المركز المصري للدراسات الاقتصادية
The Egyptian Center for Economic Studies

Our Economy and The World
The Weekly Report

Issue: 72 Date: 1 October 2017

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

Key Global and Regional Developments over the Past Week

Reuters: British banks' pessimism in worst run since financial crisis

Optimism about the business environment among Britain's financial services firms declined again in the third quarter of this year, the longest run of falling sentiment since the global financial crisis, according to a survey published on Monday. The latest quarterly survey of 94 financial services firms by business lobby CBI and consultancy PwC found sentiment about Britain's overall business climate deteriorating, with banks and building societies especially pessimistic. Confidence in the financial services sector - Britain's biggest source of corporate tax revenue and largest export sector - has now declined in six of the last seven quarters.

Read the full article

Reuters: China says growth of key debt ratio clearly slowing, stabilizing

The growth of China's overall leverage ratio has been clearly slowing and is now stabilizing, the state planner said on Monday, days after S&P downgraded the country's sovereign debt rating. China will focus on lowering leverage ratios among state-owned firms and winding down of "zombie firms" to reduce leverage ratios and control debt risks, the National Development and Reform Commission said in a statement on its website. S&P Global Ratings cut China's credit rating last week, which followed a similar move by Moody's Investors Service in May. Both firms cited the risks from China's rapid build-up in debt and high overall debt levels as a major long-term concern.

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Financial Times: European leaders aim to seize the moment for reform

European leaders had billed it as their “window of opportunity”. Angela Merkel’s victory in the German federal election this weekend was supposed to fire the starting gun on the most ambitious negotiation of eurozone reforms since the Maastricht treaty was signed in 1992. EU leaders, led by French president Emmanuel Macron, had been preparing to capitalise on Ms Merkel’s renewed mandate to deepen euro integration at a time when the bloc is enjoying an unexpectedly bouncy economic recovery. Donald Tusk, president of the European Council, has set things in motion by convening a “euro summit” of EU political leaders in December. Mr Tusk wants governments to take “concrete” decisions on reforms by June.

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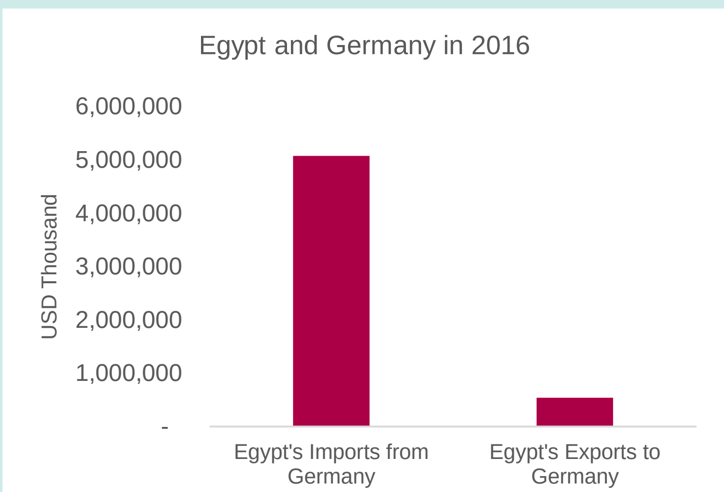

Source: Trademap, ITC

Alstom, Siemens to merge rail businesses to counter China's CRRC

German industrial group Siemens AG and French rival Alstom SA agreed to merge their rail operations, creating a European champion to better withstand the international advance of China's state-owned CRRC Corp Ltd. Siemens will own 50 percent plus a few shares of the joint venture, to be called Siemens Alstom, while Alstom will supply Henri Poupart-Lafarge as chief executive, helping to counter criticism that France is giving up control of another national industrial icon.

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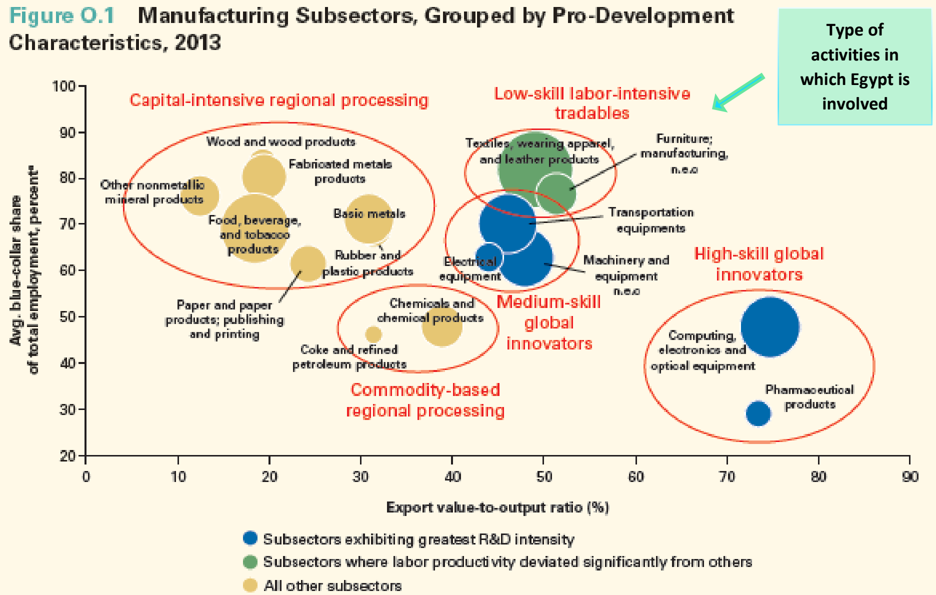
Special Analysis: World Bank, Trouble in the Making? The Future of Manufacturing-Led Development

Some of the biggest development gains in history have been associated with the process of industrialization. Until the early 19th century, annual growth in global gross domestic product (GDP) was below 0.1 percent. Then, between 1820 and 1870, the earliest industrializers in Western Europe and the United States registered rapid rates of per capita income growth of 1.0 and 1.3 percent, respectively, compared with close to zero in other regions such as East Asia and Latin America. It was industrialization again that drove other countries to catch up, starting in the late 19th century with Japan. More recently, the “economic takeoff” circa 1960 that resulted in East Asia’s growth miracle coincided with the rapid export growth of manufactures (Leipziger 1997; Rodrik 1994; Stiglitz and Yusuf 2001; World Bank 1993). Those few countries that have reached high-income levels through other means have done so through natural resource extraction or the exploitation of specific locational or other advantages.

Yet not all countries benefited equally from industrialization, which demonstrated the importance of the “how” rather than the “what” of production. Some countries that attempted industrialization were successful in climbing up the income ladder. Others saw progress stall after a transitory pickup of economic growth, such as in Latin America. Still other countries, including many in Sub-Saharan Africa and South Asia, never managed to break into manufacturing production to a significant extent. In many of these countries, efforts to industrialize without openness—for example, through import substitution—led to costly failures. Similarly, the adoption of capital-intensive techniques of production in heavy industries did not result in the large-scale absorption of unskilled labor. It is therefore not surprising that countries that have reached high income levels did so through manufacturing export–led strategies rather than import substitution approaches (Agénor and Canuto 2015).

The manufacturing sector was different from other sectors because it absorbed large numbers of relatively unskilled workers at a substantial productivity premium, which was underpinned by the sector’s tradability in international markets. Manufacturing has traditionally absorbed a substantial part of the economy’s low-skilled labor from agriculture at higher levels of productivity (McMillan and Rodrik 2011). Further, labor productivity in low- and middle-income economies’ manufacturing sectors tends to converge to the frontier over time because they produce tradable goods, thus facilitating scale economies, technology diffusion, greater competition, and other spillover effects (Rodrik 2013). Although the agricultural sector was also tradable, demand-side dynamics have played a constraining role: as per capita incomes rise, the share of agricultural products in total expenditure declines, while the share of manufactured goods increases in accordance with a hierarchy of needs. Further, productivity improvements in agriculture were closely linked to labor-saving technologies. As for the services sector, high-end professional services are skill-intensive and were typically not tradable before the information and communication technology (ICT) revolution, whereas many low-end services that could absorb surplus labor from agriculture provided little productivity growth.

Figure O.1 Manufacturing Subsectors, Grouped by Pro-Development Characteristics, 2013



Sources: Calculations based on United Nations Industrial Development Organization (UNIDO) Industrial Statistics (INDSTAT) database; UN Comtrade database; University of Minnesota's Integrated Public Use Microdata Series (IPUMS) International database.
Note: Bubbles colored blue indicate the five subsectors exhibiting the greatest R&D intensity. Bubbles colored green indicate subsectors that deviated significantly from others in terms of labor productivity. Bubble size indicates each manufacturing subsector's share of total manufacturing employment. n.e.c. = not elsewhere classified.
a. For blue-collar shares, occupations classified as International Standard Classification of Occupations (ISCO) groups 5, 7, 8, and 9 are labeled as blue-collar occupations. Total number of sector employees includes occupations classified as ISCO groups 1, 2, 3, 4, 5, 7, 8, and 9. Blue-collar shares are calculated at sector-by-country level for selected countries using census data harmonized by IPUMS International.

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Recent Developments in Financial and Commodity Markets

Reuters: Oil hits seven-month high as producers say market rebalancing

Oil prices rose on Monday to their highest in seven months after major producers said at a meeting in Vienna the global market was well on its way toward rebalancing. The November Brent crude futures contract was up 35 cents at $57.21 a barrel by 0927 GMT (5.27 a.m. ET), its highest since February 23. U.S. crude for November delivery was down 8 cents at $50.58, but not far off recent four-month highs. The Organization of the Petroleum Exporting Countries, Russia and several other producers have cut production by about 1.8 million barrels per day (bpd) since the start of 2017, helping lift oil prices by about 15 percent in the past three months.

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$55 per barrel is the price of oil used in Egypt's government budget 2017/2018

Bloomberg: Asian tech stocks fall, energy gains as Korea threat seen muted

Asian technology stocks fell, weighing on the benchmark index, as investors largely shrugged off the latest threats from North Korea. Energy stocks gained. The MSCI Asia Pacific Index declined 0.2% to 161.92 as of 11:47 a.m. in Hong Kong. North Korea's foreign minister Ri Yong Ho said in New York that the regime has the right to shoot down U.S. warplanes under the United Nations charter and described U.S. President Donald Trump's recent comments as tantamount to a declaration of war. South Korea's Kospi index lost 0.3 percent even as almost two shares gained for each one that fell. "North Korea has always been a temporary issue for markets," said Seo Sang-Young, a strategist at Kiwoom Securities Co. in Seoul. "It's an excuse for investors to sell technology shares that rose a lot recently and rotate into energy stocks."

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Bloomberg: We're reaching peak gold

The world may have already produced the most gold in a year it ever will, according to the chairman of the World Gold Council. Production is likely to plateau at best, before slowly declining as demand rises, especially given global political risks and robust purchases by consumers in India and China, Randall Oliphant said in an interview Monday. "It's not clear how the whole U.S. political system will play out," said Oliphant, an industry veteran who's been an executive at some of the world's biggest gold miners. "All this uncertainty seems very fertile ground for people to get into gold."

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