# Lessons from global economic crisis:

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Need to build new financial order to better face future crises – President  “Essential that globally influential economies act in a globally responsible manner”  The global economic crisis taught us many lessons that varied across nations. All countries learnt both common and individual lessons, from this crisis, which left behind a trail of serious damage across nations and shook the very foundations of the financial structure of the world. It is therefore, clear that if we are to safeguard the world economy in the future, we would need to build a new financial order and a model that will better equip us to face crises of this nature, said President Mahinda Rajapaksa in his inaugural address to the 49th South East Asian Central Bank Governors’ (SEACEN) Conference, in Colombo today (25).
Commenting on the theme of the conference - “Post-Global Financial Crisis: Issues and Challenges for Central Banks of Emerging Markets” - he said that in seeking to build a new financial order much attention has been paid to regulate and supervise financial institutions which are considered to be “too big to fail”. This is indeed commendable, since the fall of major global financial institutions damages the international financial structure in a permanent manner.
“By the same token, it is also necessary for the worldwide financial community to focus upon the management of economies that have a global impact, and therefore have become “too big to fail”, he added.  Among the distinct causes that aggravated the Global Economic Crisis identified by President Rajapaksa in his address at the Central Bank of Sri Lanka were: “The blatant application of double standards; the obvious policy contradictions and inconsistencies; the stubbornness of large economies to face realities; the unfortunate attempts to politicize multi-lateral financial organizations; and the lethargy in handling urgently needed financial bail-outs”.  Referring to the search for ways to manage the current turmoil in the world economic environment in a sustainable manner, he said that “in order to be truly successful, we have to solve the economic problems of our people, who are our ultimate stakeholders. The people of our respective nations have entrusted their Governments with authority and resources to provide them with a safe economic environment where they can achieve their economic hopes and aspirations. When a country establishes a Central Bank, the people transfer a significant part of that duty and responsibility to you as well. Accordingly, as Governors, you are also responsible to the people of your respective countries”.President Rajapaksa also said the “recent crises also taught us that existing global currencies in the SDR basket such as the US Dollar, Euro, Sterling and Yen were probably insufficient to play the role of reserve currency in turbulent times. The search for alternatives led to the price of gold and other commodities rising, creating a new set of challenges. In that scenario, we welcome the suggestion by the IMF to include market currencies such as the Chinese Renminbi in the SDR basket. However, given the distinctive nature of emerging markets, which are still to reach near optimum levels of development, it may be wise to approach this issue without pre-conditions, so as to fast track these necessary reforms in the global financial architecture”.  Referring to the regional contribution towards building a new financial order, he said: “Our region offers a wealth of experience and knowledge to the world. Let us get together and deliver upon the expectations placed upon us. Let us pledge to do all in our power to ensure that this world, with all its knowledge, technology and understanding, will never have to experience another economic crisis of this magnitude or nature again”.  Here is the text of the Address by President Mahinda Rajapaksa:  At the outset, let me thank the Board of Governors of SEACEN for inviting me to inaugurate the 46th SEACEN Governors’ Conference and High Level Seminar. It is indeed a pleasure and privilege for me to do so, and I must thank all of you for selecting Sri Lanka as your host country for this most important event. I see your presence here today as a celebration of the 60th Anniversary of the Central Bank of Sri Lanka, and as an acknowledgement of the elimination of terrorism from our midst. In this background, we do hope you have an excellent conference and fruitful meetings so that you may carry wonderful memories of our people’s progress, ability and friendship. It is clear that the SEACEN group has become a highly influential group in the world economy today. With the very recent entry of the People’s Bank of China to this group, it has further strengthened its reach and impact across the world, and I believe SEACEN’s voice would now be even stronger. My dear Governors, you have selected “Post-Global Financial Crisis: Issues and Challenges for Central Banks of Emerging Markets” as the theme for your deliberation at this year’s Board of Governors’ Conference. As we all know, the serious studies that have taken place on this broad topic among many central bankers, economic stakeholders, analysts and others have been extensive and wide. I believe the main reason for such in-depth attention on the subject has been that, almost all nations have suffered immensely through the crisis. Many would also carry the scars of this massive financial disaster, for many years to come. At the same time, historians would record that Asian economies came out of this painful era in better shape than their western counterparts. Perhaps the Asian crisis in the late 90s and the subsequent counter measures implemented by the Asian economies enabled them to develop the resilience, strength and wisdom to face the new crisis in an appropriate manner. This ground reality then suggests that a better prepared country with sound macro-economic fundamentals and a strong financial system would be able to face shocks in a more successful manner, than those who may be less prepared.My dear friends, the global economic crisis taught us many lessons. The lessons varied across nations. But all countries learnt common as well as individual lessons, from this crisis. In general, the crisis left behind, a trail of serious damage across nations and shook the very foundations of the financial structure of the world. It is therefore, clear that if we are to safeguard the world economy in the future, we would need to build a new financial order and a model that will better equip us to face crises of this nature. In this endeavour, a lot of attention has been paid to regulate and supervise financial institutions which are considered to be “too big to fail”. This is indeed commendable, since the fall of major global financial institutions damages the international financial structure in a permanent manner. By the same token, it is also necessary for the worldwide financial community to focus upon the management of economies that have a global impact, and

therefore have become “too big to fail”. We all know that certain national economies are so large and wide, their financial well-being is vital for the global economic health. In that context, it is essential that such globally influential economies should act in globally responsible manner, so as to not place themselves and indeed others, with whom they have dealings, in danger. We may perhaps reflect on a recent case study which illustrates this position clearly. Of late, many economic analysts have pointed out as to how the world has been anxiously watching while massive quantities of new money were injected by certain advanced nations into their economy, and through such infusion, into the entire world. It is widely expected that such infusion, while possibly stimulating growth and employment within the issuing nation, would have a massive negative impact on the rest of the world in time to come. Hence, they argue that it may have been more appropriate, if such intervention was done in consultation with multi-lateral institutions and other key players. It would have ensured that a coordinated approach could have been agreed upon, rather than being a unilateral intervention on the part of a single nation. A similar approach in relation to currency values, trade practices, country bail-outs and other structural interventions are also being advocated for the greater health of the world economy. Your Excellencies, my dear Governors, a deep study of the crisis would reveal many defects and inconsistencies in the world economic system. The blatant application of double standards; the obvious policy contradictions and inconsistencies; the stubbornness of large economies to face realities; the unfortunate attempts to politicize multi-lateral financial organizations; and the lethargy in handling urgently needed financial bail-outs, will probably surface as distinct causes that aggravated the crisis.We must also not be fooled into thinking that the crisis is now over. What we see at the moment is perhaps a relative calm in the world’s financial landscape, as a result of the interventions of multi-lateral organizations such as the IMF, many Governments and Central Banks. It is vital that this “calm” be made use of to implement sustainable and carefully thought-out policies to avoid a repeat of a similar or any other crisis. In my view, the highly eminent group of very senior leaders of multi-lateral institutions and influential Governors such as yourselves, would be the proper forum to deliberate such matters. The economic world therefore looks to you to propose a satisfactory way forward in the future, and we are very confident you will deliver. My dear friends, at the end of World War 2, the IMF and the World Bank were created to safeguard the world economy and the economies of member countries in the event of an economic crisis, and to stimulate development. At the same time, nations created Central Banks in their respective countries as key financial and economic policy institutions to guide the respective countries towards stability and growth while dealing with shocks that may affect the economy. In that context, we welcome the recent efforts of the IMF to enhance the role of Special Drawing Rights (SDR) as a major reserve asset, in order to enhance worldwide currency stability. The recent crises also taught us that existing global currencies in the SDR basket such as the US Dollar, Euro, Sterling and Yen were probably insufficient to play the role of reserve currency in turbulent times. The search for alternatives led to the price of gold and other commodities rising, creating a new set of challenges. In that scenario, we welcome the suggestion by the IMF of including emerging market currencies such as the Chinese Renminbi in the SDR basket. However, given the distinctive nature of emerging markets, which are still to reach near optimum levels of development, it may be wise to approach this issue without pre-conditions, so as to fast track these necessary reforms in the global financial architecture.  Your Excellencies, my dear Governors, it is very refreshing that we are all here in Colombo to search for ways to manage the current turmoil in the world economic environment in a sustainable manner. In order to be truly successful, we have to solve the economic problems of our people, who are our ultimate stakeholders. The people of our respective nations have entrusted their Governments with authority and resources to provide them with a safe economic environment where they can achieve their economic hopes and aspirations. When a country establishes a Central Bank, the people transfer a significant part of that duty and responsibility to you as well. Accordingly, as Governors, you are also responsible to the people of your respective countries. At the same time, when sovereign nations subscribe to the collective objectives of a multi-lateral financial institution that pledges to maintain global economic and financial stability, a part of the sacred trust of billions of human beings, pass onto those multi-lateral institutions as well. Hence, such organizations too, shoulder a great responsibility towards the billions of people who indirectly rely upon them to make the right decisions to improve their lives. We all know that within these multi-lateral organizations whose decisions affect the entire world, those with a larger investment wield greater authority and power. Accordingly, in an indirect manner, the entire world places great trust in large powerful economies. Hence, it is perhaps time for the world economic community to remind such powerful economies that with such authority and rights, onerous duties and responsibilities also arise. My dear friends, as the SEACEN group, it is our wish that you will be at the forefront to rebuild the world economy and proactively reform the international monetary system. Our region offers a wealth of experience and knowledge to the world. Let us get together and deliver upon the expectations placed upon us. Let us pledge to do all in our power to ensure that this world, with all its knowledge, technology and understanding, will never have to experience another economic crisis of this magnitude or nature again. May the Blessings of the Noble Triple Gem, be with you always.  Thank you Courtesy: PRIU