KHAZANAH MEGATRENDS FORUM 2018
KHAZANAH NASIONAL

ON BALANCE

Recalibrating Markets, Firms, Society and People

DAY 2 SESSION SUMMARIES

KMF 2018 was brought to a grand finale with a Closing Address by the Prime Minister of Malaysia and Chairman of Khazanah Nasional, YAB Tun Dr. Mahathir Mohamed, who emphasized the importance and continued need for equitability – a critical part of Balance in society – in Malaysia's economic development. The Prime Minister also emphasized the need for increasing productivity in firms as well as a more holistic measure for Malaysia's economic development, stating that GDP per capita was an incomplete measure.

Day 2 of KMF had begun 8 hours earlier with a Special Session by Professor Robert Merton on the role of Finance and financial innovation in economic development, taking the audience on a brief history of financial innovation since the 1950s. Professor Merton stressed the importance of Balance between Trust and FinTech, stating that while FinTech was strong in areas that were already transparent, Trust would be needed in more opaque areas.

The topic of economic development flowed smoothly into the third Core Session of KMF, which was on "Growth and Development." This Core Session, chaired by Professor KS Jomo, provided a deep dive into industrial policy and its relevance given the challenges and issues of today. The session argued that there was a spectrum of Government involvement in developing industries for a given nation, and finding that Balance along the spectrum – given the domestic context – was the way forward to implement Industrial Policy. In that session, the discussants also highlighted the critical importance of education in industrial policy, which was the perfect segue into Dino Varkey's session on Education, chaired by Iqbal Khan. Dino repeated his father's mantra – "Whatever the question, education is the answer" – and argued that the way forward for any nation was equitable access to education for all, with a focus on teachers and technology, with public-private sector collaboration required to fill gaps in the education sector.

After a hearty networking lunch, Martin Gilbert took the stage to discuss, "Long Term or Short Term: A CEO's Experience on Investments and Leadership." Martin cautioned the audience of leverage and counterparty risks in Finance which led to terrible consequences in the 2008 Global Financial Crisis. He then reiterated to the audience on the importance of the Long-Term view, in line with the discussions by Dominic Barton and Mark Wiseman, as well as the Firms and Transformation Core Session from Day 1.

This was then followed by Pixar's Ronnie Del Carmen who thrilled the crowd with the power of movies. Ronnie, in sharing about his journey to become a storyteller, showed the audience that while movies may be fictional, they feel real. He added that movies have the power to improve human connection and empathy, and that storytelling can instill meaning and purpose in lives.

Ronnie's session was a natural lead into the final Core Session of KMF, on People and Leadership. The panelists discussed key traits of personal leadership such as voicing consistent points of view, embodying ethical behaviour and integrity, and always prioritizing resilience. Leaders must also work to be inclusive in their lineup, with a Balanced diversity across gender, race, age and thought – key ingredients to success. On the People front, the panelists stressed as well on the importance of the Balance between Democracy and Security which was crucial towards maintaining the long-term Balance of social stability in societies.

SPECIAL ADDRESS

Solving Global Challenges Using Finance Science – Past and Future

Prof Robert C. Merton

Well-Functioning Financial System Essential For Sustainable Economic Growth And Development

- **Finance is an inherent part of the economy.** There should not be a dichotomy between the real economy and the financial economy, because finance helps drive economic growth.
- **The purpose of finance is to get resources to the right places.** For instance, Finance is a means to develop tech effectively by enabling the dissemination of tech innovation from the laboratory to widespread adoption in society.
- **Society has been reaping the benefits from financial innovations since the 1950s.** Innovations such as option contracts and portfolio theory have helped address risk management, achieve growth and diversify portfolio exposure to the global market.

The Continuous Pursuit Of Financial Innovation Is Crucial For Today's Complex Global Market

- **The 1970s Recession led to explosion of financial innovation in US.** This includes large-scale application of financial models and data analytics, as well as the proliferation of financial products such as derivatives, swaps and mortgage funds.
- **This response contrasted with the 2008 Global Financial Crisis, in which complicated financial services were faulted for the crisis.** Regulators called for the simplification of Finance, which inhibits financial innovation. Instead, we need further financial R&D, as finance is a high-level science that combines theory and practice.
- **Financial innovation is also important as markets become more globalized.** All central banks, asset managers and banks around the world rely on such models and use of large data sets for risk management.

Trust Becomes More Valuable With Further Fintech And Technology Disruption

- **Fintech offers enormous opportunities for lower cost and better performing financial services globally.** Fintech is also inclusive, bringing about disproportional improvements accruing to those currently underserved.
- **Despite its promise, Fintech has its limitations.** Fintech is particularly useful for transparent and easily verifiable processes such as record-keeping and computation. But Fintech has limitations when it comes to opaque processes, essentially those requiring advice. This is where trust becomes especially important, which consists of both competency and trustworthiness.
- **It is difficult for technology to replicate trust exactly, hence we as the users are responsible to generate that trust asset.** The Gödel Incompleteness Theorems stipulate that all models are incomplete descriptions of reality. Our human insights are required to verify and to make judgments about any model.

CORE SESSION 3: GROWTH AND DEVELOPMENT

Is industrial policy still relevant? Development in an age of finance, inequality, automation, trade conflicts and WEF's IR4.0

Finding The Balance Between State And Markets In The Course Of Setting Industrial Policy

- **A more involved developmental state – success cases.** Countries such as South Korea, Taiwan and China picked specific industries to excel in. This forced companies in the chosen industries to innovate such that they are able to complete at a global stage, creating many positive spillover effects for the broader economy.
- **Cutting back on government involvement in the economy – government failure.** In the Malaysian context, scaling back direct government intervention can allow efforts to be focused on repairing the institutions to create the right conditions for industrialisation to take off.
- **Context and democratic accountability are crucial.** Differences in context must be taken into account when crafting industrial policies so that they have the right incentive structure within a specific context. Furthermore, democratic accountability should be commensurate with the extent of government intervention in the economy.

We Should Not Use Yesterday's Mindset And Tools To Solve Today's Issues

- **The challenges of today are different than yesterday's.** These include unsettled trade relations, and unemployment brought on by unprecedented growth of labour-saving technological developments.
- **Several persisting issues that should also be addressed.** That said, we should not ignore the importance of manufacturing despite the growth of the services sector. Additionally, there is still a need for greater public spending on research and development.
- **An industrial policy fit for the 21st century.** This would require greater transparency from the government in arriving at policy decisions, finding the right balance between caution and risk-taking, and adding an emphasis on employment creation.

Malaysia Needs To Fix Its Human Capital To Overcome Insularity And Pressing Social Issues

- **Malaysia needs to look regionally, not just domestically.** External demand in Malaysia has been declining in recent years, with domestic demand – particularly domestic consumption – being a key driver of growth. We need to shift the economy back towards increased external demand.
- **There are also pressing social issues that need to be addressed.** Among these pressing issues is the poor state of graduate unemployment in Malaysia as well as a below average female labour force participation rate.
- **The key is to develop Malaysia's human capital for long lasting growth.** Malaysia's future policies need to focus more on developing managerial capability, technical capability, incentive structure, rewarding the right things, and punishing the right things.

SPECIAL SESSION

The Story of GEMS Education: Finding the right balance to create enduring value and impact

Dino Varkey

The Way Forward Is To Provide Equitable Access To Education For All

- **"Whatever the question, education is the answer".** Education is the building block in which good societies are built. To make education accessible, thousands of more schools are required to keep pace with population growth.
- **School curriculum should be shaped in a more inclusive way.** The education curriculum provided in schools should take into account aspirations of parents when shaping their children's education and future.
- **GEMS provides private education access to multiple segments of society.** GEMS firmly believes that education calibrates young people so that they may ultimately lead the calibration of firms, markets and society. Towards this end, GEMS provides world-class education at different price points to cater for different income brackets.

Private-Public Sector Collaboration Required To Fill Gaps In The Education Sector

- **Teachers are highly in demand.** The previous Millennium Development Goals (MDGs) called for a universal access to primary education, resulting in a shortage of 8-10 million teachers worldwide. Further, the recent Sustainable Development Goals (SDGs) stressed for access to *quality* education, resulting in a shortage of around 70 million teachers worldwide.
- **Recognising the population's needs is crucial.** As an anecdotal example, the public education system was inaccessible for a majority of the people, typically foreigners, that lived in United Arab Emirates, given that public schools are mostly taught in Arabic.
- **Thus, the public and private sectors should cooperate to fill the gaps.** Governments cannot address this issue alone. Governments need to work with the private sector in ensuring that access to quality education is widespread.

The Future Of Education Combines Teachers And Technology

- **"Every child deserves a great teacher".** Through the Global Teacher Prize, GEMS tries to recognise and reward inspirational teachers from around the world, and at the same time, improve the quality of teachers through training programmes.
- **A more robust teacher-parent engagement strategy to enable and support children.** GEMS acknowledges the need to further develop a more robust and comprehensive parent engagement strategy for the future of their children's education.
- **Technology as an enabler to education.** There is a shortage of supply of teachers in schools. Technology could fill this gap by becoming an education platform that provides holistic and inclusive education to children.

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SPECIAL SESSION

Long Term or Short Term? A CEO's Experience on Investments and Leadership

Martin Gilbert

Key Lessons From Previous Financial Crises – Beware Of Leverage And Counterparty Risks

- **Current market sentiments are anything but complacent.** This is a good sign that investors are paying close attention to risk factors (i.e. geopolitics, stretched valuations, debt levels)
- **High leverage is a key risk.** During instances of market dislocations, market illiquidity becomes a fundamental problem.
- **Certain risks were underestimated.** Counterparty risks were underestimated in the 2008 Global Financial Crisis leading to vulnerabilities throughout the financial system.

Hold On To The Long Term View

- **Prioritise the long-term over the short-term.** Investors should be disciplined in sticking to the long term view of businesses and to ignore short term fluctuations.
- **US and China to reach a compromise.** US and China would probably come to a compromise in the ongoing trade war, as China tend to make long term strategic positions
- **Stability over volatility.** Investors prefer steady and sustainable long term growth, rather than short term growth spurts

Fintech Disrupts Asset Management Business

- **Technology should be used to assist with the decision-making process.** Asset managers should utilise technology to help make investment decisions via screening of stocks and market risks
- **Technology as a means to mitigate mistakes.** Technology can also automate investment processes, thus eliminating dealing errors.
- **Tech more important in Passive Investment than Active.** Passive investment platforms have been spending more on technology relative to active investment platforms.

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SPECIAL ADDRESS

What makes movies real – a storyteller's non-fiction account of making fictional storie

Ronnie del Carmen

Movies Are Fictional, But Feel Real

- **Movies are a type of visual communication to tell stories.** Movies are made up by actors, script writers, and music producers who work to support a storyline which allows movies to dramaticise the realities of life.
- **Writers have the most influence over a movies' narrative.** Writers' stories end up influencing the movies' narrative and hence, reflect real authentic human emotions.

Movies Can Improve Human Connection

- **Real life is continuous, while story-telling is portable.** Real life is a continuous tone, with intent and shape. It has no phrasing, segmentation and flashbacks. Stories, on the other hand, are portable. It travels easy, and follows one main character, often capturing that character's experiences and perspective.
- **Movies can create empathy and understanding.** Stories allow us to connect with each other as they are based on authentic human emotions. For instance, the experiences of a character in a movie could be relatable to some in audience.

The Culture Of Storytelling Can Alter Perspectives While Instilling Meaning And Purpose

- **To the audience, watching a movie that they can resonate with can increase empathy.** When movies capture the perspective of a character that is seen as the 'other', it is often with the intention of fostering better understanding between groups similar to the character, and society.
- **For the storyteller, creating movies that have an impact instil a sense of meaning.** To quote Martin Seligman, "Meaning comes from belonging to and serving something beyond yourself and developing the best within you". When storytellers create movies that can alter perspectives in society, especially towards sensitive issues, they receive a sense of accomplishment.

CORE SESSION 4: PEOPLE AND LEADERSHIP

Talk with Crowds, Walk with Kings: Leading and Following in an Out-of-Balance World

Recalibrating Markets, Firms, Society and People

Successful Personal Leadership Requires Voicing Consistent Points Of View And Resilience

- **Confidence should not be confused with competence.** Confidence should not be confused with competence, therefore young leaders and women should dare to stand for something. Others who believe in the same point of view will eventually reach out.
- **Leaders must stay the course, no matter how difficult it may be.** Leaders should be resilient when trying to achieve something, no matter how tough the circumstances. This helps to provide a more consistent point of view.
- **Personal character such as ethics, integrity and thinking beyond yourselves is important in leading others**. Empathy is important and is not limited in gender stereotypes. Similarly, organizations with a clear sense of purpose have high degrees of success, outperforming the market by 40%.

Inclusive Diversity In Gender, Age And Thought Is Important For A Successful Leadership

- **Organizations that appoint women to leadership positions outperform their competition by 1.5 times.** For women and young leaders, if people have confidence in you, you need to have confidence in yourself.
- **Leaders are important at harnessing diversity and driving performance.** Diversity leads to conflict, but leaders need to learn how to harness the conflict to drive the organisation forward.
- **To look out for the 10-year horizon of organisations, the older generation of leaders need to empower young leaders**. Mentorship is important as 60% of companies with formalised mentorship outperform competitors.

A Balance In Democracy And Security Is Important In Maintaining The Balance In Societies

- **Democracy and security of a country has to be in balance.** A highly democratic country that is dangerous may not be any better than a highly autocratic nation that is safe**.**
- **Followers in a democracy should not take elections and freedom of association for granted**. The drive to achieve democracy is not easy, as seen in the events and disasters that happened in the Arab Spring.
- **Working together and forming coalitions is needed to change the narrative**. We all have more in common than differences. Social, environment, gender and political injustices brings us all together to ensure there is balance and justice.

CLOSING ADDRESS

YAB Tun Dr Mahathir Mohamad

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Malaysia Must Build A More Equitable Society

- **Reducing the disparity between rich and poor.** While every society has rich individuals and poor individuals, there should not be too great a disparity, otherwise there would be no equitability.
- **Responsibility of Government includes redistribution.** The government must work towards ensuring all citizens enjoy the same amenities equitably. To increase incomes, the government must ensure that the Malaysian economy has the capacity to produce quality goods and services.
- **Shareholders getting larger share of wealth than workers.** While businesses must invest to grow their respective companies, they must always think of their workers. Too much division in wealth among shareholders and workers creates tensions in society, maybe even leading to civil war.

Reducing Income Disparities – Productivity Is Key

- **Increasing salaries insufficient, as business costs will also increase.** Even if companies increase the salaries of their workers, this will naturally increase their operating costs, leading to higher costs of living overall in society, which disproportionately impacts the poor.
- **Wages must increase without an inflation increase; productivity is crucial.** Increasing wages via an increase in productivity is the way forward, as productivity allows companies to produce more for less. This then increases the purchasing power of people in the economy.
- **The role of technology and automation**. As firms attempt to increase productivity, they have to focus on increasing the role of technology and automation – such as robotics – in their production of goods and services.

GDP Per Capita As An Incomplete Measure For Development

- **Statistics must be scrutinised properly** – For instance, Malaysia's poverty rate is essentially 0. But is that simply a matter of fixing a given level of poverty? Therefore, can we measure well-being in terms of GDP?
- **Averages give a poor representation of distribution**. Per capita income, which is a measure of averages, can be skewed by income earned by the highest-income class. As such, we need to find other indicators of the wealth of nations.
- **Any recalibration must be based on reality**. The new government is looking to rebalance excesses of the previous government. To do this, the government needs more professionals running government institutions and companies to enable the country to grow more rapidly.