SITUATION IN GREECE AND TURKEY AS A MODEL

Without a doubt the past two years have been quite troubling for most of the world's major financial markets. While the impact can be felt acutely in some circles and less prominently in others, the past few years have helped us to see the increasing connectedness between nations, markets and currencies. As a result of the present situation in Greece, we have seen how this interconnectedness, as well as how a situation in one country, has the ability to affect global currencies and parity.

If we examine the situation in Greece we can see that the current problems are a result of many decisions that were unequivocally imprudent. There are three sources for these major issues: years of unchecked spending, cheap lending of capital, and a reluctance to institute financial reforms; the combination of these three factors brought the country to a dire situation in early 2007. Yet these issues were not widely known or understood and so the status quo continued. When the global economic downturn occurred, Greece was extremely vulnerable with very few resources to protect itself and burdened with a large amount of debt. As we presently know, the national debt, which is calculated at €300 billion ($413.6 billion), is larger than the economy. This is a real problem for the country because according to some predictions this debt will balloon to nearly 120 percent of the GDP by the end of 2010. Coupled with the fact that the deficit is 12.7 percent, Greece's economy is truly a mess and in need of serious reform.

1: EU and Euro

The reason that the situation is Greece concerns us all is because even though Greece is a sovereign nation, it is part of the Euro block and has some specific responsibilities in order to fulfil its membership. One of the most pressing, especially acute in face of the crisis, is the ability to maintain its currency at a certain level. As a member of the 27 nation block, all Euro countries need to act not only according to their own best financial interests but rather the best interests of the block. Yet most nation states are not accustomed to such collective financial thinking. In fact since the Euro is relatively new in terms of world currencies, it is not unusual for something such as this to occur. There is a mutual understanding between countries that their individual economies should remain stable so as to ensure the health of the Euro. Beyond this mutual understanding, there is body of laws that binds the group under the acquis communitaire and provides a legal foundation for this mutual understanding. Yet individual fiscal policies are still mostly under the control of the member states themselves.

Greece presently is having serious problems meeting its responsibilities and has breached many of the euro zone rules on deficit management, which is set at a strict 3% of GDP limit. Furthermore the buzz in many of the world financial markets is that the country will default on its debts. This negative publicity further contributes to the problem because even if the situation can be marginally improved, the prevailing idea is that the market will continue to decline. As the economy sinks, the credibility of the euro has and will continue to decrease.

Yet it is obvious that something needs to be done because the failure of this economy is affecting the parity of the currency and has other members states worried about their own economies, as well as their purchasing power. The euro's reputation could be further damaged by a rescue package from other member states or the IMF and may lead to a substantial decline versus other key currencies. The situation is made even more difficult by the idea that a bailout or loan package of any kind would require the unanimous approval of all European Union members. Many other member states are not pleased with the idea of bailing out Greece for its fiscal irresponsibility and therefore have some fundamental disagreements with the program. Furthermore, if there is some disagreement, which undoubtedly there will be, any euro zone country would effectively yield veto power. The mismanagement of one economy in the Euro Zone in today’s present markets has an incredible effect of the overall value of the currency and even if other member states would not like to admit it, a package is an inevitable aspect of the resolution. Yet what Europe does need to consider is the precedent that will be set by bailing out Greece, and how it may encourage other countries to act in a fiscally irresponsible manner. Yet Europe with its interconnected economy and common currency cannot afford to sit idly by.

2: Turkey as a Model

I would now like to provide some background information on the 2001 crisis in Turkey and explain how it was dealt with. While the fiscal policy was not identical, it was clear that the 2001 major crisis in Turkey was due to poor fiscal management on the part of the government. Yet the fact is that there were actually 2 crises - one in 2000 and a more serious one in February 2001. The fact that the first one was not dealt with in time compounded the problems in 2001. Continued spending without reigning in much needed reforms saw the lira decrease substantially in value and lead to inflation rates of nearly 35%. This had dire consequences for the financial sector in that capital was frozen and FDI came to a virtual halt. Unemployment reached

30% in some locations and the effects on individuals were disastrous. Having an unhealthy trade balance, not enough exports and a large dependence on imported energy sources did not assist the situation.

Yet as a result of this crisis Turkey was put on the road to improved financial health. The IMF was consulted and from 1999 to 2002 there was a net assistance of $20.6 billions issued to Turkey to help improve the economy. The solutions to the crisis however were seen in three different ways. First was a new type of fiscal austerity that targeted achieving a 6.5 percent surplus for the public sector as a ratio to GDP. The second was adoption of a contractionary monetary policy by an independent central bank, aimed exclusively at price stability via inflation targeting, and thirdly the structural reforms consisting of many of the customary IMF demands: privatization, large scale layoffs in public enterprises, and abolition of any form of subsidies. After nearly 3 years of these spartan measures, Turkey was able to regain some semblance of a functioning economy. A footnote that should be added is that the reforms in 2001 helped the country weather the 2009 global financial crisis. While it was not unscathed, Turkey was able to prevent another bottoming out of the lira by sticking to its policy of responsible spending and reformed fiscal policies.

3: Moving Forward with Solutions

As a Turk, I look at the state of the Greek economy in 2010 and have an eerie sense of déjà vu. With the absolute need for reform of the financial industry as well as placing a cap on public spending, Greece needs a way out of this situation. The government has begun to trim spending and has implemented austerity measures aimed at reducing the deficit by more than €10 billion ($12.5 billion). Yet this does not solve the problem right now, it is merely a way to prevent a worsening crisis. While these actions are commendable, proactive action on the part of Europe could have prevented this problem altogether. The government has also increased taxes on fuel, tobacco and alcohol, raised the retirement age by two years, imposed public sector pay cuts and applied tough new tax evasion regulations. We can see that Greece is moving in the right direction, but just like Turkey, it will most likely take at least 2 years for the economy to see major improvements. How will this affect the Euro? Many of the other member states will be greatly troubled if the parity of their currency will be affected for the next two years. Moving to isolate and improve the Greek economy now will in fact improve the parity of the currency.

4 Synergy with Turkey

Turkey in it is role as a leader in the region in fact can help Greece in many ways. Some of the major ways which can be immediately addressed would be to cut military budgets, improve cooperation in tourism and focus on reliable energy transport. The first area, cutting military budgets and improving political relations would actually serve both countries well. Turkey and Greece need to recognize that strong political ties also will help out in other areas. We need to look toward our policies on regional politics as a bridge which can assist us with economic and energy needs. In this time of such uncertainty it is imperative for us to be certain that as neighbors, both geographically and culturally, we are here to help one another. The time has long come for a solution for the Cyprus issue that pleases both sides. If we consider how we can cooperate militarily in the region, we can establish a reduction in military expenditures as well as increase security. By no longer needing to invest heavily in its military as a result of regional competition, Greece can funnel these funds into of areas of the depleted economy. We must however establish a long-term and deep trust of one another that is unwavering. I posit that if our countries and citizens realize what can be gained by political compromise, we all shall benefit. As I mentioned before, strong political ties can assist with regional stability and greater investment economically.

Secondly, tourism is a section of the economy that needs to be addressed. I posit that Greece and Turkey with it geographic proximity have the ability to cooperate in the area of tourism. Rather than seeing the region in terms of Greek and Turkish tourism, a more pan-Mediterranean approach could be applied which will ensure that both tourists as well as the economies of both nations take advantage of the situation. Establishing a tourist board that would see the area as a unit and develop policies aimed at marketing the region could attract Turkish tourists to Greece. Additionally, there is great interest on the part Turks in being able to visit Greek resorts but oftentimes the visa acquisition process makes travel for Turks impossible. Perhaps a relaxation on tourist visas would help to improve the cross border movement of individuals, as well as provide an opportunity for Turkish liras pour into the Greek economy.

The third area, energy, urgently needs to be addressed both in the realm of energy resources and acquisition. There is no doubt in my mind that traditional energy resources are part of the energy market and will be for a long time. That being said, it is important to recognize just how closely Greece and Turkey are related in this area. Both countries have a lot of similarities when it comes to energy needs. Not that our needs are the same, but rather we are both reliant on non-domestic sources to meet a majority of our energy. This being said we need to give extreme importance to the TGI pipeline and ensure that Turkey and Greece maintain their strong partnership as the South East European energy corridor. This will assist both countries' needs, as well as gain us both the reputation of being reliable distributors of energy to Western Europe. In addition to being known as a reliable energy provider, there needs to be more investment in renewable energies on the part of Greece. As it shares many of the same resources as Turkey, there is great potential for both wind, solar and geothermal energy production in the country. As the geographic location suggests, there is a high likelihood that joint or cross border projects can be established. What is abundantly clear is that Greece needs to take advantage of its natural resources so as to decrease reliance on foreign energy sources, which will in turn assist the economy. Turkey is one of the countries with which it can establish a partnership to improve investment.

5 Conclusion:

As we can see, Greece needs the support of the international community. While some may argue that the country created the situation itself and therefore should solve it on its own, I would posit that viewpoints such as this one can lead to an even more precarious situation. As Greece has already taken many measures to curb its spending and improve its economy, it now needs the full support of Europe and its neighbors so as to ensure a stable and timely recovery.