

# Turkey: From the 'Motherland' to the 'IMF of Northern Cyprus'?

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## Abstract

*The key argument of this article is that in the aftermath of the failure of the Annan Plan, Turkey assumed the role of the 'IMF of northern Cyprus', aiming to effect a deeper transformation in the economy and politics of the Turkish Cypriot community. Turkey imposed economic programmes that included austerity measures and the privatisation of state owned enterprises in order to tame the 'cumbersome' state in the north of Cyprus. Furthermore, AKP (Adalet ve Kalkınma Partisi [Justice and Development Party]) opted for a strategy that defines northern Cyprus as an investment area. As a result of the deliberate attempts of the AKP government, Turkish capital has significantly increased its presence in state enterprises through privatisation along with infrastructure, education, construction and tourism sectors and commercial centres. The paper argues for an analysis that would locate this neoliberal restructuring in Cyprus in a global context as well as grasping the peculiarity of the state formation and the actual agency of local dynamics in the north of Cyprus.*

**Keywords:** economic crisis, neoliberalism, austerity, privatisation, 'TRNC', AKP

The year 2013 placed the Republic of Cyprus (RoC) in the international spotlight due to a severe economic crisis which eventually forced Cyprus to seek a bailout. The rather novel 'bailout' and 'bail-in' experiment included haircut levies on large depositors together with the closure of the second largest bank in the RoC; Laiki Bank. The 'remedies' recommended by the Troika also comprised austerity measures such as salary cuts and pay rise freezes in the public sector, and an increase in the retirement age and the increase in working hours.

Meanwhile, the economy of the 'Turkish Republic of Northern Cyprus' (hereafter 'TRNC'), began to experience a downturn from as early as the end of 2007, and before the greatest impact of the global financial crisis had been sensed. The economy entered a recession during 2008 when its growth rate decreased from 15.4% in 2004 to -3.4% in 2008.<sup>1</sup> In this period the affiliation between

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1 E. Guryay (2011) 'The Economy of the Turkish Republic of Northern Cyprus', in S. Tkachenko and M.T. Ozsaglam (eds), *Isolated Part of Cyprus*, St. Petersburg: VVM Publishing, p. 81.

Turkey and the Turkish Cypriot community, which had traditionally been explained as a 'motherland–infant-land' relationship, transformed with Turkey assuming the role of a disciplining external force with aims to effect a deeper transformation in the economy and politics of the Turkish Cypriot community.<sup>2</sup> In its quest to tame the 'cumbersome' state in the 'TRNC', Turkey imposed economic programmes that included austerity measures, slashing salaries and the privatisation of state enterprises.

This paper discusses the recent economic restructuring of the Turkish Cypriot community. In order to conceptualise the relationship between political economy and state-formations, it broadly draws on Marxist approaches which anchor the analysis of the state in terms of its structural association to capitalism as a system of class relations. In his critique of the state in capitalism, Marx focused on the role of authority in embedding the reproduction and accumulation of capital in lived social relations. Even though it was wide open to reductionist interpretations, 'the old chestnut of the executive committee of the bourgeoisie' actually summed this up rather well.<sup>3</sup> This does not, however, mean that states will duly serve the interests of the dominant classes. In all class societies, conflicting interests continuously struggle to influence the state to gain the upper hand and state decisions that are taken at any particular moment in history reflect a particular solution to conflicting class interests and the interests of other *internal* and *external* actors at that particular conjuncture. Adopting this perspective enables room to manoeuvre beyond the political analyses that are based on the unitary interest of the Turkish Cypriot community. In addition it may facilitate the deconstruction of unitary actors in order to reveal the domestic origins of the drastic policy shifts of the recent past in Cyprus. Moreover, it provides a valuable contribution towards understanding the context in northern Cyprus. Foremost, this perspective allows us to move beyond the state conceptualisation of liberalism that becomes the embodiment of the general interest of society and the neutral arbiter of all particularistic claims. Radice notes how 'The ideology of liberalism promoted a reconstitution of the state as a public realm separate from the private realm of civil society' and that 'explicit class relations are banished from the public sphere, as all citizens are recognised for political purposes to be formally equal individuals'.<sup>4</sup> According to Radice, neoliberalism should be perceived as a new formulation of liberal theory in the 1990s which aims to deflect 'the citizen from class identification in favour of a contractual relationship with the state' with an emphasis on concepts such as governance and civil society.<sup>5</sup>

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2 This tendency was made evident in an interview given to the Turkish Edition of *Fortune* magazine by Halil Ibrahim Akca, Turkey's Ambassador to the 'TRNC', who, during his dialogue, defined Turkey as the 'IMF of northern Cyprus' (*Fortune*, February 2011).

3 H. Radice (2008) 'The Developmental State under Global Neoliberalism', *Third World Quarterly*, Vol. 29, No. 6, p. 1161.

4 *Ibid.*, p. 1157.

5 *Ibid.*

In this article, neoliberalism is defined as an ideology that is 'regarded as a modern variant of classical economic liberalism, that aims to restrict the scope of action of the state and promote the self-regulating capacity of the market'.<sup>6</sup> Talking about neoliberalism in the 'TRNC' might seem contradictory due to its international isolation which prevents its financial integration with a global economy. Notwithstanding the peculiar position of the 'TRNC' because of this isolationism, there seems to be 'no *Urtext* of neoliberalism and that this poses problems for contrasting Neoliberalism with actually existing neoliberalisms'.<sup>7</sup> Jessop underlines how 'the USA is far from the originary or "pure" form of neoliberalism or, again, the singular basis for constructing an ideal type with which other "actually existing" cases can be compared in terms of their difference, deviation or derogation there from'.<sup>8</sup> Perhaps for these reasons, it is argued that neoliberalism should be understood as a diverse pattern of (always incomplete) neoliberalisation rather than assuming that neoliberalism has an unchanging, context-free essence. 'Without a foundational document or "pure" exemplar against which to measure deviations in actual cases, one must study local lived realities in which people and states work out their own theories, critiques and discourses about the worlds they inhabit and how it should be organised'.<sup>9</sup> In this frame, the recent restructuring of the 'TRNC' economy is explained in terms of an 'incomplete neoliberalism'.

This incomplete neoliberalism means that the crisis in northern Cyprus should be viewed as an instance of a specificity that is simultaneously reflective of a broader regional and global reality, yet such an assessment should be coupled with an analysis that properly grasps the specificity of the situation in the 'TRNC' due to its dependence on Turkey. Locating economic strategies – implemented in the northern part of the island – in a global context is significant as Cyprus is often taken as a *sui generis* case which makes it impossible to compare it to anything else. Such effort enables us to grasp marked similarities between the so-called 'remedies' employed in the two halves of the island. Whether it is imposed by the Troika or Turkey, the neoliberal logic behind the economic policies is hard to miss. In the RoC, a banking crisis has developed into a public deficit crisis that is being resolved through a haircut levy on large depositors as well as austerity measures. In the 'TRNC', even though the economy has various structural problems resulting from its non-recognition such as embargo, lack of direct flights which undermines its tourism potential plus a miniature market that presents it with limited export opportunities, the government is implementing policies which aggressively aim to roll back the state. Lapavitsas *et al.* (2010), call attention to how austerity measures coupled with structural reforms, including further labour

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6 *Ibid.*, p. 1155.

7 B. Jessop (2013) 'Putting Neoliberalism in Its Time and Place: A Response to the Debate', *Social Anthropology*, Vol. 21, No. 1, p. 67.

8 *Ibid.*, p. 66.

9 *Ibid.*, p. 67.

market flexibility, tougher pension conditions, privatisation of remaining public enterprises and privatisation of education, turned out to be the key policy option for dealing with the crisis. Austerity measures and structural reforms are preferred by the ruling elites across peripheral and core countries, since it shifts the burden of adjustment onto working people.<sup>10</sup> Similar economic policies are in force in the north and the south of Cyprus, hence it becomes imperative to analyse the somewhat peculiar situation in northern Cyprus in the broader context of neoliberal reactions to the global crisis.

The crisis of the RoC and the crisis of the 'TRNC' cannot be analysed independently from the crisis of the Eurozone and the crisis of Turkey, respectively. In the case of the RoC, the crisis unfolded in a EU where the banking crisis was moving to the periphery, and was further complicated by the fact that the RoC did not have the option of devaluing its currency within the Eurozone.<sup>11</sup> On the other hand, economic crises in northern Cyprus cannot be explained without taking account of the economic integration of Turkey and the 'TRNC'. It is a well-known fact that financial assistance from Turkey has become the major source of Turkish Cypriot revenue since the 1950s and further intensified after the founding of the 'TRNC' in 1983.<sup>12</sup> Furthermore, the 'TRNC' uses Turkish Lira (TL) as its currency and this makes using monetary policy tools impossible plus any changes in the TL directly affect its economy.<sup>13</sup>

This relationship of dependence between Turkey and the 'TRNC' also explains why the economic policies implemented in the north of the island since 1974 closely echo the policies implemented in Turkey. Economic policies put into effect on the island, therefore, should be viewed against the backdrop of the neoliberal restructuring that was underway in Turkey from the 1980s onwards. This article analyses the economic policies imposed in the north after 1974 by establishing links with the prevailing ideological context in Turkey. Yet, the real focus of this study centres on the post-2002 period where *Adalet ve Kalkınma Partisi* (Justice and Development Party – hereafter the AKP) government under Erdogan has been a proponent of 'neoliberalism with a human face'. This means that despite Erdogan's people-friendly rhetoric, a neoliberal agenda defined the party's economic policies, with the government placing priority on fiscal responsibility via budgetary austerity.<sup>14</sup>

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10 C. Lapavistas *et al.* (2010) 'Eurozone Crisis: Beggar Thyself and Thy Neighbour', *Journal of Balkan and Near Eastern Studies*, Vol. 12, No. 4, p. 326.

11 Y. Ozdemir (2013) 'Krizler, Euro Krizi ve Guneş Kıbrıs'ta Yaşananlar ve Yaşanacaklar Üzerine' [On the Crises, Euro Crisis and What has been Experienced and What will be Experienced in Southern Cyprus], *Yeniduzen Gazetesi – Kıbrıs Gaile eki* [supplement of the Yeniduzen], 7 April.

12 Overall, in the 1974–2004 period, Turkey provided \$US 3.07 billion of financial assistance to northern Cyprus. The Turkish government also invested in numerous infrastructure projects, such as building schools and hospitals, roads, irrigation networks and telecommunication facilities – U. Bozkurt (2013) 'Cyprus: Divided by History, United by Austerity', *opendemocracy*, 7 May.

13 Guryay (2011) *op. cit.*, p. 67.

14 U. Bozkurt (2013) 'Neoliberalism with a Human Face: Making Sense of the Justice and Development Party's Neoliberal Populism in Turkey', *Science & Society*, Vol. 77, No. 3 (July), p. 373.

The AKP's economic policies do not represent a rupture but rather continuity with its predecessors. The coalition government that was in power immediately prior to the AKP being elected in 2002 implemented the IMF-backed economic programme in 2001. The strategy was based on tight financial and monetary policies with the intention of contracting internal demand through a restricted wage policy.<sup>15</sup> The AKP government essentially executed this programme. However, as is elaborated further below, the AKP, by enjoying its advantage of ruling Turkey on its own after a decade of coalition governments, engaged in deepening the neoliberal transformation in Turkey. AKP's neoliberalism revealed a gradual marketisation of public services together with privatisation ventures, the flexibilisation of labour and the so-called 'urban transformation' projects, whereby poor populations are displaced and public places, green areas, and historical sites are demolished in order to rebuild the city in the image of capital.<sup>16</sup>

The gradual empowerment of the AKP paved the way to a more thorough effort of neoliberal restructuring in the northern part of Cyprus.<sup>17</sup> In addition, especially after the failure of the Annan Plan in 2004, the AKP government's rule in north Cyprus drew less on the consent of the Turkish Cypriots and more on domination. The days when Turkey's intervention in 1974 was greeted with jubilation and relief by the vast majority of Turkish Cypriots are long gone, and today an increasing number of Turkish Cypriots are frustrated and antagonised by Turkey's authoritarian attitude over the 'TRNC'. During the course of the 2000s a transformation started to take place in the relationship between Turkey and Turkish Cypriots with the so-called 'motherland' metamorphosing into 'the IMF of northern Cyprus'. But, even though austerity measures driven by Turkey precipitated a serious discontent within the Turkish Cypriot community, it is problematic to view such policies as only top-down impositions: doing so would deny the actual agency of the local dynamics in the north. As will be further elaborated on below, a significant section within the Turkish Cypriot bourgeoisie joined forces with the Turkish bourgeoisie to engage in the neoliberal modernisation of the economy. The philosophy behind this was to abolish the economic isolation and, therefore, bring a smoother integration of the 'TRNC' with international markets.

### **The Political Economy of the Turkish Cypriot Community in the Post-1974 Period**

The Turkish Cypriot financial dependency on Turkey was established earlier in the 1950s when Turkey initially provided financial aid to the community. This dependency relationship was further

15 Z. Aydin (2005) *The Political Economy of Turkey*, London: Pluto Press, p. 127.

16 C. Tugal (2013) 'Occupy Gezi: The Limits of Turkey's Neoliberal Success', *Jadaliyya*, 4 June.

17 N. Moudouros (2013) 'Islam and Neoliberal Hegemony in the Turkish Cypriot Community: A New Process of Transformation', paper presented at the *14th Mediterranean Research Meeting*, organised by the Mediterranean Programme of the Robert Schuman Centre for Advanced Studies at the European University Institute, Mersin-Turkey, 20–23 March, p. 1.

intensified following the breakdown of the bi-communal RoC in 1963. It was in this period that Turkish Cypriots retreated to Turkish Cypriot quarters following Greek Cypriot paramilitary attacks and formed a separate administrative system, known as the 'Transitional Cyprus Turkish Administration' from 1967 onwards.<sup>18</sup> The threats coming from the nationalist *Türk Mukamelevet Teşkilatı* (Turkish Resistance Organisation – TMT) and Greek Cypriot employers deterred many Turkish Cypriots from working outside of the enclaves.<sup>19</sup> At this time, the Turkish government sponsored the salaries of all Turkish Cypriot officials and members of the armed forces, and provided welfare relief to approximately half of the Turkish Cypriot community by 1967.<sup>20</sup>

Turkey played a substantial role in shaping the post-1974 political economy of the Turkish Cypriot community. Following Turkey's military operation in 1974 and the division of the island, Transitional Cyprus Turkish Administration proclaimed itself the Turkish Federated State of Cyprus in February 1975. Turkey implemented an import substitution industrialisation (ISI) model from 1960 to 1980 where technology, capital goods and inputs were imported and the final product was domestically produced.<sup>21</sup> State economic enterprises played a peculiar role in boosting the local industry. On the one hand they provided industry with low-cost inputs and on the other they provided inexpensive consumer goods for wage earners and thereby contributed to the profits of the industry by keeping the labour costs along with the price of the inputs low.<sup>22</sup>

This model of planned industrialisation in Turkey had an impact on the model implemented in northern Cyprus in the post-1974 era, which was defined by heavy state interventionism. State-run economic sectors, state-run farms, state-run hotels, state-run banks and state-run factories were established.<sup>23</sup> The remarkable aspects of this period were the mechanisms employed by the state to legitimise itself. In the early 1970s it was the allocation of property of Greek Cypriots who moved southwards after 1974 and later the distribution of posts in the bureaucracy, state-owned enterprises and other semi-state institutions that served as a means to cultivate its legitimacy.<sup>24</sup>

In November 1983, Denktaş proclaimed the 'TRNC' which was branded an 'invalid' state

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18 Y. N-Yashin (2006) 'Affect in the Civil Service: A Study of a Modern State-System', *Postcolonial Studies*, Vol. 9, No. 3, p. 286.

19 *Ibid.*, pp. 286–287.

20 R. Patrick (1976) *Political Geography and the Cyprus Conflict, 1963–1971*, edited by J.H. Bater and R. Preston, Department of Geography, Faculty of Environmental Studies, Waterloo, Ontario: University of Waterloo, p. 107.

21 H. Gulalp (1985) 'Patterns of Capital Accumulation and State-Society Relations in Turkey', *Journal of Contemporary Asia*, Vol. 15, No. 3, p. 337.

22 G. Tuzun (1986) *Ekonomik Bunalım ve 24 Ocak Kararları Üzerine* [Upon the Economic Crisis and the 24 January Decisions], Istanbul, p. 51; C. Keyder (2003) *Türkiye'de Devlet ve Sınıflar* [State and Classes in Turkey], Istanbul: İletişim Yayınları, p. 228.

23 M. Hatay (2005) *Beyond Numbers: An Inquiry into the Political Integration of the Turkish 'Settlers' in Northern Cyprus*, Nicosia: PRIO Report 4, p. 25.

24 D. Isachenko (2009) 'On the Political Economy of Unrecognised Statebuilding Projects', *The International Spectator: Italian Journal of International Affairs*, Vol. 44, No. 4, p. 70.

by the United Nations Security Council Resolution 541.<sup>25</sup> The era, post-1986, represents a new phase in the political economy of the Turkish Cypriot community. This period is characterised by neoliberal reforms and the privatisation of the state economic enterprises. Such a shift from heavy state involvement in economic policy-making to neoliberal economic policies can only be understood by reflecting on the ideological atmosphere that prevailed in the early 1980s in Turkey.

The Turkish economy experienced a severe economic crisis in the 1970s. The crisis was related to the internal contradictions of the ISI in force and, specifically, resulted from Turkey's continued dependence on the West for the import of capital goods as well as raw materials and intermediate goods.<sup>26</sup> The Turkish government implemented a stabilisation package on 24 January 1980 that was followed by the military coup of 12 September 1980. The 24 January decisions were designed to transform Turkey's economy from a model based on import-substitution accumulation to an industrial strategy that was based on export-led growth.<sup>27</sup> The programme aimed to achieve an export oriented trade model by curbing the growth of domestic demand by a combination of contractionary fiscal and monetary policies in order to generate excess capacity that was intended to meet external demand.<sup>28</sup> Yet implementing such policies was a real challenge to the Turkey of late 1970s that was defined by labour union mobilisation. This is why the military coup of 1980 reorganised the country's political structure completely and enabled the implementation of these economic policies. The 12 September development can be defined as a simultaneous process of political authoritarianism and economic liberalism. On the one hand, the architects of the coup carried out a massive restructuring whereupon they dissolved all political parties, banned trade unions, carried out a large-scale purge in the civil service and made provision for an expanded role for the military in politics. On the other hand, the coup aimed to facilitate the structural adjustment process by creating an environment in which there was little room for opposition. While all associations were banned and labour was directly excluded from the decision-making process, the military regime asked for the support of Türk Sanayicileri ve İşadamları Derneği (TÜSİAD) (Turkish Industrialists' and Businessmen's Association) to transmit the message abroad that it would remain loyal to the structural adjustment programme.<sup>29</sup>

Reflections on this ideological shift in economic policy-making soon became explicit in

25 C. Constantinou and Y. Papadakis (2001) 'The Cypriot State(s) in Situ: Cross-Ethnic Contact and the Discourse of Recognition', *Global Society*, Vol. 15, No. 2, p. 128.

26 Tuzun (1986) *op. cit.*, p. 46; C. Keyder (2003) *Türkiye'de Devlet ve Sınıflar* [State and Classes in Turkey], İstanbul: İletişim Yayınları, p. 208; H. Gulalp (1993) *Kapitalizm, Sınıflar ve Devlet* [Capitalism, Classes and the State], İstanbul: Bilim Dizisi, p. 36.

27 S. Aren (1986) *24 Ocak Programı ve Alternatifleri* [24 January Programme and its Alternatives] İstanbul: Bilim ve Sanat, p. 25.

28 T.F. Nas (1992) 'The Impact of Turkey's Stabilization and Structural Adjustment Program: An Introduction', in T. Nas and M. Odekon (eds), *Economics and Politics of Turkish Liberalization*, Bethlehem, PA: Lehigh University Press, p. 11.

29 G. Yalman (1997) 'Bourgeoisie and the State: Changing Forms of Interest Representation within the Context of

northern Cyprus. The early and mid-1990s were characterised by the privatisation of state economic enterprises. As Hatay underlines:

‘This decade was a period of neoliberal privatisation in north Cyprus making it attractive for owners of small business enterprises, as well as highly skilled professionals, such as financial experts hired in local or offshore banks, lecturers who teach in the universities, and businessmen who have made investments on the island. Several new hotels were built or older Greek-Cypriot ones, previously run by the government, were privatised. Together with growth in the hospitality industry, hotels began to open casinos which catered mainly to Turkish tourists. In addition, by the middle of the 1990s, changes in property laws resulted in a boom in the real estate sales and construction sector. The same period also saw the establishment of private universities in Nicosia, Kyrenia and Famagusta which attracted an increasingly large population of students from Turkey and other third countries.’<sup>30</sup>

A major factor that contributed to the post-1980 boom in the north was the investments of the Turkish Cypriot businessman Asil Nadir. Nadir became a household name for his transformation of a small textiles company in London’s East End into Polly Peck International (PPI), a multinational conglomerate that included investments in electronics, leisure and the Del Monte fruit group. In 1982 Nadir began his earlier ventures and set up three companies in northern Cyprus. These included Uni-Pac Packaging Industries Ltd., Sunzest Trading Ltd., (the citrus fruit business) and Voyager Kibris Ltd., which was responsible for running three hotels – the Jasmine Court, the Palm Beach, and Crystal Cove.<sup>31</sup> In 1990, the Serious Fraud Office said that it had found evidence that Nadir had stolen millions of pounds from PPI that belonged to its shareholders. The PPI collapsed in October 1990. Then, in 1993, as Nadir’s trial approached, he fled Britain and came to northern Cyprus. Seventeen years later, in 2010, he returned to Britain saying that he wanted to clear his name. He was found guilty of ten thefts from Polly Peck totalling £29m.<sup>32</sup> Tahsin notes how Asil Nadir’s investments had a buoyant effect on the economic performance of the ‘TRNC’ until his bankruptcy (1990–1993).<sup>33</sup>

By the 1990s, questions on whether the economic model established after 1974 would be sustainable any longer became explicit. In the mid-1990s the political conflict over the distributive

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the Economic Crises and Structural Adjustment: Turkey during the 1980s’, unpublished PhD thesis, Manchester School of Social Sciences, Manchester University, pp. 219–220.

30 M. Hatay (2008) ‘The Problem of Pigeons: Xenophobia and a Rhetoric of the “Local” in North Cyprus’, *The Cyprus Review*, Vol. 20, No. 2 (Fall), p. 155.

31 G. Counsell and H. Pope (1993) ‘Desperate Bid to Claim PPI Assets: Polly Peck Administrator Flies Out to Turkey in Attempt to Revive Collapsed Sale’, *The Independent*, 16 May.

32 D. Casciani (2012) ‘How Asil Nadir Stole Polly Peck’s Millions’, *bbcnews*, 22 August.

33 E. Tahsin (2013) ‘The Dimensions of Neoliberalism Transformation in Case of Northern Cyprus’ – presented at Symposium, 30 October–1 November, *Neo-Liberal Transformation: Its Dimensions and Consequences*, Lefke: European University of Lefke, p. 8.



capacities of the 'TRNC' reached a climax.<sup>34</sup> The demise of Asil Nadir's Polly Peck company also struck a major blow to its economy. In July 1994, the European Court of Justice (ECJ) ruled that health certificates issued by the 'TRNC' authorities were not to be accepted as substitutes for the legally recognised RoC government's documents. This meant that the 'TRNC' citrus fruit and potato exports to the UK markets would no longer receive preferential trade treatment as stated in the Association Agreement and Customs Union. To make matters worse, the British authorities interpreted this decision to cover all the exports from the 'TRNC' and began to impose trade restrictions by eliminating the preferential trade status of export commodities from north Cyprus.<sup>35</sup> In consequence, 'the economy of the "TRNC" has become progressively less and less integrated with international markets and more and more reliant on Turkey'.<sup>36</sup> As Akcali underlines, 'This ruling, still in effect, has become the severest economic embargo launched against the "TRNC" and the Turkish-Cypriot community since 1974'.<sup>37</sup>

In December 1999, the 'TRNC' economy suffered a huge financial crisis triggered by the banking sector. Various factors played a role in this crisis including the EU embargo as well as the dependence of northern Cyprus' economy on Turkey that was itself hit by an economic crisis in August 1999.<sup>38</sup> The banking crisis that occurred in December 1999 in the north, involved 30,000 depositors. By early 2000 the crisis worsened and six banks were placed *under* government control. Four out of six banks were closed by the decision of the Council of Ministers. Following on from this, Prime Minister Dervis Eroglu's government sought financial aid from Ankara but Turkey was not willing to provide unconditional support. Instead, she imposed an economic austerity package that met widespread resistance on the part of opposition parties and trade unions, together with the business community.<sup>39</sup> Because of the resistance, the government could not implement the package which led to a shortfall in funds. Consecutive delays in the payment of salaries in the public sector plus the suspension of payment of compensation to victims of the banking crisis, contributed to increasing discontentment within the Turkish Cypriot community.<sup>40</sup> Essentially, the economic crisis meant that the Turkish Cypriot government was confronted with diminished

34 E. Akcali (2011) 'Getting Real on Fluctuating National Identities: Insights from Northern Cyprus', *Antipode*, Vol. 43, No. 5, p. 1733.

35 S.T. Katircioglu (2006) 'Causality between Agriculture and Economic Growth in a Small Nation Under Political Isolation: A Case from North Cyprus', *International Journal of Social Economics*, Vol. 33, No. 4, p. 338.

36 M. Besim and F. Mullen (2009) 'Cyprus in the Global Financial Crisis: How Lack of Banking Sophistication Proved an Advantage', *South European Society and Politics*, Vol. 14, No. 1, p. 88.

37 Akcali (2011) *op. cit.*, p. 1733.

38 *Sabah* (2011) 'Turkiye'de ekonomik krizler' [Economic Crises in Turkey], 19 April.

39 S. Sonan (2007) 'From Bankruptcy to Unification and EU-Membership? The Political Economy of Post Nationalist Transformation in Northern Cyprus', *RAMSES Working Paper 9/07*, European Studies Centre, University of Oxford, pp. 12–13.

40 *Ibid.*, p. 14.

possibilities for containing the grievances through the traditional instruments of patronage and clientelism.<sup>41</sup> The inability of the government to respond to the demands of the Turkish Cypriot community by resorting to clientelistic mechanisms brought forth a significant attitudinal change towards the settlement of the Cyprus problem and the EU. In an environment where the economic crises not only curbed the distributive capacity of the state, but also generated social unrest, the United Nations reunification plan with its prospect of immediate membership in the European Union constituted a promising alternative for a new, concrete social project to replace the defunct politico-economic structure.<sup>42</sup>

The collapse of the Annan Plan became a turning point for different reasons. Turkey, in the aftermath of its failure, not only adopted an intransigent position regarding a settlement in Cyprus, but in this period Turkey's relationship soured with significant sections of the Turkish Cypriot community as well. The alliance – between the AKP and the Turkish Cypriot opposition forces – for the sake of bringing a political settlement to the Cyprus conflict in the early 2000s came to an end soon afterwards as Ankara started to impose stringent austerity measures. As elaborated in detail below, the post-Annan period demonstrated how Erdoğan and his government increasingly relied on 'dominance without hegemony'<sup>43</sup> in his interactions with the 'TRNC' in which he adopted a heavy-handed approach, and did not prioritise reaching any accord with the Turkish Cypriot community. This essentially meant that the relationship between Turkey and the Turkish Cypriot community that was traditionally defined as a 'motherland–infant-land' affiliation underwent a significant change after the mid-2000s when Turkey, to a greater extent, assumed the role of an IMF-style of disciplining external force which eventually led to rising social and political disgruntlement amongst the Turkish Cypriots. It is possible to observe that Cypriotness as one of the discourses articulated by the Turkish Cypriot political opposition in order to organise mobilisations of the early 2000s – understood in terms of self-determination posed in opposition to the domination of Turkey – was further consolidated in this period.

### **AKP and Deepening Neoliberalism in Turkey**

The AKP came to power in the 2002 election, in the aftermath of the 2001 financial crisis. The party managed to progressively increase its number of votes and won a landslide victory in the 2011 general election with 50% of the vote. The 2001 crisis had negative repercussions on all sections of Turkish society, whether rich and poor, educated and non-educated, urban and rural. In this context, centre-left parties were penalised for failing to protect the interests of the poor and the

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41 H. Lacher and E. Kaymak (2005) 'Transforming Identities: Beyond the Politics of Non-Settlement in North Cyprus', *Mediterranean Politics*, Vol. 10, No. 2, p. 150.

42 Sonan (2007) *op. cit.*, p. 5.

43 N. Trimikliniotis and U. Bozkurt (eds) (2012) *Beyond a Divided Cyprus: A State and Society in Transformation*, New York: Palgrave Macmillan, p. 7.

underprivileged whereas centre-right parties suffered from their association with widespread corruption.<sup>44</sup> During the electoral campaign of 2002, Recep Tayyip Erdogan raised popular expectations that his party would immediately tackle problems of growing poverty, distorted income distribution, and social inequality; yet the AKP stayed within the neoliberal framework. In that sense AKP under Erdogan has been a proponent of 'neoliberalism with a human face', whereas beyond the party leader's people-friendly rhetoric a neoliberal agenda remains intact, with the government placing priority on fiscal responsibility via budgetary austerity.

In its rule for more than a decade, AKP engaged in a gradual marketisation of public services, privatisation, and the flexibilisation of labour. The New Social Insurance and Universal Health Insurance Act that was passed in parliament in 2008 targeted raising the age of retirement, lengthening the contribution period, and reducing retirement, disability, and survivor benefits and pensions.<sup>45</sup> AKP directed to weaken welfare policies as a public obligation because the state is subcontracting its welfare provision duties to the private sector.<sup>46</sup> What is more, charity groups and philanthropic associations are taking over some state functions. The neoliberal ideology of the party has also manifested itself in so-called 'urban transformation' projects where public places, green areas, and historical sites are demolished and poor populations are displaced (Tugal, 2013). 'All these unwanted spaces (and people) are being replaced by malls, skyscrapers, office spaces, and glossy remakes of historical buildings.'<sup>47</sup> This process can be defined as an explicit manifestation of 'the urbanization of capital' in the words of David Harvey. Harvey emphasises how the reproduction of capital passes through processes of urbanisation in myriads of ways. 'But the urbanization of capital presupposes the capacity of capitalist class powers to dominate the urban process. The city and the urban process that produces it are therefore major sites of political, social, and class struggles.'<sup>48</sup>

The neoliberalism of AKP also explains why it has managed to gain more votes in comparison to its predecessors. The party is born out of the *Milli Görüş* (National Outlook) tradition that represents political Islam from the 1970s onwards. In the main, the predecessors of the AKP gave voice to the losers of the economic policies implemented at the time. For example, the *Milli Selamet Partisi* (National Salvation Party – NSP) represented the interests of the small-

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44 Z. Onis (2006) 'The Political Economy of Turkey's Justice and Development Party', in M. Hakan Yavuz (ed.), *The Emergence of a New Turkey: Islam, Democracy and the AK Party*, Salt Lake City, Utah: University of Utah Press.

45 S. Cosar and M. Yegenoglu (2009) 'The Neoliberal Restructuring of Turkey's Social Security System', *Monthly Review*, Vol. 60, No. 11 (April), p. 43.

46 M. Eder (2010) 'Retreating State? Political Economy of Welfare Regime Change in Turkey', *Middle East Law and Governance*, Vol. 2, No. 2, p. 181.

47 Tugal (2013) *op. cit.*

48 D. Harvey (2012) *Rebel Cities: From the Right to the City to the Urban Revolution*, London: Verso, p. 65.

scale commercial and industrial bourgeoisie in the 1970s.<sup>49</sup> But the AKP went beyond appealing to the traditional support base of its predecessors to represent the second generation bourgeoisie, which has flourished under conditions of globalisation. In opposition to the first generation bourgeoisie or the 'İstanbul bourgeoisie' that became prominent in the early 60s and 70s, the second generation bourgeoisie or the 'Anatolian bourgeoisie' started to grow in Anatolian cities in the aftermath of the 1980s. Today, the second generation bourgeoisie includes not only small and medium-scale employers. Also, from the 1990s onwards Islamic capital has grown, taking advantage of the export orientation of the economy and leading to the foundation of some holding companies that have reached the size and economic power of many units of 'core' capital.<sup>50</sup> It was the rise of the second generation bourgeoisie that gave way to the AKP's split from its predecessor *Refah Partisi* (Welfare Party). Progressively, the so-called Just Order of the National Outlook line that highlighted social justice, redistribution and heavy state intervention, alienated the emerging devout bourgeoisie who became supportive of free market principles rather than the Just Order.<sup>51</sup>

In this respect, it needs to be underlined that the economic policies formulated by the AKP since 2002 aimed to reward both the first generation and the second generation bourgeoisie.<sup>52</sup> On the other hand, the impact of these economic policies on the working class, unemployed and vulnerable sectors such as housewives and the elderly have been hardly positive. Even though AKP managed to achieve economic growth, this growth – which relied on short-term capital inflows – neither reduced unemployment nor led to an increase in real wages. According to research conducted by the Organisation for Economic Co-operation and Development (OECD), Turkey is classified in the category of member countries with the highest income inequality.<sup>53</sup>

### Turkey as the IMF of Northern Cyprus

In many ways, the failure of the Annan Plan became a momentous turning point in AKP's position on Cyprus. Many people in the north, particularly in left-wing circles, had invested a great deal of hope in the party especially in its first term in power. Indeed, in the early 2000s, Erdogan was in favour of challenging traditional Turkish foreign policy on Cyprus in order to facilitate the country's entry in the EU. He thus gave support both to the political opposition in the 'TRNC'

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49 B. Toprak (2005) 'Islam and Democracy in Turkey', *Turkish Studies*, Vol. 6, No. 2 (June), p. 180.

50 G. Haldun (2001) 'Globalization and Political Islam: The Social Bases of Turkey's Welfare Party', *International Journal of Middle East Studies*, Vol. 33, No. 3, p. 444.

51 S. Gumuscu and D. Sert (2010) 'The March 2009 Local Elections and the Inconsistent Democratic Transformation of the AKP Party in Turkey', *Middle East Critique*, Vol. 19, No. 1 (Spring), p. 963.

52 F. Ercan and S. Oguz (2006) 'Rescaling as a Class Relationship and Process: The Case of Public Procurement Law in Turkey', *Political Geography*, Vol. 25, No. 6.

53 E. Ustundag (2008) 'Türkiye Gelir Esitsizliğinde OECD Sampiyonlarından' [Turkey is Amongst the OECD Member Countries with the Most Unjust Income Distribution], *Bianet*, 22 October.

and the comprehensive peace plan for the resolution of the Cyprus issue, released by the UN Secretary General Kofi Annan soon after AKP's electoral victory. Nonetheless, the Greek Cypriot rejection of the Annan Plan started a new phase: Turkey exhibited hardly any willingness to realise a federal solution and had ceased to be supportive of confidence building measures or initiatives aiming to increase the dialogue between the two communities in Cyprus.<sup>54</sup>

The end of the decade led to an increasing mobilisation on the part of the Turkish Cypriots as the economic crisis precipitated social and political discontent amongst trade unions and civil society organisations groups. This gloominess manifested itself in three massive rallies held in January, March, and April 2011 plus a series of strike actions that continued throughout 2012 and 2013. Turkish Cypriot discontent was plural in form and content. The protests, led by trade unions largely in the public sector, are connected to political parties of the Left. This is hardly surprising as the austerity package is hitting the Turkish Cypriot middle classes and labour aristocracy, who are feeling the squeeze. Recent research indicates that their presence and role are gradually being eroded; Turkish Cypriot workers in the public sector are conscious of the pressure of being made unemployed or being curtailed of their rights in an economy where insecure working conditions or precariatization prevails as the norm in labour relations within the private sector. So far the opposition to Turkey's overpowering presence reflects a combination of economic and communal-cultural concerns. An emphasis on 'Cypriotist' identity can also be observed on the part of protestors. Still, disillusionment is gradually drawing support from all walks of life, including some political groups on the traditional pro-Ankara Right of the ideological spectrum.<sup>55</sup>

To reiterate, there is nothing new in terms of Turkey's intervention in the economy of northern Cyprus. Since 1986, Turkish governments have engaged in transforming the economy of the 'TRNC' in line with their ideological orientations via economic protocols signed between Turkey and the 'TRNC'. Yet the AKP tried to closely monitor the economic system, and especially after 2006, IMF type conditionality principle that conditions loans on a number of prerequisites and reforms started to be implemented in north Cyprus as well.<sup>56</sup>

This section focuses on the post-2004 economic restructuring, but before elaborating on the economic policies currently implemented, it is important to provide a background to Turkey's interventions in the economy of northern Cyprus. To this end, this section briefly summarises the content of the economic protocols signed between Turkey and the 'TRNC' from 1986 onwards.

54 M. Ozsglam (2011) 'AK Parti ve 12 Haziran sonrası Kıbrıs sorunu' [Justice and Development Party and the Cyprus Problem after 12 June Elections], *Havadis*, 20 June.

55 N. Trimikliniotis and U. Bozkurt (eds) (2012) *Beyond a Divided Cyprus: A State and Society in Transformation*, New York: Palgrave Macmillan, p. 7.

56 H. Arslan (2011) 'Neo-liberal bakışının tahakkumu altında bir yeniden yapılandırma sürecinden geçen Kıbrıs Türk toplumunun siyasal iktisadına dair bazı tespitler' [Some observations on the political economy of the Turkish Cypriot community that is undergoing a neoliberal restructuring], *Yenidüzen Gaile eki* (Gaile-supplement of Yenidüzen), 17 July.

This analysis reveals that in line with the neoliberal turn after the 1980 coup in Turkey, certain reforms that point to effecting a similar transformation in the economy of northern Cyprus were already under way. For example, the Turkey–‘TRNC’ Economic Co-operation Protocol signed on 5 December 1986 aimed to transform the economy from a mixed economy to a free market economy. A glaring consequence of this process was the undermining of local industry which had already entered this phase when the 1986 protocol was signed. Instead, the 1986 protocol led to the legalisation of offshore banks and priority being given to foreign trade, education, banking and tourism.

The 1992 protocol that the ‘TRNC’ signed with Turkey included steps toward a customs union between Turkey and the ‘TRNC’ via the elimination of excises and other tariffs (1992 TC–‘TRNC’ Economic Protocol). The Economic Co-operation Protocol signed in 1997 between Turkey and the ‘TRNC’ essentially targeted privatisation. The private sector would be strengthened by the creation of special departments under the supervision of the Privatisation Directorate of Turkey such as the ‘monitoring committee’ and the ‘privatisation unit’.<sup>57</sup> It was the privatisation unit that abolished the state economic enterprises such as Cyprus Turkish Tourism Enterprises (*Kıbrıs Türk Turizm İşletmeleri*) and Industry Holding (*Sanayi Holding*). The year 1997 can be seen as a year of further integration. The Council of Association (Ortaklık Konseyi) that was formed between Turkey and the ‘TRNC’ in the same year aimed to strengthen co-operation concerning commerce, economics and fiscal matters as well as defence and security between Turkey and the ‘TRNC’.<sup>58</sup>

Following the economic crisis in 1999 that led to the collapse of the banking sector, an ‘Economic Stability Programme’ was announced on 4 October 2000. The Economic Stability Programme held the public sector responsible for the crisis and emphasised privatisation along with measures regarding the banking sector, which focused on rescuing financial capital.<sup>59</sup> Moreover, the Council of Partnership decided to improve co-operation on sectors like energy, private universities and tourism, as well as the adjustment of the ‘TRNC’ to the legislative regulations of Turkey in relation to the reinforcement of the private sector and market competition.<sup>60</sup>

Another important programme that is worthy of mention is the ‘*Sürdürülebilir Kalkınma için Yapılandırma ve Destek Programı*’ (Structuration and Support Programme for Sustainable Development) (2007–2009) that was signed in 2006. This programme is central because, for the

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57 *Ibid.*

58 Türkiye Cumhuriyeti Hükümeti ile Kuzey Kıbrıs Türk Cumhuriyeti Hükümeti Arasında bir Ortaklık Konseyi Kurulmasına İlişkin Anlaşma (Onay) Yasası, Sayı 9/1998 [Law on establishing a Council of Partnership between the Turkish Republic and the ‘Turkish Republic of Northern Cyprus’, 1998].

59 Arslan (2011) *op. cit.*

60 Moudouros (2013) *op. cit.*

first time, the principle of conditionality was included and it was duly followed with the '*Kamunun Etkinliğinin ve Özel Sektörünün Rekabet Gücünün Artırılması Programı*' (Programme for Increasing the Effectiveness of the Public Sector and the Competitiveness of the Private Sector) (2010–2012).<sup>61</sup> The 2010–2012 Programme aspired to drastically reduce budget deficits. Yet the aim was also emphasised as a way to reduce the state's intervention in the economy besides boosting the private sector. Accordingly, the necessity to reduce the state's expenses and to increase its revenues by intensifying privatisation was heightened; thus reducing the number of civil servants and encouraging private capital investments at the same time.<sup>62</sup> Meanwhile, the current protocol – referred to as '2013–2015 Transition to a Sustainable Economy Programme' – adopted a series of aims such as: taming the 'cumbersome' state; transforming it into an apparatus based on 'good governance'; transforming a system based on patronage to a more institutionalised capitalism; improving efficiency in the public sector; creating an economic structure based on boosting the private sector, and reducing the role of the public sector and public finance. The majority of the financial aid being provided by Turkey for the duration of the programme is being allocated to help boost the private sector. The most crucial aspect of the protocol is the emphasis placed on privatisation: specifically the privatisation of electricity, telecommunications and seaports.<sup>63</sup>

Even though the economy has various structural problems, for instance, a miniature market, a lack of direct flights that undermine its tourism potential and limited export opportunities, the economic policies imposed by Turkey strive aggressively to roll back the state.<sup>64</sup> It is feasible to argue that apart from forcing a transition upon the so-called 'cumbersome state' to conform to some sort of leaner state, the policies imposed by Turkey do not promise a way out from the crisis of the economy. Contrarily, its policies as regards its single minded emphasis on neoliberal reforms in a country defined by its small economy, unemployment and stagnation, invite further unemployment and impoverishment for Turkish Cypriots. If the protocol is implemented completely, a number of state economic enterprises will be acquired by Turkish capital and key strategic sectors such as electricity and telecommunications will become private monopolies.<sup>65</sup>

As can be appreciated, the neoliberal restructuring of the northern Cyprus economy intensified mainly after 2006 with the introduction of the conditionality principle. The conditionality principle is part and parcel of the new strategy of the AKP government that works to effect a deeper intervention into the economic and political structures in the 'TRNC'. In the aftermath of the failed Annan Plan, the AKP has clearly set up a strategy that defines northern Cyprus as an investment area and has been increasing the volume of credits that are coordinated

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61 Arslan (2011) *op. cit.*

62 Moudouros (2013) *op. cit.*

63 U. Bozkurt (2013) *op. cit.*, 'Cyprus: Divided by History ...'

64 *Ibid.*

65 *Ibid.*

by Turkey's institutions. Recent investments by large Turkish capital groups in the Bafra Tourism zone are conspicuous, as are new investment areas which have been established and are supported by subsidy laws.<sup>66</sup> A 'TRNC' Investment Consultancy Council has been established and the Turkish-'TRNC' Business Council's aim is to encourage investments. 'Thus, the investments in northern Cyprus would be coordinated by a commission of government officials of Turkey and northern Cyprus and representatives of the private sector from both sides.'<sup>67</sup> This presents a clear manifestation that Turkish capital wants to become more active in northern Cyprus during the AKP government. Tahsin notes that the key expectations of AKP from the northern Cyprus government are not only the limitation of public expenditure and maintenance of privatisation policies but also the acquisition of new investment areas.<sup>68</sup>

Moudouros notes that different sectors within the Turkish bourgeoisie converged on the necessity for neoliberal transformations which, in their view, could overcome economic underdevelopment of the Turkish Cypriots. Under this preamble, the most powerful business circles of Turkey intensified their efforts to highlight the private sector as the guiding authority for development and much sought after modernisation.<sup>69</sup> They suggested adopting the 'free market' model which solely restrains the functions of the public sector to regulation of the legislative framework and the creation of favourable conditions in order to increase foreign investment. In this process, the abolishment of the public sector's 'privileges', and in general of the working class, was presented as a 'necessary' and 'unavoidable' prerequisite for 'medium and long term prosperity'.<sup>70</sup>

In order to effect a change in Cyprus, business associations in Turkey engaged themselves in different organisations and activities:

The powerful Organization of Turkish Industrialists and Businessmen (TÜSİAD) formed a "Cyprus Department" so as to intensify its intervention. The Union of Chambers and Commodity Exchanges of Turkey (TOBB) worked hard to create structures and bodies such as the Investment Advisory Council, as well as proposals to help speed up the Immovable Property Commission's procedures regarding compensations to the Greek Cypriot owners for their properties in the northern part of Cyprus. The Turkish Economic Bank (Türk Ekonomi Bankası – TEB) and the Council of Foreign Economic Relations of Turkey (DEİK) formed various programs in order to increase foreign investments, especially in the sectors of tourism and private

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66 E. Tahsin (2012) 'Making Sense of Turkey's Changing Cyprus Policy: The EU Factor and the Shifting Preferences of the Power Bloc', in N. Trimikliniotis and U. Bozkurt (eds), *Beyond a Divided Cyprus: A State and Society in Transformation*, New York: Palgrave Macmillan, p. 148.

67 *Ibid.*, p. 148.

68 *Ibid.*

69 Moudouros (2013) *op. cit.*, p. 15.

70 *Ibid.*, pp. 15–16.



education. The Union of All Industrialists and Businessmen of Turkey (TÜMSİAD), as well as the Turkish Confederation of Businessmen and Industrialists (TUSKON), which is linked to the Islamic Gülen community, decided to open branches in Cyprus in order to facilitate foreign commerce. The Independent Industrialists and Businessmen Association (MÜSİAD) which is the primary organization of the "Islamic" capital, also created a branch in the northern part of the island having as a goal the integration of commerce and industrial production to the global market.<sup>71</sup>

Hence, a vital aspect in the developments relating to the implementation of the economic protocol 2010–2011–2012 has been the more intense presence of the Turkish private sector and its organised bodies in the northern part of Cyprus. This development has been the result of a specific political strategy followed by the Turkish government and has not simply been left to the inherent expansive forces of the capital.<sup>72</sup> Moudouros stresses how Ankara followed a unified political line in order to implement the programme. All institutions in Turkey, which are directly involved with the Cyprus Problem such as the Prime Minister's office, the Ministry of State for Cypriot Affairs, the Foreign Affairs Ministry and the army, hold the same positions on the economic programme. This 'unified line' of managing the socio-economic structure of Cyprus, is expressed through the Turkish embassy and more specifically through the Assistance Committee headed by the Turkish Ambassador to the 'TRNC'. In line with its self-assigned role of closely monitoring the economy of the north, this committee publishes various reports on whether the aims of the protocol are materialised. The upshot is that Turkish capital has considerably increased its presence in infrastructure and in state enterprises through privatisation as well as in education, construction and tourism sectors plus commercial centres. In the Bafra region, for example, 70% of the new tourist facilities and hotels are being built by Turkish companies. A similar picture can be observed in the education sector also. Furthermore, departments and campuses of Turkish universities such as Istanbul Technological University, the Middle East Technological University along with private schools like TED have been transferred to the northern part of Cyprus.<sup>73</sup>

It must be emphasised that such economic policies are not imposed top-down by Turkey. There are internal dynamics within the 'TRNC' that are explicitly supportive of these economic policies too. Likewise, it should be added that certain sectors within the Turkish Cypriot bourgeoisie have aligned themselves with the interests of the Turkish capital and agreed on the targeted neoliberal transformation. Additionally, in the period after 2004, as a result of the crisis of the economy and the subsequent austerity measures implemented, the conflict between the interests of classes has further intensified. This essentially means that the cross-class alliance, established in the early 2000s for the sake of a political settlement, has fallen apart. Erhurman notes

71 *Ibid.*, p. 16.

72 *Ibid.*, p. 22.

73 *Ibid.*, p. 24.

that the post-2000 period led to a split within the hegemonic class (mainly comprised of commercial bourgeoisie) who traditionally supported right-wing parties – more specifically the UBP – until then. Erhurman contends that this new bourgeoisie which was formerly represented by the Chamber of Commerce, had joined forces with the Turkish Cypriot petty bourgeoisie (civil servants, teachers, pensioners, artisans, shopkeepers) and proletariat (Turkish Cypriots working in the construction, tourism sectors and small scale business enterprises in the north, migrant workers and Turkish Cypriots working in the south).<sup>74</sup> He argues that this section of the bourgeoisie was part of the grand alliance that voted in favour of the Annan Plan in 2004 and the 2005 parliamentary elections when the CTP–BG gained 44.5% of the votes.<sup>75</sup>

As the 2009 elections that led to the victory of the UBP revealed, this alliance which was brought together by a determination to reach a settlement of the Cyprus problem transpired to be only temporary. The ruling CTP–BG had the difficult task of not only representing its traditional support base that is comprised of lower classes and petty bourgeoisie, but also the new bourgeoisie.<sup>76</sup> The CTP–BG did not dare to implement policies that might upset any of these classes that brought the party to power.<sup>77</sup> Eventually the grand alliance came to an end. Hence, in the 2009 elections, the CTP–BG significantly lost the votes it garnered in previous elections. According to Erhurman, the fact that the votes lost by the CTP–BG were gained by UBP reveals that the main break away from the grand alliance of the 2004 referendum and the 2005 elections was the new bourgeoisie.<sup>78</sup>

In the new conjuncture, the Chamber of Commerce proved to be the first organisation to express support for the latest economic protocol (2013–2015 Programme) signed in December 2012. In its published proposals, it declared that it was in favour of the centralisation of political decisions concerning both economy and business organisations participating in the preparation of the economic protocol that was countersigned by Ankara, to support the private sector and the opening of the economy to international commerce. More importantly, the Economic Organisations Platform – which consists of the Turkish Cypriot Chamber of Commerce, the Turkish Cypriot Chamber of Industry, the Union of Turkish Cypriot Hotel Owners, the League of Turkish Cypriot Businessmen, the League of Turkish Cypriot Young Businessmen and the Syndicate of Turkish Cypriot Employers – highlighted the necessity for economic change. So an appreciable section within the Turkish Cypriot capital joined forces with the Turkish capital to engage in the neoliberal modernisation of the economy in order to abolish the isolation of the community and therefore engender a smoother integration with international markets.

In the meantime the austerity regime revealed a conflict of interest between the bourgeoisie

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74 T. Erhurman (2010) *Kıbrıs'ın Kuzeyinde Yeni Sol – Kıbrıs Türk Soluna Eleştirel Bir Bakış* [New Left in Northern Cyprus, A Critical Take on the Turkish Cypriot Left], Nicosia: Isik Publications, pp. 21–22.

75 *Ibid.*, p. 107.

76. *Ibid.*, p. 110.

77 *Ibid.*, p. 7.

78 *Ibid.*, p. 110.

on the one hand and the petty bourgeoisie and the proletariat on the other. Recent research shows that the presence and role of the Turkish Cypriot petty bourgeoisie and labour aristocracy has notably eroded due to the neoliberal package of austerity that includes privatisation. Turkish Cypriot workers in the public sector are feeling the pressure of being unemployed or of their rights being curtailed in an economy where insecure working conditions or precariatisation prevails as the norm in labour relations within the private sector.<sup>79</sup> Not surprisingly, the bourgeoisie is supportive of this austerity package and the curtailment of the rights of petty bourgeoisie and the proletariat.<sup>80</sup> It should be noted that the government's policy of rolling back the state is also antagonising some sections within the petty bourgeoisie (especially employees working in the public sector) that are traditionally supportive of right-wing parties.

## Conclusion

This article has aimed to analyse the post-2004 restructuring of the economy of northern Cyprus by departing from an 'incomplete neoliberalisation'. In doing so it has emphasised the need for an analysis that would locate this restructuring in Cyprus in a global context as well as grasping the peculiarity of the state formation and the actual agency of local dynamics. Locating economic strategies implemented in the north of the island in a global context enabled us to see significant similarities between the economic policies imposed by the Troika in the RoC and Turkey in the 'TRNC'. Experience has shown that in times of crisis austerity measures and structural reforms such as labour market flexibility, tougher pension conditions, privatisation of remaining public enterprises and privatisation of education are preferred by the ruling elites across peripheral and core countries, because it shifts the burden of adjustment onto working people. It is important to underline that similar economic policies are in force in both the north and south of Cyprus and that the island is often conceptualised as a *sui generis* case and needs to be situated in the broader context of neoliberal reactions to the global crisis.

This type of study needs to be completed with a deeper analysis that appreciates the peculiarity of the state formation and the actual agency of local dynamics in the north of Cyprus. The starting point for this examination needs to be the 'TRNC's dependency on Turkey in financial as well as political terms. This relationship of dependence between Turkey and the 'TRNC' also explains why the economic policies implemented in the north of the island since 1974 have closely echoed the policies implemented in Turkey. For example, in the aftermath of 1974, the economic system in northern Cyprus that was defined by heavy state interventionism was inspired by state-led industrialisation in Turkey. But, after 1986, the economy experienced a transition from state involvement in economic policy-making to a neoliberal economy. This

<sup>79</sup> Trimikliniotis and Bozkurt (2012) *op. cit.*, p. 7.

<sup>80</sup> Erhurman (2010) *op. cit.*, p. 99.

neoliberal turn was a direct consequence of the 12 September coup in 1980 in Turkey, which introduced a simultaneous process of political authoritarianism and economic liberalism.

The main focus of this study has been the post-2002 period that brought the AKP to power in Turkey. It has been argued that the neoliberal restructuring that was already underway after 1980 gained a momentum after the AKP came to power and the party aimed to deepen the neoliberal transformation in Turkey. Throughout its rule in more than a decade, the party has been a proponent of 'neoliberalism with a human face', but beyond the party leader's people-friendly rhetoric, a neoliberal agenda has remained intact.

The empowerment of the AKP in Turkey subsequently paved the way to a more thorough effort of a neoliberal restructuring in the northern part of Cyprus. In particular, after the failure of the Annan plan, Turkey increasingly positioned itself as the 'IMF of northern Cyprus'. It concentrated on closely monitoring the economy of the north via three-year economic programmes, and after 2006 it introduced the principle of conditionality to effect a deeper intervention into the economic and political structures in the 'TRNC'. In this period, the AKP settled for a strategy that defined northern Cyprus as an investment area and the party consistently pushed, not only for the limitation of public expenditure and the maintenance of privatisation policies, but also to gain new investment areas. As a result of the deliberate attempts of the AKP government, Turkish capital has markedly increased its presence in the economy of the north.

This research has stressed that it is problematic to view such policies as top-down impositions only and that 'state decisions that are taken at any particular moment in history represent particular solutions to conflicting class interests and the interests of other *internal* and *external* actors at that particular conjunction'. With this in mind it is important to acknowledge how austerity measures directed by the AKP deepened class divisions within the Turkish Cypriot community. In consequence, a significant section within the Turkish Cypriot bourgeoisie joined forces with the Turkish bourgeoisie to engage in the neoliberal modernisation of the economy with the intention of abolishing the isolation of the community and so bring about a smoother integration with international markets. In the interim period the neoliberal package of austerity which included privatisation, created a negative impact on the Turkish Cypriot petty bourgeoisie and labour aristocracy. Therefore, it is important to attribute agency to local actors and to acknowledge that the neoliberal transformation of the economy is not a top-down imposition of Turkey. Certain actors within the Turkish Cypriot community have identified their interests in line with the AKP and the Turkish capital, and their support has become functional in legitimising and reproducing such policies.

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### **Legal Document**

Türkiye Cumhuriyeti Hükümeti ile Kuzey Kıbrıs Türk Cumhuriyeti Hükümeti Arasında bir Ortaklık Konseyi Kurulmasına İlişkin Anlaşma (Onay) Yasası, Sayı 9/1998 [Law on establishing a Council of Partnership between the Turkish Republic and the 'Turkish Republic of Northern Cyprus', 1998].