


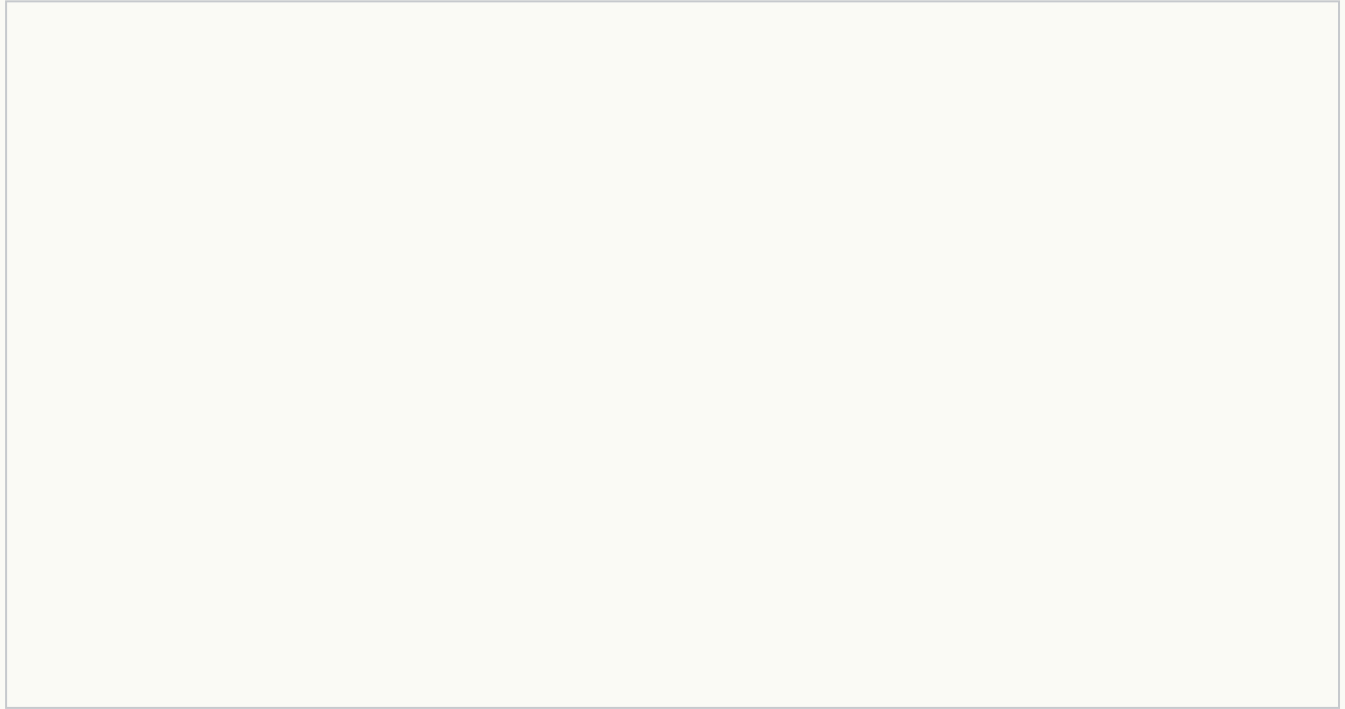
[Skip to main content](#)

ARTICLE

# Crony Capitalism in Egypt

Hamouda Chekir and Ishac Diwan 

Published/Copyright: January 15, 2015



Published by



Become an author with De Gruyter Brill

[Submit Manuscript](#) →

[Author Information](#) →

[Explore this Subject](#) →



From the journal

**Journal of Globalization and Development**  
Volume 5 Issue 2

---

## Abstract

The paper studies the nature and extent of Egyptian “crony” capitalism by comparing the corporate performance and the stock market valuation of politically connected and unconnected firms, before and after the 2011 popular uprising that led to the end of President Mubarak rule. First, we identify politically connected firms and compare the corporate behavior of connected and unconnected large firms before 2011 in terms of their levels of debts, market share, and tax payment. Second, we conduct an event study around the events of 2011 and estimate the market valuation of political connections. Third, we attempt to decompose the extra value that the market attributes to political connections between a current profitability advantage, and future advantages that include higher growth opportunities and (implicit) bail-out guarantees.

**Keywords:** [corruption](#); [cronyism](#); [Egypt](#); [event study](#); [value of political connections](#)

---

Corresponding author: Ishac Diwan, Harvard Kennedy School, Cambridge, MA, USA,  
e-mail: [ishac\\_diwan@hks.harvard.edu](mailto:ishac_diwan@hks.harvard.edu)

---

## Acknowledgement

We want to thank, without incriminating them in any ways, the following colleagues for their insightful comments, which led to improvements of the first draft: Sam Asher, Izak Atiyas, Stijn Claessens, Ahmad Galal, Engy Haddad, Ricardo Hausman, Magda Kandil, Asim Khwaja, Paul Novosad, Mohammed Omran, Roger Owen, Bob Rijkers, Dani Rodrik, Marc Schiffbauer, Michael Walton, John Waterbury, as well as two anonymous referees of this Journal. The views expressed in the paper are those of the authors and should not be attributed to their employers.

---

## References

- Abdel-Latif, A. and H. Schmitz (2010) “Growth Alliances: Insights from Egypt,” *Business and Politics*, 12(4).  
[10.2202/1469-3569.1327](https://doi.org/10.2202/1469-3569.1327) (<https://doi.org/10.2202/1469-3569.1327>)
- Aghion, P., R. Blundell, R. Griffith, P. Howitt and S. Prantl (2009) “The Effects of Entry on Incumbent Innovation and Productivity,” *The Review of Economics and Statistics*, 91(1):20–32.  
[10.1162/rest.91.1.20](https://doi.org/10.1162/rest.91.1.20) (<https://doi.org/10.1162/rest.91.1.20>)
- Alley, A. L. (2010) “The Rules of the Game: Unpacking Patronage Politics in Yemen,” *Middle East Journal*, 64(3):385–409.  
[10.3751/64.3.13](https://doi.org/10.3751/64.3.13) (<https://doi.org/10.3751/64.3.13>)
- Bellin, E. (2002) *Stalled Democracy: Capital, Labor, and the Paradox of State-Sponsored Development*. Ithaca, NY: Cornell University Press.
- Boubakri, N., J. C. Cosset and W. Saffar (2008) *Politically Connected Firms: An International Event Study*. Unpublished Working Paper. HEC Montreal.

Bertrand, M., F. Kramaraz, A. Schoar and D. Thesmar (2007) *Politicians, Firms and the Political Business Cycle: Evidence from France*. Unpublished Working Paper, University of Chicago.

Cammett, M. C. (2007) *Globalization and Business Politics in Arab North Africa: A Comparative Perspective*. Cambridge, U.K.: Cambridge University Press.

[10.1017/CBO9780511510007](https://doi.org/10.1017/CBO9780511510007) (<https://doi.org/10.1017/CBO9780511510007>)

Cammett, M. C. and I. Diwan (2013) *The Political Economy of the Arab Uprisings*. Perseus Books Group.

Catusse, M. (2008) *Le Temps des Entrepreneurs? Politique et Transformations du Capitalisme au Maroc*. Paris: Maisonneuve & Larose.

[10.4000/books.irmc.525](https://doi.org/10.4000/books.irmc.525) (<https://doi.org/10.4000/books.irmc.525>)

Chekir, H. and C. Menard (2012) *Barriers to Private Firm Dynamism in Tunisia: A Qualitative Approach*. World Bank mimeo.

Cull, R. and L. C. Xu (2005) "Institutions, Ownership, and Finance: The Determinants of Profit Reinvestment among Chinese Firms," *Journal of Financial Economics*, 77(1):117–146.

[10.1016/j.jfineco.2004.05.010](https://doi.org/10.1016/j.jfineco.2004.05.010) (<https://doi.org/10.1016/j.jfineco.2004.05.010>)

Dillman, B. (2000) *State and Private Sector in Algeria: The Politics of Rent-Seeking and Failed Development*. Boulder, CO: Westview.

Diwan, I., P. Keefer and M. Schiffbauer (2014) *On Top of the Pyramids – Crony Capitalism and Growth in Egypt*. Mimeo, World Bank.

Faccio, M. (2006) "Politically-Connected Firms," *American Economic Review*, 96:369–386.

[10.1257/000282806776157704](https://doi.org/10.1257/000282806776157704) (<https://doi.org/10.1257/000282806776157704>)

Faccio, M. (2010) "Differences Between Politically Connected and Non-connected Firms: A Cross Country Analysis," *Financial Management*, 39(3):905–928.

[10.1111/j.1755-053X.2010.01099.x](https://doi.org/10.1111/j.1755-053X.2010.01099.x) (<https://doi.org/10.1111/j.1755-053X.2010.01099.x>)

Ferguson, T. and H.-J. Voth (2008) "Betting on Hitler – The Value of Political Connections in Nazi Germany," *Quarterly Journal of Economics*, 123:101–137.

[10.1162/qjec.2008.123.1.101](https://doi.org/10.1162/qjec.2008.123.1.101) (<https://doi.org/10.1162/qjec.2008.123.1.101>)

Feyen, S. (2008) *Finances of Egyptian Listed Firms and the Performance of the Egyptian Stock Exchange*. Unpublished Working Paper, The World Bank.

Fisman, R. (2001) "Estimating the Value of Political Connections," *American Economic Review*, 91:1095–1102.

[10.1257/aer.91.4.1095](https://doi.org/10.1257/aer.91.4.1095) (<https://doi.org/10.1257/aer.91.4.1095>)

Goldman, E., J. Rocholl and J. So (2008) *Political Connections and the Allocation of Procurement Contracts*. Indiana University Working Paper.

[10.2139/ssrn.965888](https://doi.org/10.2139/ssrn.965888) (<https://doi.org/10.2139/ssrn.965888>)

Haddad, B. (2012) *Business Networks in Syria: The Political Economy of Authoritarian Resilience*. Stanford, CA: Stanford University Press.

[10.1057/9781137344045\\_12](https://doi.org/10.1057/9781137344045_12) ([https://doi.org/10.1057/9781137344045\\_12](https://doi.org/10.1057/9781137344045_12))

Hanieh, A. (2011) *Capitalism and Class in the Gulf Arab States*. New York, NY: Palgrave Macmillan.

[10.1057/9780230119604](https://doi.org/10.1057/9780230119604) (<https://doi.org/10.1057/9780230119604>)

Henry, C. (1996) *The Mediterranean Debt Crescent: Money and Power in Algeria, Egypt, Morocco, Tunisia, and Turkey*. Gainesville, FL: University Press of Florida.

- Henry, C. M. and R. Springborg (2010) *Globalization and the Politics of Development in the Middle East*. Vol. 1. Cambridge University Press,  
[10.1017/CBO9780511778162](https://doi.org/10.1017/CBO9780511778162) (<https://doi.org/10.1017/CBO9780511778162>)
- Hertog, S. (2010) *Princes, Brokers, and Bureaucrats: Oil and the State in Saudi Arabia*. Ithaca: Cornell University Press.  
[10.7591/9780801458774](https://doi.org/10.7591/9780801458774) (<https://doi.org/10.7591/9780801458774>)
- Heydemann, S. ed. (2004) *Networks of Privilege in the Middle East: The Politics of Economic Reform Revisited*. New York: Palgrave Macmillan.  
[10.1057/9781403982148](https://doi.org/10.1057/9781403982148) (<https://doi.org/10.1057/9781403982148>)
- Hibou, B. (2006) *La Force de L'Obeissance: Economic Politique de la Repression en Tunisie*. Paris: Editions de la Decouverte.  
[10.3917/dec.hibou.2006.01](https://doi.org/10.3917/dec.hibou.2006.01) (<https://doi.org/10.3917/dec.hibou.2006.01>)
- Johnson, S. and T. Mitton (2003) "Cronyism and Capital Controls: Evidence from Malaysia," *Journal of Financial Economics*, 67:351–382.  
[10.1016/S0304-405X\(02\)00255-6](https://doi.org/10.1016/S0304-405X(02)00255-6) ([https://doi.org/10.1016/S0304-405X\(02\)00255-6](https://doi.org/10.1016/S0304-405X(02)00255-6))
- Kang, D. (2002) *Crony Capitalism: Corruption and Development in South Korea and the Philippines*. Cambridge: Cambridge University Press.  
[10.1017/CBO9780511606175](https://doi.org/10.1017/CBO9780511606175) (<https://doi.org/10.1017/CBO9780511606175>)
- Kar, D. and K. Curcio (2011) *Illicit Financial Flows from Developing Countries: 2000–2009 – Update with a Focus on Asia*. Washington, D.C.: Global Financial Integrity.  
[10.2139/ssrn.1341946](https://doi.org/10.2139/ssrn.1341946) (<https://doi.org/10.2139/ssrn.1341946>)
- Khan, M. H. (2010) *Political Settlements and the Governance of Growth-Enhancing Institutions*. London: School of Oriental and African Studies (SOAS).
- Kienle, E. (2001) *A Grand Delusion: Democracy and Economic Reform in Egypt*. London: I.B. Tauris.
- Kienle, E. (2004) "Reconciling Privilege and Reform," In: (S. Heydemann, ed.) *Networks of Privilege in the Middle East: The Politics of Economic Reform Revisited*. New York: Palgrave Macmillan, pp. 281–296.
- Khwaja, A. I. and A. Mian (2005) "Do Lenders Favor Politically Connected Firms? Rent Provision in an Emerging Financial Market," *Quarterly Journal of Economics*, 120:1371–1411.  
[10.1162/003355305775097524](https://doi.org/10.1162/003355305775097524) (<https://doi.org/10.1162/003355305775097524>)
- King, S. J. (2009) *The New Authoritarianism in the Middle East and North Africa*. Indiana University Press.  
[10.2307/j.ctv10sm8vz](https://doi.org/10.2307/j.ctv10sm8vz) (<https://doi.org/10.2307/j.ctv10sm8vz>)
- Kroszner, R. S. and T. Stratmann (1998) "Interest Group Competition and the Organization of Congress: Theory and Evidence from Financial Services' Political Action Committees," *American Economic Review*, 88:1163–1188.
- Leuz, C. and F. Oberholzer-Gee (2006) "Political Relationships, Global Financing, and Corporate Transparency: Evidence from Indonesia," *Journal of Financial Economics*, 81:411–439.  
[10.1016/j.jfineco.2005.06.006](https://doi.org/10.1016/j.jfineco.2005.06.006) (<https://doi.org/10.1016/j.jfineco.2005.06.006>)
- Luciani, G. (2013) "Chapter 10." In: (S. Hertog, G. Luciani and M. Valeri, eds.). *Business Politics in the Middle East*. Hurst Publishers.
- MacKinlay, A. C. (1997) "Event Studies in Economics and Finance," *Journal of Economic Literature*, 35(1):13–39.

Malik, A. and B. Awadallah (2013) "The Economics of the Arab Spring," *World Development*, 45: 296–313.

[10.1016/j.worlddev.2012.12.015](https://doi.org/10.1016/j.worlddev.2012.12.015) (<https://doi.org/10.1016/j.worlddev.2012.12.015>)

Moore, P. (2004) *Doing Business in the Middle East: Politics and Economic Crisis in Jordan and Kuwait*. Cambridge, UK: Cambridge University Press.

[10.1017/CBO9780511492242](https://doi.org/10.1017/CBO9780511492242) (<https://doi.org/10.1017/CBO9780511492242>)

Méon, P. G. and K. Sekkat (2005) "Does Corruption Grease or Sand the Wheels of Growth?" *Public Choice*, 122(1–2):69–97.

[10.1007/s11127-005-3988-0](https://doi.org/10.1007/s11127-005-3988-0) (<https://doi.org/10.1007/s11127-005-3988-0>)

Noland, M. and H. Pack (2007) *The Arab Economies in a Changing World*. Washington, D.C.: Peterson Institute for International Economics.

Osman, T. (2010) *Egypt on the Brink: From Nasser to Mubarak*. New York: Yale University Press.

Owen, R. (2002) *State, Power and Politics in the Making of the Modern Middle East*, 3rd edition. London: Routledge.

[10.4324/9780203456125](https://doi.org/10.4324/9780203456125) (<https://doi.org/10.4324/9780203456125>)

Ramalho, R. (2003) *The Effects of Anti-Corruption Campaign: Evidence from the 1992 Presidential Impeachment in Brazil*. M.I.T. Working Paper.

Roberts, B. E. (1990) "A Dead Senator Tells No Lies: Seniority and the Distribution of Federal Benefits," *American Journal of Political Science*, 34:31–58.

[10.2307/2111510](https://doi.org/10.2307/2111510) (<https://doi.org/10.2307/2111510>)

Roll, S. (2010) "Finance Matters!' The Influence of Financial Sector Reforms on the Development of the Entrepreneurial Elite in Egypt," *Mediterranean Politics* 15:349–370.

[10.1080/13629395.2010.517098](https://doi.org/10.1080/13629395.2010.517098) (<https://doi.org/10.1080/13629395.2010.517098>)

Sadowski, Y. M. (1991) *Political Vegetables? Businessmen and Bureaucrat in the Development of Egyptian Agriculture*. Washington, D.C.: Brookings.

Schlumberger, O., ed. (2007) *Debating Arab Authoritarianism: Dynamics and Durability in Nondemocratic Regimes*. Stanford: Stanford University Press.

[10.1515/9780804779616](https://doi.org/10.1515/9780804779616) (<https://doi.org/10.1515/9780804779616>)

Sfakianakis, J. (2004) "The Whales of the Nile: Networks, Businessmen and Bureaucrats during the Era of Privatization in Egypt." In: (S. Heydemann, ed.) *Networks of Privilege: Rethinking the Politics of Economic Reform in the Middle East*. New York: Palgrave Macmillan.

[10.1057/9781403982148\\_3](https://doi.org/10.1057/9781403982148_3) ([https://doi.org/10.1057/9781403982148\\_3](https://doi.org/10.1057/9781403982148_3))

Shleifer, A. and R. W. Vishny (1994) "Politicians and Firms," *Quarterly Journal of Economics*, 46:995–1025.

[10.2307/2118354](https://doi.org/10.2307/2118354) (<https://doi.org/10.2307/2118354>)

Soliman, S. (2012) "The Autumn of Dictatorship: Fiscal Crisis and Political Change in Egypt Under Mubarak (trans. Peter Daniel).".

Tlemcani, R. (1999) *Etat, Bazar, et Globalisation: L'Aventure de l'Infatih en Algerie*. Algiers: Les Editions El Hikma.

Werker, E., G. Mennatallah, S. Francis, B. Salama and N. Selim (2012) *Ahmed Ezz: The Rise and Fall of an Egyptian Steel Magnate*. Harvard Business School mimeo.

World Bank. (2009) *From Privilege to Competition: Unlocking Private-Led Growth in the Middle East and North Africa*. Washington, D.C.: World Bank.

Wurzel, U. (2004) "Patterns of Resistance: Economic Actors and Fiscal Policy Reform in Egypt in the 1990s," In: (S. Heydemann, ed.) *Networks of Privilege in the Middle East: The Politics of Economic Reform Revisited*. New York: Palgrave Macmillan, pp. 101–131.

[10.1057/9781403982148\\_4](https://doi.org/10.1057/9781403982148_4) ([https://doi.org/10.1057/9781403982148\\_4](https://doi.org/10.1057/9781403982148_4))

**Published Online:** 2015-1-15

**Published in Print:** 2014-12-1

©2014 by De Gruyter



## Article



## Articles in the same Issue



<https://doi.org/10.1515/jgd-2014-0025>

### Keywords for this article

corruption; cronyism; Egypt; event study; value of political connections

# Sign up now to receive a 20% welcome discount

Subscribe to our newsletter

Institutional Access

How does access work?

 De Gruyter Brill



[Our privacy policy](#)

[Our cookie policy](#)

[Accessibility](#)

[General terms and conditions](#)

[Legal Notice](#)

Have an idea on how to improve our website?

Please write us.

