Anatolian Tigers and the Emergence of the Devout Bourgeoisie in the Turkish Manufacturing Industry

An Empirical Analysis

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3.1 Introduction

It has widely been asserted that an important dimension of social dynamics that eventually carried the Justice and Development Party (Adalet ve Kalk nma Partisi, AKP) to political power is the emergence of a "devout bourgeoisie" especially in the new growth centers of Anatolia.[1] Economic activity in Turkey has been traditionally located in major industrial cities such as Istanbul, Ankara, İzmir, Bursa, and Kocaeli. The term new growth centers, by contrast, refers to Anatolian provinces (the so-called Anatolian Tigers, or Tigers for short; see section 3.2 for details) that apparently have increased their share in overall economic activity as well as exports of manufactured goods.

The emphasis on "new" is what distinguishes Turkey from many other counties in the region. The traditional and largely secular business elite of Turkey was established over a period of decades, a process that accelerated in the post-WWII period and unfolded mostly in the context of an economic regime of import substitution industrialization. This was followed by significant economic liberalization in the 1980s. The emergence of devout bourgeoisie and new growth centers that have caught the attention of observers since the 1980s occurred in an environment where there was already a strong private sector presence in most sectors of the economy. In fact, observers often

[1] For example, Gümüşçü and Sert (2009), Müftüler-Baç and Keyman (2012).

talked about this emergence as a process through which the dominance of the traditional business elite on the economy was seriously challenged.

While there is now an extensive literature on the emergence of both new growth centers and the devout bourgeoisie, much of that literature is qualitative and empirical evidence is scarce.[2] This study contributes to this literature by adopting a more empirical approach and by relying on firm-level data in the manufacturing industry.

First, we use micro data put together by the Turkish Statistical Institute (TurkStat) covering the periods 1982–2000 and 2005–2015 and examine the economic and especially productivity dynamics of Anatolian Tigers and try to find answers to the following questions:

- Was there a catch-up in labor productivity between the Anatolian Tigers and the traditional industrial centers, and if so when?
- Was there a link between convergence and firm size? Was convergence more visible among firms of a particular size?
- How was the size distribution of plants affected? What can be said about the role of small and medium-sized firms (SMEs) in overall distribution of employment and productivity growth in the traditional and new growth centers?

Second, we contribute to the narrative on the emergence of the devout bourgeoisie by tracing the emergence of large manufacturing firms associated with Islamic business associations. Although location and devoutness are not directly correspondent,[3] as many firms with memberships to Islamic business associations are located in Istanbul and Ankara it is also true that some of these firms started their operations in the cities of Anatolia. In fact, the city-wise distribution of members of Islamic business associations demonstrates that the Anatolian Tiger cities are among those with the highest number of members, following Istanbul.

Hence, in order to enrich our narrative of the emergence of the devout bourgeoisie (and develop a better understanding of the degree of concordance between regional economic dynamics and emergence of the new bourgeoisie) we make use of a second dataset, namely information on the largest manufacturing firms of Turkey, published by the Istanbul Chamber of Industry (İstanbul Sanayi Odas , ISO) over the period 1980–2014. The dataset has information on the largest 500 industrial firms for the period 1980–1996

[2] For earlier assessments see Filiztekin and Tunal (1999) using sectoral data for the 1980s and 1990s and chapter 4 of World Bank (2014) for the period 2005–2010.

[3] For instance, as Buğra and Savaşkan (2010, 2014) argue, many new firms belonging to conservative families have headquarters in Istanbul and many firms in the Tiger provinces are not necessarily conservative.

and largest 1000 firms over 1997–2014. It contains information on firm names, sales, value added, employment, profits, location, exports, and composition of equity (public, domestic, private, and foreign) and industry (3-digit). For some variables, data for the last 2 years are absent, and the findings below are based on the last year for which data are available.

We match the names of firms in the ISO dataset with the members of business organizations associated with the traditional industrial elite—TUSIAD (Turkish Industry and Business Association) and TURKONFED (Turkish Enterprise and Business Confederation),[4] as well as members of the Islamic business associations—MUSIAD (Association of Independent Industrialists and Businessmen), TUSKON (Turkish Confederation of Businessmen and Industrialists), and ASKON (Anatolian Lions Businessmen Association)—that are well known to have had harmonious relations with the AKP majority government for most of the period covered in this study.[5] We term members of the former group (TUSIAD and TURKONFED) as belonging to the "secular network (SN)" and those belonging to the second group (MUSIAD, ASKON, and TUSKON) as belonging to the "religious network (RN)."

MUSIAD was formed in 1990, while ASKON was founded in 1998. Both associations are known to be close to the "Milli Görüş" (National Vision) movement and both had close relations with the Welfare Party in the 1990s and the AKP in the 2000s. TUSKON was established in 2005 and has been generally associated with the Gulen movement.[6] While membership in these conservative business associations does not constitute political connections, as this term has been used in the literature (e.g., Faccio 2006), the establishment of these associations represented important milestones in the development of Islamist political movements in Turkey. All three associations have been established, operated, and expanded with explicit Islamic references. For instance, the founding former president of MUSIAD stated that the establishment of MUSIAD was a "religious and national mission,"[7] while the president of TUSKON indicated that they are representing "the sons of hajjis."[8] These associations presented themselves as representing emerging business groups with religious sensitivities who did not find a voice in the existing, mostly

[4] TUSIAD was established in 1971. TURKONFED was established in 2004, as a result of efforts by TUSIAD to organize businesses at the local level.

[5] Among the various conservative business associations, MUSIAD and TUSKON were possibly the most important and largest in terms of membership. We also check the top 1000 list for membership in two other well-known associations, namely ASKON and TUMSIAD, but these two are much smaller, and a substantially smaller number of members of these associations exist in the ISO dataset.

[6] See Buğra and Savaşkan (2010) for detailed discussion of the emergence of "business associations with Islamic references" as well as of TURKONFED.

[7] http://www.milliyet.com.tr/asli-burjuva-sinifimiz-dogdu—/ekonomi/ekonomidetay/21.07.2009/1119698/default.htm.

[8] http://ekonomi.haber7.com/ekonomi/haber/445867-tuskon-afrika-icin-1-koydu-3-aldi.

Istanbul-based, and overwhelmingly secular business associations. At the same time, they emphasized the fundamental role of Islam in Turkish culture and society, and as a moral and regulating force in economic development. Members of these organizations, but especially of MUSIAD, became members of parliament (MPs) through the AKP. It is highly likely that, especially during the 2000s, some RN members had political connections as defined in the literature.[9] This conjecture is strengthened by the government's recent seizure of and appointment of trustees to large holding companies allegedly close to the Gulen movement.[10]

Having identified firms, we trace their emergence in the top 500–1000 list over time. We would like to find answers to questions such as: In which industries did these large firms belonging to conservative business associations emerge and when? What percentage of such businesses comes from the Anatolian Tigers? What has been their export and productivity performance? How do these compare with those of firms belonging to organizations associated with the traditional industrial elite? Does the emergence and ascendance to maturity of Islamic businesses coincide with AKP rule or did these events start earlier?

The chapter is organized as follows: Section 3.2 provides a general background to the Turkish economy and the emergence of conservative businesses. In section 3.3 we carry out an analysis of economic and productivity performance of manufacturing industries in the Anatolian Tigers using TurkStat micro datasets. In section 3.4 the ISO dataset is examined and an analysis of the emergence and comparative economic performance of conservative large industrial firms is presented. Section 3.5 discusses the potential role of political connections in the ascendance of the devout bourgeoisie and

[9] Similarly, some members of the SN may have been politically connected in the 1980s and 1990s.

[10] Besides having a significant following among the conservative business community, the Gulen movement was strongly organized in the police, army, and judiciary and worked in cooperation with the AKP government. In time, the degree of cooperation weakened and turned into open hostility after the police and judiciary initiated corruption investigations against AKP ministers, and especially after the 2016 coup attempt for which the Gulen movement has been implicated. Many Gulen-associated businesses have been accused of helping a terror organization to topple the government, and in 2016 TUSKON has been closed as well. See, for example: Reuters, August 18, 2016: "Turkey seizes assets as post-coup crackdown turns to business" (http://www.reuters.com/article/us-turkey-security-raids-idUSKCN10T0HH); *Cumhuriyet Daily*, August 28, 2016: "Topbaş' n damad da listede Çok say da holding ve şirkete operasyon" (http://www.cumhuriyet.com.tr/haber/turkiye/586334/Topbas_in_damadi__Aydinli__Eroglu__Gulluoglu ___Cok_sayida_unlu_holding_ve_sirkete_operasyon.html); *Hurriyet Daily News*, August 28, 2016: "Bosses, baklava kings detained in anti-Gülen probe" (http://www.hurriyetdailynews.com/bosses-baklava-kings-detained-in-anti-gulen-probe.aspx?pageID=238&nID=102995&NewsCatID=345); *Daily Sabah*, August 18, 2016: "Trustees appointed to Boydak Holding over links to Gülenist terror-cult" (https://www.dailysabah.com/business/2016/08/18/trustees-appointed-to-boydak-holding-over-links-to-gulenist-terror-cult).

compares manufacturing to other industries with higher potential for rents. Section 3.6 concludes.

3.2 Background: Turkey s Economic Development and Private Sector Cleavages

In the decades after WWII up until 1980, Turkey followed an import substitution industrialization (ISI) model of development. This regime was characterized by heavy protection from imports, through both tariffs and quantitative restrictions, a repressed financial system, significant presence of state-owned enterprises in industry, mining, and banking, widespread price controls, and overvalued exchange rates. The ISI period also witnessed the development of the private sector and the establishment of conglomerates with highly diversified production structures, benefiting from import controls, favorable allocation of import quotas, and credit and foreign exchange, as well as subsidized inputs from state-owned enterprises. The ISI was basically a regime where critical inputs necessary for growth were rationed, and access to them played a significant role in private firms' growth. With access to the lion's share of rents, the conglomerates came to dominate highly oligopolistic industries, to the exclusion of SMEs. There was a strong regional disparity as well: The conglomerates were based mostly in Istanbul, with production units dispersed to what may be called the traditional industrial centers of Turkey, which would include provinces such as Istanbul, Kocaeli, Izmir, Ankara, and Adana, with little participation from the rest of Anatolia. This dominance of the traditional conglomerates as well as the regional disparities were sources of political grievances and these grievances were articulated by emerging Islamist parties as early as the 1970s (Barkey 1990; Buğra 1998).

Starting in 1980, under Ozal, first as top economic bureaucrat and after 1983 as prime minister, the economic policy framework in Turkey went through a fundamental change and Turkey embarked on what is often called export-oriented industrialization. The new policy regime entailed trade liberalization, real depreciation of the currency, liberalization of domestic financial markets, and, after 1989, of international capital flows, as well as significant repression of real wages, especially during the 1980s. Trade liberalization was then reinforced through membership in the World Trade Organization (WTO) and a customs Union with the EU in 1995. On the macro front, liberalization was not complemented with macro-economic stability and, especially starting with late 1980s, Turkey suffered from high inflation, high real interest rates, and large budget deficits.

On the political front, after a short period of single party government, with the removal of a ban on former political leaders, political competition and

fragmentation increased and the 1990s were characterized by a series of short-lived coalition governments and increasing corruption. Islamist political parties re-emerged and scored electoral victories in both local and general elections. Macro-economic excesses of the 1990s were culminated by the financial crisis of 2000–2001. In 2002, the AKP came to power and formed the first majority government since the mid-1980s.

Liberalization, on the one hand, and more sympathetic governments, on the other, created opportunities for the growth of new businesses, many of them small or medium sized, some of them closely associated with and supporting Islamist parties. Ozal himself often complained about regional economic disparities as well as of the dominance of "Istanbul monopolists," themes systematically picked up and promoted by Islamist parties. At least in public discourse, many new business groups were portrayed as the devout bourgeoisie, challenging the dominance of secular Istanbul monopolists, even though the growth of conservative businesses was certainly not restricted to Anatolian provinces. New business associations were formed, representing conservative businesses and stating to support to Islamist parties. With the triumph of the AKP in the November 2002 elections, business leaders of the Muslim community who provided AKP with strong support have started to serve in different ranks of the AKP cadres, a trend that is absent for TUSIAD members.[11] In the 22nd, 23rd, and 24th terms of the Turkish Grand National Assembly (TGNA), for instance, the number of MUSIAD-affiliated MPs was 11, 7, and 10, respectively. Though less in number, TUSKON, ASKON, and TUMSIAD-affiliated individuals also served as AKP MPs (Gürakar 2016).

The literature emphasizes several factors that are likely to have helped the growth of conservative businesses both in the traditional industrial centers and in Anatolia:[12] Trade liberalization certainly removed significant entry barriers (especially in terms of import restrictions and allocation of foreign exchange). Public investment probably also helped: Starting in the 1980s, public investment priorities switched from manufacturing to infrastructure, including telecommunications and roads, increasing the connectivity of cities in Anatolia to the rest of the domestic market and especially urban consumption centers. Liberalization of the banking system reduced financial repression, but especially in the 1980s and 1990s likely did not reduce credit rationing in the still highly oligopolistic banking system significantly.

[11] "Becoming an MP is not a common practice among the TUSIAD members. On the contrary, TUSIAD member firms are not even allowed to have MPs or bureaucrats in their board of directors—a decision made after the recurrent corruption scandals of the 1990s that included several names from the TUSIAD members along with the ministers, MPs and bureaucrats" (Gürakar 2016).

[12] See, for example, Demir et al. (2004) and Hoşgör (2015).

The literature emphasizes another aspect of financial liberalization, namely the establishment of non-interest banks, the so-called Special Finance Institutions (SFIs), which were able to mobilize the savings of conservative families (as well as workers abroad) and channel them to conservative enterprises that were hitherto rationed out of the financial system. The share of SFIs in the financial system never became very large, but they are likely to have played a role in the growth of some conservative businesses. Indeed, eventually some of the conservative conglomerates bought SFIs, in effect mimicking secular/traditional conglomerates that had their own banks. The literature also emphasizes the impact of the electoral victories of Islamist parties, especially in local government, and which resulted in access to resources under the control or influence of central and local government. We return to the issue of political connections in section 3.5.

In comparative terms, the post-1980 story of Turkey contains elements that differentiate Turkey from other countries in the Middle East North Africa (MENA) region.[13] The first was mentioned in the Introduction of this chapter: The new bourgeoisie emerged in an environment where there was already a relatively strong private sector. Second, economic liberalization occurred in Turkey quite early and resolutely and was further reinforced with the Customs Union with the EU. Third, Islamic capital was allowed to flourish and in many instances was supported by sympathetic local governments, a factor that likely increased the degree of competition in various markets.

The AKP has won subsequent elections since 2002 and has been able to maintain dominance through single-party majority governments. The first few years of AKP rule is generally characterized by a relatively inclusive political and economic environment: the AKP came to power on a platform of anti-corruption and EU orientation. Indeed, the initial period of AKP government was one of significant political and economic reform, some of which had already been developed by the previous government but adopted by the AKP, and other reforms were pursued by the AKP itself as part of its preparation for EU membership. In general, there was a move toward a more rule-based institutional framework for economic policy (Acemoglu and Ucer 2015; Atiyas 2012). The environment changed significantly later, especially after the Gezi protests of 2013 and the breakdown of cooperation with the Gulen movement. Centralization of political power accelerated after the coup attempt of 2016 and subsequent mass purges ostensibly to clean agencies of the state from Gulenist elements, as well as a crackdown on businesses and business organizations seen to be associated with the Gulen movement.

[13] Atiyas and Diwan (2017) provide a detailed comparative analysis of Egypt and Turkey.

3.3 Anatolian Tigers Catch Up? Evidence from Three Decades of Microdata

In this section we use firm-level data compiled by the Turkish Statistical Institute (TurkStat) to gain some insights on the scope, evolution, and composition of economic activity in new industrial centers compared with traditional industrial centers in Turkey. We focus especially on changes in the size distribution of firms and employment, and ask whether there is any convergence in productivity.

3.3.1 *TurkStat Data*

The data we use come from two different micro (plant- or firm-level) datasets. For the period 1982–2000, we use the Annual Manufacturing Industry Statistics (AMIS) compiled by the Turkish Statistical Office (TurkStat). This dataset covers private plants with at least ten employees and all state-owned plants. For the period 2005–2012, we use the Annual Industry and Service Statistics (AISS) again compiled by TurkStat.[14] This dataset covers (almost) all non-financial and non-agricultural business sectors. The dataset includes all firms with at least 20 employees; firms with less than 20 employees are covered on a sampling basis, with sampling weights.

The sectoral classification system of the AISS dataset changed from NACE Rev. 1 to NACE Rev. 2 in 2009. Unfortunately, there is no neat correspondence between these two systems. This has created discontinuity, since a firm classified as a manufacturing firm in one classification may be non-manufacturing under the other. Fortunately, TurkStat has recently undertaken a back-casting exercise through observations of 20+ firms in the years before 2009 and assigned a NACE Rev. 2 sector code. However, no such exercise has been carried out for 20– firms. In what follows, for the years 2005–2008, for firms with less than 20 employees, we identify a firm as belonging to the manufacturing sector based on its NACE Rev. 1 classification, whereas for 20+ firms the NACE Rev. 2 classification is used. Moreover, due to the non-correspondence of the two classification systems, a coherent system of price deflators that covers all firms in the whole period does not exist. That means, for example, that the evolution over time of average productivity in constant prices of the 1–19 firms cannot be calculated. We therefore report *relative productivity*—that is, average productivity of the Tiger region relative to the West. For the AMIS dataset we do not have such a problem and we use the producer price index (1994 = 100) specific to 4-digit ISIC Rev. 2.[15]

[14] The dataset actually covers the years 2003–2012. However, we exclude 2003 and 2004 from the analysis because TurkStat experts state that data for those years are highly unreliable.

[15] We would like to thank Prof. Kamil Y lmaz for providing 4-digit ISIC Rev. 2 deflators.

Unless indicated otherwise, and for most of the analysis below, for the 2000s we restrict our attention to the manufacturing industry for the purposes of comparability with the 1980s and 1990s. Since AMIS is plant level and AISS is firm level, and the coverage of the two datasets is different, one should exercise some caution when comparing results across the 1980s and 1990s, on the one hand, and 2000s, on the other. Comparisons of dynamics across time within the two periods are likely to be more credible.

3.3.2 *Classi cation of Regions*

An important step in our analysis is the classification of regions. We base our classification on the vote share of the Welfare Party (Refah Partisi, RP) in the 1991 elections. The Welfare Party is an Islamist Party, often associated with its leader and co-founder Necmettin Erbakan and the National Vision movement. It was established in 1983 as the successor to the National Order Party (Milli Nizam Partisi) and National Salvation Party (Milli Selamet Partisi) which were active in the 1970s and were closed down by the Constitutional Court. 1991 was the first general election year in which the party won a vote share (16.9 percent) above the nationwide 10 percent threshold required to win seats in parliament and much higher than its share in earlier local or national elections, which hovered around 6–7 percent. Specifically, we classify a region at level 2 of the Nomenclature of Territorial Units for Statistics (NUTS2) as an "Anatolian Tiger" if the vote share of the RP is above equal or above 20 percent. The West consists of Kocaeli, Ankara, Istanbul, Izmir, Bursa, Tekirdag, Adana, Antalya, Zonguldak, Balikesir, and Aydin NUTS2 regions. The Tigers consist of Konya, Kayseri, Hatay, K r kkale, Malatya, Gaziantep, Erzurum, and Samsun regions. "Others" consist of Manisa, Agri, Sanliurfa, Mardin, Van, Trabzon, and Kastamonu.

We should emphasize that in the classification of Anatolian Tigers, we do not attempt to make a causal claim that the economic performance of the private sector in Tiger provinces was influenced or determined by the presence or strength of Islamist parties. In fact, the opposite may be true: It could be that the emergence of the devout bourgeoisie created a favorable environment for the development and strengthening of Islamist politics. We simply would like to carry out an analysis of economic performance of regions where Islamist political presence was already strong in the beginning of the 1990s.

The fact that due to data constraints this classification needs to be done on the basis of NUTS2 regions does impose some limitations. This is illustrated by the case of the provinces of Aydin and Denizli. Aydin has been a historically rich province and would normally be included among the West, whereas Denizli is a more recent industrializer and is often among the provinces for which the term Tiger was used to begin with. However, both are classified in

the same NUTS 2 sub-region (the sub-region Aydin). Based on the RP vote share in 1991, we have included the Aydin sub-region in the West.

3.3.3 *Productivity and Size Distribution of Employment*

We start by tracing the regional shares in manufacturing value added and employment. Figures 3.1 and 3.2 display the Tiger and Other regions' shares in manufacturing employment and value added, respectively, for the 1980s and 1990s. The employment share of both Tiger and Other regions shows a slight decline over the period. The regions' shares in value added, by contrast, increase during the 1980s and then decline during most of the 1990s until 1997, and then start to increase again.

Next we look at productivity, defined as value added per employee. Figure 3.3 displays the weighted (by employment) average of labor productivity in the three regions in constant 1994 prices. There is a clear upward trend in the labor productivity in all regions, but productivity increase seems to have stalled in the West in the 1990s, while both the Tiger and Other regions show an upward trend in productivity in the last few years of the 1990s. As a result, as shown in Figure 3.4, productivity in the Tiger and Other regions, relative to that in the West seems to have increased from about 40–50 percent of the West in the early 1980s to over 60 percent by the end of the 1990s. The calculation of the gap between the West and the Tiger region in Figure 3.4 is

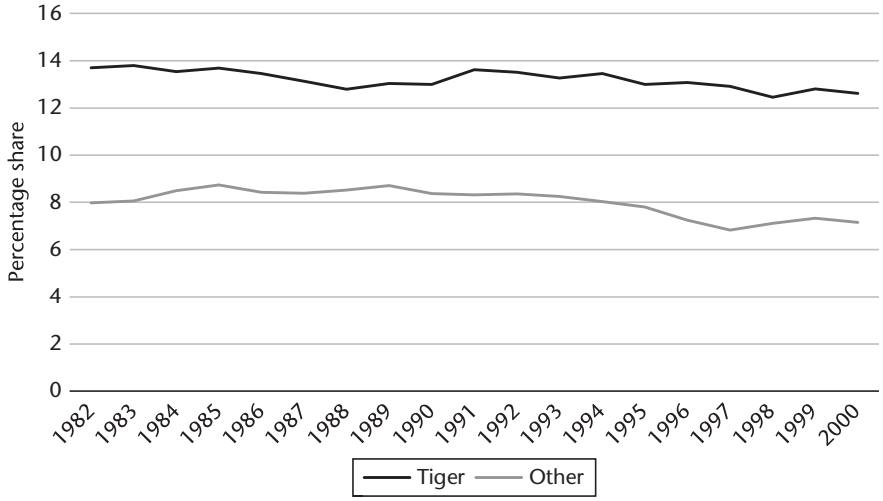

Figure 3.1. Share in manufacturing employment (1982–2000).
(*Source*: Authors' calculations using AMIS)

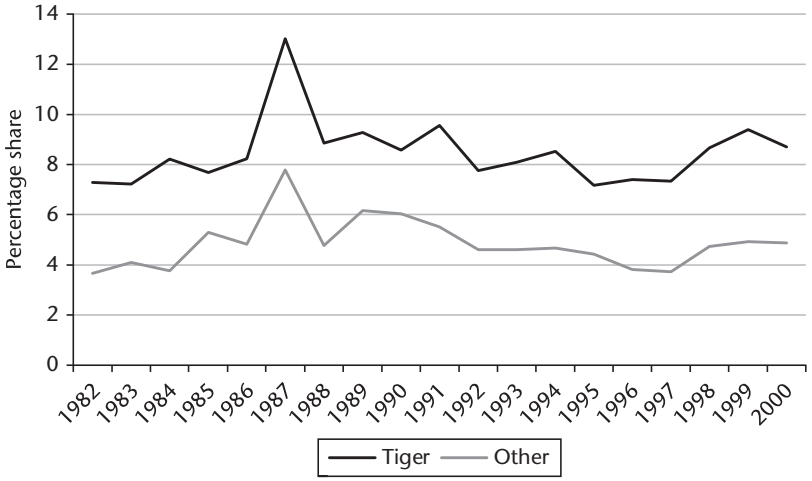

Figure 3.2. Share in manufacturing value added (1982–2000).
(*Source*: Authors' calculations using AMIS)

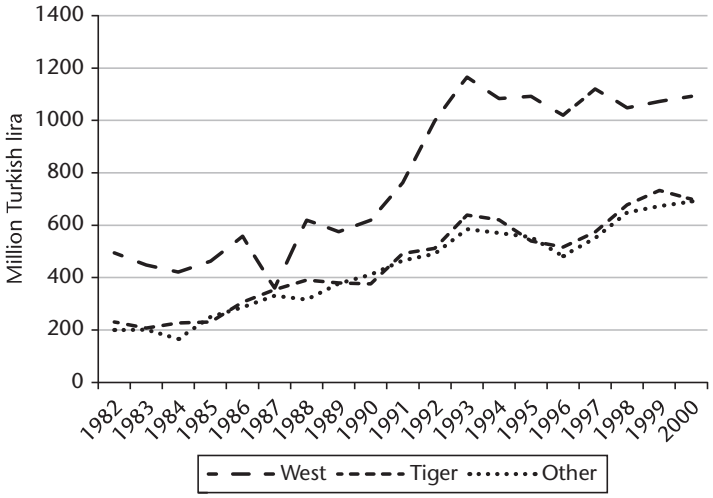

Figure 3.3. Labor productivity (constant 1994 prices), defined as value added divided by number of employees (1982–2000).
(*Source*: Authors' calculations using AMIS)

based on value added in current prices, but very similar results are obtained when value added in constant prices is used instead.

Was this catch-up in productivity uniform across size groups? Figure 3.5 gives an idea of the labor productivity gap between the Tigers and the West by size groups of plants in the 1980s and 1990s. Overall, one notes that the gap

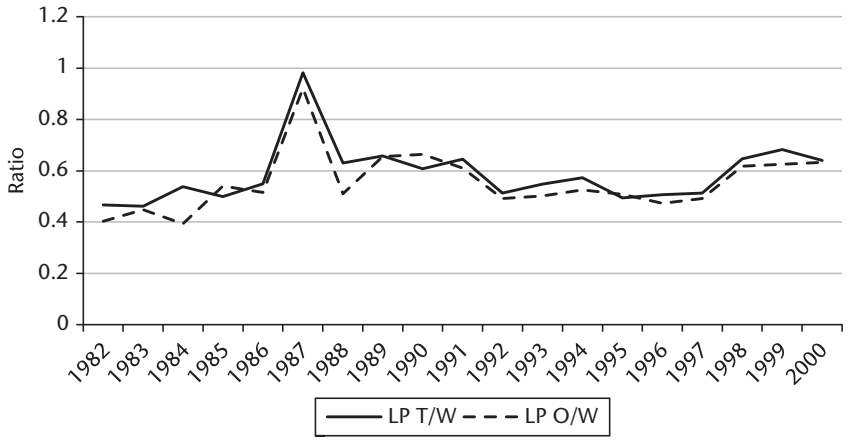

Figure 3.4. Relative labor productivity (LP ratio) in Tiger (T/W) and Other (O/W) regions to that of the West, respectively (West = 1) (1982–2000).
(*Source*: Authors' calculations using AMIS)

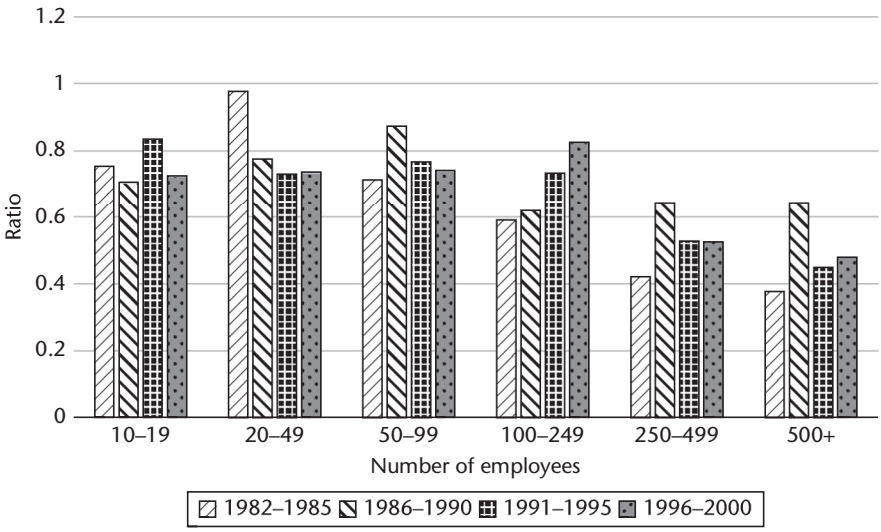

Figure 3.5. Relative labor productivity in Tiger region by size groups (number of employees; West = 1) (1982–2000).
(*Source*: Authors' calculations using AMIS)

was smaller for small and middle sized plants and larger for plants that employ more than 250 employees. The second interesting thing to note is that the productivity gap either widens or increases very little for firms that employ less than 100 employees. Larger firms exhibit more persistent increases in relative

labor productivity, but the most visible increase occurs in firms that employ 100–249 employees. For those in this group, labor productivity was about 60 percent of their counterparts in the West and increased to 80 percent in the 1990s. Note that relative labor productivity among very large firms in the Tiger regions was especially low, even though it did increase from less than 40 percent in the early 1980s to about 50 percent in the second part of the 1990s.

Evidence so far suggests that some catch-up in productivity between the Tiger regions and the West did occur, especially toward the end of the 1990s, and this was mainly due to productivity increase among mid-sized (100–249 employees) firms. What can we say about changes in the allocation of labor among different size groups of firms? Table 3.1 provides the relevant data. The first interesting result is that both in the West but especially in the Tiger region the share of large (500+) firms was quite high in the 1980s and this share declined in the 1990s. Second, employment share of mid-sized firms increased significantly in the Tiger regions. In the 1980s, the share of large plants (500+) in total employment was very high: on average about 46 percent in the West and 62 percent in the Tiger region. The share of plants with 20–249 employees was 35 percent in the West and a mere 23 percent in the Tiger region. The share of these middle-sized plants increased in both regions but the increase was higher in the Tiger region: by 7 percentage points to 42 percent in the West and by 13 percentage points to 35 percent in the Tiger region. We thus see a substantial reallocation of labor and a "thickening of the middle," especially in the Tiger region.[16] In the Tiger region, this reallocation was highly visible as a movement away from large firms with low relative productivity to middle-sized firms with higher (and increasing) relative productivity.

To summarize, then, what seems to have happened in the Tiger region during the 1980s but especially the 1990s is possibly best described as the emergence of middle-sized firms and a serious reallocation of labor from very

Table 3.1. Distribution of employment by plant size (in percent)

		Number of employees					
		10–19	20–49	50–99	100–249	250–499	500+
West	1980s	5.4	11.2	9.3	14.3	14	45.9
	1990s	4	12.5	11	18.6	16.2	37.8
Tiger	1980s	3.6	8.4	6.2	8.9	11.4	61.5
	1990s	4	10.7	8.7	15.2	12.5	48.9

Source: Authors' calculations using AMIS.

[16] The fact that the reallocation of labor slowed down toward the end of the 1990s could reflect increased macro instability that eventually triggered the crisis of 2000–2001.

large to middle-sized firms. A similar trend appears in the West. But if this "thickening of the middle" is a secular trend, the West was already more advanced and the Tiger region was in the process of catching up. These were also firms whose labor productivity relative to their counterparts in the West increased most during that period. This seems to have generated an overall catch-up with respect to productivity, especially in the last few years of the 1990s, and was most visible among middle-sized plants. Average productivity in large firms in the Tiger region was seriously behind average productivity of similarly sized plants in the West, even though some convergence occurred there as well.

We now look at the 2000s. The share of the Tiger region in total economic activity and manufacturing continued to increase in the 2000s. Between 2005 and 2012 for the whole non-agricultural business sector, the share of the Tiger region in total value added increased from about 9.0 to 10.5 percent and in employment from about 14.5 to 15.0 percent. While these increases are somewhat modest, increases in manufacturing were more pronounced, from about 8.8 to 12.8 percent in value added and 12.7 to 16.0 percent in employment.

Figure 3.6 displays the evolution of labor productivity (in current prices) in the Tiger region as a ratio of productivity in the West, for the whole (non-agricultural) economy as well as for the manufacturing industry. Both for the whole economy as well as for manufacturing, the productivity gap is reduced over time: Relative productivity in the Tiger region has increased from about 55 percent that of the West in 2005 to about 71 percent by 2015. In manufacturing the productivity gap was smaller to begin with, but has been further reduced: Relative productivity has increased from about 66 percent in 2005 to about 81 percent in 2015.

Remember that in the 1980s but especially in the 1990s the "thickening of the middle," that is, the increase in the employment share of mid-sized firms, especially in the Tiger region, was an important part of the story. We see that this is still going on in the Tiger region. On average, the share of 1–19 firms in total employment is less than 30 percent in the West and close to 35 percent in the Tiger region. The share of large (500+) firms is a little above 20 percent in both regions. Table 3.2 reports changes in the size distribution of employment between 2005 and 2015 in manufacturing. The employment share of middle-sized firms (say 20–249) increased by 3.8 percentage points in the West and 6.5 percentage points in the Tiger region. One may also note that in the 1980s and 1990s, thickening of the middle occurred mainly at the expense of very large firms, while in the 2005–2015 period, it is mainly small firms that lose labor share (6 percentage points in the West and 9 percentage points in the Tiger regions). Note that changes are quite dramatic for the Other region as well: The share of small firms declined by almost 15 percentage points.

Figure 3.6. Relative labor productivity in Tiger region according to current prices (West = 1) (2005–2015).
(*Source*: Authors' calculations using AMIS)

Table 3.2. Changes in employment share of manufacturing rm size classes (2005 –2012, in percent)

	Number of employees					
	1–19	20–49	50–99	100–249	250–499	500+
West	–6.01	–0.13	2.41	1.49	1.42	0.83
Tiger	–9.29	0.44	2.92	3.15	1.47	1.31
Other	–14.59	0.14	1.70	3.26	–0.99	10.48

Source: Authors' calculations using AISS.

Finally, we would like to ask whether the convergence in productivity between the West and the Tiger region mentioned above is particularly visible among any of the size groups. It turns out that increase in relative labor productivity is most concentrated among small (1–19) and large firms (250–499 and 500+). This is shown in Figure 3.7. Relative labor productivity among other size groups (not reported) either is almost constant or shows only a very mild increase.

Table 3.3 exhibits average labor productivity of different size groups of firms relative to the smallest size. We see that in both regions the productivity gap between small and large firms is quite large, the latter being about six times as productive as the smallest groups of firms. Notwithstanding the fact that the units of analysis in the 2000s are firms rather than plants, especially for the Tiger regions, comparison of productivity across firm sizes in the 2000s creates

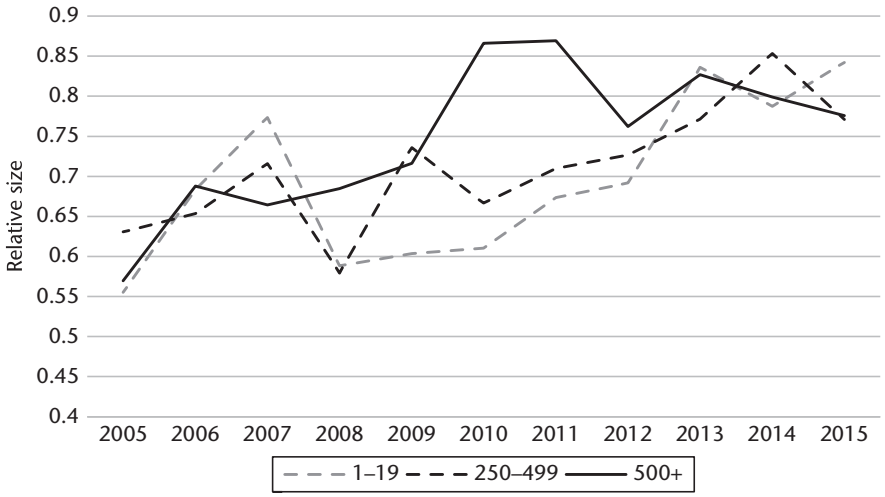

Figure 3.7. Relative labor productivity in manufacturing in Tiger region by size groups (West = 1) (2005–2015).
(*Source*: Authors' calculations using AISS)

Table 3.3. Relative labor productivity in manufacturing (2005–2012 averages; size group 1–19 = 1)

	Number of employees				
	20–49	50–99	100–249	250–499	500+
West	2.05	2.41	2.99	4.02	5.95
Tiger	2.31	2.70	3.65	4.13	6.44

Source: Authors' calculations using AISS.

a picture that is quite different from the 1980s and 1990s. In the 2000s, large firms in the Tiger regions are much more productive than both small and medium-sized firms. Moreover, in the 2000s, large firms in the Tiger regions played an important role in catch-up with their western counterparts.

3.3.4 *Exports*

An important dimension of the discourse about the emergence of the Tigers is that they are export oriented. Data in Figure 3.8 support these claims. The data are based on exports by provinces compiled by TurkStat, and aggregated according to regional definitions used in this chapter. It shows that the share of the Tiger region in total exports increased during the 2000s, from a low of about 5 percent in 2002 to slightly over 10 percent in 2015.

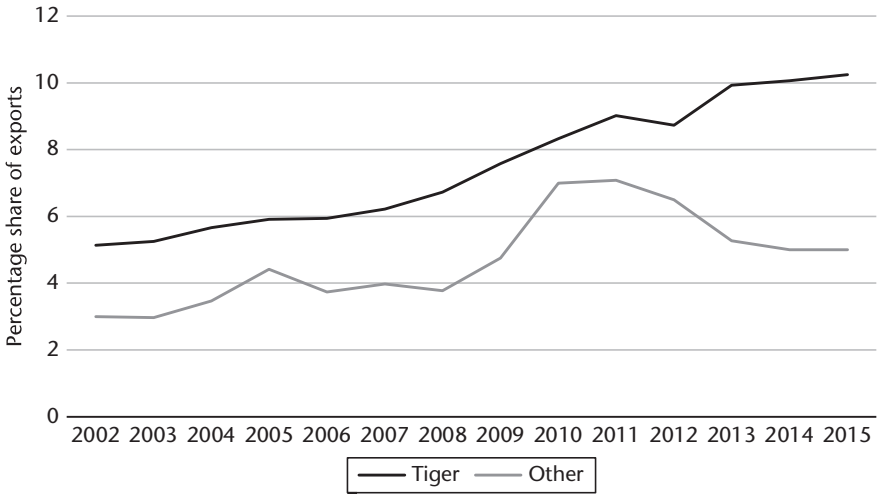

Figure 3.8. Share of Tiger and Other regions in total exports (2002–2015).
(*Source*: Authors' calculations using online TurkStat Foreign Trade Statistics)

One major factor that triggered this increase was the roadmap that was drawn for Turkey's new export strategy. With the Exports Strategic Plan a more dynamic role has been assigned to chambers of commerce, trade associations, and the official trade liaison offices in Turkish embassies, whose number increased from 163 in 2002 to 228 in 2015. Moreover, a widespread network of bilateral trade relations has been established via governmental and private initiatives. The number of countries to which citizens of Turkey can travel visa-free has also increased, from 42 in 2002 to 69 in 2015. These developments have been supported by more than 60 new routes that were opened by the national flagship carrier Turkish Airlines (THY).

The reason why the new exports strategy most probably opened new "opportunity spaces" for Anatolian Tiger firms is that the government and RNs worked in collaboration. The majority of the visa-free travel agreements, new routes opened by the THY, and the Turkish embassies founded elsewhere were results of collaborative work among the government and RNs. As the president of TUSKON stated: "The state crossed the ball from the wing and we scored the goal."[17]

[17] Haber7com, October 19, 2009: "TUSKON Afrika için 1 koydu 3 ald ." http://ekonomi.haber7.com/ekonomi/haber/445867-tuskon-afrika-icin-1-koydu-3-aldi. See also Özkan and Akgün (2010) for the specific case of Africa.

3.4 The New Devout Bourgeoisie: Evidence from the Largest 1000 Industrial Firms

In this section we use the dataset of the largest industrial firms of Turkey, put together by the Istanbul Chamber of Industry (ISO), to trace the emergence of large firms associated with conservative business associations. This dataset covers the largest 500 firms between 1982 and 1996 and largest 1000 firms for the years 1997–2013. For the sake of brevity, we will refer to this as the top 1000 list. Firms are selected for the list on the basis of sales from production.[18]

We have classified firms in the top 1000 list as belonging to a "religious network" (RN) or "secular network" (SN) according to their membership to business associations in 2013, the year for which we have lists of members of the different business associations. The classification was done in the following way: A firm that is a member of MUSIAD, TUSKON, or ASKON is classified as belonging to the RN. A firm that is a member of TUSIAD or TURKONFED is classified as belonging to the SN. Firms that can be classified as both religious and secular (for example, those that are members of both TUSIAD and MUSIAD) are classified as belonging to the RN.[19] The rest are called "others." In all years, there are a number of firms that have chosen to remain anonymous. For these firms, the top 1000 list does not have any data. We have dropped these observations from the list.[20] We still refer to the list as the "top 1000 list."

The fact that we have membership lists only for 2013 results in a number of obvious weaknesses in our analysis. Most importantly, we cannot identify when a firm becomes a member of a network and we have to assume that it has belonged to the network since it was first established or whenever it appeared in the top 1000 list. This is probably acceptable: Presumably membership in a network is a proxy for the degree of religiosity of the owners and immediate stakeholders of the firm and one would expect that this characteristic would take precedence over membership to the network.

Many enterprises that were publicly owned have been privatized since the 1990s. These have been treated in the "other" category until they are privatized. Once privatized, if they appear as a member of a network in 2013, they

[18] The dataset covers mining, manufacturing, electricity, gas, and water industries; however, most firms are in the manufacturing industries (e.g. more than 95 percent of firms in 2012). In 2012, total sales of the manufacturing firms listed in the dataset make up about 55 percent of total sales in the manufacturing industry, as reported in the AISS by TurkStat.

[19] There are around 40 such firms and most of them are known to be a member of an RN before becoming a member of an SN. Some of the competitive successful firms (mostly MUSIAD members) are known to be invited by the TUSIAD.

[20] The number of firms that are in the top 1000 list but which remain anonymous is relatively low: For example, there are 17 such observations in 2012 among the top 500 and 31 observations among the top second 500. For the year 2004, the numbers are 13 and 19, respectively.

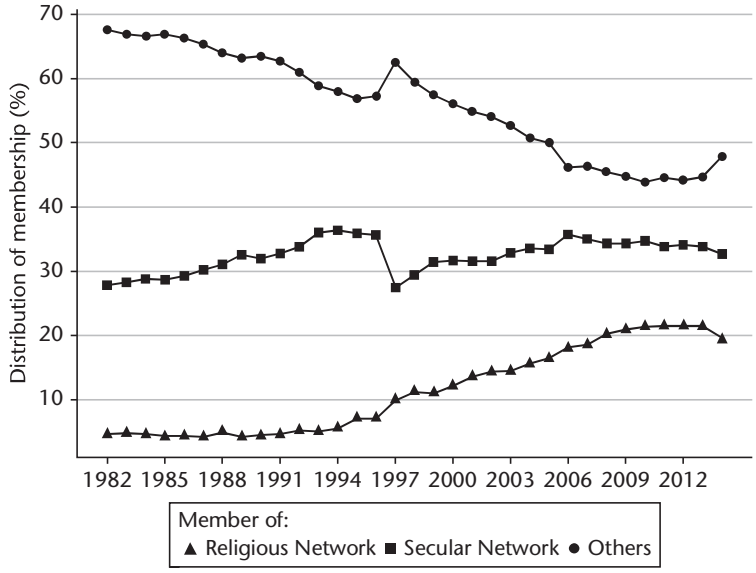

Figure 3.9. Network composition of top 1000 firms.
(*Source*: Authors' calculations using ISO data)

are classified as belonging to that network, after the date of privatization. In fact, the "other" category contains many state-owned enterprises in the 1980s and 1990s. Almost all of these enterprises were privatized by the end of the 2000s, some taken over by members of the SN, others by members of the RN (and some have remained independent). This is possibly one of the reasons why in some of the statistics discussed below, the "other" category displays wide fluctuations.

With these caveats, we proceed with the analysis. Figure 3.9 plots the percentage share of firms belonging to the RN, SN, and others in total number of firms. The share of firms belonging to RN seems to have remained constant at around 4 percent until the beginning of the 1990s, with an upward trend starting in 1992. Indeed, the number of RN firms increases from 22 in 1992 to 34 in 1996. The RN share increases faster in the 2000s, reaching a maximum of just over 20 percent (more than 200 firms) in 2009. We note that by the end of the 2000s, about half of a total of around 200–210 RN firms are in the group of largest 500 firms and half in the second 500 largest firms in the ISO dataset. By contrast, the share of the members of the SN in total number of firms is almost constant in the 2000s. It is the class of other firms whose share declines significantly over time.

It may be useful to comment on the regional composition of RN firms. In 1990, for example, of the 22 firms that are classified as belonging to the RN,

Table 3.4. RN rms are younger

Establishment date	RN		SN	
	Number of rms	Percentage	Number of rms	Percentage
Before 1970	64	17.3	224	36.3
Between 1970 and 1979	70	19.0	128	20.7
Between 1980 and 1989	104	28.2	127	20.6
Between 1990 and 1999	94	25.5	99	16.0
2000 and after	37	10.0	39	6.3
Total	369	100.0	617	100.0

Source: Authors' calculations using ISO data.

13 are located in Istanbul.[21] Of the remaining nine, three would also be classified as in the West (Aydin and Balikesir), five would be in the Tiger region, and one in the Other region. In 2012, of 205 firms, 117 are in the West and 77 are in the Tiger region.

RN firms are relatively young. Some data on age are provided in Table 3.4. While about 36 percent of firms in the SN were established before 1970, this ratio was 17 percent for the RN. About 35 percent of RN firms were established after 1990, whereas this ratio was 22 percent for SN firms.[22]

Table 3.5 shows the sectoral composition of members of the SN and RN for the years 1998 and 2012. In 1998, the value added/employment share of the RN is highest in traditional sectors such as food and beverages, textiles and garments, and wood and furniture. These three sectors accounted for about 68 percent of value added and 64 percent of employment of RN firms. By contrast, for the SN these shares were 31 and 37, respectively. Food and beverages is also an important industry for the SN firms, but the similarity ends there: Compared to RN firms, SN firms had higher presence in medium-technology industries such as chemicals, and machinery and equipment. Interestingly, the value added and employment composition of RN firms in 2012 is quite similar to that in 1998, except for a reduction in the share of textiles and garments and an increase in the share of wood products. The sectoral distribution of SN firms in 2012 continues to be dominated by food and beverages, chemicals, fabricated metal products, and machinery and equipment, accounting for 76 percent of value added and 67 percent of

[21] The ISO dataset provides information on the provincial chamber of commerce that the business is a member of. It is possible that the headquarters of a company is located in Istanbul, and therefore the business is a member of the Istanbul Chamber of Industry, whereas the production plant is located in another province.

[22] Establishment dates were retrieved from the Commercial Registrar and from company websites. Many firms were established initially in the wholesale or retail sector. In general, we have identified the year that a manufacturing unit was established as the year of establishment.

Table 3.5. Sectoral distribution of network members

	1998						2012					
	SN			RN			SN			RN		
	Number of firms	Va (%)	Emp (%)	Number of firms	Va (%)	Emp (%)	Number of firms	Va (%)	Emp (%)	Number of firms	Va (%)	Emp (%)
Coal mining	1	0.2	0.2	3	2.3	2.3	3	0.7	0.1	3	15.3	1.8
Food, beverages, and tobacco	36	19.6	10.2	20	18.9	11.2	59	26.8	14.6	56	13.0	20.3
Textiles, wearing apparel, and leather	43	10.8	26.2	31	27.9	42.3	28	3.1	10.2	44	18.6	34.4
Wood and wood products, including furniture	2	0.5	0.4	7	10.7	10.4	2	0.1	0.3	15	19.4	12.4
Paper and paper products, printing and publishing	14	2.0	2.0	3	5.4	5.7	17	2.2	2.4	5	0.7	0.8
Chemicals and chemical products, petroleum, coal, rubber, and plastic	52	15.5	11.1	14	9.3	11.2	53	27.4	9.7	21	5.9	10.0
Non-metallic mineral products, except petroleum and coal	43	14.3	12.4	4	5.8	3.0	50	8.6	8.9	6	3.4	4.0
Basic metal industries	20	3.6	3.6	10	9.4	4.5	27	8.6	10.2	24	12.5	6.2
Fabricated metal products, machinery and equipment	71	33.0	33.7	16	10.2	9.2	77	22.3	43.0	29	10.9	10.0
Other				1	0.1	0.1	1	0.0	0.0	2	0.3	0.2
Electricity, gas, and water	2	0.6	0.1				9	0.2	0.6			
Total	284	100.0	100.0	109	100.0	100.0	326	100.0	100.0	205	100.0	100.0

Va, Value added; Emp, employment share.

Source: Authors' calculations using ISO data.

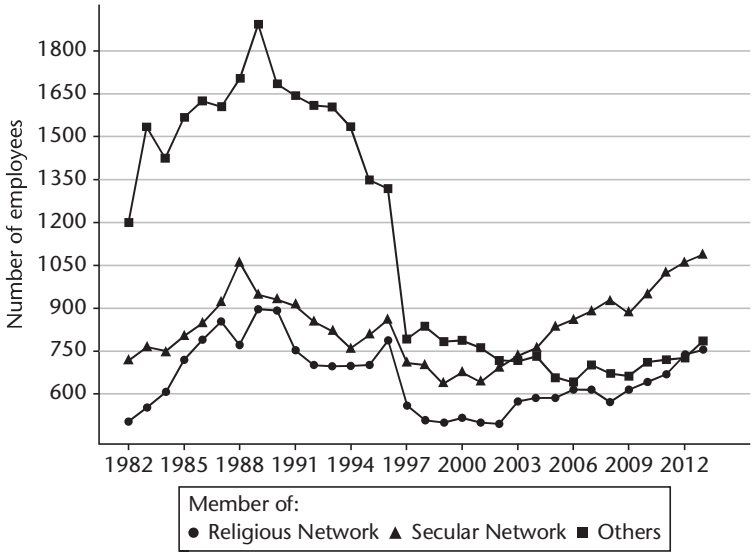

Figure 3.10. Average employment by membership in ISO top 1000 list.
(*Source*: Authors' calculations using ISO data)

employment.[23] Overall, we can say compared to SN firms that RN firms are more concentrated in industries that display lower capital intensity and are traditionally more export oriented.

Figure 3.10 displays the average size (in terms of employment) of the firms of the two networks. In general, we note that members of the RN are smaller than members of the SN. The figure shows that during the 2000s average size grows both in the RN and SN, but employment growth on average was higher in the SN. While the average size of RN firms has grown from about 520 to 735, among the SN, firms grew from an average employment of 675 in 2000 to 1060 in 2012. Note also that firms in the Other category experienced a large decline between 1996 and 1997. It is likely that expanding the ISO list from the largest 500 to the largest 1000 firms affected average employment of firms in the Other category more than those in the SN and RN.

Figure 3.11 shows export orientation, defined as the ratio of exports to total sales for the different networks. Interestingly, until the 2000s, members of the RN were much more export oriented than firms in the SN.[24] The latter become

[23] For 2012, Tupras is not included in the calculation of composition of SN value added and employment. Tupras has extremely high sales and value added and including it provides a rather distorted picture of sectoral composition of value added for SN firms.

[24] One reason is that RN firms are mostly active in the textiles sector which has been export oriented since the 1980s, whereas some of the industries where SN firms exhibit a higher degree of presence, such as the automotive industry, have become export oriented in the late 1990s and early 2000s.

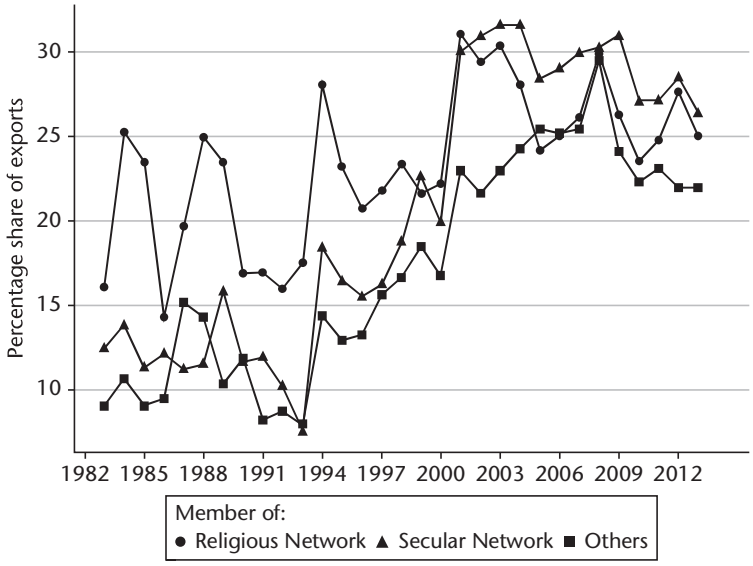

Figure 3.11. Export orientation (percentage exports over sales), defined as (weighted average of) ratio of value of exports to sales.
(*Source*: Authors' calculations using ISO data)

more export oriented in the 2000s, though the difference in the degree of export orientation of the two groups is not very large during this period. One should note that while firms in the RN are quite export oriented, their share in total exports of the ISO 1000 firms is less than 20 percent in the 2000s, while that of SN firms is above 60 percent, reflecting possibly the larger size of SN firms.

In Figure 3.12 we present the evolution of labor productivity of RN and Other firms relative to that of firms belonging to the SN. Relative labor productivity is defined as the ratio of the nominal average of group (RN and Other) labor productivity to that of the SN. Relative labor productivity of RN firms fluctuates quite a bit, but the figure shows that as the number of RN firms in the top 1000 increased, RN productivity relative to SN has persistently declined over time, especially between the late 1990s and early 2000s. Indeed, while in the period 1982–2000 labor productivity in the RN fluctuated around close to 60 percent of the SN, this ratio declined to around 25 percent in the period 2001–2012. It is likely that the lower productivity of RN firms partly reflects sectoral composition: RN firms are more populated in labor-intensive industries, where labor productivity is on average lower than more capital-intensive industries where SN firms have more presence.

The story that emerges from the analysis of the ISO largest 1000 list is the following: In the 1980s and early 1990s, there were already a handful of firms (around 20–25 of the largest 500 firms) belonging to the RN that were relatively

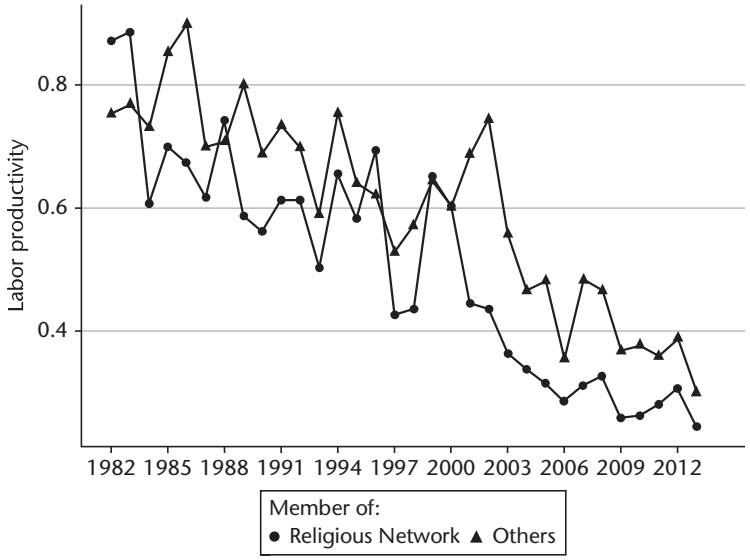

Figure 3.12. Relative labor productivity of network firms (SN = 1).
(*Source*: Authors' calculations using ISO data)

large (with average employment coming close to 80–90 percent of SN) and relatively highly export oriented (at least compared to the SN), and whose labor productivity was around 60 percent of their counterparts in the SN. In comparative terms, these were quite competitive firms, but they were only a handful. The number of firms belonging to the RN started to increase in the second half of the 1990s and accelerated during the 2000s. We posit that the most important finding is that the share of RN firms increased from less than 5 percent (of largest 500 firms) in the early 1980s to more than 20 percent (of largest 1000 firms, against a share of about 35 percent for SN firms) in the late 2000s. New additions are generally smaller than but as export oriented as the incumbent RN firms. Firms belonging to the RN are concentrated in more traditional industries such as food and beverages, textiles and garments, and furniture. By contrast, firms belonging to the SN have relatively more presence in more capital-intensive industries such as machinery and equipment, and chemicals. On average, RN firms are smaller than SN firms and the gap in size has increased in the 2000s.

3.5 Discussion: The Role of Political Connections

One interesting question raised by the analysis presented in this chapter is whether the growth of the devout bourgeoisie was aided by the presence of Islamist parties. More concretely, was the growth of Tiger provinces or of

conservative businesses supported by favorable allocation of rents by political authorities? A full answer to that question is beyond the scope of this chapter, but we try to provide some tentative observations. Overall, the answer seems to depend on which industry one is talking about. The analysis presented is focused on the manufacturing industry. By the 2000s, discretionary allocation of rents to manufacturing was limited due to rules associated with the customs union with the EU, as well as membership in the WTO. Indeed, an analysis of industrial and incentive policy reveals that starting with the second half of the 1990s, investment incentives in Turkey did not contain instruments that would allow governments to easily pick individual industries or firms (Atiyas and Bakis 2015). Incentives were generally either "horizontal," that is, available to all firms that fit eligibility criteria, such as Research and Development incentives, or regional, that is, available to all firms situated in specific regions which were classified as underdeveloped according to more or less objective economic and social criteria (see Betcherman et al. 2010 for a detailed analysis of regional subsidies). Many provinces classified in the Tiger region in this chapter did benefit from regional subsidies (though the more prominent Tiger provinces such as Kayseri, Konya, Gaziantep, and Hatay were not among the provinces identified for support). Hence while the regional convergence reported in section 3.3 may have benefited from regional subsidies, there seems to be no reason to suspect that the implementation of regional subsidies was subject to firm-level discrimination or favoritism.

A further piece of evidence from public procurement in the period 2004–2011 is provided by Gürakar (2016): Gürakar shows that while politically connected firms won a relatively large portion of public procurement contracts in construction and services (more than 40 percent in the case of firms directly connected to the AKP and more than 60 percent if one includes firms more weakly affiliated with the AKP and firms connected to opposition parties), the share of such firms in procurement contracts for manufactured goods was significantly lower (20 percent in the case of firms directly connected to the AKP, and 30 percent if one includes firms more weakly affiliated with the AKP and firms connected to opposition parties). The share of TUSIAD members which were awarded contracts in construction and services was less than 10 percent, but was more than 30 percent for procurement of manufactured goods, presumably reflecting the relatively high competitiveness of TUSIAD members. This suggests that favoritism in the award of public procurement contracts was less of a problem in the case of manufactured goods, relative to services or construction.

At the same time, conservative business benefited from "soft" support, especially with regard to export markets. Tuskon (2007) reports that the Prime Ministry, the Foreign Affairs Ministry, and the Ministry of Industry and Trade, as well as the Undersecretariat of Foreign Trade have provided technical and bureaucratic support to TUSKON which has been noteworthy

and that such collaboration has enabled TUSKON members to develop access to African countries where they do not have offices. Recep Tayyip Erdoğan and other AKP leading figures frequently appeared as keynote speakers at major events of these associations, such as the foreign trade symposiums, as well as their annual meetings and the Ramadan dinners (İlhan 2014; TUSKON 2007). It would be reasonable to assume that such support is quite benign in the sense that it has created new opportunity spaces without leading to a significant exclusion of incumbents.

Of course there may be subtler ways to distribute rents to favored firms in the manufacturing industry. For example, regulations may be implemented in discriminatory ways (Hallward-Driemeier and Pritchett 2015), or there may be favoritism or discrimination in the granting of construction permits, allocation of public lands, or providing access to credit from state-owned banks.[25] Evaluating these possibilities requires further research.

Based on the discussion in this chapter, one may conclude that as far as manufacturing is concerned, and at least for the period covered, rent allocation does not seem to have played a major role in the growth of conservative businesses. The story is different in rent-thick sectors. Buğra and Savaşkan (2014) provide a detailed analysis of "new entrepreneurs" that came into existence with state support during the AKP rule.[26] There is empirical evidence (Gürakar 2016; Gürakar and Meyersson 2016) that firms with connections to the AKP were favored in public procurement contracts in the construction industry. Aside from public procurement, in the construction industry the Housing Development Administration of Turkey (TOKI) has a number of discretionary instruments that it has used to transfer resources to politically connected contractors. There is evidence that connections with the AKP matter in regulated industries such as telecommunications (Atiyas et al. 2016) and energy (Özcan and Gündüz 2015). Hence, in rent-thick industries political connections did matter: Firms with political connections had a higher degree of access to resources controlled or distributed by the government relative to firms that did not have such connections.

3.6 Conclusions

We can now summarize our main results. Regarding convergence between Anatolian Tigers and traditional industrial centers we find that during the

[25] Bircan and Saka (chapter 10) provide evidence on access to credit.

[26] Among the ten new entrepreneurs that emerged under the AKP period discussed by Buğra and Savaşkan (2014), only one had any significant investment in manufacturing. It should also be noted that some connected firms active in rent-thick industries were initially active in manufacturing.

1980s and 1990s, while there is some mild evidence of convergence in productivity, there is more robust evidence of what we have called the "thickening of the middle," that is, employment shares of smallest and largest firms have declined and that of middle-sized firms have increased. It is the middle-sized firms that also seem to catch up in terms of productivity with similarly sized firms in the West. Interestingly, during these two decades, the productivity gap between the largest (500+) firms in the Tiger region and the West was both larger than that of middle-sized firms and further increased over time. During the period 2005–2012, we find stronger evidence of convergence in productivity. We find that this is strongest among small and large firms. We also show that during the 2000s there was a significant increase in the exports of the Tiger region.

We used the dataset of largest 1000 industrial firms put together by the Istanbul Chamber of Industry to examine the evolution and performance of firms that are members of religious business associations. We have several interesting findings. First, back in the 1980s and 1990s, there were a handful of firms (namely around 20) among the largest 500 firms in Turkey that were later to be associated with the RN. The number of RN firms started to increase after the mid-1990s and accelerated in the 2000s. By 2012, their number increased to over 200. This is an impressive increase. RN firms were export oriented and, relative to SN firms, more concentrated in labor-intensive industries such as textiles and garments, and wood products, whereas SN firms had a relatively higher presence in capital-intensive mid-technology industries such as chemicals, and machinery and equipment. We also find that average labor productivity among RN firms is lower than SN firms, partially reflecting different sectoral compositions.

We would suggest that the evolution of the Anatolian Tigers and the devout bourgeoisie in manufacturing is consistent with a story of inclusion, but with qualifications. Thickening of the middle in Tiger regions, reduction in the productivity gap between the Tigers and the West, increased participation of Tigers in exports, and increased presence of RN firms among large manufacturing firms in Turkey can be taken as evidence of increased competition and inclusion. As such, the Turkish story, especially in the 2000s, can also be taken as reflecting a virtuous political economy cycle: On the one hand, inclusion of new economic actors in economic activities enhanced competition and generated economic growth. This, in turn, was rewarded at the political level by votes for the governing party. This virtuous model of growth started to break down as AKP rule became more centralized and authoritarian, especially following the Gezi protests in 2013, the breakdown of the cooperation between the Gulen movement and the AKP, and the establishment of a regime of a state of emergency following the coup attempt of 2016.

This story of inclusion also requires a number of qualifications: First, our results pertain to manufacturing, where one would expect that rent allocation

to politically connected firms is more limited than rent-thick industries or activities, where rent allocation to large new and politically connected firms may have had stronger exclusionary effects, harming overall growth and productivity. One could speculate, however, that such exclusionary effects may have been limited in the Turkish context relative to, for example, Egypt and Tunisia, because of the presence of strong incumbents in rent-thick industries as well. It could be that the presence of strong incumbents who were unconnected with political power since the early 2000s may have limited the extent to which newcomers with strong political connections could restrain competition. Second, most of the conclusions in this chapter rely on comparisons of means. Making causal inferences, for example, with respect to the causal effect of attaining political power at the local or national level by Islamist parties requires more careful and detailed statistical analysis. Third, as mentioned above, the political and economic environment has changed significantly in the last few years and the impact of these changes on the sort of outcomes examined in this chapter needs further analysis.

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