A Comparison Between the Western and Chinese Models of Economic Development in the Case of Egypt

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摘　要

为了发展经济，埃及应遵循西方国家和国际机构推行的发展模式，还是向中国经济发展模式学习？本论文通过对埃及经济发展经验（包括它应用到的西方和中国发展模式与政策）的研究来探讨这个问题。埃及和中国虽然在同一时期实行改革开放，但取得的成果却有很大差异。部分原因是因为埃及一直遵循“华盛顿共识”提出的相关政策，而中国则遵循所谓的“北京共识”。近年来，埃及一直在执行这两个共识各自的要素。通过分析埃及的经济发展战略和经济增长理论，论文试图判断哪一种模式更适合埃及并使其能够充分实现经济发展的目标。但本论文的最终观点认为埃及需要找到适合其自身情况的独特的发展模式，并尝试提出一套能够概括这个独特模式的政策。

关键词：埃及；中国；华盛顿共识；北京共识；经济发展

ABSTRACT

In the quest to develop its economy, should Egypt follow the development model promoted by Western governments and institutions or that promoted by China? The thesis sets out to answer this question by looking at Egypt's development experience and its implementation of policies promoted by the Western and Chinese models of development. Despite reforming and opening up their economies at around the same time, Egypt and China's economic performances have been very different. Part of the reason for this difference is because Egypt followed policies promoted by the "Washington Consensus" while China followed those of the so-called "Beijing Consensus". In recent years, Egypt has been implementing elements from both consensuses. By looking at Egypt's strategy for economic development and economic growth theory, the thesis seeks to determine which model is more suitable in enabling Egypt to fulfill its development goals. Ultimately, the thesis concludes that Egypt needs its own model of development that is uniquely tailored to its indigenous needs and proposes a set of policies that would characterize this model.

Keywords: Egypt, China, Washington Consensus, Beijing Consensus, Economic Development

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ABBREVIATIONS

AIIB	Asian Infrastructure Investment Bank
CBE	Central Bank of Egypt
CPC	Communist Party of China
EEDC	Egypt Economic Development Conference
EGP	Egyptian Pound
ESCZ	Egypt Suez Cooperation Zone
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GFC	Global Financial Crisis
HDI	Human Development Index
IFI	International Financial Institution
IMF	International Monetary Fund
UNDP	United Nations Development Program
USD	United States Dollar
USAID	United States Agency for International Development
USSR	Union of Soviet Socialist Republics
VAT	Value Added Tax
WTO	World Trade Organization

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CHAPTER 1 – INTRODUCTION

In 2011, Egypt was shaken by a major revolution that overthrew its government and called for change. While Egypt's revolution seemed like it was purely a political movement, it was a manifestation of Egypt's dire economic situation. As the Arab World's most populous country, with over 90 million people, Egypt's economic development is not meeting the needs of a significant portion of the population.

The economic problems that led to the uprising in Egypt can be traced to two major sources: poverty and unemployment. Approximately 28% of Egypt's population lives below the poverty line (defined as earning less than two dollars a day).[1] Egypt also has an endemic unemployment problem affecting the largest segment of its population, its youth. Egypt's population is the youngest in the region (two-thirds of the population is under the age of 29). Approximately 35% of Egyptian working-age youth are unemployed and, of those that are employed, 72% claim that they have not secured "good" jobs.[2] In order to address its poverty and unemployment challenges, Egypt will need to quickly find ways to develop its economy.

Developing countries, such as Egypt, have typically sought support from Western governments and institutions in their quest to develop. Over the years, the policies promulgated by these governments and institutions have come to be known as the Washington Consensus. While these policies have worked in some cases, they have oftentimes exacerbated the economic problems of many Latin American and African countries. In recent years, with the economic rise of China, an alternative economic development model has emerged. This model, known as the Beijing Consensus, is seen as the developmental model that China has been following to grow its GDP tenfold over the past three decades.[3] The Beijing Consensus is increasingly being seen as an alternative path to development that countries like Egypt can emulate.

China's development model differs from that promoted by the West in several ways.

While the Western model is characterized by a bottom-up approach of spurring economic growth through the active role of private enterprises in the free market, the Chinese model is top-down and advocates state-led investments in infrastructure and production to facilitate industrial development. The Western model advocates the empowerment of entrepreneurs and private enterprises to allow them to serve as the primary growth engine of the economy. These private enterprises, the Western model argues, will supply the demands of the market. By contrast, the Chinese model argues that the state must play an active role in spurring growth by investing heavily in infrastructure - roads, ports, electricity, railways, and airports – and by developing key industries, such as metallurgy and textiles.

The two models also differ in their approaches towards governance. The Western model suggests that economic and political liberalization should go hand-in-hand. While the Western model actively advocates political democracy, the Chinese model does not make prescriptions related to the type of government that a country should have in order to develop. These distinctions are important to consider as they have past and future implications for which type of model Egypt would seek to follow.

In the quest to address its economic problems and develop its economy, should Egypt follow the development model promoted by Western governments and institutions or that promoted by China? This thesis seeks to determine which of the two models is more suitable for Egypt's economic development.

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[1] "About Egypt." (UNDP, 2015).

[2] Navtej, Hurt by Bust: Making Markets Work for People in the Middle East. (Dubai, Brookings Institution, 2009), pg. 8.

[3] Ramo, The Beijing Consensus. (The Foreign Policy Center, 2004), pg 11.

CHAPTER 2 – EGYPT'S STRATEGY FOR ECONOMIC DEVELOPMENT

I. Diagnosis

In the five years prior to the 2011 Arab Spring, Egypt's economy was growing at an average of 6% per year. It was named by the International Monetary Fund (IMF) as a top performer.[4] Egypt's strong economic performance was a result of structural reforms that transformed the country from a centrally-planned economy to a market-oriented one. While gross domestic product (GDP) per capita grew at an average of 4% per year during this period, Egypt's growing wealth was not being equitably distributed, and unemployment and inflation remained high (see Table 2.1). These economic problems were some of the reasons that led to the Arab Spring.

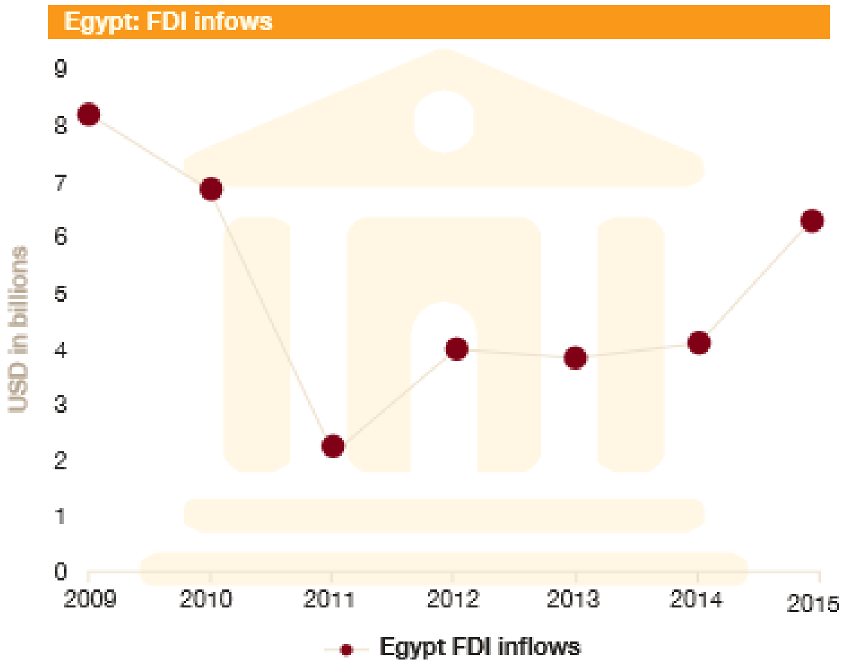
Table 2.1: Egypt's Economic Performance from 2005 to 2015

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
GDP growth (annual %)	4.5	6.8	7.1	7.2	4.7	5.1	1.8	2.2	2.1	2.2	4.2
GDP per capita (current US$)	1,197	1,409	1,681	2,062	2,349	2,668	2,817	3,226	3,264	3,366	3,615
GDP per capita growth (annual %)	2.6	5.0	5.3	5.3	2.8	3.1	(0.3)	0.0	(0.2)	0.0	2.0
Unemployment, total (% of total labor force)	11.2	10.5	8.8	8.7	9.4	9.0	12.0	12.7	13.2	13.0	12.8
Inflation, GDP deflator (annual %)	6.2	7.4	12.6	12.2	11.2	10.1	11.6	18.2	9.0	11.5	10.9

Source: World Bank's World Development Indicators, 2017

As a result of the political instability that Egypt has faced in recent years, its economy has been in a dire situation. The biggest problem that the Egyptian economy has faced in recent months has been shortages of hard currency. This is due to the fact that the country's main sources of hard currency, such as tourism, have been hit badly. Additionally, the shutdown of the Egyptian stock market during the 2011 and 2013 revolutions led to a slowdown in trade and investment. This slowdown was reflected in the decline in foreign direct investment (FDI) flowing into Egypt (See Fig 2.1). While FDI inflows into Egypt have picked up in recent years, they have not reached pre-2011 levels.

Fig 2.1: FDI Inflows into Egypt from 2009 to 2015



Source: Central Bank of Egypt, 2016

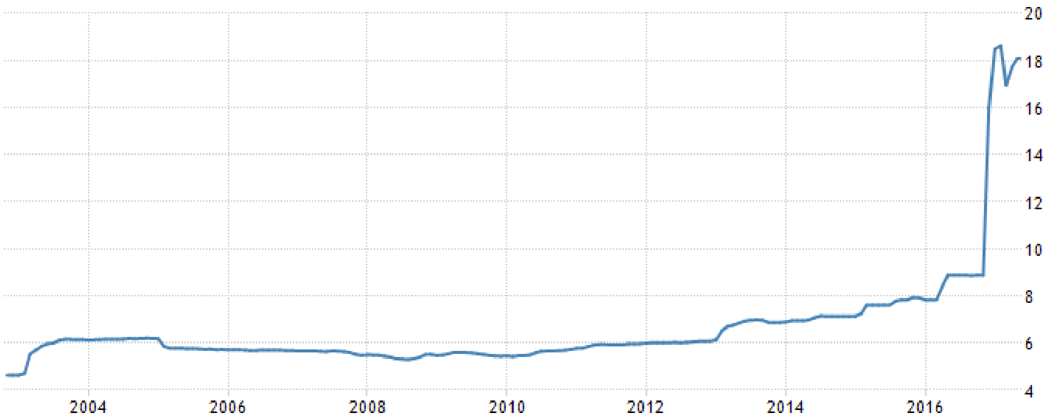
The decline in tourism, FDI, and exports from Egypt have all led to decreased demand for the Egyptian pound (EGP). As a result, there was heavy pressure in the foreign exchange market for a depreciation of the EGP. Given Egypt's fixed exchange rate regime, and as a measure to prevent severe price inflation from taking place, the Central Bank of Egypt (CBE) used its foreign currency reserves to fight the depreciation of the pound and to keep it pegged to the United States dollar (See Fig 2.2 for the decline in the CBE's foreign reserves).

Fig 2.2: Egypt's Foreign Reserves from 2010 to 2016

Source: BNP Paribus Bank, 2016

Unable to hold the peg any longer due to diminishing hard currency reserves, the CBE floated what has traditionally been a tightly controlled peg of the EGP to the United States dollar (USD). The free float, which took place towards the end of 2016, led to a sharp devaluation of the EGP against the USD from 8.88:1.00 to 18.00:1.00 (see Fig 2.3).[5]

Fig 2.3: EGP to USD Exchange Rate from 2004 to 2016



Source: Trading Economics, 2017

The CBE’s decision to free float the pound came as a surprise to most speculators. There are several reasons why the CBE floated the EGP. First, due to its diminishing foreign reserves, it was unable to hold the overvalued EGP any longer. Second, the CBE sought to eliminate the parallel exchange black market that had developed and where the market differential between the official and black market exchange rates was over 100%.[6]

There are fears that the move to a free-floating currency regime could lead to significant inflation and a slowdown in the Egyptian economy. As a result of the rapid depreciation of the EGP, business conditions worsened in Egypt as inflationary pressures kept mounting and local enterprises faced higher costs when sourcing goods and raw materials from abroad.[7] As a result, Egypt faced an economic crisis with a quickly depreciating currency, soaring inflation, and shortages in basic goods sourced from abroad.

In order to stabilize the economy, the Egyptian government has requested and secured a USD 12 Bn loan from the IMF. This loan is expected to help resolve Egypt’s currency crisis by allowing the CBE to replenish its coffers. In parallel, Egypt has requested bilateral loans from other countries. In August and September of 2016, the CBE was able to increase its foreign reserves by USD 4 Bn due to loans and financial aid from countries in the Gulf Cooperation Council (GCC).[8] The second biggest loan to Egypt came from China, its second biggest trading partner after the European Union (EU). In October 2016, China signed a USD 2.7 Bn financing agreement with Egypt to support the latter's macroeconomic stabilization endeavors.[9]

The two loan packages that Egypt has received from the IMF and China in 2016 are the latest significant developments of Egypt's economic interactions with a major Western institution and China. These two developments will help shed light on the implementation of the Washington Consensus and the Beijing Consensus in Egypt. In order to meet the requirements of the IMF, Egypt had to pursue significant structural reforms in recent months. It has had to adopt a flexible exchange rate regime, introduce a value-added tax, raise the price of gasoline, and reduce electricity subsidies.

The Chinese loan has sought to lure Egypt towards the Beijing Consensus. China is seeking to share its development model with other developing countries like Egypt through the One Belt, One Road (OBOR) initiative. OBOR is an ambitious project aimed at connecting China to the countries of East Asia, Central Asia, and thence to Europe, the Middle East and South Asia through infrastructure networks, such as rail, ports, and highways. Not only has China designated Egypt as a part of the OBOR initiative, but Egypt is also a founding member of the Asian Infrastructure Investment Bank (AIIB), a newly created multilateral bank expected to be a major financer of the OBOR initiative. A concrete example of China's involvement in supporting Egypt to implement policies related to the Beijing Consensus is China's support to help Egypt develop a new capital city. Chinese developers are expected to provide engineering, procurement, and construction support on this project in addition to committing $35 billion in financial support.[10]

II. The Importance of Having a Strategy

What determines why some countries succeed in developing while others do not? This is the perennial question of economic development research. While economists seem to differ on the definitive list of factors that contribute to economic development, there is a growing consensus that a country needs a strategy in order to develop. This conclusion was aptly reached by Sebastian Dullien in a study conducted for the United Nations. This study determined the most common factors of the 20 fastest growing economies from 1980 to 2013.[11]

The countries that Dullien looked at were all countries that had an average GDP per capita growth of at least 3.2% over the entire period, with China at the top with an average annual growth rate of 8.8%.[12] Dullien found through his research and analysis that the top growth performers had a deliberate development strategy. Depending the country's population size and resource endowment, it adopted one of three strategies. First, it could find natural resources, such as oil, and limit the effects from the resource curse (this strategy applied to resource-rich countries like Saudi Arabia). The resource curse is when a country with an abundance of natural resources tends to have worse development outcomes, such as corruption or armed conflict, than countries with few natural resources. Second, it could find a niche in the world market (this strategy primarily applied to small countries like Singapore). Third, it could produce cheaply and use this price advantage for technological upgrading, supported by industrial policy (this strategy primarily applied to large countries like China).[13]

The conclusion from Dullien's research is that for countries to develop, they need a comprehensive strategy. The top growth performers that were not endowed with natural resources all had a comprehensive strategy that applied a wide range of instruments with the goal of reaching the targets they had set to achieve economic development. According to Dullien, "one size clearly does not fit all when it comes to development approaches."[14] However, what is necessary is that a country has a vision of where it wants to go and a strategy tailored to achieving that vision. This is why I have decided to begin this thesis by looking at Egypt's strategy for economic development. Egypt's strategy is indicative of its vision for economic development. Looking at this strategy is an appropriate starting point in order to determine which economic development model would be most suitable in enabling Egypt to achieve its vision.

III. Egypt's Economic Strategy

As a part of the Egypt Economic Development Conference (EEDC) that took place in 2015, the Egyptian government published "Egypt's Five Year Macroeconomic Framework and Strategy." This was the first time that the Egyptian government had published a comprehensive economic strategy. After years of political instability, the Egyptian government sought to rebuild confidence in the economy by holding the EEDC and releasing its five-year strategy for economic development. Through this strategy, Egypt aims to "restore macroeconomic imbalances, address social inclusion priorities, and achieve sustainable growth."[15] The ultimate objective of this strategy is to address Egypt's two main economic challenges: poverty and unemployment.

The key elements of Egypt's development strategy are the creation of employment-rich opportunities, the improvement of services offered to the public, investment in infrastructure, and the creation of a stable and predictable business environment. In order to translate this strategy into a reality, and as a way to make its progress measurable, the Egyptian government set eight targets that it aims to achieve by the end of the five-year period (see Table 2.2 for Egypt's Macroeconomic Targets).

Table 2.2: Egypt's Economic Targets for FY14/15 – FY 18/19

1	Sustainable real GDP growth reaching at least 6% by the end of the period
2	A faster pace of job creation in order to bring the unemployment rate below 10% and in particular to address the high rate of youth unemployment
3	Greater efficiency in government spending in parallel with a planned reduction of the fiscal deficit to 8 - 8.5% of GDP, and the government debt to within a range of 80 - 85% of GDP
4	Headline inflation within a 6 - 8% range
5	Higher rates of domestic investment
6	Improved export performance
7	The development of the country's human resources supported by increased spending on health, education and Research and Development (up to at least 10% of GDP)
8	Enhanced productivity on the national level and continued investment in and upgrading of infrastructure

Source: Egyptian Ministry of Finance, 2015

It is evident from Egypt's economic targets that the government's priorities are to increase GDP growth and reduce unemployment. These are seen as the means by which to address Egypt's most pertinent economic issues. However, the government must be aware that these priorities are not enough to develop Egypt's economy. Egypt had made progress in these two areas before the 2011 Revolution. Between 2004 and 2008, it had achieved an annual growth rate of 7%. Similarly, unemployment fell from over 13% to less than 8% during this period.[16] However, high inflation and rising inequality led to social unrest that culminated in the 2011 political uprising. Therefore, Egypt's future economic development needs to be more holistic and sustainable so as to improve its people's quality of life.

A prerequisite to holistic economic development is economic growth. In order to grow its economy and fulfill the targets in its strategy, it is important for Egypt to pursue policies that promote economic growth. While there has been much debate about what factors contribute to economic growth, the next section of this thesis will look at an agreed-upon framework that captures the essence of economic growth theory. Economic theory will allow us to determine whether Egypt's Five Year Macroeconomic Framework and Strategy is sufficiently in line with economic theory prescriptions. It will also allow us to determine whether the Western or the Chinese model of development is more suitable for Egypt to pursue based on its strategy and based on economic theory.

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[4] Mohamediah, "Egypt & the IMF: Conditions as Usual." (Middle East Institute, 2013).

[5] "Country Report: Egypt." (Economist Intelligence Unit, 2016).

[6] Ibid.

[7] "Business Conditions Worsen Substantially amid Sharp Inflation." (Emirates NBD, 2016).

[8] "Country Report: Egypt." (Economist Intelligence Unit, 2016).

[9] Ibid.

[10] Ibid.

[11] Dullien, "A Question of Strategy: What Characterizes the Top Growth Performers?", pg. 13.

[12] Ibid. pg. 13.

[13] Ibid. pg. 17.

[14] Ibid. pg. 18.

[15] "Egypt's Five Year Macroeconomic Framework and Strategy." (Government of Egypt, 2015), pg. 3.

[16] Ibid.

CHAPTER 3 – APPLYING THE 4 I’S OF ECONOMIC GROWTH TO EGYPT

A framework that captures the essence of economic growth theory is the 4 I’s framework that was developed by Antonio Fatas and Ilian Mihov.[17] This framework suggests that there are four factors that determine a country’s propensity to grow its economy: Initial Conditions, Investment, Institutions, and Innovation. The 4 I’s framework encompasses the factors required for any country to achieve economic growth, whether it is a developed or developing economy. Therefore, this thesis will mainly focus on the factors that are most relevant for the Egyptian economy.

I. Initial Conditions

The first of the 4 I’s is initial conditions and is relevant to Egypt’s economic development. The basic principle behind the initial conditions factor of the framework is that developing countries have the potential to grow at rates that are much faster than developed countries. This is because when a country is very poor, it has a small capital stock and labor is cheap. This explains why China was able to grow at an average of 8% over the past three decades. Initial conditions are relevant when assessing Egypt’s strategy and whether the Western or Chinese model of development may be more relevant for Egypt. Furthermore, economic theory would imply that it is feasible for Egypt to achieve its first strategic target of achieving real GDP growth of 6% by FY18/19.

II. Investment

Investment is the second of the 4Is. As a country starts with a low level of capital, it has the opportunity to invest in order to grow its economy. Investments in infrastructure, human capital, knowledge, and equipment are all relevant forms of investment. Countries that have been able to sustain high levels of GDP growth (i.e. above 6%) over a long period of time, such as China, Korea, and Japan, have all invested 30-45% of their GDP every year in physical capital.[18] Conversely, countries that have low investment rates (i.e. 10% of GDP or lower) may become poorer over time.[19] Investment is a relevant factor for our analysis of Egypt's economic growth. Points #5, #7, and #8 of Egypt's Macroeconomic Targets all focus on investment (see Table 2.2).

III. Institutions

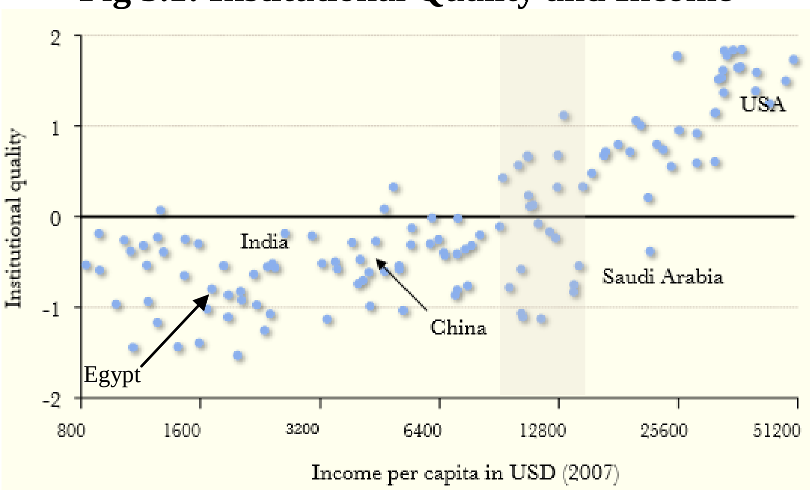
The third of the 4 I's is institutions. There are typically two ways to define institutions. The first is that they are the norms, values, and rules that dictate economic activity. According to Nobel prize-winning economic Douglas North, institutions can be thought of as the "rules of the game" in a given economy. Another definition of institutions is that they are the actors in an economy, such as the courts, unions, legislators, ministries, etc. Another way of looking at institutions combines these two definitions so that rules and norms serve as a context within which actors operate. Institutions give incentives for economic agents to invest and innovate. Institutions (such as rule of law, transparency, protection of property rights, and checks and balances) facilitate the economic activity required for growth.

According to Fatas and Mihov, without proper institutions, the other three I's alone will not allow a country to reach its full economic potential. Fatas and Mihov assert, "There is no country that has become rich with poor-quality institutions."[20] Fatas and Mihov's conjecture that good institutions are indispensable for sustained economic growth and high income levels is supported by empirical research. According to a study conducted by Dani Rodrik and Arvind Subramanian, the quality of institutions is the only positive and significant determinant of income levels.[21] Their research also reveals that there is a strong correlation between the two variables (institutions and income levels). It seems that not only do better institutions lead to higher levels of income but that higher levels of income also lead to better institutions.[22]

There are several different methodologies used to measure institutions but perhaps the most popular of these amongst economists are the World Bank’s Worldwide Governance Indicators (WGI). There are six WGIs against which the World Bank measures the strength of a country’s institutions: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, control of corruption.[23] While these WGIs are widely used, they are controversial because of the methodology that the World Bank uses to collect data to measure them. The data for measuring the WGIs are based on perceptions about each of these six dimensions, rather than actual measures. However, the WGIs are the most comprehensive measure of institutional quality that exist today.

Fatas and Mihov’s conjecture that institutional quality determines income levels is evident in Fig 3.1, which graphs income per capita against institutional quality (as measured by the World Bank in the WGIs). This graph reveals that the higher a country’s GDP per capita, the higher its institutional quality must be. The institutional and regulatory environment of a country should facilitate investment, ease of doing business, and ease of access to credit among other things. Institutions are highly relevant when determining which model of development is most suitable for Egypt. Despite ranking quite poorly on the WGIs (see Fig 3.1), Egypt has not explicitly addressed institutions in its eight economic targets (see Table 2.2).

Fig 3.1: Institutional Quality and Income



Source: INSEAD, 2015

IV. Innovation

The fourth of the 4 I's, innovation, pertains mainly to developed economies. According to economic theory, countries that have reached the technological frontier must primarily grow through innovation. These countries use the most advanced technology, the most advanced capital, the most skilled labor, and implement best managerial practices to operate their economies. Developed economies, such as the U.S., are deemed to have reached the technological frontier and hence must achieve growth primarily through innovation. However, at its current stage of development, Egypt is far from the technological frontier and hence innovation is not highly relevant to our discussion of Egypt's economic development.

Some economists, such as Keun Lee, argue that innovation can be detrimental for poor countries that have yet to develop basic industrial capabilities.[24] Economists prescribe innovation as a mechanism for growth for advanced economies and countries with a solid industrial base that are seeking to upgrade their industrial capabilities. Developing countries with a solid industrial base, such as China, need to innovate in order to avoid the middle-income trap, which is the situation in which middle-income countries face a slowdown in growth because they become caught between low-wage manufacturers and high-wage innovators.[25] But for countries like Egypt that have yet to establish a solid industrial base, resources should be channeled into investment as opposed to innovation. This is because Egypt must first develop industrial capabilities before it can innovate in order reach higher-value activities. Therefore, the fourth I, innovation, will not be covered in this thesis with regards to Egypt's economic development.

Using the 3 I's that are most relevant to the case of Egypt, namely initial conditions, investment, and institutions, it is possible to assess Egypt's performance with regards to its economic growth. Egypt has typically looked to the West for inspiration on how to grow its economy. However, in recent years, Egypt has also started looking at the Chinese model of development as an alternative. In the next sections of the thesis, I have conducted a literature review of the theoretical prescriptions of the two models of development. In conducting this review, I have paid special attention to the two models' emphases on initial conditions, investment, and institutions. After looking at the theory behind the two models, I have analyzed their application in the context of Egypt to determine how effective they have been at promoting economic development

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[17] Fatas and Mihov "The Four Is of Economic Growth." (INSEAD, 2015).

[18] Ibid.

[19] Ibid.

[20] Ibid.

[21] Rodrik, Dani. "The Primacy of Institutions." *Finance & Development* June (2003): 31-34. Web.

[22] Ibid.

[23] Kaufmann, Daniel. "The Worldwide Governance Indicators." *Policy Research Working Paper* (2010).

[24] Foxley, Alejandro, and Barbara Stallings. *Innovation and Inclusion in Latin America Strategies to Avoid the Middle Income Trap*. (Palgrave Macmillan, 2016).

[25] Ibid.

CHAPTER 4 – LITERATURE REVIEW

I. Theoretical Prescriptions of the Washington Consensus

The economic policies promoted by the U.S. government, the IMF, and the World Bank for developing countries came to be known as the "Washington Consensus", a term coined by English economist John Williamson. The original Washington Consensus was a list of the 10 most agreed-upon economic policies that these entities believed developing countries needed to follow in order to avoid economic crises and develop their economies (See Table 4.1 for the list of Washington Consensus policies).

Table 4.1: Policy Prescriptions of the Washington Consensus

1	**Fiscal policy discipline**, with avoidance of large fiscal deficits relative to GDP
2	**Redirection of public spending** from subsidies ("especially indiscriminate subs idies") towards broad-based provision of pro-growth, pro-poor services like primary education, primary health care, and infrastructure investment
3	**Tax reform**, broadening the tax base and adopting moderate marginal tax rates
4	**Interest rates that are market determined** and positive (but moderate) in real terms
5	**Competitive exchange rates**
6	**Trade liberalization**: liberalization of imports, with particular emphasis on elim ination of quantitative restrictions (e.g. licensing) and any trade protection to be provided by low and relatively uniform tariffs
7	**Liberalization** of **inward foreign direct investment**
8	**Privatization** of state enterprises
9	**Deregulation**: abolition of regulations that impede market entry or restrict competition
10	Legal security for **property rights**

Source: Peterson Institute for International Economics, 2002

While these policies were initially developed in Washington to support Latin American economies, they have come to be seen as a set of prescriptions for developing countries around the world. These policies also almost always serve as a precondition for a developing country to obtain a loan from the IMF or the World Bank. In order to secure the USD 12 Bn loan that it received at the end of 2016, Egypt needed to commit to meeting almost all of the above policy prescriptions of the Washington Consensus.

The entities that extend loans with conditions inspired by the Washington Consensus typically advocate austerity measures in the borrowing country. Part of the reason for the Washington Consensus' prescription for fiscal discipline is so that borrowers can reduce their current account imbalances but also so that they can repay their loan to the lending institution. This prescription is typically difficult for borrowers to implement because it leads to cuts in government spending on public services, which can have several negative effects. First, it can lead to a slowdown in the economy (even though that is a result contrary to the objectives of the Washington Consensus) because governments would reduce their spending and investment in the economy. Second, if the borrowing country is cash-strapped, the Washington Consensus' prescription for fiscal discipline can lead to a lack of spending on key social programs, such as healthcare, education, and infrastructure maintenance. Countries that are in this situation, such as Egypt, might experience social and political unrest that can further destabilize their economies.

As a part of the latest IMF loan package, Egypt was required to significantly reduce energy, food, and electricity subsidies. There are fears that this move could lead to further social unrest. The last time the Egyptian government was required to implement World Bank policies related to the termination of foodstuff subsidies, thousands of Egyptians took to the streets and called for a reversal of the policy in what have become known as the "Bread Riots" of 1977. The riots occurred because the foodstuff subsidies that were removed benefited the poorest in society who were most affected by the austerity measures. Western institutions oftentimes require borrowers to implement Washington Consensus policies without regard to the socio-political conditions of the borrowing country. However, the IMF has stated that it "now pays special attention to the poor" when prescribing policies.[26]

In recent years, the Washington Consensus has received extensive criticism in academic and policymaking circles.[27] Perhaps the biggest criticism against the Washington Consensus has come from Dani Rodrik. In his paper "Goodbye Washington Consensus, Hello Washington Confusion?" Rodrik claims that the Washington Consensus has not produced the desired results because it is simply unfeasible to implement the same policies in every country and expect the same results. Every country has its own diverse set of circumstances. That is why "attempts to copy successful policy reforms from one country to another often end in failure."[28] Similarly, Joseph Stiglitz claims that the IMF's "one size fits all" treatment of individual economies by prescribing the same policies of "stabilize, liberalize, and privatize" is too simplistic and does not take into account nuances that differentiate one country from another.[29] Hence, the biggest criticism of the Washington Consensus is the belief of its universal applicability.

Despite the fact that the Washington Consensus has received this criticism, it is still the primary framework which Western governments and institutions use to make economic policy prescriptions to developing countries. This has certainly been the case with the latest reforms that the Egyptian government is pursuing after receiving the USD 12 Bn loan from the IMF. This criticism stems from the fact that many countries, especially in Latin American and Africa, that have followed the Washington Consensus have only faced increased inequality and poverty rates. A study by Narcis Serra and Joseph Stiglitz revealed that "seven years of strong growth in Latin America in the early 1990s were followed by seven years of stagnation and recession, so that for the period as a whole, growth under the Washington Consensus was half of what it had been from the 1950s through the 1970s when the region followed other economic policies."[30]

A case in point of how the Washington Consensus is not universally applicable is how several East Asian economies (such as China, Taiwan, and Korea) were able to achieve high growth rates due to the large role of the government, which goes against the precept of the Washington Consensus. It is for this reason that critics of the Washington Consensus claim that it ignores the political, cultural, and economic differences between the countries to which it is prescribed.

Another one of the major criticisms against the Washington Consensus is that it does not address certain dimensions that are considered to be essential for economic development, such as institutions and policies to address the disadvantaged in society. Therefore, both proponents and critics of the Washington Consensus both agree that the 10 policies first documented by Williamson as a part of the consensus were incomplete. Therefore, a second-generation of the Washington Consensus has emerged which is more comprehensive in nature (See Table 4.2 for a list of the second generation Washington Consensus policies). The second-generation policies focus on productivity-boosting reforms and policies to support the poor and disadvantaged. Specific policies include improving the ease of doing business, strengthening institutions, and fighting poverty directly through different types of targeted cash transfer programs.

Table 4.2: Second Generation Washington Consensus Policy Prescriptions

	Second-generation Washington Consensus
1	Corporate governance
2	Anti-corruption
3	Flexible labor laws
4	World Trade Organization (WTO) agreements
5	Financial codes and standards
6	“Prudent” capital-account opening
7	Non-intermediate exchange rate regimes
8	Independent central banks/ inflation targeting
9	Social safety nets
10	Targeted poverty reduction

Source: Dani Rodrik, Journal of Economic Literature, 2006

The Washington Consensus was highly discredited after the Global Financial Crisis (GFC) in 2008. While Western governments and institutions prescribe Washington Consensus policies to developing countries when they are facing economic crises, Western governments went against many of the policies of the Washington Consensus during the GFC. For example, the U.S. government’s active intervention in the U.S. economy during the GFC and its current day protectionism under the Trump administration go against the policies promoted by the Washington Consensus. This has led certain critics of the Washington Consensus to argue that if Washington Consensus policies should be implemented, they should be done so during a period of rapid economic development and not during an economic crisis (as the IMF and World Bank often prescribe to developing countries).

In the case of Egypt, the IMF’s prescriptions to reduce tariffs, widen the scope of liberalization, and deregulate investment policy do not support the development of an export-oriented, employment-generating economy. This is because rapid liberalization, especially at a time of decline in productive and manufacturing capacities (as Egypt has undergone in recent years), leads to a disproportionate rise in imports relative to exports. This imbalance of imports relative to exports creates an even larger trade deficit and puts pressure on Egypt's balance of payments. This, in turn, exposes Egypt to debt accumulation and to additional need for external financing.[31]

Due to the aforementioned criticisms of the Washington Consensus and its being discredited because of its failure in many circumstances, Rodrik writes "While the lessons drawn by proponents and skeptics differ, it is fair to say that nobody really believes in the Washington Consensus anymore. The question now is not whether the Washington Consensus is dead or alive; it is what will replace it."[32] It is for this reason that one of the main alternatives to the Washington Consensus that has arisen in recent years for countries like Egypt has been the Beijing Consensus.

II. Theoretical Prescriptions of the Beijing Consensus

Due to the perceived failure of the Washington Consensus by many in the field of development economics, the Beijing Consensus has gained prominence in recent years as an alternative model for developing countries. The term "Beijing Consensus" was coined by Joshua Cooper Ramo to refer to the set of economic policies implemented in China during its reform and opening up period from the late 1970s under Deng Xiaoping and that contributed to China's economic miracle. In describing the Beijing Consensus, Ramo states that "China is writing its own book now. The book represents a fusion of Chinese thinking with lessons learned from the failure of globalization culture in other places. The rest of the world has begun to study this book."[33]

Unlike the Washington Consensus, which prescribes a set of rigid, homogenous policy recommendations to nearly all developing countries, the Beijing Consensus does not explicitly make any policy recommendations. In fact, the Beijing Consensus is very context-dependent and only offers general guidelines meant to be adapted to whichever country that seeks to follow the Chinese model of development.[34] The unique approach that the Beijing Consensus takes to addressing each nation's challenge is what makes it appealing to many developing countries. While it does not have 10 policy recommendations, the Beijing Consensus has three major characteristics that differentiate it from the Washington Consensus.[35]

First, the Beijing Consensus is characterized by a constant process of experimentation and pragmatism. Instead of the wholesale adoption of Washington Consensus policies as many other developing countries had done, China was very selective in what policies it would undertake. It adopted elements of liberalization, entrepreneurship, and free trade but it did not accept others. Through a process of trial and error, China would first experiment with different policies on a small scale and only when they were shown to work were they applied elsewhere.[36] The process by which China has been able to create the most effective policies that address the needs of its people has been through surveys of public opinion.[37] By constantly gauging the impact of its policies and calibrating them to make them most relevant for its citizens, China has been able to constantly tinker with its policies to achieve economic growth and stability.

Second, the Beijing Consensus places a huge emphasis on holism. Ramo states, "The Beijing Consensus is as much about social change as economic change. It is about using economics and governance to improve society, an original goal of development economics that somehow got lost in the Washington Consensus-driven 1990s."[38] Hence, the Beijing Consensus aims to address other aspects of economic development than just economic growth and increases in GDP per capita. It aims to "meet the most pressing needs of the people" by undertaking reforms that "take account of local conditions and deliver tangible benefits."[39] Measures such as quality of life and social equality are of prime importance in the Beijing Consensus. Whereas the original Washington Consensus is oblivious to measuring these dimensions of economic development, the Beijing Consensus incorporates holistic measures, such as the Human Development Index (HDI) and the Gini Coefficient, when prescribing and assessing economic policies.

China's emphasis of holism is evident in how it invests in human capital vis-à-vis simply growing its population's income per capita. While China ranks 102 out of 182 countries in terms of GDP per capita, it ranks 56th in measurements of adult literacy, 72nd in measurements of life expectancy, and 92nd on the HDI scale.[40] Furthermore, in measuring economic growth, Chinese economists use various accounting measures to create a more "holistic" picture of China's economic performance. Tsinghua economist Hu Angang uses three measures of GDP: "black GDP", "green GDP", and "clean GDP".[41] The first measure of GDP is the mainstream one; the second subtracts the costs of environmental destruction used to achieve the first; the third is after both environmental and corruption costs have been subtracted from GDP.[42] This form of economic growth accounting is a case in point of the Beijing Consensus' focus on holism.

The third characteristic that defines the Beijing Consensus is its promotion of self-determination. According to the consensus, developing countries should actively seek independence from outside pressure, such as international financial institutions (IFIs) and Western governments. This principle derives from China's long tradition of viewing foreign intrusion with skepticism and animosity.[43] In economic terms, a developing country should constantly seek to remain financially independent from outside pressure. It also signifies the fact that even though China received financial support from Western governments and institutions, it refused to submit to outside pressure and pursued its own priorities.

Economist Alain Gresh states that, under the Beijing Consensus, "countries can plan their development without having to accept the unfavorable terms of the Washington

Consensus."[44] This applies to countries like Egypt that have many strings attached to the foreign aid and loan packages that they receive from organizations such as the IMF and USAID. Furthermore, China stands by the principle of self-determination when dealing with its economic partners. For example, in Africa, China's investments do not come with conditions related to governance and fiscal management as usually is the case when African countries deal with Western governments and institutions.

In order to ensure self-determination, the Beijing Consensus requires a strong, pro-development government to be in place that is capable of shaping national consensus, pursuing wide-ranging domestic reforms, and ensuring political sovereignty. China is perceived to have been able to develop rapidly because it has such a government in place. While the Washington Consensus advocates for minimal government interference in the market place, the Beijing Consensus argues for the active participation of the government to guide the economy towards achieving certain goals. The Chinese government is credited with spearheading most of the initiatives that have lifted approximately 300 million people out of absolute poverty in the past three decades. According to the World Bank, China has contributed to over 60% of the reduction in global poverty over this time period.[45]

The fact that the Beijing Consensus is merely a set of general guidelines for developing countries to follow has faced both admiration and criticism in the development economics community. Some economists, such as Joshua Ramo and John Williamson, praise the Beijing Consensus for its innovativeness, flexibility, and holism. Others, such as Arif Dirlik, question the utility of the consensus due to its broad nature and lack of specificity.[46] Unlike the Washington Consensus policies which are tangible and can be easily implemented by a developing country, the Beijing Consensus characteristics are simply guidelines that are subject to each country's interpretation. Furthermore, it is unclear where developing countries can go to get advice on the Beijing Consensus. Unlike the IMF, the World Bank, and the U.S. government, there is no entity that actively preaches the policies behind the Chinese model of development. Perhaps the Chinese government and institutions such as the AIIB will play that role in the future, but up until now there have been no active preachers of the Beijing Consensus.

What is revealing about the Beijing Consensus is that China does not seem to be actively seeking to export it to other countries. Zhang Wei Wei, a senior research fellow at the Center for Asian Studies in Geneva and former English interpreter for Deng Xiaoping, wrote, "I well remember Deng telling the visiting president of Ghana, Jerry Rawlings, in September 1985, 'Please don't copy our model. If there is any experience on our part, it is to formulate policies in light of one's own national conditions.'"[47] Similarly, Ramo, who coined the term "Beijing Consensus" claims that "The idea of the Beijing Consensus is less that every nation will follow China's development model, but that it legitimizes the notion of particularity as opposed to the universality of a Washington model."[48] This view that what the Beijing Consensus actually stands for is "particularity" as opposed to "universality" raises the question of whether countries like Egypt could actually develop using the China model or whether they would need to come up with their own model of development.

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[26] Mohamediah, "Egypt & the IMF: Conditions as Usual." (Middle East Institute, 2013).
[27] Seera and Stiglitz, "The Washington Consensus Reconsidered: Towards a New Global Governance." (Oxford, 2008).
[28] Rodrik, "Goodbye Washington Consensus, Hello Washington Confusion?" (Journal of Economic Literature, 2006).
[29] Seera and Stiglitz, "The Washington Consensus Reconsidered: Towards a New Global Governance." (Oxford, 2008).
[30] Ibid.
[31] Mohamediah, "Egypt & the IMF: Conditions as Usual." (Middle East Institute, 2013).
[32] Rodrik, "Goodbye Washington Consensus, Hello Washington Confusion?" (Journal of Economic Literature, 2006).
[33] Ramo, The Beijing Consensus. (The Foreign Policy Center, 2004), pg 5.

[34] Ibid.

[35] Ibid.

[36] WeiWei, "The Allure of the China Model." (International Herald Tribune, 2006).

[37] Ogden, Inklings of Democracy in China. (Harvard, 2002).

[38] Ramo, The Beijing Consensus. (The Foreign Policy Center, 2004), pg 5.

[39] WeiWei, "The Allure of the China Model." (International Herald Tribune, 2006).

[40] 2009 UNDP Report on China HDI

[41] Ramo, The Beijing Consensus. (The Foreign Policy Center, 2004), pg 23.

[42] Ibid.

[43] Kissinger, "On China." Pg. 3

[44] Gresh, "Understanding the Beijing Consensus." (Le Monde Diplomatique, 2008).

[45] Ibid.

[46] Dirlik, Arif, "Beijing Consensus: Beijing Gongshi." (Globalization and Autonomy, 2006).

[47] WeiWei, "The Allure of the China Model." (International Herald Tribune, 2006).

[48] Ramo, The Beijing Consensus. (The Foreign Policy Center, 2004), pg 15.

CHAPTER 5 – EGYPT’S EXPERIENCE WITH THE WESTERN MODEL OF DEVELOPMENT

I. Egypt’s Past Experience with the Western Model

Since Egypt’s economic opening up in the late 1970s (known as “the Infitah period”), it has looked to Western countries and institutions for resources and advice on how to develop. Egypt followed many of the policies promoted by the Washington Consensus, such as market liberalization, privatization of national industries, and opening up to foreign trade and investment. While these policies initially helped Egypt’s economy grow, they have also caused many structural changes that led to increased unemployment, income inequality and the concentration of economic power in the hands of the elite.[49]

The Infitah period took place in the late 1970s and was an economic open door policy to private investment in Egypt. Prior to the Infitah period, Egypt was predominately a centrally planned economy in which most enterprises were state-owned. Initiated by Egyptian President Anwar Sadat (in office from 1970 to 1981), Infitah was both politically and economically motivated. After the Camp David Accords, Sadat sought to shift Egypt’s allegiance from the USSR to the US. He also wanted to end the era of Soviet-style, centrally planned management of the Egyptian economy. His vision was that, by adopting capitalist economic policies, Egypt would be able to develop a strong private sector that would ultimately lead to prosperity and democratic pluralism. Sadat saw his alignment with the capitalist West as a way to differentiate himself from his predecessor Gamal Abdel Nasser (in office from 1956 to 1970) who was more aligned with the USSR during the Cold War.

As a result of the sudden liberalization and opening up process, many Egyptian industries (e.g. agriculture, textiles, and manufacturing) were unable to compete globally and subsequently went out of business. According to Tarek Osman, a prominent Egyptian scholar, "The Infitah failed to recognize the complexities of Egypt's socio-economic conditions…. As such, it was an unrealistically rapid developmental program that was doomed to fail."[50]

Development economists have also seen the implementation of the Western model in Egypt during the Infitah period as a failure. According to Daron Acemoglu and James Robinson, the Infitah period failed to create the proper political, legal, and economic institutions to promote economic development. They argue that the economic policies that were inspired by the Washington Consensus in Egypt during the Infitah period did not aim to build up institutions and that is why they failed. The policies promoted by the Washington Consensus during the Infitah period also led to the mass privatization of major state-owned enterprises. Due to corruption and lack of proper institutions, this privatization did not increase competition and simply transformed monopolistic state-owned enterprises into monopolistic privately-owned enterprises.[51]

Since the Infitah period, the World Bank, the IMF, and United States Agency for International Development (USAID) have sought to encourage policies in Egypt that limit the role of government in the economy, reduce fiscal expenditure, and give more influence to the private sector. While these polices may have led the Egyptian economy to grow, this growth was not accessible to the majority of Egypt's population and was concentrated in the hands of a few elite businessmen. By the time of the 2011 Egyptian revolution, 5% of the country's elite controlled 40% of the country's wealth because the market was left to its own devices.[52]

While Egypt's economy was able to grow by following policies promoted by Western governments and institutions, it was unable to achieve self-sufficiency and financial independence. Since the Infitah period, Egypt became a major recipient of foreign aid from Western countries. Up until the 2011 Egyptian revolution, the U.S. alone provided Egypt with USD 71.7 billion in foreign aid.[53] This aid typically stipulated that Egypt should meet certain political and economic conditions set by its benefactor.

For example, the U.S.'s annual foreign aid package stipulates that Egypt should "hold free and fair elections and implement policies to protect freedom of expression, association, and religion."[54]

In general, Western countries' aid to Egypt has primarily focused on supporting civil society, human rights, women's empowerment, and public health. While these are all laudable goals, I would not deem them to be the priorities for addressing Egypt's economic challenges. Furthermore, some research in developmental economics has argued that foreign aid can typically trap a developing country in a cycle of corruption, slower economic growth, and poverty.[55] Foreign aid from Western governments and institutions was typically politically motivated and encouraged Washington Consensus policies that focused on growing Egypt's economy without regard for creating widespread economic opportunities for the vast majority of the population.

II. Egypt's Present-day Implementation of the Western Model

In November 2016, the IMF agreed to lend Egypt USD 12 Bn, the biggest loan that it has ever made to a Middle Eastern country. The reason that Egypt sought this loan was a way to jump start its economy. With an unemployment rate of over 12%, a public debt reaching 101% of its GDP and a fiscal deficit of 12% of GDP, Egypt needed to find a way to get its economy back in order.[56] The IMF loan package is seen as a means to give Egypt the financial resources that it needs to restructure its economy and service its debt. In order to obtain the IMF loan, Egypt needed to adhere to the conditions set by the IMF, which included raising the price of subsidized fuel and electricity, introducing new taxes, and floating the EGP. The result of these Washington Consensus policies has been a currency crisis and severe inflation.

One of the conditions of the IMF for extending loans to borrowing nations is that they must have "competitive" exchange rates determined by market forces.[57] In order to meet this condition, the CBE floated what has traditionally been a tightly controlled peg of the EGP to USD. The free float led to a sharp depreciation of the EGP against the USD from 8.88:1.00 to 18.00:1.00 in November 2016.[58] Only after the CBE floated the EGP did the IMF dispatch the first of three tranches of the USD 12 Bn loan. The CBE will need to maintain a free-float regime in order to obtain the remaining two tranches over the coming two years.[59]

After the CBE moved to a free-float foreign exchange regime, the EGP depreciated by more than 100%. This sharp depreciation of the EGP led to inflation and to a severe increase in the price of essential goods. As a rationale for the free float, the IMF stated, "The flexible exchange rate regime, where the exchange rate is determined by market forces, will improve Egypt's external competitiveness, support exports and tourism and attract foreign investment."[60] However, I question this rationale. Given that Egypt imports a large number of essential goods, a weaker EGP actually hurts the Egyptian consumer. If Egypt had an export-oriented economy, like that of China, the IMF's rationale might make more sense. Second, Egypt's ability to attract tourism and foreign investment is more contingent upon its political stability and security situation than it is on a weaker EGP at this point in time.

In response to rising inflation, wages have risen by 15-20% in most sectors of the economy.[61] This rise in wages in response to the rise in prices could lead to a vicious cycle: an increase in consumer goods prices could lead to an increase in wages, which could in turn lead to an increase in consumer good prices, and so on and so forth.

As a part of IMF loan agreement, the Egyptian government is also required to pursue certain fiscal reforms. First, the government will need to introduce a value-added tax (VAT) scheme. Second, it will need to significantly reduce energy subsidies, especially in the areas of electricity and gasoline. The VAT, which is expected to lead to an overall higher tax rate, and the reduction in subsidies are seen as ways to bring down Egypt's high fiscal deficit. In order to spur economic growth, the Egyptian government needs to introduce expansionary fiscal and monetary policies. Furthermore, Egypt's fiscal expenditures are mainly used to finance interest charges on public debt (49% of fiscal revenues) and wages for the public sector (43% of fiscal revenues).[62]

What the Egyptian government should be doing is spending its budget on investments that will create jobs and grow the economy. However, at the moment, by introducing the new VAT taxes and reducing energy subsidies, the government seems to be primarily focusing on bringing down its deficit. The new taxes will only serve as an additional transaction cost to doing business in Egypt while the removal of energy subsidies may slow down economic growth. If the government does not free up more of its budget for investments in infrastructure projects and other employment-creating investments, it will be difficult for it to spur economic growth.

There have been certain elements of the IMF's Washington Consensus policies that have already shown signs of being ineffective. First, the requirement to completely float the EGP at a time of political and economic uncertainty in Egypt seems to be misguided. The results of this decision have been a sharp depreciation of the EGP, severe inflation, and a reluctance by investors to hold EGP-denominated assets in case the EGP depreciates any further.[63]

In order to grow its economy, Egypt needs to focus on investments that diversify its economy from traditional revenue sources. By simply pursuing macroeconomic stabilization policies prescribed by the Washington Consensus, such as moving to a free-float exchange regime, introducing a VAT scheme, and reducing energy subsidies, Egypt cannot expect to sustainably grow its economy according to the 4 I's framework.

The Egyptian government needs to invest in new, diverse, export-oriented industries that generate revenues in hard currency. Egypt's reliance on tourism, natural resources, and the Suez Canal passage fees (the three major sources of foreign exchange) have proven to be unreliable in past years. Tourism, one of these sources, came to a sudden halt in 2011. Since 2013, tourist numbers and revenues have been half of what they were before the 2011 uprising.[64] Oil and gas, the second main source of foreign exchange has come under pressure due to falling prices of natural resources in the global economy. Similarly, the slowdown in global trade in recent years has led to lower than expected revenues from the Suez Canal, Egypt's third main source of external income. Therefore, in order to ensure that it grows its economy and maintains a positive current account balance, Egypt needs to invest in employment-creating, export-oriented industries. Until Egypt develops these industries, Egypt will not benefit from the recent EGP devaluation.

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[49] Mohamediah, "Egypt & the IMF: Conditions as Usual." (Middle East Institute, 2013).

[50] Osman, Egypt on the Brink: From Nasser to Mubarak. (New Haven, Yale UP, 2010), pg. 124.

[51] Acemoglu, Daron, and James A. Robinson, Why Nations Fail: The Origins of Power, Prosperity and Poverty (New York, Crown, 2013) pg. 373.

[52] Osman, Egypt on the Brink: From Nasser to Mubarak. (New Haven, Yale UP, 2010), pg. 127.

[53] Sowa, Alexis. "Aid to Egypt by the Numbers." (Center for Global Development, 2013).

[54] Ibid.

[55] Moyo, "Why Foreign Aid is Hurting Africa." (WSJ, 2009) and Stallings, Barbara and Rim, Eun Mee. Promoting Development: The Political Economy of East Asian Foreign Aid. (Palgrave, 2017).

[56] "Country Report: Egypt." (Economist Intelligence Unit, 2016).

[57] Williamson, "What Washington Means by Policy Reform." (Peterson Institute for International Economics, 2002).

[58] "Country Report: Egypt." (Economist Intelligence Unit, 2016).

[59] Kolaif, "Egypt Free Floats its Currency, Devaluating it Against the Dollar." (WSJ, 2016).

[60] Kolaif, "Egypt Free Floats its Currency, Devaluating it Against the Dollar." (WSJ, 2016).

[61] Ibid.

[62] Devaux, Egypt: "Continued Reform Momentum Key to Recovery." (BNP Paribus, 2017).

[63] Kolaif, "Egypt Free Floats its Currency, Devaluating it Against the Dollar." (WSJ, 2016).

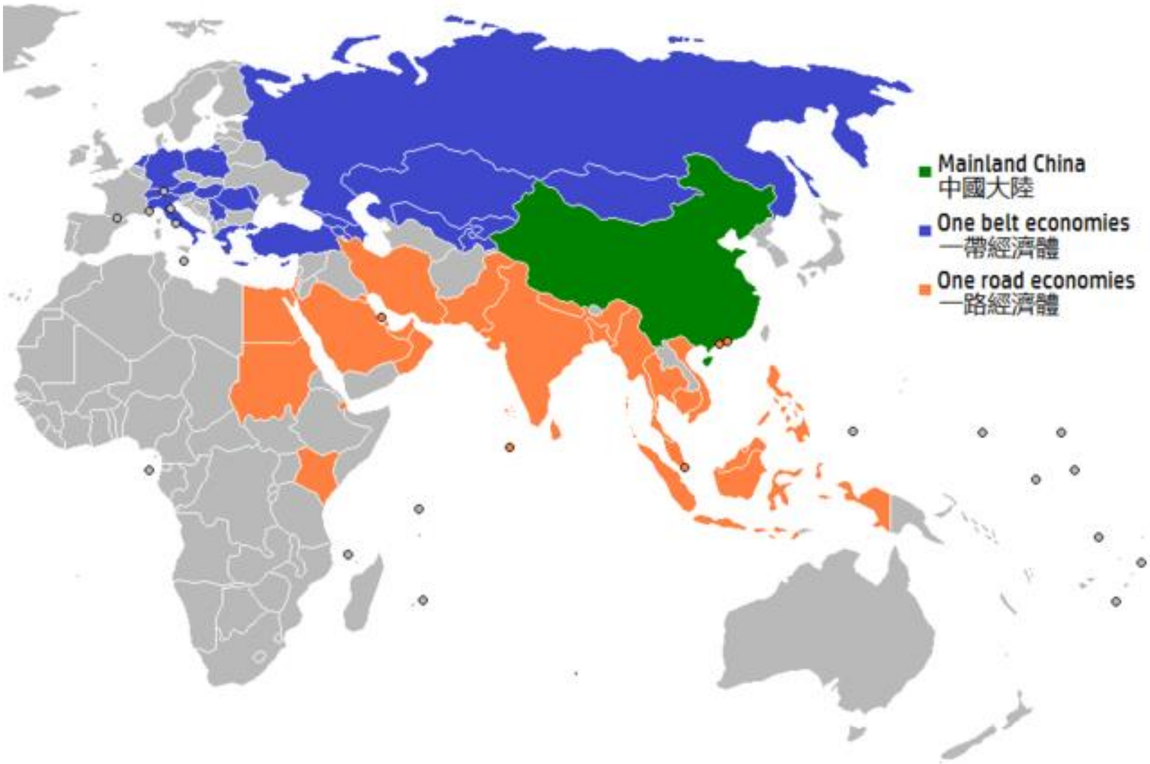
[64] Devaux, Egypt: "Continued Reform Momentum Key to Recovery." (BNP Paribus, 2017).

CHAPTER 6 – EGYPT’S EXPERIENCE WITH THE CHINESE MODEL OF DEVELOPMENT

Over the past three decades, China has achieved unprecedented levels of economic growth and poverty alleviation. From 1978 to 2013, China’s GDP has grown between 9.5% and 11.5% a year.[65] Meanwhile average wages grew six-fold and absolute poverty declined from 41% of the population to less than 5%.[66] It is worth noting that China’s reform and opening up period coincided with that of Egypt’s Infitah. However, the economic performance of the two countries has led to two very different outcomes today.

For the first time in its history, China is seeking to share its development model with other developing countries like Egypt through the One Belt, One Road (OBOR) initiative. OBOR is an ambitious project aimed at connecting China to the countries of East Asia, Central Asia, and thence to Europe, the Middle East and South Asia through infrastructure networks, such as rail, ports, and highways. Not only has China designated Egypt as a part of the OBOR initiative (see Map 5.1), but Egypt is also a founding member of the Asian Infrastructure Investment Bank (AIIB), a newly created multilateral bank expected to be a major financer of the OBOR initiative and infrastructure projects in developing countries.

Map 5.1: One Belt, One Road (OBOR) Economies



Source: Caixin Online, 2014

When announcing the OBOR initiative at the China-Arab States Cooperation Forum (CASCF) on June 5th, 2014, Chinese President Xi Jinping stated, "The OBOR represents paths towards mutual benefit which will bring about closer economic integration among countries involved, promote development of their infrastructure, and create new economic and employment opportunities."[67] The ultimate aim of the OBOR initiative is to develop industrial capacity and consumer demand in developing countries like Egypt. The rationale for this initiative is that by making developing countries richer, China can encourage them to demand Chinese goods and services.

The implementation of the Chinese development model in developing countries differs from the Western one in several respects. First, China's development policy is characterized by a “trade not aid” principle.[68] Second, in order to strengthen the local industries and enrich the consumer base of its trading partners, China’s overseas FDI into developing countries is increasing at a rapid rate. Third, China does not interfere in the political situation of developing countries and does not place conditions related to its trade and investment agreements with them as many Western governments typically do.

In recent years, Egypt has begun experimenting with elements of the Chinese development model as trade and investment relations between the two countries have strengthened. China is now Egypt’s biggest trading partner with approximately 13% of the latter’s imports coming from former.[69] China has also supported Egypt to diversify its economy by investing in many sectors ranging from automobile, telecom, construction, electronics, to oil and gas.[70]

Bilateral trade between China and North Africa between 2000 and 2012 has grown nearly 15-fold from USD 1.4 billion in 2000 to USD 20.5 billion in 2012.[71] Bilateral trade between Egypt (and North Africa) and Western countries has not grown at such a rapid rate in such a short amount of time in recent history. By focusing primarily on trade and not aid in its commercial relations with Egypt and it neighbors, China has to some extent been able to empower them to develop their own industrial capabilities. For example, Egypt today exports textile products, insulated wires, and tourism services to China. However, the volume of Egypt’s imports from China relative to its exports to China is still significantly disproportionate (the ratio being 10:1).[72]

The Chinese development model is characterized by state-led investments in infrastructure, which have proven to be essential for the growth of developing countries. Infrastructure investment – roads, ports, airports, electricity, railways- are essential to enable the seamless flow of goods and services in an economy. According to a McKinsey & Company report, “China leads the world in infrastructure investment.”[73] Since 1992, China has allocated 8.5% of its annual GDP to investments in infrastructure, far exceeding the amount spent by any other country or region in the world. China’s investments in infrastructure have been a key contributing factor to the growth of its economy and the integration of its different regions. A key component of the OBOR initiative is to similarly invest in the infrastructure of China’s trading partners to allow them to realize the same levels of economic integration and growth as China.

Recently, Egypt has realized the importance of investing in infrastructure as a means to grow its economy. Cairo, the center of Egypt’s economy, suffers from outdated and poor infrastructure. According to a study by Tadamun, a Cairo-based urban planning NGO, 50% of Cairo neighborhoods lack access to sewage services.[74] As a solution to Cairo’s crowding, pollution, and poor infrastructure problems, the Egyptian government announced in 2015 plans to establish a new capital city for Egypt envisioned to be the size of Singapore. According to the Egyptian government, not only is this infrastructure investment meant to spur the economy but it is also meant to provide for long-term sustainable growth.[75] Not surprisingly, Egypt has looked to China as its main partner in developing its new capital city. Chinese developers are expected to provide engineering, procurement, and construction support on this project in addition to investing USD 35 billion in various infrastructure projects, such as government buildings, a conference center, and a zone for trade fairs.[76]

Another distinctive characteristic of the China model is its reliance on special economic zones (SEZs), such as the ones set up in Shenzhen, Suzhou, and Tianjin. SEZs are satellite cities that are developed primarily for companies to set up their operations. SEZs have played an important role in attracting FDI into China and allowing the country to develop its manufacturing and R&D capabilities. In order encourage FDI, Egypt partnered with China in 2009 to set up the Egypt Suez Cooperation Zone (ESCZ), an infrastructure investment worth USD 3 billion.[77] This has led China to invest in many sectors in Egypt, including cars, telecom, construction, electronics, and oil and gas.

By the time of its launch, ESCZ was able to attract 18 new Chinese businesses involved in petroleum services, textiles and garments, steel products and furniture.[78] The initial investments of these companies into the zone were approximately USD 180 million.[79] The aim of ESCZ is to position Egypt as the headquarters and gateway for Chinese companies into Africa and the Middle East. Commenting on the ESCZ project, Egypt's Minister of Trade and Investment stated that the key aim of the project has been to encourage Chinese investment into advanced sectors, such as ICT, renewable energy, automobile, and insulators.[80]

China's SEZ model has proven to be a highly effective model for attracting FDI into Egypt. In 2009, the year ESCZ was established, Egypt witnessed more FDI inflows from China than the cumulative FDI flow from the latter for the previous five years.[81] ESCZ has already shown signs of fulfilling its purpose of upgrading Egypt's industrial capabilities. Chinese companies have started manufacturing electronics and industrial products in Egypt. Hisense, a Chinese state-owned electronics manufacturer opened its fifth production plant outside of China in Egypt and produces over 100,000 LCD TVs in Egypt every year. Following suit, major Chinese automobile manufacturers, such as Chery Automobile and BYD Automobile, have opened assembly plants in ESCZ. The influx of Chinese companies and investments in Egypt's SEZs (ESCZ just being one of them) has led to "recognizable gains in local employment" according to a report by the African Development Bank.[82]

Another characteristic that distinguishes the Chinese development model from the Western one is that the former does not interfere with the political situation of other countries. In a statement made by President Xi, "The internal affairs of a country should be managed by its own people. We should respect the right of a country to choose its own social system and model of development, and oppose the attempt to oust the legitimate government of a country through illegal means to seek self-interests or to impose one's own views."[83] For Egypt, non-interference in domestic politics is a very important criterion in dealing with other countries. Given Western countries' intervention in Middle Eastern politics in recent history and the political conditionality of the Washington Consensus, China's non-interference and ambivalence to other countries' political structures is seen as a more pragmatic approach to development that is welcomed by developing countries.

Going forward, which development model should Egypt continue to pursue: the Western model or the Chinese model? Having looked at the theoretical prescriptions and practical outcomes of both models in Egypt so far, we are now in a position to assess them against the relevant 3 I's from the 4 I's framework.

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[65] "China Has Socialist Market Economy in Place." (People's Daily, 2005).
[66] Ibid.
[67] Ito, <u>Comments on China's One Belt One Road Strategy</u> (Tokyo, Institute of Political Science, 2016).
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CHAPTER 7 – ASSESSMENT OF THE WASHINGTON AND BEIJING CONSENSUSES AGAINST THE RELEVANT 3 I’S

When assessing the efficacy of Western and Chinese development models in Egypt, it is important to do so within the lens of the 3 I’s that are relevant to Egypt’s economic growth and development: initial conditions, investment, and institutions. Furthermore, one should see how each of the models is aligned to Egypt’s five-year strategy for economic development.

The economic theory behind initial conditions would indicate that a developing country like Egypt is poised for high growth rates because it is starting from a relatively low base. Unlike developed countries, Egypt is far from the technological frontier, has cheap labor, and relatively minimal industrial capabilities. These were all characteristics of China thirty years ago. Given that China also started from a low base, its experience is more relevant to Egypt than the Western development model, which seems to be applicable to both developing and developed nations. Unlike the Washington Consensus, which was conceived at the IFIs in Washington, the Beijing Consensus was tried and tested on the ground in China.

The Beijing Consensus seems to be more applicable to countries that are starting from a low industrial base whereas the Washington Consensus seems to be more relevant for countries that are growing fast and need to liberalize to unlock further potential for economic growth. According to the UNDP, from the 1970s until 2009 (the years during which Egypt strictly followed policies promoted by the Western governments and institutions), the Egyptian economy suffered from deindustrialization and its manufacturing capabilities declined from 22% to 17% of GDP.[84] The Beijing Consensus’ emphasis on experimentation and strong government policymaking is more relevant to Egypt’s need to industrialize given its current situation. Unlike the Beijing Consensus, the Washington Consensus does not seem to consider a country’s initial conditions.

Washington Consensus policies seem to be more applicable to countries as they become more developed. Before giving the market free reign, Western governments used to play a major role in their countries' industrialization process. Similarly, this is the role that the Chinese government is playing today in propelling China from its low industrial base to a higher one. Given that Egypt's initial conditions today are similar to China's conditions three decades ago, the Beijing Consensus would seem to offer a more relevant model. The Beijing Consensus is what allowed China to sustain an average growth rate of 8% for the past three decades and might allow Egypt to achieve its five-year target of 6% average growth.

The second relevant "I" to consider when comparing the two models is investment. According to economic theory, investments in infrastructure, human capital, and industrial capabilities can all contribute to economic growth. Both the Washington and Beijing Consensuses place a strong emphasis on investment. The former encourages the redirection of public expenditures from subsidies towards investments in education, health, and public infrastructure. However, the Washington Consensus does not seem to prioritize investments in capital and infrastructure amongst the other forms of investment (and amongst its other policies in general). While the Beijing Consensus does not explicitly prescribe investments in capital and infrastructure, China's track record would indicate that it is a priority for any country to grow quickly. Since the early 1990s, China has invested 30-40% of its annual GDP in physical capital in general and an average of 8.5% of its annual GDP on infrastructure projects in particular.[85]

A Euromoney report states, "Successful countries, such as Singapore, Indonesia, and South Korea...have quietly abandoned the Washington Consensus by investing massively in infrastructure projects…this pragmatic approach proved to be very successful."[86] In fact, China's infrastructure-based strategy was what propelled the

U.S. economy in the mid-twentieth century when it used to build massive dams and road networks. The strategy of investing heavily in infrastructure is a prerequisite to achieving optimal levels of economic growth as China has managed to do consistently for the past three decades.

The reason why investments in capital and infrastructure are of prime importance is that they are part and parcel of the industrialization process necessary to achieve sustained growth and development. In order to create employment opportunities and alleviate poverty, Egypt needs to develop its industrial capabilities to become an export-oriented, manufacturing economy as China had done. This cannot be achieved simply through privatization and free market economics, as promoted by the Washington Consensus. This will require state-led development of infrastructure, such as transportation networks and power grids. Only with a sound infrastructure base can countries like Egypt attract further investment to industrialize and create job opportunities.

In the case of Egypt, it seems that the Beijing Consensus is more conducive to investment in capital and infrastructure than that related to the Washington Consensus. Egypt's establishment of several SEZs, such as the ESCZ, and its development of the new capital city with infrastructure projects worth USD 45 Bn (USD 35 Bn of which is being financed by Chinese enterprises) are indicative of the importance that infrastructure development plays for Egypt.[87] Moreover, Egypt's membership in the AIIB and the OBOR initiative are means to attract infrastructure investment to Egypt. By contrast, the main focus of the IMF's recent USD 12 Bn loan to Egypt has been on macroeconomic structural adjustment programs in line with the Washington Consensus.

According to Fatas and Mihov, economic development cannot be sustainable without proper institutions in place. An assessment of the Washington and Beijing Consensuses with regards to institutions will be revealing as to which of the two models is more sufficient for Egypt in the long-run. In recent years, the Washington Consensus has come under severe criticism in the academic community for failing to adequately address institutions. Commenting on the tenants of the Washington Consensus, Dani Rodrik wrote, "Most of the items in Williamson's original list were relatively simple policy changes that did not require deep-seated institutional changes. Williamson did include 'property rights' in his list, but that was the last item on the list and came almost as an afterthought."[88]

Not only does the original list of Washington Consensus policies gloss over the need for institutions, the IFIs that champion these policies did not seem to understand the nature of institutions for delivering long-term growth. Empirical research conducted by Daron Acemoglu and James Robinson, two leading economists in the field of institutions, reveals that institutions are a key driver of long-term economic performance but that institutional change is slow and takes place over the long-run.[89] However, loan programs by the IMF and World Bank typically have a time frame of three to five years (e.g. the latest IMF loan package to Egypt is has a three-year time frame). The conditions for these loans typically do not bring about the institutional change that is required to bring about long-term, sustainable growth. Because of their omission of the necessity for institutional reform and the misaligned timelines of the IFIs that implement them, the original Washington Consensus policies have oftentimes failed in the past.

It is worth noting that the second generation policies of the Washington Consensus have incorporated many institutional elements (see Table 4.2). However, these additional policies are not as definitive as the original list of policies and are seldom set as conditions by IFIs as the original Washington Consensus policies are for developing countries wishing to take a loan. However, the second generation policies of the Washington Consensus are the closest thing to a set of policies that can shape the discourse for the creation and reform of institutions in developing countries.

It is unclear as to whether the Beijing Consensus promotes the creation and reform of institutions conducive to economic development or not. China is typically seen as a country that was able to grow rapidly without substantially reforming its institutions. According to Zhang Weiwei, "China worked through the existing, imperfect institutions while gradually reforming them and reorienting them to serve modernization."[90] While China lags behind Western countries in areas related to rule of law, free press, and participatory politics, the Beijing Consensus seems to put more weight than the Washington Consensus on measures related to quality of life and social equality. Whereas inequality has increased and the average quality of life has deteriorated in many countries that have pursued Washington Consensus policies, China has made a deliberate effort to address issues related to education, healthcare, and poverty reduction – although inequality has also increased in China.

The term "institutions" in development economics typically brings to mind Western-style institutions, such as democracy, the rule of law, and freedom of speech. However, Sebastian Dullien's empirical research on the top growth performers from 1980 to 2013 reveals that "becoming one of the top performers seems possible with a wide variety of institutional structures and features."[91] Hence, a country's institutions need to be tailored to its need to allow it to fulfill its economic objectives. Simply adopting Western institutions wholesale will not ensure that a country achieves long-term economic development. Commenting on the Washington Consensus, Zhang Weiwei wrote that "it treats less developed countries as mature societies in which Western institutions will automatically take root….The conditions for a liberal democratic government – rule of law, a sizable middle class, a well-educated population, a culture of political tolerance – are simply absent in most poor countries."[92]

The Beijing Consensus offers a different perspective on the role of institutions in economic development – one that improves quality of life and social harmony. These are universal values and what economic development should strive for. Unlike the original Washington Consensus policies, the Beijing Consensus is more holistic in its approach towards economic development. While the second-generation Washington Consensus policies are more institutional in nature, they have yet to be enforced by the IFIs as conditions for loan packages.

What is evident from the research is that institutions matter if a country seeks to achieve long-term, sustainable growth (see Fig 3.1). Many economists argue that for China to continue to grow, it must reform its institutions and there are signs that China is doing so.[93] If Egypt seeks to achieve the type of economic performance that will allow it to achieve its strategy for economic development, it will also need to address issue of institutional reform. Whether it follows the policy prescriptions of the second-generation Washington Consensus or the holistic approach to economic development that the Beijing Consensus prescribes, Egypt will need to develop and enforce institutions that will unlock its full economic potential.

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93 Fatas and Mihov "The Four Is of Economic Growth." (INSEAD, 2015).

CHAPTER 8 – CONCLUSION

I. Developing a Model for Egypt

In the course of determining whether Egypt should follow the Washington Consensus or the Beijing Consensus in its quest to develop its economy, I have arrived at a rather unexpected conclusion. This conclusion is that Egypt must find its own model of development. This section aims to conclude the thesis by showing how I have arrived at this conclusion and by outlining a set of policy prescriptions that would characterize this model.

Returning to Rodrik's assertion that "the question now is not whether the Washington Consensus is dead or alive; it is what will replace it," it would seem that the Beijing Consensus offers a viable alternative model for developing countries to emulate. But what is the Beijing Consensus other than a broad set of guidelines with no entity to actively promote them, or to enforce them. According to Ramo, who coined the term Beijing Consensus, "The idea of the Beijing Consensus is less that every nation will follow China's development model, but that it legitimizes the notion of particularity as opposed to the universality of a Washington model." This is the inspiration for developing an Egypt Model, a unique model tailored to Egypt's indigenous needs and situation.

Building upon the relevant principles of and lessons learned from the Washington and Beijing Consensuses, the Egypt Model would need to be uniquely tailored to the context of Egypt. This model will need to approach economic development with pragmatism, gradualism, and experimentation as the Chinese had done to develop their own model of development. This model of development will also need to be holistic so as to address the quality of life of Egypt's citizens and ensure social equality.

II. Policy Prescriptions for the Egyptian Government

After analyzing the Washington and Beijing Consensuses and the current state of the Egyptian economy, I recommend that Egypt follows the following set of policies for developing its economy.

Table 8.1: Recommended Priority Policies for the Egyptian Government

Economic:
1. *Prioritize **investments in physical capital and infrastructure** (roads, power, rail, water, telecom, ports, etc.)*
2. *Undertake **mega projects** (e.g. industrial parks in the Suez Canal Corridor) as a means to invest in infrastructure, encourage FDI, and increase employment*
3. *Formulate a clear **industrial strategy** that prioritizes 2 to 3 strategic industries that the government will champion. Prioritized industries should be export-oriented, labor-intensive, and diversified. Macroeconomic instruments (e.g. credit availability, interest rates, and exchange rates) should be used to support these industries*
4. *Strength **institutions** related to making Egypt more globally competitive in attracting FDI (e.g. using World Bank Ease of Doing Business index)*
Social:
1. *Set targets for **reducing poverty** (i.e. reducing % of the population below the poverty line)*
2. *Redirect government expenditure into initiatives that **improve citizens' quality of life and social equality** by setting targets related to HDI and Gini coefficient metrics and measuring progress against them*
3. ***Increase participation of women and youth** in the workplace*
4. *Ensure **security** to encourage business, investment, and tourism*
Political:
1. ***Ensure strong governance** by investing in human capital and promoting a culture of meritocracy, accountability, and pragmatism within government*
2. *Gauge progress through the use of regional and national **surveys** and **polls** to determine the needs of local communities and tailor public services to meet them*
3. *Actively **fight corruption***

This is by no means a definitive list of the policies that the Egyptian government should pursue in developing Egypt's economy. However, it is a starting point to developing a policy framework for Egypt's sustainable economic development based on the lessons learned from the Western and Chinese models of development. As Egypt is in the midst of implementing elements from both models, it should aim to balance between the short-term macroeconomic stabilization policies promoted by the IMF and the long-term development goals promoted by the Beijing Consensus.

As prescribed in the Beijing Consensus, the Egyptian government should pursue development in a sequenced, step-by-step approach as opposed to all-at-once comprehensive reform. Experimentation with new, innovative policies should occur on a small scale before these policies are fully rolled out. Throughout the process, the Egyptian government should seek to discover local solutions while calibrating the process through trial and error. While the Egypt Model can be inspired by the Washington and Beijing Consensuses, it should avoid adopting them in their entirety and should seek to be adapted to Egypt's particular context. To quote Dani Rodrik, "Foreign economists and aid agencies can supply some of the ingredients, but only the country itself can provide the recipe."[94]

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个人声明/PERSONAL STATEMENT

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