



**WORKSHOP ORGANIZED BY THE ECONOMIC RESEARCH FORUM
IN COLLABORATION WITH
THE OXFORD CENTER FOR ISLAMIC STUDIES**

The Political Economy of the Private Sector in the Middle East

JUNE 5 -6, 2015

OXFORD, UNITED KINGDOM

Context

The MENA region suffers from a fragile private sector that is weakly connected with global markets and thrives largely under state patronage. Although extensive state-business interactions can form the basis for dynamic capitalism, they can also become sources of insider influence, corruption and other forms of rent-seeking, that distort politics, regulation, judicial functioning and business incentives. In MENA, the system of de facto privileges and restrictions has created a corporate pyramid composed of a small number of connected firms at the top, where competition is muted, and a large base of small firms at the bottom.

Seeing that private sector development has been traditionally viewed through a narrow economic lens, ERF launched a call for proposals on *The Political Economy Determinants of Private Sector Dynamism in The ERF Region* with an objective to unpack business-state relationships in order to develop a better understanding of the mechanisms used to privilege insiders and to exclude the vast array of firms within the wider political economy framework of various countries, and to assess the broader economic effects of such practices.

The call generated multiple papers covering various topics related to cronyism in banking sector and capital markets, corruption in the job market, firm ownership, rules versus deals and public private partnerships, among others.

To discuss the first drafts of these papers and receive feedback from first class researchers in the field, ERF and the Oxford Center for Islamic Studies, a Recognized Independent Centre of the University of Oxford, will jointly organize a workshop bringing together the authors of the papers and the top researchers in the political economy filed.

WORKSHOP OBJECTIVES

The objective of the workshop is to provide a platform for discussing the first drafts of the research papers and their findings and to receive feedback from the best experts in the field in order to improve the final output.

AGENDA AND ORGANIZATION

The workshop will convene for 2 days at the Oxford Center for Islamic Studies of Oxford University, during June 5-6, 2015, gathering around 25-30 participants. Each session will have 2 papers. Each speaker will have 20 minutes to present the paper, followed by 10 minutes for each discussant. The remaining time will be for open discussion.



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AGENDA

DAY ONE: FRIDAY, JUNE 5, 2015

09:00-11:30 Opening Session: Scene Setting

Moderator: Ahmad Galal (Economic Research Forum)

Welcome Remarks: Adeel Malik (University of Oxford)

Speakers: Ishac Diwan (Paris Sciences et Lettres and ERF)

Steffen Hertog, *State intervention, Market Segmentation and Low Trust – An Arab Variety of Capitalism*

Lant Pritchett, *Deals versus Rules – Impact on Growth*

Open discussion

11:30-12:00 Coffee Break

12:00-14:00 Session 2: Tunisia and Morocco

Moderator: Alissa Amico (OECD)

Speakers: Mohamad Said Saadi, *Moroccan Cronyism and Economic Growth*

Leila Baghdadi, Hassan Arouri and Bob Rijkers, *How Do Dictators Get Rich? State Capture in Ben Ali's Tunisia*

Discussants: Marc Schiffbauer (World Bank)

Jad Chaaban (American University of Beirut and ERF)

Open discussion

14:00-15:00 Lunch

15:00-16:30 Session 3: NTBs and Public Enterprises

Moderator: Hassan Hakimian (University of London and ERF)

Speakers: Adeel Malik and Ferdinand Eibl, *Non-Tariff Barriers and Cronyism in Four Arab Countries*

Alissa Amico, Steffen Hertog and Vedat Akgiray, *The Role of the State in MENA Capital Markets*

Discussants: Hadi Esfahani (University of Illinois and ERF)

Erik Berglöf (London School of Economics)

Open discussion



DAY TWO: SATURDAY, JUNE 6, 2015

- 09:00-10:30 Session 4: Lebanon and Iran**
Moderator: Reinoud Leenders (King's College London)
Speakers: Jamal Haidar and Ishac Diwan, *Cronyism, Sector Concentration, and Job Creation in Lebanon*
Kevan Harris, *Varieties of Corporate Governance in the Islamic Republic: Parastatal and Private Sectors in Relational Perspective*
Discussants: Adeel Malik (University of Oxford)
Shantayanan Devarajan (World Bank)
Open discussion
- 10:30-11:00 Coffee Break**
- 11:00-13:00 Session 5: Turkey**
Moderator: Mohamad Said Saadi (l'Institut Supérieur de Commerce et d'Administration des Entreprises)
Speakers: Izak Atiyas, Ozan Bakış and Esra Gurakar, *Anatolian Tigers in Turkey*
Esra Gurakar, Tuba Bircan and Umut Gündü, *Political Connections and Public Procurement in Turkey: Evidence from Construction Work Contracts*
Discussants: Lant Pritchett (Harvard University)
Amirah El-Haddad (Cairo University)
Open discussion
- 13:00-14:00 Lunch**
- 14:00-15:30 Session 6: Banks**
Moderator: Hanan Morsy (European Bank for Reconstruction and Development)
Speakers: Jad Chaaban: *I've Got the Power: Mapping Connections Between Lebanon's Banking Sector and the Ruling Class*
Marc Schiffbauer and Ishac Diwan: *Banking sector and Cronyism in Egypt*
Discussants: Hadi Esfahani (University of Illinois and ERF)
Ozan Bakış (Sabanci University)
Open discussion
- 15:30-16:00 Closing Remarks and Next Steps**
Speaker: Ishac Diwan (Paris Sciences et Lettres and ERF)



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LIST OF PARTICIPANTS

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LOGISTICS SHEET

Workshop Venue

- The Dorman Centre, St. Peter's College, Oxford University | New Inn Hall Street, Oxford, OX1 2DL | Tel: +44 (0)1865 278900

Travel Arrangements

- Transportation from the airport to the hotel (s) at Oxford will be by bus. The bus departs every 30 minutes from the central bus station. A return ticket costs £29 (kindly keep receipt for reimbursement). For more info, please check the available link: <http://airline.oxfordbus.co.uk/>
- Transportation to and from the workshop venue will be provided by Taxis. They will be ready at 8:30 am and the return will be at 4:30 pm, throughout the workshop days.
- Those who need to collect their ticket reimbursement kindly contact Mr. Mohamed Yousri, at the workshop venue.
- In case of any delay in your departure, it is imperative that you send a message or call +2 0108844995.

Hotel Accommodation

- Participants will be residing at: The Holiday Inn Oxford - Pear tree Roundabout, Woodstock Road, Oxford OX2 8JD, UK & the MERCURE Oxford Eastgate Hotel - 73 High Street - Oxford, OX1 4BE – UK.
- Please keep your hotel confirmation number handy.
- Kindly note that ERF does not cover expenses related to laundry, phone calls (local and international), room service, use of the mini-bar, alcoholic beverages, and internet connection.

Meals (Holiday Inn)

- Breakfast at the Junction restaurant on Friday (06:30AM – 10:00AM) and on Saturday & Sunday (7:00 -11:00 AM).
- Dinner at the Junction restaurant will be served starting 18:30.
- ERF will cover lunch and/or dinner +soft drink + water for the amount of £20.00 per person

Meals (Mercure)

- Breakfast at the Marco's restaurant starts at 07:00 am
- Dinner at the Marco's restaurant, open all day.
- ERF will cover lunch or dinner +soft drink + water for the amount of £20.00 per person



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ABSTRACTS

State Intervention, Market Segmentation and Low Trust – An Arab Variety of Capitalism

Steffen Hertog

This research project investigates whether there is a distinct type of capitalism in the MENA region; hypothesizing that dualism of labor markets and private sector is a shared trait across the region which – different from other world regions – has been shaped by a particularly expansive role of a relatively weak state. The project aims to develop and analyze broad policy alternatives on public employment, labor regulation as well as regulatory and administrative reform that could overcome the segmentation of the region's political economies while taking into account the political preferences of local constituencies.

Deals versus Rules – Impact on Growth

Lant Pritchett

Crony capitalism can result with a strict regulatory environment meets weak implementation capability. Using the comparison between the Doing Business and Enterprise Survey data the paper shows that legal regulations are typically far in excess of what is enforced. While there are "rules" in *Doing Business*, business is actually done with 'deals' whereby firms influence outcomes. The paper then uses growth data to show that "closed ordered deals" can create rapid growth--but build up a political economy of resentment that often ends badly (rather than making a smooth transition to "rules" or "good institutions"). In "deals" environments the political economy of the private sector is fractured and does not easily lead to pressure for better rules or stronger capability.

Moroccan Cronyism and Economic Growth

Mohamad Said Saadi

This research studies the severity of crony capitalism in Morocco, using the "Crony Capitalism Index" set up by the Economist; an Index of the total wealth of billionaires involved in rent-heavy industries to GDP, to analyze the impacts of political connectedness on firm performance. The study will focus on regulated and rent-seeking industries (banking and finance, telecommunications, real estate, retail sector, etc.); evaluating the weight of politically connected



(turnover, profits,) firms within the private sector. It then draws a mapping of privileges (favors) by sectors and finally analyzes Connected Firms and Non Connected Firms' performances and their impact on growth, but only for the manufacturing sector.

How Do Dictators Get Rich? State Capture in Ben Ali's Tunisia

Leila Baghdadi, Hassan Arouri and Bob Rijkers

This research investigates the business interests of the ousted Tunisian Ben Ali family and how they have helped shape Tunisia's private sector, privatization practices and the capture of international trade and industrial regulations. The objective of the research is to assess quantitatively the relative importance of various salient mechanisms by which autocrats can reap rents. The proposed research examines three salient potential channels through which Ben Ali might have enriched his family, notably (i) privatization, (ii) international trade and (iii) investment regulation.

The Role of the State in MENA Capital Markets

Alissa Amico, Steffen Hertog and Vedat Akgiray

The role of the state in the social contract of the transitions of Arab societies and economies has been addressed from various angles in the past few years. While the state is not generally perceived as an accountable owner of corporate wealth in the MENA region, performance of State-owned Enterprises (SOEs) across the region shows significant variation. This project aims at compiling a database of all listed companies where the state exercises ownership, which would allow to potentially compare private and public companies operating in specific sectors in order to be able to draw conclusions on the efficiency of state ownership in the MENA region. It also investigates the methods and timing of privatization with a view to drawing conclusions on the impact of various mechanisms of privatization with outcomes for the state, and analyses the stakes that governments have accumulated through the accumulation of ownership stakes in listed companies and draw conclusions about the overall presence of the state in capital markets.

Non-Tariff Barriers and Cronyism in Four Arab Countries

Adeel Malik and Ferdinand Eibl

In thinking about protectionist trade policies, research has predominantly focused on the role of tariff barriers. However, as recent literature has suggested, many of the region's labour-abundant economies are especially burdened by non-tariff barriers (NTBs). These barriers are essentially complicated trade frictions caused by arbitrary regulations, procedures, and a variety of discretionary controls that are both hard to measure and evaluate. Their importance in political



economy terms is, however, well recognized. This proposal seeks to enhance the understanding of the politics of trade protection in the Middle East; exploring both their determinants and impact.

Cronyism, Sector Concentration, and Job Creation in Lebanon

Ishac Diwan and Jamal Haidar

The interest in the relation between power and money has risen sharply in the MENA region following the uprisings of 2011. The most recent World Bank Enterprise Survey shows that three-fifths of firms identify corruption as a major constraint for growth in Lebanon. Being more competitive as well as more sectarian than most MENA countries, the Lebanese political economy context can thus furnish useful variations since the boundary between cronyism and corruption. This study aims to improve the understanding of why job creation is limited in Lebanon by studying the micro foundations of firm-level employment growth with novel research and analysis on employment growth at the firm and detailed sector levels.

Varieties of Corporate Governance in the Islamic Republic: Parastatal and Private Sectors in Relational Perspective

Kevan Harris

In 2013, Iran's Tehran Stock Exchange (TSE) listed 314 companies with a total market capitalization of over 60% of GDP, a significant increase from previous years. This study will utilize the new shareholding data for 2013-14 to measure ownership concentration, institutional ownership, and relative shares of private vs. semi-public capital by economic sector. In addition, the study attempts to map a more realistic political economy of firm ownership by coding particular institutional investors with their associated sociopolitical position in contemporary Iran. This would enable better assessment and analysis of the broad and growing swath of Iran's economy in comparison with other MENA countries.

Anatolian Tigers in Turkey

Izak Atiyas, Ozan Bakış and Esra Çeviker Gürakar

The new growth centers of Anatolia, referring to Anatolian provinces that apparently have increased their share in overall economic activity as well as exports of manufactured goods, have witnessed the emergence of a "devout bourgeoisie" amidst the Turkish economy. This phenomenon is an important dimension of social dynamics that eventually carried the Justice and Development Party to political power. While the traditional industrial centers still have higher productivity and still carry out most economic activity, there is evidence of catch-up. The purpose of the proposed project is to examine the emergence of these Anatolian Tigers through both



quantitative and qualitative means; focusing on factors of time, contribution, size, productivity and concentration.

Political Connections and Public Procurement in Turkey: Evidence from Construction Work Contracts

Esra Çeviker Gürakar & Tuba Bircan İldiri and Umut Gündü

This research project studies how politicized and corrupt practices have differed in serving as major tools for rapid capital accumulation for particular business groups and providing leverage for the government between the 1980s and 1990s; where a major shift in political power holding has coincided with the start of Turkey's negotiations with the EU as an "official candidate". The study develops a set of hypothesis to investigate the effects of political connections on the dynamics of public procurements. The public procurement data set allow for investigating the legal changes that have been used to provide privileges and restrictions.

Banking and Crony Capitalism in Egypt

Ishac Diwan and Marc Schiffbauer

Since the mid-2000s, financial liberalization in Egypt accelerated, and dynamic and seemingly competitive private banks emerged and grew, with several foreign banks entering the market, in some cases in associations with local banks. The cronyism of the 1980s and 90s on the other hand was much more centrally connected with directed state credit, as banking was then dominated by the state. This project looks at the relation between banking and cronyism in liberalized economies, with a focus on the case of Egypt. The main question asked is: In a liberalized banking system, by which mechanism is private credit channeled disproportionately to politically connected firms (CFs), as we know has happened in Egypt and Tunisia between 2003-2011?

I've Got the Power: Mapping Connections Between Lebanon's Banking Sector and the Ruling Class

Jad Chaaban

While many consider the Lebanese banking sector as the crown jewel of the national economy, with consolidated assets well over 300% of GDP, there are voices being raised against the banks' extraordinary influence on monetary, fiscal, and even political policy. Lebanese banks have been quite close to the country's ruling apparatus, often sustaining clientelistic networks and heavily intervening in monetary and exchange rate policy. Yet evidence-based research on the extent to which Lebanon's banks are dominated by a crony form of capital is non-existent. This paper aims to fill in this gap, and analyze the impact of elite capture of the banking sector on the efficiency of the country's financial system.