



**Business Implications of an Evolving Emerging Economy:  
The Case of Turkey  
Fall/Winter 2014  
IBUS 6297**

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**CLASS MEETINGS:** November 5 & 12, 2014      **Time:** Tba      **LOCATION:** Tba

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**Course Description**

The course is about the business implications of the Turkish economy's evolution over the last decade, which was the last chapter of the transformation that started in early 1980s. Turkey has been one of the fastest growing emerging economies in addition to being located in a geo-strategically sensitive region. Early in the new millennium, in the wake of the home grown 2000/01 crisis, Turkey has implemented its own macro-economic and political reforms, put public sector finances under control, reduced its high and volatile inflation considerably, and stabilized the business environment. Consequently, it has recorded high growth rates, and attracted significant amounts of FDIs. This transformation has had sizeable impact on the way the business is done by both locals and foreign companies. Nevertheless, Turkey still suffers from many of the inefficiencies that are common in emerging economies such as lack of institutions and rule of law as well as widespread practices of corruption and nepotism. There are three specific areas that are, in my opinion, important in terms of understanding the business implications of the Turkish economy's evolution over the last decade.

First of all, Turkey's growth has been primarily financed by external funds, increasingly short & medium-term financial flows from other countries, due to insufficient domestic financial savings. Thus, the nature of financing is a significant constraint for the sustainability of growth, distinguishing Turkey from some other emerging surplus economies such as China and Russia. From an international business perspective, Turkey has been a highly attractive market for foreign lenders and portfolio investors. During high growth years foreign financial institutions did not hesitate to invest in Turkish assets. The growing size of global liquidity, and never ending appetite for emerging market assets made this process even more appealing. However, it seems those days are over because of the recent developments taking place in both the Turkish and mature markets. The global financial crisis has almost ended, and the interest rates in developed markets are likely to rise and money invested in many emerging markets is expected to return to mature markets. On the Turkish front, the growth rates have come down while inflation rates have gone up, and most importantly, political instability has visibly increased. The first project team will focus on the overall health of the Turkish economy from a foreign lender's perspective, and make a decision about renewing a US\$500 million loan to a major Turkish bank.

Secondly, the high growth rates led to a sizeable increase in GDP and per capita GDP over the last decade. Coupled with consistent efforts by the Government to improve income distribution, this had led to a visible

expansion of the middle class in the country. The growth of the middle class has been one of the main drivers of urbanization, housing boom, mushrooming shopping malls, and increased domestic consumption, therefore consolidating the domestic component of growth. However, following more than a two-fold increase in per capita income in six years, Turkey's per capita income has virtually stagnated around \$11,000 for the last six years. This is called "middle-income trap" in economic literature. Turkey faces serious challenges to overcome this trap, and move forward. The second project team will make a decision on behalf of a major US retailer whether investing in Turkey is a good business decision in light of the above outlined background and future prospects of the economy.

Finally, it is argued that a considerable portion of the "borrowed" funds has been channeled to real estate investments that are not contributing to the long-term productivity of the Turkish economy in addition to creating a real estate boom that can jeopardize Turkey's future growth. However, there are others claiming that Turkey's real-estate boom cannot be compared to that of Spain or Ireland because the bank financing is limited, and driven essentially by urbanization and growing middle classes, not speculators. In the current Turkish context, real estate sector is subject to a heavy central and local government involvement, and known as a sector with various corrupt practices. The third team is expected to focus on the future of the real estate sector and advise a mid-size US real estate company to partner with a Turkish company in jointly developing a major commercial (office & shopping mall) project in Istanbul.

## **Course Objectives**

- **DEVELOP A BETTER UNDERSTANDING OF AN EMERGING ECONOMY WITH ITS STRENGTHS AND WEAKNESSES**
- **EVALUATE THE RISKS & BENEFITS OF DOING BUSINESS IN AN EMERGING ECONOMY**
- **CONTRAST THE PARTICULARITIES OF THE ECONOMY IN GENERAL AND FINANCIAL SECTOR IN PARTICULAR IN AN EMERGING DEFICIT-ECONOMY WITH THOSE OF MATURE MARKETS**
- **ASSESS THE SIGNIFICANCE OF GROWING MIDDLE CLASSES IN EMERGING ECONOMIES THAT ARE GRADUALLY BECOMING THE MAIN DRIVERS OF GLOBAL CONSUMPTION**
- **ANALYZE THE ROLE AND RISKS OF REAL ESTATE INVESTMENTS IN EMERGING ECONOMIES**

## **Structure of the Course**

This course is eminently creative and practice oriented. It will consist of two classes in DC that will introduce this complex environment. The classes will be followed by a week-long residency in Istanbul, Turkey. The focus of the course will be the meetings and visits that will take place during our residency. These meetings will give students an opportunity not only to learn from the experiences of the local experts but also raise some of the questions you have in mind related to prior readings as well as the projects you are working on. Most of the learning, therefore, is expected to come from these contacts on the ground. However, students are expected to be highly entrepreneurial at finding the necessary sources of information to properly assess the current business landscape and develop a sound understanding of the emerging Turkish economy. Obviously, the professor will facilitate access to some of these sources but they should be viewed as a starting point rather than the only sources of information needed to address the objectives of the course.

## **Required Material**

Required reading material is listed below. All course material will be posted on the Blackboard.

**Acemoglu, Daron, et. al., 2004.** "Institutions as the Fundamental Cause of Long-run Growth."

**Akyuz, Abdullah, 2009,** "Political Economy of Turkey: In Search of Stability Amid Domestic and Global Crises"

**BBVA**, 2013, “Economic Watch: Emerging Middle Class in Fast-Track Mode”  
**Ernst & Young**, 2013, “Hitting the Sweet Spot: The Growth of the Middle Class in Emerging Markets”  
**Ernst & Young**, 2014, “Banking in Emerging Markets: Investing for Success”  
**Hakura, Hadi**, 2013, “After the Boom: Risks to the Turkish Economy”  
**Hallward-Driemeier, Mary**, 2009, “Who Survives: The Impact of Corruption, Competition, and Property Rights across Forms,” World Bank Working Paper # 3485  
**Jones Lang LaSalle**, 2013, “Turkey Real Estate Overview”  
**Khanna T. & K. G. Palepu**, 2010, “The Nature of Institutional Voids in Emerging Markets: Why Markets Fail and How to Make Them Work”  
**Kose, M. Ayhan & E. S. Prasad**, 2010, “Emerging Markets Come of Age”  
**La Porta, Rafael et. al.**, 1999, “The Quality of Government”  
**Rodrik, Dani**, 2012, “The Turkish Economy after the Global Financial Crisis”  
**Ucer, Murat**, 2014, “Turkey’s Economy: Now for the Hard Part”

### **Grading Policy**

Grades for this course will be curved. That is, the points that you obtain from all assignments and class participation will be added up and sorted from high to low. Students who accumulated the most points will get an A. The cut-off points for A-, B+, B, B-, etc, will be determined later.

<b><u>Course Requirements</u></b>	<b><u>&amp;</u></b>	<b><u>Due Dates</u></b>
<b><u>GROUP WORK (40%)</u></b>		
Group project presentation	10%	2 <sup>nd</sup> Class
Group project report	30%	January 20, 2015
<b><u>INDIVIDUAL WORK (60%)</u></b>		
Pre-trip reflection essay	20%	November 30, 2014
Post-trip reflection essay	20%	January 15, 2015
Class participation	<u>20%</u>	-
<b><u>TOTAL</u></b>	<b>100%</b>	

### **Group Project (40%)**

Students will be assigned to one of the three projects/focus areas (finance, retail and real estate) mentioned above in the “Course Description” section based on their preferences and backgrounds. Specific project topics will be proposed by project teams and announced upon professor’s consent prior to the first class. The projects should focus on a specific aspect of the three focus areas. Each team will make a brief (10min) presentation during the second class. This presentation will summarize the preliminary research you will have done towards your group project as well as what the group plans to do during residency.

The main deliverable in this class will be the group project report. Each report will differ depending on the task assigned. The project report will be graded on the following criteria:

1. Comprehensiveness of research (primary and secondary)
2. Creativity
3. Depth of analysis
4. Professionalism in writing and overall report appearance

More details pertaining to the project report will be given in class.

### **Pre-trip and post-trip reflection essays (20%+20%)**

You will receive detailed instructions about the reflection essays in class. Pre-trip essay will focus on students' perception of the business environment in Turkey based on prior knowledge, class lectures and reading material. Post-trip essay will try to measure the impact of the experience gained on the ground on students' understanding of business implications of the emerging Turkish economy.

### **Class Participation (20%)**

Class attendance and participation is mandatory and will be evaluated strictly and on an individual basis. Your grade will depend on quantity of your participation and, most of all, the quality of your participation. Your participation grade may be negatively affected by unprofessional behavior (e.g., inappropriate comments, doing other class work, chatting with classmates). It will be particularly important to prepare for the sessions and visits & meetings while in the country. Specifically, excellent participation consists of

1. Arriving to class on time, attending class regularly, and missing no one class in the course.
2. Raising your hand several times within a singular class meeting, ready to share thoughtful and constructive input to class discussion. Thoughtful and constructive input typically means applying knowledge gleaned from course preparation materials and lecture in your class commentary or asking critical questions pertinent to the discussion.
3. Demonstrating that you are engaged and focused on class discussion by making regular eye contact with the professor and building on comments that the professor and other students make during class discussion.
4. Actively participating in in-class activities and generating thoughtful and creative applications of course concepts in these activities.
5. Being an active, creative and constructive member of your team (This will be measured through a peer survey)

No mobile phones or other electronic devices are allowed during lectures and visits. You can use your laptop only to take notes. **Strictly no web surfing, email checking, text message sending, or working on other class assignments.** Please be respectful of me and your fellow classmates and use your laptops judiciously. Please bear in mind that cold-calling is fair game at any point during class. If you are unable to respond or provide a far less than satisfactory response, your participation grade will be seriously affected.

### **PROFESSOR'S POLICIES**

#### **Group Work**

Group project is a significant component of this course. Given the amount of time that you will have to spend working together it is advisable that, from the beginning, all the members of the team agree on reserving specific blocks of time to plan and distribute the work, discuss and integrate it, and produce the deliverables as required. All members of the team have to be ready to discuss any aspect of the group's work at any time. Similarly, the project paper can be prepared in a joint manner but each student will be responsible for answering questions raised during class discussions.

#### **Academic Integrity**

The professor will strictly abide by the academic integrity policies as stated at <http://www.gwu.edu/~ntegrity/code.html#definition>. Academic dishonesty is defined as cheating of any kind, including misrepresenting one's own work, taking credit for the work of others without crediting them and without appropriate authorization, and the fabrication of information. **ANY ASSIGNMENT**

**INCLUDING PLAIGERIZED MATERIAL (see Academic Integrity Code for definition) WILL RECEIVE AN F. NO EXCEPTIONS WILL BE MADE.**

Late Assignments

**NO LATE ASSIGNMENTS WILL BE ACCEPTED** (NOTE: 5 MINUTES LATE CONSTITUTES A LATE ASSIGNMENT – PLEASE MAKE ARRANGEMENTS TO TURN YOUR ASSIGNMENTS IN BEFORE THE DEADLINE TIME). If you know you will be absent in class the day an assignment is due, you should plan on doing the work ahead of time and turning in the assignment early via email or fax. THESE ALTERNATIVE METHODS OF TURNING IN ASSIGNMENTS SHOULD BE DONE BEFORE THE CLASS PERIOD. Failure to turn in assignments before class will result in a zero for the assignment.

Final Grades. Final grades will reflect the student's total points earned in the course. You will be able to track your points on the Blackboard gradebook. All grades are final. THERE WILL BE NO EXTRA CREDIT OFFERED IN THIS COURSE.

Grading Disputes. Mistakes in grading can happen. I will do my best to grade very carefully. However, if you believe that an error has been made in the grading of your work, you should submit a WRITTEN REQUEST for a grade change. This report should include a discussion of what you got wrong and why you believe you should have gotten credit for your work. Wherever possible, provide citations from the textbook or lectures. Attach this report to the original copy of your assignment or exam, and turn it in to the professor. I will try to give you a response as soon as possible.

## CLASS OUTLINE

<i>DATE</i>	<i>TOPIC</i>	<i>PREPARATION MATERIALS</i>	<i>ASSIGNMENTS DUE</i>
11/5/14	<b>Introduction:</b> -The transformation of the economy -Current state of the Turkish economy	<b>Read the following material:</b> Acemoglu Akyuz Hakura Hallward-Driemeier Khanna & Palepu La Porta et al. Rodrik	NONE
11/12/14	-Business environment -Growing middle class -Real estate boom -Project presentations -Discussion on group projects & reflection essays	<b>Read the following material:</b> BBVA Ernst & Young (both) Jones Lang LaSalle Kose & Prasad Ucer	Project presentations
11/30/14	<b>Pre-trip reflection paper</b>	None	Pre-trip reflection paper
1/3/15- 1/10/15	<b>Residency in Istanbul (DRAFT)</b>	<p><b>Day 1 (Saturday)</b> Arrival in the afternoon <u>Evening:</u> Welcome reception</p> <p><b>Day 2 (Sunday)</b> AM + PM: Guided Istanbul city tour</p> <p><b>Day 3 (Monday)</b> AM: Presentation on the economy/business climate by a prominent economist/investment banker with special emphasis on project topics PM: Visit to a business organization and presentation on entrepreneurship in Turkey</p> <p><b>Day 4 (Tuesday)</b> AM: Roundtable with economists on various aspects of the TR economy PM: Project related work by teams (separate meetings and/or team work)</p> <p><b>Day 5 (Wednesday)</b> AM: Presentation on "Islam and Business in Turkey" by a prominent journalist or academic PM: Visit to Banks Association of Turkey to get a briefing on the banking system</p> <p><b>Day 6 (Thursday)</b> AM: Meeting at a major construction company or REIT PM: A casual conversation on the Turkish business environment with a corporate executive</p> <p><b>Day 7 (Friday)</b> AM: Meeting on "Challenges faced by Small and Medium Sized Enterprises (SMEs) in Turkey" PM: Visit to a major manufacturing or service company <u>Evening:</u> Farewell dinner</p> <p><b>Day 8 (Saturday)</b> Departure</p>	NONE
1/15/15	<b>Post-trip reflection paper</b>	None	Post-trip reflection paper
1/20/15	<b>Group project</b>	None	Group project