

Closing Keynote Address by YABhg Tun Dr Mahathir Mohamad at the Perdana Leadership Foundation CEO Forum 2014 On 24 September 2014 at Berjaya Times Square Convention Centre, Kuala Lumpur

I know a little about crisis management before I became a Prime Minister. This is because as a doctor, we come across many crises. Because of our work, people come with very critical conditions. This is when they are in crisis and the duty of a doctor is to handle this critical condition, in other words, to handle this crisis.

A doctor has an advantage in crisis management. This is because our medical course consists of instructions which we should use to handle a medical crisis that comes before us. We have been told that the way to manage a crisis is to be systematic. When a doctor is faced with a crisis, he spends a little bit of time to find out what is actually the crisis.

Without knowing what a crisis is all about, you would not know how to handle it. In this matter, he needs to accept the truth and not deny the reality.

The first thing to do is, he needs to understand what the patient is suffering from and to do this, it begins with the history of the sickness. The history holds a lot of information on the sickness. He has to ask the patient how the problem started, what are his feelings, whether he has a temperature, running nose, diarrhea and such to find out what the problem is about. This is the preliminary stage of handling a crisis. He has to go through the process of getting the history and once you obtain the history, you cannot deny the facts. You do not kid yourself and say that maybe the illness is not that severe and the patient is in no danger of dying.

In handling a crisis, you must face the facts and get the correct data. Once you have all the data on the crisis, you are well on the way to diagnosing what is ailing the patient, the economy or the country. Get as much data as possible and categorise them if you can.

The next stage is for the doctor to examine the patient. Examination means putting your hands on the body of the patient, listening to his heart and his lungs to determine his illness. Following that, we do a lab test, which involves sending samples to the lab to be analysed, to grow the bacteria, etc. With the information we have, we come nearer to a diagnosis. Of course, nowadays, we have X-Rays, CAT Scans and all kinds of new appliances which give you more information on what the patient is suffering from. Putting all these information together and maybe consulting with others, we can arrive at a conclusive diagnosis and from then on, the next question is the medication to

prescribe. There will be choices of treatment - a surgical procedure, oral medication or intravenous drugs. This was what I was taught in medical school.

When I became a Prime Minister, I found this systematic procedure of gathering information very useful in order to deal with a crisis which is not tangible, and of course, a classic one is the 1997/98 Asian Financial Crisis.

I am neither a finance man nor a banker, so of course, I needed to read up a lot in order to understand the briefings given by the officers concerned. You can be briefed on a lot of things but if you do not understand the subject, it is not going to be very useful. So I read up on banking and finance and I began to understand a little bit about finance. I do not have investments. I do not have a single sen in the stock market nor do I dabble with investments in any company. I therefore had to learn a lot about these things to understand what was happening to the country. Sure enough, I got the history and the background of the crisis that the country was facing. I gathered as much data as possible about the situation. I had numerous briefings. With this, I can be considered to have thoroughly examined what was happening to the finances and the economy of the country, why we were going through the recession, what were the wrong things we had done or maybe what were the wrong things that other people had done. I was able to reach some

conclusions and refined the conclusion further on how the crisis could be managed. You can see that the procedure is akin to a doctor diagnosing a patient.

If you ask me about leadership in crisis management, I cannot advise you to become a doctor because it would be too late. I would advise you to learn the methods of the doctors. They go through a set of procedures which leads to their ability to recognise and diagnose problems, and subsequently prescribe the treatment. The treatment, of course, is another problem to solve.

In the crisis of 1997/98, I had great difficulty in understanding the situation because I knew very little about finance and banking. I was shocked to find out that banking involves lending money that you do not have, and that once the money is lent out, it becomes the banks' assets. You have nothing, you lend nothing and it becomes your assets. If anyone wants to do business, banking is the best business.

Well, all banks operate this way; I am not blaming them. I think there is a need to create money, because if we depend only on the money issued by the government, it would not be enough. Therefore the banks themselves, in a way, create money.

Of course, when banks lend you money, it is frequently money they do not possess. While they do have some money, such as the capital invested in the bank, deposits in the bank and other assets, the amount of money the bank lends often exceeds the

amount of money the bank has. So they need to create money. This is a very powerful instrument. How much money can you create? I read a book that says banks can lend up to 10 times the amount of deposits with the bank. Which means somebody lends you RM1million, you can lend out RM10million. That is good business. But then the banks ask, 'Why not 11 times, or 20 times?' So they created a new term called leveraging.

Leveraging is lending money that you do not have. That is the advantage of the banks: they can practically lend an unlimited amount of money. The hedge funds and currency traders then take advantage of the ability to borrow almost unlimited amounts of money from the banks. This is what I learnt. I believe this was the way things were.

Because how can the traders have so much Ringgit to sell which previously they did not seem to have? I subsequently discovered that they actually did not have the money. What they did was to borrow Ringgit from the banks to buy or sell. The banks can lend a lot of money to them because the banks can create money. So the hedge funds and currency traders had at their call almost any amount of money.

The idea is this: someone deposits RM1 million with you and you can then lend out RM10 million, RM20 million or RM30 million (30 times more). If you have RM1 million and you want to invest RM1 million directly, your capital is only RM1 million. But if you invest through hedge funds or with currency traders at the banks, the RM1 million becomes RM30 million. Obviously, if you invest RM30 million, you will get 30 times more profits and dividends than you would if you had invested RM1 million. That is why people want to invest through hedge funds and at times, the currency traders, too. They were able to have a lot of money with which to play and when you have a lot of money to play with, the game changes in your favour.

When you buy specific shares repeatedly, the value goes up and when you sell the shares repeatedly, the value goes down. Obviously, you can keep on buying shares to push the price up, and then, when the shares are highly valued, dump the stocks and make a lot of money. When you dump the shares, somebody else will have to carry the burden of shares which have depreciated. The hedge funds stood to gain a lot and the spoils were divided between the funds and their investors. That was how it worked.

The traders had no money. They were creating money to buy or sell the Ringgit. They did not have a cent. Money comes in many forms. It comes as a cheque. When you borrow RM10million from a bank, they do not give it to you in cash because you will have difficulty taking the cash out from the bank. They only enter the figure that they lend to you and you can withdraw from your account whenever you like. There is no cash involved. And when you pay the bank, the bank merely writes down a credit that you have paid such an amount. Actual cash is not necessary. You just write cheques. Today we have credit cards and all

kinds of new money which is not created or printed by the Government. Money today takes many forms and allows itself to be manipulated.

Currency traders raise money this way. They depress our currency by selling it. When it is at a low enough value, they start buying. The currency will then appreciate and they make money out of the appreciation. It is a very simple system of impoverishing other countries. I learnt about this and I got very annoyed and angry. I thought it was unfair for traders like George Soros to do this to a country that was just coming up. When they devalued our currency by 50 percent, we became poorer. If we had RM1 million, the million became worth only RM500,000 in terms of purchasing power. They were impoverishing us in a way that was grossly unfair.

I needed to understand the mechanism completely. So I read a lot. When we are faced with a sick person and you want to restore him to good health, how do you do it? We have to administer medicine and sometimes chop off a limb or other nasty things, but you have to do it to manage the crisis.

So, how did we manage the crisis? The traders were selling and buying the Ringgit. Obviously if they could not sell or buy our Ringgit, they could not play around with it. How did we stop them? Fortunately our Central Bank is very powerful. It could direct the banks operating in Malaysia that no transaction in our currency would be approved if the money deposited or withdrawn was not for a legal purpose. If the transaction was to suppress the value of the Ringgit, the transfer between the buyer and the seller would not be allowed. Once we stopped that, we could stop them from playing around with our currency.

You have to know what is ailing the economy. By understanding this, we could prescribe the medicine to reverse the situation. If the traders were selling, we stopped them from selling. If they were buying, we stopped them from buying. Once we did that, the disease was practically cured.

The European financial crisis could not be resolved after eight years because the governments in Europe have rejected history; they rejected

the information that they received and they remain in a state of denial. When it was pointed out to them that the financial market is being manipulated to the advantage of the manipulators who make tonnes of money, they were not prepared to declare this is wrong or illegal. Some people make a lot of money through manipulation and perhaps this is maintained so that some people can continue to make a lot of money.

The financial market does not have many spin-offs or small supporting industries. You do not need even one supporting party for a RM10 million transaction in the financial

market if it is just a speculative transaction. You do not need transport, nor insurance, nor workers, nor machines to carry the money. It is done by electronic transfer.

The result is that the financial market does not support the economy and does not create jobs. This is unlike manufacturing or providing service in hotels which need a lot of workers. When you do real business, many people will benefit from it. Financial businesses do not benefit anyone other than the speculator who may make or lose a lot of money. It is just a small group of people (in America they are concentrated on Wall Street) that is making tonnes of money. A financial business does not create any jobs and help anyone other than its owners and investors. If you refuse to accept this fact, you would not be able to solve a financial crisis.

If you have a RM10 million manufacturing business, you need to employ a lot of people and create spin-off supporting industries. If you do not have any spin-off industries, you do not create any jobs. But in the financial market, a RM10 million transaction does not create jobs nor does it have supporting industries; it would not help the economy improve. You have to accept that the financial market does not help the economy. You may have a lot of money but only you benefit and other people do not benefit. If the people do not benefit, there will be unhappiness everywhere.

There is a book entitled, 'The Disparity of Income in the United States' by Paul Krugman which says that 1% owns the economy and 99% do not benefit from the economy. This economy is created by the financial industry. There is a great deal of wealth disparity in the US today and it is causing a lot of social problems.

If you admit that the financial market does not result in job creation for the economy, then you have to admit that the financial market is wrong.

The solution is to go back to real business. What is real business? You can borrow money because you have an idea to manufacture something which you think people want to buy. Maybe you take profits of say 5% or 10% at the most. But that is good business because your industry creates jobs and supporting industries. People will have money to buy products and when people have money to buy, your products can be sold and the money turns around in the society and enriches everyone. That is real business. Real business is a business of producing things and providing services that people need or want so that you make money and in the process, a lot of other people will benefit especially the workers. But in a financial transaction, there are no jobs created and there is no spin-off industry. We must recognise this and to turn around the economy, we need to reduce or stop such activities and regulate the financial industry.

When they were devaluing the Ringgit, we thought it was wrong. They should not play around with our Ringgit and make us poor. We were told that this was freedom, that it was the right thing to do because it made profits. When the same calamity strikes their

own country, they readily admit that the financial market contributes much less to the economy than the real business of producing goods and services.

When it comes to leadership and crisis management, the first is to examine what caused the crisis. There must be a cause as crises do not happen by themselves.

In the case of the 1997/98 crisis, some people were manipulating money. When you abuse any system, you are going to get bad results. The banking system is good because it creates the capital that you need to make the economy grow. However, if it is abused by allowing banks to create unlimited amounts of money then it leads to a lot of problems faced by the world. We see that happen during this (2008/2009) financial crisis. Banks are very secretive. They do not want to reveal what they are doing and how much money they are making.

During the crisis in England, banks paid bonuses when they were still making losses. Even if they caused the losses, the top executives still got their bonuses. This is not right. Governments must be prepared to step in. You need to abolish this practice. The pressure comes from the very rich who has more influence on the Government than the ordinary man in the street. You need strong leadership to stand up to the pressures coming from these very rich people in order to legislate or limit the abuses. It is not to limit the function of the banks but to limit the abuses of the banking system. By all means create capital and money because we need the money but do not ever go beyond the limit.

If you are a strong leader, you can say that to the banks and the banks will eventually have to agree. You can inform the people that it is the banks that are causing all the problems. The number of bankers is far less than the number of voters in any country and if you pay attention to voters' needs, you will get more support from the voters than if you play to the tune of the bankers.

For a leader to manage a crisis, he needs to be strong, forceful, willful and determined. He needs to take action even if it is unpopular with certain groups. Leaders who do not want to take action will never be able to handle a crisis.

To take action, the leader need to understand the way a crisis is to be handled. The way to understand is to go through the procedures a doctor goes through in order to reach a diagnosis and eventually provide the medicine. Leaders today cannot be good at politics only but need to also be good in finance and economics, otherwise, the leadership would not be effective. Good leadership can only come from people who are knowledgeable. You cannot have a good leader who is dumb or who is just good at being popular but cannot handle a crisis.

If I had the privilege of being a dictator (and I was accused of being one), it would be easy to solve a crisis. I would just line the men up against the wall and shoot them. Of course I could not do that. I had to find other ways of solving the crisis and this required me to be educated on the subject matter, to understand the ailment and handle it systematically. We have to be educated - not just the leaders but people

at large - because otherwise, people may select leaders based on his hairdo or face and then discover that the leader is not able to handle crises.

Today's world is very complicated. We not only have to manage our own country but also our relationships with our neighbours and even people who are far away. Previously it was very simple: Malaysia was like an island. Today, everybody is looking at Malaysia. Even detaining people under the ISA is regarded as bad. We only detain people, we don't kill them. Today people are passing judgment on absentee criminals and sending drones to kill the criminal. This is worse than our record of just detaining people. At least the detainees are still alive.

For a leader to deal with a crisis, whether financial, economic or political, the process is similar to how a doctor treats his patients. Know what the crisis is about, gather data, have a proper assessment of strengths and weaknesses, use your strengths to counter your weaknesses and you have solved the crisis.