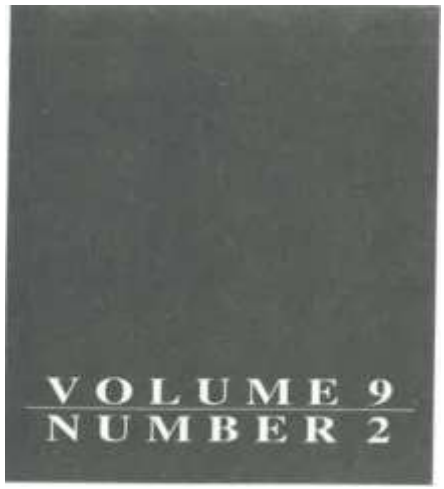

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NOTES FOR CONTRIBUTORS

The Cyprus Review is an international bi-ennual journal which publishes articles on a range of areas in the social sciences including primarily Anthropology, Business Administration, Economics, History, International Relations, Politics, Psychology, Public Administration and Sociology, and secondarily, Geography, Demography, Law and Social Welfare, pertinent to Cyprus. As such it aims to engender a forum for discussion on salient issues relating to the latter. The journal was first published in 1989 and has since received the support of many scholars internationally.

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Formating Requirements:

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Jacovides, A.J. (1977) 'The Cyprus Problem and the United Nations' in Attalides, M. (ed}, *Cyprus Reviewed.* Nicosia, Jus Cypri Association.

Journal articles:

McDonald, R. (1986) 'Cyprus: The Gulf Widens', *The World Today,* Vol. 40, No. 11, p 185.

(viii) Dates should appear as follows: 3 October 1931; 1980s; twentieth century. One to ten should appear as written and above ten in numbers (11, 12 etc.).

(ix) Tables and figures are to be included in the text and to be numbered consecutively with titles.

(x) Book review headings should appear as follows: Title, author, publisher, place, date, number of pages, _e.g.

Cyprian Edge, by Nayia Roussou, Livadiotis Ltd (Nicosia, 1997) 78 pp.

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Articles

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NUMBER 2

HAVEN AS A BARRIER TO HEAVEN? THE CYPRUS OFFSHORE FINANCIAL CENTRE AND EUROPEAN UNION ACCESSION

Louiza Odysseos

Abstract

The aim of this paper is twofold. The first is to examine whether efforts of the Republic of Cyprus to establish itself as an offshore financial centre present any problems for its desired accession and integration to the European Union. The second objective is to discuss the solutions available to Cyprus as an Offshore Financial Centre (OFC). It attempts to outline the 'problematique' of the OFC through a theoretical debate known within the field of International Political Economy as competing or alternative forms of capitalism. This theoretical exposi- tion aims to reflect on how OFCs affect onshore activity in the nearby mainland(s) and in the regional financial system. The second objective of the paper, that of intro- ducing the options available to Cyprus, is discussed within the context of a second debate. This lies in the subfield of economics known as Institutional Economics, and discusses issues of unilateral liberalisation and harmonisation of institutional frame- works and policies, both from the perspective of an integrated global environment.

Introduction

The aim of this paper is to ask whether efforts of the Republic of Cyprus to establish itself as an offshore financial centre (OFC) present any problems for its desired accession to and integration with the European Union (EU). The future of the OFC, in light of Cyprus' attempts to accede with the EU, has thus far been neglected by policy-makers planning the accession strategy. Bureaucratic circles admit, however, that it remains a pivotal issue (interview, lakovou, 1997; interview, Lykourgos, 1997). The final decisions will unravel through 1998. after the completion of the EU intergovernmental conference (IGC) in July 1997 (Featherstone,1995).

The analysis will be centred around two debates which provide the arguments through which we will investigate, first, the *problematique* of the OFC and, second,

the available solutions. The first debate is one known within the field of International Political Economy (IPE) as *competing* or *alternative forms of capitalism* (Thurow, 1992; Turner and Hodges, 1992; Hutton, 1995). In the context of Cyprus' accession to the EU it asks,

> *...does the way in which **(tax** havens and) OFCs act in the emerging global economy have a broad historical analogy as the "new pirates," acting within the International Financial System as fast-moving raiders, preying on sluggish, older forms of nation state capitalism? (Hampton, 1996a:3)*

Is the above quote by Hampton an accurate description of how OFCs affect onshore activity in the nearby mainland and the global financial system? If so, should the EU approach Cyprus as a "pirate" actor? It is the contention of this paper that Cyprus' OFC status presents a *problematique* for its potential accession and integration into the single market in case of future accession into the EU.[1] The following section examines the evolution and history of OFCs, followed by a scrutiny of the OFC regime on Cyprus and the major problems it creates for accession.

The options available to Cyprus are discussed within the context of the second debate, which lies in the subfield of economics known as Institutional Economics. It deals with issues of (unilateral) liberalisation or harmonisation of institutional frameworks and policies in an integrated global environment. The single market process within the EU, the future prospects of the EU as an unified entity, and the *problematique* of Cyprus' accession as an OFC, offer an excellent background (and battleground) for the debate's analytical framework. The penultimate section outlines the debate and places the accession problems of the OFC within the EU context, illuminating the possible solutions available to Cyprus. The final section presents the conclusions.

Offshore Centres and Onshore Relationships

The debate of *competing capitalisms* is usually dominated by two or more models of capitalist organisation, which differ culturally, historically and socially. Within the field of IPE it shifts the focus away from a rational state model, towards a model which allows for situated differences and for divergent actors (states, bureaucracies, multinational and domestic corporations, non-governmental and inter-governmental organisations, *etc.)* to partly determine the potential of these forms of capitalism (Strange, 1995). The models commonly depicted are the Anglo-Saxon *(laissez-faire)* model, the continental European (communitarian) model and the Japanese (developmental capitalist) model. Different taxonomies do exist, reflect-

ing authors' preferences and modes of analysis, but in general the debate consists of the merits, demerits and the future prospects of the variant forms of capitalism. The prospects are usually discussed in detail, but tend to congeal around *convergence* or *continued coexistence* of the various forms.

It is not the aim of this paper to engage in a debate of the actual models. It merely wishes to borrow the images and terrain of the debate to examine the relationship that Cyprus, in its function as an OFC, has had and will have with the EU. For the purposes of this and the following section, we intend to assume that the EU represents one unified model of capitalism, in order to accentuate the relationship between offshore economies (OFC capitalism) and onshore economies (EU capitalism). This also highlights the potential relationship likely to emerge from accession. The liberalisation *versus* harmonisation debate within the EU, renders the unified EU model of capitalism problematic. It shows, instead, competing forms of capitalism placing themselves on opposite sides of the debate and having widely different expectations for the future.

Next, a brief history section offers explanations for the emergence of OFCs and their recent proliferation. This enables us to create the right framework for fitting Cyprus in a wider historical context and to understand the perspectives facing the EU when it deals with Cyprus as an OFC. The history illuminates the perceptions behind the evolution of the offshore interface.

History of Offshore Centre Evolution

Four main explanations have been offered for the recent proliferation of OFCs. First, OFCs and tax havens are seen as having merely responded to the increased regulation and taxation in the Organisation for Economic Cooperation and Development (OECD) in the post-1945 era, offering a zero-friction response to a high friction business environment in the major onshore economies (Johns, 1983). An often cited example is the expansion of activity in the Cayman Islands after increased regulation in the US in the 1950s and 1960s.

Second, the increase in OFCs is viewed as by-product of the transnationalisation of economies. As states did not swiftly accommodate the needs of transnational trade, by eliminating the restrictions that hindered growth of the global economy, OFCs arose to perform this function, as did, for example, Hong Kong and Singapore. This explanation offers the "demand and supply" answer for the increase in offshore jurisdictions in the world economy. The major distinction with the first explanation is that this takes an organic world economy at its centre, as opposed to "onshore" versus "offshore" responses to regulation (Johns and Le Marchand, 1993).

Third, the pessimist view is that the mushrooming of transnational criminal net-

works have caused a proliferation of accommodating havens through which such criminal activities are hidden and laundered (Naylor, 1987; Palan *et al,* 1996). Strange, in a recent article in the *Nikkei Business News,* emphasises the dangers of the underground world economy and implicitly gives credence to Naylor's explanation (Strange, 1996). Recent offshore legislation in the Seychelles, for example, has been perceived as an invitation to money launderers (interview, Lykourgos, 1997).

Fourth, OFCs are perceived as a state strategy pursued by small or micro economies, for development purposes; an institutional approach using OFCs as a development strategy, competing for capital and business with larger and less flexible economies through the use of regulatory manipulation (Palan *et al* 1996: 174-176; Baldacchino, 1993).

Defining the Beast: Tax Haven or Offshore Centre?

Defining tax havens or offshore centres is a problematic endeavour at best, due to the secrecy and lack of transparency of their activities. Distinguishing between them is equally difficult. While authors attempt to clarify between OFCs and tax havens, most analyses tend to use the terms interchangeably. Providing a distinction is useful, but might create a false perception as to our ability to categorize jurisdictions as either tax havens or OFCs.

There seems to exist a tendency within the literature to assign largely normative definitions to tax havens and OFCs, although recent studies have attempted to provide more functional ones. In the latter category, tax havens are defined as areas "based upon taxation differentials between states and so are usually jurisdictions that have low or no direct taxes. Tax havens may or may not host financial services" (Hampton,1996a:15). A classic definition often utilised is the one by Johns, where tax havens are defined as located in:

> *...economies which have made a deliberate attempt to attract thereto international trade-oriented activities by the minimisation of taxes and the reduction or elimination of other restrictions on business operations, such that within the jurisdiction of the centre, aggregate economic activity is substantially geared to the special global invisible trade needs of external enterprises and investors.(Johns, 1983:20).*

Palan, *et al.,* take a much harsher approach towards tax havens, attributing to them parasitic functions which harm the notion of state sovereignty. "There is now a new category of state to which sovereignty appears to have become little more than an excuse to implement laws that are implicitly aimed at attracting business from their neighbours" (Palan *et al.* 1996:167). There is here an assumption that tax haven status is a choice to abuse the so-called sovereignty granted to "this new category

of states." Such a definition denies arguments that micro-economies do not have the ability to pursue normal development strategies out of the periphery, as larger states do. (Baldacchimo, *op. cit.).*

The perception within the literature remains that tax havens and offshore centres are the "paper tigers" of the financial centres, acting as parasites in the global financial system, but unable to truly challenge the Global Financial Centres, due to their failure in developing the local economy (Palan *et al., op. cit.).*

Hampton distils the difference between tax haven and an OFC down to functionality: OFCs are centres receiving a wide range of economic activities, whereas tax havens are usually limited to paper transactions. It is obviously beneficial to be perceived as an OFC with legitimate activity to avoid the scrutiny and reprimands of neighbouring onshore economies. Therefore, OFCs are "centre[s] that host[s] financial activities that are separated from major regulatory units (states) by geography and or by legislation" *(ibid.,4).*

According to Hampton's taxonomy there are three types of OFC.[2] The first type is *functional,* which is defined as actual financial centres where activity takes place with fully functioning banks, trust and fund managers. Also the OFC tends to make a substantial contribution to the local economy, as in the islands of Jersey or Guernsey. The second type is *compound,* hosting a mixture of notional and functional activity, as do the Bahamas, Cyprus and the Cayman Islands.This category best exemplifies the evolutionary nature of OFCs as shell or brass plate[3] branches assume real activity and begin to utilise local labour and expertise. The third type is *notional,* where activities tend to be dominated by shell or brass plate offices of banking institutions, with the centres contributing negligibly to both local labour markets and the local economy in terms of receipts. Examples of notional OFCs are Mauritius, Antigua and Labuan *(ibid.,5).*

Cyprus: a tax haven or OFC?

"[N]ot a tax haven, but a tax incentive country." This promotional logo is written conspicuously on a brochure advertising Cyprus' suitability as a centre for tax planning (Coopers and Lybrand, 1994:156). A recent survey concurs, "[c]ontrary to conventional financial shorthand, Cyprus is not a tax haven. It is very much a tax incentive country." *(Financial Times,* 1997b). According to Hampton, Cyprus is a compound OFC, hosting a combination of activities (Hampton, *op cit.,* 7). To fully understand the definitional exercise above and the statement that Cyprus is not a tax haven it is important to examine the historical backdrop of the OFC's evolution.

The development of the offshore sector occurred too late to benefit from the petrodollar surplus after the oil crises of 1973 and 1979. It did gather momentum, however, out of the unfortunate demise of Beirut as an offshore centre with the civil

war in the early eighties. The OFC has had a relationship with the Middle East, not so much as a pirate but as a courtier of it for export markets, after the oil crisis brought purchasing power to the oil exporting countries, and as a shelter of the 'refugee' banks of the Middle East which moved their operations to Cyprus. A look at the register for offshore banking units and offshore financial services providers, signals the importance of Beirut's collapse. The activities undertaken changed from largely *notional* to *compound* by the late 1980s.

A similar glance at the statistics form Eastern Europe shows that the end of the Cold War "liberated" capital, a blessing for the OFC. Cyprus has always had a special relationship with the Eastern European countries, with close cultural ties maintained throughout the Cold War, and religious ties currently being "revived". With the opening up of the Eastern European Economics to the OFC, there has been an outflow of capital from Russia and Eastern Europe to the OFC. Despite charges that offshore banking units (OBUs) launder this money back to Eastern Europe and Russia, the Central Bank of Cyprus has a lot of praise for the efforts of the Russian OBUs to conform to different operational standards (interview, Stavrinakis, 1997).

Whereas in the 1980s Cyprus' response to the Beirut collapse was haphazard and accidental, in the 1990s it fits the explanation put forth by Palan *et al.,* of OFC as a strategy of development. With its network of tax treaties, Cyprus posed as the natural basis for investment in Eastern Europe and Russia. The advent of large European banks which avail themselves of the double tax treaty network, has definitely established the OFC as an evolving *compound* centre.

The way that the economic press in Cyprus treats the offshore sector demonstrates that it is scripted as a strategy and as a path crucial for the island's development. Recently, reports in the press comforted the business community that Britain, Belgium and Luxembourg are resisting attempts by Germany for greater harmonisation in regulation and taxation, explaining that the OFC has nothing to fear from regulation watchdogs (Anastassiades, 1997).

Theoretical Adventures: Relationships with Onshore Areas

Hampton introduces the notion that there necessarily has to be a relationship between an offshore jurisdiction and an onshore economy. Relationship with a mainland onshore "state," is deemed central to the creation and success of an OFC, seen as underpinning the very possibility for the existence of on OFC, and enabling the OFC to enact legislation to attract financial capital (Hampton, *op.cit.).* If an OFC lies within the protection of a sizeable onshore economy, it is largely sheltered from opposition to its activities. The notion put forth by Hampton is one of tolerance, what appears to be, *symbiosis.*[4]

It seems apparent, however, that this type of relationship is mainly a function of

history between the OFC and the onshore "state," as in the case of the Channel Islands and the Isle of Man in their relationship to the United Kingdom (Hampton, 1996a). Nonetheless, the symbiotic relationship is a useful starting point to compare the historical, current and future relationship of Cyprus with the EU within the wider perspective of regional bloc and satellite OFC.

Johns describes an onshore/offshore relationship quite distinct to Hampton's one based on the "frictions" of operating onshore that lead to the genesis of the 'zero-friction' OFCs, as mentioned above (Johns, *op. cit.).* A sort of location advantages, or rather, lack of locational disadvantages (Caves, 1996). More specifically, Johns classifies the structure revolving around the regional bloc as Global Financial Centre at its core, primary OFCs and secondary OFCs at its semi-periphery and periphery. The periphery and semi-periphery act essentially as 'turntable centres' both regionally and inter-regionally, supporting and promoting transnational invest- ment and business activities" (Johns, *op. cit.,* 225). "Turntable centres" refer to cen- tres used as platforms to reinvest or "pass[ed] through to the deeper capital mar- kets in the Global Financial Centers" (Hampton, *op. cit.,* 5). This framework espous- es a frictional or *antagonistic* relationship between OFC and onshore economies.

It is important to understand the difference between the two frameworks, as they offer substantially different relational options to the OFCs. I would like to note, however, that OFCs do not always have the option to choose the type of relationship they wish to pursue with their onshore neighbours. Despite their limitations these frameworks will facilitate our discussions on the problem of Cyprus' accession, and most importantly, will shed light on the treatment of offshore centres within the EU to date.

The implications of the two frameworks have a significant bearing for the future of OFCs. As is the logical evolution of the *antagonistic* framework, institutional and tax competition will eventually lead to the *convergence* of regulatory and taxation systems, diminishing the ability of individuals and corporations to engage in regulatory arbitrage (Cassard, 1994). Convergence might slow down due to gradual harmonisation, but in the absence of concerted action, results might be suboptimal for the countries themselves (Tanzi, 1996b). However, the important difference between the two frameworks is that one engages the world in a race towards con- vergence (and diminishes competitiveness of OFCs). The other affords OFCs a pro- tective environment which might shelter their operations and extend their existence.

Cyprus' Onshore Relationship

For the last 20 years, Cyprus has considered that it has a "rightful place" in the EU (Papaneophytou, 1994: 83). Cyprus' future onshore relationship lies by choice with the EU, pending the negotiations for accession. The historical backdrop above

showed the peculiarities of the evolution of the offshore regime. Despite political choices, the optimal relationship with a proximate onshore economy might lie with the other two contestants: the Middle East and Eastern Europe. This is not within the scope of this paper, and rather opens the way for future research. A very brief exposition follows below.

Middle East

"The obvious locational advantage of Cyprus is in relation to economies of the Middle East" wrote Wilson, emphasising that Cyprus' location could be useful to Western companies with a Middle East presence or to 'refugee' companies from the Middle East. Cyprus could act as a regional mainter:,ance base staffed with engineers, technicians, *etc.* (Wilson, 1992:82). While a reasonable suggestion post-1989, the OFC has evolved in the direction of Eastern Europe, CIS and lately, the EU.

Eastern Europe

The 1989 "bloodless revolution" has had a large impact on offshore finance in Cyprus. It segmented Eastern Europe in smaller delineated units, and caused major societal upheaval, often described as 'truncated societies' (Matejko, 1992), which "provide[s] new offshore business possibilities" (Johns and Le Marchand, *op. cit.,* 241). The political instability, and the big bang approach towards transition to capitalism, has left newly privatised enterprises in an unstable environment. Such new capitalists might take, and to a large extent have taken, advantage of the accessibility of offshore centres for reasons not related to taxation (Theodoulou, 1994:14). While a large portion of that capital is suspected to be related to criminal proceeds, capital flying from instability might utilise nearby OFCs. The Economist Intelligence Unit estimates capital flight at US$60.9 billion in the years 1992 to 1996 (Wolf, 1997). This capital is not engaging in regulatory arbitrage, but is likely to have fled Russia and Eastern Europe to avoid instability.

Cyprus and the European Union: the changing relationship

An examination of the EU-Cyprus relationship since the 1960s shows that Cyprus' relationship with the EU has been a "troubled one" (Gaudissart, 1996; Ayres, 1996; Theophanous, 1995; Papaneophytou 1994).

Cyprus sought an Association Agreement in the early 1970s fearing that Britain's pending accession would negatively affect Cypriot trade with Britain, its largest trading partner. The invasion of 1974 left the economy in dire straits and the Association

Agreement had to be extended twice. A Customs Union was signed in 1987 between Cyprus and the European Economic Community, with Cyprus exhibiting changed trade patterns which now moved away form dominance of Britain, to include Germany and Italy. Cyprus applied for full membership in 1990. The off- shore sector has never played a role in negotiations, nor has it ever been mentioned by the European Commission in its 1993 opinion on the application of Cyprus.

The economic relationship of Cyprus with the EU has mainly involved the onshore economy. European Banks have utilised the Cyprus OFC primarily since 1989, largely due to the large network of double tax treaties that Cyprus has nego- tiated with Eastern European countries, and the mushrooming of opportunities in the region.

The issue that most concerns the OFC at this juncture, is the voiced intention of the Clerides government to harmonise most issue areas according to the *acquis communautaire*[5] prior to the commencement of the accession negotiations. These are scheduled to begin six months after the completion of the IGC in Amsterdam in July 1997. The government has set up 22 committees to investigate the areas where Cyprus diverges from the *acquis communautaire* and to report the necessary action needed to conform (House of Representatives, 1997). Committee 17 deals with taxation issues and Committee 21 is concerned with state aid harmonisation, both being contentious issues for the OFC.

Therefore, Cyprus did not transform itself as an offshore center out of a symbiotic relationship nor out of a 'zero-friction' response to a high friction environment. Eastern Europe appears to fit the frictional onshore relationship rather well. Lack of political and economic stability in the region has led capital to flee to the Cyprus OFC, similar to the relationship that the Carribbean OFCs have had with Latin American capital. The Middle East relationship is more complex, having elements of both the frictional and symbiotic relationships. 'Refugee' companies have fled their unstable environment while also, the region tolerated Cyprus' offshore status despite the existence of Bahrain's offshore centre.[6]

The relationship of the OFC with the EU has thus far remained nebulous and primarily coincided with the opening up of Eastern Europe. This could be attributed to the existence of other OFCs within the EU, and due to the later development of the Cyprus OFC. Cyprus' desire to accede to the EU reveals the need to examine the problems the Cyprus OFC will face as negotiations approach.

Major Problematic Areas of the Cyprus OFC

The Cyprus Offshore Regime

Cyprus does not have a specific law or body of regulations that deals with off-

shore companies. Offshore companies are registered units which benefit from exemptions from the income tax law, customs law, social security law and value-added tax law. Offshore companies are defined as entities whose capital originates from abroad and owned by non-residents. The company may only deal with non-resident or foreign entities and derive its income from abroad. They are registered as Cypriot ·legal entities subject to the laws of the Republic unless otherwise exempted.

The incentives offered by Cyprus are as follows (Coopers and Lybrand, *op. cit.):*

- 4.25 percent tax on corporate profits.
- No customs or VAT duties (other than those incorporated in the prices of goods purchased locally by offices or expatriate employees) on their imports, and on their office equipment and international communication.
- Expatriate personnel may be employed and are exempted from social security contributions.
- Expatriate salaries are taxed at half the tax rates paid by Cypriots employed by onshore companies. Normal rates are 20 - 40 percent, offshore rates being 10-20 percent.
- A large network of double taxation treaties enabling tax planning.

Having described the OFC's main characteristics, the next two sections will look at some general problems associated with incentive provision and then at the specific problems to accession arising form the OFC.

Disadvantages from Incentive Provision

As noted above, Cyprus is a tax incentive country, allowing for a stable but deregulated offshore environment. There are, however, a number of disadvantages to the country, and potentially to the region within which it chooses to operate, arising from the provision of tax and investment incentives. These are not directly related to the existence of an OFC but are of a more general nature, transforming the play- ing field.

First, the usual argument against the use of incentives is that they distort economic activity. Incentives cause the after-tax pattern. of returns to diverge from the before-tax pattern. They therefore lead to an allocation of resources that differs from the efficient equilibrium the market is *assumed* to generate (Holland and Owens, 1997:259). This argument does not entertain the view that the market outcome before the incentives might not be efficient. Another element of the efficiency argument is that,

> *...the provision of a tax incentive merely shifts the private disadvantage from the investor in the particular activity to other economic agents in the country. It does nothing to change the total disadvantage to society as it does not affect the social rate of return which is the sum of the private after-tax return and the taxes form the activity (ibid., 289).*

Second, incentive provision distorts the operational environment: once corporations and investors are granted the incentives, vested interests are created which will later resist their discontinuation or reform and lobby for their expansion. For example, the OECD countries faced tremendous resistance when implementing tax reforms. The creation of vested interests, therefore, transforms the regulatory landscape and can lead to anti-reform lobbies in the future *(ibid.,262).*

Third, abuse of incentives is always a danger to the authorities which offer them, and requires astute planning and supervision by policy-makers. Supervisory efforts could lead to complicated regulatory practices and could have the opposite results from those intended, as investors are discourage by their complexity.

Fourth, the issue of forgone revenues on behalf of the government is a serious one. Forgone revenues must be calculated and measured against the investment that qualifies for the incentives but would enter the market without their provision. Such calculations are difficult and remain a hidden cost, or at best one measured ineffectively as total forgone revenue. Creating new companies to take advantage of the incentives, without engaging in new activity is another important concern.

Finally, the issue of tax competition should be noted at this stage. Arguments of 'a race to the bottom' arise from attempts to create or maintain a competitive position in a region or even in the world economy. If a country perceives that it lacks comparative or locational advantages that would attract investment, it offers tax incentives which are usually matched by neighbours or competitors offering counteractive incentives. At the end of this spiral, the measures have not altered the relative incentive to invest in the countries involved, but have increased the costs (where investment does take place) in the form of forgone revenues.

The next section examines the specific OFC problems and tries to situate them in the debate of *competing capitalisms.*

Accession Problems Specific to the OFC

> *The existence of what could be called the offshore interface has undermined national governments' abilities to impose higher taxes both on individuals and*

> *companies, has facilitated money laundering and other illegal activities, and has weakened the power of both national and international supervisory bodies to regulate the financial system. (Hampton, 1996a:1}*

The *problematique* of Cyprus' accession to the EU is an example of the difficulties of placing OFCs in the international framework of regional blocks. The question of the viability of cohabitation affects not only OFCs that wish to join regional blocs, but also the coexistence of OFCs with regional trade blocs. "The EU seems to be taking an issue-based approach towards OFCs, rather than having any particular overarching policy" (Hampton, *op cit.,* 222). Yet, approaching the end of the IGC, the EU might consider a change in that stand.

The five problems facing the Cyprus OFC in light of potential accession are discussed bellow.[7] Within each subsection the problem is highlighted and placed in the EU context where appropriate The arguments are diverse in nature, ranging from institutional to legal to developmental. While diversity can appear haphazard, it allows the reader to grasp the complexity of the OFC *problematique.*

Fiscal degradation

Fiscal degradation describes the erosion of the tax base and, potentially, of the fiscal sovereignty of a country when subjected to intense tax and, generally, regulatory competition. Regulatory competition refers to attempts by states or jurisdictions to attract mobile factors of production through incentives. These usually are in the form of lower taxes or special tax treaties which allow for tax planning, and generally a lax regulatory environment, ranging from bank secrecy to environmental laxity.

In a study of tax systems in the EU, Valenduc discerned a number of institutionalised discrepancies leading the EU member states towards fiscal degradation. Among the obvious contenders were Belgian 'co-ordination centres' with their special tax regimes, taxation of headquarters as in the case of Luxembourg, the special incentives for financial centres, as in the case of the Dublin International Financial Services Centre (IFSC) and, of course the Channel Islands with their special relationship with the United Kingdom (Valenduc, 1994). These centres and special regimes facilitate the flight of capital from the home base, leading to loss of revenues for the member states. The states then are forced to excessively tax immobile factors such as labour in an effort to replace the lost revenues. This raises labour costs, potentially exacerbating the already acute unemployment problem.

The 'Monti Referendum' on taxation in the European Union states that liberalisation of financial markets within the Union has exacerbated tax avoidance, tax

evasion and has led to the erosion of EU member states' tax bases. Monti, the internal market commissioner, has called for concerted action to put an end to the erosion, but does not propose any specific measures to be taken (Easson, 1996).

Cyprus' accession as an OFC will presumably worsen fiscal degradation if EU firms choose to use the offshore facilities for tax avoidance and tax planning. However, one should note that the concern with fiscal degradation in the EU is not new. Next we return to some of the studies on fiscal degradation within the EU, in order to accentuate that the problem existed without special reference to OFCs.

In 1990 the European Parliament conducted a study on the need for, and economic consequences of, fiscal harmonisation in the European Community. The experts lamented the lack of a rational taxation system, one meeting conditions of neutrality in respect to the export and import of capital. This principle requires that capital is treated (taxed) in a consistent fashion, irrespective of its source or destination (European Parliament, 1990). The group of experts felt that the standardisation of tax systems would lead firms to make rational choices based on real *locational* and *market* advantages to investment, other than taxation, thus preventing the erosion of tax bases among EU states.

In 1991, Frenkel, Razin and Sadka, concurred that tax competition among member states was still possible in the absence of full harmonisation of the (income) tax systems, and could have serious implications for the national tax structures of the EC (1991:197).

In 1990, the Ruding Committee examined the need for company tax harmonisation in the EU. In a report published in August 1992, a number of far-reaching measures were proposed (Commission of the European Communities, 1992:193-221). In a climate charged with the problems of ratifying the Maastricht Treaty, the European Commission did not act upon the recommendations of the Report, which would have been perceived as a threat to fiscal sovereignty by the member states.

Germany is particularly concerned with fiscal degradation, as Germans invest substantial amounts in Luxembourg banks, which do not have a withholding tax or a tax on interest from savings. The losses for Germany amount to about $12bn (£7.5 bn) a year (Helm, 1997). As the 1998 deadline nears, the need to qualify for the single currency has spurred members to "call an end to what they call 'unfair' competition" *(The Economist,* 5 April, 1997). The Commission is sympathetic to these calls but is anxious to distinguish between harmful competition and simply what lobbyists call 'unfair competition.' It hopes to do so by pointing to the erosion of Europe's tax base compared to its ability to tax mobile factors of production, such as capital.

To bring our attention back to the Cyprus as an OFC, it should be noted that the European Commission's 1993 report on the application of Cyprus, did not mention

the offshore sector as a potential problem. However, concerns for fiscal degradation directly affect the OFC and present potential difficulties for accession. As such they cannot be ignored.

Incompatibility with the Single European Market

i. State aid incompatibility

> *[A]ids which may distort competition between firms in different Member States are incompatible with the common market unless derogations are granted. (European Economy, 1991:13)*

It is difficult to distinguish state aid from general measures aimed at the whole of the economy. The degree of *de facto* specificity of the measure usually characterises state aid. Where national aid is permitted, the EU expects it to be compatible with the improvement of social cohesion within the Union.

In the drive to harmonise Cyprus law and policies undertaken in 1996 by the Cyprus government, Committee 21 is engaged with the harmonisation of state aids. The incentives offered by the offshore regime, and especially taxation, are regarded as a form of state aid to foreign entities and non-residents. However, the committee has not yet reported to the House of Representatives as of April 1997. A preliminary report by Committee 17, dealing with taxation issues, briefly mentions that the taxation disparity between offshore and onshore entities and individuals is a potential problem and might have to be relinquished in the harmonisation process. A recent *Financial Times* survey on Cyprus, noted that the discriminatory tax regime offered by the Cyprus authorities would conflict with EU directives and was pessimistic as to the ability of the centre to remain in place.

ii. Nationality Discrimination

The offshore regime discriminates between offshore and onshore entities on the basis of nationality: the onshore economy is excluded from the privileges accord- ed to the offshore businesses. This is incompatible with the *acquis communutaire* (see Nicolaides, *op. cit.).*

Issues of development

Microstates[8] tend to be characterised by a perceived shortage of capabilities and resources. In pursuit of development, despite the rhetoric, they display"... a continual attempt to distort and usurp the free market to one's perceived advantage

... [m]icrostates would be guaranteed losers if they were to abide by the official rules of the game" (Baldacchino, *op. cit.,* 33-39).

The development policies and prospects of microstates tend to further a rentier economy, one cut off from any directly productive activity. They are prone to follow 'a shameless survival strategy' in an attempt to maximise consumption and not production. Microstates are willing to exploit their comparative advantage in producing what the market demands, including tax haven services,'"tourist-appeasing plastic cultures,' flags of convenience and money laundering" *(ibid.,* 41; Miller, 1997). While the above description is colourful, it is valuable to examine the extent to which Cyprus conforms to Baldacchino's analysis. The problems associated with acced- ing a microstate are well known within the Union. Part of the IGC's task is to forge a strategy modifying EU institutions to prepare for the potential accession of Cyprus (and Malta, prior to the freezing of the Maltese application by the de Sant Government). However, we must distinguish between problems associated with the status of microstate and ones resulting from hosting an OFC.

Cyprus has had Industrial Plans long before the 1972 EU Association Agreement. Following the invasion by Turkey and the Association Agreement, it has experienced a sharp decline in manufacturing and agriculture as contributions both to GDP and the trade balance (Ayres, *op. cit.).* In the last decade, Cyprus has con- centrated on becoming a regional financial centre for the Middle East and hopes to remain one within the EU upon accession. The qu·estion remains whether this u- turn from continued attempts to industrialise is detrimental or whether it is a rea- sonable attempt to specialise in the provision- of services in which it has a compar- ative advantage. In other words, is the OFC creating development problems that will concern the EU, or should it be encouraged as a strategy for development?

The Central Bank of Cyprus encourages the use of the OFC as a specialisation strategy that presents Cyprus with its only viable alternative for development (interview, Stavrinakis, 1997). Arguments for 'flexible industrial specialisation' are often proposed within the bureaucracy, but have come under criticism as non-viable and over-optimistic (O' Donnell and Nolan, 1989).

Criminality issues

In the first months of 1997, Cyprus made the headlines with money laundering charges emanating from the US State Department *(Phile/efheros,* 1997). Money laundering activities "maintain, to the extent possible, the value of the acquired assets and to transform them into more legitimate or more usable asset." (Tanzi, 1996a:3). Cyprus has enacted the Law on Laundering, Search, Seizure and Confiscation of 1996 to harmonise its legal framework with the relevant European Convention on Money Laundering passed in 1995, which recognised money laun-

dering as an activity not necessarily tied to the drug trafficking trade (Neocleous, 1996).

"Money laundering allocates dirty money around the world .not so much on the basis of expected rates of return but on the basis of ease of avoiding national controls" (Tanzi, *op. cit.,* iii). Money laundering imposes significant costs on the world economy by harming the effective operations of the national economies and by promoting poorer economic policies, especially in developing countries. It slowly corrupts financial markets and reduces the public's confidence in the international financial system, thus increasing risks and the instability of that system. Stemming from increased risk and instability, the rate of growth of the world economy is reduced *(ibid.,2).*

Central Bank officials emphasise the progress that Cyprus has made in criminalising money laundering and related activities in an attempt to promote a crime-free environment. There are substantial guidelines for offshore units, especially in the banking and financial services industries (Central Bank of Cyprus, 1997a-c). In 1980 Cyprus, together with other OFCs, set up the Offshore Group Banking Supervisors, a forum which participated in the Bank of International Settlement's discussions and sought to identify areas for co-operation among the OFCs in order to enact measures reflecting legislative and regulatory priorities of the OECD (Johns and Le Marchand, *op. cit.,* 89). In other words, Cyprus has taken action to harmonise and legitimise the OFC interface with internationally accepted practices.

Opposition from other OFCs in the European Union

The Dublin IFSC, Madeira's special economic zone with its tax regime, and Luxembourg could, in theory oppose accession by a rival OFC. On the contrary, it is more likely that attempts within the Union to abolish OFCs and special regimes will be opposed by the areas holding special derogations. The conclusion of the IGC in July 1997, will decipher the approaches that countries with vested inter- ests will pursue to retain their special derogations.

Solutions: Convergence or Coexistence?

In the absence of a coherent EU policy on OFCs it is difficult to discern what the EU's attitude will be toward the Cyprus OFC. Assembling the directives, clauses and derogations granted to other offshore jurisdictions is one step in the process, but holds no certainty of action. The 'choice' laid out below is one of convergence or coexistence, which falls within the debate of *competing capitalisms.*

EU Derogations for Existing Offshore Jurisdictions

Below we will briefly describe the characteristics of offshore jurisdictions and discuss the EU decisions affecting their continued existence.

Dublin International Financial Services Centre

The Dublin IFSC came into existence in 1987, with EU permitting Ireland to pursue industrialisation and development policies which would align it with the rest of the European member states. The IFSC aimed to decrease dependence on the agricultural sector, reduce unemployment and brain drain, and attract foreign investment. It was initially given a life-line until 2005 (companies could register until 1994) (Nicolaides, *op. cit.,* 15). An extension of registration in the IFCS was granted until 2000 with a concomitant extension of tax relief until 2011. The decision to grant the extension was based on the success in achieving the set objectives: 152 companies had registered in the centre. The associated incentives helped to achieve the record growth of 10 percent in 1995 and 7 percent in 1996 (*The Economist,* 17 May, 1997). Ireland's recovery from a weak agricultural member of the EU to the 'emerald tiger' of Europe, has focused attention on the IFSC, with recent reports attributing part of this growth to the incentives installed by Irish authorities (Corroon, 1996; *The Economist,* 17 May, 1997). However, it is misleading to solely attribute the turnaround in the Irish economy to the IFSC. As McRae notes, education and a deregulated environment are all factors aiding the spur in growth (1996).

Madeira

As an autonomous region of Portugal, all Treaty provisions and directives apply to Madeira. The EU has allowed special measures for the social development of Madeira (and the Azores) since 1986, such as the Free Trade Zone of Madeira (FTZM) and shipping register to encourage investment. The general tax regime exempts registered companies from corporate or personal income tax. The regime was modified in 1993 and has a derogation to operate until 2011. It is the one which most closely resembles the Cyprus offshore centre allowing all kinds of companies to register.

Luxembourg

Luxembourg specialises in managing investment funds and private banking (Cassard, 1994). It is not considered an OFC as such, but has thrived on its proximity with Germany and its ability to acquire business fleeing the friction-laden German economy. The increase in mutual fund activity came in 1988 after Luxembourg implemented the EC directive on Undertakings for Collective Investment in Transferable Securities (UCITS) (Nicolaides, *op. cit.).* The directive enabled the creation of 'umbrella funds' which allow investors to shift from one com-

partment to another without the burden of taxation. Luxembourg does not require a derogation as it does not discriminate between onshore and offshore sectors.

To conclude this section, the EU has tended to derogate incompatibilities with the *acquis communautaire* in a time-constrained fashion, where it has been proven that they improve regional economic condition and balance inequalities within the single market. Derogations are granted when a policy has been successful, when it seeks to discriminate in order to improve cohesion among the Union's regions, as in the case of the Dublin IFSC and Madeira. Hence, the positive contributions to the local economy have been the deciding factor for the EU *(ibid.).*

Strategies and Options for Cyprus

The accession strategy of Cyprus in general, and its specific policy towards the offshore centre, is being formulated in 1997 (interview, lakovou, 1997). The Clerides Government has not publicised a particular strategy, other than its desire to harmonise the legal and policy frameworks prior to the commencement of the accession negotiations. In most issue areas, the government hopes to emulate a unified EU framework; the same cannot be said for the OFC. While the Union has allowed OFCs to operate within the single market, there is no one body of law and regulation with which to conform. The EU permits the operations of Madeira, and Dublin, and 'tolerates' Luxembourg, as discussed above. The options available to Cyprus are examined below. The *competing capitalism* debate assists us in categorising options as either *convergence or coexistence.*

Convergence with the EU

Option 1

Abolish all privileges to the offshore sector in order to ensure that the accession is not hindered by its existence. Given the contribution of the offshore sector towards the local economy, and the existence of derogation for offshore jurisdictions in the EU, this option of convergence is not advantageous (Nicolaides, *op. cit.).* However, convergence is not tantamount to the abolition of the offshore sector: it can equally take the form of option 2.

Option 2

Unilateral liberalisation of the taxation and regulatory environment to eradicate any differences between the offshore and onshore sectors in Cyprus. It is often proposed that Cyprus could financially afford to offer tax incentives to both offshore and onshore businesses qf about 1O percent, avoiding the discriminatory aspect of nationality and the need for derogation for state aids given to the offshore sector (for

exact calculations see *ibid.,* 34-35).[9] Concerns over regulatory competition *will remain as long as the OFC still offers a more deregulated environment* than the EU member states. Option 2 merely deals with the incompatibilities of the OFC, i.e., *legal and official reasons for concern.*

Coexistence with the EU

Option 3

Negotiate derogation for the incompatibilities with the EU, in other words, try to retain the OFC as it presently stands. To understand the attractiveness of this option, it is important to discuss the effects of the OFC on the local economy.

Advantages of the Offshore Sector in Cyprus

The contribution to current account receipts was 8.5 percent or 12 percent of all invisible receipts for 1996. Compared to receipts from exports, the offshore sector generated income of more than a third of all export earnings *(ibid.,* 29). The contribution to the economy is expected to double in the next five years. EU derogations for state aid have been usually granted for contributions lower than this. However the offshore sector, with its focus on service provision, seriously affects the socio-economic environment in Cyprus (Vassiliou, 1996).

First, the sector enlarged and largely maintained the professional classes in Cyprus, invigorating employment opportunities where the onshore service industry was saturated. A *World Bank* report of 1987, noted the potential in utilising the "large pool of university graduates" in order to expand the service sector as a potential export winner in the economy *(World Bank,* 1987:xvi). Ten years later, the offshore sector has provided employment to lawyers, accountants, surveyors, engi- neers, software programmers; professions not easily absorbed by a mini-economy. It has employed educated people who in the past succumbed to brain drain. The OFC created alternative employment possibilities for educated persons whose only opportunity used to lay with the already burgeoning civil service.

Second, the offshore sector is rationalising the service industry, away from the highly clientilistic spectrum of government employment and procurement of contracts. Service providers are being chiselled into competitive practitioners as they obey the quality demands of the offshore sector.

Third, the offshore sector helped to attract foreign direct investment (FOi). The positive effects of foreign investment are reinforced in the context of the Cyprus market. Export-led growth is not only a choice but a necessity, given the size of the

internal market. The OFC hopes to attract integrative FDI in the fields where Cyprus has a comparative advantage: banking, insurance and shipping. New products and services are created as the market responds to the demands of the off-shore sector, and as managerial skills are transferred to Cypriot professionals employed by offshore companies. Also important, though more limited, is the transfer of technology.

Fourth, revenues from the offshore sector diversify the receipt base of the public budget. It 'weans' the Cypriot economy away from tourism and towards less seasonal, if not less sensitive, sectors.

Thus, the success of the OFC, its role in the local economy and the creation of vested interests, provide sufficient reasons for maintaining a focus on service provision to foreign companies. Both Option 2 and Option 3 could maintain this specialisation. In order to decide between them, however, we need to engage in the institutional economics and IPE debate of liberalisation versus harmonisation.

The Liberalisation versus Harmonisation Debate

The options available to Cyprus can be better understood in the theoretical framework of the liberalisation versus harmonisation debate. Cyprus will either seek a derogation that will allow its offshore sector to remain within the EU upon accession or will choose to liberalise, transforming itself from an offshore centre to a low regulatory environment without discrimination.

Harmonisation of policies on reciprocity are enshrined in the post-1945 international economic order, in an historic compromise known as 'embedded liberalism'[10] (Ruggie, 1983). However, in the last two decades a paradigm shift has replaced the narratives of the post-war Keynesian order, with a neoliberal paradigm, one surpassing the classical liberal tradition which accepted the role of government as provider of market parameters (the playing field) and its maintenance (Gilpin, 1987, esp. Chapter 3; Sally, 1997). "[C]lassical liberalism has to offer an alternative policy programme for a liberal international economic order" (Sally, *op. cit.,* 27). The post-1945 order assumed/rested on reciprocity (benign coercion towards liberalisation). On the one hand, unilateral liberalisation is now being argued as more effective for the attraction of mobile factors, leading to spontaneous adjustment of immobile factors such as national law and government policy. Reciprocity and harmonisation, on the other hand, are "conceived as a 'construct' of co-ordinated bargains between governments" signalling a reluctance to liberalise unilaterally *(ibid.).*

> ...competition - whether among firms, among markets and exchanges, or among national regulatory regimes - ought to be the 'default option'... in the

absence of. . .substantial market failure. . .the competitive outcome should prevail. (White, 1996:30)

Yet the proponents of reciprocity argue that "[c]ontingent liberalisation, i.e. opening up one's own market in return for concessions... is the only effective way of getting domestic producers to go along with market-opening measures at home." (Roessler quoted in Sally, *op. cit.,* 28).

Let us try to apply the debate to the Cyprus OFC and the accession *problematique.* There are two separate issues which may be addressed within the debate. First, the issue of incompatibility: the offshore sector is incompatible with the *acquis communautaire,* because Cyprus offers offshore businesses a more favourable tax and regulatory environment than it allows the onshore sector. The offshore regime is both a state aid in need of derogation, and discriminatory on the basis of nationality. It is a state aid because it benefits a specific sector of the economy through deregulation and special incentives, while the government remains heavily involved in the onshore economy. The OFC is discriminatory on the basis of nationality as it applies only to foreign entities and individuals. The discriminatory nature of the regime distorts the theoretical debate. The OFC is a case of unilateral discriminatory liberalisation, meeting demands for 'reverse harmonisation' (Nicolaides, *op. it.,* 8). Option 2 would transform the offshore sector from 'state aid in need of derogation' to a unilateral liberalisation without discrimination. It would also spur growth in the onshore economy, which would be similarly free to avail itself of the deregulated environment.

Second, there is the issue of institutional (and **tax)** competition. This is one of the deepest concerns of the EU and brings back the imagery of OFCs as 'fast-moving raiders' attacking 'older forms of nation-state capitalism' (Hampton, 1996; *The Economist,* 15 March and 5 April, 1997). Only Option 1 would eradicate any concerns regarding institutional competition.

Policy-makers view institutional competition or 'regulatory arbitrage' through a normative view of government, as shown below in Chart 1:

Chart 1

State as Leviathan	State as Benevolent Maximiser of Citizens' Welfare
|	|
tax and regulatory competition as a constraint on policy makers' exploitation of citizenship	tax and regulatory competition as a source of inefficiency calling for tax co-ordination

While the above distinction is still helpful, the aforementioned paradigm shift changes the normative parameters of the debate: there is a tendency to consider the state as a harmful and encroaching agency, unnecessary to the welfare of the citizens (Hobsbawn, 1996). Arguments of 'race to the bottom' are becoming less meaningful to policy makers and their advisors. The worrisome practice of tax 'base-stealing' is now being interpreted as efficiency-maximising and reform-induc- ing. "[T]ax competition [is seen] as serving a valuable purpose in supplementing inadequate constitutional constraints on the intrinsic pressures towards excessively high tax rates implied by policy makers' pursuit of their own interests." (Edwards and Keen, 1994:2).

Among the apparent losers of the debate different views hold reign. "[T]ax competition is an essentially straightforward instance of the presumption that non-cooperative behaviour will lead to inefficient *outcomes"(ibid.,* 1). Applied to the EU, it is feared that "fiscal competition will wipe out redistributive taxes on mobile factors and reduce the tax system to one of merely benefit taxation." (Sinn quoted in *ibid.,* 2). Official circles in Brussels worry that,

> ...if the current system of capital systems are left untouched, European gov ernments are likely to find it very hard to collect revenue form the internation ally mobile capital. Indeed, Europe may transform itself into a single (large) tax haven. (Giovannini and Hines, Jr., 1991:172).

In the absence of sufficient co-ordination, tax competition could diminish taxes to zero, the immobile factors of production, labour and land carrying all the revenue burden of governments, as previously noted. The outcome is still efficient (resulting from the play of unobstructed market forces) but welfare-inferior when compared to the outcome of states having the ability to tax their mobile factors (Razin and Sadka, 1989:4). Other effects are deficient levels of savings and investment, and their inefficient allocation. 'Unfair' tax competition leads to the distortion of the playing field,

inducing allocations that may substantially differ from what market mechanisms would otherwise apportion. (The counter argument, however, is that the market does not set tax rates, and hence, the existing tax rates may be inefficient).

The concepts of *government failure* and *market failure* must inform the debate. There is a marked difference between the distortions brought about by inter-governmental bargaining and harmonisation (political distortions) on the one hand, and inter-governmental competition (economic distortions) on the other (Frey and Eichenberger, 1996).

Competition between Cyprus and the EU in taxation and regulation might be healthy if one assumes that government failure (in the choice and process of harmonisation) is more dangerous than market failure, because government failure distorts the very signals by which the market allocates capital. Advocates of harmonisation, on the other hand, rest their case that excessive regulatory and tax competition is a sign of market failure. In this view, government action prevents or benevolently regulates market failu re.

Within the context of the EU single market, harmonisation has been debated for over a decade. It appears that there is an implicit contradiction between the Treaty of Rome and the Treaty on European Union (i.e. the Maastricht Treaty). The neutrality requirement (which concurs with the European Parliament 1990 report) is part of the Treaty of Rome. The Maastricht Treaty however, "enshrined subsidiarity as the guiding criterion in the discussions on the assignment of policy function in the Union" (Cnossen and Bovenberg, 1997:164). Tax neutrality requires extensive harmonisation while subsidiarity assumes that each member state will be accorded "as much tax sovereignty as is commensurate with the goals of free trade and free competition in the single internal market" *(ibid.).* Hence, 'race to the bottom' concerns exist within the single market and are not necessarily related to OFCs. As described below, action has been slow.

A recent article reports that the European Commission "[h]as quietly shelved a study on how countries in the planned single currency zone could co-operate more closely on tax harmonisation and social security" (Barber, 1997). Monti, the internal market commissioner, commented that tax harmonisation should be dealt with under the unanimity rule in the Council of Ministers (where it faces certain rejec- tion).

Recently, German finance minister Waigel, increased pressures towards tax harmonisation, proposing the gradual abolition of 'resident' and 'non-resident' tax status for European citizens, and the creation of a single 'European resident' status (Helm, 1997). There are ideas for a code of conduct (as opposed to legislative harmonisation), that would stop member sates from engaging in tax competition or 'tax piracy' *(ibid.).*

In other words, harmonisation is recognised as important, but the limitations are still unacceptable to many member states. The result of complete standardisation would be nothing short of the loss of fiscal sovereignty, the loss of power to alter tax rates autonomously, having instead to resort to community decisions on tax rates (European Parliament, 1990). Britain argues against tax harmonisation, as this "would set Europe on a federal path" (Helm, *op. cit.).* Fiscal federalism generates fear among most states, "...[t]hese proposals have gone nowhere chiefly because they require the unanimous approval of EU members, which remain jealous of their fiscal sovereignty" (*The Economist,* 5 April, 1997).

De Silguy has suggested that a core group of countries harmonise taxation first but Portugal, Italy, Spain and Greece specifically oppose such calls for a 'multi-speed Europe,' or 'Europe *a la carte,* as it would undermine, they claim, the internal market (European Parliament, 1996).

Competing Capitalisms Revisited

The unified model of capitalism previously discussed has disintegrated after the above discussion. *Laissez-faire* capitalism represented by Great Britain opposes harmonisation of regulatory environments, maintaining that competition should be the 'default option'. The communitarian model, associated with Germany pressures for harmonisation at concerted action.

As discussed above, OFCs provide the environment for regulatory arbitrage, forcing conventional forms of capitalism to converge towards a deregulated world economy. However, as convergence deepens, OFC capitalism is becoming obsolete. The comparative advantage of OFCs rests on the existence of two interfaces allowing for regulatory arbitrage by multinational enterprises. As the advanced industrial nations and, increasingly, developing counties, converge upon lower friction environments, the OFCs are losing their *raison d'être* (Cassard, 1994).

Conclusions

The debate of *competing capitalism* has illustrated that Cyprus has not had a symbiotic relationship with the EU. Certain incompatibilities and effects are problematic, but exist within the single market in the absence of Cyprus' OFC.

The EU has not yet agreed on harmonisation of the interfaces, allowing for a life extension for the OFCs operating in Europe's 'catchment area'. The extensions granted to the Madeira and Dublin IFSC until 2011, signal that at least for another decade the offshore interface is a reality. Member states are as yet unable to push forth with deeper tax harmonisation that would make the OFCs less competitive and eventually unnecessary.

The existence of the OFC will necessitate a special accession strategy on behalf of Cyprus. This paper has identified a number of problems and investigated whether Cyprus acts as a 'pirate' actor in its OFC capacity, forcing the EU to converge towards a suboptimal, welfare-inferior regulatory and tax interface, as the one dominated by OFCs. The analysis leads to the following conclusion: Cyprus in its capacity as an OFC is part of the offshore interface, and as such, is causing major onshore economies to converge to a de-regulated environment. Such pressures are already harboured within the EU through the existing OFC jurisdictions. The EU sin- gle market project requires harmonisation, which is currently opposed by EU mem- ber states which wish to retain their fiscal sovereignty and oppose the concept of a multi-speed Europe.

Regarding Cyprus' options in the accession negotiations, seeking a derogation is the less radical option. However, unilateral liberalisation would be the most beneficial option for the onshore economy, yet, the unilateral liberalisation option still forces nearby onshore economies to converge, if it remains more deregulated and offers greater tax incentives than the EU member states.

The debate on *competing capitalisms* provided a useful terrain in which to analyse the accession *problematique* and the liberalisation versus harmonisation debate illuminated the benefits of the strategies available, and the cost that they will have in an integrated regional and global economy.

Notes

1. This paper will not explore issues related to the Cyprus Problem, such as whether Cyprus should accede as a divided island, nor how a possible solution will affect chances for accession (see Redmond, 1995).

2. Throughout their development and evolution, OFCs may transform themselves from one type to another by increasing the extent and breadth of activities they undertake.

3. Branches where little actual activity occurs.

4. Symbiosis, defined as habitual cohabitation of organisms of different species. The term usually applies to a dependent relationship that is beneficial to both members (also called mutualism). Symbiosis, however, includes parasitism, a relationship in which the parasite depends on and may injure its host; commensalism, an independent and mutually beneficial relationship; and helotism, a master-slave relationship found among social animals *(The American Heritage Dictionary of the English Language).*

5. Defined by Nicolaides as "[t]he body of EU legislation and practice" (1996:1).

6. There are substantial functional differences, however, between Cyprus and Bahrain. See Phylaktis, 1995: 128-130.

7. In addition, OFCs "raise a specific problem for world capital flow statistics in that they omit from their balance of payments the large volume of financial flows that pass through their entrepot facilities." (IMF, 1992: 77-84).

8. Usually defined as a state having a population of less than one million (Baldacchino, *op. cit.).*

9. A question to be asked at this juncture is whether the extent to which future plans for tax harmonisation will render this option ineffective as a special regime.

10. Defined as a compromise intended to achieve both liberal economic order in the international sphere, and internal stability domestically (see Ruggie, 1983).

Source: Coopers and Lybrand, (1994), *Cyprus: The Way for Business and Investors.* Nicosia, Cyprus: Zavallis Litho.

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LOOKING AT THE HOUSE FROM INSIDE:

THE PROCESSES OF CONSTRUCTING GROUP IDENTITY AMONGST GREEK - CYPRIOTS

Eva Keller

Abstract

This article discusses Turkish-Greek-Cypriot relations from a social anthropological point of view. More precisely, it discusses the processes by which Greek-Cypriots construct collective identity as Cypriots involving the exclusion of the Turks from mainland Turkey and the inclusion of the Turkish-Cypriots into the group defined as insiders. I argue that these processes leading to the construction of social boundaries are based on culturally shared notions such as religion and the house which are discussed in detail. Those (the Turks) who violate Greek-Cypriot cultural notions are perceived as outsiders, while those (the Turkish-Cypriots) who do not, are regarded as insiders. I argue further that it is misleading to use the con- cept of ethnicity as a general and universal frame of reference in the analysis of col- lective identity.

Introduction

From a social anthropological point of view,[1] the literature on Cyprus and particularly, on the Cyprus Problem is very poor.[2] Except for two articles by Peristiany (1965, 1968), the anthropology of Cyprus only started in the mid-1970s (Loizos, 1976). As far as I am aware, there is to this day only a handful of anthropological studies[3] – notably by Loizos – but most of them do not touch on the relationship between Greek and Turkish-Cypriots and mainland Turks[4] which is the topic of this article.[5] Most studies on the Cyprus Problem deal with the situation on the island from a historical or a political perspective, but very little research has been done on the perception of the people concerned themselves. This is true not only for Cyprus, but for the leader-focused study of so-called ethnic conflicts and ethnicity in general. There have been surprisingly few 'bottom-up' studies. Cyprus is an illustrative example of this fact.

Is a Turk a Turk?

Since the political events in the 1960s and 1974 which led to the division of Cyprus and to the violent separation of Greek and Turkish-Cypriots, the issue of bicommunal relations has been central to the political and social discourse on the Cyprus Problem. The relationship between Greek and Turkish-Cypriots on the one hand and the relationship between all Cypriots and the mainland Turks on the other, has become a crucial part of the Greek-Cypriots' sense of identity. Therefore, it is important to them to make general statements about their view of both Turks and Turkish-Cypriots.

Although many Greek-Cypriots refer to both mainland Turks and Turkish-Cypriots as '*ι turci* ', there could not be a greater difference between the two groups of people from the Greek-Cypriots' point of view. With the exception of some young people, Greek-Cypriots very sharply and decisively distinguish between Turkish-Cypriots on the one hand and Turks from mainland Turkey on the other.

The Turkish-Cypriots are referred to as *'diki mas'* – literally: *ours* – a term used for insiders of all kinds. For the Greek-Cypriots, the 'inside' is the most sacred realm and symbolizes the good in general. The family and the house have the strongest inside quality possible, but the dichotomy between *in* and *outside* runs through all important notions of Greek-Cypriot culture and acquires meaning on many different levels depending on the context. Cyprus itself has an inner quality opposed to the foreign outside which only causes trouble.

In contrast to the Turkish-Cypriots, the mainland Turks are called *'xeni,'* literally: *foreigners* (or: *'afti ap' exo'* = those from outside). *'Xeni'* is used to refer to many different kinds of outsiders including foreign invaders, tourists and visitors in one's house. The dichotomy between *'diki mas'* and *'xeni'* in Greece and Cyprus is ubiquitous and can hardly be overemphasized.[6] It is about *in* and exclusion and therefore about identity on many different levels.

Greek-Cypriots from very diverse social backgrounds are in amazing agreement about Turkish-Cypriots and mainland Turks respectively. I could not detect any significant difference between either refugees and non-refugees, men and women or between people who used to live in mixed villages as opposed to those from exclusively Greek-Cypriot places. Nor does political position or education seem to influence the Greek-Cypriots' perception of the Turkish-Cypriots or mainland Turks.

The only difference is produced by age whereby I define three age groups based on personal experience and the lack of it respectively. The first age group consists of those people who can personally remember the time before intercommunal violence flared up in the 1960s; the second group contains people whose first memories stem from exactly that time and the third one consists of people who are too young to personally remember the time before the division of Cyprus in 1974. I will

describe the three groups in turn.

First age group: people with personal experiences and memories of the Turkish-Cypriots before the troubles started in the 1960s *always* stress how well they used to get on with them recalling their relationship as one characteristic of good neighbours and friends. Not only did Turkish- and Greek-Cypriots get on very well *before* the problems started, people belonging to the first age group remember, they also helped each other during times of political conflict in the 1960s. Greek-Cypriots used to hide their Turkish-Cypriot neighbours and friends from Greek-Cypriot extremists and vice versa. The Turkish-Cypriots were good people one could trust. The Greek-Cypriots of this first age group perceive the Turkish-Cypriots as sharing with them mentality, character, standard of civilization, way of life and most of cul- ture (except for religion and language). The people of the first age group remember the Turkish-Cypriots as 'Osman,' 'Abdullah' and 'Mechmet' they had played with as children. For this generation the events in the 1960s are exceptional and therefore do not challenge their overall perception of harmonious intercommunal relations between Greek- and Turkish-Cypriots.[7]

In sharp contrast to this view of the Turkish-Cypriots, the mainland Turks are considered the epitome of the *outsider.* They are thought of as the antithesis to culture as such. The Turks are perceived as uncivilized barbarians, brutal and backwards, violent and uneducated. In short they are bad people fundamentally different in character and culture from both Greek- and Turkish-Cypriots.

Second age group: people who were born in the 1960s remember things somewhat differently. Intercommunal violence broke out in December 1963 and lasted for almost a year. It flared up again in 1967. Even though these people were only a few years old at the time, they remember the events and emotions very clearly. And these memories are amongst the first ones they have. However, despite personal memories of fear and insecurity, the people of this second age group are very much aware that it used to be different. They stress as much as older people the overall harmonious and friendly relationship between Turkish- and Greek-Cypriots. But they seem to be in two minds about their feelings. On the one hand, they acknowl- edge the fact that there did not use to be any conflict between Greek- and Turkish-Cypriots. This they have heard from their parents and other older people and therefore they feel that the Turkish-Cypriots must have been good people. On the other hand, they personally remember being afraid or not being able to enter certain Turkish-Cypriot areas during times of turmoil in the 1960s. Therefore they lack the trust in the Turkish-Cypriots the older generation has.

In regard to the mainland Turks, they share the view of the first age group a hundred percent.

Third age group: people born in the 1970s have no personal memory whatsoever of the time when Turkish- and Greek-Cypriots used to live together. Although

young people lack first hand experience with the Turkish-Cypriots, they are given a very different kind of 'experience' by state education. From a very early age on they are exposed to extensive teaching about the invasion of Cyprus by Turkey and the traumatic consequences of it. '*I do not forget and I struggle' ('Den xechnii ke agonizume')* is not just a slogan, but an entire campaign by the authorities of education (for a detailed analysis see Maratheftis 1989) in an apparently very successful effort to make sure that future generations will not accept the *status quo* of a divided homeland and to give the young members of society a substitute for real experience; to give them 'experience' which they cannot possibly have due to their young age. Unfortunately, this 'secondary experience' only concerns the conflictual part of the relationship between Greeks and Turks and it is ideologically saturated. But it turns into a kind of quasi-real experience. People who are clearly too young to actually remember anything about the Turkish-Cypriots or the war, the invasion and the flight recall these things in a lively manner as if they had been present themselves.

Some of the people belonging to this youngest age group have absolutely no trust in either Turks or Turkish-Cypriots and lump them together into one category, because to them a Turk is a Turk after all. And Turk basically means 'enemy' or savage. This is something, older people would never do. However, I want to emphasize that not *all* young people think along these lines. Many of them join in the general chorus proclaiming the essential difference between Turks and Turkish-Cypriots and the similarity between all Cypriots, be they Turkish or Greek.

This is the way Greek-Cypriots perceive of Turkish-Cypriots and Turks respectively. But on what grounds do they do so? What are the processes which underlie this reasoning about identity and otherness? Why do Greek-Cypriots distinguish so sharply between two groups of people who share many attributes such as language, religion and origin? In order to answer these questions I now turn to discuss two notions – religion and the house[8] – which are both fundamental to Greek- Cypriot culture and to the processes of inclusion and exclusion defining group iden- tity and belonging. The processes leading to the view of the Turkish-Cypriots as insiders – *'diki mas'* – are illustrated by means of the notion of religion. The oppo- site, the exclusion of the Turks from mainland Turkey – their construction as *'xeni'* – is shown looking at the house.

I want to make it clear from the beginning that I am only discussing one aspect of Greek-Cypriot identity: their identity as Cypriots as opposed to outsiders from Turkey, Greece or elsewhere. I am aware that there are many co-existing layers of collective identity – as Europeans, as Greeks, as Cypriots, as *Pafites* (from Paphos) – which are based on different criteria and sometimes contradict each other.

Inclusion of Turkish-Cypriots: The Notion of Religion

Greek-Cypriots across age groups, political positions and educational backgrounds agree that religion is no obstacle for two communities to harmoniously live together. One woman for example remembered that for forty years the sexton of the Orthodox church in their mixed village was a Turkish-Cypriot, i.e., a Muslim. The fact that someone believes in a different religion than one's own is not seen as being of much importance. What counts is the person, regardless of their creed and faith. Not once have I heard the opposite. Let me quote a friend of mine:

"I once heard a most wise statement from my mother I have never read in any book. She said about a Turkish-Cypriot who had died: 'God may make him happy in his faith.' The Turkish-Cypriot was a friend of the family, and if someone is a good person then we say in Greek 'God may make him happy' which means God may make him happy in the life after death. This wish we only make for good people. And this has made a great impression on me, what my mother had said, 'in his faith' which means, may God make him happy in accordance to what he believed and not in accordance to what we believe. This statement I find very wise."

The importance of religion within Greek-Cypriot culture is certainly well known to the readers of a journal like this, so there is no need to go into details here. What I want to draw attention to is the fact that the Greek-Cypriots' notion of religion is not only very important *within* their culture, but also for their construction of social boundaries. Although the Turkish-Cypriots were and are Muslims, the Greek-Cypriots consider them *insiders* because of their religious attitude. This might seem contradictory at first, but it is not. I will illustrate my point by quoting a 45-year-old woman I interviewed who was particularly eloquent on the issue of religion in regard to the Turkish-Cypriots:

"The Turkish-Cypriots were like us, they were very good. They were 'diki mas'. *There was one Turkish-Cypriot in our village . . . this man . . . it had been raining since the morning, slowly, slowly, and in the afternoon it was raining very heavily and the river rose, but he had not reckoned with this ... and as he came to the river there was a lot of water . . . and he sent his goats and his donkey into the river, and his cows and he said: 'Holy Panagia, help me to cross the river.' And there was something like a gust of air, he told us, and it took him out of the river, and he went to thank her, he went to the church, and he told us about it when he later came to the kafenion . . . you know, they believed ve,y strongly! They believed more than us! And his wife went, too, and she had a bath beforehand, she said that one must take a bath immediately before one enters the church in order to be clean, and she took off her shoes in front of the church and she worshipped the icons, she filled all candles with oil . . . and this man (the one who had been saved) said that at night, not always, but mostly, he saw a light. . . and that it entered the church through the door. This he always saw and he said that it was the Panagia. This is how much*

they believed. They believed ve,y much! We, however, believe, but . . .does it ever happen that you take a bath and then immediately go to church? Ourselves, we have a bath in the morning and go to church in the evening, don't we? But one has to take a bath and to go clean, of all sins, a woman should not have her period, you know. Nowadays we go, but they (the Turkish-Cypriot women) did not; it is a sin to go to the crucifix inside the church when you are menstruating, it is a holy place. We nowadays go, but the Turkish-Cypriot women did not, nor into the mosque. They didn't go (when they were menstruating), and when they went into the mosque or the church they took off their shoes."

In another conversation she added that the Turkish-Cypriots used to fast more properly according to their own religion than the Greek-Cypriots according to theirs. Giving them credit for their religiousness as such, she also claimed having seen Turkish-Cypriot refugees who came to the South for a short visit"– on one of those rare occasions when they get permission to do so – crossing themselves, going down on their knees and praying to Allah to help them to come back home.

These statements, and many others I have not quoted here, point to the religiously motivated definition of the Turkish-Cypriots as insiders. To be devout and to practice one's religion properly qualifies a person as a social being. The Turkish-Cypriots are perceived as *'diki mas'* because they behaved in religiously appropriate ways and thus shared the value of *religion as such* with the Greek-Cypriots.[9] They are considered insiders because they did not violate the Greek-Cypriots' notion of religion.

The Greek-Cypriots also employ the notion of religion in order to illustrate the opposite: the exclusion of the mainland Turks, particularly by claiming that the Turks have destroyed holy and ancestral places such as churches and cemeteries and thus have violated religious values. The most important aspect leading to the view of the Turks as the epitome of the *outsider,* however, is the house to which I now turn.

Exclusion of Turks: The House

Perhaps the most important notion in Cyprus is that of the house.[10] Just how much the house means in Cyprus can hardly be overemphasized. It is crucial to any understanding of Greek-Cypriot culture. The house is a materialisation of the values of Greek-Cypriot culture. It embodies and symbolizes all crucial aspects such as the family, religion and the concept of *'inside* versus *outside'?* This is also true for the notion of the family which is not only intimately linked but in many ways synonymous with the house.[11] The house is much more than just accommodation for Greek-Cypriots. It is the materialized symbol of the success of a family. Having one's own house is tantamount to having achieved a most central and highly val- ued goal in life.

In general, the dowry house has remained the ideal for most Greek-Cypriots, despite the economic difficulties involved. Houses are strongly associated with women in Cyprus[12] who are responsible for both its cleanness and its inner spiritual purity. The actual construction of the dowry house often parallels the growth of the family itself and a married couple's efforts to equip their daughter(s) for life. The purpose of and the most important goal in life, the well-being of one's children, is at least partially fulfilled when a daughter can be given a house.

Having the significance of one's house in mind, it becomes clear that the loss of it is one of the most tragic things that can happen to a Greek-Cypriot person. Houses are irreplaceable. Nothing is quite like home, and by this Greek-Cypriots lit- erally mean their house they got from their parents or built themselves. The refugees are *"mourning for . . . a pattern of meaning'* (Loizos 1977b: 8-9). The loss of the house means much more than its material loss. A friend of mine, a refugee, sent me her visiting card after I had left Cyprus which reads:

Το σπίτι μου είναι στην Κυρύνεια. Εκεί ζω. Μένω τώρα.

My house/home is in Kyrenia. There I live. Presently I stay at. . . .

For the refugees, the loss of their houses and the fact that there is hardly any hope that they will ever return is one of the most difficult consequences of war they have to face. For Greek-Cypriots, the loss of their houses is the ultimate proof that the mainland Turks are indeed bad people and that they have no culture at all. Having expelled the Greek-Cypriots from their houses is the most inexcusable crime they have committed in the course and after the war in 1974. Because by tak- ing away the houses from the Greek-Cypriots, the Turks have attacked and deprived them of one of the most important values of Cypriot culture: one's own house. It is hard for Cypriot people to imagine something more barbarian and cruel.

Not only have the Turks deprived the Greek-Cypriots of their right to live in their houses, they also neglect, willingly destroy or even sell them, the Greek-Cypriots are unconvinced, which is as unforgivable as the destruction of holy and ancestral sites violating religious and familial values. The Turks are also accused of attacking the house's most sacred realm: it's interior. This is presented as characteristic behaviour of Turkish people. They are said to break in other people's houses and to behave violently inside the house against their own family. All of this violates the Greek-Cypriot notion of the house and the sacredness of the interior in general, be it the interior of the house, of the family or of Cyprus herself. Thus, people who do this sort of thing cannot be but *outsiders.* When asked about their view of the Turks, people immediately say: *"They are bad, they have taken our houses."*

Conclusions

Greek-Cypriots reason about both Turkish-Cypriots and mainland Turks on the basis of their own culturally shared notions of which I have discussed, religion and the house. In respect to the Turks this leads to their exclusion, while in respect to the Turkish-Cypriots this leads to them being represented as insiders.

The mainland Turks are perceived as outsiders *not* because they are Muslims or because they speak another language or because they are of different origin – all of these things they share with the Turkish-Cypriots – or because of any other attribute, but because they violate the Greek-Cypriots' culturally shared values such as the house.

The Turkish-Cypriots, in contrast, are considered insiders because they do *not* violate the Greek-Cypriots' cultural values such as religion. That is why they belong to the inner side of the boundary erected against *outsiders.* In other words: from a grassroots perspective, the Cyprus Problem is not an *ethnic* issue.

One might argue that the Greek-Cypriots' view of the Turks, the Turkish-Cypriots and themselves simply reproduces the official Greek-Cypriot state ideology (as for example Maratheftis does in his unpublished Ph.D. thesis, 1989:54/280.) Although this is unfortunately true, I would like to turn the tables and argue that just as much as people internalize what they are told in schools as elsewhere, the officially acknowledged (State and Church) ideology *('the Turkish-Cypriots are good, the Turks are bad) must* make use of culturally anchored notions in order to be acceptable and persuasive to the bearers of the Greek-Cypriot culture. It is not a one-way process whereby those in power promote a particular ideology and those without merely reproduce it, rather, it is a dialectic relationship between the two. A glance at the book entitled '/ *do not forget and I struggle'* which is part of the curriculum of Greek-Cypriot primary schools (see above) makes clear just how much the official ideology employs cultural notions such as religion and the house. The book is full of references to destroyed holy sites and lost houses.

Theoretical Considerations: The Concept of Ethnicity

Drawing more general conclusions from the Cypriot example, there are two points I wish to make. First, I want to question the usefulness of the theoretical con- cept of ethnicity for understanding Cypriot collective identity.

After an era of essentialism, the study of ethnicity has been dominated by the situationalist theory introduced by Barth (1969). The core of the situationalists' approach is their insight that there are no objective criteria defining ethnic groups as assumed by essentialism. Rather, ethnic groups are always defined by subjec- tive criteria regarded significant by the concerned people themselves. Thus bound-

aries separating one group of people from another have come to be seen as being socially constructed and defined.

Furthermore, recent studies by social anthropologists (Elwert 1989, Linnekin and Poyer 1990, Astutui 1995) have shown that collective identity does not necessarily need to be based on the notion of *ethnicity* as most scientists maintain.

> *"Although writers since Barth have acknowledged that ethnic boundaries do not necessarily rely on any measurable cultural content, most continue to hold that ethnic identity is a fundamental and universal reality of social life."*
> (Linnekin and Poyer 1990:3)

The preoccupation with and naturalization of ethnic groups and ethnicity is to a certain extent a result of Western science portraying the ethnic factor as *the* universally relevant criterion for collective identity (Elwert 1989: 26). Though it is true that many groups of people do in fact (or have learnt to) refer to ethnic ties in their self-definition, this is not true for all so-called ethnic groups. To some people, ethnic origin is simply irrelevant or at least not primary (see, e.g. Astutui 1995). Ethnicity is not the criterion by which they catagorize the world around them. Group identity may for example be based on different kinds of locality, on social institutions such as generation, age or marriage classes, on material culture, a particular way of subsistence economy or on particular activities.[13] In other words: not all groups of people referred to as ethnic groups base their identity as a group on ethnicity. Ethnicity is *"the Western ... theory of group identity',* it is *"a biological model of identity'* (Linnekin and Poyer 1990: 2,12). It seems to be universal that human beings differentiate between *in* and *outsiders* and thereby construct group identity based on *in* and exclusion, but on what grounds varies considerably and is not nec- essarily based on ethnicity.

Nevertheless, and quite surprisingly, the terminology referring to the notion of the *ethnos* has survived, sometimes in inverted commas. The Greek term *ethnos* refers to people or a nation (but not to a nation-state which is called a *'kratos,'* Just 1989) and is based on the notion of shared blood and descent (Just 1989: 77). Originally, *ethos* used to be an anti-term referring to any humans or even animals outside of 'Greek' normality (Chapman, McDonald and Tonkin 1989:12). The modern concept of the *ethnos,* of the Greek nation linked by blood from ancient to modern times, was only established along with the ideology of hellenism in the 19th centuary (Just 1989). However, it is the modern notion of the *ethnos* which the academic terminology is based upon. In the sense that *ethnos* has always referred to a perceptional, a cognitive-emotional rather than a political unity, it is an appropriate term to describe 'ethnic groups'. In the modern academic sense, however, denoting a people sharing the essence of blood in their self-definition, it is highly inappropriate as a *general* term to describe people with a collective identity. But this is exactly how ethnicity is being used in the academic literature, namely as a synonym for collec-

tive identity (Linnekin and Poyer 1990). Neither does it seem to me to be meaningful to analytically distinguish between ethnic groups and other groups with a collective identity, because doing so only underpins the putative universality of ethnicity. After all, ethnic as well as non-ethnic groups are groups with a collective identity, and it is only *our* emphasis which picks out the ethnic factor. Therefore, the terms 'ethnicity' and 'ethnic group' are misnomers of the *overall* phenomena they describe.

Despite the fact that the Cyprus problem is always talked and thought of as an *ethnic* problem, the case of Cyprus illustrates very nicely that collective identity (as Cypriots in this case) is not necessarily the same as ethnicity. Cyprus is a counter-example to the claim that ethnicity is *the* universally relevant criterion for group identity. It is true that most Greek-Cypriots also stress the notion of the *ethnos* referring to their primordial ties to the ancient Greeks of which their language and religion is only the most obvious evidence. It is true that they have an ethnic identity as Greeks. But this is not all there is to it, and it does not automatically imply that they categorize *in* and *outsiders,* that they construct social boundaries along *ethnic* lines, for they clearly do not always as I have tried to show. In terms of identity as Cypriots, neither the inclusion of the Turkish-Cypriots nor the exclusion of the main- land Turks is based on ethnic factors, but on cultural notions such as the house or religion as discussed above. Turkish and Greek-Cypriots are not regarded as one *ethnic* group neither by analysts nor by Greek-Cypriots themselves. Nevertheless, they sense a collective identity as Cypriots different to that of *outsiders* either from Greece or Turkey or elsewhere. In other words the Greek-Cypriots' sense of eth- nicity, of being Greeks says little about their sense of identity as Cypriots. The Turkish-Cypriots are not just outsiders one gets on well with, they are very clearly and emphatically classified as *'diki mas,'* insiders. It is not on the basis of their eth- nicity (which they undoubtedly have), it is on the basis of their own cultural values such as the house or religion that Greek-Cypriots define social boundaries in the context of their identity as Cypriots.

Secondly, although situationalists have broken with the tradition of essentialism in the 1970s, they have not challenged the idea that ethnic groups are defined by particular *features insiders* have and *outsiders* lack,[14] only for the essentialists, there is a limited set of features regarded as objective and naturally dividing the world's ethnic groups, while for situationalists, the list of possible significant criteria leading to the construction of social boundaries is open-ended and subjective. However, it is precisely this focus on *features* which I have *not* found to be relevant for the Greek-Cypriots' construction of identity as Cypriots.

Reading the academic literature on ethnicity, one would expect to hear Greek-Cypriots say about Turkish-Cypriots and Turks: *'They are Muslims, they speak Turkish, they originate from Turkey, therefore, they are outsiders'.* Never have I heard anything like this. Neither Turkish-Cypriots nor mainland Turks are consi-

dered *insiders* and *outsiders* respectively on the grounds of any particular *features* they have or lack. Both Turkish-Cypriots and Turks are Muslims, both speak Turkish as their mother tongue and both are descendents of the Ottomans. Nevertheless, the Greek-Cypriots consider the Turks and the Turkish-Cypriots two distinct, completely incompatible groups. The Greek-Cypriots perceive the Turkish-Cypriots as *insiders* because they do not violate the Greek-Cypriots' culturally relevant notions such as religion and the house as the Turks do.

Αδερφική Νότα

Μεχμέτ σε Λυπήθηκα
Όταν τραβούσες το λουρί σφικτά
Πισθάγγονα, υια να με δέσεις.

Όταν σκληρά με κτύπησες στο κούτελλο
Με τις γροθιές σου.
Το βλέμμα μου σε τρόμαξε, θημάρμαι,
Πήρε τη δύναμυ σου και τηω έπνιξε,
Μες στο πικρό παράπονο μου.
Με κοίταξες νευρικά, με ναρκωμένη σκέψη,
Κι έξαλλος ξαναλάκτισες τα σπασμένα
Πλευρά μου.
Πόωεσα, μα δεν οργίστηκα Μεχμέτ,
Τα κάκρυα μου ήταν για σένα.
Δεν ήμουν σκλάβος σου…
Η σκλαβιά βάραινε και σένα,
Στην ίδια αγορά μας Ξεπουλήσανε,
Μεχμέτ
Αρτέμης Αντωνίου 1974

Brotherly Note

Mehmet I pitied you
When you tightened the belt
to strap my hands behind
my back.

When you strongly hit my forehead
with your fists.
My look frightened you, I remember,
it took your strength and drowned it
in my bitter complaint.
You looked at me nervously,
with numb thoughts, and frantically,
you once again kicked on
my broken ribs.
I was in pain, but I did not get angry,
Mehmet, my tears were for you.
I was not your slave. . .
Slavery burdened you too, they sold
us in the same market,
Mehmet
Artemis Antoniou 1974 (my translation)

Notes

1. I wish to thank Peter Loizos for encouraging me to write this article and for commenting on an earlier draft of it.

2. P.M. Kitromilides, (1995). This was also confirmed by two Cypriot social researchers (personal communication).

3. Argyrou, (1993); Attalides, (1976, 1977); Beckingham, (1957); Hadjipavlou - Trigeorgis, (1994); King and Ladbury, (1982); Kyrris, (1977); Loizos, (1974, 1975a, 1975b, 1976, 1977a, 1977b, 1978 (1976), 1981, 1988); Maratheftis, (1989) (unpublished); Markides, (1974); Markides et al. (1978); Peristiany, (1965, 1968, 1976, 1992); Roussou, (1985, 1986); Sant Cassia, (1982); Stamatakis, (1994) (unpublished).

4. Exceptions are Beckingham, (1957), Hadjipavlou-Trigeorgis, (1994), King and Ladbury, (1982), Kyrris, (1977) and Stamatakis, (1994).

5. This article is based on my dissertation in Social Anthropology *('Looking at the house from inside. The processes of constructing group-consciousness amongst Greek-Cypriots')* which is based on six months fieldwork between November 1995 and April 1996 in the town of Paphos.

6. For a discussion of the concept of 'inside versus outside' so prevalent in Mediterranean societies, see Peristiany, (1965) and an updated discussion of this concept by Peristiany and Pitt-Rivers, (1992). See also Dubisch, (1993).

7. One might argue that these memories of the past- particularly of the 1960s onwards - are rose-tinted, because surely there were Greek-Cypriot nationalists wanting to cleanse Cyprus from *all* Turks including Turkish-Cypriot. It is, however, not my intention to assess my informants' statements and present views in terms of historical correctness. Rather, I am interested in understanding their reasoning about *in* and *outsiders.*

8. In my dissertation, I also analysed the notion of the family including ritual kinship, of work and of food in addition to the two notions discussed here.

9. The mainland Turks on the other hand are seen as religious fanatics who precisely through their fanaticism have moved far away from proper religious behaviour.

10. The central significance of the house in a variety of cultures very different from that of Cyprus, is documented in Carsten and Hugh-Jones' collection *About the House* (1995).

11. The Greek word for family, *ikoyenia,* literally translates as "house lineage" (lossifides 1991: 140) or "the people who originate from the same house" (Du Boulay 1986:141). For a discussion of the meaning of the family in Cyprus, see Loizos, (1975a, 1981); Peristiany, (1965, 1968, 1976).

12. See, for example, Pavlides and Hesser/Du Boulay/Dubisch in Dubisch (1986); and Du Boulay/lossifides in: Loizos and Papataxiarchis (1991).

13. For a brief oveNiew of a number of case studies showing this for the African continent, see (in German) Elwert (1989: 26-31). For the Pacific see Linnekin and Poyer (1990).

14. Compare, for example, Horowitz's "inclusive conception of ethnicity that embraces differences identified by color, language, religion, or some other *attribute* of common origin" (1985: 41, emphasis added).

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CYPRIOT WOMEN AT WORK

Stavros Stavrou

Abstract

This article focuses on the services of women, as well as their gains in Cypriot social and economic fife. The article refers to the study of women's employment and its importance to feminist theory: it is concerned not only to identify the processes and structures which generate gender inequalities and gender segregation, but also to suggest appropriate strategies for equalising the position of women and men in paid work. According to social theory, the Jabour market is a site of complex and interrelated inequalities. In addition, gender inequalities in the labour market are linked to and reinforced by those in other areas, such as, for example, women's unequal access to education and training which, in turn, has important implications for women's participation in paid employment, affecting their choice of jobs and their opportunities for advancement.

Introduction

All societies have a division of labour based on sex-work that is seen as women's work and work that is seen as men's (Stockman, Bonney and Xuewen, 1995). However, the nature of the work that is carried out by men or women varies from society to society and has changed historically. According to feminist theory, the sexual division of labour is socially constructed and not based on natural sex differences (Oakley, 1982). Jobs become identified as men's jobs or as women's jobs (Abbot and Wallace, 1990).

Although working-class women played a central role in the first industrial workforce, the development of industrial capitalism in the nineteenth century progressively restricted women's participation in all forms of paid work, whilst the ideology of domesticity increasingly defined a woman's place as a full-time wife and mother in the private sphere of the family, dependent upon a husband's wage. During these years, this became the ideal for many working-class women. The twentieth century, however, has witnessed many changes in the social role of women. In particular, there has been considerable change in women's participation in paid employment, so much so that 'women's domesticity' was replaced by the "feminisation of

the labour force" (Hagen and Jenson, 1988), which describes the fact that women have made up a steadily increasing proportion of the total labour force over the last years.

Moreover according to social theory, although women are engaged in wage labour, they still perform the bulk of household duties, particularly child-care tasks, and assume the main burden of responsibility for the care of elderly, disabled and dependent relatives (Witz, 1993). In addition, the demands on women's time and energy as unpaid carers are increasing (Ungerson, 1987).

A major characteristic of economic development in contemporary Cyprus has been the massive involvement of women in the labour market. This change was very impressive as Cypriot women for centuries had been uneducated and confined to their unpaid family activities. For the first time they were seen in massive num- bers entering high-schools and the labour market. For many, this change was a convincing indication of women's emancipation. For example, five Cypriot social scientists, in their book "The Cypriot Woman", claim that Cypriot women have begun to escape from the traditional perceptions which govern their relations with the opposite sex (Mylona et al., 1986). They point out that education and employ- ment outside their homes have been decisive factors for their liberation. As they put it:

> Education and employment are the decisive factors in the change of attitude and the creation of conditions for the mental, social and economic liberation of the Cypriot woman. (Mylona et al., 1986:133)

As in the case of working women in other capitalist nations, women in Cyprus are concentrated in female dominated and low-paid occupations (DSR-LR, 1995). Their participation in male dominated areas of employment is still very low. Evidence has also indicated that women and men tend to be employed in different occupations and industries, that women are concentrated in a much smaller number of jobs and industries than are men *(ibid),* and that gender segregation within industry takes the form of women's under-representation in all economic sectors (Varnavidou and Roussou, 1995).

The involvement of women in economic production has been considered as emancipation even by the women themselves (Stavrou et al., 1996). However, cap- italism and patriarchal ideology appear to lead them into new "double bind" roles which are enriched with more duties and responsibilities than before: apart from their traditional roles as wives, mothers and house-carers, they are now required to be labour workers, attractive and sexy for men's satisfaction, and financial support- ers of their families.

Economic changes in Cyprus have been so immense and rapid so that they have led to various, sometimes false, perceptions regarding the status of women. It is a real fact that women's education and their employment in the labour market have played a substantial role in this change. According to social theory, educational and employment achievements make women less economically dependent on men (Pascall, 1997); however, education and employment are not able alone to bring equality between the two sexes (Wallace, 1987). In addition, education and employment in capitalist societies may lead to discrimination and unequal treatment of women resulting in subordination (Wolpe, 1988). It has been argued, for example, that in capitalism most unpaid work is done by women (Witz, 1993).

Housework, caring for children and relatives, consuming (shopping and purchasing), and offering a social life for family members are in many societies women's duties. The following quotation from a United Nations Report illustrates the imbalance between women and men:

Women are one half of the adult population and one third of the official labour force, performing two thirds of the world's working hours, earning one tenth of the income and owning one per cent of the world's property. (U.N. 1980, in French, 1992:24)

Women's Work before the 1974 War

The role of women in Cypriot society was confined to the house. Their work at home was degraded and so never gained respect and value. Women were considered servants to their husbands, children and parents. There is evidence, however, that women's contribution to the family, especially in rural areas, was not confined only to housework and child rearing (Roussou, 1985; Markides et al. 1978). The majority of women in rural areas worked on their family farms and fields, as unpaid family workers, or carried out other duties which were not considered important or valuable.

Table 1 Occupational distribution of women, 1921

OCCUPATION	FEMALE EARNERS (numbers)
Weavers	9.727
Farmers and Cultivators	1.490
Agricultural Labourers	5.341
Sewers and Dressmakers	3.408
Embroiderers	2.449
Domestic Servants	2.030

Source: Census of Cyprus, 1921.

The occupational distribution of women in 1921, shown in Table 1 provides a clear example of women's segregation in female dominated jobs.

Prior to recent economic development, the largest percentage of working women were employed in: agriculture; weaving; dressmaking and as domestic assistants. We can thus see that women were employed in jobs which did not require a sophisticated training or education, and for this reason these jobs were of low social prestige and wages (Papadopoulos, 1975). Another feature of full-time women workers during this time, was that most of them had been widows or elderly ladies (Pyrgos, 1993), and this indicates that women went out to work when there was a dire economic necessity or when they were at an age when they ceased to be considered as sexual objects, or when their going to work was not a threat to family honour (Markides at al., 1978).

Economic development, which Cyprus experienced after 1960, and the concentration in towns of many economic sectors such as construction, the manufacturing industry, commerce, and services, resulted in a greater shift of the population towards the towns, while a substantial percentage of country dwellers commuted daily to the towns for work. As a consequence, rural women came into frequent contact with the way of life and the ideas of the town. At the same time women coming to the towns to work in surroundings unknown to them behaved more independently, as they were not subjected to the strict social control exerted in the village by the family and the neighbours (Attalides, 1981).

Capitalist economic systems and industrialisation during the years after Cypriot

independence had a wide range of effects on people's lifestyles as well as on the structure of communities. Emerging urban settlements became centres not only of industry but also of banking, finance, and industrial management *(ibid).* The factory system which developed during this period led to a much more refined division of labour than was evident in early preindustrial cities *(ibid).* Many new occupations were created, and one by-product was a more complex set of relationships among workers. During this process Cypriot women gradually managed to gain an economic role outside their homes. Single women had now the opportunity to work outside their homes in order to help their parents to build their house and save money for their dowry (Pyrgos, 1993); but when they got married they were obliged to leave their jobs.

Economic expansion after the independence of Cyprus provided many opportunities for women's employment, so gradually women were given more opportunities for education and a career. For seven consecutive years, for example, prior to the Turkish invasion in 1974, conditions of overall full employment prevailed - the average rate of registered unemployed ranged from 1.2%-1.5% of the economically active population (DSR-LR, 1980). Over these years, women's employment in the non-agriculture sector grew by 80%, one-third in trade, one-quarter in manufacturing and one-fifth in services. Transport and finance were together responsible for only 15% of the increase in women's employment *(ibid).*

Women's Work after the 1974 War

After the 1974 war the employment of women increased rapidly. Four thousand men had lost their lives and many others left Cyprus to find a job abroad. In addition, the destruction caused to the economy by the war led to a high demand for labour.

One year after the 1974 war, industrialisation was reestablished in Cyprus with stronger impetus, leading gradually to the "economic miracle" of the 80s (Theophanous, 1996). One would suggest that Cypriot women substantially contributed to the creation of the "economic miracle" which took place in Cyprus after the 1974 war. Their duties both in the household and in paid work could not easily be estimated or interpreted in terms of money as they were immense.

During these years of capitalist economic development in Cyprus, more women have gradually joined the labour market (DSR-LR, 1980). This movement in feminist theory, has been characterised as a shift from private to public patriarchy, which means that gradually working women manage to escape from their families' control and dependence and are found to be dependent on their wages and welfare systems. In Cypriot society, however, ethnic and political circumstances seem to play a central role in the continuation of the patriarchal traditional family.

Table 2 Gainfully employed population by sex 1976-1994 (Thousand)

Year	Males	Females	Total
1976	81.5	35.2	116.7
1980	122.8	69.7	192.5
1987	144.1	86.8	230.9
1989	153.4	97.2	250.6
1991	158.5	100.5	259.0
1994	163.8	106.2	270.0

Source: Department of Statistics and Research. Ministry of Finance.

It has been estimated that the number of economically active women in Cyprus has grown to 106.2 thousands in 1994 which constituted more than one-third of the total economically active population: 38.4 percent of the total economically active population in 1994 (DSR-LR, 1995). In Table 2 we can see this progress.

Economic development during recent years in Cyprus has led to the creation of new and many employment opportunities for both women and men. For example, in 1993, due to the favourable developments in the labour market and the considerable gains in employment experienced in 1992, there was an absolute decrease in employment for the first time since 1975 (DSR-LR, 1995). During these years of economic expansion Cypriot women took up a greater share of jobs in the non-agricultural sector and a disproportionate number entered manufacturing, trade and services.

Table 3 Female labour force participation rates in some European countries

COUNTRY	PARTICIPATION RATE		
	1992	1993	1994
Denmark	46,2	46,5	45,5
Britain	45,2	45,7	
Germany	40,7	40,8	41,3
Cyprus	39,7	39,3	39,2
Netherlands	39,4	41,4	40,5
Italy	35,1		35,1
Greece	34,8	35,0	

Source: C.E.C. Employment in Europe, 1995.

The overall labour force participation rate of women in Cyprus compares quite favourably with other countries in Europe. In Table 3 we can see the rates of female labour force participation in some European countries.

As *in* other European societies (CEC, 1995), Cypriot women appear to engage in part-time jobs, particularly those who are married and have children. In Cyprus, however, these variables have not yet been taken into consideration by the government, so that official statistical reports do not exist. This fact indicates the absence of any official concern regarding women's issues. This is important, as part-time workers enjoy fewer rights and privileges, and less protection by the trade unions. In Britain, for example, only 9 per cent of women part-time workers belonged to an occupational pension scheme (Martin and Roberts, 1984), although some changes have been won recently, partly through the Equal Opportunities Commission using European legislation (Morris, 1995).

Table 4 Unemployment of women 1984-1995 (Thousands)

	1984	1986	1988	1990	1992	1993	1995
Total	8.0	9:2	7.4	5.1	5.2	7.6	7.8
Women	3.5	4.4	3.7	2.6	2.8	4.4	4.3

Source: Department of Statistics and Research. Ministry of Finance.

Unemployment in Cyprus during 1993 rose to 2.6 per cent of the economically active population from 1.8 per cent in 1992, with a significant increase in Manufacturing and Hotels and Restaurants (DSR-LR, 1995). The total number of registered unemployed in the Labour Office was 7,638; of these 4,41O or 57.8% were women. Considering that the share of women in total employment, excluding agriculture, was only 39 percent, it is evident that the incidence of unemployment is higher among women workers. In Table 4 we can see the numbers of women's unemployment during the years 1984-1993.

According to official reports, unemployment of women was more intense in tertiary education where 55 percent of the registered unemployed were women, although fewer women than men are employed in tertiary education. According to the same reports, during 1993, from 93 illiterate unemployed individuals 67 or 72% were women, compared to 945 women out of 1730 unemployed in 1974; from 2,234 unemployed with elementary education 1,504, or 68% were women, compared to 4,714 out of a total of 17,550 unemployed in 1974; from a total of 3,204 with secondary education, 1,919 or 59% were women, compared to 2,708 out of 6,369 in 1974; and from 1670 with higher education 828 or 49.5% were women, compared to 398 women out of a total of 1,156 unemployed in 1974 (DSR-LR, 1995).

Information also indicates that unemployment among women is higher than among men in all age-groups but particularly during the first years after graduation from high-schools *(ibid).*

Power at Work

At work, the fight for higher wages within and through trade union activity has ultimately brought legislation for equal opportunities, equal pay, and against sex discrimination, giving Cypriot women some rights of access to areas once denied.

According to Varnavidou and Roussou (1995), Cypriot women, although having gained some more legal rights, have failed to gain real equal payment or much representation in administrative and managerial jobs. According to the same report, Cypriot women have improved their share of professional jobs, but still tend to be concentrated in some of the traditionally female-dominated occupations, such as paramedics and teachers. It has also been reported that Cypriot women's participation in non-skilled occupations is higher than men's (DSR-LR, 1995). As a result of new technology and automation more women find employment in industry as cheap labour. Many cases of exploitation as well as sexual harassment of women at the place of work have been also reported (Varnavidou and Roussou, 1995).

Cypriot women's increasing entry to paid work has obviously made them less dependent on their father's or partner's income. The increasing number of divorces in Cyprus, for example, indicates less dependence of women on their husbands. For example it has been reported that during 1995 there were 757 divorces com- pared to 110 in 1975 (DSR-DR, 1995). As already mentioned, this change indicates a shift of men's authority from private to public patriarchy, in which women become more dependent on labour markets and welfare systems for employment and income.

With regard to representation and participation in managerial and other high positions, Cypriot women have managed, through their organisations and trade unions, as well as the use of legislation, to gain some new roles in administrative and managerial positions. For example, in 1960 there were zero women managers, while in 1992 women managers in Cyprus constituted 0.8 per cent of all working women (DSR-LR, 1993).

The exercise of male power over women may vary in different classes and racial groups and may reveal itself in different ways, but it is a feature of all relationships between men and women in a society in which men as a group have power over women as a group, and have a vested interest in keeping it that way. Low pay and low participation are two measures of women's subjection in the labour market. But power is also wielded more directly through other mechanisms which produce discrimination against women at work, such as hierarchies (Martin and Roberts, 1984), control over the content and process of work and over resources (Westwood, 1984), and promotions in management (Allen and Truman, 1993). Power is also expressed through violence, with sexual harassment increasingly recognised as a mode of exclusion and demoralisation in the work-place (Adkins, 1995).

Representation and Participation

According to Margaret Marshment (1993), representation is a political issue as, without the power of women to define their interests and to participate in decisions

that affect them, they are subject to the definitions and decisions of others. Women in developed and developing societies, by virtue of their gender, experience discrimination in terms of being denied equal access to the power structure that controls their society and which controls issues of development and peace. This discrimination seems to promote an uneconomic use of women's talents and thus wastes the valuable human resources necessary for development and for the strengthening of peace.

Women's participation in decision-making bodies is a clear indicator showing the low position of Cypriot women and the extent of gender inequality in Cypriot society. According to the Cyprus National Report on Women (1995), the following indicators can verify the very low status of contemporary Cypriot women.

Indicator 1. Participation in Parliamentary Assemblies: The Cyprus Parliament had its first and only woman MP only in 1980, after 20 years of democratic and independent life. One woman MP was also elected in 1985 and two women were elected in 1991. In 1996 there were only three women MPs.

Indicator 2: Participation in Government (Highest levels): (e.g. Ministries, Deputy, Vice or Assistant Ministers, Secretaries of State or Permanent Secretaries, Deputy Secretaries or Directors of Government Departments). Table 5 presents the recent picture. We realise that in 30 years of democratic life, women had never been allowed to hold a high position in the Government. Even in 1992 there were only four women.

Table 5 Cypriot women's participation in government at highest levels, 1992

	WOMEN	MEN
Presidency		6
House of Representatives		1
Ministry of Defence		2
Ministry of Agriculture		10
Ministry of Justice		3
Ministry of Commerce & Industry	1	6
Ministry of Labour & Social Ins.		6
Ministry of Interior		21
Ministry of Foreign Affairs		2
Ministry of Finance	1	28
Ministry of Education		7
Ministry of Communication		9
Ministry of Health	2	12
Other (Independent Authorities)		15
TOTAL	4	128

Source: Government Budget for 1980, 1985 and 1992.

Indicator 3: Participation in economic decision-making in the private sector and the labour force. In Tables 6, and 7 we can see the low participation of women.

Table 6 Indicator of women as economic decision-makers in the private sector

	1980	1985	1990
	%	%	%
WOMEN	4.122 8,8	4.600 10,2	6.798 14,2
MEN	42.898 91,2	40.500 89,8	41.082 85,8

Source: Registration of Establishments 1981, 1985, 1989. DSR.

All information and evidence indicate a very low grade of women's participation in administrative and managerial positions. It is notable that the ratios of women managers to men are well below even 30 per cent across the functional departments (DSR-LR, 1995). Furthermore, while women in 1993 constituted almost 15 per cent of all corporate managers, the prospective number for top management positions plummets to 2.9 per cent which is also very low. It was estimated that during 1992 women managers in Cyprus constituted 0.8 per cent of all working women while in other European Countries the ratio was 5 per cent (CEC, 1995). In Britain, for example, women make up 32 per cent of managers and administrators and 40 per cent of professionals. British women are strong in teaching 62 per cent, and librarianship 69 per cent, but account for 25 per cent of business and financial professionals and 5 per cent of engineers and technologists (Pascall, 1997). Women's access to higher managerial grades is restricted. For example, the proportion of women directors in Britain is only 3 per cent of all working women while in other European countries in 1994 it was 5.3 per cent (CEC, 1995).

Table 7 Decision-making in the labour force

	1980	1985	1990
	%	%	%
WOMEN	300 8,6	200 6,7	500 10,4
MEN	3.200 91,4	2.800 93,3	4.300 89,6

Source: Registration of Establishments 1981, 1985, 1989, DSR.

The majority of Cypriot working women are particularly likely to be subject to male authority. Very few women are at the top of hierarchies, even in jobs that are predominantly female, though some are pursuing careers. For example, though women's participation in education as teachers is 55 per cent in elementary schools and 48.3 per cent in higher education, their participation in administrative and decision making positions is very low, only 21 per cent in elementary education and 9.7 per cent in higher education (DSR-LR, 1995). The same situation seems to exist also in Britain. According to recent information (Pascall, 1997), although teaching in Britain is a woman's occupation, more men are found in higher positions. In primary schools, 90 per cent of main-stream scale teachers are women, but more than half of primary heads are men. In secondary schools three-fifths of main-stream teachers are woman, but one fifth are heads. Universities are much more male- dominated than schools, with women constituting 25 per cent of lecturing staff, and 5 per cent of professors (ibid). Women are much more likely to be employed on tem- porary research contracts than in tenured posts (Equal Opportunities Commission, **1993).**

Women's participation in administrative posts and positions of authority, though very poor, has increased slightly during recent years. In the public sector, for example, women enjoy better treatment in terms of promotions and appointments to higher positions. As a result, a number of women have been appointed to various higher administrative positions during the last years (DSR-LR, 1995). According to very recent research, contemporary Cypriot women seem to be overloaded with work, particularly those in managerial positions (Stavrou, et al., 1996). In this research some women expressed concern that they were not held to the same per- formance measures as men, and believed they had to work twice as hard. In addi- tion, they did not receive any help from their husbands with regard to household duties. One of these women in management said that:

> Women need to work harder to earn credibility, and need to prove their ability to handle the next assignment beyond a shadow of a doubt, while men have instant credibility and are presumed to be far more committed to the firm. (Stavrou et al., 1996:45)

Access to professional and managerial positions does not bring Cypriot women equal authority at work or equal incomes (Stavrou et al., 1996: Mamuka, 1996). Their access to higher management grades is restricted, with successive steps in the hierarchy having fewer places for women. It is notable that in Cypriot society, any given occupation, and in any given public office, the higher the rank, prestige or influence, the smaller the proportion of women. This conclusion is also derived, from Table 8.

Table 8 Cypriot women in management positions, 1993

Managers by Status and Functional Department	WOMEN	MEN	Percentage of Women
Directors and Chief Executives	6	**186**	3
Production & Operation Managers	270	1,718	16
- in manufacturing	16	269	6
- in construction	2	27	8
- in wholesale & retail	51	207	25
- in restaurant & hotels	18	130	**14**
- in transport & storage	8	154	5
- in business	45	359	13
Finance & Administration	37	260	14
Personal & Industrial Relationships	60	245	24
Sales & Marketing	55	381	14
Advertising & Public Relations	20	89	23
Supply & Distribution	6	35	17
Computing Services	1	24	4
Research & Development	2	11	18
Others	5	33	15
TOTAL	462	2,991	15

Source: Labour Statistics, 1994. DSR, GPO.

As already discussed, Cypriot women have fewer opportunities to find employment in prestigious jobs or to participate in decision making. For example, in 1993, 280 out of 975 registered Cypriot lawyers were women. In the same year there were only 12 women judges, and 61 men. In the Supreme Court there have been only men since the establishment of the Republic of Cyprus (1960).

Although Cypriot women have managed during recent years to attain university

education, they are usually found in positions with lower prestige. In medicine, for example, very few women are surgeons or specialists, while most of them are pediatricians and general practitioners. In Table 9 there is an illustration of women's participation in private medical clinics.

Table 9 Cypriot women in private medicine, 1995

	Women	Total	%
Pediatricians	72	174	125.2
General Practitioners	35	77	26.9
Pathologists	10	114	11.4
Gynecologists	8	99	7.9
Dermatologists	10	51	5.1
Anesthesiologist	8	24	1.9
Ophthalmologists	4	46	1.8
General Surgeons	2	62	1.2
ENT Specialists	3	40	1.2
Cardiologists	2	51	1.0
Neurologists	0	18	
Orthopaedics	0	40	
Urologists	0	17	
Psychiatrists	0	7	

Source: Cypriot Medical Association.

Of 3,850 police members working, in the, Cypriot Police,, 280 are, women, employed since the independence of Cyprus in 1960. None of them is appointed in the leadership or to high positions and decision making centres of the police body.

After the Government decision of 23/3/90, it was permitted for women to find a job in the Cypriot Army. As a result, 450 female soldiers in the Cyprus Army were appointed Sergeants. According to recent reports in the mass media, these women

are almost all of them confined to clerical and other similar duties (Drusiotis, 1997).

At the University of Cyprus during the academic year 1996-97, out of 175 members of the academic staff 47 were women. In the Senate there were only two women out of 23 members.

Two women pilots out of 144 were found in 1996 to be employed by Cyprus Airways and Eurocypria.

Payment

The majority of contemporary Cypriot women are found to be employed in low paid, low status jobs (DSR-LR, 1995). Some opportunities recently became available to women in prestigious professions which appear to have affected their level of earnings. In Table 10 we can see the improvement which has taken place in the overall earnings of women employees relative to men's earnings during the period 1986-1995.

Despite the gradual reduction of the differences between male and female salaries, males continue to receive 49.8% higher rates of pay in 1993 compared to 50.7% in the previous year (DSR-LR, 1994). According to the same report, women in Cyprus still receive much lower salaries than their male counterparts in almost all occupational groups; the wage difference between males and females is greater in the private sector, while in the public sector individuals are rewarded according to their position or perceived productivity regardless of sex. In this sector wage discrimination based on sex is less than in the private sector. Of course, occupational discrimination may lead women into lower paid jobs, which would be reflected in lower average wage levels.

Table 10 Average monthly rates of pay by sex 1986-1995 (C.P.)

	1986	1988	1990	1992	1995
Males	399	453	532	630	768
Females	252	293	349	418	524

Source: Department of Statistics and Research. Ministry of Finance.

It is generally accepted that sex discrimination in pay and other conditions of employment is widely practiced worldwide (Stockman, Bonney, Xuewen, 1994). In Cyprus equal pay is applied only to government, semi-government and banking organisations. A survey conducted in 1987 by the Ministry of Labour, has identified

that wage discrimination against women is widespread in private firms. The suNey found that in nineteen of the forty-two enterprises there was discrimination against women, while in the others the difference in pay was accounted for by the difference in job content (House, 1987).

In another piece of research, House and Stylianou (1987), used data collected by the SuNey of Wages and Salaries in order to find the factors of wage discrimi- nation against women. Considering that work experience and the attained educa- tional level were two important parameters determining wage scale, the age-earn- ings profiles for eight different educational groups by sex were derived: i.e. (no schooling, Primary, Secondary Drop-out, Secondary General, Secondary Technical, Post-Primary Vocational, Post-Secondary Vocational and University Graduates). According to the suNey, the age-earning profile of women for each educational level was found to lie much below than that of men. This indicated not only that women's average earnings were lower than men's but that they also increased at a slower rate with age than men's earnings. The age-earnings implied that age and education did not seem to be responsible for the earning differences of the two sexes, since women earned less than men of the same age and educational level. House claimed that the greatest part of the average sex earning differential remained unexplained, even after incorporating proxy variables for educational attainments, work experience, training, occupation and sector of employment.

Although legislation has changed, claiming equal payment for both sexes, low pay is a most consistent feature of women's work (DSR-LR, 1995). This phenome-non, however, is common in many other societies. In Britain, for example, at least four million women are low paid (Dex et al., 1994).

The findings of the SuNey of the Employment Status of Women in Cyprus (ML, 1983), provided useful information on the employers' attitudes towards the two sexes. The suNey revealed, for example, that employers' attitudes to the recruit-ment, promotion and training of women contributed to the sex pay differentials. According to the suNey, employers gave the following reasons for sex earning dif-ferences: lower productivity, trade union agreements and willingness of women to work for lower wages. The suNey revealed, also, that employers were found to believe that women were in general not committed to the job market, though inves-tigation showed that the overall Jabour market experience of younger women exceeds that of comparable men. Men were said to fare better than women for all the performance indicators except for taking orders from supeNisors. The employ-ers claimed that the greatest disparity between the sexes was attributed to women's greater absenteeism, voluntary turnover, and lower supeNisory skills.

The SuNey of Graduating Students Abroad (ML, 1988) revealed that females anticipated being employed with a lower salary than males; on average they expect-ed a salary 77 percent of the salary anticipated by males.

Sexual Harassment

In addition to the legitimised authority of hierarchies and control at work, there is also the intimidation of sexual harassment. According to feminist theory, harassment and other kinds of oppression may be used to drive women out of male-dominated working environments, and to reduce women's status within them (Marshall, 1995). The fact that authority structures are usually in male hands may mean that such practices are in effect officially sanctioned; they are certainly hard to resist, even with the aid of sexual harassment policies. According to Liza Adkins (1995:125-6):

This routine sexual harassment by the men operatives of the women catering assistants caused the women workers and the catering manager great distress - not least because as the catering manager said, "there was nothing we could do about it...Constantly complained to the parks manager, but he didn't do anything. He even used to laugh about it. And I complained to the general manager and he didn't do anything either...and the operatives never took any notice of me. If I tried to stop them, it would just make them worse. They'd make out it was all a laugh...they even did it to me."

In Cyprus, recent research has indicated an increase of sexual harassment against women (Peristianis and Zambela, 1997). A relevant bill for the protection of the victims of sexual harassment, which was sent in 1996 by the Cyprus Government to the House of Parliament was rejected. Moreover, some of the male MPs laughed during the presentation of the bill while some others claimed that "most victims of sexual harassment in the work-place are men."

In his capacity as a counsellor, the author of this thesis over recent years has heard of the experiences of clients as the victims of sexual harassment in the work place. The harassment involved touching or peeping and sometimes a proposition for sexual relations. Some of these women confessed their involvement in an intimate relationship with their boss, even though they were aware of the fact that their boss was married to another woman.

In Britain, sexual harassment at work is also common, and information suggests that about two-thirds of women employees have experienced some form of harassment on several occasions (Palmer, 1992).

According to US Equal Employment Opportunity Commission (EEOC, 1992), sexual harassment problems are reported at 90 per cent of major corporations. Women in every industry and profession report that sexual harassment is most common during apprenticeship. This type of persistent sexual discrimination con-

tributes to the high cost of the rapid turnover of women executives, negatively impacting profits of major corporations, which, in turn negatively impacts upon the economy and society as a whole. In addition, sexual harassment, or at least sexual discrimination seems to lie behind women's decision to start their own business *(ibid).*

Work and the Family

Cypriot men until today consider housework as women's duty and avoid providing any substantial assistance (Stavrou et al., 1996). The origins of this attitude comes from the patriarchal ideology which gives emphasis to women's domesticity. As a result, housework in the Cypriot family continues to be devalued and considered not "work".

As previously discussed, feminist theory believes that housework is work. According to these theories, there are a number of ways in which domestic labour differs from waged work (Malos, 1980). No other occupation is exclusively allocated to one gender, but includes almost all adults of that gender among its practitioners (Oakley, 1984). No other job is so intimately bound up with personal ties or so grounded in an ethic of personal service (Jackson, 1993).

In the Cypriot family there is no job description for a domestic labourer, no agreed hours and conditions of work and no trade unions. What is the "unwritten" or the "moral" agreement is that this job is for women, as men are involved with "important" duties such as those of economic, ethnic and political issues which are more related to aggressive behaviour (Stavrou, 1991). These male duties are accepted, also, by Cypriot women as important, as they consider men as their protectors from the enemy *(ibid).*

In the. Cypriot family, housework is work without boundaries or limits, with no clear beginning and end points, with no guaranteed space or time for leisure. Stevi Jackson (1993) suggests that the primary issue with household is that it is unpaid work. As she pointed out:

> Housework is, of course, unpaid; it is not part of the wage economy but takes place within private households. This is related to other specific features of domestic labour. It lacks clear temporal definition because, unlike most paid work, it does not involve the sale of labour power for a set number of hours in return for a given wage. The goods and services which a housewife produces are consumed by her immediate family rather than being destined for the commodity market. (Jackson, 1993:187)

It is clear that household takes place within social relations very differently from those of capitalist production. These relations appear to be patriarchal. According

to Christine Delphy (1984) and Sylvia Walby (1986, 1990) housework takes place within a domestic or patriarchal mode of production in which men exploit women's labour. A woman is not simply a dependant whom her male partner's wage must support: she contributes to his capacity to earn that wage. She produces his labour power which he exchanges for a wage which he controls. It is in this sense that a man may be said to exploit his wife's labour within a patriarchal mode of production.

In Cyprus, domestic work seems to be any work which is done by anybody without payment. Traditionally, it has been taken for granted as an implicit element of the marriage contract, that Cypriot women take primary responsibility for domestic work. This is also evident in many other societies, even developed ones. In Britain, for example, research studies showed that women did most of the household duties from the beginning of their married life (Leonard, 1980; Delphy, 1984; Gittings, 1985), even if they were employed full-time (Witherspoon, 1988). They saw themselves as overburdened "because of their working role and not because of their husband's lack of domestic involvement" (Mansfield and Collard, 1988:135).

Domesticity in Cypriot culture is built into much of women's paid work. Some work actually takes place at home where women combine paid and domestic work as childminders, landladies, mail-order agents or outworkers. Domesticity is also built into the skills that women use in public, paid work.

Housework is also dangerous without any insurance coverage. A recent report, for example, claimed that over 2,000 people in Cyprus are treated for burns in government hospitals every year, mainly as a result of accidents in the kitchen with hot oil and water; most of them were women and children (DSR-HR, 1995).

According to Trigiorgis (1996), Cypriot women's home environment is still a place of work. They are found to be overburdened and hard-working. Nevertheless, most of them declare their satisfaction in being able to have a position in the labour market and they are not interested in having a two-year leave to rear their children (Stavrou *et al.,* 1996).

As in other capitalist societies (Balbo, 1987; Smith, 1988), Cypriot women appear to engage in a complex web of work activities which span both public and private spheres. This complex interweaving of women's work activities in the household and the work-place, in formal and informal economies, is a universal feature of women's lives (Witz, 1993).

Marriage bars that had for years excluded Cypriot women from paid work disappeared under the intensive necessity in a capitalist economy for cheap labourers. None the less, as in other societies (Walby, 1986; Pascall, 1997), marriage, motherhood and dependence on men's earnings, have continued until today to be the alternatives to paid work. In addition, domestic labour continues to be a central issue in their lives *(ibid).*

In feminist theory, women's domestic labour is central not just to the family but to the capitalist system as well. According to Lindsay German (1989:75):

The connection of domestic labour with capitalism lies not in the production of values but in the reproduction of labour-power. The housewife produces only use-values; but these in turn affect the value of labour-power.

Cypriot working class women are found in massive numbers to be involved in low paid jobs in the industry. These women are also committed to household duties. In many cases, during weekends, rural working class women are found in the fields and farms working hard for the family's income. Despite their hard effort, however, women's work is still considered less important than men's, and women themselves are dependents of men. In addition, Cypriot women perform, as in other societies (Witz, 1993), a whole variety of unpaid caring activities in the neighbourhood and the community, as well as for family members and kin.

Conclusion

Cypriot women appear to engage in massive numbers in paid work, as a result of the development of a capitalist economy, which took place during the years after the independence of Cyprus and particularly after the 1974 war. Their participation in the labour market and their unpaid services in their homes have substantially contributed to the creation of the "economic miracle" which took place in Cyprus after the 1974 war.

Women's participation in the labour market provided them with the opportunity to gain more rights and some independence from their fathers or husbands; nevertheless, they are found to be dependent on the economic system for welfare services and job opportunities. In addition, their participation in paid work has been characterised by their exploitation as they are involved in low paid and low prestige jobs as well as low representation and participation in decision making. Moreover, Cypriot women appear to engage not only in paid work but also in unpaid work in the household where they are responsible for the bulk of the household duties, child-care and other forms of physical and emotional labour. As a result, Cypriot women continue to serve more and gain less as the capitalist economy does not work in their favour.

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IMPACT OF TOURISM ON LOCAL RESIDENTS: ENVIRONMENTAL AND SOCIOECONOMIC EFFECTS

Jonathan Warner, Sevgin Akis, and Nicos Peristianis

Abstract

An increasing number of countries, among them many within the Mediterranean, have turned to tourism as a way of providing employment, increasing national income, and avoiding current account deficits. As resorts developed, a realization began to grow in some of the more developed areas that tourism was a mixed blessing, and that, for some people at least, the benefits of tourism might be outweighed by the costs.

Results from a larger comparative study of the impacts of tourism on two communities: Ayia Napa/Paralimni in the southern part of Cyprus (among Greek Cypriot residents), and Kyrenia in the northern part (among Turkish Cypriots).

Evidence suggests that the prevailing attitude is that socio-economic and environmental costs of development must be accepted for the greater overall wealth of both local residents and of Cyprus as a whole.

In view of the economic advantages of tourism, and the lack of awareness of the less-evident environmental costs, it is not surprising that there is little concern over any negative effects of tourism development, even if these may jeopardize the long-term viability of the economic development of the island. Given that the possibili- ties for sustainable, alternative tourism have yet largely to be explored, the need to change attitudes is paramount, if Cyprus is not to end up as yet another over-developed Mediterranean island.

Introduction: Tourism in Cyprus

Tourism in Cyprus developed rapidly in the 1960's, as reliable and cheap air transport became available. With the increase in disposable income in Western Europe in the post-war period, plus the desire for a sun-tanned body and the exploration of other lands and cultures, holidaymakers from North-West Europe sought

to leave traditional resorts in their own countries, and spend their vacations in warmer climates. Cyprus being endowed with a good climate, a rich cultural history, virgin beaches and unspoiled landscape, rapidly became a favourite choice.

Development of hotels and other tourist facilities was rapid in the late 1960's and early 1970's, particularly in the suburb of Varosha, to the south of Famagusta.

Although the Greek Cypriot economy suffered a severe blow immediately after 1974, its recovery soon after was equally dramatic. The lost hotels of Varosha were replaced by new ones further south, and the resorts of Ayia Napa (in the south-east corner of the island) and later the Protaras area of Paralimni (a little further north), underwent fast paced development. In addition, expansion in the other towns of the south continued, so that today there are few beaches between Protaras and Polis (on the west coast) which do not have hotels. It is only in the last few years that there has been any concern expressed about the negative social and environmen- tal effects of such development, and there has been little effective action taken to curb the growth of an industry which now caters for over 2,000,000 visitors per annum, and which contributes well over a billion dollars annually. Concern about the volume of visitors, if it is expressed at all, is usually over the "low quality" of the package tourists, who spend comparatively little, and over the relative increase in the cost of Cyprus as a holiday destination, as most major currencies have fallen relative to the Cyprus pound over the past few years. (For more details on the development of tourism in the south, see, inter alia, Kammas, 1993.)

By contrast, the economy in the northern part of the island stagnated after 1974, although this part of Cyprus had accounted for 65% of the island's tourism capacity. Many of the more isolated hotels were deserted, and the whole of the Varosha area was left to decay. The success of the Greek Cypriot campaign for non-recognition of the administration in the north resulted in an international embargo, one feature of which is a lack of direct air flights to the north. Allied to this, the inexperience of the new Turkish Cypriot operators and the reluctance of established tour operators to offer holidays in the north, all contributed to the stagnation of the holiday industry. Only visitors from mainland Turkey came in any numbers. The 1983 unilateral declaration of independence of the north of Cyprus brought little improvement, although the administration's tax incentives to investors in the tourism sector from 1987 onwards has seen steady modest growth in the tourism infrastructure and the number of holidaymakers coming to the north, to around 250,000 con- tributing over $150 million to the Turkish Cypriot administration's finances. As a result of these relatively-small numbers and slow growth, it has only been in the past few years that environmental pressures, in the form of increased pollution and degradation of land, have become apparent.

Residents' Attitudes to Tourism

The research reported in this section, on residents' attitudes towards tourism, was conducted during the summer of 1994 at two locations: among Greek Cypriots in Ayia Napa/Paralimni in the southern part of Cyprus, and among Turkish Cypriots in Kyrenia. Two hundred (200) questionnaires were distributed to local residents in Paralimni and Kyrenia, and a further one hundred and twenty one (121) in Ayia Napa, a village with a smaller number of local permanent residents. This was the first time since the division of Cyprus in 1974 that a comparative study of Greek and Turkish Cypriot attitudes was undertaken.

Owing to the political situation in Cyprus, it was not possible for the same interview team to conduct the research in both Paralimni/Ayia Napa and Kyrenia. Consequently, the second author conducted the work in Kyrenia, while the third organised the collection of the Paralimni/Ayia Napa data.

Before 1974, Ayia Napa was an obscure sea-side village, whose inhabitants survived on fishing and agriculture. After 1974, the area developed rapidly, from 126 beds in 1972, through 3,305 (13% of the south's total) in 1982, to 15,982 (21%) in 1994. The once small village now appears to be a large town, and is Cyprus' most important tourist destination. Most village houses, especially those in the old village centre, have been converted into tourist restaurants, public houses and shops. Numerous new hotels, hotel apartments and other tourist amenities have encircled the old village, to a radius of several miles. The resident population is just under 1500 - still the size of a village; thus during the winter the "town" seems empty and almost dead. Perhaps surprisingly, the people living in Ayia Napa ("the neon-lit topless sex capital of Cyprus", as one newspaper memorably put it), tended to be more in favour of development than those in the other two places surveyed.

Unlike Ayia Napa, Paralimni village is not dominated by tourism. A stretch of intense tourism development, with its hotels, apartments, public houses and restaurants, has sprung up outside the village, in an area known as Protaras, which stretches eastwards from Paralimni to the sea. Thus, the village itself is not infiltrated by visitors to the extent that Ayia Napa is: indeed, that example is something the 6,000 residents of Paralimni, say they wish to avoid at all costs.

In the north, Kyrenia is the most developed centre of the nascent Turkish Cypriot tourist industry. The town is of ancient foundation, and boasts a castle which was already old at the time of the Ottoman conquest of Cyprus in 1570-71. Traditionally, Kyrenia depended on its port for trade, but the agricultural potential of its hinterland was considerable. Kyrenia was first developed during the 1960's as a relatively upmarket holiday destination, but lagged behind the Famagusta area in growth. Following the division of the island, tourist numbers in the Turkish-controlled area plummeted, and it is only in the last ten years that a significant number of non-Turkish holiday-makers have found their way back again. The resident population

of the town is 7,600; hotels in Kyrenia district (which includes the ribbon development along the coast both east and west of the town proper) provide 4643 beds, and, during the 1994 season, had an average occupancy rate of 38%. Tourism tends to be highly seasonal, which partially explains this low figure. However, even in the best month for 1994 (August), the occupancy rate was only 66%; hotels are full only at the Turkish religious holidays (bayrams), when special charter flights from Istanbul bring many visitors. Most holiday-makers at other seasons are British or German. The overall impression is of a regional centre, much of this is locally generated, and does not vary much with the seasons.

Results

The questionnaire completed by our respondents comprised four sections. The first consisted of 15 attitudinal statements concerning the economic, social and environmental impacts of tourism, five in each of the three categories. A final statement sought to provide information on the overall assessment of tourism by the respondent. Each question gave a choice of five answers, ranging from "strongly agree", through "neither agree nor disagree" to "strongly disagree'. The full results are found in Akis, Peristianis and Warner (1996); we are concerned here primarily with the answers concerning environmental / socioeconomic effects included in the questionnaire. The relevant questions are included in an appendix to this paper.

Questions related to the environmental impact of tourism sought perceptions of the effect of tourism on preservation of antiquities, public facilities and roads, and the overall quality of the local environment. A further question asked the respon- dent for his or her overall assessment of the impact of tourism, in order to see if, in the opinion of residents, the perceived environmental problems outweighed the economic benefits.

Table 1 below demonstrates no significant differences between the three places in their residents' perceptions of the economic effects of tourism. The differences in the social and environmental impact measures between Kyrenia and the Ayia Napa/Protaras are statistically significant at a 5% confidence level. The Turkish Cypriots see the social and environmental impacts of tourism as less negative than the Greek Cypriots, with the biggest difference between the two apparent in the median scores for environmental effects. The relative underdevelopment of the north is the most simple explanation of this.

Table 1 Median values calculated from the responses given to the economic, social and environmental impacts of tourism

Impact / Areas	Economic	Social	Environmental
Paralimni	11	10	9
Ayia Napa	11	9	9
Kyrenia	11	13	13

Residents of both areas are to some extent aware that mass tourism has negative environmental impacts, as is evidenced by the responses to the last three of the five statements. Their overall positive assessment of the sort of tourism they have, (see below), however, suggests that they are prepared to pay the environmental price. The higher proportions of neutral responses to the last three questions in Kyrenia probably reflects the relatively low level of development there. People are less aware of the possible drawbacks of hotel construction and large numbers of visitors.

A large majority (92%) of the Turkish Cypriots interviewed believe that tourism provides an incentive for the restoration of historical buildings and the conservation of natural resources. Many, however, qualified their agreement by pointing out that, in practice, very little restoration work had taken place. The proportions for Paralimni and Ayia Napa are around 83%. Greek Cypriot respondents often referred to old churches, town squares and houses that had been restored to become showpieces for the visitors. More of the Greek Cypriot respondents (87%) agreed that tourism meant that roads and other public facilities were maintained to a higher standard. The figure for the Turkish Cypriots was 66.5%. Ayia Napa, and, to a lesser extent Paralimni, were underdeveloped or neglected areas prior to the advent of mass tourism. Possibly the higher degree of skepticism about the posi- tive effect of tourism on infrastructure from the Turkish Cypriots can be explained by the generally poorer quality of public facilities in the north of Cyprus.

Ayia Napa/Paralimni residents were twice as likely to agree than those in Kyrenia with statements which indicate the existence of negative environmental impacts of tourism (such as overcrowding of beaches, traffic congestion and pollution).

Surprisingly, Ayia Napa residents agree to a lesser extent than those in Paralimni, perhaps because they have become immune to the problem, or because they reason that, as their life is so inextricably bound up with tourism, they must accept any difficulties as but a small price to pay. The large group of "neutral' Turkish Cypriot responses to these questions is most likely indicative of the lower level of development in Kyrenia, so that the environmental stresses are less. (See tables 2, 3 and 4 below for details of responses.)

Table 2 Environmental impacts of tourism development in Kyrenia

Statement	Agree	Neutral	Disagree	Total
Tourism provides an incentive for the restoration of historical buildings and tor the conservation of natural resources	184 (92%)	16 (8%)	- -	200
Roads and other public facilities are kept at a higher standard	133 (65%)	66 (33%)	1 (0.5%)	200
Tourism results in unpleasantly crowded beaches, parks, picnic places, etc.	66 (33%)	128 (77%)	6 (1%)	200
Tourists greatly add to the traffic congestion, noise, and pollution	95 (47.5%)	98 (49%)	7 (3.5%)	200
Construction of hotels and other tourist facilities has destroyed the natural environment	95 (47.5%)	98 (49%)	7 (3.5%)	200

Table 3 Environmental impacts of tourism development in Paralimni

Statement	Agree	Neutral	Disagree	Total
Tourism provides in incentive for the restoration of historical buildings and for the conservation of natural resources	162 (81%)	27 (13.5%)	11 (5.5%)	200
Roads and other public facilities are kept at a higher standard	167 (83.5%)	27 (13.5%)	6 (3%)	200
Tourism results in unpleasantly crowded beaches, parks, picnic places, etc.	165 (82.5%)	22 (11%)	13 (6.5%)	200
Tourists greatly add to the traffic congestion, noise, and pollution	170 (85%)	20 (10%)	10 (5%)	200 200
Construction of hotels and other tourist facilities has destroyed the natural environment	170 (85%)	20 (10%)	10 (5%)	200

Table 4 Environmental impacts of tourism development in Ayia Napa

Statement	Agree	Neutral	Disagree	Total
Tourism provides in incentive for the restoration of historical buildings and for the conservation of natural resources	103 (85%)	12 (10%)	6 (5%)	121
Roads and other public facilities are kept at a higher standard	113 (93%)	5 (4%)	3 (3%)	121
Tourism results in unpleasantly crowded beaches, parks, picnic places, etc.	90 (74%)	19 (16%)	12 (10%)	121
Tourists greatly add to the traffic congestion, noise, and pollution	85 (70%)	17 (14%)	19 (16%)	121
Construction of hotels and other tourist facilities has destroyed the natural environment	112 (93%)	4 (3%)	5 (4%)	121

Taking account of the sizeable economic benefits of tourism, most respondents agreed that the benefits of mass tourism outweigh the costs.

Again, it is surprising that Ayia Napa residents are more positive than Paralimni people, and more positive than those in Kyrenia about tourism's net benefit for the country. The best explanation is, presumably, that they see their lives as completely dependent on tourism, with no viable alternative available. Understandably, a return to the poverty and hardship of the past is not an attractive proposition. In Paralimni and Kyrenia, other activities (notably agriculture in the case of the former) are still an important source of income and employment, and dependency on tourism is less (see table 5).

Table 5 Overall evaluation of tourism: the benefits of tourism are greater than the costs to the people of the area

Attitudes / Areas	Agree	Neutral	Disagree	Total
Kyrenia	186 (93%)	9 (4.5%)	5 (2.5%)	200
Paralimni	152 (76%)	26 (13%)	22 (11%)	200
Ayia Napa	98 (81%)	11 (9%)	12 (10%)	121

The residents of all three places are even more positive in their evaluation of the impact of tourism for Cyprus. In their own case, they may be witnesses to some minor problems, but for the island as a whole they assume that such problems are a price well worth paying. Put differently, they feel that, even though they are the primary beneficiaries from tourism, they are also the ones who suffer most from its effects. In this sense, their gain cannot be seen as entirely a selfish one (see table 6).

Table 6 Overall evaluation of tourism: the benefits of tourism are greater than the costs to the people of the country

Attitudes / Areas	Agree	Neutral	Disagree	Total
Kyrenia	190 (95%)	7 (3.5%)	3 (1.5%)	200
Paralimni	166 (83%)	13 (6.5%)	21 (10.5%)	200
Ayia Napa	117 (97%)	2 (1.5%)	2 (1.5%)	121

The data described above tend to confirm Butler's hypothesis (Butler, 1980), which predicts that Kyrenia residents, who have comparatively little exposure to tourism, are more "pro-tourism" than people in Ayia Napa and Paralimni, where experience of tourism (and tourists) is more extensive. It is interesting to note, though, that the neutral, "don't know" response is higher for the Kyrenia residents, probably indicative of a "wait-and-see" attitude. That is, as their experience of tourism is less, they are unwilling to express an opinion until the effects become clearer to them.

Cypriot Attitudes to the Environment

If tourism has brought overall economic gain to the island, residents do not seem to relate the influx of tourists to the environmental problems of Cyprus. In fact, environmental awareness seems to be largely confined to global issues, with relatively little significance or importance attached to local problems. However, concern about the effects of tourism in Cyprus has been expressed by some. Indicatively, a book by the ex-Director General of the Cyprus Tourism Organisation, Antonios Andronikou, on tourism development was subtitled: "harmonisation of tourism with the environment" (Andronikou, 1987). The major English-language newspapers (Cyprus Weekly in the south, Cyprus Today in the north) frequently report on cases of environmental degradation in Cyprus, and the major local Greek and Turkish language dailies have columns on environmental topics. The pressures on the Akamas peninsula in western Cyprus, where there has been an increase in vehi- cles driving on to the beaches, threatening the turtles which nest in the area, are

typical of the sort of problem that the expansion of tourism has brought.

Visitors to both sides of the island frequently complain about the amount of litter to be seen, particularly discarded bags and cans. While some of the plastic waste on beaches, particularly on the east and north coasts, is due to illegal dumping by ships, and waste washed in from Lebanon (together contributing approximately sixteen tonnes a day to the beaches of Famagusta Bay, according to one estimate), the large volume of cans, paper and plastic in piles away from the shore is mute witness to the habits of the local people.

One would expect that, as criticism of mass tourism from an environmental viewpoint, and criticism of the quantity of litter by visitors both increased, local residents in tourist destinations would be seeking to put their own house in order. It might be expected that this would manifest itself in increased awareness of environmental problems, and membership of environmental organisations, as well as greater coverage of environmental issues in the newspapers. Interestingly, though, it would appear that it is possible to be a supporter of environmental organisations while acting in an environmentally-unfriendly fashion.

In an effort to assess attitudes of Turkish Cypriots to the environment, the second author organised a questionnaire in spring 1994, of a representative selection of 409 subjects. The full results are reported in Girdner and Akis (1996). While 40% of respondents saw economic problems as the most important for the world today, 26% named environmental problems first (see table 7).

Opinions were divided as to what the biggest environmental problem was, with the most popular answers being air pollution (22%), water pollution (19%), the destruction of the ozone layer (18%) and overpopulation (14%). Table 8 gives the details.

Table 7 The basic problems of today's world, in the opinion of Turkish Cypriots

Problem	No. of Respondents	Percentage
Economic Problems	161	40
Environmental Problems	106	26
Wars	53	13
Political Problems	26	6
Other Problems	38	9
No answer	25	6
Total	409	100

Table 8 The biggest environmental problem facing us today, in the opinion of Turkish Cypriots

Problem	No. of Respondents	Percentage
Air pollution	90	22
Water pollution	78	19
Ozone layer depletion	74	18
Overpopulation	61	15
Rain forest destruction	48	12
No answer	35	
No idea	17	
Other	2	0
Total	409	100

Interestingly, all the problems reported are global ones: there was no mention of the local environmental problems. Indeed, when the Market Research organisation COMAR conducted a survey in March 1995 the environment did not feature as a major issue. Perhaps predictably, at a time just before a Turkish Cypriot election, the Cyprus problem (57%) and economic problems (28%) were the most men- tioned.

Returning to the earlier survey, a large majority, 80%, predictably believed that industrial development would lead inevitably to environmental problems, while 54% thought that increased tourism would be responsible for increases in noise, traffic congestion and pollution, a figure somewhat at variance with the 22% figure for Kyrenia residents reported in table 2. Possibly a survey which concentrates solely on environmental factors in itself raises awareness of potential environmental prob-lems.

Not surprisingly, a huge majority (over 90%) wanted environmental education in schools, and that the forest areas of north Cyprus should be expanded. 92% con-sidered themselves to be environmentally aware, although only 57% were aware that the Turkish Cypriot administration does have an environmental department, and only 28% could correctly name its head at the time.

The traditional Turkish perspective of the state as the provider of all (Devlet Baba - Father State) is demonstrated by the fact that 42% felt that it was the governing authorities' responsibility to deal with environmental problems, compared with 29% opting for individuals' responsibility and 18% for NGO's (see table 9). However, only 26% believed that the authorities were sensitive to environmental problems.

Table 9 Who has the most power to solve environmental problems, in the opinion of Turkish Cypriots

Agency	No. of Respondents	Percentage
Government	174	42
Individuals	118	29
Environmental NGO's	73	18
Scientists	33	8
Other	4	1
No answer	7	2
Total	409	100

Individual behaviour, also belied claims to being environmentally concerned. 58% failed to take a canvas shopping bag with them when they went shopping, pre- ferring always to use the plastic bags given out by shops. Despite concern about the ozone layer, only 29% always made the effort to find CFC-free aerosols. 53% threw away their empty bottles, without reusing them.

Unfortunately, the sample did not discriminate between tourist and non-tourist areas. Age, education level, rural/urban residency, or sex did not appear to be significant factors affecting behaviour.

To the best of our knowledge, no similar survey has been carried out in the south of the island. However, a 1988 consultancy report for the Cyprus Tourist Organisation (Vakis and Peristianis, 1988) asked people in the tourist areas of Paralimni, Ayia Napa, Yermasoyia (Limassol) and Paphos (as well as Tseri, a non-tourist area which served as control, for comparison purposes), what they felt were the most negative effects of tourism. As the question was open-ended, respon- dents had the opportunity to stress environmental and non-environmental prob- lems. Interestingly, and possibly as a result of the topicality of the subject at that time, the health threat from AIDS and other diseases emerged as the greatest con- cern. The environment specifically was mentioned by only just over 2% of those surveyed. (See table 10 for details).

When questioned specifically about the environmental effects of tourism, almost two-fifths thought that tourism led to environmental improvements (see table 11).

Table 1O Most important negative effects of tourism on Cyprus, in the opinion of Greek Cypriots

Problem \ Place	Paralimni	Ayia Napa	Yermasoyia	Paphos	Tseri	Total
Increase in Cost of Living	3	-	6	15	2	26 2.4%
Improper or Immoral Dress	5	1	4	-	14	24 2.2%
Immorality	82	54	65	103	31	33 31.3%
"Bad habits" "Dirtyness"	19	12	11	44	21	107 10.0%
Noise and Drunkenness	3	6	7	2	6	24 2.2%
AIDS and other diseases	51	18	58	47	90	264 24.6%
Environmental Problems	4	1	-	11	33	24 2.2%
Drugs	2	2	11	13	7	3 3.3%
Improper Behaviour	-	-	4	-	-	4 0.4%
Others	9	7	17	20	14	67 6.3%
No negative effects	25	13	10	33	16	97 9.1%
No opinion	3	19	14	20	7	63 5.9%
Totals	206	133	208	30€	216	1071

Table 11 Impact of tourism on the environment, in the opinion of Greek Cypriots

Places / Impact	Paralimni	Ayia Napa	Yermasoyeia	Paphos	Tseri	TOTAL
Improvement	158	53	75	79	57	422 39.4%
Damage	36	73	128	197	150	584 54.5%
No Opinion	12	7	5	32	9	65 6.1%
TOTAL	206	13	208	308	216	1071

Residents' environmental concerns, however small, are certainly worth noting. In both parts of the island, a number of environmental groups have been formed, reflecting both local and global concerns. In the south, just under twenty such non-governmental organisations (NGO's) are active in environmental matters, ranging from local branches of international organisations such as Green Peace, to groups with more local aims. Membership varies from a mere handful to several hundreds. In the north, only 3% of those surveyed claimed membership of any of north Cyprus' twelve environmental NGO's. However, this does not compare too unfavourably with other countries, where membership is at similar low levels. The biggest NGO's are Kuskor, the bird society, and Yesil Baris (Green Peace; although the organisa- tion has no connection with the internationally-known Green Peace), with over a thousand members apiece. However, the number of active members is much smaller: the Chairman of Green Peace estimates that only 5% of the organisation's membership do anything more than just pay their subscriptions.

Unlike in the south, where most of the initiative for the formation and operation of environmental NGO's comes from Greek Cypriot locals, the expatriate commu- nity in the north is more active than the local Turkish Cypriots in forming and sup- porting them. The turtle society, the National Trust, and the sustainable develop- ment groups ProAction and the north Nicosia Chapter of the Society for International Development were all instigated by foreign residents. As such, the NGO's run the risk of being dismissed by both the Turkish Cypriot administration and the local people as merely the invention of interfering foreigners with ulterior motives. Certainly it is easy for the NGO's to come across as anti-development, as they seek, at the very least, to place constraints on the growth of mass tourism.

(For details of the work of the NGO's see the articles by Peter Cant, Lorna Swindells and Ersan Uluchan in Warner, 1992).

Nevertheless, there is little doubt that in other countries environmental NGO's aided by media interest and support, have been able to place issues of sustainable development and the need for environmentally-friendly policies on the political agenda: as the membership of the NGO's in north Cyprus includes members of the ruling elite, their influence on government is potentially significant, even if, in general, they lack grassroots support. The idea of ecologically-sensitive alternatives to mass tourism is a new one to many people, despite the evidence that it can form a successful tourism strategy. However, given that the "government leads" is the prevailing mentality, convincing politicians that alternative tourism is a viable option may be the best way of ensuring environmentally-friendly development.

ALTERNATIVE TOURISM AND THE FUTURE

It emerged from the first *suNey* reported above that there were some significant differences between north and south in the attitudes of residents to tourism development, and in how residents viewed the effects of that development. Both communities, though, saw tourism as a positive thing.

In general, Cyprus has been slow to recognise the problems of environmental degradation as a result of the growth of tourism, and slow to take action in order to combat them. Pressure for the growth of mass tourism facilities continues in the south, despite almost annual conferences urging restraint, and an increase in alternatives to mass tourism, stressing quality and sustainability (see, for example, Efthyvoulos, 1997).

Genuine alternative tourism, village-based and seeking to minimise visitors' environmental impact, is as yet rare in Cyprus. Only one project, in the west of the island, is up and running. Involving five (Greek Cypriot) villages - Kathikas, Pano and Kato Akourdalia, Miliou and Kritou Terra, it is located in the area of Laona just south-east of the environmentally-sensitive (and threatened) Akamas Peninsula. The villages of the area have suffered from severe economic difficulties for a num- ber of years, exemplified by the problem of rural depopulation. The aim of the pro- ject is to inject a new economic vitality into the area, while retaining the villages' charm and rich cultural heritage. The project's versatility allows it to include both local industry and agriculture, to help the villagers improve and modify their envi- ronment by means of grants and loans.

Even before the project started, Sunvil Tour Operators in Britain were bringing visitors to selected villages in the south-western part of Cyprus, and has found a growing demand from a certain sector of the market.

In the north of the island, the smaller number of tourists means that there is less of a threat. However, the demand for government help to extend mass tourism (by subsidising flights to reduce cost levels and prices to those of competing destinations) continues to grow, and may prove to be irresistible.

It is interesting to note that, at a 1995 conference in Kyrenia on the future of tourism, local Turkish Cypriot participants were arguing for the need to expand mass tourism, while the foreign participants noted the potential for alternative tourism in the relatively-unspoiled regions of the north.

The most important area, environmentally, in the north is the Karpas peninsula, an area of almost untouched natural beauty, important as a nesting-site for turtles, and renowned for its isolation and wilderness qualities.

Development is creeping into the area, however, which threatens its integrity. For instance, a number of basic hotels have opened up; small cafes which appeared on the Golden Sands beach have the potential to cause damage by dis- rupting the activities of the turtles which nest there.

The Turkish Cypriots' plan of establishing a Karpas National Park here would aim at preserving it from inappropriate development, while at the same time creating an attraction for visitors. It should be noted that some have expressed concern that the declaration of a National Park would be bad for the economy of Rizokarpaso (Dipkarpaz) village. Environmentalists countered that this would probably not be so, as the long-term benefits of a sustainable village tourism policy could exceed the short-term benefits of either mass tourism or the current creeping development. Rizokarpaso, they point out, has the necessary prerequisites (e.g. traditional architecture, local fauna and flora) to be developed in a way similar to the Laona villages.

The growth of illegal guest houses and cafeterias in the Karpas area show that there is a demand for tourist accommodation in the area and, environmentalists argue, it would be better if this were controlled by the encouragement of alternatives, instead of merely trying to control undesirable development by legislation. Alternative tourism would have the potential to spread the benefits of tourism more widely, and at the same time decrease the environmental pressures that large numbers of visitors cause.

So, what is the way forward for tourism in small island states such as Cyprus? To abolish mass tourism is impossible: too much is at stake in the industry. Decoupling visitor numbers from the need for ever more facilities are possible, but may lead to social pressures. The prospects of success of a search after quality are limited, as Cyprus would be competing in a fiercely competitive market: the rich can choose their own destinations. The growth potential of eco-tourism, as the number of older people with the time, money and inclination to travel increases, is probably more likely to prove a sustainable long-term solution to the problem.

Notes

1. For more details on the development of tourism in the north, see Lockhart, 1994 and Martin, 1993.

2. As reported in the newspaper Kibris 25/3/95.

3. To be fair, however, it should be pointed out that in an economy where most retailing is still through small shops, a choice of aerosols may well not be available, and, in the absence of commercial recycling of bottles, it is creditable that 45% did claim to reuse them.

4. The British forces in Cyprus newspaper, Lion, 6/8/94 p.10 has an interesting article on the scheme. The Laona Project office in Limassol also provides useful leaflets on the scheme and its progress. Other sources used here include the Cyprus Mail (24/11/91) and Sunvil's holiday brochure, 1995.

5. Calculations by the first author indicate that the use value of the area for foreign visitors is around $300,000 per annum by the Travel Cost method (TCM) of valuation. Total use value to visitors and local people is probably between $627,000 and $1,275,000 in 1994. Warner, 1995 details the methodology of this calculations, and also details some of the flora and fauna of the peninsula.

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THE BALKAN CHALLENGE TO RUSSIA'S FOREIGN POLICY: AN ANALYTICAL ASSESSMENT OF RUSSIA'S POLICY TOWARDS GREECE AND TURKEY

Nadia Alexandrova-Arbatova

Abstract

With the end of the Cold War and subsequent to the disintegration of the USSR, new geopolitical realities in the Balkan region have inpressed themselves on Russia's foreign policy formulation. Greece and Turkey, in particular, have posed new challenges and proffered new opportunities. This paper examines those changes and challenges and Russia's response to them.

The Post-Cold War Realities

Understanding the post-Cold War challenges to Russia is essential for comprehension of Russian foreign policy in the Black Sea-Balkan rim and the place of Greece and Turkey in this policy.

One of the most widespread opinions in the West is that Russia's Balkan policy is a logical continuation of the Balkan policy of the USSR. Another mistake is based on the opposite opinion that the end of bipolarity deprived Russia's policy in the region of the very raison d'etre. Consequently, this approach refuses to recognize the Balkan policy of Russia as anything more than a simple "call of the wild" or "call of the blood" according to Huntington's paradigm.

In contrast with the Balkan policy of the USSR[1], which was guided by the strategy of regional competition with the West on its southern flank and the goal of maintaining the "socialist camp" in spite of Yugoslav dissent, Russia's post-Cold War interest in the region has changed. As for the "call of the blood", it should be recognized that ethno-cultural and religious ties are very important, mostly as part of a foreign policy background, but they cannot be a substitute for real national interests. Russia's interests in the region stem from the new geopolitical situation which has

resulted from the disintegration of the Communist era and the end of the Cold War. The erosion of bipolarity followed by the withdrawal of the Mediterranean Eskadra of the former USSR and the dissolution of the Soviet and Yugoslav empires have drastically changed the security environment and the balance of power in the Black Sea-Balkan region.

First, the emergence of newly independent states (NIS) which are still in the process of forming their statehead and national counciousness brought about new problems and challenges. New actors like Ukraine, Georgia, Croatia, Bosnia, etc., entered the Black Sea -Balkan scene after the demise of the former USSR and Yugoslavia. The emergence of the Ukraine as an independent regional player has drastically changed the balance of power in the Black Sea region, which is characterized by the relationship in the triangle Russia-Ukraine-Turkey. The emergence of Azerbaijan with the richest oil fields on the Caspian seabed and its special relationship with Turkey, has bridged the Caspian and the Balkan areas. Thus, the interlacing and conflicting interests of the traditional and new actors have significantly reinforced the regional interdependence. The Balkan area, traditionally perceived as part of the Black Sea - Mediterranean region, became intertwined with the Black Sea-TransCaucasus. These complement and complicatle Russia's foreign policy objectives.

Most of the post-Communist challenges may be explained by the fact that Communism was defeated not by democracy but by nationalism and corruption. The transition is producing a group of seminationalist, semidemocratic regimes. And even in the post-Communist Baltic area - Poland, Estonia, Latvia and Lithuania, where the democratic prospects are promising - there remain many points of contention. In contrast with the post-Communist Baltic area these points of contention and disputes have already developed into bloody conflicts - the Yugoslav conflict, the Trans-Dniester war, the military conflict between Georgia and Abkhazia, are the most illustrative examples of the new tensions in the Black Sea- Balkan rim.

So, Russia's major concern became to maintain its political stability and to contain conflicts across the post-Soviet space, as well as to extend this stability to the areas adjacent to it.

Second, the geopolitical vacuum in the regional balance of power after the end of the US-Soviet bipolarity was being filled by new regional "superpowers", which could expand their influence over the unstable zones of the former Soviet Union or challenge Russia's interest in the region. Long perceived as a peripheral country due to its remoteness from the epicenter of bipolarity, Turkey emerged as a major regional player with the collapse of the USSR. Thus the second foreign policy priority is to prevent or to minimize the negative outcome for Russia of this possible expansion. In this respect, after the dissolution of the USSR, Russia should have

defined who were its natural allies in the region and in parallel it should have elaborated her policy vis-a-vis countries which could challenge her interests.

Third, NATO's involvement in the Yugoslav crisis doubled with NATO's plans to expand eastwards, raised Moscow's concerns about the North-Atlantic alliance's principle of multilateral security organization and Russia's place in the post-Cold War security arrangements. The importance of this challenge goes beyond regio- nal boundaries.

The Turkish Challenge

Russo-Turkish cooperation is essential for stability in the Black Sea-Balkan region and the end of the Cold War unblocked ways to achieve this goal. This cooperation may be important also to cope with non-traditional problems like that of the Caspian Sea whose body of water is growing and threatening to flood thousands of square kilometers of land including the capital of the Russian republic of Dagestan and some of Azerbaijan's oil-drilling sites. To cope with this problem more money and more cooperation are needed.[2]

At the same time it should be recognized that the Russia-Turkey partnership is limited, because the post-Cold War regional strategies of both states are guided by opposite goals. Ankara is interested in undercutting Russia's position in the Black Sea-Balkan region and to expand its influence to the Muslim republics and communities in Central Asia, the Trans-Caucasus region and even in the Russian Federation - the Northern Caucasus area and Tatarstan. Russia's objective is to prevent this expansion.

If Turkey became a real vehicle of integration between the Muslims of the Caucasus, Russia may be confronted with the emergence of the hostile coalition of states with a strong anti-Russian bias. If Turkey became a vehicle of integration between the Muslims of the Russian Federation, Russia may be faced with the problem of its territorial integrity.

It goes without saying that it depends also on Russia to avoid the rebirth of an anti-Moscow coalition of states on an expanded scale. Democratic reforms at home, good neighborly relations with the adjoining and more distant foreign states, suppression of Hussian nee-imperialistic ambitions, consistent defense of reasonably formulated interests - that is all that Russian foreign policy has to do. But at the same time it should be taken into account that the collapse of Sovietism rein- forced anti-Russian moods in the FSU republics prone to put the bulk of responsi- bility for the past grievances on Russians. So, these republics may become an easy prey for the external actors.

The process of lslamicization of Tatarstan and other autonomous republics of the

RF encouraged by Turkey is a normal process per se if it is not transformed into aggressive Islam with an anti-Russian bias. The negative evolution of the domestic situation in Turkey - the repetition of the Algerian scenario or a more self-assertive course of the present leadership under the pressure of religious nationalists - may have an impact on Tatarstan and confront Russia with the problem of new Chechnya but on an expanded scale.

There exist different, if not opposite, opinions on the efficiency of the Turkish policy in the post-Soviet era. One opinion is based on the assumption that Turkey's capabilities are spread too thin because of Ankara's numerous vocations. The opposite view is embodied in the alarmist approach "The Turks are coming!" The truth lies between these two extremities. In some areas (in Central Asia for example), Turkish penetration failed, in others (the Trans-Caucasus, the Northern Caucasus, Tatarstan) it became *very* efficient.

Two issues - the Azerbaijani-Armenian dispute over Nagorno-Karabakh and the optimum export route for Azerbaijan's Caspian oil put Turkey on a collision course with Russia's geostrategic, military, and economic interests in the Trans-Caucasus. Of the Trans-Caucasus states, Turkey initially placed disproportionate emphasis on Azerbaijan, due to ethno-linguistic and religious ties regardless of the need to appear non-threatening toward Armenia. [3] Later, Turkey tried to correct this mistake, but its desire not to be perceived by the international community as siding with Azerbaijan in Nagorno-Karabakh and to bridge over difficulties with Armenia was resisted by Baku. The latter couldn't accept this policy of balancing between two sides and hindered Turkey's every step towards Armenia. In March 1996, Ankara promised to open a border-crossing point with Armenia as soon as Azerbaijan and Armenia agree on the Declaration of Principles on the settlement of the Karabakh conflict. The Armenian leadership argued that bilateral ties shouldn't be linked to the third party. Apart from Azerbaijan's position, Turkey's attempts to improve its rela- tions with Armenia were discouraged by the comprehension that Armenia's inte- rests in the region were inseparable from those of Russia.

Georgia, involved in domestic turmoil, initially was not a priority for Turkey, even though the two countries share a border and Georgia could *have* been the key to the viability of Turkey's larger strategy. However, rekindled rivalry between Turkey and Russia highlighted Georgia's strategic importance and encouraged a re-craft- ing of Turkey's policy towards the TransCaucasus as an organic whole.[4] In January 1994, Shevardnadze and Demirel signed a declaration affirming their shared com- mitment to promoting independence, peace, stability and democracy, plus a pack- age of trade and economic agreements. Despite the presence in Turkey of a large immigrant community of Abkhaz and other North Caucasian peoples that support the Abkhaz leadership, the Turkish government consistently expressed its support for Georgia's territorial integrity. The signing in February 1994 of a major Russian-Georgian friendship and cooperation treaty and several other agreements, includ-

ing one giving Russia the right to maintain military bases in Georgia for a period of 25 years, was perceived by Ankara as a diplomatic loss. But Ankara was revenged last year when the Parliament of Georgia under the pressure of criminal structures decided to get rid of Russian border troops. Thus, 6,000 Russian border guards are to be replaced with 1,500 Georgian border guards, which means that the border between Georgia and Turkey will be open to business for smugglers and drug trafficking. If implemented, this decision will heavily affect Russia's interests.

The trump card in Turkey's regional game became Caspian Sea oil. The September 1994 "Deal of the Century" - between the Azerbaijani government and a consortism of Western, Russian and Turkish oil companies, plus the Azerbaijani state oil company - to develop three offshore Caspian oil fields provided a chance to undermine Russia's influence in the TransCaucasus to the benefit of Turkey. In November 1994, Demirel proposed to Shevardnadze that the new pipeline for exporting Azerbaijan's Caspian oil should be routed westward, via Georgia to Turkey rather than through Armenia, as originally envisaged. The compromise was found in the agreement signed in October 1995 whereby Azerbaijan's early oil would be exported by two pipelines - one northward running through the Russian Federation to Novorossijsk and the second running to Supsa on Georgia's Black Sea coast.[5]

Turkey's strategic goal, however, was the construction of a major new pipeline from Supsa through eastern Anatolia to link up with an existing pipeline from Iraq to Turkey's eastern Mediterranean terminal of Ceyhan. The rationale for the Supsa-Ceyhan project was to reduce Russia's leverage on Azerbaijan and to decrease Russian tanker traffic through the Black Sea straits.[6] Naturally, this project was resisted by Russia.

The growing importance of Turkey for Russia confronted Russian leadership with the necessity to work out a well-thought policy vis-a-vis Turkey that would differ from either primitive anti-Turkish stance or from an unrealistic wish to be friends with all nations of the world. Unfortunately, Russian leadership failed to formulate such a policy. Moreover, having relied on the West's lead in the post-Cold war international affairs, Russia accepted the Western approach to Turkey which were at odds with Russian national interests.

Turkey's role was perceived by the West as the bulwark against the re-emergence of anti-Western powers in the Middle East as well as the vehicle through which the Central Asian republics would be integrated into the Western world, blocking Iranian influence in this region. In one word, Turkey was supposed to be "a secular democratic model for all Muslim people. Having abandoned its tradition- al neutrality in Middle East conflicts and having applied itself with the Western coali- tion in the Gulf war, Turkey has become a country of great importance for the West".7 Being interested in spreading Ankara's influence in the region, the West

blessed any Turkish policy and encouraged Turkey's involvement in the conflict resolution process in the TransCaucuses and in the Balkans. In contrast to the West, Russia was interested in counterbalancing Turkish presence in the Trans-Caucasus region by her cooperation with Iran and by promoting cooperation between Iran and Armenia. In central Asia, Russia was interested to counterbalance Iran's presence by its competition with Turkey. But in any case Russia was not interested in a dominance of one regional "superpower" in the post-Soviet era.

Taking into account all considerations from the need to maintain stability in the post-Soviet era to the so-called Turkish challenge, Russia's natural allies in the Black Sea-Balkan region are Ukraine, Georgia, Greece and Bulgaria and in the Black Sea-TransCaucasus region, Georgia and Armenia. But of all the mentioned states there exist two key countries for Russia in respect with the Turkish challenge. One is, no doubt, Armenia, sandwiched between Azerbaijan, Iran, Turkey and the Muslim republics of the North Caucasus. In the far side of the sphere, it is Greece.

A Natural Ally

The role of Greece for the Black Sea-Balkan policy of Russia stems from the fact that their interests in the region completely coincide. Like Russia, Greece is interested in regional stability. Like Russia, Greece is not pleased that the geopolitical vacuum is being filled by new regional superpowers. Like Russia, Greece is faced with the Turkish challenge. Moreover, the Greek perception of the Turkish threat is more pronounced and traditional than that of Russia. It is widely recognized that there are no direct territorial threats perceived by any of the countries of Western Europe with the exception of Greece. As Yiannis Valinakis has described it, the use of Turkey's new military potential against Greece could manifest itself in Cyprus (extension of the occupation southwards), in the Aegean Sea (attack on Greece's easternmost islands), in Greek Thrace (invasion "to protect" the Moslem minority) or even simultaneously in all three theatres. Balkan instability, possibly involving conflict in Kosovo, could create another front for Greek-Turkish confrontation.[8]

The most important similarity between Russian and Greek interests is related to NATO's propensity to perform the role of the main security institution, which might envelop new relationships and address new international agenda. As it is seen from Moscow, NATO is not suited for this role by definition. If Russia doesn't have any serious influence over NATO decisions and operations, a too active a NATO role and engagement in the post-Cold War conflict resolution in Europe would cause negative Russian reaction and greatly strengthen the hand of hard-liners in Moscow. As for Greece, its traumatic experience proved that NATO is badly suited to resolve conflicts among its members, to punish one of the parties for violating the rules of permitted political behavior. Still, it is less capable of intervening in domes- tic controversies, stopping violence, peace-keeping among warring parties. And

those lacking qualities are precisely the ones that will be needed from the multilateral security system in the post-Cold War Europe.

It goes without saying that Russian-Greek cooperation is badly needed in the region to minimize the negative trends and to enhance all the positive aspects resulted from the end of the Cold War. At the same time, this cooperation is limited by the absence of the appropriate international framework. Apart from this major reason it should be recognized that Russia is responsible for many foreign policy mistakes which came to be at odds not only with her national interests but also with the interests of regional stability and security.

Russia's Foreign Policy Mistakes

It follows from the above that after 1991 the new Russian leadership was confronted with the necessity to formulate its own foreign policy interests and objectives based on the specifics of its geopolitical positions and transitional domestic situation. Unfortunately, the course of the Yeltsin administration and Foreign Ministry headed by Andrei Kozyrev in 1992-1993 had several serious and interrelated deficiencies. Having relied only on the post-Cold War euphoria, Russian leadership failed to formulate distinctive foreign policy objectives for Russia and its security priorities. Worse still, the utopian goal of the rapid integration with the West substituted for a well-thought foreign policy strategy which would differ either from nee-imperialist version of hard-nosed traditional Soviet ambitions or from new versions of utopian slogans of new political thinking (like Kozyrev's SDI - strategic democratic initiative", striving "to have no enemies and being friends with all nations in the world"). On most issues Russia just followed the West's lead having produced a widespread impression of a never-ending sequence of unilateral concessions which discredited the very idea of cooperation with the West and resulted in a more self-assertive course for Russia.

Another serious mistake was stemmed from the first one. Russian leadership failed to recognize that the highest priority of Russian foreign policy after the dissolution of the USSR, should be relations with the Ukraine, Kazakhstan, Georgia, Armenia and other republics of the former USSR. These relations were essential not only for protection of Russian economic, political and security interests abroad, but also for Moscow's relations with the West and neighboring states in Asia, and what is more important for the positive evolution of democratic reforms at home. Unfortunately, the Yeltsin-Gaider-Kozyrev group came to be completely indifferent and disinterested in Russia's relations with the so-called *near abroad.* The very fact of the CIS' existence was envisaged by them as a sufficient means for future cloudless relations and integration with the former USSR republics. This negligence created a kind of a vacuum which was quickly filled by other political forces - interest groups from other governmental agencies, field military commanders, political par-

ties and parliamentary factions acting on their own and openly challenging Russian leadership.

The third serious mistake of Russian leadership was that after the demise of the USSR, Russia completely ignored the necessity to establish new relations with its former allies in Central and Eastern Europe. Moscow was guilty of the uncertainty and fear, which it was inducing in the neighboring states. It is responsible for mismanaging its economic, military reforms and conversion. And it has nobody but itself to blame for the lack of a new Russian realistic concept of European security. Finally, all these deficiencies reinforced fears of East Europeans and their desire to join NATO as soon as possible. Although in any case these mishaps cannot justify NATO's decision to expand eastwards, it should be recognized that Russia didn't do all possible to prevent this negative trend. Unfortunately, Russia's policy vis-a-vis her natural allies was inconsistent and even counterproductive. Instead of estab- lishing good relations with Ukraine after the dissolution of the USSR, Moscow became engaged in never ending disputes on the problem of Crimea and the dis- cord between the Russian and Ukrainian military over the partition of the Black Sea Fleet and the base of Sebastopol ("the city of Russian glory"). Russian and Ukrainian nationalists were fueling each other by playing the card of Russian minorities in Crimea and other parts of the Ukraine. With respect to the Black Sea region Russian-Ukrainian differences made the biggest disservice to Russia's natio- nal interests, having weakened its position in the triangle Russia-Turkey-Ukraine and facilitated Ankara's maneuvers in the post-Soviet era.

Russian leadership couldn't present itself as a reliable mediator from the very beginning of its involvement in the conflict between Armenia and Azerbaijan and that between Georgia and Abkhazia, having disappointed all the parties. Moscow failed to take the lead in the conflict between Armenia and Azerbaijan over the dis- puted enclave of Nagorny Karabakh. This vacuum was immediately filled by Turkey who declared herself as a main mediator. Russia's half-hearted support of Georgian leadership in its conflict with Abkhazian secessionists (guided by ambiguous feelings towards Georgian president Edward Shevardnadze, the main architect of Gorbachev New Political Thinking) weakened Georgia's positions in the Black Sea-Caucasus region. This policy was, no doubt, at odds with Russian interests in this area: it became clear when Russia was confronted with the similar problem in Chechnya. Now Georgia is a weak ally for Russia involved in its own numerous domestic problems.

Russian leadership ignored the necessity to establish new relations with the former members of WTO and COMECON after the demise of the USSR, having provided its former allies like Bulgaria and Romania with the impression that they could rely only on the West and its institutions. It shaded its relations with Serbia, by the hasty recognition of "the Republic of Macedonia", while Washington recognized this country under the name of FYROM (the Former Yugoslav Republic of Macedonia).[9]

Looking into the Future

In 1997 and most probably 1998 and further into the future Russia's foreign policy, including that on the Balkan region, will evolve as a compromise between the leading political forces. It will be adjusted to new realities including the need for pragmatic cooperation with the West.

Domestic and foreign policy challenges for Russian leadership are really enormous. The first and most urgent problem will be the ending of the war in Chechnya without its escalation to the whole region of the Northern Caucasus and at the same time without provoking disintegration of the rest of Russia by defeat and withdrawal. Other issues would be re-organization of Russia's relations with the *near abroad* to promote integration without inducing neo-imperial fears. Finally, it will be necessary to change the very foundation of Moscow's relations with the West providing for more equal and fairer interactions without reviving hostilities and isolationism. The problems of NATO's extension and Russian cooperation with the West on peacekeeping in the Balkans, will also be of utmost importance.

The major problem facing Russia and the West in Europe including her northern and southern regions, is that there are still no new security systems, which might envelop new relationships and address new international agenda. If not resolved, it could lead to new tensions and revival of old hostilities and dangers. Being a partner of many Western institutions but a member of none, Russia will always be seeking out its own security arrangements. If NATO really intends to become the major post-Cold war security institution in Europe, it should unequivocally invite Russia to join the alliance under the terms and a time-frame to be determined by negotiation. Naturally, Russia's adjustment will take much time and much effort. The West has nothing to be concerned about: if Russia doesn't meet the standards of NATO, the very questions of Russia's membership in NATO will become irrelevant. But the very fact of such negotiations would deprive Russian nationalists and hard-liners of any possibility to fuel anti-Western hysteria under the pretext of "NATO's crusade" against Russia.

Naturally, this idea will be opposed by the NATO bureaucracy, Western and Russian conservatives, smaller European states. But it would be, no doubt, a better alternative than that of a new confrontation.

Notes

1. The USSR policy in the Balkans was part of its Mediterranean policy, which had long historical traditions. Imperial Russia and the then Soviet Union both took an understandable interest in the nearest warm water.

2. Victor Gomez,"Caspian Sea: A Growing Problem", *Transition,* Open Media

Research Institute, Vol. 2, No. 15, 26 July, Prague, 1996, p.2.

3. Elizabeth Fuller,"The Tussle for Influence in Central Asia and the TransCaucuses", *Transition,* Open Media Research Institute, Vol. 2, No. 12, 14 June 1996, Prague, pp. 11-15.

4. Ibid., p.11

5. Ibid., p. 15,

6. Ibid.

7. *Fueling Balkan Fires. The West's arming of Greece and Turkey,* Basic report 93.3, British American Security Information Council, p.7.

8. Yiannis Valinakis, *Greece's Security in the Post-Cold War Era,* Stittung Wissenschaft und Politik, Ebenhausen/lsartal, SWP-S 394, April 1994, p. 29.

9. Gabriel Munuera, *Preventing Armed Conflict in Europe: Lessons from recent experience,* ISS WEU, Chaillot Papers 15/16 June, 1994, p. 50.

Commentary

VOLUME 9
NUMBER 2

AGENDA 2000: THE UNANSWERED QUESTIONS, AT A GLANCE

Phedon Nicolaides

Purpose of Agenda 2000

Historians of the future will certainly regard *Agenda 2000* as a masterpiece of technocratic drafting. It has something to please everybody. It appears to have vision, yet in reality it paves over the difficult issues. It seems to be analytical, but some of the figures it presents appear like rabbits out of a magician's hat. Perhaps this is inevitable in the highly politicised context of the next enlargement of the European Union.

Agenda 2000 presents the opinions *("avis")* of the Commission on the applications for membership of the EU submitted by ten Central and East European countries (CEECs) and considers the impact of their accession (and that of Cyprus) on the Union and its policies. These opinions and the impact analysis were requested by the Madrid European Council in December 1995.

The Agenda also contains the Commission's ideas on certain other issues such as employment and competitiveness. These are the issues which the Commission regards as pivotal for the growth and prosperity of the Union as it enters the third millennium; hence the title *Agenda 2000.*

The Contents of Agenda 2000

Most of the Agenda which runs to more than 1,300 pages is taken up by the opinions on the ten membership applications. In addition, it considers the impact of enlargement on both the Union and the applicant countries, it outlines a strategy for enlargement and an accession partnership and touches upon a number of other issues of significance to the Union.

With respect to the impact of the Union itself, the Commission addresses primarily three policies/activities: the common agricultural policy, cohesion policy and the structural funds and the budget or financial perspective for the period 2000-2006.

The Opinions (Avis)

The Commission bases its assessment of the eligibility for membership of the applicant countries on four sets of criteria:

(a) political: stability of democratic institutions, rule of law, protection of human rights and minority rights;

(b) economic: functioning market economy and ability to withstand the competitive pressure of membership;

(c) membership obligations: ability to adopt the full acquis communautaire and adherence to the objectives of economic and monetary union and political union;

(d) administrative capacity: effective administrative structure tor the implementation of EU laws and policies.

On the basis of this criteria the Commission reaches the conclusion that none of the applicants is ready to accept the full obligations of membership but five of them are likely to be in that position in the medium term. These five are the Czech Republic, Estonia, Hungary, Poland and Slovenia. The Commission therefore, recommends that these five join Cyprus in accession negotiations which are scheduled to begin in the Spring of 1998. The remaining applicants are to be involved in the negotiations when the Commission finds that they have reached a satisfactory level of preparedness.

Although any new member of the EU only has the obligation to accept what is legally binding on the existing member states, the Commission's assessment, apparently goes beyond what is included in the current *acquis.* This is because the prevailing political conditions and even some of the economic conditions of existing member states are not placed under the same degree of scrutiny, nor is their administrative structure and judicial system normally examined.

Strategy for Enlargement

Agenda 2000 enunciates the principle that new member states must apply the full *acquis* and especially the internal market rules on the date of accession. No derogations will be allowed and any transitional periods will have to be justified and be short.

It is unclear how the EU can stick to this principle given that no country that has acceded to the EU in the past was able to assume the whole of the *acquis* on the date of entry. Also it is difficult to see how the EU can demand full compliance with the rules when it will be seeking transitional arrangements for the gradual entry of the new members in the common agricultural and regional policies and the gradual utilisation of rights such as the freedom of movement of people.

The Commission expects the *acquis* to be adopted by the applicants during the negotiating period. The Commission will monitor the applicants in this respect and will issue regular reports. This is something that has never happened in past enlargements and the modalities of such monitoring as well as the actual role of the Commission are unclear.

Accession Partnership

The monitoring on behalf of the Commission is part of an accession partnership which will consist of three components:

(a) definition of commitments with precise timetables for the introduction of EU rules (with priority given to problematic sectors);

(b) participation by the applicants in EU programmes;

(c) financial assistance to the applicants through reorientation of the *Phare* programme (ECU 1.5/year) and offering of additional resources (as of 2000) for agriculture (ECU 500 mn/year) and structural aid (ECU 1bn/year).

As already mentioned, the definition of pre-accession commitments has never before been used in previous enlargements. So it is as yet unclear when applicants will be regarded to have completed their preparation. Moreover, the Commission proposes a "conditionality" requirement. Aid money will be released only if the timetables of commitments are kept. This raises the question whether those applicants that will find themselves penalised will in fact be those in greater need for assistance precisely because they find it more difficult to implement the required measures.

Economic and Social Cohesion

The statistics presented in *Agenda 2000* indicate the magnitude of the problem of applying the EU's current cohesion policy to the CEECs:

(a) the CEEC GDP/capita is just 32% of the EU average GDP/capita;

{b) the ten CEECs will increase by only 9% the EU GDP;

(c) the ten CEECs, however, will increase the EU population by 29%;

(d) 100% of the CEEC population would be covered by Objective 1 structural funds.

If the ten CEECs would obtain EU funds at the same *per capita* rate as those received at present, for example, by Ireland and Greece, the extra financing that will be needed would exceed ECU 40 billion. The Commission, therefore, proposes that

cohesion policy is reformed so that:

(a) the current seven objectives are reduced to three;

(b) no transfers should exceed 4% of the GDP of the recipient countries;

(c) structural funds are capped at 0.46% of the EU GDP;

(d) Objective 1 regions should receive 2/3 of the structural funds;

(e) the phasing out of non-eligible regions should be done gradually;

(f) special arrangements should be found for Objective 6 regions;

(g) the Cohesion Fund should be maintained.

As a result of these reforms, the Commission expects that:

(a) Objectives 1 and 2 would cover only 35-40% of EU 15 population (as opposed to the present 52% coverage);

(b) in 2000 - 2006 the total amount needed (at 1997 prices) will be ECU 275 billion (1993-9: 200 bn) of which ECU 45 billion will be for the new member states (including ECU 7bn in pre-accession aid).

The main problem with the Commission's proposals is not whether EU economies would grow fast enough so that 0.46% of GDP could generate enough revenue to find structural expenditure. Rather, the issue is more political:

(a) will existing member states accept phasing out of programmes that benefit them?

(b) will the countries participating in the Cohesion Fund continue to do so after they qualify for membership of the Monetary Union?

(c) how short (or long) will be the transitional arrangements envisaged by the Commission for the new and existing members?

(d) what are these special arrangements which will replace Objective 6?

(e) will there be real concentration of resources given that the three new objectives look more like repackaging of old objectives?

(f) how will the proposed concentration of funds actually be implemented, given that income disparities within member states are as large as disparities between them?

These questions are not answered in *Agenda 2000.*

Common Agricultural Policy

As with cohesion policy, the prospect of entry into the union of ten relatively more agriculturally-oriented countries raises a number of problems with regard to the functioning of the common agricultural policy. The statistics also indicate the magnitude of the problem:

(a) CEEC employment in agriculture is 22% of economically active population while in the EU is only 5%;

(b) the contribution of agriculture to economy is 10% in the CEECs while in the EU is only 2%;

(c) accession of the ten CEECs will increase the agricultural area of the EU by 40% and the population by 30%;

(d) agricultural prices in the CEECs are 40-80% of EU levels.

If the common agricultural policy is not reformed, the entry of new members will lead to surpluses as consumers in the new members will only have a third of the purchasing power of the EU 15, so they will not be able to absorb the extra production. At the same time, there could be a politically and socially unacceptable large shift of income in favour of farmers.

The Commission, therefore, proposes:

(a) reduction of intervention prices by 10-30%;

(b) greater reliance on direct income support;

(c) non-production payments (e.g. payments on a per hectare or per cow basis);

(d) stricter protection of the environment and greater attention to food safety;

(e) support for the creation of alternative employment opportunities.

As a result of these measures, the Commission expects the CAP to absorb 45% of the EU budget with only ECU 11 billion/year needed in additional money. The new member states will benefit from ECU 7 billion in direct payments and ECU 1.5 billion in structural measures.

As in the case of the structural funds, the real question is not whether the price and productivity predictions of the Commission will prove to be correct but whether the existing beneficiaries from the CAP will accept reduction of spending in agriculture. *Agenda 2000* expresses no views as to how the beneficiaries could be compensated, especially given the fact that acreage-linked payments, for example, are likely to distribute CAP funds differently than at present. The *Agenda* is also silent on the kind of transitional arrangements that will have to be devised for the new member states.

Financial Perspective: 2000-2006

The entry of the CEECs into the EU will add 100 million consumers with relatively lower ability to contribute to the financing of the EU programmes and activities. They will aggravate the "imbalance" between payments and receipts that exists with the present member state.

Nonetheless, the Commission believes that the current "own resource" ceiling of 1.27% of GNP can be maintained even on the assumption that in the year 2002 five CEECs plus Cyprus will join the Union.

Here indeed one can see some rabbits coming out of the hat because the Commission presents figures which are not explained at all (e.g., how will the GNP-related contributions be determined-there is no precise formula).

In terms of the per-country break down of the budget, *Agenda 2000* shows only its financing side (revenue). It does not show the expenditure side. In this way it ignores the most difficult question with respect to the budget which is the balancing between payments and receipts demanded by countries like Germany, the Netherlands and the UK. So once more, the *Agenda* offers no guidance on the contentious issues.

Implications for Cyprus

At first glance, *Agenda 2000* makes only a cursory reference to Cyprus largely by re-stating the view of the Commission that accession negotiations should pro- ceed even if no political solution is found in the meantime.

Nevertheless, Cyprus should not expect to be treated any differently from other candidate countries, even if the proposed enlargement strategy and accession partnership do not explicitly mention Cyprus. Therefore, it should be ready to submit timetables of harmonisation and comply with them during the period of accession negotiations. This means that the Cypriot side should not only prepare its negotiating positions in the next six months or so, but it should also begin identifying all the measures that will have to be put in place so that it can adopt a satisfactory proportion (or at least the most significant component) of the *acquis* by the time of the prospective entry into the EU. The fact that such timetables of commitments will have to be devised and adhered to by the candidate countries inevitably impinges on their negotiating strategy. So this strategy has to be thought out in conjunction with the progress in adopting the *acquis* that the Commission would want to see.

Conclusion

In view of the political sensitivity of the issue of enlargement, it is perhaps not surprising that *Agenda 2000* leaves certain difficult questions unanswered. Therefore,

not all enlargement-related issues have been analysed, let alone resolved, and the debate is only now beginning. In this respect, *Agenda 2000* shows above all, that solutions and compromises are possible. But the Commission could have chosen a more explicit approach in identifying those points of contention and in presenting not only an overall solution but also the range of possible solutions. In this way the extent of the required political compromises and the magnitude of the forecasting uncertainties would have been better understood.

Book Reviews

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Cyprus and International Peacemaking

Farid Mirbagheri

John Vickers

Anyone who makes a point of collecting and reading books on Cyprus and its long-standing problems will probably have been looking for some time to move to a bigger house. There is an enormous catalogue of works available and even if you limit your purchases to those dealing with post-independent Cyprus, you may still have to consult your bank manager. The arrival of yet another book on the subject may fill hard-up Cyprophiles with dread, but this latest publication is, in fact, an excellent addition to those creaking bookshelves.

In "Cyprus and International Peacemaking" (Hurst), Farid Mirbagheri makes an extremely detailed and thorough examination of the many and varied attempts made over the years by the UN and other mediators to bring peace and normality to the island since having its originally unwanted independence thrust upon it in 1960. In fact, he goes back to the Zurich agreements and the "seven days of tough negotiations" between Greece and Turkey (not Cyprus!) which led to them. The reference to those seven days is a little startling for anyone used to the months and years of endless talks that have been going on since 1974, not to mention those prior to 1973. It also makes one realise why neither side in Cyprus is very keen on a Dayton-style process to resolve the problem - it probably could be sorted out in seven days.

Mirbagheri takes a dispassionate look at the various attempts at mediation since 1963 and gives all the required background details, such as Archbishop Makarios' proposed constitutional amendments (which, today, appear to be so reasonable and genuinely aimed at making independence work) and all the UN mediators' var- ious reports and plans.

While we are used to seeing the Cyprus Problem in terms of a just Greek Cypriot cause up against Turkish intransigence, this book makes clear that the blame for failing to reach a settlement of the pre-1974 difficulties lay with the Greek Cypriot side, and specifically with President Makarios: "The Greek Cypriots' attitude to international peacemaking in Cyprus during this period was a mixture of positive and negative elements. Although they agreed to negotiate with the Turkish Cypriots, they nonetheless failed to adopt the positive role needed to settle the conflict peacefully...To talk of the Greek Cypriot position is in a sense to talk of Makarios' position." It is, of course, ironic, to consider today that agreement could not be reached in 1973, because of disagreements over local government, but the author is clear that it was "the uncompromising stand of the Greek Cypriot side preventing an agreement".

It is both refreshing and slightly worrying to read this analysis - it is easy to forget what has gone before, but Mirbagheri is impeccable in citing his sources. Some of the more unpalatable parts of his analysis are factually indisputable. It is interesting, for instance, to recall the progress - or lack of it - made during Spyros Kyprianou's presidency and how the then Foreign Minister Nicos Rolandis resigned, complaining that "Mr Kyprianou did not want meaningful negotiations on the future of Cyprus." Or how Tassos Papadopoulos attacked Kyprianou "for being autocratic and lacking a precise policy in the intercommunal talks." In the seemingly unchanging Cypriot political scene, the same characters are still centre stage, a fact that is beyond the scope of the book and thus receives no special attention. Readers cannot fail to notice it, however.

In the final chapters of the book, the author looks at what has changed since the 1980s, resulting in the present flurry of diplomatic activity aimed at resolving the Cyprus issue, particularly on the part of the United States. One basic reason given is the end of the Cold War: "A Cyprus solution is advantageous and the lack of one now seems to be a most unnecessary political nuisance," Mirbagheri writes, and he goes on to surmise that "Turkey may not wish to extend its stay in Cyprus indefinitely" and explains why.

In his conclusions, the author notes that "the most notable failure of peacemaking in Cyprus between 1964 and 1986 concerned the two mother-countries, Greece and Turkey. "Although the international community had, through various United Nations resolutions, diagnosed the internal and the external aspects of the Cyprus problem, it failed to pay sufficient attention to the need to bring Turkey and Greece to the negotiating table." And while remaining optimistic that a settlement of the problem can come about, Mirbagheri points out that "negotiations alone cannot bridge the wide gap between the two communities" and he notes that "political pressure should be applied on the Turkish Cypriot leadership to soften its tone and be more attuned to the peacemaking efforts of the international community."

This book could hardly have been published at a more appropriate time with Richard Holbrooke heavily involved in the peacemaking process. Moreover it is an extremely valuable summary of everything that has preceded what could turn out to be a historic time.

The author goes about his task in a highly organised manner, giving the reactions and attitudes of the various parties to each of the different attempts at resolving the problem. ("During the 1980-86 period, Britain's general attitude to the Cyprus problem, except in 1983, can best be described as one of inactivity...").

I suspect that readers from both communities will not take kindly to certain parts of Farid Mirbagheri's analysis, but that probably means that he's go it just right. His well-written book makes for highly enlightening reading.

Byzantine Medieval Cyprus

D. Papanicola-Bakirtzi and M. Iakovou (eds.)

Sofronis Sofroniou

In the current debate about the European credentials and destiny of Cyprus, which cannot but be a subjective affair mainly because the very concept of Europe is a fuzzy one, it is well to bear in mind that for four centuries in medieval and early modern times, i.e. from the twelfth to the sixteenth centuries, Cyprus was not only an integral part of what was then considered to be Europe but also a very bulwark of Christian Europe against the Moslem domination of the Middle East and especially the Holy places. At the same time Cyprus was a kind of gateway to Europe for the exotic and not so exotic products from the Middle East and beyond, especially in the form of spices and fabrics and even sugar, the latter of which Cyprus was itself a main producer.

It all started with the third Crusade and Richard I, the Lionheart in 1191 and ended with the fall of Nicosia and Famagusta to the besieging forces of the Turkish Sultan Selim II, in 1570 and 1571, and with the heroic resistance and death of the Venetian defender of Famagusta Marco Antonio Bragadino.

This fascinating part of Cyprus and European history is the subject of a number of essays collected under the title **Byzantine Medieval Cyprus** and published by the Cultural Institute of the Bank of Cyprus, under the editorship of Demetra Papanicola-Bakirtzi and Maria lakovou.

The volume was published in connection with an exhibition of the same title in Thessaloniki and as part of the events organised there on the occasion of the town being the cultural capital of Europe for 1997. Besides essays by Cyprus scholars such as Athanasios Papageorgiou, Marina Solomidou-Jeronymidou and the editors, on Byzantine art, the production of sugar, ceramics and cartography, some overseas scholars such as Peter Edbury, Nicola Coldstream, Michael Metcalf and Benjamin Arbel contribute papers on Cyprus and the Crusades, the Lusignan Kingdom of Cyprus, the Gothic architecture of the Lusignans, the numismatic economy of medieval Cyprus, the Venetian rule over Cyprus and the Venetian fortifications of Nicosia and Famagusta, many of which are still in place. The volume is copiously illustrated with icons, household and other objects, coins, maps, engravings and photographs right up to the nineteenth century, with informative commentaries. It can thus be considered as a permanent exhibition of medieval Cyprus.

The work, though quite authoritative, is meant for the general reader who can cull a lot of interesting information on various aspects of Cypriot life during the periods covered.

Cyprus experienced the full force of Arab and Moslem expansion very early on, in 648/9 AD, and for a time it was wrested from its Byzantine shell but it was soon considered to be a neutral territory between the latter and Islam. Both powers exercised a kind of condominium over the island, mainly in the form of double taxation, until 965 AD when the island was again incorporated into the Byzantine empire to which it culturally belonged. History does not repeat itself but it does provide some uncanny parallels. It is also interesting to note that during the rapid expansion of Arab rule in the Middle East Cyprus provided, on many occasions, a safe haven for persecuted Christians and occasionally even Moslems from the region.

Richard the Lionheart's disembarkation at Limassol and his subsequent occupation of the island was not a happy one for the people of Cyprus as we can gather from the testimony of the contemporary monk Neophytos of Enkleistra in Paphos, 'Neophytes the Recluse', who summarises the evils of Cyprus, of Richard's invasion or escapade, in the following words, "There is a country called lngliterra, far from Romania [i.e. Byzantium] in the north from which a cloud of Englishmen [cloud was then usually collacated with locusts] together with their leader having embarked in long boats called nakkae were trying to reach Jerusalem...But England [as in Shakespeare, this meant the King of England] disembarked in Cyprus and the wretched man, used the island as a nursing mother...". This first confrontation between the English and the Cypriots was not a happy one. Yet Richard's Cyprus adventure proved to be one of his most lasting achievements in this part of the world, as Peter Edbury notes, as he started what later developed into the Latin or Lusignan rule over Cyprus which lasted from 1192 to 1489.

The Lusignan social structure, though essentially feudal, copied the earlier Byzantine structure but the Lusignan or the Venetian rule that followed should not be confused with later imperialist, racist and purely exploitative structures as both Peter Edbury's and Benjamin Arbel's essays indicate. In spite of regular religious friction between Latins and Greeks and some related crimes on the part of the former, it seems that a modus vivendi was worked out, mutual assimilation was taking place in social matters and the local inhabitants could attain high office in the administration. In fact a number of the Latin overlords were partially hellenised in both language and religion.

During much of both the Lusignan and the Venetian periods Cyprus experienced two of its most recurring states, prosperity and vulnerability. Michael Metcalf's authoritative paper on the numismatic evidence shows that Cyprus had a positive balance of trade in much of the Lusignan period when Famagusta was the Hong Kong or the Singapore of the Mediterranean both in trade and services. In the Venetian period the centre of commercial gravity shifted to Larnaca with its profitable salt trade.

The essay on the Venetian period by Benjamin Arbel has made me revi_se my

general understanding of this period. The writer believes that the two key-words for understanding the period are profit and honour and he conceives of honour as certain moral exemplars, (such as that of justice to the local population) that controlled the life of the Venetian Republic. In such a context it is no wonder that the population of the island doubled to 195,000 people, with Nicosia having 30,000 and being one of the major towns of the Mediterranean. There was both Venetian and Greek nobility who lived together in a kind of inter-cultural co-existence and the famous University of Padova was accessible to a number of educated Cypriots, as it was to many Greeks during the Turkish occupation. One of the most famous Cypriots of the time Jason de Nores became a Professor of Moral Philosophy there from 1578 to 1590. We also learn that occasionally the Venetians were setting free a number of paroikoi (i.e. serfs or in the common language of the time, which is still preserved in some parts of Cyprus, villoni) out of Christian sentiment. The Venetian public works and the fortifications of the main towns which were paid for by such noble families as the Quirini, the Roccas, the D'Avilas and the Podocatoro still testify to the dynamism of Venetian Cyprus.

But, of course, all was not well in Cyprus under the Lusignans and the Venetians and if another uncanny historical parallel is to be sought it can be found in the assessment that the peace and prosperity of Cyprus was finally smashed through the murderous rivalry of the two super-powers in the Mediterranean at the time, i.e. the two maritime republics of Genoa and Venice.

The book is not without its lacunae or blemishes. Occasionally the term "Greek-Cypriots" is used which is a glaring anachronism. The term was the invention of the British Prime colonial rulers in the 1950's.

It contains too many and repetitive maps of Cyprus, which cannot be read with the naked eye, and yet it contains no maps of the wider region. Moreover the highly informative and absorbing Chronicle of Leontios Makhairas which provides the best account not only of events but also of the mind-set of the Lusignan period, deserves a special chapter. A general index would also have been most welcome.

The publication contains some memorable quotes printed on the margins and I would like to finish this review with one by Makhairas himself:

"The poor Cypriots are encamped on a rock in the sea and on one side there are the enemies of God, the Sarasens, and on the other the Turks...".

Needless to say, "the enemies of God" was a value judgement.