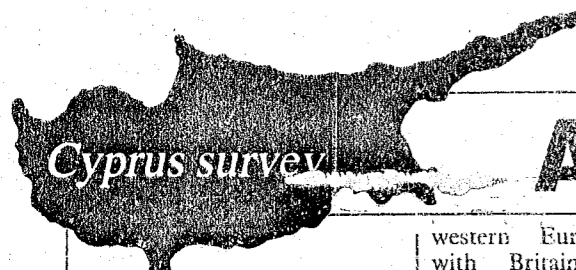


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Cyprus survey

# An island of calm in

Cyprus's own political difficulties have not diminished its attraction as an island of calm in a troubled region.

With nearby Lebanon in continuing turmoil and many Middle East economies hard hit by the recession, Cyprus has maintained a level of stability that has enhanced its position as a business and leisure centre.

Despite the collapse of peace talks between representatives of the Greek and Turkish communities, the government of the Greek-Cypriot south of the island is pressing ahead with plans to consolidate an economy based on trade with both Europe and the Middle East.

Until the Turkish invasion of 1974 divided the island, the bulk of foreign trade was with

western Europe, principally with Britain. The speedy recovery which followed the invasion in the Greek south produced a reorientation, as local manufacturers and farmers sought new markets.

By 1981, over half of all exports were to Arab countries. While this figure subsequently declined modestly, the Middle

### Cyprus has been well integrated into the regional economic system

East is still a vital market and Cyprus has been well integrated into the regional economic system.

Over the past three years, the government has been working to diversify local industry, relieving an overdependence on textiles, footwear and small manufactured goods which had

been the basis of trade with the

Arab countries.

These products gave Cypriot manufacturers an opening in the Middle East market, but as goods produced in the Far East have appeared in the region - particularly in the Gulf area - it has become more difficult for the Cypriots to compete on price.

Local manufacturers have

also been faced with serious payments problems - notably from Libya - and the difficulties presented in the Iraqi market as the costs of the Gulf war have led to reduced spending.

Some of the difficulties with Libya now seem to have been resolved. While Cypriot exports to Tripoli dropped sharply in 1982 - to five million Cyprus

A special report

pounds (\$9.5mn) from the 1981 figure of £C22mn (\$41mn) - they have recently recovered just as sharply. In 1984 exports increased to more than £C40mn.

Government policies currently aim at moving towards greater production of high-technology products, especially in the electronics and light engineering fields. But local businessmen - many of whom still operate small, family-based enterprises - are inhibited by the high cost of establishing such ventures.

Foreign companies have been offered the incentive of locating factories in the Larnaca Free Zone, where lengthy tax holidays are among the attractions. Last year the first foreign-owned company, YKK

# a troubled region



Cyprus survey

by The Middle East

Zipper, began production on the 140-acre Larnaca estate. YKK Zipper is part of the Japanese concern Yoshida Kogyo.

There have been some criticisms of the pace at which initiatives such as the free-zone scheme have been taken. Among comments on government policy are those which point to the long delay in announcing incentives for companies located in the free zone.

Government officials have replied that they have been anxious not to create unfair competition for domestic producers, and that they are anxious Cyprus should not become an attraction for companies that have no intention of establishing well-rounded operations on the island.

One official has commented that there is "no room for fly-by-nights" in Cyprus.

Officials would like to see the development of more major manufacturers producing high-engineered products. The nature of the local business community and the small size of the local market make this unlikely, but existing enter-

### There is no room for fly-by-nights in Cyprus

prises on this scale have been recording good performances, especially in the Middle East market.

The achievements of KMC - the Nicosia-based bus and truck manufacturers - and Nemitsas, the Limassol-based pump manufacturers, are of special note, proving that local skills tied to careful marketing can

succeed even in the competitive markets of the Gulf.

Improving Cyprus's export performance is essential if the country is to balance a widening trade deficit. Officials have predicted that the deficit could rise to over £C400mn this year.

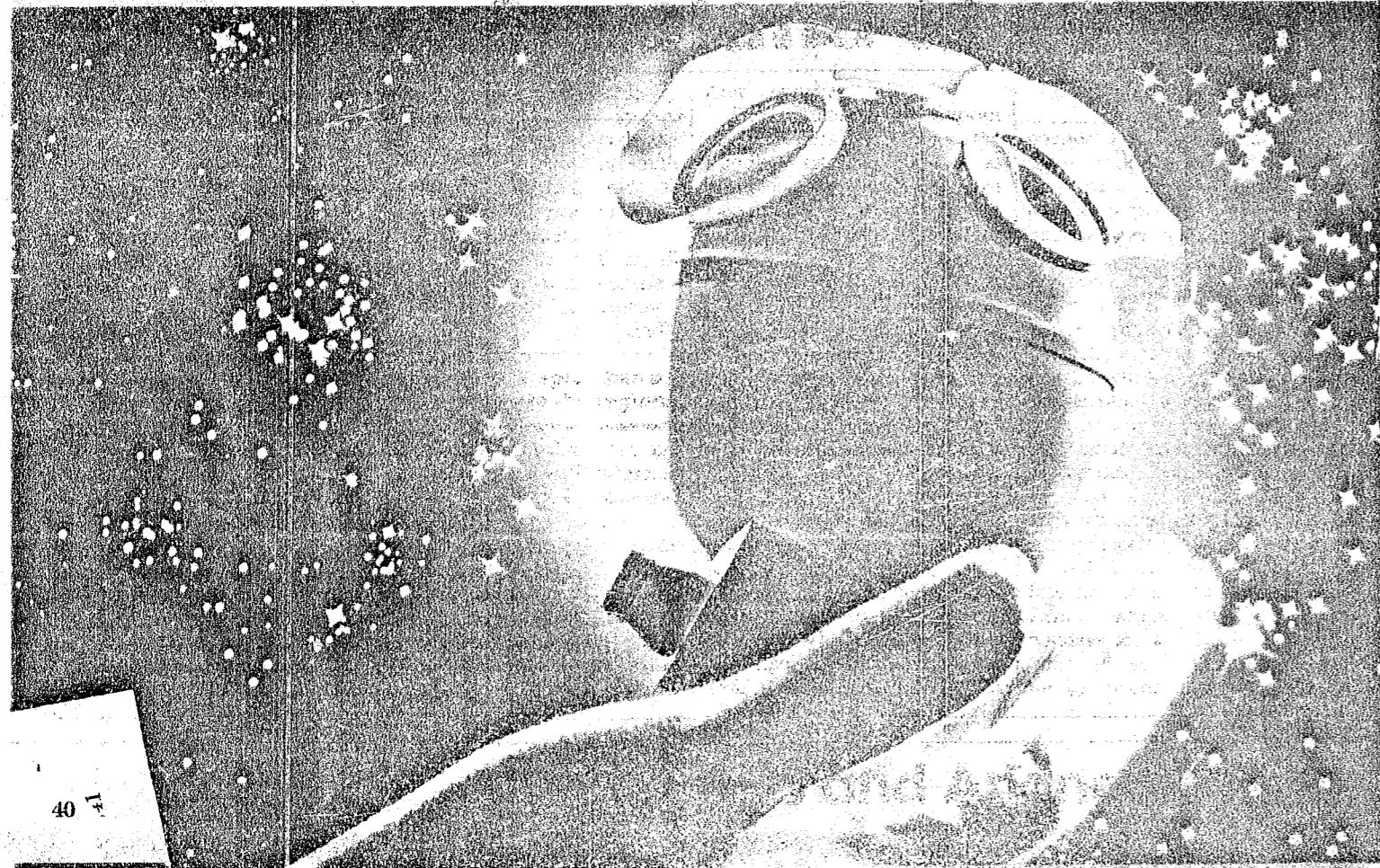
One area now drawing increasing interest in the effort to boost trade is that of

goods sold abroad, and there is every sign that recovery could continue. Ambitious development plans are dominated by the Southern Conveyor project, which will pipe water from the highlands of the south-west to the fertile areas of the east and south of the island.

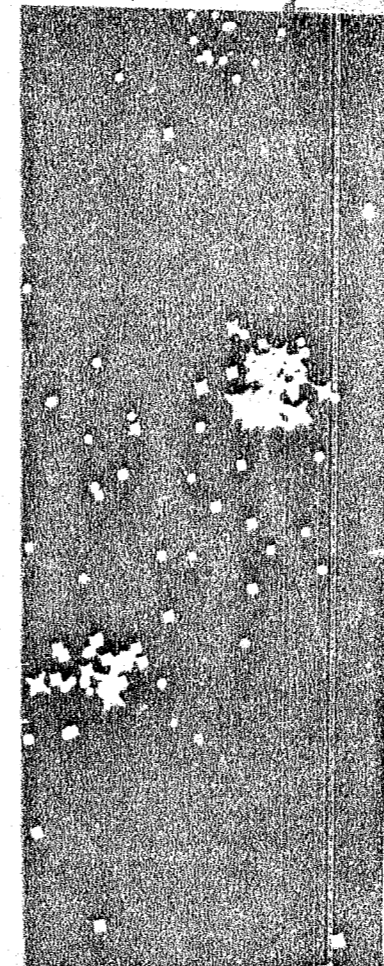
A series of agreements has been concluded with aid funds and development banks to finance key sections of the conveyor project. Last year the EEC and the European Investment Bank provided \$28.3mn, while the Kuwait Fund for Arab Economic Development provided \$9.5mn.

In recently-announced deals, the European Investment Bank has agreed to provide a further \$17.5mn, while the World Bank will contribute \$7m to a \$12mn agricultural development

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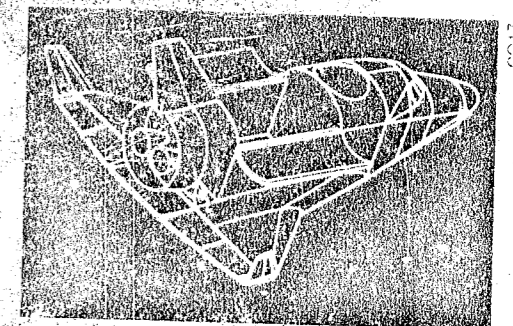


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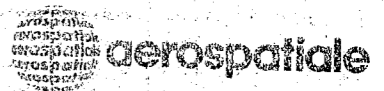
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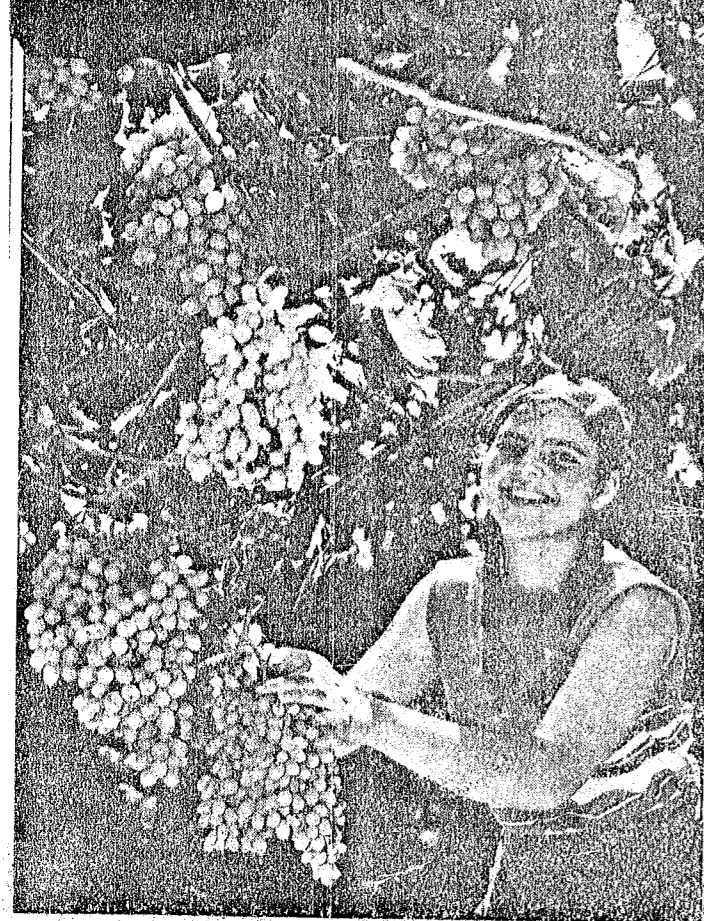


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**Agriculture accounts for some 34 per cent of the island's exports**

scheme associated with the project.

The World Bank loan will assist efforts to improve farm efficiency and will complement an earlier \$4.9mn loan from the International Fund for Agricultural Development (Ifad), which has financed a livestock scheme designed to boost milk production and sheep and goat rearing.

These schemes represent an important input to a sector that had been overshadowed during the manufacturing boom. They are likely to be of special importance to farmers attempting to recover their share of the European market at a time when Cyprus's economic links with Europe are passing through a period of uncertainty.

There has been slow progress towards agreements with the EEC on a customs union, and

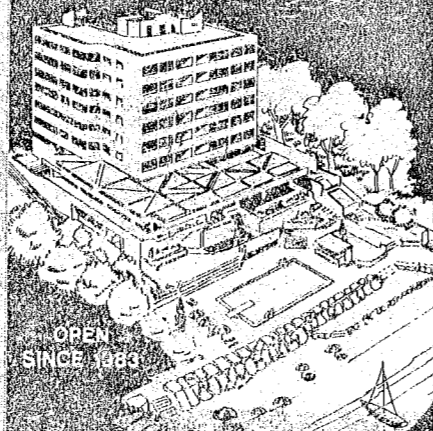
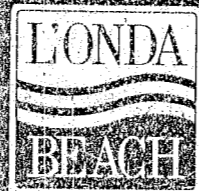
the accession of Spain and Portugal to the community is expected to sharpen competition in the early fruit and vegetable markets, in which Cyprus has been most successful.

In 1983 potato exports earned £C12.4mn - about 20 per cent of all agricultural export revenue - with most sales in western Europe, and over 70 per cent in Britain.

But last year the Cyprus Potato Marketing Board reduced spring production by 25 per cent, to 160,000 tons, because of improved European output and an anticipated decline in the market.

Cypriot farmers may well have to step up efforts to diversify production and to continue recent successful efforts to market processed foods and juices in the Middle East, especially in the Gulf.

## Conferences & incentives in CYPRUS



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## Bright prospects for tourism

Rapidly-rising income from tourism is one of the brightest aspects of Cyprus's economic scene. In 1984 the island welcomed a record 734,600 visitors - an 18.4 per cent increase on the previous year - and they spent a record £C223mn.

The figures are somewhat distorted by arrivals from Lebanon, where continuing troubles boosted the number of visitors to 103,000. However, numbers from other Arab countries and from western Europe continue to grow, and the number of long-stay, high-spending visitors is increasing steadily.

No subject stimulates more debate in the Greek south of the island than the future of the tourist industry. With numbers of visitors increasing so rapidly, there have been some demands that a limit be placed on total arrivals.

A number of critics - including some within the tourist industry - have demanded that in any year the number of visitors should not exceed the total population of the island - some 700,000.

There have been repeated calls that Cyprus should not be allowed to fall into a "tourist trap", in which its principal assets - beautiful scenery and clean seas - are put at risk by overcrowding, unplanned property development and pollution.

Such arguments have been countered by an insistence that foreign-currency flows must be maintained and that problems can be avoided by regulating development more carefully - especially in the hitherto relatively unexploited areas of the island.

With tourism currently providing no less than 12 per cent of gross domestic product and keeping thousands of Cypriots in employment, it seems unlikely that wide-ranging restrictions will be imposed. Indeed last year plans were announced for two major tourist



**A mosaic at Paphos: tourism provides 12 per cent of GDP**

complexes to be built near Limassol.

Cyprus Airways, the national airline, has invested heavily in aircraft capable of maintaining the flow of visitors from Europe and the Middle East. It already operates three Airbus A310s - each bought at a cost of more than £C30mn - and has ordered four A320s.

When the purchases were first announced in 1982 there was a storm of controversy, with critics of the airline and the government arguing that the island's import bill would be dangerously inflated by opting for these sophisticated aircraft.

There were some suggestions that Cyprus should abandon its national airline and rely on overseas carriers and charter companies to transport tourists.

Today, with the Airbus in

operation, there is less doubt over the wisdom of introducing the aircraft. The Airbus has already proved successful on European routes and in April it was introduced on routes to Saudi Arabia.

The airline has also deflected criticism by recording an impressive performance in boosting profits to £C4.8mn in 1983 - a 37 per cent increase on the previous year. These figures were achieved despite the problem of a rapidly-falling pound sterling, the currency in which most tourist payments are received.

The government is currently emphasising the importance of increasing the number of high-spending tourists visiting the island. Some progress has already been achieved with European tourists, and the

introduction of the Airbus on the Saudi routes, should help to improve traffic from the Arabian region. Last year 20,614 Saudis visited Cyprus.

Arab visitors to the island have long been higher spenders than those from Europe. Recent increases in the number of visitors from countries like Egypt and Iraq - from which relatively few visitors have travelled to Cyprus in the past - are thus particularly encouraging. Last year the number of visitors from these two countries increased by 22 per cent and 107 per cent respectively.

The increase in tourists from Egypt is especially important for Cyprus. Diplomatic relations with Cairo were broken off in 1979 after an incident at Larnaca airport. There have subsequently been few exchanges between the two countries, but last year, after diplomatic relations were restored, the number of Egyptian tourists visiting Cyprus increased to 16,340.

With its large population and proximity to Cyprus, Egypt could be one of the most significant Arab markets for the tourist industry. Sustaining interest in countries like Egypt will be vital if Cyprus is to boost earnings from tourism - already the island's main foreign-exchange earner.

Arab visitors have made the town of Limassol their favourite destination in Cyprus and it is here that most hotel development is continuing. Among the more popular destinations for European visitors is the Paphos area in the west of the island.

Paphos has recently received a boost with the development of a regional airport, which opens the area for direct international flights for the first time.

In January, Olympic Airways of Greece began a regular weekly service to Paphos from Athens, cutting out the lengthy road journey from Larnaca airport which had discouraged some visitors from holidaying in the less developed west.