



**KHAZANAH  
MEGATRENDS  
FORUM 2013**  
KHAZANAH  
NASIONAL

**Special Address**

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**Growth WITH Inclusion**



Same Game, New Players



# PURSUING JUSTICE AND DOING WHAT IS RIGHT

YBhg Tan Sri Dato' Seri Utama Nor Mohamed Yakcop, the Deputy Chairman of Khazanah closed KMF 2013 with a speech that was as literary as it was lyrical, peppering his observations at the two-day Forum with commentary on the struggle to "do what is right" as found in major written works. In a scene from Bertrand Russell's 1961 book, "Has Man A Future?" the last surviving human on Earth pleads to Osiris, the god of the underworld to not act on His intentions to destroy humankind. Overcome by the level of potential destruction, the human protagonist replied:

*"Oh dust and inexorable dirt, the indictment of my species is all too well deserved and never more so than in the present day. But we are all guilty and few of us are without better potentialities than those who these circumstances have developed. Do not forget that we have but lately emerged from a morass of ancient ignorance and age-long struggle for existence. Most of what we know we have only discovered in the past 12 generations, intoxicated by our new power over nature we have been misled to the pursuit of power over other human beings."*

Transposing the above scene to modern days, Tan Sri Dato' Nor Mohamed Yakcop drew parallels to humankind's most glaring paradoxes: that in this world and at this day and age, there exists side by side both abundance and intense deprivation. He noted that it was mentioned at KMF 2013 that two billion people go hungry every night, when humanity has at its disposal the technology to feed the entire human population. Indeed, the theme of glaring disparities and the paradoxes they present was a major theme discussed at KMF 2013.

Lest the Forum concluded on a note of helplessness and despair, Tan Sri Dato' Nor Mohamed Yakcop offered his thoughts on what is required to make humanity be able to "do what is right." First, it is necessary to have a modicum of wisdom, but this is far from being something that can be considered a given. Reflecting on some of the views presented at KMF 2013, Tan Sri Dato' Nor Mohamed Yakcop agreed that the Washington Consensus and its triumvirate of liberalisation-privatisation-selling of assets has not worked. While deciding what does not work is arguably the simpler half of the task, what does work and what economic system can offer this "modicum of wisdom" is more difficult to identify. Nevertheless,

Tan Sri Dato' Nor Mohamed Yakcop stated that regardless of the variants of democracy or capitalism, the role of government is deeply important. Regardless how clumsy, government is relevant and the best type of government is possibly the type presided over by a philosopher king, as in the words of Plato. Perhaps in jest, Tan Sri Dato' Nor Mohamed Yakcop mentioned that this type of leadership would be the best example to pursue.

The question of "what is the right thing to do" emerged once more as Tan Sri Dato' Nor Mohamed Yakcop recalled that on multiple occasions, the same was asked by members of the audience to the Forum panelists in making sense of the issues discussed. Using his own experience in government as an example, he stated that doing the right thing is often illusory as it is an ideal aspiration. He illustrated this with the example of Arjuna the Pandava king, who the Bhagavad Gita narrates as facing deep inner turmoil in the decision to go to war against his blood relations in order to save his kingdom. Just as the bloodshed, mourning and destruction that war entailed made Arjuna question whether defending his kingdom was worth the outcome, the answers to humanity's most pressing questions always result in losers and winners. In the words of one of the

Forum panelists, inequality is an enduring reality of humankind. The quandary facing policymakers in seeking to be just was also described by Nobel laureate and Harvard economist Amartya Sen in his book "The Idea of Justice." In it, Sen described the scene of the person who wanted to give away a flute. Three children approached the person and argued that they were each the worthiest recipient of the flute. One of them said she deserved it as the flute would be the only toy she owned, another claimed that the flute should be hers because she was the only one who knew how to play the instrument, while the third said that the flute should be rightfully hers as it was she who had made it. If the government were the "person" tasked with giving away the flute, who should it be given to? Again, to ask the government to do what is right begs the question, what is it that can be classified the right thing to do?

Justice, as separate from social justice was also highlighted in the speech, noting that the former received no mention by any of the speakers at KMF 2013. Unlike social justice—such as in the provision of public goods and critical resources such as schools, roads and healthcare to underserved communities—justice as an ideal and basis of policy is less clear cut. Removing social injustice, argued Tan Sri Dato' Nor Mohamed Yakcop, is arguably easier as the philosophical questions of identifying winners and losers do not emerge. On the other hand, being just and aware of the winners and losers in any decision made, is a more difficult task.

On a more light hearted note, Tan Sri Dato' Nor Mohamed Yakcop spoke of the divergence between the financial and real economies in the example of bankers, who as a group received a lot of (sometimes less than savory) commentary at the Forum. He acknowledged that since the 1980s especially, financial markets have taken on a momentum of their own, departing from their original functions as intermediaries to support the real economy. The gyrations of international trade and lopsided returns to developing and developed economies that resulted further drive home the necessity to reflect and ensure that financial markets return to their original intermediary roles.

Serious, poetic, reflective and earnest, Tan Sri Dato' Nor Mohamed Yakcop delivered a speech that was a fitting closing to the two days of frank discussion and insightful sharing of views that were KMF 2013.

## Growth AND Development

Growth at all cost often means growth with deep political and social repercussions. An illustrious panel of economists, policymakers and public intellectuals share their views on ensuring long term equitable growth. >Page 3



## Women IN Society AND Business-

PROGRESS, STAGNATION OR REGRESSION?

Women face internal (self belief) and external (society's expectations, child bearing duties as well as regulatory and structural impediments) challenges. >Page 3



## Leadership AND People

Leaders have to be inclusive and allow for a free flow of ideas to promote an environment where people are not afraid to express their ideas. >Page 3



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During his Special Address, Mr. Scott E. Kalb, former CIO of Korea Investment Corp., talked about the rapid emergence of sovereign wealth funds (SWFs) around the world. These players are changing the rules of the investment game by adopting innovative models to increase risk-adjusted returns and meet their individual mandates.

### Growth

#### SWF growth has exploded over the past decade

- 75% and 50% of SWFs today did not exist in 2000 and 2005 respectively.
- Total assets under management (AUM) is growing by USD400bn per year and is now at USD6tn today.
- The concept of the SWF as a government-owned asset allocator is spreading like wildfire – at least twenty more SWFs are expected to spring out of Africa in the near term.

### Paradoxes

#### There is such a thing as a free lunch for SWFs

- Through diversification across geographies, sectors, and asset classes, SWFs can achieve higher risk-adjusted returns.

#### Volatility can be a friend, not a foe

- Since SWFs are long-term investors, they can afford to adopt counter-cyclical investment policies, i.e. buy in distressed times and sell in boom times. The private markets may appeal more to SWFs going forward due to their relatively low beta.

### New Game

#### Leading SWFs are changing the rules of the game

- On average, SWFs allocate 25-30% of their portfolios to alternative instruments. The high management fees and portfolio construction costs incurred have led to inefficiencies.
- To improve risk-adjusted returns and better align with their mandates, SWFs are adopting innovative models, i.e. direct investment, co-operation with other SWFs, fund buyouts etc.

- The rise of SWFs over the past decade has been meteoric and will likely persist in the coming years.
- The innovative models of SWFs show that they are changing the rules of the investment game and are set to become a significant class of investors in the future.

### Development moral based on Distribution

#### Changing of visions for a paradigm shift

- We should no longer simply accept conventional programmes of development.
- The paradigm shift we need is a distribution framework/development/moral. Scriptures have found evidence that from the very beginning, humankind has recognised the need for a distribution framework to thrive, and not the other way around.
- We need to empower the capabilities of those who are least advantaged. Adam Smith in his book the Wealth of Nation writes about a "society of opulence" as an ideal society in which the least advantage has enough to eat, wear and have comfortable living quarters.

### Take away the "Punch Bowl": Withdraw liquidity

#### Taking away the "punch bowl"

- There is only so much risk in a society – risk can be shifted, moved or shared. The problem is that presently, monetary, fiscal and financial transactions are all based on risk transfer.
- There is a limit to how much risk can be carried forward. At some point in time, risk transfer moves to risk shifting. This can be seen during the crisis, where the risk of the financial shenanigans were shifted to the tax payers who had to pay for it.
- One way to stabilise the system is to take the "punch bowl" away. For a system to become anti-fragile, there are three steps to be taken:
  - › Must not have concentration i.e. firms which are too big to fail.
  - › Forget about debt (it's destabilising).
  - › Don't get in unless the other party has skin in the game.

### Sharing the risk/pain

#### For financial solution and inclusive development, there's a need to share the risk with the citizens.

- If a country wants to run a fiscal deficit, should borrow internally instead of externally. It will help improve corporate governance and promote inclusive growth as there's a vested interest within the citizens to make sure their money is put into good use.
- Financial inclusion can then become a reality as it incentivises everyone.
- We have to imbue the system with morality and ethics because people are essentially moral and decent.

- There is a need for a paradigm shift as far as economic development and finance is concerned. For this we have to change our vision. These can be solved by sharing risks which improves corporate governance and income distribution, ultimately leading to inclusive growth.

### Achievements

#### Malaysia has achieved significant growth and improvement in many aspects since Independence

- Great urbanisation of population. Current proportion of rural to urban is 1 : 2.
- Reduction in absolute poverty to below 4% in 2009 from a high 50% in 1970.
- General income inequality between ethnic groups has also gone down from 2.29 in 1970 to 1.65 in 1987 based on data for inter-ethnic household income ratio between the Chinese and Malays.
- There are changes in traditional perception of occupations based on ethnicity. For example, Indians are no longer the major ethnic in Agriculture, but Bumiputeras
- Increase in Bumiputeras' ownership of share capital from 2.4% in 1970 to 19.4% in 2006, with significant increase of individual share ownership.

### Challenges

#### There are however certain challenges faced by Malaysia, leading to problems such as Middle Income Trap and low sustainable growth

- Modest growth has been maintained by steady government spending of around 9% instead of private spending, which has dropped significantly to 3%.
- Education in the country is lacking despite high government spending. There is a large shortfall in technical and vocational workforce skills. In effect, Malaysia has a higher percentage rate of unskilled workers (2007:12%) compared to South Korea (2007:0%).
- R&D investment remains low at 0.6% of GDP in 2007.(China:1.5% of GDP).
- Cronyism-recovery efforts after the Asian Financial Crisis has also stunted economic performance and competitiveness.

### South East Asia vs. North East Asia

#### Comparing SEA and NEA, Malaysia still lacks behind many countries

- SEA's reliance on FDI creates problems. It can be observed that FDI in NEA is less than 2%, SEA on the other hand is more than 5%
- Such high FDI reliance creates a shift in growth responsibility. Low capacity of industrial policy and incapability in creating an industrialist class of its own will only result in Malaysia having to play the catch-up game.
- Middle income trap: worrying problems on productivity and cost competitiveness calls for the need of more active industrial policy. Hence, state owned enterprises needs to be more proactive in making investment decisions.

- Malaysia needs to return to industrial developmental policies to break out of the trap of moderate growth. Selective use of industrial policy tools will increase competitiveness of industries, products and processes.

## SPECIAL ADDRESS

### The Tipping Point: How SWFs are Changing the Rules of the Game

Speaker: Scott E. Kalb, CEO and Founder, KLT Advisors; Executive Director, Sovereign Investor Institute, USA



## LUNCHEON ADDRESS

### Starry Heavens Above and the Moral Law Within: Morality and Finance

Speaker: Prof Dr Abbas Mirakhor, First Holder, INCEIF Choir of Islamic Finance



## SPECIAL ADDRESS

### Malaysia@50: Challenges Past and Future

Speaker: Dr Jomo Kwame Sundaram, Assistant Director-General, Economic and Social Development Department, United Nations Food and Agriculture Organization (FAO), Italy



### Paradox

- Very poor countries like India and the Philippines, which chose democracy-led systems have produced less than stellar economic performance. Mainly due to the huge disparities in the haves and have nots. Those who have capital have an upper hand in the democratic process as they have better access to education and leadership skills. Henceforth, the process becomes an exclusive system.
- Countries like Singapore, Taiwan, Korea and Japan have chosen a "developmental autocratic" approach to develop its economy. These approaches have managed to alleviate poverty and raise the economic status of these countries paradoxical to the West's belief of free-market and democracy.
- The success of the system however relies heavily on a combination of pronoun economic hardship and political turmoil, which helped instill great fear of failure and discipline - South Korean War, Japan's involvement in WW2, Singapore's secession from Malaysia, Taiwan's political challenge with China, China's cultural revolution under Mao Zedong.

### Challenges

- Developmental authoritarianism has its limits and challenges. The tipping point for Japan was in 1975 when the "fear factor" started to diminish. Hubris starts to set in and a "gold triangle relationship" emerges between bureaucrats, politicians and corporates.
- China is currently at crossroads and the leaders understand the threat of interest groups that are stopping reform.

### Different Game

- Economies need to be pragmatic in adapting the right balance of development to ensure sustainable growth.
- Malaysia cannot simply copy the approach of these countries as it has different resources and historical context. Markets have failed to deliver equitable outcomes for the society and hence Government needs to step in to manage the relative deprivation ( gaps of living standards between different classes of society).
- However, Government alone cannot tackle the issue by itself - the right policies that invite views from all stakeholders must be in place and the solutions must eventually tie back to facilitating or promoting inclusive growth.

• Each economy needs to blend in their own economic ideologies and strengths to achieve the right balance of inclusive economic growth. Social injustice can only be resolved when public and private entities act based on a common purpose that promotes growth.

### What? Situation

- Women face internal (self belief) and external (society's expectations, child bearing duties as well as regulatory and structural impediments) challenges**
- Although more than 60% of university graduates are women, 40% of them never enter the workforce.
  - Women make up less than 10% of decision making roles (parliament and board).

### Why? Issues

- Challenges women face:**
- Unequal access to training (women of board program is limited to women age 45 and above and men does not need to get onto any program to be a board member) and opportunities.
  - Society expectations – Negative perception to working/career women.
  - "Playing by the men's rules" and succeeding in a "men's world".
  - Obstacles to 'blooming' in a "patriarchal" society.
  - Men vs. women gender specific roles
  - Success without sacrificing 'womanhood'
  - Balancing career (outer, material) vs. home life (inner, spirit, marriage and child bearing duties).

### How? Proposed Solutions

- **Greater support and understanding by men in position of power** – to facilitate and encourage women to achieve their dreams and realise their fullest potentials.
- **Women to show active interest to participate** – The aim is not to "pull men down, but for women to raise herself up" / "Lean-in".
- **Removing regulatory and structural impediments** – Relook at our current structure and create an enabling and conducive environment that supports women to be the best that she can be in any fields that she chooses.

• Although women dominate the workforce pipeline with more than 60% of universities graduates, less than 10% make it to the end of the funnel (decision making roles).  
 • Binary opposite battles of "men vs. women" are not useful in understanding the situation. The concern should be about supporting women to achieve their chosen pursuits, be they in the office, at home or anywhere in between.

Leaders are vital in shaping the future of society. However, if the right framework does not exist and the leadership style is not compatible, talent cannot be developed and thus society cannot have meaningful progress.

### People empowerment through leaders and education

- **Empowerment through leaders:** selecting the right people and setting the right framework to allow them to make their own decisions.
- **Empowerment through education:** teaching of creative thinking skills at an early age encourages people to have their own opinions.

### The paradox of scarcity of talent

- **Paradox:** Companies complain about scarcity of skilled talent while there is a high unemployment rate amongst youths in Malaysia.
- **Factors why this is happening:** (a) skills learned are not transferable ; (b) companies are not investing enough in developing talent in youths; (c) unwillingness to allow highly paid experts to invest time in training talent.
- The private sector needs to engage in "competitive collaboration" amongst private firms; as being guarded about their recruitment strategies will have an overall detrimental effect.

### Industry exposure builds talent

- Development of the right skillsets is crucial**
- There is a need for greater engagement between education providers and the private sector within Malaysia to allow for the right skills to be nurtured.
  - Exposure of students and teachers to industry allows them to have a greater understanding of the skillsets required.

### Leadership is vital to drive change

- Leadership is about making a difference**
- Leaders have to be inclusive while allowing their subordinates to be able to fail. This allows for a free flow of ideas and promoting an environment where people are not afraid to express ideas.
  - Leadership in Malaysia needs to be redefined; it's not just about telling others what to do, it's about making a difference. Need to encourage every level of the organisation to make a difference.
  - Hard work and productivity are vital, promote Innovation, allow for mistakes but learn from them, everything that is done needs to be sustainable.

• Education is the cornerstone of leadership; good education nurtures good leaders.  
 • Leaders need to be inclusive and adaptable to change.

## SESSION 3 Growth AND Development



## SPECIAL SESSION Women IN Society AND Business - PROGRESS, STAGNATION OR REGRESSION?



## SESSION 4 Leadership AND People



# BOOK LAUNCH

Two books were launched at this year's Khazanah Megatrends Forum. Authored by Albert Gaspard Zeufack and Lim King Yoong, 'Can Malaysia Achieve Innovation-led Growth?' is the culmination of a special growth project - the Malaysia Vision 2020 model - organised by Khazanah Research and Investment Strategy division.

'The Street Of Harmony' is a pictorial book about Dr APJ Kalam, the Former President of India's visit to the Unesco World Heritage site in Georgetown, Penang, Malaysia on 30<sup>th</sup> August 2008.



▶ "Can Malaysia Achieve Innovation-Led Growth" was launched by YB Dato' Seri Idris Jusoh, Minister of Education II



▶ "The Street of Harmony" was launched by YBhg Tan Sri Dato' Seri Utama Nor Mohamed Yakcop, Deputy Chairman of Khazanah Nasional Berhad



## YBHG TAN SRI DATO' AZMAN HJ MOKHTAR, MANAGING DIRECTOR OF KHAZANAH NASIONAL BERHAD SHARES HIS VIEWS ON KMF 2013

Paradox is a very challenging theme. What insight to the theme of Paradox have we gleaned from KMF2013? What questions remain unanswered?

In spite of a lot of uncertainties and deep paradox, there is a thread of optimism which suggests that there are certainly ways forward.

1. We need to get more information and views – through forums like these
2. We have to understand the language of agreeing to disagree because without that, we cannot get different views.
3. There is indeed harmony in paradox – we learnt that from the artistes, the philosophers and the many learned panelists.

More than hope, I take away with me a few ideas that I think many participants took away with them. Yes, there are many uncertainties overhanging issues like economics, societies, politics, but amidst all those forms of paradoxes, I think we can conclude that there's both optimism and wisdom.

What remains uncertain?

I think growth with inclusion is a topic of discussion and we have a big test-bed that's being implemented for Iskandar Malaysia. Also, ask yourselves how do you grow but yet be inclusive? If you don't do it properly, the faster you grow, the faster you exclude people. So I think with all the intervention, planning and thinking, one key take away is to ask, how do you have inclusion with growth?

It seems every year we ask ourselves how do we do it better. So far, the feedback has been that the bar goes up every year. *Alhamdulillah*, I think not just for the form, but the substance of content, events and a certain familiarity. This builds a certain following and a certain network. From all these confluence of networks, people, ideas, hopefully we build action. So I think it is time for a call for action.

In your opinion, how effective is the KMF series as a conference and as a forum?

KMF series directly and indirectly, consciously and sub consciously affects our thinking. The topics for KMF are carefully chosen and heavily debated. In fact, it's wonderful that we don't necessarily agree within the team on the content and speaker selection. It's authentic, it influences our thinking and perhaps there's a second role – hopefully it's our contribution to knowledge; thought leadership and development for the country's collective knowledge trust or brain trust.

On a lighter note, is there a chance that Malaysia can ever achieve football glory before 2020? What is the hope for them?

Before 2020? Maybe not. But that's the paradox. Who knows. But we've got a very great following in Malaysia. There's so much involvement by the public in football and hopefully that audience will spur the team to success.