

NEAR EAST UNIVERSITY
THE GRADUATE STUDIES



A RESEARCH STUDY
ON THE MANUFACTURING INDUSTRY
IN TRNC
&
THE PRECAUTIONS and PROPOSALS

by
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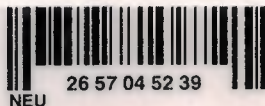


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PREFACE

This study is aimed to investigate the nature, growth trends, developments, problems and threads, investment climate, opportunities and weaknesses, efficiency and effectiveness and precaution proposals of Manufacturing Industry in Turkish Republic of Northern Cyprus.

The nature and developments of Manufacturing Industry in TRNC has spread in two completely different historic periods. Mainly, before and after 1974. Before 1974 it has been observed that only limited opportunities were exist and not much achievements could be accomplished during this period. Particularly, after 1974 due to the creation of new conditions and investment opportunities, accelerated the developments and some progresses in Manufacturing Industry like other sectors.

During this study special efforts had been spent on the problems, threads and challenges that threatening this sector and some alternative precautions has been proposed. Also, research conveyed on the present investment climate, opportunities, the strengths and weaknesses of the existing investments as well.

It was observed that there are considerable degree of unused capacity in Manufacturing Industry. Also, new investments almost ceased and the existing units have serious problems for their survivals. These problems are mainly; financial problems, marketing and competition problems, incapable usage of economies of scale problems, technological problems, inefficiency and ineffectiveness problems, transportation problems, high-cost input problems and mainly unsolved Cyprus problem that constitutes the source of most problems.

But at the same time, the incentives to Manufacturing Industry and improvements in foreign trade and service sectors(tourism, education, etc.) create a better environment for manufacturers.

Although industrial production is largely aimed at the domestic market, the duty-free entry permission granted by Turkey to a considerable range of manufactured goods has provided new opportunities and incentives for local manufacturers.

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I wish to express my deep appreciation and thanks to Assoc. Prof. Dr. Fikret KUTSAL for his valuable suggestions, support and supervision throughout my study.

I would also like to thank to my dear wife Meryem, my sons Cemil and Gökçe and my dearest daughter Yağmur for their moral support and patience during my studies.

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AUTO-BIOGRAPHY

I was born at Karaağaç - Paphos in 1954. After completion Elementary School at Karaağaç and Secondary School at Paphos, I went to The Middle East Technical University - Ankara, for higher education. Upon my graduation with a B. S. degree in Industrial Engineering at 1978 and fulfillment my military duty as a Reserve Conscript Officer, I have started my work-life as an Industrial Engineer in Public Sector by 1980.

At 1984, I have received a Grant from British Council on the subject of "Industrial Projects Planning and Appraisals" and rewarded with a " Post-Graduate Certificate" by Bradford University - U. K.

After studying at different levels of Government Services as an Industrial Engineer, I had become The head of the Projects Evaluation and Development Division at Ministry of Economy during 1994-1995. After then promoted to The head of the Economic Planning Department at State Planning Organization in 1996. Also, during this period of my work-life, I have participated many International Seminars and Conferences behalf of my Country.

Now, I am a Counselor of the Ministry of Economy, and also work as a part-time Instructor on the subjects of Production Management, Operation Research and Business Management at Near East University.

PART 1

INTRODUCTION

Up to 1963 any industrial activity was not seen among Turkish Cypriots and started to practice closed and limited economic activities in very narrow regions, during the period of 1963-1974 when forced-out from the Government of The Republic of Cyprus while scattered different parts of Island. Only very small Scaled Industrial activities (such as, ready made clothing, shoes, furniture, food, etc.) were tried until 1974 under unfavorable and primitive conditions.

The ratio of manufacturing industry belonging to Turkish Cypriots, had only 2% in total Industrial Sector GNP at 1973. After 1974 considerable changes have be noted at Industrial Sector belongs to Turkish Cypriots. By this study developments, investment climate, opportunities, efficiency, problems and difficulties in industrial sector has been searched and alternative precautions proposed.

1.1. Turkish Republic of Northern Cyprus in brief.

The Turkish Republic of Northern Cyprus covers the northern part of the Island of Cyprus which is situated in the Eastern Mediterranean at a distance of 64 km to the southern coast of Turkey, 96 km to the east part of Syria, and 400 km to the north of Egypt. It comprises an area of 3,355 square km.

TRNC has been an independent sovereign country since 1983 which is situated at the cross-roads of east-west and north-south navigation routes.

1.1.1. History and International Relations of TRNC.

When Turkish rule came to an end at 1878 in Cyprus, the Island became a British Protectorate with a British High Commissioner and a partly elected Legislative Council. There was also a nominated Executive Council which was included both Greek and Turkish Cypriots.

In November 1914 it was annexed by Britain, and in 1925 became a British Crown Colony with a Governor (instead of a High Commissioner).

Under the Cyprus Act, 1960, the island became an independent sovereign republic on 16 August 1960 as the Republic of Cyprus based on the partnership of the Turkish and Greek peoples of the island was established. This republic continued until 21 December 1963 that inter-communal troubles had started and the Turkish Cypriot component was expelled from the executive, legislative, and judicial organs of the state. This situation continued until 20 July 1974 that Turkey used its Treaty rights, legally intervened in Cyprus to save the Turkish Cypriots from extermination and to restore and maintain the constitutional order.

Following an exchange of population, Cyprus became separated into a Turkish North and Greek South. In 1975 a 'Turkish Federated State of Cyprus' was declared, and in November 1983 a 'Declaration of Statehood' was issued which proclaimed the establishment of the 'Turkish Republic of Northern Cyprus'.

TRNC is pursuing and developing relations with all countries in the world and paying an active role in efforts aimed at promoting international cooperation and understanding. Politically, TRNC is not recognized by other Countries except Turkey.

1.1.2. Government and Administration

Turkish Republic of Northern Cyprus' governmental structure is modeled on Western democratic systems. The state's fully democratic, Pluralistic system guarantees internal political stability, the respectability of individual rights and unhindered scope for private initiative. There are fifty deputies in the country's parliaments. The Council of Ministers is the executive organ of the Republic. A multi-party democratic system operates in TRNC and free-market economic system is practiced and Legislative power lies with the parliament, the members of which elected for a period of five years.

1.1.3. Population, Climate and Environment

According to the most recent general census conducted in 1996, the population of N. Cyprus is around 200,000 and Muslim Turkish Cypriots constitute 98 % of the total population.

The official language of the TRNC is Turkish, but English is spoken widely as a second language.

N. Cyprus has a healthy, pleasant climate with dry summers and mild winters, enjoying about 300 days of sunshine the year round. The bulk of the rain falls during the period from November to March. The coldest and hottest mean temperatures are 6 and 36 degrees C., respectively.

N. Cyprus is beautiful, attractive and picturesque throughout the year. It is the one of the finest places in the Mediterranean, offering brilliant sunshine, excellent climatic conditions, beaches of golden sand.

1.2. The Economy and Development Policy in TRNC

The economy of the Turkish Republic of Northern Cyprus, which acquired its national identity boundaries in 1974, has recovered in couple of years, and tried to solve the rehabilitation of its half of the population displaced from the settlements in the South. In its infancy years, the Government of Northern Cyprus implemented series of policies to get the economy moving despite the economic embargoes, especially in transports and communication networks.

A statistical data on the macro-economy of Northern Cyprus published by the State Planning Organization (**Table 1**) indicates attained level of gradual and continuous growth of GNP at an average annual growth rate of 3.9% during the 1977-1996 period despite high inflation and political difficulties caused by lack of recognition.

1.2.1. The Economy since 1974

The TRNC is small country situated in a very dynamic geographical location in the Eastern Mediterranean. By virtue of its long historical traditions and its geographical location it has a very open economy where total international trade in goods and services reaches almost fifty percent of its GNP. The leading sector both in terms of foreign trade as well as domestic output is the services sector.

The economy of the State has the peculiarities of an island economy with limited resources and long periods of drought cause continuous dependency of production on climatic conditions. Because of this, foreign trade emerge as the major sector of the TRNC's economy, and it grew dramatically after 1974. The imports of TRNC increased from US \$ 31 million in 1975 to US \$ 318 million in 1996. On the

other hand, because of its limited natural resources and the economic embargo imposed foreign trade has a chronic deficit, in spite of the considerable increase in exports after 1974. The total export were US \$ 10 million in 1975, and reached US \$ 70.5 million in 1996. (**Table 2**)

Like most developing countries, the TRNC faces difficulties in covering budget expenditures by local revenues and is need of foreign aid and loans. Although local revenues have shown an ascending tendency over the years and reached 73 % of expenditures in 1996 while it was about 50 % in 1982.(**Table 3**)

1.2.2. The Development Policy and Objectives

In accordance with the free-market economic system, the promotion of the private sector is supplemented by the Government. The States promotes and maintains favorable investment conditions that will permit entrepreneurs to participate in the process of economic development. The broad goals of development policy can be summarized as follows:

- Achievement of high rate of economic growth
- Diversification of the productive base of the economy
- Maintenance of full employment and economic stability
- Promotion of exports and improvement of the balance of payments
- To establish an economically self-sufficient TRNC
- Channeling the necessary finance to the productive sectors of the economy
- More equitable distribution of the economic burdens and the national income

The ultimate national economic goal is the improvement of the quality of the living standards and the welfare of the population.

Tablo - I GAYRİ SAFİ MİLLİ HASILA
Table - I GROSS NATIONAL PRODUCT

	GSMH(Milyon TL) GNP (Million TL)		Büyüme Hızı(%) (x)	Fert Başına GSMH (TL) GNP Per Capita (TL)		Nüfus Population	Türk Lirası ABD \$ Kur Değişimi 1 US \$=TL		Fert Başına GSMH (ABD \$) GNP Per Capita (US \$)	
	Cari Current	Sabit Constant		Cari Current	Sabit Constant					
1977	3,810.5	3,810.5		26,279	26,279	145,000	18.20	209.4	1,444	
1978	5,281.0	4,031.3	5.8	35,989	27,472	146,740	24.60	214.7	1,463	
1979	8,504.5	4,210.1	4.4	57,269	28,351	148,501	36.80	231.1	1,556	
1980	17,541.5	4,248.4	0.9	117,248	28,396	149,610	75.10	233.6	1,561	
1981	24,525.6	3,929.8	-7.5	162,171	25,985	151,233	113.00	217.0	1,435	
1982	34,148.0	4,369.5	11.2	222,841	28,430	153,239	163.75	208.5	1,361	
1983	47,040.2	4,440.4	1.6	302,468	28,552	155,521	231.83	202.9	1,305	
1984	73,937.8	4,725.2	6.4	468,008	29,909	157,984	367.40	201.2	1,274	
1985	126,874.2	5,080.4	7.5	791,544	31,696	160,287	528.30	240.2	1,498	
1986	195,142.7	5,324.1	4.8	1,199,579	32,728	162,676	682.58	285.9	1,757	
1987	289,106.4	5,684.1	6.8	1,751,788	34,442	165,035	871.98	331.6	2,009	
1988	485,848.2	6,084.0	7.0	2,904,818	36,375	167,256	1,422.00	341.7	2,043	
1989	910,058.6	6,603.0	8.5	5,376,309	39,008	169,272	2,139.52	425.4	2,513	
1990	1,547,793.0	6,977.4	5.7	9,026,664	40,692	171,469	2,618.98	591.0	3,447	
1991	2,273,698.1	6,606.4	-5.3	13,085,580	38,021	173,756	4,199.67	541.4	3,116	
1992	4,037,702.2	7,124.7	7.8	23,057,037	40,685	175,118	6,896.25	585.5	3,343	
1993	6,941,224.3	7,547.4	5.9	39,189,387	42,612	177,120	11,106.99	624.9	3,528	
1994	16,581,566.8	7,268.3	-3.7	92,526,934	40,558	179,208	29,915.67	554.3	3,093	
1995	35,178,971.7	7,457.8	2.6	193,969,948	41,121	181,363	46,554.51	755.7	4,167	
1996	63,576,940.3	7,673.4	2.9	346,865,297	41,865	183,290	82,150.50	773.9	4,222	

(x) 1977 Yılı Fiyatlarıyla

(x) 1977 Prices

Kaynak: Devlet Planlama Örgütü

Source: State Planning Organization

Tablo - 2 Dış Ticaret
Table - 2 Foreign Trade

(Million US \$)

Yıllar Years	İthalat Import	İhracat Export	Dış Ticaret Açığı Foreign Trade Deficit	İhracatın İthalatı Karşılama Oranı(%) Export/Import Ratio (%)
1975	31.0	10.4	20.6	33.5
1976	65.0	15.6	49.4	24.0
1977	82.0	23.9	58.1	29.1
1978	84.2	30.8	53.4	36.6
1979	90.8	35.8	55.0	39.4
1980	94.4	44.5	49.9	47.1
1981	104.1	36.9	67.2	35.4
1982	119.9	39.5	80.4	32.9
1983	145.3	40.7	104.6	28.0
1984	136.3	38.8	97.5	28.5
1985	143.0	46.3	96.7	32.4
1986	153.2	52.0	101.2	33.9
1987	221.0	55.1	165.9	24.9
1988	218.1	52.4	165.7	24.0
1989	262.5	55.2	207.3	21.0
1990	381.5	65.5	316.0	17.2
1991	301.1	52.5	248.6	17.4
1992	371.4	54.6	316.8	14.7
1993	363.9	54.5	309.4	15.0
1994	286.6	53.4	233.2	18.6
1995	366.1	67.3	298.8	18.4
1996	318.4	70.5	247.9	22.1

Kaynak : Devlet Planlama Örgütü

Source : State Planning Organization

Tablo- 3 Kamu Kesimi Genel Dengesi
Table- 3 General Balance of Public Sector

(Current Prices, Million TL)

	1989	1990	1991	1992	1993	1994	1995	1996
KAMU GELİRLERİ	286,859.4	573,648.1	855,055.7	1,263,950.8	2,401,999.9	6,229,157.8	10,753,633.8	20,673,365.5
PUBLIC REVENUES								
1. Vergiler	162,989.3	331,717.8	430,621.2	737,868.2	1,408,500.4	3,160,404.8	6,300,178.6	11,647,287.6
1. Taxes								
a) Dolaysız Vergiler	84,424.3	166,109.9	248,397.8	401,781.5	743,923.0	1,813,865.8	3,672,222.2	6,595,689.4
a) Direct Taxes								
b) Dolaylı Vergiler	78,565.0	165,607.9	182,223.4	336,086.7	664,577.4	1,346,539.0	2,627,956.4	5,051,598.2
b) Indirect Taxes								
2. Vergi Dışı Gelirler	32,759.4	58,113.3	107,806.5	175,422.2	338,361.2	855,053.7	1,982,078.5	3,630,912.5
2. Income Other Than Taxes								
3. Faktör ve Fon Gelirleri	91,110.7	183,319.0	316,628.0	350,660.4	655,138.3	2,213,699.3	2,471,376.7	5,395,165.4
3. Income From Factors and funds								
K TRANSFERLER	77,122.9	167,717.1	303,023.7	468,764.1	874,006.4	2,282,638.7	5,787,485.4	9,815,806.1
K TRANSFERS								
K KAMU HARCANABİLİR GELİRİ	209,736.5	405,931.0	552,032.0	795,186.7	1,527,993.5	3,946,519.1	4,966,148.4	10,857,559.4
K PUBLIC DISPOSABLE INCOME								
K KAMU CARİ GİDERLERİ	169,992.7	350,359.4	591,644.5	909,361.0	1,523,275.7	3,944,913.8	8,078,733.9	14,228,783.4
K PUBLIC CURRENT EXPENDITURES								
KAMU TASARRUFU	39,743.8	55,571.6	-39,612.5	-114,174.3	4,717.8	1,605.3	-3,112,585.5	-3,371,224.0
PUBLIC SAVINGS								
KAMU YATIRIMI	42,734.5	102,328.4	93,532.3	213,758.2	452,475.2	813,533.6	1,275,418.4	4,160,245.5
PUBLIC INVESTMENTS								
1. Sabit Sermaye	38,015.4	91,938.0	84,132.2	157,994.1	407,014.0	780,605.1	1,152,616.9	3,786,884.0
1. Fixed Capital								
2. Stok Değişimi	4,719.1	10,390.4	9,400.1	55,764.1	45,461.2	32,928.5	122,801.5	373,361.5
2. Changes in Stocks								
KAMU FİNANSMAN GEREĞİ	2,990.7	46,756.8	133,144.8	327,932.5	447,757.4	811,928.3	4,388,003.9	7,531,469.5
PUBLIC DEFICIT								

Kaynak: Devlet Planlama Örgütü

Source: State Planning Organization

(Current Prices, Million TL)

	1982	1983	1984	1985	1986	1987	1988
I. KAMU GELİRLERİ	6,097.5	12,236.2	20,049.1	32,192.9	49,179.7	94,146.8	178,942.2
I. PUBLIC REVENUES							
1. Vergiler	3,489.1	6,723.1	10,578.7	17,580.0	26,329.5	48,246.9	90,713.0
1. Taxes							
a) Delaylı Vergiler	1,815.0	2,895.1	5,004.5	8,592.0	14,496.3	26,227.4	47,205.7
a) Direct Taxes							
b) Delaylı Vergiler	1,974.1	3,828.0	5,574.2	8,988.0	11,833.2	22,019.5	43,507.3
b) Indirect Taxes							
2. Vergi Dışı Gelirler	1,070.0	1,915.7	2,580.4	3,916.0	6,951.5	10,764.0	18,470.3
2. Income Other than Taxes							
3. Faktör ve Fon Gelirleri	1,538.4	3,597.4	6,890.0	10,696.9	15,898.7	35,135.9	69,758.9
3. Income from Factors and Funds							
II. TRANSFERLER	2,899.0	4,801.1	7,935.7	15,534.8	25,529.7	37,962.5	51,551.6
II. TRANSFERS							
III. KAMU HARCANABİLİR GELİRİ	3,198.5	7,435.1	12,113.4	16,658.1	23,650.0	56,184.3	127,390.6
III. PUBLIC DISPOSABLE INCOME							
IV. KAMU CARİ GİDERLERİ	7,722.0	9,451.3	16,157.9	26,372.4	41,136.1	59,710.8	95,975.7
IV. PUBLIC CURRENT EXPENDITURES							
V. KAMU TASARRUFU	-4,523.5	-2,016.2	-4,044.5	-9,714.3	-17,486.1	-3,526.5	31,414.9
V. PUBLIC SAVINGS							
VI. KAMU YATIRIMI	1,679.8	3,766.8	6,065.7	8,365.4	12,583.5	23,032.1	21,653.1
VI. PUBLIC INVESTMENTS							
1. Sabit Sermaye	1,745.8	3,203.7	5,095.6	7,626.4	10,913.9	21,707.2	17,462.8
1. Fixed Capital							
2. Stok Değişimi	-66.0	563.1	970.1	739.0	1,669.6	1,324.9	4,190.3
2. Changes in Stocks							
VII. KAMU HANESMAN GEREĞİ	6,203.3	5,783.0	10,110.2	18,079.7	30,069.6	26,558.6	-9,761.8
VII. PUBLIC DEFICIT							

PART 2

THE MANUFACTURING INDUSTRY

2.1. Definition and Limits of Manufacturing Industry in General

Any industry that makes products from raw materials by use of manual labor or machinery and that is usually carried out systematically with a division of labor. In a more limited sense, manufacturing denotes the fabrication or assembly of components into finished goods on a fairly large scale.

The word manufacture comes from the Latin words manus (hand) and fasere (to make). But today, manufacturing means; making articles by machinery as well as by hand. Manufacturing is essentially a conversion process; that is converting some material into some good by mechanical or chemical means. The resultant good is expected to have an increased utility. The resultant good may be ready for consumption or may in turn become an input to some other conversion process. Evolution in manufacturing has obviously been toward increased efficiency, which is typically measured as the output per unit input or labor.

In Manufacturing Industry, so-called **Secondary Industries** can be defined as:

- Takes the raw materials supplied by primary industries and processes them into consumer goods
- Further process goods that other secondary industries have transformed into products
- Builds capital goods used to manufacture consumer and non consumer goods.

Manufacturing Industry can be divided into two major categories;

1- Heavy or large-scale Industry

2- Light or small-scale Industry

Large-scale industry generally requires heavy capital investment in plants and machinery, serves a large and diverse market including other manufacturing industries

has a complex industrial organization frequently a skilled specialized labor force and generates a large volume of output.

Light or small-scale industry, may be characterized by the non durability of manufactured products and a smaller capital investment in plants and equipment and it may involve nonstandard products, such as customized or craft work. The labor force may be either low skilled, as in textile and clothing manufacture, food processing, and plastics manufacture, or highly skilled, as in electronics and computer hardware manufacture, precision instrument manufacture and craft work.

2.2. The Sub-Sectors of Manufacturing Industry.

International Standard Industrial Classification (ISIC, Rev. 2)

0. MANUFACTURING INDUSTRY

1. Manufacture of food, beverages and tobacco

1.1. Food Manufacturing

- 1.1.1. Slaughtering, preparing and preserving meat
- 1.1.2. Manufacture of dairy products
- 1.1.3. Canning and preserving of fruits and vegetables
- 1.1.4. Canning, preserving and processing of fish, crustacean and similar foods
- 1.1.5. Manufacture of vegetable and animal oils and fats
- 1.1.6. Grain mill products
- 1.1.7. Manufacture of bakery products
- 1.1.8. Sugar factories and refineries
- 1.1.9. Manufacture of cocoa, chocolate and sugar confectionery

1.2. Other food manufacturing

- 1.2.1. Manufacture of food products not elsewhere classified
- 1.2.2. Manufacture of prepared animal feeds

1.3. Beverage Industries

- 1.3.1. Distilling, rectifying and blending spirits
- 1.3.2. Wine industries
- 1.3.3. Malt liquors and malt
- 1.3.4. Non-alcoholic beverages, carbonated fruit juice, natural mineral waters and source origin water

1.4. Tobacco manufactures

2. Textile, Wearing Apparel and Leather Industries

2.1. Manufacture of textiles

- 2.1.1. Spinning, weaving and finishing textiles
- 2.1.2. Manufacture of made-up textile goods except wearing apparel
- 2.1.3. Knitting mills
- 2.1.4. Manufacture of carpet and rugs
- 2.1.5. Cordage, rope and twine industries
- 2.1.6. Manufacture of textile not elsewhere classified

2.2. Manufacture of wearing apparel, except footwear

- 2.2.1. Manufacture of fur and leather products
- 2.2.2. Manufacture of made-up wearing apparels except fur and leather

2.3. Manufacture of leather and products of leather, leather substitutes and fur, except footwear and wearing apparel.

- 2.3.1. Tanneries and leather finishing
- 2.3.2. Fur dressing and dyeing industries
- 2.3.3. Manufacture of products of leather and leather substitutes, except footwear and wearing apparel

2.4. Manufacture of footwear

- 2.4.1. Manufacture of all kinds of footwear, except vulcanized or molded rubber or plastic footwear

3. Manufacture of Wood and Wood products, including Furniture

3.1. Manufacture of wood, wood and cork products, except furniture

- 3.1.1. Sawmills, planing and other wood mills
3.1.2. Manufacture of wooden and cane containers and small cane ware
3.1.3. Manufacture of wood and cork products not elsewhere classified
3.2. **Manufacture of furniture and fixtures, except primarily of metal**

4. Manufacture of paper and paper products, Printing and publishing

4.1. Manufacture of paper and paper products

- 4.1.1. Manufacture of pulp, paper and paperboard
4.1.2. Manufacture of containers and boxes of paper and paperboard
4.1.3. Manufacture of pulp, paper and paperboard articles not elsewhere classified
4.2. **Printing, publishing and allied industries**

5. Manufacture of chemicals and of chemical, petroleum, coal, rubber and plastic products

5.1. Manufacture of industrial chemicals

- 5.1.1. Manufacture of basic industrial chemicals except fertilizers
5.1.2. Manufacture of fertilizers and pesticides
5.1.3. Manufacture of synthetic resins, plastic materials and man-made fibers except glass

5.2. Manufacture of other chemical products

- 5.2.1. Manufacture of paints, varnishes and lacquers
5.2.2. Manufacture of drugs and medicines, including veterinary medicine
5.2.3. Manufacture of soap cleaning preparations, perfumes, cosmetics and other toilet preparations
5.2.4. Manufacture of chemical products not elsewhere classified

5.3. Petroleum refineries

5.4. Manufacture of miscellaneous products of petroleum and coal

- 5.4.1. Manufacture of asphalt paving and roofing materials
5.4.2. Manufacture of coke and concrete blocks
5.4.3. Compounded and lender lubricating oils and greases
5.4.4. Liquid petroleum gas tubing

5.5. Manufacture of rubber products

- 5.5.1. Tire and tube industries
5.5.2. Manufacture of rubber products not elsewhere classified

5.6. Manufacture of plastic products not elsewhere classified

6. Manufacture of non-metallic mineral products, except products of petroleum and coal

- 6.1. Manufacture of pottery, china and earthenware
- 6.2. Manufacture of glass and glass products
- 6.3. Manufacture of other non-metallic mineral product
 - 6.3.1. Manufacture of structural clay products
 - 6.3.2. Manufacture of cement, lime and plaster
 - 6.3.3. Manufacture of non-metallic mineral products not elsewhere classified

7. Basic metal industry

- 7.1. Iron and steel basic industries
- 7.2. Non-ferrous metal basic industries

8. Manufacture of fabricated metal products, machinery and equipment

8.1. Manufacture of fabricated metal products, except machinery and equipment

- 8.1.1. Manufacture of cutlery, hand tools and general hardware
- 8.1.2. Manufacture of furniture and fixtures primarily of metal
- 8.1.3. Manufacture of structural metal products
- 8.1.4. Manufacture of fabricated metal products except machinery and equipment not elsewhere classified

8.2. Manufacture of machinery except electrical

- 8.2.1. Manufacture of engines and turbines
- 8.2.2. Manufacture of agricultural machinery and equipment and repairing
- 8.2.3. Manufacture of metal and wood working machinery and repairing
- 8.2.4. Manufacture of special industrial machinery and equipment except metal and wood working machinery
- 8.2.5. Manufacture of office, computing and accounting machinery
- 8.2.6. Machinery and equipment except electrical not elsewhere classified

8.3. Manufacture of electrical machinery apparatus, appliances and supplies

- 8.3.1. Manufacture of electrical industrial machinery and apparatus
- 8.3.2. Manufacture of radio, television and communication equipment and apparatus
- 8.3.3. Manufacture of electrical appliances and house wares
- 8.3.4. Manufacture of electrical apparatus and supplies not elsewhere classified

8.4. Manufacture of transport equipment

- 8.4.1. Ship building and repairing
- 8.4.2. Manufacture of railroad equipment
- 8.4.3. Manufacture of motor vehicles
- 8.4.4. Manufacture of motorcycles and bicycles
- 8.4.5. Manufacture of aircraft
- 8.4.6. Manufacture of transport equipment not elsewhere classified

8.5. Manufacture of professional and scientific, measuring and controlling equipment not elsewhere classified and of photographic and optical goods

- 8.5.1. Manufacture of professional and scientific, measuring and controlling equipment not elsewhere classified
- 8.5.2. Manufacture of photographic and optical goods
- 8.5.3. Manufacture of watches and clocks

9. Other manufacturing industries

- 9.1. Manufacture of jewelry and related articles**
- 9.2. Manufacture of musical instruments**
- 9.3. Manufacture of sporting and athletic goods**
- 9.4. Manufacturing industries not elsewhere classified**

ABBREVIATIONS

(Industrial sub-sectors that has been classified at manufacturing industry in TRNC)

- 1. Food, Beverages and Tobacco Industries
- 2. Textile, Wearing Apparels, and Leather Industries
- 3. Wood, Wood Products and Furniture Industries
- 4. Paper, Paper Products, printing and Publishing Industries
- 5. Chemicals, Petroleum, Rubber and Plastic Industries
- 6. Non-metallic Mineral Products Industries
- 7. Basic Metal Industry
- 8. Electrical, Fabricated Metal Products and Equipment Industries
- 9. Other Manufacturing Industries

2.3. History of Manufacturing Industry at TRNC in Brief

Until 1960's manufacturing was almost unknown and impossible field for the Turkish Cypriot people. The Turkish Cypriots had no availability and suitable conditions for manufacturing investments. Due to that time, no capital accumulation, no transportation facilities, no incentives, and in general, can be said no investment climate were present. In fact, only primitive manufacturing activities started at 1940's only among other communities at the Island. Because of Turkish Community was only earned just enough amount for their survivals from agriculture and trade earning capital accumulations, were belong to other communities.

During the period of 1960-1974, Greek Community used the government opportunities, foreign aids and loans and technical assistance, and succeeded to upgraded made innovation of their manufacturing industries. But Turkish Community was neglected and considered as secondary position in this development efforts period. So, the gap between two communities enlarged against Turkish Community. By 1974, Turkish Community owned only small weak industrial enterprises such as food, wearing apparel, and metal industries, that was incomparable by developed Greek's industry.

According to the " Turkish Cypriots Industrial Activities Research Report " conveyed at 1970; the ratio of Turkish industrial production in total industrial production of Cyprus was only 2%. Also, " An Industrial Production Research" carried

out by the Cyprus Government in 1970 revealed that:

- No. of **Turks** employed in industry were **2,549**, while **Greeks** were **35,339**.
- No. of industrial enterprises employing over 5 people owned by **Turks** were **9**, while owned by **Greeks** were **138**.

After 1974, when all Turkish Cypriots got together in the North, and had their own seaport & airport and freedom to move in and out of Cyprus, economic activities had started in real meaning. The first thing the Turkish Cypriot businessmen learned was foreign trade. Especially at this period of time, due to closed economic system application at Turkey, created high demand of European and Far Eastern goods that had led Turkish Cypriot businessmen to increase their imports for Turkey market.

The accumulation of capital and know-how, and founded industrial factories, initiated investments of manufacturing sector. The enlargement of opportunities, also accelerated the growth of manufacturing sector in TRNC.

At 1998, the contribution of industrial production to total GNP is about 30% and creates about 12000 employment in TRNC.

2.4. The Role of Manufacturing Industry in the Economic Development of Northern Cyprus

To believe that, there can be no Manufacturing Industry in a small island like Cyprus, and should be looked solely to other sectors for economic development is completely false. Because, the industrial sector in the TRNC carries the characteristics of an island economy and make contribution to National Income to some extent. The characteristics of island economy and some features of TRNC's industry:

- It is mainly light industry
- It is made up of small scale units- mostly family owned businesses
- Its raw materials are mostly imported from abroad
- It caters for a small home market and is over dependent on foreign markets

The contribution to National Economy of manufacturing industry can be summarized as follows:

- Contribution to employment . Creates over 10,000 jobs.
- Contribution to balance of payments. Industrial export figures is over 70 million \$
- Contribution to GNP. Total GNP (1997 figures) was 608,823.7 million TL and 12.6 % came from industry.
- Contribution to other economic sectors. Such as agriculture, tourism, etc.

So, manufacturing industry should be supported for increasing its pay-off and contribution to National Economy.

2.5. Developments at Manufacturing Industry in TRNC.

During the period of 1975-1996 the contribution of industrial sector (manufacturing industry) to Gross National Product has increased by 282.4% at constant prices of 1977. The GNP which was 2,742.0 million TL in 1975 rose to 7,673.4 million TL in 1996 at constant prices of 1977. The industrial sector contribution to GNP was 213.3 million TL in 1975 and rose to 815.7 million TL in 1996 at constant prices of 1977.

2.5.1. The Production and Export Capacity of Manufacturing Industry.

The TRNC has only a small number of export manufacturing products because of its limited natural resources, economic embargo imposed on it in foreign markets and most importantly not renewed and upgraded technology and deficiencies in marketing efforts and applied policies. But, even though the percentage of industrial products exportation in total exports increased steadily. The total export figures and the manufacturing products exports is as following:

<u>Years</u>	<u>Total Export</u> <u>(million US\$)</u>	<u>Manufacturing Products Export</u> <u>(million US\$)</u>	<u>Ratio(%)</u>
1977	24.45	2.31	9.44%
1981	39.15	6.63	14.38%
1985	46.81	8.64	18.45%
1987	54.40	21.38	39.22%
1990	65.50	35.20	53.70%
1993	54.50	29.85	55.30%
1994	52.88	27.20	51.40%
1995	66.93	38.88	58.10%
1996	70.50	38.28	54.00%

As can be seen in the table above, the total exports were US\$ 24.45 million and only US\$ 2.31 million were from industrial products exportation that constitutes 9.44% of it. While the share of industrial products reached 54.00 % in the

total exports of the TRNC in 1996. The main export industrial products are; clothing, dairy products, beverages, pharmaceutical products, citrus concentrates, etc.

The Major Export Products of the TRNC
Value: US \$ 1000

PRODUCTS	1993	1994	1995	1996
Clothing	19545	18153	23707	21665
Citrus	16514	15813	22043	22584
Citrus Concentrates	5254	3329	4764	1693
Dairy Products	1094	1797	3383	4599
Pharmaceutical products	318	407	1222	521
Potatoes	1241	636	1381	870
Beverages	921	852	2747	4689
Others	9072	11885	7674	12490

Ready-made clothing and dairy products are subsidizing by the Government after the 'European Court Decision' against the TRNC export products, but the exports to EC Countries declining after 1995. After this decision, the border trade agreement between Turkey and TRNC was signed, and there was a considerable increase in the TRNC's exports to Turkey and newly established Turkish Republics in Asia.

Export by Countries: (%)

Country	1976	1980	1985	1990	1995	1996
Turkey	29.50	13.70	11.70	12.10	30.00	48.30
EC Countries	65.40	77.50	75.80	77.90	53.60	35.20
Others	5.10	8.80	12.50	10.00	16.40	16.50

Developments of Manufacturing Industry in Gross National Product:
(Current Prices, Million TL)

	1975	1980	1985	1990	1996
Total GNP	1,867.2	17,541.5	126,874.2	1,547,793.0	63,576,940.3
Manufacturing Industry	155.4	2,280.8	10,096.0	163,038.5	4,952,157.2
Ratio (%)	8%	13.0%	8.0%	10.5%	7.8%

As it is seen, the contribution ratio of manufacturing industry to Gross National Product didn't change at all. In other words, it kept its position and importance, relatively in GNP as in 1975. So, the growth of manufacturing industry goes parallel with other sectors.

In fact, the production capacity of manufacturing industry increased about four times comparing to 1977, but only 20-25% of that capacity can be used presently, due to marketing problems.

5.2.2. The Competitiveness of Manufacturing Industry

As mentioned before, manufacturing activities started after 1974 in real sense at TRNC. The so called founded factories at 1974 and the established ones after then;

Possessing old technologies today; so, these enterprises have difficulties to compete technologically in global market. They should be upgraded technologically.

Secondly, they are small scaled enterprises and their capacities are relatively low. So, for them to benefit of economies of scale and create competitive advantageous at global market is difficult.

The other important handicap is the high cost raw-material inputs that cause expensive products relative to competitors' prices. This is the matter of high transportation cost and raw-material inventory cost.

Another important difficulty on competition is the political issues. The entrepreneurs can not benefit of the advantages of international and regional trade associations and blocks, such as European Union, due to of the case of TRNC. So, International trade encumbered by restrictive measures (i.e. Tariffs, Quotas, etc.)

Also, many businesses suffering from insufficient and ineffective management problem. Because, these industrial businesses are mainly family owned and managed. So, professional managers are not employed at these enterprises.

These problems create obstacles to manufacturing industry in TRNC for obtaining competitive advantage in global market. Many of them have serious competition problem and this problem should be overcome for their survival and growth.

2.5.3. The Enterprises and Employment in Manufacturing Industry

The number of establishments in manufacturing industry during the period of 1975-1997 is as follows:

Industries	<u>No of Establishments</u>						
	1975	1983	1985	1990	1994	1995	1997*
1. Food, beverages and tobacco	49	73	124	153	207	203	183
2. Textile, wearing apparel and leather	38	71	82	115	158	140	120
3. Furniture, forest products and fixtures	15	28	46	70	90	85	76
4. Paper and paper products	12	21	28	38	46	41	38
5. Chemicals, petroleum and plastics	20	37	53	52	72	64	62
6. Non metallic mineral products	37	30	38	47	66	65	66
7. Basic metal industries	-	-	-	3	2	2	3
8. Electrical machinery and appliances	53	32	48	53	70	67	59
9. Other manufacturing industries	6	36	41	44	58	59	63
TOTAL	230	328	460	575	767	726	670

* Estimate Figures

As it is observed, the growth in manufacturing industry reached peak-point at 1994 and declining started after then and still continuing. The main reason for the decline is the European Court Decision against N. Cyprus products which was enacted in end of 1994. Also the crisis in Middle East and economic crisis in Turkey at 1994 effected N. Cyprus manufacturing industry and whole economy negatively.

**The Classification of Industrial Establishments according to the number of
employment Created (by 1997)**

Industries	No of Establishment	Employment				
		1-9	10-19	20-49	50-99	100-
1. Food, beverages and tobacco	183	142	19	11	6	5
2. Textile, wearing apparel and leather	120	22	36	43	14	15
3. Furniture, forest products and fixtures	76	63	8	5	-	-
4. Paper and paper products	38	23	9	3	1	2
5. Chemicals, petroleum and plastics	62	38	20	4	-	-
6. Non metallic mineral products	66	29	28	6	2	1
7. Basic metal industries	3	-	-	3	-	-
8. Electrical machinery and appliances	59	42	13	4	-	-
9. Other manufacturing industries	63	34	23	5	1	-
TOTAL	670	393	146	84	24	23

Analyzing the above table, it is quite clear that:

- * 58% of the enterprises' employment capacities are only between 1-9,
- 22% of them 10-19,
- 12% of them 20-49, and only
- 8% of the enterprises have 50 or more employment capacity.

This implies that most of the establishments are very small scaled and self-employment industrial family businesses.

The number of employment created in manufacturing industry

during the period of 1975-1997 is as follows:

<u>Industries</u>	<u>Employment created</u>						
	1975	1983	1985	1990	1994	1995	1997*
1. Food, beverages and tobacco	421	2793	2916	2660	3140	2425	2062
2. Textile, wearing apparel and leather	747	1480	1980	3885	5630	5001	4250
3. Furniture, forest products and fixtures	250	325	365	611	685	643	540
4. Paper and paper products	90	253	450	594	740	510	460
5. Chemicals, petroleum and plastics	54	584	673	533	640	626	546
6. Non metallic mineral products	88	528	534	774	960	928	935
7. Basic metal industries	-	-	-	65	19	40	67
8. Electrical machinery and appliances	466	557	542	567	650	603	642
9. Other manufacturing industries	32	67	393	511	605	616	585
TOTAL	1148	6587	7853	10200	13069	11392	9987

Sectoral Distribution of Labor Force in TRNC

<u>Sectors</u>	<u>1975</u>	<u>1983</u>	<u>1985</u>	<u>1990</u>	<u>1994</u>	<u>1995</u>	<u>1997*</u>
Industry	1148	6587	7853	10200	13069	11392	9987
Others	43647	52255	53646	61325	62741	65062	70968
TOTAL	44795	58842	61499	71525	75810	76454	80955
<hr/>							
% in total;	2.5%	11.0%	12.8%	14.2%	17.2%	14.9%	12.3%

Presently, about 12.3% of the employment created by industrial sector. But, as it is seen from the table, after 1995 the contribution to employment of industrial sector has been declining.

PART 3

THE INVESTMENT CLIMATE IN TRNC

3.1. Encouragement of the Manufacturing Industry

Turkish Republic of Northern Cyprus governments encourage free enterprise and foreign investment and business. Especially in the form of new projects complementing the capabilities and experience of domestic entrepreneurs.

Most of the infra-structural investment, in the fields of communication, transportation and energy, have been completed, and are ready for the benefit of potential investors and businessmen.

3.1.1. Opportunities, Incentives and Related Regulations

Attracting foreign investment is among the primary objectives of the country's development policy. So, N. Cyprus offers numerous advantages and incentives to the local and foreign investors.

The authorities ready grant approval for investment provided that the project concerned satisfies any of the following flexible criteria:

- Production of a manufactured product is either not produced in N. Cyprus or not produced in sufficient quantities for the needs of the domestic market
- Promotion of the export orientation of the economy with development of existing and new markets
- Transfer of modern technology, know-how and new management techniques
- Improvement either of the productive structure of the economy or of the quality of existing products
- Complimentary impact on existing production units or activities

N. Cyprus can be used as a base for foreigners for their activities and as an economic bridge between Europe, Middle East And North Africa. In the light of radical changes in the world economy resulting from a global trend towards free market economies, liberalization of capital flows, and the encouragement of

entrepreneur-ship, Northern Cyprus is approaching the turn of the millennium with a commitment to the spirit of global economic integration.

Recently, the Government in Northern Cyprus is stimulating business activity through a variety of measures including a comprehensive privatization program aimed at reducing government involvement in the production of goods and services. Sectors that were traditionally in the public sector are today wide open for private investment, both domestic and foreign.

The incentives combined with the strategic location, educated labour force, low cost of living, as well as the other advantages of the area, create a unique business environment. The manufacturing is one of the potential area of expansion. A liberal trade policy, practically no import restrictions, no foreign exchange controls and no limits on the repatriation of profits; making TRNC an ideal place for investors.

3.1.1.1. Famagusta Free Port and Zone

The Famagusta Free Port and Zone is in Famagusta, which is in the Country's principal port. So, it is on the location at the crossroads of east-west and north-south navigation routes. The Famagusta Free Port and Zone is spread over an area of 487,000 m² and has land for expansion. The Free Port and Zone Directorate is responsible for the implementation of the rules and regulations related to the Zone. The Free Port and Zone Law states that only "Approved Enterprises" are entitled to operate and erect concerns in the Free Port and Zone area. An "Approved Enterprises" is defined as one which has received approval from the Free Port and Zone Council to function in the Zone. Applications for "Approved Enterprise" status have to be submitted to the directorate using the forms supplied by this body.

The Free Port and Zone was established in 1977 and commenced functioning in mid-1978. It offers excellent opportunities to the investors who intend to engage in all kinds of manufacturing and commercial activities.

The incentives and facilities provided for investors:

* Corporate and income tax; All income derived from activities and operations undertaken by investors in the Free Port and Zone is totally exempt from corporate and income taxes. This exemption does not apply to the exportation of goods services not manufactured in the Zone that are directed to the TRNC.

* Exemption from customs duties and indirect taxes; Famagusta Free Port and Zone is outside the customs boundary of the TRNC. All production inputs can be transported from foreign locations to the area without being subject to any taxes or duties.

* Transfer of profit and capital; there is no limitation on repatriation of profit and capital earned in the Zone.

* Fees, Charges, Tariffs; Fees for the facilities and services provided are at reasonable prices. Some of the prices are listed below.

- Annual rents for factory building sites vary from US\$ 2.00-2.50 per m².

Areas of available sites vary from 800-8,000 m². The leasing agreements initially are made for 21 years and may be renewed for an additional two terms, 21 years each.

Business offices can also be leased for seven years and may be renewed for an additional two terms.

- Storage charges (Per ton or part thereof, per day or part thereof), for cargoes in store and/or in warehouse: general cargo US\$ 0.20.

- For cargoes in open stacking area: general cargo US\$ 0.10,
bulk cargo: US\$ 0.05

- Containers (per container, per day part thereof) empty: US\$ 0.25; Full: US 0.75
- Area rented for short periods (per m2 per day or part thereof): US\$ 0.05

The first 7 days are exempted from storage charges. First 30 days for the empty container and first 15 days for the full container are exempted from storage charges. Also the port, offers sufficient covered storage area, experienced stevedoring and security services.

3.1.1.2. Organized Industrial Zones

For encouraging new investments and gathering the scattered manufacturing units in a specific region, organized industrial zones have been established. At these zones the infrastructure (roads, water, electricity, telephone, etc.) is made ready for the use of the investors. So, suitable plots for factory buildings on these industrial estates with long term lease at low rates of rent are available.

Annual rents for factory building sites vary from 46,000-57,000 TL/year m2 (This is 1998 figures). Also, the contribution to general and administrative expenses of the zone vary from 23,000-25,000 TL/year m2.

Areas of available sites vary from 350- 2,500 m2. The leasing agreements initially are made for 33 years and may be renewed for an additional two terms, 33 years each. The investors have also the right; to sell, to rent, to show as a guarantee for loan, of the building they have established.

There are six different industrial estates in TRNC that is subject to 'Organized Industrial Zones Law':

i- Lefkoşa Organized Industrial Zone

Lefkoşa Organized Industrial Zone was established in 1977 and commenced functioning in 1978. This Industrial Zone is spread over an area of

519,000 m2 and situated at 3.5 km North from city center of Lefkoşa. There are 450 factory building sides in the zone.

ii- Famagusta Small-scaled Industrial Estate

Famagusta Small-Scaled Industrial Estate was established in 1986 and situated at 1.5 km from city center of Famagusta. The area covered is about 99,549 m2. There are 75 factory building sides in the Estate.

iii- Famagusta Organized Industrial Zone

Famagusta Organized Industrial Zone was established in 1992 and situated at 3-5 km from city center of Famagusta. The area covered is about 241,472 m2 with availability of land for expansion. There are 195 factory building sides in zone

iv. Haspolat Industrial Estate

It is the Industrial Estate that passed to Turkish Cypriots after 1974 and situated 11 km east to Lefkoşa. The area covered is about 224,157 m2. There are 56 factory building sides in the estate.

v. Karaoğlu Industrial Estate

Karaoğlu Industrial Estate was established in 1989 and situated 8 km west to city center of Girne. The area covered is about 23,338 m2 . There are 34 factory building sides in the estate.

vi- Alayköy Organized Industrial Zone

Projects related with Alayköy Organized Industrial Zone has been prepared and put forward. It is planned to be ready for the use of investors in 1999. The zone will be situated on the main-road way to Lefkoşa-Güzelyurt at Alayköy Cross-section.

3.1.1.3. Investment Incentives in Manufacturing Industry

The law for encouragement of industrial investments, enacted in 1984, contains the following incentives:

- Long-term lease of government owned land and buildings at low rates, up to 99 years;
- Duty-free import of all machinery and equipment;
- 50% additional investments allowances on initial fixed investment expenditures;
- Government loans or interest rebates on loans secured from financial institutions in the TRNC;
- Transfer of foreign currency without any restrictions;
- Permission to employ foreign personnel;

It is aimed to promote and stimulate the industrial investments in TRNC through the "Law of Encouragement of Industrial Investments". The projects should be approved by the related ministry of industry, to get benefit of the incentives.

Projects Evaluation and Approval;

Ones proposing to invest in industry, should apply to the ministry related with industry, for 'Investment Permission'. After submitting the feasibility report of the planned investment, the project appraised and evaluated by the Ministry for its viability. If the project is found viable, the investor receives investment permission and incentive document.

3.1.1.4. Export Promotion Law

Export promotion is one of the main objectives of the Government program, thus several measures have been taken in this respect. The Export Promotion Law was enacted in 1977 and contains the following incentives:

- Giving credits to export-oriented investments
- Duty-free import of all machinery and equipment
- Duty-free import of all raw materials and auxiliary materials
- Premium to export products;
- Aids for marketing expenses at abroad
- Long-term lease of government owned lands and buildings at low rates

3.1.2. Other Provisions about Investments

- The corporation tax reduced from 45% to 25%;
- A deduction from the chargeable income of an amount equal to 20% of the foreign exchange imported into the Republic and derived from the exportation of all locally manufactured products;
- Duty-free import of all inputs for industrial production;
- Temporary import permission to all inputs for export purposes;
- Free entry and exit of foreign capital .

3.2. International Fair and Exhibition Site

The International Trade and Exhibition area is about 5 km north to city center of Lefkoşa. It is located on about 200,000 m2 area and only 1/3 has been infra-structured. Three exhibition buildings have been completed and they have about 1000 m2 closed area each. It is also possible to use 2000 m2 of the open area. There are also recreational facilities in the Fair Area.

Ones a year an international fair and exhibition performed in the area and many other specific exhibitions take place in different times.

The fairs and exhibitions aimed to promote international trading relations and exhibit locally manufactured products.

3.3. Privatization in TRNC

The free-market economic system requires minimum involvement by the public sector in industrial and commercial activities. The recent Economic cooperation Protocol signed between the Turkish and the TRNC Governments includes the speeding-up of the privatization process. For this purpose a Privatization Committee has been formed in February 1997. This committee is in charge of the privatization of the state-owned enterprises in the TRNC and will cooperate with the Privatization Administration of Turkey whenever necessary.

PART 4

PROBLEMS AND DIFFICULTIES

4.1. Political Issues

Up to 1974, Turkish Cypriots lived under unpleasant conditions and they couldn't conduct any economic activities in real sense. After 1974 they got the opportunity to make business and experienced a rapid change at a reasonable growth rate. But still, TRNC has the political difficulties caused by lack of recognition, that the whole world, except Turkey, does not recognize the Turkish Cypriot state.

A political fair solution to the Cyprus problem is one of the main factor that will stimulate rapid growth and huge investments in TRNC. Unsolved Cyprus problem creates handicaps to investors in many aspects. Both the Government and individual investors have difficulties to establish international trading relations and joint-ventures. Also, due to the lack of recognition Turkish Cypriots can not receive any International aid related with development and/or social purposed expenditures.

On the other hand, both domestic and foreign investors looking for political and economical stability in a country for investing their money on fixed assets.

4.2. Productivity, Efficiency and Effectiveness Issues.

Productivity, is the relative measure of output per labor or machine hour, often expressed as a ratio of output to input in a production process. So, the greater the productivity ratio means, one gets more output while keeping input constant or decreasing input while keeping output constant; and this implies that the operating system is more efficient.

Efficiency, is a measure that shows the relationship between the use of resources (input) and the resulting output.

Effectiveness; is a measure of how well an organization accomplishes its goals and objectives. So, an organization to be productive, must be both efficient and effective in production.

The present 'Government Retirement Scheme' has encouraged the mis-allocation of professional and technical personnel in Government. The concentration of labor force in the Government sector has created insufficient and unqualified labor force in manufacturing industry. As a result inefficiency and ineffectiveness has been observing in this sector. So, improvements in productivity requires efficient utilization of human resources, that has become crucial case in TRNC.

The other important factor is the not renewed technologies and systems of the founded factories at 1974 and still continuing to produce with old fashion methods. Also, it is preferred by the investors to buy mostly reconditioned machinery that is inexpensive for new investments. This technological impact creates very low productivity, costly production and incapability to compete both in domestic and foreign markets on the base of price and quality.

This important aspect of the marketing problem resulting very high unused production capacity and/or high inventory levels in the manufacturing industry. It is estimated that there is 70-75% unused idle manufacturing capacity. So, the factories are generally operated under break-even-points which results with loss.

The other important cause for ineffectiveness is the type of ownership. Due to that most of the organizations are family-owned and small-scaled enterprises, professional managers are not or can not be employed and new managerial techniques are not applied. So, these enterprises suffering from improper management problems and face with inefficiency and ineffectiveness.

4.3. Marketing Issues

We live in a border-less global economic system today. So, in this consumer-dominated economic system, meeting and exceeding the customer's requirements is a prerequisite for survival. In a global market it is Crucial to produce cheaper and/or higher quality products to supply customers in order to be able to compete with your competitors successfully and survival of organizations.

In the case of The Turkish Republic of Northern Cyprus the manufacturing industry should be modernized to receive competitive advantage over its competitors. The modern and industrialized countries challenges particularly to small countries like TRNC which does not have the advantage of a large international market and therefore may not benefit from the economies of scale available to larger countries. The local market is very small and the manufacturers should look for export for their survival. But, TRNC has only a small number of export products because of its limited natural resources and the economic embargo imposed on it in foreign markets. The main export market was European Community Countries up to 1994. But, after 1994 exportation to European Countries has been decreasing because of the European Court Decision against the export products of the TRNC. To overcome this unfavorable situation 'The Border trade Agreement' between the TRNC and The Republic of Turkey was signed to create a potential market with duty-free entry of the TRNC's export products to Turkey.

Nowadays, manufacturers have huge and serious marketing problems, originating from the embargo and competition problems. This situation threatening their survival.

4.4. Transportation Issues

The growth of manufacturing industry is only possible by being able to sell what is produced. The small domestic market and scarce raw material, makes foreign markets crucial. But, the transportation is still a problem for exporting products and importing necessary raw materials; because it is very expensive and insufficient for diversifying exports both by product and by destination.

It is a reality that transporting on time with reasonable cost is very important in global market for rational competition. But, due to the lack of recognition of TRNC, to get benefit and advantages of international navigation and airline services, except Turkey is not possible. For an island like TRNC, any economic activity like manufacturing industry can only be flourished with sufficient transportation facilities with reasonable cost.

4.5. Inflation and Money

Inflation has become a perennial economic illness of North Cyprus. This is basically attributed to the use of the Turkish Lira as a legal tender since 1974. Ever since the steady depreciation of the Turkish Lira, inflation in North Cyprus has been an 'imported' mechanism which could not be manipulated by the Central Bank of North Cyprus. But, the strength of economy, the condition of Government budget, balance of payments and other economic indicators via political instability make it very difficult to judge that this inflation problem can be solved by supplying TRNC's own 'Money'.

Due to the inflation, the cost of money for investors increase and makes production expensive. The money goes to the interest instead of investments.

4.6. Other Problems

Lack of master plan of industry:

The lack of master plan of industry, hardening to make effective strategic plans for the growth of industrial sector. Also, directing the potential investors to the adequate flourish-able areas is very difficult.

Lack of the Institute of Standards

There are problems of quality controls on both locally produced goods and imported ones, because lack of the Institutes of Standards. This creates unfair and unjust competition between enterprises on quality and price base.

V. B. PRECA

PART 5

RECOMMENDATIONS & PRECAUTIONS PROPOSALS

The government should promote and maintain favourable investment conditions that will permit entrepreneurs to participate directly in the process of economic development.

For the achievement of growth in manufacturing industry, the following course of actions would be taken:

- * Restructuring and modernizing the economy through the creation of appropriate institutions for upgrading technology, facilitating foreign investment and improving existing methods of production, organization and marketing
- * Enhancing the export orientation of the economy through the creation of an appropriate institutional structure, the differentiation of export markets, the production and marketing of new products, the improvement of product quality and the promotion of N. Cyprus as a centre for the export of products
- * Increasing productivity through the enhanced utilization and upgrading of existing resources and promotion of capital intensive and high technology projects
- * Channeling the necessary funds to the productive projects is an important aspect of the promotion of manufacturing industry and overall economy
- * Promoting the production of a manufactured product which is either not produced in N. Cyprus or not produced in sufficient quantities for the needs of the domestic market, and more emphases should be devoted on industrial production that supporting and feeding tourism
- * Promoting the transfer of modern technology, know-how and new management techniques would help upgrading the technologies of existing establishments

- * Promoting the complimentary impact on existing production units or activities
- * To overcome of the handicap of transportation, the creation network of air routes connecting N. Cyprus with Europe, Middle East, Turkish Republics at Russia and N. Africa is very essential. Besides air routes, for cargo distribution shipping lines should be attracted.
- * The Master Plan of Industry should be prepared, in order to direct investments accordingly and effectively
- * The production of electricity in N. Cyprus is at a critical juncture. Existing capacity is stretched and additional productive capacity to meet increasing demand should be constructed. Also, the old electrical network system should be replaced with more reliable and secure of power supply system.
- * Establishment of Sectoral Export Companies will make enterprises to benefit economies of scale, particularly in procurement of materials and export in large quantities
- * Standardization and quality control mechanism should be maintain and strengthen in an effort to improve product quality and consumer protection
- * Flexible production technologies should be preferred for being able to produce more than one product with high efficiency and easily adoption to new technological changes
- * Political stability will contribute rapid growth of manufacturing sector as well as other complementary productive sectors

PART 6

CONCLUSION

Over the past 24 years N. Cyprus has been in the process of reconstructing its economy and society. Much has been achieved but much remains to be done, for developing N. Cyprus and manufacturing industry.

It is extremely difficult for TRNC to break all the problems and compete in the fast developing world. Not all but most of the economic problems would be solved, if it were a politically more stable and recognized State. In that occasion, the inflow of international aids, grants, loans, foreign direct investments, etc. would be realized and accelerated much easier.

However, the status of being not recognized may prolong. This leaves the community of TRNC to be more courageous and hard-working and developing its economic and friendly diplomatic relations with foreign countries and special care should be devoted for free trading relations with Turkey without any formalities. This will stimulate investments, exports and growth; because as economic welfare increases and the economy is in a better status, then TRNC may be more effective in solving the Cyprus-problem.

The small size of the domestic market and limited resource base of the island economy of North Cyprus, necessitates the promotion of export-oriented specialized industries. Also, for easing and gaining advantage on export of present organizations; establishing sectoral export companies would be very helpful.

The manufacturing sector, if not proposed as a leading sector, it should be in a balanced model for the TRNC's development efforts.

Finally, it would be concluded that manufacturing industry needs to overcome a lot of disadvantages in order to become a leading sector and contribute uppermost to the State's Economy. The unavailability of consistent markets and optimum market sizes for the optimum output of manufacturing industry, economic embargo and disadvantages of lack of recognition of the TRNC are the main obstacles facing manufacturing sector. To overcome these disadvantages and flourishing manufacturing industry, counter actions should be taken and comparative advantages would be created for growth of this sector.

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