

*Address to the Geneva International Group  
by the Minister of Education, Mr Akis Kleanthous*

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*Cyprus: Its Development as an International Business Centre*

Mr. Chairman

Ladies and Gentlemen

Initially, I would like to thank our hosts for their kind invitation and providing me with the opportunity to address this distinguished audience. In this presentation I want to, firstly, trace the development of Cyprus as an international business centre and, secondly, outline the current situation of Cyprus as a flourishing and flexible market economy, in which companies from the EU as well as from third countries can establish themselves and do business effectively in a region, which is at the crossroads linking Europe with the Middle and Far East.

*Past Developments as an International Business Centre*

Given its strategic geographic location at the centre of three continents of Europe, the Middle East and North Africa, Cyprus has always played a key role as a regional centre for trade and business. For example, the Venetians at the height of their sea power acquired Cyprus in 1489 prompted by the value of the island as a base for her fleets in the Eastern Mediterranean and as a trading center for the Levant. In view of its important value for both production and trade, particularly of salt, and as a shipping centre, the policy of Venice was to make the island as secure as possible, since it was clear that it formed a vulnerable outpost in a hostile area. Indeed, the Venetian walls surrounding the capital of Cyprus, Nicosia, are still prominent today and are a reminder of the links of Cyprus with the important trading and shipping nations in its history.

But what has been the recent history in Cyprus in its development as an international business centre. Merchandise trade in raw materials and agricultural products and re-exports using Cyprus as an entrepôt centre flourished in the 1950s and 1960s and

provided an important basis for economic activity up to the early 1970s. Thereafter, Cyprus became increasingly reliant upon the export of manufactured goods and tourism services to generate foreign exchange.

### ***Policies to Diversify More Toward Services Exports***

The Turkish invasion of 1974 and the subsequent military occupation of 37% of the island deprived the Republic of Cyprus of important exportables such as copper, citrus fruits and grain products as well as ports and shipping routes and forced the Republic to raise its dependence further on manufactured exports and tourism. However, in the 1980s and 1990s with global competition restraining the export of labour-intensive manufactures and with the vulnerability of the tourism industry to external shocks becoming more evident, the Government needed to undertake policies to diversify production and to integrate the economy more closely with Europe, while maintaining its important trade and political links with the Middle East.

Indeed, the government had a vision to make Cyprus a fully fledged services economy, being a regional hub in the import and export of shipping, financial and other business services.

Towards this end, Cyprus passed legislation in 1979 aimed at attracting international business through inter alia offering preferential tax rates for companies engaged in international business. This together with other features of Cyprus, which I will later refer to, encouraged the registration in Cyprus of many international companies, mainly of financial institutions from Europe and Middle-Eastern trading companies, which contributed another important step in the development of Cyprus as an international business centre.

### ***European Union Accession***

After obtaining independence from the United Kingdom in 1960, Cyprus gradually developed closer relations with the European Union that culminated in an application for full membership of the European Union in 1992 and accession to the Union in May 2004.

The entry of Cyprus into the European Union made Cyprus the Southeastern outpost of the European Union and consolidated its position as a bridge linking the Union with Eastern Europe, the Middle East and Northern Africa.

Furthermore, the accession of Cyprus into the European Union and particularly the safeguarding of the right of establishment and the free movement of services created additional opportunities for the services sector in the internal market of the EU.

***(a) European Convergence***

Accession implied an overall improvement of the conditions of security, while real and nominal convergence in the EU under the Convergence Programme strengthened macroeconomic stability. Thereafter, the continued sound performance of the economy since European Union accession manifested by the meeting of the relevant Maastricht performance criteria enabled Cyprus to join the Exchange Rate Mechanism II on May 1, 2005 and to intensify preparations for the targeted adoption of the euro on January 1, 2008.

Regarding the prospective entry of Cyprus into the euro area, I can report that preparations are proceeding smoothly with Cyprus meeting all the legal and economic convergence criteria for the timely adoption of the euro. Accordingly, with this entry and its commitment to meeting the conditions of the Stability and Growth Pact, the framework for ensuring fiscal stability and strengthening long-term growth will be provided.

***(b) Structural Reforms and Lisbon Strategy***

However, with mounting global competition in traditional areas of labour-intensive manufactures and tourism adversely affecting Cyprus, the membership of the European Union and macroeconomic stability are not sufficient alone to guarantee healthy economic and social development. Economic policies must be designed to ensure the sustained growth of the real economy.

Thus, in common with other EU members, Cyprus must continue to implement structural reforms under Lisbon Strategy in order to make Cyprus a highly competitive economy and a knowledge-driven and cohesive society. A major challenge under the National Reform Programme of Cyprus first presented in October

2005 will be the further diversification of the economy and movement up the value-added chain involving the enhanced promotion of Cyprus as an International Business Centre.

In this respect the government has a vision and has developed policies enabling foreign companies to utilize the competitive advantages of Cyprus. There has been the full liberalization of foreign direct investment both for EU and third country residents, as well as the removal of restrictions on the minimum level of investment and percentage of participation of foreigners in all sectors of the economy, as well as the liberalization of capital inflows and outflows.

In addition, an agency for the promotion of Cyprus as an entrepreneurial base and for attracting foreign direct investments is being created as well as the setting-up of a One-Stop-Shop, aiming at the establishing of a company within one week in line with the relevant European Council conclusions.

Furthermore, as I have indicated before past and ongoing government policies have produced a number of other advantages and features which make Cyprus very appealing for overseas entrepreneurs wishing to use Cyprus as a base for their business activities. These include:

- a simple attractive tax system with a corporate tax rate of 10% , one of lowest internationally and in Europe;
- an extensive network of double taxation avoidance agreements with over 40 countries;
- bilateral investment agreements with 17 countries
- well-developed infrastructure including excellent telecommunications, ports, airports, and road networks;
- modern and efficient legal, accounting, banking, financial and insurance services; and
- a strong commitment to the rule of law, including security in the protection of real and intellectual property rights.

I would stress that the attraction of foreign investors constitutes a main goal for the development policy of my Government. Particularly positive are the prospects for direct investments in areas such as:

- Production for high technology products
- Production of renewable energy sources
- Telecommunications
- Tourism, tertiary level education and health services
- Business services
- Shipping
- External trade

### ***Current Situation***

Reflecting the policies that I have outlined Cyprus has developed as an international business centre, with over 45,000 international business companies now using Cyprus as a base for their operations.

In the banking sector recent years have witnessed the rapid expansion of both domestic and overseas business, with a number of international banks using Cyprus as a base for their rapidly expanding external operations, especially for lending to other European countries. In addition to the foreign participation in the two major banks listed on the Cyprus stock exchange there are 8 subsidiaries of foreign banks in Cyprus and 17 branches of foreign banks. Locally incorporated banks have also expanded their foreign operations by setting up branches and subsidiaries overseas, particularly in Greece, Serbia and Romania.

Opportunities for foreign investment in other areas of the financial sector have been enhanced by the merger of the Athens and Cyprus stock exchanges, while government bonds issued internationally are now traded on the new Euro MTS platform. Legislation on financial leasing is expected to be passed shortly and considerable foreign interest in such activities is reported.

There are, however, areas of weakness in Cyprus financial markets which will be addressed prior to the adoption of the euro and will provide opportunities for foreign investors. One particular example is that the trading of domestically issued

government bonds in the secondary market is minimal, and is expected to be activated by the introduction of a system of primary dealers and a consolidation of debt issues.

Cyprus has continued as an international shipping centre for the conduct of maritime activities and has developed as a centre for the rendering of shipping services worldwide. The Cypriot commercial fleet is among the 10 largest worldwide, ranking third in the European Union with a percentage of around 15% of the total fleet of the 27 member-states of the EU. There are about 1.800 ships of a total gross tonnage of over 21 million registered under the Cypriot flag. Cyprus cannot be regarded as an opportunity flag state as the government has ratified all major international conventions on maritime safety, the prevention of sea pollution, and the limitation of ship-owners' civil liability in case of oil pollution damage, as well as conventions on maritime labour.

### ***Concluding Comments***

In conclusion, I trust that I have informed you about the development of Cyprus as an international business centre and some of the current opportunities for overseas entrepreneurs and investors using Cyprus as a base for their international financial and business activities. I believe that with the entry of Cyprus into the European Union and its prospective entry into the euro area on January 1, 2008, Cyprus is now even better positioned to enable international companies and natural persons to use its infrastructure, facilities and professionals to establish important business and financial links with both Eastern Europe and the Middle East.

I thank you for your attention and note that details on the current situation for investing and doing business in Cyprus can be found in the "Handbook of the Cyprus Chamber of Commerce and Industry for Overseas Entrepreneurs" copies of which are available here.