



**CYPRUS CENTER FOR EUROPEAN AND INTERNATIONAL
AFFAIRS**
University of Nicosia

In Depth

VOLUME 13 ISSUE 3 JUNE 2016
BIMONTHLY ELECTRONIC NEWSLETTER
ISSN (online): 2421-8111

Lino BRIGUGLIO	Resilience Building in Vulnerable Small States
Theodoros TSAKIRIS	Great Things Have Small Beginnings: The Strategic Similarities of the Southern Gas Corridor to the Early Stages of East Med Corridor
Ahmet Djavit AN	The Current Political Crisis in Turkey
Soteris KATTOS	TTIP: The Consolidation of a New Global Structure of Capital Accumulation
Christos YIANGOU	A Breakthrough Evolutionary Approach in Resolving the Cyprus Problem
Haris STAVRINIDES	The After Troika MoU Era: Analysis, Prospects and Proposals
Chris ALEXANDER	A Fest of Arrogance of (Fake) Superiority
Marat YULDASHEV	Change of Paradigm or False Alarmism?: The Case of Cyprus

Resilience Building in Vulnerable Small States



Lino Briguglio
University of Malta

Small states are characterised by their very high degree of economic openness, export concentration and dependence on highly inelastic price and income demand for imports. These factors are associated with economic vulnerability, as they render a country highly exposed to the harmful effects on external shocks. In spite of such exposure, many small states register relatively high GDP per capita. The present article argues that such a seeming contradiction can be explained by the juxtaposition of economic vulnerability and economic resilience.

The meaning of the word “vulnerability” originates from its Latin root *vulnerare*, meaning “to wound”. This etymology associates the word with exposure to damage or harm and with precariousness. When applied to the macro-economy, this term is generally used to refer to the country’s susceptibility or predisposition to be harmed by external forces as a result of exposure to such forces. A number of vulnerability indices were constructed, including that proposed by the present author, and a common conclusion that emerges from these indices is that small states, particularly island ones, tend to be more inherently economically vulnerable than other groups of countries.

The word “resilience” originates from its Latin roots *resilire* meaning to rise again. The present author defined economic resilience as the ability of an economy to withstand or bounce back from the negative effects of external shocks, and associated such ability with policy measures.

This article draws Briguglio, L., Cordina, G., Farrugia, N., & Vella, S. (2009). “Economic vulnerability and resilience: Concepts and measurements”. *Oxford Development Studies*, Vol. 37(3): 229-247.

Briguglio, L. (2014). “A Vulnerability and Resilience Framework for Small States, in Bynoe, D. (editor): *Building the Resilience of Small States*. London: Commonwealth Secretariat.

Guided by this definition, the present author and his research colleagues constructed a resilience index consisting of three components, namely (a) macroeconomic stability (b) prudent market efficiency and (c) good political and social governance. These variables are to a large extent influenced by policy, and are associated with the ability of an economy to absorb or counteract the harmful effects of external shocks.

The interaction of vulnerability and resilience would indicate the overall risk of an economy being harmed by external shocks. Figure 1 shows that such risk of harm increases with economic vulnerability and decreases with economic resilience.

The distinction between inherent and policy-induced resilience is important as this makes the argumentation policy relevant. If economic resilience is inherent (automatically triggered), in which sense it would refer very low level of inherent vulnerability, it would not be a subject of interest to policy, given that no intervention is needed. If, on the other hand, resilience is achieved as a result of conscious effort, by subjects likely to be harmed, then we can discuss the factors that lead to its achievement. This is a “nature vs. nurture paradigm”, where nature refers to the degree of inherent exposure to harmful features (i.e. vulnerability) and nurture refers to the deliberate effort to counteract or recover from the effect of these harmful features (i.e. resilience).

The present author utilised this framework to classify countries in four categories, as shown in Figure 2. The results indicate that (a) countries with high resilience and high vulnerability scores are mostly small states with relatively good economic, social and political governance (b) countries with low resilience and high vulnerability scores are mostly small states with weak economic, social and political governance (c) countries with low vulnerability and high resilience scores are mostly large developed countries with relatively good economic, social and political governance and (d) countries with relatively low vulnerability and low resilience scores include mostly large countries with relatively weak economic, social and political governance.

This method of defining vulnerability in terms of inherent features and defining resilience in terms of policy-induced changes has a number of advantages. First, the vulnerability index refers to permanent (or quasi-permanent) features over which a country can practically exercise no control, and cannot therefore be attributed to inadequate policies. In other words, countries scoring highly on the index cannot be accused of self-inflicting vulnerability through misguided policy approaches. Second, the resilience index would refer to what a country can do to

reduce (and possibly exacerbate) its inherent vulnerability. Third, the combination of the two indices would indicate the overall risk of being harmed by external shocks due to inherent vulnerability features counterbalanced to different extents by policy measures.

The implications that can be derived from this framework are various. Firstly the fact that small states tend to be highly economically vulnerable suggests that these states, more than other groups of countries, need to have a resilient economy, due to their high degree of exposure to external shocks.

Another implication of the vulnerability/resilience framework is that small states can succeed economically in spite of their economic vulnerability if they adopt policies conducive to good economic, social, political and environmental governance.

The main message of this article is that the fact that small states tend to be economically vulnerable should not be construed as an argument for complacency on the part of these states. There are a number of resilience-building policy options which could enable these states to minimise or withstand the negative effects of external economic shocks. This, in turn, entails that small states should assign major importance to resilience-building policies, and possibly embed such policies into their national plans and strategies.

Figure 1: Risk of being harmed by external economic shocks

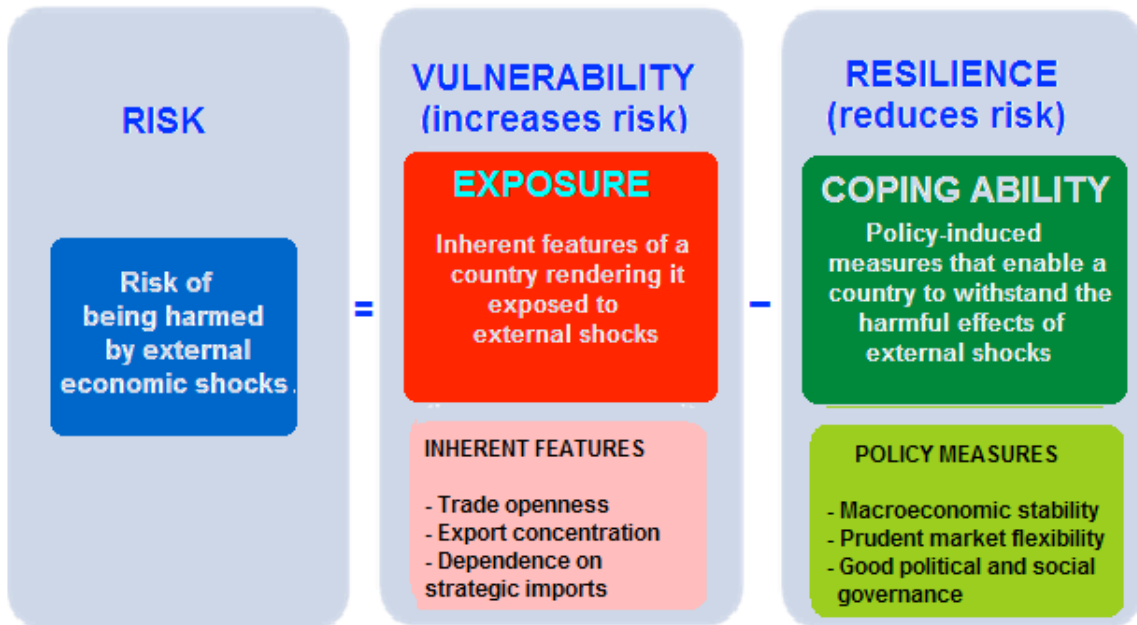
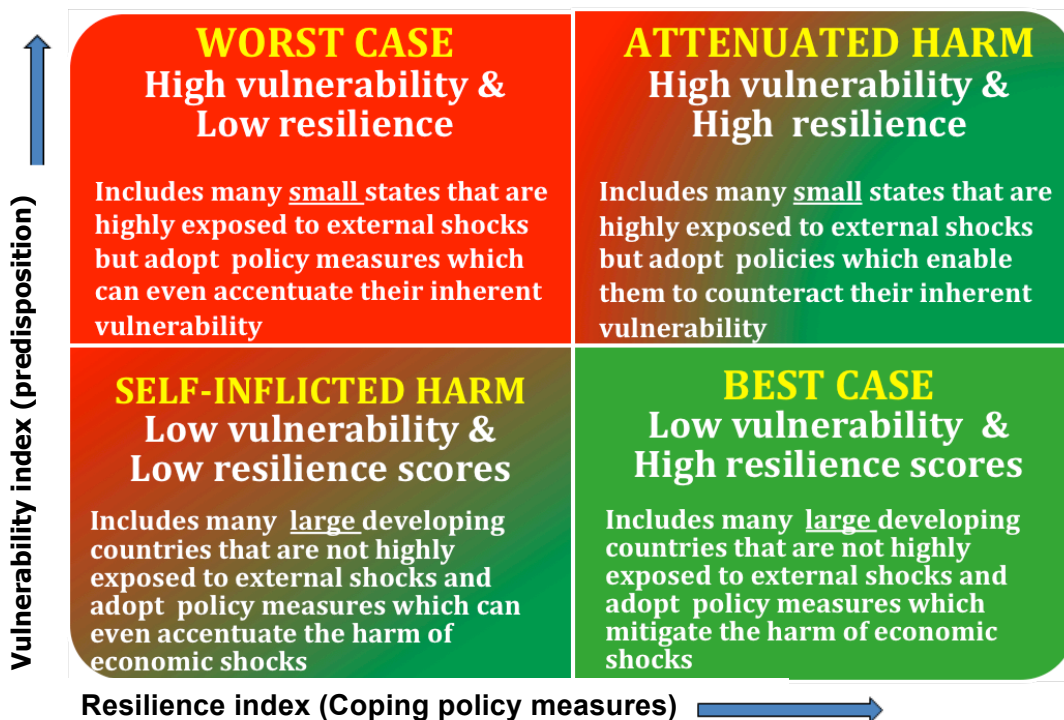


Figure 2: The Vulnerability/Resilience Nexus



Great Things Have Small Beginnings: The Strategic Similarities of the Southern Gas Corridor to the Early Stages of East Med Corridor



Theodoros Tsakiris

*Assistant Professor for Energy Geopolitics, University of Nicosia
Head ELIAMEP Energy Programme*

On 17 May 2016, a ceremony took place in Thessaloniki that commemorated the beginning of the construction of the Trans Adriatic Pipeline (TAP) project. TAP, that crosses 545 km of Greek territory from Western Thrace to Western Macedonia, constitutes the final leg of a 4.000km system of pipelines, which inaugurates the EU's Southern Gas Corridor Strategy.

Although the initial transit capacity of TAP is limited to 10 bcm/y, it is the first time that a post-Soviet gas source is linked to Europe in ways that bypasses Russia's pipeline network. In that sense TAP offers simultaneous diversification of supply sources and routes, enhancing the EU's gas security at a time of increasing net import dependency and growing doubt over the ability of the EU to emulate America's shale gas revolution.

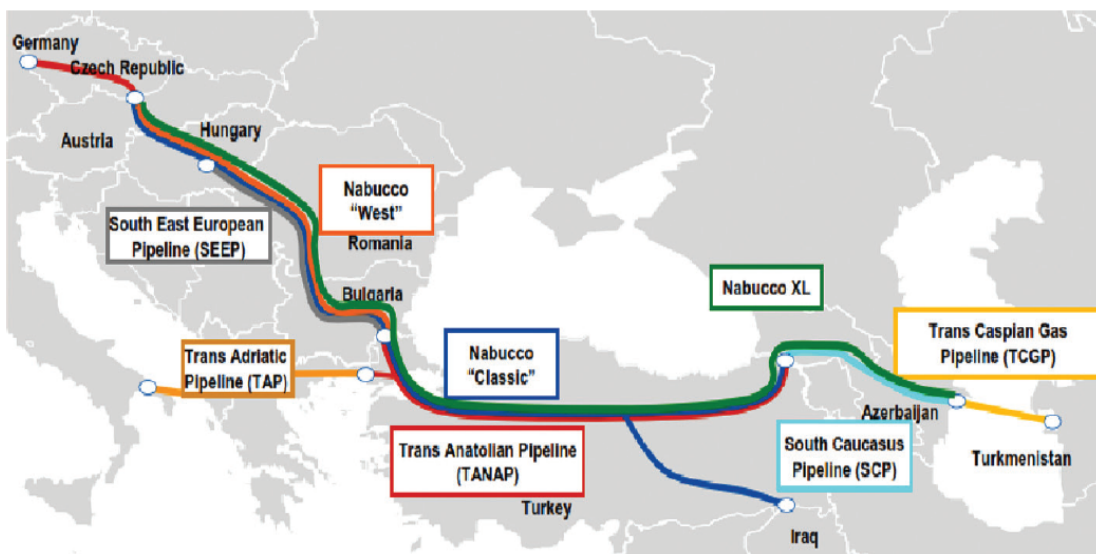
This pipeline and the potential doubling of its capacity to 20 bcm/y by the mid-2020s opens up the way for the importation of more gas from the East whether it may be Iranian, Iraqi or Turkmen gas, although the principal owners of both TANAP and TAP, BP and SOCAR, are more likely to focus on the yet untapped potential of other major offshore fields located in the Azeri Exclusive Economic Zone (EEZ).

When the Shah Deniz field, the "feeder" of the Southern Corridor was discovered in 1999 many observers doubted the feasibility of the project and the pipeline system (Nabucco) that was proposed in 2002 as the main evacuation option for Azeri gas to Europe.

The region was too volatile and the project's political risk significant. Azeri sovereignty over parts of its hydrocarbon wealth was actively

challenged by both Iran and Turkmenistan that had competing claims over Azerbaijan's EEZ. The pipeline had to cross through areas that were very close to active lines of confrontation such as the one between Azerbaijan and Armenia that recently flared up again in April 2016 and the one between Russia and Georgia that led to an all-out war in August 2008.

Regional geopolitical developments also heavily impacted the feasibility of competing pipeline projects as US and EU pressure forced the developers of both the Nabucco and TAP projects to cancel their plans for importing almost 50% of their throughput capacity from Iran.



By June 2013, when the Shah Deniz consortium selected TAP, the realization in EU policy circles of the emergence of a new region that could also play an important role in the Union's diversification strategy was still at an early stage. Many observers doubted the potential importance of the region approximately along the same lines used for the Southern Corridor, despite the fact that the East Med is far less volatile than the Caspian Sea of the late 1990s or for that matter the 2000s.

Despite the geopolitical perturbations caused by the Arab Spring and Mr. Erdogan's neo-ottoman revisionism that has systematically pitted him against Israel, Egypt, Greece and Cyprus, the basic regional security architecture established by the Camp David Accords of 1978. After 2013 there is a new strategic understanding and close cooperation between Israel and President al-Sissi that also extends to Jordan.

None of the EEZ accords signed in the region between Cyprus, Israel and Egypt (2003-2010) are questioned by anyone else other than Turkey and to a secondary extent Lebanon which is claiming only a small area of 854km² that has had and is unlikely to have any negative impact on the development of Israeli gas resources from the Leviathan and Tamar fields.

Furthermore, Turkey's attempts to force Cyprus to freeze its offshore exploratory program and scare away the IOCs (International Oil Companies) from participating in the development of Cypriot hydrocarbons, have been met with considerable disappointment.

In spite of a series of dry holes drilled in 2014-2015 by ENI-Kogas, the discovery of Zhor in the Egyptian Shorouk block located less than 5 nautical miles from the Cypriot EEZ, has re-galvanized the interest of the IOCs in Cyprus. Total is planning to drill an exploratory well in Block 11 and has bitterly regretted its decision to relinquish (February 2015) its exploration rights over Block 10.

ENI which renewed its exploratory license in December 2015 will drill at least two new exploration wells in Blocks 2 and 3 according to its 2013 contractual obligations and Shell -through its merger with BG- is currently leading the development of the Aphrodite gas field after buying 35% of the consortium's share in January 2016.

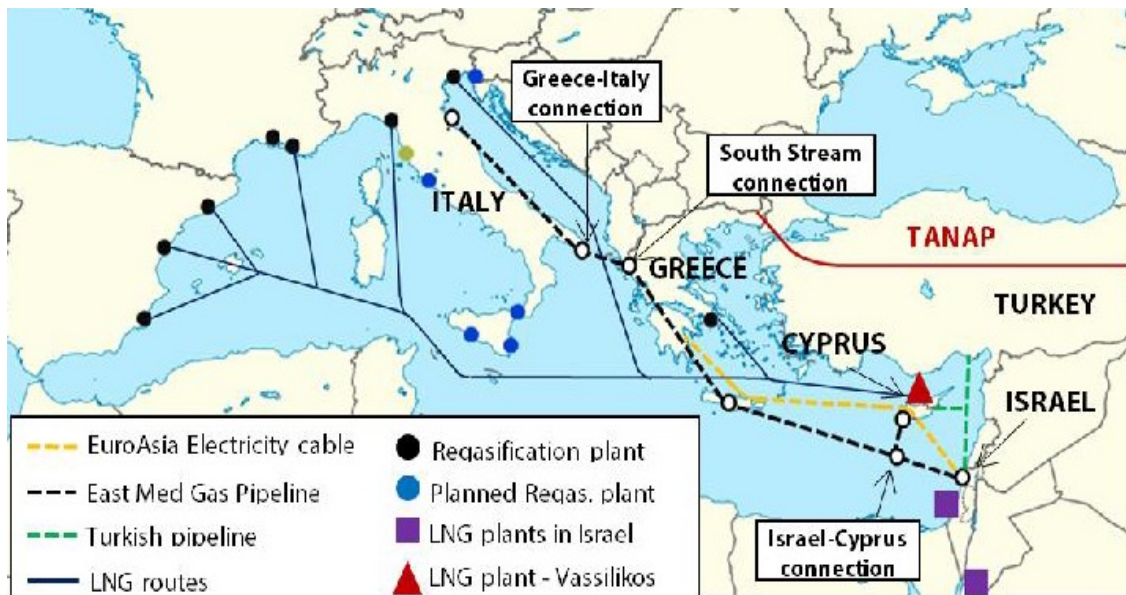
Moreover, Nicosia, emboldened by Egypt's recent success and the deepening strategic relationship between Cyprus, Egypt and Greece, has tendered off three more additional blocks in its EEZ by announcing a 3^d Licensing Round on 23 March 2016. These blocks include blocks 6, 8 and 10 but more blocks are expected to be offered in 2016 or 2017 including parts of Block 11 that has been partially relinquished by Total in the context of its license renewal.

In addition to parts of Block 11 almost all of Block 12 will also become available for a tender with the exception of a small area demarcating the Aphrodite field. The exploration license of the Aphrodite shareholders is set to expire on 31/05/2016 and it is almost legally impossible to renew.

The prospective export of Aphrodite's gas, estimated at approximately 7,4 bcm/y over 15 years to Shell's underutilized Idku LNG plant will reactivate the facility and allow East Med gas to reach European markets by 2020-2021. These LNG volumes, part of which will be sold to the EU, will represent the first exports of Cypriot gas arriving in EU markets a mere decade after Aphrodite's initial discovery in 2011.

Comparatively, the first Shah Deniz exports to reach Europe will arrive 21 years after the field's discovery in 1999. But this is the beginning, not the end of the story as the Eastern Med and in particular its Levantine and Nile Basins hold the possibility of drastically increasing the EU's import diversification by capitalizing on the potential of a Member-State and the developing infrastructure that will interconnect Israel-Cyprus and Egypt.

The European Commission is actively supporting through the Connect Europe Facility (CEF) the feasibility studies of two major Project of Common Interest (PCI) that could extend this regional energy infrastructure to Greece and/or Italy thereby transforming these projects into a new East Med Corridor independent of the Turkish Natural Gas System that is already vital for the implementation of the Southern Gas Corridor.



These two projects, the East Med Gas Pipeline and the EuroAsia Electricity Interconnector, as well as the more mature Vassilikos LNG option, would also seriously enhance Europe's diversification of import routes but are still at a very early stage, much like the stage Nabucco and the ITGI projects were in, in the early 2000s.

In order for these projects to materialize, we first need to discover new fields in the wider East Med region while also promoting optimal regulatory and market opening practices that will reduce subsidies, improve efficiencies and increase the net export capacities of countries such as Egypt and Israel.

Moreover, the EU needs to engage in preventive diplomacy in the region by facilitating the dialogue between Israel and Lebanon and more importantly, by actively supporting the intercommunal talks on the resolution of the Cyprus Question in ways that would make sure that the basic liberties and principles of the EU *acquis* are fully integrated as part and parcel of any reunification plan without any permanent derogations as Ankara demands.

Finally, the EU needs to fully and actively support the RoC's efforts to exercise its sovereign rights over its entire EEZ. This is no longer only an issue of moral solidarity based on the spirit and the letter of the Lisbon Treaty. It is rapidly becoming an issue of geostrategic compatibility governed by *realpolitik*.

The Current Political Crisis in Turkey



Ahmet Djavit An

Political Activist and Author, Nicosia, Cyprus

The Justice and Development Party (Adalet ve Kalkınma Partisi=AKP) has been in power in Turkey in the last 14 years and it has already made big steps forwards in order to legitimize the establishment of an Islamic State in Turkey. The Republic of Turkey was founded in 1924 by Kemal Ataturk and until 1990's, Kemalism has been the state ideology of modern Turkey.

The AKP originated from the religious movement, started by the National Order Party (MNP) of Necmettin Erbakan, who broke apart from the traditional right wing Justice Party (AP) in 1970 and started a separate political party in order to represent independently the political Islamism in Turkey. Erbakan's political movement continued under various parties, which succeeded each other after the proscription of the previous one: National Order Party (1970-1981), National Salvation Party (1983-1998), Welfare Party (1983-1998), Virtue Party (1997-2001), Prosperity Party (2001-today). Those, who did not want to join the Prosperity Party, established the AKP on 14 August 2001 and Recep Tayyip Erdoğan was the chairperson between 2003 and 2014. The AKP won 34.28% of the votes in the general elections in 2002, 46.58% in 2007 and 49.83% in 2011. In June 2015, the AKP won 40.89% of the votes under its new chairperson Ahmet Davutoğlu, who could increase the percentage in November 2015 up to 49.50%. Davutoğlu was previously the Foreign Minister in Erdoğan's cabinet and he initiated the so-called "Zero-problem with the neighbours" policy, which proved later to be an enemy maker policy for Turkey.

The Islamic religious communities have been very active since 1973 in Turkey and the most influential one of them was Fethullah Gülen's movement. Gülen supported Erdoğan's AKP, starting from the general elections of 1994 until 2009. During the power of the AKP, the state apparatus was not anymore supporting the Kemalist principles of the founder of the Republic of Turkey. It was already under the influence of a Turkish-Islam synthesis, which could be defined as a kind of fascism

with Turkish flavour. It is not only anti-communist and anti-democratic, but also anti-humanist and anti-enlightenment. The ideology of the AKP is oppressive and against the classic liberalism in the sense of political rights and freedoms.

After the military regime of 1980, the Turkish state establishment did not disturb the so-called "moderate" religious movement of Gülen, organized as companies, associations and foundations. The security bureaucracy of the Turkish State, like the Ministry of National Education and the Directorate of Religious Affairs were already indoctrinated with the Turkish-Islam synthesis, as well as the Intelligence Services (MIT), the police and the army. It is not possible to find Kemalist persons anymore, working in the Ministries of National Education or Internal Affairs or among the Security Bureaucracy.

Starting with the military ultimatum on 28 February 1997, the political Islam in Turkey took a neo-liberal course, which brought Turkey to participate in the Great Near East Project of the USA, to start relations with the EU, to implement the programme of the IMF and to privatize the big state enterprises. The big monopolies of Turkey have accumulated a lot of capital during the power of the AKP and they bought almost all of the state properties and benefited from extraordinary subsidies.

According to a survey, done by the Ministry of Family and Social Policies, published at the beginning of 2013, Turkey is one of the countries at the top of the list with unequal division of national income. The division of national income is unjust and unequal. 95% of the households live below the poverty line (3.200 TL) and 60% live below the limit of hunger (1.200-1.000 TL). Out of 19.7 million families, the richest 100 were getting 30% of the national income with their wealth of 216 billion dollars. The income of the richest 10% of the population in Turkey is 12.6 times more than the 10% of the poorest population. According to the numbers from 2015, Turkey is the fifth OECD country after Mexico, Chile, USA and Israel and the first in Europe.

According to the study of Research Institute on Turkey, which was based on the Global Wealth Report of the Credit Suisse, the richest 1% of the population in Turkey, used to get 39.4% in 2002, but they got 54.3% in 2014. The remaining 99% got in 2002 60.6% of the total wealth, reduced to 45.7% in 2014. Erdoğan's family, alone, has accumulated in the last 10 year a wealth of 128 billion dollars, which makes 16% of the national income.

The Gülen Movement had 88 foundations, 20 associations, 128 private schools, 218 companies and approximately 500 boarding houses in Turkey. It was also well organized in the mass media with 17 newspapers and magazines, several TV and radio stations. The Gülen imperium, which is supposed to have the support of the CIA, has in 92 countries, approximately 500 elementary and secondary schools and 6 universities, plus many education and language centres. The movement educates more than 100.000 persons worldwide. The schools, which operate in the foreign countries, are all private and enroll the children of the middle and the upper classes.

In November 2013, Erdoğan decided to break his cooperation with the Gülen Movement and get the whole power in his own hand in Turkey. Therefore he started by preparing a bill for the closure of the preparatory classes for the universities. This was a big challenge for his long-time collaborator, the Gülen Movement, which was recruiting young members to the movement through these preparatory classes for the universities. The "Zaman" daily newspaper of the Gülen Movement reacted strongly against this decision of the AKP government by saying that this was not done even during the Kemalist military regimes in Turkey. This was a big economic and political blow to the Gülen community, because 60% of all the preparatory classes (4.000 of them registered, 2.000 - 5.000 unregistered) belonged to Gülen Movement and 80% of the publishing materials for the preparatory classes.

Gülen Movement reacted on 17 December 2013 by making some operations, where 80 persons were detained and among them was an Iranian businessman, Rıza Sarraf, who sold the Iranian petrol during the years of embargo and gave the money back to his partner in Iran in gold. The mass media was given some recorded telephone conversations about the corruption of four cabinet ministers, who were bribed by Sarraf. This ended up with their resignation on 24 December, because the sons of Zafer Çağlayan, Muammer Güler, Erdoğan Bayraktar were involved. During the police operations, 4.5 million dollars were found, hidden in shoe-boxes in the house of the director of Halk Bank and a money-counting machine was found at the bedroom of Minister Güler's son! Erdoğan Bayraktar told to the press that what he had done was according to the orders of Premier Minister Erdoğan! But he negated this statement later. On 25 December 2013, a second operation for the arrest of 30 suspected persons for money laundering could not be realized, because the security forces did not implement the order of the state attorney. From that day on, the AKP started to restructure the legal system in Turkey with its own supporters.

Later, the events on 17 and 25 December 2013 were seen as a civil coup d'Etat of Erdoğan, whereas the accused ministers should have been before court, in order to have a clarification, if they did something against the law or not, but the AKP stopped the legal procedure!

In January 2014, the MIT officers did not allow the state attorney to search lorries carrying guns and ammunition for the ISIL. The Minister for Internal Affairs stated on a TV programme that during 35 days, after the incident on 17 December, 5,000 policemen and many state attorneys were appointed to other posts. On 25 February 2014, another voice-recording was popular on the social media and Youtube which was recorded on 17 December 2013. The PM Erdoğan was informing his son, Bilal, about the police operation at the homes of the sons of some ministers and he told his son to get rid of the money, hidden at their own home. Bilal Erdoğan has been accused of involvement in illegal oil smuggling in Syria and Iraq.

After the corruption scandals were made public, Erdoğan decided to abolish the court decisions on Ergenekon case and the similar ones, which made a big blow on the strength and authority of the Turkish Army. Now the Army was a reliable partner of Erdoğan, who wanted to avoid his cornered position.

The AKP was able to collect 44% of the votes in the local elections on 30 March 2014 and Erdoğan declared war on the Gülen Movement, which he defined as a "parallel state within the Turkish state." On 12 June 2015, 37 judges and attorneys were expelled from their professions.

Erdoğan started also a revenge attack on the Kurdish cities and people in South-Eastern provinces, where his party could not win, but the Democratic Party of the Peoples (HDP) was very successful. Erdoğan broke the alliance with the Kurdish movement, which costed 40.000 lives in 35 years and 6.000 people were killed only in 8 months time!

According to a report, prepared by the TU for Education Labourers (Eğitim-Sen), when the AKP came to power in 2002, the number of students attending 450 Imam Hatip schools were 71,100. In the school year 2014-2015, the number of the Imam Hatip Schools was 1,017 with an increase of 90% to almost 750,000 children, aged between 10 and 18, or 9% of all students. (Hürriyet, 13 June 2015) Government officials, many of them former Imam Hatip pupils themselves, have since argued that the schools' revival responds to demand by Muslim families, who felt discriminated against after 1997.

The Turkish Directorate for Religious Affairs, which employs 120.000 personnel, in a total of 84,684 mosques (emlakwebtv.com, 18 June 2015), had a budget of more than 3 billion Euros (6.5 billion TL) for 2016 and the whole amount, spent on religious activities between 2006 and 2015 makes a total of approx. 12 billion Euros (haber.sol.org.tr, 27 January 2016). In the summer of 2015, more than 3 million children (4-6 year-olds included) went to Koran courses, organized in 60.000 mosques. More than 1 million visited other places than mosques for Koran education. 929 persons and many other associations and foundations organized 16.958 Koran courses in 2013-14. (Birgün newspaper, 31 March 2016).

In Turkey, there are 107,000 doctors and 1,250 hospitals, whereas there are 122,000 imams and almost 85,000 mosques. Every year only 9,000 doctors graduate, whereas there is a need of 105,000 doctors more. On the other hand, there are 122,000 imams and every year 60,000 imams graduate and they are in surplus. (Yılmaz Özdil, Sözcü newspaper, 8 January 2015).

The AKP is very happy with the majority of the media, including some 32 newspapers and 22 television channels, using them in order to dominate the news coverage and attack on opposition parties.

Turkish Prime Minister Ahmet Davutoğlu was forced to announce on 5 May 2016 that he was resigning as head of the ruling AKP and giving up the premiership. President Erdogan continued to concentrate the whole power of the state in his own hands and obedience to him within the AKP was openly praised as a virtue and required as a duty.

On the other hand, the country faced now serious challenges on the security and economic fronts. Turkey failed to protect the city of Kilis on the border with Syria, where ISIS attacks with missiles that took lives of 21 people, including eight Syrian refugees, and wounded scores of others. Many buildings have been devastated. One columnist wrote that Kilis is a clear testimony to Turkey's powerlessness in its ambition to be recognized as a regional power.

Erdogan and his party AKP are among the major actors in the ordeal that Syria has been going through since 2011, alongside with Saudi Arabia and Qatar. Erdoğan strives to assume the leadership of the Sunni masses of the Middle East and return to Turkey the glory of its Ottoman past. This is one of the reasons why the AKP government supported ISIL until very recently and continue to support other Islamist groups fighting against the Assad regime in Syria, where he flamed the hatred of war between the Sunni and the Alevi. The Alevites

are a minority denomination in Islam and they are closer to the Shia than the Sunni. The AKP does not have good relationship with the Alevites in Turkey. Another problem for the AKP government is the formation of the Kurdish cantons on the Syrian border. The USA asked Turkey to cleanse the line Cerablus-Azez from the ISIL, but Erdoğan does not want that the Syrian Kurds would put these areas under their control. Russia and Syria prefer the Kurdish authority rather than the ISIL.

The relationship between Turkey and Russia has deteriorated significantly since 24 November 2015, when a Turkish fighter jet shot down a Russian warplane in Syria. Russia declared economic sanctions against Turkey and the trade between the two countries contracted 25% in 2015. Since the beginning of 2016, Russia has put restrictions on the supplies of vegetables, fruits and other goods from Turkey and these restrictions included also a ban on hiring of Turkish citizens. It is estimated that the embargo could cost the Turkish economy more than 3 billion dollars.

Erdoğan does not act as an independent President, but continue to govern the AKP as its leader, getting involved in government affairs and breaching the Constitution, which is punishable with life-long imprisonment. He should have cut his relationship with his AKP on the day he was elected as President. On the contrary, he succeeded the resignation of the Premier Minister, who won the elections with 23 million votes. Erdogan intervened also the internal party affairs of the oppositional National Movement Party (MHP) in order to secure the continuation of the party's support for his power.

The new chairperson of the AKP, Binali Yıldırım, who would be the Prime Minister of Turkey, is a well-known close friend of Erdoğan and one of the founders of the AKP in 2001. He was appointed to the Ministry of Transport in 2002 and served the longest term in the history of Turkey at that post. During his term of office, a lot of corruption allegations were published in the media and many state enterprises were sold cheaply under the guise of privatization. Yıldırım's family owns 17 companies, 28 cargo-ships and 2 super-yachts, but others allege that the real number of ships is higher than this. Now that Erdoğan has a puppet Prime Minister, he would try to get rid of the MP's of the Democratic Party of the Peoples (HDP) in the Turkish Grand National Assembly by removing their immunity, not those from his own party, AKP. The Republican People's Party (CHP) has lost its Kemalist ideology on one hand and takes a nationalist position in the Kurdish question like the MHP. Erdoğan is now a monarch!

TTIP: The Consolidation of a New Global Structure of Capital Accumulation



Soteris Kattos
PhD, Political Sociology

“EU trade deal with US is imperative” since it will contribute to growth and development, says in a recent article in Cyprus Weekly (May 13, 2016), Mr. George Markopouliotis the Head of the European Commission Representation in Cyprus. Apparently, no one should expect a different view from a EU apparatchik. The Transatlantic Trade and Investment Partnership constitute in my view a new structural edifice to consolidate further the globalization project, which dates back in 1973. The Nixon administration dealt the final blow on the Breton Woods system, a system, which was based on a nationally governed economic growth. With the abandonment of the gold standard, the US has managed with the institutional weakening of the Breton Woods system to deregulate the international financial system and crippled Keynesian economics, the model, which has guided the post-World War Two development project. Through the Kennan doctrine (1947) the US and its Western allies have managed to contain and successfully completed the collapse of the Soviet Union, and with it the so called communist threat, in December 1991. Surprisingly the Maastricht treaty came into effect in 1992, thus consolidating the strategic gains of the Soviet collapse. The treaty incorporated at its core a neo-liberal philosophy of politico-economic orientation. Soon after, NAFTA came into being in 1994 and inevitably WTO, the new global regulatory framework of global economic governance. The principle of the least restrictive trade barrier was the *modus operandi*, compromising severely health and labor standards and environmental protection. These developments marked the end of economic nationalism, which with the advent of the WTO was superseded by globalization. The global economy emerged as the unit of development. This has been facilitated by the deregulated mobility of global financial capital. What we have in place is a nationally fixed state on the one hand and a globally mobile capital on the other. As a consequence the process received a new impetus for the further erosion of the nation state. The nation state is

gradually replaced by the global market, and the citizen by the global consumer. According to John Hilary, executive director of the campaign group War On Want "The TTIP is an assault on European and US societies by transnational corporations". The ongoing dynamics have been taken place in a veil of darkness, in an environment lacking any transparency. The strategic objective of this agreement targets the removal of any regulatory framework in any transatlantic trade transaction notwithstanding, public health, civil and labor rights and the environment. According to Hilary this will open up "Europe's public health, education and water services to US companies. This could eventually mean the privatization of the NHS". The further facilitation of capital accumulation of multinational corporations at the expense of society is the *raison d'être* of TTIP. Undoubtedly this will lead to the augmentation of global inequality if one only takes a quick look at a recent report by Oxfam International in 2015 "Working for the Few", which among other things emphasizes "the growing tide of inequality".

For instance the report states:

- The wealth of the one percent richest people in the world amount to \$110 trillion. That's 65 times the total wealth of the bottom half of the world's population.
- The bottom half of the world's population owns the same as the richest 85 people in the world.
- The richest one percent increased their share of income in 24 out of 26 countries for which we have data between 1980 and 2012.
- In the US, the wealthiest one percent captured 95 percent of post-financial crisis growth since 2009, while the bottom 90 percent became poorer.

Should TTIP finally be ratified, various econometric models predict higher unemployment, lower income and social degradation of both sides of the Atlantic. It is estimated that more than 680.000 jobs will be lost in the EU, but the TTIP's social nightmare on labor is unprecedented. It calls for further shrinkage of labor rights, the marginalization, if not the abolition of collective agreements, and the gradual Americanization of the European labor market, to name a few. It would allow further cuts on wages and pensions as well as on health care expenditure. All these measures will be imposed in the name of economic competitiveness. It will target distinct European products, like the German sausage, the French champagne and the Italian prosciutto in an attempt to weaken the cultural diversity of European identity.

TTIP will flood the European market with biologically modified goods. But the direst development originates from the institutionalization of a new arbitration mechanism the so-called "Investor-State Dispute Settlements (ISDS) for the protection of corporate investment". To be more precise, any probable improvement on health, labor and environmental standards advanced by any government to its citizens could be taken up and interpreted by multinationals as constituting a hindrance to investment, competition and profitability. Therefore they could be legally given the instruments to sue governments. Put simply any governmental policy could be perceived as imposing constraints and limitations on profitability. Governments could opt for the institutionalization of a permanent austerity economic regime at the expense of labor as a precautionary measure to avoid such an eventuality. States could be sued and should they lose, their taxpayers will be paying the cost of the fine. This political retreat by the state is tantamount to the multinational perception of less profit. But even worse, it is an unprecedented curtailment of the state's national sovereignty.

To sum it up, should TTIP become a reality the consolidation of global economic interests at the expense of societal interests could bury the final remnants of European democracy for good. TTIP is a reassertion of US capitalist power. Global economic criteria override national social criteria. TTIP negates the public capacity to plan development and finally TTIP imposes the social usurpation of society's wealth by global financial interests. Once again the US [along with the European oligarchy] emerges as the hegemon of a global political malignancy at the expense of human condition. We have entered the era of a new totalitarian capitalist regime! The contemporary nation state's functional capacity has been reduced to two main political tasks: The protection of the propertied class and the empowerment of its repressive apparatus to protect it from the property-less, as this is being witnessed by the recent protests of French labor against the 'socialist' Hollande government.

A Breakthrough Evolutionary Approach in Resolving the Cyprus Problem



Christos Yiangou

Former diplomat in the Cyprus Republic's MFA, President and Managing Director of BLC BUSINESS LINKS CONSULTANCY LTD

For more than 38 years Greek Cypriots (G/Cs) and Turkish Cypriots (T/Cs) have been trying hard, under the auspices of the United Nations, to solve the Cyprus problem and reunite Cyprus (a beautiful island strategically located in the rich endowed Eastern Mediterranean Sea) under a bi-zonal, bi-communal Federation. Regardless, however, of the various efforts by successive Secretary-Generals of the UN, and the international community in general, to assist the above-mentioned Cypriot communities reach an everlasting agreement of solving the said problem, no substantial result has so far been produced.

Why, however, all these rounds of negotiations to solve the Cyprus problem have failed or have not succeeded yet? Presumably because, via this protracted negotiating process, Greek Cypriots and Turkish Cypriots have always put the cart before the horse. Namely, instead of insisting in creating the necessary conditions for the implementation of a viable solution before any substantial negotiation for a comprehensive solution could be achieved (i.e. trust, confidence, proven record of political, economic and cultural collaboration between the two Cypriot communities) the two Cypriot communities have always attempted to solve the problem without these conditions being in place. Thus the failure!

Based on the above it seems obvious that a new breakthrough and rational evolutionary approach in solving the Cyprus problem is needed. Such an approach should be based on breakthrough thinking, namely to be purpose and solution focused rather than to be analytical and problem oriented.

Moreover, such an approach can derive from rational choice theory. Namely, we will assume that all major actors involved in the Cyprus problem will eventually and shortly, and regardless of current political

uncertainties (i.e. the Erdogan phenomenon), make prudent and logical decisions in resolving the Cyprus problem that “will provide them with the greatest benefit and satisfaction and that these decisions are in their highest self-interest.”

To be more specific, after substantial preparation and consultation with all interested parties, the UN Secretary-General ought to call an International Conference convoking the participation of: the three Guarantor powers of the Republic of Cyprus (RoC) that is, Greece, Turkey and the UK), the EU, the five permanent members of the UN, and the two Cypriot communities. The said Conference should aim at leading the two communities to a Provisional Agreement for an evolutionary solution of the Cyprus problem. Such an Agreement should incorporate a preamble which will, inter alia, include the *Joint Declaration* agreed between the leaders of the two sides on 11 February 2014 and which delineates and reaffirms the general framework of the end goal of both sides, explicitly, the adoption of a bi-zonal, bi-communal federal state based on political equality. Moreover, within the said preamble the two communities should commit themselves to refraining from actions that would change the demographic character or would distort the population balance on the island. In addition, a clause may perhaps be included in the Agreement that empowers the UN Secretary-General to monitor its implementation and rebuke any party that *justifiably* violates and/or breaches the said Agreement at any time. Finally, this Provisional Agreement should incorporate a five to ten-year road-map (or until the final status of Turkey’s relation with the EU is decided). Within this road-map both G/Cs and T/Cs might *concurrently* implement a series of substantial Confidence Building Measures (CBMs). On the one hand such measures would engage them in a creative, constructive and trustful political, economic, military and cultural collaboration, and on the other hand would satisfy each side’s core negotiating interests. The goal of CBMs would be to gradually eradicate the primary causes that have cultivated the Cyprus problem over many years. An indicative list of five *substantial* CBMs might be the following:

First, return by Turkey of the fenced-off section of the Turkish occupied city of Famagusta to the administration of the United Nations and subsequently to its legal Greek Cypriot inhabitants in return for a RoC legitimate approval of the opening of the port of the said city and the Ercan Turkish Cypriot airport (essentially via a commonly accepted implementation of the EU direct trade regulation).

Secondly, creation by the UN (and approved by the RoC) of a bi-communal Steering Committee that should discuss the future of

hydrocarbon reserves (i.e. natural gas) recently discovered or will be discovered in RoC's Exclusive Economic Zone (EEZ), with the aim of proportionally and fairly allocating to the benefit of both Cypriot communities the wealth that will derive from the commercialization of the said natural endowment in the following years and decade, in return for Turkey's avoidance of any threats and actions against the RoC.

Thirdly, implementation by Turkey of "Ankara Protocol" in return for a de freezing by the RoC of the 6 negotiating chapters of Turkish accession negotiations that the RoC has been blocking since 2009.

Fourthly, gradual withdrawal of the Turkish troops from northern Cyprus and approval by Turkey of a demining of the island in return for a gradual reduction of the RoC's National Guard.

Finally, the Greek Cypriots and Turkish Cypriots ought to continue and intensify current cultural and educational exchanges, under the UN supervision, in order for them to help their respective societies understand and trust each other.

Such an evolutionary solution could gradually lead Greek Cypriots, Turkish Cypriots (as well as all international players involved in this protracted dispute) into an all-win situation for various obvious reasons. In particular, the G/Cs would be able to: maintain the internationally recognised RoC and reclaim, for first time since 1974, an important piece of now occupied land (Varosha) plus reap the economic and financial benefits (i.e. influx of foreign direct investment plus job creation and so on) that would inevitably result from the reconstruction of this land; experience conditions of tranquillity in the RoC's EEZ and as a consequence make the exploitation of the island's relevant hydrocarbon reserves easier, safer and more lucrative; gain semi-recognition of the RoC by Turkey; save a vast amount of money from the gradual demilitarisation of the Republic's National Guard, and develop confidence with their T/C compatriots – something quintessential for a future comprehensive solution of the Cyprus problem.

Likewise the T/Cs, in return for their signing of the Provisional Agreement would earn the following: the lifting of their so called 'economic and political embargo' by the opening of Famagusta port and Tymbou airport (under perhaps the auspices and legality of the EU); reap the economic and financial benefits of the reconstruction of Famagusta; proportionally enjoy the future remunerations of the exploitation of the RoC's hydrocarbon reserves; indirectly receive

reaffirmation by the RoC that they are politically equal with the G/Cs; and develop business confidence with their G/C compatriots.

Moreover, the two communities would, jointly and separately, benefit substantially by pursuing business with the now vibrant economy of Turkey.

In conclusion, years of fear, mistrust, hatred, separation, violence, stereotyping, misuse of national symbols and selective use of historical memory have deterred the Greek Cypriots and Turkish Cypriots from coming together. The two Cypriot communities, however, need to free themselves from this past, solve the Cyprus problem and move to the future with determination, imagination and confidence in order for them to commonly build a new prosperous Cyprus. Perhaps only through the above-mentioned evolutionary approach could Greek Cypriots and Turkish Cypriot satisfy their basic negotiating interests but also create a baggage of trust that would help them renegotiate in the future, with a fresher

The After Troika MoU Era: Analysis, Prospects and Proposals



Haris Stavrinides

Investment Manager and Analyst at OSYS Global Diversified Investment Fund (OGDIF)

The after Memorandum era leaves deep wounds to the real economy since the financial model that Cyprus followed by providing services to international companies, has been significantly compromised by the decisions of the Eurogroup in March 2013. The trust and robustness of the banking system has been negatively affected and unfortunately serious investors have turned their eyes to alternative destinations.

Regarding the financing of the state from the international markets things are not so rosy either. The much advertised exit from the MoU and ability now to borrow from the markets will lead the country to borrow at an interest rate twice or even higher than the one we had during the Troika and therefore cause a multimillion servicing burden to the public debt. This money will be deprived from the real economy that could otherwise be channelled into more productive areas and stimulate consumption and create jobs. Also our official exit from the "program" and by being in non-investment grade (Junk bonds) immediately excludes the country to participate in the quantitative easing program offered by the European Central Bank. This means that our banks will be deprived of cheap funding which was available by the ECB when the country was in a memorandum.

Economic growth estimates.

The economic growth rates will be positive, 1.6% is the forecast by the IMF and 2.5% from the Cyprus Treasury, but this will not translate in the improvement of the economic situation of households and small and medium businesses. GDP is an indicator of the average economic growth that cannot reflect the real picture of an economy since it can be unbalanced with regard to the allocation of the factors that constitute it. For example a few large companies can affect the index positively while the income of thousands of households may not be growing at the same rate.

Moreover, the high rate of private debt, that is 300% of GDP, while the EU average is close to 50%, does not leave much room for optimism. Consider that servicing this debt of around 60 billion with an average interest rate of 4% corresponds to 2.4 billion interest payments per year. This means that the economy should grow at a rate in excess of 4% per year in order to serve its private debt, which in turn indicates that it is no longer viable and that banks should make provisions that a large part of it will not be recoverable.

The economic cycles of growth, bubble and recession are phenomena that are repeated for centuries in the liberal capitalist economic system in which we live. Unfortunately to us the crisis came too abruptly since it was in a way imposed with the deposit haircut. Of course before March 2013 we took no preventive actions that would mitigate the size of the resulting depth of the economic disaster.

Here comes the role of the state in which it should have already made the growth plan for the post-MoU era with a new economic model that in my opinion should be based on the development of the knowledge economy. Innovation and entrepreneurship are the way to create jobs and sustainable economic growth. But in order to do this requires planning and incentives to attract venture capital funds which finance new innovative businesses that have high growth potential in a rather not so long term. These funds, beyond financing which the banks do not undertake, provide expertise to founders, supervision and access to a large network of partners or other companies with which they collaborate.

Additionally our old economic model is no longer the same after the Eurogroup decision in March 2013, and should be updated and upgraded. Attracting large banking names such as HSBC, or even Deutsche Bank, will help the financial services sector to attract major companies to do business on the island.

Widening in the economic inequality.

Cyprus has the lead in the worst performance of unequal income distribution on the Gini index as calculated by Eurostat for the years 2008-2014. The average increase of unequal income distribution in the EU was 0.6 points, while Cyprus increased by 5.8 points and Greece with 1.1 points.

The biggest hit was experienced by the middle class and small and medium enterprises, the backbone of our economy. From thriving, but also in an exaggeration economy led by a lending spree of the abundant cash that Cyprus banks had, ended up on relying on social groceries

and the EEE, the minimum guaranteed income of 480 Euros. This is not the economy that we deserve to have and therefore we need to revive and regroup it. How could we do that? By Meritocracy, Reliability and Credibility, Dignity. We must demand as a society to return to these values as they were lost in the course of a fictitious prosperity. These timeless values will make a more productive state, less corrupt (unfortunately it will not be eliminated) and with new ideas and technocratic planning will recover the real economy of the people and not numbers. In this way we will be able to regain our credibility, and move away from junk ratings, both in investment grade but also in real terms, and take back our dignity. Unfortunately there are no magical solutions but there are solutions that can get us through this depressing landscape.

A Fest of Arrogance of (Fake) Superiority



Chris Alexander

*Assistant Professor (Technology Enhanced Learning/TESOL)
Head of the Distance Learning IT Unit, University of Nicosia*

If you're into plants, you've got to read the article '[The Intelligent Plant](#)'¹ by Michael Pollan—it's a fascinating read. And, if you have time, you've also got to listen to Michael Pollan's seventeen-minute TED Conference [presentation](#)² in which he suggests, jokingly, that corn, in a cunning bid for world habitat domination, might be manipulating '*its presumably far more intelligent*' corn-consuming humans into expanding its habitat and into eliminating its competitors.

I suppose an interesting follow-up question to Pollan's discussion might be whether it is unethical to manipulate someone else into doing what you want, if that someone else, at the same time, in a fest of arrogance of (fake) superiority, is manipulating you into doing what he or she wants. And I suppose another interesting follow-up question to Pollan's discussion might be whether a fest of arrogance of (fake) superiority could at times apply to American foreign policy.

And on that note, let's move to the US Assistant Secretary of State's (Victoria Nuland) 'all-smiles' exigent visit to Cyprus which took place on 20 April 2016³; according to the Cyprus Mail's rather upbeat account, Nuland was '*very happy to be back in Cyprus*' and reiterated '*her country's support for the ongoing negotiation process in Cyprus*'. Nonetheless, Helmer⁴ (2016, April 26) paints quite a different picture of Nuland's Cyprus visit. Helmer asserts that a well-informed Cypriot source reports Nuland '*was in Cyprus to pre-empt any likelihood of future deepening in relations with Russia*'. Helmer (2016) also notes Nuland apparently tried to push through a plan for '*camouflaging the Turkish forces in Northern Cyprus as a NATO partnership for peace*'.

So what's really going on? Is America trying to support Cyprus or is it just being a bully? Well we may never know; however, other things—seem to be—in point of fact, much clearer.

America has sadly been experiencing massive economic decline⁵ for some time now, and its world-reserve currency status, which has been buttressed by endless wars or the threat of endless wars, is at grave risk⁶ too. Thanks to the alternative media, millions of people are also increasingly beginning to understand the scam⁷ of their monetary system. Millions of people are also becoming more aware of disadvantages of the EU and US Transatlantic Trade and Investment Partnership (TTIP), whose negotiations were 'carried out mostly in secret' (Williams: 2015)⁸. And, millions of people are just losing yet more faith in a US that claims to be fighting ISIS (aka Daesh or ISIL), yet apparently may have been involved duplicitously in creating, arming and funding it⁹.

A lot of other policies seem to be being implemented very speedily too e.g. the push for a negative interest rate policy (NIRP)¹⁰, the drive for a cashless society¹¹, the enactment of the new EU bail-in laws¹², or increased NSA Surveillance against US citizens¹³. Such events suggest the neo-con globalist elites must surely be beginning to panic. The stakes are very high for them too: what if for instance the US population en masse finally decided that the '*velvet-gloved, technologically-savvy, militarized iron fist of friendly fascism*' (Whitehead: 2016)¹⁴ just wasn't for them?

Other countries might be sensing a fall of American hegemony is on the cards and have become more emboldened too; take those Russian-jet impressively-low simulated-attack fly-overs of the USS Donald Cook in the Baltic Sea¹⁵ (which occurred just over a week before Victoria Nuland's visit to Cyprus), or take that skilfully-close Russian interceptor 50-foot fly-by of an American reconnaissance aircraft in the Baltic Sea¹⁶ (which occurred just under a week before Victoria Nuland's visit to Cyprus), or take Beijing's ominous 'be careful' threat to Washington over the South China Sea¹⁷ in early April 2016, or take Saudi Arabia's threat to the US that it would liquidate its Treasury holdings if Congress probed 9/11 attacks¹⁸ in mid-April 2016, or take Iran's early-May-2016 threat to shut down the Strait of Hormuz in reaction to new US proposed legislation regarding '*seeking a stronger response to Tehran's provocative actions against the U.S. Navy in the Persian Gulf*'¹⁹, or take France saying no to the TTIP²⁰ in early May 2016 (the French probably didn't want to have to eat US GMOs too!).

And, take (according to Schortgen 2016²¹ article on a well-known alternative media site) the Iran and Cyprus apparent announcement on 28 April 2016 (just over a week after the Nuland visit) that '*they are seeking new banking and trade agreements with Russia which would expand their sphere of Eurasian Economic Cooperation*'; if Schortgen is

correct, this would be very interesting, as it would partly resonate with Russia's suggestion to the EU in January 2015 to drop TTIP and embrace the Eurasian Union²², but Eurasian Economic Cooperation might also lead to tensions rising with the US, assuming Helmer 2016 assertions are correct.

Well, it appears we may be approaching a very dangerous tectonic-shift-point moment in human history. It is the moment hubris could lead to third-world²³ Zimbabwe-ism in the US. It is the moment hubris could lead to the unimaginable *quick-trigger nuclear-first-strike draw* (and, I would wager that the Russian bear will undoubtedly take the necessary steps to defend her Mother Russia²⁴ ferociously). It is the moment hubris could lead to a rise of fascism, to a scourge of hopelessness, and to a culling of the innocent and misguided. And, this is the moment human uniqueness must triumph over any attempts to transition in a new more oppressive global reality.

¹ Pollan, M. (2013, December 23) The Intelligent Plant. Retrieved from <http://www.newyorker.com/magazine/2013/12/23/the-intelligent-plant>

² Pollan, M (2008, February 7) A plant's-eye view <https://www.youtube.com/watch?v=TQPN1O03z8I>

³ Nuland, V. (2016, April 20) Nuland expresses US support for Cyprus peace process. Retrieved from <http://cyprus-mail.com/2016/04/20/nuland-expresses-us-support-for-cyprus-peace-process/>

⁴ Helmer, J. (2016, April 26) Nuland Instructs Cyprus To Cut Russian Ties and Accept Turkish Troops. Retrieved from <http://russia-insider.com/en/nuland-tells-cyprus-cut-russian-ties/ri14076>

⁵ Snyder, M. (2015, December 23) 58 Facts About The U.S. Economy From 2015 That Are Almost Too Crazy To Believe. Retrieved from <http://theeconomiccollapseblog.com/archives/58-facts-about-the-u-s-economy-from-2015-that-are-almost-too-crazy-to-believe>

⁶ Black, S. (, 2016, January 4) Is 2016 the year of the dollar collapse? Retrieved from <https://www.sovereignman.com/trends/is-2016-the-year-of-the-dollar-collapse-18505/>

⁷ Maloney, M. [YouTube]. (2013, October 15). [Video file] The Biggest Scam In The History Of Mankind - Who Owns The Federal Reserve? Hidden Secrets of Money 4] Retrieved from <https://www.youtube.com/watch?v=iFDe5kUUyT0>.

⁸ Williams, L (2015, October 15) What is TTIP? And six reasons why the answer should scare you. Retrieved from <http://www.independent.co.uk/voices/comment/what-is-ttip-and-six-reasons-why-the-answer-should-scare-you-9779688.html>

⁹ Fantina, R. (2015, December 29) ISIS: The 'Enemy' the US Created, Armed, and Funded. Retrieved from <http://theantimedia.org/isis-the-enemy-the-us-created-armed-and-funded/>

¹⁰ Randow, J. and Kennedy, S. (2016, March 18) Negative Interest Rates Less Than Zero. Retrieved from <http://www.bloomberg.com/quicktake/negative-interest-rates>

¹¹ Zerohedge. (2016, March 6) Why The 'Cashless Society' Has Become The New Wet Dream Of Governments And Central Bankers Secular Investor on Retrieved from <http://www.zerohedge.com/news/2016-03-06/why-cashless-society-has-become-new-wet-dream-governments-and-central-bankers>

¹² Snyder, M. (2015, December 28) The New Bank Bail-In System Goes Into Effect In Europe
<http://theeconomiccollapseblog.com/archives/january-1-2016-the-new-bank-bail-in-system-goes-into-effect-in-europe>

¹³ Krieger, M (2016, March 11) War on Terror Turns Inward – NSA Surveillance Will Be Used Against American Citizens. Retrieved from <http://libertyblitzkrieg.com/2016/03/11/war-on-terror-turns-inward-nsa-surveillance-will-be-used-against-american-citizens/>

¹⁴ Whitehead, J. (2016, March 21) Fascism, American Style. Retrieved from https://www.rutherford.org/publications_resources/john_whiteheads_commentary/fascism_american_style

¹⁵ Myers, M. (2016, April 28) This is why the Navy didn't shoot down Russian jets Navy Times. Retrieved from <http://www.navytimes.com/story/military/2016/04/13/why-navy-didnt-shoot-down-russian-jets/83000858/>

¹⁶ Tatum, S. and Starr, B. (2016, April 18) Russia denies wrongdoing after jet barrel-rolls over U.S. aircraft Retrieved from <http://edition.cnn.com/2016/04/16/politics/russian-jet-barrel-rolled-us-aircraft/>

¹⁷ Sputnik (2016, April 4) Beijing's Ominous Threat to Washington Over South China Sea: 'Be Careful'. Retrieved from <http://sputniknews.com/asia/20160401/1037304454/china-us-cold-war-threat.html>.

¹⁸ Mazzetti, M (2016, April 15) Saudi Arabia Warns of Economic Fallout if Congress Passes 9/11 Bill. Retrieved from http://www.nytimes.com/2016/04/16/world/middleeast/saudi-arabia-warns-of-economic-fallout-if-congress-passes-9-11-bill.html?hp&action=click&pgtype=Homepage&clickSource=story-heading&module=first-column-region®ion=top-news&WT.nav=top-news&_r=0

¹⁹ Jennifer Griffin, J. and Tomlinson, L. (2016, May 07) Iran lashes out, threatens to shut Strait of Hormuz over GOP rep's bill. Retrieved from <http://www.foxnews.com/politics/2016/05/07/iran-lashes-out-threatens-to-shut-strait-hormuz-over-gop-reps-bill.html>

²⁰ Zerohedge (2016, March 3) "The TTIP Is Doomed" - France Threatens To Reject Obama's Huge Transatlantic Trade Deal. Retrieved from <http://www.zerohedge.com/news/2016-05-03/ttip-doomed-france-threatens-reject-obamas-huge-transatlantic-trade-deal>

²¹ Schortgen, K (2016, April 28) Russia looks to bring Cyprus and Iran into Eurasian economic fold. Retrieved <http://www.roguemoney.net/stories/2016/4/28/russia-looks-to-bring-cyprus-and-iran-into-eurasian-economic-fold>

²² FortRuss (2016, January 9) Russia to EU: Dump the TTIP and embrace the Eurasian Union Retrieved from <https://off-guardian.org/2016/01/09/russia-to-eu-dump-the-ttip-and-embrace-the-eurasian-union/>

²³ Roberts, P.C. (2015, October 29) US On Road To Third World <http://www.paulcraigroberts.org/2015/10/29/us-on-road-to-third-world-paul-craig-roberts/>

²⁴ Escobar, P. (2015, December 15) You Want War? Russia is Ready for War. Retrieved from <http://sputniknews.com/columnists/20151215/1031786484/russia-ready-war.html#ixzz482NCtELC>

Change of Paradigm or False Alarmism?: The Case of Cyprus



Marat Yuldashev

Expert with experience in the financial services sector in Cyprus and CIS as well as private consulting in East Europe, CIS and the Middle East

*“To be prepared is half the victory”
Miguel de Cervantes Saavedra*

Last month Ministry of Economics of Cyprus announced that it expected the country’s GDP to exceed 2% growth mark in 2016. The optimistic news was boosted by the Minister of Commerce, Tourism and Industry who declared that tourist sector must be credited for pulling the local economy out of the crisis. These are obviously positive developments for the island, and indeed tourist arrivals are expected to be on the rise this year, mainly because Egypt and Turkey became almost a no-go zone for many Russian and other holidaymakers.

In the meantime, while Cyprus was looking forward to a good year ahead, Eurostat’s Consumer Price Index continued falling with Eurozone jobless rate remaining at over 10%¹, economic adviser to the Russian president announced that as a result of the crisis the number of the “new poor” in Russia exceeded 5 million people² and recovery of the national economy would probably take substantial period of time, and finally, on the other side of the planet Japanese Prime Minister Shinzo Abe warned his Group of Seven counterparts on May 27 that the world may be on the brink of a global financial crisis on the scale of Lehman Brothers³.

¹ Euronews (2016) *Eurozone: inflation is still negative and jobless rate unchanged* Retrieved from <http://www.euronews.com/2016/05/31/eurozone-inflation-still-negative-and-jobless-rate-unchanged/>

² Lenta.ru (2016) *Crossed the threshold* Retrieved from <https://lenta.ru/articles/2016/05/27/newpoverty/>

³ Zerohedge (2016) *Global financial crisis coming – Japan warns of “Lehman-scale” crisis at G7* Retrieved from <http://www.zerohedge.com/news/2016-05-30/global-financial-crisis-coming-%E2%80%93-japan-warns-%E2%80%9Clehman-scale%E2%80%9D-crisis-g7>

Such a stream of conflicting news could possibly create a cognitive dissonance in the minds of some Cyprus residents.

To overcome the confusion, it is vital to take a look at fundamental pillars of the island's economy through the prism of the global historical context.

Cyprus service economy stands, primarily, upon its financial/corporate services and tourist sectors, supported by other segments such as shipping and to a lesser degree tertiary education.

The roots of what was sometimes called "Cyprus economic miracle" lie in two global historical processes: de-colonization of 1960-70s followed by the launch of financial globalisation in the 1980s.

Disintegration of colonial empires provoked flight of capitals out of the newly independent states and created urgent need for financial harbours where those capitals could be conveniently parked. "Convenience" was the main criteria, which meant low taxation, flexible regulation, preferably rule of English Law, Anglo-Saxon administrative and banking system, and availability of English-speaking lawyers, accountants and tax advisors. No wonder such international network swiftly emerged, mainly, in small island-nations scattered around the globe, most of which happened to be former British dependent territories.

Emergence of such convenient centres became quickly popular with many other international investors, who did not feel particularly comfortable keeping capitals in their respective countries of origin.

Deep economic crisis of 1970s in the West required new mechanisms to re-start the economy. Reagonomics inaugurated the era of financial deregulation and globalisation. In the USA, the centre of global economy, deregulation meant financialization, i.e. unprecedented growth in size and scope of finance and financial activity in the economy, rise of debt-fuelled speculation over productive lending⁴. Economic growth was achieved through stimulation of domestic consumption based on debt refinancing mechanism (for the mechanism to work, the lending rate should continuously keep falling).

On the international front globalisation meant lifting of barriers on the way of goods and financial capital flows. The era of global consumerism and financialization of world economy began.

⁴ Foroohar R. (2016) *Saving Capitalism* Time, p. 25.

Financial globalisation required availability of relevant international banking infrastructure and jurisdictions, which could assist and facilitate the flow and distribution of international capitals with minimum costs and maximum flexibility. The existing network of island-nations and other tax-heaven statelets contributed enormously to the process, which brought some of these nations (Cyprus among others) unprecedented prosperity within quite short period of time. If there were no such centres, the very logic, scale and speed of financial globalisation should have created them anyway.

Collapse of the former socialist block and opening of new markets accompanied by the emergence of China and other developing economies have taken globalisation to the new era.

Impressive economic growth in many parts of the world and lifting of barriers created new middle class and the new rich, who were eager to travel, spend and consume without limits. Tourism has become a truly global multibillion industry. Educational sector internationalized and expanded as never before. Consumer goods and services sectors flourished, commodity prices reached all-time highs.

However, as it turned out, in the shadow of global economic expansion, severe dis-balances of similar magnitude were building-up for decades: first, prosperity and rise in living standards was achieved at the price of accumulation of unprecedented debts of all types, and second, global economy has become the *economy of exporters*.

Almost all countries (including Germany-led Europe, Japan, China, Russia, Brazil) became dependant on sales of their products and services abroad. The only major nation where growth is driven by domestic consumption by two-thirds is the United States. As it paradoxically turns out, directly or indirectly, all countries are selling to the USA, and at the end of this long and complex global consumption chain an average American Joe is standing.

The only problem though is that for decades the average Joe could increase his consumption only through accumulation of debts which became possible thanks to debt refinancing mechanism in place, which in turn, depended on gradual reduction of interest rates. Thus, the Federal Funds Rate gradually went down from 20% in March 1980 to 0.00%-0.25% in December 2009⁵ when the mechanism came to an end. The QE program which followed, without doubt, saved the global

⁵ About Money (2016) *Fed Funds Rate History: Highs, Lows and Chart With Major Events* Retrieved from http://useconomy.about.com/od/monetarypolicy/p/Past_Fed_Funds.htm

economy from collapse and brought temporary relief but the fundamental problems of revival of *sustainable demand* and *reduction of debts* were not solved. From 2007 to 2014 global cumulative debt (household, corporate, government, financial) increased by USD 57 trl. and reached USD 199 trl⁶.

Programs similar to Fed's QE pursued in other major economic powers produced no fundamental change. The so-called Abenomics in Japan ended up in recession, deflationary pressure and falling consumer demand persist in Europe despite ECB's desperate efforts.

Lord Mervyn King, former Chairman of the Bank of England, described the current situation in global economy as "radical uncertainty" with major crisis still ahead.

Looming debt problems force governments to restructure the system and chase those engaged in financial optimization. According to Tax Justice Network, by the end of 2014 USD 1.3 trl. from Russia and USD 1.2 trl. from China were sitting offshore⁷. Boston Consulting Group estimates that over USD 11 trl. are stocked in offshore centres around the world. In her recent interview to BBC's Hardtalk, Christine Lagarde called to bring those funds to transparency. And there is a growing international consensus that The Panama Papers case was just the beginning.

Crisis of exporters, growing debts, falling global demand and shrinking middle class risk to create a domino effect when customers can no longer buy and spend as they used to over previous decades of prosperity.

These problems will be aggravated in coming years by noticeable aging demographic shift in the West, Russia and China.

It is impossible to make accurate predictions but what *is* possible to identify the emerging trends and prepare for the new changing world. It is evident that industries which were drivers of prosperity in Cyprus, like most of the world, facing radical uncertainty with uncertain outcome at the end. Positive developments so far this year, although

⁶ Zerohedge (2016) *Global financial crisis coming – Japan warns of "Lehman-scale" crisis at G7* Retrieved from <http://www.zerohedge.com/news/2016-05-30/global-financial-crisis-coming-%E2%80%93-japan-warns-%E2%80%9Clehman-scale%E2%80%9D-crisis-g7>

⁷ The Guardian (2016) *Offshore finance: more than \$12tn siphoned out of emerging countries* Retrieved from <https://www.theguardian.com/business/2016/may/08/offshore-finance-emerging-countries-russia-david-cameron-summit>

welcomed but should not create false sense of safety and immunity, and distract the focus from the global context.

The purpose of this article is not to spread panic and false alarmism but to raise awareness in the business community and among policy makers, and provoke constructive debate and scenario planning. No one should have illusions and underestimate the swift and unexpected *power of change*. Construction of Interstate Highway System in the US in 1950s led to gradual disappearance of hundreds of small towns across the country, automation of manufacturing and gasoline crisis of 1970s have turned Detroit from the automobile capital into a ghost city, and the list of examples goes on.

At the same time, every crisis opens new opportunities and creates new unexpected winners. Examples? The candy industry in the US flourished during the Great Depression and war time, Japanese car manufactures went global during the oil crisis of 1970s.

Ignorance and inaction are dangerous but to be prepared is already half the victory.



IN DEPTH
Bimonthly Electronic Newsletter

Cyprus Center for European and International Affairs
University of Nicosia

Makedonitissis 46, CY-2417 Egkomi, Cyprus
P.O. Box 2405, CY-1700 Nicosia, Cyprus

T: +357 22841600

F: +357 22357964

E: cceia@unic.ac.cy

W: www.cceia.unic.ac.cy

W: www.emgr.unic.ac.cy

F: www.facebook.com/pages/Center-for-European-and-International-Affairs-University-of-Nicosia/732480693496503

ISSN (online) 2421-8111



9 772421 811107