

The crisis in Cyprus not only threatens the Cypriot economy, but might also undermine the country's relations with key partners and allies.

by Blog Admin

*On Monday, the Cypriot government agreed a €10 billion bailout deal with the European Union and the International Monetary Fund, following a week of uncertainty and controversy. **James Ker-Lindsay** writes that while the situation has damaged Cyprus's economy, it has also had a significant impact on the country's relations with its neighbours and partners. Russia and Israel, who had both developed close associations with Cyprus, may scale back their involvement in the aftermath of the crisis, leaving the country's place in the geopolitical order much more uncertain than it was a week ago.*



Rarely has a country had a more bruising week than Cyprus. As one commentator, **Pawel Morski**, memorably put it, 'No human agency has achieved so much economic destruction in such a short time without the use of weapons.' However, it was not just the direct financial fallout from the crisis that has shocked Cypriots; it is the way in which the events of the past week have forced them to re-evaluate their understanding of their place in Europe and the world. Much of what they thought they knew about their friends and allies has been fundamentally challenged.

Perhaps the biggest shock for ordinary Cypriots has been the way in which the European Union – or, perhaps more accurately, the 17-member eurozone – has behaved. Although never perhaps the most enthusiastic supporters of the European Union, polls taken this past week show that their trust in the EU has been shattered. In particular, many in Cyprus were shocked and appalled by what they saw as German intransigence, if not vindictiveness, concerning their financial services sector. No matter what evidence they presented, it seemed as though Berlin was fixed on the idea that Cyprus was a haven for Russian **mobsters** and was determined either to make them pay to fix the problem, or force the Cypriots to do so. This was unfair. Yes, there was dirty money on the island. However, it was not as much as was being claimed and, as Cypriots were quick to point out, there is a lot elsewhere in the EU. At the same time, a lot of Russian money in the banks also came from legitimate sources. More to the point, it did not seem to matter that the proposals to tax deposits would also do a lot of damage to the many legitimate businesses from other countries, as well as the many EU citizens living on the island.

At the same time as being angry about Germany's behaviour, Greek Cypriots feel very let down by many of the other members of the Eurozone. In some cases, such as **Finland**, they lined up squarely behind Berlin. Meanwhile, others did not come to their defence or support. It is telling just how many Cypriots seem to feel that Greece should have done more to try to help them, especially as it was the overexposure of Cyprus's banks to Greece that was at the very heart of the crisis the island faced. To be fair, given the problems Greece faces, there was not a lot that Athens could have done. One of the few countries that did voice support was Luxembourg. Undoubtedly



German Chancellor, Angela Merkel, and President of Cyprus, Nicos Anastasiades (Credit: EPP, CC BY 2.0)

concerned about attention being paid to the relative size of the banking sector to the overall economy in Cyprus, a proportion that is much larger in Luxembourg, Jean Asselborn, the foreign minister, [warned](#) Germany to take a more careful line towards smaller EU members.

Another key actor in this whole affair has been Russia. A lot has been written about the relationship between Nicosia and Moscow. Much of it has been appallingly one sided, if not wholly ill informed. Yes, it is true that the two countries have traditionally enjoyed warm relations. This is not only based on the Orthodox ties, it is also shaped by the way in which the Greek Cypriots have long seen Russia as a useful counterbalance to what they perceive to be innate US and British favouritism towards Turkey on the Cyprus Problem. This has served the island well over the years. However, it is easy to make too much of the relationship. It is especially worth remembering that there is also a strong groundswell of support for closer ties to NATO. Nicos Anastasiades, the new president, has [spoken](#) about his hope of steering Cyprus into Partnership for Peace (PfP) and, eventually, full membership of the organisation. Meanwhile, wilder predictions that Moscow was preparing to 'buy out' Cyprus in order to infiltrate the EU were spectacularly torpedoed when the Russian Government [announced](#) that it had no interest in taking over an ailing Cyprus bank, or betting on the island's as yet unproven energy reserves off its southern coast. Moreover, any support it would give would have to be done in conjunction with the EU.

Another significant development that took place last week, but one that probably went largely unnoticed in Cyprus, was Israel's decision to [apologise](#) to Turkey over its May 2010 raid on the Mavi Marmara, a ship that was on its way to deliver aid to Gaza, which left nine Turkish citizens dead. The incident caused outrage in Turkey and led to the freezing of what had once been extremely cordial relations. In the meantime, Israel and Cyprus had been busy building up relations, leading many to argue that a new security axis was emerging in the Eastern Mediterranean around the discovery of deposits of natural gas off the southern coast of Cyprus. That idea also looks to be in tatters now. From initial indications, it seems as though Turkey and Israel, with strong US encouragement, are keen to put their relations back on track as soon as possible. The immediate result of this is that Israel is likely to drop, or at least scale back its willingness to engage in joint energy exploration and exploitation projects with Cyprus; especially after the Turkish Foreign Ministry issued a strong [warning](#) to the Cypriot Government about trying to use energy reserves as collateral for any bailout agreement.

Interestingly, the one country that comes out of this rather better than many others is the United Kingdom. Relations between Cyprus and Britain have not always been easy, largely as a result of the legacy of British colonial rule over the island, which ended in 1960. Indeed, some Cypriot politicians have even referred to the British as demons. And yet, behind the populist rhetoric, in day-to-day terms the two countries actually enjoy very good working relations. As well as the large number of British expatriates living in Cyprus, and the large Cypriot community in Britain, the two share similar positions on a number key European issues. It is telling that, as the enormity of the situation sank in, the British Government sent a team of senior [civil servants](#) with experience in dealing with the UK's banking crisis to Cyprus to help formulate proposals for restructuring or closing the island's main banks. This relationship may well have been further cemented by the events of this week; especially if Cyprus becomes more avowedly Eurosceptic in its outlook.

The immediate task facing Cyprus is to try to start rebuilding their economy. However, Cypriots will also be asking themselves many questions about the country's foreign relations in the aftermath of the crisis. The EU may have given them the security versus Turkey that they always wanted, but that support has come at a very high price: perhaps too high in the minds of many. Meanwhile, it has been shown that while Russia has been a useful ally at times, its support is not as certain as many may have once liked to believe. All the while, hopes of developing new relations in the Eastern Mediterranean have been destroyed as Turkey's sheer size and significance has won out. For Cyprus, it is fair to say that just as their economic situation has changed dramatically over the past ten days, so has their understanding of their place in the geopolitical order of things.

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