

Enlisting business to help loosen the Gordian knot around Cyprus

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Instead of hovering around the various unsolvable and thorny political obstacles in the way of Cyprus's reunification, hopes should be pinned on the nascent cooperation forming between business communities from Cyprus, Greece and Turkey. The political deadlock on the Cyprus issue has probably now reached its lowest point in years. The recent discovery of substantial gas deposits in Cyprus' territorial waters is hailed by some experts as a window of opportunity for both sides to build confidence through agreements on the exploitation of these resources. However, the chasm of mistrust between Turkey and Cyprus runs so deep as to render this idea wishful thinking. Therefore, confidence-building in the economic sphere should be started from the bottom at the most basic level, namely among the business communities. It would not have to start from scratch either because Greece has already established relatively well-developed economic relations with Turkey and is also closely integrated with Cyprus. This situation places the Greek business community in a favourable position to play a role as intermediary between the Cypriot and Turkish partners. Paradoxically, negative economic developments in the periphery of the eurozone are giving some cause for hope. Severe economic crisis in Greece and Cyprus can oblige them to rethink their approach to Turkey, namely by supporting more economic cooperation with Ankara in the case of Greece and the establishment of it in case of Cyprus.

The establishment of economic cooperation between China and Taiwan was dismissed a decade ago as unthinkable. Yet today a Chinese-Taiwanese economic rapprochement is held up as a prime example of how political tensions can be eased by the development of trade, investment and tourism. Indeed, there are several parallels in the Chinese-Taiwanese and Turkish-Cypriot relationships: the absence of political bilateral recognition, unresolved status issue and long periods of economic non-cooperation.

Turkey as a locomotive

A return to a path of fast economic growth constitutes one of the key preconditions for saving Greece and Cyprus from collapse. A huge trade deficit stemming from low levels of exports constitutes a key challenge for both countries. It is inevitable that Turkey, as the most dynamic and largest economy in the Eastern Mediterranean and due to its openness will play a key role as the main destination for their exports.

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A political reconciliation between Turkey and Greece, which began in 1999 but has lost momentum recently, was first stimulated by a substantial increase in economic cooperation. These economic ties constitute the best safeguard against sudden aggravations of political relations between the two countries. Thanks to investments undertaken between 2005-07, Greece achieved the position of the third-largest foreign investor in Turkey (in FDI stocks). By default, the Turkish market has become the main destination of Greek investments abroad. Moreover, during the crisis, Turkey has become one of the key destinations for Greek exports. Between 2009 and 2011, Greek exports to Turkey have increased 2.5 times. This trend has continued in 2012. According to estimations, the volume of Greek exports most probably will reach a new record this year exceeding \$3.5 billion. What is even more important, Greece has a huge surplus in its trade with Turkey, a rare phenomenon in its commercial relations with its main partners.

Due to bilateral territorial disputes and the Cyprus problem, however, Turkey and Greece are still unable to fully exploit the potential of bilateral economic cooperation. The volume of both Bulgaria's and Romania's exports to Turkey is proportionally decisively larger than the volume of exports from Greece to Turkey. Cooperation in the construction sector between Greece and Turkey is minimal, although the industry can be called the *spécialité de la maison* of the Turkish economy. Turkey ranked second, after China, in the number of companies operating abroad in the "Top 225 international contractors" list of Engineering News Record (ENR) magazine.¹

Meanwhile, the latest McKinsey report "Greece 10 Years Ahead",² recognised that the creation of a proper tourism infrastructure is one of the main prerequisites to boosting the country's tourism industry, which will most probably remain one of the key sectors of its economy. Astonishingly, the total value of construction contracts undertaken by Turkish companies in Greece is negligible (around \$3 million). It is around 2,000 times smaller than the value of construction contracts realised by Turkish firms in Romania.

The improvement of economic cooperation between Turkey and Cyprus stands in stark contrast to the almost non-existent economic relations between Ankara and Nicosia. This phenomenon is particularly striking against the close economic symbiosis between Greece and Cyprus. Another disappointing fact is the very weak economic cooperation between the Greek and Turkish parts of Cyprus, which stands in sharp contrast to the large trade turnover between Serbia and Kosovo, treated by Belgrade as an integral part of its territory.

It's the economy, stupid!

The starting point from which to foster closer Turkish-Greek-Cypriot economic relations would seem to be a reshuffling and an expansion of the membership of the Turkish-Greek Economic Forum, to become a gathering of business communities from Turkey, Greece, the Republic of Cyprus and the Turkish Republic of Northern Cyprus. This body should be supported by the largest business associations from Turkey, Greece and Cyprus without any direct engagement of political elites. A prerequisite would be to assure the complete absence of interference and obstruction from the political authorities in Ankara, Athens and Nicosia. Convincing them to tolerate this initiative should be a task of the friends of Turkey, namely those EU member states supporting Turkey's accession, e.g. Italy, Poland, Spain, the UK and

¹ "The Top 225 International Contractors, 2012", Engineering News Record (<http://enr.construction.com/toplists/Top-International-Contractors/001-100.asp>).

² "Greece 10 Years Ahead: Defining Greece's new growth model and strategy", McKinsey, March 2012 (http://www.mckinsey.com/locations/athens/GreeceExecutiveSummary_new/pdfs/Executive_summary_English.pdf).

Sweden. In fact, this goal would be easier to achieve if companies from EU countries were also engaged in the initiative. The Forum should focus on enhancing or establishing Turkish-Greek-Cypriot cooperation in such fields as tourism (the creation of specialised tourism facilities such as sea/yacht tourism, health tourism, conference/expo tourism); trade and FDI, especially between Cyprus and Turkey through Greece, construction (particularly infrastructure in Greece) and energy (Turkey's and Greece's engagement in encouraging Greek and Turkish Cypriots to cooperate on common extraction of gas).

Evidence from around the world, including the recent Turkish-Greek reconciliation, suggests that an establishment of economic cooperation can facilitate a political rapprochement between Cyprus and Turkey or at least can prevent a rise in tensions. Last but not least, due to the economic interdependencies, economic cooperation between Turkey, Greece and Cyprus would also be beneficial in the recovery of the EU economy.