The Egyptian Center for Economic Studies

المركز المصري للدراسات الاقتصادية

Our Economy and The World

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

- **Key Global and Regional Developments over the Past Week**
- **Special Analysis: Global Investment Competitiveness Report 2017/2018**
- **Recent Developments in Financial and Commodity Markets**

Key Global and Regional Developments over the Past Week

Bloomberg: A new Asia-to-Europe railway route is opening up

Azerbaijan is opening a long-delayed railway intended to cut transport times for goods between Asia and Europe. President Ilham Aliyev is due to host Turkish counterpart Recep Tayyip Erdogan and Georgian leader Giorgi Margvelashvili at a ceremony Monday for the departure of the first train from the Caspian Sea port of Alat, south of the Azeri capital, Baku. The event, which Kazakh President Nursultan Nazarbayev is also expected to attend, marks the conclusion of a 10-year project to open a rail corridor linking central Asia and Europe through the Caucasus region.

Read the full article

Reuters: Countries urge EU to cut cars' CO2 emissions by more than planned

Seven EU nations called on the European Commission this week to set stricter limits on tailpipe carbon emissions, in last ditch lobbying ahead of its proposal next month. The EU executive is expected to introduce new CO_2 standards for cars and vans for beyond 2020 to help the bloc meet its goal of cutting overall greenhouse gas emissions by at least 40 percent below 1990 levels by 2030. As the Commission puts the finishing touches to the proposals, those calling for more ambitious climate goals face off with industry representatives who say too stringent emission standards could become a burden for the industry.

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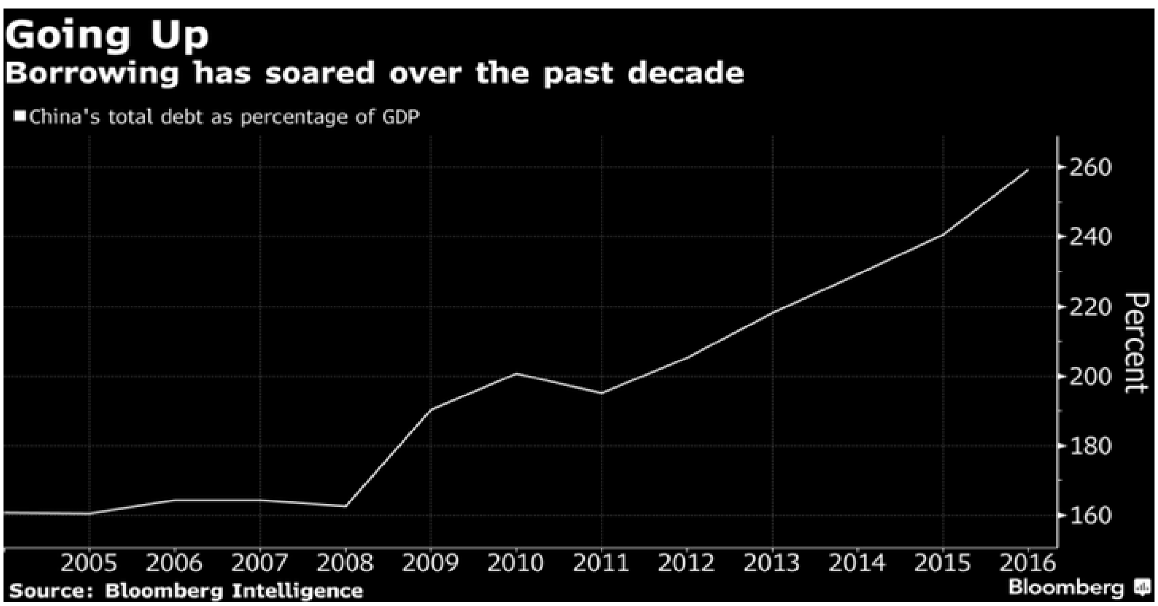
Bloomberg: Saudis favor local sales as they plan to deepen debt markets

Saudi authorities plan to keep selling local bonds every month as they seek to finance the budget deficit and deepen a nascent debt market, according to the official overseeing the kingdom's borrowing strategy. Fahad Al-Saif, head of the debt management office at the Ministry of Finance, said local issuance makes up about 65 percent of the kingdom's sales and the government wants to maintain this ratio "plus or minus 10 percent for the foreseeable future." The world's biggest oil exporter turned to the bond market after the slump in crude prices battered its public finances, causing the budget deficit to surge to 15 percent of economic output.

Read the full article

Bloomberg: China's debt battle has global growth at stake

It used to be that when America sneezed, the world caught a cold. This time around, it's the risk of a sickly China that poses a bigger threat. The world's second-largest economy is now trying to ward off the sniffles. While output is still growing at a pace that sees gross domestic product double every decade, the problem remains that much of that has been fueled by a massive buildup of credit. Total borrowing climbed to about 260 percent of the economy's size by the end of 2016, up from 162 percent in 2008, and will hit close to 320 percent by 2021 according to Bloomberg Intelligence estimates. Economy-wide debt levels are on track to rank among "the highest in the world," according to Tom Orlik, BI's Chief Asia Economist.



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Special Analysis: Global Investment Competitiveness Report 2017/2018

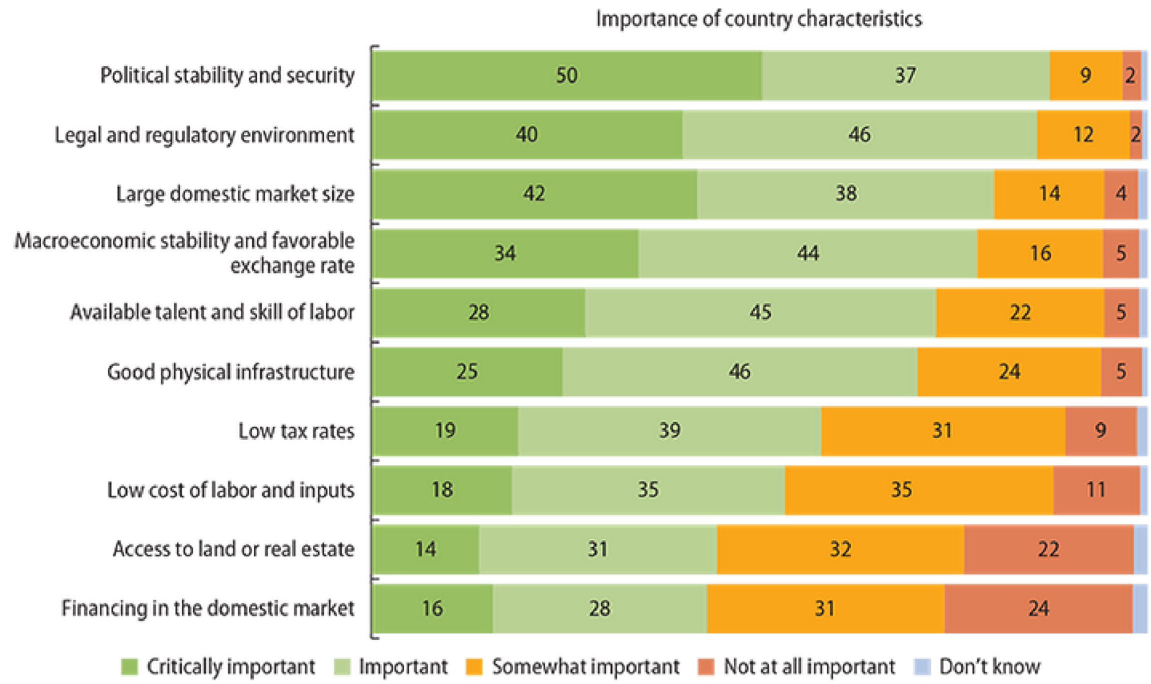
How Developing Countries Can Get the Most Out of Direct Investment

Foreign Investment Is a Major Contributor to Development

For many developing countries, foreign direct investment (FDI) has become the largest source of external finance, surpassing official development assistance (ODA), remittances, or portfolio investment flows. In 2016, more than 40 percent of the nearly $1.75 trillion of global FDI flows was directed to developing countries, providing much-needed private capital. Yet the financing required to achieve the Sustainable Development Goals (SDGs) remains prohibitively large and largely unmet by current FDI inflows— especially in fragile and conflict-affected situations (FCS). To maximize the development impact of FDI and thus help meet the SDGs, private investment will have to expand into areas where it has not yet ventured, notwithstanding the associated risks.

The benefits of FDI extend well beyond attracting needed capital. Foreign investment also confers technical know-how, managerial and organizational skills, and access to foreign markets. Furthermore, FDI has a significant potential to transform economies through innovation, enhancing productivity, and creating better-paying and more stable jobs in host countries, in sectors attracting FDI as well as in the supportive industries (Arnold, Javorcik, and Mattoo 2011; Bijsterbosch and Kolasa 2009; Echandi, Krajcovicova, and Qiang 2015; Rizvi and Nishat 2009; WEF 2013). Importantly, foreign investors are becoming increasingly prominent players in delivering global public goods, addressing climate change, improving labor conditions, setting global industry standards, and delivering infrastructure to local communities (IFC, forthcoming). This report builds on the literature in highlighting the role of FDI in upgrading growth and adding value to domestic firms, in filling the investment void in FCS, and more generally, in increasing competitiveness and stability.

The investor survey shows that political stability and security along with a stable legal and regulatory environment are the leading country characteristics considered by executives in multinational corporations before they commit capital to a new venture. These considerations far outweigh such issues as low tax rates and labor costs. Investment incentives may help attract FDI but are generally effective only when investors are wavering between similar locations as a new base for their exports. When investment is motivated by a desire to access a domestic market or extract natural resources, incentives are generally ineffective. Of far greater importance, the report finds, is the level of legal protections against political and regulatory risks, such as expropriation of property, currency transfer and convertibility restrictions, and lack of transparency in dealing with public agencies. Reducing these risks at the country level is a foundation without which reducing project-level risks will not lead to increased investment and growth in developing countries.



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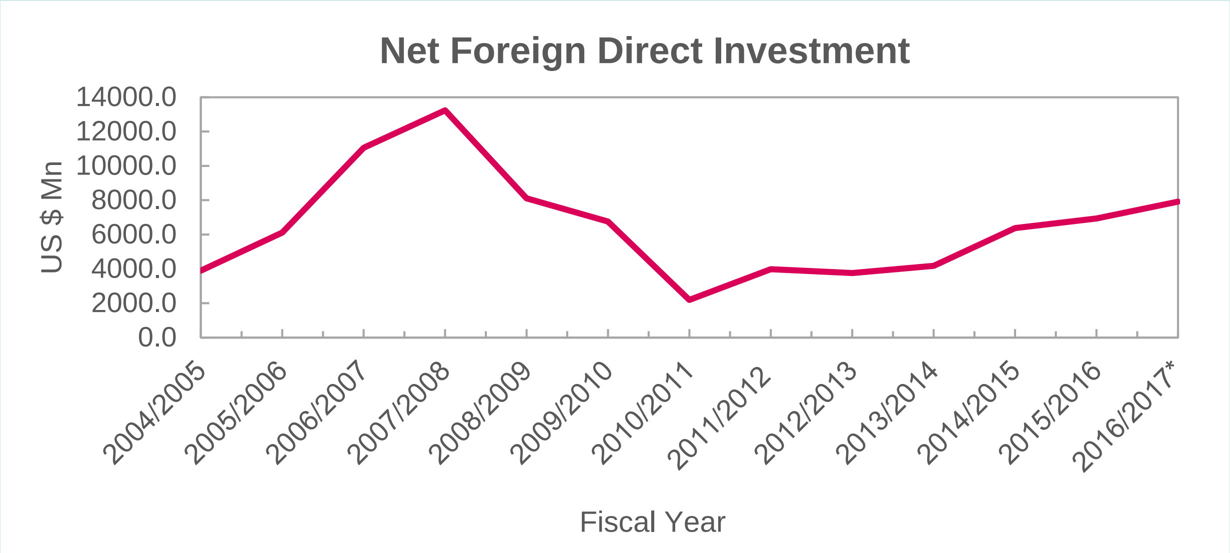

Source: Central Bank of Egypt.
* Provisional.

Recent Developments in Financial and Commodity Markets

Reuters: U.S. oil exports boom, putting infrastructure to the test

Tankers carrying record levels of crude are leaving in droves from Texas and Louisiana ports, and more growth in the fledgling U.S. oil export market may before long test the limits of infrastructure like pipelines, dock space and ship traffic. U.S. crude exports have boomed since the decades-old ban was lifted less than two years ago, with shipments recently hitting a record of 2 million barrels a day. But shippers and traders fear the rising trend is not sustainable, and if limits are hit, it could pressure the price of U.S. oil. How much crude the United States can export is a mystery. Most terminal operators and companies will not disclose capacity, and federal agencies like the U.S. Energy Department do not track it.
Read the full article

Reuters: Sterling surges as strong GDP data strokes BoE rate-hike talk

Sterling surged to its highest in over a week versus the dollar on Wednesday after data showed the British economy picking up speed, bolstering expectations that the Bank of England will raise interest rates next week. Data on Britain's quarterly gross domestic product growth showed the economy expanding at a faster pace than expected, unseating some of the earlier uncertainty around the likelihood of a rate hike after BoE policymakers next meet, on Nov. 2.
Read the full article

Reuters: Global assets under management hit all-time high above $80 trillion

The total assets managed by the world's 500 biggest fund houses hit an all-time high of $81.2 trillion in 2016, research showed on Monday, a 5.8-percent increase on the previous year. Although a comfortable majority of funds are still actively managed, the research from advisory firm Willis Towers Watson showed, the proportion of passively managed funds climbed to 21.6 percent. That was up from 20.3 percent the previous year, and from 16.5 percent five years ago.
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