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Economic Crisis in Cyprus: Repercussions, Turkey and the Turkish-Cypriots

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As a result of the global and European (Eurozone) systemic economic crisis, as well as due to domestic structural problems, human errors, and the direct linkages of the banking sector to the Greek economic and financial crisis, Cyprus has found itself gradually sinking into its own economic depression. This led to months-long negotiations between Cyprus and the Troika (the European Commission, the European Central Bank, and the International Monetary Fund) for the eventual signing of a memorandum of (austerity) measures that would entail a bail-out package. Although the Cypriot parliament has passed a number of bills based on the negotiated memorandum, a final agreement has not yet been reached and the final, completed, form of the memorandum has not yet been signed. To be sure, these rapid economic developments have broad political implications on issues such as the resolution of the Cyprus Problem, the role and views of Turkey, Turkey-European Union (EU) relations, and the views of the Turkish-Cypriot community.

It is known that small states are at a disadvantageous position within the international system, and that they thus seek ways – other than power projection – to accomplish their goals. Apart from alliance formations and multilateral cooperation, one such way is their economic policies and relations. Economy has always been one of the – if not the – strongest card of the Republic of Cyprus (RoC). Economic development, coupled with international legal and moral support on the Cyprus Problem and the Turkish occupation of the northern 37% of the Island, which occurred in 1974, has been giving the RoC the needed diplomatic leverage in the international arena. Yet the deteriorating economic situation of the past years and the current negotiations with the Troika, have resulted in the gradual loss of diplomatic leverage, due to the loss of economic credibility and political respect of third countries. Needless to say, that this development has emerged as an exploitable opportunity for Turkey. Turkish politicians and academics alike now have the chance to play the “blame game” and try to gain as much as they can both in terms of the Turkish accession process to the EU and the resolution of the Cyprus Problem.

Turkey

A series of statements and articles depict the way in which Turkey views the economic crisis in Cyprus and how it tries to utilize it for its own political benefit. Turkey’s Minister of EU Affairs and Chief Negotiator, Egemen Bağış, is at the forefront of this discourse. In early December, 2012, he said – in a rather sarcastic tone – that “Just as we provided \$5 billion in loans to the International Monetary Fund, we will consider helping the Greek Cypriots if they request this”, and he continued, “The Greek Cypriot economy faces bankruptcy today. The Greek Cypriots are suffering due to their policies that exacerbate the deadlock. Had the Greek Cypriots favored a solution, the whole island of Cyprus would have been in a better financial situation. We will still extend a helping hand if necessary.”[1] That was an effort to upgrade Turkey’s image, downgrade the RoC’s image, and project Turkey as a willing-to-help party while disregarding entirely the legal obligations, stemming from the occupation, of Turkey toward Cyprus. On another occasion Bağış tried both to worsen and capitalize on the situation in Cyprus by saying that “Investors who have money in Greek Cypriot banks should think carefully; this [economic] crisis could affect them, too. It is better for them to invest in Turkish banks.”[2] Later in the month he went so far as to say that the RoC should first honor its commitments before Turkey opens its ports and airports to Cyprus – referring to an EU protocol which should have long been implemented, as it is a basic EU criterion Turkey must abide to.[3] It is obvious that a pattern has

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developed in Ankara's rhetoric when it comes to the Cyprus Problem, which coincides with the developments of the Cypriot economic crisis. In line with Bağış's remarks, the Turkish Foreign Minister, Ahmet Davutoğlu, also stated that had the Greek Cypriots said "yes" to the Annan [solution] plan (2004 referenda), they would not be facing this economic crisis. Paradoxically, yet not surprisingly, the remarks were made at a conference where the latest EU progress report on Turkey's accession process was read, saying that Ankara has not met its obligations in Cyprus.[4]

Turkey is trying to create the conditions that would favor its European accession process in the near future. It is hoping that after the end of the Cyprus EU Presidency the ground will already be politically set for Ireland (the next Presidency) to open new negotiation chapters, provided that the Turks are also optimistic about a shift in the French stance toward Turkey's EU prospects.[5] Within this framework the RoC's economy is often presented as "near-bankrupt". In more extreme cases Cyprus banks or even the Cypriot economy (of the "Republic of Southern Cyprus" as is usually the narrative in Turkey about RoC) itself is presented as "bankrupt".[6] This, of course, is not the case since neither Cyprus nor its banks have gone bankrupt. To be sure, Cyprus is indeed in a very bad economic crisis and no one can dispute that. However, such arguments are politically biased and aim at constructing a negative picture of the RoC vis-à-vis the Cyprus Problem (e.g. if the Problem was resolved in 2004 no crisis would exist), and Turkey-EU relations (e.g. the RoC has no credibility in stalling Turkey's accession).

Turkish-Cypriots

The political implications of the RoC's economic crisis go beyond Turkey's stance and its relationship with the EU. The leadership of the Turkish-Cypriot community is also trying to exploit the situation, turning it into political benefits regarding the Cyprus Problem. Capitalizing on the political and economic climate, the Turkish-Cypriot leader, Derviş Eroğlu, stated the following, in December, 2012: "Unfortunately, it is not only EU countries that have embargos on Turkish Cyprus; Muslim countries also have embargos against us, so we especially expect the embargo on transportation to be lifted by Muslim countries," adding that Turkey could influence those countries to do so.[7] He also said that the RoC's accession into the EU was a mistake which eventually led to the economic crisis, and that the EU needs to "give some messages to the Greek Cypriots" and support the solution of the Cyprus Problem. The Turkish-Cypriot leader added that his community expects the EU to pressure the Greek-Cypriots by saying "we give you this financial support, but you should lift the embargoes you implement on the Turkish Cypriot people." [8]

The efforts of the Turkish-Cypriot leadership are clearly in harmony with Ankara's political line. On the one hand there stands out an attempt for the upgrade of the legal status of the illegal "Turkish Republic of Northern Cyprus" (the occupied northern Cyprus) through the development of international relations. On the other hand there is an ongoing effort both from Turkey and the Turkish-Cypriot leadership for demonizing the role of the Greek-Cypriots in the resolution of the Cyprus Problem and Turkey's EU accession, without taking into account the UN Resolutions that condemn Turkey's presence in Cyprus, and beyond. This is of course not to say the Turkish-Cypriots – citizens of the RoC, holders of RoC/EU passports – are not affected by the crisis. The crisis has indeed affected them as well, and has also given a pretext to nationalist Greek-Cypriot political powers to advocate for diminished rights to Turkish-Cypriots, particularly in light of the upcoming presidential elections of the RoC.

Conclusions

In sum, two things have become evident: i) Cyprus is in a bad economic situation which has repercussions both in its domestic and foreign policies; and ii) Turkey along with the Turkish-Cypriot leadership (the policies of which are fully in line with the former) have been undertaking concerted efforts to exploit the RoC's economic and political weakness to maximize their benefits (by bypassing their obligations) in the resolution of the Cyprus Problem and the accession process of Turkey to the EU, as the two are interlinked.

From this perspective, given the eagerness of some EU member-states to push Turkey toward accession (due to economic and political reasons) as well as Cyprus' great loss of diplomatic leverage against the backdrop of the needed economic aid/bail-out, it would not be surprising if the suggestions of the Turkish and Turkish-Cypriot parties about EU pressuring the Greek-Cypriots to solve the Problem were heard. This, of course, in and of itself would not be negative, as the resolution of the Cyprus Problem is being sought. Yet, whatever pressure could entail undesirable

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provisions and/or the institutionalization of external interests (e.g. Turkish). Moreover, considering the failed history of austerity measures (memorandums) in Europe, one could easily foresee more of them coming in the near future. More austerity measures means that the government will need to make commitments about the ways in which it will repay the loans. Such commitments could at some point include shares from the profits of the future exploitation of the newfound Cypriot natural gas. Something like that would be very negative as it would affect the economic and social development of the country, the prospects for resolution of the Cyprus Problem, while it would constitute further transfer of sovereign rights to the Troika.

The Republic of Cyprus needs to proceed with caution both economically and politically toward the EU and keep standing by the Turkish-Cypriot community, at the same time. For its part, the European Union as an institution, and its member-states as units, need to act on the basis of the *acquis communautaire* when it comes to the Turkish accession without putting politics and economics above the law, and treat the Cypriot economic crisis as well as the rest economic problems of the EU with a development-driven mentality instead with an austerity-driven one.

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