The **Egyptian Economy** in the **Twenty-first Century**

The Hard Road to Inclusive Prosperity

Edited by
Khalid Ikram and Heba Nassar

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Designed by Jon W. Stoy

To the evergreen memory of my brother,
Zahid Ikram (January 18, 1940–September 16, 1974)
and my brother-in-law,
Jawaid Azfar (April 15, 1939–March 18, 1983).

Khalid

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Khalid Ikram has been associated with Egypt's economy for more than forty years, including as director of the World Bank's Egypt department. His international consultancies include governments, the World Bank, the Asian Development Bank, USAID, DFID, ITZ, OECD, UNCTAD, UNDP, and several leading private institutions. He is the author of *Egypt: Economic Management in a Period of Transition* (1981); *The Egyptian Economy, 1952–2000*: *Performance*, *Policies and Issues* (2006); and *The Political Economy of Reforms in Egypt: Issues and Policymaking since 1952* (AUC Press, 2018; pbk edition, 2021). He was awarded the Korean president's medal for services to South Korea's development.

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Preface

Khalid Ikram and Heba Nassar

WHY HAS EGYPT, despite its numerous physical and human assets, so frequently underperformed its economic potential during the last sixty years? And how can it address the crucial economic challenges it is likely to confront in the next two or three decades? These are important questions and require a response that, while not neglecting the *what* and *when*, emphasizes the *why* and *how*.

Egypt's economy faces a critical period, its performance tested by an uncertain international economic and political environment, unsettled regional relationships, a legacy of structural imbalances, and the necessity to navigate a global pandemic of as yet unknown duration. Major reforms are required in many areas to boost the economy's strength and suppleness, and enable it to prosper despite the turbulence. A sole writer would have to be a monster of omniscience to adequately address even just the principal issues created or intensified by the foregoing circumstances.

We therefore invited several leading specialists on the Egyptian economy to examine different facets of the questions. This book is a collaboration among almost a score of experts from academic institutions, official bodies, private think tanks, international institutions, nongovernmental organizations, and independent researchers. It goes without saying that the contributors' offerings are in their personal capacities, and do not necessarily represent the views of organizations with which they may be affiliated.

The primary voice is of scholars from Egypt; they account for two-thirds of the contributors. The remainder are based in the United States, Canada, France, and the United Kingdom. The participants in this book have, in addition to Egypt, worked extensively on the economies of South Korea, Thailand, Vietnam, the Philippines, Malaysia, Cambodia, Laos, Myanmar, Ethiopia, Lebanon, Sudan, Yemen, Iraq, Tunisia, Algeria, Turkey, and other countries, and this wider experience informs their analyses.

We are grateful to the contributors for giving so much of their time and for sharing their expertise. We must also express our debt to the independent reviewers of the manuscript for several helpful comments and suggestions.

Our effort does not pretend to be encyclopedic; space and time are unyielding constraints. Nevertheless, we hope to have provided sufficient data, analyses, and recommendations so that our interrogation of the key challenges to Egypt's economy can stimulate an informed discussion about the economic future of the Arab world's largest country. The collective efforts of knowledgeable stakeholders can bring about policy reforms that could enable the Egyptian economy to fulfill its potential. *Insha Allah!*

Acknowledgments

A BOOK SUCH AS THIS would not be possible without drawing on the expertise and experience of many persons. We would like to put on record our gratitude to colleagues, friends, and even some whom we have never met, from whose knowledge we have benefited over many years, even though a number of them, sadly, are no longer with us.

Khalid writes:
I acknowledge with gratitude that, in addition to the contributors to this book, I learned much from numerous discussions over more than forty years with Kamal al-Ganzoury, Robert Mabro, Hanaa Kheir el-Din, Sultan Abu Ali, Heba Handoussa, Abdel Aziz Higazi, Atef Ebeid, Abdel Moneim el-Kaissouni, Abdel Razzaq Abdel Meguid, Hamid el-Sayeh, Nemat ("Minouche") Shafik, Mohamed el-Erian, Hilmi Abdel Rahman, Ahmed Abou Ismail, Ahmed el-Dersh, Zaafar al-Bishry, Ismail Sabri Abdallah, Nabil Fahmy, Youssef Boutros-Ghali, Wagih Shindy, Salah Hamed, Ali Negm, Ismail Hassan, Mahmoud Abul-Eyoun, Mahmoud Mohieldin, Adel Bishai, Samir Radwan, Ismail Serageldin, and Samir Koraiem. I am grateful to them not only for sharing with me the fruits of their knowledge, but also for gifting me the warmth of their friendship.

I was the beneficiary of seminars at Cairo University, the American University in Cairo, the British University in Egypt, and the Egyptian Center for Economic Studies, at which many useful comments were offered on the ideas contained in this book. For organizing these discussions and for contributing their insights, I should like to thank Omar Mohanna, Abla Abdel-Latif, Adel Bishai, Heba Nassar, Gouda Abdel-Khalek, Karima Korayem, Tarek Selim, and Maha Elhini.

Nadia Naqib, our editor at the American University in Cairo Press, deserves special thanks. She enthusiastically supported the preparation of this book, provided information from Egyptian and other sources, responded promptly to queries, and with the utmost tact nudged us toward our deadlines. We were also fortunate to have Johanna Baboukis as our project manager and copyeditor, who presided with impressive skill and remarkable patience over the often thankless task of ensuring accuracy, consistency, and clarity, and of making the project proceed smoothly. They both were indispensable players on the team, and very congenial companions on our journey.

I would also like to thank the archivists and librarians at the Joint IMF–World Bank library—Becky West, Megan Sumner, and Sangeeta Sharma—who with good grace traversed many extra miles to track down sources and procure documents I would not have been able to obtain on my own.

On a personal note, I would like to acknowledge once again the debt I owe my family. Shirin, Salima, Nicholas, Aden, Ana, Chase, and Cruz continue to be an incredible font of love, support, and inspiration. My wife, Shirin, has been a particular source of strength. She manages to deal serenely with the challenges of a demanding family and the pressures of a successful legal career that has spanned Pakistan, Egypt, and the United States. After almost six decades I have still not figured out how she does it, but remain profoundly grateful that she does.

Heba writes:

A book such as this would not be possible without the sustained effort of a scholar who has studied the Egyptian economy for many years, and who is experienced in drawing out the best from a very diverse team of experts and integrating them into a coherent whole. It is not usual to laud the efforts of one's co-editor, but I would be remiss if I did not put on record my gratitude to Khalid Ikram. During the preparation of this book I learned much from Khalid through discussions of political-economy issues, his experience in editing and re-editing the book, and his unswerving focus on finalizing the work.

It is difficult to single out particular names, as I am grateful to all my professors and colleagues for their continuous support.

I also acknowledge the effort of all the contributors to this book, and their patience in revising (often more than once) and finalizing their papers.

I have learned much from numerous academic seminars organized by the economics department of the Faculty of Economics and Political Science (FEPS) and from several discussions with my distinguished professors and colleagues at FEPS. Additionally, my practical work over the last twenty-five years at the Social Research Center at the American University in Cairo and the Center for Economic and Financial Research and Studies at FEPS has been a wonderful source of intellectual stimulation and enrichment.

I have also benefited from my participation in numerous seminars organized by the Economic Research Forum as well as by several national and international forums. I join Khalid in acknowledging our special debt to Nadia Naqib, our editor at the American University in Cairo Press, and I am equally delighted we were able to get Johanna Baboukis as our copyeditor and the manager of our book project.

On the personal side, I am grateful, as always, for the constant support of my husband, Abdel Rahman, who at all times remains calm and puts up cheerfully with the preoccupations and absences caused by my work. He has been my rock.

Introduction

Khalid Ikram

Anyone who studies the Egyptian economy for any length of time will be no stranger to the following conundrum.

> Egypt possesses an abundance of resources—a strategic location, oil and gas deposits, fertile agriculture, myriads of tourist attractions, a long tradition of learning, a hard-working labor force, and an extensive diaspora that regularly remits large amounts of funds to Egypt. And yet the country's economic performance lags behind that of many less endowed countries and even fails to meet several of Egypt's own requirements.
>
> To deal with this conundrum, one has to address a wide range of questions, such as: How many Egyptians are there whose lives must be improved? How fast must the economy grow to bring about this improvement? How has it performed compared with the requirements? Why did the performance fall short? What crucial challenges will Egypt's economy encounter in the coming two or three decades? How can Egypt overcome them? Can Egypt replicate the strategies of the fast-growing East Asian countries?

These are large questions, and to provide detailed answers would require much more space than is available in this volume. In particular, the interaction of political and economic factors that underlie many policies that have shaped Egypt's economic outcomes is discussed more extensively in Ikram (2018, 2021). The present book has a more modest purpose: it is intended to identify some of the most critical challenges that the Egyptian economy is likely to face in the next two or three decades, and to offer data, analyses, and recommendations that could help inform a discussion between those interested in the economic future of the world's largest Arab country.

This introduction draws on the contributions of the participants in this task. It is not, however, a simple summary of their work. Its aim is to provide a flavor of their thinking, to whet the appetite, and to add supplementary comments and information where it seemed appropriate.

What Are Egypt's Most Vital Economic Goals?

In order to develop an operational way forward, one must state the goals, articulate executable strategies to attain the goals, and identify policies that would implement the strategies.

We consider the fundamental goals for Egypt's policymakers are to provide a better life for the country's citizens and, in view of Egypt's history, to minimize its vulnerability to external pressures.

For the present, it suffices to say that, given how fast Egypt's population is projected to grow, "providing a better life" requires a strategy that would deliver a rapid and sustainable increase in the country's output of goods and services (i.e., the GDP), and ensure their equitable distribution. Together these would provide Egyptians control over goods and services that would help them lead a life they value. "Minimizing external vulnerability" requires a strategy for limiting the deficit on the current account of the balance of payments and on the domestic budget to levels that could be sustained without needing excessive external financing. This would minimize Egypt's reliance on foreign resources—from bilateral, multilateral, and commercial sources—and protect the country from having to submit to politically fraught conditions. Detailed considerations of strategic issues and policies to implement the strategies are examined in the chapters that follow.

What Is the Nature and Extent of the Challenge?

The basic challenge is posed by the conflict between Egypt's geography and its demography. What Napoleon termed "usable Egypt" is only a narrow oasis located in a vast desert. Although the country comprises about one million square kilometers (386,000 square miles), only about 40,000 square kilometers (15,000 square miles) are inhabited. Crammed into this 4 percent of the country's area is 98 percent of a population estimated at 104 million in 2020, giving a density of more than 2,000 persons per square kilometer (more than 5,000 per square mile).

Moreover, the cropped area (the cultivated area multiplied by the cropping intensity) is increasing much more slowly than the population. Between 1947 and 2020 the cropped area increased by only 50 percent, while the population increased by some 400 percent. A feddan in 2020 was expected to support six persons, compared with 2.1 in 1947. "Our density is our destiny," wrote Hamdan (quoted in Waterbury 1983, 41) while Little (1967, 258) succinctly summed up the basic issue: "The fact that Nile development can never again keep pace with population is at the root of Egypt's economic problem."

Time is not on Egypt's side. Every two years Egypt adds a New Zealand or Ireland to its population; every three, a Denmark or a Finland; every four, an Israel or a Switzerland; and every five, a Sweden or a Portugal. And while it adds the population, Egypt does not add the capital assets, the technical knowledge, the institutions, and the governance of these countries.

What of the future? The problem is not merely that Egypt's population has been growing rapidly; its age structure and fertility characteristics are likely to create a boost or "echo" in the growth rate in the succeeding decades.

Ragui Assaad's chapter, the first in this volume, develops this theme and provides the backdrop against which the narratives in the rest of the book are constructed. Let me draw on his rich analysis to highlight the size and the chief contours of the challenge that policymakers confront in "ensuring a better life for Egyptians." Two questions are key.

1. *For how many Egyptians is a better life to be provided?*

Egypt's population in 2020 was about 104 million. The medium variant of the United Nations' population projections suggests that by 2030 the population will have reached 120 million, by 2040 about 140 million, and by 2050 about 160 million. A special effort must be made to improve the lot of individuals whose consumption falls below the poverty line—these accounted for about 30 percent of the population in 2019.

2. *If the better life is to be provided, as in other countries, principally through employment, what are the chief demographic issues that policymakers face?*

The first issue is a rapid growth in the working-age cohort (15–64 years) and the entry of jobseekers into the labor market.[1] The increase results from both the growth of the population and evolutions in its age structure. Assaad projects the additions to the working-age population to rise from about a million persons per year in the 2010–25 period to nearly 1.6 million a year in the 2025–35 period. This growth will gradually subside after 2035, but is still likely to exceed 1 million persons a year by 2045–50.

Second, rates of participation in the labor force by both males and females have been declining, but the decline should be reversed in the future. The World Bank (2021, iii) reports that from 2010 to 2019 the rate for men fell from 75 percent to 67 percent, while that for women collapsed from an already low 23 percent to an abysmal 16 percent. The participation rate must be kept in mind when assessing unemployment statistics. A decline in the published unemployment rate can be a statistical artifact—it may be explained not by many more jobs being created, but by the labor force shrinking relative to the working-age population (see, for example, the discussion in Ikram 2006, 231–33). This appears to be the case in the announced decline in Egypt's unemployment rate in 2017–19.

The men's rate declined largely because of youths' difficulty in finding their first job (the youth unemployment rate at the end of 2019 was 27 percent). This discouraged substantial numbers of them (keep in mind that half of the country's population is younger than 24 years old) from continuing to look for jobs, and they dropped out of the labor force.

The female rate was affected by (i) the contraction in the role of the public sector (hitherto an important source of female employment); (ii) the pattern of economic development during the last two decades in which growth occurred largely in the construction and transportation sectors, in which women's opportunities are constrained for physical and social reasons; and (iii) an unwelcoming environment for women in the private sector. The declining participation rates must be reversed if Egypt is to provide a better life for its citizens and also to mobilize its labor resources to benefit from its "demographic dividend" and thus fully realize its economic potential.

Third, Assaad estimates that the wave of new entrants into the labor force will be substantially more educated than their predecessors: 50–60 percent will have secondary or post-secondary education, and another one-third will have a university education. The quality of jobs created by the Egyptian economy would thus have to improve substantially to satisfy the aspirations of the increasingly educated new entrants.

Along with other changes, the economy must generate more jobs with "formal" characteristics. Those who work in the government or public enterprises, or whose working arrangements provide either social insurance or a formal, written work contract, are deemed to be in the *formal* sector. Workers who lack both social insurance *and* a formal, written contract, and are not in the farm sector, are considered to be in the *informal* private sector.

Most job growth in Egypt in the last two decades has been of the informal variety. Large numbers of workers are involved. In 2018, 62 percent of the workforce had informal employment arrangements (not all were employed in the informal sector). If we subtract the 17 percent working in agriculture, then 45 percent were in informal nonagricultural employment. The proportion of the workforce with formal-type arrangements will have to rapidly increase—precarious and uninsured jobs are hardly the metric of an improved life.

The challenge is thus to rapidly increase the number of jobs for an extended period and also ensure that the jobs are of better quality than in the past two decades. This will require a notable effort. The World Bank (2021, iii) estimates that about 600,000 additional jobs would have to be created annually between 2019 and 2030 merely to keep the employment rate at the 2019 level. This is double the average of about 300,000 (mostly informal) jobs a year created between 2009 and 2019. Assaad (conservatively) estimates that employment must increase at a rate of at least 2.7 percent a year to absorb the additions to the labor force. However, depending on how quickly and how strongly trends in the participation rates are reversed and job quality is improved, the labor force could grow faster and the required number of jobs substantially exceed the conservative estimate.

At What Rate Must the Economy Grow to Create the Required Jobs?

The relation between GDP growth and job creation is not ironclad or permanent. Estimates by the IMF and the World Bank of employment elasticity with respect to GDP growth provide a starting point. These suggest that the GDP would have to grow at 6–7 percent a year in order to provide jobs for the increasing labor force and to absorb the accumulated backlog of unemployment and underemployment (IMF 2006, 10; IMF 2016, 8; Ikram 2006, 276–78). A high growth rate is also required to expand the range of policy options. A stagnant economy increasingly compels the adoption of zero-sum policies—policymakers cannot increase support to one group without decreasing support for another.

Assaad emphasizes that his labor force projections are conservative; in particular, better working conditions in the private sector for women are likely to induce more of them to participate in the labor force, as would making it easier for the youth group to obtain their first job. Both outcomes would enlarge the labor force and raise the requirements of job creation.

Since multitudes of discouraged youths and harassed women do nothing to suggest a "better life," one would expect policymakers to resolve these problems over the next decade or so. It would thus be prudent to think of the required GDP growth rate as around 7 percent a year in real terms. *As against this, between 1960 and 2020 Egypt's real GDP grew at an average annual rate of 4.6 percent. Taking into account the average population growth rate of 2.35 percent a year, real per capita incomes increased at about 2.2 percent.*

The required growth rate is about 50 percent higher than the average achieved over the last sixty years. But it is not beyond Egypt's capabilities—Egypt's GDP growth reached or exceeded 7 percent a year in the mid-1970s and again between 2006 and 2008. Let us also note that the growth rates for the fast-growing countries in East Asia (China, Japan, Korea, Taiwan, Malaysia, Hong Kong, Singapore) during two or more decades of their rapid growth period averaged 8 percent a year, while China's was frequently around 9–10 percent a year.

Achieving the Goals

Attaining a Better Life through Accelerating GDP Growth

How could GDP growth be accelerated? Economic growth results from investment and factor productivity—that is, the efficiency with which the factors of production (land, labor, and capital) combine to produce output. What levels of investment and productivity would Egypt have to attain to meet its goals, and how does Egypt's performance over the last sixty years measure up against the requirements?

International experience, particularly that of the fast-growing economies of East Asia, suggests that for a country at Egypt's level of development, a GDP growth rate of 7 percent a year would require an investment rate of around 30 percent of GDP. The fast-growing countries listed earlier generally maintained investment rates of around 35 percent, while that of China frequently ranged between 40 and 45 percent. *Egypt's investment rate over the period 1960–2020 averaged 19 percent.*

Egypt's experience with TFP (Total Factor Productivity) growth also differs markedly from that of the East Asian countries. For South Korea in the period 1960–2005, increases in TFP contributed about 30 percent to the growth of GDP; over roughly the same period, in Taiwan it contributed nearly 36 percent. For a substantial group of high-performing East Asian countries (South Korea, Taiwan, Hong Kong, Singapore, Indonesia, Malaysia, and Thailand) considered as a group, TFP growth contributed 26 percent (World Bank 1993, 60–70; Thorbecke and Wan 1999, 3–20; Kim and Hong 1999, 183, table 8-5; Stiglitz and Yusuf 2001, 16, tables 1.3 and 1.4; World Bank 2005, tables 3.14 and 3.15). For China, Yueh (2013) estimated that from 1979 to 2009, about 30 percent of the country's growth could be attributed to increases in TFP.

Egypt's experience was very different. Maddison (1970, 53–54) offers the earliest estimate of factors' contributions to Egypt's GDP growth. Assigning to Maddison's calculations the weights to labor and capital derived from more recent studies, productivity improvements would account for just 11 percent of GDP growth between 1950 and 1965. Mohammed (2001) estimated that for the period 1965–2000, the contribution of TFP to growth was mildly negative! This says that any combination of labor and capital would have produced less output in 2000 than it could have in 1965. The IMF (2005) estimated the long-run (1961–2004) average contribution of TFP to Egypt's GDP growth at only 0.9 percent, and the IMF (2015) put the growth of TFP between 2004 and 2010 at a mere 0.8 percent per year. Other estimates—for example, Boopen, Sawkut, and Ramessur (2009) and the Conference Board (2015)—also show the same picture of a very low contribution by productivity growth, including zero or negative contribution from 2007 through 2014. *There is a wide consensus, therefore, that over a period of more than sixty years, productivity improvements contributed little to the growth of Egypt's GDP.*

The principal contribution to Egypt's growth came from capital accumulation, even though its productivity appears to be declining. The World Bank (2021, 27) notes that "a rising and high incremental capital to output ratio (ICOR)[2] for Egypt is observed at relatively low levels of overall investment, which suggests that diminishing returns may be settling in or that investments are becoming increasingly less efficient even at low rates of investment." Egypt as a capital-intensive producer might strike some as counterintuitive. It shouldn't. Using more capital was the natural result of maintaining a foreign exchange rate that was overvalued for long periods, which made the acquisition of machinery, vehicles, and technology more attractive by artificially lowering their import prices.

Permit me the temerity of trying to sum up in a picture and a few numbers the critical reasons for Egypt's not performing to its economic potential over the last 60 years, and for leaving itself open to external pressures. Figure I.1 and the discussion of factor productivity provide the kernel of the proximate reasons.

The figure shows that Egypt's investment remained well below that required to drive GDP growth at a rate that would create enough jobs to fully employ the labor force, while productivity improvements were much too small to compensate for the insufficiency of investment. The persistent gap between investment and savings (the savings rate over the 60 years averaged only 13 percent of GDP) highlights the extent to which Egypt imported foreign savings to finance its investment and to cover its balance-of-payments deficits. These deficits explain the remorseless increase in Egypt's external debt that left the country open to foreign dictates. Issues behind the proximate outcomes are taken up in the chapters that follow.

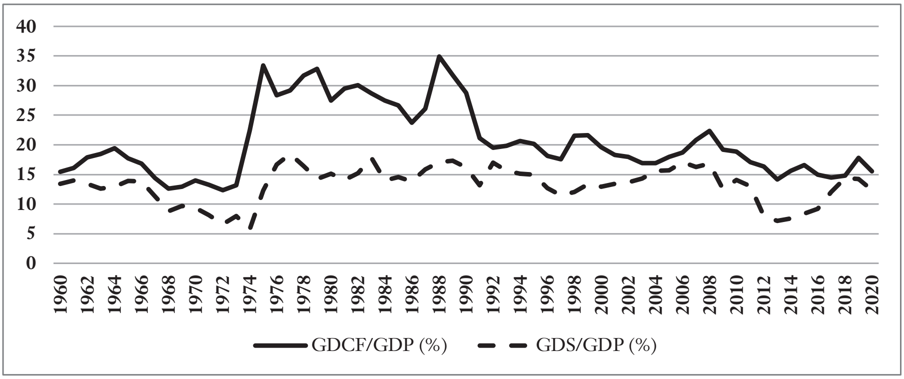

Figure I.1. Investment and domestic savings, 1960–2020 (percent of GDP, 2010 prices)

What Economic Strategy Could Egypt's Policymakers Adopt to Increase Investment, Raise the GDP Growth Rate, and Ensure a Better Distribution of the Expanding GDP?

There is no formula that would apply to all countries and at all times. Countries in the process of development differ in initial conditions, stage of development, factor endowments, institutional structures, social and cultural values, political leanings, implementation capabilities, and many other matters. One cannot simply transplant the experience of countries, possibly of decades ago and from other parts of the world, directly onto Egypt. But studying such experiences might give Egyptian policymakers ideas that could stimulate some "out-of-the-box" thinking and initiatives.

Perhaps as a starting point it would help to approach our question by looking at two stylized "families" of strategies—the "Washington Consensus" and the "East Asia Approach," differentiated largely by the role of the government in the development process. The separation between these two strategies is not clear-cut or absolute. As Kanbur (2009, 37) expresses it, one can imagine development strategies on a continuum of policy emphases. On one end would be strategies that emphasize less reliance on the market and a greater role for government regulation of economic activity and redistribution; the other end would be occupied by strategies that emphasized opposite policies. Thus, "[It] is not a case of one or the other, but rather one of having a combination of policies whose center of gravity is closer to one end rather than the other."

The Washington Consensus

The "Washington Consensus" is a broadly market-oriented strategy. In its original incarnation (Williamson 1990; 2003) it emphasized three elements as key to success in development: macroeconomic stability, liberalization of trade and markets (for both products and factors of production), and privatization of economic processes (thus largely eliminating the entrepreneurial functions of government). This strategy was much favored until the early 2000s by the international financial institutions (the IMF, the World Bank, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, etc.) and by some bilateral aid donors.

The Washington Consensus soon ran into controversy. The principal criticisms were that it relied almost exclusively on the experience of a relatively small sample of Latin American countries, and did not examine issues important in other regions; it appeared indifferent to questions of poverty, income distribution, and sustainable development; it spoke of reforms, but said nothing about their sequencing; and subsequent country experience did not demonstrate the efficacy of some of the key doctrines of the Consensus. For a more detailed review and assessment of the Washington Consensus as a development strategy, see Ikram (2018, 327–31, and the references cited there).

The underlying philosophy of the Washington Consensus was to rely on the market and to minimize the economic role of government; therefore, the spread of its benefits through the society depended on what came to be known as the "trickle-down effect." A country should let the market allocate resources to whatever sectors it considers "economically most rational"—and in due course the benefits of the growth of those sectors would "trickle down" to the broader strata of the population.

Gouda Abdel-Khalek examines the trickle-down strategy in the context of Egypt's development, drawing both on economic theory and on his experience as a cabinet minister dealing with social justice. He is too polite to quote Galbraith's (1992, 108) caustic dismissal of the trickle-down theory as "the less than elegant metaphor that if one feeds the horse enough oats, some will pass through to the road for the sparrows."

Instead, reviewing and analyzing Egypt's experience over the past two decades, Abdel-Khalek shows that, instead of having an actual trickle-down effect, the neoclassical model generated a fallout in the form of large inequality and increasing poverty. Social safety nets were then expanded to deal with the fallout. He points out that it would have been more efficient to avoid the economic and social fallout (unemployment, inequality, and poverty) in the first place. Inspired by his experience as a minister during 2011–12, Abdel-Khalek's chapter advocates an alternative approach, in which social justice is explicitly factored into the process of policymaking from the beginning.

The East Asia Approach

The other strategy is often referred to as the "East Asia Approach," and relies on substantial intervention by the government. This is the strategy adopted by some of the very fast-growing countries of East Asia, such as China, South Korea, Taiwan, Hong Kong, Singapore, and Malaysia.

What is the essence of the East Asian model? In an authoritative study, Johnson (1987, 43–68) characterizes the East Asian model as having five essential components: (i) stable rule by a political–bureaucratic elite that resists political demands that might imperil economic growth; (ii) cooperation between public and private sectors in the context of an overall plan framed by the government; (iii) heavy investment in education; (iv) policies to ensure equitable distribution of wealth; and (v) a government that understands the need to use methods of economic intervention based on the price mechanism.

Of the East Asian countries, perhaps the most appropriate comparator for Egypt would be South Korea. This is a country with a population of 50-plus million in 2020, and thus it avoids the extremes (among the fast-growing East Asian countries) of China with a population of 1.3 billion and Singapore with 5 million; has had to devote a considerable portion of its

GDP to defense; and, like Egypt, has been ruled by military autocrats for long periods. Indeed, South Korea has often been put forward as a model whose methods Egypt should try to replicate (e.g., Devarajan and Pack 2018). It is therefore worth examining the experience of Egypt and South Korea a little more closely.

Comparative Economic Performance of Egypt and South Korea

We can put the comparative performance of Egypt and South Korea into perspective with a few figures. In 1960, Egypt is estimated to have had a per capita income of about $200, while that of South Korea was around $130. In 1990, Egypt's per capita income was $765, compared with about $4,200 for South Korea. Egypt's exports in 1960 were about $725 million, those of South Korea about $50 million. In 1990, Egypt's exports were $8.6 billion, South Korea's $65 billion.

Thus, within a generation, South Korea had moved from a per capita income that was about one-third less than Egypt's and exports that were only about 7 percent of Egypt's to a per capita income that was about 5½ times and exports that were almost eight times those of Egypt. Korea's exports in 1990 were one-third more than Egypt's entire GDP. Moreover, South Korea's GDP growth was accompanied by an income distribution that among developing countries was second in equity only to that of Taiwan. By 1990 the difference between the Korean and Egyptian economies had become so great that it would be pointless to pursue the comparison.

What makes Korea's performance even more impressive is that the country is virtually bereft of natural resources. As Kim Dong Jin, advisor to President Park Chung-hee, summed up, "All we had was the hard work and brainpower of our people" (Tudor 2012, 102). Korea's spectacular development was driven primarily by economic policies and disciplined hard work.

In view of Korea's performance, Egypt has frequently been advised to emulate the Korean experience. In a somewhat general sense, this advice may be unexceptional. However, it does not take into account the impossibility of simply grafting a set of policies from one country onto another with a very different history, values, institutions, and implementation capacity. Moreover, it misses the point that the chief impediment to Egypt's development has not been ignorance of what needed to be done; it has been the reluctance to form a political coalition that would press for the necessary reforms.

Why the reluctance to reform policies? The extensive literature highlights two principal reasons. First, the survival strategy of successive regimes was to provide a profusion of consumption subsidies and low taxation in return for the population's remaining politically inactive. Reforming such policies could destroy the compact and endanger the regime. Second, distortions created by inefficient policies produced economic rents, that is, unearned incomes, that were captured by the politically powerful class. Correcting these distortions could reduce their incomes. Not surprisingly, they resist. It is not difficult to understand that the Egyptian economy needs reform, but as the American writer Upton Sinclair famously observed, "It is difficult to get a man to understand something when his income depends upon his not understanding it" (Esar 1949, 185). Or as Hansen (1991, 254) said more directly, "Egypt's main [economic] enemy has been Egypt."

Rather than pronouncing ex cathedra whether or not Egypt would be able to follow the Korean example, it would be more fruitful to sketch out how Korea took advantage of the international environment, and what it was prepared to do nationally and internationally to achieve its spectacular success. Informed Egyptians could then judge whether and to what extent Egypt would be able to act similarly.

How Did South Korea Resolve Its Most Crucial Political and Economic Challenges to Its Advantage, and Can Egypt Do Something Similar?

Security concerns, economic strength, and the international environment

Perhaps the *first* and most important issue is that Korean leaders made a connection between economic strength and the country's security, and consequently put economic growth front and center in the government's priorities. General Park Chung-hee seized power in 1961, and initially continued the previous strategy of import substitution. However, he then came under the influence of advisors who argued that the United States' defense umbrella was beginning to fray. The United States, for example, failed to retaliate against a North Korean attack on the South Korean presidential house on January 21, 1968, and in 1969 President Nixon's Guam Doctrine unilaterally called for US military disengagement (B.-K. Kim 2011c, 14–15). Y.-J. Kim (2011, 457–58) reports that "Ten thousand US troops were withdrawn from South Korea by 1970 and the Seventh Infantry Division departed in 1971"; Cumings (2005, 364) writes that "Nixon announced the withdrawal of a full division of American troops from Korea, reducing the total numbers from 62,000 to 42,000." American military aid was also declining; M.Y. Lee (2011, 405) estimates that it dropped from an annual average of $232 million during the 1956–61 period to $154 million in the 1962–65 period.

It became clear that Korea would have to rely on itself for its defense. The advisers also pointed out that effective defense in the contemporary age relied increasingly on technology. But Korea had a profound lack of capital and technology, and would therefore have to import both. The imports would, of course, have to be repaid in foreign exchange, and the only way Korea could acquire this was through exports. In short, if Korea were to survive, it had to export. It was almost literally a case of "export or die."

The foregoing is the essence of the narrative I heard from Korean officials, historians, economists, journalists, political scientists, military analysts, and businessmen in numerous discussions during the decade I was responsible for the World Bank's economic program in Korea. The president's wish to reduce Korea's dependence on the United States was reinforced by a more overtly political factor—namely, that such reduction would weaken the Americans' ability to pressure him on human rights and movement toward a democratic regime.

The importance Park then gave to economic development is demonstrated by the attention to economic matters at the highest level of policymakers. B.-K. Kim (2011a, 149) reports that "the Blue House [the President's residence and office] staff as an organization was 80 percent economics." An export promotion meeting comprising heads of the principal chaebols (business conglomerates) was held monthly, as was a more select lunch that followed; President Park regularly attended both. At these meetings, the performance of the participants' enterprises was monitored, targets set, red tape slashed, and many problems summarily resolved. Lagging performers could receive a warning; in extreme cases, access to bank credit could be cut off and the underperforming company forced into liquidation or compelled to be sold to a more successful competitor.[3] The highest echelons of government also remained open to discussion and advice from nonbusiness quarters. The president or, in default, the prime minister attended quarterly meetings with academics, which gave the latter an opportunity to question policies and recommend alternatives (Mason et al. 1980, 260).

Second, the export-led growth process had to fit the reality of Korea's meager natural resource endowment. The strategy thus adopted was to import raw materials and semi-finished commodities, add value through a technologically trained labor force, and export the finished items at a competitive exchange rate. These are the basic factors that underpin the Korean and, more generally, the East Asian "miracle."

If one were to ask what do Korea, Taiwan, Hong Kong, Singapore, and even Japan have in common, a good answer would be "almost no natural resources, but spectacular economic growth and billions of dollars in exports." These countries understood an essential strategic point, namely, that vibrant export growth could be based on imports, and not simply on raw materials indigenous to the exporting country. Indeed, for most of the period of its rapid growth, the import content of Korean exports was generally in excess of 40 percent (Frank et al. 1975, 82; Steinberg 1989, 135).

Egypt has yet to grasp that point. "Egypt's growth model is inseparable from its natural resources," commented the World Bank (2021, v). This is why its exports during the last sixty years remained concentrated on raw cotton and cotton products in the first part of the period, and on oil and petroleum products after the oil fields were recovered from Israel following the 1973 war. Even in 2019, more than half of Egypt's merchandise exports consisted of primary and resource-based products; the dominance of such items largely excluded Egypt from participation in Global Value Chains, which account for almost 50 percent of world trade.

But even if Egypt grasps this point, a difficulty remains. The current international political and economic environment is very different. When the East Asian Tigers began their export drive, the United States was quite relaxed about running deficits with them, for a variety of reasons. It wanted to reconstruct Japan as a bulwark against the expansion of communism and to build up South Korea as a democratic counterpart against North Korea, and the development of Hong Kong, Singapore, and Taiwan featured as an important element in the United States' China policy. Moreover, these countries' exports were small potatoes compared with the United States' external position.

These countries were therefore implicitly permitted to follow a "mercantilist" policy. They could maintain rigid controls on imports, while encouraging their exports through a depreciated exchange rate, providing subsidies—for example, Korea provided bank loans to successful exporters at an interest rate of 4 percent—which, Cumings (2005, 317) notes, through much of the 1970s averaged nearly *minus* 7 percent, compared with a "kerb" rate of 30 percent—as well as access to required foreign exchange, swift (and at times overly generous) rebates on duties paid on the import content of exports, preferential acquisition of land, and other similar measures. "Economic nationalism and mercantilism were alive and well even as an export-led development strategy was launched in the mid-1960s," write Moon and Jun (2011, 127).

That situation has changed. With the United States and many other Western countries running deficits on their external balances, there is a considerable emphasis on "leveling the playing field." Export subsidies and import controls are no longer glossed over. And, of course, WTO rules would make it difficult for Egypt to follow a mercantilist policy.

The international environment may thus have given Korea a measure of good luck. However, as B.-K. Kim points out,

> when adjustment success becomes a pattern repeated in crisis after crisis, as happened in the case of South Korea under Park, simply identifying the friendly helping hand of Fortune will not do. Fortune helped only because South Korea helped itself. . . . Fortune provides a helping hand only for those prepared to seize it, and South Korea was one of the few who were armed with the requisite political organization and societal structure. (2011b, 231)

The *third* major issue is that in order to retain US support, Korea was prepared to act as a mercenary in the United States' Asian wars. During the war in Vietnam, Korea is estimated to have supplied up to 350,000 combat troops. At one point there were some 50,000 elite South Korean soldiers fighting side by side with 550,000 US troops in South Vietnam; indeed, after the United States, the largest contingent of troops came from South Korea (Lee 2011; Im 2011). Would Egypt be willing to play the role of a mercenary and provide this level of armed support to the United States against some regional country?[4] But there is no free lunch in international politics—the piper will exact payment, if not in an economic coin, then in a political, diplomatic, or military one.

Industrial Policy

Fourth, Korea followed a policy of "picking winners," that is, selecting specific industries to back. This raises a number of problems. One, there may be a mismatch between the industries backed and the products demanded by the market. This indeed happened in Korea (particularly evident, for example, during the Heavy and Chemical Industry period [1973–79]), leading to substantial price rises for the commodities that were not being produced.