

The Insolvency Challenge For Malaysia In The Next Six Months, And Beyond!

By Matthias Chang – Future Fast-Forward

INTRODUCTION

From March 18th, 2020 to end of May, 2020 I had invited all of you to focus on the two major issues, **(1) The Liquidity Issue and (2) the Collapse of the Supply & Demand Curves** and what we must do to overcome the challenges.

Thus far, the Prime Minister and his team have succeeded beyond all expectations given the time frame and the disastrous neglect of the PH regime in responding to the Covid19 crisis. Malaysians can be proud that our country did well, better than the developed countries by any measure.

It is no exaggeration to say that had our country remained under the PH regime control, we would have ended up like the developed countries, such as USA, UK, France etc – **the lack of urgency** (especially after WHO has already declared a global pandemic), **lack of discipline, unwillingness to stand united to make sacrifices** (following the lockdowns, in Malaysia's case - MCO) and the **lack of political will**.

The subsequent blame game, which we see unfolding in those countries have torn their societies apart. We are at the precipice of an unprecedented political disconnect.

That said, there are more challenges ahead that will test our resolve to stay focus and united. The resolve has been subverted by the infantile politicking by Tun M, Anwar, Lim Kit Siang and other PH goons. At the onset of Covid 19 and MCO, Tun M conceded reluctantly that Tan Sri Muhyiddin Yasin would be able to continue as PM till 2023, when the next general elections would be held. Then the power itch got to him. With bravado, Tun M, egged on by opportunists has even declared that his minuscule band of sore-losers is going to "sack" Tan Sri Muhyiddin Yasin as President of the Bersatu Party, when Tun M is no longer a member of the said party.

Tun M knows that he cannot challenge his party status in any court. Check the law!

I foresee that Tun M will be pushed to adopt the modus operandi of Anwar and PKR by inciting their remnants to embark on street protests which will be the final nail in the coffin of hypocrisies and flip-flops!

In my view, the best and most effective way to counter the PH political thugs is for PM to focus on the economy and deliver the goods.

This is simple common sense, because Tun M, Anwar and LKS have no other cards to play as they are not in power. Of necessity they will be reduced to

hooliganism and propagating fake news. Tun M and Anwar cannot even play the race card, because the Malays are not with PH and Tun M. The arrogance and stubbornness of Tun M has blinded him to this stark reality.

GLOBAL & DOMESTIC FINANCIAL FRAGILITY

The Strategic Psychological Approach

It is an understatement to say that the global financial system is as fragile as a candle in the wind!

We cannot as a nation ignore this global fragility in structuring a sustainable response to the inevitable global economic and financial implosion, at the latest by the end of 2020. This is a given.

I would even urge the Prime Minister (PM) and his team, not to be too optimistic and lull the people into believing that they have a magic wand to wish away all the problems. The PM should lay out the worst case scenario and should warn that the country must be prepared for hard times for at least a year from now and anything positive would be a huge bonus. We will have a bumpy ride!

It is to be expected that the PH goons would roll out some undeliverable promises (as in their 2018 Election Manifesto) to score political points and to destabilise the government. **The PM must not be tempted to counter such lies with a rosy picture that recovery is just round the corner.** This would be untenable because the government's experts have forecasted that any recovery would be a "U Curve Recovery"!

My initial forecast was similar, with the additional insight there are many sectors in our economy that can be on a "V Curve Recovery" (as they were healthy pre Covid19) and such sectors would provide the "Pull Factor" to lift the economy and provide the "Resistance" to the inevitable financial storms (which has already crossed the event horizon) in the second half of 2020.

However, with the latest findings of the FED (Federal Reserve) BOE (Bank of England, BIS (Bank of International Settlements) and China's Blue Print of **"Six Stabilities"** announced at the recent National People's Congress and **"Six Guarantees"** by the CPC Central Committee Politburo Meeting, I am not now certain and confident that we will have a prolonged crisis – **A "W CURVE RECOVERY" TREND.**

I noticed that till today, no economists and or financial analysts have even contemplated this trajectory at all. Mention was made in the mass media of the V, U, and L Curves but, all overlooked the W Curve trend.

Why the "W Curve"?

Simple!

With each downtrend, governments all over the world will intervene (in a knee jerk reaction) to stimulate a recovery which will somewhat boost the economy but such efforts would not be sustainable because domestically or globally, there would be another “Black Swan” event or the expected failure of the previous policy experiments and trigger another downturn. It will be a bumpy ride!

The critical issue that kept me awake most nights for the last ten days was:

Can Malaysia break this trend before 2023 when the next General Election looms?

My unequivocal answer is a BIG YES! But, I cannot give my reasons here and now, as political harlots would sabotage at every turn when they are made known publicly. I have said so before!

My solution demands unprecedented political will, as desperate times demand unprecedented solutions!

Recovery – An On Going Process

Our Finance Minister has just announced that our PM will explain shortly how his team will overcome the financial and economic challenges, now that the worse of Covid19 has been addressed, notwithstanding the caution by the Director General of the Ministry of Health, of a “second wave” of Covid 19 infection. I pray and wish for PM success.

However, and because no one has considered the W Recovery Curve (I stand to be corrected) our PM’s gallant efforts may be misdirected. To avoid any misunderstanding, let me state here and now, I do not question the three basic objectives highlighted by the Finance Minister in his press statement. My worry is and has always been the need to have Time Lines and Mile Stones to keep us on the Critical Path, single-mindedly!

The previous RM230 Billion package has yet to run its course and may even spill over to the new package to be announced by the PM. There would be areas where the PM may have to fine tune the scope and implementation etc.

So, we have to bear in mind that the Critical Path to recovery is one Long Journey and not separate short journeys. Therefore the second package is inter-connected with the first package and must of necessity be implemented as a “Work In Progress”. There are no “full-stops”, but “commas” and or “semi-colons” as in a sentence. I cannot stress enough how important to adopt this mind-set!

Essence of First Package - LIQUIDITY

As stated in my Open Letter to the PM, the first package from my view point is essentially the **LIQUIDITY** package.

Many are confused with Liquidity and Solvency Issues (Solvency issues should be addressed in the Second Package).

The former is related to **Cash Flows**, while the latter is related to **Debts**.

The government has by various initiatives addressed the short term cash flows arising from the unforeseen and sudden cessation of business as the consequence of the MCO lockdown and the deferment of loans repayment etc.

The Liquidity package must of essence be a short term “rescue” to enable businesses and individuals to have the cash flows to meet short term and emergency needs – such as subsidising the wages and salaries of the enormous pool of “out of work” employees who are gainfully employed, the deferment of payment of loan instalments etc. It was a huge success. Well done! The response was positive and supportive and the initial shock was minimised and surprisingly the people were very disciplined and civil during the period of MCO.

The country heaved a sigh of relief!

But, lurking beneath the temporary relief was the more sinister and troublesome crisis.

Let's cut to the chase.

Essence of Second Package - INSOLVENCY

An economic entity (be it a person or a corporate entity) is **deemed a bankrupt or insolvent** when the entity **cannot pay a debt** as and when it becomes due **under the circumstances provided for in the Bankruptcy Act or the Companies Act**.

Illustration: An entity has illiquid fixed assets valued at RM1 million charged to a bank. But, it is unable to pay to a trade creditor, RM750,000.00 due on a certain date and there is only a cash balance of RM100,000.00. The default of payment on the due date under the various circumstances provided in section 3 of the Bankruptcy Act **constitutes an act of bankruptcy** (in case of an individual). And in the case of a company under the circumstances provided for in section 112 of the Companies Act, the default **renders the company insolvent**.

Once an individual or a corporate body is deemed a bankrupt or insolvent respectively, by analogy it means that the entity suffered a massive heart attack. Some patients die instantly while others may survive if CPR is administered and hospitalisation has been timely to facilitate intensive care.

In financial jargon, a “Bailout”!

Bail-out is a solution, if (and it is a big “if”) the underlying structure or eco-system that gave rise to the “financial heart attack” has been addressed. Otherwise, the bail-out would be a moral hazard and or a subsequent second massive financial attack which would be fatal.

So, it begs the question, who and how the bail-outs are to be structured.

A crisis, such as the one we are facing have provided Malaysia an opportunity to address and re-set the underlying weaknesses in our economy and to prepare our country to face a totally different financial / economic landscape.

The cliché we will have a “New Normal” is a misnomer!

What I posit in this article is that there will be a revolution in the global financial architecture and a transformation of how we industrialise and trade, by 2023 at the earliest and 2025 at the latest.

For two freaking years, the PH regime blared about “refomasi” but they did nothing to transform our economic and financial eco-system. The then Finance Minister, Lim Guan Eng (LGE) and the freaking Cabinet were merely executing policies which any government would be doing. This is an unforgiveable crime which Tun M and his PH goons have committed.

If truth be told, Najib Razak was a consequence of the system. What was different was that Najib was caught stark naked when he abused and laundered 1MDB’s funds. If it was not Najib Razak, it would have been someone else from BN. In the past, no one was so stupid and or careless to be caught. That’s all there is to it!

In the future, a similar fiasco will happen, if the current financial and eco-system remains.

The exposé of the Riza Aziz’s DNAA deal and the recent outing of Lim Guan Eng (LGE) and the former AG, Tommy Thomas acting in concert to lift the frozen bank accounts of a money-launderer as proven by the letter from former AG Tommy Thomas to LGE is indicative that “business as usual” will continue. The veneer of the “Holy Than Thou” blind-sided the people into believing that the PH regime was a bunch of angels when in fact it was a cesspool of hypocrites. And Tun M in his quest to retain power tolerated this hypocrisy. The Najib Razak 1MDB deals are the symptoms of the disease. Till today, and in spite of the infantile nonsense from the biggest hypocrite, Anwar Ibrahim, no one dare to admit and expose the cause of the disease.

And Tun M wants a change of government with him as the PM again!

That said, I cannot reveal the unprecedented solution for the crisis and the parameters for a re-set of our economy.

Let me just say this to the Finance Minister who being a banker ought to be able to guess what I am hinting. For if he is not on the same page, and

even if PM is agreeable, it is the Finance Minister who is the principal minister to ensure its full implementation. Unless and until we have a robust and resolute combo of PM / FM, any recovery would be short-lived. Post 2025, Malaysia would be left far behind because we were not prepared to do the right thing, stand tall and BITE THE BULLET!