

A stylized map of Cyprus composed of a grid of dots. The map is centered on the page. Several dots are highlighted in red, indicating specific locations or data points. The dots are arranged in a way that clearly outlines the island's shape.

Youth Unemployment in Cyprus

An Examination of the »Lost Generation«

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- Youth unemployment has been rapidly rising in the Republic of Cyprus in the last decade and now stands above the figure in the northern part of Cyprus. Youth unemployment in the Republic of Cyprus stands significantly above the EU and Euro area average.
- While youth unemployment has always been chronically high in the northern part of Cyprus, it has been declining in the last three years reaching a level slightly below the Euro Area.
- The big proportion of higher education graduates and the strength of the institution of the family in both sides at the same time reinforce and control the social impact of the problem. The same applies for the individual-oriented programmes such as the ones in force at EU and national levels, which cannot provide medium or long-term solutions.
- The problem is structural and connected to the broader deterioration of labour market conditions. Active labour market policies need to be implemented alongside a comprehensive regulatory framework that strengthens collective bargaining in combination with public and private investment.



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1. Introduction and Context

Cyprus is a small island in the south-eastern Mediterranean, with a population slightly above one million. The island, after Ottoman and British rule, became independent in 1960. The political antagonism between the two main communities of the island, the Greek Cypriots and the Turkish Cypriots comprising in 1960, 77 percent and 18 percent of the population respectively, resulted in the withdrawal/expulsion of the Turkish Cypriot community from the state mechanism in 1963–64 following the inter-communal clashes, which broke out in December 1963. The Greek-led coup and ensuing Turkish invasion/intervention in 1974 led to the de facto territorial division of the island and the total separation of the two communities completing thus a process which had begun in the late 1950s. Consequently, roughly 37 percent of the northern part of the island came under Turkish control.

Since the division of the island in 1974, the Greek Cypriot community in the south, maintaining the control of the Republic of Cyprus (RoC) has achieved significant economic growth in the 1980s and 1990s, and has entered the European Union (EU) in 2004 and the Eurozone in 2008. By contrast, the Turkish Cypriot community was unable to follow a parallel route, largely because of the refusal of the international community to recognise its secessionist initiative in the form of the establishment of the Turkish Republic of Northern Cyprus (TRNC) in 1983, which is recognised only by Turkey.

Opening of the crossing points in April 2003 has made the interaction between the two communities possible, yet it did not lead to a growing economic integration between the two economies. Though the number of Turkish Cypriot citizens working in the south reached over 5 percent of the working population in the north in 2004, it has gradually declined to 3.56 percent in 2008, 1.41 percent in 2011 and 0.56 percent in 2013 following the crisis. The latest figure, 0.9 percent in 2015, shows that the number of Turkish Cypriots working in the south is at a negligible level (DPÖ, various years). In a similar vein, Gökçekuş et al. estimated that by 2009 actual trade across the Green Line had only reached around 10 percent of its potential (2012: 867).

Historically, the two communities have always had different economic structures. Since the Ottoman time, the educated Turkish Cypriots were generally employed in

the public administration while Greek Cypriots specialized in trade. As a result, by 1961, average per capita income of the Turkish Cypriot community was approximately 20 percent lower than the Greek Cypriot one, and this gap grew drastically after the first geographical segregation following the inter-communal clashes in 1963, reaching 50 percent in 1971 (Nötel cited in Kedourie 2005: 653). The gap continued to grow after 1974, and by 2000, the Greek Cypriot per capita income reached to 13,155 US dollars and the Turkish Cypriot one only to 5,966 US dollars (Economist Intelligence Unit cited in Ayres 2003). The latest figures show that the gap slightly narrowed and the Turkish Cypriot per capita income stood at 58 percent of the Greek Cypriot one in 2012 (Mullen, Apostolides and Besim 2014: 7). In terms of the absolute size of the economies, with a GDP of 23.23 billion US dollars (The World Bank), the Greek Cypriot economy is roughly five times bigger than the Turkish Cypriot one whose GDP was only 4.04 billion US dollars in 2014 (DPÖ 2015b).

The following report describes the similarities as well as diverging trajectories of the Greek Cypriot and Turkish Cypriot economies and labour markets focusing on recent developments in the patterns of unemployment in general and youth unemployment in particular. The analysis is kept separate in different sections for the south and the north. It begins with Section Two, which refers to the labour markets in the south and north respectively. Section Three deals with the causes and risks of youth unemployment while Section Four discusses the attempts to deal with youth unemployment by various actors and stakeholders. The analysis in the concluding Section Five provides some policy recommendations for both sides.

2. The Labour Market in the 21st Century

2.1 The South: Sky-rocketing Youth Employment and Regular Employment Becoming Scarce

Although the economy of the RoC continued to grow in the first decade of the 21st Century creating labour shortages that were effectively covered by an ever increasing immigrant labour force, there were already signs of deteriorating employment conditions and opportunities for the young people. Part-time and temporary employment had increased, and irregular and insecure employment

was already threatening an expanding section of the young population (Trimikliniotis 2004). What is important to note is that the continuing strength of the institution of the family, offering support to the young unemployed, underemployed and low-waged, effectively masked the social problem in the previous decade.

Youth unemployment in Cyprus remained lower than the EU average but the difference was not as significant as that regarding unemployment. The economic crisis in Cyprus, however, provoked a rapid increase of unemployment and youth unemployment, raising both significantly above the EU and Eurozone averages.

Table 1: Unemployment Rate

Unemployment Rate	2006	2009	2012	2015
RoC	4.6	5.4	11.9	16
Northern Part	9.4	12.4	8.7	7.4
EU	8.2	9	10.5	11
Euro Area	8.4	9.5	11.3	9.5

Table 2: Youth Unemployment Rate

Youth Unemployment Rate (15–24)	2006	2009	2012	2015
CY	10.6	13	26.5	32.3
Northern part	23.8	31.4	24	19.6
EU	17.5	21	23.5	22.5
Euro Area	16.8	20.5	23.3	20.5

Table 3: Youth Unemployment as a Percentage of Adult Unemployment

Youth Unemployment Rate (15–24) / Adult Unemployment Rate (25–74) Ratio	2006	2009	2012	2015
CY	2.8	2.9	2.7	2.4
EU	2.5	2.8	2.6	2.7
Euro Area	2.3	2.5	2.3	2.1

Table 4: Youth Unemployment Ratio

Youth Labour Market Participation Rate (Youth Unemployment Ratio)	2006	2009	2012	2014
CY	4.1	5.6	10.8	14.5
EU	7.7	8.7	9.8	9.2
Euro Area	7.3	8.7	9.7	9.5

For Tables 3 and 4, figures were not available for the northern part of Cyprus. For Tables 1 and 2, figures for the northern part of Cyprus are from Turkish Cypriot State Planning Organization's yearly Household Labor Force Surveys (DPO, various years). The rest of the figures are derived from Eurostat. It is important to stress however that official statistics in general and unemployment statistics during recession in particular are understating the figures (INEK-PEO 2015: 72). This is because large numbers of persons are discouraged from seeking work and thus do not appear in the unemployment figures while the proportion of long term unemployed and temporarily employed people have risen substantially. Furthermore, the phenomenon of underemployment through part time work often serves to further hide the magnitude of the problem in the labour market.

Given the overwhelming percentage of young persons completing secondary education, the two-year compulsory male military service¹, the high percentage of young persons entering higher education² and the relatively high percentage of persons continuing their studies at post graduate level, the definition of youth in relation to the labour market as aged 15–24 becomes highly problematic for the RoC. In fact, even the addition of the group aged 25–29 might not be sufficient – for analytic purposes a broader picture might necessitate an extension of the youth definition to age 34.

From labour relations research (Ioannou 2014 and 2015), it is known that the labour market in the RoC is highly fragmented in different ways for different industries. We can talk about segmentation and pay gap between the public and the private sectors, between male and female, and, between native and immigrant employees. Additionally, there are a series of sector specific lines of division based on age, social capital, skill and experience etc. On a general level, the main trend in the private sector is the division between the unionized workers employed under the terms of collective agreements and the non-unionized employed under the terms of a variety of personal contracts. Most of the younger workers belong to the peripheral segment with the majority of them being non-unionized; a problem that unions acknowledge but fail to redress. Being anyway largely in precarious and/or irregular employment and given the tendency of firms to apply the principle of »last-in, first out« (Pastore 2012), young workers came to face, especially after the onset of the current economic crisis in 2009, increased unemployment risks.

In the private sector, employment conditions turned from harsh to dramatic as evident by the registered unemployment figures. These figures are, of course, underestimations, as they do not include non-registered unemployment (e.g. recent school, college and university graduates who have never entered employment), persons working only a few hours per month, and those considered by the state as »voluntarily unemployed«. More importantly they exclude the rapid drop in the

number of immigrant workers, who in most cases were the first to be fired and the least able to sustain themselves while being unemployed most of them had little choice but to leave the country. Young Cypriots who finished their studies abroad sought jobs outside the island and others who were in Cyprus began looking for jobs elsewhere. 28 percent of persons in the age group 18–28 intend to leave Cyprus in search of jobs, according to a research conducted by the Cyprus Institute of Statisticians; 62 percent of them are university graduates and post graduates (Christodoulou 2015).

Eurostat figures point out that Cyprus has had net migration figures of –14,000 in 2013 and –17,600 in 2014. The shrinking of the population in the last two years due to the emigration of around 30,000 persons follows the shrinking of the economy and the labour market. Overall in the period 2012–2014, employment diminished by 11 percent, part time employment has increased while the self-employed were also hit particularly hard (INEK-PEO 2015). As the economy shrank in terms of real GDP by 9.8 percent in the period 2012–2014, conditions in the labour market have deteriorated substantially, increasing and diffusing precarity among large sections of the labour force and decreasing substantially the purchasing power of the average wage (INEK-PEO 2015).

2.2 The North: Segmentation Along Three Different Lines

As noted in the introduction, the TRNC is a non-recognized state. Therefore, the Turkish Cypriot economy is to a large extent isolated from the rest of the world and has only indirect access to the global economy via Turkey³, the only country, which officially recognizes it. Yet the main problem of the economy is not lack of recognition per se. The unilateral declaration of independence, which attracted the international isolation, came in 1983. The structural problems, however, long predated it, and can be traced back to the Turkish Cypriot political elites' efforts to divide the two communities economi-

1. The military service has been reduced in 2016 to 14 months and a scheme is in place now aiming to employ 3,000 professional soldiers to counter balance the decrease in the number of the conscripted ones. This scheme targets primarily unemployed young male persons.

2. Cyprus ranks second in the EU in the proportion of holders of undergraduate degrees in the age group of 30–34 in 2015 according to Eurostat (Hanni, 2016).

3. By introducing the Green Line Regulation in 2004, the European Commission has established special rules concerning the crossing of goods, services and persons between the two sides of the island. This was meant, among other things, to promote economic development of the northern part of Cyprus by opening a channel for exports. However, for various reasons the volume of trade through the Green Line has never exceeded 7 million euros. This is to say, despite the introduction of the Green Line Regulation, Turkey remains to be the main route for Turkish Cypriot exports.

cally in the late 1950s when they had started a campaign boycotting the Greek Cypriot businesses, in a way adopting a policy of self-isolation. Over time, this policy not only led to a growing dependence on Turkey⁴, which currently accounts for the majority of tourist, trade, financial, labour and student flows towards the northern part of the island, but also created an extremely inefficient economy with very limited job opportunities in the private sector.

This, subsequently, led to the formation of an oversized public sector, even by southern European standards, because public sector employment had been used as a political instrument to conceal the failure of secessionist policies, to lend legitimacy to the ailing politico-economic structure and to help winning elections; thus »bureaucratic clientelism« became the order of the day (Sonan 2014: 208–216). Accordingly, the economic model was based on using Turkish funds to pay relatively higher salaries to the public employees and pensioners to keep the rest of the economy going (see PGlobal 2014: 8–9) while the need for low-skilled labor was met by an influx of immigrants almost exclusively from Turkey. Though Ankara bankrolled this model for a long time, in the last decade it has started to question and eventually undermine it by imposing austerity policies; a decision, which has been rocking the economy and labor market since then.

In contrast to the RoC, its isolation from the global economy, the lack of integration with the south and the small size of its financial sector prevented a full-blown crisis in the northern part of Cyprus. Yet, this does not necessarily mean that it has been economically stable. After growing at breakneck rates between 2003 and 2006 i.e. over 10 percent per year (thanks to a construction boom, which was triggered by the expectation that a prospective reunification agreement would include a property arrangement similar to that of the Annan plan, which secured ownership for the current user if the property had been significantly improved), the Turkish Cypriot economy slowed down in 2007, and took a plunge in 2008 and 2009 by shrinking 2.9 and 5.5 percent respectively following the pattern of Turkish economy (DPÖ 2015b). Consequently, both unemployment and youth unemployment peaked reaching 12.4

and 31.4 percent respectively in 2009. Though the average unemployment figures were similar with the EU average, it should be noted that there was a wider gap in youth unemployment figures before the global financial crisis, which never came below 20 percent (until 2015) since 2004 when the authorities have started gathering youth unemployment statistics. Even in the boom years of 2005 and 2006, it was 20.3 and 23.8 percent respectively, which clearly shows that there is a structural youth unemployment problem. As a recent study points out, 42 percent of the new entrants to the job market are unemployed for more than a year (PGlobal 2014: 49).

Against this backdrop, one of the most striking characteristics of the Turkish Cypriot labour market today is its segmentation. This segmentation can be roughly categorized along three different lines: (a) public-private sector gap; (b) domestic-immigrant labour gap; and (c) gender gap.

Public sector provides higher wages, job security, generous social benefits, union protection as well as relatively relaxed working conditions, while an overwhelming majority of those working in the private sector lack almost all of these. Overall, a big majority of those working in the private sector are in a precarious position because either there is no institutional protection at all or existing regulations are not enforced effectively. As the Doing Business Report puts it »[i]t is relatively easy to hire and fire in northern Cyprus, and few regulations constrain employers in terms of working hours« (YAGA 2008: 8). Even where the regulations protect the employees' interests vis-à-vis the employers on paper, there are serious problems with the enforcement of these rules. For instance, though it is illegal, employees are forced to work for longer hours without any overtime payment and without compliance to labor safety regulations. As the then minister of interior and labor affairs recently admitted the number of inspectors is not sufficient to prevent violations (Tokay 2015), which shows the unwillingness of the authorities to protect the workers.

Furthermore, Turkish Cypriot authorities tend to turn a blind eye to violations, which can be easily detected. It's not a secret, for instance, that in the private sector, employers tend to shun making social security and provident fund payments for the employees either altogether or when they make the payment they do not do it over the real salaries but rather a fraction of it, usually the

4. Between 2005 and 2015, in average Turkey transferred 469 million US dollars per year to the TRNC (<http://www.yhb.gov.tr/> accessed on 20 September 2016).

minimum wage. What makes life even more difficult for private sector employees is the lack of trade union protection. The level of unionization in the private sector is negligible (Ioannou and Sonan 2014: 7).

Another important and related factor shaping the Turkish Cypriot labor market is its de facto integration with the Turkish one, particularly since the beginning of the 1990s following the abolition of passport requirement for travelling between the two countries. The resulting influx of Turkish workers depressed the wages in the service and manufacturing sectors, furthering the pay gap between the private and public sectors and hence made them even less attractive for the local labor force. This has several implications. Time spent in unemployment in the northern part of Cyprus is longer compared to Turkey and the southern part of the island (PGlobal 2014: 13), which can be explained by the Turkish Cypriot citizens' tendency to opt for waiting for a vacancy in the public sector rather than accepting an available job at the private sector. Overall, in 2014, of those employed, 30.3 percent were employed in the public sector and 32.3 percent were immigrants.

Compared to the Turkish Cypriot private sector employees and workers, working conditions for immigrants are generally even harsher, and this constitutes the second axis of segmentation. According to the Trafficking in Persons report of the US State Department, in the northern part of Cyprus »men and women are subjected to forced labor in industrial, construction, agriculture, domestic work, restaurant, and retail sectors. Victims of labor trafficking are controlled through debt bondage, threats of deportation, restriction of movement, and inhumane living and working conditions« (2016: 151).

The third axis of segmentation is along gender lines. As of 2014, overall labor force participation was at 48.6 percent (DPÖ 2015: 1), which is below all EU countries except Italy and Croatia (see World Bank 2014: 9). This is to a large extent a result of a gender gap in labor force participation. As a recent World Bank report points out »[a]t 62.1 %, the male labor force participation rate is close to the EU average of 64.9 %, but the female labor force participation rate, 35.9 %, is significantly below the EU average of 50.8 %« (2014: 9); 18.1 percent of those who do not participate in labor force are homemakers (DPÖ 2015: 5). The lack of a developed child-care and elderly care services sector and pay discrimination in the

private sector against women (PGlobal 2014: 41) means that when entering the job market young women need to overcome two obstacles i.e. gender and youth.

3. Causes and Risks of Youth Unemployment

3.1 The South: High Educational Levels Don't Match Labour Market Demands

The causes and risks of youth unemployment in the RoC are effectively no different from those in other European countries (Dietrich 2012; Sanchez 2012). Youth unemployment is produced by a combination of structural, institutional, economic and policy factors pertaining to the weak position of the youth in the labour market, a shrinking job market, the mismatch of skills possessed by the youth and the skills sought for by employers, the use by the employers of the new entrants as a means to worsen the employment terms and conditions in general etc. The youth are essentially a vulnerable group whose precarious position in the labour market became worse in the conditions of crisis. Trapped primarily between unemployment and irregular employment, the youth are unable to gain substantial work experience and practical skills to strengthen their position in the labour market and at the same time they are unable to muster the necessary organizational and social resources so as to competently demand more. Often they face the indifference of trade unions and the older more protected workers who tolerate the institutionalization of the youth's inferior treatment by the employers (Ioannou 2015).

However there are also some particularities that need to be addressed in relation to youth unemployment in Cyprus. The two most important ones are the relatively high educational levels of young Cypriots [97.6 percent enrolled in general and technical high schools and 78 percent of secondary education graduates continued into tertiary education in 2011 (Republic of Cyprus 2015: 136 and 59)] and the continuing strength of the family as an institution of support. These two parameters have a paramount impact on the characteristics, the consequences and the reproduction of youth unemployment. Youth graduating from tertiary education institutions tend to have high expectations, which for most never materialize. What is usually available for them is low wage jobs, often on a part time basis and more often

of a temporary or casual sort. They therefore continue to depend on their family for support usually well into their 30s, reproducing in effect the strength of the family as a social institution with an enhanced welfare support function.

This reproduces another societal characteristic of Cyprus, which is the underestimation of young people and their relative exclusion from positions of responsibility. The bias in favor of older and more experienced people especially in white-collar occupations remains significant and although eroded at the level of discourse, it is reinforced de facto by the political and economic conditions prevailing. Measures currently adopted such as raising the retirement age, putting a ceiling on new hiring in the broader public sector and cutting back the welfare state, place the younger generation in a worse situation in the labour market and make its integration in society more difficult.

Over-education, in the sense of a discrepancy between the supply of education and the needs of the economy, is an international phenomenon that has also been observed in various countries. It is the condition whereby high educational attainment turns from an asset into a liability as it comes at the cost of limited work experience, which is a far more important factor in the context of labour market competition. Work experience is very difficult to be attained as youth move between unemployment to casual employment typically much below their skills and qualification levels and usually in sectors irrelevant to their studies. Thus the cumulative effect of delayed entry in the labour market and the limited work experience attained handicaps youth when rarely work opportunities do open up resulting in the entrapment in a condition of precarity often without any prospect.

Looking more specifically at developments in terms of the industrial and service sectors since 2002, the most significant change is in construction, which was booming before the crisis with its share of employment rising while after 2010 the trend was reversed and employment size has been dropping since. The same applies for the banking and insurance sectors with 2012 being the turning point. Manufacturing and tourism have remained stable in terms of their employment share while the primary sector has continued to drop. Commerce including transport and storage and public and social services including administration and media, that employ

together about 40 percent of the labour force have been rising substantially since 2002 but stabilized after 2011.

3.2 The North: Skills Mismatch and Growing Frustration for Young University Graduates

The diverging developmental paths of the two labor markets across the dividing line notwithstanding, there are two striking similarities between them: the relatively long time spent in education and the financial support provided to the youth by the family. With enrolment rate to general and technical high schools at 89.2 percent and higher education institutions at 69 percent in 2014 (DPÖ 2015: 3), enrolment rates are quite high in the northern part of Cyprus too. In a similar vein, what is said about the role of the family in the southern part of the island, as a factor effectively alleviating the problems faced by the young unemployed or underemployed, equally applies to the northern part. It is very common to see parents to cover the mortgages, car credits and utility bills as well as part of the living expenses of their working age children or the tuition fees of their grandchildren.

As for the high educational attainment, there are three obvious reasons. First and probably the most important factor is the requirement of a university degree for a decent white-collar job in the public sector. Another incentive to go to university, at least for male citizens, is a shorter military service requirement granted to the university graduates. Finally, particularly, following the establishment of local universities in the 1980s, university education became more accessible. Consequently, the biggest group, who does not participate in labor force with 28.1 percent, is made up of those who are still studying (DPÖ 2015: 5).

Yet this comes at the expense of a further distortion in the labor market. The economy is not growing at a pace that can absorb those graduating from the universities. At the same time, this means that there is not sufficient demand to receive vocational training, which is more compatible with the needs of the economy. Consequently, there is an obvious mismatch or skills gap between the needs of the Turkish Cypriot economy and the qualification of the labor supply. The problem is that the more education young people receive, the more unemployable they become for the private sector, whose

main demand is for low and semi-skilled labor, and consequently the pressure on the public sector employment goes up.

In this context, the higher education sector emerges as both a blessing and a curse for the economy in general. With the foreign students' estimated expenditures as a share of GDP at 35 percent (TC Yardım Heyeti Başkanlığı 2015: 87), the most important source of hard currency in the northern part of Cyprus is higher education. As of the end of 2015, there were 71,605 foreign students registered in Turkish Cypriot universities of whom 24,139 were from countries other than Turkey (KKTC Merkez Bankası 2016: 17). Yet, at the same time, by making access to higher education easier, it leads to the worsening of the problem of skills gap described above.

Furthermore, as the business model of the universities is based on luring students from poorer countries with low tuition fees, and there is no vetting process to ascertain whether these students can afford to pay the fee beyond the first instalment, many foreign students end up as part of the unregistered labor market. According to one account, the number of foreign students studying at the Turkish Cypriot universities who work in the northern part of Cyprus without a work permit is somewhere between »three and four thousand« (Gökçe 2016), while only 356 work permits were granted to foreign students in 2014 (Çalışma ve Sosyal Güvenlik Bakanlığı 2014: 7).

Indeed, potentially the higher education sector could have helped to alleviate the skills gap problem by creating demand for highly skilled labour. However, according to a recent report, two-thirds of the academic staff members at the Turkish Cypriot universities are from Turkey (Gökçekuş et.al. 2016: 5), which shows that the sector falls short of addressing the relatively high unemployment rate among highly educated or to attract Turkish Cypriots abroad to reverse the brain drain.

What makes the situation worse for the new generation of university graduates are the new austerity policies, which aim to reduce the size of the public sector, which used to absorb many young people with a university degree. In this respect, an important turning point for the Turkish Cypriot labor market in general and the young graduates in particular was the adoption of the »Law Regulating the Monthly Salary, Wage and Other Allowances of the Public Employees«, which

came into force in 2011 despite strong resistance of the trade unions. This »has attracted strong criticism from the unions and came to be known as the »emigration law« as it is believed that by substantially reducing the entry-level salaries in the public sector, it will impoverish the youth joining the labor force and in doing so lead to mass emigration« (Ioannou and Sonan 2014). The law was introduced in line with the financial protocols signed between Ankara and the Turkish Cypriot government, which aimed to reduce the size of the public sector by making it less attractive to the jobseekers. Furthermore, a cap has been introduced to limit the number of people that can be employed in public sector per year so that even those who would be willing to accept lower salaries cannot find a job in the public sector. The 2012–2015 financial protocol, for instance, fixed the number of new employments in the public sector at 360 per year. In a similar vein, according to the new protocol for the 2016–2018 period, the number of new openings per year will not exceed the number of retirements in the same period.

It still remains a moot point whether in practice emigration has intensified as feared or not after this law, as there is no statistical data. In general, however, »it is known that rate of brain drain is high« in the northern part of Cyprus (PGlobal 2014: 49) and, there is anecdotal evidence, that particularly medical doctors are leaving the country or refuse to come back to the island after having finished their education abroad due to lower salaries and deteriorating social benefits. Either way, under the existing politico-economic circumstances prevailing in the northern part of Cyprus, it is obvious that this policy will not contribute to the solution of the chronic youth unemployment problem particularly among the university graduates.

When we look at the recent trends in the Turkish Cypriot economy, we see that in the last five years, the service sector, which accounts for almost 80 percent (up from 74 percent in 2005) of total employment, has been the main driving force of the economy, while agriculture and industrial sectors' contribution to total employment has been around 4 and 9 percent respectively. The most obvious decline could be seen in construction sector, whose share in total employment after, peaking in 2008 with 11.5 percent, went down to around 7.5 percent in the last five years. Though further breakdown of figures showing the subsectors' contribution to total employ-

ment is not available, other official statistics show that retails, as well as hotels and restaurants subsectors solidly contributed to the growth of the economy in the period concerned. These subsectors are likely to continue to expand in the future given the fact that tourism and higher education sectors, which have strong linkages with these subsectors, are considered as two strategic sectors with highest growth potential and hence are subsidized by Turkish government.

4. The Attempts to Deal with Youth Unemployment

4.1 The South: Individualist Conceptualization of a Structural Problem

The state attempted to deal with unemployment in general and youth unemployment in particular only in the last years after its increase above 10 and 20 percent respectively allowed it to be recognized as a major social problem. One of the primary means through which it was approached was positive discrimination measures offering incentives to employers to recruit unemployed persons in general and young unemployed persons in particular. This consisted largely of public employment subsidy, positioned under a variety of special schemes, which began in 2012 and increased in frequency and magnitude in 2013–2015. The financing of these schemes came largely from EU funds and they were typically targeting particular groups of unemployed persons (with higher education qualifications, who were long term unemployed, and of specific age groups etc).

Although there was some variation in the terms of these more than 20 schemes, most of them focused on young persons and paid special emphasis on the long-term unemployed and those with university degrees. Although some of these schemes focused on small and medium size firms as eligible employers to receive publicly subsidized employees big firms were assigned a substantial part of the money. The logic behind this attempt was the attainment of work experience by the young unemployed and the possibility of some of these people to be properly employed at the end of these schemes.

The impact of these schemes has been at best mixed. Although many young people were employed, their

employment was short term, poorly paid and with limited prospects for future »regular« employment. The stabilization of unemployment observed in 2015 compared to 2014 owed more to the shrinking of the working population through the emigration of tens of thousands non-Cypriots as well as Cypriots who abandoned the country in search of better employment opportunities abroad. The government itself did not expect these schemes to solve the problem and has stated many times that the only way to deal decisively with unemployment was through the return to economic growth. At the same time however it did argue that these schemes were allowing many young persons to gain training and experience and enhancing their prospects for future employment.

The European Commission itself intervened directly regarding the issue of youth unemployment by organizing series of workshops in the main towns of Cyprus in an effort to help a few hundred young persons that are registered as unemployed to improve their CVs and their digital skills and enhance their entrepreneurial spirit and encourage them to embark upon start up business ventures.

All these measures are based on an essentially individualist conception of unemployment, approaching unemployment in general and youth unemployment in particular as a problem that people face because of their individual attributes. Young people are seen as basically having inadequate skills and experience and that is why they face difficulties in the labour market. This is an international practice and stems from misconceptions and biases that fail to see the bigger, diachronic and societal aspects of the problem and pay sufficient attention to structural constraints that young persons face (MacDonald 2011; Martin 2012, Panayiotopoulos 2013).

The recognition of that could be a first step towards tackling the problem. However in the absence of a policy change away from austerity, in the absence of economic growth and without a broader transformation in the dominant discourse, the margins left for dealing with youth unemployment are extremely narrow. Leaving socio-economic structures intact and continuing to operate within the dominant political frame will render any measures taken at best partially successful, temporary and closing one hole (youth unemployment) while opening another (youth poverty wages).

4.2 The North: Challenge of Reducing the Public-private Gap

The most important and successful attempt to deal with youth unemployment is the Ministry of Labor and Social Security's scheme to support the employment of domestic labor force in private sector, which came into force in December 2013. The scheme aims to promote not only the employment of youth but also other disadvantaged groups such as women and disabled persons by covering the employer contributions to social security premiums and provident fund deposits – which is 11 and 4 percent respectively – of newly employed for a specific period of time. The period is 18 months for unskilled labor and 24 months for university graduates. The premiums of those who graduated from vocational schools and aged between 18 and 30 are covered by the state for 36 months, and 24 months if they are older than 30. Women receive the payment for 48 months regardless of their age. In a similar vein, women entrepreneurs who enter working life as self-employed or employer are exempt from social security premiums for 48 months, while young entrepreneurs receive the same treatment for 36 months.

The scheme is funded by premiums, which are paid by employers who employ immigrants (5 percent for each foreign employee). According to the figures provided by the Ministry, as of the time of writing (mid-March 2016), 11,523 job seekers have been placed in a job in the framework of this scheme. 4,509 of these job seekers were first time entrants in the job market of which 51 percent were women.

The Ministry of Labor and Social Security has introduced another project specifically designed to address the problem of youth unemployment, which involves a youth wage subsidy of 30 percent of the net salary for a period of 18 months. As it is described on the Ministry's website, the project aims to promote »the entry of youth to labor market, to ease their adaptation to working life, to help them gain work experience and to provide them an opportunity for networking«. Specific target groups are university graduates, and graduates of vocational schools as well as junior technical colleges who are below the age of 30. To benefit from the scheme, the jobseekers need to be employed within one year of completion of their studies, or in the case of men, their military service. This project was less successful than the one described above according to the former undersecretary of the ministry (Lisaniler 2016).

The students' part-time employment is also supported as part of the same scheme with a slight difference: In this case, the subsidy is 25 percent, while an additional social security support is provided.⁵

Another initiative worth mentioning in this context is the Turkish Cypriot Chamber of Shopkeepers and Artisans' project. In 2007, the Chamber has started a three-year on-the-job-training program for those who finished the 9-year compulsory education with a view to providing vocational training to address the skilled worker shortage while helping to reduce the rate of youth unemployment. The program proved to be a success, according to the coordinator of the chamber; as of the end of 2015, 350 students completed the program and all of them were placed in a job (Tulga 2015). What overshadows the success of the program is the fact that an overwhelming majority of the beneficiaries are not TRNC citizens and therefore may leave the country.

The official statistics regarding the number of people benefiting from these schemes as well as declining unemployment and youth unemployment figures in the last few years show that these programs yielded successful results in the short term. To measure their long-term success, however, we need to wait until the state supports phase out.

5. Policy Recommendations: Boosting Investments While Strengthening the Collective Bargaining Process and Regulatory Framework

On both sides of the island, with varying degrees of success, the four classic recipes for alleviating the unemployment problem, that is a) active labour market policies, b) de-regulatory measures and flexibilisation, c) educational and vocational training and further training, and d) public and private investment and public employment have been partially tried and have not produced any impressive results.

In the south, further flexibilisation measures will not only be ineffective in reducing unemployment but are bound to exacerbate further the existing precariousness

5. <http://csgb.gov.ct.tr/PROJELER/GENÇLERİN-İSTİHDAMININ-DESTEKLENMESİ-PROJESİ> (accessed on 20 September 2016).

in the labour market. The case of the north, where labor market has always been flexible shows this. More active labour market policies, in the absence of broader structural reforms may not produce directly a reduction in unemployment but will have a positive effect by stabilizing the labour market, enforcing equality and non-discrimination principles and improving the general conditions of employment and thus indirectly facilitate the integration of the youth.


Strengthening collective bargaining processes, improving the regulatory framework and intensifying the inspections in order to prevent the violation of labour law is expected to have a positive impact as this will reduce phenomena of unjustified temporary and part-time work, employer arbitrariness and precarious employment conditions and intermittent work that affect mostly the younger workers. In this context, introducing collective bargaining in the private sector in the north, which is almost non-existent at the moment, could be a huge progress. In a similar vein, encouraging unionization in the private sector may raise job security and make the public sector less attractive in the eyes of skilled job seekers. This may in turn convince the young skilled workers to accept a job in the private sector rather than waiting for an opening in the public sector. Demands for unionization in the private sector has intensified lately, and in April 2016, *Bağımsızlık Yolu* (Road to Independence), a civil society organization, and *Toplumcu Demokrasi Partisi* (Social Democratic Party), the smallest party represented in the parliament, submitted a bill to parliament, which proposed compulsory unionization at work places with more than ten employees. Though the bill was voted down, the issue is likely to stay on agenda.

With respect to education and training, although some measures have been taken in the last years aiming to boost vocational training, there is further scope for improvement. Given that often over-education turns into a handicap for many young persons, the further strengthening of the vocational aspect in the education system through more elaborate and diverse schemes targeting especially the age group 15–25 is expected to minimize the unemployment risk for many young persons. However, this should be part of a more comprehensive policy that will be, on the one hand, informed by a thorough study of the economy and its trends and prospects, and on the other hand, accompanied by an active labour market policy and a regulatory system that

will ensure that the beneficiaries of publicly funded vocational training will be placed in work positions that utilize the skills and competencies attained. Regulation and inspection is even more important with respect to further training schemes in order to ensure that they actually take place in practice and not only on paper as it is sometimes the case.

Public and private investment projects and public employment play undoubtedly the biggest role in both preventing and combating unemployment in general and youth unemployment in particular. However, in a time of recession or anemic growth and in the framework of austerity budgets and fiscal restraint this role is not fulfilled at all. Not only is there limited money available for developmental initiatives but also public employment is more or less »prohibited« by the Troika/Ankara while the governments have publicly stated that this will continue in the future. This is despite the fact that there are currently substantial personnel shortages in key public services. A general policy framework shift is therefore needed both at domestic and at EU level (or in Ankara for the north) in order to fulfill the potential existing in this factor.

Trade unions may also have a constructive role to play in combating youth unemployment. This role must be based on two axes: an internal and organizational one, and an institutional and political one. The first one will allow them to improve their currently weak and problematic relationship with the youth while the second one will presuppose their enhanced participation in policy-making. Trade unions in the south have made specific proposals to the government in the last years concerning unemployment in general and youth unemployment in particular but most of them have been ignored as often they presupposed costs that the state was unwilling and/or unable to bear. However, today after there has been some relative stabilization in the economy, it might be a better time to re-examine some of the suggestions of the trade unions such as increased state funding for young highly educated unemployed persons to engage in research, stipulations in contracts for public works obliging the firm to employ a number of young unemployed persons, obligatory job creation by any firm utilizing public resources and so on. In the north, trade unions, which are widely organized in public sector but almost non-existent in private sector, should be more supportive and active in efforts to unionize in private sector.



Three further specific measures for the north can be identified. Taking the flow of migrant workers under control may allow the wages to rise in certain sectors encouraging domestic semi-skilled labor force to go back to artisanal employment. Secondly, promotion of childcare and elderly care services can help to address the gender gap, which is in itself important, and also makes the joining of young women in the labor force easier. Lastly, promoting the development of private sector so that it can reach to a level where it can absorb the new graduates with university degrees can boost job opportunities for youth. This requires political stability and certainty, however, which can only be achieved through a negotiated settlement of the Cyprus problem, which is widely expected to give a boost to the economy of the whole island.

Finally, at the EU level more specific measures concerning the combat of youth unemployment could be to simplify the procedures and increase the funding of existing programmes as well as allowing more flexibility at the national level to adjust the programmes to the particular conditions prevailing and needs existing in each country. These programmes could also become more extended and more substantial. Rather than offering a short term almost total public subsidy to employers for some months in order to employ young persons with the hope that the youth will gain the necessary experience and the employers will decide to keep them after

the programme expires, measures of a more structural character could be tried. For example, establishing a permanent or at least long-term plan whereby all employers employing young persons could receive a small subsidy, thus providing a small yet permanent incentive to employers to prefer young workers. This could on the one hand balance out the lack of experience of young people from the employer's perspective and allow the young workers compete more equitably with more experienced ones for jobs, without placing the youth in a separate category (employed under special programmes) and without eroding indirectly the general terms and conditions of employment.

However, although the above recommendations constitute an improvement compared to the current situation, the problem cannot be fundamentally solved unless the general policy framework currently prevailing at EU level changes. Ultimately unemployment in general and youth unemployment in particular are structural problems, and their comprehensive combating necessitates the political will to proceed to broader socio-economic restructuring. This presupposes prioritizing social needs rather than market forces, bringing the financial system under political control, reforming the taxation system and actively intervening in the economy in order to combat inequalities of income and discrepancies of power at the labour market.



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