



KHAZANAH
NASIONAL

KHAZANAH
MEGATRENDS
FORUM

Apocalypse Averted?

Reconfiguring
the New Normal

SUMMARY



What is the trajectory we are on, and where are we on that trajectory?

If the world's economy has undergone a structural change, what is the new equilibrium?

What is the new global economic model? What are the imperatives of this new equilibrium? How do firms, societies and the economy locate themselves in this new equilibrium?

Apocalypse Averted?

Reconfiguring the New Normal

Day 1 - Keynote Address: Lessons from Beyond the Dismal Science

YB Tan Sri Nor Mohamed Yakcop

KHAZANAH
MEGATRENDS
FORUM



KHAZANAH
NASIONAL

History

- **Openness:** willingness to borrow whatever is useful from others, including from abroad, as well as willingness to experiment and progress through change
- **Boom & Busts will recur:** planning and financial management must take into account cycles. Crisis will be followed suit by recovery. A crisis not only exacts losses, but also offers opportunities
- **History matters:** changes in the economy exhibit hysteresis or path dependence. Standards are sticky (e.g. QWERTY keyboard layout) as are industrial clusters. Malaysia must develop / strengthen industry clusters in specific areas for future growth e.g. Islamic finance, downstream pal oil, and higher value-add electronics.

Biology

- **Cooperative & Adaptive Competition:** survival of the fittest is not about being best at competing individually, but as a community of those best at working together; to leverage on the comparative strength of each other
- **Lesson for Malaysia:** to remain adaptive to changing global environment and to build up strong symbiotic relationships

Geography

- **Growth will be unbalanced:** with globalisation, competition necessitates focusing production in urban centres to reap the economies of agglomeration; but social services i.e. education and utilities should be well spread out (*articulated in World Bank's publication, the World Development Report 2009*)
- **Malaysia's ambition for 2020:** need to articulate a development strategy for each of the major urban centres (Klang Valley, Penang, Johor Bharu, Kuching & Kota Kinabalu) to become developed regions, each with potentially different industry focus

Malaysia is uniquely primed to benefit from the emerging new world order (China, India, Indonesia and the Middle East)

Apocalypse Averted?

Reconfiguring the New Normal

Day 1 – Special Address: The Indian Economy:
Some Insights

Dr Yaga Venugopal Reddy

KHAZANAH
MEGATRENDS
FORUM



KHAZANAH
NASIONAL

Macroeconomic Policy Management

- **Stability:** Reserve Bank of India (RBI) continued to place priorities on price stability, well-anchored inflation expectations, and orderly conditions in financial markets while sustaining the growth momentum.
- **On interest rates:** RBI monetary policy should be tighter. He said charges that growth would be hurt because of RBI's rate hikes have been belied.
- **On exchange rates:** The rupee cannot be allowed to appreciate excessively in an economy, which runs a current account deficit, a wide trade deficit, and a wide fiscal deficit.

Financial Sectors Regulation

- **On financial markets:** Dr. Reddy said it is not possible to develop the financial markets without changes in policy and the real sector. It is not possible to have a market for interest rate futures in an inadequate and imperfect spot market, with different level of preparedness between foreign banks, public sector banks, and corporates.
- **Prudential Guidelines:** Given that the banking sector remain as the single most important intermediary in the Indian economy, therefore prudential guidelines for specific off-balance sheet exposures of banks is important. Regulations in respect to capital adequacy, liquidity, and disclosure norms for non-bank financial companies (NBFCs) are equally important.

Potential FDIs for Malaysian Companies

- There are huge potential for foreign direct investment (FDI) between Malaysian and India, particularly in terms of economic infrastructure (i.e. water, power, etc.) and social infrastructure (i.e. education, health, etc.)

Apocalypse Averted?

Reconfiguring the New Normal

Day 1 – Luncheon Address: Post-Crisis Mega-Trends
YBhg. Datuk Seri Panglima Andrew Sheng

KHAZANAH
MEGATRENDS
FORUM



KHAZANAH
NASIONAL

Financial Crisis

- **Failure to predict:** Systemic problems of increasing volatility, unsustainability of global imbalances, asset bubbles and excess, specialization of academic disciplines and fragmentation of bureaucracies.
- **Network Crisis:** The financial system is too-interconnected-to-fail. Firms have become highly interdependent. Simultaneous effect and complexity in the financial crisis have profound impact on future global governance & economy
- **Damage Control:** Zero Interest Rate Policies have serious distortive impact on global real economy but will create more carry trade and capital flow volatility. No country can increase interest rates, tax rates and regulation without huge capital flows and arbitrage. Financial sector losses will be paid for future taxation (large fiscal debt) or inflation.
- **Megatrends post-crisis:** Power shift from North to South, West to East. World is more complex and bottom-up and needs more systemic approach to decision-making. States play major role but needs multi-stakeholder and interdisciplinary input. With population growth, educated talent will be highly demand as emerging markets grow faster.

Global Environmental Crisis

- **Collective action problem:** Losses from financial crisis are about \$US 2-3trn but US\$2-5 trn global biodiversity losses annually. Need collective action to solve the problem
- **Megatrends:** Urbanization, transportation, population growth.
- **Way Forward for Malaysia:** To focus on comparative advantages. To accommodate demand from the fastest growing economies relative to our competitors.

We have two immediate crises (global financial and climate change). None of which can be solved by a single country

Apocalypse Averted?

Reconfiguring the New Normal

Day 1 - Session 1: Macro and Markets

Simon Ogus, Dato' Ooi Sang Kuang,
Prem Manjooran, Stephen Taran, Iqbal Khan

KHAZANAH
MEGATRENDS
FORUM



KHAZANAH
NASIONAL

Global Economy

- **Worst is over.** Consensus view is that the worst of the crisis is over. Great Depression 2.0 has been averted as the worst case scenario discussed last year did not materialise.
- **However, outlook still uncertain.** The financial system has yet been fully recapitalised; and the US consumer is still in a multi-year deleveraging process. Inventory re-stocking and fiscal stimulus have held up growth rates thus far, but private sector demand have not picked up in a meaningful way. Given this, the sustainability of growth moving forward remains questionable, and any potential growth rates are likely to be lower than pre-crisis levels.
- **Markets to remain volatile** in the near term especially given the polarity of opinions. The current rally appears in line with a relief rally. Possible sign-posts for a sustained bull-market may include meaningful reduction in US unemployment, sustainable growth in China as well as the emergence of revenue growth as an earnings driver.

Asian Economies

- **Rebound stronger than expected.** However, Asia needs to deliver on domestic demand re-orientation as it is still too trade-dependent. A meaningful rebalancing will take time given the structural issues (E.g. building social safety nets) involved.
- **Execution key for any future stimulus** even though many Asian economies are still in the position to do so. With the exception of China, the ability of the rest of Asia to deliver on infrastructure stimulus is debatable.
- **No decoupling for Asian asset markets** given significant presence of global cyclical players among listed companies.

Malaysia Economy

- **Malaysia on recovery path**, supported by fiscal stimulus plan and improving private sector demand. Wages in the manufacturing sector have grown and the pace of retrenchment have slowed.
- **Malaysia may also derive less marginal benefit from further infra-based stimulus** given its relatively well-developed infrastructure.

Apocalypse Averted?

Reconfiguring the New Normal

Day 1 – Session 2: Firms and Transformation

Idris Jala, Jamaludin Ibrahim,

Daniel R Fung, Yvonne Chia, Bernd Waltermann

KHAZANAH
MEGATRENDS
FORUM



KHAZANAH
NASIONAL

Transformation

- **Transformation:** entails fundamental change in the way organisation does business and the character of the organisation. Drastic changes favoured instead of incremental changes
- **Key Areas:** 8 laboratories set up under the Government Transformation Programme to address crime, corruption, education, low income household, rural basic infrastructure, and urban public transport. Report targeted for January 2010.

Crime & Corruption

- Anti-corruption campaign / policy dependent on the state of economy
- **3-prong approach:** enforcement, capacity building and education
- **Public sector vs Private sector:** linked symbiotically; public sector is comparatively easier to reform (top down approach)

Human Capital & Productivity

- **Social contract:** crisis environment puts strain on employee relations e.g. pay cuts, training budget, entertainment etc.
- **Quantity vs Quality:** to eliminate non-performers and incentivize top performers to increase total productivity
- **Increased productivity:** employees can perform better with incentive and performance measures

Global & Regional Champions

- **Need for differentiation:** to identify and excel in niche markets
- **Chosen ones:** to identify companies (top 10) and allocate all resources to create regional / global champions; organic growth will not work
- **Entrepreneurship:** balance between encouraging risk-taking and government intervention

Apocalypse Averted?

Reconfiguring the New Normal

Day 2– Session 3: Competitiveness and Development

Andrew Sheng, Dr. Danny Quah

Martin Jacques, Atul Bhargava, Karim Raslan

KHAZANAH
MEGATRENDS
FORUM



KHAZANAH
NASIONAL

Network crisis

- Criteria to locate in the new normal (the 7 Cs – competition, core competence, clustering, coherent, choice, capacity and culture)
- Geographic space to be taken advantage of via social and economic network connection
- Peoples vs Systems and Individuals vs Institutions

Global Perspective

- **Post-crisis perspective:** to be based on historical evidence or facts but not dogma / ideology, to aim for poverty reduction, to develop partnership within commonality of interest as well as to improve governance
- Over the next decade the world is predicted to shift into a completely different paradigm in which China's GDP will double that of U.S. in the year 2050. BRICs will have higher income. With economic power, China and other large developing countries will exert power on other strategic interest

Lessons for Malaysia

- **Advantages:** Malaysia needs to focus on its comparative advantages and to understand and deal with its weaknesses to avoid from being handicap. Malaysia should capitalize on the small size, human capital, skills and resources capability and availability
- **Country model such as Netherlands** – a low profile country yet has a high standard of living should be a role example for Malaysia to benefit from the rise of China, India and Indonesia with technology and investment as leverage.
- **Integration of technology** into education would facilitate the country towards a knowledge and innovative-led economy. In the absence of human capital, technology and innovation does not exist. Malaysia has to be bold and creative to attract and retain existing and potential investors
- **Execution is crucial.** Actions need to be taken now otherwise we will be in the middle income trap forever

Apocalypse Averted?

Reconfiguring the New Normal

Day 1 – Special Address: Islamic Finance
Dr. Abbas Mirakhor

KHAZANAH
MEGATRENDS
FORUM



KHAZANAH
NASIONAL

Financial Globalization

- **Irreversible:** Globalization is irreversible. Countries have no choice but to join. Later joiners have difficult time catching up.
- **Benefit:** Financial globalization will reduce cost of capital globally, provide opportunity for diversification, reduce volatility and increase stability, higher income & growth and reduce poverty and inequality
- **Prerequisite:** Capital flows to high return/risk market. However to benefit, country must reform to good governance, reform in financial sector, legal reforms to benefit. Countries with high corruption level may not benefit from financial globalization.
- **Lucas paradox:** higher equity flow among developed countries and home biased behavior even though risk-adjusted is higher overseas. Large premium, larger differential between equity and risk free assets. (equity premium puzzle)

Islamic Finance

- **Development:** Islamic finance on its path in its development. The path will converge with the traditional finance as it need the same prerequisites – institutional reforms, property rights, transparency
- **Risk sharing:** Islamic Finance puts more emphasis on property rights, contracts, trust and cooperation to ensure maximum risk sharing. It will result in higher growth and reduce inequality and poverty
- **Link to real sector:** Reduces the risk of financial crisis. Reduces high leverage.
- **Rules of behavior:** Islam ordains moderate consumption, production – rules out waste, good governance, resources are created for all humanity (against monopoly)

Apocalypse Averted?

Reconfiguring the New Normal

Day 2 – Luncheon Address: Underlying trends and Imperatives in Business

Dominic Barton

KHAZANAH
MEGATRENDS
FORUM



KHAZANAH
NASIONAL

Trends

- Urbanization – rising middle class of consumers especially from India and China
- Infrastructure spending and the size of projects steadily increasing
- Asia's share of the top companies is increasing
- Water is scarce especially where water is needed the most
- Rising inequality

The New Normal?

- The core assumptions of finance are being questioned; country level measures, neoclassical economics and the efficient market hypothesis
- Public sector performance and corporate performance – different metrics to measure strength of companies

Imperatives

- Capture the massive new middle-class consumer group
- Fire up the innovation engine
- Build risk capacities for the new normal
- Upshift talent management capabilities
- Help build the soft infrastructure

Malaysia is well positioned to win in the “new normal”

Apocalypse Averted?

Reconfiguring
the New Normal

Day 2 – Session 4: Leadership & Society

Nazir Razak, Juan Villalonga Navarro,

Dr Martin Gargiulo, Ravin Jesthasan, Awadh Al Ketbi

KHAZANAH
MEGATRENDS
FORUM



KHAZANAH
NASIONAL

Leadership Matters

- In an increasingly volatile world, risk mitigation and flexibility will be a premium.
- Leaders who can deliver results, risk taking behavior, responsible & accountable for failures.
- Create values for family, company and society.
- Importance of the ambidextrous leader.

Talents and Leadership Paradigm/ Roles

- 3 ways to create values: develop character through integrity, effective communication with humility and leadership through service.
- Leadership through different levels: fresh graduate, middle management, higher management, professionals and CEO.
- 4 stages of leadership developments: Identifying high flyers, training & development, enabling changes and strategic position.
- Education for future leaders.

New Social Networks

- Focus on a limited number of functions and pursue alternative staff strategies – truly “networked” organizations.
- Partnering with other organizations.
- Network with big cities.
- Network needs clusters of tightly connected group “Islands” & “Bridges” between clusters to contrast ideas.
- Network with integrity, creativity, successful & self sustained