

CONVERSATIONS WITH MIKE MILKEN



Cesar Purisima

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Mike Milken: Thank you for joining us today.

Cesar Purisima: Thank you for inviting me, Michael. It's my pleasure.

I'd like to start talking about your country. Tell us about the Philippines.

The Philippines is a former American colony. In fact, the U.S. is the most popular foreign country in the Philippines. Their relationship is very long and deep. We're the only Christian country in Asia, and we're the only American-style democracy in Asia, a country of about 108 million people. The country has become a bright spot in Asia since President Benigno Aquino took over in 2010 and now our economy is very much connected with the global economy through exports, with semiconductors and garments as our leading exports and then shoring of services. We're among the top four countries in terms of business process outsourcing. Also the tourists of the world have started to discover the beauty of the Philippines. We look at ourselves as the bridge between the East and the West; we're Oriental and yet we're very Western.

What part of the economy are the citizens that have traveled throughout the world and sending payments back and support to the Philippines?

They sent about \$34 billion a year before the COVID crisis, and that's about 10 percent of the GDP of the Philippines. That's a very important factor because the [remittances]

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are sent mainly to send kids to school or to support with medical expenses. We're one of the largest exporters of nurses and doctors, in the world. Then of course, in the U.S. there's a vibrant Filipino community, and they're very connected back home and they do support relatives.

The strength of the family in the Philippines to me has been one of the greatest assets of the country. What has happened with the families during this COVID-19 crisis?

The countries that have experienced SARS are actually fairing much better in this particular crisis. For the Philippines, we were not hit with SARS, so this is the first major pandemic and our institutions are obviously trying to adjust and adapt to this new challenge. We experienced the longest lockdown of all countries in the world, the strictest lockdown. In fact, we had curfews at some point from eight to five in the morning. It's highly militarized. Lockdowns are meant really to buy time for governments to be able to prepare their healthcare systems and supply chains.

Unfortunately for us, that adjustment process has been longer than expected. The challenge is economies are not meant to be locked down. So the economic impact can be actually quite severe. We just heard Singapore announced a second-quarter drop in their GDP of 41 percent. And this is a country that did not really do as extreme a lockdown as we have. That the negative 41 percent is the biggest drop in the history of Singapore since 1965. So this is going to be the challenge moving forward, not just for the Philippines, the whole of the region Asia. This is the most synchronized crisis that we've ever faced since World War II; over 90 percent of countries have seen reductions of their GDPs. Governments and the central banks of the world will really have to think out of the box, and we'll have to exhaust all the tool kit to guide us safely out of this crisis.

As we look at countries in the world, the U.S. the informal economy is relatively small part of the economy but in the Philippines it's a significant part of that economy. Maybe

for our listeners, talk a little bit about what is the informal economy and how important has it been to the Philippines?

The informal economy in the Philippines is about 40 percent [of GDP], quite substantial with over 15 million people involved. These are the daily wage earners. They are the people who provide basic services: construction, the hospitality industry, in the restaurants. In a lockdown where movement has been curtailed, they basically have no income. And that is why many governments that are similarly situated have really stepped up in terms of providing income to these people. In the case of the Philippines, we provide them 5,000 to 8,000 pesos, but the question is the sustainability of this. This is going to be a major fiscal drain for the country.

Some countries in the region have increased their deficit up to 50 percent of GDP. The Philippines is still not there, but there is a clamor to actually increase the deficit given the fact that a lot of people are really suffering. Unlike the global financial crisis that hit the financial markets

first, this really hit the countries from the ground up. The challenge for finance ministers and central banks is to come up with interventions that are not only hit the top, but really hit the bottom to find a more compassionate way to be able to deal with this crisis.

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As you look at how governments around the world have responded, if you were in that position, what would you have done differently, if anything? And going forward today, since this has lingered far longer, what can we do here to support people particularly those at the bottom of the economic structure in these countries?

It's always different when you're not in the driver's seat and you have the benefit of hindsight. A lockdown is just meant to buy time and a lockdown is not the solution. Those that have been successful in dealing with a pandemic are those who have not imposed the most severe lockdown, but those that have shown institutional strength, that showed preparedness in their health systems, that adjusted their supply chains, and are making sure that their communication is very clear so that people know what really to do.

Fear can be a self-fulfilling prophecy. Too much fear can cause people to be relatively hesitant. In fact, you hear even here in the Philippines, even my case, I basically locked myself down in the house and this changes behaviors. Countries like us that depending on consumption will be severely affected because of consumption patterns will be changed. Our prudence before the crisis is really meant to be used during this difficult situation. And therefore we should not be hesitant to use our balance sheet, our fiscal strength, our macroeconomic strength, to bear so that we can ease the suffering of the poorest of the poor. The U.S. fortunately is a global reserve currency and has the ability to print its way out of the crisis and it's doing so. It really needs it; it's one of the countries severely affected by the crisis. The Philippines is also in a situation where we need more stimulus.

I know you're extremely modest, but I think we have to point out how successful you were as finance minister. You led the efforts to have the debt of the country elevated to investment grade. In fact, you were named finance minister of the year in Asia for six

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consecutive years by various publications. And obviously, having a strong credit rating has helped the Philippines weather a good part of the COVID-19 pandemic. Many of us think of the Philippines as a place where we've outsourced call centers or other support areas. How have they operated? If people are not going into the office, what is the strategy been to keep them working?

I was finance minister twice under two different presidents with two different results. So I tell people that if it weren't for

my president, because it is political capital that I use, which is very crucial in getting things done. Confidence is one thing I learned that once you get into a virtuous cycle of confidence, then you have the wind behind you pushing you forward, as opposed to being in a vicious cycle of doubt, where we were for the longest time. We were fortunate that we were able to get into the outsourcing, industry. Next to remittances, it's the second-largest dollar earner for the country, bringing in close to \$30 billion, and of course the indirect impact to the real estate industry and the other supporting sectors. During the crisis, basically what the operators have done is to house their workers in the hotels. Because of the drop in tourism, the hotels were empty, and to minimize the movement of people they basically have used hotels as dormitories for our outsourcing workers. That proved to be a good move; as a result, the industry was able to operate as close to normal as possible.

You've worked as we've discussed in both the private sector and public sector. You worked for two different administrations. Not everyone who has worked in the private sector has been willing to go to work in the public sector. You've made that decision and made a great contribution to your country. Compare and contrast the private sector, public sector and two administrations in the Philippines.

There are many differences in working between the private and the public sector. One big one is in the private sector, where I spent most of my life, you're encouraged to search for excellence, to innovate, to look for better processes and ways to do things. In the public sector, you're encouraged to search for perfection because there are laws that specify the procedures, the steps, and violating such steps can get you in severe trouble. This creates gridlock, people being afraid to work. The other difference is in the private sector, you are given empowerment; you're empowered to accomplish things. And you're empowered to align things. In government because of the way it's structured, the checks and balances and the politics of the whole situation, it's hard to achieve alignment. So that's another major difference. The other is continuity. In most corporations, even though management changes, there's continuity of ownership, there's continuity in terms of things that are being done. In the public sector, because of the political cycles in the case of the Philippines in particular, the terminal precedent is only six years. And one term then it's hard to accomplish because when the new government comes in, normally from a different party, they redo things. If you look at the more successful countries in the region, they are the countries with continuity. You look at Singapore, you have the People's Action Party there since its founding in 1965. If you look at China, you've had the Communist Party there since 1946. If you look at Vietnam, the Socialist Party; even Thailand, you've had the monarchy providing the stability and continuity. Clearly, continuity with these very important element in terms of coming up with economic progress.

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What has occurred during this COVID crisis that you see within your country that would point to an acceleration of digital online interaction?

People thought digital banking was five years or so away. What COVID-19 has done is made that now. So banks had to scramble to adapt to the changing requirements of their clients. The same is true with shopping; shopping is a holy experience for Filipinos. They love money. They like going to stores. But clearly with a lockdown, their only way to go shopping is through the internet. So that has also forced companies to adapt their interaction with their customers digitally. The same is true with restaurants. The

restaurants were closed; the only way to sell was through a delivery service. So there's been a big jump in terms of bandwidth requirements in the country.

The business has been good for telcos, but they clearly had to upgrade their capabilities. I don't think it's something that's going to revert back. Maybe there's going to be some slippage, but I think for countries and businesses to be able to adapt they have to accept

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this and train their people, change their processes, invest in their systems. Even working from home, I never thought of that being generally accepted. I think that's going to change the way companies will set up their business. I don't think it will be like it is now where it's almost 90 percent from home, but maybe 50-50. We're still trying to learn how to meet new people through Zoom or through

these other platforms. Clearly, strong relationships can survive with virtual relationships, but the weak relationships in the offices sometimes is the one that create new ideas, create the new interesting insights. And that is a challenge. How do you maintain that virtual relationship with the weak relationships in those settings?

In some countries such as the United States, the amount of telemedicine visits has increased 100-fold between 2019 and 2020. How has the healthcare system in the Philippines held up during the COVID-19 crisis?

Before the crisis, some people were saying that the health sector is one of those that's still stuck in the Middle Ages because of the way the doctors and the patients interact. I think they've lived from the Middle Ages to the modern world because people now are afraid to go to hospitals. So clearly, they try to minimize those visits. They also started innovating. For example, some hospitals in the Philippines have offered drive-thru laboratory tests, somehow come up with mobile laboratory tests.

But those companies in the Philippines that are new in the space have also started to offer telemedicine; being able to consult with your doctor through the internet and use gadgets and other new tools to be able to, get the right the right diagnosis without actually physically seeing your doctor.

I think we're going to see an increasing number of these. In China, there are apps called the WeDoctor or a Good Doctor, and I heard their number of doctor appointments increase tenfold. That's going to be an irreversible trend as well. In the insurance industry that's also going to change the way they sell their products, how they interact with their customers. It's going to be across the board. And I think it's an opportunity for countries and companies to actually leapfrog. I hope that the countries like the

Philippines would take advantage of this and use our interventions to really make the jump – re-skill our people, retool them in a more digital world; make it easier to fund digital investments and even greener investment. Then use these two sectors as the drivers of our economy to get out of the recession that we're going to find ourselves in for quite some period.

You've been a leader in the ESG efforts as we've seen investors and countries throughout the world. I remember a couple of decades ago when we did a study and people rated what was important to them. Outside of really Singapore and Hong Kong to a certain degree, the environment was really not an issue two decades ago in many parts of Asia. But when I think of the beauty of the Philippines and your leadership in this area, how do you see this COVID-19 crisis affecting the ESG movements?

The Philippines is the third-most vulnerable country in the world. That's why when I was a finance minister I initiated the forming of the vulnerable 20 countries. Basically, this is a group of 20 finance ministers, and it's now I think more than 50 finance ministers of countries that are really vulnerable to climate change. Among our group were countries that were going to disappear if temperatures we're going to increase at least 1.5 degrees. We decided to do this because the climate change commissioners was basically a talk shop. Unless you involve the finance ministers and put the resources to bear in those discussions, nothing was really going to happen. As you pointed out, this is very close to the heart of the Philippines. Before the crisis there had been quite some progress in terms of mobilizing the financial sector. The amount of green bonds being issued in the region has also increased; the shift from traditional sources of power has accelerated, and I hope that that that will continue.

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But unfortunately, the reality of the situation is more people will move to poverty as a result of the pandemic; the estimate is at least half a billion, a billion people. And clearly the focus of financial resources will shifted to that; the day-to-day efforts to keep people fed and treated and trying to get them out of poverty. I think that might push back a little bit the shift to a greener economy. This is where I hope that the private sector can step up because this is not just a government responsibility. It is the biggest public-private partnership there is that we need to get together. And I do hope that the private sector, when the government is bogged down dealing with the increased fiscal deficit and the job of helping the poorest of the poor, I hope the private sector steps up and

really continues to move towards a greener economy and holds them hold themselves accountable to higher standards. The challenge is, how can we come up with an accounting system that really puts in the cost to the environment of economic activities. There's a saying that what's not measured, doesn't get done. So I hope Mike, you can come up with an accounting system that moves from the double entry method to include the cost of economic activity to the environment.

Let's talk about your own family; two young children, they're seeing a different world and they're getting to see their father a lot more often. They're getting to see the entire family together in the evenings. You are not someplace else in the world trying to solve the world's problems. How has that experience been for you as a father and a husband?

The first challenge I have is to look like the father, not the grandfather, because they always think they are my grandchildren. So I've been trying to look younger. Mike, the things they do are quite advanced compared to me. I grew up in the southern-most part of the Philippines. The first time I watched television, I was 11 years old because there was no TV. Now these kids are growing with iPads and all these gadgets, and the most-

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frequent debate between my wife and I is how much screen time or gadget time we give them, because we want them to read books and all the things that we enjoyed when we were younger.

But they're growing in a different world; they're going to be digital natives, so we have to strike a balance. That's a challenge, to make sure that we allow them to grow so that they're adaptable because the

world they're going to live in is going to be in rapid change and where they'll have to constantly study. We have to make them resilient. We have to make them adaptable. We have to make them creative. So that's the question that we have as parents now: what are the skills that we have to give them so that they grow up to be able to enjoy their lives?

It's the biggest challenge of my life, the one thing that I'm the least trained for. I'm trying to be healthier. That's why I'm looking at all your efforts at FasterCures and all these other initiatives. Because when my son turns 20 years old, I'll be 74 years old. And I'd like to be able to see them grow to have families of their own. So I have a target, I need to live to at least 89 years old. So I am really cheering you on, Mike, so that all the initiatives you're backing can benefit me to reach my goal of at least 89 years old.

So, you know, our view is 60 is the new 40, 80 is your new 60, and world has changed. I think of you as always being young. It's interesting for our listeners that you have identified steering your country through the financial crisis, getting it upgraded, working with different political groups, creating jobs – you've now defined was an easier assignment than being a great dad in a digital age. So I am sure you will solve that problem, and I look forward to the opportunity for us to be together in person in the near future.

Thank you, Mike. I enjoyed the opportunity. When people ask me why I joined the Milken Institute, I said every moment in the Milken experience is a learning experience for me. It's a joy to learn from a guru like you Mike.

I have learned every time we've interacted together. I just want to thank you for your commitment to your country and for your commitment to government service. Very few people in the private sector have been willing to make that commitment, and we wish you good health so that you can spend a lot of time with your grandchildren.

All the best and keep well Mike.
