

THE ECONOMIC EXPLOSION OF A BIZONAL SOLUTION THAT WILL CRASH CYPRUS' FINANCES

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One of the world's authorities on constitutional and human rights law recently described the Bizonal Bicomunal Federation (BBF) as nothing more than *constitutional fraud* that is meant to fool voters through benign-sounding but cancerous constitutional provisions. This explains why we are now faced with a profligate campaign of disinformation about the "merits" of BBF and the illusory economic benefits this will [supposedly] bring to the country. The campaign promises people a BBF-driven economic explosion and attempts to fool primarily those that are now in economic despair and are grasping at straws. But, as the slogan of "economic explosion" is a clarion call of no substance the crusaders employ sublimation to fool people that are in economic hardship, in believing that their travails will come to an abrupt end once a BBF agreement is signed. The Cyprus Chamber of Commerce, the Employers Association and a host of business leaders, many of whom are in dire financial straights, have joined the "get-rich-quickly" sham.

But, what is BBF? Only Turkey can enlighten us, by giving us its own interpretation of what BBF is all about, considering that Turkey is the only party in the conflict that can enforce its own interpretations. Contrarian interpretations, coming from the Greek Cypriot (G/C) side, are either wishful thinking or attempts to camouflage a deadly solution with the trappings of benign-sounding words. Here is an example of why Turkey's interpretations count. The treaty of guarantee specifically mentions that in the event of constitutional upheaval in Cyprus the guarantor powers (Turkey, Greece and the UK) may "*take action*" to restore constitutional order. After the brief 1974 coup Turkey arbitrarily and unilaterally interpreted the term "*take action*" to mean "*Turkey has the right to invade Cyprus militarily and to occupy its territory ad infinitum.*" All protestations by the Greeks went to nought and Turkey's version still stands no matter how outlandish and how contrary to international law this interpretation is. Simple: Turkey had the military power and the support of the Americans to invade the country; and did so.

In light of the above I take Turkey's interpretations on BBF as the only credible interpretations and I discount all other interpretations as null and void. In BBF Turkey sees two independent *constituent countries* with *distinct integrity* (try interpreting the term "*distinct integrity*" without reference to Turkey!) coming together in a "*loose federation*"....meaning confederation for Turkey!. The Greeks interpret the English term "*constituent state*" as πολιτεία ("state," like Florida is a US state, for example.) Turkey defines the above with the Turkish term "*kurucu*

devietem” meaning a “*founding member country*.” I accept Turkey’s interpretation and reject all other interpretations that cannot be enforced. The founding entities of the BBF “*...may organise independently and freely exercise sovereignty in their own area*” says the mutual declaration of 11.02.2014. Equally, the two entities may “*...enter into commercial and cultural relations with outsiders and to sign agreements in these areas.*” Turkey takes the above to mean that each entity is free to do as it wishes with its economy. I take Turkey’s interpretation.

What does a BBF solution mean for the economy of Cyprus? For a start it means that Cyprus’ economic policy will be bifurcated with each entity enforcing its own policies independent of the other. It also means that the country and the economy will be partitioned even if there will be a fig-leaf of a “federal government” that will camouflage partition and confederation and that will also maintain intact Turkey’s hold over the entire Island.

Each entity will have its own government that would probably be financed in part by the farcical “central” government. Currently, the occupied areas are subsidised by Turkey to the tune of roughly \$1 billion per year. This sum goes mostly to cover “government” salaries and benefits. The manner in which this sum is disbursed is designed to limit dissent (with Turkish policy) for a period of up to 29 days and no longer; those dissenting risk having their paycheque withheld on the 30th day (payday.) I presume that this \$1billion will have to come from new BBF taxes that will hit the Greek Cypriots (G/C) hard as Turkey will simply offload its burden on the BBF “central” government considering that the Turkish Cypriot (T/C) constituent entity has already proven its inability to find this money—even as it has usurped G/C assets and uses these for free, e.g. G/C citrus groves, factories and hotels. Though all of us are referred to in the BBF plan as “members of the G/C or T/C community” for tax purposes we will masquerade as “citizens” that lovingly share financial burden. Unavoidably the G/C community will bear the brunt of these new taxes that would aim to restore economic parity between the two communities and cover the \$1bil T/C deficit. As the larger of the two territories, the most populous (until of course Turkey completes its settler program and changes for ever the population balance in Cyprus) and the richer (G/C per capita income now stands at 2.6 times that of Turkey and more than that against the poor, Turkey-dependent occupied part of Cyprus.) It therefore goes without saying that the G/C entity will bear a massive tax burden. But, can the G/C afford to shoulder all or a major part of the \$1billion burden? The answer is no because the Republic’s sovereign debt now stands at 120% of GDP with a 2014 budget deficit of 8.8% of GDP. The Republic’s budget deficit averaged -3.72 percent of GDP in the last 10 years (1995 - 2014.) More menacingly the EU expects budget surpluses from Cyprus to pay interest on loans and loan instalments starting in 2017. (1) The Republic’s current expenditure for 2015 is budgeted at €4.488 billion (€4,731 in 2014) and this level of expenditure level should not grow by another \$1billion or so to cover the T/C shortfall.

Taxes now stand at 40% of GDP in the Republic of Cyprus. One can easily imagine the catastrophe that will ensue if this percentage grows any further. But, with BBF taxes will inevitably swell to new levels playing havoc with people's quality of life and living standards. In a BBF the taxpayer will be asked to fund the cost of the following: a.) the civil service of the "central" government, b.) the civil services of the two constituent entities, c.) one ministerial council for the "central" government that will entail two ministers and two senior officers for each position!, d.) two ministerial councils for the two constituent entities with God-knows how many cabinet members and other officers, e.) two "central" government parliaments, e.) two constituent entity parliaments, f.) one "central" government police force, e.) two constituent state police forces that in the author's calculations will employ more than 10,000 police constables and officers or one constable per 50-60 taxpayers—an impossible burden to bear!, e.) taxes to support multiple municipalities, f.) VAT, Social Insurance payments, and so on and so forth. Inevitably under such conditions taxes in both confederate states will account for over 50+% of cumulative GDP thus literally crashing the economy, impoverishing people and driving the young to emigrate from the two confederate countries (cunningly referred to in the BBF plan as "*constituent states*.")

A partitioned Cyprus will in practice have no central government of any substance. Therefore, interested foreign investors will have no one with authority to talk to in the event of wanting to invest in Cyprus. The "central" government will be run on vetoes and blocking mechanisms and will be in permanent paralysis. Foreign investors shun countries whose government is paralysed and the country is rudderless; so, no foreign investment. Within a BBF "*....only T/Cs may be elected as senators in the Turkish state....*" (see Turkish government position) and Cypriots will not be free to reside in any part of the Island they wish. This means that a G/C investor would be expected to invest in the T/C entity (supposedly in his own country) but would not be allowed to vote parliamentarians that can protect his investment. The investor will also not be allowed to reside in the T/C entity. So, I can't imagine any local investors with sound mind crossing the partition line.

Robust economies depend on critical mass. This explains why so many economies are trying to join other economies to improve and expand their internal market and to become more competitive internationally. We now see the Russian economy, with over 17,000,000 square kilometres of territory and over 150mil population, wanting to join hands with Kazakhstan and Belorussia to create a single economic unit. Cyprus, a mere 9,250 sq kilometres in territory and hardly a dot in the word map, will be divided into two economies and two countries with one of the two economic entities confined to a miniscule territory of 3,000 sq kilometres (hardly the size of a large farm) and struggling for economic oxygen; which ultimately will come from Turkey. As the centrifugal forces take effect the T/C economy will slide mathematically towards Turkey and

become a minute satellite economy of this country. The water that Turkey is illegally now transporting to Cyprus' occupied areas is a clear first indication of this slide towards Turkey. The land of the G/Cs that will be practically gifted to the T/C entity via BBF will be turned green in no time and in the process destroying any G/C farming potential.

If 100 independent-minded people with no interest in Cyprus were to be asked to study and explain what BBF is all about my guess is that they will all agree that BBF is partition at its best masquerading as unification. BBF divides people into antagonistic communities and sows the seeds of continued disunity and strife. BBF makes no reference to the rights of citizens and instead talks about members of distinct communities. The all-mighty term "citizen" that permeates every democratic constitution on earth will be absent from the BBF constitution; instead BBF will refer to community members. The moral equivalent would be for the American president to drop the "dear fellow Americans" and replace it with "dear Irish-Americans, German-Americans, African-Americans, Mexican-Americans, etc." The USA knows that once this division makes it into the US constitution the country will immediately fall into pieces and destroying in the process the cherished unity of the federal system America's constitution provides. The BBF corrals people into two communal Bantustans. This inevitably will lead to further conflict as people will be masterfully set up to quarrel. This will drive the young on both sides of the divide to emigrate with the country losing tax revenues and consumer spending. Lebanon provides, perhaps, the best paradigm of what Cyprus will look like once a BBF solution is agreed. Lebanon is divided into 18 religious groups with each assigned specific roles in public life. A person's qualifications do not matter if he happens to belong to the wrong religious group. This has harmed Lebanon's productivity and has stopped the country from meeting its economic potential. Of the 11 million Lebanese only 4.5million now live in Lebanon; the rest emigrated. Of those still in the country many hold dual passports and are ready to depart once the next predictable violent conflict erupts. Lebanon's GDP per capita now stands at an unremarkable \$10,000 (48% that of Greece.) In the absence of a credible working government Lebanon holds 113th position (11 positions from the bottom) on the factor of "*prevalence of foreign ownership*" of the 2014-15 Global Competitive Index of the World Economic Forum (2).

Outsiders failed to invest in Lebanon that is racked by all sorts of conflict. In another manifestation of absence of central government and central control Lebanon ranks only 3 notches from the bottom in the GCI ladder on "Ethical behaviour of firms." The country does not have in place a working social insurance system either because people do not trust a divided mirage government to manage their money for the long-term. For over a year now Lebanon is without a President (who must come from the Maronite Christian community!) Vetoes and a sectarian parliament have been stalling the election of President for a year now. In a BBF Cyprus

there will be a yo-yo presidential system of rotating presidents (meaning no president!)

It is a fact that economics and democracy go together inextricably. This explains the total dominance of countries with democratic polities of the list of most potent and productive economies of the World Economic Forum. Division, partition and separation into communities is a recipe for disaster. Not to mention that European courts will for sure strike down all divisive provisions of a BBF constitution just as they did in the case of Bosnia. The courts will then demand constitutional changes but that would be to no avail considering that Turkey as "guarantor" of the BBF constitution will not allow that to happen. And why should Turkey agree to give away its BBF trophy and its control over Cyprus? This essay ends in the way it started: the BBF solution is constitutional fraud that tries to present black as white, partition as unification, human rights violations as democratic practice, chaos as order and economic calamity as economic explosion. Any economy that tries to build on fraudulent structures is destined to crash and cause irreparable damage to the country and its people. A democratic solution to the Cyprus problem is the only guarantee of immense economic prosperity and happiness for all legally resident people in the country. A democratic polity is the only way forward for Cyprus and its people.

References:

- (1) <http://www.tradingeconomics.com/cyprus/government-budget>
- (2) <http://reports.weforum.org/global-competitiveness-report-2014-2015/>