



STRATEGY

FOR ECONOMIC DIPLOMACY | 21-23

BUILDING BRIDGES FOR GROWTH AND PROSPERITY



REPUBLIC OF CYPRUS
MINISTRY OF FOREIGN AFFAIRS

FOREWORD

The Strategy for Economic Diplomacy is an integral part of Strategic Plan of the Ministry of Foreign Affairs for 2021-2023. The Strategy determines the economic diplomacy strategic objectives and actions that need to be promoted by the Ministry of Foreign Affairs, in close cooperation with other competent Ministries, with the ultimate goal of maximising value for Cyprus and the Cypriot businesses. It also defines a strong governance framework for promotion activities to be pursued abroad, ensuring the effective coordination and implementation of the strategy.

The Strategy for Economic Diplomacy was defined on the basis of recommendations of a study which was funded by the European Commission, through the Structural Reform Support Programme. The study was implemented by the joint venture of Clingendael Academy and Ecorys. At the same time, the Strategy is the result of a wider consultation of the Ministry of Foreign Affairs with other competent Ministries / Deputy Ministries, as well as with economic and business stakeholders and, consequently, builds bridges through the establishment of robust relations for the effective promotion of the country's economic interests abroad.



01 ADOPTING A STRATEGIC APPROACH

Economic diplomacy refers to a country's efforts aimed at strengthening its negotiating position and supporting more effectively its economic and political interests at all levels of its international relations. It concerns a wide range of activities which range from the goal of enhancing the prosperity of a country, to the achievement of political stability and security through the use of financial tools, either as incentives, or sanctions.

All Government entities which have competency in economic and business policies with an international dimension, have a role to play in economic diplomacy. In addition, the private sector, such as businesses and investors and their organised groups, are considered as stakeholders of economic diplomacy, especially when their contacts with foreign Governments are initiated or facilitated by the diplomatic or other services of the State.

Due to the wide range of issues and operations which could be included in economic diplomacy, it is important to define a specific strategic approach which will set the framework and the steps towards achieving its desired impact for Cyprus.

DEFINITION OF ECONOMIC DIPLOMACY

Bearing in mind the above framework and following consultations with all parties involved, economic diplomacy for Cyprus is defined as follows:



"Creating value for Cyprus and Cypriot businesses through international relations, on the basis of public - private partnership and enhanced diplomatic activity".

DESIRED IMPACT OF ECONOMIC DIPLOMACY

Global developments are more disruptive than ever and the international environment is constantly changing. Globalisation and continuous technological advancements and – more recently – the Covid-19 pandemic, pose huge challenges to the States and demand flexibility and adaptability, in order to safeguard public health and prosperity.

Economic Diplomacy can play an instrumental role in helping Cyprus face these challenges, by facilitating the internationalisation of Cypriot businesses and their participation in global value chains and by attracting productive and transformative Foreign Direct Investments, with a positive impact on the economy. It may also serve as a tool for further enhancing the image of Cyprus abroad ("branding").

Another basic precondition for the effective promotion of Economic Diplomacy, further to the efficient coordination of all stakeholders, is the provision of the relevant training of the diplomatic service of the Ministry of Foreign Affairs, as well as of the officials of all institutions that exercise Economic Diplomacy, on a continuous basis.

Therefore, the desired impact of Economic Diplomacy is:



"The enhancement of economic prosperity from increased trade, foreign direct investment, innovation and national branding, reaping the benefits of diplomatic engagement."



02 GOVERNANCE

Through the Strategy for Economic Diplomacy, the Ministry of Foreign Affairs, in conjunction with its Diplomatic Missions, undertakes a more active role in promoting the economic and business interests of the country, **as defined by the competent Ministries and the Council of Ministers**. Within this framework, it is noted that economic diplomacy is fully aligned with the policy pillars of the Government and the policy priorities of each Ministry, as reflected in the Strategic Framework for Fiscal Policy and the Annual Budget. The Ministry of Foreign Affairs promotes the implementation of the Strategy for Economic Diplomacy and **facilitates and supports** the work of all key stakeholders of the Cyprus economic and business eco-system, by efficiently and effectively communicating and promoting the country's political priorities and economic interests abroad.

Consequently, in the framework of developing and implementing the Strategy for Economic Diplomacy, the Ministry of Foreign Affairs cooperates with the competent Ministries, which have a role in this field. At the same time, the principle of "structure follows strategy" is taken into consideration, that is to say, all structures and procedures which are created are in accordance with the strategic approach, as analysed in Part 03.

COOPERATION MECHANISM

Through a wide consultation with economic and business stakeholders and other actors of the Cypriot economy, it became evident that the lack of coordination and the absence of a comprehensive Strategy for Economic Diplomacy led, in many cases, to overlapping activities or gaps and, subsequently, to ineffective use of the limited resources – financial and human – and of infrastructure. It was therefore recognised, that there was a need to establish a **cooperation mechanism** under the Ministry of Foreign Affairs, which would promote the national and economic interests of Cyprus, utilising synergies and channelling available resources efficiently, with the aim of maximising the effectiveness of economic diplomacy actions abroad.

Through the said mechanism, the competent Ministries / Deputy Ministries are invited to **utilise the diplomatic**

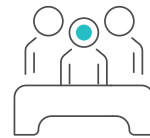
service of the Republic of Cyprus to serve their common goals abroad, as set within the framework of the Strategy for Economic Diplomacy, by preparing a joint Action Plan. The cooperation mechanism does not require the competent Ministries to adjust their own strategies, neither does it call for them to undertake any additional expenditure. The cooperation mechanism is essentially a communication platform which serves stakeholders to **jointly plan actions abroad, in the cases where common goals are identified** in regard to countries / geographical regions and sectors for economic diplomacy activities.

The cooperation mechanism operates at two levels:



POLITICAL:

with the establishment of a Ministerial Committee for Economic Diplomacy.



SENIOR OFFICIALS:

(a) with the establishment of a Working Group for Economic Diplomacy.

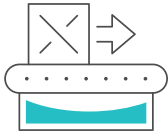
(b) by enhancing the capacity of the competent Directorate of the Ministry of Foreign Affairs and by establishing internal coordination within the Ministry, including the Diplomatic Missions abroad.

Details regarding the members, responsibilities and the modus operandi of the mechanism are included in Appendices I and II.



03 STRATEGIC OBJECTIVES

The Strategic Objectives, through which the desired impact of the Strategy for Economic Diplomacy will be achieved, are the following:



Contribution to the increase of exports and market share for Cypriot businesses in foreign markets



Attraction of efficiency-seeking and strategic asset-seeking FDI's (Foreign Direct Investment), which maximise added value and can fuel innovation spill-overs to the economy



Promotion and establishment of a coherent and cohesive nation brand for Cyprus abroad

Increase in exports and market share for Cypriot businesses

The tendencies of protectionism and economic nationalism have increased in the past few years. In addition, the Covid-19 pandemic has caused major disruptions in global value chains, which made access to foreign markets increasingly difficult for Cypriot businesses. Therefore, the protection and promotion of the Cypriot businesses' interests, within the European Common Trade and Investment Policy framework, in international organisations and other multilateral fora must continue, by more actively pursuing the utilisation of opportunities presented in foreign markets, while at the same time, offering Cypriot businesses the necessary support.



MINISTRY OF FOREIGN AFFAIRS

The competent Ministries/Deputy Ministries will promote the following actions:



1. Increase access and reduce barriers to foreign markets. Cyprus, as a Member State of the EU, is bound by and participates in the EU Trade Policy and is also represented in international organisations, such as the World Trade Organization, and other multilateral fora. The competent Ministries / Deputy Ministries will continue to represent Cyprus in all regional and multilateral organisations, actively promoting national interests, with a special emphasis on exports of goods and services.



3. Enhance Cypriot businesses' awareness on the benefits and opportunities presented by the existing EU Free Trade Agreements and those under negotiation. The EU is pursuing a rather ambitious trade policy agenda. The most recent agreements which have been ratified are with Japan, Singapore and Vietnam. The Ministry of Energy, Commerce and Industry will intensify its efforts to inform businesses, so that they will be in a position to fully reap the benefits which arise from European agreements.



2. Closer cooperation with the EU for the promotion of Cypriot interests worldwide. The EU has significant leverage on the trade sector and has delegations, inter alia, in countries in which Cyprus does not have a Diplomatic Mission. Furthermore, the EU has been working on developing the European Economic Diplomacy, since 2016. The competent Ministries will strengthen their efforts to promote Cypriot interests through the EU and its delegations around the world, to secure more tangible benefits through the EU's international cooperation.



4. Promote scientific cooperation. Scientific cooperation enhances access to technological know-how at all levels – bilateral, regional, international – and promotes innovation in stakeholders such as universities and research centres, as well as businesses (including start-ups), increasing their competitiveness and their ability for extroversion. The competent Ministries / Deputy Ministries will pursue the strengthening of scientific cooperation with other countries in targeted sectors such as energy, climate, bio-medicine, and cutting-edge technologies (e.g., Artificial Intelligence, Big Data, Blockchain etc.).



Attraction of efficiency-seeking and strategic asset-seeking types of Foreign Direct Investment (FDI)

Cyprus is an attractive destination for Foreign Direct Investment (FDI), which contributes considerably to the growth of the economy. FDI in Cyprus is mainly focused on the sectors of finance, shipping, tourism, pharmaceutical industry and real estate. Nevertheless, it is necessary for Cyprus to focus more on attracting FDI that will have primary and secondary positive effects (spill-over effects) to the economy, especially through the widening of the economy's production base, including innovative production processes. Therefore, the efforts to attract FDI in the well-established above-mentioned sectors of the economy will continue, but at the same time, there will be a focus on efficiency-seeking and strategic asset-seeking FDI, such as, for example, knowledge-based industries, new areas of digital development, renewable energy sources and, in general, on sectors that support digital and green development.



Efficiency-seeking FDI is the FDI that enters a country and seeks to benefit from factors which enable it to compete in international markets. These types of FDI are especially important for countries looking to integrate into the global economy and move up the value chain. Efficiency-seeking FDI is mainly export-oriented, decisively contributing to their further differentiation. Apart from being a capital resource, these investments create new job positions, more differentiated, and with greater productivity and value. They can also lead to the spill-over of technological know-how and technology, supporting Research and Innovation.

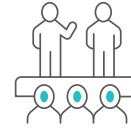
Strategic asset-seeking FDI are investments which are motivated by the interest to acquire resources of strategic importance, such as technologies, human resources, distribution networks etc. These investments have a positive impact on innovation in the country in which they are active.



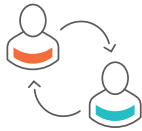
The following actions should be promoted in this framework:



1. Support efforts to attract investment in sectors with increased potential. The competent Ministries / Deputy Ministries, through the implementation of the Action Plan to Attract Foreign Businesses, will target the attraction of investments in new strategic sectors which can advance the competitiveness of the economy and create new jobs of high productivity and value, such as information technologies and communication, education, health etc. In this regard, it is noted that special emphasis should be given on sectors with high-growth potential and adoption and diffusion of innovation.



3. Participation and high-level representation in sectoral forums and exhibitions. The competent Ministries / Deputy Ministries will identify the sectoral forums and exhibitions with the biggest impact (importance, popularity etc.) and will ensure participation and representation of Cyprus at a high level, with the aim of promoting the comparative advantages that the country offers, as well as informing potential investors about the latest developments in their areas of interest.



2. Organisation of sectoral promotional actions and networking. The competent Ministries / Deputy Ministries will carry out specialised promotional events and contacts for specific sectors, after evaluating the prospects and opportunities presented in each market. There will be an exchange of information between the public and private sector to fully capitalise on potential synergies, in order to carry out the most effective promotion of investment opportunities and the competitive advantages offered by the country. For this effort, thorough preparation and follow-up are essential elements.



4. Expand the network of Double Taxation Avoidance Agreement. Cyprus has a wide **Double Taxation Avoidance Agreement** network, with 65 agreements in place. In the context of its policy priorities, the Ministry of Finance will evaluate and, where deemed necessary, will seek to conclude such agreements, keeping in mind the countries which may potentially be important sources for inward FDI.





5. Promote the conclusion of Investment Protection Agreements. Investment Protection Agreements contribute to the increase of FDI flow, as they offer benefits to the investors such as a level playing field and expropriation protection in the destination country of the investment, as well as access to a neutral dispute resolution. These Agreements fall under the framework of the Common Commercial Policy of the EU, and Cyprus supports the European Commission's efforts to secure a high level of protection for investments in the framework of the trade agreements under negotiation.



6. Engaging the Cypriot Diaspora. The Ministry of Foreign Affairs, in collaboration with other competent Ministries, will foster a dialogue with Cypriot professionals of the Diaspora, with the goal of leveraging their experiences and contact networks for the sectors and markets in which they operate.



Promote and establish a coherent and cohesive nation brand for Cyprus abroad

Promoting the identity of Cyprus abroad is an important aspect of economic diplomacy. Nevertheless, it is an issue that needs to be further explored and requires inter-governmental effort in order to be effectively promoted. Separately, each sector of Cypriot economy, has already developed its own identity and promotes the messages it needs to communicate (e.g., tourism, culture, commerce, investment, research and innovation etc.). What is missing, is the connection between all sectoral identities into a joint, coherent and cohesive brand for the country, which will clearly project the values and aspirations of Cyprus to the world. In other words, a transition from “micro-branding” to “macro-branding” is needed. Creating and promoting a strong and integrated branding for Cyprus is expected to support the country’s ability to access markets, consumers, capital, human resources, innovative ideas etc., through the cultivation of positive meanings and perceptions.



The following actions should be promoted in this framework:



1. Review and analysis of perceptions, strengths and weaknesses of Cyprus' national brand. The first step in the procedure for defining the national brand, is understanding and analysing the country's prevailing perceptions at the present stage. It is very likely that these perceptions differ from country to country and per group of individuals (e.g., tourists, businessmen, investors etc.). All stakeholders with a presence abroad – and especially the Diplomatic Missions of Cyprus – are aware of these perceptions or, if not, they can obtain them more easily, with specific tools. After current perceptions are defined and analysed, the direction which Cyprus should follow to achieve its vision and ambitions, in terms of the narrative it wishes to convey to the world, will become clearer.



2. Consultation and coordination to develop a communication strategy for the nation branding of Cyprus. The development of a communication strategy for the national brand of Cyprus is an issue which extends beyond the scope of Economic Diplomacy and, therefore, should be developed within a wider framework. Nevertheless, the cooperation mechanism of the Strategy for Economic Diplomacy can be used as a forum of preliminary consultation and coordination on this issue, so that the necessary actions towards the development of said communication strategy are taken.



3. Establishment of a crisis management mechanism for issues relating to the image and reputation of Cyprus abroad. Events and crises affecting the international reputation of Cyprus will have to be handled adequately and timely. The Ministry of Foreign Affairs, through the mechanism of economic diplomacy (Working Group), will inform stakeholders and will conduct a risk assessment. Then, a consultation will follow concerning the measures to be taken for dealing with the event or the crisis, as well as on the way that these measures will be announced.



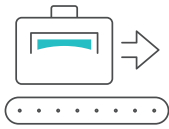


04 ECONOMIC DIPLOMACY TOOLS

The implementation of the Strategy for Economic Diplomacy requires the use and utilisation of different and various tools. The consultants of the Ministry of Foreign Affairs, reviewed and analysed the best practices of other countries and conducted consultations with all stakeholders in order to define the most appropriate tools for the case of Cyprus. These fall into the following categories:



TRADE AND INVESTMENT PROMOTION TOOLS



These tools are intended to promote the export of goods and services, as well as of Foreign Direct Investment inflows. These include providing support to exporters, organising business missions abroad and other promotional activities such as seminars, workshops, round-table discussions and participation in exhibitions. They also include the establishment and operation of Business Associations.

RESOURCE-ENHANCING TOOLS



These tools enhance available Government resources - financial and human - and do not require significant additional financing. They include the utilisation of the EU Delegations network (coordination, cooperation, information exchange, organisation of common activities etc.), the further engagement of the Diaspora and Honorary Consuls – especially in countries where Cyprus has no Diplomatic Mission – and the leveraging of European programmes and initiatives, such as, the Business Support to the EU-India Policy Dialogues or the EU - GCC (Gulf Cooperation Council) Dialogue on Economic Diversification.

DIGITAL TOOLS



Digital tools enhance the dissemination and collection of information and the networking in foreign markets. While many of these tools are already being used, better coordination and guidance on their use is required, especially in regard to social media networking platforms and the protection of personal data. A significant advantage of these tools is their accessibility and low cost of use. They include professional communication platforms for hosting online events, a digital presence on social media platforms, the development of digital “country notes” which can be specialised by sector, the use of specialised software to enhance communication and information exchange between all stakeholders (Customer Relationship Management – CRM), as well use of readily available market analysis tools. The use of these tools requires the improvement of digital skills through specialised training programmes, that will educate and familiarise them with specific tools, to take full advantage of the possibilities offered.

NATION BRANDING AND REPUTATION MANAGEMENT TOOLS



These tools aim at establishing a strong and positive brand for Cyprus abroad. They include questionnaires and studies for reviewing and analysing existing perceptions about the country abroad, the development and implementation of a coherent and cohesive Strategy for National Branding, and coordination and guidance with a view to disseminate uniform and clear messages abroad. It also includes tools, such as a crisis management mechanism for matters concerning country reputation management.



05 IMPLEMENTATION AND MONITORING OF THE STRATEGY

For the implementation of the Strategy, the Ministry of Foreign Affairs, through a participative and consultative process with the members of the Working Group of Economic Diplomacy, will develop a Rolling **Action Plan for the period 2021-2023**, which will be reviewed on an annual basis. The Action Plan will essentially provide the guidelines for the diplomatic service's activities abroad, with specific timelines.

The Ministry of Foreign Affairs will monitor the Action Plan's implementation and will inform the Working Group of Economic Diplomacy on a regular basis. The Action Plan could be amended, based on feedback received from imple-

mented activities. Additionally, the Ministry of Foreign Affairs will prepare an **Annual Report**, which will be submitted at all levels of the Governance Strategy.

To evaluate the strategy's effectiveness, the Working Group of Economic Diplomacy will adopt relevant **Key Performance Indicators**.



APPENDIX I

INSTITUTIONAL FRAMEWORK



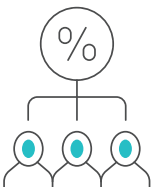
MINISTERIAL COMMITTEE

MEMBERS	RESPONSIBILITIES	MODUS OPERANDI
<ul style="list-style-type: none"> - Minister of Foreign Affairs - Minister of Finance - Minister of Energy, Commerce and Industry <p>*Other Ministers / Deputy Ministers may also participate in the Ministerial Committee, depending on the issues and policy areas that will be discussed.</p>	<ul style="list-style-type: none"> - Providing political guidance according to the specified Government policy pillars and political priorities of each Ministry/Deputy Ministry. - Supervising the Action Plan's implementation and providing guidance for its amendment, if necessary. - Providing direction through the Minister of Finance regarding economic policy and, consequently, the priorities and focus areas. 	<p>It convenes every six months and the meetings are provided with an Annual Report and a summarised Interim Report prepared by the Working Group, as suggested by the Department of Economic Diplomacy.</p>



WORKING GROUP

<p>A list of the members is included in Appendix II</p>	<ul style="list-style-type: none"> - Defining actions for economic diplomacy and monitoring Key Performance Indicators (KPIs). - Identifying countries/regions and suggesting activities for Diplomatic Missions. - Monitoring results of agreed initiatives and activities. 	<ul style="list-style-type: none"> - The members of the WG are invited to brief regarding their priorities and their KPI's every six months. - It convenes every three months.
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DEPARTMENT OF ECONOMIC DIPLOMACY

<p>Ministry of Foreign Affairs</p>	<ul style="list-style-type: none"> - Listing of all suggested priorities and activities by stakeholders and ensuring their alignment with the Strategic Objectives. - Developing, monitoring and amending the Action Plan. - Ensuring the implementation of the Strategy for Economic Diplomacy. 	<p>It regularly convenes with all the Directorates of the Ministry to report on progress and to enhance internal communication within the Ministry.</p>
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DIPLOMATIC MISSIONS

<p>Ministry of Foreign Affairs</p>	<ul style="list-style-type: none"> - Consulting with the Department of Economic Diplomacy to determine priorities and KPIs, with a relevant monitoring and evaluation mechanism. - Implementing initiatives and activities. 	<ul style="list-style-type: none"> - To brief the Department of Economic Diplomacy on progress and developments, every three months. - Provision of ad-hoc reports on important developments.
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APPENDIX II

Members of the Working Group for Economic Diplomacy and their activities in this framework

MINISTRY OF FOREIGN AFFAIRS

- Planning, promoting and monitoring the implementation of the Strategy for Economic Diplomacy.
- Coordinating the 42 Diplomatic Missions, 6 Consulates, 4 Permanent Representations and 1 Representative Office abroad for promoting activities.

MINISTRY OF FINANCE

- Integrating Government political priorities in the Strategic Framework for Fiscal Policy and in the Annual Budget.
- Providing guidance on economic policy and, consequently, on the priorities and focus areas.
- Providing information to international organisations and organisations assessing the credit rating of the Cyprus economy.
- Concluding **Double Tax Treaties** within the framework of its policy priorities.

MINISTRY OF ENERGY, COMMERCE AND INDUSTRY

- Promoting exports (agricultural and industrial).
Coordinating the 14 Trade Centres abroad and using tools, such as grant schemes and the Export Help Desk, to support Cypriot businesses with export interests.
- Promoting Cyprus as an international business and high-quality services centre.
- Implementing the EU Trade Policy and promoting Cyprus' international trade relations.
- Bilateral and European Investment Protection Agreements.
- Policy of the energy sector.

DEPUTY MINISTRY OF TOURISM

- Promoting Cyprus as a tourist destination (trade in services).
- Attracting investments in the tourism sector.
- Coordinating the 14 representative offices abroad.

DEPUTY MINISTRY OF SHIPPING

- Promoting Cyprus as a maritime centre for further development of the Cyprus Ship Registry.
- Promoting and supporting investments in shipping, including the development and implementation of incentives.

DEPUTY MINISTRY OF RESEARCH, INNOVATION AND DIGITAL POLICY

- Defining and implementing a policy for Research, Innovation and Digital Policy.
- Promoting investment in the research, innovation and communication technologies sectors.

DIRECTORATE GENERAL FOR EUROPEAN PROGRAMMES, COORDINATION AND DEVELOPMENT

- European Funds and Programmes.
- Bilateral Economic Cooperation Agreements.

CYPRUS INVESTMENT PROMOTION AGENCY ("INVEST CYPRUS")

- Promoting, attracting, and facilitating investment.
- Organising promotional activities and networking events.



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