

# Cyprus in the EU: Economic Issues

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## **Abstract**

Cyprus' drive for European Union membership has enjoyed broad local support because of the perception that EU membership is essential to the island's security. A side effect of the preoccupation with security is that economic issues relating to membership received little attention in the public arena. This is likely to change when the honeymoon period is over. The government now faces the difficult task of educating both the public and the business community for the opportunities but also for the challenges presented by EU membership.

Cyprus is already benefiting from the adoption of the *acquis communautaire* which has contributed to the modernization of the economy and the institutional framework in a number of areas including trade liberalization, the ending of state monopolies, enforcement of competition policy, tax reform, promotion of research and technology, and enforcement of fiscal and monetary discipline. EU membership is also likely to attract increased foreign direct investment and boost key sectors such as tourism, construction and, through subsidies, agriculture. Possible areas of concern include the possibility of rising land prices and increased rigidity of the labor market.

Despite the recent collapse of talks on the Annan plan, it is still possible that an agreement may be reached in the next 12 months that will allow Cyprus to join the EU as a unified country. Some important fiscal issues that were not addressed in the Annan plan will have to be resolved. Turkish Cypriots stand to gain the most economically from EU membership as they will be at the receiving end of substantial EU aid. However, long-run growth will only be achieved through a strengthening of institutions that will fight the widespread corruption and clientelistic behavior that has been cultivated over the years.