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Chatham House International Roundtable Summary

A New Era of Stability or Instability: Changes in the Global Political and Economic Order

11–12 June 2010, Istanbul, Turkey

This is a summary of the first Istanbul Roundtable. The focus of discussion was the global economic crisis and the impact it continues to have on the international political and economic order. This document presents a summary of those discussions, which were held under the Chatham House Rule.

Global Economic Repositioning

There was a vigorous debate on the long-term impacts of the 2008 international financial crisis on the economic position of the US and Europe relative to the rise of the East, namely China and India. Consensus emerged that the initial public bailouts of banks accompanied by the expansion of government expenditures averted the likelihood of a deep and extensive recession. Nevertheless, participants noted that the financial crisis is now transforming into a fiscal and debt crisis, particularly exemplified in Europe.

Three broad trends are discernible in the global economic order. First, the international economic power is shifting from West to East. Notwithstanding the growing interdependence of the global economy, a new form of decoupling is clearly visible. While the mature Western economies are saddled with significant levels of fiscal deficits and debts averaging 180-200% of gross domestic product (GDP), the East is in a relatively advantageous fiscal position. Rectifying global economic imbalances means that the West needs to save more, while the East must emphasize domestic consumption. Increasingly, China, rather than the US or Europe, is the real engine of regional economic growth for Asian economies.

Secondly, the relative decline of US economic importance is the corollary of the rise of the East. Rightly or wrongly, the US was viewed as the epicentre of the global economic crisis, which stemmed from the collapse of US financial system. As a result, questions are being raised over the tenets of the 'Washington Consensus' – putting a premium on deregulation, open markets and free trade – and the viability of the US dollar as an international reserve currency. America's share of global GDP has plummeted from around 50% of fifty years ago to around 20% today.

Thirdly, there is a notable transition from market power to state power as the global crisis undermined the theoretical and moral underpinnings of the Washington Consensus. Thirty years of financial market deregulation and policies promoting 'smaller' government are coming to an end. Currently, the thrust of economic policy is towards greater regulation of banks and financial markets, including the elevation of prudential standards for banking practices and capital adequacy ratios. Yet, despite the growth of the state's economic influence, the world has largely avoided the 'beggar-thy-neighbour' protectionism that exacerbated the 1930s economic depression.

Overall, the statistics indicate that a realignment of global economic power is under way. By enjoying a significant savings pool, Eastern economies can sustain investment plans accounting for 40% of GDP. In addition, the East is the source of 40% of global foreign direct investment (FDI) compared with 25% a decade ago. Therefore, 7–9% growth in the East is likely to be the norm for the foreseeable future while the West witnesses restrained growth rates and fiscal retrenchment. Clearly, the East has absorbed the lessons of the Asian economic crisis in the late 1990s and has therefore embraced open markets, fiscal prudence and tough regulatory standards. Nevertheless, the East will face some key economic challenges, principally the changeover from over-reliance on exports to a more consumption-driven economy.

Turkey's post-crisis economy

Generally, participants noted that Turkey's economy escaped relatively unscathed from the 2008–09 global financial crisis. Turkey had suffered a severe financial meltdown in 2001–02, after which its government enacted some tough reforms, including creating an independent banking regulator, imposing effective prudential standards, and the liquidation of around 40 insolvent banks. At the same time, it implemented strong measures to bring inflation below double digits and consolidate public debt levels to an enviable level of under 50% of GDP. Over $80 billion of FDI were attracted to Turkey during much of the 2000s, compared with $17 billion in the previous 30 years; 60 per cent of this FDI is sourced from Europe.

Turkey is, however, subject to a number of vulnerabilities with regard to economic stability, chief among them being persistently high current account deficits (i.e. negative trade balance and financial flows). At 18% of GDP, the savings rate is not sufficient to finance an investment rate of 25% of GDP. In policy terms, Turkey should raise the savings rate to the Asian average of 22–25% of GDP and carry out further structural economic reforms to embed a virtuous cycle of economic growth and low inflation.

Global Political Order

There was a robust debate on the growing perceptions that Turkey is in the midst of an axis shift from a pro-Western orientation to closer relations with

Iran and Hamas. Some of the participants argued that Turkey should maintain positive relations with Israel, the US and the Arab countries to fully realize its foreign policy potential in the Middle East. In particular, these participants cautioned against Turkey's muscular rhetoric towards Israel following the flotilla incident of 29 May 2010 in which Israel's interception of the Turkish ship *Mavi Marmara* resulted in the loss of nine Turkish lives.

Other participants denied any axis shift had taken place, contending that Turkey was merely reintegrating into the Middle East after decades of Cold War isolation. They argued that Turkey had to react forcefully to Israel's operation on the humanitarian ship to alleviate the economic blockade on Gaza. It was inconceivable, these participants stressed, for Turkey to stay silent to the suffering of the people of Gaza while Israel sought to punish Hamas. Turkey had the moral duty to engage with democratically-elected Hamas in order to push the peace process forward and to heal the widening rift between it and Fatah.

Discussions proceeded to the ‘confidence-building’ Brazil-Turkey deal with Iran to arrange a swap of 1,200 kg of low-enriched uranium on Turkish territory for fuel rods for research at Tehran University. Again, there was debate among the participants on the wisdom of the deal. Some asserted that it was a manoeuvre by Iran to avoid UN sanctions, and therefore opposed Turkey's veto in the UN Security Council against those sanctions, a vote seen as out of kilter with the yes votes by Russia and China. One argument was that the Turkey-Brazil coupling represented the ineffective ‘coalition of the willing’ (comparable to the participation of Caribbean micro-states in the 2003 Gulf War) rather than the ‘coalition of the relevant’ (comparable to the 1991 Gulf War coalition). That viewpoint was challenged on the grounds that Brazil is a nuclear ‘threshold’ state whose interests are increasingly global and whose authority to intervene is bolstered by its voluntary elimination of nuclear weapons.

There was general consensus that the European Union should accelerate Turkey's accession process and undertake policies, such as the scrapping of visas for Turks visiting Europe, to strengthen the organic links between both partners.

CHATHAM HOUSE INTERNATIONAL ROUNDTABLES

Chatham House International Roundtables are held in key locations around the world to explore topical issues of critical importance to global prosperity and security.

The structure of these Roundtables reflects the essence of Chatham House's approach – informal discussion among a small group of senior international and local political and business leaders. They provide an ideal environment in which to facilitate the development of shared ideas on how best to confront pressing challenges and harness emerging opportunities in international affairs.

The Roundtables are held under the Chatham House Rule and a non-attributable summary of the discussion and policy ideas is published online.

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