

Title: **Navigating Through Turbulent Times**
Event: **Affin Hwang Capital Conference Series 2015**
Date: **10th February 2015**
Time: **8.30am – 5.00pm**
Venue: **JW Marriott, Kuala Lumpur**
Speaker: **YAB Tun Daim Zainuddin**

Good Morning Ladies and Gentlemen,

I would like to thank the organisers for inviting me to address this esteemed audience this morning amidst a very interesting and challenging time in this phase of our nation's history. I think you have invited the wrong person to this conference. I have retired from Government 14 years ago and I am out of date with the market.

Yes, I used to be active in the market but stopped participating when I was MOF and after I retired I did for a while and now I don't even play for my weekend pocket money.

As you all know market is not perfect. In a bull market many may have made money and were happy. In a bear market many lost money and some became bankrupt. The market swings both ways in extremes causing happiness and sadness. My advise is that you have to invest with a long term view, markets go up and down and nothing lasts forever.

Let me clarify myself lest I be misquoted. The nation is not facing a crisis as has been declared by the Prime Minister and Minister of Finance. I concur with that remark as even with the revised 2015 Budget, Malaysia is still expected to register a GDP growth of between 4.5% to 5.5% which is still respectable by current world standards.

Well, if this fact has been established, then why all the gloom and doom soothsayers that are abound? Firstly, we should discount the politicians especially the Opposition as it is their job anyway to paint the ruling government in the worse possible light whether backed by facts and figures or just voodoo economics and bogus arguments. I dare say that because each year the Opposition tries to put forth an alternate budget during Budget Day with the most preposterous promises or sloganism without any shame and not based on any responsible consideration especially with regard to public finance.

I think this is only country in the world that I know where the Opposition tables an alternative budget, instead of concentrating on the budget presented.

Having said that, but what about the other prophets of doom, some of whom I believe are seated amongst us – analysts, economists, bankers, investors and even Fitch has joined the chorus and having said on record they will downgrade Malaysia (or have they already?).

Ladies and Gentlemen,

As rationale and thinking human beings, we see the straw in the wind. Hence we cannot ignore the signs. We must take cognizant of the reality and speed at which many red flags are staring right in front of our eyes. Who would have thought that oil within a short period has dropped to USD\$50 per barrel? The Russian ruble has fallen more than 50% against the USD and S & P has down grade the country to "junk" status. Our ringgit has depreciated to a

level not seen since the Asian Financial crisis. Our LNG price has also suffered the same fate as crude oil. Those amongst you who were cheering and chasing the O & G stocks in Bursa only 2-3 months ago are now facing the reality of a more than 50% decline in value.

In short, there is an elephant in the room, thankfully not in a china store. We cannot just wish it away or pretend it is not there. The captain of the Titanic ignored warnings about the danger ahead and so everyone just partied on to their own peril and doom. Furthermore, even if we acknowledge the elephant in the room, lets us not behave like the proverbial blind men and the elephant; myopic and failing to see things in perspective. Yes, we are not in a crisis, but we cannot deny we are in turbulent times.

There has been much debate and controversy over the popular lessons from the Chinese pinyin characters for "crisis": wei-chi



Apparently it was first popularised by John F Kennedy in 1959 whereby he said in a speech in every crisis, although dangers abound, there is also opportunity. Hence although the Government has said we are not in a crisis situation, we have what looks like a crisis, sounds like a crisis but may not be a crisis. It would serve us well to pay attention to study and investigate what that looks like one or sound like one. It will be foolish and near sighted if our responses are merely knee-jerk reactions, cavalier posturing or unconvincing. We must think out of the box and resist conventional approaches but instead realised that the situation or times around us may be an opportunity to make changes or decisions that are strategic and bear long term and long lasting effects or as Jack Welch said "Avoid incremental and look for the quantum leap".

In the aftermath of the global financial crisis (GFC), The Economist published an interesting article entitled "Beyond Crisis Management". The article discussed the American responses to the GFC and the tug of war in the US administration between the "tacticians" and the "strategists". The tacticians dash from skirmish to skirmish trying to control a crisis whereas the strategists call for a more comprehensive approach to resolving the mess. The tacticians had their way; the Fed and Treasury put plenty of taxpayers money on the line, ad-hoc and focussed on crisis containment and starving off catastrophe one bail-out at a time.

In an IMF Working Paper published during the same time, the researchers examined all the financial crisis between 1970 and 2007 on how much they cost and how they were resolved. The data showed that tactical containment is expensive and frequently inadequate. Most of them entailed the government pumping in emergency loans or guaranteeing their loans and regulatory forbearance such as lower capital and relaxed rules. The study concluded that such tactical ad-hoc measures could have cost governments up to 16% of their GDP. As such, there is a need for governments to take a more strategic, well-rounded approach in resolving crises or signs of impending crisis instead of short-term tacticians bail-out that seem to rue the day, including in the Malaysian context a nominal 2.44% cut in expenditure.

Ladies and Gentlemen

Recent events in the global economy have proved that many leaders are ill-equipped to deal with and manage economic uncertainties. We need leaders who can deal with uncertainty and have the ability to discover opportunities for growth and recovery. Decisions are delayed, uncertainty is fostered rather than eliminated and the resulting short-term thinking undermines long term recovery. So what really is required? Let me also say what I am going to share here is applicable not just at the national level but equally applicable in any organization; whether you are a listed entity or not or just a small business. The broad principles are applicable universally.

In the face of a crisis or turbulent times, these are the key challenges to any leader. Firstly, the challenge of making sense through the noise, *sense making*: this include correctly diagnosing confusing, contested and fast moving and changing situations. We see so many straws in the wind; is it just windflowers or a precursor to a sandstorm? We see a light at the end of the tunnel; is it the end of a train? We cannot see where the price of oil will end up and so what is a safe price to assume? Do we face up with the reality of the situation before us or are we more concern about quick-fix and face saving measures? At the onslaught of the AFC, we diagnosed the situation very quickly and decisively and realised the orthodox IMF template will not work but will cause more destruction and so we move on quickly to our own alternative strategies, including the formation of the National Economic Action Council and ultimately the formulation of a National Economic Recovery Plan. You may say we are not in AFC-like crisis situation but the same principle – principle of correct sense making applies.

Secondly is the challenge of explaining the meaning of all that noise *meaning making*: providing persuasive public accounts of what is happening, why it is happening, what can be done about it, how and by whom? I leave it to you to judge whether the revised Budget 2105 as announced met this criteria. I mentioned earlier a mere 2.44% cut in public expenditure and that also mostly from the suspension or delaying statutory contributions, were not well received.

Thirdly, is the challenge of decision making: making strategic policy decisions under conditions of time pressure, uncertainty and collective stress. As I mentioned above, Malaysia's unorthodox approach to the AFC showed great courage and grit in the midst of pressures of conformity and conditionalities. Besides, a swift decision had to be made when the initial IMF template was clearly a "one size fits all" and will cause widespread chaos and destruction to the country's economy. Again, some of us may say we are not in a crisis but as I said earlier, the principle is the same – decisions must be strategic, not tactical short term

that will only soothe the symptom but not the underlining fundamental ills. Post AFC, I had pushed for the consolidation of the banking, insurance and stockbroking industries despite opposition from my colleagues in the government, industry captains and other interested stakeholders. However, I was convinced that this is the way forward if we were to avoid another financial crisis – our financial sectors must be adequately capitalised and effectively supervised.

Ladies and Gentlemen

One last challenge I would like to mention here is the challenge of coordination: forging effective communication and collaboration between existing and ad hoc networks of public, private and international actors. By and large, Malaysians are now told we have become a net petroleum products importer and hence the falling oil prices will not be detrimental to us. However, besides being a surprise to many, the arithmetic's did not include our LPG exports nor the fact that the falling Ringgit will also mean that imports will be more expensive and lower export earnings and its implication to the current account. Hence, the message became blurred and is read with much scepticism.

Similarly, the assertion that the GST will help reduce the fiscal deficit as an additional RM1 billion will be collected when the GST is implemented. I have said in an interview elsewhere that I find it amusing that despite the fact Malaysia is one of the last country to implement the GST, we are still grappling to explain convincingly whether prices will go up or down when GST is implemented and unsure that businesses do not take advantage (as is happening now) by unilaterally increasing prices on the account of the impending GST. Additionally, the Opposition seem to have hijacked the GST argument and said it must be opposed or deferred because the Government will abuse the additional revenue it will collect from the GST and the Government has allowed such a preposterous allegation to gain traction. Yet, on the other hand the Government is saying we need the GST as it will generate an additional RM1 billion to help the Government to cushion falling revenue. I think the rakyat is totally confused and unconvinced and who can blame them?

When I was the Executive Director of the NEAC, as part of the national recovery plan, we knew the importance of improving and enhancing confidence both domestically and internationally through the timely, accurate, coordinated and frequently release of economic data and market information to the public, investors, analysts and decision makers. I had with me a National Communication Team (NCT) who were public relation experts and responsible for the release of information in a timely and coordinated manner. This helped to restore investor confidence and enhanced transparency and removed any ambiguity in the messages that the NEAC wanted to communicate to the public both locally and internationally. I must pinch myself here to remind us that we are not in a crisis yet and so perhaps you can think of me as just an old man sharing past experiences which perhaps none of you are interested or perhaps my eyes are playing tricks on me, and there is no elephant in the room.

Although I have been asked a few times, I have declined to offer any direct comments on the revised Budget 2015 nor give advice on what should or should not be done. Am I afraid the “powers that be” will “wag the dog again”? Well, the country is not in crisis yet and my experience has always been in times of crisis; during the recession of the 80’s and the AFC.

Nonetheless, unless the straws in the wind are really just windflowers, we may need to heed the signs and be a strategist and not a tactician as I mentioned at the onset.

Ladies and Gentlemen

I would like to quote from Bill George, author of "True North" in a WSJ article written post GFC in 2009. In the article he mentioned some lessons for leaders charged with leading an organisation. I will just mention a few:

- i. Leaders must face Reality – truth must be told and must be accepted with an open heart and mind. You cannot solve problems if you do not acknowledge their existence;
- ii. No matter how bad things are, they will get worse – it is far better to anticipate the worst and get up in front of it rather than take cavalier steps that only scratches the surface. I said at the beginning, it takes courage and vision to see and seize the opportunity to transform and aim for long lasting effects.
- iii. Build a mountain of cash and get to the highest hill – in good times, leaders worry about EPS and revenue and not the balance sheet. However, remember cash is king. Do you have enough cash to survive the most dire of circumstances? The often mentioned twin deficit?
- iv. Before asking others to volunteer, first volunteer yourself – if there are sacrifices to be made, there will be; then you must step up and make the greatest sacrifice yourself. Everyone is watching what you will do.
- v. Never waste a good crisis – when things are going well, people resist changes or try to get by with minor adaptations. A crisis provides you the platform to get things done as required and urgency to accelerate the implementation. Again – opportunity amidst dangers.
- vi. Be aggressive in the marketplace – a crisis offers you the best opportunity to change the game in your favour. While others are busy and preoccupied in how to get through those turbulent times, a true visionary leader carpe diem, seize the day to introduce reforms, new products or services to gain market share. Create the changes that move the market in your favour rather than waiting and reacting to changes that take place.

Ladies and Gentlemen

I have shared some broad principles and my own personal experience in navigating through turbulent times. Be a strategist rather than a tactician. There is no short cut and you must have the patience and perseverance to ride through the storm. It takes courage and grit to ignore the conventional and go for what is truly transformational. It takes fire to yield pure gold. To be successful, you must be able to go through and rise above the fire and sieve out the impurities and other waste products in order to produce the finest and purest. I wish you all success as you embark your voyage especially if you are or your organization is currently navigating through turbulent times.

Thank you for your kind attention.