# Markets, Conflict, and Incumbent Tenure: Evidence From Turkey's Kurdish Insurgency

Emine Deniz [*]

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**Abstract**

Unexpected outbreaks of civil conflict may either strengthen or weaken the likelihood of an incumbent remaining in office. In the absence of an actual turnover in office, or immediate public opinion surveys, scholars of conflict are at a loss to tell whether such episodes of conflict strengthen or weaken an incumbent's hold on power. In this paper, I address this question with a novel approach: studying the stock market performances of the firms inside and outside of the incumbent's network to infer the effect of an exogenous conflict episode on the incumbent's survival probability. I hypothesize that the abnormal returns of firms connected with the incumbent provide valuable information about the incumbent's hold on power: positive abnormal returns indicate stronger incumbent power, while negative abnormal returns indicate weaker incumbent power. I apply this approach to study the effect of July 22, 2015, conflict episode in Turkey's civil war that marked the unexpected collapse of the Kurdish Peace Process. I find that firms connected to the incumbent Justice and Development Party displayed significant positive abnormal returns during the seven-day event period, indicating that the conflict strengthened the incumbent's power.

Political scientists have long been interested in the fate of the incumbent following a period of conflict. Some argue that the likelihood of an incumbent remaining in the office decreases following an insurgent attack (Bali 2007; Kıbrıs 2011). Others suggest significant variation in the strength of the incumbent's hold on power, when partisan conditions are taken into account. Exposure to violence resulting from the attack may increase the likelihood for a right-wing party to hold onto power and decreases the likelihood of a left-wing party to remain in the office (Berrebi and Klor 2008; Getmansky and Zeitzoff 2014).

An important reason for why the relationship between conflict and incumbent survival has remained largely unexplored is the problem of endogeneity. The literature exploits the variation in the timing and the location of the attacks to propose a causal mechanism between the attacks and the incumbent turnover. There are two problems with this approach. First, it is not always possible to observe electoral preferences immediately, i.e., elections are not always imminent, neither are public opinion surveys, following an attack or a sudden outbreak of conflict. Second, it is well documented in the literature that the timing and the location of an attack are not always exogenous to the election date (Bali and Park 2014; Gallego 2018; Harish and Little 2017).

Borrowing from the seminal Fisman (2001) paper on the effect of political connections on firm performance, I offer a novel measure to investigate how a conflict outbreak affects the incumbent. In this paper I estimate the effect of an unexpected outbreak of civil conflict on the stock market returns of firms with different political connections by using event study methodology. Specifically, I investigate the effect of the collapse of the Kurdish Peace Process on the incumbent Justice and Development Party (AKP) through the reaction of the market.

Turkey lends itself as a good case to study for four reasons. First, there has always been a cozy relationship between the political parties and the private sector in Turkey, so it is easy to code connections in a reasonably transparent way.[1] Moreover, existence of crony

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[1] The Economist ranks Turkey 14th in its crony capitalism index. For details see the March 15th, 2014 article: Planet Plutocrat

capitalism makes the offered-measure stronger. Second Turkish stock market data is easy to access and does not suffer from the thin trading that characterizes many countries in civil conflict (Fisman 2001; Dube, Kaplan and Naidu 2011).[2] Third, the collapse of the peace process was driven by unexpected events across the border in Syria, which makes it a good case for an exogenous shock and helps with econometric identification. Finally, the sheer length and intractability of the Kurdish conflict make this an interesting case study for scholars of civil conflict.

The econometric credibility of an event study analysis hinges upon whether the event was exogenous. I argue that this is a plausible assumption when it comes to the collapse of the Peace Process, which followed upon a major Kurdish victory in Kobane.[3] The key to exogeneity here is that while the peace process could reasonably have been expected to collapse sometime after the Kurdish victory in Kobane, the exact timing of the collapse could not plausibly be known ex-ante. Finally, it is important to note that the peace process was undertaken under the ruling AKP government. The peace process officially started on March $21^{st}$, 2013. It survived elections, popular protests, and a corruption scandal. Thus, it is plausible to assume that when the peace process collapsed two years later on July $22^{nd}$, 2015, it was exogenous to any stock market turbulence.

Empirically, I study the differential effect of conflict outbreak on connected and non-connected firms traded in the stock market. I accomplish this in three steps: First, I collect the daily stock prices around July 22nd, 2015, to investigate how financial markets reacted to the peace process collapse. Second, I calculate abnormal returns for each firm with various political connections. The methodology section will discuss the calculation of abnormal returns in detail. Third, I infer whether financial investors perceived the AKP government to be strong or weak in the face of political crisis.

[2]If the percentage of firms with zero returns over the observation period is more than 20 percent, then the stock market is defined to be thinly traded.

[3]For detailed explanations and analysis on the issue see: Wright (2015); Worth (2016)

I find that firms with connections to the AKP government enjoyed a substantial increase in stock prices. This runs counter what conventional wisdom would predict, but is consistent with my hypothesis. This suggests that financial investors must conclude that the incumbent will survive the storm and consolidate political power following the conflict outbreak.

This paper contributes to the literature on political economy of conflict in three ways. First, I introduce a novel measure for the incumbent strength that adds to the growing literature on rigorous empirical and game theoretic study of conflict and electoral outcomes (Berrebi and Klor 2008; Getmansky and Zeitzoff 2014; Di Lonardo 2017). Second, I contribute the literature on the relationship between the economic outlook of a country and civil conflict. Unlike many studies that try to establish a link between the economic well-being and civil conflict outbreak (Collier and Hoeffler 2004; Miguel, Satyanath and Sergenti 2004; Scacco 2010), I suggest using sudden conflict outbreaks to gauge information about the political environment by using the economic system. Finally, I contribute to the quantitative study of the Kurdish insurgency in Turkey (Kıbrıs 2011, 2014; Tezcur 2015; Kıbrıs and Metternich 2016).

The rest of this paper is organized as follows: The next section presents the main features of the case study's context, including the historical background of the Peace Process, the political economy of Turkey, and the methodology to construct links between the Justice and Development Party (AKP) and firms. In Section 3, I discuss the main data set and empirical strategy. In Section 4, I provide the specification and identifying assumptions. In Section 5, I present the results, which suggest that the collapse of the Peace Process strengthened, rather than weakened, the incumbent AKP's hold on power; I also discuss a series of robustness checks. Finally, in Section 6, I conclude with possible mechanisms driving the results and propose a direction for future research.

# 1 Background

## 1.1 Brief History of Turkey's Political Economy Scene

"Emergence of a business class is characterized, before anything else, by its position vis-à-vis the political power" *State and Business in Modern Turkey, Buğra (1994)*

The most important characteristic of Turkey's business environment is that the Turkish business class is a state-created national project. There was a lack of industrial entrepreneurs in the Ottoman Empire's Muslim population, so the Committee of Union and Progress, the first government of the Empire, adopted economic policies designed to sway the Muslim population from being civil servants to the private sector. The collapse of the Empire and the foundation of the Republic brought another wave of state-sponsored industrial development. This time, one's political connections informed both the decisions to become an industrialist and the nature of industrial venue. A brief look at the (auto)biographies of the most important industrialists in Turkey reveals either civil servants in the immediate family or close connections with the military, the bureaucratic and the political elite. Also, political connections were important for gaining physical capital. The lands, manufacturing sites, and even residential homes of the forcefully displaced Armenians and Greek got distributed among the people with political connections. After the first free and fair elections of 1950, the emergence of center-right as the dominating political power in Turkish politics welcomed a new era of industrialists: the owners of large lands.[4]

The military established itself as the guardian of the Republic given the emergence of the center-right as the political power. Before, the Republican People's Party, founded by

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[4]The founders of the Republic deliberately left the land owners out of the industrialization wave because (i) the large lands were mainly concentrated in the Kurdish- dominated Eastern and Southeastern part of Turkey, and (ii) feudal structure of land owning were seen as a threat to new founded national state (Buğra 1994).

Atatürk himself, enjoyed the support of the military while governing the country. After 1950s, Democrat Party and its successors had not one but two strong opponents: the elected members of the parliament from the Republican People's Party and the unelected and un-accountable Turkish military.

After every turbulent and destructive political change a new entrepreneurial class has emerged to displace and dispossess the previous one. The AKP came to power following the one of most turbulent political and economic events in Turkey: The elections of 2002. It constituted a major breaking point in the history of Turkish politics for many reasons. First, it was the first time since 1987 elections that Turkey had fallen into the hands of a single party government.[5] Second, it was the first time in the history of the Republic that a party with known Islamic roots had grabbed the power. Third, the relationship between the military and the political movement that gave birth to AKP was rife with contentious politics. The last time the political movement was in the parliament as the minority member of the coalition government, the government was overthrown by a post-modern coup, i.e., being forced to resign via threat of a coup.Finally, the business- state relationship changed gradually but significantly, forming a new set of connected business groups, during the ongoing incumbency of the AKP.[6]

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[5]After the military intervention of September 12, 1980, the first elections were held in 1983. Turgut Özal's Motherland Party won in a landslide, in face of the military government's extensive propaganda against him. Four years later, 1987 elections were held as scheduled. This time, the politicians and parties that had been banned by the decree of the military government participated. The Motherland Party won the majority again. After the early elections of 1991 Turkey was governed by coalition governments of mainly center-right and center-left parties.

[6]Largely from the inner parts of Turkey, namely Anatolia.

## 1.2  The Kurdish Issue

The question of Kurdish recognition is as long as, if not longer than, the declaration of the Republic in 1923. Kurds are the largest ethnic minority in modern Turkey, living predominantly in the Eastern and Southeastern part of the Turkey.[7] The conflict between the Republic and its Kurdish citizens shaped the public and economic policies such as public good provisions, citizenship rights, military interventions, investments by the state or private firms in the Eastern and Southeastern parts of Turkey. The first and most notable, rebellions against the Republic were held by the Kurdish population in 1925, 1930, 1936, and 1938. The rebellions, coupled with the ethnocentric nationalist ideologies of the Republican political elite, introduced the Kurdish population to the heavy hand of the state. It was not until 1970s, when a decade of political violence and instability ended in a coup on September 12, 1980, that the Kurdish armed opposition made a new appearance in Turkish political scene.

The PKK (Kürdistan Workers' Party) was founded in 1978 as an armed radical organization by Abdullah Öcalan and his central party command of five. Over the next few years the PKK evolved into an insurgent movement; it has been the focal point of Kurdish insurgency ever since the 1980 coup. The group's first attack against the State took place in the border districts of Şemdinli and Eruh on August 15, 1984. Insurgents attacked Turkish military bases and killed two army officers. The attack enabled the military to champion its role as the "protector of the Republic and the national unity of the country" once again.

The Kurdish issue, and its effects constitute an important determinant of government tenure in Turkey. Turkish voters are found to vote for more nationalistic option after waves of insurgent attacks, and some claim voters are also more likely to punish the incumbent (Kıbrıs 2011).

In the next subsection, I will describe the events that I use for the event study method-

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[7]In the treaty of Lausanne, only non-Muslim religious minorities were designated as minorities.

ology. The timeline below will be helpful for visualization.

[Insert Figure 1 here]

## 1.3   The initiation of The Peace Process of *March, 2013*

The Peace Process was a natural progression in the AKP's ever-strengthening relationship with Turkey's minorities, especially the Kurdish minority. The Party came to the power with a strict commitment to solving the Kurdish issue. Unlike many previous governments, Erdoğan and his political elites had seen the Kurdish issue as a beast created by the founding ideology and its signature strict secularism.[8] Erdoğan redefined "citizenship" based on membership to the ummah rather than ethnicity and criticized military's overarching role in counterinsurgency policies. He, thus, forged an unlikely alliance of pious Kurds, and Kurds sympathetic to the insurgent movement (Yavuz and Ozcan 2006).[9] These strategies also helped to consolidate support among the conservative and nationalist electoral base of central Anatolia.

The Peace Process officially started in Diyarbakır province on *March 21, 2013*. The day marks Newroz, an important holiday for the Kurds living in Turkey, and the start of spring. A letter calling farewell to arms by the imprisoned insurgent leader Abdullah Öcalan was read amidst cheers. The ceasefire announced on *March 23, 2013*.

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[8]AKP was, to a great extent, right in this assesment. Many reforms in the early year of the Republic, especially these that aimed to establish a strict state backed secularism, were aimed at erasing the Kurdish identity.

[9]To clarify, these two categories are neither all-encompassing nor mutually exclusive.

## 1.4 October 6-8, 2014: Protests against the siege of Kobani and Erdoğan's statement on the siege

On *September 13, 2014*, Islamic State of Iraq and Levant (ISIL) launched an attack on the Kobane canton of the Rojova region in Syria. Kurdish forces known as YPG/SDF were among the first to fight against the ISIL advance. During the month of September, refugees from Kobane flocked to the Turkish border to escape from the atrocities perpetuated by the ISIL militants. The first of many tensions arose between the AKP leadership and the Kurdish members of parliament, all of whom were elected as independent candidates. The main point of contention was whether the border should be locked down for security purposes. The tensions came to a head when the government refused to open a corridor for the safe passage of heavy-arms to supply the YPG/SDF soldiers, as demanded by the Peoples' Democratic Party (HDP). Following the refusal, HDP's official twitter account called for mass protests. The protests turned into two days of violent clashes, killing 50. This was the largest death toll since Abdullah Öcalan's call to cease arms in 2013. On *October 8th,2014,* President Erdoğan held a rally in Gaziantep, a border town with many Syrian refugees, and claimed Kobane's fall was imminent. He accused the Kurdish insurgency leaders in Turkey of using the Kobani siege as a bargaining chip in the domestic peace process.[10]

## 1.5 January 26, 2015 : ISIL's acceptance of defeat in Kobane

On *January 26 2015,* after months of "Kurdish warriors fighting room to room on the ground and Western warplanes bombing on a daily basis from the skies" (Wright 2015), ISIL accepted defeat and retreated from Kobane. This marked the first-ever victory against ISIL. Apart from international recognition and applause that the West showered upon the Kurdish fighters, the victory raised questions whether the PKK should remain on the list of

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[10]For a good account of the event see the New York Times magazine article *"Behind the Barricades of Turkey's Hidden War"*.

terrorist organizations. The victory made Kurds hopeful about their future as a sovereign nation (Worth 2016).

Contemporaneously, the KCK, the governing council of the PKK, released a statement on the Peace Process. The KCK accused the government for not taking the Peace Process seriously (*KCK'dan "Süreç hızlandırılsın" cağrısı* 2015). At this point, the Peace Process was on shaky ground because (i) the government of Turkey, especially Erdoğan, had missed the mark by claiming Kurdish defeat was imminent in Kobane[11], (ii) Erdoğan had accused the Kurdish political actors of using the siege and ISIL's defeat as bargaining chips; and (iii) various members of the KCK had released statements regarding possible warfare in Turkish Kurdistan in the Spring.[12]

## 1.6  The Collapse of the Peace Process

As is evident from the events described above, the Peace Process was rocky. Its turbulent nature notwithstanding, the peace process survived through numerous political crises,[13] but the killing of two police officers on *July 22, 2015* marked **the definitive end of the peace process**. Two days before, on *July 20, 2015,* ISIL claimed responsibility for a bombing in Suruç Şanlıurfa that killed 33 young activists from the Socialist Party of the Oppressed who were about to deliver a press release in their mission to rebuild Kobane. The PKK's urban warfare militia, known as TAK, retaliated by killing two police officers who allegedly had aided and abetted ISIL militants in Şanlıurfa. For the first time since *March, 2013* the Turkish government and its military decided to resume the military operations against PKK

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[11]Erdoğan later accused media outlets for manipulating his words.

[12]A statement made by Sabri Ok.

[13]Notable examples are: the fallout between the Justice and Development Party and the Gülen movement, Gülen movement is a clandestine brotherhood style Islamic sect, infamously, known for its failed coup attempt in *July, 2016.* The Gezi Protests of *June 2013*, a corruption scandal, civilians killed in an air-raid at Roboski border, and elections.

camps and strongholds.

Since then, the war between the Kurdish insurgents and Turkish security forces has continued to smolder. Though the Peace Process collapse was treated by some as a sudden and unpredictable event, it is debatable whether the collapse was truly unexpected. As mentioned before, the increasing military significance and prowess of the Kurdish forces in the Syrian Civil War made it probable that the Peace Process would collapse at some point. However, it would have been nearly impossible to guess the timing of the collapse or to argue that an attack by ISIL on a group with no ties to the Kurdish insurgency was going to cause it.

# 2  Data and Sample

To test whether the abnormal returns of firms connected with the incumbent provide valuable information about the incumbent's hold on power, I used two types of data: (1) stock market and accounting data for publicly traded companies in Istanbul Stock Exchange 100 Index (BIST 100) and (2) data on the political connections of the relevant firms. The data on stock market, firm level events and firm attributes were obtained from the Reuters data.

The main coding exercise involves identifying the political connection of each firm that trades on the BIST 100. I use six political connection categories: the AKP, Opposition, Military, State, International, and Other (encompassing all connections that do not fit one of the first four categories). I identify these connections by using data on each firm's shareholders and board of directors, the literature on Turkey's political economy, various newspaper articles and opinion pieces, and informal interviews with the heads of research and investment in various financial institutions based in Turkey.

## 2.1  Identification of Political Connections

The paper employs three strategies to identify the existence and the depth of political connections.

The first strategy identifies a firm's political connections based on the firm's sole owner or its list of partners. This strategy links a firm with the AKP if ownership/partnership includes (a) the Sabancı family,[14] (b) Ferit Şahenk, (c) the Zorlu family, (d) the Ülker family, and/or (d) business people who are known to be close to any conservative-right party or one of a few central-right political parties in power.[15] In Opposition-connected firms, majority ownership is held by (a)the Republican People's Party, (b) businesspeople with known ties to the religious Gülen movement, [16] (c) the Koç family, and (d) those owned

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[14]AKBANK is an exception to this rule. The chairwoman of the board of directors Suzan Sabanci Dincer is a known opposition figure.

[15]To name a few examples: The owner of Metro Holding Galip Öztürk is the utmost example for being pragmatic with one's political allegiances. On the other hand, the chairman of the board of directors for Turcas Petroleoum Erdal Aksoy is against the bureacratic and military entrenchment of the country's politics. That opposition makes him side with the ruling governments rather than AKP per se.

[16]An important disclaimer must be made here about the relationship between the Gülen movement and the AKP. In the early years of AKP government, the AKP and the Gülen movement did not collaborate much. It was a showdown with the military and the judicial elite in 2007 brought the two together. With Gülen's extensive encroachment in the bureaucracy, especially the military and the judiciary bureaucracies, The AKP managed to dodge a yet another post-modern coup. The relationship started to shatter in 2009 with the KCK trials, and hit rock bottom in 2013 due to what is now known as 17 - 25 December tape leaks. The leaks suggested a corruption network involving many AKP members of parliament, and even Erdoğan himself and his kids.

by Aydin Doğan.[17] Per Göktepe and Satyanath (2013) Military-connected firms in Turkey (a)have the Armed Forces Trust and Pension Fund (OYAK) as the majority shareholder, (b) OYAK and/or its sister company TKGSV (Foundation for Strengthening Armed Forces) controls the firm along with a partner firm.

The second strategy categorizes firms based on the timeline of their establishment and or acquisition. State-connected firms were established in the country's statistic development period (1930-1950) and five-year planning period in the 1960s and 1970s; and subsidiaries are considered State-connected if their parent firms were established during one of these time periods. International firms traded in the BIST 100 or that were acquired by international groups through merger, acquisition, or privatization process are coded as International firms.

The third strategy systematically codes the members of the board of directors and the shareholders for publicly traded firms. Firms are connected to the AKP if the board of directors and shareholder list includes (a) a member of Parliament from the AKP, (b) a local AKP official such as a provincial head or a member of the provincial party organization, (c) a close relative of the ruling party officials indicated in (a) and (b), or (d) someone with political connections to the AKP as described in the first strategy. [18] This strategy applies to the firms with alleged ties to the Opposition, as well. It does not affect the Military or State categories, which are completely defined by the first two strategies.

[Insert Table 1 here]

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[17]The e-mail leak by the hacker group RedHack demonstrates a complicated relationship between the Doğan Holding, especially its media companies, and the government. However, the leak also provides evidence to the claim that government crackdown on perceived opposition will force business people to express loyalty to secure oneself and one's economic enterprise.

[18]Gürakar (Gürakar 2016) did the same exercise for the firms that undertook public tenders through municipalities.

## 2.2 Firm Characteristics:

What are the characteristics of the firms publicly traded in the BIST 100? Table 1 presents the descriptive statistics for firm characteristics. *Age* is the number of years that a firm is operating. Its mean is 38 years, with the youngest firm has been operating for 5 years and the oldest for 82 years. *Year* is the total number of years a firm has been traded publicly in BIST 100. On average firms have been traded for 18 years, with a minimum of 2 and a maximum of 45 years. The natural log of total assets demonstrates the size of the firms traded in the BIST 100 index. Its mean is 21.18, with a minimum of 18.86 and a maximum of 26.4.

Approximately 32 % of the firms in the data have ties to the incumbent AKP, and other 28 % have ties to opposition, characterized by ties to the Republican People's Party and the Gülen movement. 3 % of the firms have organic ties to the Turkish Armed Forces (Military Category), and 7 % are State Owned Enterprises (State category). Finally, firms with connections that are classified as Other and International make up 13 and 17 % of the sample, respectively.

Is any systematic difference in firm characteristics attributable to the variations in political connections? Table 2 demonstrates difference in means for the incumbent (AKP) connected firms and those that are not. The difference in means for the observable characteristics are (i) not attributable to political connections, (ii) controlled for.

[Insert Table 2 here]

# 3 Empirical Strategy

## 3.1 Estimating Equation:

The financial economics literature defines event studies as the examination of "the behavior of firms' stock prices around corporate events" (Kothari and Warner 2007). In this

study, I define the collapse of the Peace Process as the corporate event.

In the event study, I employ the standard procedure to estimate the market-adjusted cumulative abnormal return for the 7-day period (*event window*) around the event dates (*days -3 to +3*). The main event date is set to *July 22, 2015* because that was the day that marked the collapse of the Peace Process. All the firms traded in the BIST 100 Index that did not have a missing return value are included. Political connections are determined based on data available on *December 31, 2014* The accounting data on total assets and total debt are from the third quarter of 2015.

Normal return is defined as the firm's expected stock return during the event window without conditioning on the event taking place. Abnormal return is defined as the firm's actual stock return during the event window minus the normal return of the firm.

I use the benchmark single index market model during the estimation window [-60, -30] to estimate the normal return ($r$):

$$r_{it} = \alpha_i + \beta_i r_{mt} + \epsilon_{it} \tag{1}$$

where $r_{it}$ is the daily rate of return on stock $i$ at time $t \in [\underline{t}, \overline{t}]$, where $\underline{t}, \overline{t}$ define the beginning and the end of the estimation window. $r_{mt}$ is the daily rate of return on BIST 100 index, and $e_{it}$ are the residual random returns. The coefficient $\alpha_i$ captures the stock's abnormal return and $\beta_i$ captures the stock's responsiveness to the market return. (Yip 2000)

In other words, $r_{it} = \alpha_i + \beta_i r_{mt} + \epsilon_{it}$ with $E[r_{it}|r_{mt}] = \alpha_i + \beta_i r_{mt}$ leads to $\hat{r}_{it} = \hat{\alpha}_i + \hat{\beta}_i r_{mt}$ With the estimated parameters $\hat{\alpha}$ and $\hat{\beta}$ , the abnormal return ($AR$) is

$$AR_{i\tau} = r_{i\tau} - \hat{r}_{i\tau} \tag{2}$$

where $Return_{i\tau}$ is the daily return of stock $i$ during the event window $\tau \in [\underline{\tau}, \overline{\tau}]$, where $\underline{\tau}, \overline{\tau}$ define the beginning and the end of the event window.

The cumulative abnormal return (CAR) is the sum of the abnormal return over the event

window,

$$CAR_i(\tau_1, \tau_2) = \sum_{\tau=\tau_1}^{\tau_2} AR_{i\tau} \tag{3}$$

The equation (3) essentially reflects whether the outbreak of conflict is perceived as an advantage or disadvantage by the investors. Because of the pecuniary and non-pecuniary benefits of having the incumbent as a benefactor, I argue that the relationship between the incumbent and the firm provides information regarding the firm's future financial success. By the same token, any unexpected event that might have any kind of effect on the incumbent's tenure plausibly can affect an investor's perception of the firms associated with the incumbent. To capture this relationship, this paper introduces a novel way to use the cumulative abnormal returns: incumbent strength.[19]

$$CAR_{i\tau} = \alpha_i + \beta_i ConnectionType_i + \gamma_s + X^{'}\theta_i + \epsilon_{i\tau} \tag{4}$$

where $CAR_{i\tau}$ is the cumulative abnormal return for the firm $i$ over the event window $\tau$. $ConnectionType_i$ is the indicator for the firm $i$'s political connection. $\gamma_s$ is the sector fixed effects, and $X^{'}$ is the company specific controls, such as age, size, and return on equity. The standard errors are clustered at the company level.

[Insert Figure 2 here]

Figure 2 shows the distributions of cumulative abnormal returns for incumbent connected and not connected firms for all events combined. Table 3 demonstrates the results for the 7-day cumulative abnormal return for the firms. I find that AKP-connected firms enjoyed a cumulative abnormal return of 3.96% for the main event of interest. On the other hand, opposition connected firms experienced a cumulative abnormal return witnessed a negative return, of the magnitude -2.1%.

[Insert Table 3 here]

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[19]For other examples of this measure see Guidolin and La Ferrara (2007, 2010).

## 3.2 Identification Strategy:

Event study methodology utilizes the efficient market hypothesis, which posits that market value of a firm or portfolio of firms is the sum of the current and the future cashflows expected with the current set of available information. Thus, as soon as an unexpected event avails itself to the market, the firm's market value adjusts to incorporate the event into the relevant set of information. (Fama, Fisher, Jensen and Roll 1969; Agrawal and Kamakura 1995).

First threat to identification is the assumption that there exists a causal relationship between economic hardships and the occurrence of civil conflict. Under this setting, stock market turbulence around *July 22, 2015,* could plausibly have precipitated the Peace Process collapse. But per the efficient market hypothesis, the market can only incorporate an information in its economic value calculation if it is known at the time of the valuation. That would require (i) the market must have known exactly when the outbreak was going to happen, (ii) investors used the knowledge to value companies based on their political connections, and (iii) when the event date arrived, the stock market experienced turbulence and the Peace Process subsequently collapsed.

Another threat to identification is the predictive value of the protests against the Kobane siege (*October 8,2014,*) and ISIL's acceptance of defeat in Kobane (*January 26, 2015*). That is to say, these two events provided a new set of information to the market about the Peace Process collapse. If these events had indeed cued the market in the Peace Process collapse, I would have observed significant negative cumulative abnormal returns for the non-AKP connected firms for the Kobane siege only, and null results for all firms for the defeat of ISIL and the Peace Process collapse. A quick look to Tables 4,5, and 6 refutes this claim.

[Insert Table 4 here]

[Insert Table 5 here]

[Insert Table 6 here]

# 4 Results

## 4.1 Main Results:

Figures 3 and 4 summarize fluctuations in the Istanbul Stock exchange at the time of three events. It includes the collapse of the Peace Process on *July 22, 2015*, as well as two additional events – protests against the Kobani siege (*October 8, 2014*) and the Kurdish defeat of ISIL (*January 26, 2015*) – for robustness checks. However, the main purpose of this paper is to identify whether any abnormal stock price changes are contained within these fluctuations when companies are stratified by their political connections.

[Insert Figure 3 here]

[Insert Figure 4 here]

Table 3 shows the cumulative abnormal return results for firms connected to the AKP government, Opposition, Military, and State, as well as International firms and those in the Other category. Of all political connection categories, only the AKP-linked firms show positive CARs in all three conflict events; all other categories show a mix of negative and positive cumulative abnormal returns. Of the three conflict events, the collapse of the Peace Process yielded the most significantly positive CARs among AKP-linked firms: 3.96% on *July 22, 2015*, compared with 1.1% on *January 26, 2015* and 1.3% on *October 8, 2014*. Opposition-linked firms show mixed results; the only significant effect is a negative CAR with the collapse of the Peace Process. Tables 7 and 8 display sector-level CARs for all events combined and for the main event, respectively. The data show that a lack of any Turkish political connections does not have a uniform effect across firms nor across sectors (e.g., basic materials, financial, industrial, etc.). In Table 9, I present this paper's main aim: to analyze the marginal effects of the AKP (incumbent) connection on CARs. Table 9 provides results for the multivariate ordinary least squares (OLS) regression with the CAR for the firm i over the event window j as the dependent variable.

[Insert Table 7 here]

[Insert Table 8 here]

Note that all AKP-connected firms are excluded; the results from AKP-connected firms are displayed separately in Column 7. In Column 1, negative coefficients for all but the Military-connected firms indicate that the AKP connection offers larger CARs when data is pooled over all the three event windows. This specification has CAR for firm i in the event window j as the left-hand side. The right-hand side includes dummy variables that capture different type of connections. The specification also includes event dummies and standard errors clustered at the firm level.

Columns 2,3 and 4 of Table 9 correct for possible confounders. It is plausible to think that the results might be affected by intrinsic sectoral traits; for example, perhaps some sectors are less vulnerable to exogenous shocks such as civil conflicts. To address this possible bias, I include the sector fixed effects in Columns 2-4. The resulting CARs once again display negative coefficients for all connection types except Military. The marginal effects on CAR for firms in the Opposition, International and Other categories are both negative and significant. In Columns 3 and 4, I additionally consider firm-level attributes that might explain investor behavior. During times of political uncertainty, investors might choose to divert their investments to larger, longer-lived, or more profitable firms. To control for these firm-level attributes, the right hand side of the specification of column 6 now includes firm size, age of the firms, years in stock market, and dividend yield (return on equity) data. As before, the coefficients for all non-Military CARs are negative. Only the negative results of Opposition and International connections are significant.

The main event of interest for this paper is the definite collapse of the Peace Process on *July 22, 2015*. As is evident in Table 4 compared with Tables 5 and 6, the CARs for all categories of firms were affected more significantly by the Peace Process collapse of July 22, 2015, than by either of the other events. After *July 22, 2015*, firms in the Opposition

and International categories suffered from negative results that remain significant even with fixed effects and controls.

[Insert Table 9 here]

## 4.2   Robustness Checks:

In Table 10 I conduct a series of additional robustness checks. Since each event signifies a time of uncertainty, could the results be driven by the overall strength of the AKP government, the certainty with which the government is expected to survive political turmoil, and the correlated belief in the survival of the politically connected firms? Or does some unobservable characteristics of the AKP-connected firms make those firms superior to all other firms in the BIST 100? If the latter explanation is true, then the AKP-connected firms should offer superior CARs in the absence of any political turmoil. Column 1 of Table 10 shows the CARs during politically calm period from May 20-22, 2014 analogous to the seven-day event window analyzed before.[20] The results do not support the hypothesis of the superiority of AKP-connected firms.In fact, all but the international firms display positive yet insignificant coefficients. I conduct robustness checks with additional event windows of three and fifteen days, taking its cue from other papers using event study methodology. These results are displayed in Columns 2 and 3 of Table 10 and represent the most demanding of the empirical specifications. The results are robust for the three-day window but not for the fifteen-day window, which makes sense given the market uses the information sells or buys stocks in minutes in fact.

Do all the companies benefit the same from their connections to the incumbent AKP government? The anecdotal evidence, the conversations had with the heads of researchers and

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[20]Calm period is chosen on two criteria: (i) three day period in which the absolute change in the BIST 100 Index was less than 3%, and (ii) three day period away from an important political event, such as elections, start of the peace process, with a reasonable window.

financial analysts in Turkey, and Göktepe and Satyanath (2013) suggest not. For example, Sabancı Holding is known for sorting out its alliances with every incumbent. Zorlu Holding is considered to be a creation of Özal years in Turkey, which stays relevant to Turkish economy during the AKP-era by shifting alliances. On the other hand, there are companies like the BİM discount markets, or AKSA Energy that are seen as the business branch of the party politics.[21] The companies in the former group are bigger, older, and historically yield better dividends on their equity. Then, can it be the case that they are driving the results? In order to test for this concern, in Column 4 of Table 10, only the companies with hard AKP-government connection are kept and the rest of the companies are moved to the Other group. The relative loss of Opposition-connected groups decreased without losing its significance. This finding suggests evidence against the less connected but well established companies carrying the results. Another way of cracking this question is introducing Erdoğan-Dependency Index, just like the Sutharto-Dependency Index used in Fisman (2001) article.[22] Overall, the results indicate that AKP connections offered relatively superior abnormal returns during times of political turmoil in civil conflict. Next section summarizes the results of the offer, and explains possible implications.

[Insert Table 10 here]

# 5  Summary and Implications

This paper offers a unique measure to assess the effect of conflict outbreak on the incumbent's tenure. I employed event-study methodology to assess the stock market performance of firms traded in the stock market in the immediate aftermath of a conflict. Notwithstanding the success of surveys and survey experiments, our method offers an improvement in two

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[21]See Appendix for detailed information about the companies in the dataset.

[22]I am working on a project that collects data, expert opinions, banking records to establish such an index.

22

major areas: (i) in the absence of immediate opinion surveys, effect-attenuation due to time is an issue, and (ii) even if there is an on-going or immediate opinion survey, surveys provide us with information on the attitudinal changes. Stock markets, on the other hand, provide an instant behavioral measure.[23]

This paper also advances the literature on the study of Kurdish insurgency in Turkey. And, more generally the study of Turkey and its political and economic institutions.

We conclude that the investors do not perceive conflict as a negative shock to the incumbent tenure; on the contrary, firms with known political connections to the incumbent AKP performed decidedly better after the outbreak of conflict.

There are two immediate implications of this result: (i) ease of access to the credit line and government procurement among firms with political connections to the incumbent, (ii) rally round the flag effect, both coupled with the perceived and/or observable capture of the state apparatus by the incumbent government.

The current literature on political connection in developing democracies favors explanation (i), suggesting that incumbent-connected firms receive more bank lending (Brugués, Brugués and Giambra 2018; Khwaja and Mian 2005; González and Prem 2019). To examine this possibility, one needs a panel dataset of lending by the banks and/or allocation of government contracts. Gürakar (2016) has the procurement data, but the amount of information for publicly traded firms is limited in the data. Bank lending data is not available for the public use. Of course, there are anecdotes, social media posts, and very rarely investigative reporting on the issue. Available data does not lend itself to either reject or accept the null hypothesis that the difference in the performance of the AKP-connected and the non-AKP connected firms is not due to the ease of access to the credit line and government procurement contracts. However, we can provide secondary evidence by establishing "difference in differences is due to the increased probability of " Erdogan leaving the office, not any other

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[23]I am grateful to Austin Wright for bringing this point to my attention.

bad news.[24]

Table 11 provides cumulative abnormal returns for the AKP and non-AKP connected firms during (i) Erdoğan's health scare on November 26, 2011. Erdoğan had an emergency laparoscopic surgery due to a condition, speculated to be colon cancer, in his intestines, (ii)Gezi protests of 2013, which is an example of both a threat to the Erdoğan's tenure and market volatility, (iii) US Federal Reserve Bank's interest hike, and finally (iv) Emerging market stock markets losing more than 2 percent in returns.

[Insert Table 11 here]

Table 11 shows that Opposition and State connected firms performed significantly better when the possibility of losing Erdoğan as a benefactor arises. Even during Gezi protests opposition did not enjoy any significant gain over AKP-connected firms. It can be seen as a counter-intuitive result working against the argument presented in the paper, but it is not. Gezi protests, and the demands risen by the protestors had never been about Erdoğan leaving the office, or even about snap elections (Taksim Platformu 2013). General bad news regarding the economy, like possible devaluation of the Turkish lira due to the increase in US interest rates or Emerging Market volatility has a mixed but insignificant effect. It is plausible, then, that the investors assign some sort of a premium to being connected to Erdoğan and his ruling party AKP. The reason behind the premium is, admittedly, one of the most interesting questions in the study of the political economy of Turkey under AKP rule.

[Insert Table 12 here]

Another mechanism favored by the scholars of the conflict and domestic politics is the rally round the flag effect. The "rally effect" described as the propensity of the public supporting the incumbent in the face of international crisis, such as the Falkland War and

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[24]Fisman (2001)

the War on Terror, despite political differences is shown to be significant in explaining the variation in incumbent tenure or popularity (Baker and Oneal 2001; Lai and Reiter 2005; Norpoth 1987).

Table 12 provides suggestive evidence for consolidation of voter preferences following a period of rising security concern. The nature of elections and the identifying assumption of the event study methodology lend itself to test the rally 'round the flag effect. When a new information that avails itself the market incorporate that information to its calculations and decisions. Then, when the Higher Board of Elections in Turkey announced the election timeline for the upcoming June 7, 2015 elections on January 22, 2015 the investors should act accordingly given the information, the election date, and their beliefs, whether the AKP continues its stronghold on power. Column 1 of Table 12shows the result for a three-day event window period surrounding the election decision.[25] It shows that the markets bet against the AKP-connected firms, giving some credence to the idea that Erdoğan might lose its grip on power. The fact that portfolios were moved to include more Opposition- and Military-connected stocks follow the results presented in Göktepe and Satyanath (2013) paper.

The first round of elections ended, indeed, in an electoral loss for the AKP government. Still the first party in the election, AKP premier and the then-prime minister Ahmet Davutoğlu was tasked with forming a coalition.The failure to do so resulted in a hung parliament, and the Higher Board of Elections announced the new timeline for the snap elections. Column 2 presents the results for this date. Following a period of intense clashes and the collapse of the peace process, the market sees the opportunity for the AKP government to reclaim their power.

In this paper, we propose a new measure to explain and identify the effect of conflict outbreak on the incumbent tenure. Turkey is used as the specific case in this study, however

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[25]The change in event-window follows the quick nature of elections. Seven day event window leads the same results, with announcement specification losing its significance.

the methodology in the study can be extended to any country that have well-functioning stock market.

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# A    Appendix A.1

This appendix will provide the reasoning and evidence behind the caterogization of the firms with respect to their political connectedness.

**Aksa Enerji, Albaraka Türk, BİM Mağazaları, Bizim Mağazaları, Gözde Girişim, Kardemir, Odaş Elektrik, Turkcell,Tümosan, Ülker Bisküvi** :

Subsidiary of Kazancı Holding Aksa Enerji is categorized as being connected to the JDP government. Kazancı Holding has been identified as one of Erdoğan's elites by Bloomberg Market (Harvey and Bentley 2010). The group has the won the tender for 5 percent of the electric distribution and 18 percent for the natural gas distribution.

Islamic banking institution Albaraka Türk and the discount supermarket chain BİM Mağazaları are coded as JDP connected. Like Aksa Enerji the parent company of the two, Bereket Holding is identified as the business elite of the AKP government (Harvey and Bentley 2010). One of the three founders of the company, Cüneyd Zapsu, is a founding member and a member of the central executive committee of the AKP. Another owner, Mustafa Latif Topbaş, is a close friend and confidante of Erdoğan. One of the shareholders of Bereket Holding was Kemal Unakıtan. Kemal Unakıtan acted as the Minister of Finance between 2002 and 2009. He was a member of parliament first from İstanbul then from Eskişehir until 2011. When elected into office, as per the law, Unakıtan transferred his shares in the company, to his son. Holding and its subsidiaries transferred many of its executives to state bureaucracy over the years. Some notable examples are, the chairman of the Savings Deposit Insurance Fund from 2004 to 2010 Ahmet Ertürk, the vice president of SDIF from 2005 to 2010 Salim Alkan (*Bereket'in Şifreleri* 2006).

The chairman of the board of directors for Kardemir Demir Çeelik is a former member of parliament from JDP.

Odaş Elektrik was founded by Korkut Özal, brother of the former president and leader of Motherland Party Turgut Özal, who was an important figure in the Islamist movement in Turkey. He was a member of the National Salvation Party (NSP). He held the office as the

minister of agriculture as well as minister of interior under the party banner. Notable NSP members were Tayyip Erdoğan, Abdullah Gül and Bülent Arınç who were founding members of JDP. More importantly, with Cüneyd Zapsu, Korkut Özal was one of the intellectual influences during the formation of the JDP (Özdal 2016).

The largest cellular service provider in Turkey, Turkcell is coded as AKP-connected. The company's board is appointed by the Capital Markets Board of Turkey. CMB is under direct authority of the ministry of finance. Right now the company has two board members who are former ministers. Atilla Koç, former minister of culture, and Hilmi Güler, former minister of energy and natural resources. One board member who was the deputy provincial chairman for İzmir AKP party office. The company is also one of the main donors to the Ensar Foundation. One of the founders of the Ensar Foundation is Kadir Topbaş, former mayor of Istanbul. The board of trustees includes Ahmet Misbah Demircan, mayor of Beyoğlu and member of the AKP.

Tümosan Motor ve Traktör is the second largest agricultural vehicle producer in Turkey. Founded by Necmettin Erbakan of Welfare party, the company is now owned by the Albayrak family. Family's son-in-law won 250 million dollar worth of tenders from Istanbul Municipality, whereas Albayrak family company won a tender in the municipality of Şahinbey, Gaziantep where they were the only ones that met the criteria (Küçükkaya 2017).

Subsidiaries of Yıldız Holding Bizim Mağazaları, Gözde Girişim, and Ülker Bisküvi are coded as AKP-connected. Owned by Ülker family Yıldız Holding has long been identified as one of the green-capital[26] companies in Turkey. In addition, a year into AKP government Erdoğan founded a distribution company with the sibling of Orhan Özokur, who was and still is the vice chairman of the Ülker Bisküvi Group. There is also familial relationship between Orhan Özokur and Ahmet Davudoğlu, ex-minister of foreign affairs, ex-prime minister, ex-member of parliament. Özokur's son is married to Davudoğlu's daughter (Kansu 2015).

**Afyon Çimento, Akbank, Brisa, Çimsa, Kordsa Global, Sabancı Holding,**

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[26]A slightly pejorative term used for companies that have non-secular owners.

**Teknosa, Akenerji, Aksa, Doğuş Otomotiv, Global Yatırım Holding, Metro Holding, Park Elektrik Madencilik, Vestel Beyaz Eşya, Vestel, Zorlu Enerji**:

Subsidaries of Sabancı Holding these companies are categorized as AKP-connected. This category includes firms that have (i) board members who are or were members the AKP in any level, (ii) board members/shareholders that have relationships with the party leader Erdoğan. Such is this relationship that it provides tax breaks and procurement deals for large public projects. The group's relationship with the government of Justice and Development Party started well. During the aforementioned bill saga in the early months of JDP government Sakıp Sabancı did not attend the meeting convened by Rahmi Koç and Tuncay Özilhan (Özkök 2010). Güler Sabancı became the chairperson of the holding company after her uncle, Sakıp Sabancı's death. Güler Sabancı has never been on record criticizing the government. Sabancı Holding was among the companies that received a settlement deal for their tax debt (Holding 2016).

Subsidiaries of Akkök Holding Akenerji and Aksa are categorized as being connected to the AKP government. The group has a connection to the government through a member of parliament. In 2013 when the CEO of a group company allegedly insulted then-prime minister Recep Tayyip Erdoğan, AKP's member of parliament for Yalova, Temel Çoşkun, contacted both AKP Central Office, Erdoğan, and the Dinçkök family immediately. The MP brokered a deal between the two and as a result the CEO was asked to resign (*Erdoğan'a önce hakaret sonra istifa* 2013). The group also won the tender for the electric distribution for Sakarya region in 2008.

Subsidiary of Doğuş Group, Doğuş Otomotiv is coded as AKP-connected. Ferit Şahenk, the chairman of the group, is among the businesspeople that did not attend the Divan Otel meeting (Özkök 2010). The Group also built an apartment complex for the families of the miners killed in Soma coal mine. Soma mine disaster was one of the lowest points of AKP governance, and Şahenk's generosity scored points for Şahenk with Erdoğan, and Erdoğan scored points with his electorate. Finally, Doğuş Group owns the TV channel NTV, known

for its "penguin" broadcasting during Gezi protests.[27]

Metro Holding's owner Galip Öztürk is known for his shady business deals. He was accused for organizing a crime syndicate for the purpose of monetary profit and soliciting to murder and sentenced to life sentence. He ran away to Georgia and appealed the sentence. He accused the Gülen movement for conspiring against him, and earned his favors with AKP by a series of grand gestures (Altun 2014). He commuted people to and from election polls free of charge provided they voted yes in the constitutional referendum that brought to presidential system (*Metro Turizm'in yandaş patronu Galip Öztürk 'Evet' diyenleri bedava taşıyacak* 2017).

Subsidiary of Ciner Holding, Park Elektrik Madencilik is coded as AKP-connected. The relationship between Ciner Holding and AKP started rocky. In 2009, after being confiscated by the SDIF, Ciner's media outlets were sold to Çalık Holding. Erdoğan's son-in-law and minister of energy Berat Albayrak was the CEO of the Çalık Holding for seven years. Turgay Ciner, the chairman of the holding, who is the son-in-law of an important left-wing figure, Hüsamettin Özkan worked his way to the good graces of Erdoğan after he acquired yet another media outlet, Habertürk. Through Mehmet Fatih Saraç, former partner of Cüneyd Zapsu in BİM Mağazıcılık, who acted as the deputy chairman of the executive board Ciner Publishing, Inc., (Gazetecilik 2019). Ciner proved his worth to Erdoğan by deals conducted through Saraç such as agreeing to change headlines and news releases, letting go of a football player from Kasımpaşa FootbalL Club, where he is the president of executive board, to Rizespor free of charge (*Erdoğan'in Adamı Ciner Holding'in Başına Geçti* 2013).

Founded by Mehmet Kutman, niece of the former prime minister Mesut Yılmaz, Global

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[27]A pejorative term used by the protestors during the Gezi protests to describe Turkey's news boradcasters CNN Türk, NTV, and Habert{urk. These news channels covered the protests as little as possible, provided little screen time to people proponents of the protests, and usually cast the protestors in a bad light (*Gezi Report: Public perception of the 'Gezi protests' Who were the people at the Gezi Park* 2014).

Yatırım Holding is coded as AKP-connected. Kutman either took part in or brokered every privatization that took place in the first term of AKP-government. He is also known for his relationship with the former minister of finance, Kemal Unakıtan and former MP from Van Province, and Van JDP party bureau president Kayhan Türkmenoğlu (Övür 2005; *Global Yatırım Holding'den Van'a 5 Yıldızlı Otel* 2010).

**Emlak Konut GYO, Gübre Fabrikaları, Türkiye Halk Bankası, Halk GMYO, Türk Havayolları, Vakıflar Bankası**:

All these companies listed are categorically state -owned enterprises. Due to the nature of appointment procedures in these companies, they are classified as "captured" by the ruling government. However, the investors know the whole executive structure will change with any change in the government.

**Anadolu Cam, İş Bankası, İş GMYO, Soda Cam, Şişe Cam, Trakya Cam, TSKB**:

All subsidiaries of İş Bankası these companies are classified as opposition. These companies comply with the procedure for coding a company as opposition as follows: The companies have the Republican People's Party as their largest shareholder.

**Koç Holding, Arçelik, Aygaz, Ford Otosan, Karsan Otomotiv, Otokar, Tat Gıda, Tofaş Oto Fabrikası, Türk Traktör, Tüpraş, Yapı ve Kredi Bankası, Doğan Holding, Pegasus**:

All subsidiaries of Koç Holding these companies are coded as opposition. The procedure for coding these companies as opposition is: 1) The shareholders/chairperson/board members attended the meeting at Divan Otel in 2003. The meeting was organized by Rahmi Koç himself in the hotel they own in Istanbul's Taksim Square (Özkök 2010). 2) The company and group of companies are targeted with tax audits upon a call from Erdoğan or any member of the party (Gürsel 2013). 3) The company or the group of companies support during the 2013 Gezi protests. Divan Otel, which is located in the middle of Taksim Square right across Gezi Park, opened its doors to the protestors when police forces used pepper gas and

pressurized water on the protestors. The otel continued to host the protestors despite public criticism from Erdoğan (Mercimek 2013; Cornell 2013).

Founded by Aydın Doğan, Doğan Holding is coded as opposition. Doğan's feud with Erdoğan started before AKP came to power. Aydın Doğan led the media crusade during the 28 February 1997's post-modern coup against the Welfare Party of Necmettin Erbakan. During that time Erdoğan was the mayor of İstanbul elected on Welfare Party's ticket. When Erdoğan was convicted for reciting a poem that incites hatred among citizens towards the State, one of the many newspaper's owned by Doğan Holding had the now infamous headline: "He Can Not Even Be a Muhtar".[28] Doğan Holding Founder Aydın Doğan and Erdoğan had another public standoff in 2006. In 2005, Doğan acquired a property in Şişli district of İstanbul. Having acquired such a prime location Doğan hoped to get a rezoning permit from the municipality of İstanbul, which was under AKP governance too. Not being lucky with the mayor of İstanbul, Doğan sought an audience with Erdoğan. Both Doğan and Erdoğan agree about meeting each other. Their recollection of the meeting, though, vastly differs. Erdoğan claims Doğan threatened him with a smear campaign against himself and his party unless Erdoğan gave him whatever he asked for. Doğan vehemently refuses this claim (Silverman 2014). Regardless of the authenticity of the claim and the counter-claim the AKP-era Turkey's economic scene has been coloured with this feud between a business mogul and one of the strongest politicians in the history of Turkish Republic. Doğan Group companies paid 4,5 billion dollars in fines to the tax authority in 2009 (*FETÖ'den Doğan Grubu'na 4.5 milyar dolarlık vergi kumpası* 2016). Later, every single bureacrat included in the fining of the group were purged because of their alleged ties to the Gülen movement. Nowadays, Erdoğan accuses Doğan Group for being in cohoots with the movement. During the post-coup probe top legal advisor, and a former chief executive officer were detained, too (Caglayan 2017).

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[28]Muhtar is the elected official for the smallest administrative unit in Turkey, mahalle (neighborhood).

**İpek Doğal Enerji, Koza Madencilik, Koza Altın**:

All owned by Akın İpek the companies are coded as opposition because of their alleged connection to Gülen movement. Akın İpek's assets were seized by the state during the coup-probe. İpek accused of aiding and abetting a terrorist organization is on the run.

**Aselsan, Netaş Telekom,Ereğli Demir Çelik** :

These companies are coded as military. The procedures for coding a company as military is straightforward. If the company's main shareholder is the Turkish Armed Forces Foundation (TSKGV), the company is coded as military. If company is affiliated with the Foundation, again it is coded as military. Finally if the company is owned by Complementary Pension Fund for Armed Forces (OYAK) or its holding company Ataer Holding, it is coded as military.

**Alcatel Lucent Teletaş, Borusan Mannessman, Deva Holding, DoCo, Garanti Bankası, Good Year, Tesco Kipa, Konya Çimento, Petkim, TAV Hava Limanları, Türk Telekom**:

These companies are categorized as international. The procedure for coding companies as industrial is straight forward. If the company's largest and/or only shareholder is an international corporation, the company is coded as international.

**Adel Kalemcilik, Anadolu Efes, Coca Cola İçecek, Migros Ticaret, Torunlar GMYO, Turcas Petrol**:

The subsidaries of the Anadolu Grup, these companies are categorized as other. This category includes firms that do not have board members with political connections to the incumbent. Moreover, board members do not have political connections to the opposition, the Republican People's Party or the Gülen organization. In addition, the firms in the other category was not been targeted with tax audits or none of their board members were detained due to ties with the Gülen organization. The companies in this category have board members and/or executives publicly denouncing the government but do not lose their position. Also, these companies have undertaken some public projects with or without AKP-connected firms.

Anadolu Grup was founded by İzzet Ozilhan and Kamil Yazıcı in 1969. Özilhan and Yazıcı were both professed supporters of Adnan Menderes's Democrat Party and its successor Justice Party. The second generation, especially the chairman Tuncay Özilhan, has been known to have more tumultuous relationship with the incumbent politicians. In 2003, in the mere fifth month into Justice and Development Party's government, a bill was introduced in the parliament. The bill was about sending troops to the Iraqi invasion of United States. Then, the president of the largest business organization in Turkey, Tuncay Özilhan was a vocal critic of JDP's decision to reject the bill in the parliament. During his reign as the chairman of TÜSİAD and later on Özilhan never shied away from making his distaste for various policies undertaken by the government known (Özkök 2010; Korkmaz 2013).

Torunlar GMYO was founded by a classmate of Erdoğan from high school, Aziz Torun. Erdoğan and Torun also know each other from the former's days of Ülker distribution and latter's days of food retail business. The companies' executives include a former mayor, and a former MP from AKP. On the other hand, when Torunlar Gıda won the tender for distribution and provision natural gas in Ankara for 1.1 billion dollars, Erdoğan himself called for and guaranteed the cessation of the tender. Erdğan said he saw 1.1 billion dollars as a rip-off because once 1.5 billion dollars was offered. Also, when Torunlar İnşaat was undertaking the one of the largest mall projects in Turkey, the construction was stopped by the the council of the state. The reason for the decision was the alleged illegal use of municipal land. Also, Torunlar Gıda was a member of TUSKON, a business organization known for its ties to the Gülen movement. Since there were no probes or arrests to the members of the executive board, or no freezing of the assets, the company is coded as other but not opposition.

**Alarko Holding, Alarko GMYO, Ayen Enerji, Bagfas, Beşiktaş Futbol Yatırım, Eczacıbaşı İlaç,Ege Endüstri, Enka İnsaat, Fenerbahçe Futbol, Net Turizm, Galatasaray Sportif, Göltaş Çimento, GSD Holding, İzmir Demir Çelik, Kartonsan, Logo Yazılım, Nurol Gayrımenkul Yatırım, Şekerbank, Tekfen Holding, Trabzonspor**

**A.Ş**:

These companies are also listed as other. They are different from the companies in the first section of other category because they have no interest in AKP and Erdoğan and/or AKP has no interest in either the company or the owner.

Peace Process Start       Siege of Kobane       Kurdish Victory in Kobane       Peace Process Collapse

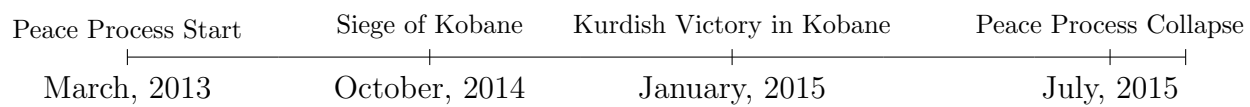March, 2013       October, 2014       January, 2015       July, 2015

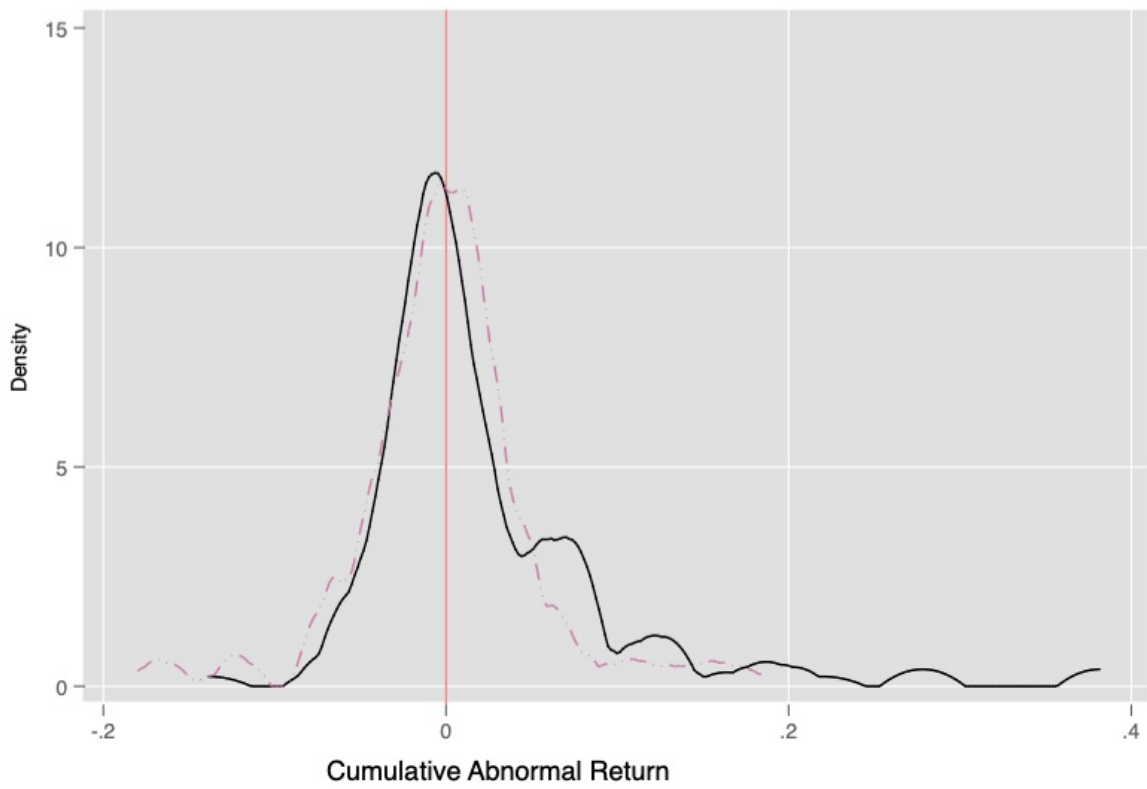Figure 1: Timeline For the Peace Process

Figure 2: Kernel Density plots of cumulative abnormal returns for connected and not connected firms

*Note*: Pooled events
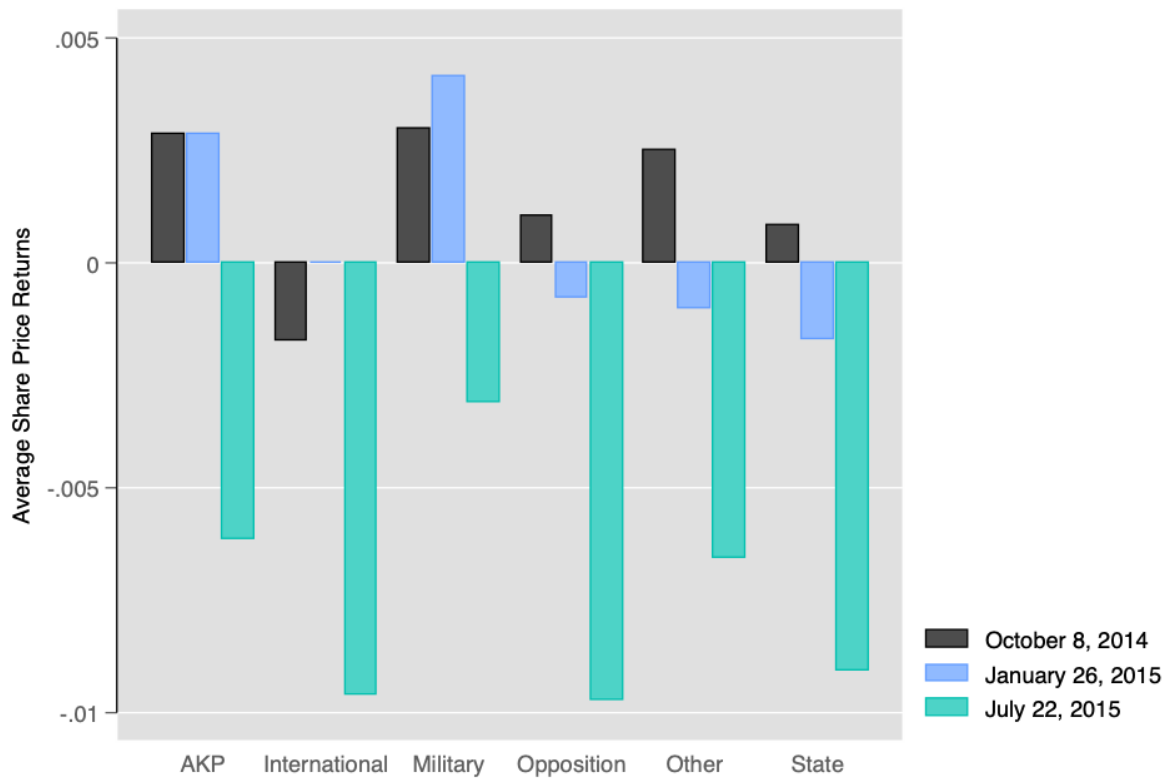
Figure 3: Effect of Political Dependence on Share Price Returns

Figure 4: Stock market turbulence around the Peace Process Collapse.

| | N | July 16 | | July 20 | | July 21 | | July 22 | | July 23 | | July 24 | | July 27 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | OR | AR | OR | AR | OR | AR | OR | AR | OR | AR | OR | AR | OR | AR |
| AKP connection | 30 | 0.0014 | 0.0036 | -0.0116 | 0.0117 | 0.0098 | 0.0092 | 0.0032 | 0.0114 | -0.0515 | -0.0079 | 0.0118 | 0.0095 | -0.0206 | 0.0021 |
| Opposition connection | 26 | 0.0034 | 0.0028 | -0.0133 | 0.0027 | -0.0021 | -0.0049 | -0.0074 | -0.0033 | -0.0448 | -0.0128 | 0.0058 | 0.0016 | -0.0230 | -0.0074 |
| Military connection | 3 | -0.0029 | -0.0035 | 0.0233 | 0.0425 | -0.0035 | -0.0068 | -0.0124 | -0.0164 | -0.0513 | -0.0130 | 0.0371 | 0.0321 | -0.0013 | 0.0174 |
| State connection | 7 | -0.0047 | -0.0044 | -0.0196 | 0.0063 | 0.0167 | 0.0136 | -0.0074 | 0.0000 | -0.0490 | 0.0015 | 0.0097 | 0.0043 | -0.0275 | -0.0023 |
| International connection | 12 | -0.0018 | -0.0067 | -0.0153 | 0.0014 | 0.0071 | -0.0007 | -0.0038 | -0.0027 | -0.0595 | -0.0219 | 0.0158 | 0.0062 | -0.0104 | 0.0058 |
| Other connection | 16 | -0.0001 | 0.0005 | -0.0041 | 0.0130 | 0.0068 | 0.0052 | -0.0036 | 0.0016 | -0.0503 | -0.0174 | 0.0119 | 0.0089 | -0.0120 | 0.0047 |
| *Market Index* | *94* | *0.0010* | - | *-0.0173* | - | *0.0034* | - | *-0.0040* | - | *-0.0353* | - | *0.0055* | - | *-0.0167* | - |

**Note:** *a* On July 22, 2015 Kurdish militants claim revenge for killing two police officers in Ceylanpinar district of Sanliurfa. This event,decidedly, abolished the peace process. *b* On January 26, 2015 ISIS admitted defeat and left the town of Rojova in the Kobane district. First ever victory against ISIS, achieved by the Kurdish fighters. *c* On October 6, 2014 HDP President Selahattin Demirtas asked "people to take the streets" in order to protest the AKP government's reluctance to help the Kurdish fighters against ISIS".

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Table 1: Summary statistics

|  | Mean | Std. Dev. | Min | Max | N |
|---|---|---|---|---|---|
| **_Panel A: Cross-Sectional Variables_** | | | | | |
| Age | 38.37 | 18.71 | 5 | 82 | 658 |
| Years in Stock Market | 18.49 | 8.93 | 2 | 45 | 658 |
| Total Assets (log) | 21.95 | 1.71 | 18.86 | 26.4 | 658 |
| Total Debt (log) | 21.18 | 2.2 | 14.06 | 26.17 | 658 |
| Connected- AKP | .32 | .47 | 0 | 1 | 658 |
| Connected-Opposition | .28 | .45 | 0 | 1 | 658 |
| Connected-Military | .03 | .18 | 0 | 1 | 658 |
| Connected-State | .07 | .26 | 0 | 1 | 658 |
| Connected-Other | .17 | .38 | 0 | 1 | 658 |
| Connected-International | .13 | .33 | 0 | 1 | 658 |
| Index - Basic Materials | .13 | .33 | 0 | 1 | 658 |
| Index - Communications | .04 | .2 | 0 | 1 | 658 |
| Index - Consumer Cyclical | .24 | .43 | 0 | 1 | 658 |
| Index- Consumer Noncyclical | .11 | .31 | 0 | 1 | 658 |
| Index - Diversified | .05 | .22 | 0 | 1 | 658 |
| Index - Energy | .03 | .18 | 0 | 1 | 658 |
| Index - Financial | .17 | .38 | 0 | 1 | 658 |
| Index - Industrial | .14 | .35 | 0 | 1 | 658 |
| Index - Technology | .01 | .1 | 0 | 1 | 658 |
| Index- Utilities | .07 | .26 | 0 | 1 | 658 |
| | | | | | |
| **_Panel B: Panel Variables_** | | | | | |
| Return on Stock | -.0093 | .0299 | -.1897 | .1148 | 658 |
| Return on Market | -.0095 | .0137 | -.0355 | .0048 | 658 |

_Note:_The sample for the descriptive statistics only includes data from the 7-day event window for the main event: Collapse of the Peace Process on July 22, 2015.

Table 2: Difference in Means: AKP Connnected and non- AKP Connected

| | Connected | Unconnected | Difference in Means | t-statistics |
|---|---|---|---|---|
| Age | 28.7 | 42.91 | 14.21*** | 9.70 |
| Years in Stock Market | 15.9 | 19.7 | 3.80*** | 5.19 |
| Total Assets (Log) | 21.71 | 22.06 | 0.35* | 2.43 |
| Total Debt (Log) | 21.12 | 21.21 | 0.09 | 0.47 |
| Index - Basic Materials | 0.13 | 0.13 | -0.01 | -0.30 |
| Index - Communications | 0.03 | 0.05 | 0.01 | 0.80 |
| Index- Consumer Cyclical | 0.33 | 0.20 | -0.13*** | -3.65 |
| Index- Consumer Noncyclical | 0.1 | 0.12 | 0.01 | 0.36 |
| Index - Diversified | 0.07 | 0.05 | -0.02 | -1.05 |
| Index - Energy | 0.00 | 0.05 | 0.05** | 3.21 |
| Index - Financial | 0.07 | 0.22 | 0.15*** | 4.92 |
| Index - Industrial | 0.13 | 0.14 | 0.01 | 0.25 |
| Index - Technology | 0.00 | 0.02 | 0.02 | 1.82 |
| Index- Utilities | 0.13 | 0.05 | -0.09*** | -3.98 |

*Note*: The sample for the table only includes data from the 7-day event window for the main event: Collapse of the Peace Process on July 22, 2015. *** significant at 1%, ** significant at 5%, * significant at 10%.

Table 3: Cumulative Abnormal Returns

|  | N | Event 1 | Event 2 | Event 3 |
|---|---|---|---|---|
|  |  | *July 22* | *January 26* | *October 8* |
| AKP Connected | 30 | 0.0396*** | 0.0110 | 0.0131 |
|  |  | (0.0121) | (0.0133) | (0.0150) |
| Opposition Connected | 26 | -0.0213** | 0.0081 | 0.0038 |
|  |  | (0.0116) | (0.0079) | (0.0044) |
| Military Connected | 3 | 0.0524 | 0.0312 | 0.0098 |
|  |  | (0.0459) | (0.0656) | (0.0437) |
| State Connected | 7 | 0.0190** | 0.0156 | 0.0056 |
|  |  | (0.0058) | (0.0099) | (0.0102) |
| Other Connected | 16 | 0.0164 | -0.0024 | 0.0041 |
|  |  | (0.0209) | (0.0077) | (0.0125) |
| International Firms | 12 | -0.0186 | 0.0022 | -0.0190 |
|  |  | (0.0198) | (0.0179) | (0.0116) |

*Note*: Robust standard errors clustered in the firm level are shown in parentheses.
*** significant at 1%, ** significant at 5%, * significant at 10%.

Table 4: Multivariate OLS Regressions – DV: Cumulative Abnormal Returns

|  | (1) July $22^{nd}$ Event | (2) July $22^{nd}$ Event | (3) July $22^{nd}$ Event |
|---|---|---|---|
| Opposition | -0.0609*** | -0.0563*** | -0.0546*** |
|  | (0.0166) | (0.0156) | (0.0156) |
| Military | 0.0127 | 0.0258 | 0.0282 |
|  | (0.0397) | (0.0300) | (0.0285) |
| State | -0.0207 | -0.0235 | -0.0156 |
|  | (0.0132) | (0.0173) | (0.0178) |
| International | -0.0582** | -0.0509*** | -0.0480*** |
|  | (0.0226) | (0.0183) | (0.0181) |
| Other | -0.0232 | -0.0085 | -0.0096 |
|  | (0.0237) | (0.0214) | (0.0225) |
| FE | No | Yes | Yes |
| Controls | No | No | Yes |
| Observations | 658 | 658 | 658 |
| R-squared | 0.1499 | 0.3875 | 0.4106 |

*Note*: Robust standard errors are clustered in at firm levels in parentheses. *** significant at 1%, ** significant at 5%, * significant at 10%. Controls include age, years in stock market, size of the firm, and return on equity.

Table 5: Multivariate OLS Regressions – DV: Cumulative Abnormal Returns

|  | (1) | (2) | (3) |
|---|---|---|---|
|  | January $26^{th}$ Event | January $26^{th}$ Event | January $26^{th}$ Event |
| Opposition | -0.0029 | -0.0029 | 0.0034 |
|  | (0.0154) | (0.0155) | (0.0171) |
| Military | 0.0202 | 0.0127 | 0.0212 |
|  | (0.0558) | (0.0462) | (0.0419) |
| State | 0.0046 | 0.0089 | 0.0145 |
|  | (0.0162) | (0.0166) | (0.0175) |
| International | -0.0087 | -0.0100 | -0.0109 |
|  | (0.0218) | (0.0201) | (0.0210) |
| Other | -0.0134 | -0.0144 | -0.0147 |
|  | (0.0153) | (0.0155) | (0.0183) |
| FE | No | Yes | Yes |
| Controls | No | No | Yes |
| Observations | 376 | 376 | 376 |
| R-squared | 0.0154 | 0.1155 | 0.1601 |

*Note*:Robust standard errors are clustered in at firm levels in parentheses. *** significant at 1%, ** significant at 5%, * significant at 10%. Controls include age, years in stock market, size of the firm, and return on equity.

Table 6: Multivariate OLS Regressions – DV: Cumulative Abnormal Returns

|  | (1) October $8^{th}$ Event | (2) October $8^{th}$ Event | (3) October $8^{th}$ Event |
|---|---|---|---|
| Opposition | -0.0094 | -0.0037 | -0.0065 |
|  | (0.0155) | (0.0120) | (0.0131) |
| Military | -0.0033 | 0.0099 | 0.0043 |
|  | (0.0390) | (0.0332) | (0.0330) |
| State | -0.0075 | 0.0016 | 0.0049 |
|  | (0.0176) | (0.0140) | (0.0139) |
| International | -0.0322* | -0.0238 | -0.0257 |
|  | (0.0186) | (0.0151) | (0.0158) |
| Other | -0.0091 | -0.0024 | -0.0015 |
|  | (0.0192) | (0.0176) | (0.0179) |
| FE | No | Yes | Yes |
| Controls | No | No | Yes |
| Observations | 658 | 658 | 658 |
| R-squared | 0.0312 | 0.1911 | 0.2176 |

*Note*:Robust standard errors are clustered in at firm levels in parentheses. *** significant at 1%, ** significant at 5%, * significant at 10%.

Table 7: Comparison of Cumulative Abnormal returns for AK Party connected and non-AK Party connected firms

|  | AK Party | Non-AK Party | Difference | t-statistic |
|---|---|---|---|---|
| Basic Materials | -0.0022 | -0.0110 | -0.0087* | -1.6847 |
| Communications | -0.0092 | 0.0229 | 0.0321*** | 2.6794 |
| Consumer Cyclical | 0.0321 | 0.0076 | -0.0245*** | -3.6238 |
| Consumer Non-Cyclical | 0.073 | -0.0283 | -0.0355*** | -4.0263 |
| Diversified | 0.0422 | -0.0097 | -0.0519*** | -3.6508 |
| Financial | 0.0064 | 0.0073 | 0.0009 | 0.4654 |
| Industrial | 0.0023 | 0.0055 | 0.0032 | 0.4398 |
| Utilities | 0.0644 | 0.0272 | -0.0372** | -2.2479 |

*Note*: All events are pooled. *** significant at 1%, ** significant at 5%, * significant at 10%.

Table 8: Comparison of Cumulative Abnormal returns for AK Party connected and non-AK Party connected firms for the July $22^{nd}$ Event

|  | **AK Party** | **Non-AK Party** | **Difference** | **t-statistic** |
|---|---|---|---|---|
| Basic Materials | -0.0131 | -0.0298 | -0.0167* | -1.9409 |
| Communications | -0.0006 | 0.0390 | 0.0395** | 2.2694 |
| Consumer Cyclical | 0.0794 | 0.0198 | -0.0596*** | -5.3837 |
| Consumer Non-Cyclical | 0.0126 | -0.0915 | -0.1041*** | -6.5911 |
| Diversified | 0.0608 | -0.0256 | -0.0864*** | -4.8040 |
| Financial | 0.0017 | 0.0151 | 0.0135*** | 5.0737 |
| Industrial | 0.0311 | 0.0090 | -0.0221* | -1.9863 |
| Utilities | 0.0403 | 0.0692 | 0.0289 | 1.4924 |

*Note*:*** significant at 1%, ** significant at 5%, * significant at 10%.

Table 9: Multivariate OLS Regressions – DV: Cumulative Abnormal Returns

| | (1) | (2) | (3) | (4) | (5) |
|---|---|---|---|---|---|
| | Pooled | Pooled | Pooled | Main Event | Matching |
| | | | | *July 22, 2015* | *ATT* |
| AK Party | (excluded | category | in columns (1-4)) | | 0.0242*** |
| | | | | | (0.0051) |
| Opposition | -0.0280*** | -0.0240*** | -0.0234** | -0.0546*** | |
| | (0.0097) | (0.0086) | (0.0096) | (0.0156) | |
| Military | 0.0082 | 0.0167 | 0.0177 | 0.0282 | |
| | (0.0252) | (0.0197) | (0.0196) | (0.0285) | |
| State | -0.0099 | -0.0065 | -0.0008 | -0.0156 | |
| | (0.0101) | (0.0096) | (0.0093) | (0.0178) | |
| International | -0.0371*** | -0.0312*** | -0.0297*** | -0.0480*** | |
| | (0.0115) | (0.0098) | (0.0096) | (0.0181) | |
| Other | -0.0155 | -0.0074 | -0.0070 | -0.0096 | |
| | (0.0133) | (0.0119) | (0.0121) | (0.0225) | |
| FE | No | Yes | Yes | Yes | |
| Controls | No | No | Yes | Yes | |
| Observations | 1,692 | 1,692 | 1,692 | 658 | |
| R-squared | 0.0531 | 0.1196 | 0.1257 | 0.4106 | |

*Note*:Robust standard errors, clustered in at the firm level, in parentheses. *** significant at 1%, ** significant at 5%, * significant at 10%.

Table 10: Robustness Checks– DV: Cumulative Abnormal Returns

| | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| | Calm Period Placebo | 3 Day Event Window | 15 Day Event Window | Hard AKP Stocks |
| Opposition | 0.0011 | -0.0270*** | -0.0212 | -0.0510*** |
| | (0.0124) | (0.0082) | (0.0330) | (0.0182) |
| Military | 0.0025 | 0.0007 | 0.0859 | 0.0316 |
| | (0.0115) | (0.0223) | (0.0950) | (0.0304) |
| International | 0.0196* | -0.0263** | -0.0743* | -0.0448** |
| | (0.0102) | (0.0111) | (0.0404) | (0.0199) |
| State | 0.0201 | -0.0153 | 0.0206 | -0.0118 |
| | (0.0145) | (0.0110) | (0.0417) | (0.0213) |
| Other | 0.0101 | -0.0114 | 0.0223 | -0.0001 |
| | (0.0135) | (0.0103) | (0.0374) | (0.0181) |
| Observations | 623 | 282 | 1,410 | 658 |
| R-squared | 0.2763 | 0.3833 | 0.2968 | 0.4088 |

*Note*: Robust standard errors, clustered in at the firm level, in parentheses. *** significant at 1%, ** significant at 5%, * significant at 10%.

Table 11: Erdoğan Connectedness as An Explanation– DV: Cumulative Abnormal Returns

| | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| | Health Scare | EM Volatility | Gezi Protests | FED Interest Hike |
| | Nov,28 2011 | Aug, 19 2011 | May, 28 2013 | Dec, 19 2016 |
| Opposition | 0.0337* | -0.0183 | -0.0231 | 0.0020 |
| | (0.0195) | (0.0198) | (0.0214) | (0.0200) |
| Military | 0.0288 | -0.0568** | 0.0040 | 0.0300 |
| | (0.0261) | (0.0218) | (0.0339) | (0.0194) |
| International | 0.0330 | -0.0198 | 0.0608** | 0.0146 |
| | (0.0217) | (0.0222) | (0.0271) | (0.0141) |
| State | 0.0644** | -0.0182 | 0.0066 | 0.0067 |
| | (0.0278) | (0.0271) | (0.0198) | (0.0197) |
| Other | 0.0346** | -0.0040 | 0.0056 | 0.0062 |
| | (0.0174) | (0.0250) | (0.0176) | (0.0159) |
| | | | | |
| Observations | 616 | 616 | 658 | 623 |
| R-squared | 0.2472 | 0.1720 | 0.1882 | 0.1549 |

*Note*: Robust standard errors, clustered in at the firm level, in parentheses.Full set of controls. *** significant at 1%, ** significant at 5%, * significant at 10%.

Table 12: Election Announcements and Elections - DV:Cumulative Abnormal Returns

|  | (1) | (2) |
|---|---|---|
|  | Announcement | Announcement |
|  | Jan,22 2015 | Aug, 21 2015 |
| Opposition | 0.0224* | -0.0059 |
|  | (0.0126) | (0.0100) |
| Military | 0.0702** | 0.0509 |
|  | (0.0317) | (0.0313) |
| International | 0.0162 | 0.0006 |
|  | (0.0142) | (0.0125) |
| State | 0.0126 | -0.0076 |
|  | (0.0127) | (0.0123) |
| Other | 0.0196 | -0.0138 |
|  | (0.0145) | (0.0148) |
|  |  |  |
| Observations | 282 | 282 |
| R-squared | 0.1669 | 0.2113 |

*Note*: Robust standard errors, clustered in at the firm level, in parentheses.Full set of controls. *** significant at 1%, ** significant at 5%, * significant at 10%.