LESSONS FROM GLOBAL ECONOMIC LANDSCAPE

FROM REBOUND TO RECOVERY

Years later, after the World War II, the entire world faced the deepest recission with COVID-19 pandemic, along with high inflation and slow growth across the world. The pain of "stagflation"; persistent high inflation coupled with high unemployment and stagnant demand will be a common phenomenon, however, the danger is that the world has not seen such since 1970s. With the surge in energy prices and food prices along with supply side shocks, many economists had to face recessionary situations which are hard to avoid. According to the Global Economic Outlook (2022) published by the World Bank, the subdued growth will likely persist throughout the decade because of weak investment in most of the world. Thus, they suggest that the impactful and targeted measures need to be established to minimize the risk of stagflation by the policymakers across the world.

The shadows of pandemic will remain for a few years across the globe and amidst those new challenges, Sri Lanka has become a popular case study for many scholars since it is currently facing its worst economic recession. There are lessons to be learnt from the past. The eurozone crisis in 2010 was the result of a similar mix of bad policy choices and bad luck. The collapse of the US investment bank Lehman Brothers in September 2008 caused a meltdown of the global financial system. Money markets froze and there was a major credit crunch as the ability to borrow money suddenly dried up. If looking back further,

EURO ZONE CRISIS

- *Started: Mid 2010, economic imbalances with high private and public debt and the culprit was the large intra-Euro Zone capital flows that emerged before the crisis. The sudden stop of this triggered by global crisis created the imbalances mainly.*
- *Impact: Most of the Euro Zone countries got hit by the crisis*

IN 2007-2008 (BEGINNING OF THE CRISIS)

	Portugal	Greece	Italy	Belgium	France
Debt-GDP (%)	72	109	102	92	68
Inflation	77.6%	4%	5.2%	4.3%	10.4%

Source: Ali, 2012

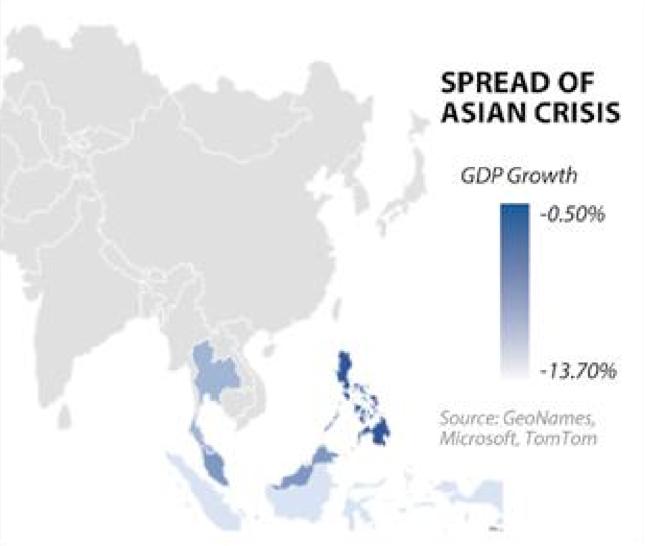
The Asian Financial crisis started in Thailand in 1997 when the Thai government ran out of foreign currency and was forced to float the Thai Baht. This caused the exchange rate of the Bhat to collapse immediately. It was not only a crisis in Thailand, but also it was spread internationally, and the Asian stock market and capital markets were plunged. The biggest lesson learnt is that it is vital to build up the foreign reserves to hedge against the external shocks. Therefore, many Asian economists weakened their currencies and adjusted economic structure after this Asian Crisis to create current account surplus and thereby increased their foreign reserves.

ASIAN FINANCIAL CRISIS

- *Started: With Thai baht's devaluation in mid – 1997*
- *Impact: Most of the Asian countries got hit by the crisis*

In 1998	Indonesia	Korea	Malaysia	Thailand	Philippines
GDP Growth	-13.7%	-5.8%	-6.7%	-9.4%	-0.5%
Inflation	77.6%	4%	5.2%	4.3%	10.4%

Source: IMF working paper, 1999



Looking back, we cannot forget the Argentina as well. It was one of the richest countries in the world that now, owes 18 billion dollars in payments this year, which the country could not afford, and which have now been postponed until 2026. The International Monetary Fund (IMF) has helped Argentina in 2018 with a 45-billion-dollar loan which is the biggest loan IMF has ever provided a country. The recovery was kind of a success story; however, the negative side was that they kept on being a dependent economy on their basic exports which are natural resource-based goods and commodities. Therefore, the business sector has a very important role to play, being an important forex earner in exporting value added products.

ARGENTINA'S FINANCIAL CRISIS

- *Started: Had around 8% of GDP growth rate in mid 1990s, however turned -4.5% in 2001 due to rampant corruption causing many investors to take their investments out of the country.*
- *Impact: The government stopped payment on more than $100 billion in debt, the world's biggest-ever sovereign default.*

	1991	1992	1993	1994	1995	1996
Real GDP growth (percent)	10.5	10.3	6.3	5.8	-2.8	5.5
External Debt/GDP (percent)	32.9	27.4	30.5	33.3	38.2	40.3

	1997	1998	1999	2000	2001	2002
Real GDP growth (percent)	8.1	3.9	-3.4	-0.8	-4.4	-11.0
External Debt/GDP (percent)	42.7	47.3	51.0	51.5	52.2	132.6

Both the Asian crisis and the Argentina's crisis gave Sri Lanka some important lessons to be learnt. The current account surplus and diversified value-added exports will be able to change the direction of the country. One of the first steps in designing an export strategy should be to secure private sector participation. A national strategy should be developed through a collaborative process with members from the public and commercial sectors who compose the national strategy team to reach an agreement on requirements and priorities. The government can oversee by determining sectoral priorities, whereas the private sector should be in charge of setting sectoral priorities. This translates to a top-down, bottom-up approach that ensures private sector leadership and public sector assistance when appropriate.

A large component of the export plan must be implemented by the private sector. Chambers of commerce and business groups, for example, play an important role in expanding the breadth and the quality of business support services available to businesses, while marketing the country and its industries. Businesses spend in upgrading logistical services, while producers invest in expanding or diversifying supply capacity. In the development of export-enabling infrastructure, private sector investment is becoming increasingly significant.

As critics say, the roots of the situation in Sri Lanka lie in the economic mismanagement of the successive governments which has led to its twin budget deficit and current account deficit. The recovery will be detrimental, and it will require a systematic approach with more objective and prudent financial standards.

By Sashini Gayanika
Senior Lecturer/ Head of Department of Economics and Decision Sciences
NSBM Green University