



Economic Policy Research Foundation of Turkey

It takes two to tango:
What is the model of the
'model partnership'?

Güven Sak

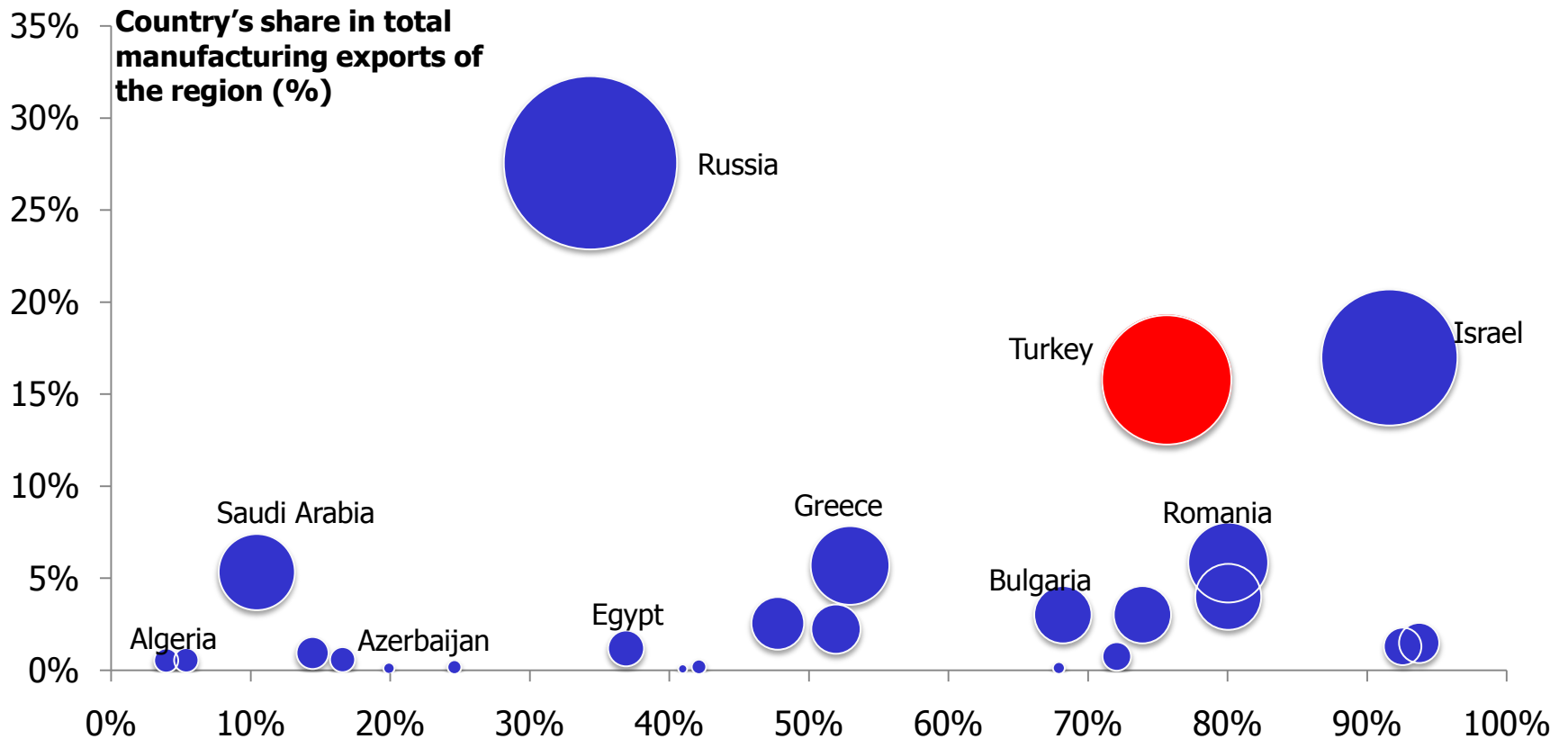
July 15th, 2011
Istanbul

Framework

- Where is Turkey now?
 - Turkey's economic position in the region
 - Turkey's achievements and risks
- What are the lower hanging fruits?
 - Importance of financial sector & foreign equity investments for corporate transformation
- Why defining 'model partnership' is important?
 - Role of Turkish – American partnership in Turkey's and regions transformation
 - Towards a new model partnership: some ideas

In 1990s, Turkey was an important industrial economy

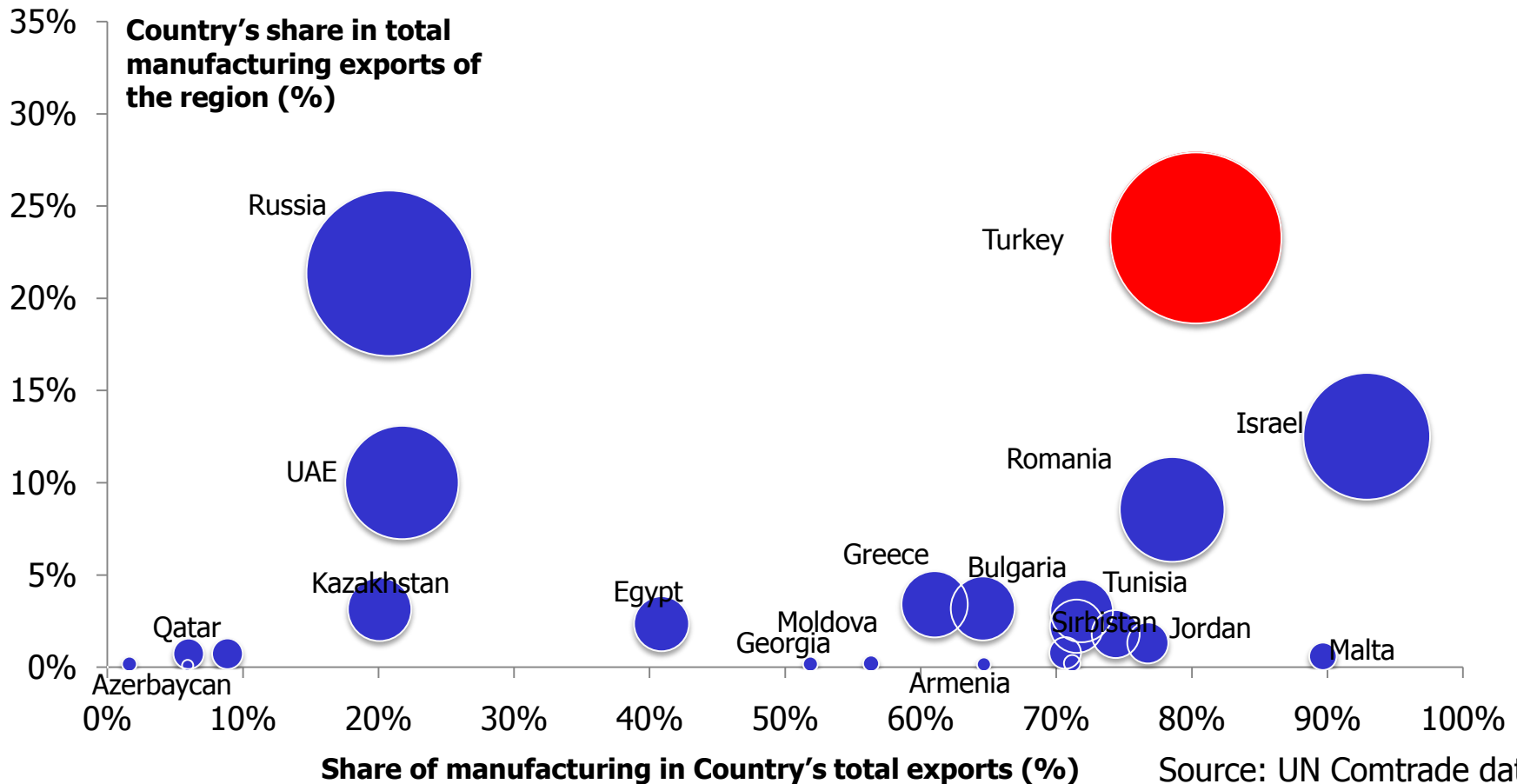
Export indicators of the countries in the region (1996)



Source: UN Comtrade data

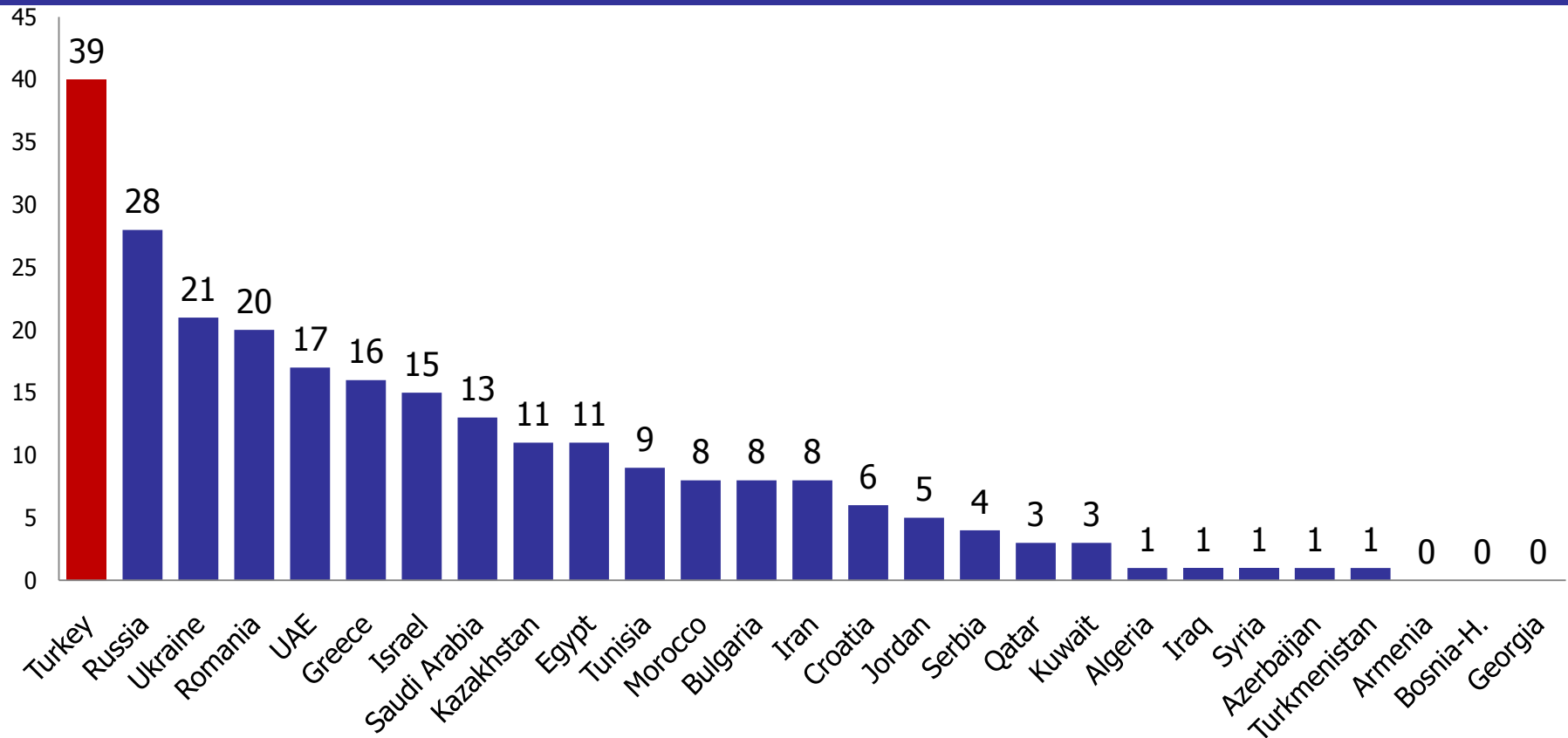
Today Turkey is the largest manufacturer in the region

Export indicators of the countries in the region (2008)



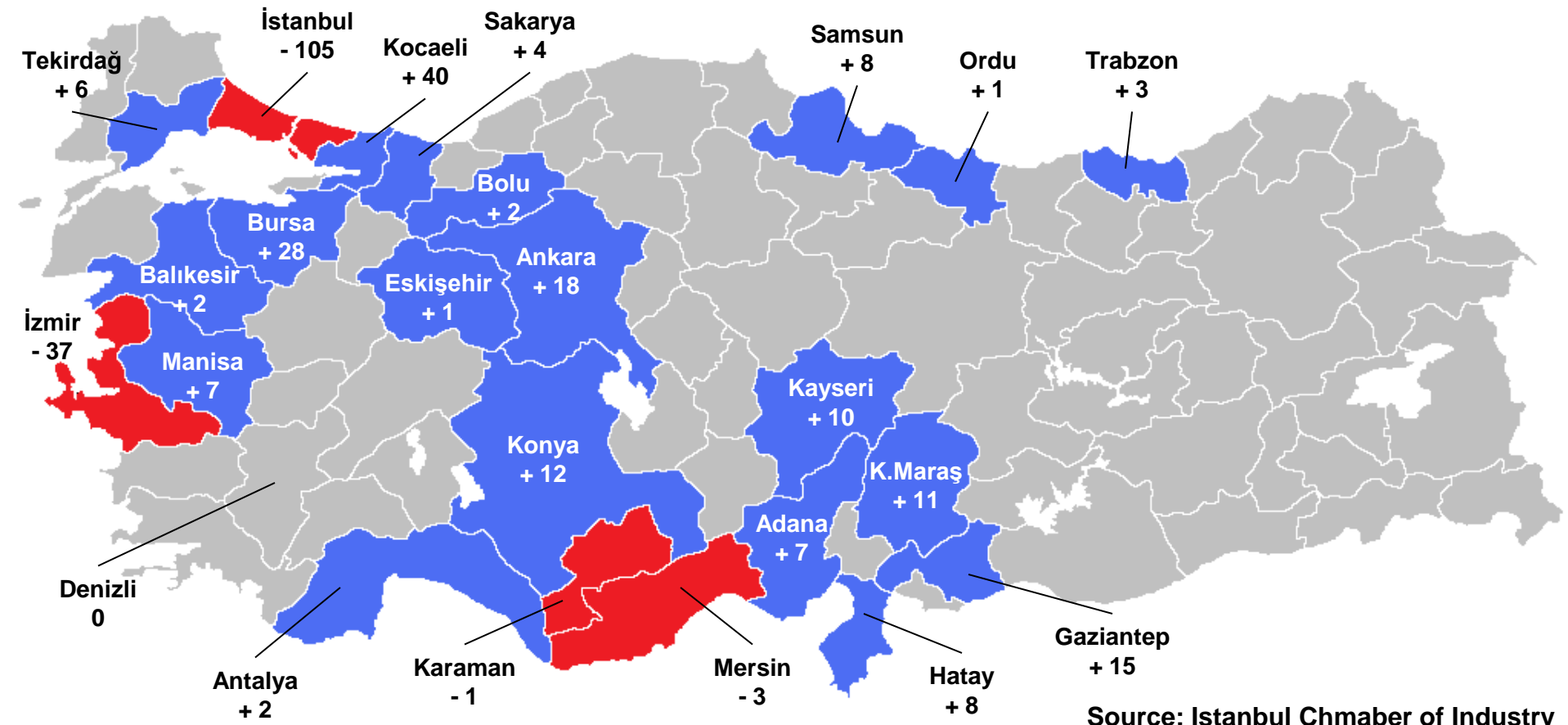
Level of diversification is striking in the region

Number of product groups with above \$ 500 million exports
(HS4 classification, 2 digit, 2008)

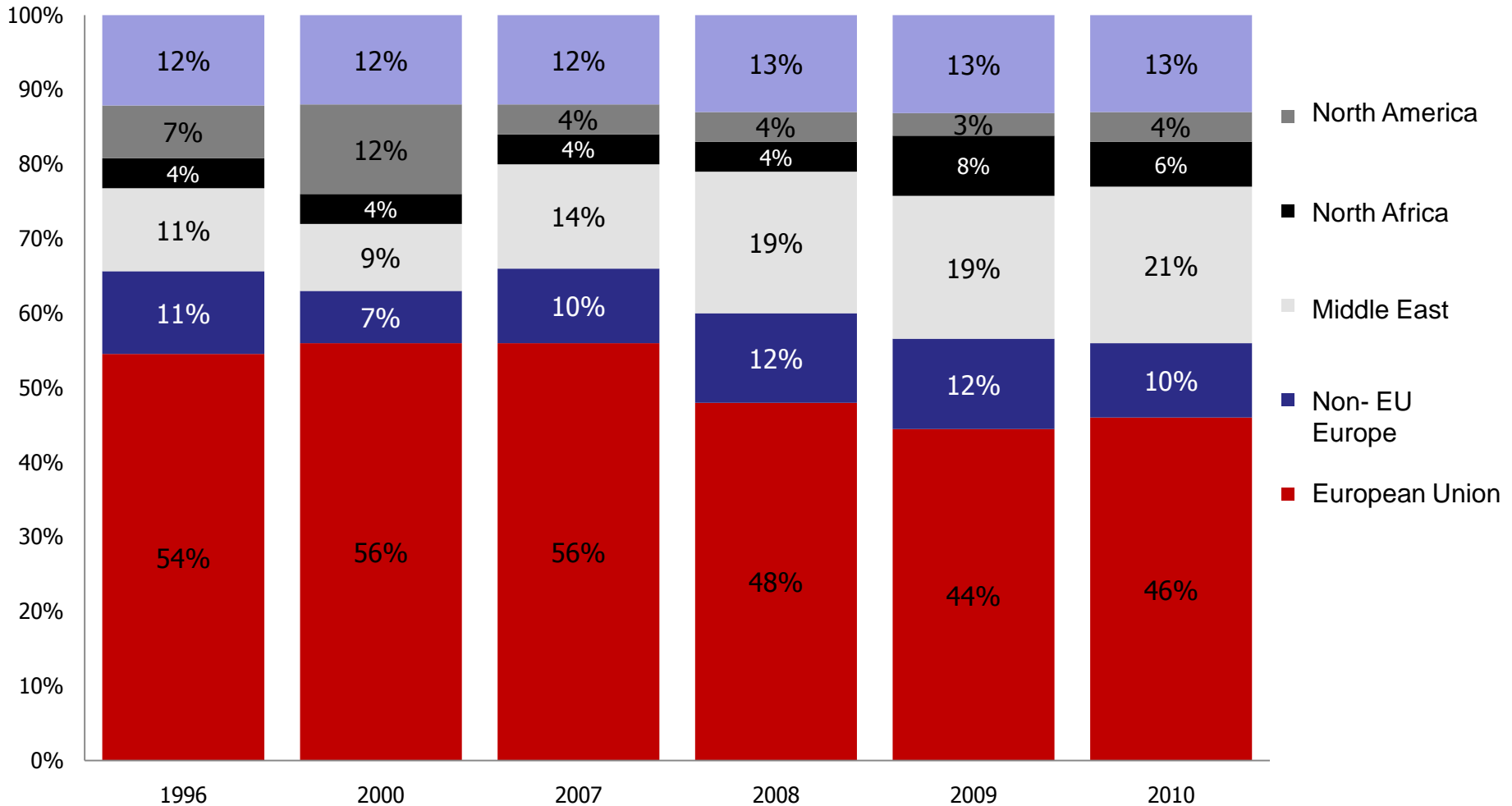


Location of manufacturing base also spread to all over Anatolia

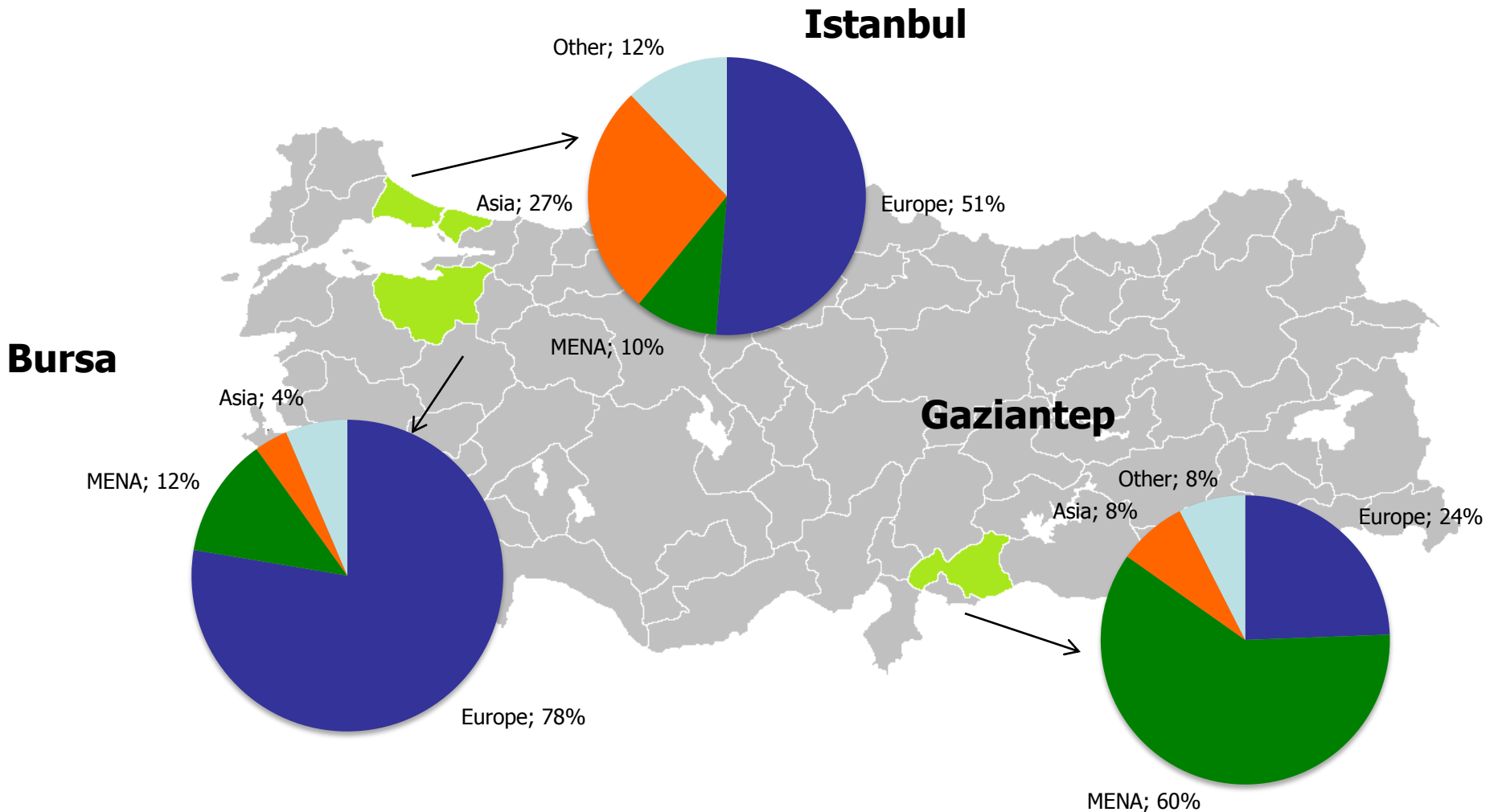
Change in the number of companies in Istanbul Chamber of industry Top-500 List (1997-2009, provinces with a number of companies above 5 only)



...together with a diversification of export markets

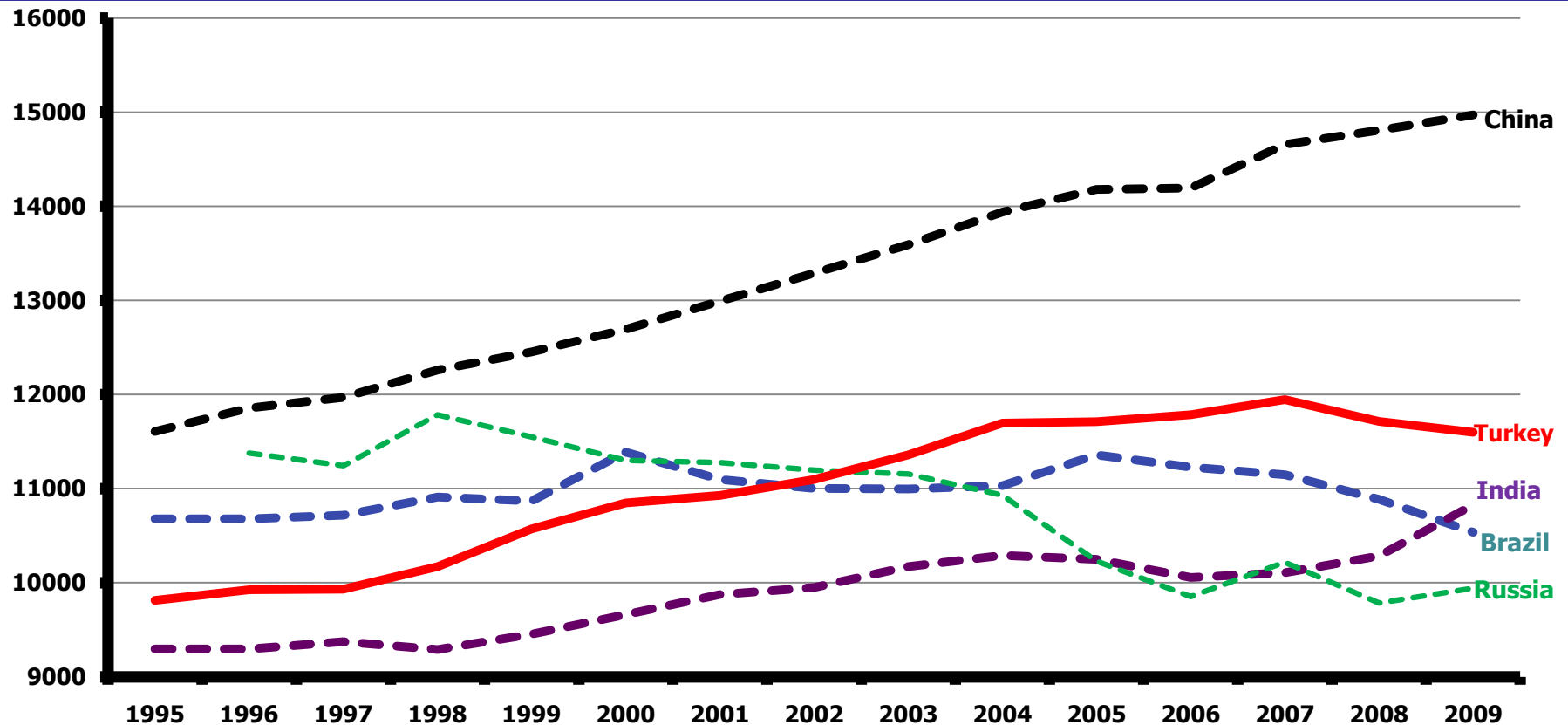


The locations are quite different in terms of their export markets & capabilities

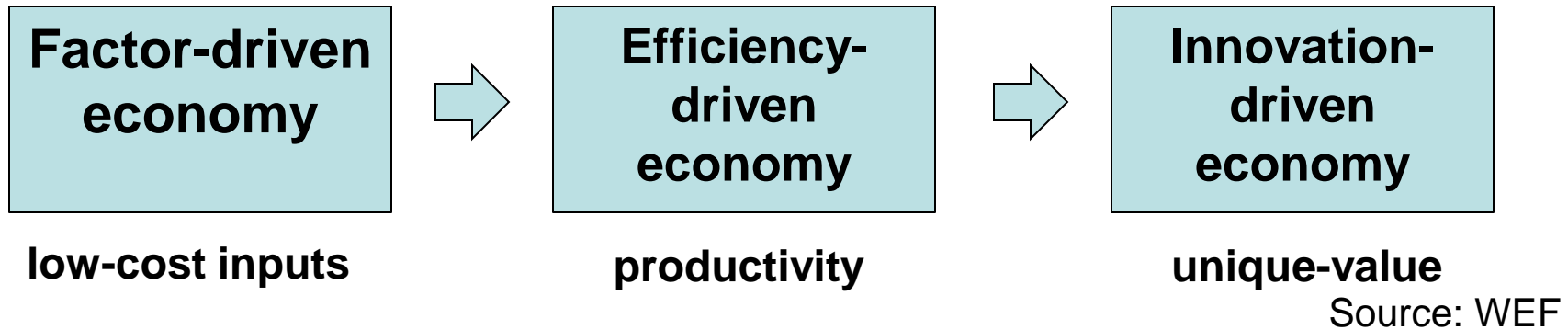


However, export market diversification is leading to lower levels of export sophistication

Export Sophistication Index (EXPY) Turkey and selected countries (1995-2009)



Turkey's major risk: middle income trap!



■ Where does Turkey stand?

- Turkey was a transition economy from efficiency-driven to innovation-driven in 2009.
- In 2010, WEF downgraded Turkey to efficiency-driven.

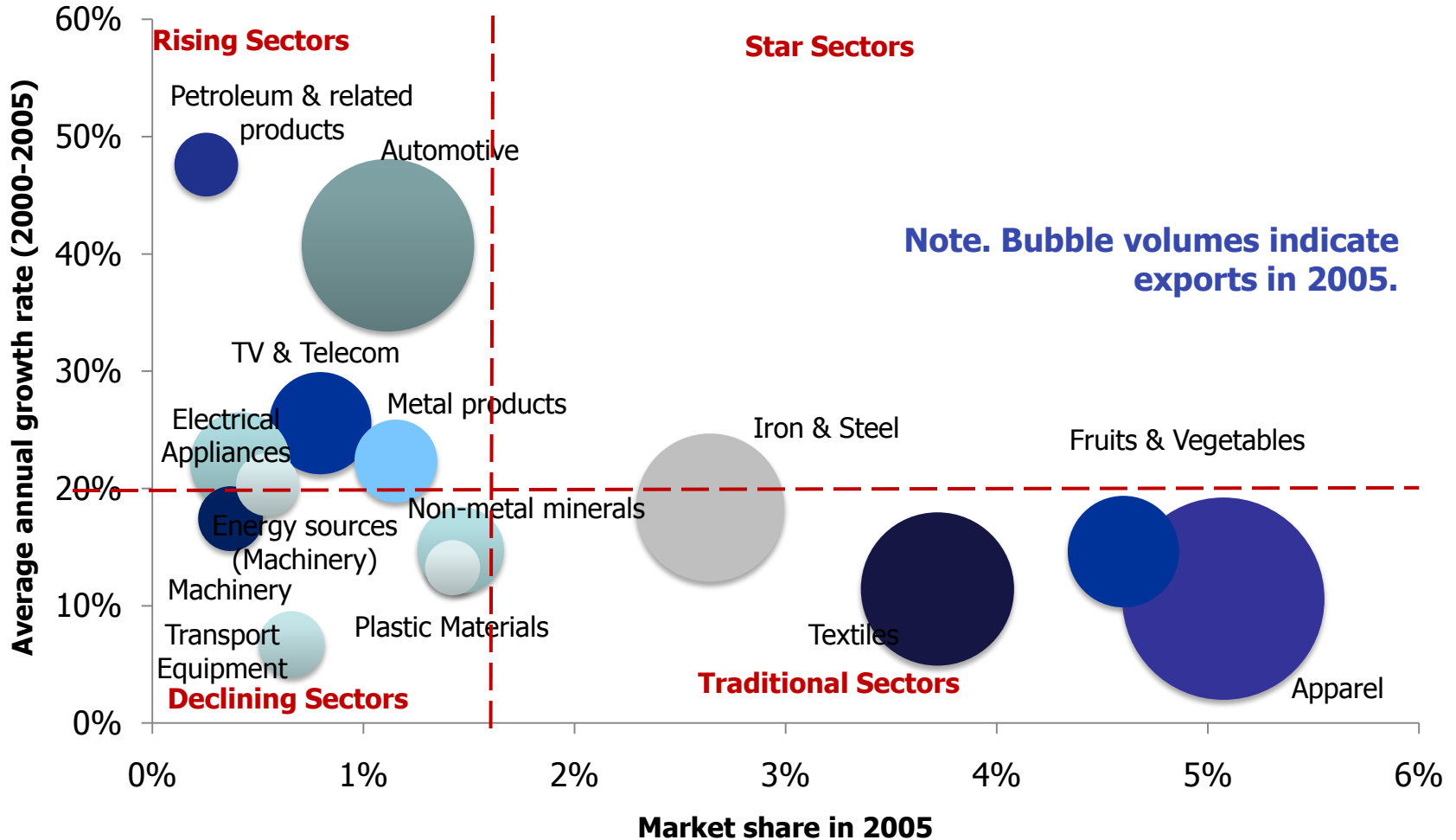
■ Upgrade to an innovation-driven economy?

- Need for a large set of reforms in a wide set of areas
- Education, judiciary, public administration, infrastructure investments

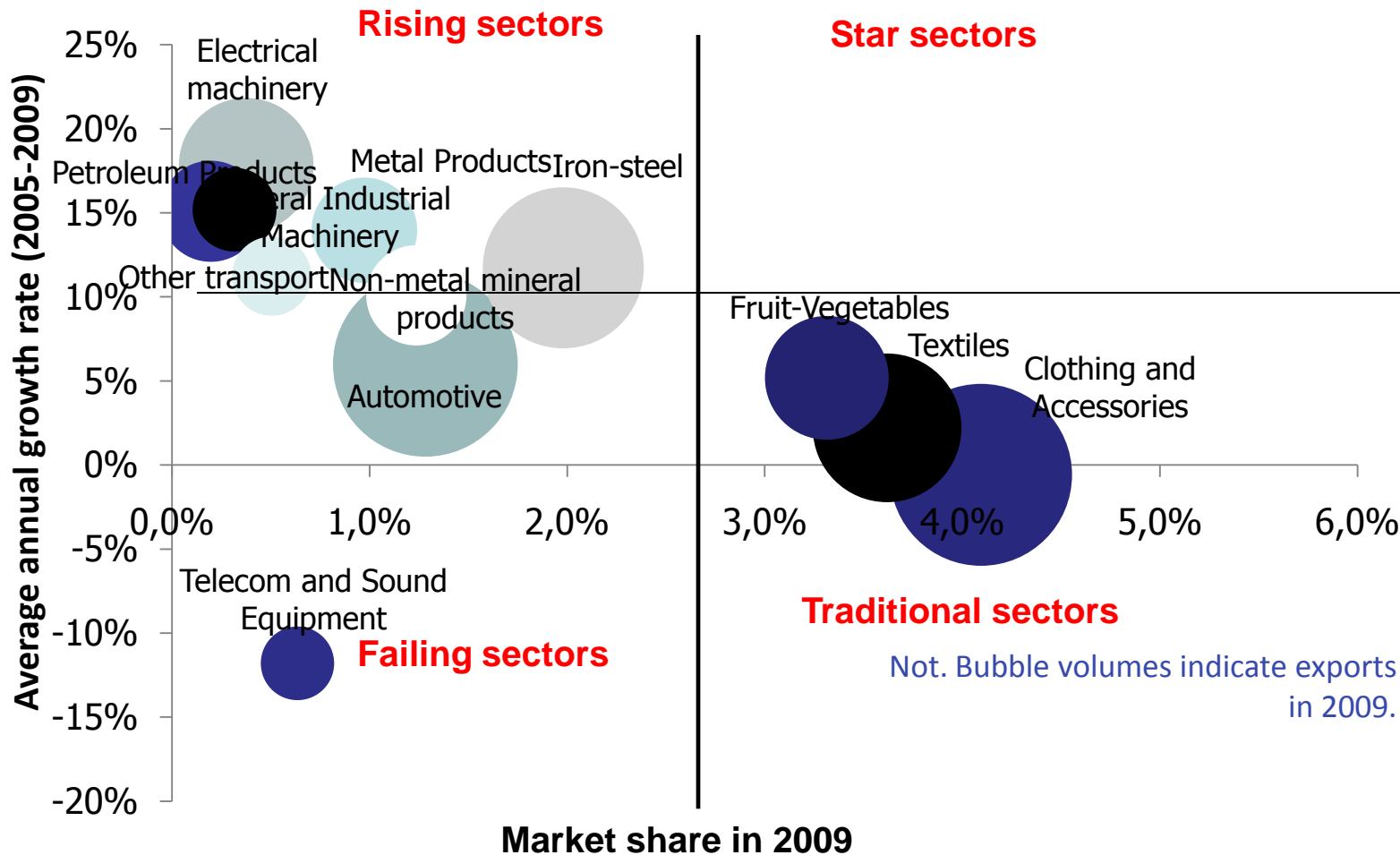
■ Risk: no-reform political climate

- The period ahead will be even less conducive for reforms: elections in 2012?, 2013, 2014?, 2015

Turkey has no star industries in exports (2005)

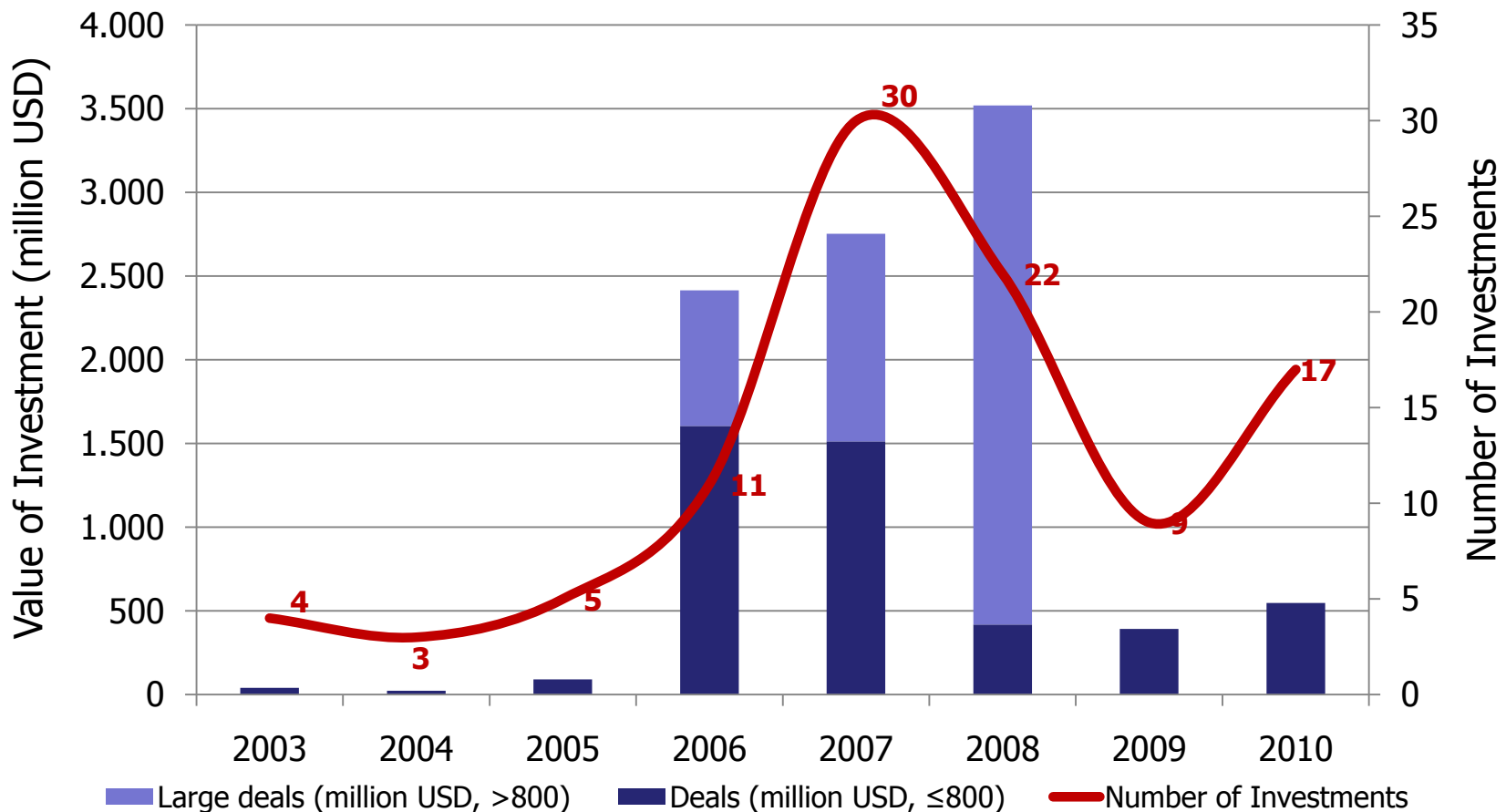


Turkey has no star industries in exports (2009)



Yet we can have star companies: Private equity is a good instrument to transform companies..

Development of Private Equity in Turkey: Change in Value and Number of Investments



...in a wide range of industries...



Services



Manufacturing

Target Industries for Private Equity Investments in Turkey (2001-2010)

Airport Services	Entertainment	Mobile Marketing
Arts &Ent. & Recreation	Eyewear	Motion Picture
Automotive	Factoring Services	Multiplex Operator
Biotech	Fairs and Exhibitions	Paper & Packaging
Broadcasting	Fleet Rental	Payment Systems
Brokerage House	Food & Beverage	Pharmaceuticals
Cargo Carrier	Furniture & Carpets	Plastics
Ceramic Tiles	Health Care	Real Estate
Construction	Household Appliances	FMCG Retailing
Cosmetics Retail	Information and IT	Security Services
Dental Hospital	Leasing	Ship Building
Edible Oil Production	Logistics	System Integrator
Electrical Accessories	Media	Textile
Electronics Retail	Medical Equipment	Travel Accessories
Electronics	Mineral Products	Vehicle Inspection

...that similar to the target industries of American investments to Turkey

Target Industries in Turkey for American Investors (2007-2010)

Energy	Airport Services
Real Estate	Insurance
Textile	Paper & Packaging
Food & Beverage	Payment Systems
Logistics	Travel Accessories
Financial Services	Cargo Carrier
Ship Building	Construction
Health Care	Tourism
Petroleum & Natural Gas	

 Services

 Manufacturing

It takes two to tango: Now Turkey is ready to tango!

- Turkey is an important partner: the most industrialized Muslim-majority economy
- The new model for model partnership: Cooperate upgrading Turkey to an innovation-driven economy
 - Focus: entrepreneurship & innovation
- Turkey's transformative power in the region is a function of whether it continues its own transformation
 - Only an innovation-driven economy can lead PSD in the region
 - Entrepreneurship has positive spill-overs to stability

Towards a new 'model partnership'

- Partners for a New Beginning (STARTED)
 - A private sector network to increase civil society connectivity, with a focus on innovation & entrepreneurship
- Global Entrepreneurship Program (STARTED)
 - A program by the State Department and Turkish private partners to catalyze entrepreneurship development in Turkey
- Fulbright Turkey Business Track
 - Internship and executive education opportunities for aspiring entrepreneurs & SME managers
- Turkish BIRD Foundation
 - A bi-national funding and matchmaking mechanism for joint technology development projects
- A Venture Capital Fund of Funds
 - A co-investment mechanism to bring experienced American investors to Turkey