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Navigating the Polycrises: Challenges and Opportunities Ahead for Cyprus

Dr. Pavlos Koktsidis

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INSTITUTE OF STUDIES FOR POLITICS AND DEMOCRACY

Address: Andrea Zakou 2, Office 301, 2404 Engomi,
Nicosia, Cyprus.

 Telephone: +357 22 664470

 Email: info@ispd.org.cy

 Website: ispd.org.cy

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Cover picture: A view of deserted buildings of the tourist area of Varosha, in the fenced off area of Famagusta, Turkish-occupied area, (Photo by Birol BEBEK / AFP) (Photo by BIROL BEBEK/AFP via Getty Images)
Source: CNN

THE ISPD EASTMED GEOSTRATEGIC OUTLOOK SERIES

Author



*Dr. Pavlos I. Koktsidis
Research Fellow, ISPD*

*Lecturer Adj. and Principal Researcher at the University of
Cyprus on Foreign Policy, International Relations and
Conflict Studies at the Department of Social and Political
Sciences.*

Navigating the Polycrises: Challenges and Opportunities Ahead for Cyprus

The global repercussions of the protracted Russo-Ukrainian war, alongside the persisting aftereffects of the COVID-19 pandemic and the shrinking prospects for a negotiated settlement on the Cyprus Question, have altogether marked the departure of a particularly burdensome year. On top of these challenges, Cyprus is still battling with disproportionate to its size and population irregular immigration flows. The new government will be called on to address a range of pressing challenges and dilemmas in the economy, foreign policy, the management of irregular migration and of course the Cyprus question.

The ongoing global “polycrises” has laid the ground for an explosive mixture of threats and risks holding off future economic recovery and undermining political stability.[1] Indicatively, in 2022, the immediate consequences of geopolitical turbulence and the aftermath of the lingering pandemic have drastically impacted on energy and commodity prices and supply, thus preventing the speedy and decisive rejuvenation of the economy. The growing geopolitical fragmentation between major rival power-blocks, [US-Western powers, Russia, China] and the malign influence of ambitious and often roguish regional actors (Turkey, Pakistan, Iran, Libya, North Korea) reduce trust and interdependency in the globalized system and encourage defensiveness and caution. Despite the limited prospects for a swift recovery in 2023, Cyprus could nevertheless benefit tremendously from the gradual and targeted unfolding of the European Recovery and Resilience Facility package (1.2 billion direct investments + 1 billion private investments). The generous EU-sponsored package aims at mitigating the expected shocks of the “polycrises” and setting up the long-term prospects for an EU-wide recovery and growth. The Recovery and Resilience Package offers a first-class opportunity for the acceleration of growth in sustainable economic sectors focusing on the transition from ‘old’ to ‘new’ eco-friendly energy resources, provides financing for public sector reform and economic digitalization, and encourages the growth of employment and the preservation of social cohesion.

"The ongoing global “polycrises” has laid the ground for an explosive mixture of threats and risks holding off future economic recovery and undermining political stability"

Economic Growth, Risk and Vulnerability

The average growth rate in Cyprus for 2022 hovered around 5.7%, compared to 5.5% in 2021, whereas public debt as a percentage of GDP declined to 95.2% according to Eurostat.[2] According to official government figures, the growth rate of the economy is expected to decelerate at about 3% in 2023, before picking up in 2024 to 3.3% (26.4 billions nominal GDP).[3] The June 2022 IMF report forecasts 3.1% growth for 2023 and 2.8% for 2024, an estimate close to the publicized government figures.[4] Yet according to the EU Commission forecasts, Cyprus will encounter a much slower growth averaging at around 1% of GDP in 2023 and 1.9% in 2024.[5] Notably, the updated Stability Programme Report for 2022-2025, expects growth fluctuations to average around 3.8% in 2023, 3.4% in 2024 and 3.0% in 2025.[6] According to the figures above, Cyprus should be generally expecting a weak to moderate growth in 2023. Presently, public debt shows a remarkable downward trend, hovering at 89.3% in 2022 (89.6% according to the EU Commission) after peaking at 115% in 2020 and 118.8 % in March 2021.[7] The Central Bank of Cyprus annual report for 2023 estimates that public debt will continue its downward trend reaching 88.2% in 2023, whereas public debt is expected to fall down at 83.3% to 84% of GDP in 2024.[8]

Medium to long term expectations point to significant public debt reduction according to the EU Commission forecast, painting an optimistic picture with concern to the scale of debt reduction (76.5%[9] or 77.7% in 2024[10]). Yet such reductions are largely subject to uncalculated conditions.[11] The central government balance produced a surplus of 460 million euros, which is about 1.7% of GDP (0.6% above the EU forecast for 2022[12]) as the result of austerity in public expenditures combined with an increase of public revenues and the acceleration of growth. However, 2023 is again expected to put public finances to the test, whereas according to the Fiscal Council of Cyprus the prospect of returning to small deficits should not be entirely excluded due to the anaemic growth rates.[13] Inflation currently stands at around 8.1% and it is projected to decelerate to 4.2% in 2023 and to 2.5% in 2024. Finally, the chronic problem of trade deficits has jumped at €6.17 billion (until October 2022) due to the hiking prices on basic goods and raw materials (24.6% increase) whereas exports amounted to some €399.9 million [compared to €462.5 million in October 2021], recording a decrease of 13.5%.[14]

[1] Global Risks Report 2023, World Economic Forum, 11 January 2023. Av.at: <https://www.weforum.org/reports/global-risks-report-2023/digest>).

[2] Eurostat Indicators, Second Quarter of 2022: Cyprus and EU, No. 119/2022, 21 October 2022. Av.at: <https://ec.europa.eu/eurostat/documents/2995521/15131955/2-21102022-BP-EN.pdf>

[3] The RoC Ministry of Finance points at a real GDP growth that could reach around 3% in 2023, 3.3% in 2024 and 3.2% in 2025. Announcement of the Ministry of Finance regarding the Draft Budget Program 2022-2023, October 18 2022. Av.at: <https://www.pio.gov.cy/%CE%B1%CE%BD%CE%B1%CE%BA%CE%BF%CE%B9%CE%BD%CF%89%CE%B8%CE%AD%CE%BD%CF%84%CE%B1-%CE%AC%CF%81%CE%B8%CF%81%CE%BF.html?id=30806#flat>

[4] IMF Staff Country Report Cyprus: 2022 Article IV Consultation-Press Release, Staff Report and Statement by the Executive Director for Cyprus, Country Report No. 2022/151, 1 June 2022.

Av.at: <https://www.imf.org/en/Publications/CR/Issues/2022/05/31/Cyprus-2022-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-518467>

Cyprus submitted draft budgetary plan for 2023 to the EU, Stockwatch, 19 October 2022. Av.at:

<https://www.stockwatch.com.cy/en/article/eyropi-oikonomia/cyprus-submitted-draft-budgetary-plan-2023-eu>

[5] European Commission Economic Surveillance of EU Economies, Economic forecast for Cyprus, 11 November 2022.

Av.at: https://economy-finance.ec.europa.eu/economic-surveillance-eu-economies/cyprus/economic-forecast-cyprus_en#:~:text=Overall%2C%20real%20GDP%20is%20forecast,picking%20up%20in%202024%201.9%25

[6] Stability Programme 2022-2025, RoC Ministry of Finance, April 2022.

Av.at: https://mof.gov.cy/assets/modules/wnp/articles/202205/1115/docs/stability_programme_22_25_en_final.pdf

All predictions on growth and stability in Cyprus are nevertheless characterized by significant uncertainty originating from the “risks of polycrises”. Nonetheless, Cyprus’ fundamental economic risks are generated partly from the deep-cutting impact of private debt, reflected on the management of non-performing loans (the second-highest in the EU) and property clearances, and partly from the deepening impact of trade deficits (import economy) due to the inflationary pressures. Despite its flexibility, the economy of Cyprus is still dependent on vulnerable sectors and lacks adequate self-sufficiency in critical sectors (e.g. agricultural products, textiles, electrical and technology equipment, pharmaceuticals etc.). The Cypriot economy is essentially dependent on the services sector and in particular on tourism, offshore headquartering and the real estate sector. Driven by an attractive corporate tax system (12.5% corporate tax rate), - the lowest in the Eurozone area - the Cypriot economy’s over-reliance on the services sector has over the years generated disproportionate risks in the event of external political pressures, fluctuations in liquidity flows, and other global disruptions.

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Nevertheless, the withdrawal of Russian companies from the Cypriot market in 2022, as well as some relevant blows suffered by the banking sector (RCB) and the accounting and legal services have only had, so far, a modest and manageable impact compared to the Cypriot economy’s extent of exposure to the Russian market. Previously, however, the collapse of the “citizenship by investment scheme” indicated the risks related to unsustainable sources and aggressive practices for a speedier growth. More specifically, the international uproar caused by the revelations regarding the Cyprus Investment Program[15] led to the government suspending the programme and seeking for safer investment sources mainly in the technology, research and innovation sectors.

[7]Cyprus Government Debt from December 2010 to September 2022, CEIC Data. Av.at:

<https://www.ceicdata.com/en/indicator/cyprus/government-debt--of-nominal-gdp#:~:text=In%20the%20latest%20reports%2C%20Cyprus,USD%20bn%20in%20Sep%202022>

[8] European Commission Economic Surveillance of EU Economies, Economic forecast for Cyprus, 11 November 2022.

Av.at:https://economy-finance.ec.europa.eu/economic-surveillance-eu-economies/cyprus/economic-forecast-cyprus_en#:~:text=The%20debt%2Dto%2DGDP%20ratio,in%202023%20and%202024%20respectively.

[9] Cyprus public debt falls to €24.18 bln in second quarter, Cyprus Mail, 13 August 2022. Av.at: <https://cyprus-mail.com/2022/08/13/cyprus-public-debt-falls-to-e24-18-bln-in-second-quarter/>

[10] European Commission Economic Surveillance of EU Economies, Economic forecast for Cyprus, 11 November 2022.

Av.at:https://economy-finance.ec.europa.eu/economic-surveillance-eu-economies/cyprus/economic-forecast-cyprus_en#:~:text=The%20debt%2Dto%2DGDP%20ratio,in%202023%20and%202024%20respectively.

[11]According to the Ministry of Finance Report [October 2022]

Av.at:https://mof.gov.cy/assets/modules/wnp/articles/202210/1220/docs/main_indicators_2019-2025_-_websiteoctober2022.pdf

[12]European Commission Economic Surveillance of EU Economies, Economic forecast for Cyprus, 11 November 2022.

Av.at:https://economy-finance.ec.europa.eu/economic-surveillance-eu-economies/cyprus/economic-forecast-cyprus_en#:~:text=The%20debt%2Dto%2DGDP%20ratio,in%202023%20and%202024%20respectively.

[13] What the state budget foresees for 2023, September 30 2022. Av.at:

<https://www.philenews.com/oikonomia/kypros/article/1564199/ti-problepei-o-kratikos-proypologsmos-ga-to-2023;>

January 12 2023. Av.at: <https://www.philenews.com/oikonomia/kypros/article/1634677/dimosionomiko-symbolio-xechaste-to-evnoiko-senario>

In 2023, Cyprus is expected to consolidate the “economic paradigm shift” through further diversification. Notably, the embarrassing experience with unsustainable forms of growth facilitated the speedier transition to a ‘new age’ of productive development with increased added value and with stronger trickle-down effects for the local society. Also, over-reliance on the Russian and British markets in the tourism sector (approx. 25% and 33% respectively) has negatively impacted on the tourist economy.[15] In 2022, the number of Russian tourists rapidly declined due to the tightened flight restrictions imposed by the EU (approx. 600.000 Russian and Ukrainian tourists per annum). Hence, Cyprus will need to make its tourist product more accessible and antagonistic and continue focusing more on the large target-markets of Europe, Asia, and America. The delivery of the EU Resilience and Recovery fund will assist Cyprus in developing, strengthening and reforming economic sectors related to sustainable growth, such as energy production and investments in renewable sources, diversification of the tourism and hospitality market, efficient agricultural development, development of environmental and maritime technology, and the strengthening of ‘smart industrial’ production (digital apps, software development, platforms and technology products).[16]

Managing Irregular Migration: Not out of all options, yet

Confronted with an overwhelming flow of irregular migrants and asylum seekers, amounting to some 5% of Cyprus’ total population, that is five times the EU average, the new government in Nicosia will be pressed hard to take measures that address the issue of illegal entry more decisively.[17] However, no matter the urgency of the matter, the effective regulation of migrant flows is a complex riddle that supersedes Cyprus’s individual capacity to handle. Aside from the frequent beach landings, the problem of persons arriving from Turkey to the Turkish occupied areas of Cyprus to enter areas controlled by the Republic through the UN controlled buffer zone[18], has raised serious concerns with regards to the UN buffer-zone’s security and surveillance.

[14] Trade deficit jumps to €6.17 billion in January – October 2022, Stockwatch, 12 December 2022.

Av.at: <https://www.stockwatch.com.cy/en/article/emporiko-isozygioemporio/trade-deficit-jumps-eu617-billion-january-october-2022> For a historical record of trade balances see: Cyprus Trade Summary 2020 Data, World Integrated Trade Solution, World Bank.

[15] Russian tourists prefer five-star hotels, Stockwatch, July 29, 2021 Av.at:

<https://www.stockwatch.com.cy/el/article/toyrismos/protimoyn-ta-pentastera-oi-rosoi-toyristes>

[16] Τουρισμός: Tourism: Already counting damages from the war in Ukraine

Av.at: <https://www.alphanews.live/cyprus/o-toyrismos-metra-idi-zimies-apo-ton-polemo-stin-oykrania.unpublished>, Alpha News Cyprus, 12 Ιουνίου 2022. Av.at: <https://www.alphanews.live/cyprus/o-toyrismos-metra-idi-zimies-apo-ton-polemo-stin-oykrania.unpublished>

[17] Statements of the Government Representative on the meeting of the President of the Republic on the subject of Immigration, April 19 2022. Av.at:

<https://www.pio.gov.cy/%CE%B1%CE%BD%CE%B1%CE%BA%CE%BF%CE%B9%CE%BD%CF%89%CE%B8%CE%AD%CE%BD%CF%84%CE%B1-%CE%AC%CF%81%CE%B8%CF%81%CE%BF.html?id=27474#flat>

[18] Cyprus: Government Blames Turkey for High Number of Arrivals and Requests Frontex Patrols, European Council on Refugees and Exiles, 18 February 2022. Av.at: <https://ecre.org/cyprus-government-blames-turkey-for-high-number-of-arrivals-and-requests-frontex-patrols-leggeri-promises-support-and-facilitation-of-returns/>

The freshly elected government of Nikos Christodoulides will have no other option but to demand further EU support for boosting the efficiency of asylum-assessment, increase the effectiveness of surveillance across the buffer zone areas and press for a rational EU-wide distribution, decent transitional settlement, and a faster repatriation protocol for declined asylum-seeking applicants. Faced with a potentially explosive social dynamic, result of the massive influx of immigrant persons, and considering Turkey's immigrant facilitation networks (flights to Cyprus) and the thriving smuggling business in the Anatolian shores, the new government will find itself in need to address the issue in concert with the EU and the UN mission. The risk of migratory pressures going out of hand is real and its effects should not be underestimated. The continuing numbers of immigrant arrivals from Turkey and the proven porousness of the UN buffer zone that divides Cyprus pose serious national security risks. The new government in Nicosia will be forced, at some stage, to demand harsher EU treatment against Turkey's undermining and destabilizing role on the matter, and ask for the considerable strengthening of the EU's external border patrol and reporting mechanism to prevent the 'instrumentalization' of immigration.[19]

The Pournara reception centre for asylum seekers outside Kokkinotrimithia, on the outskirts of Nicosia

Source: Kathimerini News



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[19] At present, there is only 25 Frontex personnel deployed in Cyprus, plus 15 Returns Officers. ΥΠΕΣ: Frontex στην Τουρκία για να σταματήσει τους μετανάστες, Brief, 5 Μαΐου 2022. Av.at: <https://www.brief.com.cy/politiki/ypes-frontex-stin-toyrkia-gia-na-stamatisei-toys-metanastes>

Foreign Policy: Less Russia, More West?

Developments in 2023 may ultimately determine a slow exodus from the ongoing “polycrises” or seal the deepening and diffusion of geopolitical turmoil, increase social hardship, and deepen resource scarcity and economic recession. While Russia’s influence is slowly receding in Cyprus, the new year bears with it an opportunity to affirm Cyprus’s foreign policy position within the broader western security system [EU and NATO], as a partner of pivotal importance in the region. Turkey’s current slide into anti-western rhetoric and actions can indeed boost the promotion of Cyprus’s diplomatic leverage as a reliable and stability-seeking partner. Most certainly, the current geopolitical turmoil characterized by Russia’s aggressive and fundamentally anti-western revisionism in Ukraine and Turkey’s ambition to “break free” from western “manipulation” and pursue a more autonomous and revisionist policy in concert with Russia, offers Cyprus the chance to expose the regional hazards and project more firmly its strategic role and availability in the struggle against the revisionist, hegemonic and destabilizing trends in the Eastern Mediterranean.

Geopolitical confrontations and strategic arrangements, occurring in the vicinity of Cyprus (EastMed) and Turkey’s questionable alignment and fading commitment to the western alliance open a window of opportunity for manifesting Cyprus’ “alignment and belonging” as a reliable strategic partner. With the military confrontation in Ukraine turning into a “war of commitment, resilience and attrition”, Russo-Cypriot relations have really come to a standstill, and despite Russia’s “principled position” on the Cyprus Question, Cyprus has nevertheless realized that support for Russia’s unprincipled foreign policy in Ukraine and Russia’s financial involvement in the economy have resulted in international exposure, unsustainable economic development, lack of trust, and dangerous contradictions on matters vital to its future security and economy prospects. Cyprus principled and harmonized value-driven position with regards to Russia’s invasion of Ukraine should not be necessarily taken as a definitive or principled rejection of all dimensions bridging the two countries. Nonetheless, the United States have signalled their intention to deepen and broaden their strategic engagement with Cyprus, lifting off the decade-long arms embargo and reaffirming Cyprus’s sovereign rights in its EEZ in every occasion. At the same time, restrictions under CAATSA and the ever-growing US expansion in Greece reinforce the established arguments presented by the Republic of Cyprus regarding Turkey’s unreliable and bellicose posture. Cyprus will be expected in 2023 to capitalize on the opportunity to maximize the benefits and interdependency with the US in a quid pro quo manner.

"Geopolitical confrontations and strategic arrangements, occurring in the vicinity of Cyprus [EastMed] and Turkey’s questionable alignment and fading commitment to the western alliance open a window of opportunity for manifesting Cyprus’ “alignment and belonging” as a reliable strategic partner"

NATO and Security: At the foothills of the Alliance

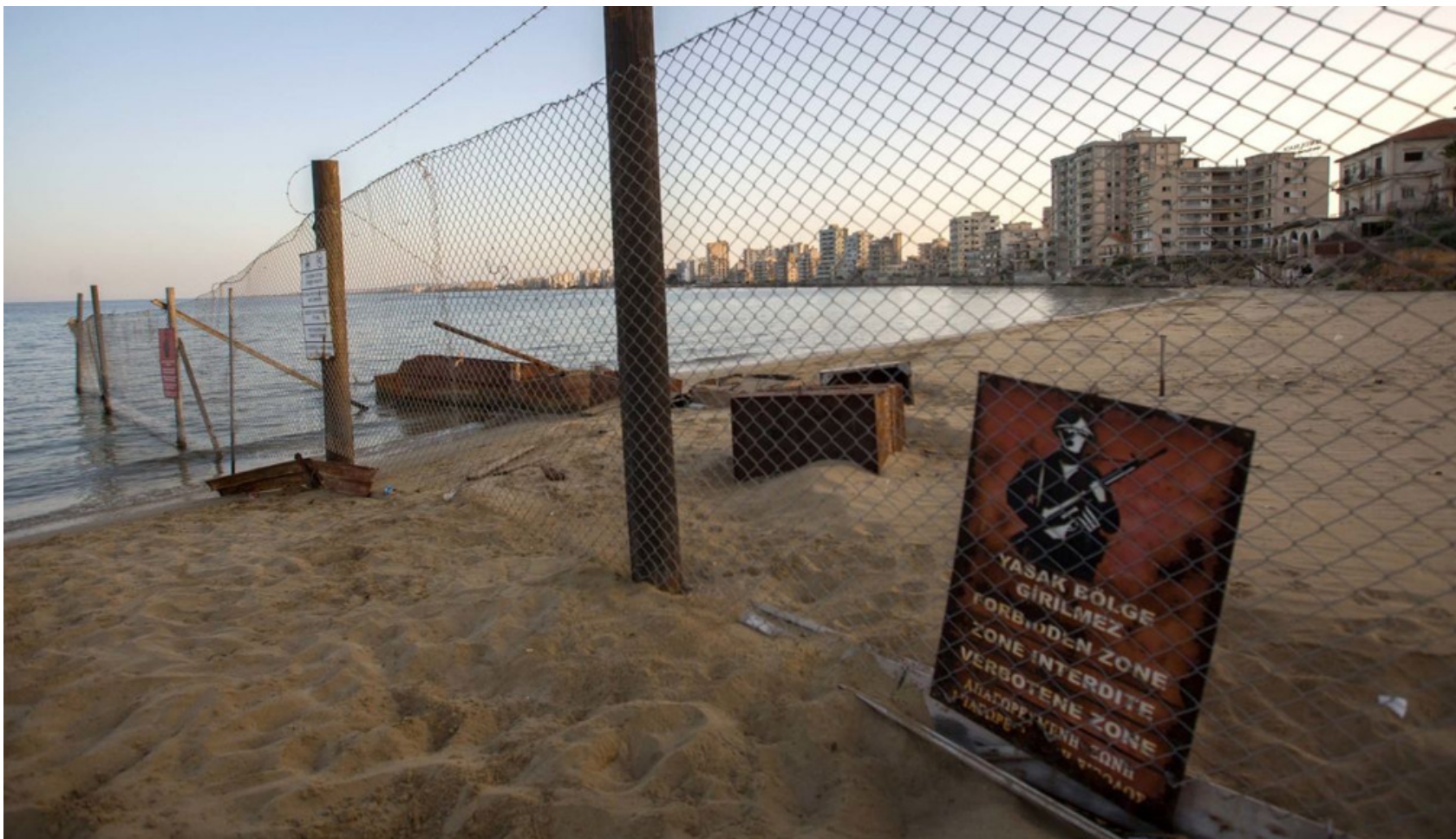
While keeping a low profile on the great Russo-Western confrontation, Cyprus should not be left out of the ongoing synchronization with the western security block (NATO and partners). The deterioration of US-Turkish relations and Turkey's political and diplomatic tensions with the EU offer Cyprus an opportunity to advance its regional role. Alongside to the long-lasting objections articulated by prominent US Congressmen against the sale and modernization of F-16 jets for Turkey, on grounds of its bellicose and hostile to US interests behaviour (Russian S-400 missile system, non-compliance with sanctions against Russia, relations with Iran), the harsh response from the US and NATO against Turkey's most recent objections with concern to Sweden and Finland's entry in the alliance could also prove critical to Cyprus' further integration into the western security system through bilateral and multilateral partnership agreements.

Given the ongoing polarization, and until the Russo-Western and Turkish-Western relations reach a modus vivendi, linking further Cyprus' security concerns with major western actors should become Cyprus' most urgent necessity for 2023. Taking into account the political difficulties preventing Cyprus' full NATO membership and considering the intensified threats by Turkey, the new government in Nicosia should project more convincingly the strategic assets Cyprus has to offer to individual European and NATO member states, and engage more actively in industrial collaborations and state-to-state agreements on logistics, operational facilitation, maritime and airspace surveillance, porting, and operational collaboration in order to consolidate its presence as a reliable partner for western security issues (NATO). More critical engagement on security and defence with Greece could bring Cyprus closer to the outskirts of the western alliance. Given the military threats looming over the Middle East (Iran, Syria, Turkey, Palestine) and under the influence of the ongoing Russo-Ukrainian war, the US and major Western powers have become particularly concerned with the creation of a solid and trustworthy network of partners. Cyprus, in deeper collaboration with the US, Greece, Israel (3+1), as well as with Egypt and France, could provide a more credible security investment for American and European interests in a highly antagonistic and polarized security environment.

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The Cyprus Impasse

Turkey's diplomatic aggression and non-compliance with international law vis-à-vis Cyprus will continue to aggravate, especially in the event of Recep Tayyip Erdogan's re-election in the upcoming Turkish presidential elections (May 14 2023). Ankara's tight military, political and economic grip on the occupied territories will continue to intensify in 2023, although it is not yet entirely clear whether AKP's policy aims to annex the occupied territories or promote the "TRNC's" status elevation through a barrage of direct and indirect recognitions. Given the Turkish opposition's bid to often appear more nationalistic and assertive than Erdogan, backing a two-state solution for Cyprus, chances are slim for a radical policy shift, at least with regards to the major pillar-issues that could allow for a meaningful negotiation to restart.[20] Besides, the election of a possibly pro-western and pro-US government in Turkey could help reduce the widespread dysphoria and allow Ankara to promote its implacable positions more effectively. Parliamentary elections in Greece are pivotal for Cyprus's foreign policy and security prospects. Given that elections in Turkey could not really bring about a drastic policy shift on Turkey's military role and demands for 'sovereign equality', the re-election of PM Kyriakos Mitsotaki's centre-right government could allow Greece to move on even more decisively with its intensive military development and procurement programmes and continue investing in a more active and engaging regional foreign policy that utilizes more effectively its strategic assets and partnerships.



A view of deserted buildings of the tourist area of Varosha, in the fenced off area of Famagusta, in the Turkish-occupied north of Cyprus, (Photo by Birol BEBEK / AFP) (Photo by BIROL BEBEK/AFP via Getty Images)
Source: CNN

"Cyprus, in deeper collaboration with the US, Greece, Israel (3+1), as well as with Egypt and France, could provide a more credible security investment for American and European interests in a highly antagonistic and polarized security environment"

[20] Turkish opposition leader backs two-state solution in Cyprus, Ahval News, 11 June 2021. Av.at: <https://ahvalnews.com/cyprus-issue/turkish-opposition-leader-backs-two-state-solution-cyprus>
Turkish Cyprus should be recognized as independent state: CHP leader, Hurriyet Daily News, June 10 2021. Av.at: <https://www.hurriyetdailynews.com/turkish-cyprus-should-be-recognized-as-independent-state-chp-leader-165433>

Depending on the commitment and determination of Cyprus's newly elected president to bolster Cyprus's security infrastructure and procure advanced defensive equipment, the significant elevation of Greece's credibility, commitment and key strategic importance, could render Cyprus a capable and active player in the development of a more integrated Eastern Mediterranean security system.

As things currently stand, there is no viable and visible prospect for restarting a meaningful negotiation process, at least until the end of the pre-electoral period in Turkey and Greece. Be it as it may, a major source of concern comes from the UN Secretary General's Report stating that "the positions of the two sides remain far apart, and both sides maintain their opposing views...the climate between the two sides and vis-à-vis the United Nations has deteriorated." [21] The political landscape is further complicated due to the possibility of opening of the Varosha district by the new Turkish Cypriot administration. Unfortunately, the Turkish Cypriot leadership seems to have really taken on seriously the demand for 'sovereign equality' as a "principal objective", and not just as a mere tactical pretension.

...a major source of concern comes from the UN Secretary General's Report stating that "the positions of the two sides remain far apart, and both sides maintain their opposing views...the climate between the two sides and vis-à-vis the United Nations has deteriorated."

[20] Turkish opposition leader backs two-state solution in Cyprus, Ahval News, 11 June 2021. Av.at: <https://ahvalnews.com/cyprus-issue/turkish-opposition-leader-backs-two-state-solution-cyprus>
Turkish Cyprus should be recognized as independent state: CHP leader, Hurriyet Daily News, June 10 2021. Av.at: <https://www.hurriyetdailynews.com/turkish-cyprus-should-be-recognized-as-independent-state-chp-leader-165433>

[21] UN Security Council Report of the Secretary-General on his mission of good offices in Cyprus, S/2023/6, 3 January 2023. Av.at: https://www.pio.gov.cy/assets/pdf/newsroom/2023/01/1412023_Report_SG-Good%20Offices%20in%20Cyprus.pdf