Sabancı Üniversitesi

המסלול האקדמי
המכללה למינהל

COMPETITIVENESS THROUGH THE INTERNATIONAL CAPITAL MARKET

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CHANGE, COMPETITIVENESS, AND HI-RISK INVESTMENT

In a changing world the ability to introduce, implement, and manage change is a necessary condition for competitiveness.

This is particularly true in Turkey where the economy and the society are going through a change process.

Change processes are risky and investment in change is a high-risk investment

In countries like Turkey the supply of high-risk capital is limited and high-risk investments depend on the import of high-risk capital.

INCOGRUENCY BETWEEN ASSETS AND LIABILITIES

Many family owned and other medium size Turkish corporation need a change. The change can be planned and implemented by reframing the assets to fit into an open global oriented company.

In most cases these companies are financed by owners' equity, bank financing, and suppliers.

INCOGRUENCY BETWEEN ASSETS AND LIABILITIES - 2

None of the holders of the liabilities, including the owners, are built for taking the risk involved in the reframing of the assets.

Failure to change the liabilities, the capital structure may bring a decline and a possible failure for the company.

For many years the solution for this problem was through FDI. The acquisition of many European companies in the 1960's by American MNEs is an example for such a process.

FINANCIAL FOREIGN DIRECT INVESTMENT (FFDI)

The tremendous growth of the private equity industry and in particular the even more impressive growth of the global private equity industry is an evidence that the need for a change in many European countries and emerging markets was translated into an opportunity for the US based private equity and venture capital industry.

PRIVATE EQUITY INVESTMENT IN EMERGING MARKETS

According to data published by EMPEA private equity commitments to investment in emerging markets is very substantial:

107 private equity funds focused on investing in the emerging markets of Asia, Europe, Latin America, the Middle East and Africa raised US$21.5 billion in the first half of 2007.

PE INVESTMENT IN EMERGING MARKETS 2003-2006 (US$ Billion)

2003	3,489
2004	6,454
2005	25,765
2006	33,193

WHERE THE GROWTH OF THE FFDI COMES FROM?

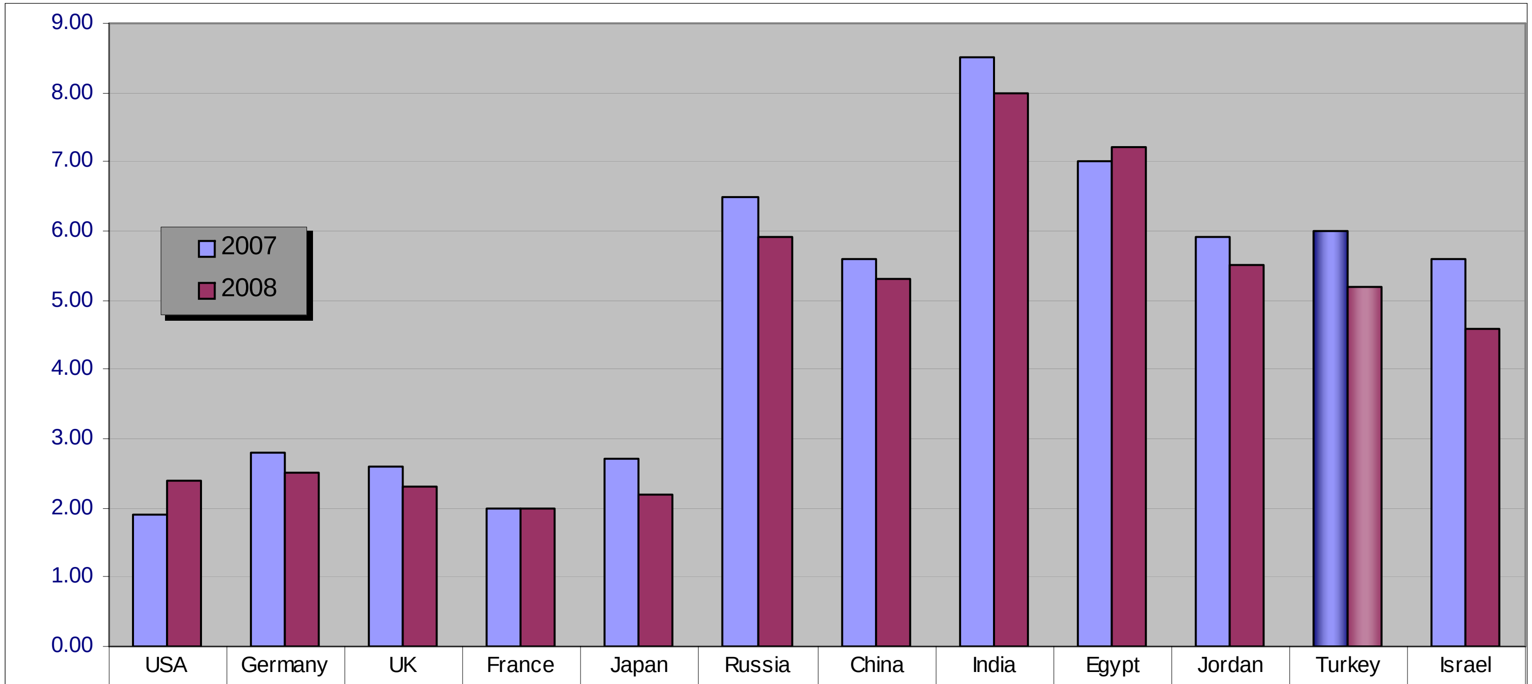
The growth of the private equity industry comes from two sources:

An increase in the available funds in the US and elsewhere. This reflects developments in institutional savings. (Liabilities).

A realization and understanding of the potential for a change related growth by implementing changes in firms in emerging markets. (Assets).

GDP per Capita (%): 2007 & 2008 expectations

The potential is in East & West Asia



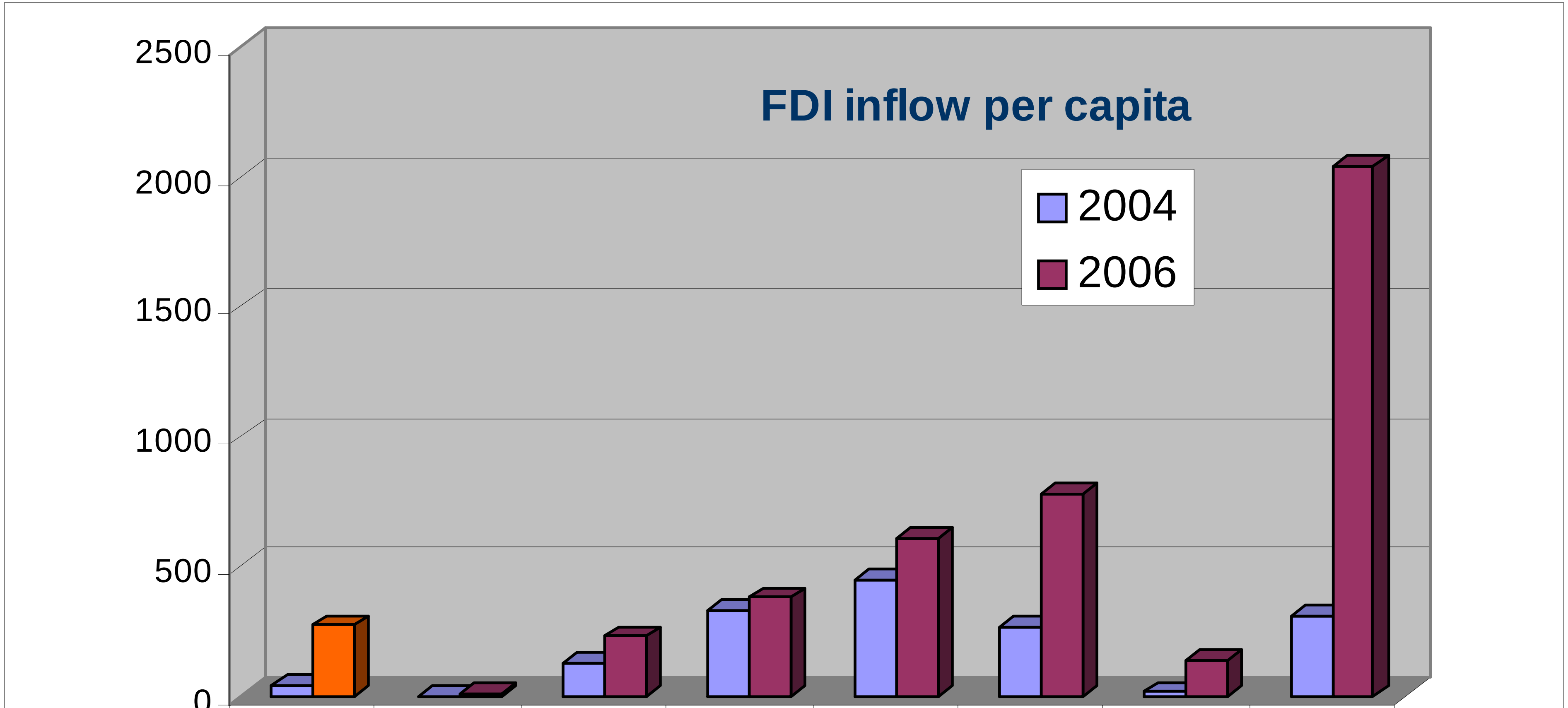
	USA	Germany	UK	France	Japan	Russia	China	India	Egypt	Jordan	Turkey	Israel
2007	1.9	2.8	2.6	2	2.7	6.5	5.6	8.5	7	5.9	6	5.6
2008	2.4	2.5	2.3	2	2.2	5.9	5.3	8	7.2	5.5	5.2	4.6

Source: WIR 2007 presented by the College of Management, Israel, Oct. 2007

THE SHORT AND THE LONG OF FFDI

The liabilities side reflects excess liquidity in the US market. It leads to mega deals by mega funds.

The assets side reflects real changes in competitiveness as a result of a change. It takes longer time and an investment in understanding the target market, the target companies and the “hidden” potential of the two factors; market and companies.



	Turkey	India	Hungary	Poland	Greece	Bulgaria	Egypt	Israel
2004	40	5	126	337	449	271	18	312
2006	274	16	231	381	606	781	136	2043

Source: WIR 2007 presented by the College of Management, Israel, Oct. 2007

PE AND VC INVESTMENT AND COMPETITIVENESS IN TURKEY

Assets' side PE and VC can be a powerful driver for growth and competitiveness in Turkey. This is so as assets' driven PE and VC identify, introduce and manage change in an effective way.

The short term horizon of PE and VC investors is an advantage and it does not harm the companies and their stakeholders like workers, suppliers, and other stakeholders.

HOW FFDI CAN BE ATTRACTED TO TURKEY?

Compared to China and India Turkey is a small market. Therefore it is the role of Turkish professionals, executives and government officials (in that order!) to attract FFDI to Turkey.

In a recent study two American finance professors define financial intermediation as "A belief-bridge between pessimists and optimists". What is needed in Turkey is a belief bridge between the existing potential and the available high risk capital in the US and elsewhere.

THE ISRAELI EXPERIENCE

- Israel has an extremely successful record in attracting VC investment in the last 15 years and a very good experience in attracting PE investment in the last 5 years.
- 74 VC backed firms raised more then 350M$ in Q3 2007 only.
- The average annual VC investment in the years 1999-2007 is ~ 1,200M$. More then 90% of the sources are FDI.
- Most (more then 75%) of the active VC funds are the 2nd, 3rd or even the 4th fund, as a result of past performance.
- Number of new vacancies for highly skilled employees as a result of VC activity: ~11,000

- Source: PWC MoneyTree – Israel; Oct. 2007

Israel's success is based on three factors:

1. A long-term investment by Israeli entrepreneurs in making themselves known and understood in the US and in other major markets.

2. A long-term commitment and support by the professional sector, in particular auditing firms and law firms.

3. An appropriate support program by the government that subsidized the upside! (The Yozma program).