

Envisaging a political settlement and alternative economic strategies in a crises- ridden Cyprus

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Introduction

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

Introduction

- Meanwhile, the economy of the northern Cyprus began to experience a downturn from as early as the end of 2007, and before the greatest impact of the global financial crisis had been sensed.
- The economy entered a recession during 2008 when its growth rate decreased from 15.4% in 2004 to -3.4% in 2008.

Introduction

- In this period the affiliation between Turkey and the Turkish Cypriot community, which had traditionally been explained as a 'motherland–infantland' relationship, transformed with Turkey assuming the role of the “IMF of Northern Cyprus”.
- In its quest to tame the 'cumbersome' state in the northern part of Cyprus, Turkey imposed economic programmes that included austerity measures, slashing salaries and the privatisation of state enterprises.

Introduction

- In this period, the AKP government in Turkey not only pushed for the limitation of public expenditure and the maintenance of privatization policies, but it also settled for a strategy that defined northern Cyprus as an investment area.
- As a result of the deliberate attempts of the AKP government, Turkish capital has markedly increased its presence in the economy of the north.

Neoliberalism

- Neoliberalism is defined as an ideology that is 'regarded as a modern variant of classical economic liberalism, that aims to restrict the scope of action of the state and promote the self-regulating capacity of the market'.
- Neoliberalism should be understood as a diverse pattern of (always incomplete) neoliberalisation rather than assuming that neoliberalism has an unchanging, context-free essence.

Neoliberalism and Cyprus

- This incomplete neoliberalism means that the crisis in northern Cyprus should be viewed as an instance of a specificity that is simultaneously reflective of a broader regional and global reality.

Neoliberalism and Cyprus

- Locating economic strategies –implemented in the northern part of the island – in a global context enables us to grasp marked similarities between the so-called ‘remedies’ employed in the two halves of the island.
- Whether it is imposed by the Troika or Turkey, the neoliberal logic behind the economic policies is hard to miss.
- In the south, a banking crisis has developed into a public deficit crisis that is being resolved through a haircut levy on large depositors as well as austerity measures.
- In the northern part of Cyprus, even though the economy has various structural problems resulting from its nonrecognition such as embargo, lack of direct flights which undermines its tourism potential plus a miniature market that presents it with limited export opportunities, the government is implementing policies which aggressively aim to roll back the state.

Neoliberalism and Cyprus

- An analysis of the crises and the simultaneous restructuring of the economies of Cyprus reveals that maintaining the status quo will mean that both halves of Cyprus will turn into 'protectorates of unending economic and social austerity'.

The impact of a federal solution on the Cypriot economy

- An optimistic scenario includes a political settlement that can offer a way out from this economic impasse.
- A federal solution to the Cyprus problem might significantly boost the economies of the south and the north and the normalization of relations between a federal Cyprus and Turkey might provide a set of opportunities.

The impact of a federal solution on the Cypriot economy

- **Tourism: a rapid expansion of opportunities:** A united island would be more attractive to visitors because there will be a greater number and variety of places to visit. these include historical sites, beaches, as well as the different religious and ancient sites.
- **Construction: building a united country:** a settlement will involve a huge number of building projects: housing for those who will relocate; the rehabilitation of Varosha, potentially as part of an integrated Famagusta region; the upgrading of ports and re-connecting utilities and infrastructure islandwide. This activity will turn Cyprus into one of the largest construction sites in the world.
- **Better access and efficient trading:** After a solution, trading activities are expected to increase. Permanent gains will come from opening up the Turkish market of 77m people to Greek cypriots and the European Union market of 500m people to Turkish Cypriots.
- **Higher education: strong prospects for a regional hub:** Peace would allow the established universities on the island, which on both sides are typically connected with universities abroad and already teach in English, to create a single united Cyprus brand that would have a chance of becoming one of the most important educational centres in the region.

The impact of a federal solution on the Cypriot economy

- However, the gains of reunification should not only be seen in terms of business opportunities, GDP growth and fixed capital investment.
- Reunification could create the conditions for fast and sustainable growth in both constituent states but the idea that GDP growth automatically creates wealth and income for everyone is a fallacy.
- Reunification does not automatically bring income distribution.

An alternative economic model to neoliberalism

- There is a need to emphasize an economic model that is based on;
- social justice,
- economic policy priorities such as full employment and
- an institutional framework for the labour market regarding bargaining, minimum wage, unemployment benefits etc

An alternative economic model to neoliberalism

- High growth rates are essential to a strategy aiming at shared prosperity, low income inequalities, full employment, and a social state offering to its citizens high quality public services.
- Export orientation and increased export performance are essential for an economic success in Cyprus. Therefore, a policy for the improvement of structural competitiveness (or non-price competitiveness) in Cyprus, south and north, and the enhancement of export performance is urgently needed.

An alternative economic model to neoliberalism

- The question is how the economy can improve its structural competitiveness. There is a need to advocate a **high road to competitiveness**, which is the restructuring of the productive system in order to produce new and higher-quality products, to adapt domestic supply to changing international demand, to meet new tastes of consumers in export markets etc.
- An improvement of structural competitiveness is possible only if the abundant and high quality labour force of Cyprus is valorised, which implies constant income shares of labour and profit (that is real wages progressing with productivity increases), reduced income inequalities, and good quality social services (health, education etc).

An alternative economic model to neoliberalism

- Furthermore, there is a need to go beyond:
- the mass tourism model and casino tourism based on low quality, precarious labor, and environmental damage,
- toward a higher-quality and eco friendly tourism and,
- adopt sustainable forms of tourism such as agro-tourism, cultural and health forms of tourism accompanied by strict planning criteria that abide by environmental standards and regulations.

An alternative economic model to neoliberalism

- Another issue that is significant is the need for the radical reform of the taxation system in order to increase the tax receipts from high incomes, corporation tax, property and wealth tax.