

The history of the modern economic growth economics essay

[Economics](#)



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Economic AnalysisFinal Project

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Economic History

Egypt is one of the oldest civilizations in the entire history of the planet and has been officially unified since about 3200 BC. Compared to other countries in the Middle East, North Africa (MENA) region, Egypt had a very quick start in entering global trade. This was in large part due to the fact that it was very close to Europe; because of this they had a very quick start in globalization. Egypt also benefited from its geography in ways that other MENA countries did not. Egypt has very fertile agriculture as well as the benefit of the navigable rivers, specifically the Nile. Under the reign of Muhammad Ali (1805-1849) Egypt underwent can be described as a shift away from globalization in an attempt to become more self-sufficient. The ways that Egypt worked to make this happen was by creating Monopolies in Egypt so that foreign countries had difficulties competing. Muhammad Ali successfully changed cotton into a major cash crop for the country, which formed a majority of its output. With the profits from cotton, Ali improved the infrastructure of Egypt which further increased the returns on cotton trade. Ali saved Egypt from their consistent decline in the early 1800s. The dominant role of the state was also consistent with their history as they had strong central governments throughout their history. Ali has been called by some the " Father of Modern Egypt." He earned this title by establishing an improved infrastructure, worked to improve governmental

actions, and established a well-trained modern army. These accomplishments set Egypt up for long-term future development; however, they did not sustain this growth. As stated above, cotton was the primary export and Egypt came to rely on. After Muhammad Ali's reign Egypt experienced stifled development. To generalize Egypt's economic strategy they attempted to export as much cotton as possible while importing their other needs. This is a similar problem that current oil producing countries suffer from today. This lack of diversification led to almost no investment in human capital, and this problem was exacerbated by the colonization by the British in 1882. The British focused on the cotton market and chose to not develop the country much. They did not assist in industrializing the country or promote education. It is obvious that the British were primarily concerned with maximizing their own interests and not the interests of the Egyptian people. This also led to Egypt effectively being a single export economy with little to no diversification. Egypt did not experience a period of industrialization similar to other modern countries. Despite efforts to develop the economy there was no major advancement in Egypt, while other industrialized countries advanced. During this time period however there was large population growth, but this was not accompanied by an increase in human capital. The colonization inherently forced Egypt into being a one trick pony specifically the cotton industry. There was no way to create sustained growth and created an unhealthy reliance on one industry hampering investment in human capital. Overall, the colonization of Egypt had disastrous effects that still harm Egyptians to this day. Modern Economic Growth

In this section, I will use charts and graphs from the last 20 to 40

years depending on data available to analyze the modern economic growth of Egypt. I will use the data gathered from the World Data Indicator or WDI to draw conclusions on Egypt's development. The graphs that I plan on using are_____The obvious graph to start with is GDP per capita PPP (current international \$). I am using this metric to evaluate Egypt because PPP uses prices for all countries and because it ensures prices are consistent across countries. Data is only available from 1980-2011, I have also included Iran and Saudi Arabia on the graph as they are oil producing countries and Iran has a similar population size. As shown by the graph GDP per capita Egypt's GDP per capita in 1980 was 1, 147. 6, which is significantly lower than Saudi Arabia and about a third of Iran's GDP per capita. This figure increased to 6, 281 in 2011, this consistent increase can be attributed to a constant decline in fertility as well as many other reasons. When comparing this to the other countries on the graph it is easy to see that Egypt has a much more consistent increase and faces much less volatility than Iran or Saudi Arabia, however when you compare Egypt to the entire list of MENA countries, Egypt ranks in the bottom third. C:

UsersLorAppDataLocalTempchart-4. jpegThe next graph I will be using to analyze Egypt is Gross Capital formation as a % of GDP. I am doing this primarily to analyze the effect of President Sadat's implementation of an open-door economic policy in 1974. As shown by the graph there was a significant spike in Gross capital formation from 1973-1975. The policy encouraged capital formation by domestic and foreign investors. Prior to the implementation capital formation made up 13. 1% (1973) of GDP and after the policy was enacted it made up 33. 3% (1975) of GDP. Though we do see

a shock after 1990 where it was 28.8%, which dropped to 21.1% in 1991 a large decline in only a one-year period. A likely cause for sharp drop was President Mubarak's decision to take a more active role in the Gulf War, though that does not explain why it has remained low. C:

UsersLorAppDataLocalTempchart-5. jpegI will next use the metric of foreign direct investment, net inflows (% of GDP) to analyze Egypt. As this graph indicates, foreign direct investment has varied to a large degree ever since data was available in 1997. However, there are two spikes one in 1979 of and another of 2004 peaking to 9.3% in 2006. A large reason for this were the reforms of 2004 that were enacted by the Egyptian government officials specifically by implementing a well-functioning foreign exchange market and reduced many restrictions that hampered transactions. The trend did not continue however likely due to the global recession of 2008 as well as an increasingly volatile atmosphere in Egypt. C:

UsersLorAppDataLocalTempchart-6. jpegIt is also important to examine Gross domestic savings (% of GDP), as this expresses the relationship between GDP and consumption. From the graph, we can see that gross domestic savings have fluctuated wildly in the time period that we have data for. There was a huge spike in 1974 from 5.7% to 18.5% in 1977. As mentioned above the open door policy that was enacted in 1974 had a huge impact on investments in Egypt. C: UsersLorAppDataLocalTempchart-7.

jpegNow I will examine the trade that Egypt takes part in by showing Exports and Imports of goods and services as a % of GDP, this also shows the trade balance inherently. Thankfully, there is data for every year which allows for a more complete analysis of their trade balance. It should be noted what Egypt

exports and imports. Egypt's exports totaled \$25.34 billion in 2010, and were 21.3% of GDP. The main exports of Egypt are crude oil and petroleum products and agriculture products primarily cotton. Egypt's imports totaled \$46.52 billion in 2010, and were 30.2% of GDP. Egypt imports machinery and other high tech products as well as food and many other products. Egypt has a large agriculture sector accounting for 17% of Gross Domestic Production and providing 34% of total employment, however Egypt does import a large amount of food due to the limited amount of fertile land in the area. Cotton was once the staple of the Egyptian economy; however, demand has consistently decreased thanks to the emergence of substitutes. Some unsettling facts become obvious by looking at the two curves. First, it appears that Egypt has run a trade deficit in every year that data is available. The graph also shows that from 1974-1983 Egypt was importing more than 40% of their GDP peaking in 1979 and 48.3%. Recently Egypt has had much better control over their trade balance with much less variation and has decreased the large difference between exports and imports that have plagued them in the past. C: UsersLorAppDataLocalTempchart-8.jpeg

Next GNI per capita, PPP (current international \$) will be addressed and evaluated. As the graph below shows, Egypt's GNI has consistently and steadily rose from \$1,070 in 1980 to \$6,120 in 2011. This is an important graph because it is a measure of wealth earned by nations through all economic activities throughout the world. It is a good economic indicator that there is a positive trend and bodes well for future economic success. C: UsersLorAppDataLocalTempchart-12.jpeg

Finally, I will discuss annual GDP growth, as it is very reactive to events that happen on a yearly basis. The

annual GDP growth of Egypt has fluctuated to a large degree though not as much as Iran's. In 1967 it hit a low of . 6% this can be blamed on the war that Egypt engaged in with Israel. It hit a high of 14. 6% in 1976 due to the reforms and open door policies that were implemented and increased investment. As shown by the graph above Egypt's growth rate has become much more consistent in recent years even maintaining consistent growth rate throughout the recent global recession. However, the growth rate has been declining recently due to political and social unrest with no foreseeable end in sight. C: UsersLorAppDataLocalTempchart-10. jpegThe country requires political and social reform if it hopes to improve its economic standing in the world. A primary concern for Egypt is the lack of private enterprise in the country with the majority of employment being handled by the government. This relationship created a significant hurdle for citizens in Egypt that many citizens were concerned with receiving diplomas from formal schooling raising the education level of its citizen but not providing them with marketable skills. This problem will have to be addressed by increasing the role of the private sector if Egypt hopes to develop its economy further. Human ResourcesAs stated in the history of Egypt the lack of investment in human resources seriously hampered development and delayed modernization. During most of Egypt's history, development was primarily focused on developing agriculture and transportation without much regard for any other industries or education. This problem was incredibly evident during their time under British authority as they disregarded investing in human capital and focused on the cotton industry completely. To evaluate human capital I will use the key factors of; population growth,

fertility rate, life expectancy, educational attainment, and unemployment. First, I will begin with Population growth. Egypt has the largest population among MENA countries; however, there has been a decline in the population growth rate since 1960. This is explained by the steady decline in fertility. These graphs show that population is decreasing throughout the MENA region, a key indicator of a developed country. In 1960 Egypt's average fertility rate was 6.65 in 1960 but recently it has decreased to 2.7 in 2011. As recently as 1960 Egypt's life expectancy was only 49 years but has increased to 73 in 2011, this indicates that the level of health care and ability to manage and control disease has increased and there has been increased investment in the health care of Egyptians. The decrease in fertility also fits in line with the model of development proposed by Lucas. The Lucas model of economic development emphasizes that a point will happen where families will decrease the amount of children they have and instead focus on investing more resources on the lower number of children that they do have. This allows for improvements in human capital that leads to changes in technology and is the engine of economic development. C: UsersLorAppDataLocalTempchart-16. jpegC: UsersLorAppDataLocalTempchart-17. jpegC: UsersLorAppDataLocalTempchart-15. jpegNow I will examine employment factors. First, the labor force participation rate of individuals between the ages of 15-64, unfortunately WDI only has data from 1990-2011, but it does assist with understanding the current employment landscape of Egypt. Total labor force participation has been steadily around 75% but of that only about 25% of that are females. Despite consistent improvements in education of all

Egyptians, including females, female labor force participation is still low in large part thanks to social stigmas placed on the gender. The lack of female labor is a factor in the slow transition to a modern economy. Unemployment is a large issue in Egypt with the highest unemployment rates for those in the 15-29 range. The government has been unable to continue to hire college graduates because of the promise of a government job in exchange for completing college degrees. The private sector is unable to shelter the burden of hiring thanks to restrictions imposed by the government.

According to data obtained from Barro-Lee the percentage of those not attending school were 92.9% in 1950 this number has decreased to 31% for the total population in 2010. Total enrollment in the secondary level has consistently been increasing reaching almost 50% in 2010, this can likely be linked to the promise of providing jobs for those who completed college degrees. This led to individuals linking receiving a degree to getting a job instead of skills learned while attending college. C: UsersLorDownloadschart.jpeg Conclusion As evidenced by the trends highlighted in this paper, Egypt is currently attempting to modernize and become a certified developed country. A key trend is that of decreasing fertility rates over the years. It is safe to assume that Egypt is currently going through a demographic transition as fertility rates are decreasing while educational attainment is increasing. This has also led to improvements in life expectancy as well which indicates a better quality of life. However, these accomplishments are underscored by the lack of equal opportunity for females in the workplace. Another main problem that Egypt faces is the reliance on government employment. There needs to be growth in the private sector to increase

employment opportunities for young Egyptians. As with all economic growth there needs to be investment in human capital, opportunities for sustained employment, and further diversification of industries through an increased role of the private sector.