

**WORKSHOP ON****THE POLITICAL ECONOMY OF STATE BUSINESS RELATIONS AND OF GROWTH IN THE  
MIDDLE EAST AND NORTH AFRICA****IN COLLABORATION WITH  
PARIS SCHOOL OF ECONOMICS****FORUM EURO-MEDITERRANEEN DES INSTITUTS DE SCIENCES ECONOMIQUES  
UNIVERSITÉ PARIS-DAUPHINE, PSL RESEARCH UNIVERSITY, IRD, LEDA-DIAL  
CHAIRES PSL: ECONOMIE MONDE ARABE, ET MOYEN ORIENT MEDITERRANEE****JUNE 21-22, 2018****UNIVERSITE PARIS DAUPHINE****PARIS, FRANCE****CONTEXT AND WORKSHOP OBJECTIVES**

This workshop is part of a joint ERF-FEMISE research project on “the political economy of State business relations and of growth in MENA region”, directed by Ishac Diwan. The objective of the project is to encourage researchers to apply rigorous quantitative techniques to shed light on the relation between power, state, and markets. The overall goal is to understand better the conditions and policies that can lead to higher levels of job creation and growth in the region, in the aftermath of the Arab Spring of 2011, and in the context of lower oil prices. The focus is on several subthemes, including the impact of cronyism on growth and job creation, the mechanisms of privilege, the evolution of business elites and their relation to power, the role of the financial markets and of market regulating institutions, and the political economy of informality and SMEs.

A call for papers, followed by a review process, led to the acceptance of 17 proposals. The objective of the workshop is to provide a platform for discussing the draft papers among authors and experts in order to improve the final output.

**AGENDA AND ORGANIZATION**

The workshop talks place at the Dauphine University in Paris, on June 21-22, 2018, gathering around 35 participants. The time allocated for each speaker is 20 minutes and the feedback from a dedicated discussant is 10 minutes. The remaining time is for open discussion.

\*  This event received financial support from the European Union through the EU-FEMISE project on “Support to Economic Research, studies and dialogues of the Euro-Mediterranean Partnership”. Any views expressed in this seminar are the sole responsibility of the speakers.



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**JUNE 21-22, 2018**  
**UNIVERSITE PARIS DAUPHINE, FRANCE**

**AGENDA**

**DAY ONE: THURSDAY, JUNE 21, 2018**

**(SALLE A 709)**

9:00-10:30 **Opening Session: What Do We Know about SBRs in the MENA region?**

**Moderator:** Ibrahim Elbadawi (Economic Research Forum)

**Welcoming Remarks:**

Daniel Cohen (Paris School of Economics)  
El Mouhoub Mouhoud (Université Paris-Dauphine)  
Ishac Diwan (Paris Sciences et Lettres)

**Past Research and Open Questions:** Steffen Hertog (London School of Economics)  
Adeel Malik (University of Oxford)

**Discussion**

10:30-11:00 Coffee Break

11:00-01:00 **Session 1: Cronyism and Growth**

**Moderator:** Giacomo Luciani (Sciences Po Paris University)

**Speakers:**

Marc Schiffbauer, David Francis and Sahar Hussain, *Are Close State-business Relations in Egypt Catalyzing or Blocking Technological Change?*

Nesma Ali and Boris Najman, *The Political Economy of Informality and SMEs in Egypt.*

Hassan Aly and Hany Abdel-Latif, *Are Politically Connected Firms Turtles or Gazelles? Evidence from the Egyptian Uprising.\**

**Discussants:** Emmanuelle Lavallee, Amirah El-Haddad\*

01:00-02:00 Lunch

02:00-03:30 **Session 2: Political aspects of economic privileges**

**Moderator:** El Mouhoub Mouhoud (Université Paris-Dauphine)

**Speakers:**

Davide Luca, *Achieving Growth Through the Ballot Box: The Politics of Turkey's Local Economic Dynamics.*

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Robert Kubinec and Zeyad Elkelani, *A Survey of Firm-level Political Involvement in Legislative Elections.* \*

**Discussants:** Ferdinand Eibl, David Margolis\*

08:30 **Dinner**

**DAY TWO: FRIDAY, JUNE 22, 2018**

**(SALLE RAYMOND ARON)**

09:00-11:00 **Session 3: Elite networks**

**Moderator:** Gilles Kepel (École Normale Supérieure)

**Speakers:**

Mohamed Oubenal and Houda Ben Hamouda, *The Political Economy of Business Elites in Tunisia and Morocco: Comparing Actors, Strategies and Identities.*

Michael Charles Siemon, *Predicting Stock Price Similarity Using Inferred Business Groups in the Middle East and North Africa.*

Ghada Tayem, *The division of Ownership and Control in Listed Jordanian Firms.* \*

**Discussants:** Adeel Malik, Boris Najman\*

11:00-11:30 Coffee Break

11:30-01:30 **Session 4: Mechanisms of privilege: competition and trade**

**Moderator:** Amirah El-Haddad (German Development Institute and Cairo University)

**Speakers:**

Adeel Malik and Ferdinand Eibl, *The Political Economy of Trade Protection in North Africa.*

Jala Youssef and Chahir Zaki, *A Decade of Competition Policy in Arab Countries: Time for Assessment?*

Burhan Can Karahasan and Firat Bilgel, *State Business Relations and Financial Access.* \*

**Discussants:** Eric Rougier, Steffen Hertog\*

01:30-02:30 Lunch

02:30-04:00 **Session 5: Firms' reaction to incentives and constraints**

**Moderator:** Maryse Louis (FEMISE)

**Speakers:**

Mohamed Ali Marouani and Michelle Marshalian, *Industrial Policies, Firms and Jobs: An Evaluation of the "Programme de Mise-a-Niveau" in Tunisia.*

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Vladimir Hlasny and Shireen Al-Azzawi, *Firms' Lifecycle under Conflict-Related Mobility Restrictions in Palestine: Evidence from Establishment Censuses\**

**Discussants:** Ivan Ledezma, Davide Luca\*

04:00-04:30 Coffee Break

04:30-05:30 **Closing Panel: The future of State-Business Relations in MENA**

**Moderator:** Ishac Diwan (Paris Sciences et Lettres and Columbia)

**Speakers:** Giacomo Luciani (Sciences Po Paris University)  
Eberhard Kienle (Sciences Po Paris University)  
Mustapha Nabli (North Africa Bureau of Economic Studies)

Speakers to compare state business relations in different countries/region, as a function of their different political settlements, bringing out the political functions of cronyism, and what can be expected in the future in terms of private sector development.

**Open Discussion**

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**ABSTRACTS**

**1. Cronyism and growth**

**Cronyism, firms' productivity and informal competition in Egypt**

*Nesma Ali and Boris Najman*

The paper investigates the impact of crony firms on formal firms' productivity by accounting for the level of competition stemming from informal firms in Egypt. Based on the World Bank panel Enterprise Surveys (2004, 2007, 2008, 2013 and 2016), we implement a Propensity Matching-Difference in Difference estimation in order to reduce self-selection and endogeneity biases. The main contribution of this paper consists in showing empirically that a higher concentration of connected firms tends to reduce formal firms' productivity and to increase the intensity of perceived informal competition. The latter effect tends to increase the productivity of formal firms, especially those that are small and unconnected.

**Do politically connected firms innovate, contributing to long-term economic growth?**

*David Francis, Sahar Hussain, and Marc Schiffbauer*

We present new evidence that cronyism reduces long-term economic growth by discouraging firms' innovation activities. The analysis is based on novel establishment survey data from Egypt which provides information on establishments' political connections as well as their innovation activities and access to policy privileges. Despite innovating less, politically connected firms are more capital intensive due to the generous policy privileges they receive, including their exclusive access to government procurement contracts, input subsidies, favorable official exchange rates, and bank financing. The results demonstrate that policy privileges divert economic resources away from innovation activities and, instead, finance unproductive capital accumulation of a few large connected firms, reducing Egypt's rate of technological change and thus its long-term growth potential. A wide array of supporting evidence suggests that this effect is causal and not due to selection.

**Are politically connected firms turtles or gazelles? Evidence from the Egyptian uprising**

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*Hassan Aly and Hany Abdel-Latif*

Using an original firm-level database and utilizing the incidence of the Egyptian uprising of 2011, this study provides an empirical investigation of the effects of political connections on employment in Egypt. Our unique dataset covers 7594 firms (2004-2016), of which we were able to identify 735 politically connected firms, using Orbis, Thomson Reuters Eikon, and the World Enterprise Survey. We use the differences in differences (DiD) framework to compare employment growth in both politically connected firms (PCFs) and their unconnected counterparts before and after the Egyptian uprising. We find that connected firms before the shock decreased their job creation after the uprising. This implies that employment growth in PCFs has declined after receiving a negative political shock.

## **2. Political aspect of economic privileges**

### **Picking winners at the ballot box: Votes, polarization, and local economic growth in Turkey**

*Davide Luca*

While there is systematic evidence of how governments affect policy outputs for strategic reasons, a limited amount of studies has assessed whether these distortions are consequential for economic growth. The current paper explores if, over the period 2004-2013, Turkey's incumbent government 'picked' local economic winners depending on the levels of provincial electoral support to the incumbent party. New instrumental variable estimates suggest that battleground provinces where the electoral race for the Justice and Development Party (AKP) was closer have experienced faster per-capita GVA as well as employment growth rates. The effect is economically substantive. Results also show that the government has affected growth through the selective provision of state goods, namely public investment.

### **Patrons or Clients? A Study of Politically-Connected Firms in Jordan and Morocco.**

*Robert Kubinec*

We use an original survey of firm employees in Morocco and Jordan to construct an index of political-connectedness. To do so, we employ item-response theory on a subset of questions from the survey for which there are prior theoretical reasons to believe that these factors should either be caused by or cause political-connectedness. Our hypothesis is that political-connectedness is an asset to the firm that can substitute for bribe payments and other direct costs of interfacing with the bureaucracy. We test for causality using an experimental design embedded in the survey that simulated a hypothetical interaction between the firm and a party offering political benefits in exchange for resources. We show that politically-connected firms are able to exchange political and social support for regimes for lighter regulatory burdens and access to protected markets that insulate them from competition.

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### 3. Elite networks

#### **The Division of Ownership and Control in Listed Jordanian Firms**

*Ghada Tayem*

Firms listed on the Amman Stock Exchange (ASE) represent an important part of the economic activity in Jordan, but little is known about their ownership structure. This study documents the ultimate ownership and control structures of 200 firms listed on the ASE. Closely held firms are classified as: family, foreign, state, financial institution, and widely held corporation. I find that one third of listed firms are single firms that are mostly owned by families with virtually no deviation between ownership and control. The other two thirds are group affiliated. Some of these are part of pyramidal structures with a large diversion between voting rights and cash flow rights. The control of group-affiliated firms is mostly in the hands of families, with some groups controlled by foreigners (mainly from the Saudi Arabia), or by the state. Overall, corporate wealth is concentrated among a small number of investors, mostly families.

#### **The political Economy of business elites in Tunisia and Morocco: comparing actors, strategies and identities**

*Mohamed Oubenal and Houda Ben Hamouda*

In this paper we study the mechanisms of economic control in Morocco and Tunisia after the uprisings of 2011. Our comparison of the structure of connections in both countries is based on a methodology combining a Social Network Analysis (SNA) of board co-membership among listed companies and a qualitative investigation of Tunisian and Moroccan political economy. We find that the Tunisian case contains an important representativeness of women in the boards compared to Morocco. Due to different legal reforms, independent board members are much more present in Tunisia than in Morocco. We also find that the network of board memberships (interlockers) in Morocco is less centralized than in Morocco. In Tunisia some insurance companies are central but we don't find the equivalent of the pension funds that are important in Morocco.

#### **Predicting Stock Price Similarity using Inferred Business Groups in the Middle East and North Africa**

*Michael Siemon*

Business groups are an essential part of the political economy of almost all capitalist countries. Although they have been studied in Latin America and East Asia, the study of business groups in the Middle East and North Africa is still in its infancy. In many parts of the world, business groups depend on political relationships, blurring the lines between private and state-owned enterprises. This study presents

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evidence for the value-relevance of family business groups, government ownership, and other inter-firm relationships among 1110 publicly traded firms in 12 countries in the MENA. Due to the difficulty in obtaining direct observations of business group membership, business groups are inferred using several innovative statistical techniques that estimate associations based on pairwise price synchronicity. The results make three contributions: assessing how the role of these relationships vary across exchanges; verifying the ability of community-detection methods to infer business groups; and finally providing initial evidence on the association between the value-relevance of inter-firm relationships and exchange-level attributes like liquidity and governance quality.

#### 4. Mechanisms of privilege

##### **A Decade of Competition Policy in Arab Countries in Transition: Time for Assessment?**

*Jala Youssef and Chahir Zaki*

The objective of this paper is twofold. First, the paper classifies the Arab countries in terms of competition policy rules (de jure) and implementation (de facto), focusing on enforcement, advocacy and institutional effectiveness. Rules cover competition law. Implementation covers actual enforcement and advocacy activities (from competition authority annual reports). Second, the paper assesses the impact of rules and implementation on the markets outcomes on the sector level. This is an empirical exercise, which depends on the first stage results and the publicly available World Bank Enterprise Survey data (WBES). As a dependent variable, we use a variable that captures the frequency with which private enterprises in each sector have expanded employment over the past 3 years (weighted by the corresponding proportion of expanding firms that increase labor productivity). The independent variables are: the economy wide market concentration, pressure from domestic and foreign competition, competition rules, competition implementation, and the business environment.

##### **The Politics of Trade Protection: Evidence from an EU-mandated Tariff Liberalization in Morocco**

*Christian Ruckteschler, Adeel Malik and Ferdinand Eibl*

Although non-tariff measures (NTMs) have surpassed tariffs as the most prevalent instrument of trade protection throughout the world, we have extremely limited knowledge of what drives these NTMs. Do NTMs substitute for falling tariff barriers? If so, which sectors tend to receive greater NTM protection and why? This paper sheds light on the institutional and political determinants of non-tariff protection using a rich empirical setting in Morocco and taking advantage of an EU-mandated tariff liberalization, which resulted in an across the board tariff cut and an ensuing surge in non-tariff measures. Conducting a difference-in-differences regression analysis, we show that sectors where politically connected

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businesses were active prior to the agreement received disproportionately higher levels of non-tariff protection after the EU agreement.

### **State Business Relations and Financial Access**

*Burhan Can Karahasan and Firat Bilgel*

This study investigates the triangular relationship among state-business relations, financial access and economic performance by using firm-level data for selected Middle East and North African countries. We hypothesize that financial intermediation acts as a mediating factor in the relationship between state-business relations and firm performance. Employing a causal mediation analysis, we find that inefficient ties with the state causes poor firm performance, reducing firm performance by about 3.7 percent through access to finance, and by about 30 percent via its direct effect. About 9.6 percent of the total effect is mediated through financial access while the remaining 90.4 percent is the direct effect of inefficient state-business relations on firm performance. Our results highlight that financial intermediation is a significant mediating factor in the mechanism between state-business relations and firm performance.

## **5. Firms' reactions to constraints**

### **Industrial Policies, Firms and Jobs: An evaluation of the Programme de Mise à Niveau in Tunisia**

*Mohamed Ali Marouani and Michelle Marshalian*

Industrial policies are back on the agenda But as in the past, they exposing the public purse to non-transparent state-business relations, where winners and losers are chosen through non-competitive means. This paper examines the impact of the Tunisian Industrial Upgrading Program (Mise à Niveau or the PMN). We first look at the average outcomes of all eligible firms in terms of employment, export activity, and revenue, using two sources of data: the national firm registry, and a survey administered by the national research institute. To explore the political economy aspect of the PMN, we then analyze the impact the PMN on firms' performance for large firms, using the Orbis database. The firms are expected to have at least average returns. However, initial results do not indicate that large firms increased in value-added after treatment as much as the whole sample, even if some components of productivity were impacted.

### **Firms' Lifecycle under Conflict-Related Mobility Restrictions in Palestine: Evidence from Establishment Censuses**

*Vladimir Hlasny and Shireen Al-Azzawi*

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We explore the economic implications of the mobility-restriction regime for opening, operating and expanding of businesses across all occupied Palestinian territories during 1997–2012. To this end, an index of mobility restrictions in individual governorates and years is constructed using principal component analysis of multiple indicators (OCHA, B'Tselem, World Bank). Implications for firms' operating and legal status, economic activity, and female and total employment are assessed. Operation indicators for all Palestinian business establishments are taken from four waves of the Palestinian Establishment Census – 520,000 establishment-year observations – for years when the occupation regime in individual governorates was at varying degrees of intensity. Difference-in-difference regressions show that restrictions are associated with a reduction in firms' scale in terms of total employment, female employment, and female share of employment. Units facing tighter security regimes in their governorates are more likely to suspend their operations through temporary or permanent closure. Surviving firms respond to restrictions by retaining fewer workers. Female workers appear to be the first to be fired, and last to be rehired. Some firms do not survive. We find no evidence that establishments try to escape mobility restrictions in one governorate for another governorate.

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