



In Depth

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THE IMPORTANCE OF RESEARCH AND THE ROLE OF THINK TANKS

Ever since its creation in March 1993, the Research and Development Center - Intercollege has been playing a leading role in the efforts for upgrading research in Cyprus. Even though resources allocated to research may continue to be limited (around 0.3% of G.D.P.), there is a growing realization of the importance of research. It is evident that the role of think-tanks and of research centers in general is of vital importance, and that Cyprus lags behind in this field.

As a member of the EU, Cyprus is already facing serious challenges as well as opportunities. In addition to the great historical challenge of the restoration of the

unity and territorial integrity of the Republic of Cyprus, we have to work toward the modernization of the country's economic structure and create the possibilities for a constructive presence in the European and international arena. Cyprus must excel in all fields: economic, political, social, cultural and environmental. Such aims cannot be realized in the absence of a comprehensive strategy and without the economy and society functioning at a faster pace.

It is evident that the yardstick of challenges is already high. And these demands will be increasing continuously. The mobilization of all resources is necessary for success. In this context, the



need for further funding of all research centers is greater than ever. This can be achieved either by policies concerning these centers specifically, or in the framework of an all-inclusive policy regarding tertiary education and research. Either way, the funding and strengthening of Research Centers must go ahead without further delay.

*Prof. Andreas Theophanous,
Director General
Research and Development
Center - Intercollege*

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TERTIARY EDUCATION IN CYPRUS

"Tertiary Education: Challenges and Perspectives" was title of a conference organized by the Research and Development Center - Intercollege on Monday, 26 January 2004. The conference dealt with the important issue of tertiary education in Cyprus and examined the possibilities for its upgrading, both in the public as well as in the private sector. After

the accession of the Cyprus Republic to the EU and bearing in mind the strategic aim of the development of Cyprus into a regional center for the provision of high quality services, tertiary education must play a vital role. It is high time to examine how state and private tertiary education will develop evenly.

The great need for a com-

prehensive study of the prospects for the future development of state and private tertiary education was emphasized. All speakers underlined the need for the immediate passage of the legislation for the establishment of non-state universities. The prospects for the founding of private universities in Cyprus with the status of non-profit organizations

should also be immediately examined.

A central point of concern that was evident during the exchange of views in the conference was the need for equal treatment of state and non-state universities by the state. It was also stressed that tertiary education in Cyprus should be competitive both on a European and an international level.



A DEAL ON EUROPE'S CONSTITUTION SHOULD NOT BE DELAYED

“The breakdown should not deflect EU member countries from efforts to have it approved, after some compromise arrangement on the sticky point of voting weights”



Most of the current EU members supported, even though reluctantly, the draft of the European Constitution produced by the Convention chaired by former French President Valéry Giscard d'Estaing. Despite its drawbacks, it was the best that could be achieved at this stage of the Union's development. The breakdown of last December's EU summit was largely the result of objections by new countries that will join the EU on May 1. The EU summit in Brussels had intended to adopt the new constitution of Europe. The breakdown should not deflect EU member countries from efforts to have it approved, after some compromise ar-

angement on the sticky point of voting weights.

It is important to move quickly. Prime Minister Bertie Ahern of Ireland, which is now holding the rotating EU presidency, has rightly warned against delaying a deal on the constitution and is pressing ahead with efforts to restart talks. Adoption of an agreed constitution as soon as possible is not only necessary for practical reasons concerning the operation of EU institutions but would also help avoid the danger of a two-speed Europe. European Commission President Romano Prodi has said that, if agreement could not be reached by the end of 2004, he would support the idea of

a two-speed Europe. This idea, promoted by France, is opposed by many countries, including Ireland, whose Prime Minister has called it “a nightmare”, saying that it would cause endless divisions and arguments.

An institutionalized division of EU members should be avoided. It goes against the spirit of Rome and Maastricht and poses the danger of splitting the EU. It would also be a bitter and unwelcome experience for the new member countries, which would feel left out before really getting in.

*Prof. Emeritus Van Coufondakis
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THE CYPRUS ECONOMY IN 2003

Economic activity in 2003 remained subdued with growth coming in at about 1.7% in real terms compared with 2% the year before. Estimates of potential growth range around 4%-5% which points to a considerable output gap. Conditions in the labor market remained relatively stable with the unemployment rate edging up only moderately. On the price front, whilst headline inflation accelerated markedly in the year (to 4.2%), due to the VAT hikes, underlying trends remain roughly in line with European averages (of 2%-2.5%). Macroeconomic imbalances regarding the fiscal ac-

counts and the balance of payments, escalated further in 2003, presenting simultaneous policy challenges. Prospects for 2004 are cautiously more optimistic, conditional upon an improvement of tourist activity, the recovery in the global economy being sustained, and geopolitical uncertainties not escalating.

The growth achieved in 2003 was driven by a surging construction sector and by robust business services. Manufacturing continued its long-term decline in terms of real value added whilst in the wider tertiary sector economic activity remained sub par.

There is no doubt that the economy is at a soft spot, accounted for by a number of factors:

The pattern of private consumption shows a slowing trend as the real wealth effects of the stock market debacle continue to filter through.

On shore corporate and business activity is likewise constrained by reduced turnover and declining profitability.

Transitional problems relating to economic adjustment as the economy gears up for EU accession next May exert dampening influences.

The tourism sector continues to suffer from geopolitical un-

certainties and inherent problems in the package itself.

These factors are likely to continue to bear heavily on the economy in way that, barring exogenous positive developments, economic growth, will remain below potential over the medium term.

Tourist arrivals in 2003 show a decline of about 5% according to estimates, with respective revenues down nearly 10%. This follows declines of about 10% in arrivals and revenues the year before. The cumulative impact of the decline in tourist flows over the last two years has been considerable and accounts for much of the slow down in GDP growth, given the extensive



THE NECESSITY FOR THE SOLUTION OF THE CYPRUS PROBLEM TO BE IN LINE WITH THE ACQUIS COMMUNAUTAIRE

A target set by both the Americans and the UN is the resolution of the Cyprus problem and the carrying out of two separate and simultaneous referenda before May 1st 2004. Moves have already been made with the aim to restarting intensive talks on the basis of the Annan Plan. The objective would be to try to fill in the remaining gaps without dramatic changes in its philosophy and content. On the other hand, however, the Americans and the UN do not seem to realize that with the signing by the Republic of Cyprus of the Treaty of Accession to the EU, a new legal, political and economic framework has been created in Cyprus. Inevitably, as the

EU has repeatedly stressed, "the solution to the Cyprus problem must be consistent with the *acquis communautaire* and the principles on which the Union is founded." For any solution of the Cyprus problem to be functional and viable, it must be in line with this provision.

Cyprus' membership of the EU entails commitments and procedures resulting from the *acquis communautaire*, which should be taken into account in the solution to the Cyprus problem. The Cyprus Constitution should under no circumstances be in conflict with the Constitution of the EU and the principles which it upholds on human rights and basic freedoms, foreign policy and economic and political struc-

tures.

It is therefore necessary for foreign mediators to realize the necessity for consistency of the solution of the Cyprus problem with the *acquis communautaire* on a legal, political, social and economic level. The Republic of Cyprus, as a member state of the EU must undertake the necessary diplomatic initiatives in Brussels, New York and Washington, with the aim of ensuring that the *acquis communautaire* should be regarded as the necessary minimum basis for a viable and functional solution to the Cyprus problem.

Giorgos I. Kentas

Research Fellow



"The solution to the Cyprus problem must be consistent with the *acquis communautaire* and the principles on which the Union is founded "

[continues from p. 2]

linkages with the rest of the economy.

The geopolitical uncertainties surrounding developments in the Middle East and beyond are having an impact on tourist flows, as do the economic uncertainties lingering on in our main source countries. But this should not divert attention from home-made concerns that the tourist package as such is losing competitiveness at a time when new markets in Eastern Europe and elsewhere are entering the scene more potently.

Tax reform, subdued economic activity and increased public spending, part of which

was intended to fence off recessionary pressures emanating from the private sector, added to the fiscal deficit, now estimated at about 6% of GDP. Whilst part of the deterioration is transient, the underlying fiscal problem is of a structural nature. Pressures to rein in the fiscal finances will almost certainly require measures to control public expenditures, a proven difficult challenge with all governments.

Manifesting excess demand pressures, partly at least the result of the escalating fiscal imbalance, and manifesting declining tourist revenues also, the current account deficit

remained sizeable at 4.5% of GDP. This remains roughly in line with the biggest part of the last ten years raising a sustainability issue.

The deterioration of the fiscal deficit and the continued large imbalances in the current account of the balance of payments, pose a policy challenge that must be addressed in order to safeguard the economy from destabilizing pressures. This is now all the more important as EU accession becomes a reality in May.

Prospects for 2004 offer reason for cautious optimism on the basis of the economic recovery in the global economy



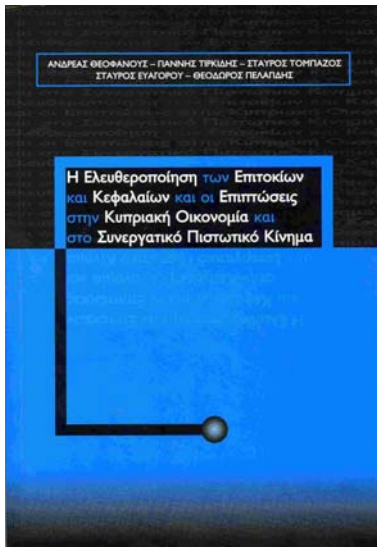
being sustained and having favorable implications for our tourism industry. But our expectations should not be set too high just yet.

Yiannis Tirkides

Senior Research Associate



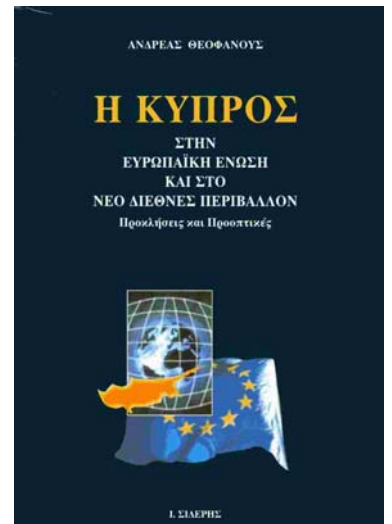
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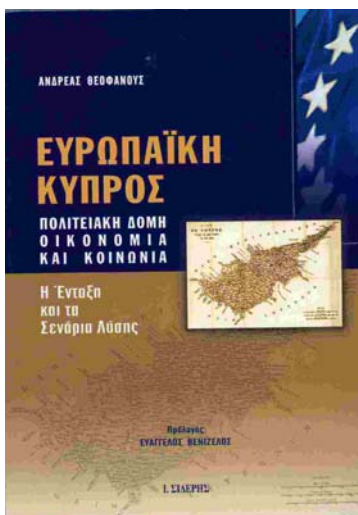


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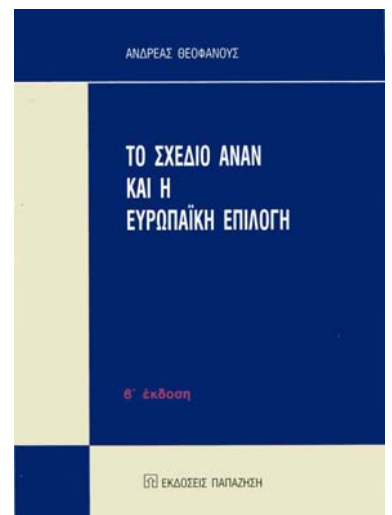


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The Research and Development Center - Intercollege has established itself as a pioneering and innovative think-tank through the quality of its work and its contribution to Cypriot society. The Center has sought to advance research, to contribute to the study and analysis of important economic, political, social and environmental issues of concern to both Cyprus and the wider region of the Eastern Mediterranean and to promote policy-oriented thinking. Within this context particular emphasis is placed on the Cyprus problem, the Cypriot economy, Greco-Turkish relations, the Eastern Mediterranean, as well as European Union issues and relations between Cyprus and the Union in particular.

Relying on the support of friends and associates both in Cyprus and abroad, the Research and Development Center - Intercollege will seek to broaden the scope of its activities and enhance its contribution.

RESEARCH AND OTHER ACTIVITIES

In this issue we present current and recently-completed research work of the Center. In the coming issues we will present the results of recent surveys.

Ongoing Research

Unit for Social/Financial Studies: Research on Youth Delinquency (Ministry of Justice 2003-2004).

Unit of Environmental Studies: Rural Development Through Knowledge (SOCRATES - GRUNDTVIG 2, 2003-2004).

European Platform for Biodiversity (Bioplatform

5th Framework Program of the EU, 2002-2005).

Improving Competitiveness of SMEs through IT-Based Environment Business Planning (EUMEDIS 2002-2005).

Sustainable Development of Mountainous Areas and Agenda 21 (Research Promotion Foundation (RPF) 2002-2004).

Cyprus Geological Heritage Educational Tool (UNDP/UNOPS 2003 - 2004).

Educational Tool for Young Farmers in Candi-

date Countries (Leonardo Da Vinci 2003-2005).

Furthering of the Principles of Industrial Ecology through research, development and pilot application of models of industrial symbiosis in Cyprus (RPF).

Research Completed

Unit for Social/Financial Studies: The Liberalization of Interest Rates and Capital and its Consequences on the Cypriot Economy and the Co-operative Credit Movement (RPF 2001-2003).

The current state of the Cypriot Family



(Committee for the Family 2002-2003).

Unit of Environmental Studies: Promoting Local Development of Renewable Energy and Actions at a Community Level (5th Framework Program - EU, 2001-2003).

February Conference

Two-day International Conference, "Democracy and Democratization", 20-21 February 2004.