“Assignment 2”

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**Executive Brief**

TO: Professor Paul Serluco

FROM: Hady AlShayeb

DATE: 28th of January 2023

RE: Managerial Economics 515 – Assignment 2 – Executive Brief

# **Introduction**

Saudi Arabia is the home nation, and Turkey is the host nation. In contrast to Turkey, which is well-known for its textiles, steel and iron chemicals, cement, motor vehicles, construction, glass, ceramics, and mining, Saudi Arabia is known for its petrochemical products, plastics, metal goods, construction materials, and electrical appliances.

In this briefing, the latest entry and frequency of the home country and host country are mentioned along with the trends of different indicators analyzed and lastly, it is determined whether the trends are healthy or not.

There are six broad categories of indicators mentioned in this briefing along with further classification. For instance, the category of GDP and Growth discussed GDP, GDP Constant Prices, GDP Annual Growth Rate, GDP per capita PPP, and ease of doing business in Saudi Arabia and Turkey. The second category of Unemployment and Utilization discussed the unemployment rate and labor force participation in both nations. Furthermore, the category of Inflation and Interest Rates discussed the indicators such as interest rate and inflation rate in the host and home country. Moreover, the Debt and Deficits component reviewed the Govt. Debt, Govt. Debt/GDP, Credit Ratings, and Corporate Tax Rate of Saudi Arabia and Turkey. Indicators such as currency, imports, and exports are discussed under the category of external balances and exchange rates. The last category of Savings and Investment discussed Saudi Arabia and Turkey’s personal savings and consumer confidence.

## **Turkey’s Economic State**

## **Economic Health and Business Trends of Turkey**

From 2017 to 2020, the Turkish economy grew slowly, but growth scooped up in 2021. Unfortunately, the decrease in economic liberation has hastened. Due to significant declines in its rankings for financial stability and rule of law, Turkey has been moved from the "Moderately Free" group to the "Mostly Unfree" group since 2017. Financial opportunity in Turkey has likewise dropped 8.3 focuses starting around 2017. Investment and commercial liberty are highlights; though monetary independence has decreased. (The Heritage Foundation, 2019).

Turkey's strict response to the crisis ranked 133rd among the nations in this Index, despite the fact that the country had seen 77,038 deaths since around December 1, 2021, which were directly related to the pandemic. In 2020, the GDP only grew by 1.8%.

In 2021, trade between Turkey and the United States totaled more than $28 billion, an increase of approximately 33% from the previous year. Imports totaled $15.9 billion and exports totaled $11.9 billion of the total.

According to GoT figures, American products made up over 5% of all Turkish imports in 2021, ranking as Turkey's fourth-largest import provider. Some U.S. exporters may be at a loss relative to their European rivals, who also have a Customs Union agreement with Turkey and do not experience the same trade barrier if duties on a variety of U.S. products rise in 2018 and 2019. Nevertheless, Turkish customers continue to generally choose and recognize American products (1, n.d.).

### **Important Indicators in determining Economic Health**

The three indicators that were of great importance while assessing Turkey’s economic health were GDP, unemployment rate, and imports/exports of the country.

**GDP**. It is one of the metrics frequently used in order to measure a country's economic output or production (GDP). The GDP growth rate is perhaps the perfect indicator of economic development, and GDP per capita is closely connected to the long-term trend of rising living standards. GDP is a reliable indicator of an economy's size. The GDP of Turkey increased annually from 720 billion USD to 815.3 billion, an increase of 11.0%. The GDP is a gauge of an economy's size, and rising GDP indicates a thriving national economy. Using GDP, governments and central banks determine decreasing or increasing of economy and take immediate action (Picardo, 2021)

**Unemployment Rate**. The unemployment rate is continually checked by the central bank and government because it depends on how economic conditions as well as business confidence come together to determine how good the labor market works (AvaTrade, n.d.). To change economic policies and business practises, it is helpful to understand how the economy is evolving. In Turkey, the rate of unemployment in 2021 increased by 0.28% to 13.39%. Turkey's unemployment rate decreased from the prior year by 0.56% to 13.11% in 2020. The rate increased by 2.78% from 2018 to 13.67% in 2019. It was 10.89% in 2018, up 0.07% from the previous year. A weakening economy is indicated by rising unemployment. If people cannot be used as resources, they will inevitably become a liability to the economy.

**Imports/Exports.** The exports and imports of country do have an impact on the GDP, currency value, inflation rate, and interest rate. The volume of imports and the size of the trade deficit can both have a negative impact on a nation's currency. Turkey's imports reached USD 33.3 billion in December 2022, up 14.6% over the previous year. There is a significant increase in imports. It may harm Turkey's economy and the value of its currency. Turkey's exports in December 2022 totaled USD 22.9 billion, an increase of 3.1% from the previous year. Since exports have increased during the past few months. Market expansion, increased output, and developments would all benefit. Imports and exports are essential to the development and expansion of national economies since not all countries have the resources and knowledge required to produce specific goods and services. (Kramer, 2022).

#### **Stage of Business Cycle and Growth Opportunities**

For instance, let’s discuss the Oil and gas industry in Turkey. In terms of proven oil reserves, Turkey ranked 53rd globally in 2016 with 312,000,000 barrels, or around 0.0% of the total 1,650,585,140,000 barrels of known oil reserves in the world. Turkey's total oil reserves (343,779,139 barrels as of 2016) are insufficient to even cover one year's worth of oil use, rendering Turkey heavily dependent on oil imports to maintain its consumption levels. In the petroleum industry, Turkey is at the third stage of the business cycle. The third stage i.e. contraction stage begins when the economy peaks and concludes when the GDP and other indicators cease falling. Right now, the economy is actually declining instead of rising. Therefore, the economic system enters a recession when the GDP rate falls too low.

The long-term contract between Russia and Turkey to provide 16 bcma would end in 2021, allowing Botas, the national pipeline business of Turkey, to look for other suppliers who may offer competitive prices. Later, in 2025, the long-term arrangement to supply 9.6 bcma from Iran will come to an end. Therefore, Turkey will be a good market for competitive pipeline and LNG supply. As a result of Botas steadily reducing natural gas price subsidies, local gas prices have increased, particularly for gas supplied to power plants. As a result, the vast majority of privately operated gas-fired power facilities have temporarily suspended operating. Overcapacity and low electricity costs facilitated by inexpensive hydropower generation have also led to this situation. Demand from the power generation sector could rise in the coming years due to a liberalized gas market and economic expansion. There are some potentials, some production, and some fresh finds happening in southeast Turkey. There is further potential for exploration in the Thrace Basin. Turkey, a significant methanol importer can be a viable market for natural gas-derived methanol.

##### **Recommendation**

Expanding the existing market presence in Turkey is a great option for Saudi Arabia. As it has great resources of oil and gas, which Turkey could greatly benefit from. It should plan to seek cooperation with Saudi Arabia as it is planning to become an energy hub. Turkey serves as an energy corridor between Russia, Iran, and Saudi Arabia due to its geographic location. Any natural oil or gas that needs to be moved or transported will be more affordably and safely shipped. Saudi Arabia could increase its market presence and get benefits in turn.

###### **Conclusion**

Conclusively, the assignment highlighted the latest entry and frequency of the home country and host country along with the trends of different indicators analyzed, and lastly, it determined whether the trends are healthy or not. Inflation and interest rates, debt and deficits, external balances and exchange rates, savings and investments, unemployment and utilization, and GDP and growth were all discussed. The three most important indicators in assessing the economic health of a nation are its GDP, unemployment rate, and imports/exports. Moreover, it highlighted the oil and gas industry of Turkey, its business stage, and growth opportunities. The recommendation of expanding the existing market presence in Turkey is also given.

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