Issue : 6

Date : 27 March 2016

ECES
The Egyptian Center for Economic Studies

Our Economy & the World

This week's issue of "Our Economy and the World" includes:

- **Key Global Developments Over the Past Week**
- **Special Analysis: GCC Countries to Become the Sixth Largest Economy in the World by 2030**
- **From the International Press: Top Ten Risks Facing the Global Economy**
- **An Analysis of Global Financial Market Performance and Changes in Prices of Goods and Raw Materials**

Key Global Developments

More than 30 New Countries Seek to Join the Asian Bank

BEIJING – MENA:

Jin Liqun, President of the Asian Infrastructure Investment Bank, said on Friday that more than 30 countries want to join this great financial organization, which was created last year by a Chinese initiative and was officially inaugurated in mid-January this year.

In a statement at the Boao Forum for Asia conference, which is being held in Hainan in south China, Jin said that the bank is currently receiving requests from countries wishing to join it.

China held on January 16 an official inauguration ceremony of the bank, which was described by the Chinese President Xi Jinping as a "historic moment", saying that the bank, whose initial subscribed capital amounts to $100 billion, will boost infrastructure investments in Asia, to meet the enormous needs of the continent, and will contribute to regional cohesion.

A Study: Britain's Exit from the EU Will Cost British economy one Hundred Billion Sterling Pounds

London – AFP:

According to a study prepared at the request of the most important employers' organization in Britain, the UK's exit from the EU could cost the British economy one hundred billion sterling pounds in losses and destroy about one million jobs.

The study, which was conducted by "PWC" at the request of the Confederation of British Industry and was published on Sunday, said that the UK's exit from the EU would cause a "serious shock" to the British economy and cost it a production loss of about one hundred billion sterling pounds ($145 billion), the equivalent of 5 percent of annual GDP.

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France's Budget Deficit Better than the 2015 Target

Paris – Reuters:

Data of France's National Institute of Statistics and Economic Studies showed on Friday that last year's budget deficit has declined more than was committed by Paris to its EU partners, but with a record rise in debts.

France's overall deficit, which includes budget deficits of the central bank, local governements and social insurance, declined to 3.5 percent of last year's economic output.

This deficit is the least since the beginning of the global financial crisis in 2008, and is better than the 3.8 percent that was targeted by Paris in its commitments to EU institutions and other countries in the Eurozone.

The Suffering of Asian Economies Threaten Global Growth

Abu Dhabi – WAM:

Al-Saa News warned that the level of unemployment in South Korea recorded last February, which is the highest in six years, increases concerns over the decline of not only the South Korean economy, but also all major Asian economies, particularly that it comes as a continuation of the slowdown in several major Asian economies over the past years that had started in the Japanese economy and was followed by the Chinese and Indian economies.

Al-Saa News, which is issued by the Emirates Center for Strategic Studies and Research (ECSSR), said yesterday in its editorial titled "sufferings of the major Asian economies" that data of the South Korean statistics bureau has recently indicated that the country's unemployment rate rose to 4.1 percent last February from 3.5 percent last January, recording its highest level since 2010. The bureau stated that the youths are suffering the most from unemployment and are notably unable to find jobs, which reflects the heavy pressure faced by the South Korean economy, and adds a new economy to the record of troubled major economies in Asia, which is increasing day after day.

Report: $105 Billion in Mergers and Acquisitions in the Region

Mubasher:

According to a report issued by Al Masah Capital , the Middle East region has seen $105.5 billion in mergers and acquisitions during 2010- 2015.

According to the report, the value of acquisitions in Qatar, Egypt and the UAE amounted to $22.37 billion and $21.72 billion and $21.29 billion respectively, accounting for 62 percent of the total value.

The report said that the number of those transactions in real estate totaled 239 at $29.51 billion, and 346 transactions in the financial services sector at $23.04 billion.

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The report indicated that the transactions of the telecommunications sector amounted to 41 at $15 billion, while there were 99 transactions in the food sector at $5.72 billion. These two sectors were the most attractive for such transactions.

The report said that the mergers and acquisitions activity in the region came in light of a greater risk appetite and strong liquidity positions achieved during the periods of high oil prices**.**

"Lagarde": Negative Interest Rates Supported the Global Economy

Argaam:

Managing Director of the IMF, Christine Lagarde, said that things would have been worse without a negative interest rate. She stressed that the approval of a negative interest rate in Europe and Japan supported global economic growth and price rises.

Lagarde told Bloomberg that the financial sector may need to implement new patterns, and that if several countries had not approved the negative interest rates, the situation would have become worse and more complex in light of the sharp drop in inflation and slowing economic growth.

She said that approving the negative interest under the current circumstances is good in order to revive economies; as it is an effective instrument. She added that more time is needed to assess the monetary policies based on the negative interest rate.

IMF Calls on Gulf States to Identify Economic Reform Priorities

KUNA:

The IMF called on countries of the Middle East, particularly the Gulf Cooperation Council (GCC) to identify their economic reform priorities with the increasing obstacles facing the implementation of enormous reforms.

The IMF said in a report issued entitled "Avoiding the New Mediocre: Raising Long-Term Growth in the Middle East and Central Asia" that the rate of growth in the said territories has largely weakened over the past few years directly due to the economic crisis that swept the world in 2007 and 2008 and also due to low oil prices and geopolitical tensions.

The report said that because of governments' reduction of expenses and the low price of oil, the GCC countries will face a decline in the employment of nationals in the public sector or the government sector, which will leave the majority with the task of searching for jobs in the non-oil private sector.

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IEA Casts Doubt on the Feasibility of an Agreement to Freeze Oil Production

Reuters:

A senior executive at the International Energy Agency said that the agreement between some of the Organization of Petroleum Exporting Countries (OPEC) producers and Russia to freeze production may be «meaningless».

Qatar called on members of the organization's 13 countries and top producers from outside to a meeting in its capital Doha on April 17th to conduct a new round of talks to continue negotiations over extending the production freeze agreement.

Libya joined Iran in its rejection of the initiative. The absence of both members of «OPEC»—both enjoying limited opportunities to increase production—reduces the impact of any success in extending the production freeze agreement during the April meeting.

Growth of the US Economy Revised Upward in Q4 and Decline of Corporate Profits

WASHINGTON - Reuters:

U.S. economic growth slowed in the fourth quarter, but not as sharply as previously estimated, with fairly strong consumer spending offsetting the drag from efforts by businesses to reduce an inventory overhang.

Gross domestic product increased at a 1.4 percent annual rate instead of the previously reported 1.0 percent pace, the Commerce Department said on Friday in its third GDP estimate.

GDP growth was initially estimated to have risen at only a 0.7 percent rate. The economy grew at a 2.0 percent pace in the third quarter and expanded by 2.4 percent for all of 2015.

Implications for Egypt:

Egypt must pay attention to the fact that the global economic crisis is witnessing new shifts in terms of effects, as the US began to relatively exit recession while developing countries are seeking to enter into new partnerships. Meanwhile, China is making efforts through the Asian Bank to turn into a global economic powerhouse while the pace of economic recession fears are escalating in the EU. This requires that the Egyptian government put together stimulus policies that rely mainly on development and revitalization of domestic industries, import substitution, and export promotion to markets where Egypt enjoys a comparative advantage, especially Arab and African markets. Egypt must also develop medium-term policies for the development of small and medium enterprises to promote economic growth and development away from the effects of the global financial crisis, which is currently experiencing new shifts.

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Special Analysis

Gulf Cooperation Council (GCC) Countries to Become the Sixth Largest Economy in the World by 2030

Press release - Argaam

According to the latest Ernst & Young (EY) report on economic growth catalysts, entitled "The Power of Integration," if the Gulf Cooperation Council (GCC) countries decide to become a unified market rather than six separate markets, they will be the ninth largest economy in the world with a size equal to the Canadian economy and the Russian economy, and close to the size of the Indian economy.

If the emerging GCC economy maintains an annual growth rate of 3.2 percent over the next 15 years, it is possible it will become the sixth largest economy in the world by 2030, and close to the size of the Japanese economy.

According to Gerard Gallagher, Managing Partner of Advisory Business - Mena Region at Ernst & Young, GCC governments are at a critical moment. With the decline in oil prices, these countries must find new growth incentives not dependent on oil revenues. The GGC governments are currently considering new options and are making decisions such as opening up to foreign investors, removing subsidies, imposing taxes, rationalizing spending and reducing jobs in the public sector. It is noticeable that a serious change has already begun. However, these reforms will be less disruptive and more effective if they are part of a broader campaign for a unified GCC market, which will boost economic diversification through efficiency as well as the more productive aspects of the private sector by availing more competition and more jobs.

The Value of Growth through Integration

EY has developed an integration model to assess the economic impact of removing non-tariff barriers that constitute an obstacle to trade, investment and productivity in the GCC.

The study shows that removing obstacles to trade and investment could boost the GDP of the GCC by 3.4 percent, or by about $36 billion.

The percentage of efficiency gains resulting from removing bureaucratic barriers amounts to 96 percent of that growth. All the six GGC states will benefit, but the biggest gains will be for the UAE, Saudi Arabia, Bahrain and Oman, whose GDPs will increase by 3.5 to 4.1 percent.

According to the report, the next phase of GCC integration will require changes in following three important areas:

Trade: Developing the Customs Union to a unified modern market based on modern technology, facilitating business movement between states and rationalizing spending in the long run.

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Foreign Investment: simplifying and harmonizing both foreign investment approaches and company ownership laws to increase the size of the private sector and enhance its competitiveness.

Institutions: building and enabling GCC countries' institutions to maintain market momentum and facing up to vested interests.

Establishing a unified market that operates at full capacity may reduce the overall costs of trade in the GCC, enhance productivity and achieve highest levels of trade among them.

The greatest impact, however, will be enhancing productivity in the long term by enhancing private sector competition, attracting more foreign investment and establishing more streamlined, effective and world-class institutions.

The Next Steps

Phil Gandier, MENA Transaction Advisory Services Leader, EY, said that there are immediate steps the GCC countries can take to improve their current levels of cooperation, achieving large economic gains for all GCC members, while at the same time allowing them to focus on developing incentives that will make them one of the most attractive investment destinations.

Highlighting obstacles and attempting to remove them is not the desired integration we seek to achieve, he said. However, this will be a big step forward to take advantage of the common strengths of all the GCC countries, with no exception.

In this context, the first step should be to work with the private sector to determine the top ten obstacles to doing business in the GCC countries. These obstacles include barriers slowing down the traffic of commercial goods at the border points of each country, inappropriate laws, and the multiplicity of business laws and regulations in each country that make compliance extremely difficult for investors operating in more than one country.

Implications for Egypt:

According to the report, the most important impact of the GCC integration is not attributed to the promotion of trade between the GCC countries but rather to facilitating trade and investment relations between the countries of the region, including Egypt, and the rest of the world.

Establishing a unified market with simplified and appropriate investment laws will make it more attractive for international companies because they will be able to invest heavily in the unified GCC market. That will reflect on the Egyptian economy, which considers the Gulf region its biggest trading partner and largest source of foreign investments in Egypt. GCC countries are also the number one recipient of Egyptian labor and the biggest source of workers' remittances to Egypt.

To maximize benefits from the vision expressed in the report, the necessity of adopting a flexible monetary policy in Egypt and in the GCC region cannot be stressed more. This will contribute to achieving economic

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development due to its ability to mobilize excess savings from the various economic sectors and re-deploy such savings to finance investment and trade while linking rates of monetary expansion with GDP growth rates, achieving internal and external balance and maintaining a stable real exchange rate. The monetary policy should interact dynamically with the rest of the economic policies, to achieve its objectives with the least possible differences and maximize benefits to realize economic development goals within an institutional framework.

In light of the expected changes, Egypt should sign a free trade agreement with the GCC countries that would include tighter quality standards for imported goods as well as safety and environmental impact controls. A trade agreement should also be concluded, including scheduled programs for substituting imports from countries outside the region.

But reality is different. The Arab region has many promising growth opportunities. Thinking there is a lack of investment resources is nothing but a common mistake. What we actually lack is a daring spirit, risk-taking and the ability to utilize the tools and expertise used by the private sector in implementation of new projects that meet the actual needs of the region. Governments alone are no longer able to provide economic growth requirements or meet their financial needs. Persistence of the current situation signals a credit crisis, hence the need for developing financial products and comprehensively upgrading the financial market system. Also, there is a need to study and assess investment scene developments along with allowing for large infrastructure investments and smaller investment projects.

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From the International Press

Top Ten Risks Facing the Global Economy

Argaam - EIU:

Donald Trump winning the US presidency is considered one of the top 10 risks facing the world, according to the Economist Intelligence Unit. The EIU grades risks using a scale of 1 – 25. Mr. Trump scored a rating of 12, the same risk level as the rising threat of jihadi terrorism. He is rated as riskier than Britain leaving the European Union or an armed clash in the South China Sea.

1. China experiences a hard landing (20 out 25)

- Continued deterioration in the country's services and manufacturing sectors, the ongoing build-up of the country's debt stock (which is now equivalent to some 240 percent of GDP), and continued capital outflows have highlighted structural weaknesses in the economy and resulted in a (market-driven) depreciation in the renminbi's exchange rate against the US dollar.

- The government's means to revive economic confidence are limited. Its huge fiscal stimulus in 2009 led to a build-up of bad debt that it is still seeking to curtail (especially in local government), and, despite the People's Bank of China burning through US$108 billion of reserves in December alone, the renminbi has continued to weaken. Meanwhile, poorly managed official attempts to shore up the stock market have highlighted concerns that the government's promise to put a floor under economic growth might not be credible - as well as showing the shallow nature of the government's commitment to allowing market forces to play a role in raising productivity.

- If China's economy slows by more than we currently expect, it will further feed the ongoing global commodity price slump (especially in oil and, in particular, metals), with a hugely detrimental impact on those Latin American, Middle Eastern and Sub-Saharan African states that had benefited from the earlier Chinese-driven boom in commodity prices. In addition, given the growing dependence of Western manufacturers and retailers on demand in China and other emerging markets, a prolonged deceleration in growth there would have a severe knock-on effect across the EU and the US - far more than would have been the case in earlier decades.

2. Russia's interventions in Ukraine and Syria precede a new "cold war" – (16 out 25)

- Russian air strikes in Syria, and the shooting down of a Russian plane over the country by a Turkish F-16 in November, as well as its earlier backing for the separatist war in Ukraine, have plunged East-West relations into their chilliest state since the end of the cold war.

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- The fallout from Russia's annexation of Crimea in March 2014 has seen the EU and the US impose a raft of sanctions on Russia, which have been renewed twice. Subsequently, emboldened by the US's timidity and the deteriorating position of the Syrian regime of Bashar al-Assad (Russia's closest ally in the Middle East), the Russian president, Vladimir Putin, ordered his air force to intervene in the Syrian civil war in early October. Although Russia claims to have been targeting the US's and West's shared foe - the jihadi Islamic State - in reality the large majority of those attacks were against other Syrian opposition groups, including some that have been supplied by the US (albeit these have now slowed amid the current cessation in violence in Syria, and the ongoing Russian military drawdown). The shooting down of the Russian military aircraft in November (ostensibly because it flew over Turkish territory, but also perhaps in response to Russia's bombing of Syrian Turkomen rebels) has ramped up tensions further, with NATO siding with Turkey over the clash.

- This bifurcation of global geopolitics could, if unchecked, seriously hinder a whole raft of shared policy goals - ranging from countering jihadi terrorism to combating global warming - as well as always holding the potential for escalation. Most notably, the stepped up deployment of NATO forces to Eastern Europe (including the Baltics), as well as Russia's provocative tendency to fly its military aircraft over western European airspace, raise the risk of a direct confrontation. With this in mind, Western countries will begin to reverse their defense cuts of recent years, complicating efforts to rein in high fiscal deficits, and the continued uptick in tensions could also see a return of the political risk premium in oil prices.

3- Currency volatility culminates in an emerging markets corporate debt crisis (16 out of 25)

- In December, the Federal Reserve (the US central bank) implemented its first policy rate increase in almost a decade. Although expectations regarding the pace of rate tightening have eased, the consequences of the Fed's reversion to monetary tightening will still be watched closely, given the history of emerging-market crises in the early stages of other US tightening cycles.

- The countries most vulnerable to the shifting monetary cycle will be those with wide fiscal and current-account deficits; those viewed as lacking political and policy credibility; and/or those heavily reliant on commodity exports. However, not only these vulnerable states but also those countries especially exposed to US trade will be caught in the backdraft of US monetary tightening - as has been seen in Mexico and Chile - forcing many to hike rates in order to avoid destabilising capital outflows and further major currency depreciation. However, this will have serious implications for those predominately emerging-market corporates, especially in Asia, which in recent years have eagerly taken advantage of debt investors' hunt for yield. Since the global financial crisis in 2008, emerging market corporate debt has risen from 50 percent of GDP to close to 75 percent, while Chinese credit is still growing at twice the rate of nominal GDP growth. This exposure to rising rates will be exacerbated by weakening local currencies, which will push up the cost of corporate's foreign-currency borrowings - worth US$4.4trn in mid-2015, according to the Institute of International Finance.

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- Any rolling emerging-market debt crisis would cause considerable panic across the global capital markets, and may require governments in several economies to step in to shield their banks from the fallout - risking a repeat of the banking crises witnessed in Europe at the start of this decade.

4. Beset by external and internal pressures, the EU begins to fracture (15 out of 25)

- The fluctuating euro zone debt crisis, prolonged recession, deep differences over the response to the influx of (mostly Syrian) refugees, and the fallout from the terrorist attacks in Paris has raised doubts over the cohesion of the EU.

- This erosion of the so-called European "project" has been evident in the response to surging levels of immigration and to the Paris attacks, with border checks and barriers reappearing across Europe with remarkable speed and frequency. As a result, the borderless Schengen area, in which 22 EU member states currently participate, is now under profound strain, and policymakers are struggling to prevent a strengthening assertion of nation-state prerogatives. The intractability of the border crisis is compounded by the fact that it has erupted after years of grinding financial crisis. Many voters are disaffected with their political elites, a fact that has already led to a steady - and sometimes sharp - rise in the popularity of non-centrist parties across the continent (for example, the far-right Front national now frequently comes first in opinion polls in France). Adding to these centrifugal forces, the UK government has embarked on an in-out referendum, which at this stage is too close to call.

- In the event that the EU began to fracture and land borders reimposed, trade flows and economic co-operation would be hindered, harming growth in the world's largest single trading block - and notably in trade-reliant Germany, which shares land borders with ten fellow Schengen members - and leaving the fragile euro zone states more vulnerable in the event of another economic downturn.

5- "Grexit" is followed by a euro zone break-up (15 out of 25)

- Although an 11th-hour agreement between Greece and its euro zone creditors for a third bail-out in July removed the immediate danger of a "Grexit", the country's future within the euro zone remains at risk.

- The return of another fragile Syriza-led governing coalition after the election in September will undermine efforts to implement the tough conditionality of the new agreement, as demonstrated by the watering down and deferral of a host of contentious reforms (including pension cuts) in December. In the event that Greece were to fail to abide by the terms of its latest bailout, prompting a renewed domestic bank run, the return of capital controls and ultimately its departure from the currency, the idea that membership is irrevocable would no longer hold and attention would turn to other highly indebted countries in the single-currency area. The Greek debacle has shown the fundamental difficulties associated with creating a single currency zone without a concurrent fiscal union. With the euro zone's political and economic problems mounting, these inadequacies will no doubt return to the fore (such as in the event of another cyclical economic downturn), requiring even

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greater resources to manage. If Grexit were to lead to other countries leaving the euro zone, this would be hugely destabilising for the global economy.

- Countries leaving the euro zone under duress would suffer large devaluations and be unable to service euro-denominated debts. In turn, banks would suffer huge losses in their sovereign bond portfolios, resulting in major disruption to the global financial system and plunging the world economy into recession.

6. Donald Trump wins the US presidential election (16 out 25)

- The businessman and political novice, Donald Trump, has built a strong lead in the Republican party primary, and looks the firm favorite to be the party's candidate in the US presidential election in November.

- Thus far, Mr Trump has given very few details of his policies - and these tend to be prone to constant revision - but a few themes have become apparent. First, he has been exceptionally hostile towards free trade, including notably NAFTA, and has repeatedly labelled China as a "currency manipulator". He has also taken an exceptionally right-wing stance on the Middle East and jihadi terrorism, including, among other things, advocating the killing of families of terrorists and launching a land incursion into Syria to wipe out IS (and acquire its oil). In the event of a Trump victory, his hostile attitude to free trade, and alienation of Mexico and China in particular, could escalate rapidly into a trade war - and at the least scupper the Trans-Pacific Partnership between the US and 11 other American and Asian states signed in February 2016. His militaristic tendencies towards the Middle East (and ban on all Muslim travel to the US) would be a potent recruitment tool for jihadi groups, increasing their threat both within the region and beyond.

- Although we do not expect Mr. Trump to defeat his most likely Democratic contender, Hillary Clinton, there are risks to this forecast, especially in the event of a terrorist attack on US soil or a sudden economic downturn. It is worth noting that the innate hostility within the Republican hierarchy towards Mr. Trump, combined with the inevitable virulent Democratic opposition, will see many of his more radical policies blocked in Congress - albeit such internal bickering will also undermine the coherence of domestic and foreign policymaking.

7. The rising threat of jihadi terrorism destabilises the global economy (12 out 25)

- The threat of jihadi terrorism has moved towards the top of policymakers' policy agenda after a series of devastating attacks in Lebanon, Turkey, Egypt (via the bringing down of a Russian airliner), France and Indonesia in recent months.

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- Despite losing considerable territory in Iraq in recent months, IS remains an especially challenging group to counter: first, because of its well established, albeit diminishing, self-declared "caliphate" in Syria and Iraq (the existence of which provides both an operational base and a major propaganda tool); and second owing to the ease with which it can seemingly recruit and motivate attackers globally. Taking advantage of its decentralised nature - which allows individuals to operate under its banner anywhere in the world without prior contact with the group - IS has been able to strike a wide variety of targets, as demonstrated by its recent deadly attacks in Turkey, Lebanon and Paris. Besides its ability to win new adherents, IS's other success has been to garner the backing of already established jihadi organizations internationally, such as Ansar Beit al Maqdis in Egypt and Boko Haram in Nigeria. The spread of IS and its influence poses a dilemma for global policymakers, who are under pressure to intervene militarily to suppress the group in its strongholds in the Middle East (especially now that hundreds of thousands of Syrian refugees are seeking sanctuary in Europe), but which in turn would risk reprisals in their home countries by radicalised IS sympathisers - a scenario that may have played out with the destruction of a Russian airliner in Egypt on October 31st, and with the killings in Paris on November 13th (both Russia and France have joined air strikes against IS in Syria).

- Should the current spiral of terrorist attacks and reprisals escalate, it would no doubt begin to dent consumer and business confidence, which in turn could threaten to end the five-year bull run on the US and European stock markets.

8. The UK votes to leave the EU (8 out of 25)

- The publication of draft proposals for changes to the terms of the UK's role in the EU - agreed after an intensive round of diplomacy by the UK prime minister, David Cameron - has paved the way for an in-out referendum in the UK over the country's future membership of the Union.

- Although Mr. Cameron and the major political parties will back continued membership, the result is likely to be close given the general hostility among the UK public and much of its press towards the EU. In particular, immigration has moved high up the political agenda, and if the run-up to the referendum were accompanied by another spike in the number of arrivals to the EU, or perhaps an even more dramatic development - similar to the terrorist attacks in Paris last November or the sexual assaults in Germany on New Year's Eve - one potential outcome would be a decisive shift in public opinion towards support for "out".
- If Britain did leave the EU it would have negative ramifications for the UK - still the fifth biggest economy in the world, and whose exporters would struggle in the face of regulatory and tariff uncertainty, and whose position as a leading global financial services hub would be imperilled. However, it would also harm the EU itself, given that the UK is one of the few relatively fast-growing economies in Europe, and has also been a leading proponent of trade and services liberalization. Finally, the shock of a "Brexit" could also exacerbate the ongoing global currency instability, notably in the West.

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9. Chinese expansionism prompts a clash of arms in the South China Sea (8 out of 25)

- Tensions in the South China Sea (SCS) over disputed islands have escalated in recent years.

- Since 2014 reports have proliferated about dredging work by Chinese vessels, seemingly focused on turning reefs, atolls and rocks in disputed parts of the SCS into artificial islands and, in some instances, military bases. This work has profound territorial implications: according to the UN Convention on the Law of the Sea, uninhabitable rocks have a 12 mile territorial zone, while habitable islands have 12 mile territorial waters and a 200 mile exclusive economic zone. In 2015, China's efforts were focused primarily on the Spratly Islands, which comprise 100 small islands and reefs, subject to competing territorial claims from China, Malaysia, Vietnam and the Philippines. However, in February 2016 it was also revealed that China had deployed surface-to-air missiles on the Paracel Islands further to the north, prompting an official protest from Vietnam, among others. With China already mired in multiple island disputes elsewhere, including with South Korea and Japan, there is a risk that China's growing assertiveness will lead to a military build-up in the region, which in turn raises the danger of an accident or miscalculation that might lead to a wider military escalation.

- Any worsening of the row could seriously undermine intra-regional economic ties, and potentially interrupt global trade flows and simultaneously depress global economic sentiment more broadly.

10. A collapse in investment in the oil sector prompts a future oil price shock (4 out 25)

- The response of the world's oil companies to lower oil prices should raise concerns about the long-term impact on future energy supplies.

- Around US$400 billion dollars-worth of oil and gas projects have been deferred or cancelled (a process that actually started before the decline in oil prices began), with, for example, the Brazilian state oil company, Petrobras, announcing in June 2015 that it was cutting its 2020 production target from 4.2m b/d to 2.8m b/d. The shale oil industry in the US, although primarily responsible for the recent collapse in oil prices, is also concomitantly vulnerable, given the surge in US oil independents' debts in recent years. History also provides repeated warnings of the long-term impact of oil price slumps: the surge in oil prices to close to US$150/barrel in 2008, for example, can be traced back to the investment freeze across the industry in the wake of the oil price collapse in 1998. Meanwhile, contrary to historical precedent, the oil market is still not fully taking into account geopolitical risks to supplies, ranging from war in the Middle East to political ructions in Venezuela.

- The risk of an oil price shock in 2016-20 is low currently. However, the volatile geopolitical environment in the Middle East and Eastern Europe, and the longer-term impact of a curtailing of investment in the sector, provide upside risk.

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Implications for Egypt

The above report shows the diverse risks facing the global economy. The possible economic slowdown in China, being one of the major economies in the world, will affect Egypt's trade position as well as its export markets. The economic slowdown in China will drive it to increase cheap exports to maintain its market share in global trade. This will exercise mounting pressure on emerging markets, including Egypt.

According to the report, the political and geopolitical economic effects will likely escalate with increased tensions in different regions such as the South China Sea and Ukraine, as well as the increasing terrorist attacks in the Middle East. Additionally, the US presidential election is due this year, which requires Egypt to maintain a political balance in managing international economic relations. The multiplicity of variables may not contribute to quick benefits from global developments, which calls for more flexibility and a balanced futuristic vision of the impact of these variables.

Experts believe that the biggest threat to the stability of the global monetary system in the long run is the shift from talking about a "currency war" to a real struggle between major economic powers emerging from the crisis, led by China and other countries with dominant reserve currencies, most importantly the US. This prompted economists to describe this war as the final nail in the coffin of the global monetary system.

Hence, Egypt must realize that the future of reserve currencies is a question of political economy, not just an economic matter. The international currency plays a role in foreign exchange trading, preparation of commercial invoices and financial investments. For governments, it functions as a stabilization instrument for the exchange rate and as a reserve currency. However, at the market level, economic considerations typically come first when determining the preferred options. At the government level, the additional political component is inevitable. The global financial system began to move away from its main centers in the US and Britain to new financial centers in Dubai, Mumbai and Shanghai. Egypt must endeavor to position itself among them. Thus, in light of these changes and with the emergence of multiple centers of economy power, it is difficult to rely on one currency as a reserve currency.

The decline in oil prices helps Egypt to continue modifying its energy mix, particularly introducing new methods of energy generation such as coal, wind power, solar power, waterfalls and other new energy sources, in addition to generating power from waste. However, it is likely Egypt will not be affected by the drop of investments in these sectors, with the government setting appropriate pricing for energy generated from new sources, and signing contracts for their implementation. But the main challenge facing the economy as a result of declining oil prices is the extent to which the Egyptian market is attractive to investments of international petroleum and gas companies for new explorations in Egypt, considering the

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recent slowdown in global investment flows in the fields of oil and gas with the growing surpluses in the oil supply.

Also, Britain's possible exit from the EU would have significantly negative repercussions on the British economy. Britain's loss of its membership in the EU will affect its global credit rating and raise the cost of government borrowing, which in turn will impact plans for reducing the budget deficit and public debt. It will also negatively affect the flow of foreign investments to Britain due to heightened uncertainty among investors. In this respect, we cannot isolate Egypt from the outside world. In other words, Egypt's crossing this economic turning point does not relate only to the internal performance but also to global performance with all its variables.

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Global Financial Market Performance

Reuters – Argaam:

Chinese stocks rose at the end of the Friday session, registering gains for the second week in a row, with the holiday in some Asian markets, and anticipation of economic data. The "Shanghai" Composite Index rose by 0.6 percent to 2979 points at closing to record a weekly gain of 0.9 percent. Japanese stocks rose at the end of the Friday trading session, registering weekly gains, supported by the decline of the yen, and the rise of shares of insurance and transportation companies. The Japanese "Nikki" index rose by 0.6 percent to 17002 points, recording a weekly increase of 1.7 percent. The "TOPIX" index increased about 0.8 percent to 1366 points.

On the other hand, the majority of US stocks managed to eliminate their losses, closing Thursday's session at stable levels with anticipation of movements in oil prices and their impact on the energy sector. The major indices recorded the first weekly loss in a month and a half.

The "Dow Jones" industrial index increased by 13.1 points to 17,515.7 points after losses earlier in the session of more than 100 points. The "NASDAQ" index rose by 4.6 points to 4773.5 points, while the "S&P 500" benchmark declined (- 0.7 points) to 2035.9 points.

On a weekly level, the "Dow Jones" industrial index registered losses of 0.5 percent, and “NASDAQ" fell by 0.5 percent, while the S&P’s broader index registered a weekly loss of 0.7 percent.

In Europe, the "Stoxx Europe 600" benchmark index fell by 1.4 percent or by 4.9 points to 335.1 points, and recorded a weekly loss of 1.9 percent.

The "FTSE 100" British index declined by (- 92.6 points) to 6106.4 points. The German "DAX" index dropped by (- 171.5 points) to 9851.3 points, while the French "CAC" index declined by (- 94.3 points) to 4329.6 points.

On the other hand, gold futures for April delivery at settlement declined by 0.2 percent or by $2.40 to $1221.60 an ounce. The precious metal also recorded losses this week of 2.6 percent.

In oil markets, the US "NYMEX" fell by 0.8 percent or by 33 cents to close at $39.46 a barrel, and recorded a weekly loss of about 4.1 percent, which is the first in a month and a half. The "Brent" benchmark decreased by less than 0.1 percent or by 3 cents to close at $40.44 a barrel, and recorded a weekly loss of about 1.5 percent.

The stock and bond exchanges in the US, Germany, France, Italy, Hong Kong and the UK were closed on Friday the 25th of March to celebrate the Great Friday, which is also known as the "Good Friday."

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Implications for Egypt:

Global capital markets have been monitoring recent developments in the US economy, which maintains an upward pace and is perhaps one of the few economies in the world that the IMF revised figures were relatively optimistic about its future.

It is worth noting that the Chinese market has continued to decline despite recovery in regional and international markets. It may be wise to adopt a wait-and-see attitude until Chinese policymakers announce concrete steps or at least after some stability is announced in global markets in light of speculation of a change in liquidity. At the same time, gold seems to be an attractive option for cautious investors, albeit technical analysts say that gold is still not clear from the technical point of view, and may not be the best choice. The Egyptian stock exchange's moving out of the range of external influences and its return to being more consistent with internal factors—with the support of changes in monetary policy and liquidity in the stock market along with the return of foreign companies— gives an indication of the possibility of weakening the link with global and regional markets in the coming period if the current economic momentum is maintained.

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