# A New Approach To Crisis Management
## Malaysia Recovery & Rejuvenation Bhd (MRRB)
### By Matthias Chang – Future Fast-Forward

### Part 1

It is incredulous that having suffered the dislocations of the boom-bust cycles in almost every decade, the devastations of the Great Depression and the Black Swan events, such as the 2008 Great Recession, which almost destroyed the entire global banking system and the consequential $20 Trillion bailouts of the global Too Big To Fail Banks (TBTF), ***not one country*** ***has deemed it fit to establish economic / financial Fire Brigades with the requisite skill sets to put out the raging economic fires. Zilch!***

The current recovery efforts by global governments have ***been hampered by too many institutional constraints*** (legislative or otherwise) that were not designed or mandated for economic recovery and rejuvenation and more importantly the lack of human resources with the requisite skill set to confront the challenges following the unprecedented global Covid19 crisis.

***Rejuvenation initiatives are not even within the scope of the mandated responsibilities of current central banks.*** Yet, in all cases, the Central Banks are taking the lead and invariably providing short term solutions, the proverbial monetary "stimulus remedies" replicating the US Federal Reserve initiatives.

Debates continue to rage in all capitals of the world on policies, priorities, implementation mechanisms and the allocation of limited resources. The geopolitical blame games have scuttled and or delayed critical international cooperation for a unified effort to address the common challenges. ***Domestic and nationalistic politics and actors have contributed to the current confusion and incoherence.***

Global supply chains have been so disrupted, that ***the current and dominant narrative is to de-couple from any reliance on any country that may have a choke-hold on the supply chains***, ignoring the glaring fact that every component in a finished product has separate supply chains, sourced from various countries. The Apple I-Phone is a glaring example.

***In short, putting out economic and financial fires requires different skill sets and this is in short supply and in many cases non-existent***. There are no such "fire-brigades" in the economic eco-system. Sad to say but a stark reality - no country has such operatives at the critical levels of government and in the private sector. ***By analogy, the military and the police force cannot be substitutes for the Fire Brigades and neither are they equipped with the relevant skill set.*** Wild and raging fires do not break out every day, month, year, but when they do, the only organisation equipped to contain and put out the fires is the Fire Brigade. There are no other options on the table! This is sheer common sense.

The Youtube debates by internationally renowned economists, bankers, institutional leaders and even Nobel Laureates etc. reflect the confusion and the theoretical divide that buttress the enormous differences on what and how things should be done and the priorities. A major difference relates to the role of Central Banks as the preferred interventionist even constrained by legislative limitations! The limited role of Malaysia's central bank, Bank Negara, governed by Section 5 of the Central Bank of Malaysia Act 2009 and Section 6 of the Financial Services Act 2013 is no different.

In anticipation of any pushbacks from Bank Negara, I would just say that ***if Bank Negara values its so-called "independence" in adhering to its statutory mandates, its duties and responsibilities, it cannot go beyond its limited mandate unless and until parliament legislates otherwise.***

It should not be considered a criticism to say that Bank Negara has a choice to make – independence and accountability within its limited role or exposure to open assault by parliamentary mayhem and by civil society, The correct choice is a no brainer!

In fact, alarm bells have already been sounded regarding central banks' over-reach and circumvention of their limited mandate and independence.

I am therefore compelled to quote in extenso the paper presented at the **Riksbank Conference** on ***"Rethinking the Central Bank's Mandate"*** by **John B. Taylor** (George P. Shultz Senior Fellow in Economics at the Hoover Institution and the Mary & Robert Raymond Professor of Economics at Stanford University).

***"Economic research and experience has clearly demonstrated the value of central bank independence for achieving good economic performance. But in granting independence in a government agency in a democracy, great attention should be paid to making sure that the agency has a well defined limited scope with strong accountability.***

***"This research suggests that a key purpose of a central bank should be to achieve and maintain price stability – with an inflation target of some kind – and that the central bank should be held accountable for achieving the goal…. Because of the tradeoff between price stability and output stability, most central banks interpreted the purpose with a flexible inflation target whether or not that is part of the mandate.***

***"If the purpose of the central bank is broadened, then the rationale for independence becomes weaker. When central banks drift too far from being limited-purpose institutions and become independent multi-purpose institutions, they escape the checks and balances needed in a democratic system. This can lead to inappropriate interventions which may not have been approved by legislative process or a vote of the people. It can also lead to poor economic performance.***

***"Currently there is a <u>danger that central banks are being transformed into multi-purpose insitutions, involved in interventions in particular sectors or in credit allocations without a rationale for independence</u>. In the United States, for example, questions have been raised why the Consumer Finance Protection Bureau – with oversight of such activities as payday loans - <u>is located in the Federal Reserve without a specific appropriation role for Congress.</u>***

***"If central banks do not have a limited purpose with accountability they will likely become less independent for the future. Thus <u>expanding the mission of the central banks creates the risk of losing independence for the key monetary function.</u>********

***"The move away from rules-based policy starting around 2003-2005, <u>was followed by poor economic performance, including the Great Recession and the Not-So-Great-Recovery</u>. For historical evidence of these well-known shifts and their effects see Meltzer (2009, 2011) and Taylor (2012, 2013. For formal economic evidence, see Nikolsko-Rzhevsyy, Papell and Prodan (2014). <u>These swings towards and away from rules-based policy occurred without any concomitant changes in the underlying legal basis for central bank independence.</u>***

***"The fact that de jure central bank independence with stated inflation goals has not prevented harmful departures from rules-based policy, indicates the need to review the scope of the objectives given to the central banks. Rather than widening the scope to include more goals, consideration should be given to <u>deepening the scope to include the strategy to achieve the existing goals, giving details about the strategy for the policy instruments.</u>***

***"… it is important to get views from a wide spectrum of people both inside and outside of government and in particular both inside and outside of central banks. <u>Good governance, especially of independent agencies of government, requires it.</u>***

***"The opportunity for economists to go in and out of government service can be beneficial in terms of bringing new ideas into practice and also in developing new research ideas in academia. <u>For this reason, where it is practical, having economists and other experts from the outside to participate for a term in policy decisions makes sense.</u>***

***"<u>Good governance also requires a strong independent civil society and a press that can speak out when appropriate.</u> I think it is important to have conferences on monetary policy with people from both inside and outside central banking. Central bank conferences such as this one with candid out-of-the-box thinking from a range of views are very important. I am grateful to have had the opportunity to participate in this conference."***

**End of citation**

I am therefore suggesting that the Minister of Finance (in the context of Cabinet Responsibility) should be given wider scope and space for policy options to facilitate recovery and rejuvenation especially in the current crisis and to engage parliament. I take the view that Bank Negara would exceed the limits of its mandate and would not have the resources and reach to other sectors of the economy other the financial sector, when the main thrust of the strategic recovery and rejuvenation is to re-align and reset our economic architecture to address the challenges post Covid19. We are heading towards a global mess of unseen proportions.

***The focus of Bank Negara is to prepare Malaysia for the inevitable reset of the global financial system where the US dollar would not be the singular global reserve currency and the impact on world trade***.

More importantly, how does Malaysia circumvent the US imposed pernicious sanctions regime and the denial of access to the Swift international payment network etc. when these are used as weapons to subjugate targeted nations, strangle trade in goods and services that destroy economies with devastating global knock-on effects. ASEAN is already under pressure by US to toe her line in the encirclement China, Malaysia's largest trading partner for the last ten years. The illusion of the benefits of the relocation of US own factories to Malaysia is outweighed by the massive collapse of trade and technological exchanges. Vietnam and the Philippines have caved in and more may follow. Even this brute force has failed the US in ensuring its hegemony.

China has recently announced that she is preparing for all the above eventualities and more, and is developing legislations similar to the European Union's Blocking Statute, which allowed the EU to sustain trade and economic relations with countries (e.g. Iran) targeted by U.S. sanctions.

Reuters reported earlier this month that the investment banking unit of the Bank of China had disclosed that Chinese state lenders have been revamping contingency plans in anticipation of U.S. legislation that could penalise banks for serving officials who implement the new national security laws for Hong Kong,

BOC International (BOCI) in a report, which was co-authored by a former foreign exchange regulator, revealed that greater use of the Cross-Border Interbank Payment System (CIPS) instead of the Belgium based SWIFT system would also reduce exposure of China's global payments data to the United States. The bank's chief economist Guan Tao was previously a director of the international payments department of State Administration of Foreign Exchange (SAFE). The report looked at potential measures the United States could take against Chinese banks, including cutting off their access to the SWIFT financial messaging service, a primary network used by banks globally to make financial transactions.

**If China is the target, what then? How would such a sanctions regime imposed by the US impact on our economy? Bank Negara has already too much on her plate! This, with respect, should be a primary concern for Bank Negara as we head towards 2021 and the formulation of financial strategies (within the mandate of BN) in the 12<sup>th</sup> Malaysia Plan!**

***In short, we need a Specialised Vehicle / Agency structured from ground up with specialised skill sets, configured to address recovery and rejuvenation efforts specific to economic boom and bust cycles and more importantly, to the current type of challenges identified above and beyond. This initiative must be incorporated in the 2021 Budget as well as in the 12th Malaysia Plan.***

***I am therefore proposing to the present government to establish such an agency / corporate recovery vehicle under the <u>supervision of the Minister of Finance, with intense parliamentary oversight,</u> with a capital base of a minimum RM50 Billion. It must be permanent institution to overcome the perpetual booms and burst cycles and the rare but inevitable "Black Swan" events that wreck global, regional or national economies.***

I have not in this article provided the details on the setting up of the Special Agency / Corporate Vehicle as it would be rather presumptuous of me to do so. However, God willing, if this proposal is accepted in its broad outlines, then I would be more than willing to render any assistance to the government towards its implementation, as part of national service, second time round.

Suffice to say, at this stage that there is such a precedent from the Great Depression. I refer to the Reconstruction Finance Corporation (RFC) which was created by President Hoover in January 1932 to address the problems after the stock market crash of 1929. Financial bailout for banks was its main focus, though support was extended to other sectors of the US economy.

**The original concept was that RFC would be a non-political independent agency and it held to this mandate in the early years**.

Will Kenton in April, 2019 timely observed and warned that,

***"In 1948, Congress began a series of investigations into the RFC, which pulled back the curtain on rampant corruption within and surrounding the agency. The Senate Committee on Banking and Currency mandated an immediate <u>reorganization</u>, leading to a restructuring of the RFC in 1952. Despite the effort to revamp the agency, scandal and corruption speculations continued to surround the RFC. One year after the restructuring, Congress passed the RFC <u>Liquidation</u> Act under the Eisenhower administration, ending all the agency's lending power. Remaining functions of the agency slowly transferred to other agencies, and in 1957 the all-but-defunct RFC was dismantled entirely".***

Therefore, Malaysia must not repeat the mistakes of the RFC by allowing politics to dominate the rescue efforts. Hence, my caution to Bank Negara as stated in aforesaid paragraphs, that politics and corruption would creep into the mandated objectives and functions of Bank Negara (if it assumed a leading role in any recovery efforts) as was the case between 2009 and 2015 (following the financial crisis of 2008) when 1MDB reared its ugly head. ***I repeat, as stated above that such an agency / corporation must be subjected to the most***

***intensive parliamentary oversight! It is good that the current Finance Minister is a banker and formerly the CEO of CIMB Bank and hopefully appreciates the mistakes of the US RFC.***

## Preview of Part 2

The rationale for the above proposal was mooted as far back as 2015 when in a Close Door Dialogue which I had organised for Tun Mahathir Mohamad, I laid out the consequences of the pending economic crisis which would manifest in 2018/2019 well within the period of boom and bust cycles – a decade, give or take a margin of error of one to two years. The last crisis being the Great Recession of 2008!

It did not gained traction with the stake holders who attended the Dialogue.

So, in the same year, I rushed out a publication “Qi for Longevity – Corporate Longevity in Times of Crisis and Volatility” which was dedicated to Tun Mahathir Mohamad. But it fell on deaf ears as well! A second edition came out in 2017 with some updates.

Established book retailers could not be bothered, notwithstanding the theme of the book - helping industries, corporations, small business etc. to survive would in turn help our country recover from the ravages of economic destruction. I laid down specific strategic tools for such a crisis as we are facing now. You can bet your bottom dollar that these book retailers won’t survive the current crisis, as they have not a clue as to how to recover from such devastations.

**So, watch out for Part 2, which should be out within a week of the publication of this article.**