
Middle East Green Islands of Economic Growth: Egyptian, Turkish and Iranian Economies during the Covid-19 Pandemic

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Abstract:

Purpose: Despite the heavy toll of the Covid-19 pandemic, Egyptian, Iranian and Turkish economies experienced growth in 2020. The article aims to explain this incredible performance. Was it a sign of more profound strength and resilience of each economy or rather the effect of random factors, unlikely to be repeated?

Design/Methodology/Approach: The article is based on qualitative and quantitative analysis of the primary (government and international organizations data) and secondary (literature, press reports) data. Descriptive and comparative methods highlight the economic situation before the pandemic shock, the spread of the virus, and government responses. Analytical and deductive methods are used to explain the positive growth indicators.

Findings: The surprising resilience of the Egyptian, Iranian and Turkish economies during the pandemic is explained by a mixture of policy responses, structural characteristics of each economy, and pure coincidence.

Practical Implications: The policy response was the most important in Turkey, while the other two factors played the leading role in Egypt and Iran.

Originality/Value: Despite favorable growth rates, all three countries need to redefine the state's role in the economy and promote manufacturing and export-led growth through selective industrial and technology policies.

Keywords: Economic Growth, Covid-19, Egypt, Iran, Turkey.

JEL Classification: O1, O2.

Paper type: Research Paper.

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1. Introduction

The Covid-19 pandemic has resulted in a double supply-demand shock. By shrinking 3,3 % in 2020, the global economy experienced a far worse recession than after the 2008 financial crisis. The Middle East region has been hit particularly hard and contracted by 4 %. The region usually perceived as politically unstable and economically underperforming was probably one of the least prepared ones to deal with the challenges raised by the pandemic. However, some Middle Eastern countries were able to avoid recession. In 2020 the Egyptian economy grew by 3.6%, the Turkish one by 1.8%, and the Iranian one by 1.5% (IMF, 2021b). The Egyptian and Iranian performances seem especially surprising if one considers the importance of tourism and remittances for the Egyptian economy and the severe impact of reintroduced American sanctions on the Iranian one. The favorable growth rates can not be explained by the differences between Iranian and Egyptian fiscal years and international standards, even though they led to the overestimation of Egyptian performance. The Egyptian economy still grew by 1.5% between January and December 2020. The Turkish performance was also unanticipated, especially since the country is also one of the world's most popular tourist destinations.

The article aims to explain the unexpected growth patterns of each economy. Do they indicate a more profound resilience, or are instead the effect of the unique factors unlikely to be repeated? What are the prospects for each country? The article is based on qualitative and quantitative analysis of the primary (government and international organizations data) and secondary (literature, press reports) data. Descriptive and comparative methods highlight the economic situation before the shock, the spread of the pandemic, and government responses. Analytical and deductive methods are used to explain the positive growth indicators. The research contributes to a better understanding of the impact of the pandemic-induced shock on developing countries by distinguishing between the three categories of factors determining the economic resilience: government responses, economic structural features, and random elements. It is the first to compare the developments in Egypt, Iran, and Turkey during the Covid-19 pandemic.

The rest of the paper is divided into five sections. In section 1, a brief characteristic of Egypt, Iran, and Turkey is presented. Section 2 discusses the spread of the virus and the government responses. Sections 3-5 investigate the sources of economic growth in each country in 2020.

2. Literature Review

2.1 Egypt, Iran, and Turkey in Comparative Perspective

Egypt, Iran, and Turkey are among the most extensive, populous, and industrialized countries. They were the first to implement modernization reforms in the 19th century. Even though the so-called defensive developmentalism did not succeed in

preventing western interference, and in fact, unintentionally boosted it (Owen, 2005), in the long run, early industrialization attempts gave the edge over other Middle Eastern states that emerged after World War I and later decolonization (Amsden, 2001).

Table 1. Egypt, Iran, Turkey - selected macroeconomic indicators

Year	GDP per capita (thsnd. int. USD)	Population (mil.)	Real GDP growth (%)			Inflation rate (%)			Unemployment rate (%)			General budget deficit (% of GDP)			Gross public debt (% of GDP)			Current account (% of GDP)		
			2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021
Egypt	12,1	100,9	5,6	3,6	2,5	13,9	5,7	4,8	8,6	8,3	9,8	-8,0	-7,8	-7,3	84,2	90,1	92,9	-3,6	-3,1	-4,0
Iran	12,4	84,1	-6,8	1,5	2,5	34,6	36,5	39,0	10,7	10,8	11,2	-5,1	-8,3	-6,8	47,9	42,8	36,6	0,6	-0,7	1,2
Turkey	28,7	84,1	0,9	1,8	6,0	15,2	12,3	13,6	13,7	13,1	12,4	-5,6	-5,4	-5,7	32,6	36,8	37,1	0,9	-5,1	-3,4

Notes: 2021 - Forecast as of April 2021.

Source: International Monetary Fund, 2021.

Table 2. Government stimulations packages (January 2020 - March 2021)

Country	Fiscal measures (USD Billion)	Liquidity support (USD Billion)	Total (USD Billion)	Fiscal measures (% GDP)	Liquidity support (% GDP)	Total (% GDP)
Egypt	5,7	0,5	6,2	1,6	0,1	1,7
Iran	30,6	-	30,6	4,9	-	4,9
Turkey	13,5	67,4	80,9	1,9	9,4	11,2
AEs	-	-	-	16,4	11,3	27,8
EMMIEs	-	-	-	4,0	2,5	6,5
LIDCs	-	-	-	1,6	0,2	1,8
World	9 930	6 104	16 034	9,2	6,1	15,3

Notes: AEs - Advanced economies, EMMIEs - Emerging economies; LIDCs - Low-income developing countries.

Source: IMF. 2021. Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic. Retrieved from: <https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19>.

Of the three analyzed economies, the Turkish is the most advanced in GDP per capita, GDP structure, and export structure (Tables 1 and 3). Turkey is also a member of the G20 and OECD. The share of manufacturing in GDP and total export is the lowest in Iran, likely her oil dependence. The Egyptian economy is the most inward-oriented, with the lowest share of export measured as % of GDP (less than 20%) and the highest share of private consumption in GDP (more than 75%). The contribution of gross capital formation to GDP is much more important in Iran and Turkey than in Egypt (about 30% or more and less than 10%, respectively). Government consumption is similar in Turkey and Iran (about 20% of GDP) and is much lower in Egypt (12-14 %).

However, there are good reasons to question Iranian data because the so-called semi-state sector consisting mainly of religious foundations (bonyads) and paramilitary

organizations (IRGC) is officially classified as belonging to the private sector (Harris, 2013). Therefore the state involvement in the economy is the highest in Iran. Tourism is an essential source of foreign exchange and employment in Turkey and Egypt. It provides more than 8% of total jobs in Turkey and more than 10% in Egypt. In both countries, the direct contribution of tourism to GDP is between 2.5-4%, much lower than commonly assumed (OECD, 2020; IMF, 2019a).

Table 3. GDP structure (% of GDP) and export indicators

Country	Year	Agriculture	Industry (incl. constructing)	Manufacturing	Services	Household consumption	Gross capital formation	Government consumption	Net export	Exports of goods and services (% of GDP)	Fuel exports (% of merchandise exports)	Manufactures exports (% of merchandise exports)	High-technology exports (% of manufactured exports)	Medium and high-tech exports (% manufactured exports)	International tourism, receipts (% of total exports)
Egypt	2010	13,3	35,8	16,1	46,2	0,71	0,12	0,14	- 0,05	21,3	28,7	41,7	1,0	25,9	27,9
	2015	11,4	36,6	16,7	53,2	0,77	0,08	0,14	- 0,08	13,2	17,9	51,6	0,8	32,6	18,4
	2019	11,0	35,6	15,9	50,5	0,77	0,09	0,12	- 0,05	17,5	26,5	45,2	2,3	33,7*	26,6
Iran	2010	6,5	44,2	12,8	51,1	0,44	0,32	0,19	0,05	24,4	70,8	15,6	4,5**	23,9	-
	2015	10,5	33,0	12,4	55,9	0,46	0,30	0,21	0,03	19,7	57,8	28,9	1,6	22,5	-
	2019	12,2	31,7	14,8	55,8	0,44	0,32	0,20	0,05	25,3	68,7*	21,9*	0,8*	26,3*	-
Turkey	2010	9,0	24,5	15,1	54,5	0,55	0,28	0,20	- 0,08	21,2	3,8	77,8	2,2	42,5	16,7
	2015	6,9	27,8	16,7	53,5	0,51	0,32	0,17	- 0,06	24,5	3,0	74,7	2,6	41,8	16,9
	2019	6,4	27,2	18,3	56,5	0,49	0,27	0,20	- 0,03	32,7	4,5	78,2	3,0	44,5*	17,2

Notes: * means the year 2018; ** means the year 2011. Residual trade and statistical discrepancies are omitted due to space limitations, so that, the share of individual expenditure/sectors do not add up to one.

Source: World Bank, World Development Indicators. Retrieved from:

<https://databank.worldbank.org/source/world-development-indicators>; University of Groningen, Penn World Tables 10.0, <https://febpwt.webhosting.rug.nl/>.

Regardless of differences in per capita income and GDP structures, all three countries share similar challenges in redefining their developmental models. The middle-income trap, generally understood as politically and institutionally embedded difficulties or inabilities in switching from imitation-led growth to innovation-led growth (Donovan and Schneider, 2016), is or is very likely to be a crucial economic policy issue shortly of each country. All have experienced extensively various forms of state-led development or state capitalism (Yagci, 2021; Matar, 2013; Saadatmand, 1993; Waterbury, 1993) and face the challenge of not simply reducing the role of the state but instead redefining it more towards supporting and promoting export-led growth (especially manufacturing export) and productivity improvement-led growth. In Turkey, construction and domestic consumption mainly led to growth, both increasingly dependent on externally funded credit. Iran needs to finally overcome the oil dependence, and Egypt, which in 2017-2019 successfully implemented IMF supervised reforms and restored macroeconomic stability, made only the first steps on the path of social and economic reforms.

Table 4. *Reported and estimated Covid-19 death (as of May 2021)*

Country	Estimated total Covid-19 deaths	Reported Covid-19 deaths	Reported to total ratio
Egypt	175 559	13 970	0,08
Iran	180 487	75 547	0,42
Turkey	92 677	44 045	0,48

Source: The Institute for Health Metrics and Evaluation (IHME), University of Washington. Retrieved from: <https://covid19.healthdata.org/projections>.

2.2 The Covid-19 Pandemic and Government Responses

The novel coronavirus has reached the Middle East region quite early. The first infection was reported on February 14, 2020, in Egypt, February 19 in Iran, and March 11 in Turkey. Iran became the regional epicenter of the pandemic, soon to be followed by Turkey. The peak of the first wave was reached in mid-April in Iran, the turn of April and May in Turkey, and by the end of June in Egypt. By the end of May 2021, more than 5.25 million cases have been reported in Turkey, 2.9 million in Iran, and only 262 thousand in Egypt (Our World in Data, 2021). The low number for Egypt is due to the lack of testing. The actual number of daily infections is likely at least fifty to one hundred times larger than officially reported in Egypt. According to the Washington-based Institute for Health Metrics and Evaluation, the total number of Covid-related deaths has reached more than 175 thousand in Egypt, while officially, fewer than 14 thousand people have died. Accordingly, more than 180 thousand lives have been lost in Iran (more than twice as much as officially reported) and almost 93 thousand in Turkey (Table 4). Iran and Egypt are among the top ten countries with the highest number of deaths from Covid-19.

The mix of nationwide or regional-wide lockdowns, full or partial closure of restaurants, schools, hotels, government offices, and nonessential business activities, ban on air travel services, limitations on domestic travels, border closures, and night curfews were implemented in each country. Fiscal (additional spending, tax holidays and tax relief, monthly cash transfers) and monetary (liquidity support, suspension of loan repayment, credit guarantees) measures were quickly introduced to support households and companies. However, the total government support has been relatively modest in international comparisons (Table 2). Between January 2020 and March 2021, both fiscal and monetary measures accounted for the equivalent of 1.7% of GDP in Egypt, 4.9% in Iran (only fiscal support, no data on monetary measures), and 11.3% in Turkey; much less than the world average (15.3% of GDP). Only in Turkey was the support higher than in the group of the Emerging Economies (6.5% of GDP), mainly thanks to an extensive monetary package (9.4% of GDP). The Egyptian support was similar to those in the least developed countries (1.8% of GDP on average).

In general, of the three countries analyzed, Turkey seems to manage the pandemic best (lowest number of deaths per thousand people). Due to a lack of data, it is

difficult to assess the Egyptian performance in containing the spread of the virus. Modest stimulations packages, except Turkey, suggest that sources of economic resilience were somewhat outside the government reactions.

2.3 Egyptian Economy During the Pandemic

Egypt has entered the pandemic with the best economic indicators of all three countries. Macroeconomic stability was restored, public debt started to decline, the current account deficit was stable, the GDP growth rate was the highest, and the unemployment rate the lowest since the Arab Spring. The floating of currency, fuel subsidy reform (Breisinger *et al.*, 2019), and fiscal consolidation amounting to 5.5% of GDP were the main elements of the IMF-sponsored program. The authorities were forced to seek an IMF loan (USD 12 billion) due to macroeconomic instability and political tensions with Saudi Arabia in 2015-2016 (Piazza, 2019). Even though the IMF mission highly praised the Egyptian accomplishments, the Fund urged the authorities to continue on the path of market-friendly reform and promote the expansion of the private sector (IMF, 2019a).

The pandemic resulted in the first economic contraction in nine years. In Q2 2020 (March - June), the GDP dropped by 1.7%. Egypt was supposed to be most seriously affected by the halt in international tourism, the disturbances in international trade leading to the decline in Suez Canal revenues, and the drop in remittances due to lockdowns, travel restrictions, and global unemployment. Of those three risks, only the first one materialized.

The income from the Suez Canal turned out to be the third-highest in history (Hanafi, 2021), the remittances the highest ever (USD 29.6 billion; Karima, 2021), and both acted as important shock absorbers (Qutb, 2021). In Q3 (July - September 2020), more robust than expected domestic consumption offset the decline in investment and tourism, and the whole economy grew. The initial shock was also partially absorbed by exchange rate depreciation. In June, a new standby agreement for USD 5.2 billion was approved by the IMF. It restored confidence in financial markets and reversed the outflow of capital so that by December, Egypt experienced a net positive inflow of capital.

The prospects for the 2021 fiscal year (July 2020-June 2021) are less favorable. The recovery has been slowed down by the third pandemic wave and an insufficient number of vaccines. Moreover, the authorities are determined to start fiscal consolidation to lower the public debt, which is expected to reach 92.9% of GDP in 2021. The economy is likely to return to pre-pandemic growth rates in 2022. Unlike the rest of the world, 2021 may be economically more difficult for the Egyptian population than the previous year. The unemployment and poverty rates are expected to rise due to slower GDP growth and fiscal consolidation. Medium-term prospects remain good, but due to high public debt (of which one-fifth is

denominated in foreign currency), Egypt is vulnerable to volatility in global financial conditions and the rise in US bonds yields.

2.4 Iranian Economy During the Pandemic

The last decade was very turbulent for the Iranian economy. The beginning witnessed the tightening of international sanctions related to the Iranian nuclear program. In 2012 the oil export almost halted, and domestic banks were disconnected from the Belgian-based SWIFT system. The country experienced a two-year recession in 2012-2013 and another in 2015. The signing of the Joint Comprehensive Plan of Action (JCPOA) in 2015 led to the removal of most UN and UE sanctions, resumption of oil export, and the hope for attracting foreign direct investment and technology transfers. The economy bounced back strongly. GDP grew by 13.8% in 2016 and 3.8% in 2017.

However, the withdrawal of the US from JCPOA in 2018 and the reimposition of US sanctions triggered another deep recession in 2018-2019 (GDP decreased by 6 and 6.8%, respectively) and withdrawal of multinational companies. Sharp currency devaluation raised inflation to double-digit levels (30-35 %), led to inefficiencies, and increased corruption and rent-seeking activities related to the allocation of foreign currencies through the lower, subsidized official exchange rate.

The pandemic found the economy in a state of prolonged crisis. Paradoxically, it turned out to be beneficial. Risking some simplification, the economy has already exhausted its shrinking potential. The non-oil economy started to grow in 2019 (1.1% increase), led by the agriculture and manufacturing sector (CBI, 2021). The long period of the quasi oil export embargo has initiated some partial and long-delayed internal restructuring and diversification. Regional trade, especially with Iraq, has gained importance. This may partially explain the remarkable economic resilience in 2020. While in Q2 2020 (April-June), the whole economy contracted by 2.9%, only oil and service sectors experienced negative growth rates. Agriculture, manufacturing, and construction continued to grow. There was a strong rebound in Q3 (July-September). GDP grew by 5.1%, led by double-digit growth rates in the oil and manufacturing sectors.

Despite the enormous yet still unfulfilled economic potential, the prospects for the Iranian economy remain uncertain. The IMF expects 2.5% GDP growth in 2021 and 2.1% in 2022 (IMF, 2021). On the one hand, the current oil prices (higher than before the pandemic) may further stimulate growth; on the other, the oil export level depends on successful negotiations regarding the return to JCPOA.

Without improvement in relations with the West, the technological upgrading of the economy will be difficult, if not impossible. With properly introduced banking reforms, reforms strengthening the competition in the manufacturing sector, and ones ensuring an equal level playing field between the private and semi-state sector

and gradual integration with the world economy, Iran may enter the path of rapid and steady growth. Its manufacturing sector is already well diversified, yet it suffers from inefficiency and lacks international competitiveness (Alaedini and Razavi, 2018)).

2.5 Turkey

The Turkish case is probably the most puzzling of the three analyzed. On the one hand, Turkey under AKP rule experienced the most extended period of virtually uninterrupted growth in modern history (with a brief exception in 2009). On the other hand, the economy entered the pandemic with accumulated macroeconomic imbalances, significantly rising external financing needs, depreciating currency, rising inflation, and dollarisation. After the 2008 global financial crisis, growth was primarily driven by externally funded credit and short-term policy orientation focused on domestic consumption and promotion of the construction sector (Öniş, 2019).

The gradual departure from the liberal democratic system led to a decline in the quality of institutions (Akat and Gürsel, 2020). The trade war with the United States and the transition to a presidential system resulted in strong currency depreciation in 2018 and recession at the turn of 2018 and 2019. The authorities responded with expansionary fiscal and monetary policies and restored positive yet sluggish growth in 2019 (0.9%), mainly due to the cheap credit provided by state-owned banks, however, by increasing the pre-existing economic vulnerabilities.

The same pattern of contraction and policy-stimulated return could be observed last year. The GDP dropped by 10% in Q2 2020 (April-June). The government again stuck mostly to expansionary monetary policies. There was a sharp recovery beyond the pre-pandemic level in Q3 that continued throughout Q4 (October-December). However, as the IMF staff put it: ‘Policy response to the pandemic led to strong economic rebound but at the same time increased pre-existing vulnerabilities’ (IMF, 2021c).

The economy avoided a full-fledged recession, but due to the rise in imports and currency depreciation, the current account balance dropped from a 0.9% GDP surplus in 2019 to a 5.1% deficit in 2020, the highest level since 2013. Turkish dependence on external financing increased further, making the country even more vulnerable to changes in financial market confidence. The condition of the banking sector remained fragile. Nevertheless, the public debt is still low (only 36.8% of GDP), and the private sector external debt to equity ratio is probably overestimated and is more likely following OECD countries average because in times of high inflation, the delayed update of the book value of assets matters (Dlugosch *et al.*, 2021).

The IMF forecast for 2021 is the most promising of all three countries. Turkey is expected to grow by 6%. A third wave of the pandemic has delayed the recovery in tourism, but the government is putting strong effort to vaccinate all workers employed in the sector. In general, the Turkish vaccination campaign is well ahead of the Egyptian and the Iranian ones. However, the return to pre-pandemic growth rates, especially from the 2000 to 2017 period (more than 6% a year), is doubtful due to the rising macroeconomic instability and political tensions over the monetary policy directions.

3. Conclusions

The surprising resilience of the Egyptian, Iranian and Turkish economies during the pandemic can be explained by the mixture of policy responses, each economy's structural characteristics, and pure coincidence. The policy response was probably the most important in Turkey, while the second and third category factors played the leading role in other countries. Moreover, the rather inward than outward economic orientation helped in all three cases. Recently restored macroeconomic stability, a very high share of domestic consumption in GDP, the anticyclical impact of remittances, and unexpectedly high level of Suez Canal revenues are among the main factors that determined the developments in Egypt. The cumulation of unexpected developments and unintended consequences turned out to be the most important for Iran, at least for Egypt and Turkey. The reimposition of US sanctions in 2018 led to the severe recession, forcing internal economic restructuring and diversification, which paradoxically might have prepared the economy for another crisis by making her more flexible and resilient. However, more research is needed to confirm this hypothesis.

The positive growth indicators do not necessarily prove the above-average strength of the analyzed economies, nor do they suggest that each country's vast economic and social potential is being fulfilled. The level of uncertainty remains high, and the full impact of global disturbances and changes triggered by the pandemic is yet to be known. The new variants and slow vaccinations campaigns may hamper the expected recovery, especially in the developing countries, and bring a new global wave of economic contraction.

While Egypt, Iran, and Turkey have sailed relatively safe throughout the first waves of pandemic storms, it is yet to be seen how the authorities will manage the recovery, necessary reforms, and adaptation to future challenges. To summarize, to fully recover from the pandemic, avoid the middle-income trap, and adapt to climate changes, all three countries need smart and selective industrial and technological policies similar in sophistication to those implemented in Asian developmental states (Wade, 2018). However, the quality of bureaucracy and general state capabilities seems much weaker than in East-Asian counterparts, making the prospects for successful transition uncertain.

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