

Free research paper on economic growth in egypt and india during the past three d...

[Sociology](#), [Population](#)



Abstract

The wellbeing and stature of any country is centered on the economic prosperity that the country enjoys. For this reason, the government of any particular country has to administer necessary policies to further that course. A free market setup is achieved by allowing a conducive environment that guarantees a consumer value for their money during the supplier access the best market for their goods. For instance, it is the mandate of any government to influence various physical components of the economy for economic development. This paper will address such a scenario with Egypt and India serving as the case study. A thorough analysis of the two economies will offer an insight into the state of the countries with information from reliable sources within the last three decades.

Discussion

India and Egypt can be seen as major players in the global economic trade; this is to say that their place in the world commerce is significant. With Egypt being recognized with the global supply of oil, it marks a special place in the global commerce, supplying major countries even in Europe with the lucrative commodity. India, on the other hand, is identified with the availability of cheap labor. As such, it has lured major companies into setting up industries in the South Asia country. However, despite the factors mentioned likely to bolster growth in the given countries, negative occurrences have hampered the possible growth and development of these countries. For instance, the collapse of oil prices in the mid-1980's greatly dented Egypt's economy by spreading into related industries (Hosny, 2011).

Since then, Egypt's growth performance has varied from a declining phase in the latter half of the 1980s, to acceleration through much of the 1990s, followed by another declining phase during 1999-2003 (Dobronogov & Iqbal, 2005). In the case of India, the involvement of high profile ministers and politicians in scams has greatly damaged its economy. Nevertheless, out of the near collapse came the rise of major transformations such as from the socialist orientation to a capital structure altering the structure of the country's economy pivoting it towards economic success. This paper will delve into notable changes in the two countries within the last three decades, carefully analyzing the critical success factors that will create a general direction for the entire excerpt.

We shall first start with Egypt.

1980s- 1990s:

The first half of the 1980s showed a good sign for the Egyptian economy regarding its growth performance. According to Dobronogov & Iqbal (2005) the adoption of Open Door Policy by the Egyptian government aiming to reduce state control and the dramatic increase in windfall revenues were the reasons behind the performance. Oil price crash of 1985-86 hinted the serious need to revise the fiscal policies. Since then the Egyptian government has been opening up its economy. In the latter half of the 1980s Foreign Direct Investment increased in the tourism sector.

1990s- 2000s:

1990s saw further opening up of economy through reduction in tariff rates. During this period Egyptian government came up with macroeconomic

stabilization efforts and privatization efforts which turned out to be successful in resulting high growth. As the world was moving towards the 21st century Egypt was not free from ominous happenings like Luxor terrorist attack in 1997, global financial crisis of 1997-99 and a domestic financial scandal in 1998-99.

2000s- Now

In the aftermath of these events the Egyptian economy entered into a decelerating growth phase beginning from the recession in 2000. 9/11 attacks decreased the number to tourists visiting Egypt significantly thereby decreasing the tourism revenues.

Egypt is now perceived as a lower middle income earning country with the majority of its population living slightly above the poverty line. As such, the poverty headcount ratio at the national poverty line on percentage of the entire population lies at 25. 2% as from 2011, a rising trend from 21. 6% as of 2009, 19. 6% as of 2005 and 16. 7% as of 2000 (UNdata). The increment in the proportion of Egyptian population that lives below the poverty line can be attributed to public spending on subsidies, which are not well targeted. A simulation by World Bank in 2006 estimated that the poverty headcount ratio would drop by 6. 1 points to 13. 5% if subsidies were reduced by 50% and the savings allocated to households as cash transfers (International Monetary Fund, 2006). The current GDP is estimated to be around \$272 billion in US dollars supporting a population of slightly above 82 million as from 2013. Given the huge population, the country has often tried to stimulate the human resource sector in an attempt to increase its financial

strength. In addition to that, occurrences such as fluctuations in oil prices has triggered the over reliance on oil and oil products as was experienced in the early 1970's. The energy sector is strengthened by research in alternative sources of energy such as wind and thermal energy. More to that, the country moved from a public sector dominated economy to a private sector oriented economy.

A study on the global economic prospectus with respect to major macroeconomic indicators, which include commodities traded as well as financial markets, reveals a growth over the years from 2014, 2015 onwards for Egypt (worldbank. org). The implication behind this trend is that the expected economic growth is capable of supporting the ever-growing population. Therefore, it is apparent that investment rates are bound to be on the increase with different sectors being supported in that quest. Foreign direct investments in growing economies in South Asia as well as in the Middle East offer more room for trade by increasing business opportunities that consequently reduce unemployment rates. However, according to a survey conducted by the UNDP, the statistics are only at -0. 2% of the GDP in net flows. In the year 2005, the investment share of real GDP per capital was estimated at 10. 6% boasting of a steady increase from the prior years (worldbank. org).

The indication from these figures is the fact that investment over the years has had a positive influence in the economy and resulting in the stimulation of closely related sectors. Because of increased investment for instance, the unemployment levels have significantly dropped over the years with trend predicted to proceed over the next decade.

Currently, statistics reveals that Egypt has a long-term unemployment rate of 7.7% with 14.4% of the same working below \$2 a day (UNDP). Among the youth aged between 15 and 24 years, 24.8% of them are unemployed according to the UNDP survey. Again, the same report states the human inequality index at 23.1% with respect to the vulnerable employment of the entire population, implying that the inequality levels between the rich and the poor is relatively tolerable. Besides only 14.2% of the population, suffer from the inequality in income and 13.4% with respect to life expectancy (UNDP). Despite the saddening statistics in the unemployment levels of the country's economy, human development in Egypt reveals a promising population with birth registration of children below five years being recorded at 99% of the entire population, as such, the government is capable of planning for the population in the future and laying the necessary structures for that. The homeless population in the whole country is currently estimated at 0.121% with homicidal rates per 100,000 being approximated at only 3.27% (UNDP). Recipients of statutory pension from the government are recorded at 32.69% among the old aged and refugees defined by their country of origin are at 9.976% as per the same survey conducted by the UNDP. The Inequality-adjusted Human Development Index of Egypt as of 2013 is 0.518 placing it at a rank of 110 out of 187 countries which were assessed (UNDP).

Let us now see what major activities happened in India in three decades along with their implications:

India is historically identified with a Soviet inspired Nehruvian concept of economics especially with respect to ownership and running of major sectors

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of the economy. However, since the early 1970's the country has gradually been opening up its markets through economic liberalization in pursuit of a free market economy (Bradnock, 1978). As a result, private companies and institutions have rapidly been taking up the opportunity to advance their interests consequently resulting in a growth trend in the country's GDP over the next three decades.

1980s-1990s:

The pace of reforms in India took a rise not before 1985 though the process of relaxation of regulation of industry had already begun in the early 1970s and of trade in the late 1970s. 1985-1988 were the years when major changes were announced. The somewhat activist form of liberalization was seen in the latter period, with GDP growth and external sector registering a dramatic improvement. The GDP grew at the annual rate of 7.6 percent from 1988-89. Exports data, which reflected annual growth of merely 1.2 percent rate during 1980-85, finally registered a bulky annual growth of 14.4 percent during 1985-90.

The reasons for the reforms in the 80s that led to development till date can be summarized into five categories:

- The expansion in OGL list: This list was reintroduced in 1976 with 79 capital goods items on it. The number however was expanded steadily to reach 1007 in the 80s.

- Decline in the share of canalized imports:

Canalization can be defined as the monopoly rights of the government

regarding the import of certain items. The significance of this change lies in the result in the form of expansion in the possibilities of imports of machinery and raw materials by Indian entrepreneurs.

- Introduction of export incentives: Especially after 1985, several export incentives came into the system, and they directly helped expand imports. This was the time when imports were tied to exports. The indirect help was in the form of relaxation of the foreign exchange constraint.
- Significant relaxation of industrial controls and related reforms.
- Establishment of realistic exchange

1990s-2000s:

1990s was a decade of deeper reforms after the substantial yet half-hearted reforms of the 1980s. Here we consider the advancements in two major areas: Industry and External trade. The reforms can be summarized as:

- Deregulation of Industry

The “ Statement of Industrial Policy” dated July 24, 1991 and commonly called the New Industrial Policy lifted the investment licensing and countless entry restrictions on MRTP firms. It also marked the end of monopoly in many public sector firms and also introduced a policy of automatic approval in case of foreign direct investment up to 51 percent.

- External Trade

The July 1991 package replaced the positive list approach of listing license-free items on OGL list to a negative list approach. This allowed shifting away from 1980s’ approach of selective

Liberalization. It also introduced more systematic manner of tariff reforms

rather than reliance on selective exemptions on legislative tariffs. In succeeding years, liberalization has been extended to trade in services also.

- Impact of Liberalization

Trade liberalization, in 1990s resulted in more visible effects on external trade compared to the 1980s. The ratio of total exports of goods and services to GDP was approximately doubled the numbers rising from 7.3 percent in 1990 to 14 percent in 2000.

2000s-Now:

According to Dev (2012) the share of private investment in total investment increased significantly over time from about 50% in the early 1980s to 80% in the decade of 2000s. Presently, India's GDP is recorded at \$1.877 in US dollars as per 2013 serving a population of 1.252 billion citizens as per records dating the same year (Bradnock, 1978). Therefore, the general income level of the majority of the population is lower middle income with a 55.28% multidimensional poverty ratio. As such, 32.68% of the entire population of India is categorized as living below \$1.25 a day and, unfortunately, 74.5% is the share of those working but receiving less than \$2 a day (UNDP). The poverty headcount ratio at the national poverty line on percentage of the entire population lies at 21.9% as from 2012, a falling trend from 29.8% as of 2010, 37.2% as of 2005 and 45.3% as of 1994 (UNdata). The size of the much talked "middle class" of India in 1996 was an insignificant 25 million. Today, it is in excess of 160 million. In addition, by 2015, its numbers are expected to go up to 267 million (Varma, 2013). Although the employment to population ratio is at 60.8%, the unemployed

youth are estimated at 10.7% of the total population. Approximately 11.8% is recorded as child labor of victims between 5 and 14 (UNDP). The rate is notable as it is among the most unfortunate scenarios in the global economy with minors being forced to undertake tasks that are beyond their ability. In other instances, the relatively high homeless populations of 0.974% have influenced children who are the major victims to undertake the burden of working despite being underage. Consequently, human development statistics in India depict the sorry state at which only 41.1% of births are registered, and the homicide rate per 100,000 is recorded at 3.46% (UNDP). Old age pension recipients from the government agencies are recorded at 24.1% and refugees stated as per their country of origin is at 14.258% of the population (UNDP). The Inequality-adjusted Human Development Index of India as of 2013 is 0.418 placing it at a rank of 135 out of 187 countries which were assessed (UNDP).

A study of India's investment share of real GDP per capital is noted to be on a growth trend, rising from around 3.7% in 1980 towards 34.7% recorded in the year 2007 (UNDP).

The reflection of the figures indicates a positive relationship between investment into the economy and general growth in the economy, with industries in various sectors indicating significant growth. Foreign direct investment by India on promising economies reflects a stronghold for the country, considering that it manages around 1.72% of GDP. The success can be attributed to the strong research capability that the country possess that is well funded by the government that realizes viable business opportunities even in foreign countries like in Africa for instance.

Comparing the Transformations: Egypt and India

Among the most distinct differences between the two countries is the reliance on sharia law in Egypt, which dictates how certain business activities are conducted. The purely religious system is very different from the one used in India. Another difference between the two countries is in the orientation of their economies. While Egypt chooses to rely on internal businesses, India tends to view foreign investments as lucrative and viable business opportunities.

I suggest a purely capitalist policy to the government of Egypt as it is bound to influence the market forces that are bound to promote the growth of the GDP. Such stimulation is achieved through polarization of the physical components of the economy such as investment for instance. The change from a rather socialist policy to capitalism is expected to stimulate the economies positively by influencing factors such as investment rates. For instance by allowing room for more business opportunities among the ambitious investors, unemployment rates could be reduced simultaneously eradicating poverty rates in the same country. Rather than provide majority of the commodities and services required by the citizens, the governments should opt to lead the economy towards a free market. In such a scenario, competition is encouraged and the market forces allowed to rule with minimal restrictions on legal trade (Poshakwale, 2011). Such a scenario will give room for foreign direct investment in viable economies. Consequently, encouraging growth trends are expected in the country serving as records of the success enjoyed following the direction chosen in respect to the structure of the economy of pursuing the capitalism policy. Reflections of

economic prosperity are bound to be apparent through balancing of the inequality adjusted human development index and improvement of the human development index through aspects such as improved registration of births rates for future planning.

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