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**Remarks at the Brookings Meeting on
“Science and Technology in the Islamic World: Harnessing the Power of the Private Sector”
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by
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- It's a great pleasure to see that this initiative led by Brookings and Lawrence Livermore National Laboratory is aimed at going beyond the use of “hard power”, and highlighting the importance of the soft power in bringing change and prosperity to the Islamic world.
- Science and technology, generally speaking, are not the strongest assets of the Islamic world. Therefore, such an attempt may be considered as “futile” by many. However, I believe that US support in promoting high-tech investments would send out a very positive and strong signal to these countries that fear of being left out of technology age as they have already missed the industrial revolution. Also, such an initiative is likely to create win-win situations for all parties involved.
- My remarks will be based on my knowledge and observations on Turkey. I'm not qualified to speak about other countries' experiences. My remarks will also include a pragmatic proposal to enable the US support to Islamic world in these areas.
- Let me quickly provide you with a few figures to help you better visualize the landscape in Turkey. Turkey has a population of over 70 million and a GDP of nearly \$400 billion, making it the 18th largest economy in the world. Turkey's R&D spending is about 0.5 % of its GDP while this ratio is nearly 2.0% in EU countries. Contrary to the expectations, private sector lags behind the government in R&D spending. An earlier study carried out by Brookings scholars Levi and D'Arcy suggests that “...Turkey has a high quality of research and a much higher figure of high-tech exports as compared to other Islamic countries.” Turkey's foreign trade, mainly with EU 25, now accounts for 53% of its GDP. This figure is around 20% in the US. One last figure: Turkey ranks 8th with nearly 13,000 students among foreign countries sending their students to the US, and it has been number 1 country from Europe for several years.
- Though it's significantly better than most Muslim countries, the Turkish economic landscape isn't sufficiently conducive to high-tech investments, as has been the case in some far eastern economies. This may be due to the delay in facing global competition as a result of the



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economic policies based on “import substitution” until early 1980s. However, the Turkish economy has been undergoing a significant transformation as a result of the “export oriented” strategies of the 1980s as well as the start of the “customs union” with the EU in the mid-1990s. These have led to a shift of manufacturing and exports from “labor intensive” to “capital intensive” products. Consequently, a number of Turkish companies, particularly those in the electronics, consumer durable and automotive sectors, have increased their R&D investments to unprecedented levels.

- TUSIAD, my own organization, has taken several initiatives in the last 12 years to increase awareness and promote investments in science and technology. It has been organizing national congresses and awards prizes to successful companies in the fields of total quality, technology, e-government, and entrepreneurship. It also organizes a program to expose its member companies to innovation and R&D developments in the US.
- It isn't a secret that, with a few exceptions, Muslim countries do not offer economic, political and social environments appealing to foreign investors in general. The oil sector in oil producing countries can be seen as the only exception. This general picture makes investments in high-tech fields even more difficult as such investments require more stringent conditions ranging from stability to highly qualified work-force. Also, the lack of a sophisticated economy and complementary institutions (science& technology centers, diversified high-tech companies, IPR and patent infrastructure...) make such investments a rarity.
- Despite these general shortcomings, and slowness or reluctance of domestic large companies, there are growing numbers of individuals as well as SMEs focusing on science and technology investments. There are hundreds of such entrepreneurs operating mainly in technoparks set up by major Turkish universities. One of these companies, for instance, supplies critical software to Cisco Systems. The bottleneck of these companies is primarily financing. There are no VC companies to finance such entrepreneurs. Private equity (PE) companies have started to emerge as a result of stabilizing economic conditions but they haven't yet reached a level to provide significant capital for such investments. The Turkish banking system, unfortunately, doesn't fund ideas. In order to get loans one has to bring in collateral, usually in the form of real estate. Another obstacle is the lack of intermediary institutions that may facilitate the conversion of ideas to commercial products, and help these entrepreneurs in marketing their products. Although there are some modest steps in this latter area, they are far from effectively addressing the needs of these entrepreneurs.
- I believe diasporas can play a significant role in bridging the gap between home countries and host countries. There are obviously very successful examples of such initiatives, especially



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among Indian and Chinese diasporas. Turkish-Americans have recently formed 2 associations. The first one, Turkish American Business Connection (TABC, www.tabc-us.org), brings together entrepreneurs and professionals in high-tech industries, and is based in the Bay Area, CA. Its focus is to facilitate networking among the members. But, they also host an annual convention bringing together their members and professionals and investors from Turkey in order to promote business projects in high-tech fields. The second one, Turkish American Scientists and Scholars Association (TASSA, www.tassausa.org), has the mission of promoting educational, scientific and technological cooperation between the USA and Turkey and to facilitate the advancement of science in Turkey and the USA through scientific exchange, educational programs and increased networking.

- As a result of such initiatives, a number of professionals have returned to Turkey and set up companies in high-tech areas. One notable example is a company called Airties, a modem company that has more than 50% share in the Turkish market and they're now expanding to surrounding markets.
- Let me now focus on my proposal, which is based on the assumption that making progress in the following 2 areas are likely to take more time than these countries can tolerate:
 1. First of all, except some outsourcing in non-sensitive areas, the US companies, or foreign companies for that matter, do not generally invest in other countries' science and technology fields. I don't think this picture can be easily changed considering the reluctance of these companies as well as the limitations coming from these countries that do not offer favorable environment for such companies. So, one cannot rely much on the private companies of the developed world to boost investments in these areas.
 2. Secondly, influencing the investment decisions of local groups and large companies, and policy decisions of respective governments, though some progress is seen in some countries, would take a considerable amount of time. I believe, extending support to local companies and governments in promoting their investments in these sectors is also crucial, but it should be seen as a long-term objective.
- As a person with a finance background (more specifically securities markets as I spent the first 17 years of my professional career at the SEC of Turkey and at the Istanbul Stock Exchange), I would like to propose a venture capital fund (VCF) that would finance projects coming from the Islamic world. These projects ought to be:
 1. in the areas of science& technology,



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2. coming from the nationals of those countries, and
 3. be implemented in those countries.
- This VCF can be financed by the US government or by international organizations such as WB or IFC, or both. It may be set up with an initial capital that may be increased over time. Multiple VCFs can be set up for different set of countries or fields. The management and project appraisal teams of this VCF should be entirely independent from government involvement, both US and others. US companies interested in benefiting from the ideas originating from the entrepreneurs and scientists of these countries could also participate in the capital. This VCF should operate similar to the existing private VCFs.
 - This VCF should deal directly with applicants from these countries without any government involvement. In my view, if the VCF is expected to contribute to the development of science and technology in these countries, it should stay away from the hassles of dealing with governments. The VCF needs to adopt a more pragmatic and private sector approach in addressing the basic financing and marketing needs of scientists and entrepreneurs from these countries.
 - Financing of projects coming from diaspora should also be considered, provided that the project is implemented in one of the targeted countries. This scheme should also provide an institutional framework to facilitate the conversion of ideas to commercial products. Diaspora organizations can be instrumental in connecting this fund to home countries' prospective applicants. Therefore, the establishment and proper functioning of such organizations should also be promoted along the process.
 - By supporting such a scheme, with a tiny fraction of the weekly war expenditures in Iraq, US can definitely create a viable vehicle to finance some promising projects and provide hopes to many people having ideas but no financing. Also, as most of the products resulting from these projects will find their ways into US markets, American companies and consumers would probably be the first beneficiaries of these investments. As it's the case with any VC fund, even though this isn't going to be the primary objective, with a few successful projects going into implementation, the fund can make substantial profits, and further increase the funds available to other projects.