



türkiye ekonomi politikaları araştırma vakfı

## Search for ways out of the Global Crisis: What should Turkey do in the G-20 Summit?<sup>1</sup>

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1. Global financial crisis has provoked a debate on how countries should cooperate for tackling the adverse effects of the crisis on the one hand and prompted a new milieu where economic relations between nation states will be restructured. The G20 meeting to be held in mid-November is significant in being the first and the most important platform for the discussion of the new global architecture along with measures against the crisis. In an era when debates on the governance of the global economy have begun, Turkey's active participation in these debates will bring on new opportunities in terms of its position in the new global architecture. This note aims to contribute to these debates and offers an assessment framework to this end.

2. **The waves of the global crisis are spreading rapidly from country to country.** Developed-centre-countries constitute the core of the crisis, and in an era when the balance sheets of companies and banks are inter-connected across countries, the fire that started out in the centre countries have been spreading fast. As stated in the TEPAV Policy Note dated November 11, 2008, the effects that were initially felt in the prices in financial markets have now transformed into a wave of economic recession that spreads from country to country. In this environment, the contraction in the fund flows due to the financial crisis has an adverse impact on both international trade and domestic demand. In time, the waves emitted by centre countries spread over to developing countries. Expectations are that the impact on countries like Turkey will become more and more severe in the coming months. It is probable that the intensity of the impact will be aggravated with further adverse news likely to come from developed countries. It would be wise for developing countries to be prepared for these.

3. **With the severity and the spread of the crisis, the consensus on the flaws and the deficiencies of the global system is gaining strength.** The primary deficiency of the global system stems from the question of inequality. A quite considerable segment of the world population today has to bear with the costs of a global system whose benefits they cannot share in a fair manner. The financial crisis that spreads from country to country and the recession in the real economy can lead to sharp volatility in prices and wages and raise the cost of adjustment for wide societal segments to the new economic equilibrium.

4. **More thought-provoking in this milieu is the acceleration of the spread of the crisis as a result of globalization on the one and the lack of an intervention capacity on a global scale so far on the other.** While a mechanism like the World Trade Organization that regulates and monitors trade relations among countries is functional for better or worse, the need for a mechanism that regulates and

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<sup>1</sup> We are grateful to Hasan Ersel, member of TEPAV's advisory board, for his opinions, suggestions and valuable contributions.

monitors financial relations among countries remains. The supervision of financial systems vary across countries; while the primary problem stems from inadequate regulation and monitoring in certain countries, excessive regulation and monitoring in some others can stifle the development of financial markets. However, with the contribution of technological developments, the integration of the financial systems of countries creates an undesired effect whereby the burden of flaws in the regulatory framework of one country can be borne by other countries. Increase in cooperation among countries and furthermore a mechanism with coercive power being rendered functional becomes all the more critical in the crisis environment we are in today.

5. **The G20 summit is of great importance for coping with the current effects of the global crisis and a debate on what should be done for the prevention of its re-emergence in the future. Turkey should best contribute to the debates in the summit in four fundamental axes and moreover assume a guiding role in the process.** First, debates on measures to control and curb the global effects of the crisis on international trade, growth and employment as soon as possible are of significance. Second, the will not to allow this crisis to hamper aid towards least developed countries should be solidified. Third, due to factors outlined above, a debate on the steps to be taken for the regulation of financial markets on a global scale should be initiated. Fourth and last, in order to get the summit to produce results beyond lip-service, a debate is needed on the ways in which the fundamental measure areas mentioned above will be designed and implemented and what kind of a coordination mechanism is required to ensure these. In order to contribute to a productive meeting, Turkey should contribute to the meeting along these axes.

6. **Among leading issues that Turkey should place emphasis on is further democratization of the globalization process. Turkey should also assume a spokesperson mission for other emerging markets and developing countries not included in G20.** It is time that Turkey, which was recently elected to the United Nations Security Council with the vote of 151 out of 192 countries, had a more active role in the global scene. In this framework, it would be most appropriate for Turkey to adopt a discourse at the G20 summit towards making the trajectory of the globalization process more just for the developing countries. The rights of developing countries should be represented in a more effective and legitimate way in the functioning of the new mechanism debated to be devised in order to ensure global economic stability. It should also be emphasized that the negligence of these issues in the contemporary global coordination mechanisms like the World Bank and the IMF are among the chief failures of the globalization process. Otherwise, with the social consequences caused by the global crisis, a series of global security threats should be anticipated. The issue is crucial not only in economic sense, but also in terms of security. It should be remembered that the social difficulties imposed on Germany by the stifling obligations concerning World War I reparations as per the Versailles Treaty have sown the seeds of World War II. Economic policy is closely related to the social fabric of societies. It would be helpful to consider the contemporary experience through this lens. The voicing of all these concerns by Turkey at the summit would also be in line with the positioning of the country in the new global architecture.

7. **Turkey should stress the need for enhanced coordination among countries in the struggle against the global crisis and should argue that the new global governance mechanism to be founded be based upon the G20 platform.** There are three fundamental ways in which an intervention in the current global crisis can be made by nation states. Firstly, each country may individually take its own

measures. Secondly, a bundle of global measures can be designed and devised against the global crisis. The third way is mid-way between these two options: it may be possible for countries to develop measures in a way that is neither entirely independent from one another, nor via an entirely global structure, but rather through a certain level of cooperation. Today, we can observe that the first path has been chosen, with each country vying to develop measures on their own. However, this path involves a series of risks for the stability of the global system. Countries, while taking the measures that will best solve their problems, will naturally fail to take into account for the consequences of these on the global level. In that case, the measures taken may be inadequate to solve the global problem or will fail to be the best (least costly) solution to the global problem. In this sense, a global coordination mechanism and a bundle of global measures is necessary. Throughout the debate to be initiated to this end, it would be sensible to stress that the G20 platform, which represents 85 percent of the world population, is the right departure point for the design of this process.

8. **Throughout the debate on the measures to dampen the global crisis, measures that are necessary but not sufficient in and of themselves can be emphasized first.** The first of these is the rapid expansion of the scope of the swap transactions by American FED with developing country central banks and of the urgent intervention program of the IMF. The provision of US dollar liquidity will help the system to at least maintain function. The central banks of countries with plentiful foreign exchange reserves, like Japan, should also offer support to this process. This is the way to constrain the crisis in the shortest run. However, as mentioned above, it should be taken into account that these measures will not be sufficient to put out the fire.

9. **The argument can be made that the essential phase in dampening the global crisis is the effective coordination of the fiscal policies across countries.** If agents act on the assumption that the way to tackle the crisis is at the end of the way to revitalize the global production capacity and trade, a series of measures must come onto the agenda. In this framework, a series of coordinated steps from the recapitalization of banks to the restructuring of companies will be required. The transnational structure and operations these banks and companies may prove steps taken at the nation state level unfruitful. Therefore, the need arises for countries to prioritize coordination with one another in the recapitalization and restructuring operations that they will undertake by using their own public resources. In this new and challenging environment, it becomes absolutely critical for nation states to enhance cooperation in the design and the implementation of fiscal policies.

10. **One of the primary priorities in the fiscal policies of countries in this new crisis environment should be maintaining the operational capacity of credit channels.** In the global setting prior to the 2008 crisis, a resource flow took place from countries with a current account surplus to countries with a current account deficit, which was by and large sustained through financial markets. Nevertheless, the economic and commercial recession prompted by the crisis constrains to a large extent the surpluses of countries that generate current account surpluses. The limitations on resource creation and consequently the contraction of credit mechanisms further aggravate the problem that countries face. The way to correct this fundamental flaw is to render the credit mechanism functional again. In this framework, fiscal policy should concentrate on making the credit channel operational in the short run and the priorities should be set in this direction.

11. **Rendering the credit channels functional will relieve developing countries that are integrated with financial markets but will fail to alleviate the damage suffered by countries that remain outside these markets. Therefore, the continuity of assistance programs to countries that are isolated from world trade and financial markets is significant.** The continuation of international aid programs for countries that remain outside global economic integration processes is crucial. Turkey's advocacy at the G20 summit of measures that will help these countries reap more benefits from the new global system will not only contribute to the democratization of the global architecture, but also support progress in security concerns and the struggle against terrorism. In this sphere, the prevention of the losses to the global crisis of gains hitherto made should be among the top priorities.

12. **The onset of a debate on the architecture of the global financial system at the G20 summit is among the expectations of the markets from G20 leaders. The generation of a series of concrete recommendations in this field will contribute to the prospective credibility of G20 as a coordination mechanism.** Seen from the assessment framework whose main pillars have been outlined above, the need for the creation of a strong global regulation and supervision mechanism for the design of the future financial system becomes evident. In this sense, concrete steps would include a reference in the debates at G20 summit to the BIS (Bank For International Settlements) which is the bank of central banks and to IOSCO (International Organization for Securities Commissions) which is the international organization of financial markets as well as the development of recommendations for their restructuring. In this sense, priority should be given particularly to the BIS.

13. **In order to solidify and materialize these recommendations, G20 should go beyond its current status as an informal platform and attain an institutional structure.** In this sense, G20 requires an effective, strong secretariat unit. The secretariat of G20 under its current operation is temporarily assumed by a different country that takes over its presidency each year, which puts a limit on the institutionalization of the G20 platform. Among alternatives is the formation of a strong secretariat from the management of the IMF, the World Bank and the BIS. Moreover, the need for the restructuring of all three institutions along the line of the goals and the priorities mentioned above should also be taken into account.

14. **Capacity needs to be built to be able to handle global issues vis-a-vis a global crisis and to implement the measures to this end. G20 summit is a significant starting point for the search for enduring ways towards global cooperation. We have before us a historical opportunity in order to ensure the continuity of wealth creation on a global scale as well as to strike a fairer balance between costs and benefits. Taking action to put this opportunity into good use would be perfectly congruent with the leadership role we would like to see Turkey assume in the new world order.**