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The Egyptian Center for Economic Studies

Our Economy and The World
The Weekly Report

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

Key Global and Regional Developments over the Past Week

Reuters: U.S. sends China a to-do list to reduce trade imbalance: WSJ

The United States asked China in a letter last week to cut the tariff on U.S. autos, buy more U.S.-made semiconductors and give U.S. firms greater access to the Chinese financial sector, the Wall Street Journal reported on Monday, citing unnamed sources. Alarm over a possible trade war between the world's two largest economies has chilled financial markets as investors foresee dire consequences should trade barriers go up due to President Donald Trump's bid to cut the U.S. deficit with China.

Read the full article

Reuters: Still unclear what Trump wants from Europe, EU trade chief says

European Trade Commissioner Cecilia Malmstrom, who will lead negotiations on behalf of the 28-state European Union, said it was not clear from her talks with U.S. counterparts this week what would satisfy the ultimate arbiter in the White House.

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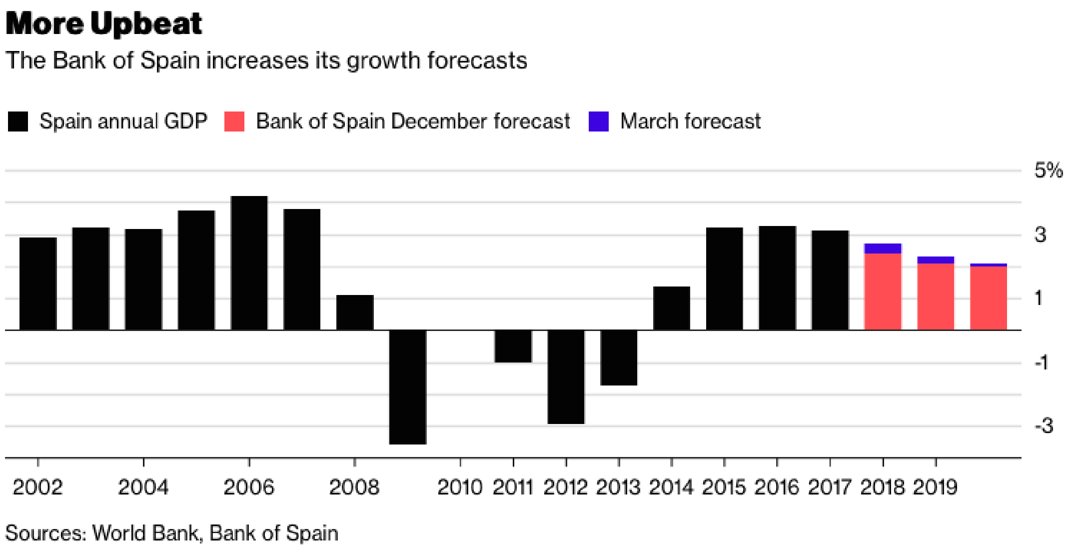
Bloomberg: Spain's rating lifted by S&P with prospect of further upgrade

Spain's credit rating was raised one level to A- by S&P Global Ratings, which cited expectations that economic growth will outpace the euro area and that the government's budget deficit will shrink.



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Bloomberg: China's push for tech self-sufficiency threatens Asia's exporters

China's rampant economic growth has been a boon for exporters in Japan, South Korea and Taiwan, who've supplied high-end components and machines for its factories. The risk for them now is that China changes from customer to competitor as it ascends the value chain. Japanese shipments to China reached a record $130 billion in 2017, leading an export-driven economic recovery that's run for eight-straight quarters. Korean sales to its neighbor have jumped 70 percent in a decade, while shipments from Taiwan climbed to an all-time high.

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Reuters: Singapore pharma on recovery path after worst output in decades

Singapore's pharmaceuticals business, among the pillars of the city-state's manufacturing sector, is set to return to strength this year as big global drugmakers ramp up output and advance automation at their production sites across the country. A recovery from dismal 2017, which marked the sector's worst contraction in two decades, would underpin Singapore's economic growth. Pharmaceuticals is the No.2 contributor to the country's manufacturing output and accounts for 3 percent of its GDP.

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Reuters: Israel to launch big data health project

Israel will invest nearly 1 billion shekels ($287 million) in a project to make data about the state of health of its population available to researchers and private companies, Prime Minister Benjamin Netanyahu said on Sunday. Almost all of Israel's nine million citizens belong to four health maintenance organizations (HMOs) who keep members' records digitally, thus comprising a huge medical database.

Read the full article

Special Analysis: IMF
Finance and Development – Climbing Out of Debt
March 2018

Almost a decade after the onset of the global financial crisis, national debt in advanced economies remains near its highest level since World War II, averaging 104 percent of GDP. In Japan, the ratio is 240 percent and in Greece almost 185 percent. In Italy and Portugal, debt exceeds 120 percent of GDP. Without measures either to cut spending or increase revenue, the situation will only get worse. As central banks abandon the extraordinary monetary measures they adopted to battle the crisis, interest rates will inevitably rise from historic lows. That means interest payments will eat up a growing share of government spending, leaving less money to deliver public services or take steps to ensure long-term economic growth, such as investing in infrastructure and education. Servicing debt will become a major burden.

What is the best way to reduce debt to sustainable levels? That question has taken on renewed importance since the global financial crisis of 2008, when government spending to stimulate growth and help the unemployed boosted budget deficits to postwar records. Some economists argue that cutting spending is the best medicine for restoring fiscal health. Others insist, on the contrary, that spending cuts are self-defeating, because they hurt economic growth. They prescribe even more government spending to reinvigorate a flagging economy.

To get a handle on the issue, it helps to look at the mathematics of debt reduction. The relevant number here is not the total amount of debt, but the ratio of debt to national income, or GDP, which is a measure of the resources the economy can use to repay its debt. There are two ways to lower the ratio of debt to GDP. One is to reduce the size of the budget deficit (by cutting spending or increasing revenue); the other is to expand the size of the economy. Ideally, governments will reduce deficits and turn them into primary surpluses (that is, the excesses of tax revenue over spending, net of interest) in a way that does not hurt growth. If policies geared toward reducing deficits also caused a deep recession, they would be counterproductive: the decline in GDP would increase the debt-to-GDP ratio, notwithstanding the efforts made to reduce the deficit.

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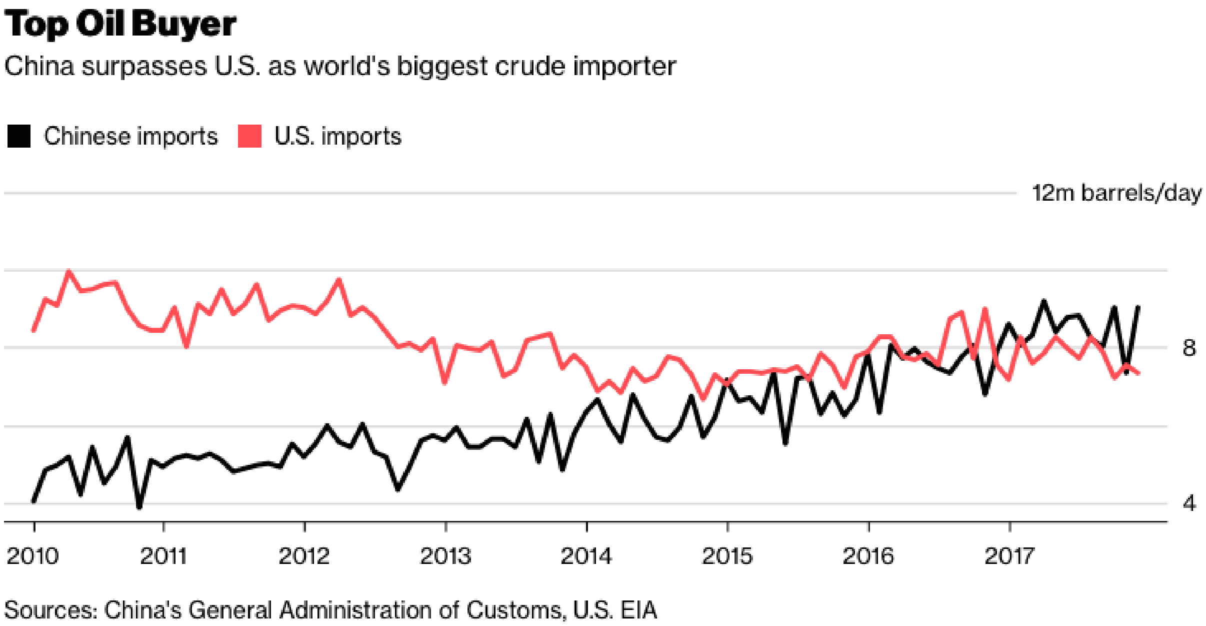
Recent Developments in Financial and Commodity Markets

Bloomberg: China is about to shake up the oil futures market

It's taken a quarter of a century, but China finally has its own oil futures. At 9 a.m. local time on Monday, crude contracts began trading on the Shanghai International Energy Exchange. Futures for September settlement opened at 440 yuan a barrel, up from a reference price of 416 yuan. The world's biggest oil buyer is offering yuan-denominated futures that foreigners can buy and sell -- a first in Chinese commodities. Among the most intriguing questions is whether the traditional benchmarks of Brent crude in London and West Texas Intermediate in New York will face a serious challenger.



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Reuters: Oil prices fall as U.S. trade dispute with China looms

Oil prices reversed earlier gains on Monday as concerns of a looming trade dispute between the United States and China weighed on global markets. The possibility of a full-blown trade war between the United States and China battered Asian shares on Monday. The falls came after U.S. President Donald Trump last week signed a memorandum that could impose tariffs on up to $60 billion of imports from China.

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