

KHAZANAH MEGATRENDS FORUM 2010

**Reclaiming the Commons:
Collaborating and Competing
in the New Economic Order**

Clash of Civilizations: Crisis or Opportunity?

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Kuala Lumpur
5 October 2010
All views expressed here are personal to the author.

The Confluence of the Rise of Islam, India and China

Three Key Issues:

I. Clash of the Civilizations Re-examined.

The nature of the 'clash' is changing. What does this mean for the region and the world at large?

II. Can India's and China's rise offset a faltering West?

Fiscal consolidation and de-leveraging in developed world may take five to eight years to subside. Can India's and China's growth offset this?

III. What are the implications on Malaysia?

With its diversity and rich cultural links to Islam, India and China – what opportunities and challenges does Malaysia face as a result of these megatrends?

The Huntington Thesis: 1993

- I. Global politics is now multi-polar and multi-civilizational
- II. Balance of power is shifting
- III. A civilization-based world order is emerging
- IV. Western universalism in conflict with non-Western civilizations
- V. Absence of global war depends on world leaders accepting and cooperating to maintain multicivilizational character of global politics...p20-21

Huntington: Belief in Universalism

- With the collapse of the Soviet Union, Westerners see their civilization in a position of unparalleled dominance, while at the same time, Asians, Muslims, and other societies are beginning to gain strength. P.311
- In the emerging world of ethnic conflict and civilizational clash, Western belief in the universality of Western culture suffers three problems: it is false; it is immoral, and it is dangerous. P.310.

Two Rules for Avoidance of Major Inter-civilizational Wars

- Abstention rule that core states abstain from intervention in conflicts in other civilizations is the first requirement of peace in a multi - civilizational, multi- polar world.
- Joint mediation rule that core states negotiate with each other to contain or to halt fault line wars between states or groups from their civilizations. ..p.316

World Economic Forum Global Redesign Initiative – April 2009

- **Traditional Bureaucracies not equipped to deal with inter- civilizational and interdisciplinary processes under rapidly changing contemporary circumstances:-**
 1. **Power shift from North to South, West to East**
 2. **World that is more complex and bottom-up**
 3. **Nation states and government structures still play major role but needs interdisciplinary and multi-stakeholder input**
 4. **World needs more systemic approach to decision-making**
 5. **Traditional concepts of global governance need re-thinking**

Overtaking by China and India by Scenario

	Scenario ① (Basic Scenario)	Scenario ② (Slight Change in Foreign Exchange Rates)	Scenario ③ (No Change in Foreign Exchange Rates)
China > US	2026	2029	2042
China > 15 Euro Countries	2025	2027	2035
India > Japan	2023	2025	2029
India > 15 Euro Countries	2042	2047	Impossible by 2050
India > US	2046	Impossible by 2050	Impossible by 2050

Source: Jung, Samsung Research Institute

Global Imbalances are Source of Potential Conflicts

Global Net Foreign Asset (NFA) and Liability Position 2008

Region/Country	Net Foreign Asset (+), Deficit (-) US\$ bn	GDP 2008 US\$ bn	NFA/GDP %	Exchange rate impact due to 10% change in USD	Impact as % of GDP
Asian Surplus	+ 4,994	12,309	+ 40.6	- 499	- 4.1
Other Surplus	+ 2,863	3,706	+ 77.3	- 286	- 7.7
Total Surplus	+ 7,857	16,015	+ 49.1	- 786	- 4.9
Euro Area	- 2,584	13,631	- 16.9	+258	+ 1.9
USA	- 3,690	14,441	- 25.6	+369	+ 2.6
Australia	- 501	1,062	- 47.2	+ 50	+ 4.7
Subtotal Deficit	- 6,775	29,134	- 23.3	+ 678	+ 2.3
Other Countries	- 1,082	16,070	- 6.7	-108	+0.1
Global Total	0	61,219			

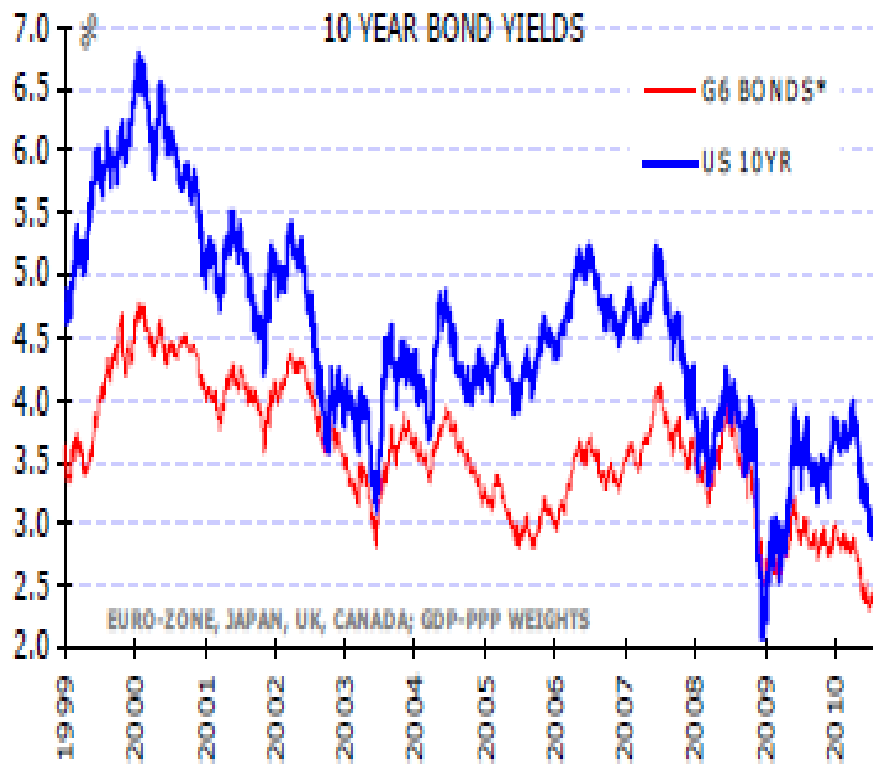
East Asian Net Foreign Asset Position 2008

(IMF data)

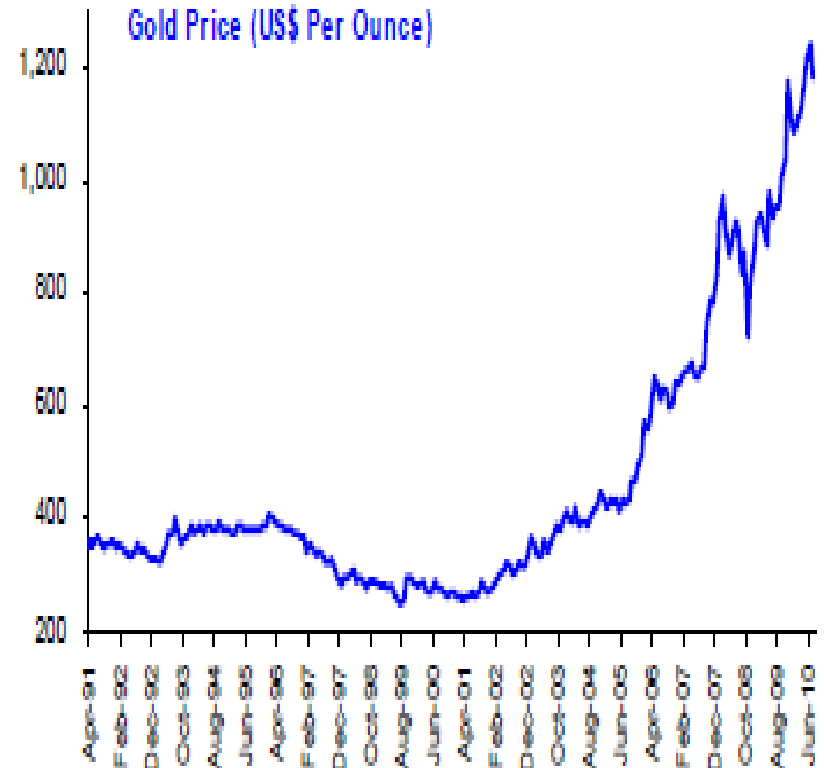
	NFA in \$bn	GDP	NFA % of GDP	Gain/Loss if USD change 10%	Gain/Loss as % of GDP
Japan	+ 2,470	4,887	+ 50.5	- 247	- 7.6
China	+ 1,420	4,520	+ 31.4	- 142	- 4.7
HKSAR	+ 623	215	+289.8	- 62	- 43.5
Korea	- 125	929	- 13.5	+ 12	+ 2.0
Indonesia	- 160	512	- 31.3	+ 16	+ 4.7
Malaysia	+ 26	222	+ 11.8	- 3	- 1.8
Philippines	- 43	167	- 25.9	+ 4	+ 3.9
Singapore	+ 220	182	+120.9	- 22	- 18.1
Thailand	- 16	272	- 5.9	+ 2	+ 0.1
Taiwan	+ 579	403	+143.8	- 58	- 21.3
Asia-10	+ 4,994	12,309	+ 40.6	- 499	-4.1

Market Participants are Presently Risk Reticent

Growth Scare: Falling Long Bond Yields



Risk Aversion : Gold Price at New Highs

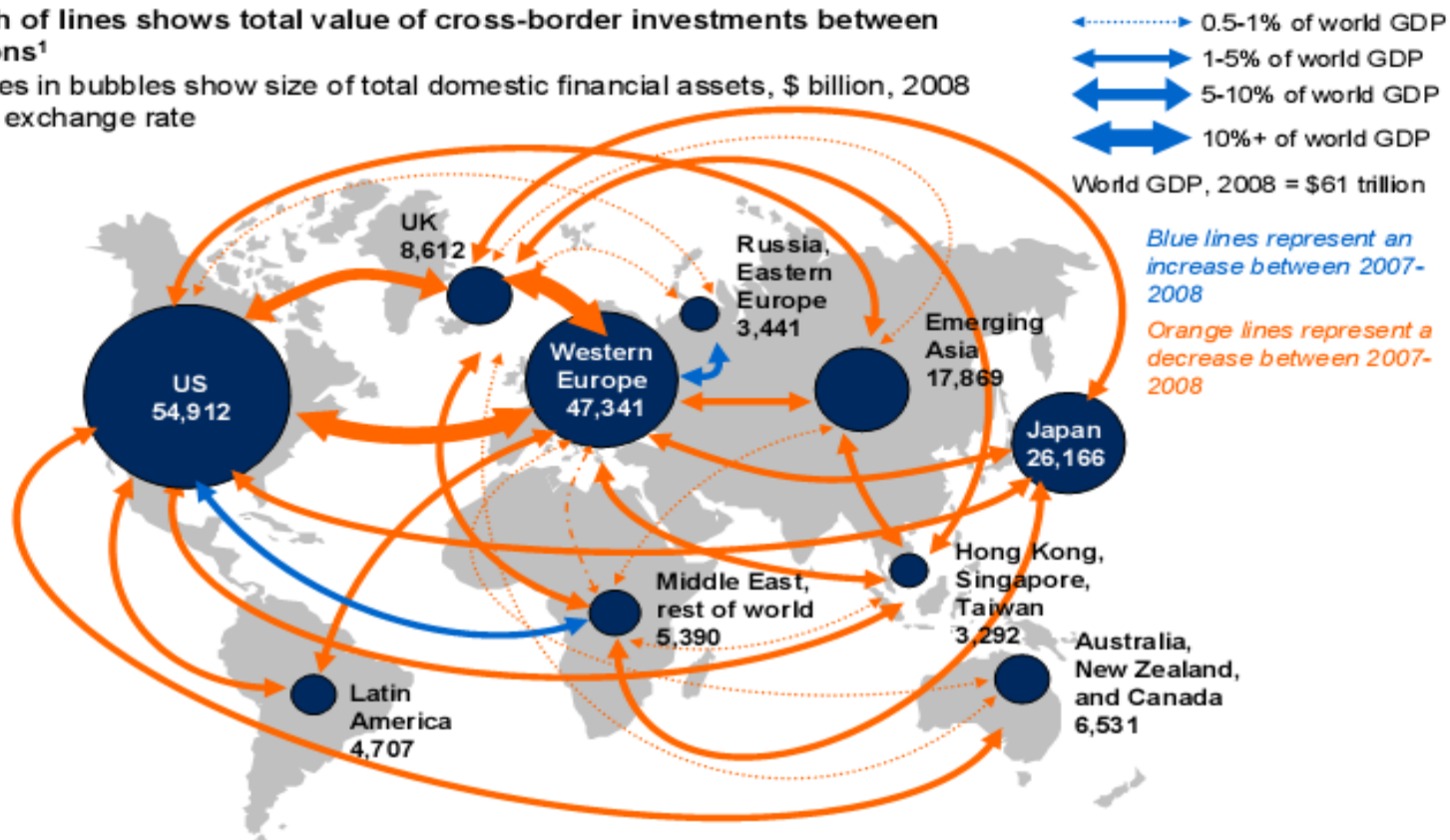


Global Finance to Shift Eastwards

The current view of networked globalized finance

Width of lines shows total value of cross-border investments between regions¹

Figures in bubbles show size of total domestic financial assets, \$ billion, 2008
2008 exchange rate



¹ Includes total value of cross-border investments in equity and debt securities, lending and deposits, and foreign direct investment.

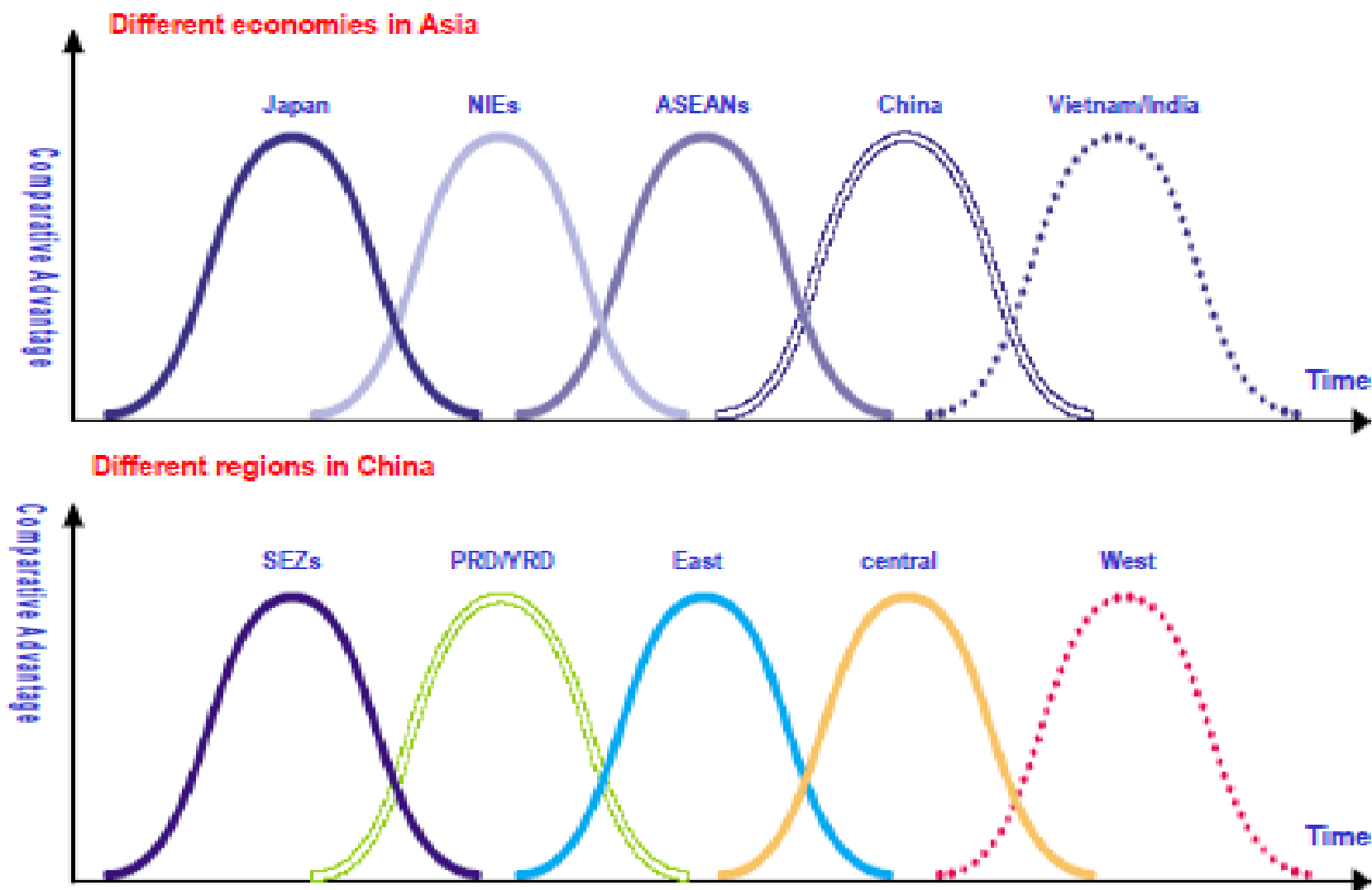
Three Possible Scenarios

- Asia booms, Exchange Rate appreciates, Export Growth switch to Domestic Consumption engine - Advanced countries pull out of deflation
- Muddling Through – skirmishes hurt growth on both sides. Asia slows down, West goes through prolonged slow growth
- Great Recession – Protectionism, Conflicts
 - No winners
 - Rising Unemployment, Social Unrest, compounded by Natural Disasters and Terrorist/spreading war

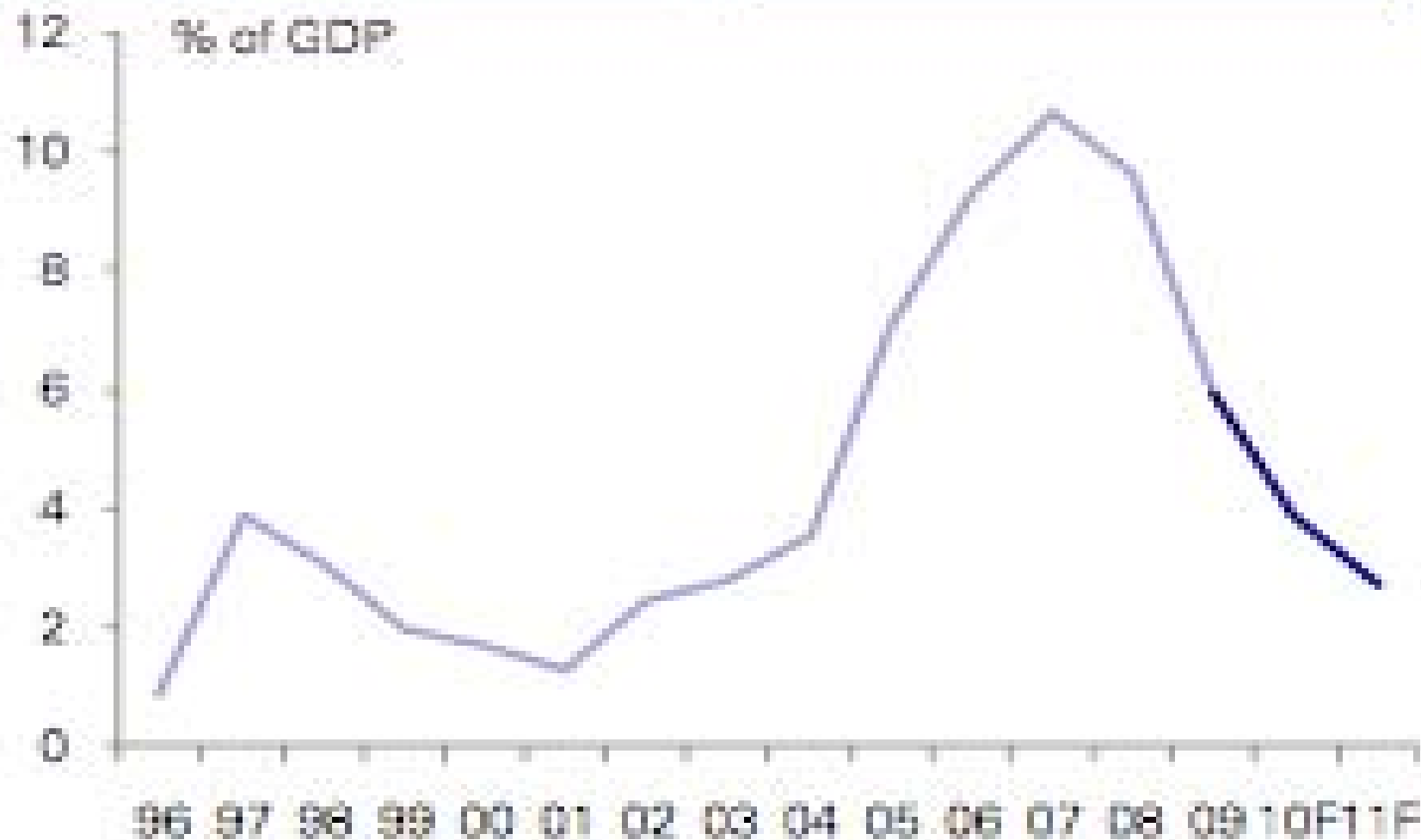
How Long can these Super Engines Accelerate for?

- Chinese economy through 2020 – not whether but HOW it will slow
 - Tightening labor market has driven real wages and unit labor costs up
 - Potential housing bubble in tier 1 cities due to stimulus-related infrastructure projects
 - Lending to government-owned investment companies may result in NPLs
 - China's low Yuan policy – longer term implications
 - Yuan / US\$ may appreciate as much as 24% over next five years
 - Increase in Chinese retirees will start outpacing that in the labor pool in 2011
 - Relative price of labor will rise further
 - Household savings rate will reduce
 - Chinese investment will decelerate
 - Longer term threats that need to be addressed include China's fragile environment and the decreasing availability of resources
 - Domestic consumption and innovation will be key to offsetting weaker external demand

'Flying Geese Paradigm': China emulates East Asia

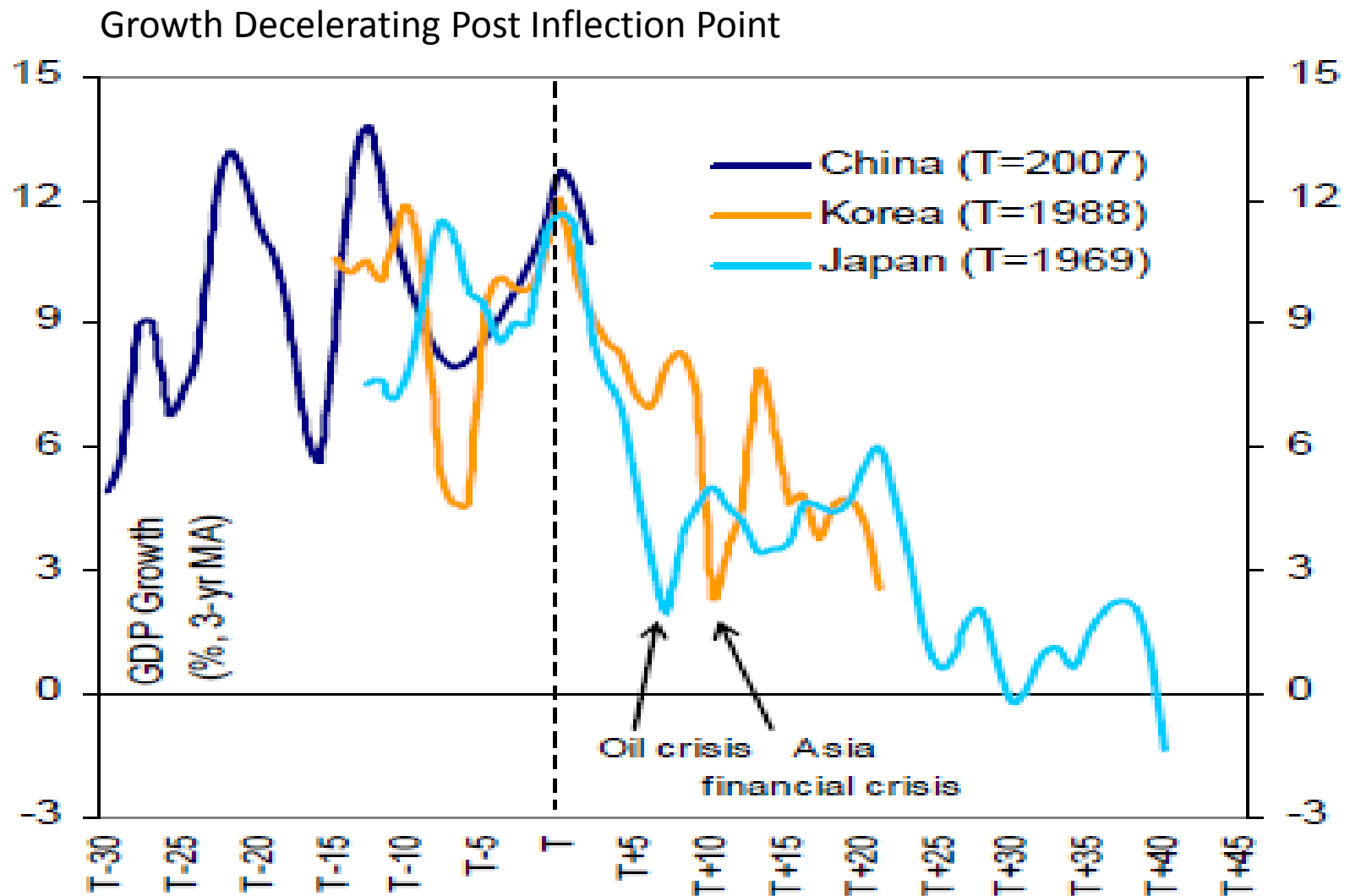


China's current account surplus



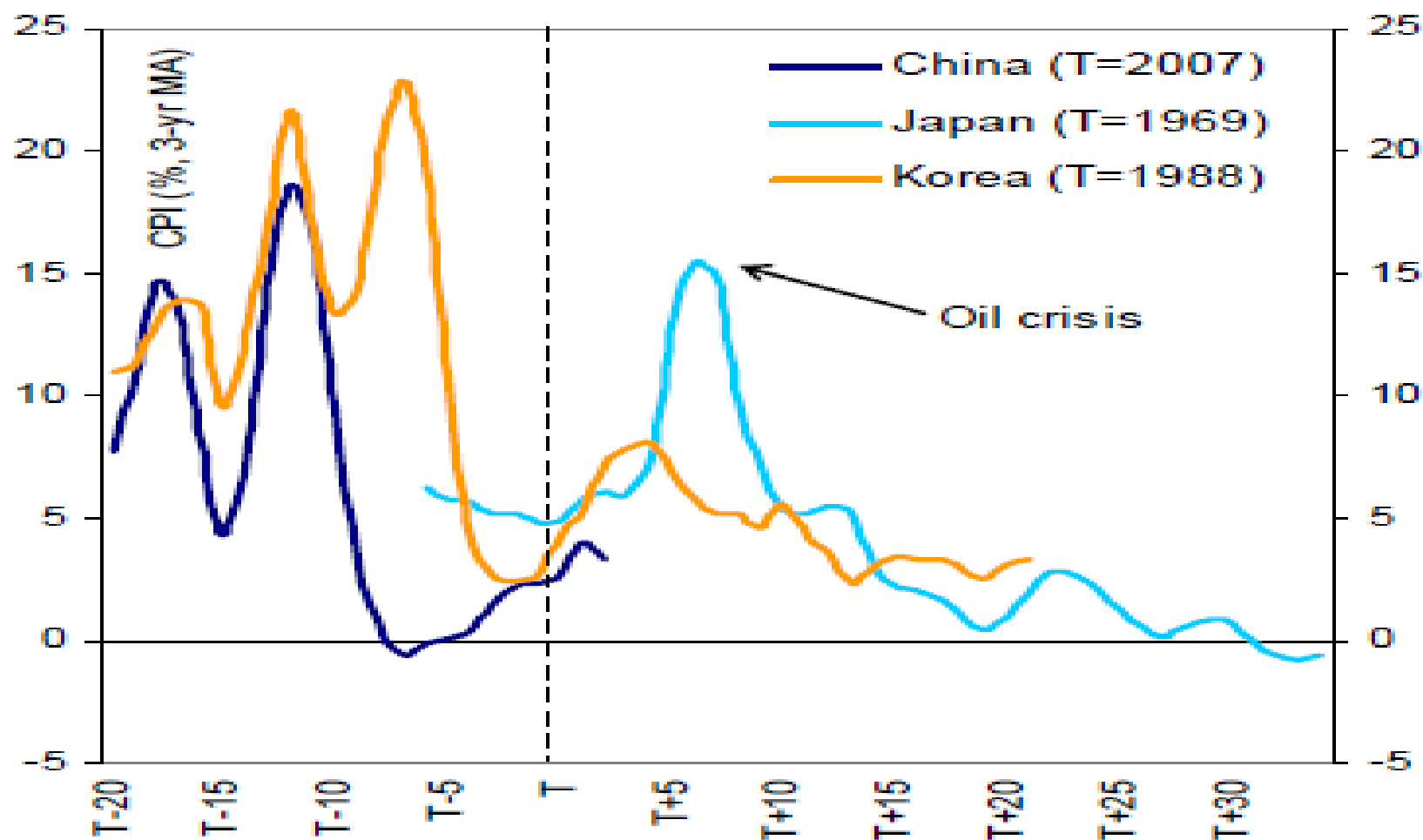
Sources: CEIC and Deutsche Bank DB Research

China Growth set to Slow, similar to Japan and Korea



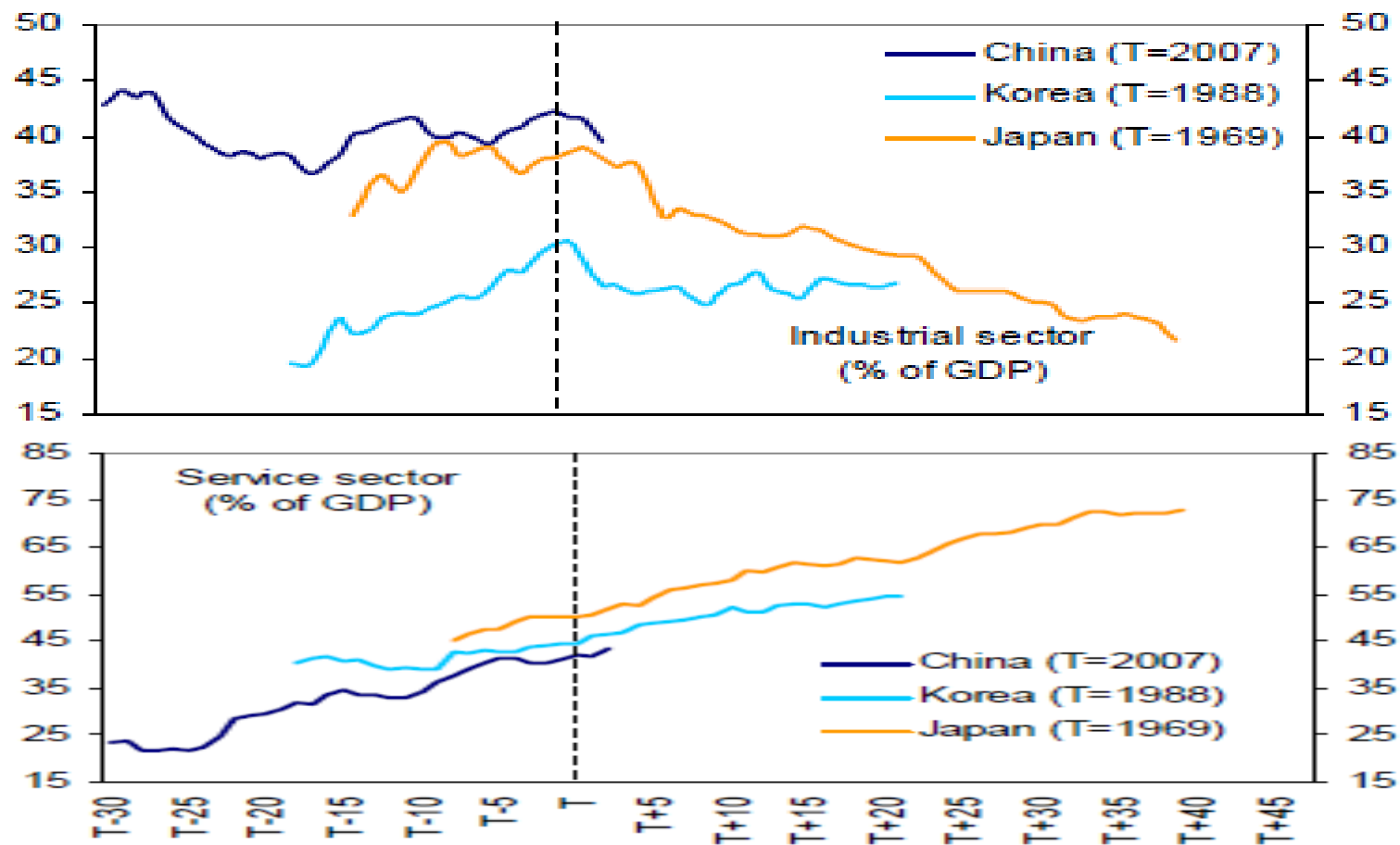
China's Inflation Expected to Rise

Inflation Acceleration Post Infection Point



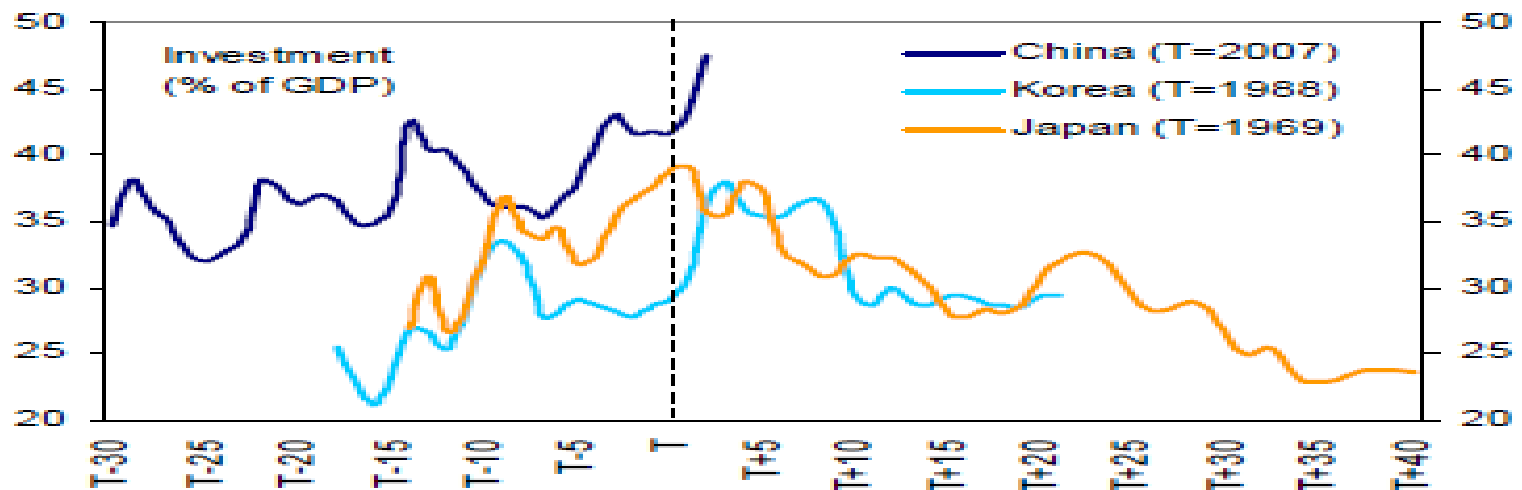
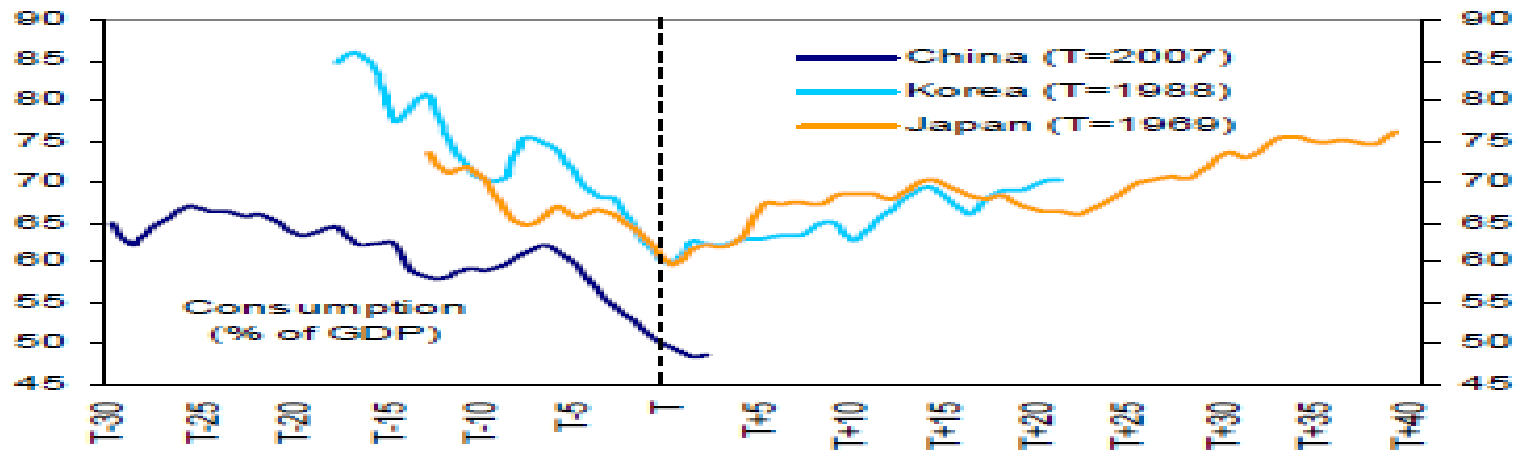
Services Sector will Grow Relative to Primary and Manufacturing

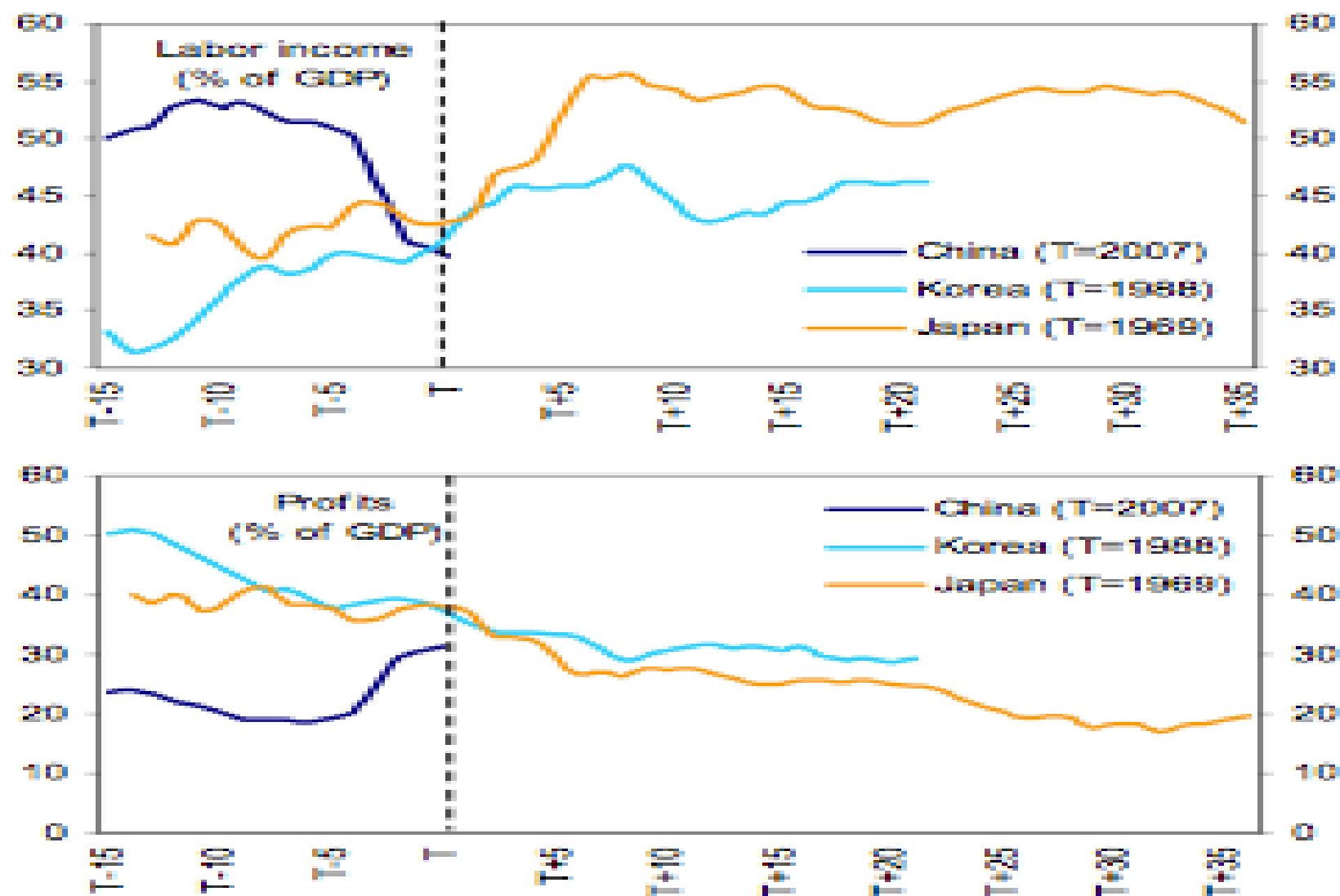
Rising Share of Service Sector Post Inflection Point



Consumption will rise

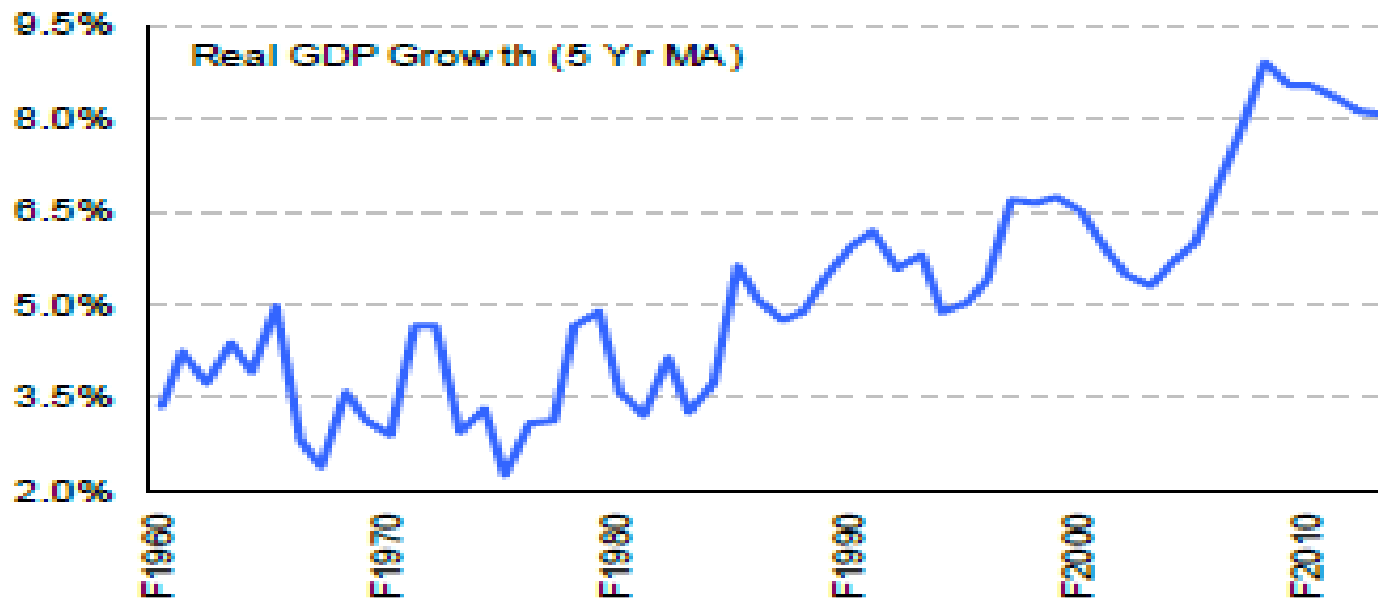
Rising Share of Consumption Post Inflection Point



Rising Share of Labor Income Post Inflation Point

India's Sleeping Tiger Awakes

- India is transitioning into a new growth path
- The shift comes from three main factors – demographics, reforms and globalization

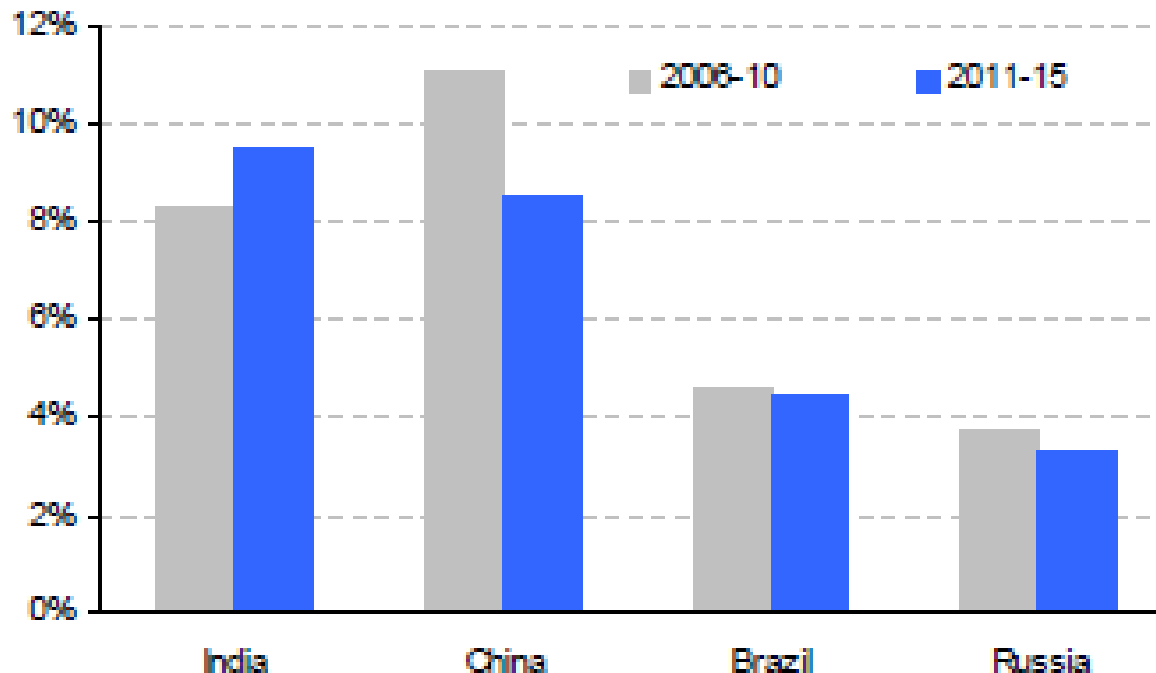


Source: SCO, Morgan Stanley Research

India Expected to Outpace China by 2015

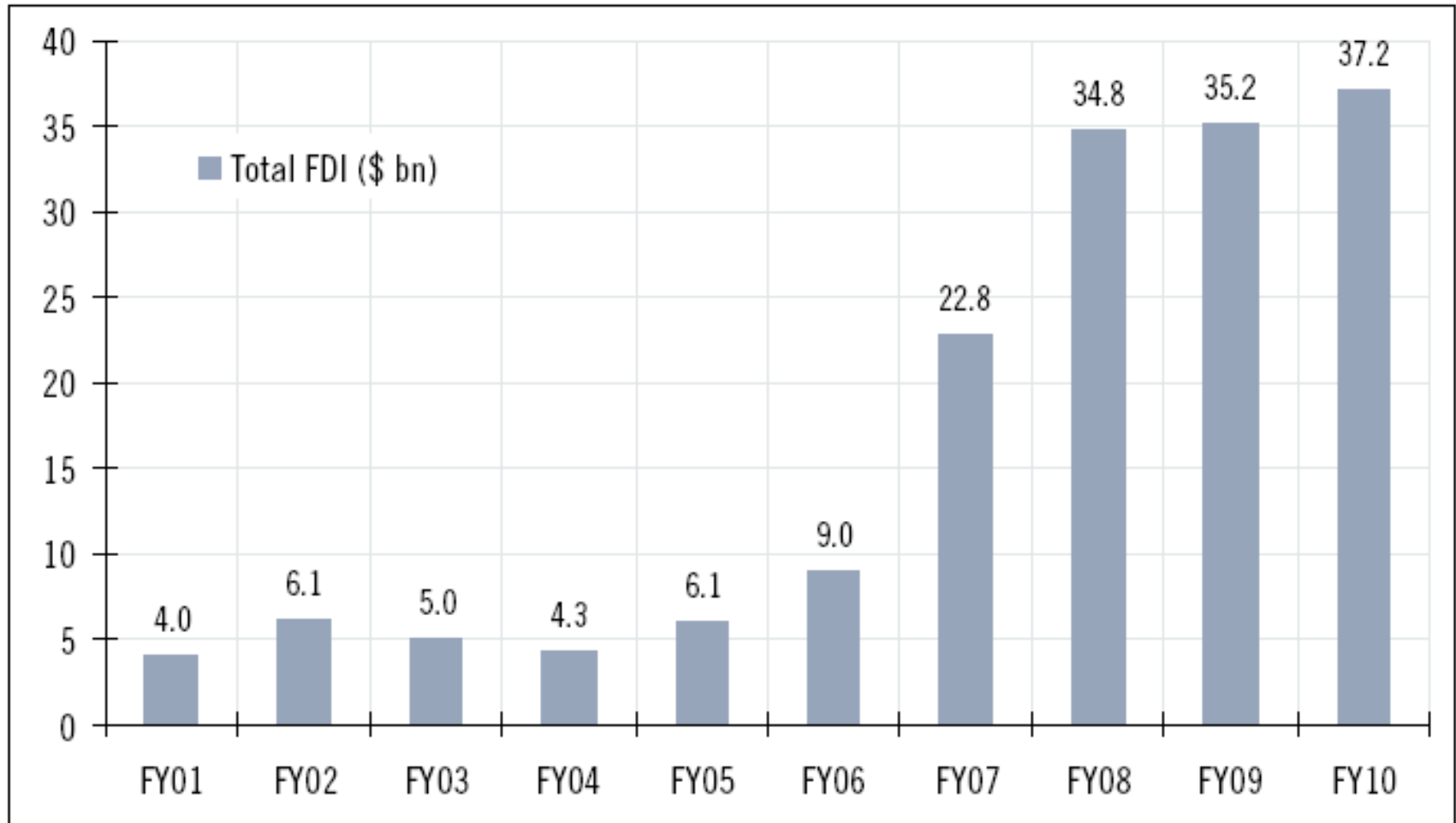
- India's per capita income is expected to reach China's 2009 levels over next 10 to 11 years
- India will see a further rise in its ratio of investment to GDP while China will see a gradual rise in consumption GDP

BRIC : Average GDP Growth 2006-2015E



Source: SCO, Morgan Stanley Research

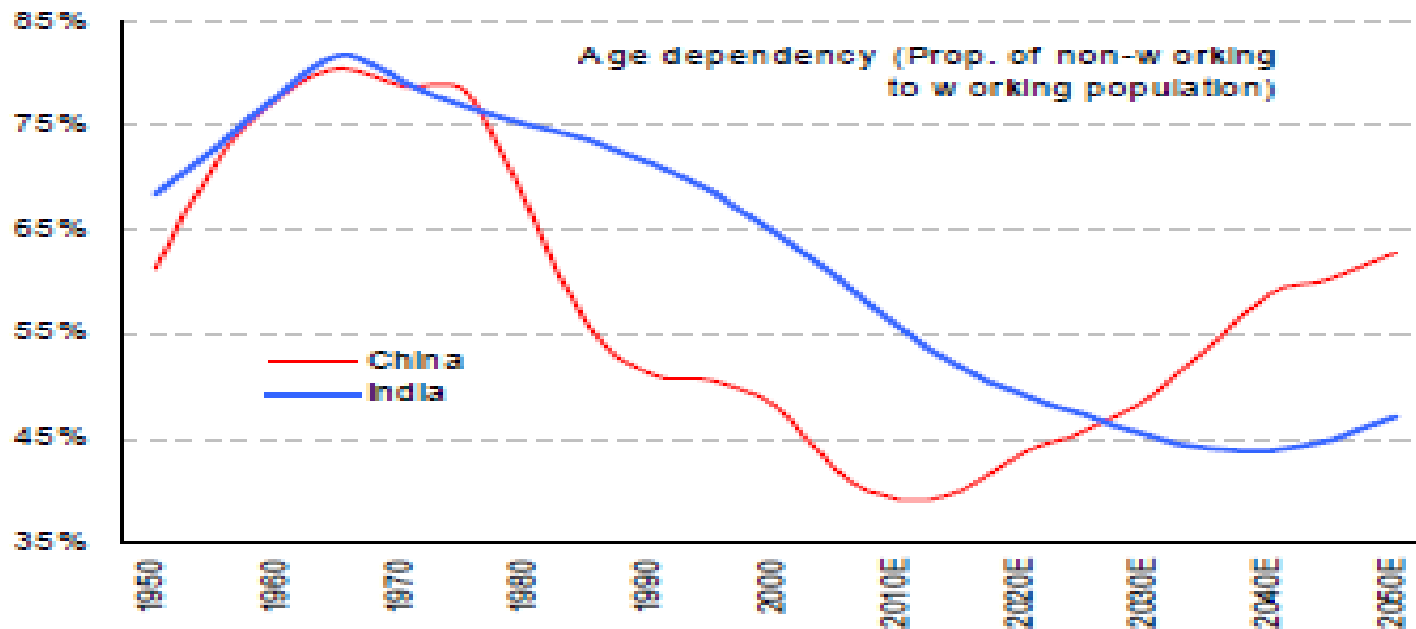
FDI – India's Shining Success



Source: DIPP

Demographics – Key Factor Explaining China's Current Lead and India's Future Lead

- India's workforce will remain the youngest for a long period
- India - largest contributor to growth in global working population over the next 10 years



E = UN Population estimates; Source: UN, Morgan Stanley Research

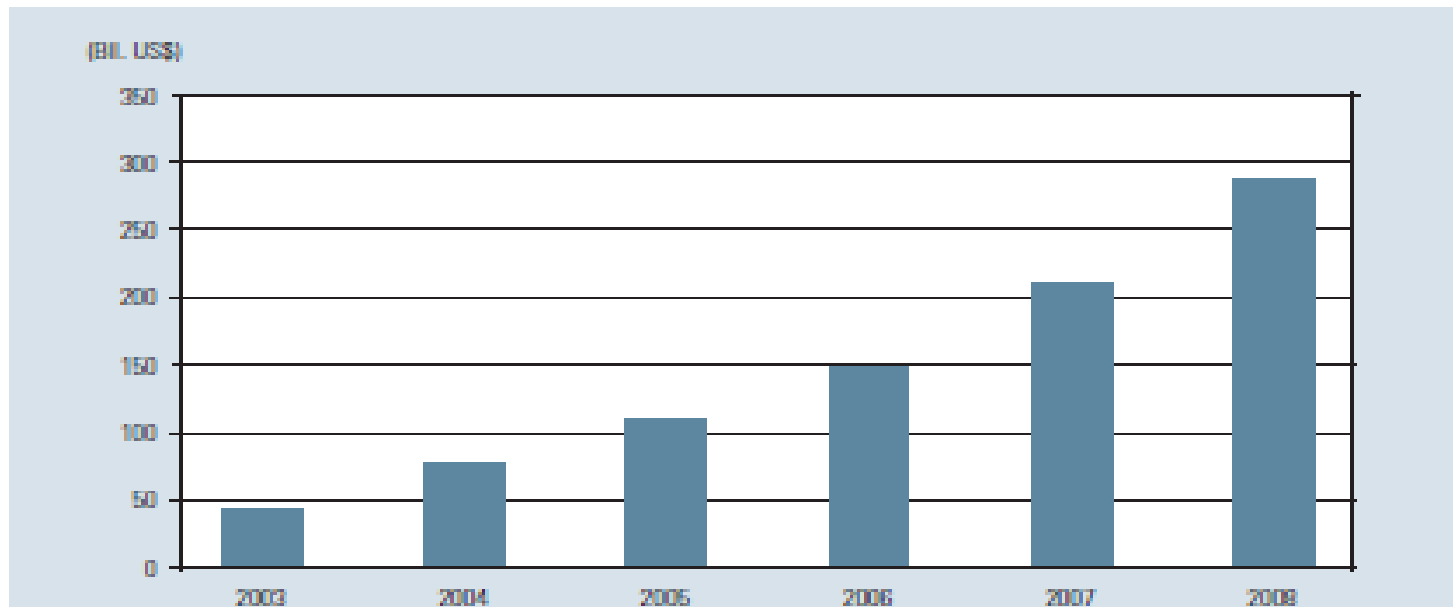
Middle East – the third New Pole of Wealth and Growth

- Still the major source of energy supplies for years to come
- Pattern of demand will change, as Gulf and other states move into different levels of demand
- The rise of Islamic markets and services – Islamic Finance, Halal products
- Middle East already important source of income for tourism and investments
- GDP of OIC economies already at US\$740bn or 13% of global GDP

Rise of Muslim Markets and Islamic Services

- Islamic banking has reached critical mass in the Gulf region after sustained growth
- Islamic banking expansion set to continue

Total Assets of Islamic Financial Institutions in the Gulf Cooperation Council Countries*



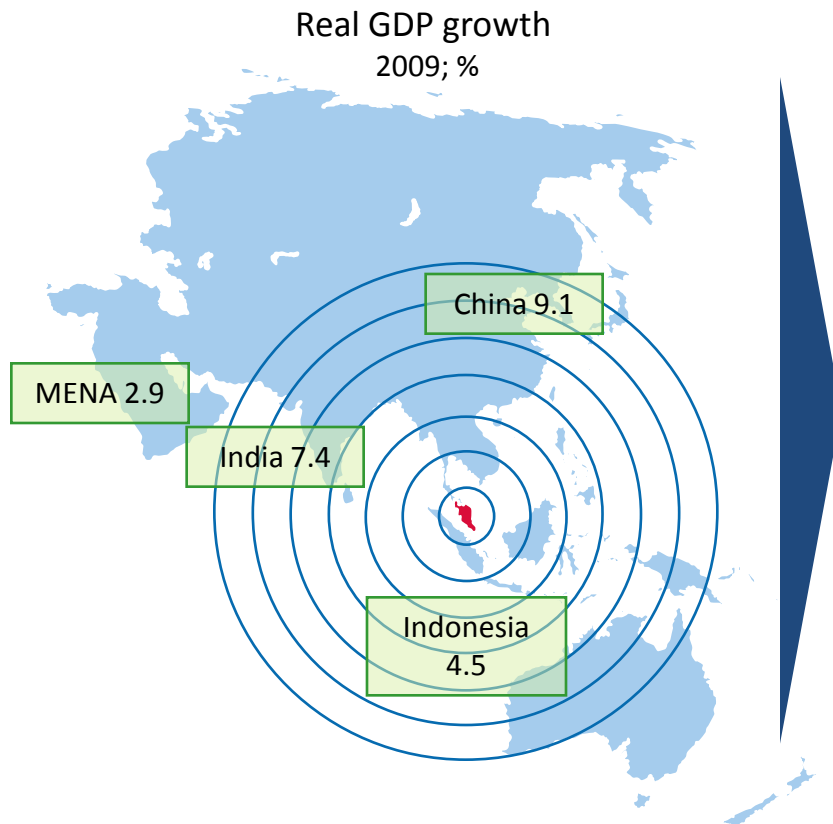
*Gulf Cooperation Council countries: Bahrain, Kuwait, Qatar, Saudi Arabia and United Arab Emirates.

Source: Standard & Poor's

What Does This All Mean for Malaysia?

- Which single country is **culturally, geographically** and **resource-wise** best placed to take advantage of these megatrends?
- Key is for Malaysia to find its niche
- Right time, right place, but no unity means inability to execute and benefit
- A stronger Chinese Yuan and higher labor cost bring opportunities for Malaysia
 - More degree of freedom to 'reinvent' competitive exports
 - Opportunity to go for our niche areas that support IMC growth

Malaysia is Strategically Located as Economic Power turns East



- Bilateral trade between Malaysia and China was US\$51.9 billion in 2009 and is expected to exceed US\$60 billion in 2010
- Bilateral trade between Malaysia and India was US\$7.2 billion in 2009 and is expected to exceed US\$10 billion by 2011
- China, India and East Asia are likely to be major sources of new capital as they seek currency stability, access to natural resources and niche markets that reinforce bilateral ties
- Malaysia has inherent characteristics (e.g. language networks) that can develop tourism and industry links that tap into regional growth

Malaysia is Rich in Culture, Biodiversity and Resources

■ Mega-diverse countries



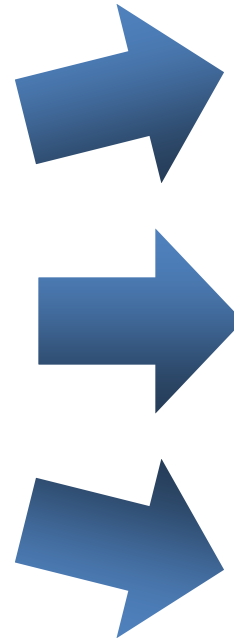
- Malaysia has a rich array of **ethnicities, with diverse cultures** spread across the Peninsula, Sabah and Sarawak
- Malaysia is one of the 17 mega-diverse countries identified by the United Nations Environment Programme (UNEP) as harbouring the **majority** of the **earth's species**. Some 60% of Malaysia remains forested
- Malaysia is well-endowed with **natural resources** in agriculture, forestry and minerals

Unique Opportunity to Solve Middle Income Trap Differently

Building on existing strengths

Malaysia's advantages present a unique opportunity to implement a game change:

Malaysia must play to her comparative advantages by exploiting niches that enable the country to advance in terms of:



Q&A