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The topics addressed in this issue of Economic Research are the following: (i) *Peace Creation and Peace Diversion updated*; (ii) *Electricity consumption and economic activity in Cyprus using an asymmetric cointegration technique*; (iii) *Sectoral demand-driven and supply-driven input-output multipliers in Cyprus*; (iv) *Economic uncertainty in Cyprus* (v) *Digital Competitiveness Ranking: Cyprus*.

“Peace creation and peace diversion updated”

Costas Hadjiyiannis and Iraklis Pattas

This paper revisits the investigation of the impact of Free Trade Agreements (FTAs) and Custom Unions (CUs) on bilateral Military Interstate Disputes presented in Hadjiyiannis et al. (2016). We extend the analysis in two ways. First, we incorporate new data from the Correlates of War Project released after the publication of that paper extending the time period under investigation by 10 years (2000-2010) which increases the sample significantly. We follow the same methodology, as Hadjiyiannis et al. (2016), to investigate the Peace Creation and Peace Diversion effects identified in the paper and confirm their results with the expanded dataset. Peace Creation is the decrease in the probability of conflict between two countries if they are part of the same Preferential Trade Agreement and Peace Diversion is the increase in the probability of conflict between members and non-members.

Moreover, we evaluate the impact on the probability of conflict between key players in the following hypothetical scenarios:

- 1) Interruption of the CU between Turkey and EU.
- 2) “Hard” Brexit
- 3) CU between EU and Ukraine
- 4) FTA between U.S.A and China

We assume that all the aforementioned hypothetical scenarios took place in the year 2000 and we use the actual data from 2000 to 2009 to check how the likelihood of MID changes under the hypothetical scenarios. Each scenario is estimated independently of the other ones. We then calculate the difference between the predicted probability under each hypothetical scenario and the estimated probability under the actual status quo.

In the first scenario, we find that the interruption of the CU between EU and Turkey increases the probability of war between Cyprus and Turkey by 31% initially and this increases to 188% in 2009. For the same scenario, the increase of the likelihood of conflict between Greece and Turkey is 19,67% on average

for the whole period (2000-2009). Hard Brexit leads to an increase of the probability of dispute for the country-pairs U.K.-France and U.K.- Germany and at the same time decreases the probability of conflict between France and Germany. The signing of a CU between Ukraine and European Union increases the probability of conflict between Ukraine and Russia by 39,19% on average. Finally, a Free Trade Agreement between the US and China increases the probability of conflict between them initially but decreases the likelihood of conflict after 2004 as expected. Similar results apply for the couples China-South Korea and China-Japan.

“Electricity consumption and economic activity in Cyprus using an asymmetric cointegration technique”

Nektarios A. Michail and Christos S. Savva

This paper examines whether deviations from the equilibrium have a different degree of persistence when shocks are positive or negative. To this end, the paper employs, for the first time in the electricity-growth literature, an asymmetric cointegration (threshold adjustment) technique using data for Cyprus. Results from the asymmetric technique suggest that positive discrepancies from the long-run are eliminated faster compared to negative ones. Furthermore, the elasticity of electricity consumption to income appears to be higher than unity. Electricity consumption is found to be relatively inelastic to financial development and relative energy prices, while trade openness is statistically insignificant in the long-run. The above findings bear important implications, especially for forecasters and system administrators.

“Sectoral demand-driven and supply-driven input-output multipliers in Cyprus”

Elias Giannakis and Theofanis P. Mamuneas

This paper aims to analyse the inter-industry linkages and interdependencies in the economy of Cyprus. Demand-driven and supply-driven sectoral multipliers are estimated to assess the economy-wide effects of sectors' expansion or contraction. The demand-side multiplier analysis indicates that construction and shipping create the highest backward linkages in the Cypriot economy in terms of output generation. Real estate creates the largest direct and indirect effects in the economy in terms of value-added generation, while wholesale and retail trade create the highest economy-wide impacts in terms of employment generation. The supply-side multiplier analysis confirms the significant backward linkages of shipping in the Cypriot economy. The demand-side multiplier analysis can provide guidance to decision makers regarding the economy-wide impacts of investing in certain production sectors, while the supply-driven multiplier analysis can provide insights on how negative sectoral shocks propagate in the economy through supply chains.

“Economic uncertainty in Cyprus”

Elena Andreou, George Syrighas and Paraskevi Tzika

The Economics Research Centre (ERC) published a commentary on the construction of the Economic Policy Uncertainty index (EPU), which was introduced by Baker, Bloom, and Davis (2016). The Cypriot index is constructed using monthly data, for the period October 1999 until August 2022 and the ERC will be updating the index on a quarterly basis. The construction of the index is based on textual analysis and counts the number of articles published in Cypriot newspapers which include, at the same time, one word of each of the following three categories: (i) economy, (ii) uncertainty, (iii) policy. The index shows that uncertainty was lower and less volatile before the global financial crisis and the Cypriot banking crisis. The uncertainty index peaked during the crisis of 2012-13, and after the onset of the Covid-19 pandemic. However, its highest value is after the invasion of Russia in Ukraine. Previous research and evidence from Cyprus show that an increase in the EPU index has negative effects on investment. The effects on GDP and employment are also negative and equal to 1% and 0.5% respectively. The EPU index is also a useful tool for economic policymakers.

“Digital Competitiveness Ranking: Cyprus”

Nicoletta Pashourtidou

The ©[IMD World Competitiveness Center](#) has published the sixth edition of the IMD World Digital Competitiveness Ranking. The Economics Research Centre and the Cyprus Employers and Industrialists Federation act as Partner Institutes of the IMD World Competitiveness Center for this edition by contributing to the collection of the necessary data for Cyprus. In the 2022 Digital Competitiveness Ranking, Cyprus ranked 45th among 63 countries, moving down two places compared to 2021. The deterioration in Cyprus’s position resulted from a drop in the ranking for future readiness and a poor performance in terms of technology.