

## New assertiveness on the world stage

Political struggles at home fail to distract from the country's growing international role, reports **Delphine Strauss**

**F**ifteen Turks were killed in armed assaults in the early hours of Monday, May 31. Nine were activists on the Mavi Marmara cruise ship, seeking to break the Israeli blockade of Gaza. Their deaths thrust Turkey into the limelight, with its denunciations of Israel and demands for a united response.

The other six soldiers were victims of a rocket attack by Kurdish guerrillas on the Mediterranean naval base of Iskenderun. Their deaths drew little international attention, but proved that, whatever the country's influence abroad, some of its most bitter internal divisions remain unresolved.

In the next year, as Recep Tayyip Erdogan seeks a third and final term as prime minister, it will be his ability to address divisions at home, as well as how he redefines Turkey's place in the world, that determines the future of his ruling Justice and Development Party (the AK Party).

Turkey is certainly flexing its muscles in the international arena. The Mavi Marmara incident showed Ankara's willingness to take sides in a region where it had cultivated neutrality: it also, against expectations, led to an easing of Gaza's isolation.

With Iran, Turkey overcame US reluctance to its acting as mediator, along with Brazil, on a nuclear fuel swap agreement. When the deal they had brokered was ignored in a rush for further sanctions, Ankara defied Washington by voting No, rather than simply abstaining in the United Nations Security Council.

All this has put traditional alliances under strain. Mr Erdogan may be the new hero on the Arab street, but many in Washington view him as an authoritarian populist, succumbing to Islamist instincts and abandoning the west. Others recognise Turkey has its own interests to pursue – and that it is a more benign influence than Tehran – but still worry that Ankara is becoming a less reliable partner.

Yet even fierce critics of the ruling AKP's foreign policy agree that Turkey's influence and importance to its allies is on the rise. Faruk Logoglu, a former ambassador, thinks recent interventions are "not necessarily helpful to regional peace and stability". Yet it is a "natural outcome" for Turkey to be more involved, he says, saying the US and European Union "must engage Turkey as an equal".

Kemal Dervis, the architect of economic recovery after the 2001 crisis, notes that Gulf countries' wealth provides "a rich surrounding for Turkey to base itself on", while "the emerging role of the G20 makes friendships in the new world more important than membership of various clubs – including the European Union."

Certainly, Mr Erdogan wants Turkey not just to be a regional actor, but to join the ranks of emerging global powers: in the past two months he has toured South America, and received visits from both Dmitry Medvedev and Vladimir Putin.

Much of Turkey's new confidence stems from its relative economic strength. While western counterparts were busy bailing out banks, Turkey – whose own financial sector had a thorough overhaul after the 2001 crisis – could boast of stable banks with a comforting emphasis on old-fashioned lending and deposit-taking.

Turkey joined the rest of the world in recession last year, but its recovery – fuelled by a large domestic market that offers some insulation against eurozone weakness – is set to be one of the strongest in the region. The International Monetary Fund



In the picture: Russia's president Dmitry Medvedev with Turkey's prime minister Recep Tayyip Erdogan in Ankara in May. Russia sealed a \$20bn bid to build Turkey's first nuclear power plant

predicted GDP would grow around 6.25 per cent in 2010 in its latest Article IV consultations. Ali Babacan, economy minister, has watched the eurozone debt crisis unfold, while a rebound in revenues makes his own budget targets look easily achievable.

None of this is assured. The IMF's latest assessment urged the central bank to quicken the pace of monetary tightening to keep inflationary pressures in check. Economists at Barclays Capital warn Turkey remains dependent on external financing and that, despite a new fiscal rule, "fiscal performance highly depends on political will". Murat Ucer, at the US-based consultancy Global Source, notes the rebound in tax revenues is largely due to higher VAT and petrol tax collections, questioning the "sustainability and quality of the adjustment".

But for now, Turkey's economic prospects look rosier than those of many of its neighbours – increasing

its value to international partners. New friendships with neighbours such as Syria and Iraq are founded on the offer of greater economic integration. Opportunities to invest in a fast-growing domestic energy sector have played a part in strengthening ties with Russia, Brazil and South Korea. "When we go to Libya, to Brazil, to Greece ... businessmen are our greatest assets. They are a vital part of foreign policy," says Ibrahim Kalin, an adviser to Mr Erdogan.

The irony for Mr Erdogan, though, is that the economy – a source of influence overseas – may prove his undoing at home. For most Turks, the only economic indicators of any interest are inflation and unemployment.

Inflation has moderated, but only after steep price rises for everyday purchases such as meat, fuel and cigarettes. Unemployment was 13.7 per cent in March and is likely to fall over the summer, thanks to seasonal jobs. But the headline number conceals high joblessness among young people, a low female employment rate, and much unproductive employment in agriculture or family enterprises.

Moreover, two big political initiatives launched by the AKP in the past year have fizzled out. Last summer, Mr Erdogan began a drive to broaden minority rights, aimed largely at easing Kurdish grievances and ending a 26-year conflict. But he has disappointed Kurds and enraged nationalists. The recent offensive by Kurdish rebels is the most violent for years.

This year, following a series of investigations into military coup-mongering, he launched a fresh attempt to overhaul the constitution, drafted under military rule in the 1980s and seen by the EU as an obstacle to democratisation. But the document to be put to a referendum in September – if it passes the constitutional court's scrutiny – pleases no one.

The provision the AKP most valued, making it harder to ban political parties, did not survive a vote in parliament. Secularists say other provisions erode the judiciary's independence, and liberals say the constitution

needs a complete overhaul, not piecemeal amendment.

All this is fuelling the revival of a political opposition that had dwindled to irrelevance after the AKP's landslide victory in the 2007 elections. Centre-left groups are rallying behind Kemal Kilicdaroglu, newly elected leader of the CHP opposition, who is appealing to voters' frustrations at corruption and economic inequality. Despite a lack of detailed policy proposals, Mr Kilicdaroglu, a diminutive ex-bureaucrat, is rivalling Mr Erdogan

in popularity – his mild manners well-received after the latter's increasingly blood-curdling rhetoric.

Polls are unreliable and fluctuating. But they suggest that, while the AKP commands more support than any other party, it cannot be sure of keeping its majority, let alone matching its 47 per cent score from 2007.

Mr Erdogan is resisting calls for early elections, but even some of his own deputies would welcome a vote before next summer's official date – if only to avoid a prolonged

campaigning period in which little of substance could be achieved.

Whatever the date and outcome of the next national vote, it is unlikely to reverse Turkey's growing influence in world affairs.

"Regardless of whether the AKP is in power or not, the next government will have to engage with Iraq and Syria, and talk about the Middle East peace process," says Suat Kiniklioglu, an AKP spokesman on foreign affairs. "Whoever runs Turkey after us will have to be engaged."



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## Hopes for a credible opposition are rising

### Politics

The competition is stepping up, writes **David Gardner**

The manner of it was sudden and undignified. Last month, after nearly two decades at the helm of the Republican People's party (CHP), Deniz Baykal was forced to resign in a scandal over a grainy internet video purporting to show him half-naked with a female CHP deputy.

Mr Baykal, 71, who had led the CHP to a series of crushing defeats and had turned the party of Mustafa Kemal Ataturk, the revered founder of the republic, into a shrinking cult, was finally pushed aside to make way for new leadership that might conceivably mount a credible challenge to the

ruling Justice and Development Party (AKP) of Recep Tayyip Erdogan.

By the time of next year's general elections, Turks may just get the opposition party they need and deserve.

There is much at stake. Since the neo-Islamist AKP was first elected in 2002, and returned by a landslide in 2007, Turkey has been plagued by power struggles and constitutional crises.

At one level, this has been a battle of wills between neo-Islamists and secularists, a clash between rival establishments jostling for supremacy.

The traditional metropolitan elites who see themselves as the guardians of the secular, republican heritage of Ataturk are opposed to the new AKP establishment that combines the conservative and religiously observant traditions of Anatolia with a

huge constituency in the modern but Muslim middle class.

One of the main reasons for this now-chronic crisis is that the Kemalists, under Mr Baykal, were unelectable. They appeared to have no strategy except to return to power by goading the army and the judiciary into seizing back what they kept losing at the ballot box.

It is a commonplace, often deployed with self-serving slyness in a European Union divided by the prospect of Turkish accession, that the country is engaged in a struggle to determine its real identity.

Yet, the real problem is lack of an effective opposition to the AKP. The country will bob from crisis to crisis until it has one. The political struggle will keep detouring into extra-parliamentary by-ways that undermine democracy. The latest phase was



Deniz Baykal: forced out

the Erdogan government's detection of alleged plots to overthrow the AKP by ultra-nationalists connected to the military and security services.

The military has form on this. In the four decades before the advent of the AKP, it had ousted four governments, and closed four Islamist parties. But it was wrong-footed by the popularity of, and momentum behind, the new ruling party, under Prime Minister Erdogan, a charismatic former mayor of Istanbul.

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\*\*Nielsen Turkey - Top of Mind Survey, 2008  
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\*\*\*\* As of August 21, 2009

## Turkey

## Hopes rise for credible challenge

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transforming factor: the European Union.

The prospect of EU accession acted as a powerful engine of reform and helped glue together Turkey's political tribes. The Kemalists and the military saw the EU as a fulfilment of the country's western destiny foreseen by Atatürk, while the AKP saw the EU's democratic rules as a shield against the generals.

But then EU negotiations stalled – mainly because reluctant partners such as Germany and France think Turkey is not European enough and is too big, too poor and too Muslim to absorb.

As they raised the bar, Turkish reforms ran out of steam. The shield against the generals was removed. The glue of political cohesion dissolved. It became clear that a clash between the army and the AKP had only been postponed.

In 2007, the army failed in an attempt to stop Abdullah Gul, then AKP foreign minister, from becoming president, on the grounds that he had once been an Islamist.

Mr Erdogan called its bluff with early elections. The AKP hugely increased its share of the vote, from 34 to 47 per cent on an 84 per cent turn-out.

But this did not prevent Mr Baykal's CHP from continuing to prefer factional manoeuvring inside the Kemalist establishment to open political combat with the AKP.

Abroad, the CHP has opposed a range of initiatives from rapprochement with Armenia to Ankara's support for the 2004 United Nations plan to reunify Turkish and Greek Cyprus. At home, it has used the courts to block constitutional reform, including this year's package of mainly judicial reforms.

Onur Oymen – a CHP leader who along with 15 others close to Mr Baykal was voted off the party central executive last month – argues that “the product of the will of the ruling [AKP] party alone and their obvious purpose was to influence the [composition of] the high judiciary”.

Yet wiretaps published this month allegedly show Mr Baykal trying to influence the court's decision.

The CHP's new leader, Kemal Kilicdaroglu, is a civil servant campaigning to clean up government who ran a spirited but unsuccessful race to be mayor of Istanbul in 2009.

Nicknamed “Gandhi”, he has brought new blood into the party leadership, yet must now demonstrate its relevance to a young population, more concerned about jobs than Muslim headscarves.

There is much to play for. The AKP's 47 per cent of the vote “borrowed” support from those opposed to army meddling. By the 2009 local elections, AKP support fell to 39 per cent, against 23 per cent for the CHP, but Mr Kilicdaroglu polled 38 per cent in Istanbul.

Mr Erdogan may delay the general election – due by July 22 next year – to take the wind out of Gandhi's sails. But there is a fair wind behind him, and the health of the republic is the better for it.

# Ankara targets political and economic stability

## Foreign policy

Strategy is long-term rather than ideological, says David Gardner

The eruption of Turkey in the stormy geopolitics of the Middle East should not come as a surprise. Once the cold war ended, Turkey was bound to seek a bigger stage than its role within Nato as the sentinel of the eastern marches.

Those who thought it would turn to the Turkic nations underestimated the extent to which interests would trump ethno-cultural sentiment or ideology. Turkey is reasserting itself as a regional power while, at the same time, policy is bobbing in the wake of commerce, pulled by a dynamic breed of outward-looking Anatolian capitalists.

An end to the cold war meant that the Balkans, central Asia and the Caucasus, and the broader Middle East reopened as a natural region of influence for Turkey. Take Iraq – the Turkish parliament voted against allowing the US to use Turkish territory to open a northern front in

the 2003 invasion. Turkey also all but threatened to invade Iraq to prevent the emergence of a Kurdish mini-state on its southern borders.

Yet, from the moment Saddam Hussein fell, hotels from Baghdad to Irbil brimmed with Turkish contractors. Turkey has signed 48 commercial treaties with Iraq, now at the core of its “zero problems with the neighbours” policy. To the extent that it acts as a counterweight to Iranian influence in Iraq and a force for stability, this neatly intersects with US and western aims.

That coincidence is less obvious in Turkish policies towards Israel-Palestine and Iran. For, while reasserting itself regionally, Ankara also aims to transform a combustible regional stalemate. Uniquely, Turkey is both a member of Nato and chairs the 57-member Organisation of the Islamic Conference.

The Turkish view is that Israel's belligerent intransigence, and the stand-off over Iran's nuclear ambitions, are two potentially deadly regional triggers.

Hence Ankara's efforts to mediate between Israel and Syria, and Israel and the Pales-

tinians (including Hamas), as well as the deal Turkey and Brazil tried to secure last month with Iran on holding its low enriched uranium in escrow.

This is not just a fit of pique at the EU's reluctance to advance Turkey's accession. Nor is it a strategic turn east, or an ideological tilt by the neo-Islamist AKP towards Muslim countries. Mr Erdogan does want to demonstrate that a confident, economically dynamic and politically reformed Turkey has options, and that it is an asset to the EU and the west, proficient in the “soft power” Europe seems to have forgotten how to use.

Securing the neighbourhood, moreover, and fostering economic interdependence – quintessential EU principles – have also led to improved relations with Russia, Greece and Armenia, not just with Muslim countries. While the alliance with Israel has fractured over Gaza and last month's Israeli assault on the Turkish-flagged aid flotilla, Turkey last month also cast its vote for Israel's entry into the Organisation for Economic Co-operation and Development.

That is the behaviour of a regional power with a long-term

view of its strategic interests, not of a country veering towards Islamist activism.

In a larger optic, Turkey, Iran and Israel are in a three-sided competition, for influence if not hegemony in the region – with the Arabs reduced to onlookers, as they have been for most of the past four centuries. Egypt looks exhausted, corroded by despotism and the vested interests

By emerging as a popular champion of Palestinian rights, Turkey has ended Iran's ability to make all the running in the region

built up around a regime that has surrendered public and cultural space to the clerical establishment to outflank Islamist opposition, and poised for a difficult transition from its ageing president, Hosni Mubarak.

The House of Saud has money and oil, and the legitimacy of custodianship of the holy places of Mecca and Medina. But it is a

gerontocracy confronting a succession similar to that faced by Leonid Brezhnev's Soviet Union, and locked in a pact with the Wahhabi clerical establishment that projects Saudi policy as sectarian and reactionary. Bashar al-Assad's Syria can act as a spoiler (like its former Soviet sponsors) but lacks critical mass to shape events.

Turkey, by contrast, is governed by the charismatic Mr Erdogan. Its success (thus far) in marrying Islam and democracy – an experiment that may depend on the EU consecrating the marriage vows – mesmerises the region. Turkey is secularist and Sunni, pluralist and orthodox.

More interesting, therefore, than the breakdown in Turkish-Israeli relations is the re-emergence of Turkey as a regional power, alongside the revival of its strong and confident Sunni leadership to offset the, historically atypical, Shia assertiveness of Iran and its allies.

The rebound in Shia fortunes was triggered by the US-led invasion of Iraq in 2003. That overturned the Sunni order, in an Arab heartland country, placing the Shia in the saddle for the first time since the Fatimid dynasty collapsed in 1171. Iran

alone had been unable to spread its 1979 Islamic Revolution into Arab lands. That required the agency of George W Bush, just as the advent of Hizbollah, Iran's most powerful proxy, was a reactive consequence of Israel's invasion of Lebanon in 1982.

A recent spate of commentary describing the foreign policy of Mr Erdogan and his peripatetic foreign minister, Ahmet Davutoglu, as anti-western, anti-Israeli, neo-Ottoman – even a challenge to rival the threat from Iran – misses the point. By emerging as a popular champion of Palestinian rights, Turkey has ended Iran's ability to make all the running in the region.

Israel, which now seems to see Turkey as an adversary seeking to delegitimise the Jewish state, can change this.

If it eventually decides on a military strike against Iran, that could trigger a chain of reprisals across an arc stretching from eastern Afghanistan to the Strait of Hormuz, up the western shore of the Gulf into Iraq and across to the Levant, including, of course, Israel. That would leave Turkish policy in tatters, caught between Israel and Iran – and unleash a really dangerous dynamic in the region.

## Power to the foreigners as plants go to market

### Energy

David O'Byrne on the country's push to sell its electricity stations

As a taster for the planned sell-off of Turkey's state-owned power stations, the sale last month of 50 tiny hydroelectric power plants for almost \$500m, could hardly have been more successful.

With more than 600 bids received for 19 groups of plants, the sale took two months longer than expected to complete and the prices paid averaged \$3.7m per megawatt of capacity – more than two and a half times the cost of building the power stations from scratch.

This augurs well for the planned sale this year of 43 of the big state-owned plants, a figure that includes all 23 of the state-owned gas- and coal-fired power stations and 20 of the remaining hydroelectric plants – more than 12,000MW in all.

“For international power companies, buying in a privatisation sale means you don't have to take a local partner, and it takes considerably less time to realise your investment than the two to three years it would take for a greenfield power plant,” says Cihan Saraoglu, energy analyst at EFG Istanbul Securities.

However, the expectation of intense foreign interest together with the potential for adding value to existing power stations means that prices are expected to be high.

Also, decades of underinvestment and bureaucratic delays have left many of the power

stations in poor condition and in need of vast renovation. The four most efficient plants are to be offered for sale individually, but to ensure that even the worst are sold, the remaining 39 plants will be offered in nine groups, coupling the bad with the good.

“Most of the state-owned plants are inefficient and require lengthy maintenance,” explains Mr Saraoglu, pointing out that the three state-owned gas-fired plant have efficiencies as low as 60 per cent, against industry standards of 80 to 85 per cent.

But he believes investment by buyers should see good returns: “Renovation would mean less downtime and much more efficient operation. And you always have the option of increasing the installed capacity, which in turn lowers cost per megawatt.”

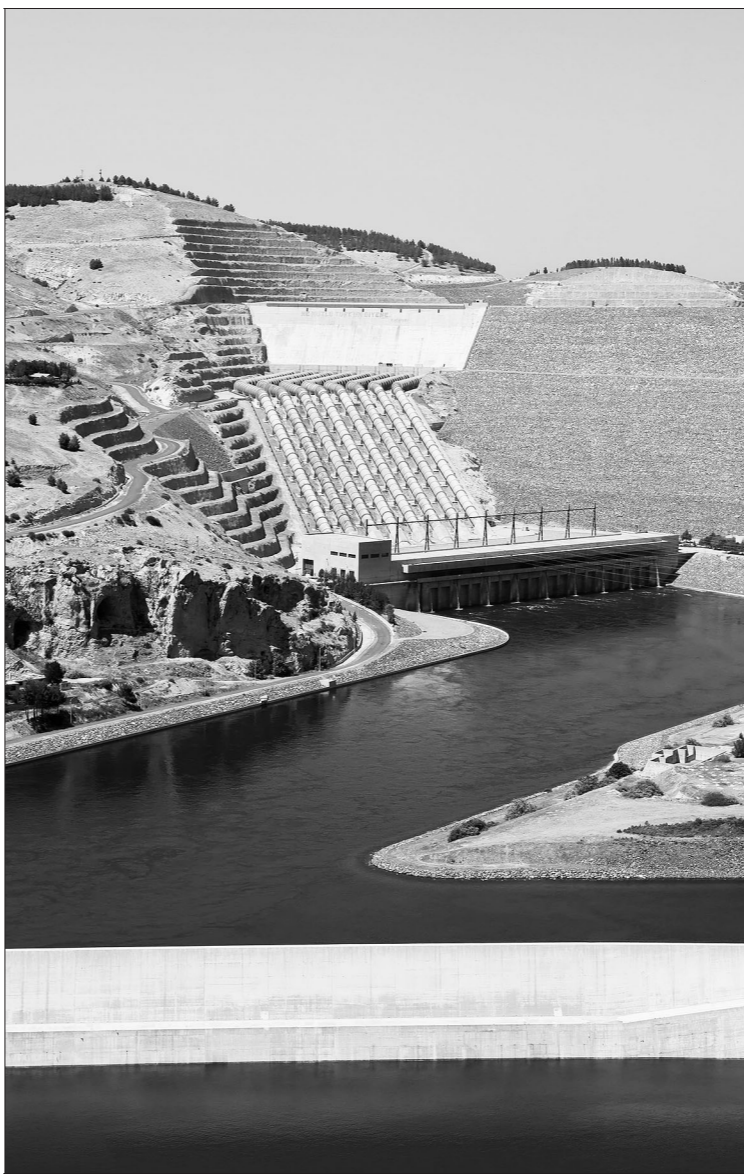
But the need for renovation goes beyond the need to increase efficiency. Many of the thermal power stations fail to meet even Turkey's poorly implemented environmental regulations.

One plant, the 600MW Yatagan coal-burning power station, has for the past decade suffered repeated closures and fines for exceeding sulphur dioxide emission levels.

“Some of the plants are a veritable disaster,” says Haluk Direrkenli, an Ankara-based energy consultant. “Unlike private sector plants, the state power plants have generally not been obliged to meet environmental regulations,” he says.

Under the conditions of the sale, buyers will be given up to three years to bring their purchases up to scratch. “That sounds like a long time, but it's not feasible to do it immediately,” he explains.

Turkey's energy policy dictates that domestic resources should



Liquid assets: the Atatürk Dam (above) is one of the biggest hydroelectric dams in Turkey

Alamy

be used wherever possible, which means that power stations will be forced to continue to burn low grade local coal for the foreseeable future.

The policy also creates an added consideration for potential buyers interested in the smooth operation of their new purchase. The sell-off currently offers the 13 state coal-fired power stations as stand-alone operations, reliant on nearby state-owned coal mines as their only source of fuel.

“If you can't control the coal production, you can't guarantee the efficient operation of the power plant,” explains Haluk Direrkenli.

It is a dilemma that has already seen the postponement of the first planned sell-offs, scheduled to begin this month. Legislation that will allow the mines to be sold with the power stations is

expected to be passed by parliament, ensuring the sale continues before the end of the year.

Mr Saraoglu sees the issue more as an opportunity than a stumbling block: “Companies with no mining experience will form joint-ventures with mining companies – either from Turkey, or overseas.”

Questions remain over purchase guarantees however, which many believe should be offered in order to ensure the sales.

Guarantees already exist for new projects in Turkey's renewable energy sector, such as the 4,800MW nuclear plant for which the government recently signed a contract with a Russian-led consortium.

“Nothing has been said yet,” says Mr Saraoglu, “But it would make sense to offer some guarantees – even if only for a short time.”

## Autos R&D emerges as fix for Achilles heel

Turkey's automotive sector wants to become a hub for research and design, writes David O'Byrne.

Relying on one sector for as much as 20 per cent of your export earnings may seem foolhardy, but the automotive sector is arguably the country's great success story.

Between 2000 and 2008 production rose 250 per cent to 1.17m vehicles a year, with the percentage of those vehicles exported jumping from 22 per cent to 79 per cent over the same period – a result of east Asian manufacturers taking advantage of a skilled work force, low start-up costs and a components sector that was already driven to export to Europe.

The strategy was guaranteed success as long as the export market held, but then the downturn dented Europe's hunger for new vehicles.

“We're an export hub, so we depend a lot on the health of the European economies to fuel growth,” says Sinan Goksen, vice-president of equity research at Express Invest, an Istanbul brokerage.

Vehicle production for 2009 dropped 25 per cent to 2004 levels. Domestic sales were down 24 per cent. Export revenues for the whole sector – including components – fell 34 per cent from \$22bn to \$14.5bn, as volumes fell 31 per cent and manufacturers slashed prices.

The good news for Turkey is that production and exports are rising again.

The first five months of this year saw vehicle production up 46 per cent, exports up 52 per cent and export revenues up 45 per cent, on the same period in 2009.

With the sector's weakness exposed, there is now a drive to diversify beyond low cost, high volume manufacturing of low end commercial and passenger vehicles.

“The need is to orientate the sector towards research and development and both to develop and manufacture new models

here, as opposed to just manufacturing,” says Mr Goksen. That need is especially urgent, given the sea-change for electric vehicles sweeping through the global automotive sector.

To date, only Renault has announced that it plans to manufacture an electric vehicle in Turkey, albeit one designed in France.

“We need to think 10 years ahead, when one in five vehicles sold in Europe is expected to be electric, and to ensure that we can design and produce those vehicles here,” says Ercan Tezer, the head of Turkey's Automotive Manufacturers Association (OSD).

To that end, the government last year introduced a raft of legislation offering tax and other incentives to manufacturers who set up research and development centres in Turkey.

With companies establishing facilities that employ at least 50 technicians able to recover 40 to 50 per cent of costs, 10 of the country's 13 vehicle manufacturers have already set up facilities, while another 10 have been established by components manufacturers.

At the same time Turkey's top technical universities have been roped in, with a crash and seat testing facility at Ankara's Middle East Technical University and an engine testing and emissions facility having opened at Istanbul Technical University.

A state-of-the-art test track is also being developed and a government strategy paper is under discussion to underpin the sector's development.

Foremost is a mechanism to regulate workforce levels, a particular problem in the recent recession, as well as an overhaul of the tax burden on domestic vehicle sales.

“What we need is a more balanced system that can encourage the domestic market to grow sustainably,” says Mr Tezer.



Moving on: there is a drive to diversify beyond low end passenger vehicles

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### Nationalism

Delphine Strauss finds opinion hardening

Mourners chanted “Martyrs do not die, our country is not split”, when they gathered at Ankara's main mosque this month for the funeral of a baby-faced 21-year-old killed by Kurdish rebels. Old women dabbed their eyes, while young men, draped in Turkish flags, shouted army songs and nationalist slogans.

It is a year since Recep Tayyip Erdogan, the prime minister, promised reforms to broaden Kurdish rights, aimed at ending the bitter 26-year struggle with the Kurdistan Workers Party (PKK).

The hope was that measures to ease restrictions on the Kurdish language and make law enforcement less punitive – for example, by ending long prison sentences for stone-throwing children – would ease grievances in the south-east, remove pretences for violence, and prepare the ground for an amnesty.

But with only modest steps taken, the so-called “democratic initiative” – sincere but mishandled – has all but ended. Instead, the PKK is showing it remains a force to be reckoned with.

Since the snows began melting in its mountain hide-outs across the Iraqi border, it has mounted one of its deadliest offensives in years, killing more than 50 of Turkey's armed forces by raids, rocket attacks and mines. Some attacks

recalled tactics from the worst period of conflict in the 1990s.

“There is a real escalation,” says Gareth Jenkins, an Istanbul-based analyst specialising in security issues, who says the violence probably matched the worst fighting since 2004, when the PKK ended a ceasefire.

But the impact of each death on public opinion in the west of the country is greater than in the past, he says.

In the 1990s, news reports of much more vicious fighting were censored, whereas now, television broadcasts after each attack show soldiers patrolling the mountains, grieving families and mass funerals.

That is why the resurgence in violence may carry a heavy cost for Mr Erdogan's ruling AK Party.

Its inability to carry through reforms was in large part due to opposition parties' refusal to support the initiative – and Kurdish politicians' insistence that the jailed PKK leader Abdullah Ocalan, reviled by Turks, should be an interlocutor.



Recep Tayyip Erdogan, prime minister, promised change

But it is the AKP, which in the past drew support from both Kurds and socially conservative rightwingers, that now risks losing votes from both groups.

There has always been a strong streak of nationalism in politics, but it has been

inflamed in the past year by the AKP's attempts to tackle taboos such as the Kurdish issue, or rapprochement with Armenia.

A public backlash forced Mr Erdogan to backtrack on both initiatives, but some nationalists are directing anger towards the government. In April, Taner Yildiz, energy minister, was punched in the face at the funeral of a soldier killed in the south-east, by a man shouting “this is the fist of the Turkish nation”.

A week earlier Ahmet Turk, a leading Kurdish politician, had received the same treatment.

Few think progress in ending Turkey's ethnic divisions will be possible before the elections, due next summer at the latest.

“It is clear the fight against the PKK will be a prominent feature of the

electoral campaign, so it would be foolish to expect a bipartisan consensus on policy,” comments Atilla Yesilada, analyst for Global Source, a US consultancy.

Kemal Kilicdaroglu, newly elected leader of the opposition CHP, comes from the predominantly Kurdish and Alevi province of Tunceli, but he has so far stuck to his party's traditional view that problems in the south-east are economic, not cultural.

And Mr Erdogan, who last year gave tear-jerking speeches calling for brotherhood and cultural co-existence, is opting for more blood-curdling language, saying PKK rebels will “drown in their own blood”.

But since he has limited scope to act on Kurdish reforms, and little means of ending PKK attacks, he

may be tempted to appeal to nationalist voters by taking a tougher stance on other topics – in particular, foreign policy.

The angst felt over the Kurdish issue feeds on a pervasive belief that outside powers are scheming to split the country. When the PKK attacked a naval base on Turkey's Mediterranean coast on the same day Israeli commandos killed Turkish activists on the aid convoy to Gaza, many Turks linked the two.

So when Mr Erdogan asserts Turkey's independence on the world stage – whether by vilifying the Israeli government, or defying Washington with a vote against fresh Iranian sanctions – he is aiming as much to soothe the crowds of mourners at home as to influence international opinion.



## Employers still slow to register

### Black economy

The AKP's success has been limited, writes Anthony Skinner

Many European countries have reason to envy the rate of economic recovery expected in Turkey this year

After contracting by 4.75 per cent in 2009, real growth in gross domestic product is expected to expand by around 6.25 per cent in 2010, according to International Monetary Fund (IMF) projections.

However, the sunny outlook cannot disguise the modest progress that Turkey has made in shrinking the size of its black, or unregistered, economy.

While an estimated 53 per cent of the labour force was unregistered in 2004, about 44 per cent dodged the taxman in 2009.

Despite providing an employment outlet in the aftermath of the economic crisis, the black economy remains a headache for the ruling Justice and Development party (AKP).

Company managers who fail to register staff deprive government coffers of much-needed tax revenue and enjoy cost advantages over registered firms.

The primary victims of the global economic downturn were small companies – the main employers of unregistered workers. Even

so, unregistered employment rose 1 per cent between March 2009 and March 2010, as workers opted for unregistered agrarian work to make ends meet.

Despite the crisis-induced rise in unregistered employment, the wheels are in motion for a continuous – albeit slow – shift from the black economy.

“The increasing importance of the financial sector is crucial to reducing the size of the unregistered economy,” says Emre Yigit, the director of equity research at Global Securities. “It is still very much a cash-based economy. As this changes, companies and employees will need to declare their incomes.”

A change in the public mindset is just as important. Many Turks still keep gold and cash under their mattresses as a precaution against a return to the rollercoaster economic past.

The government has in the meantime tried to reduce labour costs in an effort to persuade unregistered companies to enter the formal economy. A 5 per cent cut in social security payments by employers was welcomed by the business community in 2008.

However, its precise impact is unknown. “It is hard to measure the extent to which a cut in social security premiums raises registered employment,” says Rachel Van Elkan, the International Monetary Fund's Turkey desk chief.

This is particularly the case, since the global eco-

nomical downturn forced the market into decline in 2009.

The AKP has also required employers to transfer the wages of their employees to bank accounts rather than paying cash-in-hand. The reduction in corporate taxation from 30 to 20 per cent in early 2006 encouraged unregistered companies to come in from the cold with the tax authorities.

Despite such measures, the AKP has yet to pass legislation to lessen the rigidity of the labour market. “Turkey needs a more flexible labour market, allowing for part-time and short-term contracts,” says Ms Van Elkan.

A labour market where the cost of employing and laying off workers is reduced would encourage registration.

“It is costly to make redundancies in Turkey, as severance payments are generous compared with other OECD countries,” says Inan Demir, Finansbank's chief economist.

“Redundancy payments should be reduced, although this would be strongly resisted by the unions.”

The government is under pressure to provide sufficiently severe punishment for unregistered firms.

Reversing the public perception that unregistered companies will get away with impunity is vital.

“Employers know that they will not be severely punished for their activities, but if enforcement mechanisms are strengthened, then this may

Stuck: the government is at pains to reduce the rigidity of the labour market

change,” according to Mr Demir.

Nonetheless, a large number of Turks also want reassurance that they are directly benefiting from their tax payments.

“People need to feel that they are getting more in way of public services for their taxes,” says Sengul Dagdeviren, the chief economist and head of research at ING Bank Turkey.

In an effort to avoid a surge in unemployment – an issue the AKP has struggled to tackle since first coming to power in 2002 – any new measures to reduce the size of the unregistered economy will be implemented in a piecemeal fashion.

The AKP is also unlikely to initiate any big structural reforms as the 2011 general elections loom.

## Women Government in bid to increase economic participation

For a country which granted suffrage to its women in 1934, the economic participation of females in Turkey is alarmingly low. Rather than increasing over recent decades, the employment of women has fallen as a result of economic, demographic and cultural factors, writes Anthony Skinner.

A joint study in September 2009 by the World Bank and Turkey's State Planning Organisation (SPO) reveals that the share of women participating in the labour force dropped from 34 per cent in 1988 to 24 per cent in early 2009. By 2006, Turkey registered fewer economically-active women than any country in Europe, Central Asia, or the OECD as a whole.

This trend can be explained by a shift of rural Anatolian families moving to the cities. Men have uprooted their kin in an effort to secure better-paid jobs in manufacturing and services. “The demographic shift is associated with a decline in the participation of women in the workforce. Rural women do not have the education or skills to earn incomes high enough to justify taking work in the cities,” says Ulrich Zachau, the World Bank country director for Turkey. Women who used to labour as unpaid family workers in agriculture then find few attractive work opportunities.

This is because women with poor levels of education will only be considered for positions where the pay is low and working conditions are harsh, in unregistered textile factories for example. Accepting such employment often makes little financial sense, particularly considering the high cost of childcare and household help.

Cultural factors also come into play. Aynur Bektas, chief executive of Hey Group, a textiles manufacturer, and president of the Women Entrepreneurs Board at the Union of Chambers and Commodity Exchanges in Turkey, points out that women from more conservative and less educated families need permission from their spouses or family elders to be able to work.

“As many as 98 per cent of polled women say that their most important duty is home-making, childcare and



Aynur Bektas says domestic life dominates the lives of Turkish women

providing rest for the family,” Mrs Bektas says.

The lack of opportunities for many women in Turkey derives from the fact that girls tend to benefit less than boys from education.

“The attendance of females and males in primary education is almost the same. However, more girls tend to

Illiteracy among women has come down from about 40 per cent to 20 per cent in the past 20 years

drop out over the course of secondary education,” says Mr Zachau. This is partly because poorer families, particularly from the east and south-east of Turkey, tend to prioritise the education of their sons over those of their daughters.

The government points out that illiteracy among women has come down – from about 40 per cent to 20 per cent in the past two decades. In this period, the number of women with

more than primary education almost doubled. Moreover, about 6 per cent of women had a university education in 2006, up from about 2 per cent in 1988. Approximately 30 per cent of Turkish lawyers, doctors and professors are female.

In addition to law, medicine and academia, information technology is a sector where prospects are good. “If women have the right education, skills and motivation, they can probably advance faster than in other vocations,” says Aysegul Ildeniz, Intel's regional director for the Middle East, Turkey and Africa.

Women have also made impressive inroads into management. “According to the 2010 Corporate Gender Gap Report of the World Economic Forum, Turkey is one of the first three countries, along with Finland and Denmark, displaying the highest percentage of female chief executives among OECD and Brics countries,” says Umit Boyner, president of the Board of Directors of the Turkish Industrialists' and Businessmen's Association.

Mrs Boyner, who is also a founder and board member of the Women Entrepreneurs Association of Turkey, points out that 6 per cent of large companies in Turkey are chaired by women compared with 3 per cent in the EU.

The ruling Justice and Development Party (AKP) has in the meantime set its sights on increasing equality and the participation of women in the economy. Turkey's Ninth Development Plan, which runs between 2007 and 2013, aims to increase female labour force participation to 29 per cent. Such a rise would result in a 15 per cent reduction in poverty levels, according to World Bank-SPO calculations.

A government programme to subsidise employers' social security contributions for up to five years when recruiting young women should help the shift. As a further measure, Prime Minister Recep Tayyip Erdogan promised in a May circular to monitor more closely compliance with anti-discrimination laws.

## The kids aren't all right

### Youth

Millions struggle to find direction, says Pelin Turgut

Each year, on the third Sunday in June, the country grinds to a halt, as 1.2m high school seniors across the country sit a marathon university entrance examination on which their futures hang.

The teenagers compete for 500,000 places, most at desperately under-resourced public institutions.

It is an oft-celebrated statistic that more than half of Turkey's 72m citizens are under the age of 30, making it one of the youngest populations in the world. But young people face an uncertain future, at odds with the significance of their size in a future economy.

“Turkey, the fastest growing country economically in its region and the OECD, with one of the largest youth populations, needs to catch up with international progress,” said a youth study by the United Nations Development Programme in 2008, citing the lack of a coordinated policy.

Particularly alarming is its finding that approximately 40 per cent of Turkish youths (about 5m people between 15 and 24) do “nothing”. They do not go to school, or work, or participate in civic culture. It calls them “invisible”.

Youth unemployment is twice the national average at about 20 per cent. Although the economy is growing fast – an average of 6 per cent annually in the five years before the down-

turn – this has not been matched by job creation and unemployment has remained stubbornly high.

The problems begin with schooling. Compulsory education is only eight years, compared with 12 for other European countries. Only 56 per cent of children make it to high school.

The university entrance exam continues to narrow the field, not least because doing well requires investing in a *dershane* – privately run crammer schools that charge between \$1,500 and \$3,500 a year and account for nearly 12 per cent of families' spending on education.

Educators see the exam itself as the centrepiece of



Nefin Dinc came up against resistance to her film course

an outdated system. This year saw the introduction of a two-tier university exam, but the method is still the same.

“Unfortunately, the system is geared towards producing uniform minds,” says Nefin Dinc, who co-ordinated a recent US State Department-funded programme to train 72 young Turkish filmmakers.

She faced stiff opposition from those who saw “no value” in the course. “They think in terms of the exam and that's it.”

Education is also criticised for breeding nationalism (it includes compulsory classes taught by military officers) as well as promoting Sunni Islam in mandatory religion classes.

A Bahcesehir University

study last year found 32 per cent of youth were against joining the EU – higher than any other age group.

“The system has a definite nationalist impact on young people,” says Ms Dinc, whose mandate was to help produce culturally diverse films.

In addition, the emphasis on university education means public vocational training schemes have been neglected.

Spotting an opportunity, the private sector has moved in. “Unfortunately, the gap between Turkey's need for qualified IT staff and the supply is growing each day,” says Furkan Firat, a board member of Bilge Adam, a company he co-founded in 1997 to provide IT training schemes.

It has trained 50,000 graduates. Universities are insufficient, he says, and those that do have IT departments are outdated.

Private universities are also springing up, often with international links, although they are not allowed to make profits.

In 2006, US-owned Laureate Education partnered with Istanbul's privately owned Bilgi University, home to 9,000 students. Sabanci and Koc, leading conglomerates, have their own affiliated private universities.

Despite the initial wariness, Ms Dinc's filmmakers eventually embraced the year-long programme to produce films that have been shown in both Turkey and the US.

“The situation isn't hopeless,” she says. “Once young people are given the opportunity and exposed to new ideas or people, a whole new window opens.”

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## Turkey

# Wealthy collectors continue to play big role

## Arts

The private sector sets the cultural agenda, says **Delphine Strauss**

In the courtyard, plastic seats have been set out and a jazz band is tuning up. At tables nearby, a few people are sipping tea in the heavy June air, while inside, the gallery's last visitors of the day exclaim as they peer at a display of German film animation.

It could be a summer evening in any European capital. But Cer Modern, an arts centre that opened its doors this spring, is in Ankara – a capital better known for its tortuous traffic system and brutalist architecture than for contemporary art.

Improving the city's image is one aim of the team that has created the airy, modern exhibition space inside an old railway maintenance hall – adding to the post-industrial feel with quirky displays in shipping containers placed outside the main building.

The immediate surroundings are not prepossessing – Cer Modern backs on to the concrete bulk of Ankara's courts of justice – but visible from the grounds are all the city's best-known landmarks, from the walls of the ancient fortress to the Germanic architecture of the old centre and the revolving white mushroom of the Atakule tower.

"This is the face of Ankara," says Ebru Özdemir, a businesswoman with a passion for con-

temporary art. It is her collection of Turkish artists, amassed through personal taste rather than calculation, that is on display in the centre's main opening exhibition.

One wall displays a series of lithographs by Erol Akyavas, an Ankara-born artist who blended Islamic tradition with western techniques. The sequence depicts the Mi'raj, the ascension of the prophet Muhammad, with intricate juxtapositions of geometric patterns, animal symbols and abstract forms. Another wall is given to portraits of women – from a Matisse-like odalisque, by one of Turkey's earliest modernists, to a pop-art glamour girl.

Zihni Tümer, Cer Modern's director, says this is the result of a collaboration between the state and private sector that is rare, if not unprecedented, in Turkey's cultural life – and could provide a template for further projects.

With three other founders on Cer Modern's executive board, he signed a 25-year lease on the building now housing the centre in May 2009, after persuading officials in the culture and tourism ministry that the project was viable.

There was an element of opportunism on both sides: the stone and glass structure, in which a section of the old testing track has been kept on display, had been restored at the state's expense. But the work was unfinished, the building had sat empty for several years, and there had been no interest in a recent tender to find a tenant.

"People thought it was too expensive, or 'It's Ankara', or 'There's a global crisis'," Mr Tümer says. With support



Looking the part: the team behind the new Cer Modern arts centre in Ankara hope to improve the city's image

from Tursab, the Association of Turkish Travel Agencies, he and his partners agreed to take on and fund the rest of the building work – drainage and gas connections as well as internal fittings.

They are still seeking sponsors but aim to run the centre on a non-profit basis, raising revenues from a conference centre, café and design shop. For now, there is no entrance charge, and artists will not pay commission if they sell work they exhibit.

Visitor numbers are low, Mr Tümer says, but already exceed those of Ankara's cavernous state museum of painting and sculpture, only a few hundred yards away, which is so empty even on weekend afternoons that the lighting is left on sensors.

Mr Tümer hopes to draw on the state museum's stockrooms of undisplayed works for retrospectives of 20th century art-

ists such as Nejat Devrim and Fikret Mualla. He also wants other collectors in the business community to step forward.

Wealthy art lovers from big conglomerates have driven cultural life in recent years, especially in Istanbul. There the Sakip Sabanci museum has staged Picasso and Dali exhibitions in its Bosphorus-fronting villa, the Koç group's Pera Museum has recently displayed Chagall and British Orientalists, and most major banks sponsor smaller galleries.

The Ezcacıbaşı family – a pharmaceutical dynasty – was the driving force behind Istanbul Modern, the vast contemporary art gallery that opened five years ago in an old customs warehouse with one of the city's best views over the Sea of Marmara. The private Bilgi University, with support from Istanbul municipality and corporate sponsors, followed

last year with Santral Istanbul, an arts centre in an old power plant.

State-run museums and galleries are seeking to emulate the standards set by these private ventures. But partnerships between the public and private sector are rare: indeed, Istanbul's preparations for its year as a European cultural capital in 2010 were fraught with disagreements between the many agencies and private actors involved.

The problem, Mr Tümer says, is that there are no "middle players". Yet it is becoming easier to co-operate with the state. Just as a statist mentality in industry gave way to privatisations and build-operate-transfer contracts, so the cultural sector could adopt a "restore-open-transfer" system, he suggests. "Turkey has a huge number of heritage sites – they should trust the private sector more to redesign such systems".

# What links commercials and pickles?

## Advertising

Istanbul is centre of a vibrant industry, says **Michael Kuser**

Turkey's advertising sector may be relatively small, but based in vibrant Istanbul, it attracts talent and ideas from around the globe.

Agencies big and small are increasingly centred on the internet.

The World Federation of Advertisers met in Istanbul this spring, and most of the buzz concerned the only bright spot in the industry: growth in web advertising.

Hürriyet newspaper leads the market in terms of print ad revenue, and reports on its corporate website that while the Turkish market shrank 14 per cent last year, from TL3.4bn in 2008 to TL3bn, internet ad spending rose an estimated 23 per cent, to TL317m.

The Interactive Advertising Bureau Europe this month released figures that show Turkey as one of only four markets that experienced double-digit growth in digital advertising last year. With the contraction in TV and print, spending on web-based media now accounts for some 11 per cent of the ad market.

One man riding the new wave is Ali Yorgancıoğlu, 34, whose studio, Dirty Cheap Creative, produces videos for clients including Coca-Cola and Arçelik, a Turkish white goods maker.

"Most of our work is from agencies. We take over low-budget productions, so have inhouse casting, equipment rental and production, all of which cuts overheads. There's more hands-on involvement and more creativity than with traditional production companies," says Mr Yorgancıoğlu.

He might have been reading Deloitte's 2010 media forecast note to clients, which says: "In response to online, entire advertising and ad-supported ecosystems should consider consolidating, controlling costs more aggressively, and seeking new business models."

Mr Yorgancıoğlu made an award-winning online video for fashion retailer T-Box in 2002 and has been on a learning curve ever since. "Back then, online work was an extension of print or broadcast campaigns, but now the global trend is the other way round," he says.

"It's the power of the internet. Teenagers don't even watch TV – in 10 years it will be entirely different. I don't know what it will be, but I steer my thinking toward the extinction of TV as we know it."

Whatever the future of television may be, it still commands more than half the Turkish ad spend, which is how Barney Fisher-Turner, 32, justifies owning the Photron Fastcam BC2, which he claims is the best high-speed camera for

so-called demo shots – slow-motion moments when you see red, red raspberries flying into a downpour of creamy milk.

Mr Fisher-Turner's love of cooking and photography led him first to become a food stylist, the one who makes the burger look bigger and better and juicier, and more recently a producer. His company, Shoot Food, brings directors of photography (DoP) and clients together from Kiev to Casablanca, and is employing a French director to make an ad for a Moroccan client – a €20,000 production.

Does he foresee his food and beverage work shifting online or on to cell phones? "The online shift is already happening. I don't approach web-based video any differently from a TV shoot, but the clients tend to. They want more creativity for less money, so there's no economic incentive for me to use foreign talent. And Turkey has plenty of talented directors and DoPs."

One such is Feza Çaldıran, 40, an award-winning cinematographer, noted for his work on *Sonbahar (Autumn)*, a 2008 film directed by Özcan Alper. Mr Çaldıran learned his craft making TV commercials and still works in the indus-

'For a small company like us, nothing should be ordinary'

try. "I started as a camera assistant in 1993, learning a lot from working with foreign directors and cinematographers," he says. One small agency with an in-your-face creative attitude is Daniska, working from an office whose storefront is disguised as a traditional pickle shop. Mutena Sezgin, its business manager, says: "Big agencies can be creative and also do the usual stuff, which is OK. But for a small company like us, nothing should be ordinary, so we focus on creativity."

Creative can also combine with smart. Ms Sezgin, 48, has a quarter-century of banking and corporate experience, plus a Harvard MBA, and her role is to make sure the business works. Her younger partners, Pemra Ataç and Burcu Tokatli, both worked in large agencies before founding Daniska in 2008. The agency has worked with Lost Jeans, CNBC-E, Garanti Masters private banking, a trendy restaurant group and others.

And the pickles? "At Christmastime we send jars of pickles to our clients," says Ms Sezgin. "We've found the whole analogy between pickles and advertising to be very apt, for just as one clove of garlic changes the whole complexion of a brine, one small idea can change the flavour of a whole campaign."

# Where ideas are turned into hard currency

## Technoparks

A supportive entrepreneurial network is fostering success, says **Michael Kuser**

Turkey came late to the industrial revolution, but it caught up quickly. Its economy is now 17th largest in the world, while billboards in Istanbul tout 3G mobile phone connection speeds faster than those in London or Frankfurt.

The story is similar for entrepreneurs and the university centres that support them. Middle Eastern Technical University (Metu), opened Turkey's first technopark in Ankara in 1991, 40 years after Stanford University established its research park.

Two decades later Turkey has approximately half as many technoparks as the

UK – 38 versus 78 – and its universities are helping to "mine" technology and diversify the national economy from its industrial export base.

Like Italy, Turkey's model of university-industry collaboration stipulates that intellectual property rights belong to the individual professor rather than to the academic institution for which he or she works.

Ahmet Acar, president of Metu, says his university helped lobby for and draft the national law on university technoparks, but he has no equity stake in any of the 250 companies working at its Technopolis centres. "Our main idea is to support entrepreneurship in Turkey and provide a model for R&D co-operation with industry," he says.

Mr Acar is not naive about the role of money in the entrepreneurial world, however. In April, Metu hosted the annual congress of the European Business

Angel Network in Istanbul. "We start with the business ideas of young people and have a seed fund that can provide an individual company with capital up to TL250,000 (\$160,000)," explains Mr Acar.

"Some have become companies with multi-million-dollar turnover. Türk Telekom bought a company specialising in educational software used in primary and secondary schools – a company that has gone on to sign agreements with several regional and national departments of education."

Ankara is the base for Turkey's defence industry and Metu has been collaborating with the government and corporations in that sector.

"We have a company that provides software for Sikorsky helicopters and has signed several defence industry co-operation agreements," says Mr Acar. "Another company in Metu Technopolis produced a tar-

geting system [and] made laser directing hardware now used by the FBI."

In 2005, Istanbul's Sabanci University established Inovent, a technology commercialisation company that typically acquires equity stakes of between 20 and 40 per cent in businesses that it thinks have

'[One company] made laser directing hardware now used by the FBI'

potential. Inovent also set up a seed fund, similar to Metu's, with a cap of TL250,000.

Elbruz Yilmaz, business development manager at Inovent says that their seed fund, the first in Istanbul, "is taking the risk that others won't".

"Venture capitalists usu-

ally look for more mature deals," he says. "We go to other schools, too, walk the halls, ask the professors if they have any groundbreaking applications."

"We also look to license, not just invest, so we are technology brokers in a way, with much experience in management of intellectual property rights."

Ömer Hiziroğlu, general counsel and licensing manager for Inovent, says that although the law may sound noble for favouring the academics who generate these ideas can be tricky.

"Few professors have the hundred thousand dollars needed to secure a patent. Ownership is the first thing investors ask about a patent, and they prefer to work with institutions rather than individuals."

Inovent had two exits last year, one of which was Vistek, which specialises in mechanical optics and production inspection.

Professor Aytül Ercil founded Vistek in 1997. "At the time there were no formal procedures for supporting entrepreneurship at universities, but I set up my company and we only did projects outside Turkey," she says.

Inovent soon showed interest in becoming a partner: "They gave us space at the technopark at Istanbul Technical University, legal help, plus the Sabanci name, which is very respected in Turkey."

Before long they had partnered with ISRA Vision, a German company that bought 24 per cent last November. Vistek did total business in 2009 of nearly €1m.

Mr Hiziroğlu of Inovent says the flow of ideas continues to improve: "Sabanci University has some 50 to 60 patents that we are trying to work and the environment in Turkey has become noticeably more corporate."

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