

## Review

# An overview of the construction sector in Northern Cyprus

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**After 2005, construction sector in Northern Cyprus proved its potential of being locomotive in the economy. Increasing expectations to the solution of Cyprus problem, the positive reflections of the Annan Plan and the conjectural abundance of liquidity in the world caused the construction sector to play the leading role in the economy of Northern Cyprus. However, these conditions have been reversed in a negative way today. Furthermore, internal problems such as high production costs, absence of development plan, availability of unregistered contractors, weak institutional and financial structure of contractors, absence of country physical plan and absence of legal system protecting property owners especially foreigners combined with uncontrollable external factors create negative impact on the sector's productivity and hence the competitiveness of the construction sector and the economy as a whole.**

**Key words:** Overview, construction sector, strengths, weaknesses, opportunities, and threats (SWOT), Northern Cyprus.

## INTRODUCTION

North Cyprus is a small island economy that suffers from isolations. Like other small island economies, the economic structure is less diverse and service sector is the backbone of the economy. More than 80% of employed women and 70% of employed men work in services sector. Despite the small size of the economy, North Cyprus achieved very high growth rates between the years 2002 and 2007, mainly due to positive effect of expectations on solution on Cyprus problem. Because of positive effect of expectations and increase in foreign demand, construction sector became one of the leading sectors of the North Cyprus economy.

The construction sector plays an essential role in the socio economic developments of the North Cyprus. A number of researchers have addressed the importance of the construction sector in the aggregate economy (Su et al., 2003; Strassmann, 1970; Tse and Ganesan, 1997). This sector should not only be viewed as a means of creation of buildings, but should also be considered for its linkages with other sectors as well. The construction industry generates one of the highest multiplier effects through its extensive backward and forward linkages with other sectors of the economy. Construction sector and its

linkages with the other sectors as well as its employment creation capacity make the sector more important for stimulating growth.

There are limited number of studies which show a positive relation between economic growth and construction sector (Tse and Ganesan, 1997). There are other studies which analyzes the employment effect of the construction sector that stimulates economic growth (Xiaoying and Hui, 2004). The relation between construction sector and environment has become an attractive area for the recent researches. The relation between construction industry and economic, social and environmental sustainability is another important research area (Ortiz et al., 2009). Yorucu and Keles (2007) found out that construction boom in North Cyprus created social costs, polluted environment and destroyed historical places, negatively. In 1970's, Strassmann found out that there was a positive relation between construction sector and economic development. The regression results for the years 1955 to 1964 was different for the developed and underdeveloped countries. As countries getting more developed, the construction sector tends to grow. David (2006) tried to answer the question if the construction sector is

**Table 1.** Overview of the construction sector in North Cyprus economy.

Variable	2002	2003	2004	2005	2006	2007	2008
GDP (€mlns)	43.4	55.0	60.2	98.3	174.4	204.1	190.8
Growth constant (%)	15.9	30.8	5.3	18.9	68.1	4.2	-8.0
GDP contribution (%)	4.4	5.0	4.3	5.4	7.9	7.9	7.1
Labour force (000's)	n.a.	n.a.	8.1	8.2	9.6	9.7	10.5
Productivity (€)	n.a.	n.a.	7,432	11,987	18,166	21,041	18,171

Source: SPO (2008); economic and social indicators.

sustainable. He analyzed the effects of construction sector on development, especially for UK. He argues that well-being of humans is reflected with wealth or assets and this is why more developed countries have bigger construction sector. Almost all researches are indicating that construction sector have effect on economic growth but it also has an impact on social and economic development.

Construction mainly consists of dwelling, building, factory, roads, sewerage, ports, airports, water regulator, ponds, and dams construction jobs in addition to other things like garden architecture, parking arrangement, monuments and statues. Generally, construction sector can be classified as infrastructure and superstructure or construction of buildings and outdoor.

According to Turkish Contractors Association, the number of contractors increased from 171 in 2003 to 378 in 2008. Moreover, Turkish Cypriot Chamber of artisans and craftsmen reported that the number of subcontractors increased from 58 in 2003 to 131 in 2008. These numbers shows the attractiveness of the sector for the investors as well as the increase in employment.

Housing construction site consisting of houses and apartments comprised of 68.4% of total construction site in 2007, while it rose to 71.7% in 2008. Similarly, the ratio of total construction value allocated to housing increased from 71.5% in 2007 to 83.2% in 2008 (SPO, 2008).

Total number of 1,819 construction realized in 2008 consisted of 439 urban and 1,380 rural constructions. Among these, total number of 2978 housing construction in 2008 is divided into 47.8 and 52.2% according to urban and rural construction respectively.

Table 1 indicates that, despite the sharp decline in GDP in 2008, the sector has shown a huge growth rate between 2002 and 2008. Another important result that could be obtained from Table 1 is the 25% growth rate of employment between 2005 and 2008. The economic slowdown affected the sector starting from 2007 with decrease in foreign demand but in 2008 and 2009, the recession felt mainly at the construction sector.

As evidenced by the table, the share of construction sector in GDP has grown from 4.4% in 2002 to 5.4% in 2005; however, we see a jump in the figure in 2006 to 7.9%, which has been termed a "boom" in literature. This boom has been identified as the main source of growth in

the TCC economy in the mid 2000s.

### Main indicators

Economic progress following 2001 crisis, decrease in inflation and interest rates, rise in the relative value of Turkish Lira (TL) combined with the optimistic impact of Annan Plan especially towards Turkish Cypriot property regime, caused remarkable improvement in the TC construction sector. As seen in Figure 1, negative growth of 20.4% in 2001 changed direction and reached to a level of 68.1% in 2006. Unfortunately, good days ended and negative growth rate of 8% is observed in 2008.

Parallel to its real growth rates, economic importance of construction sector also raised; such that the share of construction sector in GDP increased from 3.6% in 2001 to 7.9% in 2007. Even though the economic importance of construction sector reflected a relative annual increase, it cannot be argued that it is a pioneering sector. As shown in Figure 2, construction sector comprising 6.5% of the economy in 2009 is reported as eighth among the ten economic sectors. This decline of the sector could be explained with several reasons. While the most important one is the decline in the foreign demand owing to global recession, the unresolved Cyprus problem should also be stated.

According to the SPO (2010), the construction sector has an influence on 27 sub-sectors out of 63 in the economy. Since it influences these sectors, its impact in the economy is very broad, going beyond the 6.5% contribution. This indicates the importance of the sector for the aggregate economy.

While productivity is a vital factor for the competitiveness, it also has the potential of increasing output of the construction sector and the economy as a whole. Similar to gross output fluctuations of construction sector, its productivity showed almost the same pattern. Productivity of construction sector reflected a continuous increase between 2002 and 2007. However, a decrease is observed in 2008 due to the negative growth of the sector (Figure 3). Despite the increases in the productivity of construction sector for the relevant years, the sector has very low productivity compared especially to construction sector in South Cyprus.

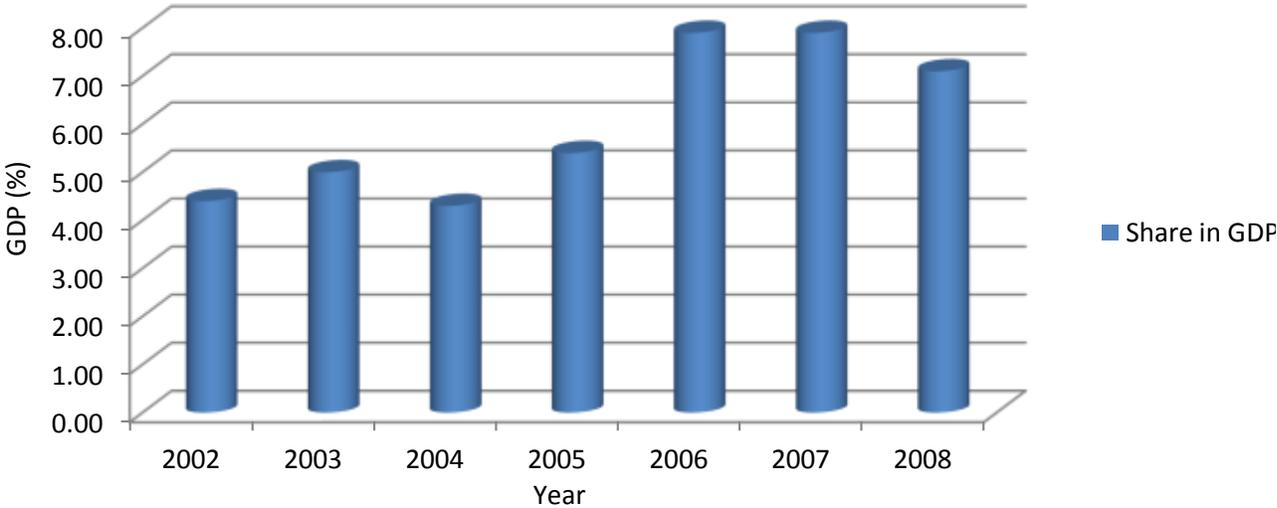


Figure 1. Construction sector share in GDP (%) 2002 to 2008.

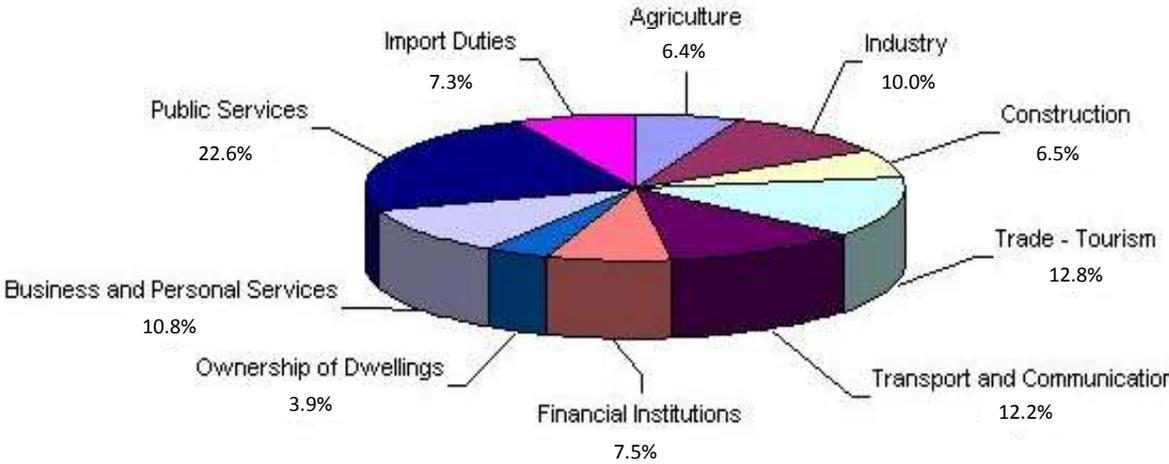


Figure 2. Sectoral distribution of GDP in North Cyprus (2009).

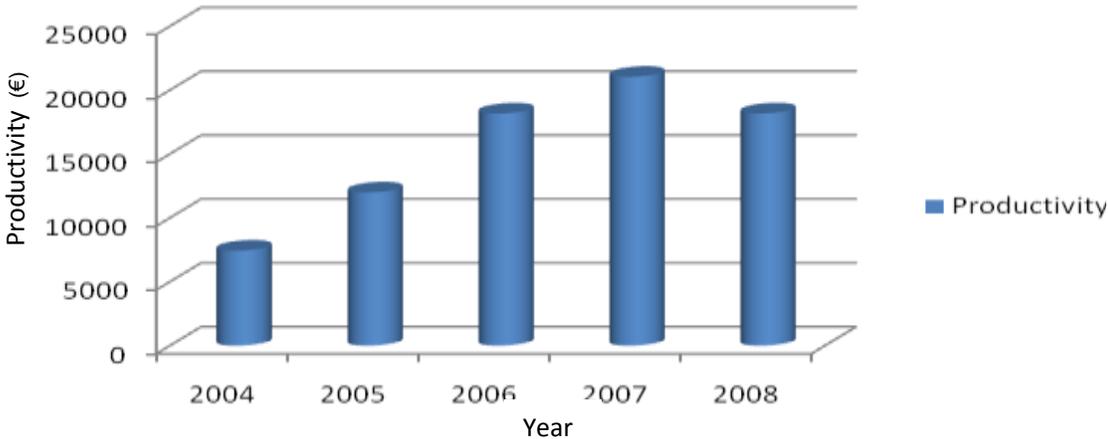


Figure 3. Productivity of North Cyprus construction sector (€).

**Table 2.** Cyprus: Overview of construction sector (2008).

No	Variable	North Cyprus	South Cyprus	Cyprus
1	GDP (€ mln)	2,700	17,247.8	19,947.8
2	Value added of construction sector (current prices) (€ mln)	190	3,058	3,248
3	Construction sector as part of GDP (current prices) (%)	7	17.8	16.3
4	Gainfully Employed in the construction sector (thousands)	10.5	38.3	48.8
5	Productivity (VA/employment) (€ Thousand)	18	80	66.5

Source: SPO (2011) State Planning Organization, <http://www.devplan.org/Frame-tr.html>, Statistical Service (2011), [http://www.mof.gov.cy/mof/cystat/statistics.nsf/labour\\_31main\\_en/labour\\_31main\\_en?OpenForm&sub=1&sel=2](http://www.mof.gov.cy/mof/cystat/statistics.nsf/labour_31main_en/labour_31main_en?OpenForm&sub=1&sel=2).

**Table 3.** SWOT analysis of construction sector in North Cyprus.

Strength	Weakness	Opportunity	Thread
Relatively low property prices compared to South Cyprus and other foreign countries	High production costs	Improvement of road and other infrastructure	Unplanned explosive building of real estate and subsequent environmental concerns and infrastructural bottlenecks
Cheaper labour cost	Absence of development plan	Potential Foreign demand for services especially outside the EU	Problems of property ownership due to Cyprus problem
	Availability of unregistered contractors	Potential demand of Turkish Cypriots in England and other foreign countries	Banking facilities (high cost of borrowing)
	Weak institutional and financial structure of contractors	Accession to the EU (freedom of movement of goods, people, capital within the EU)	Low population birth-rate
	Absence of country physical plan	Solution of Cyprus problem	Serious Bureaucratic problems related to cadastre and land registry
	Absence of legal system protecting property owners especially foreigners	Availability of untouched nature and concrete building relative to rivals Low crime rate	

Potential structure of construction sector for the Cyprus as a whole can be obtained by consolidating the figures for North Cyprus and South Cyprus as indicated in Table 2. As of 2008, construction sector as part of GDP for North Cyprus, South Cyprus and Cyprus is calculated as 7, 17.8 and 16.3% respectively. Productivity of North Cyprus construction is 22.5% of productivity of South Cyprus construction sector. Productivity of construction sector in South Cyprus is reported as 80 thousands € per employee. As understood from the table, economic importance and productivity of South Cyprus construction sector are significantly greater than those of North Cyprus. Even though absolute figures consisting of employment, gross outputs that depend on the size of the country economy can be tolerated, productivity as the

relative measure should be carefully analysed and causes of productivity differences should be scientifically determined so as to take corrective action. In this regard, productivity of North Cyprus construction sector being about four times less than that of South Cyprus needs careful evaluation.

### SWOT analysis

In order to develop a pro-active strategy for the construction sector, strengths, weaknesses, opportunities, and threats (SWOT) analysis as detailed in Table 3 is conducted. The current relatively low property prices compared to South Cyprus and other foreign countries

is the only strength of the North Cyprus construction sector. However, it has vital weaknesses such as high production cost, absence of development and country physical plan and ineffective legal system.

Relatively untouched nature and potential foreign demand in addition to probable solution of Cyprus problem and accession to EU membership are the important opportunities while unplanned explosive buildings, problems of property ownership, high cost of borrowing and bureaucratic problems are the serious threads in the North Cyprus construction sector.

## CONCLUSION AND RECOMMENDATIONS

As it is supported with the theory, construction sector has positive impact on economic growth and development. Construction sector has linkages with the other 27 sectors. When we include the effect on employment, it is very obvious that growth of the construction sector will boost the aggregate economy. Despite this potential of the North Cyprus construction sector, its share in GDP is declining. It is obvious that the causes of both sectorial rise and fall in recent years were cyclical. In other words, the sector itself did not contribute to the rise while it just witnessed the decline.

While the most important causes of sectorial shrinkage are decline in the foreign demand owing to global recession and the reversal of optimistic view towards the unresolved Cyprus problem, economic progress following 2001 crisis, decrease in inflation and interest rates, rise in the relative value of Turkish Lira (TL) combined with the optimistic impact of Annan Plan especially towards Turkish Cypriot property regime were the main reasons of remarkable improvement in the TC construction sector.

In the light of the afore conclusive remarks, it can be asserted that North Cyprus construction sector does not have any proactive strategy shaped by relevant vision, mission and objectives. We can formulate this strategy by utilizing the SWOT analysis conducted in this study.

Given the fact that external environment of North Cyprus provides the opportunities of availability of untouched nature and concrete building relative to rivals and low crime rate, vision of North Cyprus construction sector can be determined as “having the happiest customers as the residential owners in North Cyprus”.

According to the vision, the mission of the sector can be specified as “ownership of the fast and secure housing”.

Finally, the following objectives should be pursued to achieve the sectorial mission and vision accordingly:

- i. Current legal problems of property ownership faced specially by foreigners should be urgently solved in any way.
- ii. Bureaucratic procedures of property ownership should be simplified and stepped up.
- iii. Ethical norms of construction should be institutionalized and sectorial ombudsman should be found to enforce the implementation of these norms.
- iv. Legal, institutional and professional aspects of contractors and other firms operating in construction sector should be heavily regulated and controlled.
- v. As a priority national physical plan, development plans, environmental master plan and other sectorial plans should be prepared and put into force.
- vi. Problems such as improper traffic structure/congestion and environmental pollution that negatively affect the happiness of residential owners have to be solved.

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