

UNFAVOURABLE TRADE BALANCE OF CYPRUS

— CAUSE — EFFECT — REMEDY —

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For the last two months the topic that has become foremost in the public's minds has been the question of the unfavourable balance of Trade of Cyprus, viz :—the excess of total visible imports over total visible exports for the year ending 31st December 1953.

Let us look at the figures :

	1952	1953
Imports.....	£ 20,374,756	£ 21,220,338
Exports.....	17,992,446	15,374,761
Balance.....	2,382,310	5,845,577

The above table shows that in 1952 the excess of Imports over Exports was almost £ 2 ½ million while in 1953 this figure increased to the alarming amount of almost L6 million.

The average public minded Cyprian poses the following question : «Should the following trend continues would the deficit for 1954 amounts to £ 15 million, and if so can our economy survive? Could we be able to hold our present jobs and/or maintain our present high level of income and spending?»

With a reasonable margin of error, we can say that the National Income of Cyprus for 1953, which by the way includes all the annual incomes of all the individuals in Cyprus, in whatsoever form (profits, salaries, wages, domestic service etc. amounts to £ 70—£ 80 million. Sotiris Agapitides, professor of Economics of the Greek National Polytechnic of Athens, during his recent visit to Cyprus estimated the Cyprus National Income at £ 70 million.

Personally I figure it at £ 80 million because of recent inflationary trends in salaries and wages that have been made in an effort to keep up with the rising cost of living.

With such a N. I. (National Income) of say £ 75 million, our visible International or Foreign trade amounted in 1953 to £ 36 ½ million (total imports plus total exports). If to this we add another £ 6 for inviable

Imports and Exports, such as military expenditures, tourists expenditure here and of Cyprians abroad, monetary transfers for education, transfers of Insurance premiums, pensions etc., the total volume of trade of Cyprus increases to £ 36 ½ + £ 6 = 42 ½ million, which compared to a National Income of £ 75 million is nearly 55 % of it. In other words Cyprus is very much dependent on Foreign Trade to sustain its income and prosperity.

New Zealand's Foreign Trade is 50—60 % of its National Income, that of England is 30 %, of the USA 4 %. Figures on the Soviet Union are not available, but I would it is around 3 %.

Such a heavy dependence on Foreign Trade has its advantages and its grave disadvantages. In the first place it suggests of certain specialization in Cyprus (minerals, citrus, potatoes, grapes, carobs) which theoretically are of better quality and/or more economically produced in Cyprus, while we import (machinery, automobiles, fuel, textiles) which are more economically produced elsewhere.

Adam Smith, Marshal, Ricardo and other classical economists praised the advantages of specialization and spoke of Absolute, Comparative and Unitary advantages in such trade. Present-day Economists however, although accepting the advantages of such trade, are quite concerned of its utility in such times as ours where the fear of war, the existence of trade tariffs, quotas, trade restrictions, exchange controls and violent fluctuation in world prices, are very common. Such dependence on world trade brings havoc to the National Economy when a war breaks out and shipping becomes scarce or totally unavailable. The export of Minerals from Cyprus was brought to a complete standstill in World War II, and mind you the volume of Mineral exports from Cyprus in 1952 was nearly 55 % of total exports.

What I'm driving at is not a recommendation for SELF SUFFICIENCY, that is to say we shall drive to produce everything we need irrespective of costs. On the contrary, I suggest intensive utilization in and or production of all these things in which we have an absolute advantage (minerals, citrus, carobs, grapes etc.) so that our volume of exports is increased and the trade balance is not as unfavourable as was the case in 1953.

The cause of such unfavourable trade balance must be attributed to the following factors :

1. The present unfavourable Terms of Trade of our International Trade. By Terms of trade I mean that world prices of foodstuffs and Minerals (Minerals, carobs, citrus, potatoes, wines, barley) which conti-

tute our exports, fetch less money in relation to Industrial goods (machinery, automobiles, textiles) which constitute our main imports. The same is true in the case of Agricultural countries whose exports fetch them less money than is the case of Industrial countries. England exporting industrial goods and importing raw-materials and foodstuffs has favourable Terms of Trade (see A. Marshall's treaty on the Terms of Trade).

This can be explained as follows :

The mechanization of Agriculture and Mining (the latter also affected by the reduction in rearmament and the concentration on Atomic and Hydrogen weapons) has increased output and also reduced the unit cost of these items. On the contrary, the world increase in payrolls, through an increase in wages, without a relative increase in production, has kept the prices of industrial goods quite high and only the present keen competition for world markets between the USA, England, Germany and Japan, may cause a reduction in the price of Industrial goods.

2. The increase in wages in Cyprus without a relative increase in output, thus increasing our cost of production (agricultural and or industrial) makes it more difficult for the exporters to find satisfactory markets. Wages must and should be increased but when productivity is reduced after the increase in wages instead of the reverse, we are taxing our products out of world markets. The cooperation between merchants and Industrialists on the one hand and Trade Unions on the other for a fair play, is essential for our very survival.

3. The heavy and uncontrolled import of all kinds of commodities whose import was not essential to our National Economy, such as Expensive clothes, furs, diamonds, passenger cars etc. etc.).

4. The inability of Cyprus Agriculture to cover its needs in Wheat and Timber.

We saw what are the main causations of our unfavourable Trade Balance. The effect is not as alarming as it sounds at first sight. It is true that our volume of visible imports is much higher than that of visible exports. The picture can only be complete, however, if all invisible items are also included. If this is done, we find out that our trade deficit is considerably reduced, mainly through Military expenditures in Cyprus, and which absorb part of our imports. There is no doubt that hundreds of tons of imported cement and steel are used by the Military authorities and are paid for in the forms of invisible exports.

However, even accounting for these invisible items, I do believe that a less alarming trade deficit is still present in our International Trade.

I spoke before of the keen competition that exists in world markets. This will also affect Cyprus, on the one hand favourably inasmuch as we shall import industrial goods at lower prices than hitherto, on the other hand unfavourably because we shall be forced to sell our Agricultural products and Minerals at lower prices than in the past.

The reduction in the volume of exports of Minerals, (both quantitative—(tonnage)—and monetary—(prices), from 1952 to 1953 which I forecasted last year in an article in the «Cyprus Trade Journal» will be followed by a further reduction in 1954. Because minerals make up 40—45% of our exports, we must increase our other exports to make up the difference.

What I recommend is the following :

A) From the Imports Side :

1. Certain controls must be imposed so that the volume of imports of luxury goods be reduced. I believe that with falling world prices and with heavy stocks in Cyprus, an annual reduction of our imports by 20% for the next 2 years will not affect the National Economy.

2. Agricultural production must be encouraged in those items which we import. It is really a shame to call our economy «Basic Agricultural» and to import more than a £ 1 ½ million worth of wheat, the basis of any agriculture economy. The government must encourage their increase in the number of acres cultivated with wheat at the expense of other products such as potatoes and barley, supply better seeds and repeat the Greek miracle in wheat production which in 1953 made Greece, a heavy importer of wheat, self sufficient. Surely we can and must increase our wheat production and the Agricultural Department can help in the proper direction.

Our import of timber and citrus cases is alarmingly high. Steps must be taken so that more local timber is properly utilized at the expense of imported timber. The use of Electric Dryers will help citrus exporters to cover part of their needs with local citrus cases.

3. Labour must increase its productivity. Only by working harder and more conscientiously will labour attain its proper place as a factor of production. A Productive labour force will in the long run receive high wages, reduce the unit cost of Agricultural produce, invite new industries to Cyprus, which indirectly will replace imported commodities, and thus improve our trade balance. Reasonable wages will invite new Capital from abroad, will increase local investments, which in turn will absorb the farm labour that has been displaced through the

mechanization of agriculture and will reduce the alarming rate of migration.

4. Local business men must not be investing all their savings in land and buildings. This is not a productive form of investment that causes circulation of money and raises the National Income. It has caused a stagnation of business initiative, forced up the prices of land, buildings and rents, and indirectly the rate of interest, and has not helped in a really productive manner. It is highly recommended that a more diversified form of investment be initiated, otherwise we shall have a lot of economic trouble in the future. Our investments in houses, shops, and buildings is becoming highly over-invested and the economic returns are bound to start a downward trend.

Productive investment will increase the output of our local industry and subsequently reduce our imports.

B) From the Exports Sides :

1. Cyprus imported from the UK in 1953 goods worth £ 10, 104, 154, while our exports to that country were only £ 4, 836, 921.

Taking the whole of the Commonwealth as a group, our total imports amounted to £ 12, 344, 443 against total exports of £ 5, 735, 707. a deficit of nearly £ 7 million.

I'm not advocating regional equalization of imports and exports, but I do say that the gap between our imports from and exports to the Commonwealth must be considerably reduced, possibly to £ 2—£ 3 million.

This can be achieved by reduction of our imports from UK, and increase of our exports to UK, and a slight diversion of our source of imports to other cheaper countries. The procurement of cheaper goods from other countries will also reduce our trade deficit.

2. The Government of Cyprus should enter into direct Bilateral Trade Agreements with other countries, such as Austria, Roumania, Belgium etc wherein the imports of goods from these countries must be conditioned by the export to these countries of Cyprus produce to a percentage to be agreed upon. In 1953 Cyprus imported £ 242,670 worth of goods from Austria and exported only £ 22,149. From Portugal we imported £ 270,693 while we exported the fantastic amount of only £ 582. From Roumania we imported £ 188,159 while we exported only £ 13,302. Surely the need for Bilateral Trade agreements is very important if our increasing agricultural output is to find markets. Any country faced with a lot of exportable goods will not refuse to purchase Cyprus produce that she needs if the import of her goods is conditioned by Bilateral Trade Agreements.

Since Cyprus, however, is not an independent Nation, it cannot, within the framework of its present status enter into direct Trade Agreements. The Cyprus Chamber of Commerce tried, without much success, to have Cyprus interests protected in all the new Trade Agreements that the UK has been entering into and representations were made in 1951/52 to the International Chamber of Commerce in London.

These representations aimed at having Colonial interests duly represented in such trade Agreements so that a relationship should exist between the imports to and exports from a Colony.

Under present circumstances, the only measure feasible is to have the Government authorize Commercial Bodies, such as the Chamber of Commerce and the Cyprus Federation of Trade and Industry, use the Licencing and quota systems in an attempt to condition imports from certain countries by comfortable exports of these countries. The Trade Advisory Board should look into this matter very carefully, because with :

a. Rising local production of exportable goods.

b. Falling off demand for Cyprus goods, we shall be faced with the problem of «Surpluses».

These may not present big problems in America where the Government steps in and compensates, but they will raise thorny problems in Cyprus with its tight Budget.

3. The Government must assist growers in solving some of their agricultural problems whether these be for seeds, machinery, irrigation, better crops or new systems of cultivation.

4. The improvement of port facilities that will ensure faster loading and unloading and the improvement in available shipping (to the Far East etc) will increase our exports and give better satisfaction to importers of Cyprus agricultural produce.

What is above all needed is the composition of an Advisory Board representing Government, Business, Labour and Producers, under the competent guidance of Economists and men of experience which will try to solve some of the many economic problems that face the Cyprus Economy. Truly the magazine Economist, writing on the arrival of H.E. the new Governor said «His Excellency the new Governor of Cyprus will be faced with Economic rather than Political problems».

The efforts of all of us are needed to keep our present level of income and prosperity. If we fail the result will be an economic set back that will require years to be restored.
