi) was still in power in Turkey, the TC Leader Denktaş declared the establishment of the TRNC (Turkish Republic of Northern Cyprus-Kuzey Kıbrıs Türk Cumhuriyeti) in 15<sup>th</sup> of November 1983. Denktaş and the NSC apparently made a strategic alliance as they shared the same political prospects over the future of the

TFSC; Denktaş announced the establishment of the TRNC on the 15<sup>th</sup> of November 1983, on the anniversary of the Geçitkale-Boğaziçi attacks towards the TC villages, which was organized by a group of GC and Greek ultranationalists in 1967.

Turkey was the only state to officially recognize TRNC, as this sovereign TC State became a *de facto* state soon after its establishment by the UN's call to the international community. Denktaş announced the establishment of the first "sovereign"<sup>31</sup> TC State amidst the political lacuna in Turkey, right after the first general elections took place and just before the new government was established in early December. A civilian government was established on the 13<sup>th</sup> of December in 1983 under Turgut Özal in Turkey. It was apparent that only a small cadre of the military and the bureaucratic fractions of the ruling classes in Turkey were involved in the decision process, and even the TC opposition was informed by Denktaş only prior to his public announcement. The TC opposition leader Özker Özgür, who was the leader of the Republican Turkish Party which held 6 seats in the parliament, objected to the idea in the beginning but later admitted that they were "forced" to vote for independence, and they accepted it only under the condition that independence shall not mean abandoning the idea of federation for the TCC (Dodd, 2010).

The UNSC Resolution 541 immediately called "upon all States not to recognize any Cypriot State other than the Republic of Cyprus"<sup>32</sup>; and UNSC resolution 550 reiterated "the call upon all States not to recognize the purported State of the 'Turkish Republic of Northern Cyprus' set up by secessionist acts and calls upon them not to facilitate or in any way assist the aforesaid secessionist entity"<sup>33</sup>. Both resolutions were adopted by 13 votes to 1, only Pakistan voting against them. After the establishment of the TRNC, the Cyprus "problem" became a persistent and a protracted issue as both the GC and the TC sides began to entrench to the "all or nothing" principle, while they continued to negotiate on the substantial issues. From 1983 onwards, the Cyprus issue was increasingly epitomized as a "paradigm" that is resistant to change, ignoring the inter class alliances and inter class conflicts which

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31 The 1975 TFSC Constitution didn't imply any sovereignty for the TCC, rather rests upon the federation principle. To the contrary, Article 3 of the TRNC Constitution openly stated that the sovereignty belongs to the citizens of TRNC.

32 United Nations Security Council Resolutions, <http://unscr.com/en/resolutions/541>.

33 United Nations Security Council Resolutions, <http://unscr.com/en/resolutions/550>.

continued to shape - and be shaped by - the statehood struggle of the TCC. Following the UN resolution after 1983, which called for the “denouncement” of the TRNC by the international community, the TRNC became a *de facto* state right after it was established<sup>34</sup>. The Turkish Republic of Northern Cyprus lacks international recognition since its establishment. Consequently, the Cyprus issue became a major political “obstacle” for the Turkish governments’ EU agenda, that were constrained by the “red-line” of the Turkish Foreign Policy which defined the Cyprus issue as the “national cause” of Turkey since the 1950s.

According to Moudouros (2018), UBP forwarded the partitionist idea not primarily because the Cyprus Problem was stuck, but because of the intensification of the “economic stagnation and the social problems” that began to challenge the durability of the partitionist *status quo*. Before the *coup*, the UBP Government had signed a financial protocol with the Ecevit Government in Turkey, abolishing all barriers on imported products from Turkey. Moudouros pointed that “this decision deepened the uneven economic integration, especially since Northern Cyprus imported 4,500 different goods from Turkey while it exported merely 100 products.” (p. 145). Moreover, the TC Government decided to ban “the import of 108 specific products, the vast majority of which came from the GCC.” (p. 145), which, according to Moudouros aimed to put an end to the bilateral trade relations between the TCC and the GCC; “It thus sought to completely cut off the little commercial contact between the two communities, creating more prospects for a one-way integration with Turkey.” (p. 145).

The relationship between Turkey and TRNC was increasingly characterized by their mutual dependency as the Cyprus issue started to determine not only TRNC’s but also Turkey’s economic policy decisions and political agenda. While the military and the bureaucratic fractions of the ruling classes in Turkey were traditionally engaged in the state of affairs in the north prior to 1983, the neoliberal agenda of the 1980s made the Turkish big business in Turkey and the TC commercial bourgeoisie in the north increasingly aspirant to be a part of the policy making processes on the Cyprus issue as well. In time, the Cyprus issue became an important tool for the populist propaganda

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34 At the moment, TRNC only have an observer status in the “Organisation of Islamic Cooperation” and the “Economic Cooperation Organization”.

in Turkish politics for both the rightist and the leftist parties, and its isolated market attracted the newly emerging Turkish big capital that was organized under TÜSİAD (Türkiye Sanayicileri ve İşadamları Derneği-Turkish Industrialists and Businessman Association). Turkey's ISI development model was a precursor for the TC economy's development strategy after the 1974 intervention, and the TC state "elite" was content with the state-led development strategies as it allowed them greater freedom and autonomy in the decision-making processes. Hence, the radical neoliberal alignment of the Turkish economy was not welcomed with enthusiasm by the political structure in the north and by the military and the bureaucratic fractions of the ruling classes in Turkey. Although the National Security Council supported and put into effect the terms of the IMF agreement that was signed before the coup, on the 18<sup>th</sup> of June 1980 by the Demirel Government, it was reluctant to implement a similar economic agenda in the north soon after the establishment of the TRNC, hence fell in fault lines with the Özal Government. Consequently, this neoliberal transformation required a "mediation" process between the opposing interest groups in Turkey and in the north, not only for the content, but rather for the "timing" of the agenda in the north, a role that was assumed by the TC President and bureaucratic fractions in Turkey until the early 2000s.

Özal government's economic program was a total commitment to the 24 January decisions, and it marked the beginning of a critical juncture in Turkey's relations with the north; Turkey's role as a state-led planned economic development model transformed into a neoliberal anchor that enforces privatization, deregulation and market-oriented approach under the rubric of "stabilization". Financial liberalization enabled the Özal governments to follow a pragmatic foreign policy as well, while one of the main narratives of the government was "integration with the EC and the world", which was used as a legitimizing argument for the future neoliberal adjustments in line with the Washington Consensus (Öniş, 2004; Imai, 2017). After 1983, financial liberalization and the markets were prioritized over the democratic rights and public interest, hence the Turkish bourgeoisie had an increasingly effective role on the domestic as well as foreign policy decisions of the governments. Despite the fragmented structure and divergences between the policy goals of the bourgeoisie, the big capital, partly represented by TÜSİAD, was supporting an urgent solution to the

Cyprus Problem. While the Özal government and the business groups were sharing the same rationale over the solution of the problem, Uzgel (2004) argued that the Turkish military was prioritizing “the national cause” as opposed to the pragmatic economic outlook of the government and the big business groups. According to Uzgel, this cleavage between the military and the business groups, causing the emergence of the discrepancy between the perception on the “national cause” and the economic benefits, is a manifestation of the relative autonomy of the Turkish State, following Poulantzas’ relative separation of the economic and the political instances in the capitalist mode of production.

Deriving from Uzgel’s argument, it can be argued that there was a similar tendency in the north which resisted the neoliberal agenda of the Özal Government and TÜSİAD on the ground that it was detrimental to the state building process in the north. The TC State under Denktaş’s presidency was in a cross-class alliance with the military and bureaucratic fractions of the ruling classes in Turkey. The Turkish governments were not fond of this alliance as it was confining the forwarding of the neoliberal agenda to the north. Despite the wide-spread perception that the TRNC was dependent on Turkey for policy decisions in its economy as well as politics, the practice was not seamless and uniform but rather fragmented and uneven.

However, after the 1980s, TRNC’s relations with Turkey were increasingly characterized as a top-down relation, as opposed to the pre-1980 era during which the federated TC State was attributed a level of autonomy by Turkey’s bureaucratic and military fractions in conducting its economic and political agenda. The era after 1980s was described by one of the journalist interviewees, as the beginning of the “one-sided relation”, during which Turkey started dictating rather than negotiating the terms of the association agreements. The interviewee argued that this “one-sided relation” gave Turkey the power to decide on the “faith” of the TCs. He argued that the pre-1980 period relatively more democratic and progressive, a period in which the “progressive” unions and the state-led economic development gave the TCs the chance to build their own future, yet he regarded the post-1980 period as growingly authoritarian.

TRNC’s international status as a *de facto* state had limited impact on its formation as a western type of democracy and a capitalist type of state, however, the newly established state had problems regarding its functioning not only vis a vis capital

but also as the legitimate arbiter of force. The military, police forces and even the fire department in the north were tied to the Security Forces Command (SFC-Güvenlik Kuvvetleri Komutanlığı), and although they were under the Prime Ministry of TRNC, the head of SFC was appointed by the Turkish Peace Forces Command (TPFC-Türk Barış Kuvvetleri Komutanlığı) in the north, that was sent from Turkey. TPFC was under the command of the Turkish Armed Forces General Staff (TAF-Genel Kurmay Başkanlığı) as the 9<sup>th</sup> Corps of the Turkish Army. The TPFC was mostly engaged with the securitization of the north against a “potential” regional threat coming from the GC side over the borders rather than a social conflict arising from within the TCC against Turkey<sup>35</sup>, hence the relations between the Command and TCC was limited to the 15<sup>th</sup> of November Celebrations in the north and a few one-to one polemics with the TC opposition.

The post-1980 political-economy of Turkey, buoyed by the adamant followers of the neoliberal agenda, allowed room for the flourishing of alternative economic development models in the north, as long as it would allow TRNC to become an open market economy. This sudden turn in economic agenda was justified mainly by the discourse that it was the “dirigisme” and the “inward looking ISI strategies” that were responsible for the downturn of Turkey’s economy in the 1970s together with many other ‘developing countries’ (Yalman, 2009), and shall also be abandoned by the TRNC. The Turkish governments were increasingly involved in the state of affairs of the TC economy via the signing of the Association Agreements that were designed to adopt a similar market-oriented model in the north together with an import-led growth strategy.

Turkish Prime Minister Turgut Özal, accompanied by a group of businessmen, the so-called “princes of Özal”, and his team of advisors, was finally able to visit to the north in 1986 for bargaining the conditions of the “new” state of affairs of the TC economy. Özal signed a cooperation protocol with Denктаş which would ensure the direction of the TC economy towards financial liberalization. the Özal Government and big capital in Turkey were determined to “integrate” the Turkish economy with

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<sup>35</sup> Although Article 117 of the TRNC Constitution states that “national defence is provided by the TRNC armed forces”, an additional “temporary” clause included in 1985 which suspended Article 117, stating that “as long as the defence of the TCC and internal safety and the international circumstances necessitate, the rules under Article 117 of this constitutions won’t enter into effect”.

the world economy and they introduced this “ideal” as their main target and the chief criteria for “economic success”. The economic package started the privatization process of the Industrial Holding’s associates in the north, which was the beginning of the deindustrialization of the TC economy. Moreover, Özal forwarded the idea of turning the north into a “free trade area” (FTA), as a “rescue model” to end the isolation of the north’s economy and “internationalize” the TC economy by integrating it to global capitalism via free trade. TÜSİAD and the Özal Government were willing to transform the north into a FTA, arguing that this would fuel growth and diminish the impact of the “statist bureaucratic tradition”, which they believe was the “real” barrier in front of a self-sufficient economy in the north. The idea started a lively political debate, however it was neither embraced by the military and the bureaucratic fractions in Turkey, nor by the TC opposition; the former opposed it on the ground that it would distort the “national cause”, as it was erected on the discourse that promotes Cyprus’s “geopolitical” not economic importance for Turkey since the late 1950s. For the latter, this would mean the destruction of the already fragile TC economy. Although the idea belonged to TÜSİAD, one of Özal’s princes argued that Özal personally resisted the criticism because he was in favor of the so-called “Hong Kong” model for the north, which he hoped would turn TRNC into the “new Beirut” of the region (Abidin, 2017).

The model was presented to Özal in a blueprint by TÜSİAD and its president Sakıp Sabancı. Turkey’s big capital was looking for new markets which would allow them to become global players. This new model aspired a world-scale capital accumulation strategy for the north, as this “de facto” state indeed provided the perfect spot to serve as one of the “locational nodes for transnational capital investment.” (Brenner, 1998. 3), supposedly by tax incentives, zero customs pay and financial services/networks. Özal faced double criticism upon his visit to the north; harsh criticism came from the international community under the GC’s pressure for visiting the *de-facto* TC State, and moreover the TC committee who met him were aware of Özal’s plans for promoting the 24<sup>th</sup> of January decisions in the north. Upon Özal’s arrival on the 4<sup>th</sup> of July 1986, the TC trade unions gave a memorandum note to PM Eroğlu which refused abiding to Özal’s “new package of economic measures” in the north (Oyan, 1986). The unions organized protests all through the visit, and finally

twelve unions came together and they left a black wreath saying “no to economic destruction package.” (p. 24) in front of Erođlu’s office.

Although President Denктаş supported the plan, both the then Prime Minister, Derviř Erođlu (UBP), and the acting Deputy Prime Minister of TRNC, Mustafa Akıncı (TKP, the then Mayor of Nicosia) strongly opposed the idea, claiming that this plan would mean the “extinction” of the TCC (Abidin, 2017). řemiler argued that zal was very angry with the response of the committee and by the reaction he got from the trade unions and said in the end “let them do what they want, and see what will happen.” (para. 5)<sup>36</sup>. The idea of turning the north into a free trade area was supported by the KTTO and TSİAD and also MSİAD, while KTSO openly rejected it, which revealed one of the main fault lines between the commercial and the industrial bourgeoisie in the north. The TC opposition argued that FTA idea was not feasible in political and economic terms, given the fact that TRNC was a *de facto* state which would prevent the flow of capital and investments to the north and would crash north’s infant industries. Moreover, the GC economy already had comparative advantages over the north in trade/prices (IMF, 2003), tourism (Adamou & Clerides, 2009) and finances (Christophoros, Axt & Karadađ, 2017) which would direct the global capital flows towards the south. According to IMF, the price competitiveness of Cyprus was mostly due to the depreciation of its real effective exchange rate in 1980s, which it lost only partly by the 1990s due to its convergence with the advanced economies (IMF, 2003). After the 1990s, Cyprus became a tax heaven for European companies (until it entered the European Union in 2003 and had to eliminate the growing corporate structure), and a safe country for the Russian capital to embark upon after the breakup of the Soviet Union. In reality, not only the GC economy, but the Turkish economy was soon to become more competitive compared to the north’s. zal Government gradually liberalized the Cambio regime by making reforms on the law on Protection of the Value of the Turkish Currency starting from 1984 (Decree No. 30) and fully liberalized it by 1989 (Decree No. 32), which aimed to maintain the convertibility of the Turkish Lira and adapt to the EEC’s fiscal and monetary imperatives.

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<sup>36</sup> The Turkish version of the idiom is, “birak ne halleri varsa grsnler”, similar to “let them knock themselves out”.

The FTA plans of the Özal Government and TÜSİAD failed as a result of the political uncertainties due to the Cyprus problem as well as the TC opposition's rejection to the idea; the FTA was limited to the establishment of the Famagusta Free Harbour and Area, within a range of 103,000 m<sup>2</sup>, established by the Law No. 26/1983. The FTA discussion continued on the island as one of the main topics of the election campaigns of the UBP all the way into the late 2000s, which was regarded as an unrealistic option even by the members of UBP and by the opposition not only because the proposal is not a suitable option for TRNC due to its unrecognized status and the difficulty to determine the rule of origin for the products, but also since it is not compatible with the protracted neoliberal structural reform model foreseen in the association agreements signed with Turkey, which basically prioritize the shrinking of the public sector and strengthening of the private sector, rather than creating a free trade area which would lead to an economic integration with the north. Turning the north into FTA was supported by the KTTO and the then head of the Chamber, Fikri Toros, later a deputy of CTP argued that FTA would attract FDI to the north, lower the prices and stop smuggling (Euroasia Economic Relations Association, 2017).

Following Özal's visit to the north, an economic cooperation agreement was signed between Turkey and TRNC, which signaled the onset of the neoliberal agenda in the north, foreseeing the privatization of the SEEs, launching a liberal exchange regime and offshore banking, and a 30% decrease in the customs. Under political and economic embargos from the international community, Turkish market was the main destination for the TC economy, which embraced a mixed economic model composed of SEEs, together with the liberalization of the financial system and the trade regime between 1983-1995. This mixed economic model, which "brought together the challenges and the contradictions of the 'combined' development and social formation" (Allinson & Anievas, 2009: 60), aimed a quick adaptation to global capitalism via Turkey, yet it was not able to cope with it in the absence of a new tailor-made development program. Özal was determined to enforce a set of structural reforms with an IMF-like regimen on the TC economy, hence despite the liberalization of the money and exchange/trade regime, Özal was insisting that Turkey should put an end to its financial support to the north, which actually led to a decrease in Turkey's aid to the north between 1988-1992. According to Doğan (1986), this was rather regarded as

a political maneuver to forward the IMF recipes to the north by manipulating TRNC's main "contradiction", that is being dependent on Turkey's military and financial aid but resisting the austerity recipes.

The TRNC Constitution was accepted in popular referenda on 5 May, 1985, which lifted the two-term limit for the Presidency in the north, providing the legal ground for Denktaş to become a candidate subsequently. Although it allowed Denktaş's domination over the political structure in the north for the next 25 years, the "*raison d'état*" of the constitution was established upon the main principles of the 1961 Constitution in Turkey, which was based on the advancement of democratic, secular and social state as well as a planned development economy, which were contrary to the neoliberal agenda of the 1980s. These principles remained untouched within the TRNC context until the 1986 Economic Cooperation Agreement signed with Turkey was put into effect, which led to the liberalization of monetary policies and exchange mechanisms, enactment of the banking/offshore banking law and favouring of a trade economy (Tahsin, 2014). The "central planning principle" of the 1961 Constitution in Turkey was altered dramatically in the 1982 Constitution of Turkey and it was replaced by a "strategic planning agenda", that was already projected in the declaration of 24<sup>th</sup> of January 1980 decisions in Turkey under the guidance of the multilateral regulatory institutions. After 1980s, planned development model was gradually left aside, however the rise of a nascent neoliberal agenda in the north by the late 1980s led to a duality among state-market relations and a unique social formation which adopted a mixed system, a combination a state-led economy and a neoliberal market order. The TC economy carried this dichotomous structure all the way into the 1990s, which deepened its institutional weaknesses and made the TC economy prone to the financial crisis by the end of 1990s. It was not only the TC case in which the neoliberal process was in a slow but destructive progress during the 1980s; Brenner et al. (2010) calls 1970s and 1980s as a period of "disarticulated neoliberalism" because they argued that during this period the neoliberal transformation was rather combating its ways through uneven development within the crisis-ridden contexts of post-Keynesianism, by persuasion and coercion, in order to integrate and accelerate "the dissemination and imposition of market-oriented

regulatory transformations.” (p. 214) at the national, international and institutional contexts.

According to Hirsch and Lopez (2020), in the wake of the oil crisis of 1973 and stagflation and low commodity prices, the period between 1975 and 1995 were lost decades for Africa: growing government debt brought Structural Adjustment Programs (SAPs) by the IMF, which made considerable damage to the “capacity” of the state as the debt restructuring processes were conditioned upon favouring the “market” rather than state-led development, which became the core doctrines of the Washington Consensus; liberalisation, privatisation and deregulation. According to Brenner et al., by the 1990s, the project of marketized regulatory restructuring transformed and “deepened” and the “neoliberalization of regulatory uneven development” became increasingly evident, “marking a fundamental evolutionary shift from disarticulated to deep(en)ing neoliberalization – that is, from the uneven development of neoliberalization to the tendential neoliberalization of regulatory uneven development itself”. (p. 215).

At the global level, throughout the 1990s “the coercive and competitive forms of policy transfer” of the neoliberal agenda became operational under the auspices of the regulatory institutions such as the WTO, IMF, WB and the post-Maastricht EU (Brenner et al., 2010). According to Brenner et al., while they reshaped the ‘local’ regulatory formations, they also continuously set the rules of the game within which they were recursively embedded, in order to safeguard the mechanisms of market rule, to enhance capital mobility and to extend commodification. At the micro-level, which was partly contingent upon the macro-level developments, the interplay between the domestic actors and Turkey shaped north’s neoliberal path. In this regard, while Turkey was north’s major “stargate”<sup>37</sup> into the neoliberal cosmos, the inter-class alliances and intra-class conflicts in the north determined the characteristic, scope and the schedule of the neoliberal transformation and the changing state-society relations on a temporal scale together with Turkey’s neoliberal agenda. While the multilateral regulatory institutions had no direct access to the TRNC economy, they nonetheless

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<sup>37</sup> A stargate is a popular name, in science fiction terminology, for a matter transmission or Wormhole portal that facilitates interstellar transport. Encyclopedia of Science Fiction. Gollancz, <http://www.sf-encyclopedia.com/Entry/stargates>, retrieved on 14.03.2021.

had an indirect intrusion via Turkey's neoliberal agenda and transformation by the late 1980s. The EU membership agenda of Turkey acted as a facilitator in terms of policy transfers, however the historical context of the neoliberal inference in TRNC was shaped not only by the policy transfers from Turkey (or the EU), but through a continuous re-structuring of the inter-class alliances and intra-class conflicts and TCC's relations with the GCs.

The dramatic shift in the economic and politic atmosphere in Turkey was concerning the state elite in the north as President Denктаş was aware that in order to survive the political isolation, keep up with the changes in Turkey and compete with the growth in the GC economy, the TC economy needed to ensure the continuation of Turkey's support, and "slowly" get rid of the state-led mixed economic model without disturbing his electoral basis and without causing further cleavages within his own party. Although the Denктаş and Özal had a contentious relationship regarding the former's dominancy in the Cyprus issue and "popularity" among the military and bureaucratic fractions of the ruling classes in Turkey, their "distanced" attitude towards labour class politics concurred. Although Denктаş was a strong leader in the north with the open support of Turkey, the TC opposition also had a strong electoral basis, getting stronger day by day, composed of the trade unions who were increasingly organized in the public services and the small industries of the north after 1975.

Denктаş, who won the 1981 elections with a close call despite Turkey's support for UBP, was aware that the TC opposition's electoral basis; the civil servants, public service employers and teachers' unions needed to be held under firm control by the private sectors's involvement. Besides, Özal was frustrated by the TCs opposition's reaction to his alternative economic model and plans in the north as there were big protests from the trade unions during his visit in 1986. For Özal, the TC SEEs in the north were dysfunctional for the new model and for Denктаş their operation costs were becoming increasingly unrecoverable for the TC State. Moreover, it was becoming more difficult and costly to follow a state-led development model solely by the contribution of the agricultural trade in the north, and furthermore the privatization process for the public enterprises had already started in Turkey, which were the shareholders of the TC SEEs. The reorganization of the relations of production by the late 1980s to bolster a "free market economy" in line with the Turkish Government's

requisition, as well as upholding a state-led economic growth model for preserving jobs in the TC labour market to please the TC trade unions became two irreconcilable goals for the TC Government. The number of the factories governed by the Industrial Holding that were 25 in 1985 prior to Özal’s visit, it decreased to 14 by 1990s (Türkoğlu, 2015). Yalman (2009) described the 1980s as “a further shift away from the industrial deepening strategy” (p. 269) in Turkey, and this era was reflected to the north by the gradual closing down of the “Industrial Holding” between late 1980s and early 1990s. The real growth rates for the years 1978-2016 denote the discrepancy between the trade and industry sectors after 1980s and all the way into the 1990s during which both sectors had sluggish growth rates. See Figure 4.1 and Figure 4.2.

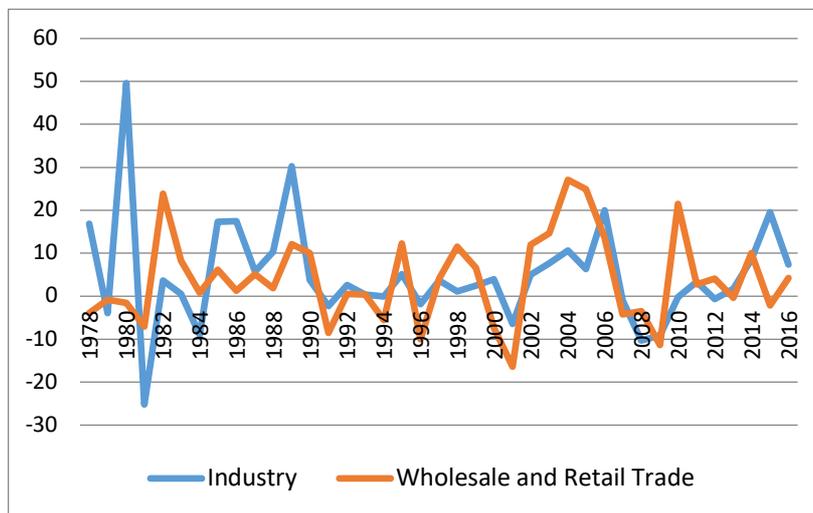


Figure 4.1 North - Real Growth Rates of Sectoral Value Added (%).  
Source: TRNC-SPO, 2017, Macroeconomic indicators.

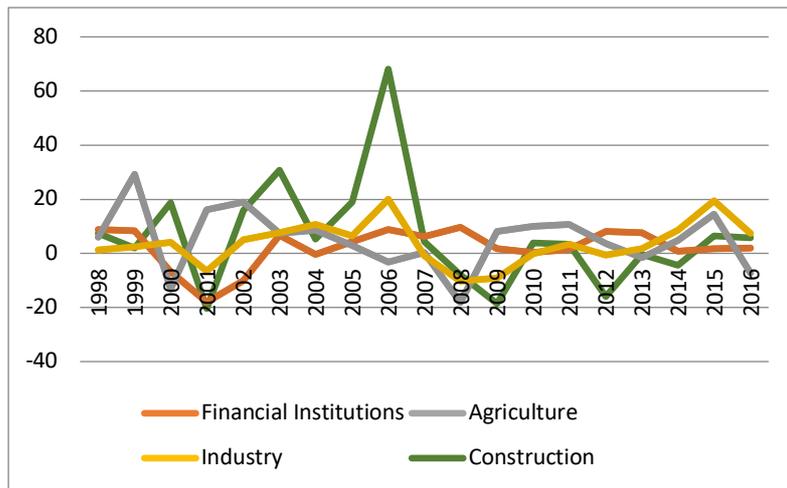


Figure 4.2 North - Real Growth Rates of Sectoral Value Added.  
Source TRNC-SPO, 2017 Macroeconomic Indicators.

When the bizonal, bicomunal federal model became the UN norm in 1990, the SEEs in TRNC were already at the brink of bankruptcy, hence the TC State was regarded as a “weak” partner for the “future” federal state. The Industrial Holding was the main pillar of the TC economy since 1975, which was established by the factories and installations left behind by the Greek Cypriots after the 1974 intervention in the north and it was under criticism for generating nepotism, for being over-employed and being inefficient. Despite the emphasis on the inefficiency of the Holding, the real growth rate of the Industry sector in the north was among its highest prior to its so-called “bankruptcy”, since it peaked in 1979 before the military *coup* took place in 1980. After the Industrial Holding closed its doors, the industrial sector had sluggish growth rates, until the onset of the Annan Plan and the “potential” it offered for a federal settlement energized the construction and real estate sectors by the mid-2000s.

Özal’s efforts to liberalize finance and orientate the TC economy towards trade, allowed the capital accumulation by the hand of the private sector with the investments of the Polly Peck Group (PPG) under Asil Nadir between 1982 and 1991. According to Gallagher et al., although “Polly Peck acquired and set up businesses around the world. Central to the company's success during the 1980s were the ventures undertaken in Northern Cyprus.” (p. 4). Nadir’s growth revived the economy in the north and in Turkey, invigorating their trade during the 1980s as together they hold the 30% of the company’s revenues that were generated in the Eastern Mediterranean, and in Northern Cyprus the group was the largest employer with 8000 employees (Rani & Mishra,

2009). Polly Peck's unexpected recovery and growth was surprising for the big capital in Turkey that was struggling to internationalize and get the biggest share in Turkey and it resulted in tense relations between the so-called "princes" of Özal, the owners of big capital and the big media companies in Turkey. Özal supported the growth of Nadir's business which provided him a new alternative towards the opposition of the big media groups against him in Turkey, however although both the Turkish (Sönmez, 2010) and the TC governments supported the growth of Nadir's PPC, the power struggle between the big capital in Turkey and Nadir continued until the collapse of Nadir's business dynasty.

PPC grew into a joint venture with Vestel, that was one of the biggest manufacturers of consumer electronics based in Manisa, Turkey in 1984 and the British Firm Thorn-EMI. The Polly Peck Group gradually became a "global trading conglomerate" (Casciani, 2012) after the purchase of Sansui from Japanese and Profilo from Italians, and especially after making the Del Monte deal, the fresh fruits and vegetables business of RJR Nabisco Inc. from the US, which made Polly Peck a global giant in production.

Polly Peck's growth was met with suspicion and Nadir's "successes" caused deep controversies in UK politics; he was "demonized" by the UK press that was interested in unveiling Nadir's close relations with the Tory Government, resulting in the resigning of Northern Ireland Minister Michael Mates in 1993 over allegations with his close links with Asil Nadir. Moreover, there was a widely shared perception that the investments of Nadir in the north and in Turkey was not to the content of the British government (Uras, 2012), which alarmed the Serious Fraud Office to inspect the operations of Polly Peck. According to Gough (2013), the eclectic collection of businesses of the PPG, that brought the low-cost color TV to Turkey in 1984, ranging from trading, tourism, packaging, printed media, bottled water and electronics, were well chosen to "exploit" the political and economic conditions in Turkey and in TRNC. By the end of the decade, it was worth £2 Billion in the FTSE 100 list, however the company went bankrupt in 1991 after Nadir was not able to produce cash to resolve his company's financial crisis. The Vestel Company was bought by Zorlu Holding in Turkey the next year in 1994. Asil Nadir faced trials for charges of false accounting and theft and was sentenced to prison in Britain, which he fled from in 1993 to TRNC,

and then returned back in 2010 to face the charges and was sentenced to ten years in 2012.

Nadir in return supported Denктаş and his party UBP in the north during the 1980s, however Nadir was in TRNC during the Annan Plan Referenda and he called for a yes vote, blaming Denктаş for being the person who planted the seeds of the *status quo* regime on the island. The institutionalist approach, which regarded EU membership as an antidote for institutional failures, political clientelism and corruption in the north became popular specifically among the business circles after the 1980s. In 2003, prior to the Annan Referenda on the island, the TC ex-business tycoon, Asil Nadir claimed that as long as a business person is “talented” and “well informed about how the world is turning”, no embargo can stop him. Supporting the Annan Plan and the EU membership of the island under a federal state, he was calling for the change of the Presidency in the north to solve the Cyprus problem, claiming that the deadlock was due to the incompetent leaders (targeting Denктаş), and ineffective institutions in the north. He argued that these two factors hindered the economic development of TRNC by “haunting” people with the fear of not being able to get their wages without Turkey’s financial support. In this line of thinking, there was no need for a fear of institutional failure if we let “market” and “personal dexterities” to “correct” the failures and stop the downturn of the economy. In an interview made with Asil Nadir before the Annan Referenda, he argued that his success in the 1980s was the outcome of his political determination and know-how;

“Weren’t there embargos back then? (pointing to the period between 1980-1990, when his company’s shares sky rocketed) Surely there was, and they were even harsher than today. But what difference does it make? As long as there are dexterities, information about the world and people who have the wisdom of how the world turns are on our side, nothing would have stopped us. That’s why we didn’t face any hindrances back then.” (Kıbrıs Postası, 2013).

Özal was concerned with the protraction of the Cyprus problem and he regarded it as a major hindrance on Turkey’s path to economic growth and EU membership, hence decided to use his personal relations to overcome the “obstacles” regarding a settlement. In 1991 he tried to arrange a meeting with the TC and the GC leaders together with the support of the US President Bush. Although it was the GC side who rejected to take part in the meeting, Denктаş insisted to be referred to as the

“president” of TRNC. This made Özal angry and he publicly expressed his frustration with Denктаş’s behavior in an interview, which emphasized on Turkey’s aid to the north and its costs on Turkey;

“The Turkish Cypriots can prefer what they like, but we have made great sacrifices and are continuing to do so. They should appreciate the value of this. More than \$200 million is spent on Cyprus every year. As long as Turkey goes on doing this, and to a large extent this will go on, one way or another a solution absolutely must be found. This issue is standing in Turkey’s way; this issue is a major obstacle to Turkey’s growth. I say this without hesitation; I have told Denктаş to his face.” (Dodd, 2010: p. 169).

Despite the discordance between Özal and Denктаş, the support of the bureaucratic fractions of Turkey to Denктаş continued and the TC Leader’s power kept growing in the north. According to Hasgüler (1995), the support for Denктаş by Turkey during the 1990 Parliamentary Elections in the north not only changed the course of the election in favour of Denктаş, crashing both the opposition within the parliament and within his party UBP, but also consolidated Denктаş’s power for the future elections as well. Özker Özgür (1992) argued that just before the elections Mümtaz Soysal and a group of other pro-Denктаş bureaucrats appeared on the state channel – TRT, declaring Turkey’s support for Denктаş publicly. Denктаş was a right-wing politician pursuing Turkish nationalism, however the left-wing bureaucracy in Turkey openly supported him *vis-à-vis* both the opposition in the north. As a result, TRNC was almost a one-party state as UBP had 45 seats in the 50 seated TC Parliament following the 1990 General and 1991 Interim Elections.

Despite UBP’s success in the elections, there was a growing power struggle within the party between PM Erođlu and President Denктаş to take control of the executive positions. According to Tokel (2015), Denктаş wanted to keep Erođlu’s growing influence in the party under control and wanted to curb it by appointing his son Serdar Denктаş as the General Secretary of UBP, to which Erođlu responded by abolishing this position all together and turning it into an ordinary vice presidency position. Tokel argued that this led to a split within the party and nine pro-Denктаş leading members resigned and established the Democrat Party (DP) in 30<sup>th</sup> July, 1992, later joined by three MPs of the SDP and YDP, which made it the main opposition party with twelve MPs. Growing political unrest led Erođlu to set the early elections for December 1993 which ended up with a close-call between UBP and DP. Denктаş declared that the reason behind the strife with Erođlu was Erođlu’s decision for early

elections. Although UBP was the leading party, Denktaş assigned DP to establish the government and a coalition government was established with CTP, Özker Özgür becoming the Deputy-PM in the new government from the 1<sup>st</sup> of January 1994 to 11 December 1995. For the first time since its establishment UBP became the opposition party in the TC Parliament and Denktaş's political maneuver split UBP, yet, it consolidated his power.

The coalition government made attempts to get rid of the inflationary effect of the TL after its devaluation in 1994, and establish an effective control mechanism together with an accounting unit that would be in charge. However, according to Özgür, there was strong opposition from the Turkey's Embassy on the ground that this was an attempt to demonetise TL, and the TC PM at the time was a moderate person who couldn't insist as he didn't want to have tense relations with Ankara. Still, a group of politicians and bureaucrats went to Ankara to negotiate with the Çiller Government and talked with the Minister of Industry and Commerce, who was also responsible for the relations with TRNC. Özker argued that the Minister seemed convinced on the adverse effects of the devaluation and advised the TC committee to put it into effect and said "or bureaucrats now nothing but to push things uphill", however they were not able to do so due to the bureaucratic obstacles in the north, not due to opposition from Turkey (Özgür, 2004).

While the attempts to prevent the losses due to the devaluation of the TL failed during the 1990s, the Turkish governments decisively made regulatory arrangements for the liberalization of the banking sector in the north. Eventually, the TC economy embraced a mixed economic model composed of a large public sector, together with the liberalization of the financial system and the trade regime between 1983-1995. This mixed economic model, which "brought together the challenges and the contradictions of the 'combined' development and social formation (p. 60)" (Allinson & Anievas, 2009), aimed a quick adaptation to global capitalism via Turkey. Özal was determined to enforce a set of structural reforms with an IMF-like regimen on the TC economy, hence together with the liberalization of the money and exchange/trade regime, and with the devaluation of TL in 1994, and no balancing mechanisms in the north, these constituted the basis of a severe banking crisis in 1999.

## 4.2 The Road to the Financial Crisis in the North (1990-1999)

The rise of an authoritarian regime in Turkey after the 1980s grew in parallel to the neoliberal transformation of the Turkish state and society. This new state of affairs in Turkey gradually redirected the TRNC economy towards a neoliberal path by the 1990s, via the structural adjustment programs that became a global trend starting from the late 1970s onwards. Actually, the TRNC was born into the neoliberal epoch however, the transformation process was “publicized” in the north only by the mid-1990s, after the inauguration of the Customs Union agenda of Turkey which forced the TRNC economy to make a sprint towards catching-up with the “logic of the market”, linking the neoliberal agenda to the legislative harmonization packages with the EU. This process was promoted by the Turkish governments as a “cure” to put an end to the so-called “statist logic” in the 1980s and 1990s, and later as an upsurge against the “tyrant state” (Okuyan, 2001) in Turkey. The new agenda was presented to the TRNC by Turkey as a remedy that would put an end to the so-called “bureaucratic lethargy” within the TRNC State as well, however it rather deepened the forms of “rent-seeking” (Krueger, 1974; Tullock, 2013)<sup>38</sup> behavior of the TC State through the neoliberal accumulation strategies via the privatization process by the 2000s. TRNC institutions and economy were caught up impromptu to this new stage of capitalist development, which resulted in rising forms of dependency on the financial aid from Turkey. On the other hand, the so-called dependency relation between Turkey and TRNC acted rather as an agent of combined development, determining not only the form of its economic structure but also the functions of the social formation in the north. The more the TRNC economy tried to overcome the political isolation and geopolitical challenges caused by the Cyprus Problem by the financial aid from Turkey, the more it was wedged between the crises of the Turkish economy and fluctuations of the TL. By the late 1990s, Turkey’s direct financial aid and credits provided for the development of the public and private sectors became a crucial part of TRNC’s current account deficit.

TRNC economy was stuck between a dual structure; on the one hand it adhered to the neoliberal agenda via Turkey, and on the other hand, it was still an agricultural

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<sup>38</sup> According to Tullock, in its narrow meaning, rent-seeking is “the use of resources in actually lowering total product although benefiting some minority”

economy yet a large number of the workforce was composed of civil servants and employment in the service sector (78.7% of GDP in 2010); trade-tourism, transport-communication, financial institutions, ownership of dwellings, business and personal services, public services and import duties (TRNC Ministry of Economy, 2012).

It can be argued that this dual structure of the TC economy, which on the one hand was a state-led economy and on the other hand kick-started the financialization of its economy by the late 1980s and 1990s, led to the development of a unique economic structure in the north. While TCC had to “skip over the intermediate steps of the capitalist development” (Trotsky, 2008) first as a result of the RoC experience between 1960-1963 and secondly after the military intervention of Turkey in 1974 followed by the establishment of the TFSC and the TC SEEs, that were critical junctures in the TC historical formation.

Nevertheless, the GC economy, that held the control over the means of production on the island after 1963 had the so-called “comparative advantage” over the TC economy even prior to 1960, successfully and gradually adapted a Western type of welfare state regime after the break-up in 1963. Shekeris (1998) placed the Cyprus economy of the 1990s among the “conservative corporatist welfare states”, and also as an “exception” in Europe. According to Shekeris while many “welfare states” in Western Europe tended to limit their social expenditures, Cyprus was expanding the scope of its expenditure. Shekeris (1998) argued that Cyprus was not “dominated by the logic of the market”, “whereas the state is moving towards establishing a balance between public/private provision of forms of welfare.” (p. 126). The TRNC economy was neither able to compete with the fast recovery of the developing GC economy and its welfare model, nor with the “geared-up” neoliberal agenda of the Turkish capitalism after the 1990s. The resulting gap between the economies of the south and the north was huge (TEPAV, 2012; Günçavdı & Küçükçiftçi, 2009, Pelagidis et al., 2008). Cyprus became an island, where the conditions of uneven and combined development, aggravated by ethnic cleavages between two communities, pegged the Cyprus issue as an intractable problem in the region.

From 1980s onwards, the GC Government took measures for the advancement of the services sector, mainly tourism, shipping and financial services, and the industrial sector, which led to an increase in the real GDP in an annual average of 6.8%

between 1985-1990, and in 1991 the WB removed the GC economy from its list of developing countries (Day, 2003). It should be noted that the real GDP growth in the north within the same period was slightly above the GC growth; with an average of 6.95 per cent between 1985-1990, however in 1991 it was down to -5.5 per cent. The GC governments were tuned to the EU membership process by the mid 1990s, meanwhile, the TC economy was heavily influenced by the downturn of the Turkish economy, which was further distressed when the US began its military operations for the invasion of Iraq as the UN embargo on Iraq caused heavy losses by Turkey, in the form of budget deficit, high inflation and floating exchange rate fluctuations.

Although the GC economy appeared to be a welfare champion in the region throughout the 1990s, the combined development of capitalism on the “politically” divided island weakened both economies amid the systemic and financial crises of the 2000s. The island economy was not only suffering the consequences of being divided, but it was also under the pressure of the demise of the Bretton Woods System by the late 1960s, which according to Soederberg (2005) led both the capital accumulation patterns and corresponding state forms entering into crisis, causing the separation of the real economy from finance. Soederberg argued that, the predominance of money capital in the post BWS “had the effect of making the sphere of production more sensitive and vulnerable to the systemic volatility of the world economy caused by financial speculation.” (p. 168). In this regard, the island economy started to share a common “fragility” by the sudden rise of financial liberalization after the 1980s. According to Phylaktis (2016), it was the island’s vulnerability to “external shocks due to heavy reliance on international trade and the limited monetary policies at the respective Central Banks’ disposal, the lack of control over the co-operative credits, and the inflexibility of the fiscal policy.” (p. 67). which all limited the CBs’ capacity to maintain price stability.

During the 1980s and 1990s, the small-scale economy of Cyprus was bolstered by offshore banking and tourism sectors, however it was exposed and vulnerable to external shocks primarily as a result of TRNC officially adopting the Turkish Lira in 1983, and RoC entering the Eurozone in 2008. In this regard it could be argued that although there is growing literature on the “economic” benefits of a unified island (Faustmann et al., 2012; Gürel et al., 2013; Gürel & Le Cornu 2014; Faustmann, 2015;

Kahveci, 2018), a “future” federal state would also inherit the weaknesses and instabilities of the respective national economies that were unable to cope with the neoliberal foray of the “free markets” after the 1990s and 2000s. It should be noted that the national economies, which were quite distinct from each other on the institutional level and in terms of their decision-making processes, demonstrate the regionally uneven “impact and evolution” of the neoliberal development. The GC experience was quite different from the TC experience in the sense that the GC economy succeeded in using its so-called economic “comparative advantage” to establish a welfare state system and a democratic governance model after the separation in 1963 and the division in 1974, which placed the GC economy among the “best practices” of the Eurozone until the outbreak of the financial crisis in 2013.

The deepening of the neoliberal practice gained momentum in the north in parallel to the rise of the gambling sector by the 1990s, coupled by privatizations, the shrinking of the public sector, wage cuts, and the destabilization of the labour market. A politician interviewee argued that until the 1990s the Turkish entrepreneurs who wanted to make business in TRNC had to ensure their credibility and needed authorization from the Turkish governments and from the security forces in the north. However, after the 1990s things started to change on the island and the casino sector in Turkey closed down its doors and was directed to north instead. The offshore banking in the north provided the suitable environment for the gambling sector to grow and finance itself without being subject to tight controls. After 1990s, casinos became one of the major pillars of the TRNC economy and its sole competitive sector against the GC economy as there were no casinos in the south due to the pressure from the GC Church. Hence no economic rivalry occurred between the north and the south in this regard until the GC government signed agreements with the companies to open casinos in the south in 2017. This trend continued in the 2000s; the Minister of the State and the Vice-PM of the AKP government, opened big hotel casino compounds in Kyrenia and Nicosia in 2009 and in 2010. One of the unionist interviewees drew attention to the dichotomy of the AKP governments, and argued that the party is oscillating between the neoliberal imperatives which praises the free markets, and political Islam, which forbids interest banking and gambling. He argued that the casino sector brought by illegal sectors such as sex trafficking to the north, which continued to operate by

the enslavement of the young, and often minor girls who got trapped in the system, being abused, tortured and killed in the hands of the mafia organizations, to which the governments turn a blind eye to.

A businessperson interviewee pointed to the growth of the informal economy, particularly ignited by the rising number of casinos and the informal sector associated to it, as one of the impediments for the growth of TRNC's real economy. He argued that the growth of the casino sector acted as an impediment for the growth of the real sector and regarded the export of the casino sector from Turkey to the TRNC as one of the crucial "mistakes" made by Turkey which was causing what he called a "cultural decay" in the north. On the other hand, he regarded the growth of the financial sector in the 1990s as a positive development for the TRNC economy to recover from the ruins of the long-termed isolation and stagnation. This perspective, which was against the casinos but supportive of the financial shell games and offshore banking in the north was widely embraced by the business classes and it was one of the major contradictions of capitalist development in the north. It was supportive of the growth of the financial sector as a "cure" for the revival of a stagnant economy, but was critical of the growth in the number of the casino hotel compounds in the north that were closely related to the financial expansion in the north after the late 1980s.

Despite the tendency to detach the growth of the financial and the casino sectors from each other, research suggested that they might have a correlation regarding the political environment and the economic mentality they flourish within, and require to survive, in parallel to each other. Arthur, Williams, and Delfabbro (2016) suggested that "empirically, gamblers, investors, and speculators have similar cognitive, motivational, and personality attributes, with this relationship being particularly strong for gambling and speculation." (p. 580). On the other hand, Sheng and Gu (2018) showed an inverted relation between the gaming industry and the other industrial sectors as it was displayed in the case of Macau, where the gaming market was established as the leading economic force soon after Macau was returned to China in 1998, becoming the world's largest gaming center. Between 1999-2016 Macau's GDP rose from USD 6.458 million up to USD 45.103 million, reflecting an annualized growth rate of 12%. However according to Sheng and Gu, Macau's "global success"

had downsides; “As the gaming industry boomed, other industrial sectors saw rapid contractions (p. 72)”.

Blum et al. (2002: 37) argued that the finance-growth nexus has become core issues in “macroeconomics spilling over into microeconomics” and they tried to answer three critical questions in this regard in the EU accession countries; 1. What is the direction of the finance-growth nexus, 2. which segment of the financial sector drives whatever nexus there is, and 3. what are the features of a growth supportive financial architecture. According to Blum et al., the case of Cyprus, where there were no casinos, show rather high financial intermediation ratios (domestic credits 184% of GDP) and stock market capitalisation (231% of GDP), influenced by its function as an offshore financial center.

According to Sweezy (1994), finance-real sector relation was not a dichotomy, to the opposite, the financial sector and the real sector had developed an inverted relation by the 1980s, quite different than the one they had prior to 1970s, during which “the financial expansion has gone hand-in-hand with prosperity in the real economy”<sup>39</sup>. Sweezy argued that by the mid-1990s the financial expansion relied not on a strong real economy, but instead on a stagnant one, and this was a key characteristic of the new trend in the world economy. In other words, the expansion of the financial instruments in a stagnant economy was actually an enabling factor rather than a hindering one for the capitalist development (Foster, 2007). Lavoie (2012) pointed that financialization is tightly linked to neoliberalism and globalization, and most obviously it means the deregulation of the financial sector. In this regard, the banking crisis in TRNC in late 1999 was the result of the rapid and uncontrolled growth of the financial sector after 1980s and the subsequent boom that followed in the absence of a mature financial system, i.e., without the enforcement of the regulatory banking law prior to the sudden expansion of the offshore banks in the 1990s. While TRNC was not even recognized as a case of neoliberalisation, the north was already in the midst of a severe financial crisis.

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<sup>39</sup> By coincidence, Sweezy’s article was “originally a lecture presented at a conference organized by the Association of Graduates of the Faculty of Economics of the University of Istanbul, Turkey, on April 21, 1994”.

A major wave of financialization and the rise of the informal economy was on its way to transform the economy in the 1990s. The banking sector had a major transformation as the offshore banking had a boom in the north after the offshore Banking Law was promulgated in 1990, which was followed by the moving of the casino sector from Turkey to the north. This period was also marked with rising terror and unrest in both societies, manifesting a new era that would rest upon increasing authoritarianism, economic instabilities and political uncertainties. The attacks towards the opposition as well as assassinations of the intellectuals and journalists created havoc and fear within both the Turkish and the TC societies. A number of opinion leaders, Muammer Aksoy, Çetin Emeç, Turan Dursun, Bahriye Üçok, Musa Anter and Uğur Mumcu were assassinated in Turkey within a short period of time. In 1996, a famous TC journalist Kutlu Adalı, who was Denктаş's private secretary between 1961-1972, was assassinated near to his house, known for his harsh criticism towards the "secret powers" in the north which he held responsible for the rise in the number of attacks on the TC opposition during the 1990s, and the robbery in the church of St. Barnabas in 1996. Similar to Hikmet and Gürkan's assassination in 1962, Adalı's assassination was regarded as a warning to the TCs not to dig deep into the state of affairs in the north. Apart from their political impact for suppressing the opposition, these attacks towards the intellectual leaders in the north and in Turkey partly masked the transformation of the economic agenda towards a neoliberal deal with the IMF and the EU, whose foundations were laid during the early 1990s.

Meanwhile, RoC was on its way towards EU membership; financial protocols were signed between Cyprus and the EU since 1974, similar to the ones between Turkey and the TC States, offering Cyprus EIB loans, low-interest loans and grants from the EEC's budgetary resources. When RoC signed the CU decision with the EC in 1987 and, applied for EU membership in July 1990, it was already amongst the most privileged associated countries. Between 1989 and 1993, during the Third Financial Protocol, RoC received ECU 44 million in EIB loans, ECU 13 million in low-interest loans and ECU 5 million in grants (Tatham, 2009). Meanwhile the only money transferred to the TCs under the Third Protocol was ECU 62 million for the sewage project in capital Nicosia under Mustafa Akıncı as the mayor in the TC side (Safty, 2011).

In 1992, the Commission expressed its concern that it was not possible to extend the four freedoms to Cyprus as long as the current state of affairs on the island continues and then concluded that a settlement was a precondition for accession (Hoffmeister, 2006). However, when Ghali's Set of Ideas failed in late 1992, President Denktaş accepted 92 of the 100 points in the document while the GC President Vasiliou rejected all of them (Çalık, 2019). Commission gave its opinion in 1993 by pointing to the importance of the continuation of the UN mediated talks and an "effective" solution by stating that "whatever the institutional balance" in the end will be, the resulting institutions should be able to "carry out their responsibilities both effectively and efficiently" (European Commission, 1993). In June 1994, the Council stated in the Corfu summit that Cyprus and Malta would be included in the next round of enlargement. The conclusions of the Presidency had an important impact on the ongoing intercommunal talks both in political and in economic terms, as it substantially raised the pressure over the TCC for a settlement. Moreover, while it set Cyprus's membership as a target for the GCs, it also marked the beginning of linkage politics between the EU membership of Turkey and the solution of the Cyprus problem.

Despite political strife within UBP and the frequent change of governments, as well as the dead-lock in the negotiations, the TC economy was on its track, as until 1995, it had a moderate volume of trade with some of the EU countries, mainly the UK, until the ECJ decision enforced a *de facto* embargo decision on the goods from the north with a TRNC stamp. Since RoC signed the 1973 Customs Union decision with the EEC, the TCC had direct trade towards the European countries with the "port of Famagusta" stamp. TRNC economy was largely supported by Turkey's aid and agricultural exports, however trade with the EEC countries was not only important for the economic benefits it brings to the north, but it was also critical for the development of the network of relations with the global economy. Some members of the EEC, mainly UK, continued to export agricultural products from the north with the Phytosanitary Certificate given by the KTTO after 1983. On 5 July 1994, ECJ ruling on the S. P. Anastasiou (Pissouri) Ltd. and others case (C432/92), deemed the food certificates issued by Northern Cyprus as invalid for the European Union. The ECJ ruled that the origin of certificate issued by TRNC, which was deemed as an

“unrecognized state”, was against the Origin Protocol (Talmon, 2001; *The Queen v Minister of Agriculture, 1994*)<sup>40</sup> hence the main importers from the TRNC such as the UK, and Germany and other EU members stopped importing Turkish Cypriot food products, including citrus, which was a major blow to the TC economy. According to Günsel, ECJ’s embargo decision on agricultural products was among the most important factors leading to the banking crisis in 1999. the downturn of trade had a negative effect on the ability of traders to pay their debts and on the borrowers to repay their loans, eventually causing a huge discrepancy in the bank’s balance sheets (Günsel, 2007).

Before the TRNC economy had time to recover the decision, the Custom Union Decision was signed between Turkey and the EU in 1995 and came into force gradually after 1<sup>st</sup> of January 1996. The Customs Union decision “prohibits agreements between undertakings which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the internal market.” (Communication from the European Commission, 2014: para. 1). This process engraved the impact of the “de facto” economic embargo decision by the ECJ on the TC economy, by putting TRNC to the third country position according to the Customs Tariff of the Community (Talmon, 2001)<sup>41</sup>. The continuity of a minimum amount of trade with the EU countries turned out to be a vital issue once the Customs Union was put into effect which brought the TRNC economy at a crossroads. Although the volume of trade between Turkey and TRNC was not disturbed, the TC market was narrowed down and the TC economy became increasingly dependent on the Turkish market.

Turkey continued to import from the TRNC with zero customs pay, as the volume of trade from TRNC to Turkey was such a small amount that didn’t disrupt the

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<sup>40</sup>See Talmon, 2001, p.730; “The concept of origin is defined in the 1977 Protocol concerning the definition of the concept of ‘originating products’ and methods of administrative cooperation (‘Origin Protocol’),16 Article 6(1) of which requires that evidence of the originating status of products is given by EUR.1 movement certificates which are to be issued by the ‘customs authorities of the exporting State’ (Articles 7(1) and 8(1))”.

<sup>41</sup> See Talmon 2001, pp. 736-737. “Although the Court did not formally impose an ‘embargo’ on goods from northern Cyprus (as it has been widely contended), its ruling virtually closed the European Community market to goods from northern Cyprus: without a valid EUR.1 movement certificate, furnishing evidence of their Cypriot origin, Turkish Cypriot goods could still be imported into the Community but were treated as goods from a country not associated with the European Community, thus exposing them to import duties ranging from 3 per cent to 32 per cent.”

Customs Union principle<sup>42</sup>, however the decision had far reaching political consequences both for the TRNC and for Turkey. The Agreement weakened TRNC's position as a trade partner for Turkey, however as Eralp (2000) pointed that the Turkish governing elite were geared to a close "linkage" between the customs union relationship and full membership, it may be argued that this linkage politics resulted in signing of the CU decision despite Denктаş's opposition. The Çiller Government was in power at the time, which was a coalition government of the right and left-wing parties of DYP and SHP. In 1994 Turkey had a serious "currency crisis"; on the 5<sup>th</sup> of April 1994, PM Tansu Çiller announced the "bitter recipe" for the Turkish economy, which resulted in the 6 per cent decrease in output, rise of inflation to three-digit levels, the Central Bank losing half of its reserves, and the depreciation of the exchange rate by more than half in the first three months (Celasun, 1998). In July, 1994 Turkey signed an agreement with the IMF for US\$ 866. The downturn of the economy led to the change of government in 1995 General Elections in Turkey, in which for the first time an Islamic party, RP (Refah Partisi-Welfare Party) which adopted an anti-EU narrative, won the elections (21.38%) in Turkey and formed a new coalition government with Çiller's DYP.

Despite the Çiller Government's willingness to sign it, the Customs Union decision received little popular support in the north. The business chambers in the north and Denктаş reacted to Turkey's decision to sign it and the tension was reflected to their relations with the Çiller Government. The TC economy was already under the restrictions of the *de facto* embargo decision of the ECJ and although the goods to be imported from TRNC wasn't subjected to an official embargo by the EU members, ECJ's decision rendered the trading of goods produced in the north to the EU as economically unfeasible. According to Aran, the goods without a EUR1 certificate of circulation were to be treated as goods from the third countries and hence taxed by the EU in a ratio between 3% and 32%, the textiles companies that were not able to get the certificate had to shut down and moreover the agricultural products without a

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<sup>42</sup> De Minimis Notice: Exemption for agreements of minor importance. Notice defines, with the help of market share thresholds, what is not an appreciable restriction of competition under Article 101 of the Treaty on the Functioning of the European Union (TFEU) (ex-Article 81(1) of the Treaty Establishing the European Community). <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM%3A126072>.

phytosanitary certificate were not able to be exported (Aran, 2006). According to Talmon (2001), as a result of the decision by ECJ, the textile sector collapsed and small-scale enterprises, which were not able to get the certificate of circulation, had to shut down their businesses. One of the businessman interviewees whose family used to own one of the bankrupted textile firms at the time, argued that the reason for the economy's downturn after the ECJ's decision was the "status quo regime" in the North and in Turkey, that was pushing "no-solution" as the best solution to both communities.

One of the businessperson interviewees claimed that the critical juncture, which consolidated TRNC economic dependency to Turkey, was the ECJ's decision in 1994, 432/92, banning the exports of TRNC which didn't hold the certificate of approval stamped by the Greek Cypriot authorities, reaffirming the south as the sole authority on the island. The community started a *de facto* economic embargo to the north, and according to Talmon (2001), by banning the direct importation of Turkish Cypriot products or taxing them out of the European market on the basis of the non-recognition of the TRNC, the ECJ misjudged the scope and consequences of the principle of non-recognition in international law and, in fact, "a measure that should be reserved for the political bodies." (p. 727). Following ECJ's decision, TRNC economy fell in distress. From that moment onwards, the goods that were produced in the north could only be exported via the Mersin port in Turkey which increased the freight costs and hence the prices rendering north's trade inefficient, costly and uncompetitive. After mid-1990s, although Turkey continued to provide aid to the north in the form of grants and credits, it also started to export to the north more than the amount of the aid given, which led to high numbers of foreign trade deficit in the TRNC's economy.

On the 28<sup>th</sup> of December 1995 Denktaş and Demirel signed a twelve-point declaration, denouncing EU's provisions on Cyprus. The declaration aimed to ensure to the TC leadership the utmost political and economic assurances for the continuation of Turkey's support. Despite Demirel's attempt for calming down Denktaş who gave a strong reaction towards the CU decision signed between Ankara and Brussels, Demirel was already aware of the outcome of an EU-Turkey CU rapprochement as early as 1995 and declared that they were "working on the legislative harmonization

of the TRNC with *the aquis* ‘in case’ the GCs were accepted to the EU” (Cumhuriyet, 1995a). It should be noted that the Demirel-Denktaş declaration came only four days after the early elections were held in Turkey on the 24<sup>th</sup> of December, and the political parties were busy with making political bargaining with each other for establishing a coalition government. Bülent Ecevit, who was the leader of DSP at the time, announced that he called and congratulated President Demirel for the joint declaration with Denktaş. Although Denktaş was not successful in preventing the signing of the CU decision, he nevertheless guaranteed the continuation of Turkey’s financial support, which began to raise after 1995 (Figure 4.3).

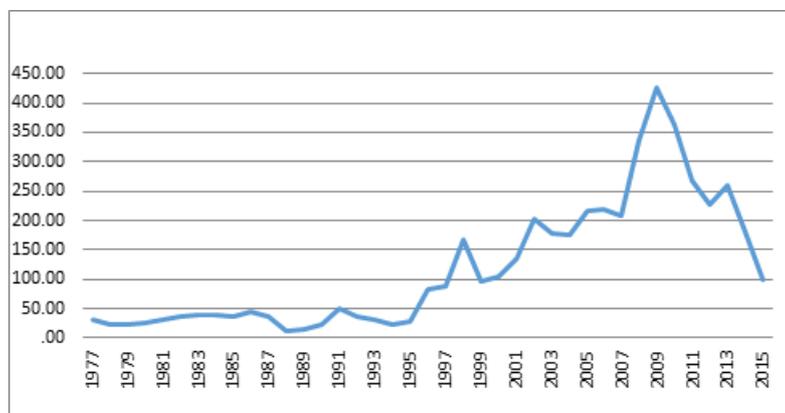


Figure 4.3 Turkey’s Aid and Credits to the North 1977-2015.  
Source: TRNC – SPO, 2016 Macroeconomic Indicators.

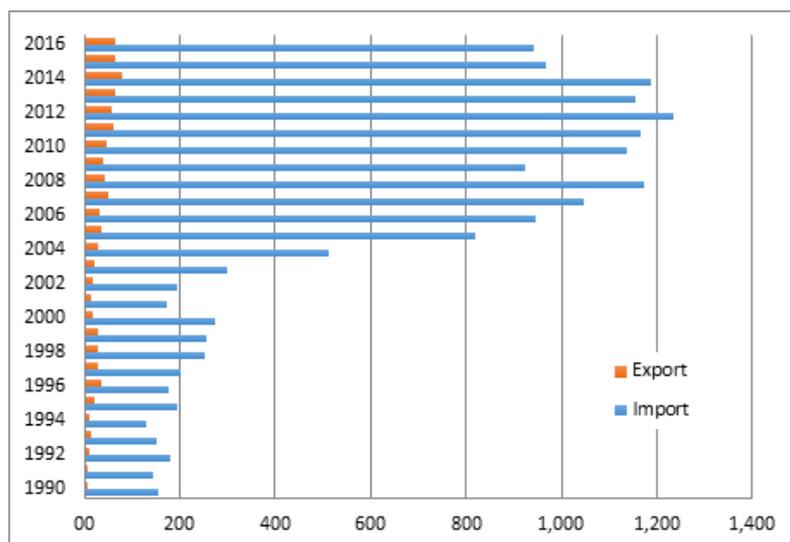


Figure 4.4 North - Foreign Trade with Turkey 1990-2016.  
Source: TRNC-SPO, 2017 Macroeconomic Indicators.

Furthermore, Turkey signed an offshore trade agreement with the TRNC in 30<sup>th</sup> of January 1995, nevertheless it had limited impact on the overall revival of the TC economy, when compared to the offshore banking boom in the north that started after the offshore Banking Law promulgated in the Official Gazette on 26<sup>th</sup> of October 1990. TRNC trade was destined to the Turkish market and it became increasingly dependent on the direct financial aid from Turkey; the amount of direct aid and credits from Turkey nearly tripled from US\$ 28.4 million in 1995, to US\$ 82.8 million in 1996 (Figure 4.3 and Figure 4.4), accompanied by the rise in the budget deficit from US\$ 29.4 million in 1994, to US\$ 83.7 million in 1995 (Figure 4.5).

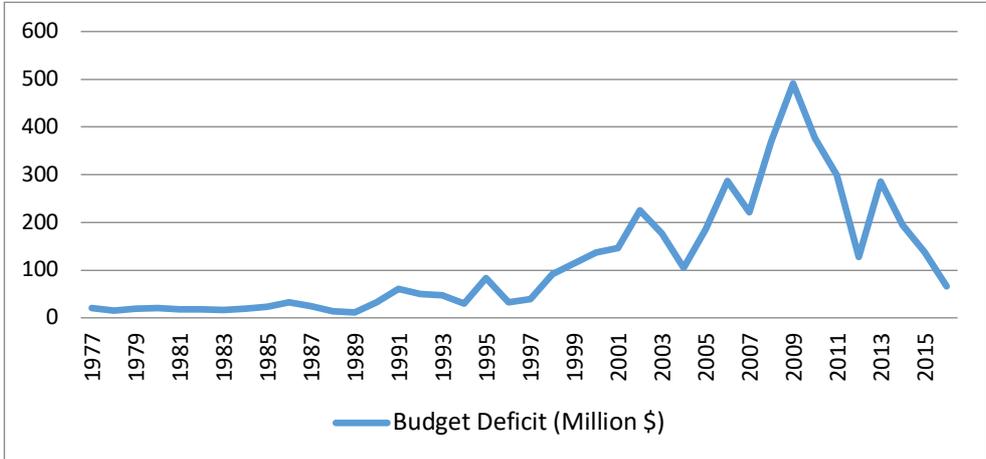


Figure 4.5 North - Budget Deficit.  
 Source: TRNC-SPO, 2017 Macroeconomic Indicators.

While Turkey tried to compensate TC economy’s potential losses from the Customs Union decision by an increase in direct aid and offshore trade, these measures eventually led to rising trade deficit and balance of payment problems for the north. On the other hand, there were mainly two different accounts on the reasons of the increase in TRNC’s budget deficit; while the first account focused on the internal weaknesses of the TC economy, the second account pointed to the negative effects caused by the hauling of the Cyprus Problem. Şafaklı (2005: 186) argued that the basic reasons behind the high numbers of budget deficit were mainly caused by low per capita income, high inflation rate, trade deficit, employment policy, social security system, change in public expenditures, change in government revenues, huge amount

of unreported economy, inefficient budgetary discipline and very low tax burden when compared especially with European Countries. On the other hand, Ege (2002: 142) pointed that the lack of a political settlement of the Cyprus Problem is another important factor adding to the disadvantaged position of the TRNC, besides economic reasons such as embargos imposed by the western countries, insufficient resources and economic instabilities. While the TRNC economy became increasingly dependent on the Turkish economy and became prone to global financial crisis via the fluctuations of the TL, by 1995, GCs had already made huge progress towards EU membership. According to Gaudissart (1996), “in 1990 Cyprus enjoyed one of the most advanced relationships between an associated country and the Community; Accession appeared, logically, as the next step in the EEC-Cyprus relations.” (p. 20).

Despite the onset of the neoliberal agenda in Turkey after 1980s, the main concern of the bureaucratic and military fractions was to preserve the “national case” and subsidize TRNC’s existence vis-à-vis the RoC, hence until the mid 1990s, the Turkish governments were not able to take major transformative steps towards the shrinking of the public sector in the north. Customs Union decision broke this path, because it was signed albeit its “*ex ante*” adverse effects on the TC economy, which further inhibited the strengthening of a market economy in the TRNC by weakening production and limiting the trade capacity of the north. Whilst the continuation of the aid and the trade between TRNC and Turkey, and certain EU countries such as Germany, Holland and UK, the capacity dramatically decreased due to bureaucratic drawbacks and high costs of production and trade. The exports fell from \$51 million in 1990 to \$27.7 million in 1996, to \$12.7 million in 2002, to \$17.2 million in 2008 and to \$10.7 million in 2016 (TRNC-SPO, 2017) (Figure 4.6).

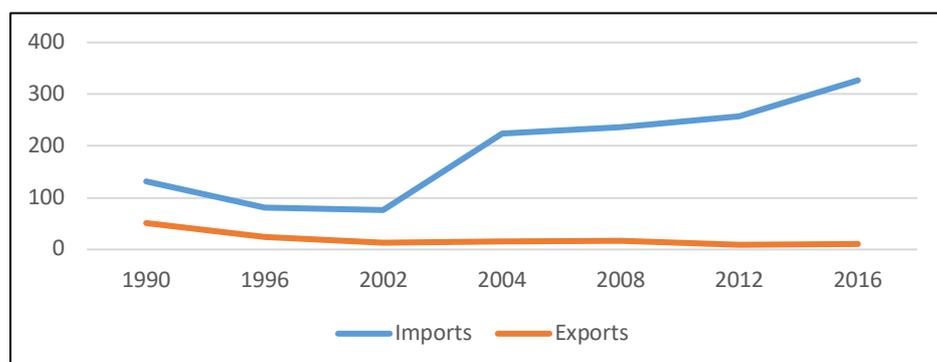


Figure 4.6 North - Foreign Trade with EU Countries.

Source: TRNC-SPO, 2017 Macroeconomic Indicators.

By the mid-1990s the trade of industrial products started to decline and the agricultural products were limited to citrus and potato while the livestock trade vanished almost completely. Despite there was a parallel decline in imports from the EU countries after 1995, the volume of imports from the EU countries began to rise after 2002 in contrast to the continuous decline in exports; the imports were worth \$131.1 million in 1990, fell to \$81 million in 1996, \$76,2 million in 2002 however rose to \$224.4 million in 2004 to \$236.3 million in 2008, \$247 million in 2012 and \$326.8 million in 2016. This contrast between exports and imports manifests the impact of the EU membership process in the north, creating an unbalanced and uneven trade structure in favour of the EU and Turkey (Figure 4.7).

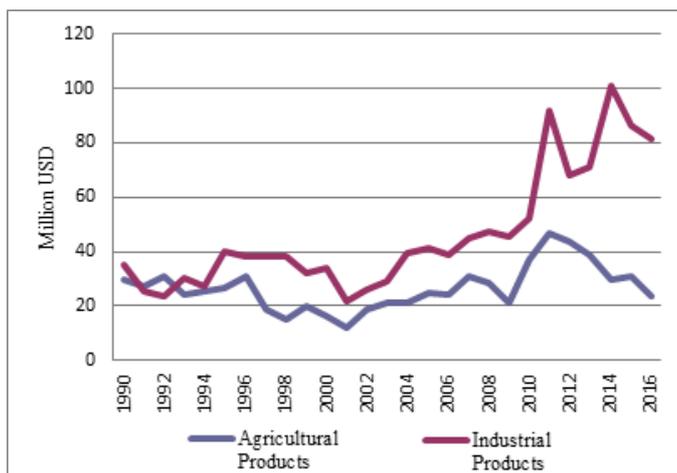


Figure 4.7 North - Trade Structure (1990-2016).

Source: TRNC-SPO, 2017 Macroeconomic Indicators.

Although the CU decision caused a rift between the TC and the Turkish governments, and deepened the gap between the TC and GC economies, the process revealed the “bargaining power” of the TC President Denктаş, regarding the fact that Turkey had to accept a greater degree of financial support for the TRNC in return for the signing of the CU decision with the EU. The National Security Council (MGK- Milli Güvenlik Konseyi) already “warned” the Çiller Government for discarding the Cyprus issue for the sake of the CU decision with the EU and following a “concessionist policy on Cyprus” (Cumhuriyet, 1995b). Moreover, the then TRNC PM

Hakkı Atun was furious and openly refused to sign the Free Trade Agreement with Ankara, which was offered as a remedy for the upcoming CU agreement in early March, and returned it back for it referred to the north as “Cyprus” instead of “TRNC”. Atun declared that he warned Ankara that he would “tear-down and throw-off such a document”. The military fractions were openly supporting Denktaş’s stance against Çiller Government’s CU maneuvers, which gave Denktaş an upper hand against the Turkish government.

The Turkish Military, that played a key role in the establishment of the Republic of Turkey in 1923, and in the military 1974 intervention to Cyprus, was regarded as the most powerful institution in Turkey. The founders of the secular Turkish State, who once were high-ranked commanders/officers in the Ottoman Empire, fought the War of Independence not only against the Imperialism of the Entente Powers of the WW1, but also against the “deity” of the Caliphate in İstanbul. This gave the Turkish Military not only a say in politics in the post-State period, but also self-assigned it the role as the so-called “guardian” of both the secular Republic and the “national cause”. With this so-called “vested power” at hand, the military *coups* became a regular means for interrupting the government and the economic structures by actual force in 1960, 1971 and 1980, and building autocratic regimes to suppress the demands for democratic rights and freedoms, and also by using the media as a means to convey their “concerns and warnings” to the governments; first in 1997 and then by an e-coup in 2007, in which the former led to a change of government and the closing of the Welfare Party that was in power. Under the close scrutiny of the Turkish Military, the Turkish Governments were careful not to cross the so-called “red-lines”, which would jeopardize their terms in power, yet the 1995 General Elections were a critical juncture that marked the transformation of the military-civilian relationship in Turkey which would gradually weaken Turkish Military’s power vis-à-vis the political structure.

The 1995 General Elections gave Erbakan and the National Vision movement another opportunity to take part in the coalition government together with DYP under Çiller. Erbakan’s Welfare Party (WP) got the majority of the votes in the general elections; however, he wasn’t able to find a coalition partner until the political conundrum ended in 28<sup>th</sup> of June 1996 with a settlement between Çiller’s DYP and

WP. Soon after the coalition government was established, Prime Minister Erbakan visited TRNC, for the 22<sup>nd</sup> anniversary of the military intervention to Cyprus, where he was praised by Denktaş for his support to the 1974 military intervention as the coalition partner of the Ecevit Government. The Cyprus issue was regarded as the “national cause” for the National Vision movement since the 1950s and Erbakan was the vice PM during the military intervention to Cyprus in 1974 giving full support for the intervention, which gave Erbakan a honorary title as “the conqueror of Cyprus” by the nationalist front, a title which was devoted originally to PM Ecevit by the Turkish media at the time.

Not long after the coalition government between DYP and WP was established, the Turkish General Staff published in its web page the so-called “February 28 memorandum” in 1997, that was issued after the National Security Council Meeting as a warning against the rise of a “reactionary Islamic threat” in Turkey, alleged for aiming to overthrow the secular Republic (EuroNews, 2019). This “threat” was repeatedly presented as the main concern of the military since the Welfare Party (WP-Refahiyol Partisi) under Erbakan, won the major cities of İstanbul and Ankara besides 26 others in the local elections in 1994. The Turkish Military once again reminded its traditional “behind the scenes role” and its determination as the “guardian” of the secular republic by interrupting the coalition government. PM Erbakan was forced to sign the decisions and later resigned and retreated from the coalition government in June and Refahiyol Government was ousted. According to Sakallıoğlu (2008), the February 28 memorandum marked a “qualitative change”, between the “the military, the state and society” and the major political positions in Turkish politics could be comprehended only by making a reference to it. He argued that the military assumed an enlarged and heightened political role and the military bureaucracy started to involve in the daily affairs thereafter.

Erbakan’s dismissal from the government by a military intervention was regarded as a maneuver to safeguard the “secular republican values”, however it also coincided with Turkey’s commitment to the CU decision with the EU, which Erbakan was supporting only half-heartedly. Erbakan was the most important political figure for the Islamic movements and the leader of the National Vision movement in Turkey and he was known for his stance as a hardliner in Cyprus, as well as his rejection to

join the “Western Club” and the Customs Union. Erbakan was against the EU’s free trade idea and its financial institutions which supported the interest-based banking system since the 1970s. He was an adamant supporter of the national heavy industry movement for economic development, which was transferred to the TFSC after 1974, that was based on the idea of the ISI model for development of the 1960s and 1970s. While the military memorandum in 1997 targeted Islamic reactionary movements, Yılmaz (2017) argued that it provided the ground for the self-victimization of the political Islam movement *vis-à-vis* the so-called “*ceberrut laik devlet*”, the “tyrant secular state” of the Turkish Republic. Although the memorandum aspired to put an end to Islamic “fundamentalism”, the religious communities gradually restored their political power over the headscarf issue in the higher education after the e-coup and won the 2002 General Elections under Erdoğan’s AKP.

Although Erbakan’s new party, Felicity Party (FP- Saadet Partisi) participated the elections under a new leader, Recai Kutan, Erdoğan was successful to consolidate the WP’s voters under AKP and pushed the FP under the election threshold, to 2.49% in the 2002 General elections. Soon after Erdoğan became the PM in 2003, he reiterated his break with the National Vision movement in a historic statement by claiming that “We (AKP) took our national vision shirts off”, to which the then new leader of FP, Erbakan replied “What would you wear instead? The Bilderberg, the Rotary shirt...” (Çamlıbel, 2003: para. 2).

It was clear by 2003 that the cleavage between AKP and FP was beyond a fight over sharing the legacy of the “national vision movement”, but also a matter of alignment with the western “market order”. According to Balkan et al. (2015), the fault line between AKP and National Vision movement was rooted in the 1997 military memorandum which came at a time when EU membership was a priority for the Turkey’s bureaucratic elite and it disclosed a long-lasting neoliberal cleavage between the so-called reformers and the traditionalists within the FP.

Meanwhile, the so-called Anatolian Tigers, the the small/indigenous bourgeoisie in Anatolia composed of small business enterprises who were the traditional supporters of the national vision movement, became Islamic conglomerates. Growing in number and size in such a short period of time, their search for new markets was irreconcilable to Erbakan’s anti-West narrative and support for an Islamic practice

of interest-free/participation banking system. This divergence of interests within the Islamic bourgeoisie raised the Anataolian Tigers' aspiration to join the western markets especially after the CU agreement was signed in 1995. In this regard, the 1997 military memorandum provided a ground for the split within the "national vision" movement. Erdoğan clearly opposed Erbakan and linked his pro-market practices to the pro-EU narrative after his party came to power in 2002. This in turn signalled for AKP a decisive break with the "national vision" legacy and a commitment to the neoliberal agenda.

Meanwhile the Turkish Military was engaged in a war against the Kurdish separatist movement that used guerilla warfare tactics and terrorist attacks on the civilians and the military members in the eastern provinces of Turkey. The war in the eastern parts of Anatolia as well as the rise of tension between the GC and TC governments as well as Turkey and Greece in the Mediterranean, increased the military's the power to engage in foreign policy issues as well as its influence over the negotiation process by supporting the hard-liner politics of Denктаş. The UN-sponsored talks stopped in 1997, when Rauf Denктаş demanded prior recognition for TRNC. Moreover, Bülent Ecevit who was the Vice PM at the time, made a visit to TRNC the same year and warned the international community that Turkey's strategy in Cyprus had changed; "we regard the existence of TRNC as a must for Turkey's security" (Hürriyet, 1997: para. 2). The CU decision was signed between Turkey and the EU with an expectation to result in greater political integration between the parties in the future, however the Turkey-EU relations entered a tremulous period after the 1997 Luxemburg Summit. The Council which left Turkey out of the next wave of the EU enlargement, and embraced the former communist Eastern European countries as well as Cyprus, declaring its decision to start the accession negotiations with Hungary, Poland, Estonia, the Czech Republic, Slovenia and Cyprus by 1998.

In addition to rising tension, the decision by RoC to install the Russian S300 air defence missiles on the island caused a political standoff between RoC and Turkey, during which Turkey brought the confederation model back to the table as an option. On the 31<sup>th</sup> of August 1998, Denктаş and Turkish Foreign Minister İsmail Cem, speaking at a joint press conference forwarded his proposal to establish a confederation on the basis of two sovereign and equal states (Cyprus News Agency, 1998). Denктаş

stated that "the present situation will continue and our integration with Turkey will become a reality" (para. 2) if the proposal is not accepted and claimed that "federation is out now and confederation is the only thing left." (para. 6). Although Cem argued that the proposal for a confederation -with two different sovereign and equal states- has nothing to do with the issue of the Russian anti-aircraft missiles that the government of Cyprus intended to deploy as a "defensive" system against Turkey's military presence on the island, it was clearly about it. Cem even warned that Turkey will not allow the S300 missiles to be turned into a "bargaining issue" and added "the Greek/Greek Cypriot side will bear the entire responsibility of the negative developments that will arise as a result of this situation." (para. 11).

The Turkish Government's attitude was clearly opposed to espousing the linkage politics that was constantly raised up by the EU and Greece. The Clerides government refrained from turning this into a regional conflict and decided in December 1998 to send the S-300 missile systems to Crete. Later the G8 countries backed a new initiative made by the United Nations for fresh talks without preconditions between the community leaders in the autumn of 1999 (BBC, 1997) in order to decrease the tension on the island. Meanwhile, the GC government had already taken the necessary economic measures and political steps in line with its commitment to the EC membership target after 1992; Day (2003) pointed that the GC government first introduced the VAT and then linked the Cyprus pound to the "narrow band" of the EC's exchange rate mechanism (ERM) and it announced in 1999 that it welcomed the Euro as the future currency and more importantly, it maintained the existing parity of the Cyprus pound to Euro as C£1=€1.7086.

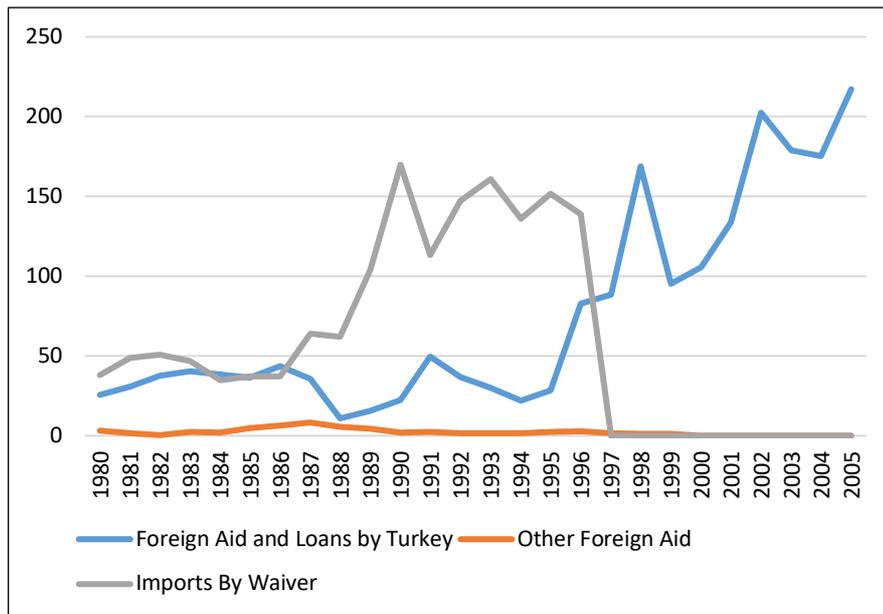


Figure 4.8 North - IBW and Other Short-Term Capital Movement.  
Source: TRNC – SPO, 2016 Macroeconomic Indicators.

While the GC Government took decisive steps towards integration with the EU and becoming the tax heaven of Europe, the TRNC economy was putting restrictions on the capital markets that would lead to balance of payments problems and a rise in the unregistered economy in the future; the income from imports by waiver (IBW), that was a major plus item within the capital movements account of TRNC together with the financial aid and credits by Turkey, was abolished after the promulgation of the Law on Money and Foreign Exchange in 1997<sup>43</sup> (Figure 4.8). Ege (2002) pointed that IBW was displaying the amount of trade which was made with foreign currency provided from the free market transactions within the north, and until 1997, it was an important source of revenue for maintaining the balance of payments, constituting nearly half of the imports of the TRNC. Amount of IBW in the north always exceeded the amount of Turkey’s financial aid, with the exception of the years of 1984 and 1986, where foreign aid and loans by Turkey only slightly surpassed IBW (Figure 4.8).

This aberrance in TRNC’s capital movements coincided with the 1984 Luxemburg and 1986 Lahey Summits taking place, during which the revival of the

<sup>43</sup> Note by the SPO of TRNC; “Due to the Money and Foreign Exchange Law dated 16th of July 1997 and numbered 38/97 Imports Waiver account is not considered as an income under capital movements of Balance of Payments since 1997”.

EEC-Turkey relations was discussed and Özal Government was looking for ways of reconciliation in political and in economic terms. High rates of inflation and balance of payments problems led the Özal Government to update the one-year standby agreement that was signed with the IMF in 1983 during the military rule that envisaged an additional one-year to the original 1980 agreement that approved 225 million SDRs (75 per cent of the quota) under similar conditionalities of the original agreement; in 1984 the agreement was updated for another 225 million SDRs (52 per cent of the quota) (Arconian, 2013). These agreements targeted liberalization of the foreign exchange regime and the devaluation of the exchange rate together with monetary contraction. However, although the structural reforms targeted growth by way of an export-led growth path instead of the ISI strategy for development, the IMF regimen rather led to a steady erosion of wage incomes and the depreciation of the domestic currency, with “extremely generous” export subsidies (Boratav & Yeldan, 2001).

Under IMF’s pressure, the Özal Government made a cut in the financial aid to the north, despite Denктаş’s reaction. From 1984 onwards, import-substitution policies were abandoned as the new government opened its economy to the operations of international market forces (Directorate of EU Affairs, 2020) in an effort to get prepared for Turkey’s application for full membership to the Community in 1987, nevertheless it was rejected in 1989. When the Demirel government signed a standby agreement with the IMF in 1994, the financial aid by Turkey to TRNC had a slight rise, from \$22.1 million in 1994 to made a jump from \$28.4 million in 1995, and in 1998, the year before the outbreak of the banking crisis, it was \$168.7 million (Figure 4.3 on page 133). The standby agreement signed with the IMF didn’t make a downward pressure on the amount of financial aid to TRNC after 1995, to the contrary it continued to raise until the crisis, as the 22 years of transition phase that was envisaged in the Additional Protocol was finalized (Directorate of EU Affairs 2019) and the CU decision was finally signed between Turkey and the EC, denoting a positive turn in the bilateral relations. This positive atmosphere was reflected to the north in the form of a rise in financial aid from Turkey, in which the close relationship between Denктаş and Demirel played a crucial role for the continuation and the rise in the amount of the financial aid as well.

Despite this positive trend in bilateral relations there was a continuous rise in TRNC's budget deficit, which was partly suppressed by the rise in the aid in 1996 and 1997, yet it jumped from \$38.7 million in 1997 to \$114.1 million in 1999, almost tripled before the crisis (Figure 4.5 on page 134). However, contrary to Turkey's expectations, the Luxemburg Summit that was held in December 12<sup>th</sup>, 1997 excluded Turkey from the enlargement process, which caused a shockwave in Ankara. Two years later, the Helsinki Summit in 1999 put Turkey back on track towards the EU membership agenda, which also resulted in a steady rise in Turkey's aid to TRNC despite the downturn of the Turkish economy in late 1999.

Another jump in foreign aid by Turkey to TRNC was in 2002, rising from \$133.7 million in 2001 to \$202.3 million at the onset of the Annan Plan, that was followed by a gradual rise in the amount of the aid until it reached the peak in 2009, \$425,3 million, at the time of the global financial crisis as demonstrated in Figure 4.3 on page 133. In this regard, it may be argued that the milestones in the Turkey/EEC-EU relations towards a rapprochement was generally coupled by a raise in aid to the north by Turkey, in an effort to counterbalance the TC economy, however, it was also affected, although indirectly, from the global financial crisis. The amount of the aid started falling down dramatically after 2013, from \$261.2 to \$72.9 million in 2016, when, as Arısan-Eralp (2017: 24) argued, the Turkey-EU relations started to rotate from an accession partner towards a strategic partner, that was increasingly emphasized particularly after the Gezi Park protests in 2013. However, as it will be discussed in Chapter Six, this was also regarded as a "taming" effort by Turkey towards the CTP coalition governments that were established after the 2013 General Election, to put into effect the association agreements.

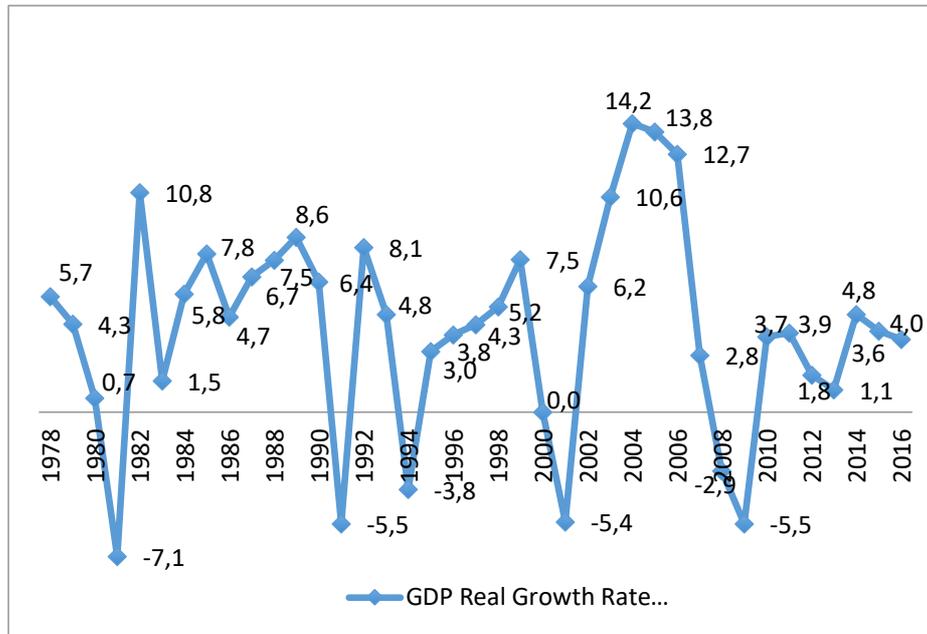


Figure 4.9 North - GDP Real Growth Rates.  
 Source: TRNC-SPO, 2017 Macroeconomic Indicators.

Accordingly, it can be argued that a positive turn in the Turkey-EU relations would result in an additional financial support for the north’s economy, while a halt in the Turkey-EU relations would result in a decrease in the financial aid from Turkey to the north. This linkage between Turkey’s “aid to TRNC” and Turkey’s “EU membership perspective” may lead us to the presumption that, regarding the deterioration of the Turkey-EU relations recently, the foreign aid and loans to TRNC would continue to diminish, if not stay steady, which would result in a rise of tension within the TCC by putting pressure over the workforce in the form of declining wages, deregulation of the labour market and infrastructural problems. This tension would either be reflected to tense relations between the TC and the Turkish governments, or result in a greater degree of compliance and integration of Turkey and TRNC, unless the Cyprus problem isn’t settled down on the basis of a bicomunal, bizonal federation model.

### 4.3 Crises and Change

1999 was a critical year for Turkey in the sense that in August a severe earthquake hit the Marmara region which worsened Turkey’s public debt problem and curtailed its growth. On the other hand, in December the same year Turkey was given the candidate country status in the Helsinki Summit. When the EU harmonization laws

started to put into effect in Turkey by 2003, the TRNC Economy was already under the “remote” influence of *the aquis* via the Turkey-EU CU Decision of 1995, specifically for competition and common trade areas<sup>44</sup>. TRNC economy started suffering from rising budget deficit by the end of 1990s (Figure 4.5 on page 134), which weakened its financial sector due to regional as well as global crises starting with the devaluation of TL in Turkey in 1994. This was followed by the crises in Asia and Argentina in 1997 and between 1999-2002.

Throughout the 1990s and way into the 2000s Turkish economy was hit by severe economic crises, defined as “twin crises” by Türel (2010), borrowing Kaminsky and Reinhart’s (1999) definition for describing the Asian Crises, which created political instability and led to changes of government. This period of economic and political instability led Turkey to take steps towards full Customs despite harsh criticism from Denктаş. The more the Turkish economy took steps towards integration with the EU economy, the more the TC trade was anchored to the Turkish economy (Figure 4.4 on page 133). TRNC lost its trade advantage and although it continued to trade with Turkey after the ECJ ruling and the CU agreement in the late 1990s, the TRNC economy entered into a deep financial and economic crisis period by 1999, following the bottleneck in the Turkish economy which surfaced after the 1997-1998 East Asian-Russian economic crises (Bedirhanoglu, 2009: 125). Cömert and Yeldan (2018: 3) argued that although the 1997-1998 crises had a certain role on the outbreak of the 1999 crisis in Turkey, it is very difficult to point out the roles of these events on the 1999 crisis, whereas the earthquake in August was certainly a determinant factor. On the other hand, the EU disciple economists argued that Turkey’s economy was already suffering from the “poorly operating” mechanisms for liberalisation; according to Macovei (2009), Turkey’s economy was weakened by the 1999 earthquake, however its economy suffered from the repeated crises in the 1990s due to its “inability” to support the liberalisation process of the 1980s by “sound”

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<sup>44</sup> “According to Decision No 1/95 of the Association Council, customs union not only covers abolition of customs duties and all other measures having equivalent effect and adoption of Common Customs Tariff of the Community, but also stipulates the abolition of all distortive mechanisms that results unfair advantage over the other party. In line with this approach, Turkey is obliged to approximate its laws to the EU *aquis* in competition, intellectual property and common trade policy areas as well as free movement of goods area.” Republic of Turkey, Ministry of Foreign Affairs, Directorate of EU Affairs, [https://www.ab.gov.tr/customs-union\\_46234\\_en.html](https://www.ab.gov.tr/customs-union_46234_en.html).

macroeconomic policies and regulatory and institutional reforms. From the “one size fits for all” neoliberal perspective, which would strictly avoid to pinpoint the roots of a systemic crisis that would sweep the Southern members’ economies within a decade, it was the national economies that was always doing “somethings” wrong.

The first crisis in Turkey during the 1990s occurred as a currency crisis in 1994 and was paced down by the tightening of monetary policy and signing a stand-by agreement with the IMF. The second one in 1999, which carried the financial turmoil way into the 2000s, also led to the signing of a stand-by agreement with the IMF. According to Türel, the Helsinki Summit decisions on the 10-11 December of the EU on Turkey and the signing of the letter of intent on the 9<sup>th</sup> of December was a striking example of the linkage between foreign policy and economic decisions (Türel, 2002). For Eralp (2000), it was no coincidence that Turkish candidacy was offered in a summit in which important decisions were taken in consolidating European security and defence which also necessitated a more co-operative relationship between Greece and Turkey. Although the Helsinki Summit gave Turkey the right amount of political leverage besides the revival of the “neighborhood spirit” and the willingness for co-operation between Greece and Turkey that surfaced after the Marmara earthquake, these were not sufficient to avoid the upcoming economic crises in TRNC and in Turkey.

When Ecevit became the PM of Turkey once more in 1999, twenty years after he resigned in 1979, TC leader Denктаş was still in power uninterruptedly in the north. Annan Plan I was initiated in Cyprus and the Helsinki Summit proclaimed Turkey as a candidate country in December. The IMF provided a financial assistance of 20.6\$ billions to Turkey in net terms between 1999 and 2002, and according to Yeldan (2002) this gave IMF the opportunity to be involved in the macro management of the Turkish economy both prior to and in the aftermath of the crisis. To put it in numbers, the current account deficit which was 1.3\$ billions in 1999, had erupted to reach 9.8\$ billions in 2000, the real gross domestic product (GDP) which has fallen by 5% in 1999, expanded at a rate of 7.4% in 2000; but drifted into negative rates of growth following the first quarter of 2001. Although the privatization schemes had always been in the core economic agenda of the post-1980 governments’ neoliberal “structural

adjustment” programs, Turkey made its major leaps in privatizations after the 2001 economic crisis (Öniş, 2011).

In February 2001, the Turkish Lira (TL) was devaluated by 50% overnight. The coalition government, composed of the Democratic Left Party (DSP-Demokratik Sol Parti) under Ecevit, the Nationalist Action Party (MHP-Milliyetçi Hareket Partisi) under Devlet Bahçeli and the centre-right Motherland Party (ANAP-Anavatan Partisi) under Mesut Yılmaz decided to enforce the IMF backed austerity program as a maneuver to suppress rising criticisms against the so called “bad conduct” of the economy and the wide spread political corruption scandals in the media. The political and the bureaucratic “elite” were held responsible for the political and economic stagnation and the crisis was defined as a governance crisis rather than a systemic one, as if the neoliberal injection to the economy by the IMF and WB via monetary and fiscal discipline was peculiar to the system. The vice-chair of the World Bank (WB) Kemal Derviş resigned from his post and was assigned as the Minister of State immediately in March 2001 by Turkish PM Bülent Ecevit.

The IMF involvement in the agile Turkish economy had serious political repercussions; the “national program” which was announced on April 14, 2001 openly stated that it would “... no longer be possible to go back to the old ways of decision making” (Yeldan, 2002: p. 3), in which the “old days” were regarded as days that were lacking “good governance”. Despite a series of cautionary steps to make the exchange-rate based stabilization program work and bring down the inflation rate, a severe financial crisis in 2001 ended the coalition government. The 2002 General Elections in Turkey gave the voters an opportunity to “punish” the mainstream political leaders of the time, who were held responsible for the low growth and high inflation rates, stagnant economy, rising unemployment, which led to the victory of the Justice and Development Party (AKP) in the 2002 November General Elections. By the 2000s, during which the AKP government came to power in single party governments, the Turkish State acquired, what Angın and Bedirhanoğlu (2012) called, a “merchant” character thereafter. This was followed by an incremental growth of the construction sector, which was one of the most important pillars of GDP growth in the post-2001 crisis period (Karatepe, 2013).

The political and economic developments in North Cyprus proceeded quite parallel to the deterioration of the economy and the state of affairs in Turkey. Since the 1980s, the political and economic embargos imposed by the international community to the north had its regressive repercussions not only on the problematic statehood process of the north but also curtailed its efforts to build up its own self-sufficient economy. After the ECJ rulings on TRNC exports in 1994 and the CU decision signed between Turkey and the EU in 1995, the fledgling TC industry sector subsided, the agricultural sector lost prospects for an increase in production and exports and the TC Chamber of Trade curtailed its future expectations to enhance the volume of trade. The TC trade bourgeoisie was aware that it was not able to compete with the mighty Turkish capital, which was increasing its investments in the north since the 1990s. Economic indicators pointed to a rapid financial deterioration of the TC economy towards the 2000s; according to the data provided by the TRNC State Planning Organization (TRNC SPO, 1977-2018: Table 3), while the real growth rate of the financial sector was 8.4% in 1999, as a result of the crisis this share sharply decreased to -18% in 2001. It was only by 2006 that the numbers returned to its 1999 levels, however it fell down to 1.7% in 2015 after a decade full of global/regional financial crises, which were never able to return to the relatively stable period before 2000s again, until 2018 (Figure 4.2 on page 117).

After the 1986 protocol was signed with Turkey, the rules and institutions for the governance of the free-market economy was brought into force gradually, although in a slower pace than it did in Turkey. The law on offshore banking services (48/1990) and regulations was promulgated and put into effect and by 1992 the banks in the north were let free to regulate their fx rates, with the hope to turn the north into a banking heaven. In 1996, the total assets of the TC Banks including the CB was 149% of the GDP, which was very high when compared to the banks in Turkey (Şafaklı & Altuner, 2009: 2591). However, the TC banking sector couldn't cope with this overload, and in a decade, it submerged into a deep banking crisis. Şafaklı (2002: 110) argued that the financial market, inflated and overcharged, wasn't able to withstand heavy competition; a period of very high interest rates, fierce competition, devaluation and mismanagement of financial institutions forced the investors to withdraw their deposits from the banks in the north by the early 2000s (TÜSİAD, 1998). According

to Şafaklı, the crisis in the north was primarily an extension of the economic crisis and the devaluation of TL in Turkey to the north and it led to the closing down of twelve banks between 2000 and 2001.

Moreover, the offshore company law that was effectuated in 1993 in an effort to offer incentives to foreign companies to operate in the north on an offshore basis, overloaded the TRNC banking sector. According to Pelagidis et al. (2008), the offshore activity was intense between 1993 and 1999, followed by “high interest rates and lack of adequate regulatory supervision” which resulted in the banking crisis of 1999. Şafaklı (2002) pointed that during the 1990s, Turkish Treasury was the largest credit customer of the local banks in TRNC and hence the banking sector was financing Turkish Treasury while giving almost no credits in the domestic credit market. According to Şafaklı this structure crowded out the local credit customers in the north. Furthermore, as TRNC adopted Turkish Lira as its official currency, the consumer price inflation in Northern Cyprus generally follows that of Turkey. Accordingly, the banking sector, which was one of the pillars of the neoliberal transformation of the TC economy, was vulnerable to outside shocks as the Turkish Lira was used as the national currency. The 1999 political/economic crisis in Turkey was reflected to the TC economy, causing a severe banking crisis by the end of 1999, which resulted in the closing down of 12 banks out of 25 and “ended up with economic losses of approximately 200 trillion TL that almost equivalent of 50 per cent of GNP for 1999.” (Şafaklı & Altuner, 2009: 2573).

As a result, the government decided to liquidate Kıbrıs Yurt Bank, Kıbrıs Finans Bank, Everest Bank, Kıbrıs Hürbank, Kıbrıs Kredi Bank, Tilmo Bank, Yasa Bank, Ticaret Bank, Asya Bank and Endüstri Bank and turned over their managements to the Deposit Insurance Fund (DIF) between 2000-2001 (Şafaklı, 2007). The new banking law, that aimed to regulate the banking sector, came into force in November 2001 (46/2000), and it included important amendments compared to the 48/1990 law, targeting to safeguard the resilience of the banking system against future crises and further encourage development of the offshore banking system.

The most important change was that in 48/1990, the offshore units were to defray their expenses from outside sources and they were not allowed to provide funds from TRNC banks for any purpose. Moreover, Article 3, part 2 of the 1990 law obliged

the offshore banking units to “open an fx account in the authorized banks in TRNC for each accounting period and hold the necessary amount in order to cover their personnel, administration, and management costs from that account”, the amendment law in 2000 negated this obligation. Furthermore, while the founders and/or shareholders of these banks were not allowed to have a TC origin and/or residence in 48/1990, the 46/2000 allows founders/shareholders with TC origin, unless they are not residents. The yearly audit fee of 10.000 USD to be paid by the offshore banks to the TRNC Central Bank was also lifted in 2000 and they were allowed to invest in equity shares and securities of the TRNC registered companies (see TRNC Banking law amendments, 48/1990, 46/2000, 59/2002).

While the TC banking system was struggling with a severe crisis, the GC economy was getting prepared for financial deregulation for fitting into its future EU membership and monetary unification. Following the Capital Requirements Directive Recast of Directive 2000/12/EC, the GC Central Bank announced on 21 December 2000 that it will dismantle the rigid rate control regime from January 1 2001, however assured its lenders that the “key lombard rate”, which the Central Bank lends to banks, would be fixed to 7%.

Although the magnitude of the crisis in the north was huge and it led to the restructuring of the banking sector, the financial crisis coincided with the announcement of Turkey’s official EU candidacy in Helsinki in December 1999 and under this propitious political atmosphere, TCC’s optimism for a “change” in the state of affairs and “solution” under the EU aegis raised together with the onset of the Annan Plan on the island in the early 2000s. While the banking crisis was “cushioned” partly by the financial aid coming from Turkey (Evrensel, 2001 September), its political impacts echoed in the longer run.

According to Balkır and Yalman (2009), the lack of monetary policy autonomy was also giving an excuse to the TC politicians for the mismanagement of the economy. However, the crisis led to an upheaval of the social forces in the TRNC. An alliance of TC political opposition, who were suffering from the long-term economic recession in the north, ignited a political movement against the so-called “status quo regime” demanding “change” by the early 2000s. In parallel to the financial crisis, the financial aid and credits from Turkey raised significantly after 1999 and continued to

increase after AKP came to power in 2002. While the rise in Turkey's aid initially aimed to suppress the rising opposition in the north, it resulted in the rising dependency of the TC Economy to Turkey.

When the EU membership prospect of the island was on the table by the early 2000s, TC opposition was excited to have this new actor involved in the process, hoping that the referenda would be a historical moment for both sides of the divide to settle down the problem, and put an end to the political and economic crises in the north. The fact that the EU membership of Cyprus was already guaranteed back on June 24, 1994 in Corfu, when the European Council noted that the next phase of enlargement of the Union would involve Cyprus and Malta, which was reaffirmed at the Essen European Council in 1994, didn't discourage the TC opposition.

The optimistic attitude for a solution by the EU incentive was prevalent among the EU ranks as well; on June 30, 2001, the Enlargement Commissioner Gunter Verheugen described the EU accession process as the "best tool" to ensure the peaceful coexistence of the two communities (Tocci, 2002). EU accession was presented as a new paradigm to achieve peace and prosperity, by "not only ending the old grievances but also preventing new ones from occurring." (p. 105). This new paradigm, when compared to the forty years old UN involvement, was strategically linking the UN parameters and the EU membership by a referendum, propounding it to the approval of the GCs and the TCs, which also signaled the demise of the EU paradigm in case of the failure of the UN plan. While there was strong resistance by the TRNC President "to put all the eggs in a basket", arising from the EU skepticism of the 1990s, the support of the AKP government, specifically Recep Tayyip Erdoğan, in favour of the plan isolated Denktaş in his opposition front. Denktaş built his "no" campaign over the "unreliability" of the EU elite and expressed his reaction towards Verheugen; "I will not have any problems if he (Verheugen) would say that they will take the GCs to the EU, which is what would happen in reality, but he claims that they will make Cyprus an EU member state, which is not true" (EU Directorate, 2003). The TC Leader had a resentment towards the Customs Union decision signed between the EU and Turkey in 22 December 1995 and the ECJ decisions on the Origin of Certificate, which acted as a *de facto* embargo decision on the TC trade and had isolated TRNC's economy.

Nevertheless, the TC opposition was willing to give credit to this new actor, in an effort to end their long-termed capsulation under an unrecognized state. According to Kyris (2012), “the TCC was already wounded by the decision of the European Court of Justice on 5 July 1995, to impose an embargo on Turkish Cypriot exports to EU member states, which increased euro-skepticism in Northern Cyprus.” (p. 89). Despite the EU skepticism of the TCs, optimism didn’t lose its ground; the idea of a solution within the EU, which was regarded as a “catalyst” for peace convinced the majority of the TCC and triggered the social forces to take action in order to have political equality and recognition in the international realm. The opposition, namely the trade unions, political parties and the business chambers were united under the “this country is our” platform and this turned into a mass movement and street protests against the authoritarian rule which they identified with the so-called “Denктаş regime”.

Alongside the linkage of the EU plan as a complementary to the UN solution in the early 2000s, a wide array of literature began to be produced on the necessity of a “sustainable solution”, that would “ideally” be leveraged by the EU acting as a catalyst for peace, a perspective embraced by the GC PM Vassiliou (2003), and the academia (Tocci, 2002, 2004; Ker-Lindsay, 2005, 2007), while others warned the parties of EU’s diplomatic failures for conflict resolution and rather regarded EU as a “perilous catalyst” (Richmond, 2001). 2000s was the beginning of a new period for the TCC during which the discourse on the need to “change” dominated the Turkish Cypriot politics by the onset of the EU membership agenda. The impact of the Annan process was instantaneous in the north; the social forces coalesced around “this country is ours” platform, in order to initiate the long awaited “change” in the north and reunite with their GC neighbours under a federal republic.

While the change rhetoric, which was coined by the opposition in the north as a means to overcome the permanent division of the island, was commonly used since the 1990s, it surged into the public debate with the outbreak of the banking crisis in the north after 1999 and the start of the Annan Process on the island. It is difficult to argue whether the demonstrations in early 2000s, that led to the change of the government in 2003 and then the Presidency in 2005, would have taken place without the EU membership target. Lacher and Kaymak argued that the EU context allowed Turkish Cypriots the articulation of an identity not opposed to Greek Cypriots (Lacher

& Kaymak, 2005). Parallel to the 1999-2001 economic crises in Turkey, TRNC economy was also distressed by the banking crisis; the real growth rates in the years 1999 and 2001 was 7.5% and -5.4% (Figure 4.9).

The interviews suggested that the downturn of the economy in the north was a major driving force for the business groups to take part in the opposition platform against the status quo regime in the north; Balkır and Yalman argued that between 1999-2000, the business groups transcended their traditional business-oriented role in order to end the economic isolation by establishing a federal ground and turned themselves into the very subject of the political society which was coalesced around the idea of unification.

The financial crisis in Turkey led to a decrease in the financial aid to the north which not only caused a fracture within the power bloc but also triggered the opposition to take a sharper stance against both UBP and Denктаş during the elections in 2000. The Presidential Elections were held in April 2000 which left Denктаş and Erođlu to the second round. According to Hasgüler and Özkaleli (2010), it was almost obvious that Erođlu was ahead of Denктаş in the elections, however just before the second round Derviř Erođlu “mysteriously” announced that he would not participate as a candidate in the second round, claiming that he was under pressure from Turkey. Before the elections, řükrü Sina Gürel, the Minister for the Cyprus Affairs in Turkey announced in a speech in İzmir that the Turkish Government wish that Denктаş would continue his term as the President of the TRNC (Hürriyet, 2000). However, although Erođlu’s decision may to a large extent be taken by Turkey’s open support for Denктаş, the TC opposition’s strategic decision not to support Erođlu in the second round was effective in his decision to leave the candidacy. Akıncı’s TDP announced after the first round that they would leave their voters free in the second round and CTP tied its support to Erođlu to a set of conditionality for his support in joining the GCs for the EU negotiations (Hürriyet, 2000). It can be argued that the TC opposition decided not to support Erođlu in the second round because they believed that both Erođlu and Denктаş would serve the same *status quo* regime during the Annan Plan. These events led to Denктаş’s victory in the Presidential Elections however, he faced the harsh criticism towards him both from the opposition and from UBP, which weakened his anti-federalist position in the negotiations by the early 2000s.

The TC opposition was already concerned with the downturn of the economy, and the controversies during the Presidential Elections ignited the uprising against the “Denktaş regime”. Mass demonstrations started in the north on the 18<sup>th</sup> of July 2000 under the “This country is our” platform and the organizing committee’s press release was a sheer manifestation for the TC opposition’s call for peace, democracy and demilitarization, confronting the state of affairs in the north:

“To stop imprisonments by conspiracy theories, ensure the release of the ones under arrest due to conspiracies, to put an end to the military authority’s intervention into the civil life, to say no to destructive packages and enforcements in order to have peace, democracy, solution and justice and open the road for peace in Cyprus, we call our people to shout out ‘This country is ours’” (Evrensel, 2000: para. 1).

This specific conjuncture provided the composition of a broad-based interclass alliance, that was coalesced around the prospects for EU membership, which convinced the TC business groups and the bourgeoisie to set aside their diverging interests and contradictions for a specific target. Leaving aside their historical idiosyncrasies, the TC trade unions, opposition parties, civil society groups and the business groups, united towards the EU target. Although this coalition was temporal, it was effective to put pressure on the TC Leadership and challenge the “*status quo* regime” in the north. One of the most striking demands of the platform was to tie the police forces to the Ministry of Interior Affairs, which was met with a harsh reply from the Commander of the Security Forces in the north. The UBP-TKP Government included this proposal to their program and the Vice PM Akıncı had a polemic with the Commander who threatened the opposition by saying that “treason comes with a price”. Akıncı requested the Commander to be removed from his office however Denktaş sided with the Commander<sup>45</sup>. Some unionists were detained and the proposal ceased to pass however, more importantly the business groups and UBP sided with the demands of the opposition. This alignment was a radical, strategic and temporary maneuver, as Poulantzas (1975: 15) pointed that such shift of interest was rather a temporary shift of class position, not a permanent class turn.

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<sup>45</sup> Later in 2010, the Commander was trialed in Turkey with allegations of Ergenekon membership and during the trials he committed suicide.

According to a politician interviewee, the economic crisis was a strong driving force for the opposition platform, triggering the social forces to demand change in the political leadership and solution to the Cyprus Problem. The opposition coupled the political *status quo* with the economic crisis and targeted President Denktaş as the political figure behind the dead lock in the Cyprus negotiations. Despite the fragmented structure of the opposition with different social class backgrounds, the trade unions, political parties and the business chambers formed an inter class alliance against the *status quo* regime with a common target, which was a federal Cypriot state under the EU umbrella.

The main target of the opposition was to create a centrifugal force in the north and to end the “Denktaş regime” which they regarded as the main impediment for a federal solution, hindering economic growth and political transformation. CTP was the leading political party in the streets, organizing “this country is ours” protests against the Denktaş Government, in alliance with the trade unions, business chambers and other civil society groups. In this regard, CTP became – in the Gramscian sense - the political leader of the historic bloc in the north.

The changing political atmosphere in Turkey was reflected to the north. The end of the “Demirel Era” in Turkey gave an indirect leverage for initiating a process to change the TC President in the long run. The failure of Turkey's “Motherleft” coalition government, despite all efforts by the then Prime Minister Bülent Ecevit to pass a constitutional amendment package that would have allowed President Süleyman Demirel a second term in office didn’t succeed. The Turkish Parliament rejected the amendment and Bülent Ecevit pointed to a new candidate, Ahmet Necdet Sezer, the President of the Constitutional Court of Turkey. Sezer was elected by the TBMM as the new President of Turkey on May 5, 2000. The end of Demirel’s era, who was regarded as one of the key political figures in the Turkey for over 35 years, in and off of office and a leading figure for the maintenance of the *status quo* in the Cyprus issue in a close alliance with the TC President Denktaş, led the TC opposition to question the sturdiness of Denktaş’s reign and strengthened the anti-*status quo* discourse in the north. The new Turkish President Sezer, who was the head of the constitutional court and the judicial bureaucracy between 1998-2000, paid a visit to TRNC and expressed his support for a two-state solution in Cyprus soon after coming to power in 2000.

During the General Elections in Turkey in November 2002, AKP clearly put a distance with the National Vision's conservative right-winged narrative, and it rather mobilized its voters with a combination of political Islam and a neoliberal economic model. After AKP came to power in 2002, Erdoğan declared his support for the TC opposition during the Annan Plan and criticised Denктаş for acting uncompromisingly in the negotiations. Despite Erdoğan's objection, there was a group of prominent figures within AKP who gave support to Denктаş during the process, such as Bülent Arınç, together with the Chief of General Staff of Turkey Hilmi Özkök who also supported Denктаş against the opposition (Şimşir, 2003: 282-285). Erdoğan's support for the pro-EU front in the north caused a conflict within the power bloc in Turkey which was mediated by the bureaucratic fractions and eventually resulted in a *détente* between the National Security Council and the AKP government towards the referendum process in favor of the Annan Plan (Pirim, 2004).

## **CHAPTER 5**

### **THE NEOLIBERAL TRANSFORMATION OF THE TC STATE AND SOCIETY**

The privatization agenda was introduced to Turkey and to the north by the Özal Government in the mid-1980s, however despite consecutive efforts by the succeeding Turkish governments to enact it, the completion of majority of the privatizations were postponed to the late 2000s in Turkey in the north. In 1999, the economic stabilization program of the Turkish Government to tackle rising inflation was supported by an IMF stand-by agreement which introduced the privatizations of the SEEs in Turkey. However, when the financial crisis broke out in February 2001, the priority was given to the implementation of the Banking Act and the Law of the Central Bank of Turkey. The privatizations of the SEEs in Turkey also kickstarted the privatizations in the north because the Turkish SEEs were the shareholders of the TC SEEs. Turkey's EU harmonization process started later in 2002 after the first harmonization package entered into force on February 19, 2002, enacting a series of amendments to the Penal Code, the Anti-terror Law, and the Law on the Establishment of and Proceedings at the State Security Courts. Reform in the social security system, tax system, transition to direct income support system and privatization agenda were among the pioneers of the National Program of Turkey, which was prepared by the EU General Secretariat. This new period was the beginning of the unveiling of the neoliberal agenda in the north during which AKP Governments started to put pressure on TRNC to endorse the privatizations of the SEEs and make reforms in the public sector.

## **5.1 Kicking-off the Neoliberal Agenda in the North**

2000s started with the outbreak of a severe financial crisis in the north and in Turkey, which ignited the formation of a wide based opposition movement against the so-called *status quo* regime(s). Turkey signed another agreement with the IMF in early 2002 and set the early elections for October in an effort to overcome the political and economic impasse. Meanwhile, the onset of the Annan Plan in Cyprus empowered the “the need for change” demand of the TC opposition and this particular conjuncture unveiled the deep on-going hegemonic crisis within the power bloc in the north, which was eventually resolved by the demise of the “Denktaş regime” by the mid 2000s.

AKP won the 2002 General Elections in Turkey and established a single-party government in the aftermath of a series of financial and political crises, hence it found the apt moment to accelerate the decades old neoliberal agenda, coupling it with the EU membership prospects both in Turkey and in Northern Cyprus. AKP’s pro-EU rhetoric was welcomed in the EU and in Cyprus, and it raised the expectations for a federal solution with the onset of the UN’s Annan Plan on the island. Although the Annan Plan referenda failed to unite the island in 2004, it led to the changing of the balance of forces and provided the AKP government the leverage to position itself as a hegemonic power within the new the composition of the power bloc in the north. AKP Government signed Turkey’s last agreement with the IMF in 2005, yet it was determined to follow the structural adjustment programs without the presence of a stand-by agreement. The 2000s were marked with the rise and then the fall of the EU membership prospects for the TCs and for Turkey and the kicking-off of the neoliberal agenda in the form of the privatization of the SEEs, and the shrinking of the public sector.

### **5.1.1 Getting Rid of the “Status Quo Regime”; Pouring Old Wine into New Bottles**

The EU membership agenda was increasingly presented as a remedy for the economic meltdown since the devaluation of the TL in 1994 by the Turkish governments. AKP made a radical break with its predecessor National Vision Movement and joined this “pro-EU” front during its election campaign, declaring its commitment to the fulfilment of the Copenhagen Criteria for Turkey’s EU

membership<sup>46</sup>. When it won the general elections in Turkey in 2002, this strategy gave it the opportunity to decouple itself from the so-called “*status quo*” regime in the north by using a pragmatic pro-EU strategy during the Annan Referenda Process.

The onset of the Annan Plan marked the beginning of a challenging period for the TRNC-Turkey relations in the sense that the TCs were willing to come to terms with the GCs under the EU umbrella, despite the geostrategic concerns raised by the military and the bureaucratic fractions of the ruling classes in Turkey and the “state elite” in the north. These fractions were reluctant to welcome this new state of affairs on the island however, as Lacher and Kaymak (2005) remarked, after the AKP government embraced the EU membership as Turkey’s primary strategic objective, a divided Cyprus was now considered as an obstacle, hence a settlement based on a federal framework, could be formulated for the first time.

Erdoğan criticized Denктаş for behaving “stubbornly”, and claimed that the persistency of this behaviour “over the past forty years” resulted in the protraction of the problem (Şimşir, 2003). Denктаş became aware that EU membership was the “primary target” for the AKP government and he had lost the Turkish government’s support, even though a fraction within AKP, prominently Abdullah Gül and Bülent Arınç, still sided with him in his polemic with Erdoğan. President Denктаş refrained from aligning with this pro-EU rhetoric, not only because of security concerns as it involved the gradual removal of the Turkish troops from the north, but also because it was bringing forth territorial concessions, land exchanges as well as a compensatory mechanism between the TCs and the GCs. According to Lacher and Kaymak (2005), this would mean the repossession of the parts of *koçan* lands in the north that were distributed by the UPB governments on the basis of a “patronage regime” after 1974. Lacher and Kaymak argued that the deeds that were distributed by UBP determined the deed owners’ positions in the Annan Process; the Annan Plan threatened to dispossess the owners of the undeveloped lands distributed on the basis of patronage

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<sup>46</sup> The ‘Yes’ campaign for the Annan Referenda was also promoted by AKP with its claims for adjusting to the EU values and *aquis* and getting rid of the so called “political tutelage regime” of the military both in Turkey and the TRNC which it pointed as the main impediment for the latter’s and the former’s EU membership and democratization. This agenda constituted the backbone of AKP’s Cyprus Policy narrative until the deterioration of the relations with the EU, by 2013 the EU started to criticise AKP for the authoritarian rule in Turkey, which began after the 2010 Referenda for constitutional amendments.

and “together with the existence of lucrative import monopolies acquired through patronage.” (p. 154), an important part of the state elite opposed the plan.

In 2003, shortly after AKP won the elections, it declared that it will abide the ruling made by the European Court of Human Rights for the Loizidou case<sup>47</sup>, which entitled Turkey to pay over €1 million as a compensation to Mrs. Loizidou. According to Gülmez (2017), by agreeing to abide with the ruling in the Loizidou case, the AKP government undermined the official policy of Turkey denying responsibility for the continuing presence of the Turkish army in Northern Cyprus. The TC opposition welcomed AKP’s pro-EU rhetoric and support however, this didn’t necessarily mean the establishment of a long-term alliance, but rather it was a goal-oriented relationship; the in-depth interviews in the north indicated that the TC opposition (trade unions, civil society organizations, business groups and the opposition parties) gave support to the Annan Plan regardless of AKP’s support for it. Moreover, the main figures of the TC opposition were aware that the same was true for AKP; Özker Özgür, the late leader of CTP wrote as early as May 2003 that Erdoğan was indifferent to the TC concerns and to the EU membership and that promoting AKP as an ally to the opposition in the north was a misleading perception (Özgür, 2003). Despite the skepticism of the opposition within CTP towards AKP’s pro-EU rhetoric, this rhetoric gave leverage to the rise of a historical alliance between the TC social forces and AKP, which succeeded to put an end to Denктаş’s era by coalescing around the EU membership prospect. For the first time in his presidency, Denктаş was accused by the opposition for acting rebellious against the motherland: the KTTO officially sided with the pro-EU opposition and the head of the Chamber, Ali Erel (2002) who was a prominent figure in the process, accused Denктаş for “going against Turkey”.

The coalition of forces were focused on the EU membership target; however, the opposition platform was politically riven prior to the elections in 2003. TKP (*Toplumcu Kurtuluş Partisi* – Communal Liberation Party), BKP (*Birleşik Kıbrıs Partisi* – United Cyprus Party) and KSP (*Kıbrıs Sosyalist Partisi* – Cyprus Socialist Party) and some civil society platforms established BDH (*Barış ve Demokrasi Hareketi* - Peace and Democracy Movement) under Akıncı’s leadership to enter the

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<sup>47</sup> Meanwhile the Xenides-Arestis v. Turkey was also finalized in favour of the GCs.

elections, while Erel established “*Çözüm ve Avrupa Birliği Partisi*” (Solution and the EU Party). In close collaboration with the TC business groups, TÜSİAD was actively involved in the process by providing an international platform to support the Annan Plan; in July 17, 2003 it organized a foreign affairs forum which invited Ambassador Thomas Weston, the special coordinator for Cyprus of the USA State Department, who was paying visits in support of the Annan Plan. In the forum Özilhan announced that TÜSİAD’s support was not built on the “give away and get away” perspective but it rather aimed to contribute to a federal solution which they believe is to the common interest of Turkey and the TRNC; Özilhan argued that the GCs’ restlessness about the plan was an indicator that the Annan Plan was to the interest of Turkey (Hürriyet, July 2003), however he didn’t consider that this restlessness would cause the rejection of the plan in the south by a majority of the GCs. In October Ambassador Weston paid a visit to the island and although he had a meeting with the GC Leader Papadopoulos, President Denктаş refused to have a meeting with him on the ground that he regarded Weston’s presence on the island and his support for the plan as an interference of the USA to the elections in the north to turn Turkish Cypriots against him ahead of key elections.

Although Denктаş was seemingly isolated in his front, AKP’s support for the TC opposition was not without limits; CTP’s leading role in the pro-EU campaign and Talat’s rising reputation in the west as the “independent”, future TC leader, signaled AKP the need for a fine-tuning for keeping the balance of forces in the north. Before the 2003 elections, AKP softened its level of criticism towards Denктаş in order to be able to control both the opposition and UBP prior to the referenda. PM Erdoğan visited the north in November 15<sup>th</sup>, on the 20<sup>th</sup> Anniversary of the TRNC, which gave both the UBP and Denктаş the right amount of support before the elections. Denктаş declared that he was thankful for Erdoğan’s visit and his support for the “Cyprus cause”, which Denктаş defined as a “relief” for the TCC (Milliyet, November 2003).

Erdoğan’s visit to north before the elections not only relieved Denктаş but it also pleased the main opposition in Turkey; CHP was supporting Denктаş and the idea of a two-state solution hence historically positioned itself with the military and bureaucratic fractions of the ruling classes in Turkey. CHP was an influential actor in the north after the 1974 military intervention, supporting the democratization of the

TC society and industrialization of the TC economy, yet after the military coup in Turkey closed down the party, CHP gradually lost its grassroots connections with the TC social forces. After CHP was re-opened in 1994, its relations with the north were mainly restricted to the official narrative and the foreign policy agenda of Turkey; it was engaged in the negotiation process via the so-called “state elite” in the north and the bureaucratic fractions in Turkey, rather than establishing a wider network of relations in the north that would involve the TC opposition. This attitude kept CHP out of the newly emerging coalitions in the north and resulted in AKP’s dominance over the state of affairs after 2000s. After Erdoğan’s visit to TRNC and meeting with Denktaş before the general elections, CHP leader Deniz Baykal congratulated Erdoğan both in person and also publicly, for Erdoğan’s “turn” to what he called the “right line” regarding the Cyprus Problem, which Baykal described as supporting the “bicomunal and bi-geographical” state of affairs in the north (Hürriyet, May 2003). CHP preserved its position during the referenda process, which further deepened the gap between CHP and the TC opposition. CHP’s estrangement left AKP as the dominant power within the power bloc in the north and decreased CHP’s influence over the redefinition of the “national cause” in this process.

In this regard, the general opinion of the TC opposition towards CHP was quite negative; a unionist interviewee was quite angry with the statements of the secretary general of CHP during the Annan Plan, arguing that CHP’s official narrative was disdaining the TCC; “the General Secretary of CHP said that AKP would sell KKTC during the Annan Plan, but CHP wouldn’t let them do it. What does he mean by that? Who is he to act in the name of the TCC? Who is selling who? We are not for sale; this is an insult for the TCC and its sovereignty. We, as the TCC, are here to stop AKP, who is he to use this language and treat us like a commodity to be bought and sold?”. One of the politician interviewees believed that CHP is still favouring *taksim* and thus finds its political approach more reactionary and conservative than AKP’s. He defined CHP as a “national socialist/fascist political party”, because of its hard-liner, nationalist perspective towards the solution of the Cyprus Problem. He added that a federal solution would be impossible if CHP comes to power, so in fact, despite all his resentment towards AKP’s support for political Islam and neoliberal agenda in the north, he still thought the AKP’s period was an opportunity for a federal solution to

take place because he believed that AKP was ready “to do whatever necessary” for a federal solution on the island. He argued that AKP would continue to use the EU membership process in Turkey in order to push forward its neoliberal agenda under the rhetoric of economic growth, and spreading political Islam agenda under the rhetoric of democratization, as it also used the Annan Plan Referenda as a tool to get rid of Denктаş, who was the most powerful figure standing against a federal solution in the north.

Meanwhile Turkey’s big capital was in search for new alliances to provide a wider support for the federalist front in Cyprus against Denктаş. As pointed by Öniş (2010), the Turkish big business, that was traditionally represented by TÜSİAD, started to “transnationalize” in the post-2001 era, and it was also willing to use the opportunity to invest in the pristine TC economy after a solution, preferably an EU one, is once reached. TÜSİAD was actively involved in the Cyprus Problem since the late 1990s, urging Denктаş to negotiate with the GCs and calling Turkey to ease a settlement during the negotiations so that the EU membership of Turkey and Cyprus would be secured simultaneously. To enforce the Turkish governments towards a settlement, TÜSİAD sent letters in 2001 and 2003 to the Turkish Governments regarding TÜSİAD’s concerns over the EU membership of Turkey; advising them to start the negotiations as soon as possible and handle the Cyprus Problem “in a manner not to hinder Turkey’s membership to the EU”, which was interpreted by many as a call for a solution by moving away from the traditional red lines of Turkish Foreign Policy on the “National Cause”. The President of TÜSİAD, Tuncay Özilhan, asserted their “ability and ambition” to make the whole island a “backyard for Turkish investment” once the doors are open for them, assuring the Turkish President that; “by the 1<sup>st</sup> of May 2004 when the RoC becomes an EU Member, the customs union atmosphere created together with Turkey would allow Turkey’s strong economy to turn the whole island into its hinterland”.

A similar letter in 2001 was addressed to Bülent Ecevit as the Prime Minister, and Ecevit reacted strongly against this ambition of TÜSİAD, declaring, “...giving concessions in Cyprus is equal to giving up Turkey’s territory” (Evrensel, 2001 November: para. 2). AKP was the opposition party back in 2001 and Tayyip Erdoğan as the party leader said that he finds Özilhan’s requests as an “unlucky affirmation”,

“...I don’t understand what kind of statement he made, based on what? Cyprus is not only an economic issue for us, and we also support Turkey’s thesis for Cyprus, that is a confederal, two-state solution” (Yeni Şafak, 2001). In 2003, this time the so-called “ultimatum” letter was addressed to Tayyip Erdoğan; Erdoğan was the Prime Minister, and he reacted once again blaming Özalhan for speaking “with the power of money” (TGRT Haber, 2003). According to Buğra (1994), TÜSİAD had always acted with class consciousness in line with the interest of the big capital, hence it was not surprising that the big bourgeoisie became an explicit supporter of Turkey’s EU membership from late 1990s and later the resolution of the Cyprus problem, which was clearly set before Turkey as a condition for joining the EU (Tahsin, 2012).

TÜSİAD’s so-called “ultimatum” letters received strong reaction in different periods from different political parties and never received open, popular support but it was a signifier of the “linkage politics” between the solution of the Cyprus Problem and Turkey’s EU membership. It was believed prior to the Annan Plan Referenda that a functionalist approach for strengthening economic cooperation would make it easier to solve the Cyprus Problem. This perception was stronger before 2004 and it enabled a cross class alliance between with the business groups and the TC opposition to change the status quo regime in the north. Although AKP’s pro-EU strategy approximated TÜSİAD towards AKP after 2002, the relations between the two strained when the Turkish Assembly rejected the Memorandum of March 1, in 2003, partly by the opposition of a fraction of defecting MPs within AKP. The Memorandum entailed the landing of US military forces on their way to Iraq’s invasion and the deployment of their support units on the military bases in Turkey mainly the İncirlik base. The rejection of the plan increased the tension between US and Turkey and Özalhan targeted the AKP Government and used harsh statements towards Erdoğan by accusing them for leaving aside the EU target as well as the US alliance. Erdoğan was supporting the Memorandum and he was surprised by the strong opposition within his own party. He reacted back to Özalhan and invited him to politics “to settle the accounts” (Tahsin, 2012). Just before the elections took place in the north, TÜSİAD reiterated its support for a federal solution in a joint declaration with TRNC’s İŞAD (İş Adamları Derneği-The Businessman Association), which aimed to give support for the Annan Plan. Özalhan stated that; “We regard the settlement perspective within the

framework of the Annan Plan not as a device for election propaganda, but as the basis of a realistic political settlement and economic and social sustainability” (Milliyet, December 2003).

While there was an increasing publicity and pressure from TÜSİAD and from the TC business groups on the need for a “solution focused” approach by Denктаş, the GC government had already signed the Treaty of Accession in April 2003 in Athens. As a reaction, TC President Denктаş announced the TC sides’ surprising decision to open the borders in April and then sent a letter to Annan in July about the TC proposals for opening Varoşa and the Ercan airport. Papadopoulos rejected the idea as the GC leader had already signed the Treaty of Accession in April 2003. It can be argued that although Denктаş announced in mid-2004 that he would not run as a candidate in the presidential elections in the north, he left the negotiation table long before 2004, after he had a medical operation in 2002 and decided not to join the critical Copenhagen Summit due to health issues. A politician interviewee argued that the health issue was a cloak to avoid the Annan Referenda to be held in 2003, which would link the EU membership of the island with the Annan Plan. Although the GC side rejected the idea as well, Denктаş was criticized for not using the “opportunity” to trap the GC side to the corner and for letting the EU to decouple the solution of the problem and Cyprus’s EU membership. In this regard, before leaving the office Denктаş made two last maneuvers to ease the negative effects of the Customs Union decision on the TC economy and to negate his reputation as an “uncompromising TC leader”. He persuaded the AKP Government in 2003 to sign a customs union agreement with TRNC, that aimed to “integrate the TRNC economy with the international economic system, together with the EU norms as the main principal” (Yeni Şafak, 2003), which would entail economic integration in its essence but would actually send warning signals for a “political integration” to the international community, however, the agreement was not put into effect due to harsh criticism from the EU and from the GCs. Moreover, in an attempt to ease the borders prior to the Annan Plan referenda and counteract his “stubborn” image that was accentuated by Erdoğan, the TC President Denктаş announced in 2003 that the TC side will open the border in the Ledra Street for crossings.

This strategic decision was welcomed with enthusiasm in the north and in the south; although it was expected that this “change” in the economic sphere, the opening of the borders for enhancing intercommunal trade, would ease a bicomunal solution, it had limited impact over the political proximation between the communities. Moreover, it was a strategic decision regarding the fact that it led to the flow of GCs to the north seeking remedies for the properties they left behind in 1974, which resulted in several appeals for compensations to be paid to the GC owners, which will be funded by Turkey, either via the Immovable Property Commission in 2005, or via the ECJ. Denктаş’s decision to open the borders was not only a “timely” peace initiative, but shall be considered as a strategic maneuver for perplexing AKP’s pro-EU strategy, and a maneuver to stop the enrolling of all the credits to the TC opposition in the case of a federal settlement. Yet, in December 2003, AKP announced Turkey’s decision to abide the ECHR’s ruling in the Loizidou case and pay damages to the GC owner which created a positive atmosphere in the north and raised the hopes that the property exchange issue would eventually be resolved by providing compensations to the first owners.

In this regard, the Annan Plan provided an opportunity for the social forces in the north to enter into historic cross-class alliances in order to forward their interests as the “common good” for the TCC. This conjuncture created a pro-change atmosphere which momentarily strengthened the TC opposition’s counter-hegemonic alliance against the so-called *status quo* regime, which enabled CTP and its leader to win the general and then the presidential elections in the north in 2003 and in 2005. The opposition succeeded to carry the mass protests to the ballots and CTP raised its vote from 13.35% in the 1998 election to 35.19% in the 2003 General Elections.

The business groups, opposition parties and trade unions were in an alliance for the EU membership of the island under a federal state, but on the other hand, they were competing with each other for holding a stronger representation in the TC Parliament; the general elections were held in December 2003 in the north and Talat’s CTP got the 35.19% of the votes and 19 seats, however UBP was very close by a 32.93% of the votes and 18 seats. BDH (Barış ve Demokrasi Hareketi-Peace and Democracy Movement) entered the elections under Akıncı’s leadership, which got the 13.20% of the votes and 6 seats in the parliament and Erel’s pro-EU party which

received 1.98% of the votes but was under the 5% threshold. The results of the elections reflected a balance of forces in the TC Parliament as there was a 25 to 25 equity between the right-wing and the left-wing political parties, which was in line with what AKP basically wanted in the north prior to the Referenda. Contrary to the expectations for a CTP-BDH coalition government, CTP established a coalition government with Serdar Denktaş's DP under Mehmet Ali Talat, and BDH supported the government from outside until the referenda process.

Despite the narrow composition in the parliament, the opposition's vote had a radical upswing compared to the last elections, which gave the TC opposition a predominance over both the UBP and Denktaş in the process. However, the key support for the opposition came from Turkey one month after the elections; the National Security Council had a meeting that was chaired by President Sezer on the 23<sup>rd</sup> of January 2004, which declared its support for the continuation of the negotiation process under the UN and the newly established TC Government and President Denktaş (Pirim, 2004). Denktaş immediately came to Ankara to discuss the terms of this "support", however it was clear that the Security Council's decision was taken in an effort not only to reach to a settlement regarding the Cyprus problem, but also to open the road for the EU membership for Turkey. Later in May 2004, Denktaş declared that he would not run as a candidate in the presidential election in 2005 as he stated that he felt "sad" by the fact that Turkey tried to by-pass him for reaching the EU membership target (Hürriyet, 2004).

The Annan Referenda was held simultaneously in the north and the south of Cyprus on the 24<sup>th</sup> of April 2004. Despite the close-run victory of the opposition in the general elections of 2003 and Denktaş's retreat from the presidential race prior to the Referenda, the results in the south disappointed the pro-EU coalition in the north. While the TC's voted in favor of the plan by a 64.91% of the votes, the GCs voted against it by a majority of 75.83%. The RoC became an EU member by the 1<sup>st</sup> of May, 2004 as a divided entity and the GC Government was entitled to represent the whole island within the EU on behalf of the TCC, while the *acquis* was suspended in the north as it was agreed in the Copenhagen Summit of the EU and Turkey held on 11-12 December 2002. The EU membership prospect gradually demised after the refusal of the Annan Referenda by the GCs and the EU membership of Cyprus in 2004 as a

divided country effectively reinforced the divide on the island when the Commission called the north “where the Government of Cyprus does not exercise effective control, EU legislation is suspended in line with protocol 10 of the 2003 accession treaty” (European Commission, n.d.). The GCs ultimately won the statehood struggle on the island by taking unilateral control over the so-called “bicomunal” state, yet both the EU and the GC Government accepted the fact that they didn’t exercise control over the 37% of the island.

According to a politician interviewee, the UN’s Annan Plan offered the TCs and the GCs the “last” opportunity to revive the federal agenda of the 1960s based on the bi-zonality and bi-communality principle under the EU guidance. However, he argued that the last chance was wasted not when the GCs refused the plan, but when the EU decoupled the solution of the Cyprus problem and the EU membership of Cyprus prior to the referenda process. According to this line of thought, which was dominant in the interviews, the GCs, who already “guaranteed” the EU membership rejected the plan and Cyprus became an EU member state that is represented by the GC Government. Although the GCs held the political and economic means by unilaterally controlling the bicomunal state since 1963, it may be argued that the EU membership of the RoC in 2004 under the legal personality of the GC State provided wider legitimacy to the GC’s claims for statehood and room for unilateral maneuvers. After the referendum, Commissioner Verheugen declared that “the decision in 1999 not to make a solution to the Cyprus conflict a prerequisite for Cypriot accession to the EU, was ‘on the understanding that the government of Cyprus would do everything in its power to resolve the problem.’” (Deutsche Welle, 2004) and stated that he felt ‘cheated’ by the GC Government as the Papadopoulos Government conducted an effective and emotional “no” campaign prior to the referenda. By May 2004, the TCs became EU citizens and they were entitled to vote in the European Parliament elections but the TC State was practically left out of the EU mechanisms.

Soon after the referenda, the relationship between the TRNC and Turkey started being guided by the instrumentalism of the linkage politics that was bridged between Turkey’s EU membership and the solution of the Cyprus Problem. The lack of a contingency plan left the EU agenda as the only way out from the political impasse for the TC Government, yet the “change” narrative became rather what Laclau (2007:

95) defined as a floating signifier, which would growingly point towards an ambiguous and distant target for both Turkey and for the north. Turkey's problems related to the fulfilment of the Copenhagen Criteria, and the EU's half-heartedness towards Turkey's full membership conditioned the solution of the Cyprus Problem upon the GC government's decision. After 2004, the GC Government acquired veto power over Turkey's membership and declared that it would continue its unilateral veto on Turkey's accession negotiations, Chapters 2-15-23-24-26 and 31, mainly due to the presence of Turkish troops in the north (İKV, 2006)<sup>48</sup>.

The gap between the yes votes in the north and the south was a disappointment for the TC opposition; a politician interviewee stated that the majority of the TCs who casted a yes vote did so in order not to turn back to the political setting of the RoC and the violence in 1963, even if it would bring them economic benefits. He argued that the system in 1963 was putting the TCC in a minority position with no political powers over the decision-making process. Hence when Talat came to power in 2005, he was determined to negotiate the terms for a federal solution based on equal power sharing, which earned him popular support during the Presidential elections. He stated in 2009 that he was not in favour of a system similar to that of the 1960 RoC Constitution, in which the Turkish Cypriot Vice President had the right of veto over decisions made by the Greek Cypriot President; "This was not constructive it was destructive. I don't want the right of veto; I want to participate in the decision making" (Bahçeli, 2009).

Despite Talat's insistence on power sharing, a politician interviewee believed that a federal system of equal power sharing wasn't easy because the majority of the GCC weren't ready for "co-existence" as they wouldn't accept the TCs as an equal community. He argued that this was the reason why the majority of the GCs rejected the Annan Plan. He believed that a positive future scenario would be possible only if the future GC President and politicians could distance themselves from the pressure of the GC Church but still a solution was not likely in the near future unless "incentives" are offered to the GCs, such as the hydrocarbon revenues. In contrast, a unionist interviewee argued that there should be some "limitations" regarding the political

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<sup>48</sup> See İKV, 2006 for Ch. 2 Freedom of Movement for Workers, Ch. 15 Energy, Ch. 23 Judiciary and Fundamental Rights, Ch. 24 Justice, Freedom and Security, Ch. 26 Education and Culture, Ch. 31 Foreign, Security and Defense Policy.

representation rights of the GCs, as well as the investments they could make once they move to the north after a federal settlement. In this regard, there were two major lines of argument regarding a “future” settlement, however their main arguments concurred around three key concerns for attaining a federal solution;

1. The GC Church was regarded as a major impediment for a federal solution; unless its central position within the GC economy and society is “somehow” weakened, no GC government would dare to challenge the Church’s authority and its opposition to a federal solution.

2. The lack of incentives for the GCs to accept a solution after 2004; the EU membership of the island was already a unification for the GCs, in which they ended up with an absolute advantage in terms of political presentation and economic dominance, so there should be a stronger incentive for the GCs such as the sharing of the revenues of the hydrocarbons in the SEM.

3. The fear from the foray of GC capital and investments to the south after a settlement; the TC bourgeoisie is fragmented and the real economy is weak in the north so they fear that they wouldn’t be able to compete with the GC capital’s surge towards the north, in this regard the TC economy should be somehow protected *vis-à-vis* the GC capital.

According to Sonan (2014), the approval of the UN’s reunification plan by the TCC despite various concerns was an attempt “to escape from the social, political and economic ills of the post 1974 order by jumping on the EU train, which had increasingly relied on political distribution of economic resources for its survival.” (p. 3). In this regard, it may be argued that the Annan Plan enabled a temporary alliance between the TC opposition and the AKP Government *vis-à-vis* the so-called “Denktaş regime”, which may be regarded as a pragmatic attempt to end the political isolation and the economic crises in the north, rather than a permanent “consent” for a new hegemonic agenda that was built over a market-oriented economic development strategy.

The CTP Government continued to conduct congruous relations with the AKP government on the basis of the EU membership agenda and in an alliance against the “status quo regimes” both in the north. Right after Mehmet Ali Talat became the Prime Minister in January 2004, a relative recovery period started for the TRNC economy.

The crisis in the finance sector in the north which started in the early days of 2000, was over largely by the financial aid coming from Turkey. By November 5th 2004, a total of US \$ 244.059.791 million were paid to the 89.185 customers of these bailed-out banks in 2000, in which US\$ 179 million was paid with the financial aid that came from Turkey (KEİ, 2004). Despite the disheartenment of the TCs by the rejection of the Annan Plan in the south and the subsequent entry of the GCs to the EU as the sole representative of the island, CTP kept the EU membership narrative at the top of its agenda which proved to be a successful strategy to keep the pre-Referenda spirit alive. Two important elections were held in the north after the Annan Plan and both were a landslide victory for the TC opposition; Talat resigned from the Government in the early days of 2005 and the early elections were held in February followed by the Presidential Elections in April; CTP got 44.51% of the votes and 24 seats in the parliament and then Talat won against UBP's Eroğlu by taking 55.60% share of the votes and became TRNC's second President after 30 years since the first election took place in 1985.

During Talat's term, a recovery period started by the rise in Turkey's financial aid and in the EU Funds in order to give a boost to the stagnant TRNC economy. This prosperous atmosphere enabled the formation of new alliances; the civil platform "this country is ours" remained as a political pressure group for some time after the Annan Referenda led by BDH under different names, such as "Peace Platform" in 2008, however the class coalitions gradually dismantled by the failure of the plan and the rhetoric "need for change" lost its momentum. Although there was political strife within the platform that led to fractures even before the rejection of the Annan Plan, the failure of the plan surfaced the key political differences and conflict of interests among the group. TKP and BKP made an alliance and left the BDH, and they entered the 2005 elections as a separate political party. TKP couldn't pass the threshold and was left out of the parliament with 2.41% of the votes, and while BDH was above the 5% threshold, its votes decreased from 13.1% in 2003 to 5.8% in 2005, which only succeeded to appoint Mustafa Akıncı as the MP of Nicosia.

In this regard, it could be argued that the Referendum process had two major results that shifted the public opinion towards the solution to the Cyprus Problem; first, the referendum process demonstrated the fact that the majority of the TCs were in

favour of a federal future, and secondly, it revealed the fact that the political struggle within the power bloc cross cut the TC statehood struggle. On the other hand, the Annan Plan had only a partial impact over the political alliances and the class positions in the south; Christofias's AKEL sided with DIKO, and EDEK in the "rejectionist" camp in the south which weakened the federalist alliance on the island in the long run while DISY under Anastasiades supported the Plan. Both AKEL and DISY lost 3.6% and 3.7% in the 2006 General Elections and Papadopoulos's DIKO raised its votes by 3.1%. It can be argued that the Annan Referenda had a limited effect on the political composition and alliances within the GC Parliament. The idea of a 'Federal solution' was only effective for making Cyprus an EU member in 2004 as a divided island, which further reinforced the GC Government's position *vis-à-vis* the north. Therefore, it could be argued that the so-called 'enabling' impact of the EU membership (EU, 2020) did not have a spill-over effect, but rather deepened the economic unevenness and political conflict between the north and the south. The EU perspective regarded the failure of the plan as an outcome of clashing personal interests on the island in order to shift its partial responsibility behind the failure of the Annan Plan. On the other hand, although the EU was criticized for having a "limited" transformative power over the conflict, the post-referenda period proved that the EU's transformative power not limited was rather extensive as it distorted the already problematic "balance of power" regarding the intercommunal relations to the favour of the GCs by accepting the south as the sole legal representative of the island.

It was evident after the Referenda that the political crisis in the early 2000s, which triggered an interclass alliance for a deep-rooted change in power relations and a long-term political transformation was a conjunctural alliance, thus ceased to persist as a political movement in the long run. The coupling of "political change" with the EU membership agenda<sup>49</sup> hindered the advancement of the former; as once the Annan referenda failed, the change rhetoric of the opposition eventually demised (Börzel, 2010). The EU membership and "change" were poised as mutually dependent variables, that simply had a positive correlation in-between; however, once the value of the "EU membership" variable decreased, the value of the "change of status quo"

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<sup>49</sup> See Börzel, T. A. (2010), for a discussion on Europeanisation and the scopes and limits of domestic change.

variable also decreased. This almost “contingent” relationship configured between the EU membership and a federal solution outlined in 1993 during GC Government’s application for EU membership, transformed into an externality followed by the decoupling of the two by the Commission’s decision back in 1999 Helsinki Summit. The conclusions of the Summit declared that the solution of the Cyprus problem would not be considered as a precondition for the membership of the island, hence after the failure of the plan the “cost” of the failure was embarked upon the TCC.

After Cyprus became an EU member state under GC Government’s hegemony, Turkey’s membership was conditioned not only upon the fulfilment of the Copenhagen Criteria but also to Turkey’s “commitment” to extend the Association Protocol to the GC side. After a brief period of optimism for a federal solution that continued its way into the mid 2000s after the Annan Plan, the state of affairs in the north was back to its routine after the AKP Government started to put pressure on the TC government for the implementation of the economic reforms. While the period after the Annan Referenda was regarded by Sözen (2010) as a “paradigm shift” in the state of affairs on the island regarding AKP’s new foreign policy towards the Cyprus Problem, it was the inauguration of a new hegemonic agenda in the north, which was enabled by the contradictory interest and goals of the dominant classes within the power bloc in the north.

The dependency narrative kept on bringing forward “the cultural, religious and ethnic ties” between Turkey-TRNC for the rationalization of their support for a federal solution even after the failure of the Annan Plan. However, this perspective was unable to provide an assessment of the hegemonic crisis that led to a restructuring of the power bloc in the north after the failure of the Annan Referenda, and the rise of a new hegemonic project in the north without turning it into a crisis of the state. The hegemonic crisis in the early 2000s was resolved not only by the retreat of Denktaş from the presidential race, but also by the perseverance of the EU perspective despite the failure of the Annan Plan, and the embracement of this goal by a wider specter of class forces by the support of the AKP Government. Jessop (1983) essentially differentiated between a hegemonic crisis and an ideological one in this sense and suggested that while a crisis of a hegemonic project may be resolved through the “respecification of goals and tactics within the same ideological matrix”, an

ideological crisis would necessitate “a more radical re-articulation of practical moralities, common sense, and ultimate values.” (p. 109).

The “new” crisis had the potential to turn into a crisis of the state, as it came “with a shift in balance of forces inside the state itself” (p. 129) in Poulantzas’s (1979) words. However, the immediate introduction of the EU’s Aid to the TRNC, the promulgation of the Green Line Regulation of the Council in 2004 (866/2004) in an attempt to enhance trade which remained modest (Figure 5.2) and social interaction between the GCC and TCC as well as the rise in Turkey’s financial aid to the north reinforced the idea that the business would return back to “normal” as if nothing had happened in the north. In reality, the failure of the Annan Plan created a power vacuum, which was soon to be filled by a new neoliberal project. Moreover, the so-called “transformative power of the EU” was used as a narrative tool to preserve the membership expectations of the TCs and keep the “Europeanisation” agenda alive, which was closely linked to the neoliberal agenda as both projected the shrinking of the public sector and supporting the private sector against it. The crisis was contained as a hegemonic crisis with an effective alliance within the power bloc in the north, and eventually the contradictions of the TC bourgeoisie and its conflicts with the AKP Government and with the Turkish capital was subsequently resolved under the EU agenda.

Consequently, as a part of institutional efforts to overcome the crisis in the north, the Immovable Property Commission was established in 2006 under the Immovable Property Law (No. 67/2005) in accordance with the rulings of the European Court of Human Rights, to “establish an effective domestic remedy for claims relating to abandoned properties in Northern Cyprus”<sup>50</sup>, in the case of *Xenides-Arestis vs. Turkey* to examine the claims for restitution, compensation and exchange. However, UBP was aware that these efforts were part of a strategy to overcome the crisis and to consolidate the alliance within the power bloc that was isolating UBP in its front, hence it decided to remind AKP that it was still an important actor within the power bloc in the north. UBP brought the decision to the Constitutional Court as this would mean a substantial amount of land to be either reclaimed by the GC owners or

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<sup>50</sup> The Immovable Property Commission, <http://www.tamk.gov.ct.tr>.

the damages to be paid to them. This raised the tension between Ankara and UBP; one of the journalist interviewees believe that this was when Eroğlu's relations with AKP started to deteriorate;

*“When Eroğlu was elected as the President in 2010, AKP kept on advising him not to engage in party politics of UBP anymore but he didn't listen to them. AKP knew he was the shadow leader of the party before coming to power because he is deeply concerned by the property issue as UBP is at the center of the patronage regime. It was not only a war between Eroğlu and AKP, it was a war between AKP and the 'deep state' in Turkey for getting the biggest share in TRNC”.*

He regarded the “tension” between the incumbent presidents of UBP and AKP as an unveiling of the power struggle between the AKP and the so-called “deep state” in Turkey. In time, the balance of forces fundamentally changed in the north as well as in Turkey. Derviş Eroğlu, who conducted a “no” campaign before the Annan Referenda, stated ten years later that AKP's support for a “yes” vote for the referenda was the main reason behind the high percentages of the pro-federalist votes in the north. He justified AKP's “yes” campaign with the bottleneck of economy in Turkey at the time, yet praised Turkey's economic development after AKP;

“Had Turkey not intervened in 2004, 64% of the Turkish Cypriots would not have voted yes. This happened despite the fact that Turkey was on a tough spot economically back then. Now Turkey is at the peak of its economic strength.” (Kanlı, 2014).

It can be argued that the major success of the AKP governments after 2004 to prevent the deepening of the hegemonic crisis was its rapid shift for establishing new alliances without breaking the old ones in the north. As opposed to Turkey's traditional alliance with the so-called “state elite” in TRNC, AKP developed close relations with a wider range of social forces before 2004. The business groups, especially the ones represented by the KTTO (Kıbrıs Türk Ticaret Odası-Turkish Cypriot Chamber of Commerce), that were looking for a leeway from the financial crisis in 1999 and get rid of the *status quo* regime, welcomed this support. However, historically there was a rift between the commerce capital represented by the KTTO and the industrial bourgeoisie represented by KTSO (The Cyprus Turkish Chamber of Industry-Kıbrıs Türk Sanayi Odası) regarding their perspectives on the form of a solution to the Cyprus Problem. Their positions were dynamically changing according to the conjuncture and their relations with Turkey were a major political factor determining the changing

relations of production in the north. Although they both suffered the consequences of political uncertainties since the 1970s; the commerce capital had congenial relations with the Özal government which liberalized trade and finance in the north, in an effort to raise their trading capacity with Turkey and find their place within the global markets. However, by the mid-1990s, the KTTO growingly sided with the opposition for a federal solution as a series of economic and financial crises made it clear that trade concessions by Turkey was not sufficient to meet its demands; TL was devaluated and trade imbalance was growing, the CU decision that was signed between Turkey and the EU distorted the trade balance in the north, in parallel to the ECJ decision that put a *de facto* embargo on the TC goods. The prominence of KTTO increased significantly after the 1980s as the Özal government directed the TC economy towards trade rather than production and as a part of the particular export-oriented strategy in Turkey, the neoliberal agenda not only put an end to the TC industry in the north, but it also prevented the new ones from being long lived. The TC bourgeoisie was directed towards trade as the TC industry was curtailed as a result of the de-industrialization process after the 1980s, and in this sense, it can be argued that it was in a similar tendency with the Turkish bourgeoisie.

KTSO was another business association that was affected by the poor conditions for investment and lack of incentives for industrial development in the north. KTSO members, who suffered from the “political uncertainties” on the island, were concerned by the increasing volume of Turkish imports that were, as a KTSO member put it, “swallowing” the TC industry which hindered the growth of the real sectors in the north. Nevertheless, they had the power to negotiate for more incentives with Turkey and with the TC State as long as Denктаş was in power. Hence, for KTSO, ending the “political uncertainties” with a settlement did not necessarily mean a “federal” solution; to the contrary, a confederation was preferable under the current conditions, which would mean proximation with Turkey’s economy with “negotiable” competition conditions, and the protection of the weak domestic sectors from harsh global competition. The Chamber’s perspective had its own practical reasoning until the early 2000s, until which the Turkish economy was not yet competitive and transnationalized through mergers and articulation to the global capital (Öniş, 2010). However, after the 2000s, Turkish economy’s market capacity massively expanded

and not only the İstanbul based big capital but also the emerging Anatolian Tigers were gradually articulated to the global markets.

Prior to the Annan referenda there was a relative increase in the prominence of the KTTO as a political pressure group against Denктаş supporting a pro-EU, federal solution, while the KTSO was traditionally supporting the idea of a confederation and sided with Denктаş and the Turkish government in the referenda process, it was critical of the UBP government for not taking the necessary economic precautions (Directorate for EU Affairs, 2003) to protect the TC industry. Although the Annan plan failed to unite the island, KTTO became the first institution in the north to be recognized officially by the EU after the Green Line Regulation was put in effect in 29 April 2004. It opened a representation office in Brussels soon after the EU Commission decided to delegate some tasks such as management of funds and application for grants as well as helping TCC with their adaptation to the EU regulations. According to Kyris (2013, 2016), KTTO became an informal partner of the Commission and an important lobbying centre for the TCs with the central role of establishment of Direct Trade Regulation, the pending proposal by the Commission since 2004. However, the dominance of the business groups changed gradually after the referenda process; TÜSİAD and KTTO, that were forwarding a pro-EU solution in Cyprus, lost their political role as pressure groups. The social consensus in favour of a federal future were dramatically altered by the shift in AKP's pro-EU narrative. KTTO lost its prominent role within the political struggle and the alliance between the business groups and the civil society was weakened considerably by the mid-2000s. The privatizations became a priority and the EU perspective gradually demised.

The neoliberal transformation of the TC State determined and dramatically altered the class relations and alliances by the mid-2000s. In the aftermath of the referenda, the Turkish Embassy was criticized for conducting AKP's civil society projects through which they financed associations and the civil society groups. There was growing complaint about the rising number of immigrants from Turkey who acted as a reserved army of labour, a businessperson interviewee argued that

*“today the population in the north is 800.000 but the ‘native’ TCs only numbers to 100-130.000 which will make us a minority. This (migrants from Turkey) is against the Geneva Convention but we as the TCC also have a responsibility; the trade unions and political parties couldn't resist strongly enough to stop this process”, “...in the 2002-2004 period, we collaborated with the capital but we could only change the*

*government, not the power structure, there is no such power/capacity of the governments to do so here”.*

The “Civil Society” lost its so-called “transformative power” and the trade unions gradually retreated from the alliance in the post-Annan Plan period. This period marked a rupture in the state-society relations in the north; one of the politician interviewees defined the feeling of disenchantment within the TCC in the aftermath of the Annan Plan by a striking comment; “the civil society is dead”.

After the Annan Referenda failed and the opposition movement lost its momentum, AKP Government broadened its alliances by developing its relations with UBP. UBP was struggling with its internal problems after its defeat in the 2003 and then in the 2005 elections. It was one of the most important institutions within the political and the economic structure in the north; it was more than a political party, rather a state party that was at the centre of power relations holding a grip of the patronage regime and the accumulation strategies in the north.

One of the politician interviewees claimed that one of AKP’s main goals in the north was to control UBP by deepening the political cleavages within the party; supporting İrsen Küçük to replace Derviş Eroğlu, whom AKP was not quite fond of because of his dislike for “partial solutions”, and then supporting Hüseyin Özgürün against İrsen Küçük, and the next one against Özgürün, until it would take full political control of UBP by instrumentalizing financial aid and capital investments from Turkey as a tool to manipulate domestic affairs of political parties and eventually TC politics.

In this regard, the mid-2000s demarcated the beginning of another divide in the north and in Turkey, this time between the AKP governments and the military fractions in Turkey. This divide had started in Turkey soon after the 2002 General Elections. The AKP Government was regarded by a number of the so-called “left-liberal” intellectuals as the savior of democracy in Turkey, that “created an unexpected possibility of exit from the authoritarian regime established after the military coup of September 12, 1980” (İnsel 2003). AKP governments’ instrumentalized this rhetoric to expand the domain of a “false” dichotomy, one that posits the civil society vs. the state, which effectively established a link between the “September 12 regime” and “rigid statism” in Turkey. This dichotomy represented the “State”, not only as if it was a separate entity outside and above the society, but also as the opponent of the civil

society in Turkey. The linkage politics was based on the view that the tutelage of the “September 12 regime” was rooted in the Kemalism of the 1930s and was promoted by CHP (Belge 2009). The constant reproduction of this tutelage regime narrative and the so-called antagonism in-between the state and the society provided AKP the opportunity to position itself against the so-called *status quo* regimes in Turkey and in the north.

From the 2000s onwards, the “EU membership” of Turkey was anchored to, and almost conditioned upon, “getting rid of the tutelage regime”; McCargo and Zarakol (2012) argued that the AKP governments used a pro-democratic narrative in its early years in order to weaken the influence of the traditional “military and bureaucracy tutelage” regime in Turkey. After coming to power, the AKP government constantly refused allegations and concerns that were raised by the opposition and the military, that there was an Islamic reactionary threat against the Republic of Turkey, and certain Islamic communities, specifically Fetullah Gülen’s supporters were systematically getting organized as power groups within the military, judiciary, security forces, education and in other the governmental structures, with the aim to overthrow the secular regime. These allegations were outlined in the official reports by the Turkish Military and by the National Intelligence Organization since the 1990s (Milliyet, 2016), however the cases were closed as the leader of the organization was acquitted of the charges against him and moved to the US.

The Turkish Military was epitomized as the major force behind the oppression of the so-called Islamic “fractions” within the Turkish society and a barrier to democratization. Hence, the EU welcomed AKP’s “pro-democracy” rhetoric against the “military tutelage regime” and its “moderate” perspective towards a federal solution in the negotiation process, which gained impetus by the introduction of the Annan Plan to the island. From the EU perspective, not only the TC State but also the Turkish governments were powerless actors vis-à-vis the Turkish Military, which was portrayed as one of the main impediments for a federal solution in Cyprus. Michael Moran wrote in his letter to Ergun Olgun, the chief adviser to Denktaş and the head of the TC technical committee in 2003, questioning the military’s position in Turkey and in TRNC; “Today the Turkish army in the TRNC is not under the command of the

TRNC elected government. (Indeed, one may still reasonably doubt that the army *is* answerable even to its own government!).” (Denktaş & Moran, 2009).

During the Annan Plan, the conflict between the two camps turned into an open confrontation. AKP claimed that the Turkish Military had its own “independent agenda”, not necessarily a pro-EU one but rather one for preserving the status quo, and for the solution of the Cyprus problem “without a solution”. In defense, the Chief of General Staff of the Turkish Military denied that they were pursuing an independent agenda, claiming that they were rather trying to avoid a “concessive” plan that disregards Turkey’s security needs in the region “which would render the plans for the imprisonment of the Turks within the limits of Anatolia almost complete.” (Şimşir, 2003: 275).

While the refusal of the Annan Referenda by the GCs decreased the tension between the military fractions and the AKP government momentarily, the conflict was revived after the 2007 Constitutional Referenda in Turkey opened the way for the election of the Turkish President by a popular vote. This gave AKP a higher ground by the late 2000s to start a wide-ranging operation to trial the members of the “Ergenekon” (2008) and “Balyoz” (Sledgehammer-2010) organizations. These trials turned into a purge against the so-called “deep state” in Turkey, during which hundreds of high-ranked military officers, journalists, members of the opposition and the judiciary got arrested with false evidences (Kutay, 2016). Although the allegations varied, they were mainly charged for organizing a *coup* to overthrow the government by force. The “Ergenekon organization”<sup>51</sup> was alleged as an ultra-nationalist, crypto, armed terrorist group, organized mainly within the Turkish army which took control of the political structures, jurisdiction, media, education and many others, operating as a “deep state” to block the “democratic processes” and establish a “fear regime” in Turkey by the (re)production of a fear of Islamic reactionism.

It was claimed that the “tutelage” regime in Turkey had organic ties with the defenders of the so-called “national cause” and the “status quo” in the TRNC, impeding a federal solution in Cyprus. Turkey’s military quarters in the north were

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<sup>51</sup> The Supreme Court in Turkey rescinded the decision of the court of district, stating in its decision that such an organization does not exist, however the trials continued for the crimes committed during this period of time in the criminal court; the case ended in 2019, and all the defendants charged with being members of the organization, acquitted.

regarded as the “castle” of the *status quo* regime and the Ergenekon organization, hence AKP’s pitch against the Turkish military was regarded by as a historic pay-off of the turmoil during the 1990s between the civil society (that was restricted to Islamic movement at the time) and military powers (Ergenekon) in Turkey. This debate generated a deep cleavage within the Turkish society during the 2000s, and it was eventually reflected to the north. One of the journalist interviewees argued that the Ergenekon was deeply rooted, and even born, in the north and this was the reason behind AKP’s interest in taking control in the north; “*they know that if they succeed to tackle Ergenekon here (TRNC) only then they would be able to end it in Turkey*”. The ex-President Denktaş’s name was among the politicians related to the Ergenekon case, despite his refusal of the allegations (Radikal, 2009). After his term in office as the second president of TRNC, Talat also blamed Denktaş and claimed that it was the Ergenekon organization who “led to the collapse of the Cyprus Cause” (Kılıç, 2009). Despite the opposition’s claims and TMT’s alleged ties with the so-called “deep state” in Turkey since its establishment (Bora, 2005), there were no evidences for Denktaş’s Ergenekon membership and the allegations failed. However, once the trials began in Turkey, the story hit the headlines of the visual and printed media, leaving little room to cover the kick-starting of the privatizations, shrinking of the public sector and deregulation of the labour market in both the Turkish and the TC economies.

A journalist interviewee argued that, it was a priority for AKP to take control of UBP mainly because UBP was perceived as the fortress of the so-called “Ergenekon structure” in the north. The TCC’s perception of the “Ergenekon” allegations of AKP; as Islamic reactionism was never able to become an organized movement in the north, hence the TCs were estranged to the idea. To the contrary, they were closely acquainted to the “Ergenekon” phenomena since the 1960s, which the TC opposition regarded as the main reason behind the dead-lock in the Cyprus negotiations. This case increased the popular support for AKP in the north; one of the journalist interviewees believed that despite AKP’s long-term war, conducted in the Turkish courts against this so-called terrorist organization<sup>52</sup> the “deep state” leading to numerous trials and

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<sup>52</sup> The Supreme Court in Turkey rescinded the decision of the court of district, stating in its decision that such an organization does not exist, however the trials continued for the crimes committed during this period of time in the criminal court.

arrestments including the chief of military in Turkey, was still an on-going process in the north. A politician interviewee described “Ergenekon” as an ultra-nationalist ideology which dominated the traditional Cyprus Policy of Turkey, and argued that it was founded in the north as early as 1958s, thus still remaining as a fortress of the ultra-nationalist foreign policy, defending a two-state solution on the island (Yeni Düzen, 2013; Cihan Haber, 2012; Kıbrıs Postası, 2012). He argued that the Security Forces Command in the north was regarded as an autonomous military structure that was aloof from AKP’s influence, hence AKP was determined to take control of UBP, which had good relations with the Command in the north, especially after Denktaş withdrew from the Presidential Elections. One of the journalist interviewees described this as “only an illusion of power struggle”,

*“...nothing changed in our reality, we are living under authoritarianism in either ways, only their outlook is different, the ‘pressure’ is dressed in a civil outfit nowadays, it just took out its uniform...”*

The creation of a so-called fault line and antagonism between the “old” and “new” Turkey provided the new government the opportunity to promote a “pro-solution” discourse as opposed to the traditional “red-line” of the Turkish Foreign Policy during the Annan Plan. Denktaş was posited as a symbol of the “old” Turkey and the military and bureaucratic fractions sided with Denktaş and was clearly opposed to AKP’s pro-EU narrative. The then TC Prime Minister Derviş Eroğlu clearly conducted a “no” campaign for the Annan Referenda in the north, as Papadopoulos did in the South, and had stated that "failing to solve the Cyprus problem is a solution in itself", meaning that keeping the status quo is better than a failure for a comprehensive solution in Cyprus, and he declared that;

“I began a no campaign because I didn’t believe the plan served the interests of the TCs, I could have run a yes campaign and received applause. A person may be fooled once but if he is fooled the second time, I don’t know what he should be called.” (Kanlı, 2014).

Although the UBP campaigned for a “No” vote during the Referenda, the results showed that the majority of the TCs voted for a “federal future” under the EU membership of Cyprus. This was also evident in the interviews; most of the interviewees hesitantly touched upon other options, such as the two-state solution only as the “last resort”. Among other options, the so-called “Czechoslovakian Model” was represented as a preferable option, connoting a separation or ‘velvet divorce’ as it was commonly referred to, between the GC and the TC communities. This was rather

deemed as ‘velvet unification’ by some of the interviewees, should the divorcees be united again under the EU framework as two separate sovereign states. A politician interviewee presented this idea as a preferable solution to the most problematic topic in the negotiations, which is “power sharing”, arguing that the “power” under the “velvet divorce” framework would be shared with the EU, not directly with the GCs which would make it less problematic for the TCs. However, most of the interviewees didn’t find this as a realistic alternative to the federal model, claiming that the TRNC could never become an EU member state on its own without the approval of the GCs, and moreover without Turkey becoming a member as well. Hence although majority of the interviewees regarded the EU as the major reason for a deadlock after the Annan Referenda process, causing a major imbalance in the intercommunal relations by decoupling RoC’s EU membership from a federal solution, they still regarded the EU as a reliable actor and a potential mediator for a federal solution as long as the GCs are willing for it. During the Annan Referenda in 2004, the EU was seen as a primary actor followed by the UN, however after 2004, the EU lost its popularity in the north and left the ground to UN’s mediation. The EU started losing its popularity in Turkey after 2004 as well; according to Eralp (2015: 168), “Turkish political elites became less and less sensitive about the reform process and the relevant commitments and deadlines”. Moreover, Eralp pointed that the referenda in Cyprus in 2004 and the membership of the Republic of Cyprus without a solution of the problem were important developments affecting the downturn in the Turkey-EU relationship after 2004.

Before the TCs had time to recover from the results of the referenda, on 26 April 2004 the Council declared its determination to put an end to the isolation of the TCC, however it also declared that the *aquis* was suspended in the north and referred to the north as ‘the areas of the Republic of Cyprus in which the government of Cyprus does not exercise effective control.’ (Protocol No 10 on Cyprus, 2003, Article 1(1)). Although the so-called “Areas” constitute EU territories, they were excluded from the Community’s customs territory (TEPAV, 2007). The Council’s decision rendered the TC State as an outcast, hence “Europeanization as a process”, which denoted “patterns of change” (Featherstone & Kazamias 2000) through the effective convergence of the national structures and policies with the EU as well as adaptation of the *acquis*, ended in the north. In this regard, the EU membership of the island in 2004 was a critical

juncture; although it united the communities on the island under EU citizenship, it actually deepened the divide by leaving the north out of new EU borders on the island. This situation not only deepened the divide between the TCs and the GCs but also led to another divide within the TCC; while the TCs who were eligible for getting EU passports attained their citizenships, others, i.e., the children of TCs who are married to Turkish citizens, wouldn't be able to have EU passports. This process asserted another case for the EU's asymmetric integration processes (Verdun, 1996; Cantore, 2011; Scharpf, 2010).

The studies on EU integration process demonstrated that the “asymmetric” integration of the EU, whether between judicial and legislative action (Scharpf 2009) or asymmetric relation between the actors (Maris & Sklias, 2020) is not an aberrance. Scharpf (2009: 12) pointed to the highly asymmetrical institutional configurations of the European integration process after 1970s; while attempts for removal of national barriers to trade through legislative harmonization was impeded by the “joint decision trap” of the EU, the “Integration through Law” was able to move forward “without political interference” as the judiciary adapted private sector friendly laws by both “protecting and extending their treaty-based rights”. Maris and Sklias (2020), focus on asymmetric power “in order to understand dynamics and change in the EMU and to determine through which mechanism the economic integration process has been asymmetrically promoted.” (p. 634). While the EU integration literature described this as an “asymmetric” integration at the political, economic and the legislative level, it was a new phase of uneven development of neoliberalism on the island, one that continued its journey via the neoliberal transformation of the GC state, that is anchored to the EU integration process.

A journalist interviewee argued that EU's involvement in the Cyprus issue in early 2000s ended up with the membership of the island in 2004 under total GC control, however the GCs ended up with losing their sovereignty to the troika after the financial crisis. He pointed that EU membership created a further divide between two communities and he asserted in irony that the EU's intervention was similar to Turkey's intervention to the island in 1974, not in terms of their essence but in terms of their final outcome, as both of them used the rhetoric to “bring peace” to the people

of Cyprus but ended up with a permanent divide, yet the EU did this without “shooting a bullet”.

A journalist interviewee claimed that AKP’s period was the most difficult period since the post 1980 military coup in Turkey, which had a direct authoritarian effect in terms of censorship on the press. Despite this tendency towards authoritarianism, he argued that they felt more intimidated in the past by the presence of the military in their daily lives and they feel more “secure” during AKP’s period in which the visibility of military decreased “...at least we are not afraid to be shot in the head on the street”, “...we hardly see the military in the streets now and this is a very positive development”. This perception enabled the establishment of an alliance with the TC opposition in favour of a federal solution in the first years of the AKP government. The journalist interviewee defined AKP as an “antithesis” to the status quo regime, which was reinforced by the presence of the military in the north, which they regarded as a psychological barrier for achieving a federal solution.

This alliance endured the hegemonic crises during Mehmet Ali Talat’s term for Presidency between 2005-2010, as the prospects of the TCC for a federal solution on the island was still on the agenda. The main reason behind this “hope” was EU’s positive remarks on the AKP government in its Progress Reports which gave support to the “constitutional reform” for a civil constitution and the continuity of AKP’s Ergenekon trials, the Commission stated that, "This case is an opportunity for Turkey to strengthen confidence in the proper functioning of its democratic institutions and the rule of law" (European Commission, 2009). During this interim period before the relations started to deteriorate between the social forces in the north and the AKP, and between AKP and the EU, a number of interviewees stated that AKP’s policy on the Cyprus problem was the most promising one since decades. Although they were not content with AKP’s enforcement of “Political Islam” upon the TCC, they believed that it was not a real threat as even if AKP would try hard to impose Sunni practices to the TCs, it will never be successful to spread them and change the cultural codes in the north, which were mainly shaped by the Alevi culture and a secular state ideology, strongly opposing the conservative ideology of the AKP.

One of the journalist interviewees gave the example of the rising number of Quran courses, which are seen as the main pillars of the “Turkeyization” project and

argue that the social and demographic structure in TRNC is not ready for such a deep-rooted religious transformation. A unionist interviewee argued that TCC have societal consciousness in “these kinds of issues”; when the officials in the Turkish Ministry decided to open a new Quran course during the summer school period in Nicosia, the teacher’s union (KTTÖS) reacted and quickly organized street protests against it in front of that school so that the İmam could not enter the classroom to teach. He claimed that although there is significant rise in the number of Turkish immigrants in the last decades<sup>53</sup>, AKP couldn’t be able to manipulate the demographic balance in its favour.

The exact number of the Turkish migrants in the north is one of the most controversial issues between the right wing and left-wing parties in the north. The results of the last census that was held in 2011 were still disputed, with the claims that the number of Turkish immigrants were not recorded officially on a regular basis and that the real number had peaked since 2011. A unionist interviewee argued that the numbers are distorted, but the rise in bread consumption and the number of cellular phones being sold indicated that the number of unofficial settlers is higher than the official numbers. The general claim was that the difference between the *de jure* population, 256,644 (inhabiting for more than one year and/or spending most of the year on the island, based on residential records) and *de facto* population, 265,100 (including permanent residents on the island on the day of the census, based on one’s declaration) gave a clue of the unofficial numbers. However, the CTP government openly rejected all these arguments in 2012 with their final report on the 2011 census claiming the accuracy of the numbers and the transparency of the data collecting process (TRNC SPO, 2006). There is another study made in 2007 claiming that there is no significant increase in the number of Turkish immigrants, rejecting the claim that the number of TCC in the north is shrinking (Hatay, 2007). Despite official counter-arguments, a unionist interviewee believed that the number of TCs in the north was dwindling even faster every day. He argued that this was “more than a feeling of extinction” but rather a critical process in which the TCs were becoming a minority in the north, the TC SEEs were being privatized, which meant that their statehood struggle was being eviscerated. One of the politician interviewees argued that even if

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<sup>53</sup> For a detailed study on the history of the demographical uncertainties in Cyprus see, Brey and Heinritz 1993.

the economic and political gap between the north and the south were evened out, a federal solution would still be difficult. He claimed that there are three key points for Turkey, which Turkey would never give up even for the solution of the Cyprus Problem, which would render a federal solution impossible. He argued that;

1. Guarantees: Turkey wants to keep its role as a guarantor state, the right that stems from the Treaty of Guarantee, as well as the Turkish troops as a whole or partly. The GCC and the international community would never accept this.
2. Free movement of people and capital: Turkey insisted on this for Turkish citizens but EU won't accept it because *the acquis* is regarded as functioning on both sides of the island. For this, Turkey should at least have privileged partnership with the EU, and that is not an acceptable offer for Turkey. Under these circumstances, Turkey won't be given the equal opportunities compared to a Greek entrepreneur and thus Turkey would prefer the *status quo* to persist, rather than losing its political and economic "privilege" in the north after a federal solution is reached. The number of Turkish immigrants in the north, which is not known in real numbers, is also a top concern for both the TCC and the GCC.
3. Continuation of the direct aid from Turkey to TRNC: EU would be happy to see that the financial aid from Turkey is continuous so that the Northern economy is kept alive without being a burden either to the EU or to the GCs. However direct aid creates a dependency relationship with Turkey, which the GCs are worried about. On the other hand, the trade unions are criticized as the main actors that foster this dependency relation; when the bonus wages (13<sup>th</sup> and even 14<sup>th</sup>) are not paid on time, they organize street protests and strikes which puts the TC government under pressure to abide with Turkey's fiscal "conditions". On the other hand, the unions also want a federal solution, which requires political/economic detachment from Turkey. This "dichotomy" creates a path dependency that led to a dead-lock in the Cyprus negotiations.

The third point was a widely shared perspective in the interviews, which blamed the unions, especially the civil servants' unions, for demanding an independent

rule from Turkey and wage increase at the same time. It is based on the “reasoning” that these two are irreconcilable targets and the waged workforce should make sacrifices from their “benefits” to have an independent state. This perspective was evident in Erdoğan’s as well as Özal’s reaction against the TC opposition and regards the wages as a “benefit”, not as an exchange-value of labour power, and the working classes as the main burden on the TC economy, regarding their demands for wage raise an abuse of power by the unions. However, it was also known that after the 1980s it was a strategy of the post-1980 Turkish governments to direct the TC workforce towards becoming civil servants.

## **5.2 The Demise of EUropeanization**

Although the EU had decoupled the solution of the Cyprus problem and the EU membership of the island long before the Referenda process, the majority of the TCC who casted a “yes” vote for a federal solution were frustrated by the EU’s decision to accept the GCs to the EU “with or without a solution in Cyprus”. After the rejection of the Annan Plan, Turkey, rather than the EU, gradually became the main anchor for the TC neoliberal transformation, despite the sluggish GDP growth of the Turkish economy when compared to the EU members (28) (Figure 5.1). In other words, the disjuncture between Europeanization and neoliberalization after 2004 made Turkey’s neoliberal agenda a compulsory “model” for the TC economy. The EU’s aid program as well as the Green-line regulations remained as insufficient measures (Figure 5.2) to reconcile the gap between the two economies on the island, which was widening since the 1960s. While the Commission initially “implied” that the solution of the problem would be considered as a conducive progress for membership, the shift in EU’s position was a critical juncture, which decoupled the membership from a federal solution.

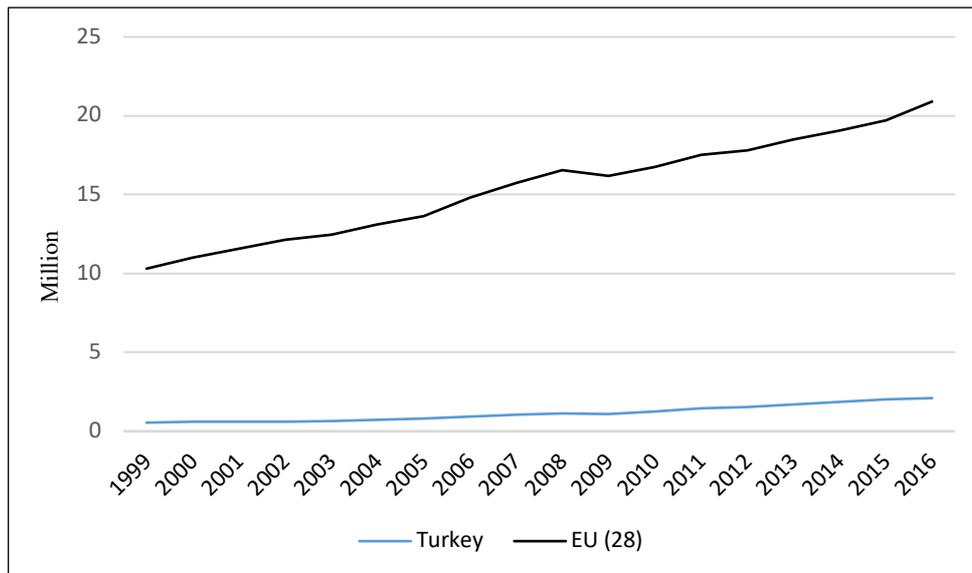


Figure 5.1 GDP (Turkey-EU) Total, Million USD, 1999 – 2016.

Data: OECD, Gross domestic product (GDP) Total, Million USD, 1999 – 2016.

Five days after the Annan Referendum, on 29<sup>th</sup> of April, 2004, the Council decided to put “Greenline Regulations” into effect, which allowed the circulation of people, goods and services between two communities. This was regarded as an attempt to reduce the economic pressure on the TC economy after the membership of the GCC to the EU as the sole representative authority and the suspension of the *acquis* in the north. According to Skourtais (2011: 49), this regulation, which represents a good example of the “pragmatic approach” of the EU regarding the Cyprus problem, “managed to lift partially but effectively the isolation of the Turkish Cypriot Community without recognizing any other authority on the island apart from the legitimate Government of the Republic”. Article 1 of Protocol 10 of the Act of Accession 2003 of Cyprus to the European Union affirmed, “the suspension of the *acquis* in the areas of the country which are not under the effective control of the Government of Cyprus”. However, it also noted “the Protocol shall preclude measures with a view to promoting the economic development of the areas”. The regulation was put into effect in February 17<sup>th</sup>, 2005 allowing KTTO to provide the official papers for the goods to be exported to the south without being subject to taxes and/or any other additional charges (Aran, 2006).

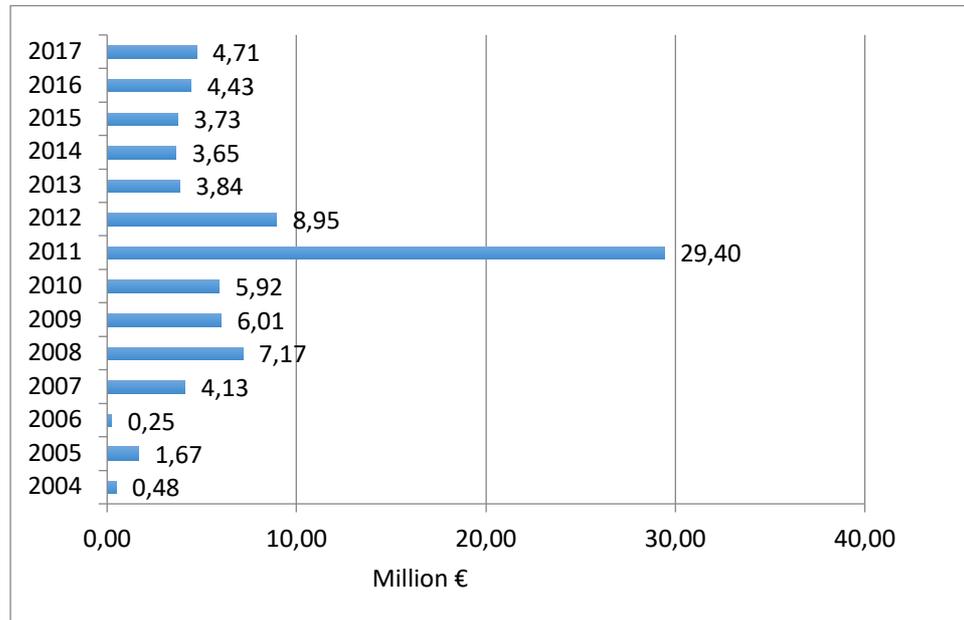


Figure 5.2 Overall sales to the South via the Green Line.  
 Source: KTTO, Green Line Statistics.

The EU Commission promised to pay €259 million between 2006-2011 and the gradual lifting of the embargo on the north and declared the EU directive for Fiscal Aid and Direct Trade. This was regarded mostly as an effort to reconcile the membership of Cyprus to the EU without the north. The optimism for a solution in the north rose together with the economic aid as well as political support coming from Turkey and the EU however, the pro-federal inter-class alliance in the north was already weakened by the rejection of the Annan Plan. The “new” association agreements with Turkey were pushing for further liberalization and fiscal discipline in the TC economy which received wide reaction in the north however, the weakening of the opposition alliance significantly decreased the capacity of the TC opposition to stand as a united front against the the gradual seizure of the TC SEEs by the Turkish business corporations. Furthermore, The TCs were concerned by the rising number of courses for teaching Quran and Sunni Islam practices accompanied by increasing number of Mosques in the north. One of the journalist interviewees regarded these as a “social project” to eradicate the secular TC identity and culture.

Although the Council's decision was taken in an effort to bridge the gap between the two economies, and between the two communities, it wasn't sufficient to compensate for the growing unevenness between two economies; in terms of economic development and market competition, the volume of TC trade via Green Line to the south had a limited boosting effect on the revival of the TC economy (Figure 5.2). Even in 2011, just before the financial crisis in the south, the gap between the south and north was striking; while the GC economy had a total export volume of €6.310,6 million within which 68% was made to the EU countries (Aksoy, 2003:31), the TRNC's export volume to the EU countries was \$42.6 million and to Turkey \$61.3 million. According to Anastasiou (2009:242), the GC government was trying to offset the criticism coming from the EU by exhibiting economic "benevolence" toward the TCs through the economic integration of the north and the south, which was nevertheless limited in terms of scope and effectiveness. Kaymak (2010:10) argued that EU's Green Line reified borders instead of diluting their significance and the Cyprus problem has been transformed into one of applying the *acquis* in the north. According to Kaymak (2009:139), while the EU has "less and less to offer to Turkey", chances for a settlement of the Cyprus problem under EU incentives was bleak by 2010. On the other hand, the EU membership prospect was still regarded as "the carrot" for the Turkish Cypriots to settle down a solution, despite EU's unsuccessful attempts to play a significant constructive role since 2004. The downturn of the EU agenda was reflected to the economic figures as well; according to Günçavdı, in the late 1980s, the TC economy achieved almost 7% growth rate by generating only a 5.4% current account deficit as a share of GNP, while the north's economy once again brought about the need of large external financial resources as a remedy to a 6.3% deficit of GNP in the period of 2004-2007 (Günçavdı & Küçükçifçi, 2009).

The opening of the borders in 2003 was a political and an economic maneuver to bridge the gap between the north and the south however, the two big financial crises following its realization weakened its effect. Moreover, the tendency to narrow down the context of "change" into a partial economic integration framework extended this rationale over the handling of the substantial issues on the island. In a similar manner, the hydrocarbon discoveries in the SEM, which was initially promoted as a "would be catalyzer" for peace, evolved into a basis of conflict of interests when the GC

Government decided to grant licenses for the exploration activities to the global oil and gas companies, in the absence of a political solution between the two communities.

The EU kick-started its giant integration with ten new members in 2004, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia, followed by two more in 2007, Bulgaria and Romania. However, a few years later the Eurozone came to the brink of a severe economic crisis. The global financial crisis between 2007-2008 was followed by the debt crisis in the Eurozone and then by the bailout of Cyprus in 2013. The slow growth rates in the economies of Greece, Ireland, Italy, Portugal and Spain were in high contrast to the competitiveness of the German and French economies. According to Talani (2016: 11), this asymmetry denoted not only the need for a fiscal integration in the EU but it also “confirmed the lack of sustainability of a structurally asymmetric monetary union in the wake of an extremely serious economic shock”. According to Hadjimichalis (2011:254), apart from its macroeconomic foundations, the crisis in the south had a geographical component due to “uneven geographical/regional development among Euro-regions, especially since the introduction of the Euro”. However, Jessop (2013) argued that this unevenness is closely linked to the rise of authoritarianism, financialization and the resulting decline of democratic governance; the growing gap between the national governments and the world market integration are strengthened by the expansion of a finance-dominated accumulation that is tied to new forms of political capitalism.

The “success” of EU’s regional convergence policies needed a closer look regarding the existing gap between the Southern economies and the rest of the EU, which was revealed during the Eurozone crisis in 2009. However, the ultimate belief in the benefits of EU membership and the miracle of the “market” follows the neoclassical view that uneven development is just a temporary stage towards capitalist development and so-called “economic growth”. According to this approach, by the “virtue” of the free market, equilibrium over space and time will come, leading to an eventual convergence or “modernization” (Gregory et al., 2009: 780; Sherman, 2002:604). On the other hand, for Mandel (1976: 24), “The CMoP must, by its very essence, lead to periodic ruptures of equilibrium, and that under capitalism economic growth must always lead to disequilibrium, just as it is itself always the result of it”.

The liberal integration approach, which focuses on the “economic spill over and welfare gains from policy coordination in the Euro Area” (Weyerstrass et.al, 2006) lacked to point out what the dependency theorists show in regards to the relationship between the foray of the international capital and the preserving the *status quo and/or* deepening ethnic conflicts.

The attempts to re-unite the island by the “virtues” of EU membership during the 2000s under a federal state was also a step towards evening-out the political and economic unevenness on the island generated by the uneven development of capitalism. It was argued during the Annan Referenda that the EU membership would “enforce” the articulation of the TC economy to Western Capitalism as integration with the GC Economy would “automatically” lead to an even development of both economies towards peace and “prosperity”. However, according to Serfati (2016), the EU integration process does not automatically generate an even development for every member state; “public institutions at the community level play a major role in reinforcing unevenness in favour of leading countries, in both the productive and financial spheres” (p. 259) and EU’s less-developed member states are rather forced “not only to adopt both modern technologies and accept core countries’ finance capital, but also to implement the EU political rules that work in favour of the most powerful capitalist member states” (ibid.). Hence, he argued “the economic and political drivers of EU integration have been closely intertwined, confirming that political institutions form a key component of contemporary capitalism” (ibid.), making the EU integration process a political and economic mechanism that produces rather than eliminate unevenness between the member states. Serfati pointed that the conditionality clause for Eurozone membership forced the member states to make strict adjustments to articulate into the core member countries’ markets and finance capital, which aggravated the internal structural imbalances of the Southern European member states<sup>54</sup>.

It may be argued that Serfati’s perspective which regarded EU integration as a medium of uneven and combined development of capitalism had a context in the case

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<sup>54</sup> Borrowing Trotsky’s definition, Serfati defines these countries as the new “backward nations” and argues that the imbalances between their economies and the core members as the limits of the ‘advantages of backwardness’.

of Cyprus, regarding the direction of FDIs after the EU membership of the island in 2004 and its entry in the Eurozone in 2008. The geopolitical competition generated by the UCDC took different forms by the 2000s; A comparative analysis of the foreign direct investment (FDI) that flows to Turkey, to RoC and to TRNC would provide us a picture of how the neighbors of the TRNC absorbed the “potential” in the region after Cyprus became an EU member in 2004. While the TRNC had limited “capacity” to let foreign direct investment (FDI) into its economy due to GC’s restrictions on the foreign investors who are willing to make ventures or buy properties in the north, the FDI to Cyprus (to the south) was USD 1.161 billion in 2005, and it was USD 10.031 billion in Turkey for the same year (World Bank, 2020) (See Figure 5.3).

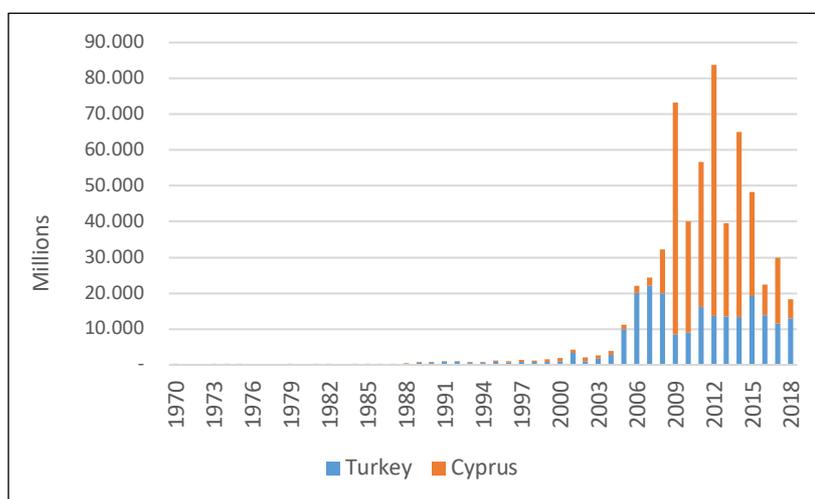


Figure 5.3 FDI Turkey & Cyprus, 1970-201.

Source: World Bank (2020), Foreign direct investment, net inflows (BoP, current US\$), Turkey, Cyprus.

Meanwhile Turkey’s direct aid to TRNC, in the form of financial aid and credits, was USD 217.2 million for the same year (TRNC SPO, 2015). Between the years 1984 and 2009, the FDI in Turkey was historically higher when compared to Cyprus, with an exception in 1999, when Turkey had a political and economic turmoil, engraved by the devastating earthquake in the Marmara region and by its exclusion from the EU integration process in the Helsinki Summit. It should be noted that the gap between the FDI to Turkey and to Cyprus began to widen in favour of Turkey after 2001, when the FDI in Turkey more than tripled Cyprus’s, and in 2005 the difference was nearly ten times. However, after Cyprus joined the Eurozone in 2008, the

difference between the FDI in Turkey and in Cyprus dramatically changed this time in favour of Cyprus; it jumped up to USD 64.632 billion in Cyprus, and decreased to USD 8.585 billion in Turkey in 2009. By 2010, despite the global financial crisis, the FDI was at a moderate level of 31.032 billion in Cyprus, and it was USD 9.099 billion in Turkey (World Bank, 2020), nevertheless, the rise in Turkey's aid to TRNC remained modest, by USD 363,9 million for the same year. It can be argued that the *de facto* statehood of the TRNC allowed for the flight of the FDI towards the south (RoC) and to the north (Turkey) of the TC economy, reinforcing the unevenness of capitalist development by directing the FDI in favor of RoC and Turkey.

It was also stated in the interviews that other foreign investment initiatives to the north was under the pressure of the GC governments. The business groups from Israel were interested in buying land and making investments in the north, they were able to do so only by making partnerships with the TC nationals or by hiding their names. The GCs were suing against the property developments made by European investors in the north, and succeeded to end up with the ruling of the ECJ in the Orams case that the decisions given by the Greek courts regarding the cases in TRNC was applicable in the UK, as well as in the other EU member states.

It could be argued that the conditions of this unevenness are constantly “reproduced” by the on-going neoliberal transformation in Cyprus, which was accentuated by the financial and hegemonic crises on both sides of the island. The geopolitical competition over the absorption capital flows in the form of FDI or the fight over the sharing of the natural resources in the SEM demonstrated the fact that the political and economic problems on the island cannot be reduced to a dependency problem between Turkey and TRNC but rather required focusing on the economic imbalances and the contradictions of capital in the region as a matter of uneven development of capitalism.

With little enticement towards a federal solution in Cyprus, this “new” state of affairs after 2004 led to a gradual “restoration” of the so-called *status quo* regime in the north, which was actually always “there” weakening and marginalizing the pro-federalist narrative within the TCC. Both the pro-Denktaş front and the pro-EU alliance were left in isolation after the refusal of the Annan Plan Referenda, this “power vacuum” in the north was soon to be filled with the neoliberal agenda of the AKP

Government. The EU lost its credibility as a catalyst in Cyprus which had both economic and political repercussions in the north. There were a number of political and economic reasons pointed by the TC interviewees on EU losing its ground as a “catalyst” on the island. One of the businessperson interviewees believed that EU lost its “credibility” as a result of the “anti-EU” campaign in the north conducted by Turkey, blaming the EU for the results of the referenda in the south claiming that; “EU didn’t hold its promise (to unite the island) in the past and it won’t hold them in the future too”. He argued that the EU had already lost its reputation as a neutral power hence attempts for advancing the EU reforms and *the acquis* in the north was easily halted by the officials (both Turkish and Turkish Cypriot), warning the people who attempt to apply for the EU funded projects, “these projects are a part of the EU reforms, which are not good for your (TC’s) future, don’t trust them”, and this “anti-EU” attitude caused a decrease in the significance of the EU reforms in return.

Another reason for the weakening of EU’s role in the north was seen as the weak economic impact of the EU financial aid. It is argued that apart from the partial scholarships provided to the students and the limited amount of aid given to the private sector, the TCC didn’t feel the direct transformative impact of the EU aid program on their economic and social welfare in their daily lives. While EU declared on the 30<sup>th</sup> of January 2002 that it would allocate €206 million over a three-year period to the north in case of a settlement of the problem, there was no settlement and the aid was spread to a longer interval. In the period between 2006-2018, the Commission allocated nearly €520 million to the projects for the Turkish Cypriot community under the terms of the Aid Regulation (Regulation (EC) No 389/2006). Although the total amount was more than promised, its impact was less than expected. According to Kyris (2018), the EU’s engagement in the TRNC is quite exceptional and it takes the form of “state avoidance”, by;

- “a- sui generis management of unrecognised borders,
- b- informal engagement with officials of the unrecognised state,
- c- replacement of public authorities with non-state actors and
- d- extensive engagement with civil society”.

Most of the interviewees, who supported the EU sponsored Annan Plan in early 2000s, were skeptical of the EU’s enabling role, even partly blaming it for the deadlock

in the negotiations and the refusal of the Annan Plan. A businessperson and a journalist interviewee shared the belief that the EU prepared this plan as a “trap” together with the GCs way back in 1994, during the European Council in Corfu, which stated that Cyprus would be a part of the next enlargement, regardless of an achievement of a solution, to enforce the GC demands upon the TCC and Turkey in the future. Although most of the interviews that were conducted in 2013 reflected a disappointment towards the EU’s “bias” against the north, there was also a sense of self-confidence in the north after the financial crisis hit the south while the TC economy was almost “immune” to the financial crisis due to the rise in the financial aid coming from Turkey.

A politician interviewee stated that EU was losing its relative importance and reliability compared to its position in the pre-Annan referenda period, but it was still regarded as a “potentially” important actor for a solution in the future. One of the journalists believed that this time, the degree of EU’s significance would be depending upon the progress in the EU-Turkey relations, pointing to the changing nature of the linkage politics between Turkey’s membership and the Cyprus problem after AKP came to power; a journalist interviewee argued that (early May 2013),

*“It was believed in the past that Turkey’s EU membership was conditioned upon the solution of the Cyprus Problem. AKP changed this perception after coming to power, today the solution of the Cyprus problem is conditioned upon Turkey’s membership, now we are (the TCs) more powerful than before in our position”.*

This optimistic perception was based on Erdoğan’s narrative stressing on “powerful Turkey” *vis-à-vis* “the World”, and on AKP’s combat against the “deep state” organizations as well as the “bureaucratic and military tutelage regime” in Turkey. This narrative which gained popularity in Turkey and in TRNC among the right-winged and centrist voters. However after the Gezi Protests started in late May 2013 against the rising authoritarian neoliberalism of the AKP Government (Bilgiç, 2018), which was actually “the manifestation of an accumulated resistance movement over the past decade” (Öniş, 2015: 29), both in Turkey and in the TRNC, the deterioration of the EU-Turkey relations, which was already in doldrums, slowly began to surface together with the corruption allegations against the AKP Ministers and Erdoğan’s family, “the powerful Turkey” narrative began to demise in the 2014 and 2016 interviews.

A businessperson interviewee complained that small businesses couldn’t use the EU funds provided to the SMEs in an efficient way, due to the lack of expertise for

project management in the business sector. He argued that the lack of a “state tradition” in the north hindered the transaction of a transparent tendering and project management process with a “facilitating approach” and with “less bureaucracy”, which they believed would pave the way for the business sector to grow faster. The lack of a so-called “facilitating approach” in the TRNC bureaucracy, caused many business owners to give up from the very beginning, regarding the long procedure of EU’s project management bureaucracy, which is deemed as “very complicated” for the inexperienced SMEs in the north.

While the EU was losing its reputation as a catalyzer, the UN was still deemed as the most important actor and a reliable mediator in the north. One of the businessperson interviewees believed that the reason for the refusal of the Annan Plan by the GCs was regarded as a result of the EU’s strategic fallacy and Turkey’s “short-sightedness”, not because of a misstep in the plan itself. He argued that sooner or later Turkey would have to pay for its “short-sightedness” because it infringed the UN decisions and EU law by flooding Turkish settlers to the north and breaching the Geneva Convention, as well as by constructing Mosques and other public/private facilities on the pre-1974 GC owned properties. According to Jensehaugen (2017: 366),

“The Fourth Geneva Convention of 1949 and its 1977 amendment deem settlement policies in occupied territories illegal. This deepened the quagmire of isolation for the new Turkish Cypriot state, and the question of the Turkish settlement has been and remains one of the most heated and deadlocked subjects in the ongoing Cyprus peace talks.”

However, one of the journalist interviewees reflected their concern for losing territory in return for equality;

*“TCC was forced to face its trauma after the Annan referenda; for many years it was assured to them by Turkey that there would be no territorial concessions in case of a settlement, but Annan Plan proved this wrong and there will come the time which we had to give land in exchange for reconciliation and for our freedom”, “...if we really want to settle the problem than we need to compromise to 25%”.*

This is regarded by the TCC as a difficult bargain to make in order to settle down the problem. The territory-statehood dichotomy is one of the most problematic issues regarding the federal solution. While most of the interviewees stated that they were ready to give some part of their territory and get their long-awaited statehood and “independence” in return, there is strong opposition either. One of the journalist interviewees argued that the 35% of the TCs who rejected the Annan Referenda was against a “barter” partly because they were afraid that they would have to give up part of their properties and land due to the UN Resolution 3212/1974 considering that “all

the refugees should return to their homes in safety and calls upon the parties to undertake urgent measures to that end". The interviewee also argued that the rejectionist camp, mostly populated around Kyrenia, doesn't want to give up their territory just for the sake of being a "weak" community within a "foreign" entity, namely RoC, which they don't even feel like they belong to either ethnically or politically because they are mostly the settlers who came to the island after 1974. One of the unionist interviewees argued that the "rejectionist" camp is mostly composed of Turkish immigrants, but they would also say "yes" to a pro-federalist referendum today (by 2013) if they are ensured that they will stay in the north after the solution because the hydrocarbon reserves around the island is more than enough to "convince" them. On the other hand, one of the rejectionist politician interviewees argued that neither the UN nor the EU could ensure the existence of the TCC as they would be biased against the Turkishness and the Muslimhood of the TCC. He stated that they (the TCC) don't attribute a distinct state identity to the TRNC other than being a part of the Turkish State (and define them as an ideological "whole") which he regarded as the sole reliable guardian of their political rights, property and existence in the north.

This "give and take" politics around the "territory vs. state" is another manifestation of the "linkage politics" shaping the Cyprus Problem, which turns the negotiations into a series of bargaining mainly over territory and renders it as the core of a federal solution between the two communities. On the other hand, the decoupling of the territory vs. state equation reveals another threat for the TC State; fueled by the latest presentation of partial solutions to the negotiation table either by the TC Government or by the GCs, such as the opening of Varosha and/or the Hydrocarbon drillings around the island. A common point in the interviews was that the interviewees insisted the avoidance of partial solutions for the sake of economic benefits. In this regard they believed that the UN had the least biased approach towards TCs when compared to the EU, which had an energy interests in the SEM. A politician interviewee argued that this was why the GC Government don't like the UN SG's special advisers in Cyprus. In this regard, UN was seen in "despair" for conducting a solution process on its own;

*"USA and UK are acting as if they are pro-solution under UN criteria however, they are actually supporting alternative ways such as partial solutions. EU on the*

*other hand had already negated its impartiality and influence on the subject by guaranteeing EU membership to the GCs way before the rejection of the Annan Plan”.*

Thus, most of the interviewees expressed their belief that a “fair” solution is likely only under the UN auspices, where they are represented as a politically equal community together with the GCs.

To the contrary, two businessperson interviewees, argued that UN made its first and foremost mistake when it enacted the UN Resolution 186 in 1964 which regarded the Government of Cyprus as the official government on the island, despite the violent attacks towards the TCs in 1963. Nevertheless, the main reason for the positive perception towards the UN was due to the active role of the Peacekeeping Force on the island, and the power of the UN Law and the UNSC measures on the communities. The UN General Assembly’s decision on the 1<sup>st</sup> of November 1974, 3212/3 is crucially important for the TCC in the sense that it stresses the bicomunal structure, stating “the Constitutional System of Republic of Cyprus concerns GC and TC communities”<sup>55</sup>. Hence the UN was regarded as a reliable mediator because it’s accepted *ex facto* by the General Assembly that there are two communities coexisting under the Cyprus State with equal rights to govern themselves.

A politician interviewee pointed to the fact that even “mighty” Denktaş couldn’t change UN’s position; although he had stated in the past “I am the one who represent the national cause, there will be two separate sovereign states on the island”. He argued that even Denktaş said it and truly believed in it, he wasn’t successful in pursuing it because it was simply against the UN Law. Consequently, it is widely believed that the TC’s sovereignty rights would be sustained only with a federal solution under UN’s guidance, which would provide political equality with the GCC. However, the UN’s role as a mediator also lost its ground to the political struggle between the local actors’ policy making agendas and hydrocarbon discoveries around the island. This was evident during the election campaigns to be held on the 28<sup>th</sup> of July 2013 in the north, in which the EU membership topic was not at the top of the propaganda campaigns as it was in the previous elections, as it was deemed as an “unimportant” issue for the voters, but returned back on the agenda of the government once the elections were over.

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<sup>55</sup> [http://www.un.org/en/ga/search/view\\_doc.asp?symbol=A/RES/3212\(XXIX\)](http://www.un.org/en/ga/search/view_doc.asp?symbol=A/RES/3212(XXIX))

One of the politician interviewees expressed his concerns for a second refusal of a federal solution by the GCs in a referendum, which he believed would result in a “tragedy” for the TCC. He believed that GC’s EU membership left no incentives to the GCs to vote for a federal solution. However, despite the fear for a second failure, he argued that the TCs were still hoping for a UN led solution in 2013, that would more or less be fixed around the following expectations;

- METU campus would be the border with the GCs, University of Lefka would remain in the north. The south of the Nicosia-Famagusta road will be given to the south.
- The territory of the 10-15 TC villages remaining in the south would belong to the TCC, but the administrative positions would be held by the GCs.
- Ercan Airport would be open to international flights.
- GCs would accept rotating presidency in return.

### **5.3 The Telltale Signs of a Changing Relationship; Privatizations**

The demise of the EU prospect led to the weakening of the inter-class alliances in the north; and to the demise of the EU narrative. The inter-class alliances which triggered a pro-EU movement before 2004 significantly weakened the federalist front in the north and Talat was rather engaged with fine-tuning a re-negotiation process with Papadopoulos, which soon ended up in failure; soon after coming to power, Talat publicly stated “The GCs Denktasified me” (Sabırlı, 2005), blaming the Papadopoulos administration for their uncompromised stance for a federal solution. Even after Papadopoulos lost the Presidential elections to Christofias in 2008, the intercommunal negotiations lost their pace despite efforts by Talat and Christofias as two federalist leaders; as the south had already started to sign the EEZ delimitation agreements with its neighbors by 2007 and the north entered a restoration period after UBP came to power in 2009.

Consequently, the second half of 2000s were a period during which TRNC was under political pressure from the RoC and the EU to adapt the *acquis*, as well as the economic and fiscal cooperation agreements signed with Turkey which resembled to the “stabilisation” packages of IMF. Although the neoliberal restructuring of the economy was coupled by EU membership in the GC case, the demise of the EU prospects didn’t mean a break from the neoliberal agenda in the north; in contrast, the

AKP government “shouldered” and speeded up the process once the demise of the EU prospect led to the weakening of the interclass alliances and consequently to the demise of the pro-EU narrative. The Association Agreements which were signed since the 1970s between the TCC and Turkey to foster north’s economic growth, took the form of “austerity packages” after 2006. While the CTP Government was reluctant to enact these reforms, the UBG Government put them into effect after coming to power in 2010 (Milliyet, 2010), despite harsh criticism from the opposition. The new era marked a breakaway from the notion of a state-led planned development model, which was the “essence” of the 1975 KTFD Constitution that also constituted the basis of the TRNC Constitution in 1983. This new era led to the foray of Turkish capital and neoliberal practices to the island, which had a relatively slow progress until the early 1990s, and it was followed by the shrinking of the public sector and the onset of privatizations.

The post-1980 governments in Turkey were reluctant to enforce the implementation of the reform programs upon the TC economy mostly because they lack the political and economic drivers, which would convince the bureaucratic and the military fractions of the ruling classes in Turkey on the “need” for a new state of affairs in the north. Moreover, there was an inherent dichotomy regarding the neoliberal agenda of the post-1980 Turkish governments and the statehood struggle of the TCC since 1963; while the economic reforms of the former foresee the shrinking of the public sector hence the state’s presence and intervention in the economic sphere in due terms, the establishment of the SEEs and empowerment of the public service sector were measures taken towards building the “statehood” of the TCC after 1974 in the first place. The AKP Government found the right moment after the rejection of the Annan plan by the GCs, to initiate the structural reform packages in TRNC which were reinforced by the EU membership rhetoric before the referenda.

The first step in Turkey’s strategy to overcome the economic and political impasse in the north was the privatization of the SEEs, which played a significant role back in the 2000s to initiate a political transformation within the TCC during the onset of the Annan Plan. The TC and the GC governments propagated the idea that privatizations would be a “cure” to the ongoing crisis, and to the inefficiency and nepotism in the public sector, without referring to the fact that the crisis tendency of

the capitalism was an inherent nature of it (Özdemir, 2015). The SEEs were criticized for having an inefficient management model, and for sustaining political nepotism in the north and they were almost demonized as the containers of the patronage system. However, their failure was not only a result of their instrumentalization by the political parties, but they rather came to the brink of bankruptcy as a result of a series of events and decisions which weakened the real sectors in the north. After the ECJ's "*de facto*" embargo decision on the TRNC products in 1994 and Turkey signing the CU decision with the EU in 1995, TRNC almost became a closed economy. The crisis in the late 1990s and early 2000s hit the TC SEEs that were stuck within the so-called "free" but isolated market structure of the TC economy, which was gradually deindustrialized after the 1980s.

The replacement of the ISI accumulation strategies of 1970s with neoliberal strategies after 1980s brought by institutional changes in the north by the late 2000s with the establishment of the regulatory authorities that aimed to prepare the TC economy for the upcoming transformation; YÖDAK (Yükseköğretim Planlama, Denetleme, Akreditasyon ve Koordinasyon Kurulu-the Council for Planning, Auditing, Accrediting and Coordinating Higher Education) was established in 2005, BTHK (Bilişim Teknolojileri ve İletişim Kurulu-Information Technologies and Communication Board) was established in 2007, RK (Rekabet Kurulu-the Competition Board) in 2009, and MİK (Merkezi İhale Komisyonu-the Central Bidding Commission) was established in 2016. These boards and commissions, acting as public authority, were "designed" to play a regulatory role between the market, state, and consumers by auditing, licensing, supervising and/or setting price controls. As the core of the neoliberal propaganda in the 1990s was established upon the "reasoning" that behind the economic crisis stand the incompetent and corrupt politicians, these institutions were established by special laws which provided them a so-called "independent" status from the executive. While the very existence of these bodies was justified on the ground that they were preventing the "political" interference to the market and avoiding the emergence of monopolies by promoting competition to sustain public good and consumer benefit, Zenginobuz (2008) argued that they nevertheless represent the "retreat of the state" from the economy, one which assigns

to the state a regulatory role rather than a redistributive one at the macroeconomic level.

Some further steps were taken in order to integrate the TC economy with global capitalism, such as the establishment of YAGA (Kıbrıs Türk Yatırım Geliştirme Ajansı-The TC Investment Development Agency) in 2007 after the signing of “TRNC-Turkey EU Cooperation Protocol”<sup>56</sup> between TRNC and Turkey on the 7<sup>th</sup> of December 2006, which envisaged fiscal discipline and the reformation of the public sector, mainly the social security system and the municipal administrations. YAGA (Kıbrıs Türk Yatırım Geliştirme Ajansı-TC Investment Development Agency) was established by the TRNC government to “regulate and promote the investment environment” hence attract international capital to the country, as well as to monitor the performance of the public institutions accordingly to help them adapt to the new structure. YAGA immediately started preparing an investment guideline on the TRNC to attract “global” investors by using the ease of doing business index methodology of the World Bank; in “Doing Business Report: Northern Cyprus”, the agency defined its goal as “to act as a facilitator in the provision of land and incentives and deal with cumbersome bureaucracy for dealing with licenses and starting a business”<sup>57</sup>. The “Investment and Incentive Guideline for the Investors”, that was prepared by the TRNC State Planning Organization (2018) also involved recommendations for the investors, offering them a handbook for facilitating the investment process. However, all these attempts targeted to attract the investors from Turkey, which became an increasing concern for the TC bourgeoisie who had limited competitiveness *vis-à-vis* the big capital in Turkey, hence even though they supported the shrinking of the public sector, they were hesitant to give support to the rapid privatizations that would be confined to investors from Turkey. In parallel to the investment guidelines, the AKP government initiated a restructuring program for the TRNC economy by the signing of the 2007-2009 Economic Association Protocol with the TC government, enforcing structural reforms in the public sector, social security system, local administrations, and the privatization of the SEEs.

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<sup>56</sup> Müktesebat uyumu konusunda teknik konuları kapsamakta ve AB üyelik sürecinde iki ülkenin işbirliği yapmasını öngörmektedir. Kamunun ekonomiyi düzenleyici ve denetleyici nitelikte olması; Serbest piyasa ekonomisinin işlerlik kazanması gibi politik vizyonlar içerir (İKV, 2006).

<sup>57</sup> Guide for Investors, <https://yaga.gov.ct.tr/>

Although there had been no particular laws enacted for covering privatizations until 2012 in the north, the process was already in progress beginning with the privatization and the demise of the Industrial Holding (Sanayi Holding) and the KTTİ Ltd. Şti. (Kıbrıs Türk Turizm İşletmeleri-TC Tourism Administration Company) in 1997-1998, followed by TAŞEL (Türk Alkollü İçki ve Şarap Endüstrisi Ltd. Şti. - Turkish Spirits and Wine Industry Company) in 2003 and limiting the activities of others such as ETİ Company (Industry, Trade and Operation) (Güven Lisaniler & Eminer, 2003). The conjoined privatization process of the State Enterprises in Turkey and in the north unveiled the combined structure of the Turkish and TRNC economies; TAŞEL was founded in 1961 as a joint venture, belonging 51% to the TCC Assembly and 49% to the Turkish SEEs, namely to TEKEL (General Directorate for the Administration of Tobacco, Tobacco Products, Salt and Alcoholic Beverages), and to İş Bankası and Şişecam A.Ş. The Privatization of TEKEL, which was one of the largest SEEs in Turkey took place in 2003 and it was a benchmark for the *modus operandi* in Turkey; according to Yalman and Topal (2017), it not only introduced informalization processes to the public sector, but also functioned as a labour containment strategy by the AKP government later in 2009-2010, imposing precarious employment for the workers despite their strong resistance. When TEKEL was privatized in 2003, TAŞEL was automatically privatized in 2004. TCC Development Fund still holds 31.9% of the shares.

The 2007-2009 Economic Association Protocol was the first agreement that introduced the conditionality principle to the aid agreements by tying the continuity of the aid to a set of reforms to be made in the TC economy such as the privatizations and shrinking of the public sector. The visibility of the neoliberal process in the north was made public via the signing of the Protocol between Ankara and Nicosia. The so-called “austerity package” linked the continuity of Turkey’s financial aid and cooperation to the realization of the reforms in the public sector. At the end of this period, one of the biggest public sector companies, KTHY, ended up in bankruptcy because it wasn’t able to pay its debts. The report prepared by the deputies of CTP (2017) argued to the contrary that the company didn’t go bankrupt, but rather gave the notice of termination due to political pressure from Turkey and Turkish Civil Aviation Office. KTHY was established in 4 December 1974 and started its scheduled flights in 1975. TCC

Assembly Consolidated Fund and Turkish Airlines (THY) were the 50%-50% shareholders of KTHY until THY sold its shares to ADA Airlines a company," which was taken over by the TRNC. The report was claiming that although KTHY was qualified for receiving the ISO 9001-2000 Quality Certificate in 2006 and was flying to Trabzon, Gaziantep, London and to Birmingham by 2006-2007, it was left obsolete intentionally as a result of the disagreement between the Turkish Civil Aviation Officials, THY and TRNC government, as well as the inefficient choices and uneconomic decisions of the TRNC officials after the partnership between THY and KTHY ended. They argue that, after the TRNC state acquired the shares of the KTHY from THY in 2005, the Turkish Civil Aviation Officials treated KTHY as a foreign airways company and left it to a fierce competition with the private Turkish Airline companies who afforded to offer cheaper prices. Later in 2009 when UBP came to power, the Economic and Financial Cooperation Protocol was signed with Turkey and the re-structuring of KTHY was left to THY's guidance. According to the report, during the signing ceremony of the protocol PM Erdoğan advised to TRNC PM Erođlu, to "either privatize or close down the company", "like we do in Turkey".

The Cyprus Turkish Petroleum Ltd. Company (CTPC-Kıbrıs Türk Petrolleri Limited Şirketi) was an association of Turkish petroleum company, Petrol Ofisi A.Ş (PO) with 52%, and the TRNC Development Fund with 48% of the shares. Petrol Ofisi AŞ (PO), a Turkish SEE responsible for petroleum distribution, which started its operations in 1941 in Ankara as a public enterprise, was privatized with a 51 per cent block sale and it was listed in the National Program of Turkey among the "positive developments in the privatisation program" (Directorate of EU Affairs, 2001). PO was privatized after a long and contentious process which started in 1998 and ended in 2002, when the last public share of the company, 25,8%, was also sold to İş-Dođan Petroleum Investment Corporation. In 2005 İş Bankası sold its shares to Dođan Holding, and in a two-step process in 2006 and in 2010, Dođan Holding sold all its shares to OMV Holding, an Austrian oil and gas company. In November 2011, PO sold its shares together with the governments' shares and CTPC of TRNC was privatized; 90% of the shares were sold to Mustafa Hacı Ali Ltd. and KPM Energy Ltd. Partnership leaving only 10% of the shares to the TRNC Development Fund (K-Pet, n.d.). The head of the Dev-İş Union calls the bidding process an "unlawful" one,

as the TRNC Development Fund's shares were casted in a "suspicious" buying and selling process and were later sold to a company named KPM (Kıbrıs Postası, 2012). The trade unions were critical of the process claiming that it was not a transparent process, and nobody knew to whom KPM belonged to, "probably" a branch of the Indonesia based oil and gas company the union said, which was not a registered company during the time of the bidding process.

KTTE (The Cyprus Turkish Tobacco Industry Ltd. Company was operated in association with the TEKEL Company A.Ş of Turkey between 1975-2008. It was privatized in 2008 with the other TEKEL brands under the provisions of the privatization law No. 4046 for USD 1.720 million to British American Tobacco (BAT) (IBP, 2015:80), and KTTE signed a franchising agreement with BAT to continue producing its brands; "TEKEL 2000, TEKEL 2001 and SAMSUN 216" together with BAT's brands "Most Virginia, L&H and Most" and other sub-productions (KTT, 2018). Notably, KTTE's president was also the head of the committee on ethics of the Turkish Directorate for Privatization. Cyprus Turkish Tourism Enterprises Ltd. declared bankruptcy in 2010, the same year with the KTHY. The Turkish Alcohol Drink and Wine Industry Ltd.'s (TAŞEL) 51% of the shares were owned by TEKEL and %12 by İş Bank and Şişe Cam Industry. After the privatization process of TEKEL's alcoholic beverages industry and trade division was completed in Turkey, TAŞEL was automatically privatized in 2004 and 66% of its public shares were sold gradually to a joint venture partnership of Nurol-Limak-Özaltın-Tütsab companies under Mey Spirits Industry and Trade Company, following the decision by the High Authority of Privatization dated and numbered 22.12.2003 and 2003/85 for privatization. Later İş Bank also sold its shares to the consortium and MEY owned 66% of the shares while TRNC Development Fund owns 31.9% and private and legal persons owns 2.1% (TAŞEL, n.d.).

The CTP-AKP relationship was criticized by the TC opposition and the trade unions on the ground that CTP's leadership wasn't able to resist AKP's pressure to steer the post-Annan period both to transform the TC culture towards Islamization, and to push for the privatizations and the shrinking of the public sector. In defense, one of the ex-CTP deputies claimed that their relationship with AKP was rather shaped on the principle of "instrumentality" and it was bifurcated in terms of domestic and

foreign policy; which meant that AKP would not interfere with the domestic affairs in the north, but would work in harmony in international matters in an alliance with CTP for a federal solution in the international level. An important fraction of the TC opposition believed that it was possible to isolate the political and the economic issues in line with the internal and external affairs. Ferdi Sabit Soyer, the then TC Prime Minister, argued that they collaborated with AKP only for a federal solution, but they didn't accept the Turkeyization of the north (Cihan Haber Ajansı, 2009). However, although PM Ferdi Sabit Soyer initially objected to the “conditionality” of the Fiscal Protocol, he later faced harsh criticism coming from his own party because he submitted the protocol to the Council of Ministers and later signed it in July 2006. Despite the rejection of it by the Republican Assembly, this led to a long-term political crisis led to the resignation of the government in September 2008. The Association Protocol envisaged a close scrutiny program during which the reform agenda would be assessed by Turkey in monthly meetings to be held in Ankara, and biannually in Nicosia. The Protocol was criticized for its resemblance to quasi-IMF scrutiny programs, hence the CTP-BG/ÖRP Government resigned under growing pressure for signing the agreement and paying the 13<sup>th</sup> wages and early elections were scheduled for April 19, 2009. UBP won the general elections in 2009 by taking 43.9% of the votes and 26 seats in the TC Parliament, and then then Eroğlu won the Presidential Elections in the first round by taking the 61.49% of the votes in 2010.

The “political” atmosphere of the early 2000s shaped by the EU membership prospect in the north, was replaced by “economic” concerns towards the end of the decade. While the neoliberal transformation of the TC economy gained impetus by the privatizations and the signing of the association agreements that were pressing for the so-called “austerity measures” to be implemented in the north, “the need for change” rhetoric dimmed in expense and the “*status quo*” was gradually restored. The association agreements signed by the late 2000s were regarded as IMF packages “*à la* Turkey”, yet they differed from the IMF agreements in the sense that it was often implied that the association agreements had an ideological imposition. One of the journalist interviewees argued that opening of new courses to teach Quran and the construction of new Mosques in the north (even though the TCs don't use them for prayers) were part of an ideological transformation project. Yet this so-called

ideological transformation was interconnected with the neoliberal transformation in the north in regards to the rise of the alliance between the AKP governments and the Islamic conservative bourgeoisie by the mid-2000s which was quite diverse and only partly presented by MÜSİAD (Müstakil Sanayici ve İş Adamları Derneği-Independent Industrialists and Businessmen's Association).

Unlike the Özal governments that was in close collaboration with TÜSİAD regarding the Cyprus issue, MÜSİAD was critical of both AKP's follow-up with the IMF policies after coming to power in 2002, as well as its support for the Annan Plan as the business group was supporting a two-state solution. The President of MÜSİAD insisted by the early 2000s that they had no organic relations with the AKP government and stated that “money has no religion” (Yılmaz, 2003) in order to underline their “impartiality” and “economy-focused” perspective. However, he also added that MÜSİAD was composed of business people who defined themselves as people “embracing an Islamic way of life”. While TÜSİAD and MÜSİAD had diverging opinions on the form of the solution of the Cyprus problem, they had converging interests over its solution “one way or another”. Although there was a critical difference between TÜSİAD and MÜSİAD regarding the solution of the Cyprus problem, they shared a common ground regarding the solution of the “economic and political problems in the north” (İzmen & Candemir, 1998).

After AKP came to power in Turkey, growing tension surfaced between the UBP government and MÜSİAD, whose members had been encountering bureaucratic difficulties for making investments in the north; in 2011 MÜSİAD send a letter (Kıbrıs Postası, 2011) to TC PM İrsen Küçük, calling the TC Government to enable free movement of goods and people between Turkey and the north, and decrease the bureaucratic barriers to trade and to accelerate the privatization process, and for further liberalization of the labour market and trade<sup>58</sup>. Most probably the business group was not content with the economy in the north as there was a considerable downturn in the

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<sup>58</sup> MÜSİAD's Nicosia branch was opened in 2014, with the presence of MÜSİAD's President Olpak who stated that “we are people who embrace the principle to grow with sharing not competing, and moving in harmony not conflict in the places we go” Olpak deliberately stressed on the importance of “sharing and harmony” principles in an effort not to intimidate the TC bourgeoisie by the magnitude and the ambition of the business association.

construction and industry sectors when compared to the 2005-2006 period as a result of the slowing down of the Turkish capital's investments in the north.

From the mid 2000s onwards, the TC and the GC economies started to experience similar processes of neoliberal transformation in the form of financial liberalization, privatizations of the SEEs and the shrinking of the public sector. These were "forwarded" in the form of association agreements by Turkey to the north, and in the form of structural adjustments by the EU and by the multilateral institutions to the south. Nevertheless, as Saad-Filho and Yalman (2009: 1) pointed out, "the transition to neoliberalism, the performance of the neoliberal regimes, and the resistance against neoliberalism are context-specific". In the GC context, the global financial crisis in 2007-2008 was followed by the Eurozone debt crisis in 2009, leading to Cyprus's bailout in 2012-2013. In the TC context, the TC economy didn't bailout, yet it experienced the most comprehensive privatization program in the north since the establishment of the TRNC.

Some of the leading public companies declared "bankruptcy", the Industrial Holding in 1998 and KTHY in 2010, and AKP started the privatization process for the rest of the TC SEEs. Turkey's public sector was undergoing the fastest privatization phase ever in its history during the AKP government and its subsequent performance in high numbers of economic growth attracted the short-term investment, the so-called "hot money", seeking financial yields from all around the world. According to Yeldan (2006), the aftermath of 2000s was an era in which the transnational companies and the international finance institutions have become the real governors of the country with an implicit veto power over any economic and or political decision that is likely to act against the interests of global capital. It has been pointed out by Onaran (2006) that Turkey's growth model was highly dependent on the continuity of these financial inflows. Regarding the TC economy, the contrast between the sectors' contribution to growth was striking; in contrast to the ups and downs in agriculture, industrial and construction sectors, the construction sector and the financial sector gained momentum after the 2000s. The trade imbalance was growing, leaving little room for the TC economy to balance its budget. After 2004, the forerunner of the TC economy was the construction sector, which nearly doubled in 2006; from 4.1% in 1999 to 7.9% in 2006,

yet, the share of the industrial sector in the total GDP was never able to return to its pre-2003 numbers (Figure 5.4).

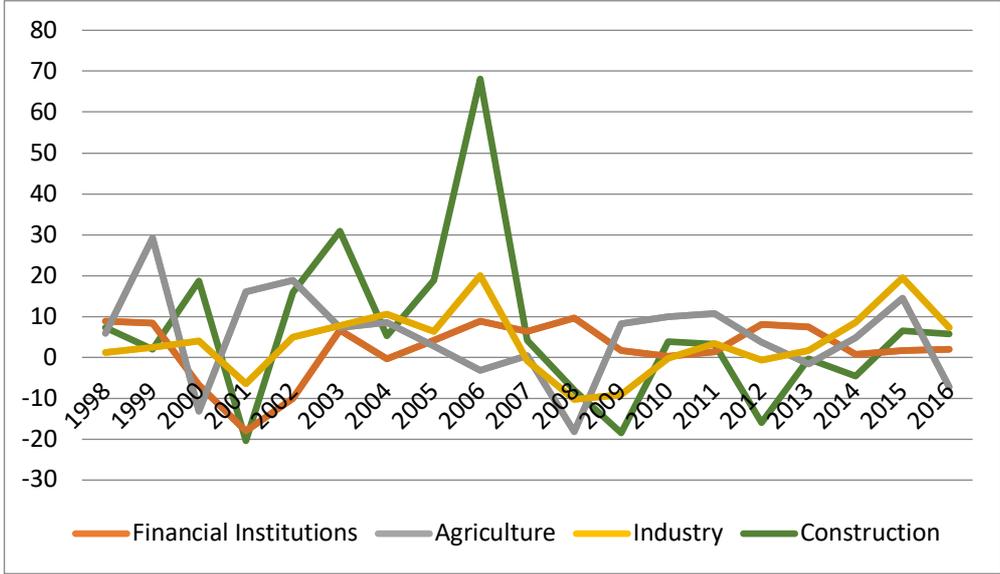


Figure 5.4 North - Real Growth Rates of Sectoral Value Added.  
 Source: TRNC-SPO Economic and Social Indicators 2017.

After the 2007-2009 Association Agreement was put into force, the business chambers/groups in the north gave support for the tight control over the TC economy with the hope that the Association Agreement’s key target to shrink the public sector in the north would invigorate the market economy. They were aware that the EU target was fading and believed that the AKP governments were “different” than the previous Turkish governments, as the former was giving priority to policies for transforming the TC economic structure. They regarded AKP as a disciple of an “entrepreneurial state”, which would give priority to economic growth and revitalize the market economy in the north as opposed to the traditional security-oriented perspective of the previous governments.

In the pre-Gezi Park interviews, one of the businessperson interviewees stated that their relations with AKP Government were even better than their relations with the previous TC governments in the north, arguing that the AKP Government was steering its Cyprus policies by focusing on the “economy” dimension not on “politics”;

*“...Our politicians don’t have this state of mind, the economic reasoning, because Turkey gives too much guarantees to them so they don’t care about economic*

*development because the source of the capital flowing to the north is not from their own pocket*".

Another interviewee pointed to the professional backgrounds of Turkey's Ambassadors appointed to TRNC over the years arguing that the professions of the Ambassadors demonstrated Turkey's "technical" approach toward the north, regarding TRNC as a company to manage. He argued that while most of the ambassadors of Turkey appointed to other countries were career diplomats in the Ministry of Foreign Affairs, four of the ambassadors appointed to TRNC had Ministry of Finance backgrounds, who were defined as "technocrats" with limited personal relations with the TCC; *"Turkey regarded us as a mandate, whose budget ought to be governed by technocrats, that's why they appointed these technocrats as ambassadors"*.

One of the business person interviewees argued that Turkey should teach "fishing" to the TC private and the public sector rather than giving them fish, and let the TCC stand on their own feet. He blamed the TC politicians, arguing the criteria for success for them is to be able to pay the wages of the public sector for twelve months, hence it is actually the private sector who suffer from the continuity of this *status quo*, not them (the TC politicians). Regarding the role of the successive Turkish governments on the struggle for statehood, he argued that AKP is not different than the previous governments in terms of "authoritarianism". However, he considered the AKP governments more "courageous" to take more initiatives compared to the previous governments, acting more "vigorously" to take swift action in political and economic matters, which he regarded as a "prerequisite" for economic success. The discourse behind the positive perception of the business groups towards AKP was the distinction they make between politics and economy; one of the businessmen/politician interviewees argued that *"We see Turkey as an (economic) opportunity, not as a political threat"*. This perception signified that the business groups' expectations from Turkey had transformed over the years in line with the shift from a state-led planned economy to a market-led economic development model by the 2010s. In parallel to this transformation, they expected from Turkey to transcend its traditional "motherland" role, which played the role of a "developmental state" (Johnson, 1999) for the north after 1974, providing financial aid to support the public sector. From this business perspective, Turkey's role in the north should rather be that of an "entrepreneurial state", who does more than just to provide compensation for the

private sector's shortcomings but, in Mazzucato's words (2015), which intervenes indirectly to create and shape the markets of the future.

One of the bureaucrat interviewees argued that Turkey's push for privatizations was actually counteracting TCs on-going struggle for statehood that was initiated in the 1960s. He stated that the TCs regarded the SEEs as an integral asset of the TRNC for its international recognition;

*"...for many years Turkey shouted out loud towards the international community for the recognition of the TRNC state, but now they are emptying the content of the TRNC state by liquefying the economic assets of it through privatization. What did we fight for then? It has no meaning if there will be no state left in the end to fight for".*

He claimed that all the sectors were under the scrutiny of the Turkish capital, which is in search for new markets and among all, education, telecommunication and health sectors are believed to be at the top of this list. On the other hand, a unionist interviewee claimed that TC economy is not "mature" enough to handle the privatization process professionally and impartially with a free market "logic", without harming the balances of a self-sufficient TC economy and the struggle for statehood because they are already accustomed to getting financial support from Turkey and this will make Turkey the champion of the privatizations. He argued that the commercial capital would support the privatizations, expecting to take their shares during the process, which would be rather small when compared to the biggest share that the Turkish capital would get in the end. He believed that even if the commercial capital is not happy with the continuation of the *status quo* regime, they still would not object the implementation of the neo-liberal agenda under such conditions, which he believed to be one of the reasons of their support for the Annan Plan and the EU membership in early 2000s.

While a few businesses initially benefited from this "economy oriented" narrative, they were nevertheless disappointed after the demise of the EU membership target. According to a bureaucrat interviewee, AKP's attitude towards the TCC had dramatically changed since then; he described the AKP period as a "shift" in Turkey's approach towards the statehood problem of the TCC in which economy started to determine the course of the relationship. A journalist interviewee argued that the previous governments in Turkey were cautious to make dramatic shifts in foreign policy, first and foremost considering its effect on the TCC's economy and society, not to endanger a comprehensive solution on the island. He argued that AKP's

approach towards TRNC is totally different now and the essence of the Cyprus Problem is losing its ground, even within the Turkish public opinion due to AKP's discrimination towards the TCC, portraying them as a people who rely only on Turkey's aid without working; *“our communication with the Turkish public opinion is at minimum, even TÜSIAD is not interested in us anymore, we are left all alone in our struggle...”*.

Under the negative atmosphere of the post-referenda period, The CTP-AKEL correspondence between 2008-2010 was seen as a “unique” chance for a federal solution on the island. However, this period coincided with the financial crises in the south, as well as with the rise of the GC Government's aspiration to take control of the natural resources around the island without including the TCs in the decision-making processes. AKEL's candidate Dimitris Christofias won the Presidential Election in 2008 against DİKO's Tassos Papadopoulos, which raised the expectations for a federal settlement in the north. Talat and Christofias declared soon after the elections that they will jointly announce the opening of the Ledra Street in Nicosia which would serve as a startingpoint for the presumption of the negotiations and breaking the deadlock. The inter-communal negotiations started in parallel to the beginning of hydrocarbon explorations by the US drilling company Delek in the Cyprus' claimed EEZ, and the ECJ's landmark decision in 2009 on Apostalides vs. Orams case in which the British couple was ordered “to demolish the villa and other buildings erected on the property, surrender vacant possession to the plaintiff and pay damages”. Despite the initial good faith, these two developments resulted in a shift in the key issues of the negotiation process from power-sharing and guarantees to the hydrocarbons and the property issue. One of the journalist interviewees blamed AKEL for their reluctance for a solution regardless of the imperative conditions during the negotiations: he argued that AKEL insisted on the removal of the Turkish Troops as a strategic policy because their presence was in fact a symbolic thing, not a real threat for the GCs as once the island became an EU member there would be no incident that would require a military intervention by Turkey.

Another journalist interviewee argued that most of the GCs beware of bi-communal institutional initiatives and even the unionists in the south who claim

themselves as federalists are afraid to engage in official relations with the TCC on the island but only come together with the TCs in international events;

*“...we are fed up with their (AKEL’s) hypocrisy, this is not tolerable anymore, we have to differentiate between leftism and Greek Cypriotism, these two don’t reconcile when it comes to solving the Cyprus Problem, to the contrary they hinder it”. “...they see us as a community who didn’t resist effectively to resist to the military occupation of Turkey but they don’t understand us. I became a refugee in 1963, on one side there was the Turkish military and on the other side there was AKEL supporting Enosis. From whom was I going to ask for a shelter?”*

One of the journalist interviewees even argued that *“...only if Christofias was as courageous as the least federalist politician in the north, they would have negotiated a solution with Talat, but he couldn’t resist the pressure coming on him from the GC Church”*. He believed that AKEL wasted the historic chance to change “the destiny of the island” and he told his memory with Christofias during a football match, which was played between Cyprus and France in 2014,

*“there were Greek flags all around the stadium in the south with the Greek national anthem playing at the background and Christofias was sitting there with no reaction to this. I asked him what was he going to do if Annan Plan was accepted, sit there in silence again under those flags?”*

On the other hand, Christofias expressed a similar disappointment about Talat’s term as President, stating that he expected “more” from his partner to stand against Turkey. When the negotiation came to a dead lock between them after scheduling thirty meetings between the leaders, Christofias, although half heartedly, expressed his frustration; “this provokes and hurts my feelings, I don’t deny it, but I will not say I am disappointed”. While AKEL blamed Talat for not resisting strongly against Turkey’s insistence on the guarantees, CTP blamed AKEL for not resisting its coalition partners and the GC Church that put pressure on AKEL to step back from agreeing on the power-sharing issues. According to a journalist interviewee, the GCs were *“exaggerating the presence of the Turkish troops”* which (he believed) would leave the north sooner or later, without any problems, once a solution is reached;

*“(Turkish) Military is no threat to them (GCs), they don’t see that the civil hegemony (of AKP) is more difficult to get rid off. On the other hand, the military would leave the island as the north would be EU territory once a federal solution is set; so, if the GCs really want a solution, they would not insist on the immediate withdrawal of the Turkish Troops”*.

#### **5.4 Turkeyization as an Economic Phenomenon**

The term “Turkeyization” was frequently used by the interviewees as a synonym for the acquisition of the TC SEEs by the Turkish capital groups and Turkey’s growing economic power in the north after 2010s. While “Turkeyization” as a process was used to denote a cultural transformation after the 1980s, which started by the arrival of the Turkish settlers to the north after 1974 who had major cultural differences with the TCC, by the 2010s “Turkeyization” started indicating the growing economic hegemony of the Turkish capital in the north. Turkey’s “economic power” meant the financial aid and credits it provided since the 1970s, that were designed in a way to assist the state building processes by the establishment of the SEEs, infrastructure as well as the institutions. The Turkish capital’s intrusion to the north by the 1990s via the casinos was the beginning of a new era in which the Turkey based capital became a competitor for the TC businesses, yet it was contained within the tourism sector as “the elephant in the corner”, as it provided a respective amount of tax revenues to the TC budget.

When the privatizations gained impetus after the 2000s, the Turkish capital found its place within the processes of expanded reproduction in the north through the acquisition of the SEEs. The SEEs were regarded as the pillars of the TC State and their privatizations had an economic as well as a symbolic significance for the TCC. It was believed that the TC State was slowly eroding in political and in economic terms after the privatizations started as the strategic sectors such as electricity and water were awaiting their turn in the privatization agenda as well. A businessperson interviewee who was the head of a civil society association, one of the components of the “This country is ours” platform supporting the Annan Plan in the early 2000s argued that Turkey and the GCs (business groups and capital) had besieged them in economic and political terms. He asserted that the Turkish capital’s real aim is to dominate the whole island’s economic resources: not only the north but also the GC economy. He believed that this is becoming easier as the gap between the TC capital and Turkish capital is huge today, not only in terms of their market capacity but also in terms of flexibility. He gave the example of the Foundation Universities in TRNC which were losing their “comparative advantage” vis a vis the Turkey. He argued that in the past the Foundation Universities revived the economic life in the north, but fierce competition

came from Turkey by the growing number of Turkey based foundation universities, which put an end to the relative economic advantage of the TC universities. He also asserted that state-society relations changed dramatically since the Annan Plan and they (TC civil society) are politically disengaged today from the political and the economic process to stop Turkey's "economic dominancy" in the north.

One of the politician interviewees claimed that Turkey is trying to seize power over the higher education institutions in the north,

*"Turkey first wanted DAÜ campus back in 1990s, and when our answer was no, METU campus was founded in Morphou/Güzelyurt in early 2000s. Later on, Turkey wanted YDÜ and when the answer was again no the İTÜ campus was founded in Famagusta/Gazimağusa ten years later".*

Even METU, one of the most prestigious universities in Turkey, was regarded as a part of a cultural and economic "siege" in the north, arguing that these universities were not only the competitors of the TC universities in terms of economy, but they also serve as the intellectual pillars of the "Turkeyization" process. He argued that these universities mainly recruit Turkish nationals and foreigners as academic personnel other than TC ones, and they live like a gated community, having little interaction with the TCC in their daily lives. According to the KTTO numbers, nearly two thirds of the members of the universities in the north were from Turkey, which would be a problematic issue for the TRNCs labour market "if" the TRNC joins the EU in the future because they should be replaced with TCs due to their EU citizenship problem (Gökçekuş et.al., 2016: 16). One of the politician interviewees called TRNC as a "void" state because it doesn't have sovereignty over its economy and politics. He claimed that TRNC's capacity to act as a competent state is further diminished by the foray of Turkish capital to the north, mainly in tourism, higher education and construction sectors.

The increasing pressure for the implementation of the reform programs and privatizations had political implications in the north but it was also determinant over the appointment of Turkish diplomats to the north. In 2011, Turkey's ambassador to TRNC Kaya Türkmen made a visit to Afrika Newspaper, which is known for its harsh criticism towards nationalism and specifically AKP. Türkmen was asked by the reporter, "How do you exactly define your presence (in TRNC)? As an ambassador or as a governor?". Türkmen, a senior Turkish diplomat, replied open heartedly, "I swear on God I feel neither, but as the head of IMF at best". When Türkmen's answer was

publicized, the TC opposition targeted him as “Mr. Manager” (Gürer, 2011). Türkmen’s “self-criticism” on his dual role in the north as an ambassador led to a lively debate on the Council of Aid’s function and role within the TC economy and politics that led to the critique of the sovereignty and the autonomy issues. It was argued that the Council of Aid’s role was increasingly resembling that of IMF’s, which imposes its austerity measures in return for “sustainable economic development” and “financial stability”. Actually, the Council’s role was more “ideological” than that of IMF’s in the developing countries which was limited to advising and scrutinizing the austerity measures. The Council rather resembled to an ideological state apparatus in the north, which doesn’t have a power on its own to create ideology, yet holds the authority to reproduce the conditions on the distribution of the aid, which is not merely a technical issue, hence serves as the “correspondent” for the systematization of the dominant ideology between the social classes by instrumentalizing the aid.

However, although the Council played a crucial role for the “materialization” of Turkey’s power in the north, it was rather the political struggle that was determining the extent to which the Council and other institutions would be able to fulfill this goal. Referring to the role of the ideological apparatuses in materializing the dominant ideology, Poulantzas (1975: 31-34) argued that these apparatuses “neither create ideology, nor are they even the sole or primary factors in reproducing relations of ideological domination and subordination”. According to Poulantzas, this perception is a “misunderstanding” of what he called the “functionalist-institutionalist tradition” which emphasize on the role of “institutions” in the training and distribution of “individuals”. In this regard, contrary to Max Weber’s deduction that the Church perpetuates religion; Poulantzas pointed that it is religion which creates and perpetuates the Church. Poulantzas made a reference to Marx’s example for the reproduction of a dominant ideology going beyond the apparatuses; as Marx pointed implicitly to a “distinction” and hence to a “correspondence” between “institutions” and “forms of social consciousness” in the case of capitalist ideological relations. In this regard, Poulantzas pointed to the connection between the ideological apparatuses and the economic structure;

“In other words, the reproduction of the all-important ideological relations is not the concern of the ideological apparatuses alone: just as not everything that goes

on in 'production' involves only the 'economic', so the ideological apparatuses have no monopoly over reproducing the relations of ideological domination.” (p. 32).

The association agreements were increasingly regarded by the TC opposition - even by the liberal factions who regard them as a necessity - as the “austerity measures” imposed by Turkey on TRNC via the signing of the cooperation agreements under the rubric of “fiscal discipline”. The opposition was concerned by the rise of Sunni Islam practices, that were not regarded as a part of the TC culture and customs, but the main criticism was towards the increasing role of the Council of Aid. The growing intervention by the Council of Aid to the transfer of resources and donations from Turkey to the north was one of the major criticisms towards Turkey in the sense that an aid structure as such was regarded as a challenge towards the sovereignty of TRNC. When asked about the role of the Council of Aid, all of the interviewees stressed on the critical role of the Council for the TRNC-Turkey relationship, one that had a more binding role even in political terms. One of the politician interviewees claimed that it is “well known” in the north that the Council of Aid had been working as a co-structure of the Turkish Embassy, and even had a more dominant role when compared to the role of the Embassy itself “reminding the practices of the colonial era”.

However, since the onset of the Annan Plan the opposition seemingly prioritized the progress for a federal solution thus tended to ignore other agendas, until an open confrontation started between the trade unions and Erdoğan in 2011. Prime Minister Erdoğan got angry with the TC protesters demonstrating against the austerity-like cooperation agreements being signed with Turkey using slogans “Invader T.C. get out” and said “It is noteworthy that the ones who are fed from our country choose this way.”<sup>59</sup>.

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<sup>59</sup> “Those being fed” was a derogative term which is widely used for precariat in house labour, working in a household for only substansive amount of food and shelter, without getting paid for work. According to TDK (Turkish Language Institution) “Besleme”: Adopted girl/boy, who works as house labor. In common usage it denotes a needy (generally an orphan) person, who have no one else other than his/her adopter to take refuge behind.

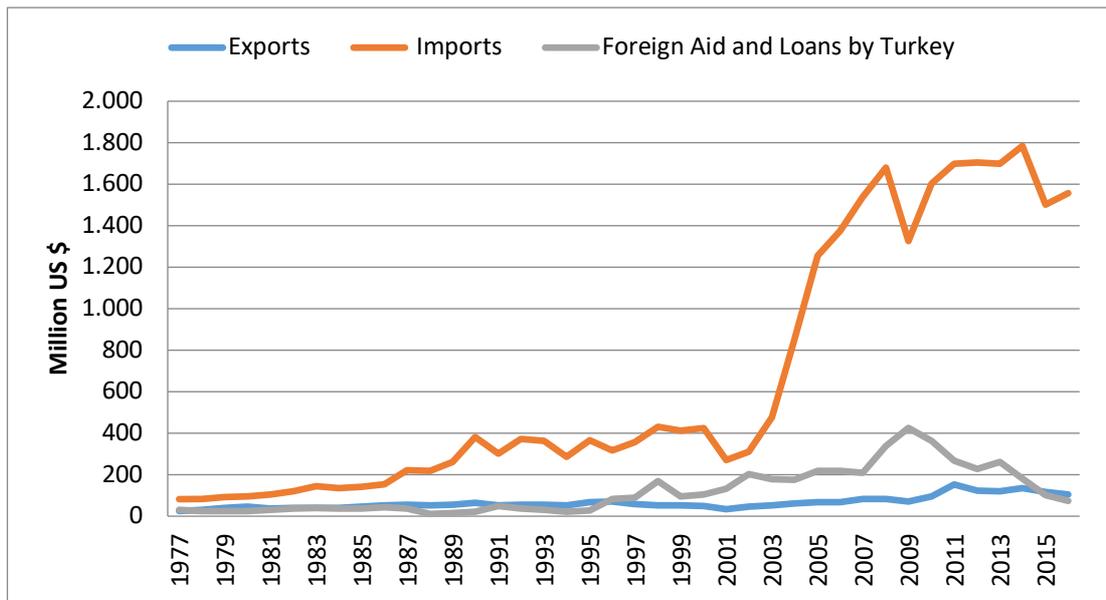


Figure 5.5 Foreign Trade with vs Foreign Aid and Loans from Turkey.  
 Source. TRNC SPO - 2016 Macroeconomic Indicators.

Erdoğan’s backlash created confusion and anger in the north; this reaction by Erdoğan, implying that TRNC is a financial burden on the motherland, started a political crisis between Turkey and the so-called “yavru vatan”, creating frustration among the fragments of the TCC who welcomed Erdoğan’s pro-solution, pro-EU discourse in the early years of his government. Although this was not the first time a Turkish Prime Minister “reminded” the TCs of their so-called “cost” on Turkey, Turkey’s financial support in order to sustain the internationally isolated TC economy was not unrequited. The isolated TRNC economy imported largely from Turkey, as it has limited access to the international markets. The trade balance of the north, mostly lopsided by the high volume of imports from Turkey, reveals how the financial aid from Turkey actually returns back to Turkey, although indirectly, in the form of exports to the north, as more than doubled, enrolling a trade deficit for the TC economy which was difficult to sustain when compared to its budget deficit (Figure 5.5). On the other hand, Turkey’s trade with TRNC had an upward shift, giving trade surplus after 2005 (Figure 5.6). After 1980s, Turkey’s direct financial aid policy, which initially aimed to support the disadvantaged position of the TC economy *vis-à-vis* the “wealthy south”, was coupled by the trade-led development model of the Özal Government.

This coupling played a key role in the weakening of the real economy and raising of the budget deficit due to the trade imbalances with Turkey (Figure 5.7), (Figure 5.8).

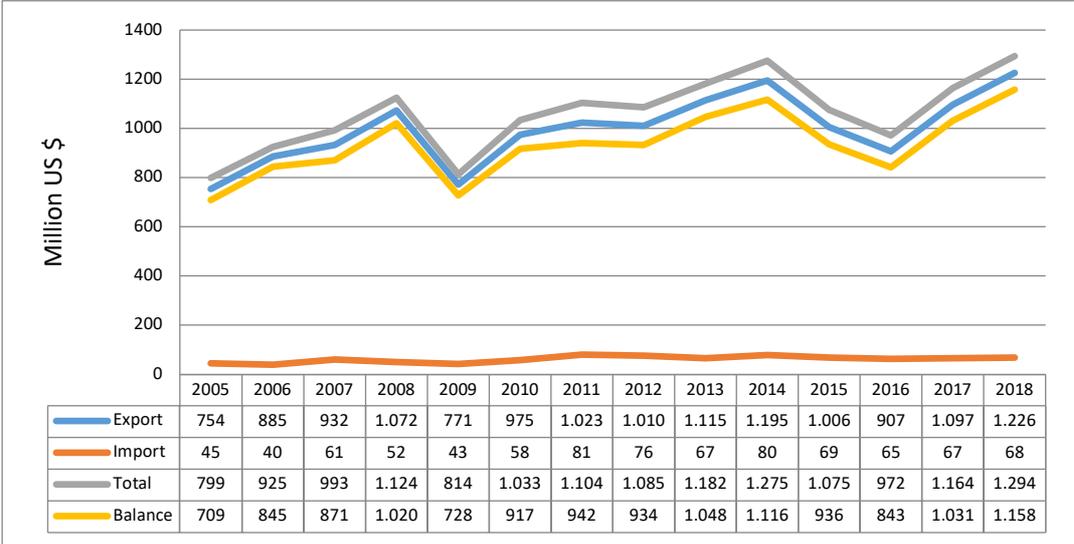


Figure 5.6 Turkey-TRNC Foreign Trade 2005-2018 (Million Dollar).  
Source: Turkish Ministry of Trade<sup>60</sup>.

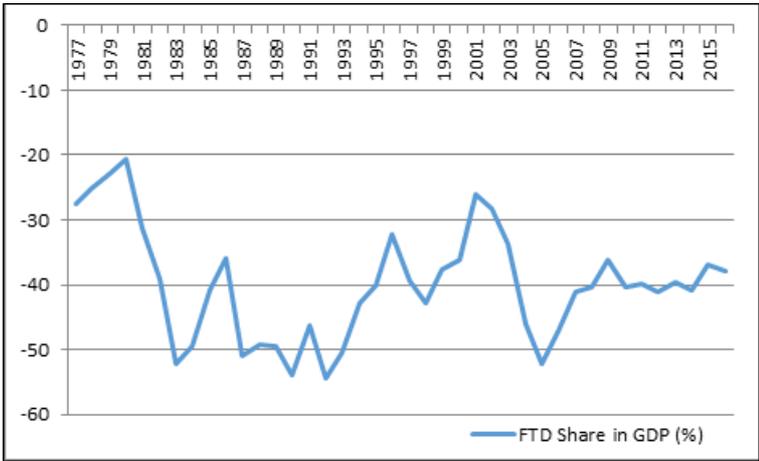


Figure 5.7 North – FTD Share in GDP.  
Source. TRNC SPO - 2016 Macroeconomic Indicators.

Likewise, the axis between the budget deficit and the foreign trade balance of TRNC was widening over the years (Figure 5.8), adding to the public debt due to the

<sup>60</sup> Turkish Ministry of Trade, <https://ticaret.gov.tr/yurtdisi-teskilati/orta-dogu-ve-korfez/KKTC/ulke-profili/turkiye-ile-ticaret>.

structural weaknesses of the TRNC economy such as a being a small market with a large share of shadow economy, low productivity and labour-intensive agricultural production based on citrus, which requires quite an amount of irrigation that is clearly a pitfall for the TC economy as water is a scarce resource on the island. According to Besim et al. (2015), for the year 2011, the unregistered workforce in the north was 20.8% of the total workforce and the national income from this unregistered workforce resembled to the 13.6% of the GDP. Nevertheless, for MÜSIAD there was an urgent need to lift the bureaucratic barriers in the north in front of embarking cheap workforce to the north in order to revive the tourism and the construction sectors (Kıbrıs Postası, 2011).

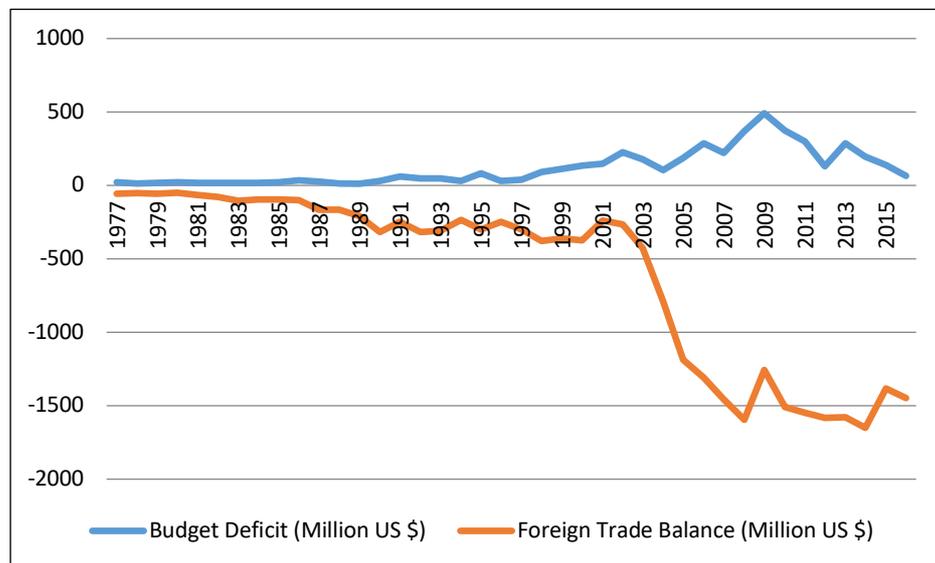


Figure 5.8 North - Budget Deficit & Foreign Trade Balance (1977-2016).  
Source. TRNC SPO - 2016 Macroeconomic Indicators.

The relations between north and Turkey got tense after the “diplomatic” crisis. Ambassador Kaya Türkmen was replaced by the head of the Council of Aid, Halil İbrahim Akça, who was known for his support for economic reforms and was called “Kemal Derviş” of TRNC (Star Kıbrıs, 2011). Akça was not a career diplomat, as he previously worked in the State Planning Organization of Turkey and in the Ministry of Finance, and thus he was defined by some of the interviewees rather as a “technocrat”, who preferred to have a “distanced” relationship with the TCC which was defined by one of the interviewees as a “colonial” attitude. He was criticized by

the opposition and the trade unions in the north and was held responsible for the political crisis when Erdoğan called the TC protestors “those being fed from us”, because of Akça’s previous claims in an interview pointing that the young people were jobless because the retired people were getting very high salaries in the north. Accordingly, the “2010 Fiscal Year Protocol” signed between Turkey and TRNC targeted a decrease in the retirement pensions and the wages of the newly admitted civil servants under the title “Program for Increasing the Efficiency of the Public Sector and the Competitive Power of the Private Sector” (KEİ, 2010-2012). The program targeted a cut back in the wages and similar spending, which constituted 84% of the budget spending, which was alleged for “limiting the scope of application of the fiscal policies”.

A common argument in the 2013 interviews on this crisis was that the Justice and Development Party’s (AKP) had transformed from a pro-EU, pro-solution and pro-democracy party into an authoritarian one “in time”, even using pejorative words for the TC opposition which was its ally during the Annan Plan. Although this was a common criticism towards AKP, the worse off situation in the south under the strict scrutiny of the Troika made the TCs believe that AKP was conducting a successful economic agenda and it was powerful as well as determined to put pressure on the EU and the south for a federal solution in Cyprus. However, most of the interviewees in the 2015-2016 were increasingly doubtful of the positive role AKP would play for a future solution because the authoritarian discourse created tense relations with the EU as well, which led to the political polarization of the TCC. The argument was that since 2002, AKP has been conducting a civil engineering project on the island to turn TRNC into a “mini-Turkey”, leading the TCs to extinction with the population transfer from Turkey and by replacing the military power structure and relations, which was dominant in the north since 1974, with its civil authoritarian hegemony.

A journalist interviewee claimed that AKP was regarded as the most successful political party in executing the economic agenda in the north, yet he pointed that there was also strong resistance towards AKP’s hegemonic project, specifically towards its efforts for spreading Sunni Islam practices in the north (see Moudouros, 2016). It was asserted that a number of Islamic Communities were working actively to consolidate AKP’s power in the north. The interviewee asserted that this was not “as easy as it

seems” because of the wide spread Alevi culture in the north, which was acting as a natural barrier for the Sunni practices of the radical Islamic communities to penetrate into the TC society. One of the politician interviewees argued that the dominant Alevi culture among the TCs was the main reason for the rejection of AKP’s policies that aimed to spread the Sunni practices in the north. On the other hand, he added that this rejection is also a reaction towards AKP’s rising authoritarianism and a growing number of TCs were defining their identities as attached to a Cypriot identity, rather than a Turkish one which stood against the Turkeyization of the north. According to Kızılyürek, one can see a historical correlation between: Kızılyürek (2001) pointed that while Turkey raises the political and economic pressure in the north, the tendency to hold on to a Turkish Cypriot identity rises in return.

#### **5.4.1 A Structural Overview of Turkey’s Aid**

While the Turkish governments traditionally held the financial and political tools that enabled them to have an indirect grip over the TC politics since the 1980s, the AKP governments used direct aid as a punishment and reward mechanism, to enforce and manage its “austerity” measures via the association agreements and fiscal discipline protocols that the TC governments have to sign if they want to get the financial aid from Turkey. In this regard the new period in Turkey-TRNC relations was steered by a “carrot and stick policy”, defined as such by a bureaucrat interviewee, which was reinforced by the weakness of the real sector and the vulnerability of the TC economy which was relying on financial transfers from Turkey. While this “carrot and stick” policy led to consecutive early elections being held and changes of political alliances and governments between 2003 and 2019, it hardly changed the economic structure in the north and brought identical variations of coalition governments to power recurrently. This “stick” policy was perceived by the GCs as a political tool, often used by Turkey for keeping the Cyprus talks under their control.

Despite rising criticism against AKP in political terms, it was quite typical for the interviews after 2010s in which most of the interviewees stated that AKP’s economic “successes” were very impressive. When they were asked to give some examples of these economic successes, they pointed mainly the roads and highways built in Turkey after 2002, which AKP used as the core of its “economic growth” propaganda to consolidate its political voter basis during the elections in Turkey.

Interestingly, both the CTP and the UBP applauded AKP for “leaving aside politics and bending over the economy”, which pointed to the fact that the TCs were enthusiastic for any initiative for economic development. However, although the narrative on economic growth was widely used by AKP, there was a sharp fall in the amount of financial aid from Turkey to the north after 2010-2011. In fact, there was hardly a positive correlation between Turkey’s growth rate and the amount of aid provided for the TRNC. While the average growth rate was close to 9% in Turkey for the years 2010-2011, the amount of aid to the north was dwindling because although the growth rate was promising, Turkey was actually in the midst of a dramatic rise in its current account deficit in 2010-2011, widening around 10% of the GDP, and consumer price inflation (CPI) was rising over 10% (OECD, 2012).

Moreover, the discrepancy between financial aid (grants) and credits from Turkey was widening after 2002. There was a sharp rise between 1999-2002, and then between 2007-2009 in credits due to the outbreak of the global financial crisis and the Eurozone crisis (Figure 5.10 on page 228). While the amount of credits more than doubled in 2010 when compared to 2009, after 2014, grants outweighed the credits until 2017 and by 2018, until they were balanced. It is important to note that historically, the amount of credits provided by Turkey was either very close or higher than the financial aid provided by Turkey as the initial aim of the aid from Turkey was to “support” the infrastructure and the state-led development of the KTFD by credits after 1974. Together with the abandonment of a planned development after mid 1980s, the amount of financial aid gradually surpassed the credits. In 1987 the financial aid nearly doubled the credits and this trend continued until the 2000s. After the financial crises broke out in TRNC and then in Turkey between 1999-2001, the amount of credits first doubled and then tripled the amount of grants. In 2001 the trend reversed and the ratio climbed up to 1/3; while the aid was 58.476.358,8 TL, the amount of credits climbed up to 145.499.743,3 TL. This fall in the amount of financial aid was mainly due to the financial crisis in Turkey and the devaluation of the TL in 2001. The amount of credits made a sharp fall when compared to the amount of financial aid during the global financial crises in 2007-2008 and then after 2014. On the other hand, the ratio of the aid to the GDP was nearly 4% in 1993, %10 in 2000 due to the financial crisis in TRNC and back to around 5% in 2010 while the ratio of credits was nearly

10% of the GDP, twice the amount of aid provided by Turkey. However, in 2016 both the ratio of credits and the ratio of aid within the TRNC budget decreased significantly to %2 and %4 of the TRNC GDP (TRNC-SPO, 2016) ().

*Table 5.1  
Credits and Grants to GDP (%).*

	1977	1982	1986	1993	1996	2000	2006	2010	2016
Turkey's Credits to TRNC GDP ratio	7%	8%	2%	0%	1%	7%	8%	10%	2%
Turkey's Grants to TRNC GDP ratio	5%	7%	8%	4%	10%	10%	7%	5%	4%

*Source: TRNC SPO - 2017 Macroeconomic Indicators.*

One of the businessperson interviewees argued that the grants given to TRNC by Turkey was in fact harming TRNC's economy by pushing it into a vicious cycle of trade dependency, without boosting the real sector. On the other hand, he pointed to the dilemma that the north faces regarding Turkey's support; he argued that while the TCs were "aware" that they need to learn to continue without Turkey's financial support, they were also aware that even if they do so, they still can't escape the economic and political isolation; "What the north needs is apparently more than grants, not more grants."

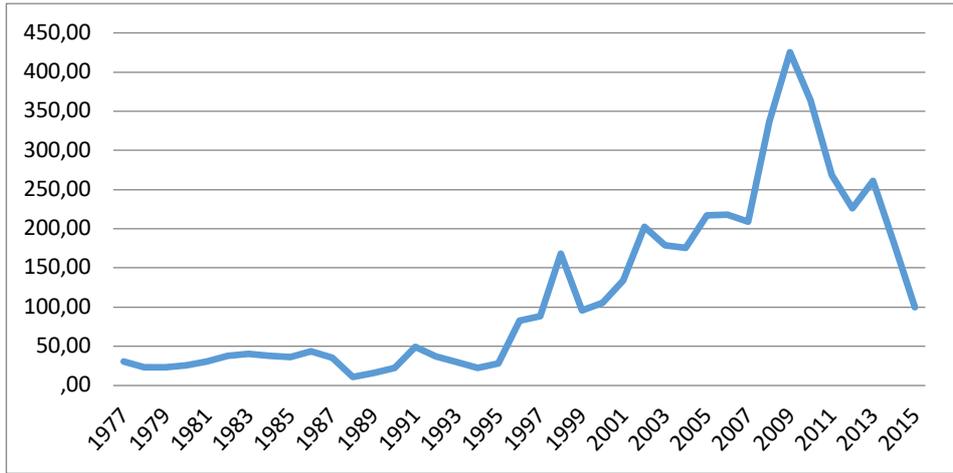


Figure 5.9 Aid and Credits from Turkey-(Total in Million USD).  
Source: TRNC SPO - 2016 Macroeconomic Indicators.

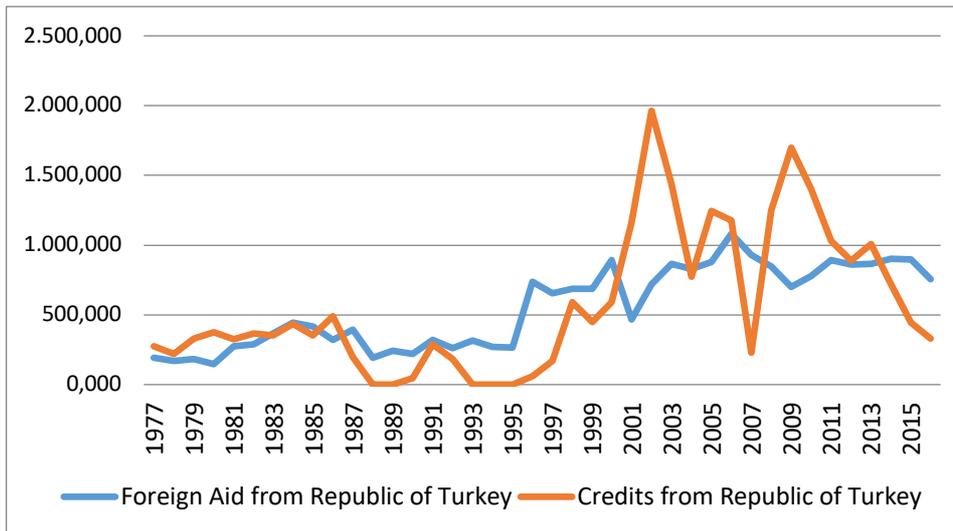


Figure 5.10 Aid and Credits from Turkey (1977 Prices YTL).  
Source: TRNC SPO - 2016 Macroeconomic Indicators.

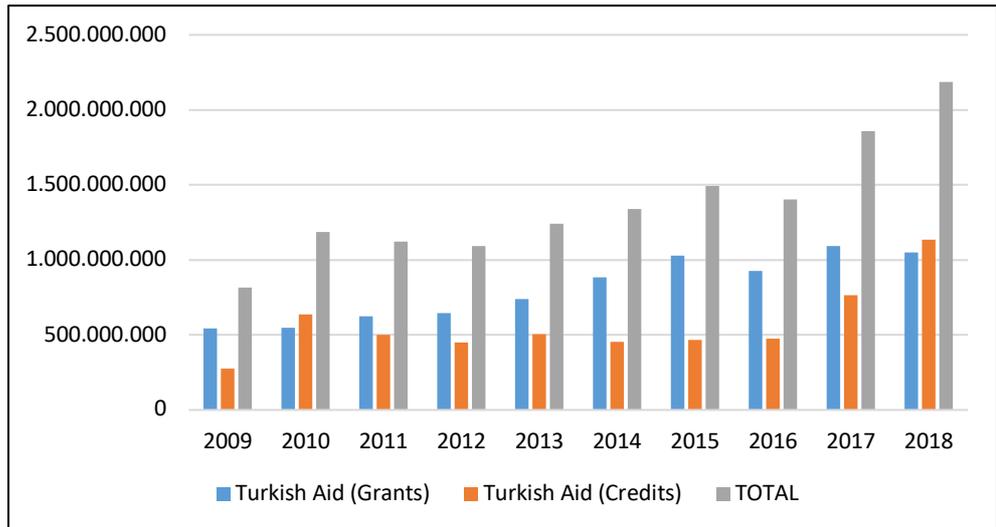


Figure 5.11 Turkey's Aids as Grants & Credits in TL Million.  
Source: TRNC-DECO Agreements, <http://kei.gov.tr/anlasmalar>.

Turkey's financial aid was divided into two major items in the association agreements; in the form of grants (financial aid) and pay-back credits (Figure 5.9, Figure 5.10, and Figure 5.11). The grants were divided into four major areas (Figure 5.12) and the pay-back credits were provided as a remedy for the budget deficit by the public sector and other payments such as:

A) Grants

- Defence Payments, involving transfers to;
  - the Security Forces Command of TRNC
  - the Turkish Cypriot Peace Forces + the electric and water dispenses
  - TRNC Civil Defence Organization
- The Infrastructural Investments for;
  - Ankara based projects
  - Nicosia based projects
- Real Sector Payments
- Incentive Credits

B) Credits (pay-back)

- Public Sector (Budget Deficit)
- Public Sector (other)

- Reform Support Allowance (RSA); RSA was added to the 2010 protocol as a means to support the privatization process, solely to be used to keep privatizations on track, and it has an increasing share in credits.

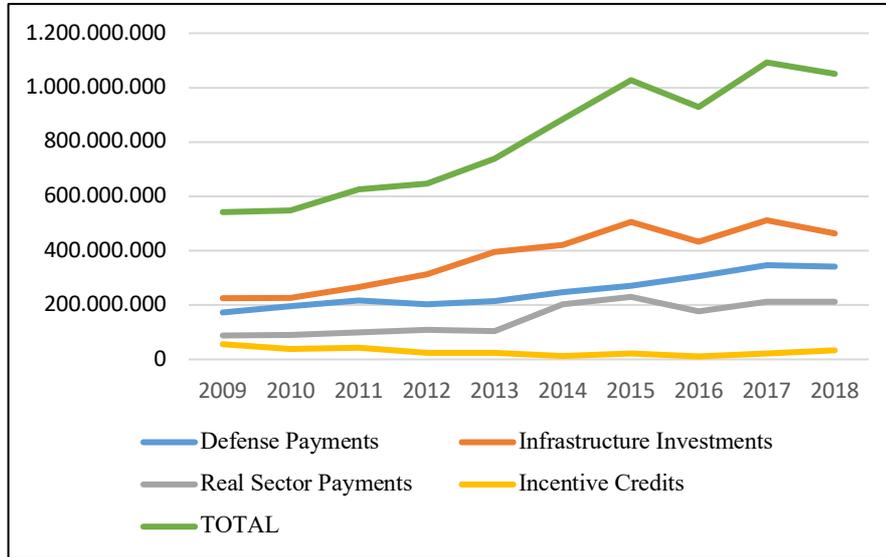


Figure 5.12 Turkey's Aid as Grants in TL Million.  
Source: TRNC-DECO Agreements, <http://kei.gov.tr/anlasmalar>.

Although the defence, infrastructure, incentive and real sector payments had a balanced weight within the grants, the structure of the grants has been changing since the early 2010s (Table 5.2). While the infrastructural investments and real sector payments are increasing, there is a decrease in incentive credits, while the defense payments' share had an increase in 2010 and 2011, followed by a decrease in 2013-2015, returning back to its average after 2016.

Table 5.2  
The Composition of Aid

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Incentive Credits	10%	7%	7%	4%	3%	1%	2%	1%	2%	3%
Real Sector Payments	16%	16%	16%	17%	14%	23%	22%	19%	19%	20%
Infrastructure Investments	42%	41%	42%	48%	54%	48%	49%	47%	47%	44%
Defense Payments	32%	36%	35%	31%	29%	28%	26%	33%	32%	32%

Source: TRNC-DECO Agreements, <http://kei.gov.tr/anlasmalar>.

The most important change in the pay back credits was the addition of the reform support allowances to the credits in order to support the privatization process and prepare the institutional structure for the future privatizations. After 2013 the share

of the credits provided to the public sector to be used for the budget deficit started to decrease and the RSA started to increase after 2013 as it was foreseen in the protocols signed after 2010 (Figure 5.13).

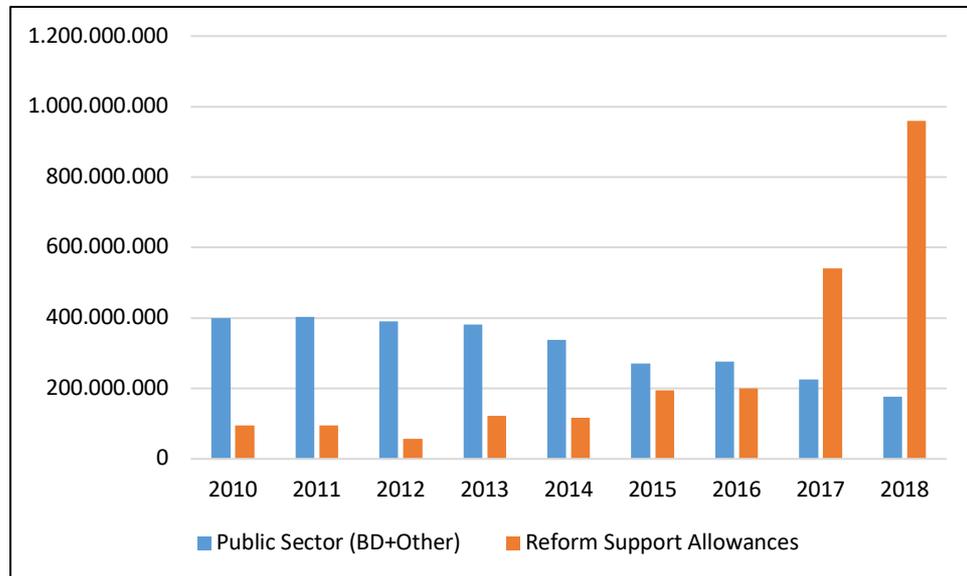


Figure 5.13 Turkey's Aid as Credits in TL Million 2010-2018.  
Source: TRNC-DECO Agreements, <http://kei.gov.tr/anlasmalar>.

The content of Turkey's financial aid had been changing after 2010s as well. In terms of financing its public and private sectors, TC economy is becoming increasingly dependent on USD via Turkey's financial aid, and this process speeded up after the devaluation of the TL in 2001. Starting from 2010s onwards, the credits from Turkey, which initially aimed to provide funds for north's economic development and protect it from currency fluctuations, had a reverse effect and rather raised TRNC's public and private sectors' debt as both the share of USD within the aid basket and the value of USD *vis-à-vis* TL had an upward trend after the 2010s. This meant that although the financial aid from Turkey was mostly in USDs, the foreign exchange stock in the north was limited due to the restrictions on production and trade. In 2017 the domestic debt constituted 29% of the total debt, which also signaled the lack of financing in the TC economy that hindered market growth, making it growingly dependent on USD and foreign exchange via the financial aid from Turkey (Figure 5.5 on page 221 and Figure 5.14).

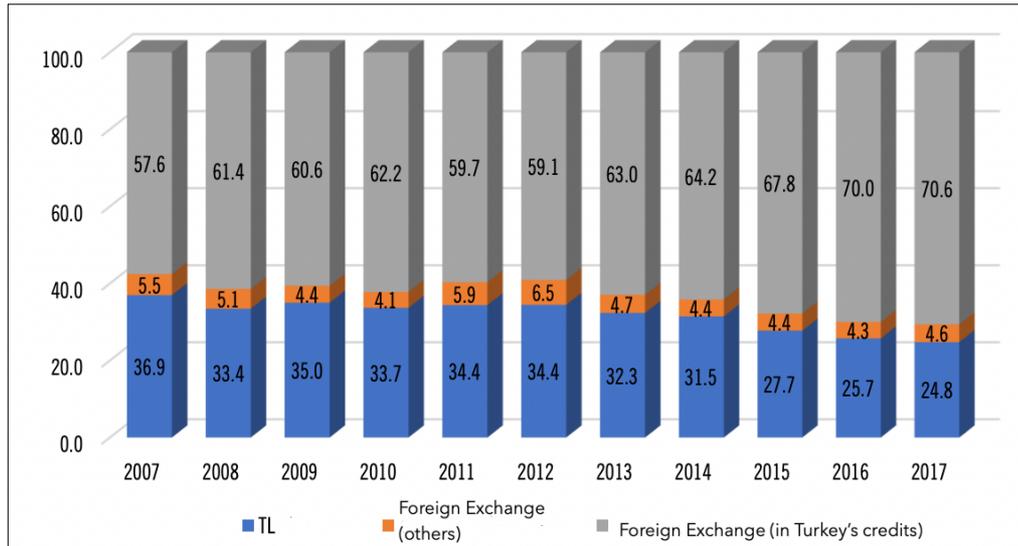


Figure 5.14 Public Debt Stock Currency Composition (%).  
Reprinted From: DECO TRNC – Economic Outlook Report 2017.<sup>61</sup>

The use of the TL as the official currency in the north was a prominent basis of the financial power of Turkey in the north since the late 1970s. However, in an era in which financial capital expands as well as deepens, the global markets became increasingly determinant on national economies which contested Turkey’s financial hegemony in the north as well. Although Turkey’s TL was dominantly used in the north since the late 1970s, the exchange rate value of TL had been weakening *vis-à-vis* USD in the last decade and the financial aid from Turkey had an increasing share of USD in its total, which exceeded the share of the TL after the mid-2000s (Figure 5.14).

The so-called “dependency” of the TC economy on TL is one of the factors that carried the TRNC economy into the banking crisis of 1999-2000, which was in parallel to the financial crisis in Turkey that ended up with the devaluation of TL in 2001. From that moment onwards, the TC economy was articulated to the global crisis via Turkey by the rise of the share of USD in its debt stock, which simultaneously increased its dependency on the USD rather than TL. While this increasing dependency on USD weakened TL’s dominance over the TC economy, Turkey continued to take the necessary steps to hold a grip of the TC economy not only by

<sup>61</sup> DECO TRNC – Economic Outlook Report 2017, <http://kei.gov.tr/media/1814/2017-kktc-ekonom%C4%B0-durum-raporu.pdf>, p. 84 (original table copied and translated to English).

monetary tools but also with institutional arrangements in order not to lose an important pillar of its hegemonic role in the north.

Until 1974, in order to prevent transaction losses by the TCC due to changes in the FX rates, Turkey's financial aid was sent to the TCC via the London branch of the Central Bank of Cyprus in USDs where the TCs were able converting it to their local currency, the Cypriot Lira (also called Cyp Pound) (Saydam, 2018). After 1974 both the CYP Lira and the TL were used in the north, however after TRNC adopted the TL as the official currency after its establishment, the aid was sent mostly in TL and TL became the wide spread currency in the north. The 24<sup>th</sup> of January decisions in 1980 was presented as "precautionary measures" to fight with inflation and the bottleneck in the economy due to increasing foreign debt, especially to raise the competitiveness of TL *vis as vis* "overvalued" foreign currencies. The Turkish Government decided to devalue TL by 48.6% against the USD in 1980 and the Turkish governments made frequent "hidden devaluations" from the 1980s onwards. As a drastic measure, the TL was devaluated by 13.5% in January 1994. However, this couldn't prevent the rise in the value of USD which melted the CB's reserves half the way down from 6.2 billion USD to 3.2 billion USD in 1995.

Regarding the foreign debt/GNP ratio, the crisis in 1994 and 1999 marked the milestones for Turkey's economy as for the first time this ratio broke the 50% critical level and reached 50.26% in 1994 and 55.28% in 1999 and following the devaluation of the TL in 2001, the foreign debt/GNP ratio jumped up to 78.57% (Ardıç, 2004). Although the ratio went below the 50% threshold after the TL was revaluated in 2005, it didn't follow a stable trajectory in the aftermath and caused a permanent public sector deficit which was reflected to the TC SEEs. Followed by the outbreak of the global financial crisis, GCs joining the Eurozone in 2008 started a discussion in the north for abandoning the TL as the official currency and its replacement with the Euro (Özgöker & İba, 2009). Although it was not put into practice, the discussion was critical in showing how the public opinion was divided upon the issue, as PM Soyler put it clearly arguing that "Transition to Euro is the target yet there is material as well as emotional difficulties" (Kadıoğlu, 2007) upon its implementation.

## CHAPTER 6

### CARBONIZATION OF THE CYPRUS PROBLEM

Despite the onset of the privatization agenda in Turkey and in the north by the early 2000s, it took a decade to implement it in full capacity. The acquisition of the TC SEEs by the Turkish business groups started after the mid-2000s as there weren't rivaling domestic or foreign companies to participate to the bidding processes in the north. In parallel to the privatisations in the north, the hydrocarbon discoveries in the SEM in the early 2010s coincided with the financial crisis in the south. The Cyprus negotiations stopped once more due to the Presidential elections in the north in 2013, and when they reassumed in 2014, the political conjuncture was completely different. After a series of severe political and financial crises in the 2010s, the GC Government's search for finding new resources of all kinds, financial and natural, to overcome the economic recession and social unrest in the south gained impetus. The economic impasse in the south was reflected to the north by the shrinking of public spendings in the south which diminished the bicomunal relations and trade after 2010s. The hydrocarbon discoveries in early 2010s around Cyprus ignited a new conflict in the SEM before the old ones being resolved; the rise of geopolitical competition in the region over the sharing of the natural resources was reflected to the SEM as an escalating tension between Turkey and the RoC for the exploration and extraction of the hydrocarbon resources. By the mid-2010s, this tension gave leverage to Turkey's "energy hub" narrative which was a key part of the "Turkey as a regional power" narrative, in which the TRNC had an instrumental role regarding its geostrategic position in the SEM (Eralp & Öner Tangör, 2007).

This new era marked the rise of new primitive accumulation strategies on the island in the form of rising public debt (Marx, 1999, Vol. I, p. 535)<sup>62</sup> and the privatization of the SEEs, not only industry but also water and electricity as well as the exploitation of the natural resources. The new primitive accumulation strategy on the island was “going offshore” (Peck, 2017), not in the form of offshore banking that was trending until the financial crises first hit the north (1999) and then the south (2011), but by contracting the offshore natural resources of the island to global oil and gas companies. The Cooperative Banks in Cyprus followed the same path with the SEEs towards the end of 2010s; while the Cyprus Cooperative Bank was privatized in 2018, the TC Cooperative Bank was put on the privatization agenda in 2019. In this conjuncture, the disruption of the negotiation process by the rising conflict in the SEM and the deregulation of the TC State through privatizations cross-cut the state building process in the north. Recently, the external pressure on the TC economy to adopt the “rules of the market” is rising due to the intensification of a regional competition between RoC and Turkey. The TC State is growingly stuck between the competing interests of her neighbors, and became familiar to, although indirectly, to the austerity measures of the EU, IMF, and WB, via the financial crises in the south and in Turkey. Neoliberalisation in its “variegated” form became determinant over the transformation of the TC State and by the 2010s, the cumulation of uneven neoliberalisation in the institutional, economic and political spaces in the north, was shaped by the competition over the natural resources, financial crises as well as the emerging capitalist networks and alliances in the region.

### **6.1 The Rise of Primitive Accumulation in Cyprus**

In this chapter, it would be pointed out that the word “primitive” in primitive accumulation doesn’t account for a temporary “moment” back in the history of Cyprus, but rather to a “process” of accumulation. De Angelis (1999) pointed to this distinction; he argued that although it is generally interpreted in the traditionalist Marxist accounts, mainly stemming from that of Lenin’s and Luxemburg’s descriptions and interpretations, that “primitive” accumulation refers to the “preconditions of a capitalist mode of production” that signifies a “temporal”

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<sup>62</sup> Public debt was regarded by Marx as “one of the most powerful levers of primitive accumulation”

dimension that conditions the “capitalist future” (para. 3). De Angelis rather argued that “Marx's theory of primitive accumulation may be seen to contain both an historical and a continuity argument” (para. 1). According to Marx (1999, Vol. I, Part 8) “force”, which is exerted in many forms such as conquest and robbery, is among the major methods of primitive accumulation. For Marx:

“The so-called primitive accumulation, therefore, is nothing else than the historical process of divorcing the producer from the means of production. It appears as primitive, because it forms the prehistoric stage of capital and of the mode of production corresponding with it.” (para. 3).

Following Marx’s historical formulation of primitive accumulation, there are proponents of the Marxist theory agreeing that primitive accumulation does not solely belong to the “primitive” past, but is an ongoing process within historical capitalism (Luxemburg 2003, De Angelis 1999, Harvey, 2003), while they pointed to the importance and differences between the of the “forms of capitalist production” for capitalist development and accumulation.

Luxemburg (2003) discussed that colonialism played an important role on the development and the expansion of the capitalist world system and “militarism”, had an important role in the functioning of capital as well as in the phases of accumulation (p. 350). According to Luxemburg, “With that we have passed beyond the stage of primitive accumulation; this process is still going on” (p. 434). Luxemburg made an important contribution to the Marxist theory by pointing to the importance of the non-capitalist classes and formations for the development of capitalism. She located the accumulation of capital in Europe amidst a colonial background and argued that “Capitalism arises and develops historically amidst a non-capitalist society” (p. 348). According to Luxemburg;

“The existence and development of capitalism requires an environment of non-capitalist forms of production, but not every one of these forms will serve its ends. Capitalism needs non-capitalist social strata as a market for its surplus value, as a source of supply for its means of production and as a reservoir of labour power for its wage system. For all these purposes, forms of production based upon a natural economy are of no use to capital.” (p. 348-349).

She pointed that the primitive accumulation strategies were used in Europe from the Middle Ages into the nineteenth century Europe to dispossess the peasants and in the continental Europe it was “...the most striking weapon in the large-scale

transformation of means of production and labour power into capital. Yet capital in power performs the same task even to-day, and on an even more important scale—by modern colonial policy.” (p. 349-350). Drawing from Luxemburg’s accounts it may be argued within the context of the Cyprus Problem, the development of capitalism gained impetus largely amidst colonial rule on the island where it found a wide spread non-capitalist social stratum. The struggle towards colonialism were disorganized until the late 1920s, however powerful bicomunal labour organizations started to rise by the 1930s and 1940s. In the second stage after 1950s and 1960s the struggle of the GCs and the TCs was translated into a nationalist movement and continued in line with what Luxemburg defined as the “transformation of the means of production and labour power into capital” (ibid.). Luxemburg’s argument that the primitive accumulation was an on-going process was crucial to point out how the colonial powers, France in Algeria to Britain in Egypt, were exploiting the world with the power of capital “under the slogan ‘instituting orderly and civilised conditions’” (p. 359). At this point, De Angelis (1999) pointed to the distinction between accumulation and primitive accumulation in Marx’s “Capital”. In De Angelis’s accounts, while “accumulation” is a process in which labour is turned into an object by compulsion and domination, in “primitive accumulation” the separation of people from the means of production is a social process instigated by an actor such as the state or a particular section of social classes (para. 33). According to De Angelis, the separation which Marx stresses on is a fundamental condition for Marx's theory of “reification”, of the transformation of subject into object.

“while accumulation relies primarily on ‘the silent compulsion of economic relations [which] sets the seal on the domination of the capitalist over the worker,’ in the case of primitive accumulation the separation is imposed primarily through ‘direct extra-economic force’”.

For Harvey (2003), the specific forms of geographical space and the accumulation strategies are closely related; also argued that states played an important role in primitive accumulation by using their power and capacity for making institutional arrangements and also acquire and privatize assets as the original basis for capital accumulation; he pointed to the examples of “the appropriation of the Church property in the Reformation and the enclosure of common lands through state action in Britain” (p. 91). An important point in Harvey’s account is that he argued

that the different state formations led states to play different roles in the accumulation processes in the history and the primitive accumulation strategies still persists today as “expanded production” takes place “under conditions of peace, property and equality”, under more civilized conditions than that were described as “primitive” by Marx, such as slavery, during the rise of capitalist development (p. 144).

Harvey used the term “accumulation by dispossession” to point to the “continuity and proliferation” of the primitive accumulation strategies that were predominant during the rise of capitalism; such as the commodification and privatization of land and forceful expulsion of peasant populations. He argued that the “predatory practices” of primitive accumulation are still much in place today, but he rather uses the term 'accumulation by dispossession' instead, as he believed that in the contemporary form of Marx’s terminology, “some consensual as opposed to coercive basis for working-class formation” are shaped (p. 146). In Harvey’s formulation, Marx’s primitive accumulation appears as continuing processes in a variety of forms and different state forms and policies had been and would be an important determinant of the different outcomes of capital accumulation (p. 91). In more general terms, Harvey’s ‘accumulation by dispossession’ pointed that the use of “force” should not be regarded as only a primary “moment” in the early stages of capitalist development but as an on-going process in all stages of capitalist development. Harvey (2006) defined accumulation by dispossession as the new form of primitive accumulation under neoliberal practices, and he pointed to its four main elements; privatization, financialization, the management and manipulation of crises and state redistributions (pp. 153-156). In contrast to Luxemburg’s accounts on primitive accumulation which she regards as a process that requires the continuous appropriation of non-capitalist means of production, hence describing expanded reproduction as impossible in the absence of primitive accumulation, Harvey regarded that both the context and the substance of the “primitive” and the “non-capitalist” means had transformed, and while preserving their original meaning, they took new forms.

From this perspective, primitive accumulation strategies were persistent on the island not only in transition from feudalism to capitalism, but even after the establishment of RoC; starting in the 1960s, the forced enclavement of the TCC and their dispossession from their homes, businesses and offices, and following the

military intervention in 1974 through the acquisition of the GC land and installations and its re-distribution as *koçan* lands. After 2010s, what Harvey (1990) called “flexible accumulation” strategies (p. 268) through “accumulation by dispossession” (Harvey, 2006) were reflected to the island through financial crises, privatizations, property developments as well as exploitation of the natural resources around the island, which became the defining characteristics of the neoliberal transformation in the case of Cyprus. Harvey’s formulation fits well into the Cyprus context, in which he underlines that the appropriation of the natural resources is a form of primitive accumulation, hence it deserves a lengthy quotation;

“this I mean the continuation and proliferation of accumulation practices that Marx had treated as 'primitive' or 'original' during the rise of capitalism. These include the commodification and privatization of land and the forceful expulsion of peasant populations (as in Mexico and India in recent times); conversion of various forms of property rights (e.g., common, collective, state) into exclusive private property rights; suppression of rights to the commons; commodification of labour power and the suppression of alternative (indigenous) forms of production and consumption; colonial, neocolonial and imperial processes of appropriation of assets (including natural resources); monetization of exchange and taxation, particularly of land; the slavetrade (which continues particularly in the sex industry); and usury, the national debt and, most devastating of all, the use of credit system as radical means of primitive accumulation. The state, with its monopoly of violence and definitions of legality, plays a crucial role in backing and promoting these processes...”. (2006: 153).

Bonefeld (2011) shared Harveys’s accounts and added that primitive accumulation is not just a historic form, but rather a contemporary strategy for expanded proletarianization (p. 380). According to Bonefeld, “the significance of primitive accumulation is capitalist accumulation” (p. 386), and once it’s established, it becomes constitutive of the capitalist social relations.

From a world-systems perspective, Dunn (1996) compared the flexible accumulation with Fordism, and argued that the former was surpassed by the latter by the virtue of its flexibility in organization and customization of production by the rise of global competition between the producers;

“Fordism, the employment of large numbers of easily organizable labour in centralized production locations, has been supplanted by ‘flexible accumulation’ (small firms producing small customized products) and global sourcing (the use of substitutable components from widely-space

competing producers), production strategies that make traditional labour organizing approaches much less viable.” (p. 89).

According to Dunn, Marxism provided the best analytical tool for analysing the conditions under which the global economy develops, however he argued that the analysis of capitalist development required a world-system perspective as opposed to the perspectives on its nation-based development and a “re-specification” of Marx’s theory on the accumulation of capital (p. 85). Dunn argued that this re-specification would “reveal that capitalism is a process in which both firms and states compete one another within an arena which the core/periphery hierarchy is a necessary and reproduced feature. For Dunn imperialism is not stage of capitalism, but is rather a necessary and permanent feature of the capitalist world-system. In this regard, Dunn defines flexible accumulation as a result of the “re-integration” process of the ex-communist states. According to Dunn, the capitalist bloc supported the development of international liberalism *vis-à-vis* the rise of communism through market integration and technological revolutions, which “re-structured the international division of labour and created a new labour regime called flexible-accumulation” (p. 96). While Dunn bases his accounts on the new forms of flexible accumulation on the division of labour, Harvey’s account was based on the argument that dispossession occurs in various forms in today’s capitalism. According to Harvey (1990), flexibility determines “the labour processes, labour markets, products, and patterns of consumption” (p. 252). His formulation pointed to the “emergence of entirely new sectors of production”, including new markets and technology and in his later work he also pointed to the rise of a “new imperialism” (Harvey 2003: 7). Along with the rise of this imperialist competitor in the region, Harvey’s account brings light to the analysis of the Cyprus case and to TC’s exclusion from the decision-making processes for the exploration activities of the hydrocarbon resources around SEM. The GC Government’s unilateral action to invite the entry of the global oil and gas companies and Turkey’s reactionary politics towards these developments led to a “war of navtexes” in the Mediterranean which will be touched upon in the following sections. This process shall be analysed in parallel to the ongoing privatizations and the financial-political crises on the island that were instrumental for the neoliberal transformation in Cyprus.

### 6.1.1 Cyprus Negotiations in the Midst of Financial and Political Crises

After five years from joining the Eurozone in 2008, the GCs were stuck in a financial crisis in 2011. When the economic crisis hit the GC economy, the hopes of the TCs for a solution under EU aegis dimmed furthermore as this crisis eventually faded the pro-EU narratives in the north and weakened the class alliances that were established for bringing “change” to the political and economic structures in the north. The transformative capacity of the EU was questioned in the north in due course following the crisis in the south along with scholar attention (Börzel & Lebanidze, 2017, Öniş & Kutlay, 2019). The GC Government, that had lost control over the use of financial tools to overcome the crisis after they joined the Eurozone in 2008, came to the brink of an economic meltdown triggered by a huge debt-crisis leading to the demise of the GC welfare state after the financial crisis hit the south in 2013.

The GC economy started to suffer under the magnitude of the crisis, which was deepened by the late intervention of the Christofias Government to stop the snowball effect of the crisis from the beginning in the early 2010s. As a result, the job market was down in the south and the number of TCs passing the Green Line to work in the south and get access to health care (such as patients with cancers disease who only could get medical treatment either in the south or in Turkey), dropped simultaneously once the crises hit the south. The decline in the number of TCs passing the Green Line was not only a drawback for the TC economy, but it also signaled the weakening of bicomunalism on the island, which made a promising start during the Annan Plan process. Still, a journalist interviewee stated that although the financial crisis in the south had a negative impact over the negotiation process, it made the TRNC more “visible” to the world;

*“the north/south cleavage became sharper; it became apparent that there is a different administration in the north and being divided made the GC economy vulnerable. We were sad for the GCs and we openly stated it, the number of TCs working in the south declined gradually, and their crisis affected us too”.*

According to a unionist interviewee, another outcome of the financial crisis in the south was that the TCs see themselves more trapped between Turkish and GC nationalisms and capital, both which were on the rise after the financial crises. This feeling was mostly evident during and after the establishment of the “This country is ours” platform, in which growing number of TCs defined themselves as “Cypriots” rather than Turks. According to Kızılyürek (2001: 203), the clash between the Turkish

nationalism and TC identity on the other hand, rising steadily after 1974, was not only a cultural one, but also a political clash, which would affect the future of the island for a solution. A journalist interviewee, also stated in the interviews that the clash between TC identity and Turkish nationalism drives them closer to a distinct Cypriot culture. He believed that recently the GCs felt offended by Turkish nationalism as much as by a fear of surge from Turkish capital similar to the TCC concerns; this “fear” led to the EU membership of the GCs, not only with economic concerns, but rather because they realized in 1974 that Greece wouldn’t be able to protect them against Turkey. He argued that GCs were already living in welfare, even under better conditions before the EU membership,

*“...they enjoyed the benefits of their informal economy; the capital flows, offshore accounts which were mainly from Russia and then they wanted to ‘beat’ Turkey with their EU membership, but they were beaten by the economic crisis instead”.*

He also believed that GCs’ EU Presidency at the time worked against them, because they postponed the bailout as they didn’t want a bailout during their presidency, and this deepened the crisis, which caused an even bigger crack in the GC economy. It raised the amount of debt, which became unsustainable despite the 6.3 billion Euro provided by the European Stability Mechanism; a journalist interviewee argued that,

*“...they waited for the rotation of the presidency and the EU let them, and then they waited for the presidential elections, and when the Troika took action in March 2013 it was too late to save everything...”.*

Despite the severe financial crisis in the south between 2011-2013, which turned the south into one of the weakest economies in the Eurozone, the gap between the north and the south was still remarkable. The inflation rate in the north, which was steadily rising since the 1970s, caused a gradual decline of the purchasing power of the TC households over the years. In 1994, the inflation rate made a peak by 215%, the year before the Customs Union decision was signed between EU and Turkey, closing the trade doors of the TRNC economy and anchoring it to the Turkish market economy and monetary policy due to the use of the Turkish Lira as the official currency. The US Dollar, British Pound and Euro is also used in business transactions, but the TRNC economy is dominated by the services sector and a large number of the workforce is employed by the government, both which are susceptible to the exchange rate gaps, high inflation rates, which led to a fall in their real wages. On the other hand,

the SEEs were vulnerable to the exchange rate disparities unless their transactions are in foreign currencies other than TL, which discourages the start-up businesses, entrepreneurship and overall investment. The dependency of the TRNC economy to the instable TL exchange rate regime widened the gap between the TC and the GC economies starting by the 1990s. The gap widened by the 1994 financial crisis in Turkey (Görmez & Yılmaz, 2007)<sup>63</sup>, which devaluated the TL by 13.6%.

The cost of political isolation of the TCs was reflected to the prices as well the wages in the north; according to a study made by LAÜ & DAÜ in 2013, the lack of direct air flights and sea transportation which forces the cargoes to be transported from the TRNC ports via Turkey's Mersin Port causes additional loading-unloading costs which subsequently increase the freight costs. Empty container costs are also reflected to the wages, as they have to return back without being reloaded from the North, which is not connected to any of the international transportation networks. A price differentiation is created to the disadvantage of the north, due to the increase in import inputs such as customs duty, freight, VAT, with holding and funding which restrains attaining flat rates between the north and the south hence causes the prices in the north to be higher (Aksoy, 2013). However, a businessperson interviewee stated that it's impossible to compete with the GC in this regard as GCs earn a serious amount from the freight costs, as they own one of the biggest fleets in the world.

In parallel to the financial crisis in the south, the AKP Government started to put pressure on the TC Government to "tighten the belt" and limited the use of the financial aid for the development of the private sector and privatizations. This led to a significant decrease in the real wages; the last raise in the wages was made in 2007 despite the two-digit inflation rates; 14.7% in 2011 and 10.2% in 2013 (TRNC-SPO,

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<sup>63</sup> In 1993 Yılmaz and Görmez argued that;  
*"Central Bank of the Republic of Turkey in 1993, with a fiscal policy mistake, public receivables and loans were cancelled among public enterprises and the TCMB balance sheet had a public sector credit boom. Such a monetary expansion coupled with major debt mismanagement strategies by the then government led to a financial crisis in the beginning of the 1994 and Turkey became a rare example of devaluation of 13.6% under crawling peg FX rate regimes. After the crisis, the TCMB decided to publish indicative FX rates, which was collected from the market markers and announced without any adjustment. The official monetary policy strategy was to maintain monetary and financial stability through means of monetary policy so that the Treasury can borrow without disrupting the economic stability. At the same time crawling-peg regime has been institutionalized with minor changes on the settlement of official rates (p. 287)."*

2016). TRNC economy was stuck between the depressed economies of Turkey and the South, former struggling by the global crises and latter by the austerity measures pushed by the EU, IMF and the WB. This drifted the already stagnated TRNC economy into recession, which mostly affected the small business owners. The trade union representatives were angry at AKP's attitude towards TCC, treating them as "lazy people" who are dependent on the aid from Turkey; "we don't have our industry because we were not allowed to have it, not that we don't want it. We don't want Turkey to send us fish, they shall teach us how to fish, not vice versa". The same "lazy people" rhetoric was used against the GCs after the bailout by the European tabloids, however the Zielonka argued that it was some Greek Politicians who cheated their European colleagues as well as their people (Zielonka, 2014). While the TC economy was not directly affected by the crisis in the south, the intercommunal relations were weakened by the decrease in economic and social relations.

The economic crisis in the south widened the political gap between two communities as a result of the increase in GC nationalism, pushing the Cyprus problem to the second place and making the economy the primary concern of the GCs. One of the journalist interviewees argued that the financial crisis led to an increase of GC fanaticism in the south, and the craftsman made "buy GC product" campaigns which harmed the north-south trade and the number of TCs employed in the south. According to Iordanidou and Samaras (2014), the financial crisis displaced the Cyprus issue as the dominant factor affecting domestic politics, political rhetoric and international image of the Cyprus Republic.

Ioannou and Charalambous (2017) argued that, the difference of the Cypriot financial crisis from the other countries of the Eurozone crises was that it essentially represented a banking crisis that developed into a sovereign debt crisis. It was not a crisis provoked by fiscal deficit and public debt and this led the troika not to push for privatizations in the public sector at the beginning (ibid.). The decision whether to privatise the public utilities or not, and to what extent they were to be privatized, was left open. The reform of the civil service and the introduction of the General Health Scheme were approved by the Troika but were not set as a precondition for the bailout program (ibid.). Among others on the way, Cyprus Ports Authority remained the first and only one whose privatization scheme was completed by 2017. This was

mainly due to the strong reaction from the GCs towards the proposals of the Troika for the privatization of the SEEs in the south. Spiro Panagis, the president of the “Pancyprian Independent Trade Union of Municipal Workers”, argued that the establishment of the SEEs was not simply an economic decision after 1974 therefore, he asserted that if the SEEs are sold, the GCs would become slaves; for Panagis, “It is equivalent to the third Turkish invasion” (Vatikiotis, 2014: para. 6). Moreover, it was argued that the GCs had a negative perception towards the privatizations mostly because of the Larnaca Airport’s privatization set a bad example; the new company employed very few GCs after the privatizations and preferred to hire workforce particularly from the Eastern European countries.

Regarding the privatization of the SEEs, the TC and GC narrative was quite similar. The interviews showed that the SEEs that were established after 1974 not only had an economic value, but their establishment had a symbolic significance for the existence of the TC State. Hence the privatisation issue drew the reaction of the TC opposition, and the right-wing parties greeted it with reluctance. However, the reaction by the GC and the TC bourgeoisie against the privatizations of the SEEs were similar in terms of their dislike for the “non-transparent process and the unlawful practices” rather than the privatizations themselves. However, the TC opposition and bourgeoisie had less control over the process when compared to the south, as the trade unions and the opposition were not effectively organized as a pressure group in the north. Their bargaining power was largely curtailed due to the lower rates of unionism and also their financial dependency on Turkey. Moreover, while the GC unions and AKEL was strongly reacting to the Troika with wide popular support with enhanced patriotism after the crisis in 2013, any kind of reactionary movement by the TCC in the north were regarded as a “rebellion against the motherland”, hence were regarded as treason.

Despite the TC opposition’s reaction towards AKEL for “waisting the opportunity for a settlement”, the outbreak of the financial crisis in the south caused the TCs to feel “sympathy” towards their neighbors. As opposed to the GCs, the TCs were familiar to financial and political “crises” since the 1990s hence they believed that the TC side had to wait for the financial crisis to be over in the south for the talks to “resume”. Consequently, the 2012 presidential election in the south was driven by the candidate’s plans on the economy and Cyprus problem was not at the core of the

election campaigns. Anastasiades, who was on the federalist, aka the “concessionist” camp, during the Annan Plan, won over the opposing “rejectionist” group’s candidates, Liliakas in the first and Mallas in the second round. It was believed that in the Presidential elections, The GCs not only punished AKEL which was in power during the onset and the development of the financial crisis, but also voted for a “concessionist” candidate by linking the crisis and the failure of the Annan Plan to each other.

It was strikingly apparent in the 2013 interviews that the interviewees were extremely empathetic towards the GC Government under Anastasiades, believing that the GC Government had a “just” reason for retreating from the negotiation table in the brink of the GC financial crisis in 2013. One of the interviewees said that the GCs “had a good reason” to give the negotiations a secondary place in their agenda, and based his argument on the idea that Anastasiades, as a pro-federation politician, shall be given time and the TC side shall respect the fact that his priority is to deal with the financial crisis first. This empathy, that was largely emanating from Anastasiades’s pro-federation position during the Annan Plan period, provided credits to Anastasiades from the TC side and facilitated his future maneuver to withdraw from the negotiation table in Crans Montana, which was largely due to the discordances on the hydrocarbon issues, despite the approximation of the TCs and the GCs over the power sharing issue and guarantees. Despite the positive attitude towards Anastasiades in the north, the GC Leader made his position clear soon after being elected; on 29 May 2013, he declared that the talks will not begin from the point they ended in 2012, which was not only to the surprise of Talat but also led to UN Secretary-General's special adviser Alexander Downer to step down in February 2014.

The Cyprus talks resumed in 2014 after the GC financial crisis was publicized. President Anastasiades and President Derviş Eroğlu made a joint declaration on 11 February 2014, agreeing on seven principles for the continuation of the negotiation process, however the attempt failed in October the same year, as Anastasiades decided to halt the talks, accusing Turkey for making ‘aggressive’ and ‘provocative’ plans to start test-drillings off-coast in SEM, where Cyprus had licenced Italy's Eni and South Korea's Kogas for drilling activities (Al Jazeera Europe, 2014) without TC’s consent. The intercommunal talks, that were expected to revive after the discovery of the

hydrocarbon resources in the SEM in the early 2010s, came to an impasse, and the hydrocarbons issue counteracted the negotiation process despite the initial optimism for its potential to act as a “catalyser” for unification.

The financial crisis in the south weakened the novelty of EU’s economic success in the north and increased Turkey’s importance as the major trade partner of the north. In this regard, it could be argued that the neoliberal transformation on the island deepened the existing cleavages and created new ones, hence counteracted the advancement of the negotiation process and the chances of a federal solution. AKP was losing its “popularity” in the north as an economic protagonist due to the implementation of the 2007-2009 Protocol which caused wide-spread protests by the 2010s. However, despite rising discontent towards the Protocol, AKP was still regarded as a powerful economic actor in the region in the 2013 interviews. The financial crisis in the south created a sense of security in the north as the TCs felt that the financial crisis by-passed them due to south’s entry to Eurozone without the north. While there was a feeling of relief in the north as they felt that they had turned from the brink of another economic disaster by being out of the Eurozone, the rising number and amount of Turkish capital investments was regarded as a threat to TC businesses and a means that consolidated the hegemonic power of AKP in the north. One of the bureaucrat interviewees argued that, “...*the siege by AKP is not only political but mostly economic. As the military and the Ergenekon organization lost its power on the island, the AKP’s capital groups gained power. For the soldiers, Talat was a traitor because he was pro-solution. Now Talat is not in power anymore and the military lost its power too but indeed nothing changed for the TCC; in the past our ‘Turkishness’ was questioned by them (the military), now our ‘Muslimhood’ is under criticism by AKP*”.

Despite AKP governments’ strong emphasis on a stable/strong economy, Turkish economy started suffering the slowdown of GDP growth in 2012 down to 2% and the collapse of the financial markets after the Gezi Park protest in Taksim square by June 2013 (which was at its peak before the protests). This uprising was regarded by the AKP Government not as a rising discontent by the wider classes of the society against the government but rather as a part of the “big game” played by the global powers on Turkey that aimed to overthrow the government. The financial crash

unveiled the fact that the Turkish economy was vulnerable to financial speculations and social unrest, and that a more inclusive political-economy agenda was needed which would be embraced by the wider classes of the Turkish society. It was getting increasingly difficult for the AKP Government to continue with the financial aid policy which would subsidize the TC economy in times of crisis hence the privatizations continued to be a priority in the 2010s as well. The global foreign capital started its operations in the north in an alliance with the Turkish capital after the privatizations started; the multinational companies such as the KPM Energy Ltd., and British American Tobacco had entered the privatization process in joint ventures and/or in partnerships with Turkey's business groups.

Until the late 2000s the neoliberal process in TRNC was incremental and uneven rather than precipitous, which overlapped with the expectations of the state elite and business groups in the north. By the late 2010s the process gained impetus and the TC business groups and the so-called "state elite" were aware that AKP was determined to proceed with its neoliberal agenda in the north which they would have little control over its scope and *modus operandi* after 2004 so they struggled to adjust their schedule to the decision-making processes in the north. Serdar Denktaş announced in 2015 that although he tried hard to stop the privatization of the Ercan airport in 2012, which he describes as a *fait accompli*, he wasn't successful to stop the process when he was in government (Kıbrıs Postası, February 2015). Denktaş blamed UBP, his father's ex-party, for the privatization of KTHY and Ercan airport which he called as the "two cursors of TC's sovereignty".

There were no particular laws enacted for covering privatizations until 2012 in the north, however the process gained impetus by the onset of the 2010-2012 Economic Program, which was presented to the TCC as the "Program for Increasing the Efficiency of the Public and the Competitiveness of the Private Sector" (KEİ, 2010-2012). The privatization of strategic sectors such as electricity was included to sustain electric supply security of the TRNC, and "the rest of the SEEs" were to follow, such as ETİ and KTDİ (Kıbrıs Türk Denizcilik İşletmeleri-TC Maritime Company) in order to attain the liberalization of the market. The program aimed to shrink both the public sector and its debt amount, and for the first it "scheduled" these to a time table since these structural reforms were prescribed by Turkey as a remedy to the stagnation of

the TC economy and were signed in an agreement between Turkey and TRNC in 1997. The 2013-2015 “Transition to Sustainable Economy Program” clearly underlined that the privatizations were to be made by evaluating the “damage and financial burden they cause” (KEİ, 2013-2015).

According to Ekici (2019), the political nepotism in these SEEs imposed by the TC politicians was the main reason of their collapse and privatization among other reasons. He pointed that the second “Five Year Development Plan” in the north listed “lack of finances, lack of management experiences, inability to sell the products in international markets, and the management difficulties due to shared ownership with Turkish-based enterprises.” (p. 177) as the main problems of the management of these SEEs. However, the use of TL as the official currency and the loss of TL’s value *vis-à-vis* the USD and other currencies was another major reason. Moreover, the currency composition of the credits provided by Turkey was changing and the share of USD was rising. As the share of USD is rising TRNC’s debt stock amounts in USD, putting the government in a difficult position, which was trying to be eluded by getting more credits from Turkey. This vicious debt cycle is more or less the same for the SEEs; the enterprises debts to the public and commercial banks were under state guarantees, in order to continue and manage their operations which also led to the expansion of the credits of the banking sector making and the tremendous rise of the public debt stock by the 2010s. The ratio of public debt in GDP in 2007 was 54%, and it climbed up to 100,6% in 2017. The share of foreign exchange within the foreign debt stock was also rising; from 58% in 2007 to 71% in 2017 and the weight of the foreign exchange within the debt stock, caused by the credits from Turkey (99,4% of the foreign debt is composed of the credits provided by Turkey), raised from 57,6% in 2007 to 70,6 in 2017 (KEİ, 2017).

AKP’s injection of neoliberal policies to the north started to create tension among the TC opposition and the trade unions organized numerous street protests by the end of 2010s. The so-called top-down decisions from Ankara was met with huge reactions within the TCC, not only for privatizations but also regarding the issues in the daily life; on September 7, 2016, the Turkish Government decided to continue using the “Daylight Savings Time” (DST). On October 28<sup>th</sup>, 2017, the day before Europe set their clocks back 1 hour to standard time, the Turkish Council of Ministers

announced their decision that the country permanently stay on “Daylight Savings Time” (DST) which was followed by a presidential decree signed by President Erdoğan in October 2018, making “GMT+3” the official permanent time zone of Turkey (Hürriyet Daily News, 2018) despite backlashes by the opposition. While TRNC adopted DST in accordance with Turkey in 2016, the TCC refused to make it permanent, which led to street protests and strikes by trade unions, and in 2017 TRNC decided step back to the winter time on the 29<sup>th</sup> of October, 2017. One of the unionist interviewees expressed their distrust for “any” AKP policies. “In the past Turkey was determined to follow ‘no solution is the best solution’ policy, as soon as AKP came to power, the rhetoric of ‘solution’ increased but nothing changed in substance, today they even try to interrupt our daily lives and traditions.”. He stated that as long as AKP will be in power, the Cyprus Problem would limbo between taksim, solution and deadlock triangle and there would be no solution despite AKP’s narratives as a pro-solution party. He claimed that the wealth of TCC was slowly eroding during this “limbo” as AKP was using capital as power; Famagusta harbour, olive farms etc. are apportioned between AKP politicians and pro-AKP businessman. *“TRNC is not the ‘baby of the motherland’ any more... Turkey gave TRNC a foreign country status and this means it gives each investor 100.000\$ as grant, as an incentive, so money talks now, not the emotions”*.

The tension between AKP and the trade unions constituted the basis of the outbreak of the political crisis in 2010s and the trade unions reacted pursuing a counter hegemonic movement against the neoliberal agenda of the AKP. However, the “power” of the unions was weakened in the past decade so they weren’t effective to stop the implementation of the economic reforms and the privatizations in the north. One of the unionist interviewees claimed that while KTAMS and KTÖS was still actively involved in the unionist struggle, Türk-Sen had lost its power and it was only active when it comes to tackling with the daily problems of its members, “pacified” in the political arena and unable to act against the on-going privatizations and protection of the rights of its members or improve their working conditions. On the other hand, one of the bureaucrat interviewees blamed the trade unions for making strategic alliances with the political parties in power, in order to improve their wages and force Turkey to increase the amount of the aid. He pointed that these strategic alliances

occasionally become successful as CTP did in the pre-Annan referenda period. CTP made an alliance with the trade unions to form a strong opposition against the so-called status quo regime and succeeded to come to power in 2003. However, by the end of the 2000s fractures in the alliance deepened as the trade unions began to criticize CTP's for its close relations with AKP when Turkey started to put so-called "conditionality clauses" to the aid program by linking them to the shrinkage of the public sector and sustaining fiscal discipline. KTAMS and KTOEÖS were critical of CTP in the post Annan Plan period after 2004 due to CTP's rapprochement with the AKP government and they were the major unions taking part in the 2011 protests against Ankara's austerity measures (Ioannou & Sonan; 2017). The leftist trade unions such as Dev-İş, the Cyprus Turkish Civil Servants Trade union (KTAMS), KTÖS, KTOEÖS, Türk-Sen sided with the CTP in the Annan Plan referenda process, however, this didn't necessarily mean a political alignment. Meanwhile Hür-İş, and Kamu-Sen were considered right-wing unions, however Kamu-Sen was highly critical of UBP after it came to power in 2009 due to the party's support for the austerity package of Turkey (Ioannou & Sonan, 2017). While Dev-İş, KTAMS were closer to CTP's policies, KTÖS, DAÜ-Sen, Doctor's Union and Customs Workers Union regarded themselves as autonomous from party politics. Despite their differences, they occasionally came together under *ad hoc* platforms such as the "this country is our platform" for a specific target as they did for a federal solution back in early 2000s (Ioannou & Sonan, 2017).

Regarding the onset of the privatization agenda and the role of AKP in the process, the difference between the 2013 and 2016 interviews was striking; while most of the 2013 interviews stressed on the economic success of the AKP governments, in the 2016 interviews this perception dramatically changed. It was apparent that this change had two major reasons, firstly the financial crisis in the south was partly over due to the bail-out decision of the Troika, which once again brought the economic gap between the south and the north to the fore. Secondly, after Akıncı was elected as the President in 2015, the federal solution was back on the agenda and AKP's steadfast privatization agenda was regarded as a *fait accompli* by the TC bourgeoisie. One of the politician interviewees argued that Turkey started acting like a "rent seeking" state

(Evans, 1989)<sup>64</sup> after AKP Government started to put pressure on the TC governments for the privatizations, ignoring the real needs and demands of the TCC and the growth of the TC economy. There was one counter argument, an UBP MP pointing to the “developmental” role of Turkey in the north, one that was a mentor and a “protector state” for the TRNC. He gave the “water channel project” as an example, built between Turkey and TRNC to bring spring water to the island in 2015. Although the water project was of crucial importance for the north, there were doubts within the TCC about its sustainability in case of a technical problem and about its manageability due to the divergences between the Turkish and the TC Government over the administration of the water.

Due to political and administrative conflicts regarding its management between the Turkish Government, the TC Government, and the 28 municipalities in the north, the water reached the TC households three years after reaching the north shore of the island. Although the majority of TCC was hopeful that their clean water problem would finally be resolved on a daily basis, the price to be paid for this solution created yet another political crisis in the north. CTP and UBP coalition government dissolved in April 2016 after falling into disagreement on the privatization of the water pipeline and on the management and the distribution of the water. Turkey’s pressure on the privatization of the administration of the pipeline was supported by UBP, while CTP insisted that the water should be administered by a consortium, composed of a company (BESKİ) founded by the municipalities and by the Water Administration Office to be established by TRNC. CTP was claiming that the TCC was against the privatization of the management of the water pipeline, hence following this crisis, the signing of the 2015-2018 Fiscal Protocol was prolonged, postponing along the full payment of the civil servants’ wages in March 2016, leading to the breakup of the UBP-CTP coalition government the following month.

The regular payment of the wages (and additional benefits called the 13<sup>th</sup> salary) was vital for the persistence of any TC Government as the civil servants constituted an important part of the TC workforce. According to the figures provided

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<sup>64</sup> In Evan’s words extracting “large amounts of otherwise investable surplus and provide so little in the way of ‘collective goods’ in return that they do indeed impede economic transformation”

by the State Planning Organization of the north, the total employment in 2016 was 118,387; while the recruitment by the state institutions was 16,317, denoting 13,7% of the total workforce, the number of civil servants was 5,170 which made up the 31,6% of the public sector workforce, while the number of teachers was 3,922 which is 24% of the sector and together they represent 55,6% of the public workforce and 8,44% of the total workforce (TRNC SPO, 2016)<sup>65</sup>. According to the ILO numbers, TRNC has the highest in public employment/workforce ratio; while the ratio in the south was 12.2%, it was 25.7% in the north (Dedeoğlu, 2013:32). This structure of the public sector workforce, dominated by the civil servants and teachers, makes the payment of their wages a priority of the governments, especially for coalitions, to prevent their break-up and early elections. One of the journalist interviewees argued that the civil servants were mostly composed of the *müjahids* and their offspring, who had an historic importance for the north due to their participation in the intercommunal conflict between 1963-1974 for the protection of the TCC;

*“What else would the müjahids, who fought besides Turkey during the intervention in 1974, do after the regular army was stationed in the north? Of course they were made civil servants...”*

Hence, the public services sector held the largest share of the GDP, followed by trade and tourism sectors until 2012, when the latter’s share surpassed (Figure 6.1). In 2009, the shrinking of the sector was already put into effect via the “Program for Increasing the Efficiency of the Public Sector and the Competitiveness of the Private Sector”, signed between TRNC and Turkey in order to “decrease the share of the public sector in the economy, with the goal of attaining sustainable growth based on private sector and creating a highly competitive economic environment.” (KEİ, 2010-2012: 5). However, these targets left the TC governments stuck between the trade unions and Turkey; if they abide to the program and cut public spending, they will be under harsh criticism of the trade unions followed by the strikes which would lead to the resignation of the government. If they fail to be “effective” for accomplishing the objectives set in the programs, there would be a political crisis with Turkey during which Turkey would delay the signing of the aid program, which the trade unions would react accordingly, and the TC Government would have to resign under financial

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<sup>65</sup> Until 2004 employment according to value added and registered average unemployed are considered. For the following years figures are based on Household Labour Force Surveys.

pressure from Turkey. This “double” challenge for the TC governments led to frequent political crises and snap elections as well as caretaker governments which is yet another barrier to sustain economic growth in the north. Between November 1983-May 2019, 24 governments were established, meaning that each government lasted only around 18 months which is below the average number in Europe. According to the research by Alesina et al. (1992), studying the joint determination of the propensity of government changes taken as a measure of “political instability” and economic growth in a sample of 113 countries for the period 1950-1982, they argue that “in countries and time periods with a high propensity of government collapses, growth is significantly lower than otherwise”.

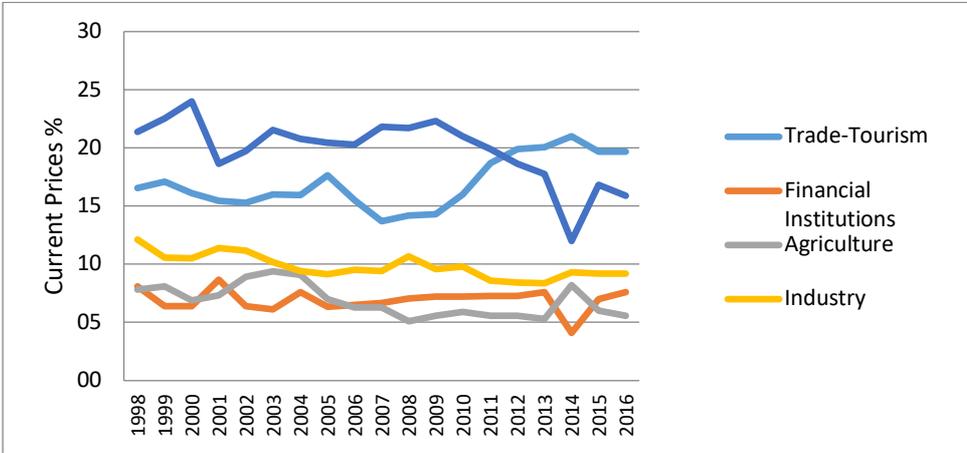


Figure 6.1 TRNC-Sectoral Distribution of Gross Domestic Product.  
 Source: TRNC SPO - 2016 Macroeconomic Indicators.

Once the privatization process gained impetus, the business groups in the north became aware of the fact that the Turkish capital would dominate the whole process. Although they confronted Denктаş and sided with the TC opposition and by the AKP Government in order to change the TRNC leadership during the Annan Plan, their hope for a better future dimmed by the mid-2010s. Back in the early 2000s, their initial motivation was to end the economic impasse, however in time they become increasingly critical of the Denктаş regime and called for the need for a total transformation during the Annan Plan. After the failure of the plan the business groups become well aware that this could only be achieved through a political solution not

solely by an “economic perspective”, and their support for AKP’s neoliberal vision continued with the hope that it would eventually lead to a federal settlement.

After the financial crisis hit the south it became clear that the EU membership would not bring an immediate solution to the economic problems, to the contrary it was even influential in exacerbating them. One of the businessperson interviewees argued in the midst of the Gezi Park protests in Turkey that,

*“we know that the short-term economic plans and aid from Turkey and EU is just to save the day, we don’t want to be left at the same starting point anymore and this is the historic moment (the peak of the crisis in the south), only a long-term political solution and self-sufficiency would be effective to achieve economic development”.*

By the mid-2010s, their perception of AKP was quite different than the positive comments back in the early years of AKP Government. One of the businessperson interviewees expressed his frustration of the inertia in the north among the bourgeoisie, *“...everybody (CS and business groups who were active during the Annan Referenda) withdrew into one’s own shells nowadays, we are even ‘pushed aside’ in political terms, yet the pro-AKP Turkish capital is on the rise and replacing the TC capital, we don’t have the power to compete with them, the TC businesses will shut their doors soon.”*. He pointed to the privatization of Ercan Airport as one of the first examples, the KTHY, Dome Hotel, DAK<sup>66</sup>, and KTP<sup>67</sup> following it, and expressed his fear that more is on the way. These fears were proved to be right after the signing of the 2016-2018 Association Protocol<sup>68</sup> on economic and fiscal matters. The “Structural Transformation Plan”, signed between TC PM Hüseyin Özgürgün and Turkey’s PM Binali Yıldırım<sup>69</sup> which foresaw a comprehensive privatization program including the harbors, telecommunication, electric sectors as well as the re-structuring of the judiciary and the central planning organization (DPÖ) and the shrinking of the public sector in the north. One of the bureaucrat interviewees claimed that one of the major privatizations, the bid for the Ercan airport was won by a joint venture of two Turkish

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<sup>66</sup> Doğu Akdeniz Koleji, the East Mediterranean College branch of East Mediterranean University (DAÜ).

<sup>67</sup> Kıbrıs Türk Petrolleri, privatized in 2011.

<sup>68</sup> The previous CTP Government didn’t sign it, the wages couldn’t be paid in 2015 and the coalition was dissolved and it was only signed in 2016 by the new government. The same thing happened in 2019, the TC Government didn’t sign the agreement and the coalition broke up and later Ersin Tatar became the PM and signed the agreement, however the financial aid didn’t arrive until 2020.

<sup>69</sup> The plan was to be signed in 2015 however the June election in Turkey and the following political crises led to a repetitive election in November, postponing the signing of the agreement.

companies with a TC Partnering Company in 2012. A unionist interviewee argued that:

*“The Turkish capital is growing fast in the north, they gave a part of the Famagusta port to one of the AKP ministers’ company, they gave the olive oil factory in Kyrenia to one of AKP’s supporter companies etc. The list is long and there are many more...Turkey put TRNC to the foreign country status so that any company that decide to invest here would get USD 100.000 as grant, so no TC company could compete with Turkey’s financial power here, TRNC isn’t the “babyland” of Turkey anymore. The “Culture Association” tied to the Turkish Embassy collects money from the TCs and use it for its own political purposes, the embassy supports these associations by directly financing them as well, part of the grants by Turkey goes to these associations”.*

While the Minister of Finance, Serdar Denktaş, the leader of Democratic Party (DP-Demokrat Parti) in the north, declared his support for the entire plan, however he added that “the time is not ripe for the privatization of harbors” which have limited international access hence working in low capacity due to the Cyprus problem, as their “early” privatization would mean selling them for “peanut money” (Mutluyakalı, 2016). The TC bourgeoisie’s concern was the “timing” rather than the “essence” of AKP’s economy agenda; although they were not against the neoliberal program that was presented in the form of structural adjustments, they preferred its implementation to take place once a federal settlement is reached, which would be more “profitable”. That would mean a more inclusive competition process would take place by the participation of the global companies for the acquisition of the harbors, which would increase their value. Hence the so-called state “elite” in the north, some of whom were business people, didn’t want to lose their strategic position within the power bloc, and over the administration of TC SEEs until a settlement is reached on the island, preferably a federal one. A politician interviewee, one of the so-called state elite, argued that they wanted a “gradual” shift to the new (neoliberal) model, which has actually in progress since the 1990s in parallel to the privatization agenda in Turkey.

They were partly successful in slowing down the privatization process and steering Turkey’s demands for structural reforms on their behalf during Denktaş’s era, due to President Denktaş’s “bargaining power” and his close relationship with Turkey’s ruling bureaucratic and military fractions in the pre-2002 period. However, they gradually lost their power after Denktaş withdrew from politics. The state “elite” in

the north lost their influence in Turkey, notwithstanding their interconnectedness with the business circles, hence they were not able to manage the course, context and the timing of the neoliberal agenda which were (re)formulated as structural reforms by the second half of the 2000s. One of the bureaucrat interviewees claimed that TCC was more powerful towards Turkey during Denktaş's reign and he was actually standing against the Turkeyization of the north;

*“He was a very strong political figure in Turkey as well, challenging the prime ministers and presidents (of Turkey) with his personal charisma, today we are left alone. He would get whatever he wanted without fighting, and he always said that TCC should not fight with Turkey to get what we wanted; Çiller was able to sign the Customs Union decision only after a fight and strong bargaining with Denktaş, he was actually a TC nationalist, who kept Turkey's involvement in balance in the north”.*

A trade unionist interviewee argued that the survival of the “state elite”, that are prominent businessmen at the same time, relies largely on the continuity rather than the solution of the problem. He pointed that the presence of the TC State as a “partly” autonomous entity allows them to endure their privileged positions as; *“they are in office since the onset of the Cyprus Problem”*. However, their dual role as businesspeople and politicians generated a contradiction in their class positions that comes to surface during the times of crises within the power bloc. This contradiction is driven by the urgent need to end the isolation and create a fully open market to overcome the fear of being swollen by the mighty Turkish Capital, and the need for cooperation with the Turkish governments for the continuation of the financial aid to the north.

## **6.2 Trading the Riches; Hydrocarbons vs. Statehood**

Towards the late 2010s, the TCs found themselves stuck between the clashing geostrategic interests and the concurring neoliberal agendas of both Turkey, EU and the GC Government. The GC Government which consolidated its claims and position as the legal representative of the island after Cyprus became an EU member state under the GC hegemony in 2004, started acting on behalf of the TCC in political and economic decision-making processes. The GC Government had started to provide offshore licences through bidding processes for the exploration and drilling activities around the island in its self-claimed EEZ in 2007. This unilateral maneuver by the GC Government received strong reaction from the TC Government and from the Turkey.

It was the beginning of a naval confrontation in the SEM when the research vessels carrying out seismic surveys were not allowed into the so-called “disputed areas” by the Turkish navy after 2008. The “Blue Homeland” doctrine of the Turkish Naval Forces, which asserts to make Turkey an effective naval force mainly by increasing its power and presence in the Mediterranean, began to be discussed in parallel, however it was overshadowed by the Ergenekon and Balyoz trials which imprisoned the admirals who designed and coined the idea.

The recent revival of this naval doctrine of the Turkish Armed Forces, called the “Blue Homeland”, left aside the babyland narrative and epitomized the TRNC as “the Homeland” (Gürdeniz, 2018). The idea and its rhetoric hardly represented an epistemologic break with the babyland perspective but rather it stressed on TRNC’s key role in “*preventing the geopolitical imbalance in the Egean geopolitics*” (Gürdeniz, 2019), that was a result of Western powers imperial goals (Sudagezer, 2020 in an interview with Gürdeniz). Although the idea was coined back in 2006, it didn’t fit well into the political conjuncture of the time as the EU membership perspective was still a primary foreign policy goal and the Cyprus issues was a key part of it. Moreover, the “fathers” of the doctrine was sentenced to eighteen years in 2011 in the Balyoz trials and was acquitted from the charges only in 2015 after serving 3.5 years in prison. The doctrine found room in the media when the relations with the EU and the Atlantic started to deteriorate after the mid-2010s and Turkey’s prospects for full membership to the EU were put on ice. This approach became increasingly popular after carbon politics began to dominate the negotiation process from the late 2010s onwards, in shaping both Turkey’s and the TC Government’s foreign policy perspective as opposed to a federal solution.

Cyprus was once again the centre of the geo-strategic alliances and conflicts after the mid-2010s. While the island was popular for its cotton and copper a century ago for the Ottoman and British Empires, the hydrocarbon (HC) reserves around the island started a new race for Cyprus’s natural resources by the 2010s. While both the TCs and the GCs were struggling with the neoliberal transformation and with the financial and the political crises associated to it, this new variable made an unexpected impact upon the negotiation process. There were mainly two lines of thought regarding the outcome of the discovery of the hydrocarbons in the SEM; the first “camp”

consisted of the functionalists, who, from an optimist perspective regarded the hydrocarbons as an opportunity to end the conflict and hoped/believed that economic benefits would somehow generate a political solution. The second camp consisted of the sceptics, who, from a historical perspective, realized that the extraction of the hydrocarbons prior to a solution would mean a permanent deadlock unless the GCs would somehow be convinced to include the TCs to the process. Eventually, the intercommunal negotiations first slowed down and then they were halted when the international companies, licensed by the GC Government, started their drilling activities in the claimed EEZ of the RoC in the South Eastern Mediterranean (SEM).

As a response, Turkey started issuing Navtex (Navigational Telex) warnings for making military exercises and hydrocarbon expeditions within the territorial waters and the claimed EEZ of the TRNC and Turkey. This new period started the carbonization of the Cyprus problem, during which the “substantial” topics of the Cyprus negotiations were subsided by the hydrocarbons dispute. This ignited a broader conflict, not only between the GCs and the TCs, but also between the global capital to get the biggest share, and this clash of interests led to the militarization of the SEM and the wider region. The hydrocarbons issue and the starting of the drilling activities in the SEM became part of a bigger conflict over the sharing of the resources in the Middle East; the SEM was militarized in an incremental process, following the eruption of the so-called “Arab Spring” by the early 2010s and it merged with the big powers’ quest for the exploitation of natural resources in the Middle East. This particular conjuncture linked the hydrocarbons issue to the rise of what Harvey called “new imperialism” (2003: 7), which initially appeared to be “all about oil” in Iraq in the early 2000s, and later proved to be all about oil and gas, not only in Iraq but in the wider region, showing “the geopolitical condition and significance of the Middle East as a whole in relation to global capitalism.” (p. 19).

The new state of affairs in the region had repercussions on the trajectory of the Cyprus problem and eventually on the statehood struggle of the TCC. The recent problematique on “how to share the wealth around the island”, revived an old discussion of the 1960s on the island, which was raised over the struggle for capital allocation in the form of an intercommunal conflict. Development of extractive industries, which were important steps of the capitalist development on the island

during the colonial era (King, 1980)<sup>70</sup>, mainly for copper and iron, was an important platform for the rise of a bicomunal trade union movement and class struggle which became centers for resistance against the colonial rule. After 1960, the ex-combatants of the GC independence movement, some of whom were dominantly EOKA members, held considerable power over these networks. After the divide in 1963, this struggle was replaced by the struggle over private ownership, power sharing, and statehood as the GC Government took control of means of production and the public sector. In this regard, far from being a catalyzer for settling the dispute on the island, the hydrocarbon discoveries revived the intercommunal struggle for sharing of the natural resources around the island and started a new phase in the primitive accumulation strategies of the capitalist development by the 2010s. The sharing of the hydrocarbon resources around the island became a dispute between Turkey, TRNC and the RoC, when the GC Government began to act unilaterally on behalf of the TCC regarding the licensing/drilling/extraction activities in the SEM, signing cooperation agreements for operations for the future markets without the consent of the TCC. The TCC was in the middle of regional geopolitical competition by the mid 2010s, this time for the natural resources in the SEM.

According to the European Stability Mechanism (ESM), the GC economy, which suffered the consequences of the enormous amount of capital flight right after the financial crisis broke out in 2012, “staged a solid recovery in 2015”<sup>71</sup>. Yet neither the growth rate nor the GDP numbers were able to return to their pre-2008 levels. Meanwhile the TC economy was under the pressure of privatizations and increasing share of Turkish capital in the north, as the TC bourgeoisie’s competitiveness and financial capacity was weak *vis-à-vis* Turkey’s big business. TRNC was gradually losing its “comparative advantage” even in its competitive sectors, such as higher education, after Turkey started to open foundation universities, as well as on-line higher education platforms such as NetKent<sup>72</sup> by the initiative of big capital in Turkey.

However, the hydrocarbon discoveries in the SEM were welcomed with a “careful” enthusiasm in the north. Although the initially announced capacity of the

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<sup>70</sup> An effective land consolidation program was attempted in 1945, and then RoC issued the Land Consolidation Law for agricultural modernisation in 1969.

<sup>71</sup> How Cyprus modernised its economy, <https://www.esm.europa.eu/assistance/cyprus>.

<sup>72</sup> NetKent, Akdeniz Araştırma ve Bilim Üniversitesi, <https://www.netkent.edu.tr/>.

hydrocarbon reserves created enthusiasm in the north, the interviewees were sceptical of the hydrocarbon reserve's potential to act as a new "catalyser" for a solution. The hydrocarbon discoveries sparked a lively debate on the role of the reserves for a solution of the Cyprus problem. There were critical opinions from the south (Kyprianou 2018)<sup>73</sup> and from the north (Olgun 2019), and even if they represented different political perspectives for a solution, they shared similar concerns over the appraisal of the hydrocarbons issue. The critical approach argued that any attempts towards a partial solution, and particularly starting of the drilling activities for the hydrocarbons in the SEM prior to a settlement, would impede reaching a comprehensive, federal solution, and further complicate the negotiation process and may even start a "war" over the sharing of the resources. Olgun, who was the chief negotiator of TRNC and the former advisor to Denktaş, argued that the continuation of the drilling activities prior to a comprehensive settlement would harm the negotiation process and "normalize the *status quo*" (p. 5).

The functionalist perspective favoured the idea of using the discoveries as a "catalyser for peace" (Faustmann et.al, 2012; Gürel et.al., 2013; Gürel & Le Cornu, 2014; Faustmann, 2015; Kahveci 2018). On the other hand, the sceptic's front was quite fragmented in itself; from the Denktaş supporters, to AKEL in the south, regarded them as a new source of conflict, which would lead to a permanent partition of the island if a settlement wouldn't be on the table prior to the drillings. From a functionalist perspective, Charles Ellinas, former CEO of Kyrtek (GC Gas and Oil Company) argued in 2016 that whether the Cyprus problem is solved or not, the extraction of the hydrocarbon reserves would "somehow" lead to a rather better situation, "...Regardless of the outcome of the Cyprus negotiations, Cypriot authorities will have to be prepared to recover lost ground and to develop hydrocarbons for the benefit of all Cypriots. Expediting this, and ensuring financial benefits from gas development in particular, will be much needed if the island is to get out of its present troubles..." (Ellinas et.al, 2019: 13). Moreover, the World Bank was involved in the peace-making process after the leaders of the TC and the GC Communities called on the WB for providing the UN sponsored talks "technical assistance on the

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<sup>73</sup> In a seminar, he expressed his deep concerns over the starting of a new war on hydrocarbons, stating a settlement or agreement was necessary prior to the drillings in the SEM.

economic aspects of the ongoing reunification negotiations”; according to Dirk Reinermann (2017), Country Manager for Southern Europe, “Enhanced domestic connectivity for energy, transport, and water could generate about €1.1 billion-worth of investment opportunities within the next 2-3 years. There would be income convergence within the island and a catchup with the advanced economies of the EU.” (para. 4).

This functionalist perspective towards the solution of the Cyprus Problem was prominent during the EU membership process back in early 2000s, where the EU membership “with or without a solution” was already on the table for the GCs. Once more, linkage politics appeared as the best way to overcome a dead-lock in Cyprus, however, the interviews beginning from 2013 onwards reflected the hesitancy among the TC opinion leaders towards the tendency of brokering a negotiation with the GCs over the sharing of the HCs in the SEM. Despite the hesitancy in the north, the energy resources discovered around the island attracted a wide spectrum of international attention. Until the Crans Montana meeting in 2017, this international attention led to the creation of an optimistic atmosphere for the revival of the negotiations with the hope that the HCs would offer “a new incentive” for a solution. However, the TC side, who had the negative experience of the Annan Referenda and the subsequent EU membership of the GCs less than a decade ago fresh in their minds, were hesitant to celebrate the HCs as a “game changer”. They were concerned that the HCs could make the problem more complicated than it was before. On the 24<sup>th</sup> of September 2011, the TC side offered to the GCs via the UNSG the postponement of the drilling activities until a comprehensive solution is reached or the establishment of a joint/ad hoc committee for the exploration of all the reserves and the use of the future revenues for the financing of the solution<sup>74</sup>. According to a politician interviewee this offer indicated AKP’s disbelief in a comprehensive settlement. He argued that as soon as AKP realized that a comprehensive settlement was difficult, if not impossible, it began to promote the idea to share and use the “potential” HC revenues with the GCs in order to provide funds for the “future” federal state and for absorbing the costs of the reunification. As a second alternative for a federal solution, it also represented the idea

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<sup>74</sup> President Akıncı repeated this call in July 2019.

of a “velvet divorce” to the UN Secretary General, that would mean two separate states under the EU, an idea which was originally coined by Anastasiades, however was later adopted by the Turkish government. The appraisal of the HCs as a “parameter” for peace ended up in the neglect of the substantial topics such as the opening of the “ghost city” Varosha under UN control and the Ercan Airport to international flights, rendering them as “off the context” topics despite their crucial importance for both the GC and the TC Communities. This new conjuncture, that was built around gas diplomacy, gave leverage to Turkey’s “regional hub” narrative, in which the TC State had a key role in its construction. Nevertheless, a hub was more than just the assemblage of technical and financial standards but also required a set of policy decisions which were closely related to foreign diplomacy and regional alliances. To the contrary, although Turkey’s “deepening strategy” in foreign policy increased its military presence in the wider region, it led to its isolation in its immediate neighborhood which allowed room for the GC Government to establish new strategic alliances in the SEM region.

Before the GCs rejected the TC offer the establishment of a joint/ad hoc committee for the exploration of all the reserves on the 4<sup>th</sup> of October, the Turkish seismic research ship Piri Reis had already began its explorations on behalf of TRNC on the 26<sup>th</sup> of September 2011 (Ellinas et.al, 2016). TC concerns were proved right in less than a decade; by 2018 SEM was already crowded with ships of all flags, commercial and military, from US, Russia, France and many others, mainly due to the Syrian Crisis but also as a safeguard for the gas drilling activities of the gas companies such as Exxon-Mobile and Total. The international attention proved that the sharing of the HC reserves was more than just a regional issue to be settled between the GCs and the TCs.

The GC Government kept claiming that the exploration activities were for the welfare of the whole island, including the TCC. However, this rationalization was not regarded as a sincere one by a politician interviewee. He argued that the GC side already started the exploration activities and signed mutual EEZ limitation agreements with the neighboring countries, Egypt (2003), Lebanon (2007) and Israel (2010), claiming full authority over the reserves since early 2000s, without the consent of the TCC. Among these countries, only the Lebanon Parliament didn’t ratify the treaty due

to its conflict on maritime the borders with Israel because it conducted gas exploration activities on Blocks 8, 9, 10 of its EEZ, in which 8 and 9 were in dispute with Israel.

In 2007, 26<sup>th</sup> of January, GC side issued a law that claimed all the offshore areas as Cyprus's EEZ, and divided the area into 13 licence areas for the exploration of oil and gas (Figure 6.8) by basing its claims on the 1982 UN Convention on the Law of the Sea (UNCLOS)<sup>75</sup>. While the GC parliament ratified UNCLOS in 1988, Turkey was not a signatory state for the Convention mainly because the status of the islands in the Aegean Sea were vague and UNCLOS doesn't ensure the rights of the coastal states in enclosed or semi-enclosed seas. According to Part V Article 55 and Article 57 of UNCLOS, "the EEZ is an area beyond and adjacent to the territorial sea, subject to the specific legal regime established in this Part, under which the rights and jurisdiction of the coastal State and the rights and freedoms of other States are governed by the relevant provisions of this Convention." and "the exclusive economic zone shall not extend beyond 200 nautical miles from the baselines from which the breadth of the territorial sea is measured.". Although the limits and definition of an EEZ was clearly outlined in the UNCLOS, the EEZ agreements were to be signed unless they don't violate the rights and interests of the third parties' claims in the area in order to keep the international waters safe and decrease the risk of open confrontations and war. While Turkey was objecting the 12 nm territorial sea breadth in its surrounding, Greece was insisting that the Greek islands should also be entitled the right to implement 12 nm in the Aegean, which was overlapping with the territorial waters of Turkey and making Turkey almost a land-locked country. While Turkey was at loggerheads with Greece in the Aegean on maritime delimitation issues, RoC's initiative to make delimitation agreements with its neighbors in the SEM by disregarding TCs's rights and without their consent, as well as by-passing Turkey's rights in SEM, caused further backlash from Turkey. Turkey refused the GC claims on the ground that the 2003 Egypt-GC EEZ Agreement violated Turkey's rights and that the GC side was taking unilateral action by the licensing agreements and the seismic

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<sup>75</sup> 1982 UN Convention on the Law of the Sea, [https://www.un.org/depts/los/convention\\_agreements/texts/unclos/UNCLOS-TOC.htm](https://www.un.org/depts/los/convention_agreements/texts/unclos/UNCLOS-TOC.htm), retrieved on 12.02.2020

surveys in the area. Following the GC Government’s EEZ claims, Turkey announces its EEZ and granted licences for surveys to TP in these areas in 2009 and 2012.

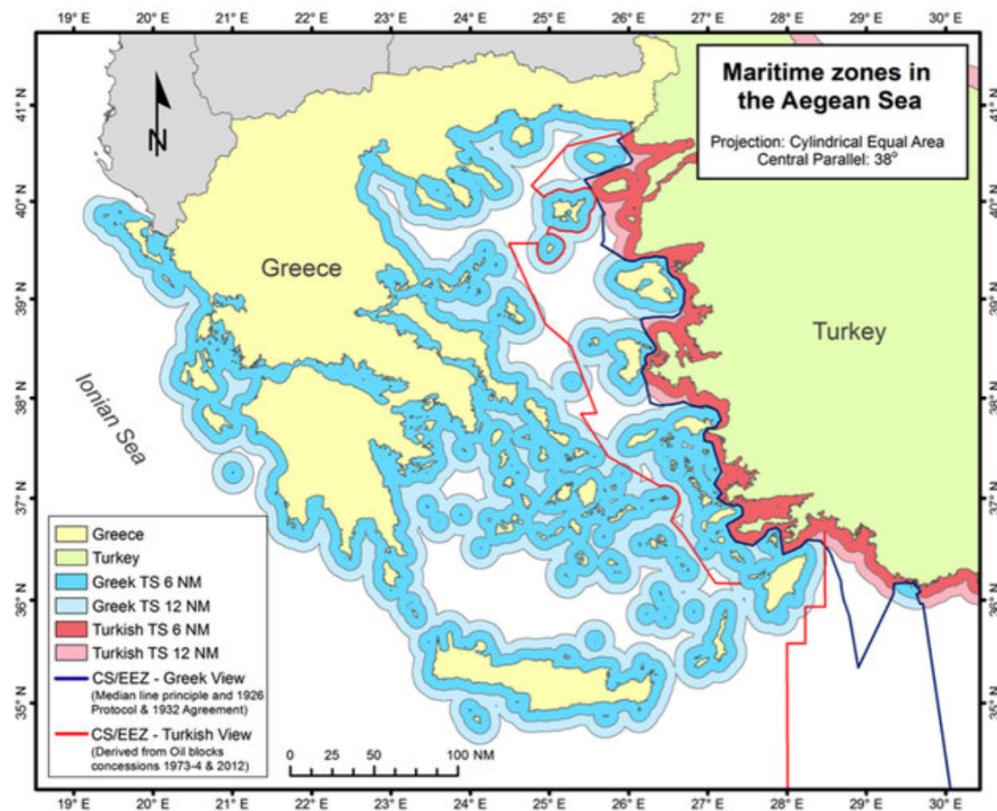


Figure 6.2 Maritime zones and the Continental Shelf in the Aegean Sea.  
Source: Athanasiou et.al. (2017)

The GC initiative was renounced by Turkey however it was in line with the EU’s bid for energy supply security following the energy crisis in 2005-2006 when Russia cut off its gas supply to Ukraine which affected the European countries that depend on Russian gas. The European Council immediately agreed in March 2007 on EU's new energy and environment policy agenda “to achieve the Community’s core energy objectives of sustainability, competitiveness and security of supply” (COM, 2018)<sup>76</sup>. In October 2008, the EU Commission<sup>76</sup> released the “EU Energy Security and Solidarity Action Plan” in its Second Strategic Energy Review which urges the development of a Southern Gas Corridor (SGC) for the supply of gas from Caspian

<sup>76</sup> Communication (COM) from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Region, Second Strategic Energy Review, An EU Energy Security and Solidarity Action Plan, Brussels, 13.11.2008, COM (2008) 781 final.

and Middle Eastern sources, an LNG Action Plan and a Mediterranean energy ring linking Europe with the Southern Mediterranean through electricity and gas interconnections, besides many other energy security priorities of the EU. It also encouraged the accession of Ukraine, the Republic of Moldova and Turkey to the Energy Community which would establish an enlarged energy market and “catalyse their energy sector reforms” based on common rules. For Turkey, the Customs Union decision was already constraining Turkey’s trade relations with the third countries as well as TRNC so it preferred to keep a distance from another EU common market initiative and stay as an observer country and was unwilling to join the Energy Community.

Turkey was keeping a distance from any initiatives that might harm its bid for full membership to the EU. However, according to Kopač and Ekinci (2015), membership to the EC would set Turkey on its way to the required reforms, which includes privatization of the government company BOTAŞ, ensuring “transparency and competitive market conditions”. They claimed that membership to the EC would provide Turkey a more important position as a future gas hub and this position will assign Turkey increased bilateral negotiation power and leverage for any future accession to the EU. While Kopač and Ekinci argued that “Turkey’s membership in the Energy Community would have a leverage effect on EU accession talks (para. 5)”, they are also aware that “the process of energy cooperation in the framework of the Energy Community has nothing to do with EU accession (para. 5)” as the Article 103 of the Energy Community Treaty<sup>77</sup> clearly decouples such commentaries on linkage politics between membership to the EU and to the EC: “Any commitment taken in the context of negotiations for accession to the European Union shall not be affected by this Treaty.” (2005: 27).

While Turkey was hesitant to become a party to the EC, RoC soon announced its 1<sup>st</sup> Cyprus Licencing Round, and signed an Exploration License and Production Sharing Contracts (EPSCs) with US Noble Energy in 2008 for conducting gas explorations, and in 2011 the company announced the discovery of the gas in the

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<sup>77</sup> Treaty Establishing the Energy Community  
<https://ec.europa.eu/transparency/regdoc/rep/1/2005/EN/1-2005-435-EN-F1-1.Pdf>, retrieved on 12.02.2020.

Aphrodite field in Block 12 with initial estimation from 5 to 8 trillion cubic feet (tcf). Aphrodite field is the largest supplier of gas in Cyprus's EEZ and is under joint ownership by oil and gas companies and their shares change in time by farm-ins, acquisitions and new partnerships. The field was jointly owned by Noble Energy International (35%), BG Cyprus (35%), Delek Drilling Limited Partnership (15%) and Avner Oil Exploration Limited Partnership (15%), a subsidiary of the Delek group in Israel. In December 2011 Noble Energy, after the approval of the Council of Ministers of the GC side, transferred 15% respectively of its rights to the Delek Drilling L.P and Avner Oil & Gas Exploration Ltd<sup>78</sup>. In November 2015, British Gas announced that it had acquired from Noble Energy 35% of the Aphrodite reservoir, so the partners in the reservoir became Delek Drilling (30%), Noble Energy (35%), and British Gas (35%). In February 2016, Noble Energy transferred 35% of its shares to BG Group<sup>79</sup>, and within the same month, Royal Dutch Shell completed its acquisition of British Gas. Although the initial valuation studies were quite promising around 7 tcf at total, according to the 2013 "update" report of Delek, the drilling company of the area, "the total volume of resources in the Aphrodite Reservoir (prospective and contingent) in the best scenario declined from 5.2 TCF to 4.1 tcf"<sup>80</sup>. The annual natural gas demand of the GCs was only around 1 bcm in 2013 and it was expected to rise to 1.5 bcm by the year 2035, so the potential in the region created enthusiasm in the south.

The GC Government opened tenders for a three-year oil and gas exploration licence in 2007 and signed delimitation agreements with third countries in 2008 (Gürel et.al., 2013:3). Talat wrote two letters to the UN Security Council as a reaction to the signing of the EEZ agreements by the GC Government disregarding the TC interests and harming the negotiation process. Cyprus continued to grant licences to global companies for other blocks despite objections from the TC side and Turkey. In response, Turkey and TRNC signed a continental shelf delimitation agreement in September 21 2011, right after Noble Energy began drilling in the 12<sup>th</sup> Block. TRNC granted exploration license to the Turkish Petroleum Partnership Company (TPAO-

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<sup>78</sup> <https://chc.com.cy/activities/block-12/>, retrieved on 12.02.2020.

<sup>79</sup> <https://chc.com.cy/activities/block-12/>, retrieved on 12.02.2020.

<sup>80</sup> Delek group, Update Report on the Assessment of Contingent and Prospective Resources Following Appraisal Drilling of the Aphrodite A-2 Well in Cyprus, retrieved on 12.02.2020. <https://ir.delek-group.com/static-files/e2c3ca03-fd09-4fae-89cc-e0891e023914>.

Türkiye Petrolleri Anonim Ortaklığı) and Piri Reis started seismic surveys in the TRNC offshore, accompanied by Turkey's naval vessels. The negotiations gained impetus after 2011, leading to the January 2012 Greentree talks in New York between the GC and TC leaders, however they were not able to settle down a solution. The "Occupy Buffer Zone" movement started in 2011, 15<sup>th</sup> of October, which was one of the biggest bicomunal platforms, demanding from the communal leaders to put an end to the division of the island. It can be argued that the newly discovered resources in the SEM attracted international attention to the island, and to the solution of the problem, which was dormant after the failure of the Annan Referenda. The negotiation process continued between the years 2008-2012, stressing on the traditional substantive topics for a federal solution, however the political economy dimension of the problem started to gain visibility only after the financial crisis hit the GCs by 2013. As the financial crisis deepened, the on sharing the hydrocarbon resources discovered around the island gained importance and became the new variable of the negotiation paradigm.

Meanwhile Turkey-Israel relations nearly freezed after Israel's attack to the Gaza Flotilla in 31 May 2010, which was carrying humanitarian aid to the Gaza strip that was under the blockade by Egypt and Israel since Hamas took control in 2007. The flotilla was composed of six ships including the Turkish ship Mavi Marmara and all of them were going to meet in about 40 miles offshore of Cyprus. According to the report by UN General Assembly's Human Rights Council (2010), while some of the passengers wanted embark with ferries from the GC port to join the flotilla, they weren't allowed to do so, hence they had to continue their journey by passing to the Turkish side to use the Famagusta port<sup>81</sup>. Soon after the flotilla was on its route to Gaza it was raided by the Israeli security forces which resulted in the death of 9 passengers, which increased to 10 after one of the wounded stayed in a coma for three years, and at least 50 wounded. AKP's congruous relations with Hamas was straining the relations between Israel and Turkey, and the incidents on Mavi Marmara ship put an end to the dialogue until an accord was established with Israel's apology and offer

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<sup>81</sup> UNGA, Human Rights Council, 27.09.2010, "Report of the international fact-finding mission to investigate violations of international law, including international humanitarian and human rights law, resulting from the Israeli attacks on the flotilla of ships carrying humanitarian assistance".

US\$ 20 million in 2013, in compensation for the nine Turkish nationals killed and to other that were wounded. While the relationship between Israel and Turkey was deteriorating after the Mavi Marmara incident in 2010, the GC government and Isreel signed an EEZ agreement in December and soon after in March 2011, GC Leader Christofias visited Israel accompanied by a crowded group of GC businesspeople as the GC side was on the brink of a severe financial crisis. Isarel's President Peres paid this visit back in November, which was the first visit of an Israeli president to the south, marking the beginning of a new alliance in the SEM, one that was centered around critical the issues of energy and security.

Meanwhile the prospects for a solution changed gear by the starting of the drilling activities of the hydrocarbon resources in the SEM after 2011. On 29<sup>th</sup> of September 2012, the TRNC President Eroğlu presented a proposal to the UNSG for the suspension of the exploration efforts until a solution was reached, and the establishment of a bi-communal committee on the exploration activities for ensuring the use of the hydrocarbon for sustaining peace on the island, however the GC Government refused to discuss the issue on the negotiation table. The outbreak of the financial crisis in Cyprus in 2013 increased the importance of the Hydrocarbon discoveries, when the US financial crisis hit Europe and the Eurozone, Cyprus lost its status as an offshore tax haven, freezing most of the business activities in the South and after 2013, the GC economy shrank by 5% while the unemployment rates climbed up to 17% (Kaynak, 2017:4). By the time the GCs established the National Oil and Gas Company of Cyprus in March 2014, the international gas companies had already shared the operations in the oil/gas fields in the SEM. The structural adjustments came after the commercial initiatives and arrangements were almost complete, mostly due to the economic crisis in Cyprus. In March 2014, GCs established the Cyprus Hydrocarbons Company (CHC) as a state-owned company, in order to regulate the technical and commercial matters “relating to exploration, production and monetization of Oil and Gas reserves from EEZ of Cyprus” on behalf of the GC Government<sup>82</sup>.

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<sup>82</sup> The Cyprus Hydrocarbons Company (CHC), <https://chc.com.cy/about-us/#legal-status>, retrieved on 16.12.2020.

On January 24<sup>th</sup> of 2013, the GC Government announced its 2<sup>nd</sup> Licencing Round and signed contracts with ENI/KOGAS (Italian-Korean consortium) for hydrocarbons exploration in blocks 2, 3 and 9, and on February 6<sup>th</sup> it concluded similar agreements with France's TOTAL for blocks 10 and 11. While ENI/KOGAS failed to find exploitable amounts of natural gas in Block 9, the amount of gas to be extracted "in projection" was exceeding way beyond the GC gas demand. The vast number of expected findings were regarded sufficient to create a regional gas market, in which Israel and Egypt would be the major actors, and fulfill Egypt's aspirations to become an energy hub in the region. Later the GC government granted the licenses for Blocks 10 and 11 to Total and E&P Cyprus B.V, however Total left Block 10 and continued its exploration on Block 11 and in March 2017 Total transferred 50% of its rights in the license to Eni, with Total remaining only as the operator<sup>83</sup>.

There was an important criticism towards the UN for conducting the peace talks with a slow momentum between the parties in 2013. A politician interviewee believed that Alexander Downer's lunch organization in the Buffer Zone on the 30<sup>th</sup> of May 2013, and his subsequent invitation of the leaders to New York, with their spouses accompanying, turned these events into mere 'social activities' which lessened their importance, signifying that the situation is handled "loosely" by the UN, not in terms of a "serious" political problem. It was also criticised that the UN's invitation takes place at a time when the South is struggling with severe financial crises; One of the politician interviewees argued that,

*"...The South's leadership requested some more time and they were right, they have loads of urgent problems, such as keeping the power balance with their coalition partners and convincing the Troika for the debt management. UN is putting pressure on the GCs at times of political/economic crisis which would cause nothing more than negative reaction toward a solution, moreover it will provide them the perfect environment for the continuation of the political deadlock they already enjoy".*

He believed that Downer is in a way "demonized" intentionally by the government in the South solely for this purpose, almost declaring him *persona non grata* so that they would earn some time and postpone the talks (Varnava, 2011: 153).

On 11 February 2014, Eroğlu and Anastasiades finally met under the auspices of the UN Secretary General's Good Offices mission and made a joint declaration,

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<sup>83</sup> The Cyprus Hydrocarbons Company (CHC), <https://chc.com.cy/activities/licensed-blocks/#block-11>, retrieved on 16.12.2020.

agreeing on seven points<sup>84</sup>. The fifth point, which stated that “The negotiations are based on the principle that nothing is agreed until everything is agreed”, was the key principle that demonstrated the will of the parties for a comprehensive solution. Although the joint declaration was regarded as an important progress regarding its key theme, the negotiations were already shadowed by the unilateral actions of the GC government which provided licenses for seismic surveys and drilling activities to the global gas companies on behalf of the TCs in the SEM. While the joint declaration in 2014 was regarded as an important step towards a settlement after a long time, it was also the last attempt by the GC Government towards a comprehensive solution. After ENI started its drilling activities in February 2014, Turkey declared a Navtex on the 3<sup>rd</sup> of October 2014 and dispatched its seismic survey vessel Barbaros Hayrettin Paşa towards the TRNC claimed EEZ. In response, Anastasiades announced on the 7<sup>th</sup> of October that he will not participate the negotiations any further. A consortium of Eni Cyprus Limited and Kogas Cyprus Limited continued its activities in different parts of Block 9 and as a result Turkey issued its second Navtex on the 6<sup>th</sup> of January until the 6<sup>th</sup> of June 2015. Turkey’s Navtex raised the tension and ENI’s Saipem 100000 decided to leave Block 9 after the wells failed to find exploitable amounts despite initial expectations for large reserves, and it announced that it will leave the area for maintenance issues.

As the tension in the SEM and in the Middle East was rising, Turkey and the EU were spending effort to strengthen their fragile relationship via energy diplomacy and “high-level” dialogue. Energy security issue became a critical concern for the EU after Russia once more cut all its gas supplies to Ukraine in the winter of 2014, and turned on the taps only after intense efforts by the EU in June. Alternative sources gained utmost importance upon which the Southern Gas Corridor, which stretches from Caspian to Europe via Turkey, was the priority for the Commission. In March 2015, Turkey and EU announced the establishment of the High-Level Energy Dialogue and Strategic Energy Cooperation; the joint declaration made a reference to and underlined the “Energy Union Framework Strategy” of 25 February 2015, which

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<sup>84</sup> 11 February 2014, Joint Declaration on Cyprus, <http://www.uncyprustalks.org/11-february-2014-joint-declaration-on-cyprus/>, retrieved on 13.02.2020.

aimed to “establish strategic energy partnerships with increasingly important energy producing and transit countries” (p. 6) (COM, 2015) in which Turkey was referred to as an important producing and transit country besides Algeria, Turkmenistan, Azerbaijan and other potential suppliers. The High-Level Energy Dialogue declared that “A regular exchange of information on energy cooperation at the global and regional level serves to the benefit of both sides.” (EU, 2015). Despite EU’s stress on “strategic partnership” for Turkey in many areas including even the critical issues such as energy, AKP was determinant to keep the full-membership agenda on the table, not only because it embraced the EU membership as a target, but also because EU’s so-called “hypocrisy” (Dixon, 2015) over Turkey’s membership served as a scapegoat for the AKP government to consolidate its voter basis during the elections, and moreover EU’s energy strategy gave Turkey a key role in the highly critical Southern European Energy Corridor, which enabled AKP to bolster Turkey’s image in the region as an “energy hub”. This “strategic” relationship, despite signalling Turkey’s divergence from full membership, was receiving backlash from the GC side as the GC government was increasingly concerned with Turkey becoming a key actor regarding its central role for handling the migrant issue and the energy security of the EU.

In the midst of a Navtex crisis, Akıncı was elected as the TRNC President in April 2015 which came as a surprise for both the GCs and Turkey as he was an independent nominee and was not supported by any political parties in the first round of the presidential elections. Initially, his election revived the TC opposition’s hopes for giving a second chance to the federal solution. Shortly after being elected, President Akıncı made a declaration which showed that he was decisive to start the technical process to abandon TL for Euro by establishing a joint committee, including specialists from the EU, to prevent TRNC’s losses due to fx rates (Hürriyet, October 2015). This statement caused a strong reaction from Turkey; although Akıncı seemed to bring this idea to the table due to economic concerns, it had far reaching political consequences.

The CTP-DP coalition government resigned in July 2015 and for the first time in the TC political history, CTP and UBP formed a coalition government which survived only for eight months during which the CTP was severely criticized for not resisting to the privatizations. The UBP-DP coalition came to power in April 2016 and Akıncı’s proposal for abandoning the TL was left aside. CTP’s votes had a sharp fall from

38.3% in 2013 General Elections to 20.9% in 2018 Elections. UBP won with 35.61% of the votes in the 2018 General Elections but had to form a coalition government under Prime Minister Tufan Erhürman from CTP who made a similar statement with Akıncı on the need to replace TL with “another currency” (Habertürk, May 2018). However, the government was again short-lived and CTP was left out of the government, being replaced by HP under Kudret Özersay. UBP and HP established a coalition government in May 2019 under PM Ersin Tatar, who announced that they would work in harmony with Turkey in all areas (Bursalı, November 2019). The aid and credits provided by Turkey that were linked to a set of conditionality, such as the privatizations, reformation of the public sector, attaining fiscal discipline and a set of structural reforms, which were largely met during the signing of the July 22, 2019 agreement, which promised 750 billion TL, but non for public spending.

As a devoted federalist, Akıncı was worried about the pragmatic approaches toward hydrocarbon discoveries which might hinder a federal settlement and he was opposed to the idea to steer the negotiation process with partial solutions. Akıncı and Anastasiades met for the first time on the 15<sup>th</sup> of May 2015, however there was no reference to the Navtex crisis and cooperation for the use of the hydrocarbon resources in this bilateral meeting. Nevertheless, soon after their first meeting, the vast amount of natural gas reserves inevitably took precedence over the solution of the problem as the partial solution strategies were going to be offered as an alternative for a comprehensive solution under the mediation of the so-called “global elite”. In January 21<sup>st</sup> 2016, Akıncı and Anastasiades shook hands after the “Reuniting Cyprus” session in Davos World Economic Forum and they agreed in principle that the two communities should cooperate on energy matters. Akıncı announced that he hopes that the hydrocarbon resources in the Eastern Mediterranean would act as “a source of peace, stability and cooperation rather than conflict and tension” and Anastasiades said that the discovery of hydrocarbons in the region opened up new possibilities for cooperation and synergy. Although Anastasiades had announced earlier that he was refusing the hydrocarbons to be a part of the UN negotiation process, it might be argued that Anastasiades decided to shake hands with Akıncı in Davos over the hydrocarbons issue because he was not willing to frighten the gas companies in the region and jeopardize further developments by other global companies. The

hydrocarbons issue was regarded as a remedy for the bottleneck in the GC economy so the GC leader was decisive to keep the hydrocarbons issue off of the table to provide himself room for maneuver in the region for establishing regional alliances.

After five months, the leaders met once more in Davos on June 2016. RoC simultaneously announced its third licensing round for the blocks 6, 8 and 10 and signed EPSCs (Exploration License and Production Sharing Contracts) with Eni/Total for Block 6, with Eni for Block 8 and with ExxonMobil/Qatar Petroleum consortium for Block 10. Block 6 overlapped with Turkey's EEZ which it declared in March 2016, and Turkey warned the companies that Turkey will not allow explorations in its claimed exclusive economic zone. Other than the discoveries in the Aphrodite field, none of the explorations had achieved in finding a "Zohr-like" reserve of Egypt in the EEZ of Cyprus, however it was announced by the GC Government for the Block 6 that "Additional studies will be carried out to assess the range of the gas volumes in place and define further exploration and appraisal operations". Despite the uncertainties regarding the real capacity and their availability for extraction due to high costs of the deep-sea drillings, the projections in the SEM were politically sufficient to keep the expectations high and for establishing new alliances and breaking the old ones in the region.

Prior to the Conference to be held in July in Crans Montana on Cyprus, Turkey raised its objections in May 2017 to RoC's hydrocarbon exploration in Block 6. the GC side refused to stop the drilling activities in it claimed EEZ, which was licensed to a consortium of Italy's Eni and France's Total. United Nations Special Adviser on Cyprus, Espen Barth Eide raised his concerns before the beginning of the talks about RoC's search for offshore oil and gas and said that an "international crisis" could lead to a collapse of the ongoing talks aiming at reunifying Cyprus as a federation. His comment received harsh backlash from President Anastasiades who called Eide's remark 'unacceptable' and a 'threat' that would hamper the reunification talks (VoA, 2017). The increasing tension in the SEM led to the collapse of the peace talks in 2017 and in 2018. Even though the Hydrocarbons issue was not among the negotiation topics in Crans-Montana, the consequent rise of tension in the Mediterranean due to the parallel hydrocarbon explorations of Turkey and GCs in the disputed EEZ's of the SEM disrupted the talks.

The GC Government was aware that since the 2004 EU membership process had resulted on behalf of the south, they were freed from pressure to settle down the Cyprus problem. Moreover, the GC side had already signed EEZ delimitation and cooperation agreements with her neighbors for the EastMed project, and incorporating the TC side to the process at this stage would be troublesome for the GC Government. According to Arınç and Özgül (2015: 117), the success of the EastMed project was due to its capability to ensure widespread cooperation for the commercialization of the resources. Although the substantive issues were at stake on the table and the announced reason was Anastasiades's reaction to Turkish Foreign Minister Çavuşoğlu's "insistence on guarantees and a Turkish military base-on the island" (CyprusMail, 2017), the tension in the SEM was putting pressure on the negotiators and on the Greek leader. The Crans-Montana process was defined by Drousiotis (2020) as the "real missed opportunity" for a settlement. According to Drousiotis, for the first time since the negotiations started in 1960s, Turkey's position had shifted for the first time towards the abolition of guarantees as a part of a comprehensive solution package rather than a piecemeal. Anastasiades was criticised in the south by the opposition for his unwilling behaviour to settle down the problem in the Swiss Alps. It was overtly covered by the GC media that the moment Anastasiades heard from the UNSG Guterres that abolishing the guarantees was possible, he "went into a panic" and insisted that Turkey would never consider abolishing the guarantees. He rejected all the proposals on the mechanism that would replace the guarantees and declared that unless an agreement is at present that ensures the withdrawal of all the Turkish Troops once and for all, he would not settle for another option (Drousiotis 2020).

The talks failed accordingly, causing dismay among the TCs and the GCs; Lakis Zavallas (Smith, 2017), a National Guard platoon commander during the 1974 military operations said,

"This is the end of the road for Cyprus as we knew it. Thousands of years of history will be forgotten and rewritten and the north of our island turned into a Turkish province. And we shall continue squabbling among ourselves squashed in the part we are left with until we make the next mistake and lose it too." (para.16).

One of the GC politician interviewees confirmed Drousiotis's account on Anastasiades's escape from the negotiation table in Crans Montana and argued that

*"all issues were settled down and only the details were left, Anastasiades was in shock, he didn't expect it and he made up a very funny excuse to exit the room and*

*he didn't return back, even Akıncı didn't expect such a maneuver from Anastasiades but he should have".*

Another GC politician argued that the main reason was clearly the hydrocarbons issue, which was not quite unexpected regarding the escalation in the SEM, however he argued that the TC side didn't have a plan to keep Anastasiades in the room and in a way, allowed the GC leader to escape; *"If only Akıncı have had realized and prevented Anastasiades's escape with a counter- maneuver; we would be living in a united island now"*.

Meanwhile the Turkey-EU relations were deteriorating since 2013 Gezi Park protests when AKP blamed the protesters for aiming to throw the government with the support of the "foreign powers" that was pointing to the EU and US. There was growing tension in the Middle East which Turkey was engaged in as an ally of the Western Alliance against the Syrian Government. The civil war in Syria escalated between the jihadist groups and the Syrian government forces and the Jihadist groups established the Islamic State and began to occupy the strategic parts of the country near the water and gas/oil resources between Euphrates and Tigris and entered Mosul in 2014. The US led coalition forces intervened in the civil conflict in 2015, after which millions of people fled the country in an effort to escape from the horrors of the war and headed towards the EU borders via Turkey and the Mediterranean. Despite the support for the intervention in Syria, the EU was caught impromptu to this humanitarian crisis, and was not able to handle it in a way that would have prevented the death of thousands of refugees in the Mediterranean and in the EU borders. The Syrian refugees were located in the refugee camps in Turkey which gave Turkey an upper hand against the EU for bargaining over the opening of Chapters. Despite growing tension in the bilateral relations, EU wanted to ensure Turkey's support in order to stop and host the refugees from the Middle East on their route to European borders, as well as the completion of the Trans Anatolian Natural Gas Pipeline (TANAP) Project.

By 2015, the relationship between Turkey and EU was getting increasingly fragile, as AKP government was assertive to finalise the visa liberalization process with the EU in a short period of time. In November 2015, a meeting was held with the heads of state or government of EU and Turkey, mainly to implement the Joint Action Plan that would help to stem irregular migration. The press release covered many

topics and envisaged progress and cooperation in many areas such as fight against terrorism, opening of Chapter 17, visa liberalization, a joint action plan for providing support to Syrians under temporary protection, as well as the strengthening of the Trans Anatolian Natural Gas Pipeline (TANAP) Project, the strengthening of the High Level Energy Dialogue and Strategic Energy Cooperation and launching of preparatory steps for upgrading the Customs Union (EU Commission, 2015). This busy agenda raised the expectations from the Intergovernmental Conference to be held on 14<sup>th</sup> of December 2015. However, after the Conference, both sides only announced the opening of Chapter 17 on economic and monetary policy. However, the Council repeated in the closing benchmark that it was dependent on the condition that “Turkey has fulfilled its obligations of full, non-discriminatory implementation of the Additional Protocol to the Association Agreement towards all Member States (p.2).” (European Council, 2015 December), which once more linked the opening of the chapter to the solution of the Cyprus problem.

In 15 July 2016, there was a military *coup* attempt in Turkey led by a religious community. President Erdoğan started calling it a terrorist organization, FETÖ (Fetullahçı Terör Örgütü-Fetullah Terror Organization), after the *coup* attempt. This community was being organized within the state institutions since the 1980s, and it took powerful positions mainly in the judiciary, education and the military ranks during the AKP era. There was a clash of interests between the party and the community starting by the early 2010s, however one of the politician interviewees argued that this religious community was acting as the Cyprus branch of the AKP, organizing religious/cultural meetings and conducting their activities in the north as well. Although there was an ongoing debate on the names behind the failed *coup* and uncertainty over the criteria for membership to the organization, thousands of people were jailed and trialed for being the members of this organization. Erdoğan criticised the EU for making a faint critic towards the *coup* attempt against FETÖ and moreover, he blamed the EU for giving support to the SDF (Syrian Democratic Forces) in Syria and to the Kurdish militia, YPG (People’s Defence Units) that were affiliated with the separatist movements led by PKK in the south-eastern part of Turkey. For the AKP Government, the YPG and FETÖ were two main enemies of the Turkish State and the EU was supporting them financially and politically. The EU in return accused AKP

for the violation of human rights and the EU-Turkey relations were nearly frozen, postponing not only the long-awaited membership bid of Turkey but also the upgrading of the conditions of the Customs Union decision. Meanwhile, as a step towards a regional hub strategy, Turkey signed a reconciliation agreement with Israel in an effort to rebut the Cypriot initiatives for to oust Turkey on 27<sup>th</sup> of June 2016, right before the *coup* attempt in Turkey in July, and the agreement was ratified by President Erdoğan on the 31<sup>st</sup> of August.

Meanwhile the intercommunal talks in Cyprus came to a halt after 2017, and it became evident that, neither Turkey's EU membership nor the solution of the Cyprus problem was likely in the near future. The AKP MPs and Ministers were banned from holding election campaigns in Europe for the 2017 Constitutional Amendment Referenda in Turkey<sup>85</sup> and one of the AKP ministers was declared as *persona non grata* in Holland. The 2018 Commission Report on Turkey expressed EU's criticism on AKP, involving numerous condemnations on the increased executive surveillance, political pressure and arrestment of the members of the judiciary, media and the arrest of HDP's leader and presidential candidate Selahattin Demirtaş, besides the opinion leaders of various civil society groups (EU Comitee of Foreign Affairs, 2018).

The relations between the EU and Turkey were getting tense due to the mounting conflict in the SEM between Turkey and the RoC. The GC Government increased its pressure over the EU to impose sanctions on Turkey for its activities in the SEM taking action against RoC's unilateral claims over the claimed EEZs. Takis Hadjigeorgiou, a Cypriot politician and member of the European Parliament addressed a question to the European Parliament in 28 April 2017, calling for an immediate action by the Commission to take the necessary measures against Turkey;

“On 19 April 2017, Turkey released a NAVTEX (No 410/17) covering an area including the territorial waters of the Cypriot exclusive economic zone (EEZ), extending from the Bay of Famagusta to the Cape of Apostle Andreas. On 27 April 2017, the Turkish Barbaros seismic vessel entered that area. Turkey's moves come at a time when, firstly, talks on resolving the Cyprus issue are at a very critical stage and, secondly, Cyprus is in the process of signing the contracts for the third round of the authorisation and announcement of new seismic research and drilling in the

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<sup>85</sup> Although it was AKP who passed an amendment in 2008 for the “Law on the Basic Provisions on the Elections and the Electoral Rolls” by Article No 298, stating that “All kinds of propaganda are forbidden abroad, at the representatives in foreign countries and at the customs stations”, the propaganda activities were carried out abroad by the AKP Ministers before the elections.

coming months. It is obvious that Turkey is not moving towards mitigating but rather is stirring up problems.”<sup>86</sup>.

AKP’s active involvement in the political, ideological and economic spaces in the north provided the GC leadership the ground to retreat from the negotiation table back in 2017, when the two sides were “very” close to a settlement for a federal solution, which would weaken Turkey’s influence in the north. Anastasiades raised his concerns in 2018 against AKP’s rising influence in the north, accusing Erdoğan for attempting to transform the TCC into an Islamic community. Anastasiades (in Kades, 2018) argued that the TCC “completely identified themselves with a secular state” and he criticized the inertia of the international community to “stop” AKP’s such attempts in the north,

“...Russia’s policy is to distance Turkey from its allies, Europe has economic interests, it has investments in Turkey and also there is the risk of refugee flows to Europe. The US doesn’t want to lose a strategic partner. Turkey is currently taking advantage of this situation...” (para. 11).

In 2018 Noble energy announced that the discovered gross recoverable resources in the Eastern Mediterranean amounted to 35 tcf<sup>87</sup>. The headline in the company’s webpage was an explicit summary of the conjuncture in the region; “Trailblazing Toward Energy Security”. The Levant Basin, which covers 83.000 square kilometres of the Eastern Mediterranean, held 1.7 billion barrels of recoverable oil and a mean of 122 trillion cubic feet of recoverable gas in the area according to the 2010 estimates by the US Geological Survey (Schenk et al., 2010) (Figure 6.1). The Levant Basin lays within the offshore areas of the neighboring countries of the region hence the extraction facilities as well as the commercial sale and use of the gas and oil requires cooperation and joint ventures.

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<sup>86</sup> Parliamentary question, 28 April 2017, [http://www.europarl.europa.eu/doceo/document/E-8-2017-003028\\_EN.html](http://www.europarl.europa.eu/doceo/document/E-8-2017-003028_EN.html)

<sup>87</sup> Noble Energy, Operations, Eastern Mediterranean: Trailblazing Toward Energy Security, <https://www.nbleenergy.com/operations/eastern-mediterranean-trailblazing-toward-energy-security>, retrieved on 13.02.2020.

Table 6.1

Major deep-water gas fields in the Eastern Mediterranean.

Gas fields	Time of discovery/(YYYY/MM/DD)	Country	Basin	Water depth/m	Recoverable reserves
Tamar	2009	Israel	Levant	1676	Estimated to be $283.0 \times 10^9 \text{m}^3$
Dalit	2009	Israel	Levant	Offshore	Estimated to be $14.15 \times 10^9 \text{m}^3$
Dolphin	2011	Israel	Levant	Offshore	Estimated to be $2.264 \times 10^9 \text{m}^3$
Aphrodite	2011	Cyprus	Levant	1689	$129 \times 10^6 \text{toe}$
Shimshon	2012	Israel	Levant	Offshore	Estimated to be $65.09 \times 10^9 \text{m}^3$
Tanin	2012/02/08	Israel	Levant	Offshore	Estimated to be $33.96 \times 10^9 \text{m}^3$
Leviathan	2010	Israel	Levant	1634	$480 \times 10^6 \text{toe}$
Karish	2013	Israel	Levant	1738	Estimated to be $50.94 \times 10^9 \text{m}^3$
Tamar Southwest	2013	Israel	Levant	Offshore	$19.81 \times 10^9 \text{m}^3$
Royee field	2014	Israel	Levant	Offshore	$90.56 \times 10^9 \text{m}^3$
Salamat	2013/09/07	Egypt	Nile Delta	649	$72 \times 10^6 \text{toe}$
Atoll-1	2015/03/09	Egypt	Nile Delta	Deepwater	Estimated potential reserves: $141.5 \times 10^9 \text{m}^3$
Zohr	2015/08/30	Egypt	Nile Delta	>2000	$501 \times 10^6 \text{toe}$
Daniel East and West	2016/01/17	Israel	Levant	Offshore	Estimated to be $251.87 \times 10^9 \text{m}^3$

Reprinted From: Zhang et.al (2019: 23).

In November 2018, Anastasiades declared that he would also consider a “decentralized federation” as an alternative to the federal solution (Ekathimerini, 2018). This was surprising for the TC side although the Geneva talks had already failed in July 2017 due to Anastasiades’s open unwillingness to finalize the federal settlement. Back in 2013, Anastasiades was blamed by the TC side for his reservations on the solution plan that was prepared by Talat and Christofias and his insistence to renegotiate the topics all over from the beginning. In 2018 after he was re-elected for a second term in office, this time the GC opposition blamed Anastasiades for his drawback from a potential solution in Geneva. The substance of this new “alternative” created curiosity in the south (Kyprianou 2018), and in the north. For a long time, the GC President refrained from giving the details of his proposal, nevertheless, it was an alignment with the UBP-HP coalition’s position for diverging from a federal solution, which was also supported by the AKP Government. Consequently, Akıncı was isolated in the negotiation process for a federal solution, while the AKP Government’s position and Anastasiades’s proposal for a loose federation made an historical rapprochement by discarding the federal solution as a viable option. All this polemic over the search for new alternatives for a solution developed in parallel to the rise of an “explicit” geopolitical rivalry over the exploitation of the hydrocarbon resources in the SEM. Hence it can be argued that the hydrocarbon discoveries in early 2010s marked the beginning of a redefinition of the *status quo* on the island, which would consequently render the traditional negotiation “routine” obsolete and the substantial issues epiphonemal.

For the GC Government, it was a priority to put the economy back on track, however even though partial recovery was heralded in the Commission's report (2017), the trauma of the bailout was still pressuring the GC Government to find remedies to the long-term impact of the crisis. By the year 2018, although the macroeconomic indicators signalled that the crisis in the south was over, a GC politician interviewee pointed that their living standards were better before the crisis in 2013 and even better before 2004. He argued that the numbers in 2018 didn't reflect the real situation because the real situation was even worse than before;

*“During the 2012 banking crisis, enormous amount of money flew out of the country, the gap between the rich and the poor widened, social inequality and unemployment is still rising and more important than that, the jobs are ‘deregulated’, so the EU’s numbers are totally misleading”.*

Studies also showed that precarious work was on the rise in different segments of the Cypriot population after the crisis (Ioannou, 2016) in parallel to the rise in immigrants and exclusionary policies against them (Trimikliniotis and Demetriou, 2016).

The deterioration of the GC economy was evident in the macroeconomic indicators of the UNDP's Human Development Report (2018). While Cyprus ranked 32<sup>th</sup> among the 189 countries according to the HDI index in 2019, the GC economy had actually deteriorated after 2005; while the GDP per capita was 33.663\$ in 2005, it gradually fell down to 29.880\$ in 2013, only a sluggish recovery was achieved in 2017 by 32.415\$, which was still below the 2005 level<sup>88</sup>. Despite the decline in GC household income, the TC economy was on a relative recovery period after the banking crisis in 2000 until 2013; while the GDP per capita was 10.567\$ in 2005; it climbed up to 15.302\$ in 2013 but fell down to 13.902\$ in 2016<sup>89</sup>. However, the weak Turkish Lira *vis-à-vis* the foreign currencies, mainly the US Dollar and the Euro, the financial gap between the Southern and the Northern economies kept widening over the years. The use of TL as the national currency in TRNC results in the reflection of the inflation numbers from Turkey to TRNC; While the US Dollar-YTL/TL exchange rate was 1.3503 in 2005 and 3.5308 in 2016, by 2018 the rate climbed up to 5.5888. The devaluation of the Turkish Lira *vis-à-vis* the US Dollar and the Euro over the years

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<sup>88</sup> UNDP, Cyprus Country Profile (2018), <http://hdr.undp.org/en/indicators/136706>, retrieved on 15.06.2020.

<sup>89</sup> TRNC Economic and Social Indicators (2018), <http://www.devplan.org>, retrieved on 15.06.2020.

increased the current account deficit in the north, fuelling inflation and rising the unemployment rates, while the youth unemployment rate (15-24) was estimated as high as 23,9% in 2006, 31,4% in 2009, 24% in 2012 and 19.6% in 2015 (see Figure 6.3 and Figure 6.4). The financial crisis in the south directly affected the TC labour force and unemployment numbers too: by 2012 the number of TCs who crossed the Green Line to work in the south, which raised significantly in 2004, began to decrease due to the GC financial crisis (See Figure 6.5 and Figure 6.6).

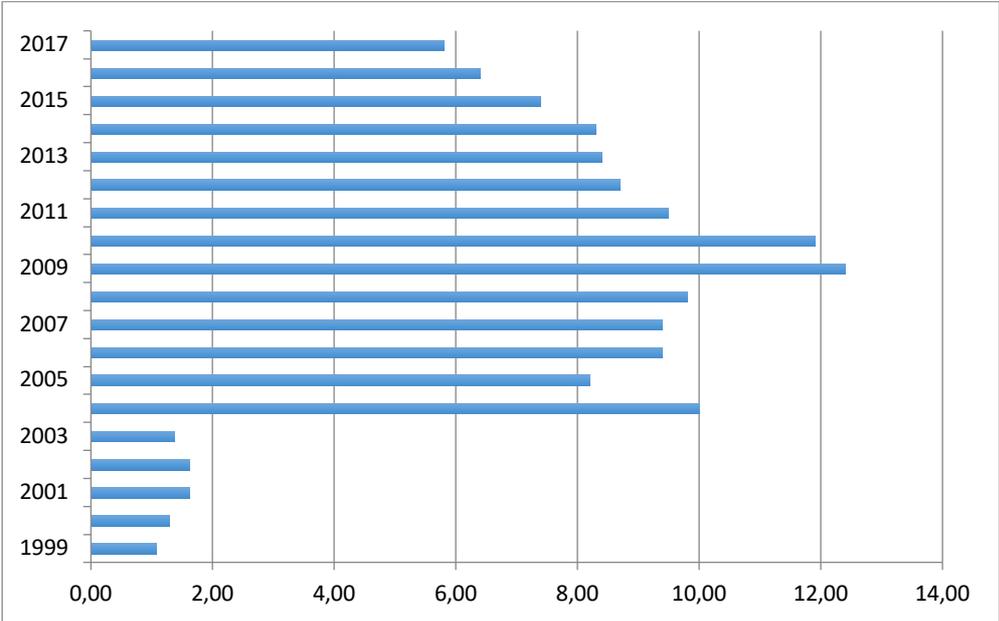


Figure 6.3 Unemployment TRNC (%) 1999-2017<sup>90</sup>.  
 Source: TRNC SPO - 2018 Macroeconomic Indicators.

<sup>90</sup> <http://www.devplan.org/Frame-eng.html>, until 2004, employment according to value added and registered average unemployed are considered. For the following years figures are based on Household Labour Force Surveys.

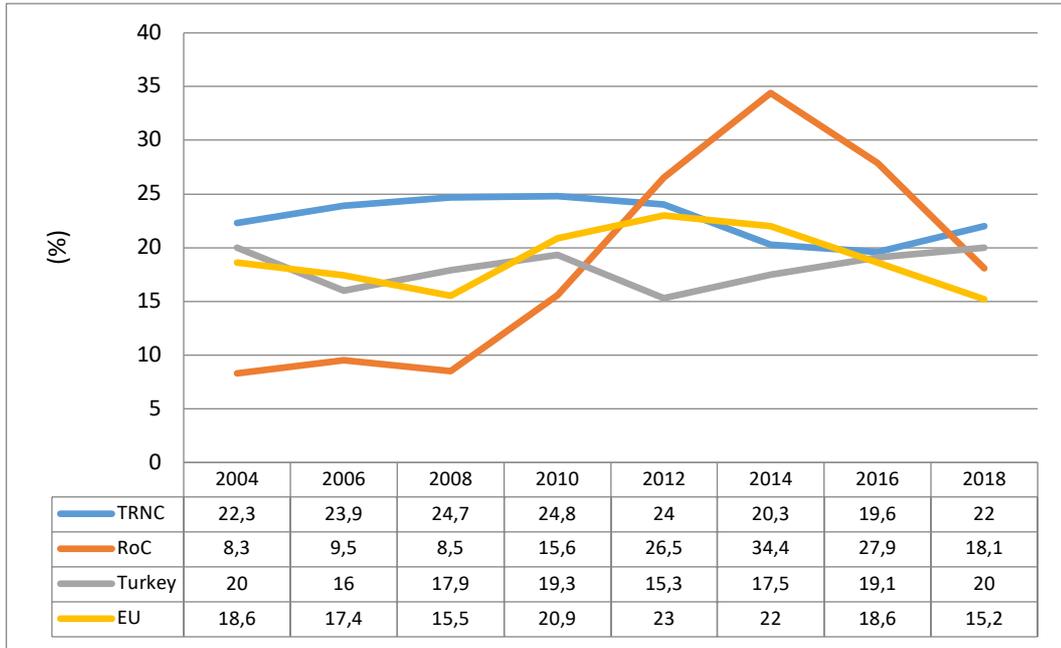


Figure 6.4 Youth Unemployment (2004-2018).

Source: ILO Forecast for Turkey, RoC, EU. SPO for TRNC - 2016 Macroeconomic Indicators.

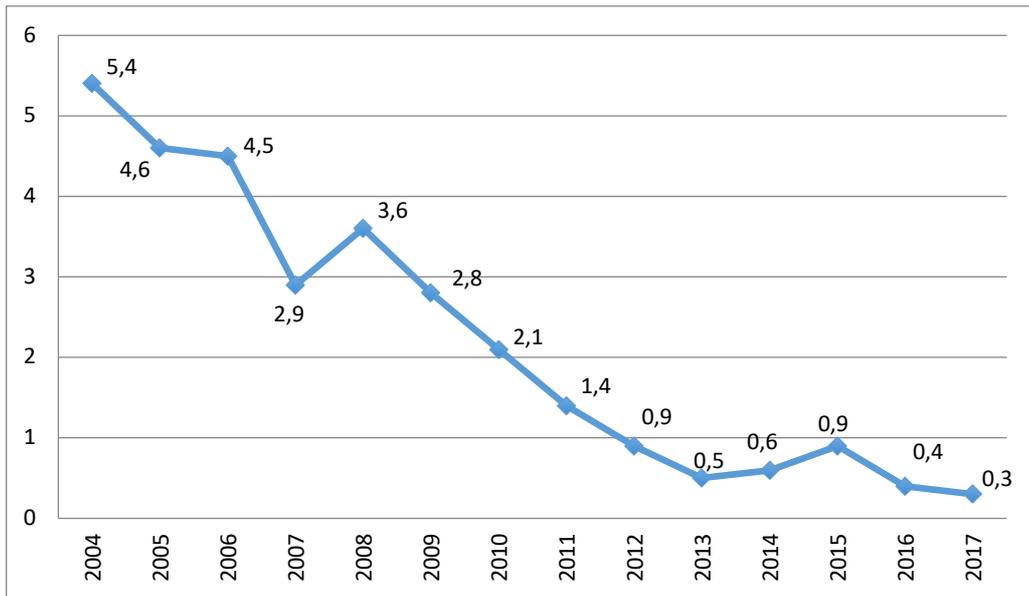


Figure 6.5 TRNC-Total Workforce/TCs Working in South (%).

Source: TRNC SPO - 2016 Macroeconomic Indicators.

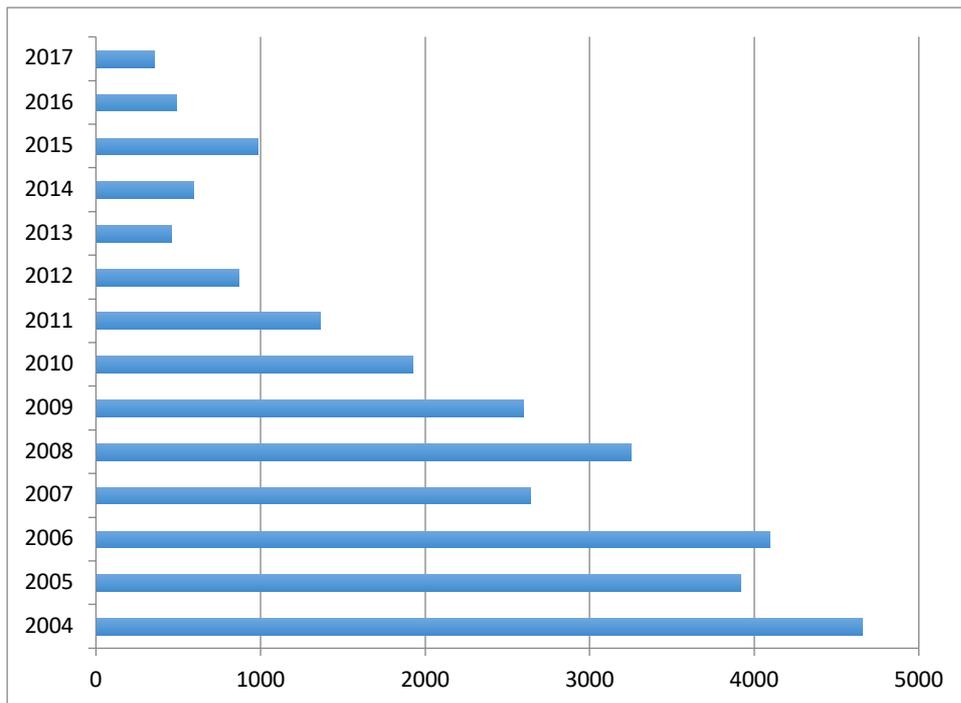


Figure 6.6 Number of TCs working in the South 2004-2017.  
 Source: TRNC SPO - 2016 Macroeconomic Indicators.

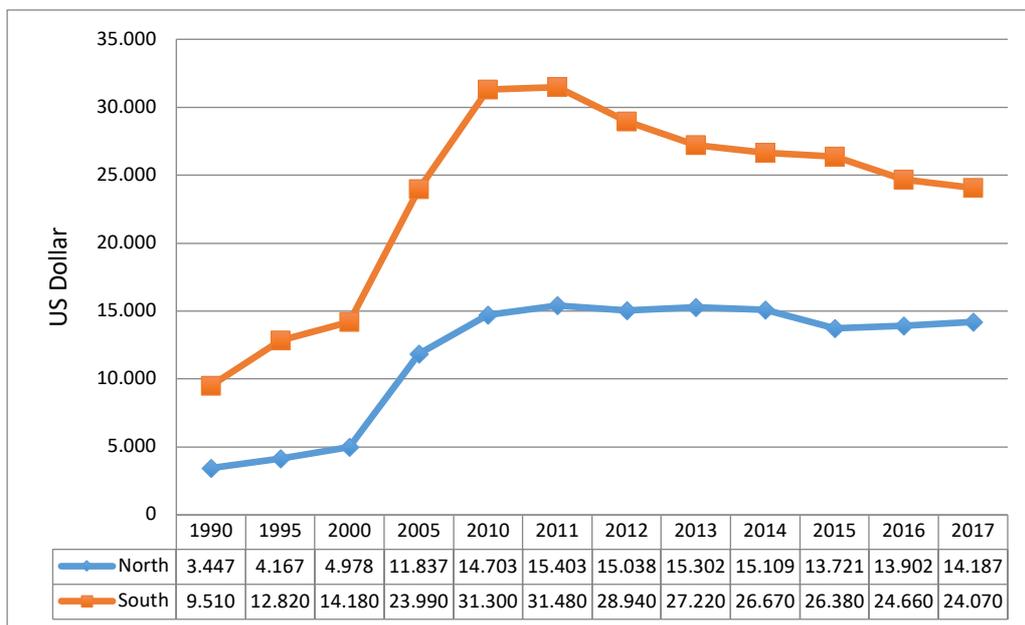


Figure 6.7 Cyprus GNI/North GNP per capita.  
 Source: TRNC-SPO, UNDP-HDR (2018) and OECD. South GNI pc (2011 PPP\$), North GNP pc \$.

While there was always an optimism in the north for the continuation of the negotiations as soon as the financial crisis was over in the south, it was apparent by

late 2010s that the GC Government rather instrumentalized the financial crisis to postpone the talks, pointing the financial crisis in the south as the major reason for the failure of the inter-communal talks. A journalist interviewee argued that even there were no financial crisis in the south and no hydrocarbons in the SEM, a solution was an unlikely as,

*“GCs have no idea of what they really want as a ‘solution’ after so many years of ambiguity, and they also lost all their legal identity between 21<sup>th</sup> of December 1963 and 15<sup>th</sup> July 1974, so if you ask them, they wouldn’t know if they would like to go back to 14<sup>th</sup> of July or stay in 1963”.*

He blamed all the GC leaders for not taking any responsibility to address the essence of the problem, which he pointed to be the territory issue, and instead focusing on the issues which have media popularity such as the presence of the Turkish Troops and Turkey’s guarantorship on the island.

On February 2018, Lebanon signed a contract with Italian Eni, French Total and Russian Novatek for conducting the exploration activities in its Block 9. When Israel reacted to Lebanon’s initiative, the Hezbollah threatened to target Israeli offshore gas platforms (GEFIRA Foundation, 2018). Within the same month, on February 2018, the Turkish navy stopped Italian energy company Eni’s Saipem 12000 drilling ship, which was on its route towards the southeast of Cyprus, and warned not to continue ahead as Turkey was in the midst of a military operation in the area (Kambas, 2018). Eni immediately announced that the drilling ship would have to be moved to a new location which drew Anastasiades’ reaction, and more specifically for the EU’s “silence” towards the escalation of the events in the SEM. The President of the European Council, Donald Tusk urged Turkey to end its drilling activities in the “EEZ of Cyprus”, arguing that these activities were harming the negotiation process between the GCs and the TCs. However, Anastasiades called for “a more concrete response” from the EU. Despite both the EU’s and Noble Energy’s emphasis on the importance of “energy security”, the hydrocarbons issue resulted in a warlike atmosphere in the region overarching the substantial issues of the Cyprus Problem and in 2019 the GC Government granted the first exploitation license to Noble energy.

From 2019 onwards, the issue stretched beyond its regional character and turned into an explicit confrontation between the US and Russia. The US Secretary of State Mike Pompeo participated in a trilateral summit in Israel with Greek PM Tsipras, Cyprus President Anastasiades and Israel’s President Netanyahu on the 20<sup>th</sup> of March,

2019, which signalled a closer energy cooperation in the region by support from the Atlantic. The ships from US's Sixth Fleet were deployed to the region, together with US Navy aircraft carrier Abraham Lincoln and John C. Stennis watching an eye on the drilling activities of ExxonMobil as well as monitoring the Russian navy on its way to their naval station in the Tartus port of Syria in April 2019. Moreover, France was also negotiating a defence deal with Cyprus in an effort to protect the interests of its gas company Total in the 10<sup>th</sup> and 11<sup>th</sup> blocks.

The presence of international gas companies in the region was accompanied by the parade of the military capacities of the regional as well as the global powers as a result of the escalation of the war in Syria. Since 2013 Russia was trying to increase its influence and presence in the region and it signed a number of contracts with the Syrian government on the development of offshore drillings in Syria's territorial waters, and with Israel for Gazprom to purchase LNG, and with the Palestinian Autonomy to develop gas fields located on the coastal shelf of the Gaza Strip (Urcosta, 2019). By 2019 it was actively involved in the projects off the coasts of Lebanon, Egypt and Israel, together with Western companies like Total and ENI. According to Urcosta, Russia was involved in the explorations in the SEM, mainly because it wants to be a "powerbroker" in the region and in the EastMed project, which was designed to weaken Russia's gas monopoly in the Southeastern Europe.

In October, 2019, Turkish warships started patrolling for the safety of drilling/exploration activities of Turkey's exploration ship, Fatih, while the second drilling ship Yavuz was on its way after renovation and maintenance operations were completed. It was in the region alongside the activities of US oil and gas company ExxonMobil on Block 10 as well as others, such as Italian ENI and French Total companies on Block 6 on behalf of the GC Government (Figure 6.8). The entry of Turkish navy in the region for keeping an eye on the exploration activities created disturbance and the chief executive of ENI raised his concerns by announcing, "I certainly don't want to start wars for wells" (Daily Sabah, 2019) and declared that his company will not continue for gas drillings in Cyprus if warships continue coming to the region. In November 2019, the Foreign Ministers of the EU decided on economic sanctions over Turkey, including travel bans for the two Turkish nationals who were engaged in the exploration activities and freezing their assets. Moreover, EU also

announced that it was planning to extend the sanctions, including an arms embargo, to stop Turkey’s operations in Syria. However, these attempts were neither successful to stop Turkey’s drilling activities in the SEM nor its operations in Syria.

Despite Turkey’s efforts to counteract the alliance, on January 2, 2020 Israel, Greece, and Cyprus signed an agreement in Athens to build a 1,900 km subsea pipeline, “EastMed”, with an initial capacity of nearly 9-11 bcm a year to carry natural gas from the SEM gas fields to the EU market. Turkey’s Foreign Ministry spokesman defined the agreement as a “futile” attempt to exclude Turkey and the TRNC from the energy projects in the region, reminding that Turkish Cypriots have equal rights on the island’s natural resources and any project that leaves Turkey out “cannot succeed” in the region claiming that “Turkey is the most commercially feasible and secure route for the utilization of the natural resources in the Eastern Mediterranean and their transfer to the consumer markets in Europe” (Tugwell, 2020).

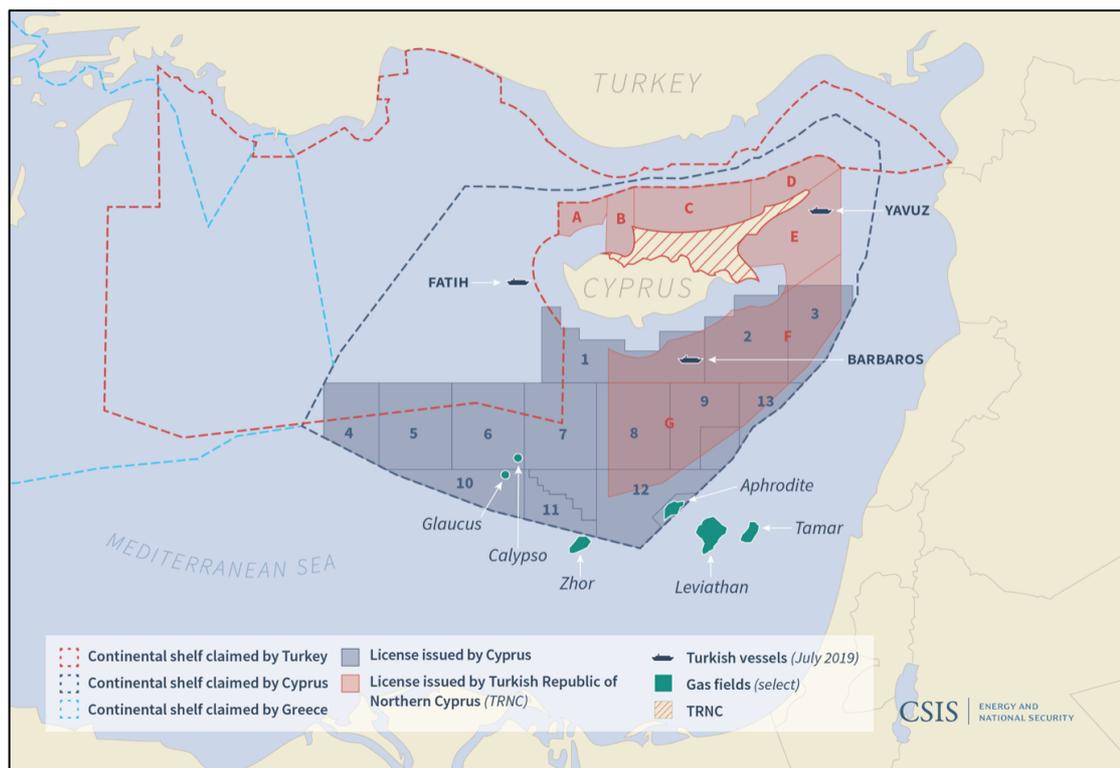


Figure 6.8 Maritime Claims between Cyprus and Turkey.  
 Reprinted From: Tsafos, N. (2019). East Med Tensions Rise (Again), *Center for Strategic and International Studies*. <https://www.csis.org/analysis/east-med-tensions-rise-again>.

Despite not being a part of it, Egypt was not concerned by the signing of the EastMed pipeline project agreement since it already secured the Egypt-Israel gas deal in February 2018. The bilateral agreement was defined as the most significant agreement between Egypt and Israel since their 1979 peace deal, from which Cairo aimed to earn \$2 billion annually for the liquefaction of the Cypriot gas, and then export them to Europe (Al-Awsat, A., 2018). Egypt's two LNG export terminals, Idku and Damietta, had a daily capacity of 1.6 bcf and a pipeline system that is connected to the Arab gas pipeline and thereby to Israel, Jordan, Syria and Lebanon (Ruble, 2017). Cheaper costs in Egypt and its connections with the Middle East market made it a future partner for Turkey, however Turkey's relations with Egypt were also at jitters since Ankara gave open support to the former President Mohammed Morsi during the 2013 military coup. The relations with the current President Abdel Fattah el-Sisi had been worsening ever since the coup and Ankara called the marine border demarcation agreement which was signed the same year between Egypt and Cyprus as a violation of Turkey and the TC rights. At the last stage of the escalation of the tension between Ankara and Cairo, four staff members of the Turkey's Anadolu News Agency were detained in Cairo in the early days of 2020, with the allegations of "spreading 'false news' and working with the Muslim Brotherhood, a group that was outlawed by Egyptian authorities" (TRT World, 2020).

An important aspect of Egypt's regional strategy was to become a regional energy hub which led President Sisi to enter into regional alliances, including Israel and the African Union, hence distancing itself from the Muslim Brotherhood and other extremists. President Sisi, who served as the Chairperson of the African Union between 2019 and 2020 took steps to strengthen its "leadership" role in the region to counter fight terrorism in Africa. However, the competing "leaderships" in the region resulted not in easing the tension but in the rise of armed struggles in the region. Egypt started training its military troops in order to support the national army of Somalia in their fight against the jihadist Al Shaabab group, where the Turkish Troops were already stationed for training the Somalian soldiers and providing protection since 2017. The rise in the number of Turkey's military bases abroad, such as Iraq, Qatar and Somalia, brought it to loggerheads with most of its neighbors, which deeply contradicted with its strategy to become a regional hub.

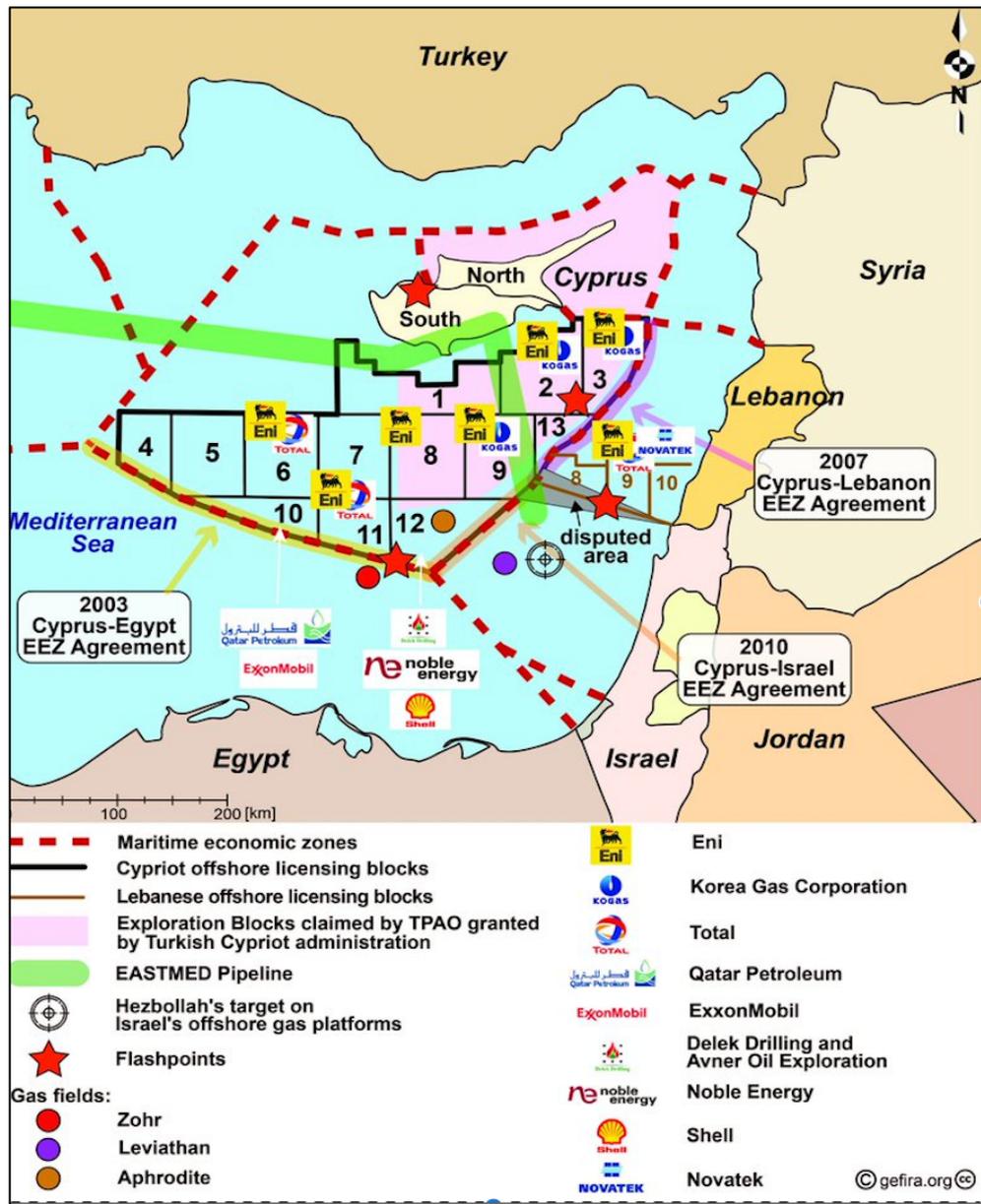


Figure 6.9 Licence Blocks and Gas Basins in the SEM.

Reprinted From: Gefira Foundation (2018, February 23). Natural gas sets the stage for an armed conflict in the East Mediterranean, <https://gefira.org/en/2018/02/23/natural-gas-sets-the-stage-for-an-armed-conflict-in-the-east-mediterranean/>.

Meanwhile the Cyprus negotiations came to a dead lock after the hydrocarbon drillings in the Cyprus's EEZ led to a military confrontation in the SEM (Figure 6.9). This dead-lock was reflected to the domestic politics of the north as a political crisis as the UBP started to blame Akıncı for insisting on the federal solution and blamed him

for keeping the “*status quo*”. The political positions of the actors and the definition of the “status quo” were changing in the north under the changing conjuncture. While it was CTP that was traditionally accusing UPB for being the guardian of the so-called *status quo* regime, after 2018 the UBP government started to use it against CTP and President Akıncı, accusing them for being the “real keepers of the status quo” in the north, for insisting on an “unrealistic” UN-led federal solution for decades despite its failure was “approved” during the Annan Referenda. This crisis led to a change in the balance of forces in the north leading to a new alliance between the TC Government and AKP. This alliance was (re)constructed on a counter argument that blamed Akıncı for assisting the *status quo* regime by insisting on a federalist solution for the solution of the Cyprus problem and targeted to isolate President Akıncı in his federalist front by making new alliances with the business groups in the north.

Even though the negotiation process gave the TC President certain powers hence a partial autonomy from the TC Governments and Turkey, the TC Governments’ monetary tools to regulate north’s economy and budgetary decisions were restricted and they were anchored to the decisions of the Central Bank of Turkey. This “duality” within the political structure caused an inherent “schism” between the TC President and the Turkish Governments during Denktaş’s term, and later between the TC President and the Turkish President; the polemic was made “public” between Erdoğan and Denktaş and then the gap widened after Akıncı was elected as President in 2015. This transformed into an open confrontation when the UBP Government and KTTO sided with AKP’s manoeuvre to oust Akıncı from the negotiation process after 2018.

KTTO and Akıncı were both in the federalist front before and after the Annan Referenda, and the alliance continued after Akıncı was elected as the President of TRNC in 2015. However, this alliance was apparently conjunctural and goal oriented for the part of the KTTO. The KTTO approximated with AKP’s narrative especially after the Crans Montana process which made it clear that a federal solution was unlikely in the near future due to Anastasiades Government’s reluctance to share the island’s sovereignty with the TCs. KTTO openly distanced itself from the pro-federalist front and specifically from Akıncı. The TC President was growingly ostracized by propagating on his “insistence” for a solution based on the UN’s criteria, which he regarded as the “right of the TCC” (Doğru, 2019). Although the two

Presidents represented two opposite sides regarding their support for the final solution, this was quite similar to the way Denktaş being excluded from the Annan process back in the early 2000s. Akıncı was first invited as an honorary speaker to the inauguration of the Turkey-KTTO Forum, the “1<sup>st</sup> Economy Conference” in July 2019 in Nicosia together with the Turkish Vice President Fuat Oktay. However, with a last-minute change, Akıncı’s name was removed from the list of honorary speakers and he was not given the floor to make a welcoming speech, which was against the protocol in similar events in the past. This received wide reaction in the north, and the ex-presidents of the KTTO visited Akıncı in his office to express their concerns on the ground that the “new” KTTO was ignoring TCC’s national will by being disrespectful to the “TC” President (Gazedda Kıbrıs, 2019).

It was evident that the TC institutions had limited transformative powers of their own, however they were the transmitters of political and economic decisions of either the TC governments or the interest groups in the north. Understanding the agency-structure relationship is critical in this sense and the changes in the policy alignments of the KTTO might be better understood from an institutionalist perspective. The relationship between structure and agency is an “analytical concern” for Wincott and Hay (1998); rejecting new institutionalism’s tendency to highlight institutional “inertia”, they suggest that institutional change occurs in a “complex and constantly changing context” which “facilitate certain forms of intervention whilst militating against others.” (p. 956). According to Wincott and Hay, the actors’ access to strategic resources determines the ability of actors to transform the institution in which they act and “their perceptions about what is feasible, legitimate, possible and desirable are shaped both by the institutional environment in which they find themselves and existing policy paradigms and worldviews.” (p. 956). In the TC context, the boundaries of institutional change and actors’s positions within these institutions were highly contextual and dependent on the changing conjuncture.

The fault lines between TC PM Tatar and President Akıncı were widening over the federal solution. Tatar declared that “Our model is a velvet divorce” (AhwalNews, 2019), announcing that the TC government had moved away from the idea of a federal settlement and was heading towards an alternative model which was regarded as UBP’s “plan B” since the 1980s. The TC government shared the same perspective with

Turkey over the settlement of the issue; Turkey's President Recep Tayyip Erdogan declared in 2019 in a conference that "Those who think that the wealth of the island and the region only belongs to them will face the determination of Turkey and Turkish Cypriots" (Ekathimerini, 2019). Turkey's Minister of Defence reiterated that "Turkey has the same decisiveness that it had in 1974", "as a guarantor country we will continue to protect our rights and those of our Turkish-Cypriot brothers within the framework of international law." (News in Cyprus, 2018).

Although UBP-HP coalition insisted that this velvet divorce was an option for the TCC since the 1980s, there was a major difference between the plan in the 1980s and the 2010s regarding the plans to open Varosha and make the re-adjustments to prepare the city for inhabitation by the TCs and the GCs. The opening of Varosha was regarded as a part of a comprehensive plan since the beginning of the negotiations, and both the TC governments and Turkey was refusing to make the city a part of any partial solution. Turkish Vice President Fuat Oktay revealed Turkey's plans to open Varosha and declared that properties would be returned to their rightful owners "on the basis of historical evidence", by referring to the Ottoman-era archives, instead of the British ones (Ekathimerini, 2019). In this regard the "velvet divorce" model, that was discussed after the Annan Referenda process, was back on the agenda, which according to Mullen (2018) foresaw a GC-TC deal to sign a "land-for-gas" velvet divorce agreement. A velvet divorce model had different scenarios regarding its applicability, however all the options resulted in the increased influence of Turkey in the north both in political and in economic terms. While the viability of such an option was debated across the media as well (Panayiotides, 2019), the GC negotiator openly rejected the idea in 2019, however there was no reference to a federal model either.

Even though the UN formula was regarded as the best solution in Cyprus in most of the interviews, the hydrocarbons conflict brought the Cyprus issue to a deadlock and brought forward the two-state solution to discussion. A politician interviewee argued that only the UN solution would provide them equal rights to utilize hydrocarbon revenues in the future because the EU would favour partial solutions, as a federal one would be rejected by the GC side under current conditions, linking the opening of Varosha and the TRNC harbours with the hydrocarbon issue. He argued that this partial solution approach, which mainly reflects the US and UK positions,

would make TC's access to their political rights impossible, and render the TCC to a minority status in the end. From this perspective the hydrocarbon issue was regarded as a hindering factor for reaching a comprehensive solution. Another politician interviewee argued that the hydrocarbon discoveries would lead to the permanent partition of the island even if the GC aren't aware of it yet (2013-2014 interview) as they will lose their political power in the area in the long run as a result of the increasing gas diplomacy and the entry of the big capital in the region which would place even the GC interests to a secondary place.

Initially, hydrocarbons were expected to have a limited yet positive impact on the negotiation process as they were not literally on the table but were regarded as a potential incentive for a solution. However, the rise of pipeline diplomacy after 2014 were key to the failure of the talks in Crans Montana in 2017, which revealed the fact that the hydrocarbons had to be treated as one of the substantial issues, which would otherwise have a destructive, rather than a constructive impact on the essence of the problem. This new era gave leverage to the security dimension which was closely linked to the sharing of the resources, rather than a settlement for the sharing of sovereignty and political equality which was prevalent in the joint statement of 11 February 2014. The new period revived the mindset of the post-1963 era in Cyprus, during which the TCC was deprived off of their right to access to the means of production and the natural resources in the region. According to Gürel and Le Cornu (2014), rather than acting as an "enabler for reconciliation", the offshore wealth of Cyprus deepened the divide on the island and rendered the solution of the Cyprus problem difficult, if not impossible.

Although the hydrocarbons issue molded into a regional dispute that arised from the contradictions of capitalism and competitions on a global scale, its more compelling to understand its significance for the Cyprus problem when coupled by the privatizations that was in progress parallel to the rise of the conflict around the island. The hydrocarbons issue is not confined to the conflict between the global/regional gas and oil companies but it also raised the issue of hydrocarbons governance on the island. The GC Government declared during the licensing processes that the future hydrocarbons revenues would be used for both communities however the necessary mechanisms for an even distribution to both communities ceased to exist since the

early 1960s. Moreover, even if the hydrocarbons would be used a dividend, it would take more than 14 years for the revenues to be used for “public good”, regarding the prospects that they would be available by 2025. During this time, the hydrocarbons issue already acted as a dividing issue rather than a catalyser in between the TCs and GCs and redefined the power relations on the island on behalf of the GC Government. Aside from the revenues, the gas infrastructure in the south is administered by the National Gas Public Company of the south (DEFA), which would build the gas network infrastructure for the distribution of gas in the south, not in the north, that would cost €60m, in which a €10m grant would come from EU’s European Economic Programme for Recovery. This shows that the hydrocarbons would strengthen the GC Government’s position as the legal representative of the TCC on the island. According to Perreault and Valdiva (2010), the global cases showed that the hydrocarbon conflicts, such as in Ecuador and Bolivia, was not only about changing relations of production and the conflict over the appropriation of surplus product in the given region, “but also the production of “imaginative geographies” – the representing and practicing – of hydrocarbon nationhood and citizen-communities” (2010: para. 1).

By 2019, the HP-UBP coalition government began to use the “*status quo*” narrative to blame the “tenacious” supporters of a federal solution for the dead-lock, pointing first and foremost President Akıncı. What revived the “*status quo* debate” between President Akıncı and the TC Government was President Anastasiades’s statements regarding the need for an “alternative” solution in Cyprus that caused controversies among the TCs and the GC opposition. The TC coalition government blamed Akıncı for insisting stubbornly on negotiating for an “unattainable” and “unrealistic” federal solution, which they believed to be proved futile after the refusal of the Annan referenda back in 2004, by the majority of the GCs. Kudret Özersay (2019), the Foreign Minister of TRNC argued that “a federal partnership is not the only way to change the status quo. We should have already understood this in the past fifty years.” (para. 16). On the other hand, Akıncı argued that giving up for negotiating a federal solution would mean reclaiming from TC’s rights to government in the RoC, which would simply mean the acceptance of the GC side's position in the negotiations.

In 2019, Turkey made a military exercise in the Mediterranean and called it “Blue Homeland 2019 Operation”. However, the thriving popularity of the idea was

regarded as an offensive foreign policy by Greece and the GC Government, who brought it to the attention of the EU and the US. While the ease of tension in the SEM due to the hydrocarbon explorations/drillings became the major issue between the EU, Turkey and Cyprus, the solution of the Cyprus problem gradually lost its priority. The substantial topics of the Cyprus negotiations almost became secondary issues after the escalation of a regional conflict over the hydrocarbons. The intrusion of the global capital into the SEM via the oil and gas companies' exploration and drilling activities was escorted by frigates and the naval forces of big powers. These new actors started to play an increasingly important role and determined the course of the Cyprus Problem, bringing not only RoC and Turkey but also the regional and big powers to the brink of war by the late 2010s.

While these regional developments were effective in changing the course of the Cyprus problem after the 2010s, the deepening of the neoliberal transformation on the island also resulted in changing relations of production and modes within the CMoP. The shrinking of the public sector was extended to the cooperatives on the island which were the safety nets of the working population against usury and exploitation since the early 1900s in Cyprus.

### **6.3 The Transformation of the Cooperative Model in Cyprus**

It could be argued that as the history of TC cooperatives goes back to the colonial era, the TFSC largely inherited from the RoC what Ioannou (2009) classified as the Cypriot Corporatist Model, which Pegasiou praised as a “peaceful and cooperative industrial relations within the framework of an effective corporatist model” (2013: 339). According to Mavratsas, this corporatist orientations dominated the political sphere as they “create a clientelistic hyperpoliticization and an excessive statism which essentially crash the concept of the citizen...State authority together with the party mechanisms that support it, constitute the dominant sphere of social life. To a great extent, politics control both the economy and, in a wider sense, the society.” (2001b: 36). In this framework, the reflections of the Cypriot Corporatist Model on the TC economy may provide us only a “partial” account of the capitalist development within the TC State, in Jessop's words, in terms of its role in “securing a social base and forms of intervention appropriate to the fascist and social democratic regimes”

(1990: 119). The TC State established a strong cooperative system<sup>91</sup>, through which it aimed to sustain the “collective interest” of the TCC in a state-led capitalist development model. However, this analysis provides only a limited account on the TC State as it would depict it as an autonomous body, standing outside or above the economy, by ignoring the capitalist competition and political struggle within the relations of production. Offe pointed out that, the legitimacy of the state rests upon its ability to create and sustain the conditions for accumulation through a variety of institutional mechanisms (1975: 127). Jessop argued that corporatism as a state form may affect accumulation, either by impeding or advancing it, however, locating his analyses of corporatism in terms of Marxist state theory, Jessop (1990) pointed that “since the state form can’t be neutral, hence we must seek the strategic selectivity inscribed in specific forms and regimes” (p. 119). Jessop criticized the political economy perspective of corporatist accounts of Schmitter (1979) and of Pahl and Winkler (1976), on the ground that corporatism fell short in providing an adequate view of the state;

“There is no attempt to analyse capitalism as a mode of production at different levels of abstraction; nor to examine the complex articulation between its economic and political determinations in different phases of capital accumulation. The development of corporatism is therefore examined in technological, economic or class reductionist terms and/or in an arbitrary, eclectic and ad hoc manner. This is reflected in an inadequate view of the state.” (p. 116).

Jessop’s argument is critical for understanding how the state form problematize its functions. In Cyprus, the cooperatives had a critical role for capital accumulation and class formations since the colonial era and continued their role within the TCC and the GCC after the establishment of the RoC. According to Jessop (1985) “the analysis of institutional structures is also consistent with the emphasis on class struggle (p.75)”, for Poulantzas insisted that “these institutions must be considered according to their impact in the field of class struggle, since the power concentrated in an institution is a class power.” (p. 75). During enclavement years of the TCC in between 1963 and 1974, they were among the few institutions left behind which sustained the substantial needs of the TCs. After 1980s their social and economic significance

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<sup>91</sup> The TC Cooperative Central Bank (Kıbrıs Türk Kooperatif Merkez Bankası) was the leading institution for providing credits to the financial and the agricultural sector investments.

relatively diminished by the liberalization of the banking sector, yet they recovered from this fierce competition after the 1999 financial crisis. Despite this recovery, their political influence over class formations was weakened during the neoliberal transformation of the TC State. In this regard, although their constitution was essential for sustaining the necessary conditions for accumulation to the TC historical social formations, their significance changed under different state forms.

The cooperatives had been the sites for revolutionary practices by the turn of the 19<sup>th</sup> century; Gramsci's (2017:45) writings on the Turin Cooperative Alliance and on the factory councils showed that they were key institutions not only for revolutionary struggle but also for capital accumulation. Gramsci defined the Turin Cooperative Alliance as "a great working-class institution", and argued that it shall not only serve "personal gains" but shall provide "means for the revolutionary struggle". He praised the revolutionaries within the councils who resisted the censorship, suffering and the propaganda by the "reformist traitors" who tried to "transform the Cooperative from a working-class institution into a petty bourgeois financial institution" during the April 1920 Turin general strike. The failure of the strike to bring about a revolutionary transformation caused a deep cleavage within the left and weakened the revolutionary movement in Italy and it was followed by the ascendance of Mussolini's National Fascist Party to power in Italy in 1922.

In time the cooperatives lost their characteristic as the "nucleus" of revolutionary movement" but continued to play an important role in the postcapitalist development models. In Cyprus, the first cooperative credit society was established in 1909 in order to solve the financing problems of the peasantry and save them from severe debt burden of usury. After WWI ended, the British Empire declared Cyprus a Crown Colony in 1925 and following the rise of industrial relations on the island, 175 new cooperatives were established in four years (Koopbank, Brief History). They were relatively democratic structures and became an important constituent of the new accumulation strategies for the Cypriot society under the colonial rule. Cyprus was an agricultural economy and in a short period of time, some of the cooperatives "accumulated resources in excess of their needs" which led to the establishment of the Cyprus Cooperative Central Bank in 1938 with the aim to "take deposits from those cooperatives which had resources in excess of their needs, and to make these available

for the use of other cooperatives in need of funds”. Towards independence, the Cooperatives Office was divided along ethnic lines in 1959, as it was foreseen in the Founding Agreement and in the RoC Constitution. On the 9<sup>th</sup> of September 1959, the Cyprus Turkish Cooperative Central Bank (CTCCB) started its operations with the partnership of 196 Turkish cooperatives. The cooperative banks and the cooperatives played a crucial role in the development of the postcolonial state and institutionalizing its relations with the TC and the GC societies. When the partnership state ended in 1963, the CTCCB was left as the sole organized institution during the enclavement years of the TCC and until 1974 it surpassed its role as a cooperative bank for agriculture and animal husbandry sector and extended its support to industry, trade and services as a corporate body. After 1974, its network became wide-spread in the north and it was the top creditor for the both personal and commercial banking services. According to Fisher and Nading (2020:1), “cooperative models are not recipes but historically generated and immanent projects that shape particular cooperativisms”. They are flexible organizations which means that they have the ability to adopt to the changing conditions of the system they operate in and to the needs of their members. However, during the 1980s, the cooperatives were caught impromptu to the rise of the neoliberal agenda, the number of the cooperatives fell by half as a result of the financing issues in the sector (Hasgüler, 1996). According to Beratlı (2019), this was due to their inability to compete with the private banks under the “free market” rules and the restrictions on trade as a result of the political uncertainties on the island. After the banking crisis in the north in 1999, the CTCCB once more became an important institution in the north as the commercial banks lost their credibility and operation flexibility in the sector.

The 1999 financial crisis led to a fundamental re-structuring of the banking sector in the north. Şafaklı (2007) pointed that while there were 37 local banks with 1000 employers, there were another 34 offshore banks operating in 1998 before the crisis. By the year 2006, along with the 23 local banks left, there were 18 offshore banks operating in the north, most of the offshore banks owned and operated by their parent banking corporations headquartered in Turkey. As of December 2018, the total number of the banks operating in Northern Cyprus was comprised of 1 state bank, 15

private owned banks (2 of them cooperative banks), 5 foreign branch banks<sup>92</sup> and 1 investment bank<sup>93</sup>.

The shrinkage in the sector resulted in a decrease of employment in the sector in the following decade and after the financial crisis broke out in the south which resulted in the signing of the Memorandum of Understanding (MOU) between the Cyprus Government and the Troika in March 2013 the numbers in both south and the north were below the EU average. TRNC's population per bank employee was below the eurozone average in 2014; while it was 110 in TRNC, the eurozone average was 166, however the number in RoC was lower, 78, which was even below TRNC's numbers. The ECB's "Report on financial structures" in 2015 indicated a fall in the population per bank employee during the global financial crisis in 2008, however there was an upward trend after 2008 in the euro area in general (ECB, 2015: 22). In Cyprus the fall in the number of bank employees had outweighed the effect of the deleveraging process during the debt crisis in 2013, however after 2013 there was a faster decline in the number of employees than in total assets. According to the ECB this downward trend signified a "success" in terms of efficiency and financial performance of the banks; "this continued trend... suggests an increasingly efficient use of resources in the euro area banking sectors." (p. 23), however it also signified a significant rise in unemployment in the banking sector due to the persistency of the financial crises since 2008. Although TRNC was not in the euro area it was acquainted to the financial crisis earlier in 1999. Closely linked to the crisis in the banking sector, there was a steady rise in population per bank employee after 2000s in the north (Figure 6.10 and Figure 6.11).

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<sup>92</sup> Northern Cyprus Banking Association, retrieved on 29.11.2019, from <http://www.bankalarbirligi.org/SPhERE/cPortal/kkbb/layouts/content.jsp?pName=bankalar&pMenu=2>.

<sup>93</sup> TRNC Central Bank, retrieved on 24.12.2019 from <http://www.kktcmerkezbankasi.org/tr/bilgiler/bankalar>.

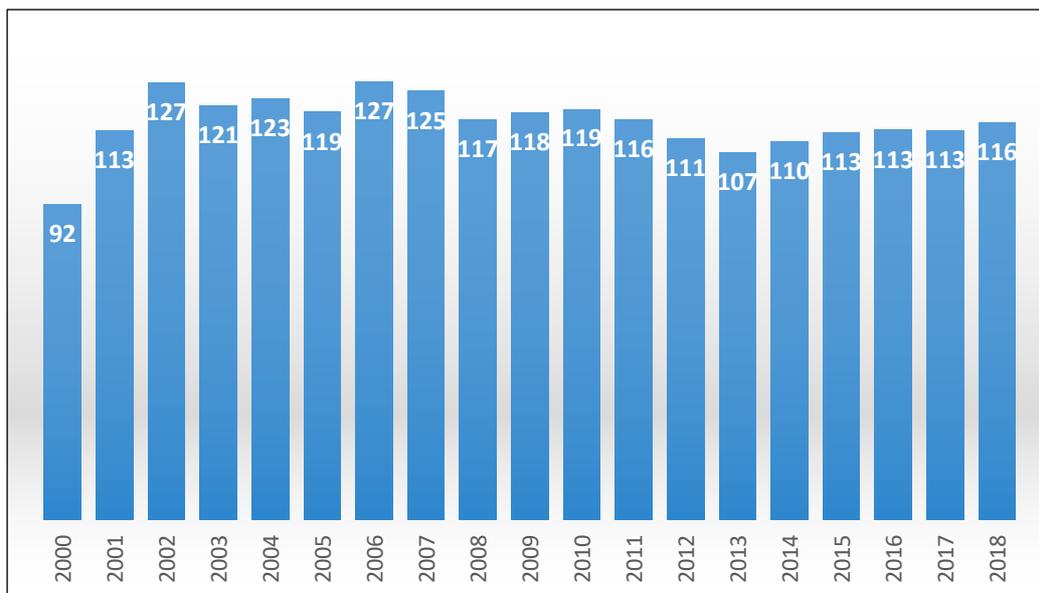


Figure 6.10 TRNC-Population per bank employee.  
Source: TRNC Ministry of Economy

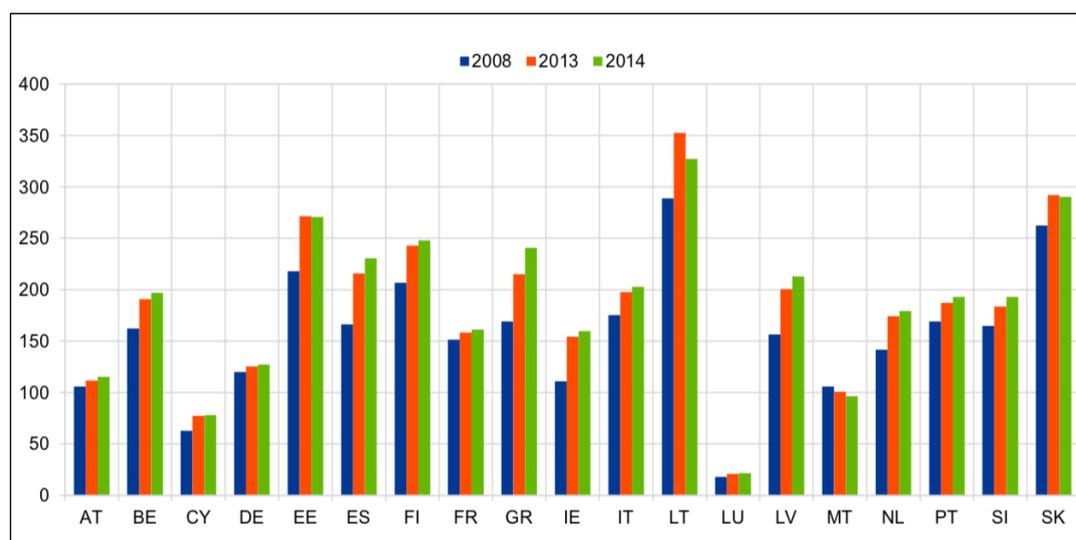


Figure 6.11 Population per banking employee in Euro Area Countries  
(blue: 2008 red: 2013, and green 2014).  
Reprinted From: EU structural financial indicators and ECB calculations in the Report on financial structures, October 2015, ECB, p. 22.

Regarding the structure of the banking sector in the north, according to Bektaş (2006), the mix economic model created its own contradictions, which also allowed the rise of the unregistered economy and the unlawful actions of the financial institutions. The political/economic isolation and dependency on Turkey enabled the

formation of an oligopolistic economy, what OECD (1993) defines as resembling to a monopoly in terms of its results such as “higher prices, X-inefficiency”<sup>94</sup>, slower innovation, and reduced product variety” (OECD, 1999). Şafaklı (2006) argued that the banking sector in the TRNC has an oligopoly structure; “while the first five banks own approximately the 70% of the assets, this ratio for the first 10 banks is 90% and this shows that most of the banks have very weak structures” (p. 401). Bektaş (2006) also argued that, “a tight oligopoly prevails with respect to assets, deposits and credit ratios in TRNC deposit market” (p. 62). In the mix structure of the banking system in TRNC, cooperative banks and saving banks coexisted together with commercial banks acting as commercial structures. This, according to Bektaş, increased “unfair” competition in the sector, as the cooperative type financial institutions had “comparative advantages” over the commercial ones.

In order to end this so-called unfairness in the sector, the new Banking Law (62/2017), which was approved by the General Assembly of the TRNC on November 6, 2017, aimed “to regulate the rules for the establishment and maintenance of trust and stability in the financial markets, the protection of the rights and interests of the depositors and the effective functioning of the financial intermediation system” (Central Bank of TRNC, 2017). The new law opened the path for initiating Participatory Banking in the north, which was associated with Islamic business groups in Turkey, such as Asya Bank, Kuveyt Türk and Albaraka Türk which would be a rival to the Cooperative Banking system in the north. Right after the law passed, TRNC Development Bank hosted a workshop titled “Islamic Finance and Banking Principles” in Nicosia in December, in cooperation with T.C. Ziraat Interviewee Bank and ADFIMI (Association of National Development Finance Institutions in Member Countries of the Islamic Development Bank). The workshop aimed to attract the members of the Organization of Islamic Cooperation (OIC) to invest in TRNC, and in order to find new sources of finance for the banking sector in the north (Kıbrıs Postası, 2017).

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<sup>94</sup>“The lack of incentives or competitive pressures may lead monopolistic firms to neglect minimizing unit costs of production, i.e., to tolerate "X-inefficiency" (phrase coined by H. Leibenstein). Included in X- inefficiency are wasteful expenditures such as maintenance of excess capacity, luxurious executive benefits, political lobbying seeking protection and favourable regulations, and litigation.”.

The TC Cooperative Central Bank (CCB) was the top debtor/creditor of the public as well as the private sectors, followed by the TRNC Provident Fund and the Development Bank, hence the bank is of crucial importance for the TC economy since the 1960s, as it is stated in its website;

“Another definition of the cooperative system is ‘The cooperatives are children born out of needs’. KoopBank<sup>95</sup> is one of the best examples of this. Between 1963–1974, Turkish Cypriots' years of struggle, as the country's only organised financial institution, it had extended its services beyond the banking sector into industry, trade and services as a corporate body serving the needs of the nation.”

Despite its position as the major creditor, with a 163.11% rise in its net profit from 2017 to 2018 (KoopBank, 2018: Article 2), the government decided to put the Cooperative Bank to the privatization agenda in 2019, which was one of the major steps in the shrinking of the public sectors' source of finance for credits. The profit and loss account in the financial report of the CCB in 2018 points to the Bank's role as a key actor in the finance sector in the north;

#### “2. Profit and Loss Account

The Net Profit of the Bank for the year 2018 arising from its ordinary activities in the Banking, Commercial and Industrial fields, before making any transfers to Provision for Doubtful Accounts, was TRY 46,774,878 compared to TRY 17,777,807 for the year 2017, reflecting an increase of 163,11%. In 2018, the Net Profit amounted to TRY 44,630,148 whereas corresponding amount for the previous year was TRY 16,361,178 The Bank also had an extraordinary income of TRY 10,403 consisting of Entrance Fees from New Shareholders. The corresponding figure for the previous year was TRY 8,976.”

According to the official website, as of 2019, TRNC CCB was the major financial institution of the Turkish Republic of Northern Cyprus (TRNC) and accounted for 23% of both the balance sheet and the volume of deposits of the banking sector and every single cooperative operating in the TRNC was a member of the CCB (Table 6.2). Under the previous banking legislation, TC CCB was subjected to the cooperative laws as well as to the banking legislation, hence it was able to operate in the fields of industry, trade and services sectors, however under the banking legislation 62/2017, it has withdrawn from all sectors apart from finance.

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<sup>95</sup> Koopbank, Brief History, [http://www.koopbank.com/index.php?option=com\\_content&view=article&id=242&Itemid=561&lang=en](http://www.koopbank.com/index.php?option=com_content&view=article&id=242&Itemid=561&lang=en), retrieved on 24.12.2019.

The Cyprus Cooperative Central Bank (CCB) in the south shared a similar path with its northern counterpart after the financial crisis. In 2013 the GC Government became the owner of the bank by providing 1.5 billion euros to recapitalize CCB. In 2017, 96 cooperative credit institutions (CCIs) first merged with the CCB, reducing their number to 18 and it was renamed as Cooperative Cyprus Bank. Then, it was privatized on June 18<sup>th</sup> 2018, when the GC Government theoretically “sold” but practically “transferred” the performing loans and the deposits in Co-operative Bank to the second largest investor-owned local bank, Hellenic Bank, “retaining the property and then non-performing loans itself” (Kleanthous et.al, 2019). In other words, the government undertook the “bad part” of non-performing loans worth €7.5 billion, while the “good part” was merged into the Hellenic Bank, which paid nothing for the acquisition (Xinhua News, 2018). The CCB was 77% state-owned after the crisis in 2013 and hence “decades of mismanagement” was pointed as the main reason for CCB’s collapse, while the political parties were blamed for using a populist rhetoric about “protecting primary residence” to safeguard their votes hence regularly praising “banking with a human face.” (CyprusMail, 2018).

On the other hand, the Hellenic Bank, the third largest lender until the CCB merger, became the leader in retail banking in Cyprus, by only raising €150 million in new capital after the merge, growing to the size of the island's primary lender, Bank of Cyprus (Xinhua News, 2018). Due to this “management success”, 2018 was referred as a “landmark year” in the Hellenic Bank’s history, because “Through the acquisition, the Bank achieved a significant improvement in the quality and structure of the Bank's assets and hence in its financial profile, establishing it the leading retail and SME bank in Cyprus.”<sup>96</sup>.

The shareholder profile of the Hellenic Bank, as a public limited company, had changed fundamentally after the financial crisis in the south. While the Church of Cyprus was a traditional shareholder with 29%, this share fell to 0.3% after the crisis. After the bailout in 2013, European Bank for Recovery and Development (EBRD)

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<sup>96</sup> Hellenic Bank, Who we are, History; “2018 was a landmark year for Hellenic Bank. On 3 September, the Bank announced the completion of the acquisition of certain assets and liabilities of the Cyprus Cooperative Bank. The transferred balance sheet comprises of a portfolio of primarily performing loans, Cyprus Government Bonds, cash and customer deposits.” <https://www.hellenicbank.com/portalserver/hb-en-portal/en/about-us/who-we-are/overview/our-history>, retrieved on 24.12.2019.

became a shareholder by investing €20 million in newly issued shares, acquiring 5.4% in 2015<sup>97</sup>.

Table 6.2

Public and Total Public Debt Stock 2013-2017 (Million TL/USD).

PUBLIC DEBT STOCK BY CREDITORS											
Year	2013		2014		2015		2016		2017		TOTAL in TL
Currency (Fx rate - 1 USD=3,7786 TL)	TL	USD	TL	USD	TL	USD	TL	USD	TL	USD	
<b>I. Domestic Debts (Top 5+Municipalities')</b>	3,782.7	258.3	4,131.6	248.5	4,442.6	243.5	4,928.6	231.8	5,117.2	251.8	<b>6,068.8</b>
TRNC Cooperative Central Bank	1,686.3	107.8	1,913.3	115.6	2,196.7	120.6	2,443.0	130.5	2,728.6	141.1	<b>3,261.7</b>
TRNC Provident Fund	1,347.3	44.4	1,347.3	44.4	1,405.7	48.5	1,553.3	50.7	1,716.4	53	<b>1,916.7</b>
TRNC Development Fund	136.0	29.4	158.2	29.6	179.9	32.8	178.9	40.3	218.2	48.3	<b>400.7</b>
TRNC Foundations Bank	301.9	20.2	321.0	17.8	325.5	12.2	305.5	8.3	224.0	9.1	<b>258.4</b>
TRNC Central Bank	81.6	0.0	69.1	0.0	63.5	0.0	56.8	0.0	53.4	0.0	<b>53.4</b>
Municipalities Borrowings	51.5	1.5	62.9	0.7	64.1	0.5	48.9	0.2	45.3	0.3	<b>46.6</b>
<b>II. Foreign Debt</b>	8.8	3,455.0	8.8	3,635.9	8.8	3,738.7	8.8	3,810.3	8.8	3,871.0	<b>14,636.1</b>
Credits by Turkey	8.6	3,446.5	8.6	3,627.2	8.6	3,729.8	8.6	3,790.4	8.6	3,850.8	<b>14,559.6</b>
DG of Turkish Grain Board	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.8	0.0	10.8	<b>40.8</b>
Turkish Export Credit Bank	0.0	8.5	0.0	8.7	0.0	8.9	0.0	9.1	0.0	9.4	<b>35.5</b>
Housing Development Adm. of Turkey	0.2	0.0	0.2	0.0	0.2	0.0	0.2		0.2	0.0	<b>0.2</b>
<b>TRNC Total Public Debt Stock 2013-2017</b>											
Year	2013		2014		2015		2016		2017		TOTAL in TL
Currency (Fx rate - 1 USD=3,7786 TL)	TL	USD	TL	USD	TL	USD	TL	USD	TL	USD	
<b>Total Public Debt Stock</b>	<b>3,791.5</b>	<b>3,713.3</b>	<b>4,140.4</b>	<b>3,884.4</b>	<b>4,451.4</b>	<b>3,982.2</b>	<b>4,937.4</b>	<b>4,042.1</b>	<b>5,126.0</b>	<b>4,122.8</b>	<b>20,704.9</b>

Source: DECO report on TRNC Economy 2017.

The privatization of the CCB after being in operation nearly for 100 years put an end to the cooperative movement on the island, that was one of the most important social movements that was raised against usury during the colonial rule. The cooperatives model on the island safeguarded the capitalist development for nearly a decade and it partly cushioned its uneven impact in times of crisis. The weakening of this specific mode of production would mark the beginning of a new era on the island, during which the prices and the supply decisions/mechanisms would be determined by

<sup>97</sup> EBRD, Hellenic Bank–Equity Investment, <https://www.ebrd.com/work-with-us/projects/psd/hellenic-bank-equity-investment.html>, retrieved on 24.12.2019.

the global markets rather than the local businesses, deepening the balance of forces on the island in favour of the global actors.

### **6.3.1 The Central Banks in Cyprus; Sovereignty and the (Mis)Management Debate**

TRNC started to build up its financial structure soon after its establishment; the Central Bank of TFSC was established in 1983, followed by the liberalization of its money and exchange regime in 1984 and in 1987 by the enactment of Law No 38/1982, which was later replaced by 22/1987-The Law on Money and Exchange Affairs. It soon appeared that Turkey's influence over the north's institutions were going to be beyond being advisory and the TC CB would lack the primary functions of other CBs such as taking decisions to create money. After its establishment in April 1983, the head of the Central Bank of TFSC (soon would-be TRNC) started being appointed by Turkey among the bureaucrats of the Central Bank of Turkey while their wages were paid from the budget of TRNC, and despite the controversy in the north caused by this "tradition", it still is the practice. TRNC President Akıncı expressed his dislike for this practice repeatedly (Yeni Havadis, 2015), before and after being elected, however he was not able to stop its reiteration. The TCs argued that the white-collared workforce in the north, who were mostly educated in the top ranked Turkish or British Universities, were adequately skilled and qualified for being nominated to these posts. It should be noted that sparing the high-ranks either for the GCs before 1963 and then to the Turkish citizens after 1974, was the common practice since the 1960s on the island.

The appointment of the TCs for the high-rank offices had a historical background and representational importance for the TCC. After RoC was established in 1960, one of the controversies between President Makarios and Vice-President Küçük was due to the rare appointment of the TCs to the high-ranks of the Republic's bureaucracy. Makarios administration was criticized by the TCs for reserving these seats to the GCs by forwarding the argument that there weren't enough number of TCs who were qualified to be appointed to these posts. Actually, the lack of qualified human resource was a general problem both for the GCs and the TCs; according to Thorp (1978), although the Constitution stated that the government posts shall be employed by 80 per cent Greek and 20 per cent Turks, there weren't any Greeks and

any Turks who can fill the posts that require skills and know-how. This was a major problem for the short-lived Republic however as the GCs held the dominant power, it ended up with the total ousting of the TCs from the government offices. Accordingly, after the 1980s, the appointment of the head of the TC Central Bank by Turkey denoted a functionality problem for the sovereign TC State.

Despite the on-going debate around the “autonomy” of the TC Central Bank, its establishment was not a top-down policy decision from Turkey. It can be argued that the establishment of the TC Central Bank revealed more than a bureaucratic process between Turkey and the north, but it was the result of power struggle between the bureaucracy and the politicians, manipulation of public policies by the politicians, the extent of their powers over the decision-making processes, and the competitive as well as complementary interests of the political leadership and the bureaucracy (Alavi, 1972). According to Beyoğlu, since the division in 1974, the TC economy was in need of a central institution that would organize, audit and direct the financial institutions and their activities in the north. T.C. Ziraat Bankası (The Agricultural Bank of Turkey) was in charge of these activities in the north after the TFSC was established in 1975. Acting as the CB of the north, this caused other banks to react to its “privileged” position in the north which resulted in claims for unfair competition from the other banks and the dependency of the TC exchange regime to Turkey. After the military coup take over in 1980, the Ulusu government was appointed by the NSC and Bülent Ulusu became the first Turkish PM to visit Cyprus in 1982. Beyoğlu pointed that the TC bureaucrats tried to convince Ulusu that an independent CB was necessary in the north, however his initial reaction was quite harsh and negative despite assurances from the TC bureaucrats that they don’t plan to issue their own currency. Beyoğlu argued that while Turkey was not fond of the idea of a sovereign TC CB, the first participation bank, the Faisal Islam Bank, was established in 1982 in the north, however the TC Ministry of Finance raised his objections on its operations on the basis of Islamic principles, which was contrary to its founding charter (Beyoğlu, 2019).

Turkey sent its CB bureaucrats to the north to work through all these issues and it was only after a long process of bureaucratic exchanges, bargaining and power struggle between the north and Turkey that allowed the establishment of a CB in the north in April 1983, six months before the proclamation of TRNC in November 15. A

civilian government was established in December 1983 in Turkey under Turgut Özal, and the news for the establishment of the TC CB didn't receive the sympathy of Turkey's "new" PM either, who was the Vice-PM in charge of the economy under Ulusu government. Although the head of the TC CB was appointed by Turkey and its operations were largely dependent on Turkey's CB, the idea was not popular among the Turkish Government hence the Bank initiated its operations in June 1984 without an opening ceremony and celebrations by the warning of Denktaş (Beyoğlu, 2019).

From a traditional "dependency" perspective, it might be argued that the "autonomy" perspective is not relevant for the TC Central Bank, as it was "already" established as a dependent institution that does not hold the monetary tools to run its monetary policy, and issue its own currency. However, it should also be pointed out that external interventions to the national CBs wasn't specific to the TRNC context, and the autonomy of the CBs was, and still, is a global debate. This shall not mean however, that the CBs are by their "nature" are only partially autonomous as a result of neoliberal transformation in a global scale. The national practices still matter yet the autonomy of the CBs is challenged by the inflationary pressure since the expansion of financial neoliberalism forces the national states to intervene in the monetary policies starting from the 1980s onwards. While the independence of the CBs is a controversial issue in the world, and not specific to the TC or the Turkish cases, since the CBs started being separated from the Ministries of Finance by the 1970s, Cukierman (2009:723) argued that there is still some practical consensus that "*The primary responsibility of the central bank is to assure price stability and financial stability.*". Cukierman pointed that although the central banks in the developed economies had a reasonable amount of legal independence, the level of independence in developing countries was usually lower than the one indicated in the law. In many developing countries the central banks often functioned as a development bank that provided subsidized loans to various sectors of the economy. In this regard, both practices in the north and in Turkey demonstrate the fact that the CBs are suspended from their "traditional" "developmental" role, and the decision-making processes are open to political interventions and the CBs are used as institutional tools for testing the governments' hypothetical economic projections.

A similar problem became evident before the financial crisis in Cyprus, when the GC Government tried to prevent the financial crisis with a series of political maneuvers. It was a “political” decision in 2010 to move the Public Debt Management Office from the Central Bank to the Ministry of Finance and use short-term borrowing as a means of reducing the cost of debt, which actually led to the deepening of the crisis and its outbreak by 2013. According to Orphanides (2014), the governor of the Central Bank of Cyprus between 2007-2012, the Cyprus economy before joining the Eurozone was performing well; with a 3.3% surplus and a debt-to-GDP ratio of 60% in 2007 that was projected by the Commission to fall below 50% by the end of 2008. Orphanides argued that the rapid deterioration of public finances due to overspending by the communist government under Christofias was the primary reason behind the economic collapse, while the impact of the Eurozone crisis, weakening of the banking system by its exposure to the debt crisis in Greece was not mentioned in his account. However, AKEL was in the coalition governments since the early 2000s which would also give it the credit for the average rates of GDP and a constant public debt/GDP ratio until the crisis (*Figure 6.12*). AKEL won the majority of the seats in 2001 and its leader Dimitris Christofias, was elected as President of the House of Representatives and served until 2006. AKEL remained the largest party, and the parliamentary elections in 2006 were won by the governing coalition of AKEL, DIKO and EDEK. It was only following the 2011 elections that AKEL was left in a minority government when DIKO left the coalition.

The “mismanagement/bad governance discourse” was used in the south, on a similar ground as it was used in the north, in order to mask the systemic crisis of the neoliberal agenda and the over financialization of economic structure. Nevertheless, apart from his “uncontrolled public spending” argument, Orphanides’s critique regarding the “political” decisions in 2010, to move the Public Debt Management Office from the Central Bank to the Ministry of Finance under Charilaos Stavrakis, who used short-term borrowing as a means of reducing the cost of debt, proved to be a just one (Zenios & Panayi, 2015). Zenios and Panayi argued that the widely used “mismanagement” discourse, and the claim that “Sound public finances since 2011 could have also prevented a crisis.” (p. 32) are speculative ones, because the banking and sovereign were in the crisis zone and would have already failed on their own.

According to Zenios and Panayi, what Cyprus faced was a banking crisis, independently of any sovereign shortcomings; “The robust indicator of private credit to GDP, warns of a banking crisis tenuously since 2009 and, unequivocally, since 2010. This was a signal for banking crisis and data support the critics of the banking industry and its supervisors.” (pp.31-32) (See Figure 6.12 and Table 6.3).

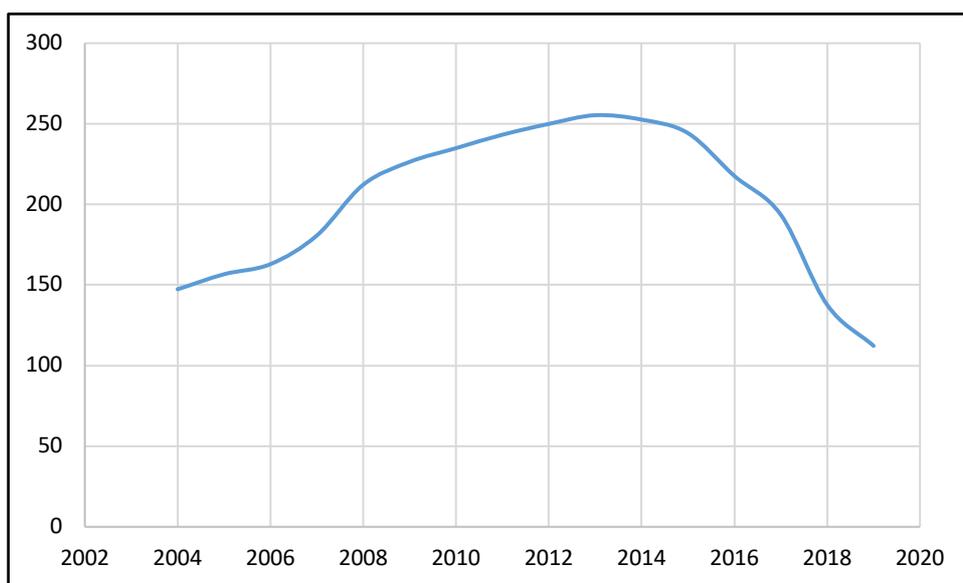


Figure 6.12 Domestic credit to Private Sector (% of GDP) Cyprus.  
Source: World Bank - World Development Indicators.

We should point out that there was a certain similarity between the “restricted” positions of the Central Bank of the RoC during the financial crisis in the south, and the TC Central Bank as a result of its dependency on the decisions of Central Bank of Turkey. Another similarity was the frequent use of the “institutional failures” and “mismanagement” narrative in both contexts, with similar tasks; to mask the neoliberal compromise on the island.

Turkey had been appointing the head of the TC CB since its establishment in 1983. However, the new arrangements of the banking law 62/2017, assigned to the head of the CB broader powers such as appointing the high-level bureaucrats of the major finance institutions in the north. This new role assigned to the head of the TC CB pointed to the fact that, although Turkey appoints the high-level bureaucrats, and the TL is the official currency in the north, there is an ongoing power struggle in the

north to maintain Turkey's influence over the finance sector and policy decisions in the north. While TRNC is bound by Turkey's policy decisions regarding its finance sector, the institutions are also shaped by class struggle and inter-class alliances.

Table 6.3  
Cyprus - GDP at constant market prices.

Year	GDP at constant market prices 2005 (% change)	Public Debt (% of GDP)
2000	5,7	55,1
2001	3,6	56,9
2002	3,2	60,1
2003	2,8	63,5
2004	4,6	64,5
2005	3,9	63,2
2006	4,5	59,1
2007	4,9	53,9
2008	3,7	45,1
2009	-2,0	53,9
2010	1,4	56,3
2011	0,4	65,8
2012	-2,4	79,3
2013	-5,9	102,5
2014**	-2,5	108,2
2015**	1,6	108,9
2016 <sup>proj.</sup>	2,2	105,6
2017 <sup>proj.</sup>	2,5	101,7
2018 <sup>proj.</sup>	2,5	97,8
2019 <sup>proj.</sup>	2,5	90,5

*proj: Stability Programme's projections.*

*\*\* Figures for GDP for 2014-2015 are provisional.*

*Source: Ministry of Finance Cyprus, Main Economic Indicators for Cyprus, 1960-2019 (May 2016).*

The mismanagement discourse was used in a different context by Turkey's President against the head of Turkey's Central Bank in 2019. The head of the CB of Turkey was "dismissed" from his post with a similar discourse in July 2019, with a presidential decree signed by President Erdoğan, due to "political discordances" between them on the readjustment of the interest rates in order to control inflation. The President accused the Central Bank for acting on its own right and taking "wrong" decisions by keeping the interest rates high which, he claims that, resulted in high inflation rates in Turkey. The dismissal of the head of the Central Bank of Turkey had limited effect on lowering the inflation rates, however similar economic concerns

enforced TRNC's PM Ersin Tatar to ask from the Banking Association in TRNC in a meeting on the 7<sup>th</sup> of January 2020, to lower the interest rates further in order to "bring dynamism" to the TRNC economy. The loan rates were decreased in August 2019 together with the deposit rates (TL from 17.25% to 13.25%, Euro from 0.25% to 0.125% and British Sterling from 0.50% to 0.25%) (Alasya, 2019), however the expected dynamism was hardly reflected to the consumer market which disappointed the TC Government and PM Tatar, and led him to demand for further decrease in the rates. PM Tatar didn't have the power either to appoint or to dismiss the head of the CB in the north and even if he had, the CB of TRNC didn't have the power and the tools for intervention to rising inflation rates. According to Şafaklı and Özdeşer (2010: 124), the Central Bank of Turkish TRNC is an exceptional case in this sense, as "the Turkish Lira has been in circulation as a legal tender during the period of dollarization; and there is no relation between its inflation target and monetary policy". Still, the decision in TRNC came two months before the Central Bank of Turkey announced its decision to decrease the interest rates at the end of October, not because this may "bring dynamism to the economy" but mainly in an urge to be able to fulfil Turkey's economic projections in the association agreements for the TRNC economy, and be able to get the "belated" financial aid from Turkey.

It can be argued that the Central Bank of Turkey and Central Bank of TRNC acted as "complementary institutions" in the north as together they shouldered the task to implement the Turkish governments' and President's advices and decisions after the late 2000s. Moreover, the "complementary" structure between these CBs facilitated the spreading of the neoliberal discipline over the financial and political domains in the north, which made them even more resistant to "change". In this regard Carstensen and Röper (2019: 1328) argued that the institutionalist theory offers "a novel understanding of change dynamics as driven by actors' creation of institutional interlinkages". From a historical institutionalist perspective Streeck (2014), pointed to the role of institutions and actors, whether inherited from the past or built up in long political struggles, for keeping capitalism's advance to some extent socially embedded. Yet, the historical institutionalist approach regarded change as sudden, eventually bringing about equilibrium, which is brought about by large-scale "external" shocks, so the critique towards historical institutionalism was especially its

weakness for pointing to the endogenous factors at work and that it was incapable of dealing with “change” (Peters et al., 2005). To the contrary, for Peters et al., political conflict is a means to initiate change in an institutional framework.

Apeldoorn et al. (2010) pointed that the complexity of the world we live in necessitates the researches to undertake what they call “a myriad of overlapping and interconnected social relations” (p. 216) into consideration. With this effort, the regional as well as global forms of policy transfers, from the EU, Turkey and the international finance institutions such as IMF, WB and ECB/ESM needed to be evaluated as the transmitters of the neoliberal policies, either directly and/or indirectly, to the north and to the south. They played a major role for the neoliberal transformation of both the TC and the GC States towards by the 2000s however, the critical junctures in the trajectory of the Cyprus Problem had been ignited both by the global/regional and national economic/political crises and with the interplay of class forces. Although the appointment of high-level bureaucrats by Turkey such as the head of the TC Central Bank, consolidated its hegemonic role in the north, TL’s depreciation against the US Dollar weakened this hegemony concomitantly after the 1990s.

In this regard, this chapter tried to point out that institutional change is deeply related with, and even conditioned upon the interplay of “external” and “internal” factors. Hintzen (1985) argued that “the penetration of international capital into a developing Third World economy would increase the tendency for class polarization.” (p. 108), hence would reinforce further ethno-politic cleavages. He pointed out that international capital can be the force behind the motivation for change or the major support for ethnic/racial status quo. In the case of Cyprus, this happened to be driver behind the recent dead-lock in the problem, which led to the preservation of the *status quo* on the island yet to the increase of the tension in the region. While the hydrocarbons conflict escalated by the intrusion of global/regional actors to the region, it was not solely dependent on the converging interest of these actors for the exploitation of these resources, but was also conditioned upon the changing internal relations and conflicting forces on the island. When we consider the outbreak of the hydrocarbons issue as such, it becomes imperative to consider this process in parallel to the neoliberal transformation on the island, not only of the institutions, but also the financial, economic, social and the political structure. This is how uneven and

combined development of capitalism is related to the changing state of affairs as well as the state formations on the island. While it compels the restructuring of the state formations on the island under pressure from global capitalism, it was also the internal actors that developed certain class strategies and alliances to shape the balance of forces on the island, which determined the trajectory of the Cyprus problem as well as the development of a capitalist State in this particular conjuncture.

## CHAPTER 7

### CONCLUSION

#### **The End of the Cyprus Problem as We Know It?**

When the field study began, the initial interviews and the review of the existing literature showed that there existed the need for an alternative reading of the Cyprus problem and the TC statehood struggle *vis a vis* the existing traditional approaches. Quite understandably, the Cyprus Problem was predominantly studied as a protracted conflict of clashing nationalisms and the TRNC-Turkey relation was depicted as a “dependency relation” that developed between a core and a periphery. What was surprising was the fact that there were only few attempts to espouse a critical political economy perspective.

This thesis suggests an alternative reading for both issues and analyses their relationship in relation to the development of capitalism on the island. It considered the Cyprus problem not only as an intercommunal conflict but more pertinently as a statehood struggle that shaped (and was also shaped by) the uneven and combined development of capitalism (UCDC) on the island and by the contradictions of capitalism on a regional scale. In this regard, as reviewed in Chapter 2, the UCDC and the statehood struggle on the island were regarded as two pillars of the Cyprus problem and their connection was reassessed from a critical political economy perspective.

The TC social formation, either as administrations, and/or federated/sovereign states, was the unit of analysis and the particularity of the TC statehood struggle was the unit of observation that was examined in a historical framework, portraying the TCC as the agents of their own statehood struggle history.

It was observed that this struggle was the political expression of the totality of the class struggle in the north, encompassing the power struggle within and between the political, economic as well as the ideological spaces, although they were not in a relation of exteriority, that was specific to a capitalist type of state. Despite the dominant narrative which regards the TC statehood struggle as exclusively constituted of the political/economic struggle against the GC domination of the RoC, the TC statehood struggle is also conditioned vis a vis the intra-societal power contestation within the power bloc in the north. While the struggle against the former primarily determined the form of the TC State, the struggle against the latter determined its functioning for capitalist development.

This thesis contested its theoretical framework with an empirical research and it used the dialectical method of inquiry to discover the relationship between “concrete” forms and “abstractions” that are predominantly used in the above-mentioned relationships, which were necessary, yet not sufficient, to have an understanding of the “factual”. Once this thesis determined the TC State as its unit of analysis and characterized it as a capitalist type of state, it derived its epistemological tenets from within the state theory debate. Employing conceptual tools such as “relative autonomy” (Poulantzas, 2000: 91), “state as a social relation” (Poulantzas, 2000: 25), “strategic selectivity” (Jessop, 2014), provided an alternative reading and conceptualization of the TC State *vis-à-vis* the traditional perspectives in the literature. Based on a realist epistemology, this relational view of the TC State enabled to posit the TC State-Turkey relationship as an internal relation (cf. Ollman, 1976) whose structure and essence are constantly reproduced within the power bloc in the north.

As Ollman pointed out (1976), for the philosophy of internal relations, “the problem is never how to relate separate entities but how to disentangle a relation or group of relations from the total and necessary configuration in which they exist” (p. 48). This perspective allowed us to observe the TC State and Turkey as mutually dependent parts of a whole that are unified not only under cultural and/or religious values, but also under specific social formats that were determined by capitalist relations of production. The changing forms of the TC State brought the problematic of its changing function/position *vis-à-vis* the economy in the context of the statehood struggle. However, as the boundaries of the political and the economy was not

immutable borders, the TC State was always engaged in the reproduction of social relations of the TCC within which Turkey gradually became an integral part of the TC power bloc after 1974. Eventually its relationship with Turkey was shaped as an internal relation that was based on the mutual dependency of the parts.

The re-conceptualization of this relationship as an internal relation pointed to the characteristics of the changing forms of dependency, which included asymmetric moments in this relationship. Although the TC State had relative autonomy from the power bloc in the north, Turkey's position within the social relations of production gained a hegemonic character which dominated other classes and fractions in particular conjunctures. However as pointed by Yalman (2009: 352), "there is no moment of hegemony which is not contested". In this regard, these critical junctures posited Turkey as a hegemonic power, that was determinant on the political spaces in the last instance. However, this should not imply a fixed conception of "Turkey's power in the north" as these asymmetric moments were neither intrinsic to this relationship nor permanent, but was rather contingent and temporary, and was balanced by the moderation of the other dominant classes/fractions, resulting in the acknowledgement – although in different levels - of the interests of both the working-class interests and the bourgeoisie in the TCC.

Although Turkey had a critical role in the policy-making and/or decision-taking processes in the north, the democratically elected Turkish governments did not always have the final say, or to put it more correctly, did not have a say in certain critical junctures. All the TC entities/states were established in the absence of an elected government in Turkey, with the exception of PTCA that was established in 1967 when the Demirel government was in power as an elected government since 1965. More interestingly, even the RoC was established in the absence of an elected government in Turkey, and it could well be argued that, from a path dependency perspective, this provided a prototype for the establishment of the ensuing TC constituencies. Although this doesn't necessarily mean that the establishment of the consequent TC entities were "timed" to coincide to a power flux in Turkey, it indicated that their establishment did not necessitate the presence of an elected government in Turkey, nor its approval. The military and bureaucratic fractions acted *ex officio*, as *de facto* governments in Turkey,

as the Cyprus issue was regarded as the national cause, which necessitated nonpartisan strategies.

This perspective allowed us not only to transcend but also to re-conceptualize the traditional “dependency approach” in a theoretical framework based on a realist epistemology. The frequent use of the dependency rhetoric in regards to the Turkey-TC State relationship as a “descriptive category”, and the use of the change narrative as a “floating signifier” (cf. Laclau, 2007:95) regarding the Cyprus problem, pointed to the need for a reassessment of the traditional narratives on both problematical issues. A realist epistemology was essential to establish the link between the “essence and appearance” (cf. Sayer, 1981), of both the Cyprus problem and the Turkey-TC State relationship, as well as their connections. This enabled us to look beyond abstract categories such as “protracted conflict” and “financial dependency” and discover the underlying causal relationship between the protraction of the Cyprus Problem and the changing forms of dependency in the Turkey-TC State relationship. Establishing this “link” is critical in the sense that while a realist epistemology would bring to light the material conditions that effectuate the social relations of production on the island, there were still a number of underlying issues and relations that are consequential in their constitution which needed a critical assessment for deducing them.

A reassessment of the traditional perspectives was possible first by understanding the current “state of affairs” in the north, and then by discovering its links with the changing social relations of production in a historical perspective. This was enabled by posing a critical question regarding the methodology; How to understand “change” in the context of the Cyprus Problem, that is supposedly wrapped up with inertia?

In this regard, the thesis shared the findings of a longitudinal field study that was conducted with the Turkish Cypriot opinion leaders in the north between 1999-2016. Using open-ended semi-structured interviews, the field study helped to unveil the trajectory of the changing narratives of the TC opinion leaders regarding the Cyprus Problem and relations with Turkey. These changing narratives also pointed to the changing state-society relations in the north, its reflections on the statehood struggle of the TCC as well as on the Cyprus problem in a historical perspective.

In this regard, Chapter 3 extended to the first quarter of the 19<sup>th</sup> Century and found that there was a direct correlation between UCDC, the changing state-society relations

and the outbreak of the Cyprus problem. It discussed that the arrival of British Colonialism and the rise of industrial relations under the copper mining industry exposed the island to an uneven and combined development of capitalism. Chapter 6 covered the late 2010s, during which the Cyprus negotiations were overshadowed by the escalation of a regional conflict, this time over the extraction and exploitation of the offshore hydrocarbon resources. Analyzed amidst a historical background, it was obvious that the exploitation of the natural resources and the geostrategic position of the island wasn't specific to the early 1900 and to the colonial mode of production. It was observed that the penetration of UCDC was an important conditioning factor on the outbreak of the intercommunal conflict, that was engraved by the persistency of primitive accumulation strategies on the island.

The UCDC on the island and following changes in the division of labour and relations of production led to the rise of different forms of conflicts over the sharing of the surplus value before the establishment of the postcolonial state and was instrumental in the outbreak of the Cyprus problem in 1963. The rising class struggle was first crosscut and then contained by the rising nationalisms on the island. The rising nationalisms not only overshadowed the class struggle, but it also dominated the state building processes and the state structures on the island by the support of the ruling classes after 1963.

Although the structure of the thesis was established on a linear historical trajectory of the Cyprus problem, this trajectory was analysed by a non-linear conception of the Cyprus problem. This non-linear assessment aimed to transcend a deterministic chronology, and pointed to the need of conceiving the dialectical unity of the external and internal forces at play for the constitution of the problem. When we argue that the Colonial rule "ended" in the 1960s, we actually neglect the historical role of British Imperialism and the relations it brought to the island which played a critical role on the constitution of the Cyprus problem as well as its lingering effects. On the other hand, when we argue that it was the British Imperialism that turned the Cyprus issue into an intractable problem, we tend neglect the endogenous forces at work, the role of class formations/struggle and relations of production on the constitution and the transformation of the problem.

In this regard, employing a relational, class-based analysis for studying the modalities of TC statehood struggle enabled us to observe how social change is engendered from within the TC social formations. Likewise, a relational analysis of the TC State formation helped us to point not only to the material conditions under which social change occurred, but also how the changing forms and functions of the TC State played a critical role in shaping these conditions in return. It also allowed us to develop an alternative perspective regarding the relationship between the TC State and Turkey, one that goes beyond a dependency/externality relation, and reconsider it as an internal relation, which allowed us to locate Turkey as a hegemonic power within the power bloc in the north, and as an internal part of particular TC social formations.

This thesis portrayed the patterns of change in the TC state-society relations by using a relational approach and a class-based analysis within the context of the Cyprus problem. In this regard, the following basic findings could be forwarded as the contribution of this theses to the Cyprus literature, with the hope that they would invoke further discussions and result in an alternative theoretical and discursive framework;

First of all, the notions of power and hegemony are central for the mainstream analysis on the TRNC-Turkey relations and the state of affairs in the north. Regarding Turkey primarily as a military and financial power in the north, this perspective focused on the relationship between TRNC's unrecognized status and the limited "market capacity" of the TC economy, hence argued that the north lacks the "right amount of" capitalist relations of production that would have rendered its functioning as a Western type of capitalist formation. This was a reductionist perspective; following Poulantzas's view on the capitalist State, that considered the state as a "social relation", this thesis argued in line with Davidson's (2009: 20) argument that size doesn't matter for capital<sup>98</sup>. The TRNC State is a capitalist State within which capitalist relations of production determine its form and function despite the fact that it is a small market economy which is largely dependent on, hence destabilized by, its trade relations with Turkey. On the other hand, it was apparent that the TC State's

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<sup>98</sup> Davidson pointed that size is not the decisive issue either and quoted Wood's work which pointed to the difficulty of maintaining state control over a large area, and agreed with Smith's argument that "states can also be too small to be effective for capital".

unrecognized status and its limited “market capacity” were among the major factors that enabled Turkey to become not only a hegemonic power within the power bloc in the north, but also a part of the social relations of production that plays a key role in the subsequent class formations and divisions. Turkey’s power in the north was not external to the TC social formation, it was rather intrinsic to it. As shown in Chapters 3, 4 and 5 the bureaucratic and political fractions of the ruling classes in Turkey were influential on the changing balance of forces in an alliance with the TC state elite. Moreover, besides the appointment of the head of the Central Bank of TRNC by Turkey, the head of the board of directors were appointed by Turkey among the bureaucrats of the Directorate of Privatization Administration (Özelleştirme Dairesi Başkanlığı) as the TC SEEs were joint ventures of the Turkish SEEs.

Secondly, as outlined in Chapter 3, a critical political economy perspective provided a theoretical framework for an alternative reading of the Turkey-TRNC relationship, which was shaped in parallel to the trajectory of the Cyprus problem. The uneven and combined development of capitalism conditioned the statehood formations on the island and deepened the gap between the TC, GC and the Turkish economies since the beginning of the colonial era. In this respect, the TC State is conceived as a historical social formation that was conditioned by the UCDC on the island as well as by the changing balance of forces within and between the TC and the GC communities. This perspective portrayed the state-market-society relations in the north not in their ideal-typical modes that focus on the actors’ market capacities, but with a historical materialist perspective and a dialectical methodology at work from a class-based perspective.

After the de-colonization struggle started by the 1950s, rising nationalisms were coupled by the contradictions of capitalism and struggle for sharing the surplus product in the postcolonial state, which erupted as an ethnic conflict in Cyprus by 1963. After the 1960s, the TC statehood struggle and changing balance of the class forces shaped the form of social formations as well as the class structure within the TCC. Turkey gradually became a hegemonic power in the north and after the 1974 intervention the relationship between Turkey and the north started denoting an “internal relation”, not as a fixed category but a dynamic relation constantly reproduced by property relations, relations of production and accumulation strategies within the power bloc in the north.

In this sense, pointing to the relative autonomy of the TC State from Turkey and from the capitalist relations of production in the north provided us a relational view of the TRNC-Turkey connection that was determined by the strategic selectivities of the actors. This connection was analysed in terms of Jessop's "strategic-relational approach" (2008, 2014) which enabled us to bring light to the questions of structure and agency from a class analysis perspective.

As covered in Chapter 3, the 1980 military *coup* in Turkey was a critical juncture for the Turkey-TC State relationship. The planned economic development model was replaced by the market-led growth strategy of the post-1980 governments. The gradual deindustrialization of the TC economy brought by the financial dependency of the north on Turkey created a lop-sided trade relationship. However, a critical analysis of this period showed that although the financial dependency of the north on Turkey is the key feature of the Turkey-TRNC relationship, it encompasses only a single aspect in the broader ontology. Moreover, financial dependency is the result rather than the cause of the state of affairs in the north, and it lacks explanatory power if it is not considered both as a "process" and as a "relation" at the same time. Although the TRNC was an unrecognized state diplomatically, Turkey as well as the RoC acted as proxies for the configuration of the neoliberal agenda in the north. While the neoliberal agenda was set by Turkey, the TC practice was shaped by the conflicting and diverging interests and the resulting power struggle within the power bloc and the social relations of production in the north. Turkey, which was the precursor for the TC economy's state-led capitalist development in the 1970s, became the "neoliberal anchor" of the TRNC after the 1980s. Turkey's new role was strengthened by its EU accession agenda. Nevertheless, the neoliberal agenda lacked a developmental strategy in the TC context hence it rather deepened political clientelism and weakened the institutional structure of the TC State.

The "de-industrialization" and "financialization" of the TC economy in the 1990s brought about a series of financial and political crises by the early 2000. As outlined in Chapters 4 and 5, the new conjuncture, which offered a federal solution to the Cyprus problem under the EU umbrella enabled an inter-class alliance which posited itself against the so-called *status quo* regime in the north. However, the failure of the EU agenda together with the prospects for a federal solution dismantled the coalition

of social forces before they fully achieve their target. After the mid-2000s, the privatization of the SEEs gained impetus, and the deregulation of both the TC and Turkish States was legitimized by the potential EU membership agenda, even though the membership agenda for the TC was already weakened by the failure of the Annan Plan.

Chapter 6 pointed that the hydrocarbon discoveries around the island, which started a regional competition for the extraction of the hydrocarbons in the SEM is a new form of dispossession in Cyprus for the exploitation of the natural resources. This period in the Cyprus problem was marked by the rise of a neoliberal aspiration to find “resources of all kinds” for the survival of capitalism(s) on the island. It rose in parallel the outbreak of the financial crisis in the south and eventually raised the risk for a potential military confrontation in the SEM. These developments stapled the Cyprus negotiations around the drilling agenda of the GC government and Turkey’s efforts for retaliation. This new period marks the end of the Cyprus problem as we know it, mainly because the Cyprus issue became, for the first time since 1963, an “open confrontation” over the sharing of the resources, which put an end to the discussions on a federal solution.

The traditional issues of power sharing, guarantees and rotating presidency are not covered in the headlines, and the Cyprus problem was offshored into the EEZs of the coastal states of the SEM. The so-called substantial topics of the intercommunal negotiations are undermined by the rise of this “new” conflict in the SEM, this time for the hydrocarbons which was articulated to the ongoing securitization and militarization of a wider region around the island. The hydrocarbons issue accentuated not only the mutual dependency between Turkey and the north, but also the interdependency of the regional actors as it became evident that they were isolated in the region as a result of the rise of competition for the hydrocarbon resources. Under these circumstances, the statehood struggle of the TCs shall not only be defined as a struggle over state building towards the international community, but the totality of class struggle against the neoliberal transformation and dispossession in the immediate region.

This new conjuncture, that is conditioned by uneven regional development of capitalism, is triggering the long-standing clash of nationalisms on the island, which

were partly dormant vis a vis the rise of the feeling of “Cypriotness” in the north and in the south during the Annan Plan. The hydrocarbons issue did not act as an enabling factor but rather anchored the solution of the Cyprus issue to the strategic selectivities of big powers and their corporate interests. In this regard, “change” is becoming increasingly conjunctural and local actors are losing their powers over the trajectory of the problem. The growing emphasis on the so-called “strategic issues” is reifying the borders rather than eliminating them. Moreover, the UCDC perspective pointed to the mutual dependency of the actors, despite the growing tension and global pressure to re-configure even the regional relations as relations between a core and a periphery. This tension is being exacerbated by the ongoing neoliberal pressure through an irregular and uneven development of capitalism and it finds outlets in the form of regional conflicts and result in deepening of the cleavages on the island.

In this framework, the capitalist development accompanying the establishment of the first TC State in 1975 could be broadly divided into five sub-periods;

1. The first period is between 1960 and 1974, was “dispossession”. The RoC was established as a partnership state however the bicomunal state was short-lived due to the revisionist attempts of President Makarios to make amendments to the 1960 constitution which was refuted by the TCC and resulted in the expelling of the TCs by the GC armed forces from the bicomunal state. The onset of the Cyprus problem in 1963 pushed the TCC into living in enclaves and leaving them deprived off of the economic opportunities, and in a politically disadvantaged position when compared to the GCC. Expelled from the government, between 1963 and 1974 TCC lived in enclaves without access neither to the governments revenues nor to the means of production. The isolation of the TCC from the rest of the world since the 1960s resulted in an uneven development of capitalism in the north and in the south while weakening the TC economy *vis-à-vis* RoC and Turkey. This unevenness in turn favored the GC economy, enriched by the flow of the foreign capital towards the south, from the Middle East in the mid-1970s as a result of the Lebanese civil war (Picard, 2000)<sup>99</sup> and later from Europe and Russia by

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<sup>99</sup> “a quarter of the gas imports, sold cheaper in Lebanon than in the Gulf oil-producing states, was smuggled into Syria, Turkey, Jordan, and even Cyprus”.

late 1990s and early 2000s attracting the offshore capital which made the RoC the tax heaven of Europe (Doudaki and Carpentier 2017: 9). The recent fight over the sharing of the hydrocarbon resources is the reoccurrence of a similar wealth allocation problem that occurred back in the early 1960s. The ethnic based division of the island after 1963 helped the RoC to usurp the means of production on behalf of the GCC, and reinforced a further “division of labour” on the island by pushing the TCs to be engaged in agricultural production, as Makarios administration was unwilling to share neither the governance nor the revenues of the RoC with the TCC. However, Lacher and Kaymak argues that despite the widespread perception that the TCs were left impoverished while GCs enjoy splendor, the existing state of affairs on the island actually brings considerable material benefits to the elite in which landed property is the single most important source<sup>100</sup>.

2. The second period is between 1974 and 1983, was “securitization” and “re-industrialization”, during which the TCs get acquainted to the state led planned economy, which was a part of the 4<sup>th</sup> FYDP in Turkey. This period started when a Greece backed GC junta attempt to overthrow the Makarios administration in Cyprus was prevented by Turkey’s military intervention in 1974. This intervention geographically divided the island into the north (TC) and the south (GC) and led to the stationing of the UN Force between the communities. The Turkish military also stationed in the north due to the ongoing tension and uncertainty regarding a settlement based on the political equality of the TCs in the RoC. The small island was totally militarized as it was host to four military bases after 1974; two British Sovereign Bases in the south, the UN Peace Keeping force stationed in the buffer zone, and the Turkish Troops in the north. The first “federal” TC State, TFSC, was established in 1975. It was a capitalist type of state in the form of a democratic republic as the “best possible political shell for capitalism” (Lenin 1917; part 3, para. 8), and secured its capitalist development, particularly the ISI development

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<sup>100</sup> Ibid. Lacher and Kaymak 2005, p.154. “The current property regime in the North maintains that properties abandoned by Greek Cypriots devolved to the TRNC. Turkish Cypriots who gave up properties in the South were asked to surrender their original property deeds in exchange for originally Greek-owned properties in the North. In practice, the regime degenerated, as demands for property in exchange for political allegiance led to wholesale redistribution, irrespective of equity. The property issue has thus turned into a festering wound not just among Greek Cypriots, but in the North, too.”

model to be the anchor for the TC economic development. The TC economy which was dispossessed and restricted to a substantive amount of agricultural production after 1963 was rebuilt by Turkey's support. Turkey provided financial aid and technical assistance for the establishment of the TC SEEs, that were established on the GC installations, by using the raw materials/finished products that were left within these factories. The use of TL became wide spread and although the SEEs were established to build up an TC economy with an ISI development strategy, they gradually reinforced the political patronage regime in the north. Turkey was directly involved in the institution-building processes and the production of surplus value after 1975. Nevertheless, the degree of Turkey's involvement took changing forms and effectiveness in parallel to the political struggle and the balance of forces within the power bloc in the north. During this period the intercommunal conflict was securitized, which enabled the establishment of the TC industry, the first TC opposition party and the majority of the TC unions. The 1974 intervention also changed the land ownership relations in the north by directing the majority of the TC workforce, that was engaged in substantive amounts of agricultural production after 1963, towards becoming the "industrial labour force" by assuming a state-led economic development model. During this period the TC industry flourished and the industrial relations as well as unionism (mainly within the public sector) became wide spread. However, this period ended by the proclamation of the 24 January decisions in 1980 in Turkey, that were a set of neoliberal policies, followed by a military coup that fostered the new economic agenda and finally a civil government that was adamant for the gradual implementation of this neoliberal agenda after 1983.

3. The third period between 1983 and 1994, was "deindustrialization" phase during which the two capitalist development models merged with one another under a neoliberal agenda; namely the ISI development strategy and the trade-oriented growth. During this period, TCFS's political, economic and ideological structures fused with the first "sovereign" TC State, the TRNC in 1983. The TC State gradually transformed from a developmental state in the 1970s into a so-called

“rent-seeking state” (cf. Krueger 1974)<sup>101</sup> pursuing new forms of primitive accumulation regimes by the privatization of the SEEs and trade liberalization. The state-led planned development model had left its place to an emphasis on regional development in the Fifth FYDP in 1985. The TC economy was largely deindustrialised and trade became the pioneer of the TC economy until the ECJ Decision in 1994 put a de facto embargo on goods with TRNC origin, and then Turkey signing the Customs Union decision in 1995. These two events hindered the full-scale development of an export-led growth strategy in the north and deepened TRNC’s economic dependency to Turkey. Between 1980s and 1990s, the Turkish big business that was politically engaged in the solution of the Cyprus problem transformed from an agrarian or commercial orientation towards an export-orientation model (Öniş, 2010:48). As a part of a neoliberal quest for developing an alternative economic development model in the north, Özal Government coined the “Free Trade Area” idea, that was supported by TÜSİAD and other business groups, however it was not a viable option both due to the political uncertainties on the island and due to the resistance of the TC opposition and the unwillingness of the military and the bureaucratic fractions of the ruling classes in Turkey, who were reluctant to liberalise the TC economy from within. Rather the gambling sector in Turkey moved to the north by the late 1980s and early 1990s and also the offshore banking system stationed in the north.

4. The fourth period, “europeanization”, shaped, although indirectly, the TC economy between 1994 and 2004. During this period, the EU membership prospects determined the neoliberalisation of the state in the north, that were anchored both to Turkey’s and to the GC Government’s EU membership agendas. The 1990s were important in terms of the rise of a clash between the two opposing models which resulted in the outbreak of a financial crisis in 1999 followed by the rise of an opposition that effectively challenged the political *status quo* in the north. It can be argued that while the TFSC experienced the combined development of

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<sup>101</sup> According to Krueger “resource-allocational effects of imports licensing are important sources for rents in Turkey”. In the North the privatization of the SEEs became an important source by the late 2000s.

capitalism, in which Turkey was the anchor for the capitalist development model for the TC economy after 1974, after Turkey signed the CU decision with the EU in 1995, the EU, although indirectly, became the neoliberal anchor of the north. Despite harsh criticism and backlash from Denктаş towards the signatory Çiller Government, DYP was decisive to sign the agreement and moreover represented it as “the most important step” towards the realization of Turkey’s long-awaited EU membership. This shift of orientation was partly reflected to the TC economy which became growingly export oriented after the 1990s resulting in a widening gap between the industrial and the commercial sectors by the 2000s, working in favour of the commercial bourgeoisie and the financial sectors in Turkey and in the north. The outbreak of the banking crisis in the north in December 1999 created a strong reaction against the so-called Denктаş regime. However, Ecevit Government was in power in Turkey and this gave Denктаş the opportunity to suppress the opposition and entrench back to his position during the onset of the Annan Plan. The onset of the Annan Plan became a major driver for the growth of the TC opposition that was united under “This country is ours” platform after 1999. The early 2000s started with the endorsement of a series of political and financial crises in Turkey and in TRNC and as a result, the center-right coalition of the Ecevit Government broke up AKP government came to power in Turkey in the 2002 early elections that was followed by the victory of CTP in the 2003 general elections in the north. AKP Government conducted a balancing strategy in the north; while Erdoğan confronted Denктаş by accusing him with stubbornness to settle for a federal solution, other leading names in the party declared their support to Denктаş. With this strategy, the AKP Government aligned with the opposition movement in the north and the positioned itself against the so-called *status quo* regime by raising its criticism against it.

5. Starting after 2004, the fifth period might be referred to as the “deep neoliberalisation” on the island, and is an ongoing process that was initiated by the demise of the EU agenda in the north after the failure of the Annan Plan, and followed by the kick-starting of the so-called austerity measures to the north and the financial crisis in the south. Although the neoliberal agenda was introduced to

the north by the Özal Government after 1983, during which the “infrastructure” of the agenda was established by a series of initiatives such as the liberalization of the financial system and deindustrialization, the 2000s were a period during which the neoliberal agenda was put into effect by privatizations, deregulation and austerity measures. The neoliberalisation of the TC economy which started by the 1980s by deindustrialization, was followed by mass privatizations and the shrinking of the state sector that gained impetus by the mid-2000s. The late 2000s was marked by the fading of the “Europeanization” discourse, however the EU’s neoliberal agenda gained impetus both in Turkey and in the north concurrently. The neoliberal transformation on the TC and the GC States, when the EU membership, financial crises, privatizations, deregulation of the state and hydrocarbon discoveries first deepened the divide and then led to the protraction of the Cyprus problem by the late 2010s. Despite the major changes in the relations of production on the island by the 2010s, the Cyprus problem was stuck in the inertia of the negotiation process, in which there was hardly any change in the position of the actors, until Anastasiades coined the idea of a loose federation model that initiated the discussions on a two-state solution.

As capitalism is expanding on an uneven scale globally and in the region, it brings the necessity to analyse its development within and between the national contexts by using specific concepts and counter strategies. In this regard, UCDC perspective bring light not only to the regional competition that had become increasingly determinant over the trajectory of the TC statehood struggle, but also to the class strategies that keep conditioning the relationship of the north with Turkey and with the RoC. Although it is not officially on the table yet, the two-state solution started a lively discussion on the the autonomy of the TC State and its future forms and functions. This pointed that the TC statehood struggle, which was practically confined to the ideological space and to the discussion over north’s recognition for a long time, would require an alternative set of conceptualizations and epistemology such as relative autonomy and internal relations to better understand its place within global capitalism as well.

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## APPENDICES

### A. THE DESIGN OF THE FIELD STUDY

This thesis offers a Marxist relational approach from a state-society relations perspective and aims to provide an alternative approach to the classical actor-based, security/market oriented, “motherland-babyland” narrative analysis of the Turkey-TC State relationship. In this regard it shares the findings of a longitudinal field study conducted with the opinion leaders of the Turkish Cypriot Community (TCC) in the northern part of Cyprus between 1999-2016. The research aimed to analyze the changing narratives and the positions of the opinion leaders of the TCC regarding the recent developments within a historical perspective for the years between 1999-2016, focusing on the period that the onset of the Annan Referenda on the island coincided with AKP coming to power in Turkey in a critical juncture that transformed the state-society relations in the north. A longitudinal study was conducted, making interviews with the opinion leaders in the north for grasping the changing dynamics of the state-society relations and the relations of production within the TCC that would help us to point to the substances of the “dependency” narrative as well as the underlying material conditions which determined the critical junctures in this relationship.

This longitudinal research study was initiated by the Center for European Studies in METU<sup>102</sup>. The research process is composed of a series of Scientific Research Projects (BAP-Bilimsel Araştırma Projesi) that initially conducted a survey with a sample of 1000 household in the north and then continued with a TÜBİTAK project<sup>103</sup>. Meanwhile the research team started to make in depth interviews with the

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<sup>102</sup> This study was conducted by Prof. Dr. Ali Gitmez, Prof. Dr. Atila Eralp and Assoc. Prof. Galip Yalman at the Centre for European Studies in METU starting in 1999.

<sup>103</sup> Avrupalılaşıma Sürecinde Kıbrıs'ta Değişim, TÜBİTAK, Proje No. 105K263.

TC politicians, journalists, businesspeople, representatives of the trade unions, head of chambers, bureaucrats and with the members of the academia.

The field study started in 1999, six months before the financial crisis broke up in the north and the Helsinki EU Summit gave Turkey the candidate status and concluded that "a political settlement will facilitate the accession of Cyprus to the European Union."<sup>104</sup> This new era, starting after the Helsinki Summit in 1999 and the onset of the Annan Plan accordingly in 2002, was marked with the inauguration of the Europeanization discourse and it grew in parallel to the re-endorsement of the neoliberal agenda with a "human face" under the EU guidance, following the outbreak of the financial crises simultaneously in Turkey and in TRNC.

I joined the research team in 2013 and began to participate in the interviews. We continued with the semi-structured in-depth interviews with more or less the same sample group (new interviewees were added every year), and the same conceptual framework, however besides fixed topics that were repeatedly asked, new questions were added that were shaped according to the changing conjuncture on the island.

This thesis used the findings of this longitudinal research project, and, although my research and field study cover the period after 2013, I had the opportunity to compare my findings with the previous years' findings, which allowed this thesis to cover the period between 1999 and 2019 and elaborate on the decades-old "change" phenomenon in the north. In addition to this, I also made interviews with the GC politicians and with bureaucrats in the EU Commission's TC Task Force in Brussels.

Apart from this longitudinal research, I also used the findings of another project that I participated during my fieldwork as a researcher, in cooperation with the METU and University of Cologne between 2015 and 2017. "Turkey as an Energy Hub" project focused on the potential role of Turkey as an energy hub in the region. One of the key findings of this project was the argument widely shared by the interviewees that; apart from the technical requirements for becoming an energy hub which Turkey has a long way ahead to meet, Turkey also needs to develop regional alliances and good neighborhood relations in order to become a reliable energy hub. The Cyprus problem was regarded as a critical issue by the interviewees in Turkey, however the

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<sup>104</sup>Helsinki European Council 10-11 December 1999 Presidency Conclusions, I-9 (b), [https://www.europarl.europa.eu/summits/hell\\_en.htm](https://www.europarl.europa.eu/summits/hell_en.htm), retrieved on 16.02.2020.

interviewees in the EU didn't make reference to the solution of the problem as a precondition for becoming a hub but rather prioritized the TANAP. These interviews were conducted with the energy specialists and with the executives who are working in the private and the public sectors in Brussels and in Ankara as well as with the DG Energy of the EU Commission. These findings were partly used in the last chapter on the "Carbonization of the Cyprus Problem".

The goal of the longitudinal field study was to focus on the so-called "change" narrative in the north, which the Turkish Cypriot Community was posited as going through intermittently between 1999-2019 from an agency/structure relationship perspective. The study focused on the state-society relations in the north, the statehood struggle of the TCC and its reflections on the Cyprus Problem after the refusal of the Annan Plan. As the thesis study progressed into the late 2010s, the discovery of the hydrocarbons offshore of Cyprus and rising tension in the SEM due to the conflict arising between Turkey and RoC became a predominant issue in the Cyprus negotiations. After the 2010s, the new state of affairs on the island was shaped by the hydrocarbon discoveries in the SEM, and demarcated, making a reference to Harvey (2003), the rise of new imperialism in the form of accumulation by dispossession (p. 91); the natural resources of Cyprus, that belonged to the "divided" people of Cyprus, were to be extracted by the global oil/gas merger companies without the consent and the participation of the TCs in the decision-making processes.

In this regard the interviews in the north aimed to;

- i) Find out how the TC expectations and narratives were shaped by the Annan Plan process after the 2000s and how these narratives and expectations transformed after the failure of the Referenda in 2004.
- ii) Illustrate the changing state-society relations in the north and uncover Turkey's and the EU's role as the neoliberal anchors on the island after the financial crisis hit the north in 1999, and then the south in 2013.
- iii) Point out the continuities and discontinuities of the TRNC-Turkey relationship under the on-going Cyprus negotiation process.
- iv) Investigate the role of the hydrocarbon discoveries around the island on the current dead-lock of the Cyprus problem.

In an effort to draw a contextual framework, the research questions were designed flexibly to make an analysis of the state and society relations in the north that would point to the peculiarities of the TC experience and its historical formation culminating into a capitalist type of State after the 1970s.

Within this framework, this thesis aims to evaluate these relations and the TC social formation within the wider framework of the Cyprus Problem in six chapters. In this framework, some basic questions provided a starting point for developing the theoretical framework of the thesis;

- A) What is the reflection of uneven and combined development of capitalism of the TC and the GC economies, and through which mechanisms they are connected before and after the divide in 1963?
- B) How did the capitalist development model(s) of Turkey come to define the formation of a TC State in the north after 1974 and 1980, and how did this relation transform the statehood struggle of the TCC?
- C) Why does the TRNC-Turkey relationship come to be defined as a “dependency relation”? What is the material basis of this categorization? Does it denote a political, economic or ideological reliance? What are the mechanisms that produce and reproduce this narrative and to what extent they are determinant on the statehood struggle of the TCC?
- D) What are the peculiarities of the TC State as a capitalist State formation?
- E) What are the legislative and institutional mechanisms of the neoliberal transformation of the TC state and society after the 1980s?
- F) How did the onset and the aftermath of the Annan Plan re-shape the intra-class alliances and their conflicting interests in the north during the 2000s?
- G) How did the hydrocarbon discoveries in the SEM change the trajectory of the Cyprus negotiations and the course of the TRNC-Turkey relationship?

Qualitative Research Method (QRM) was used in order to provide greater flexibility for the research, which also exposes the researcher to a variety of approaches to be used during the study. The team asked open-ended, unstructured questions to the interviewees, to provide them a wider and flexible context to convey their opinions. Although this flexibility provided greater opportunity for making elaborations on the interconnectedness between different topics, it resulted in “long” answers that required

a re-categorization. This lengthy practice is a key part of the learning process, as an important target of the interviews was to gather insider information and to get into the story “behind the scenes”. The answers to these open-ended questions provided not only information about the subject matter, but also the thoughts, feelings and the knowledge of the interviewee regarding the concrete context.

According to Burgess (1989), “the way in which researchers establish themselves and their projects will influence the pattern of events that occur in the field, the degree of access that they are given, and the relationships that they establish with their informants.” (p. 23). The research team became friends with the interviewees in twenty years however the team avoided giving insight and making comments on the interviewees’ answers. The interviewees were assured that their names would be kept anonymous, still some of the interviewees requested some parts of the interviews to be kept “off the record”. The interviews were conducted in an informal environment but voice recordings were not allowed with only a few exceptions hence in order to minimize the misconstruction of the narratives, two people from the research team were taking down the notes for cross-checking the answers after the interviews.

Qualitative Data Analysis (QDA) was used for the analysis of the data collected during the fieldwork and the interviews. There are many approaches regarding QDA, however Miles and Huberman (1994) gave a sequential list of what they describe as “classic set of analytical moves”;

- Giving codes to the initial set of materials; interviews, document etc.
- Adding comments and reflections such as “memos”.
- Trying to identify similar patterns and differences between sub-groups.
- Taking these patterns out to the field to help focus the next group of data collection.
- Gradually elaborating a small set of generalizations from the data.
- Linking these generalizations to a formalized body of knowledge in the form of constructs or theories.

The interviews were categorically divided into 6 main topics, for covering the diplomatic relations, relations of production, class structure and the state of affairs of the economy in the north. However, these topics were closely related to each other, appearing as sub-categories of one another most of the time, hence some answers

covered two or more questions in principle. After this process, the answers were divided into sub-categories;

- Relations with Turkey/GCs/EU/.
- Cyprus problem and the negotiation process; Relations with the UN/GCs/EU.
- Relations between the political parties, trade unions, chambers, bureaucracy in the north.
- Financial crises on the island.
- Privatizations in the north.
- Hydrocarbon discoveries in the SEM.

A thorough reading of the historical background of the Cyprus problem was essential in order to employ a dialectical approach. A literature survey was made prior to the field study, in order to link the political economy dimension amid a historical background. The interviews were analysed against this historical and theoretical background, in order to demarcate the material conditions of uneven and combined development of capitalism on the island based on a literature review of the theoretical framework. Mason argued that (2002) an “a priori” strategy would limit the researcher in a qualitative research design, henceforth such decisions should be made in the beginning of the process (p. 24). According to Mason, “This is because qualitative research is characteristically exploratory, fluid and flexible, data-driven and context-sensitive” (ibid.). On the other hand, Burgess (1989) argued that “the data that is gathered during field research depends on the actions and activities of the researcher and the theoretical framework that is adopted” (p. 23). In this regard both the primary and the secondary sources were used in the study; press releases, legal texts, transcription of parliamentary sessions. social media archives, official agreements, intercommunal negotiations and agreements, Turkey-TRNC agreements, EU Council decisions, ECJ rulings, UN resolutions, personal letters, press releases and newspapers.

In this regard, this thesis also used descriptive statistics covering the macro-economic indicators in the TRNC provided by the State Planning Organization (SPO), in order to identify the “impact” of Turkey’s aid on the TRNC economy, which would help us to evaluate and also challenge the material basis of the so-called “financial

dependency” narrative. TRNC’s trade relations with Turkey, the composition of Turkey’s financial aid, as well as TRNC’s trade relations with the south were illustrated by tables using the data provided by the SPO between 1977-2018.

## B. THE ORGANIZATION OF THE INTERVIEWS

### *The field study;*

The field study was conducted in three rounds of interviews in the north; in May-June 2013, in November 2014 and in March 2016. There was a sharp contrast between the interviews that were made before and after the Gezi Park Protests in Turkey in 2013; while the pre-2013 interviews were supportive of AKP's foreign and economic policy, the 2014-2016 interviews were dramatically different in the sense that they regarded AKP's "push" for a mixed model, that combines the neoliberal agenda with political Islam in the north, and the TCC's statehood struggle as two "irreconcilable" goals. One of the journalist interviewees claimed in the 2013 interview that AKP was the strongest political party in Turkish history and Erdoğan was the strongest leader after Atatürk, making a huge progress in Turkey's economic development, which he believed would contribute to the solution of the Cyprus problem on behalf of the TCC. However, he argued in the following 2014 interviews that the AKP governments instrumentalized the EU membership narrative to forward the neoliberal austerity measures to the north in parallel to the "Islamization" of the TCC by weakening the influence of the so-called Kemalist" bureaucratic "elite" both in TRNC and in Turkey, with the ultimate goal to enforce the neo.

### *29<sup>th</sup> of May-1<sup>st</sup> of June 2013:*

This period started with the outbreak of the financial crisis in the south. As a result, the relations between the north and the south was weakening which was also reflected to the shrinking of trade, employment and business relations between the two communities. The political and economic developments that followed Cyprus's EU membership were still debated in the north, emphasizing on the so-called "historic opportunity" missed by the refusal of the referenda by the GCs, who were in the midst of a severe financial crisis. The Gezi Protests had just sparkled in Turkey and AKP was still regarded in the north as a powerful actor for the statehood struggle of the TCC in favour of a federal solution. The privatization agenda was kick-started in the north

but it was not regarded as an impediment towards a federal solution, to the contrary, the shrinking of the public sector was regarded necessary in order to fight with the so-called “political patronage” regime and “unproductive labour” in the north. The same discussions were conducted in the south after the financial crisis erupted (Faustmann 2010)<sup>105</sup>. The interviews in 2014 dramatically changed in this respect; after the Gezi protests started in May 2013, the AKP governments increasingly used authoritarian measures and narratives in the north and in Turkey in order to stop the ascending criticism and the protests against these measures. The hydrocarbon discoveries were regarded as a new development, despite the fact that the first discovery expeditions were completed in the late 2000s. The TCs were rather cautious to welcome this new development with enthusiasm, as they suspected that it may hinder a comprehensive solution. The financial crisis broke out in the south between 2011 and 2013 hence the GC Government under Anastasiades, who replaced AKEL’s Christofias in the February 2013 elections, used the hydrocarbon politics and regional alliances as a political leverage to help the country to recover from the austerity measures imposed by the EU troika. The interview questions were largely a continuation of the interviews conducted by the METU CES research team since 1999, and most of the interviewees had been participating since then, hence a pattern of questions was already formed however open-ended questions allowed them to elaborate on the recent developments independent from the past interviews.

#### *20-22 November 2014*

The Presidential elections were to be held in April 2015 in the north, and the candidates were running their election campaigns, in which the solution of the Cyprus Problem under a federal state was the main theme. The relations with Turkey were growing tense as Turkey was decisive in the implementation of the so-called IMF-like “austerity measures” for the shrinking of the public sector and privatizations including the administration of the water to be brought by Turkey to TRNC. Moreover, the Gezi protests in Turkey was supported in the north as the TC opposition had experienced a similar uprising in the early 2000s. The hydrocarbons issue had an increasing

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<sup>105</sup> Faustmann is highly critical of what he called the political patronage regime in Cyprus, which led to a ‘Cyprus Consensus’ between political parties, individual politicians, a large number of citizens and trade union leaders as well, when attempting to explain the costly size of the broad public sector. In a comparative context, he comments that Cyprus is no exception to other South European countries.

importance and the interviewees raised their concerns over the issue. Anastasiades was the new President in the south and as he had been supporting the Annan Plan back in 2004, the TCs were hopeful that a settlement would come about in the near future.

***15 December 2014***

An interview was made with the Task Force for the TCC in Brussels. The Task Force was responsible for the management of the “Aid Programme for the Turkish Cypriot Community” since it started its operations in 2006 for encouraging the economic development of the TCC, and in preparation for the *acquis* following a comprehensive solution of the Cyprus problem. The Aid Programme was established through Council Regulation (EC) No 389/2006 ("the Aid Regulation")<sup>106</sup>. The interview outlined the importance and the aim of the aid and the official perspective of the Commission that the north’s economy and institutions shall be prepared for a future unification, moreover the importance of the hydrocarbons was underlined as a catalyst on the island.

***22-24 March 2016***

Mustafa Akıncı was elected as the President in the 2015 elections in the north. Akıncı wasn’t regarded as a strong candidate because he didn’t have a mass political party support in the first round, so his victory came as a surprise. As he was known to be a devoted federalist, his success brought by a positive atmosphere regarding the settlement of the Cyprus problem under the UN criteria. The interviewees were growingly concerned by the unilateral actions of the GC Government and involvement in the SEM for developing new hydrocarbon fields however most of them regarded the election of Akıncı as a “promising” development. Moreover, the rise in the number and the influence of Islamic groups in the north increased the TC’s concerns on the so-called “Turkeyization” of the TC culture and economy. The privatizations in the north, including the administration of the drinking water brought to the north via undersea pipelines by Turkey, was under criticism by CTP and the trade unions, and the coalition government was under pressure from Turkey to sign the Association protocol.

***23 November 2018***

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<sup>106</sup> The EU's role in the Cyprus Settlement Process: Questions and Answers, [https://ec.europa.eu/commission/presscorner/detail/en/MEMO\\_17\\_52](https://ec.europa.eu/commission/presscorner/detail/en/MEMO_17_52), retrieved on 16.02.2020.

Interviews were made with a number of GC politicians on the GC sovereign crisis, the Cyprus negotiations in Crans Montana as well as the hydrocarbon conflict in the SEM. The impact of the 2011-2013 crisis in the south was still destabilizing the GC economy, despite the Commission's 2017 report that the crisis was over in the south. GC President Anastasiades was criticised for "running away" from an "almost complete" solution in July 2017 in Crans Montana, which was also stated by the UN GS. The GC Government made a joint declaration with the leaders of Greece and Egypt in November 2017, in which they prompted a delineation of the maritime zones between them despite the protests from Turkey. A naval confrontation began in the SEM hence, a federal solution was becoming. The Hydrocarbons issue was far from being a "catalyser" for a solution; in October 2018 Anastasiades forwarded an alternative proposal which he called "a loose federation" for abandoning the UN's bizonal/bicommunal federation model. Anastasiades' maneuver left Akıncı isolated in his federalist front, as for the AKP Government this meant the end of the federal solution, and for the GC Government the new state of affairs in the SEM had primacy over the negotiation process.

### C. THE FINDINGS OF THE INTERVIEWS

In order to weigh the changing role of the internal and external actors on the Cyprus problem and the forms of TC's struggle for statehood, the questions were formulated around three axes;

- The TC State's relations with Turkey.
- TCC's social relations; class alliances, party politics, bureaucracy.
- The TC State's relations with the RoC/EU/UN.

In this framework, questions were formulated in order to have a closer look at the current state of affairs on the island and the TC perception towards Turkey and the successive Turkish governments. After the Annan Plan, the TCC was illustrated by the Turkish mainstream media as a homogeneous community that was divided into two major stereotypes of "patriots" siding with the motherland Turkey who support a two-state solution, and the "traitors" siding with the GC side who favor a federal solution.

However, the interviews pointed that the TC opposition's opinion towards Turkey was quite fragmented and contextual. While some of the interviewees perceived Turkey as an invader country due to the presence of the military troops in the north and believed that the economic dependency reinforced by Turkey's financial aid and rejects any kind of interference to the TRNC affairs by Turkey, others underlined Turkey's positive role as a guarantor state and economic donor, however regarded a federal solution as the only "way out" from the backsliding of the economy and democratic rights for both the TRNC and for Turkey. While the business groups supported greater economic integration with Turkey after the 2010s, they wanted Turkey to loosen its grip over the TC economy prior to the Annan Plan. Hence it is difficult to make a generalization of the actors' class positions, which is not a fixed position and which changed in time towards the GCs and Turkey, but we shall rather regard their class constituencies as the primary determinant factor within the political struggle and *vis-à-vis* Turkey and the GCs. On the other hand, there is a strong rupture between the pre-2004, post-2004 and post-2013 narratives of the actors, regardless of their class practices, as the dramatic change in the conjuncture after the Annan Plan

resulted in the redefinition of class interests which made it growingly difficult for the actors to define a fixed class position and stick to their class interest.

This point overlaps with Poulantzas's affirmation that the "classes only existed in class struggle" (1975: 14). The TC business groups transcended their traditional roles and became agents of change during the Annan Plan Referenda process and supporting a federal solution. They were in the same front together with Akıncı during the Annan Plan and insisted that Turkey should be less involved in the decision-making processes in the north. However, after the GC President Anastasiades signalled in 2018 that a federal solution was not their only option and coined the idea of a loose federation, which was supported by the two-state solution of Turkey, the business groups were no longer a part of the pro-EU alliance and they sided with AKP in defense of a two-state solution against TC President Akıncı.

From another perspective, while Mustafa Akıncı repeatedly argued before becoming the President in 2015 that the President of the TC Central Bank shall be appointed from within the suitable TC candidates, after 2015, surrounded by the winding negotiation process and domestic problems, he couldn't change this practice despite criticizing it several times after being elected as the President. The same contradiction arose for Talat's position; before coming to power, CTP criticized Denktaş's stubborn behaviour as the main reason behind the dead-lock in the Cyprus Problem. However, soon after engaging in the negotiation process as the newly elected TC President, he underlined that the *status quo* was not actor-oriented and that he felt desperate in his efforts for settling a federal solution against the stubbornness of the GC side under Papadopoulos, by declaring after an intercommunal meeting that "the GCs Denktaşified me".

On a similar basis, the leftist trade unions were repeatedly criticized in the interviews for making alliances with the UBP governments, to increase the amount of the financial aid from Turkey in order to raise the wages and to get the bonus payments. In a similar fashion, they were also criticised for putting pressure on the CTP governments after the Annan Plan process for acting independently and resisting AKP's neoliberal agenda, which was weakening the CTP Governments' position within the political structure. In both cases the trade unions were regarded as the most

important social actors that caused the dependency of the north on Turkey, and to the protraction of the Cyprus problem.

Obviously, it would only provide a limited perspective to consider these changing narratives just as the “changing opinions” of the actors. They rather point to changes in their class positions due to the changing conjuncture and the balance of forces in the north. In this regard the TC context shall be analyzed by making reference to Poulantzas’s definition of social classes in his earlier work. According to Poulantzas (1975), although the ideological positions and political struggle of the actors may correspond to their class predispositions, the class determination rather describes a certain position of the “social agent” in the process of division of labour independent from the will of these agents;

“This structural determination of classes, which thus exists only as the class struggle, must however be distinguished from class position in each specific conjuncture - the focal point of the always unique historic individuality of a social formation, in other words the concrete situation of the class struggle. In stressing the importance of political and ideological relations in determining social classes, and the fact that social classes only exist in the form of class struggle and practices, class determination must not be reduced, in a voluntarist fashion, to class position.” (pp. 14-15).

Poulantzas defined social classes as “defined principally but not exclusively by their place in the production process, i.e., in the economic sphere” and argued that they “coincide with class practices, i.e., the class struggle, and are only defined in their mutual opposition”. As he underlined, “Classes exist only in the class struggle”, and this structural determination of classes in his earlier work, “must be distinguished from class position in each specific conjuncture” (ibid.). While early works of Poulantzas posited the “power bloc” as separate from the political instance in a structuralist fashion in “Classes in Contemporary Capitalism”, he reiterated that it is a hegemonic category within politics determined by class struggle and he insisted that class interest is distinct from class position as “class determination is not reducible to its class position”;

“A social class, or a fraction or stratum of a class may take up a class position that does not correspond to its interests, which are defined by the class determination that fixes the horizon of the class's struggle. The typical example of this is the labor aristocracy, which in certain conjunctures takes up class positions that are in fact bourgeois. This does not mean, however, that it becomes, in such cases, a part of the bourgeoisie; it remains from the fact of its structural class determination, part of the working class.” (1975: 15).

The changing narrative in the north regarding relations with Turkey, with the EU and with the GCs shall be assessed within this framework, without omitting the fact that while the actors' class positions may be contextual, their class disposition was determined by their practices within the statehood struggle, that was also conditioned by the involvement of global/regional actors to the problem on the island. The EU was blamed as the major reason behind the current dead-lock on the island and it was often underlined that there was little chance to solve the problem with the EU which was no longer regarded as an impartial actor. However, there was also a positive perception and expectation towards becoming an equal member as it was regarded as the "right" of the TCC. This ambivalence towards the EU was due to their mistrust whether the GCs would "allow" Turkey and the TCs to become a member, however the pressing economic difficulties were leading to a more positive attitude towards the EU. After the financial crisis hit the south there was a certain confidence in the north on the AKP Government's economic policies, however this period ended when the Troika decided to bail-out the banks in the south and the GC economy relatively recovered in the 2015-2016 period.

There is need for a more detailed analysis of the TCC's expectations and opinions by interviews after the two-state solution became the dominant narrative after 2019, which was not touched upon in this thesis due to the outbreak of the Coronavirus pandemic, leading to a lock-down in 2020. The end of Akıncı's Presidency was quite polemical as there was strong evidence and belief in the north that there was direct intervention by the AKP Government to the Presidential elections in 2020 to prevent a second term by Akıncı. Ersin Tatar was elected as the new President who repeatedly underlined in many occasions that he was ready to co-operate with Turkey and that he supported a two-state solution.

## D. CURRICULUM VITAE

### NEYYİRE NİLGÜN ÖNER TANGÖR

#### RESEARCH INTERESTS

Critical Political Economy, State Theory, Energy Politics, Turkey- EU Relations, Modern Turkish Politics, Contemporary Cyprus Politics.

#### EDUCATION

**2011-2021** PhD, Department of Area Studies – Political Science, Middle East Technical University.

Thesis Title: Struggling for Statehood in The Context of a Protracted Conflict: Political Economy of The Turkish Cypriot Case. (BAP-07-03-2013-024).

**2001-2004** MS, Department of European Studies, Middle East Technical University.

**1994-1999** BA, Department of International Relations, Bilkent University – Honors Student.

#### WORK EXPERIENCE

- **DECEMBER 2002 - MAY 2014**

#### **Middle East Technical University – Computer Center (Programmer)**

##### **Job Title - Description:**

Seminar/Education Supervisor: Organizer and instructor in the computer educations for the METU academic staff, personnel and computer coordinators of the departments - MS Office and Open Office Courses, Open-Source software, Computer Center Services, Internet, Linux.

Editor and translator: Computer Center Bulletin, Computer Center annual activity reports, Computer Center Services web pages. Preparing documents, booklets for the METU Students and Personnel on Computer Center's services. Organizing the "Linux Days" in METU in cooperation with the Linux Users Association. Organizing the Internet Conferences with the support of the Internet Technologies Association in METU and Internet user seminars in Ankara's district elementary schools.

##### **METU Integrated Information System:**

- Took part in University Ontology preparation workgroup
- Took part in Data Base Dictionary interface preparation workgroup.
- Took part in the BAP user preparation interface workgroup.

- Took part in the ISO 27001 Security Certificate preparation workgroup.

- **JUNE 2014 – OCTOBER 2016**

- **Turkish Grand National Assembly – Republican People’s Party Group**

**Job Title - Description:** Chief advisor to the Vice President for the RPP’s Domestic and Overseas grassroots organizations.

- Preparing the Domestic and Overseas grassroots organizations for the 2015 General Elections in May-June and in the November 1<sup>st</sup> Early General Elections.
- Preparing the relevant parts of the 2015 Election Charter.
- Ballots box organizations (Domestic and Overseas) during the elections.
- Preparing Analyses Reports for the Elections (Province/District based).
- Making research and policy analysis.
- Preparing parliamentary questions.

- **OCTOBER 2014 → METU Center for European Studies**

Researcher

**PUBLICATIONS**

**Articles**

Öner, Nilgün and Eralp, Atila (2017). “Turkey’s Hub Strategy Conundrum: Energy Debate Meets Foreign Policy”, in *Turkey as an Energy Hub; Contributions on Turkey's Role in EU Energy Supply*, Schröder et al., (eds). Nomos, pp. 221-237. 10.5771/9783845282190-221.

Öner, Nilgün and Schröder, Mirja (2017). “Turkey as a Future Energy Hub - A Comparative Analysis of the Hub Narratives in Turkey and in the EU”, in *Turkey as an Energy Hub; Contributions on Turkey's Role in EU Energy Supply*, Schröder et al., (eds). Nomos, pp. 185-203. 10.5771/9783845282190-221.

Eralp, Atila and Öner, Nilgün (2020). Avrupa’nın Geleceği Tartışmaları ve Çoklu Kriz Ortamı Üzerine, (upcoming in 2021) in an edited volume; Galip Yalman’a armağan, “*Karşılaştırmalı Perspektiften 21. Yüzyılda Türkiye’de Devletin Dönüşümü: Otoriterleşme, Kriz ve Hegemonya*”.

**CONFERENCES**

- METU IR Conference, 12-14 June 2013 “Turkey in the World”

“Struggling for Statehood in the Context of a Protracted Conflict: The Prospects for Change and Continuum for the Turkish Cypriot Community after 2004”.

- TSBD, 13<sup>th</sup> Social Sciences Conference October 2013 Ankara:  
“Kuzey Kıbrıs Türk Toplumunu’nun Devlet Olma ve Değişim Mücadelesi”.
- METU Center for European Studies Workshop, 19-20 June 2014,  
“Turkey’s Role in Global Energy”.
- Sabancı University, 29 September 2015  
“Regional Politics Within a Global System: Turkey as An Energy Hub”.
- WOCMES, 18-12 August 2014 Ankara:  
“Turkey’s Role as an Energy Hub: Scopes and Limits of Action in the Eastern Mediterranean”.
- IIPE, 2017 September 13 - 15, 2017 Berlin: “The Political Economy of Inequalities and Instabilities in the 21st Century”  
“Quest for Statehood: An Analysis of Power Relations in the TRNC”.

### **MEMBERSHIP**

Turkish Social Sciences Association.

### **SKILLS**

Foreign Languages:

- English: Fluent (in speaking, reading and writing), KPDS Grade A.
- French: Intermediate.

## E. TURKISH SUMMARY / TÜRKE ÖZET

Tez yazma süreci 2014'te başladığında en büyük zorluk, Kıbrıs sorununa ilişkin okunması gereken çalışmaların çokluğu değil, soruna dair benzer argümanları ve çıkarımları tekrarlamaktan kaçınmaktı. Öte yandan, Kıbrıs sorununun ve KKTC-Türkiye ilişkisinin çoğunlukla geleneksel bakış açısıyla incelenmiş olması meseleye dair yeni tartışmalar açmak gerektiğini de gösterdi. Kıbrıs sorunu ağırlıkla karşıt milliyetçiliklerin çatışmasından kaynaklanan uzun süreli bir çatışma olarak, KKTC-Türkiye ilişkisiyse merkez-çevre arasında gelişen bir bağımlılık ilişkisi olarak incelenmişti. Uluslararası platformlarda kuzeyin fiili veya egemen bir devlet olması etrafında devam eden tartışma ve bu sebeple kuzeyde ortaya çıkan kısıtlamaların nasıl üstesinden gelineceğine ilişkin “acil” sorunlar alternatif bir perspektifin gelişmesini zorlaştırmıştır. Meselenin yarattığı siyasi gerilim ve ekonomik bunalım yapılan çalışmalardan genel anlamda sorunun çözümünü kolaylaştıracağı varsayılan pratik öneriler sunmaları beklentisini doğurmuştur. Ancak bunun için öncelikle meselenin tüm boyutlarıyla ve gerçekçi bir epistemolojiyle yeniden ele alınması, dolayısıyla Kıbrıs Türk devlet olma mücadelesinin sınıf analizi bakış açısıyla yeniden değerlendirmesi gerekmektedir. Literatürde geleneksel bakış açılarını eleştirenler tarafından dahi KT Devleti kapitalist bir tarihsel toplumsal oluşum olarak teorik çerçeveye oturtulmamış ve Türkiye ile ilişkisi de bu bağlamda ele alınmamıştı. 1980’lerden sonra Kıbrıs Türk (KT) Devleti-Türkiye ilişkisi merkez-çevre arasında gelişen bir bağımlılık ilişkisi olarak incelenmiş ve bu ilişkide kuzeyin rolü ağırlıklı olarak “uydu devlet”, “yavru vatan” ve benzeri tanımlamalarla çizilmiş ve ilişkinin ekonomik boyutu piyasacı bir yaklaşımla ve taraflara getirdiği fayda-maliyet çerçevesinde analiz edilmiştir.

Kıbrıs sorunuysa etnik çatışma boyutuyla ön planda olmuş ancak bir devlet mücadelesi ve kapitalizmin eşitsiz ve bileşik gelişimi (KEBG) vakası olarak teorik kapsamda çalışılmamıştı. Kıbrıs sorunu ile ilgili çalışmaların çoğu hem Kıbrıs sorununu hem de KKTC-Türkiye ilişkisini oluşturan ve/veya şartlandıran siyasi mücadeleler, ekonomik krizler, stratejik çıkarlar ve etnik çatışmalar gibi kritik bir dizi

önemli meseleyi kapsamaktadır ancak bu konuların birbirleriyle bağlantısına işaret eden çalışmaların sayısı nispeten kısıtlıdır.

Kıbrıs sorunu uzun zamandır uluslararası ilişkiler disiplininin incelemesi altında, özellikle de bu “uzun süren toplumsal çatışmaya” (Azar, 1999:146) bir çözüm bulmaya ve/veya bir açıklama getirmeye çalışan güvenlik ve uluslararası hukuk çalışmaları alanı altında yerini buldu. Ancak, BM'nin en uzun süreli barış gücü misyonlarından birine ev sahipliği yapmasına rağmen bu “küçük ada” kendi bölgesesindeki politik/ekonomik rolünden çok, büyük güçlerin “stratejik oyunu” içindeki jeopolitik “işlevi” bakımından ilgi odağında oldu. Bu durumda bile adanın önemi “gerçek olmaktan çok hayali” (Varnava, 2009: 3) olarak tanımlandı.

1974'ten sonra etnik ve dini çatışmaların şekillendirdiği sosyo-kültürel ortam ve sorunun temel bir bileşeni olarak milliyetçiliğin yükselişi üzerine yüklüce bir miktar literatür birikmiş olsa da (bkz. Bryant 2004), sorunun ortaya çıkmasında rol oynayan maddesel koşulların ve kapitalist rekabetin Kıbrıs Türk ve Kıbrıs Rum toplumlarının devlet mücadelelerine ve yükselen milliyetçilikler üzerindeki belirleyici etkisine görece ilgisiz kalındı. Görünüşte maddesel koşullara yönelik bu ilgisizliğin iki ana nedeni ve bir de sonucu vardı; ilk olarak, ada ekonomisi genel anlamda “basit bir ekonomi” olarak karakterize edilmişti (Thorp, 1978) ve özelde Kuzey'in ekonomisi de üzerindeki ekonomik/siyasi kısıtlamalarla başa çıkmak için pratik politika tavsiyelerine ihtiyaç duyan “küçük bir pazar” ekonomisi (Warner ve Akis 1998:1) olarak incelenmiş ve bu “tavsiyeler” yeterli görülüyordu. İkinci ve muhtemelen esas olarak, 1960'larda ve 1970'lerde dökülen kan yüzünden her iki taraf da toplumsal sorunlarını ve hesaplaşmaları bir kenara bırakamadı ve böylece Kıbrıs sorununun etnik ve dini boyutları 1990'lar ve 2000'lerde de ön planda oldu. Bu iki durumun sonucu olarak adada yaşanan siyasi tıkanıklık 2010'larla birlikte global kapitalizmin bölgedeki kaynakların paylaşımı üzerine mücadelesi için işlevsel bir hal aldı ve adadaki bölünmüşlüğü bir engelden ziyade kolaylaştırıcı bir faktöre dönüştürecek, onu sürdürülebilir hale getirecek çözümler ön plana çıkarıldı.

Bu bağlamda soruna yönelik politik ekonomi perspektifi, adada yükselen milliyetçiliklerle aralarındaki ilişkisi açısından dahi, büyük ölçüde ihmal edildi ve bu ihmal, 2000'lerin ortalarından sonra Kıbrıs'ta ortaya çıkan dört büyük gelişme adadaki neoliberal dönüşümü analiz etmeyi zorunlu kılan kadar sürdü. Birincisi, Kıbrıs

adasının tek temsilcisi olarak Kıbrıs Cumhuriyeti'nin (KC) AB üyeliğine kabul edilmesinden sonra Kuzey ve Güney ekonomileri arasındaki uçurum iyice belirgin hale geldi. İkinci olarak, Kıbrıs Cumhuriyeti, 2008 küresel mali krizinin ardından gelişen Avro Bölgesi krizinin bir parçası olarak kendi devlet borç krizini yaşadı ve bu kriz Kıbrıs sorununun da tıkanmasına yol açtı. Üçüncüsü, kuzeydeki kamu sektörünü küçültmek için 1980'lerde başlatılan KİT'lerin özelleştirmesi gündemine AKP hükümetleri tarafından hız verildi. Ve son olarak, adanın etrafındaki hidrokarbon kaynaklarının keşfiyle beraber müzakere süreci diplomatik bir maratondan, Güney Doğu Akdeniz (GDA) bölgesindeki doğal kaynakları sömürmek için taraflar arasında jeopolitik çekişmeler çıkmasına yol açan askeri bir çatışmaya doğru yöneldi.

Tez kapsamında yapılan alan çalışması başladığında, kuzeydeki kanaat önderleriyle yapılan görüşmeler ilerledikçe mevcut geleneksel yaklaşımlar karşısında alternatif bir okuma ihtiyacı yapmak gerektiği ortaya çıktı. Bu amaçla, Kıbrıs sorununun, kapitalizmin adadaki eşitsiz ve bileşik gelişiminin koşullandırıcı etkisi altında değişen toplumsal üretim ilişkileri tarafından şekillenen ve aynı zamanda bu ilişkileri şekillendiren bir devlet mücadelesi olarak değerlendirmek bir başlangıç olarak düşünülebilir. 2. Bölümde de incelendiği üzere, adada KEBG ve devlet olma mücadelesi, Kıbrıs sorununun iki ayağı olarak ele alınmış ve ikisinin bağlantıları eleştirel bir ekonomi politik perspektifinden yeniden değerlendirilmiştir.

Bu tez hem Kıbrıs sorununa hem de KT Devleti-Türkiye ilişkisine realist bir epistemoloji üzerinden alternatif bir yaklaşım sunmakta ve aralarındaki ilişkiyi eleştirel bir politik-ekonomi bakış açısıyla analiz etmektedir. Tekrar etmek gerekirse Kıbrıs sorunu, yalnızca etnik/dinsel bölünmeler tarafından tetiklenen toplumlararası bir çatışma olarak değil, kapitalizmin eşitsiz ve bileşik gelişimi (KEBG) altında şekillenen -aynı zamanda onu şekillendiren- ve kapitalizmin bölgesel ölçekte çelişkileriyle (cf. Peck, 2016) koşullanan bir devlet olma mücadelesi olarak değerlendirilmektedir. KT Devleti-Türkiye ilişkisi, formu ve özü kuzeydeki iktidar bloğu içinde sürekli olarak yeniden üretilen bir "iç ilişki", dolayısıyla "karşılıklı bağımlılık" ilişkisi (Ollman, 1976) olarak değerlendirilmiştir.

Bu bağlamda bu tez, Kıbrıs Türk Devleti-Türkiye ilişkisinin eleştirel bir ekonomi politik perspektifinden alternatif bir okumasını sağlamanın yanı sıra, Kıbrıs Türk Toplumunun (KTT) devlet olma mücadelesinin sınıf temelli bir analizini, Kıbrıs

sorununun tarihsel yörüngesi çerçevesinde adada kapitalizmin eşitsiz ve bileşik gelişimi (KEBG) çerçevesinde ele aldı. Genel kanının aksine bu teorik tartışmaların "böylesine küçük bir adada" yaşanan mevcut durumu analiz etmek için açıklayıcı güçlerini koruduğu iddia edilmektedir zira adadaki tartışmalar mikro ölçekte ancak sert ve yoğun bir biçimde yaşanmaktadır.

Dolayısıyla bu tez, adada çatışan devlet olma mücadelelerinin kapitalist ilişkiler ve gelişmeyle nasıl ve ne ölçüde şartlandırıldığını göstermektedir. KT Devletinin kapitalist bir devlet olarak tarihsel oluşumuna Kıbrıs sorununun özgül konjonktürü içinde bakılarak ışık tutulmuştur. Farklı Kıbrıs Türk idarelerinin çeşitli kurumsal biçimler altında ortaya çıkması siyasi kırılmalar olarak değil, tarihsel bir devlet inşası sürecinin birbirini tamamlayan toplumsal aşamaları olarak değerlendirilmiştir. Bu nedenle, Kıbrıs sorununun KEBG perspektifinden analizi, Kıbrıs Türk devlet-toplum ilişkilerinin ve bu ilişkilerin Kıbrıs Cumhuriyeti, Türkiye ve AB ile olan bağlantılarının ontolojik bir haritasının çıkarılmasını sağlamıştır. Bu bağlamda KT Devleti, farklı çıkar çatışmaları, siyasi çelişkiler, adadaki üretim ilişkileri, üretim tarzları ve ilgili birikim stratejileri tarafından şekillenen bir "sosyal ilişki" (cf. Poulantzas, 2000: 25) olarak tanımlanmıştır. Ayrıca, Türkiye ile Kıbrıs Türk idareleri/devletleri arasındaki ilişki geleneksel anlamda kabul gören sabit/durağan bir bağımlılık ilişki tanımının ötesinde, dinamik bir "karşılıklı bağımlılık" (Ollman, 1976:18) ilişkisi olarak ele alınmıştır. Bu tanımlama, söz konusu ilişki çerçevesinde geliştirilen belirli devlet stratejilerinin ve bu ilişkinin değişen şekillerinin Kıbrıs sorununun gidişatı üzerindeki kritik etkilerini de öne çıkarmıştır.

Bu bağlamda, öncelikle 1980'lerden beri bu ilişkiyi tanımlamak için baskın bir biçimde referans noktası haline gelmiş olan geleneksel bağımlılık yaklaşımının ötesine geçerek KT idareleri ile Türkiye arasındaki ilişkinin yeniden bir değerlendirilmesi yapılması gereklidir. Bu tez, bağımlılık anlatısını ve KT Devleti'nin Türkiye ile ilişkilerini ve bu ilişkilerin değişen şekillerinin Kıbrıs sorununa yansımalarını analiz etmek için Poulantzas'ın "görelî özerklik" kavramını kullandı. Bu kavramla KT devletinin kuzeydeki güç bloğu kaşısında görece özerk konumu tartışılmış ve Türkiye'nin 1963'den itibaren kademeli olarak bu blok içerisinde hegemon bir güç olarak yer alması incelenmiştir. Öte yandan, KT devletinin biçim-işlev sorunsalını çözmek amacıyla Jessop'un stratejik-ilişkisel yaklaşımı Türkiye-KT Devleti ilişkisinin

alternatif bir okuması için analitik bir araç olarak benimsendi. Bu yaklaşım, bağımlılık ve özerklik anlarını doğrusal bir düzlemde konumlandıran özcü terimlerle değil, daha çok kritik konjonktürlerde çatışan ve/veya uzlaşan bir birlikteliği analiz etmeyi sağladı.

Bu tez, bu göreceli özerkliğin, belirli sosyal oluşumlar altında farklı işlevler edinen Kıbrıs Türk Devletine Türkiye, Kuzeydeki diğer fraksiyonlar/çıkar grupları ve müzakere sürecinde Kıbrıs Rum (KR) hükümetleri karşısında kendi “stratejik seçiciliklerini” (cf. Jessop, 2014) önceliklendirme kapasitesi sağladığına işaret etti. Diğer yandan, bu stratejik seçicilikler tarihsel olarak Kıbrıs'ta 1960'lardan itibaren meydana gelen trajik olaylar altında şekillenmişti zira 1974'e kadar Kıbrıs Türk Toplumunu (KTT) hem Kıbrıs Rum (KR) aşırı milliyetçiliğinin saldırısı altında korunmasız kaldı hem de KR hükümetinin adadaki üretim araçları ve doğal kaynaklar üzerinde kurduğu tekel karşısında ekonomik anlamda giderek zayıfladı. KT varlığı, özellikle 1980'den sonra Türkiye'de kurulan hükümetler tarafından Türkiye'nin korumasına ihtiyaç duyan, siyasi bir devlet olma mücadelesi içinde bir "yavru vatan" olarak görüldü ve bu mücadele daha ziyade biçimsel yönüyle incelendi.

Bu tez, KT sosyal oluşumlarının “biçimleri” ve “işlevleri” arasındaki ilişkiyi sorunsallaştırarak aralarındaki çelişkiden doğan sorunların Kıbrıs problemi üzerindeki etkisini ortaya koymaya çalışmıştır. İlgili literatürde Jessop'un devlet tartışmaları kapsamında da belirttiği gibi, "Devletin gerekli biçimini gerçekleştirmesi gereken işlevlerden türetmeye çalışan" (1990: 86) baskın bir eğilim bulunmaktadır. Bu baskın eğilim devlet olma sorunsalını biçimsel yönüyle ele alma eğilimindeyken, devletin fonksiyonuna ilişkin sorunların bu biçimsel mesele tarafından belirlendiğini öne sürer. Öte yandan işlevselci bakış açısı devletin temel anlamda sermaye birikimi için gerekli işlevlerini yerine getirebilmesini devletin biçiminin belirlediğini öne sürer. TÜSİAD'ın Kıbrıs üzerine piyasa temelli bir yaklaşımla hazırladığı raporlarda da bu işlevselci bakış hakimdir ve bu raporlar Türk hükümetlerinin 1980'lerden itibaren Kıbrıs politikalarını şekillendirmede etkili olmuştur. Benzer şekilde, KT Devleti'nin Türkiye ile ilişkilerini bir bağımlılık ilişkisi olarak nitelendiren, KT Devleti'ni "anavatan" koruması altında bir "uydu-devlet" olarak veya Kıbrıs Cumhuriyeti'nin "Kıbrıs Cumhuriyeti Hükümeti'nin etkin kontrolü altında olmayan bölgeleri" (Avrupa Komisyonu, 2003: para.3) olarak tanımlayan görüş, AB belgelerinde ve müzakereler

sırasında KR hükümetlerinin açıklamalarında da baskın bir biçimde yer aldı ve sorunun çözümünü geciktirmede önemli bir rol oynadı.

Geleneksel "bağımlılık" anlatısında KT Toplumunu homojen bir bütün, KT Devleti "üniter bir yapı" ve "yavru vatan" olarak karşımıza konuluyor. Bu anlatıda her ne kadar Türkiye ve KT Devleti, birbirinden ayrı müstakil parçalar olarak değil, bu beraberlikten ortaya çıkan bir toplumsal bütünü parçaları olarak görülseler de merkez-çevre bakışı özünde bir dışsallık ilişkisine işaret etmektedir. Bu bakış açısı, KT Devleti'nin oluşumunun yanı sıra Türkiye ile ilişkisinin esasına ilişkin sınırlı ve yanıltıcı bir kavrayış sunmaktadır. Özcü bir yaklaşım kullanılarak bu ilişki hiyerarşik bir emir-komuta zincirindeymişçesine Türkiye'nin kuzeye "yardım temin edip emrettiği" ve kuzeyin "kabul edip itaat ettiği", "tek yönlü" ve/veya "yukarıdan aşağıya" bir ilişki olarak tanımlanmaktadır. Ancak bu anlatıyı benimseyen çalışmalar bağımlılık ilişkisini bir dışsallık ilişkisi olarak görmekten ziyade, daha çok politik sebeplerden ötürü, onu bir içsellik ilişkisi olarak tanımlamaya yatkındırlar.

Bu geleneksel bağımlılık yaklaşımını çıkarımları açısından birbiriyle yakından ilişkili iki kola ayırarak incelersek aralarındaki benzerlikleri ve farkı daha açık bir biçimde görebiliriz. Bu iki kol, DeLanda'nın, sosyal bütünleri tanımlamak için Deleuzcu Sosyal Ontolojiyi yeniden formüle ederek ortaya attığı "dışsallık ilişkisi" ve "içsellik ilişkisi" kavramları kullanılarak açıklanabilir (DeLanda, 2006: 1). İlk kola, "işlevselci" bakış açısı hakimdir ve bu bakış kuzey ile Türkiye arasındaki ticaret ve yardım ilişkisine ve tarafların "piyasa kapasitelerine" vurgu yapan yaklaşım tarafından yönlendirilir. Bu, Türkiye'den gelen finansal "faydaya" rağmen, kuzeyin açıkça dezavantajlı bir konumda olduğu tek yönlü bir ilişkiyi ifade etmektedir. İşlevselci bakış açısının vurguladığı "bağımlılık" biçimi, merkez (Türkiye) ve çevre (KT Devleti) arasındaki bir ilişkidir, dolayısıyla, aslında, çevrenin daha çok finansal anlamda merkeze bağımlı olduğu bir "dışsallık ilişkisini" ifade eder. Bu açıdan bakıldığında Türkiye ve KT Devleti, yani bütünü parçaları, "bu bütünü parçalarında bulunmayan özelliklere" (DeLanda, 2006) sahiptir – örneğin; Türkiye'nin Gümrük Birliği üyeliği, KKTC'nin KC altında AB üyeliği ve/veya KTT'nin "Kıbrıslı" kimliği gibi. Dolayısıyla bu bakış açısı bütünü parçalarına, içsel ilişkilerinde değil ama dışsal olarak birbirlerinden bağımsız bir biçimde yeni ilişkilere dahil olma kapasitesi anlamında, kısıtlı da olsa, göreceli bir özerklik atfeder.

İkinci kola, Türkiye ile kuzey arasındaki etnik, dini ve kültürel bağlara vurgu yapan, "ulusal dava" anlatısının yönlendirdiği, Türkiye'nin bu defa "Türklük" tanımı etrafında ortak ideallerin ve değerlerin üreticisi ve garantörü olarak "merkez" konumunda yer aldığı milliyetçi perspektif hakimdir. Milliyetçi perspektifle şekillenen bu "bağımlılık" biçiminde parçalar bu bütünsel ilişkiden "ortaya çıkan özelliklere" sahiptirler. Bu durum, yani "bütünün parçası olma" durumu, "birbirleriyle olan ilişkilerinden bağımsız olarak var olamayan" parçaların temel bir özelliği olduğu bir "işsellik ilişkisi" ifade eder (DeLanda, 2006). Bu bakış açısı, KT Devletinin görece özerkliğinin olmadığı, dolayısıyla politika kararlarını doğrudan Türkiye'nin aldığı yukarıdan aşağıya bir ilişkiye işaret eder. Buradaki bağımlılık kavramı, "kendi gücü birleştirdiği toplumsal bütünü aşan" bir Türkiye algısı etrafında şekillenir. Dolayısıyla bu aslında Türkiye'nin ilişkideki güçlü konumunu ifade etmek için kullanılır ancak kuzeydeki güç mücadelesi ve bu mücadelenin ilişkiyi ve ilişkinin taraflarını nasıl şekillendirdiği göz ardı eder. Ancak 1963'ten beri "milli dava" olgusunun bu bütünsel ilişkiden "ortaya çıkan bir özellik" olarak Türkiye'nin ulusal birliğinin varoluşsal bir parçası olduğu göz önüne alındığında, KT Devleti ve KTT'nin devlet olma mücadelesi de bu ilişkinin ve onun oluşturduğu sosyal bütünün temel ve yapısal bir parçası haline gelmiştir.

Bu bağlamda bu tez, teorik çerçevesini, ontolojik ve epistemolojik yapısını, Kıbrıs sorununun tarihsel yörüngesi etrafında şekillenen KT Devleti-Türkiye ilişkisini oluşturan temel süreçler ve maddi koşullar üzerinden ortaya koymayı amaçlamaktadır. Yalman'a göre, olgusal formların aksine, temel ilişkiler her zaman şeffaf bir biçimde doğrudan deneyimlenebilir ve gözlemlenebilir durumda olmadıklarından bu ilişkileri anlamak için gerçekçi bir epistemoloji gereklidir (Yalman 2009: 110). Dahası Yalman, iç ilişkilere dayalı, özcü olmayan gerçekçi bir epistemoloji benimsememiz gerektiğini belirtir. Bu da devletin "toplumdan ve/veya sınıflardan ontolojik olarak ayrı bir varlık" olarak düşünülmemesi gerektiği anlamına gelir (aynı eserde). Bu bakış açısı, Ollman'ın "iç ilişkiler felsefesinden" türetilen "nesnelerin bir araya geliş biçimleri, varlıklarını niteleyen temel özellikler haline gelir" (Ollman 1976: 18) önermesine dayanarak, kapitalizmin eşitsiz ve bileşik gelişiminin yörüngesinde KT Devleti-Türkiye ilişkisinin "iç ilişki" biçimi olarak yeniden kavramsallaştırılması gerekliliğine işaret etmektedir. Bu gerçekçi metodolojiden esinlenilerek, Türkiye-KT Devleti ilişkisi parçalarının

"başlangıç durumlarına"<sup>107</sup> "sabitlenmek" suretiyle oluşturdukları bir bağımlılık ilişkisi yerine, dinamik bir "karşılıklı bağımlılık" ilişkisi çerçevesinde oluşturdukları "iç ilişki" olarak analiz edilmiştir (cf. Ollman, 2003: 72). Bu aynı zamanda, Türkiye-KT Devleti ilişkisinin tikel özelliklerini ve KT toplumunun kimlik oluşturma süreçlerini de KEBG bağlamında ele almayı sağlamış ve bu özelliklerin ve süreçlerin ilgili taraflara nispeten özerk alanlar sağladığını göstermeyi mümkün kılmıştır.

Bu temelden hareketle, bu tezde, Türkiye'nin KT ekonomisi ve/veya siyaseti üzerindeki sözde etki alanlarını aşan gücünün ilişkisel terimlerle anlaşılması gerektiği tartışılmıştır. Yani, bağımlılık durumunun özü olarak kabul edilen Türkiye'nin kuzeydeki "gücü", ne KT siyasetine "yukarıdan" uygulanan askeri/siyasi güce, ne de Türkiye'nin kuzeydeki ekonomik alana "doğrudan" müdahale etmesini sağlayan mali bir güce indirgenemez. Türkiye'nin gücü daha çok kuzeydeki iktidar bloğu içerisindeki mücadeleyle devamlı bir biçimde (yeniden) üretilir ve KT sosyal oluşumunun siyasi, ekonomik ve ideolojik kademelerine ancak iktidar bloğunun fraksiyonları aracılığıyla ve iktidar bloğu dışındaki sınıf mücadelesiyle de şekillenerek, "ulusal-popüler programlar" (cf. Poulantzas 2000: 49) biçimini aldıktan sonra dağıtılır.

Bu bağlamda, KT devlet olma mücadelesi, kuzeydeki iktidar bloğu içinde ve dışında yürütülen sınıf mücadelesiyle sürekli (yeniden) üretilir ve bu ne salt olarak Türkiye'nin gücüyle ne de KT Devletinin yönetici seçkinleri tarafından ortaya konulmuş bir dizi politik/ekonomik kararlarla şekillenir. Bu daha çok sürekli bir dinamik sosyal çekişmenin ve sınıflararası/sınıfçı mücadelenin yansımasıdır. Dolayısıyla var olan yaygın kanının aksine, KT devlet olma mücadelesi Türkiye'nin 1974'teki askeri müdahalesi veya 1975'te ve 1983'te KT Devleti'nin kurulmasından çok önce devam eden tarihsel bir süreçte şekillenmiştir ve her ne kadar bu olaylarla koşullandırılmış olsa da mücadelenin kendisi de bu tarihsel oluşumlar üzerinde belirleyici rol oynamıştır ve oynamaya devam etmektedir. Bu bağlamda olan KT sosyal oluşumları -yönetim ve federe/egemen devletler- bu tezin analiz birimi, KT devlet olma mücadelesinin tikelliği ise tarihsel bir çerçevede incelenen gözlem birimi oldular ve

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<sup>107</sup> Türkiye-KT ilişkisinde, "başlangıç durumu" KT'ler Kıbrıs Cumhuriyeti altında eşit bir toplulukken Türkiye'nin adadaki garantörlük statüsü olarak kabul edilebilir. Ollman, bu bağlamda, "Bir ilişkinin ilk kez oluştuğu koşulların", "bize hiçbir şekilde bu ilişkinin ne saflığı ne de bütünlüğünü göstermediğini" (Marx, 1971, 205) ileri süren Marx'a atıfta bulunur (Ollman 2003:72).

Kıbrıs Türk Toplumunu (KTT), kendi devlet olma mücadelesinin tarihinin öznesi olarak değerlendirildi.

Bu mücadele, kapitalist tür devlete özgü siyasi, ekonomik ve ideolojik düzlemler içindeki ve arasındaki iktidar mücadelelerini kapsayan, kuzeydeki sınıf mücadelesinin bütününe siyasi bir ifadesi olarak görülebilir. KT devlet olma mücadelesinin salt olarak Kıbrıs Cumhuriyeti'nin egemenlik iddiasına karşı siyasi/ekonomik mücadeleden ibaret olduğunu öne süren baskın anlatıya rağmen, KT devleti mücadelesi, kuzeydeki iktidar bloğu içindeki toplum içi güç çekişmesiyle de şekillenmiştir. Birincisine karşı verilen mücadele daha çok KT Devletinin biçimini belirlerken, ikincisine karşı mücadele onun kapitalist gelişme sürecinde işleyişini belirlemiştir.

Tekrar etmek gerekirse bu tez, teorik kapsamını ampirik bir araştırma çerçevesinde tartışmıştır. Yukarıda bahsedilen ilişkileri tanımlamak için ağırlıklı olarak kullanılan "olgusal" anlayış gerekli ancak yeterli olmadığından, "somut" formlar ile "soyutlamalar" arasındaki ilişkiyi keşfetmek için diyalektik araştırma yöntemini kullanmıştır. Bu tez, KT Devletini analiz birimi olarak belirledikten ve onu kapitalist bir devlet türü olarak nitelendirdikten sonra, epistemolojik ilkelerini devlet teorisi tartışması içinden çıkardı. "Görelilik" (Poulantzas, 2000:91), "sosyal bir ilişki olarak devlet" (Poulantzas, 2000:25), "stratejik seçicilik" (Jessop, 2014) gibi kavramsal araçların kullanılması, literatürdeki geleneksel perspektifler karşısında KT Devleti üzerine alternatif bir okuma ve kavramsallaştırma yapmayı sağladı.

KT Devleti üzerine bu ilişkiyel görüş, KT Devleti-Türkiye ilişkisini, yapısı ve özü kuzeydeki iktidar bloğu içinde sürekli olarak yeniden üretilen bir iç ilişki (cf. Ollman, 1976) olarak kabul etmeyi mümkün kıldı. KT Devleti ile Türkiye'yi, yalnızca kültürel ve/veya dini değerlerle değil, aynı zamanda kapitalist üretim ilişkileri içinde de birleştirilmiş bir bütünü karşılıklı bağımlı parçaları olarak gözlemlemek önemliydi. Kapitalist gelişimi sırasında KT Devletinin değişen biçimleri onun ekonomiye ilişkin değişen işlev/konum sorunlarını ortaya çıkardı. Ancak siyasi ve ekonomik alanların sınırları katı/değişmez sınırlar olmadığından, KT Devleti her zaman ekonomiyle dahil bir konumdaydı ve Türkiye 1974'ten sonra bu yapının iç aktörü haline geldi. Sonuç olarak kuzeyin Türkiye ile ilişkisi, bir bütünü parçalarının karşılıklı bağımlılığına dayanan bir iç ilişki olarak şekillenmiştir.

Bu ilişkinin iç bir ilişki olarak yeniden kavramsallaştırılması, ilişkide asimetrik anları da içeren, değişen bağımlılık biçimlerinin özelliklerine işaret etmeyi sağladı. KT Devleti kuzeydeki iktidar bloğuyla ilişkisinde görece özerkliğe sahip olmasına rağmen, belirli konjonktürlerde Türkiye'nin toplumsal üretim ilişkileri içindeki güçlenen konumu diğer sınıflara ve fraksiyonlara karşı Türkiye'ye hâkim bir pozisyon ve hegemonik güç kazandırdı. Ancak Yalman'ın (2009: 352) işaret ettiği gibi, "çekişmeyle şekillenmeyen bir hegemonya anı yoktur". Dolayısıyla bu kritik dönemeçlerde Türkiye'nin gücü son kertede siyasi yapı üzerinde belirleyici bir güç olarak görülse de Türkiye'nin gücünün sabit bir kategorik güç değil, ilişkisel bir güç olduğu açıktır. Türkiye'nin gücüne ilişkin determinist kavrayış yanıltıcı bir bakış açıydı, çünkü ilişkideki asimetrik anlar bu ilişkiye dair ne içseldi ne de kalıcı anlardı, daha ziyade bağlamsal ve geçiciydi. Bu asimetrik anlar genel olarak diğer egemen sınıfların/fraksiyonların arabuluculuğuyla dengelendi ve hem işçi sınıfı çıkarlarının hem de KT burjuvazisinin çıkarlarının gözetilmesi ve her ikisinin de farklı derecelerde de olsa kabulüyle sonuçlandı.

Bu bakış açısı, gerçekçi bir epistemolojiye dayalı teorik bir çerçeve içinde geleneksel "bağımlılık yaklaşımını" yeniden kavramsallaştırmamıza da izin verdi. Türkiye-KT Devleti ilişkisine dair "bağımlılık" söyleminin tanımlayıcı bir kategori olarak sık sık kullanılması ve Kıbrıs sorununa ilişkin olarak "değişim" anlatısının "serbest imleyen" olarak (cf. Laclau 2007:95) kullanılabilmesi her iki problemler konusunda da geleneksel anlatıların yeniden değerlendirilmesi ihtiyacına işaret ediyordu. Gerçekçi bir epistemoloji hem Kıbrıs sorununun hem de Türkiye-KT Devleti ilişkisinin "özü ve görünüşü" (cf. Sayer, 1981) ve bunların bağlantıları arasındaki ilişkiyi kurmak için gerekiyordu. Bu ilişkiyi kurmak, "uzun süreli çatışma" ve "mali bağımlılık" gibi soyut kategorilerin ötesine bakmamızı ve Kıbrıs sorununun çözümünün uzaması ile Türkiye-KT Devleti ilişkisindeki değişen bağımlılık biçimleri arasındaki temel nedensel ilişkiyi keşfetmemizi sağladı. Gerçekçi bir epistemoloji, adadaki toplumsal üretim ilişkilerini ortaya çıkaran maddi koşulları gün ışığına çıkarmaya yardımcı olması bakımından kritik olsa da halen bu ilişkilerin oluşumlarında belirleyici olan, altta yatan ve gözlemlenmeyi bekleyen bir dizi temel sorun ve ilişkiyi ortaya çıkarmak için eleştirel bir bakış ve değerlendirme gerekmektedir.

Geleneksel perspektiflerin yeniden değerlendirilmesi, önce kuzeydeki mevcut durumu anlayarak ve ardından bu durumun değişen toplumsal üretim ilişkileriyle bağlantılarını tarihsel bir perspektifte değerlendirerek mümkün olabilir. Bu değerlendirmeye öncelikle metodolojiye dair kritik bir soru sorarak başlandı; Atalet içerisinde olduğu varsayılan Kıbrıs sorununda süregelen “değişim” nasıl anlaşılır?

Bu bağlamda tez, 1999-2016 yılları arasında kuzeydeki Kıbrıslı Türk kanaat önderleri ile yapılan boylamsal bir alan çalışmasının bulgularını paylaştı. Açık uçlu, yarı yapılandırılmış görüşmelerin kullanıldığı alan çalışması, KT kanaat önderlerinin Kıbrıs Sorunu ve Türkiye ile ilişkilerle ilgili değişen anlatılarının değişen içeriğini ortaya çıkarmaya ve analiz etmeye yardımcı oldu. Bu değişen anlatılar aynı zamanda kuzeyde değişen devlet-toplum ilişkilerine, bunun KTT'nun devlet olma mücadelesine yansımalarına ve Kıbrıs sorununa tarihsel bir perspektifte yaklaşılması gerektiğine işaret ediyordu.

Bu bağlamda, tezin 3. Bölümü 19. yüzyılın ilk çeyreğine kadar uzanmış ve KEBG, değişen devlet-toplum ilişkileri ve Kıbrıs sorununun patlak vermesi arasında doğrudan bir ilişki olduğuna dair bulguları aktarmıştır. Bu bölümde öncelikle İngiliz sömürgeci sisteminin adaya gelişinin ve bakır madenciliği endüstrisi altında endüstriyel ilişkilerin yaygınlaşmasının adayı kapitalizmin eşitsiz ve bileşik gelişimine maruz bıraktığı tartışıldı. 6. ve son Bölüm, benzer bir biçimde Kıbrıs müzakerelerinin açık denizdeki hidrokarbon kaynaklarının çıkarılması ve sömürülmesi nedeniyle artan bölgesel çatışmanın gölgesinde kaldığı 2010'ların sonunu kapsamaktadır. Tarihsel bir arka planda incelendiğinde, doğal kaynakların sömürülmesinin ve adanın jeostratejik konumunun ön plana çıkarılmasının sadece 1900'lerin başlarına ve kolonyal üretim tarzına özgü olmadığı vurgulanmıştır. KEBG'nin, adadaki ısrarcı ilk(el) birikim stratejileriyle derinleşen toplumlararası çatışmanın patlak vermesinde önemli bir belirleyici faktör olduğu öne sürülmüştür.

KEBG'nin adadaki iş bölümü ve üretim ilişkilerinde yarattığı etki, 1960 yılında “sömürge sonrası devletin” (cf. Alavi 1972) kurulmasından sonra artı değer paylaşımı konusunda farklı çatışma biçimlerinin ortaya çıkmasında ve bu da Kıbrıs sorununun 1963'te patlak vermesinde önemli bir rol oynadı. 1950'lerden sonra, adada yükselen sınıf mücadelesinin önü ona karşıt bir biçimde yükselen milliyetçi hareket tarafından kademeli olarak kesildi. Artan milliyetçilik sadece sınıf mücadelesinin

önüne geçmekle kalmadı, aynı zamanda 1963'ten sonra yönetici sınıfların desteğiyle adadaki devlet kurma süreçlerine ve devlet yapılarına da hâkim oldu ve ortak bir devlet olma mücadelesi yürütülmesini olanaksız hale getirdi.

Tezin genel yapısı Kıbrıs sorununu doğrusal bir tarihsel yörüngede ele almış olsa da tezin kuramsal ve metodolojik çerçevesi Kıbrıs sorununu doğrusal olmayan tarihsel bir kavrayışla analiz etmiştir. Sorunun gelişimine doğrusal bir çerçevede bakmayan bu bakış açısı, determinist bir kronolojiyi aşmayı amaçlamış ve sorunun oluşumunda rol oynayan dış ve iç güçlerin diyalektik birliğini kavrama ihtiyacından ortaya çıkmıştır. 1960'da KC'nin kurulmasıyla birlikte adada sömürgeciliğin tamamen “sonlandığını” öne sürmek, İngiliz Emperyalizminin Kıbrıs sorununun oluşumunda kritik rol oynayan tarihsel rolünü ve adaya getirdiği ilişkileri, yapıları ve bunların uzun vadeli etkilerini göz ardı etmeye neden olur. Öte yandan, Kıbrıs sorununu çetin bir soruna dönüştüren olgunun salt anlamda İngiliz Emperyalizmi olduğunu iddia ettiğimizde, adadaki iç güçlerin, sınıf oluşumların, sınıf mücadelesinin ve üretim ve paylaşım ilişkilerinin sorunun dönüşümü üzerindeki belirleyici rolünü ihmal etmiş oluruz. Dolayısıyla meseleyi belli bir tarihte ortaya çıkan bir sorun çerçevesinde tarif etmekten ziyade, uzun bir dönem içerisinde adada sosyal üretim ilişkilerinde yaşanan değişimin birbirleriyle içiçe geçen farklı dönemleri olarak incelemek gerekmektedir.

Bu bağlamda, KT'nin devlet olma mücadelesinin aldığı biçimleri incelemek için ilişkisel, sınıf temelli bir analiz kullanmak, KT sosyal oluşumlarında toplumsal değişimin nasıl ortaya çıktığını gözlemlememizi sağladı. Benzer şekilde, KT Devlet oluşumunun ilişkisel bir analizi, yalnızca sosyal değişimi meydana getiren maddi koşullara değil, aynı zamanda KT Devletinin değişen biçimlerinin ve işlevlerinin bu koşulların şekillenmesinde nasıl kritik bir rol oynadığına işaret etmemize yardımcı oldu. Bu aynı zamanda, KT Devleti ile Türkiye arasındaki ilişkiye alternatif bir bakış açısı geliştirmemizi, bağımlılık/dışsallık ilişkisinin ötesine geçerek ve bunu bir iç ilişki olarak yeniden düşünerek Türkiye'yi kuzeyde iktidar bloğu içindeki hegemonik bir güç ve belirli KT sosyal oluşumlarının dahili bir parçası olarak konumlandırmamızı sağladı.

Bu tez, Kıbrıs sorunu bağlamında ilişkisel bir yaklaşım ve sınıf temelli bir analiz kullanarak KT devlet-toplum ilişkilerindeki değişimleri ve bu değişimlerin Kıbrıs sorunu üzerindeki etkilerini analiz etmiştir. Bu bağlamda, aşağıdaki temel bulgular, bu

tezin Kıbrıs çalışmaları literatürüne katkı sunmaları, tartışmaya yol açmaları ve alternatif bir kavramsal ve söylemsel çerçeve sağlamaları amacıyla önemlidir;

Öncelikle, her ne kadar iktidar ve hegemonya kavramları KKTC-Türkiye ilişkileri ve kuzeydeki durum hakkındaki ana akım analizlerin merkezinde yer alsalar da bu analizler Türkiye'yi öncelikle askeri ve mali bir güç olarak tanımlarlar. Oysa Türkiye'nin kuzeyde hegemon bir güç olmasını sadece askeri ve mali gücü üzerinden analiz etmek ikili ilişkiler üzerine kısıtlı bir bakış açısı sunar. Öte yandan sürekli olarak KKTC'nin tanınmayan bir devlet olmasıyla KT ekonomisinin sınırlı "piyasa kapasitesi" arasındaki ilişki değerlendirilirken kuzeyin batılı tipte bir kapitalist oluşum olarak işleyişini sağlayacak olan "doğru miktarda" kapitalist üretim ilişkilerinden yoksun olduğu vurgulanır. Bu indirgemeci perspektif karşısında bu tez, Poulantzas'ın kapitalist Devleti "sosyal bir ilişki" olarak tanımlayan görüşünü takiben, Türkiye'nin kuzeydeki mali gücünün, kuzeyin ekonomisinin boyutunun veya tanınmayan bir devlet olmasının onun özgül kapitalist gelişiminde tümüyle belirleyici etkenler olmadığını tartıştı. Öte yandan bu etkenlerin birbirleri üzerindeki etkisi daha gerçekçi bir yaklaşımla incelenmelidir. KKTC Devleti, Türkiye ile ticari ilişkilerine büyük ölçüde bağımlı, aynı zamanda da bu ilişkiyle istikrarsızlaşmış küçük bir piyasa ekonomisi olmasının yanı sıra, kapitalist üretim ilişkilerinin devletin şeklini ve işlevini belirlediği/koşullandığı bir sosyal oluşumdur. Öte yandan, KT Devletinin tanınmayan statüsü ve sınırlı "piyasa kapasitesinin", Türkiye'nin sadece kuzeydeki iktidar bloğu içinde hegemonik bir güç değil, aynı zamanda ülkenin sınıf oluşumlarında ve bölünmelerinde kilit bir rol oynayan toplumsal üretim ilişkilerinin de bir parçası haline gelmesini sağlayan ana faktörler arasında olduğu açıktır. Ancak Türkiye'nin kuzeydeki gücü KT sosyal oluşumunun dışında belirlenen değil, onun içinde şekillenen bir güçtür ve kuzeydeki kurumlara yapılan doğrudan müdahalelerde bile bu güç belirli bir mücadele süreciyle şekillenmiştir. 3., 4. ve 5. Bölümlerde gösterildiği gibi, Türkiye'deki yönetici sınıfların bürokratik ve siyasi fraksiyonları, ancak KT devlet seçkinleriyle bir ittifak içinde kuzeyde değişen güç dengeleri üzerinde etkili olmuşlardır.

3. Bölümde özetlendiği gibi, eleştirel politik ekonomi perspektifi, Kıbrıs sorununun gidişatına paralel olarak şekillenen Türkiye-KTT ilişkisinin alternatif bir okuması için teorik bir çerçeve sağladı. Bu bakış açısı, kuzeydeki devlet-pazar-toplum

ilişkilerini, aktörlerin piyasa kapasitelerine odaklanan ideal-tipik tarzlarında değil, tarihsel materyalist bir bakış açısıyla ve sınıf temelli bir perspektiften diyalektik bir metodolojiyle analiz ve tasvir etti. KT Devleti, adada KEBG altında şekillenen, KTT'nin KR toplumu ve Türkiye'yle arasında değişen güç dengeleriyle belirlenen tarihi bir sosyal oluşum olarak düşünülmelidir. Kapitalizmin eşitsiz ve bileşik gelişimi, koloni döneminin başından bu yana KT ve KR ekonomileri arasındaki uçurumu ve bu aktörlerin adada devlet olma süreçlerini de belirleyen bir faktör oldu.

1950'lerde başlayan İngiltere'nin sömürge kolonilerden çekilme süreci, yükselen milliyetçilikler, kapitalizmin çelişkileri ve sömürge sonrası devlette artı değeri paylaşma mücadelesiyle birleşerek Kıbrıs'ta etnik bir çatışmanın patlak vermesine yol açtı. 1963'ten sonra devlet olma mücadelesi ve sınıf güçlerinin değişen dengesi, KTT içinden çıkan devlet oluşumlarını ve sınıf yapısını şekillendirdi. Türkiye giderek kuzeydeki güç bloğunun içine dahil hegemonik bir güç haline geldi ve 1974 müdahalesinin ardından Türkiye'yle kuzey arasındaki "iç ilişki" sabit bir kategoriye değil, mülkiyet ilişkileri, üretim ilişkileri ve birikim stratejileri tarafından sürekli yeniden üretilen dinamik bir iç ilişkiye dönüştü. Bu anlamda, KT Devleti'nin Türkiye'den ve kuzeydeki kapitalist üretim ilişkilerinden görece özerkliğine işaret etmek, bize KKTC-Türkiye bağlantısının aktörlerin stratejik seçicilikleriyle belirlenen ilişkiyel bir görünümünü sağladı. Bu bağlantı Jessop'un "stratejik-ilişkiyel yaklaşımı" (2008, 2014) açısından analiz edildi, bu da yapı ve aktör sorunlarına sınıf analizi perspektifinden ışık tutmamızı sağladı.

Bununla birlikte, 3. Bölümde ele alındığı üzere, Türkiye'deki 1980 askeri darbesi hem Türkiye hem de kuzey için kritik bir dönemeçti. Planlı kalkınma modelinin yerini, 1980 sonrası hükümetlerin izlediği piyasa önderliğindeki büyüme stratejisi aldı. KT ekonomisinin kademeli olarak sanayisizleştirilmesi, kuzeyin Türkiye'ye mali bağımlılığını artırdı ve aralarında Türkiye lehine orantısız bir ticaret ilişkisi yarattı. Ancak eleştirel bir açıdan bakıldığında kuzeyin Türkiye'ye finansal bağımlılığı kuzeyin ekonomisini tanımlayan önemli bir özellik olmasına rağmen, daha geniş ontolojide ilişkinin yalnızca tek bir boyutunu kapsadığı görülmektedir. Dahası, finansal bağımlılık kuzeydeki durumun sebebinden çok sonucudur ve hem bir "süreç" hem de bir "ilişki" olarak ele alınmadığı sürece kendi başına açıklayıcı niteliği kısıtlı olan bir kavramdır. Daha geniş açıdan bakarsak ekonomik anlamda pek çok unsur

kuzeyin bugünkü durumu üzerinde belirleyici olmuştur. KT devleti tanınmayan bir devlet ve kısıtlamalar altında bir ekonomi olmasına rağmen, Türkiye ve KC kuzeyde neoliberal dönüşümün yapılandırılması için bir çapa görevi gördüler. Neoliberal gündem Türkiye tarafından belirlenirken, KT Devleti pratiği, yönetici sınıfların çatışan ve ayrışan çıkarları ve bunun sonucunda iktidar bloğu içindeki güç mücadelesi ve kuzeydeki toplumsal üretim ilişkileri tarafından şekillendirildi. KT ekonomisinin 1970'lerde devlet önderliğindeki gelişmesinin öncüsü olan Türkiye, 1980'lerden sonra KKTC'nin "neoliberal çıpası" haline geldi. Türkiye'nin yeni rolü, AB üyeliği gündemi ile belirlenmiş ve AB ile Gümrük Birliği kararını imzalamasıyla beraber 1990'ların sonunda kuzeyin ekonomik krizi üzerinde etkili olmuştur. Bununla birlikte, KT Devleti bağlamında yaşanan neoliberal dönüşüm bir kalkınma planıyla beraber ilerlemedi ve bu nedenle esas olarak kuzeydeki siyasi kayırmacılığı iyice derinleştirdi ve KT Devletinin kurumsal yapısını daha da zayıflattı.

1990'larda KT ekonomisinin "sanayisizleştirilmesi" ve "aşırı finansallaşması", 2000 yılının başlarında bir dizi mali ve siyasi krize yol açtı. 4. ve 5. Bölümlerde özetlendiği üzere, Kıbrıs sorununa AB şemsiyesi altındaki federal bir çözüm sunan yeni konjonktür, kendisini kuzeydeki sözde statüko rejimine karşı konumlandıran sınıflar arası bir ittifak sağladı. Ancak, AB gündeminin federal çözüm beklentileri açısından başarısız olması toplumsal güçler koalisyonunun hedeflerinin tamamına ulaşmadan dağılmasına yol açtı. 2000'lerin ortalarından sonra, KİT'lerin özelleştirilmesi hız kazandı ve Annan Planı'nın başarısızlığı nedeniyle üyelik gündemi zaten zayıflamış olsa da hem KT hem de Türk Devletlerinin kuralsızlaştırılmaları AB üyelik gündemi kamuoyunda canlı tutularak meşrulaştırılmaya devam edildi.

Altıncı bölüm, GDA'daki hidrokarbonların çıkartılması için bölgesel çapta bir rekabet başlatan ada çevresindeki hidrokarbon keşiflerinin, Kıbrıs'ta doğal kaynakların sömürülmesi için ortaya çıkan yeni bir tür mülksüzleştirme biçimi olduğunu tartışmıştır. Kıbrıs sorununda bu döneme, adadaki kapitalizm(ler)in ayakta kalmak için "her türden kaynak" bulma arzusunun yükselişi ve bu arzusunun GDA'de askeri bir çatışmanın fitilini ateşlemesi damgasını vurdu. Hidrokarbon meselesi güneyde mali krizin 2011'de patlak vermesiyle paralel olarak ortaya çıktı ve bu krizle birlikte güney için daha kritik önem kazandı. Bu gelişmeler Kıbrıs görüşmelerini KR hükümetinin sondaj gündemi ve Türkiye'nin misilleme çabaları çerçevesine sıkıştırdı. Bu yeni

dönem, bildiğimiz anlamda süregelen Kıbrıs sorununun sonunu işaret etmektedir, zira Kıbrıs sorunu 1963'ten beri ilk kez kaynakların paylaşımı üzerine “açık bir çatışma” haline gelmiş ve bu da 1990'dan bu yana süregelen iki kesimli iki toplumlu federal çözüm konusunun hem Türkiye hem de Güney Rum Hükümeti tarafından rafa kaldırılmasına yol açmıştır.

2018 yılından itibaren güç paylaşımı, garantiler ve dönüşümlü başkanlık gibi geleneksel konular manşetlerdeki yerlerini Akdeniz'deki çatışma gündemine bıraktı ve Kıbrıs sorunu GDA'nın kıyı ülkelerinin Münhasır Ekonomik Bölgelerine (MEB) taşındı. Adanın etrafında daha geniş bir bölgede sürmekte olan askeri faaliyetler, GDA'daki hidrokarbonlara hâkim olmak için ortaya çıkan "yeni" çatışmaya eklemlendi ve bu tablo toplumlararası müzakerelerin sözde önemli konularına olan ilgiyi oldukça zayıflattı. Hidrokarbon sorunu, sadece Türkiye ile kuzey arasındaki karşılıklı bağımlılığı değil, aynı zamanda kapitalist rekabetin yükselişinin bir sonucu olarak bölgede giderek ayrıştırılan bölgesel aktörlerin birbirlerine olan bağımlılıklarının da altını çizdi. Bu yeni dönemde KT'lerin devlet olma mücadelesi, yalnızca uluslararası topluma yönelik devlet inşası mücadelesi kapsamında değil, aynı zamanda adada süregelen neoliberal dönüşüme, yakın bölgede yaşanan kapitalist rekabete ve mülksüzleştirmeye karşı verilen mücadelenin bütünü olarak yeniden tanımlanmalıdır.

Kapitalizmin eşitsiz bölgesel gelişmesiyle koşullandırılan bu yeni konjonktür, Annan Planı sırasında kuzeyde ve güneyde yükselen “Kıbrıslılık” duygusunun yükselişine karşı kısmen uykuda olan milliyetçilik çatışmalarını yeniden tetikliyor. Bu bağlamda hidrokarbonlar Kıbrıs meselesini kolaylaştırıcı bir faktör olarak hareket etmekten çok, aksine sorununun çözümünü büyük güçlerin stratejik seçimlerine ve onların kurumsal çıkarlarına bağladı. Bu bağlamda, adada “değişim” giderek konjonktürel bir mesele haline geldi ve yerel aktörlerin sorunun gidişatı üzerindeki kontrolünü güçlendirmekten çok zayıflatmaya başladı. Bu bağlamda sözde stratejik konulara artan vurgunun sınırları ortadan kaldırmaktan ziyade onları daha da kalıcı hale getirdiğinin farkına varmak gerekmektedir. Geline bu noktada meseleye KEBG'nin adada yarattığı etki perspektifinden bakmak, bölgesel ilişkileri bile bir merkez ve çevre ilişkisi olarak yeniden yapılandırmak için artan gerilim ve global baskıya rağmen bölgedeki aktörlerin karşılıklı bağımlılığını görmemizi sağlar. Bu

gerilim, düzensiz ve dengesiz bir süreçle devam eden neoliberal dönüşümle daha da şiddetlenmiş ve adadaki bölünmelerin derinleşmesine yol açarak belli aralıklarla bölgesel çatışmalar olarak çıkış noktaları bulmuştur.

Sonuç olarak bu tez Kıbrıs sorununu, KT Devletinin inşasını ve KT devlet olma mücadelesini tarihsel materyalist, eleştirel ekonomi politik perspektif üzerinden yeniden kavramsallaştırılmıştır. Tez kapsamında ele alınan sorunsallar, Türkiye-KT Devleti ilişkisinde zaman zaman hegemonik krizler olarak ortaya çıkan ve bu krizlerin Kıbrıs sorunuyla 1963 ile 2019 arasında kesişen kritik dönemeçlerine odaklanan üç dönem içerisinde aşağıdaki şeklide özetlenebilir.

İlk olarak, yukarıda da belirtildiği gibi Kıbrıs sorunu özünde adada kapitalizmin eşitsiz ve bileşik gelişmesiyle koşullandırılan bir devlet olma mücadelesidir. Bu noktadan hareketle Kıbrıs meselesine eleştirel bir politik ekonomi perspektifinden bakmak ve KT Devleti-Türkiye ilişkisini sınıf temelli ilişki analizi yapmak geleneksel bağımlılık anlatısının "özüne" ilişkin alternatif bir yaklaşım sunmuş ve KT devlet olma mücadelesini kendi toplumsal dinamikleri içerisinde değerlendirmemizi sağlamıştır. KT Devleti-Türkiye ilişkisini bir "iç ilişki" olarak değerlendirmek, dolayısıyla aralarındaki bağımlılığı yukarıdan-aşağıya ya da merkez-çevre ilişkisi olarak değil, bir bütünün parçaları arasında "karşılıklı bağımlılık" olarak görmek, kuzeyde var olan yapıların oluşumunu da farklı bir bakışla analiz etmeyi sağladı. Bu bakışla Türkiye, 1963'ten sonra Kıbrıs Türk Toplumunu içerisinde üretim ilişkilerinde yaşanan değişime paralel biçimde kademeli olarak KT Devleti'nin güç bloğu içerisinde hegemonik bir güç haline gelmiştir. 1975'de kurulan KT devleti 1963 öncesi ve sonrasında adada yaşanan mücadelelerle şekillenen tarihsel bir kapitalist toplumsal oluşumdur ve bu özelliği ona kuzeydeki güç bloğu karşısında görece bir özerklik sağlamıştır. Bu bakış kuzeyin Türkiye'yle ilişkisinin anlamak ve onu kavramsal bir çerçeveye yerleştirmek açısından kritik öneme sahiptir ve aynı zamanda da Kıbrıs sorununu oluşturan olaylar bütününe alternatif soyutlamalar kullanarak açıklamamıza ve kuzeyin ilişkilerini bu bütüncül çerçevede ama kendi değişen dinamikleriyle anlamamıza izin verir. Bu anlamda Türkiye'nin kuzeydeki değişen rolünü ve ilişkisinin bugün geldiği noktayı da anlamamız kolaylaşacaktır. Kuzeyde Türkiye, 1974'ten sonra devlet önderliğinde gerçekleşen planlı kapitalist gelişmenin ve 1983'ten sonraysa KT Devleti'nin neoliberal dönüşümünün birincil çıpası olmuştur ancak bu gelişme ve

değişim doğrudan ve üstten empoze edilerek değil kuzeydeki güç bloğu içerisinde ve dışındaki mücadeleyle şekillenmiştir. 1990'lar boyunca bu iki modelin çatışması Türkiye ile kuzey arasındaki ilişkileri değiştirmiş, sonuç olarak 2000'li yılların başlarında yaşanan bir dizi mali ve siyasi kriz, Annan Planı'nın başlangıcıyla oluşan kritik konjonktürde kuzeyde tarihi bir toplumsal ittifakın yükselmesini ve siyasi liderliğin değişimini sağlamıştır.

İkinci olarak, Kıbrıs'ın AB'ye üyelik sürecinin başlangıcı adanın AB şemsiyesi altında küresel kapitalizme eklenmesini işaret ettiği için bu sürecin “değişim ihtiyacı” anlatısının yükselişinde önemli bir itici güç olduğu görülebilir. Bu, KT muhalefetini kuzeydeki sözde statüko rejimine karşı sınıflar arası bir ittifakta birleştiren ve harekete geçiren "bu ülke bizim" platformunun da önemli bir itici gücüydü. Annan Planı'nın başlangıcı, kuzeydeki ve Türkiye'deki sermaye gruplarının milliyetçi ve küreselci unsurlarını ve bu unsurların kendi aralarındaki ayrımı/ilişkileri ortaya çıkardı ve onları geleneksel sınıfsal rollerini/eğilimlerini aşmaya ve değişimin önemli bir unsuru olmaya zorladı. Annan Planı'nın başarısızlığı kuzeydeki güç dengesinin değişmesine neden oldu ve toplumsal muhalefet iktidarda olmasına rağmen KT devleti ve toplumunun neoliberal dönüşümünü 2000'lerin sonunda hızlandı.

Üçüncü olarak, 2010'larda ada çevresinde yapılan hidrokarbon keşifleri, “yeni emperyalizmin” jeo-stratejik çıkarlarının yeni “ilk(el) birikim” stratejileri üzerinden ortaya çıkmasına yol açtı. İlkel birikim stratejilerinin ortaya çıkması, güneydeki mali krizin patlak vermesiyle ve kuzeyde özelleştirme gündeminin başlamasıyla yakından bağlantılıydı ve bu olaylar bütünü Kıbrıs sorununun "kıyıda uzaklaşmasının” ve metaforik anlamda "kömürleşme" sürecine girmesinin başlangıcı oldu. Bu dönemde müzakere süreci önce askıya alındı, ardından da “alternatif” çözüm önerileri daha ziyade GDA'da hidrokarbon rezervlerinin sömürülmesi için büyük güçler arasında yükselen çatışmanın yönü doğrultusunda şekillenmeye başladı. Yeni dönemde hem Kıbrıs sorununun hem de kuzeyin Türkiye'yle ilişkilerinin artan bir biçimde kapitalizmin bölgesel çelişkileriyle şekillenmeye devam ettiği ve bu durumun gündemin belirleyici bir unsuru olmaya devam edeceği göz önüne alındığında, kuzeyin Türkiye'yle ilişkileri de bu çerçevede yeni kavramlarla daha özlü bir biçimde tartışılmaya başlanmalıdır.

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