



Reclaiming the Commons:

Collaborating & Competing in the New Economic Order

KHAZANAH
MEGATRENDS
FORUM 2010



Key Questions:

- What are the trends and fault lines in the global economy that have emerged from the crisis and the relational aspects of the economy that we need to pay attention to? Is this the end of the emphasis on economics of markets?
- What is the terrain of the new playing field for firms that have experienced the effects of the crisis? How ingrained is the need for transformation in preparing firms to compete and survive in this new environment?
- How will countries locate themselves along the continuum of competitiveness in the aftermath of the crisis? What role do location and specialization have to play in this equation, and what collaborative models can be harnessed in boosting competitiveness?
- What lessons has the crisis taught us on the type of leadership that is needed to effect change and depart from “business as usual”?
- How do we make economic growth and ecological concerns compatible to pave the way for sustainable economic development?



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Day 1: Introduction

Tan Sri Dato' Azman Mokhtar, MD, Khazanah Nasional Berhad

About KMF

- KMF is an annual gathering of Malaysian corporate leaders, policy makers, think tanks and practitioners from the public and private sectors as well as civil society.
- KMF is entering its 6th instalment in 2010 since it started and the first was organised in Pulau Jerjak. KMF coincides with Khazanah's year-end planning cycle and typically addresses topical matters of interest that will shape the global outlook in the near future.

KMF 2010

- The theme for this year's KMF is "Reclaiming The Commons: Collaborating and Competing in The New Economic Order."
- The forum is structured into four distinct sessions; 1, Macro & Markets, 2. Firms & Transformation, 3. Competitiveness & Development and 4. Leadership, Talent & Change.

Objectives

- They address key issues and matters arising in relation to the four distinct sessions.
- KMF is a platform for a violent agreement and non-violent disagreement.

We should not focus on the doom and gloom but rather look at the opportunities for collaboration to reclaim the global commons.



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Day 1: **Welcome Remarks**

YBhg. Datuk Mohamed Azman Yahya

What are the 'Commons'?

- The commons is a general term for resources, some of which are tangible such as land and public facilities and some are abstract such as the internet, scientific research and cultural/artistic values.
- The government is a trustee of the commons and exists to serve the people. No one person can own the commons but all people are touched by the commons.

Global financial crisis is a demonstration of the tragedy of the commons

- The recent global financial crisis was a result of private interests harming the global commons.
- It is not enough to appreciate the problem of the commons, we must manage it. It is an issue of great concern but appreciate that it is not always easy to control.

Opportunities for collaboration

- It is not all doom and gloom as we have resources and opportunities at our disposal, not just Malaysia but specifically within our corporate community.
- We can further leverage on location and the opportunities for collaboration. Already there exists global movements springing up to care for the environment, peace etc. People are ready and eager to work together to protect the global commons

We should not focus on the doom and gloom but rather look at the opportunities for collaboration to reclaim the global commons.



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Day 1: Keynote Address

YB Dato' Seri Ahmad Husni Mohamad Hanadzlah

We must be united as one to achieve change

- As a society undergoing change and entering a higher level of maturity, we need the 1Malaysia spirit expanded across all sectors of Malaysian life – workers, corporates, bureaucrats and NGOs
- Our relationships must not be adversarial as the enemy is not amongst us. People should remain united in their ambitions.
- There is not one country with unlimited resources.

The financial services industry is a critical pillar in our thrust forward

- Although we have done well in the sukuk market, we need to move to the next level to become a premier Islamic finance center. It is the national duty of our domestic institutions to champion this cause.
- We should develop our capabilities in the Islamic asset management space as it complements existing sectors such as takaful and asset management.

The financial market is the war of the 21st century

- Financial institutions are adversarial and the financial system is the global battleground. This impending war is rather real.

The financial system is a global battleground and the financial market the impending war of the 21st century



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Day 1: SESSION 1: MACRO & MARKETS

Dr. Simon Ogus, Kevin Lu, Zhou Yuan, Teoh Kok Lin & YBhg. Dato' Latifah Merican Cheong

Megatrends

- **China's shifting economic model:** China's economic model will increasingly shift (1) from being export-dependent to promoting domestic consumption; and (2) from attracting FDIs to investing abroad, with significant implications for regional economies.
- **Urbanization:** Urbanization will emerge as an important growth driver for emerging Asia. It will both (1) drive productivity growth across the board; as well as (2) create demand for infrastructure and urban services.
- **Sustainability – no longer a fringe issue:** sustainability is rapidly emerging as an important growth driver as it entails smarter, instead of less, consumption. China and ASEAN may end up over-taking the US in the field of renewable energy.

Economic outlook

- **Double or multiple dips?:** while the jury is still out on the likelihood of a double-dip recession, consensus is that developed markets will experience a period of sub-par economic growth due to the ongoing de-leveraging process. The road to recovery is likely to be long, with multiple bumps along the way.
- **Decoupling or not?:** Asia is still the most trade / export dependent segment of the global economy. However, growth prospects between Asia / emerging markets are increasingly diverging (and more insulated) from the developed markets
- **Currency wars?:** Exchange rates and the need for global rebalancing will remain a contentious issue, especially given the diverging growth prospects within developed and emerging economies

Malaysian economy

- **Need better numbers:** Malaysia has not fared as well in this recovery. Underlying fundamentals are still weak, with household debt climbing and exports volume still below previous high watermark. Despite the equity market's recent buoyant performance, longer-term trend suggests that Malaysians are de-investing in their own economy.
- **NEM – cautious optimism:** The NEM is regarded as a well thought-out blue-print. However, political will is crucial for its successful implementation and execution.
- **Malaysia well-positioned:** Malaysia is geographically and culturally well-positioned to take advantage of the shift in China's economic model

**Protracted sub-par, bumpy growth ahead for developed markets;
Diverging and rosier outlook likely for emerging Asia**



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Day 1: **SPECIAL ADDRESS**

DYTM Raja Dr. Nazrin Shah Ibni Sultan Azlan Muhibbuddin Shah

Global Commons & the Challenge of Global Governance

- The problem of the commons is an example of a situation where the pursuit of individual self-interest leads to an outcome that is socially suboptimal
- Due to globalisation and integration, village commons has now become the global commons with impact that can reverberate in a multitude of ways across national boundaries
- Mismanaging the commons can threaten not just the march of human progress and development, but the very existence of humanity itself

Changing International Landscapes & the Decline of Global Institutions

- Global institutional architecture has not kept pace with new realities, reflecting power relations & state interests that existed immediately after WW2
- The recent global financial crisis revealed that the present international financial architecture is incapable of avoiding or resolving financial crises
- The essence of the problem in order to reform global system is that we need the consent and support of those whom power will be taken away, but efforts to do are often hijacked by powerful vested interests

Rethinking Global Governance to Safeguard Global Commons

- Strengthen a rules-based multilateral security, economic and environmental governance system and reform existing institutions to align with new realities
- Incorporate and empower new non-state actors and ensure greater certainty and objectivity in international surveillance
- Transparency and access to information to manage commons and fundamentally rethink nature of economic growth & development

**We must dare to imagine a better, more humane, new economic world order.
We must be willing to explore new ways of engagement to advance human
progress and development**



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Day 1: LUNCHEON ADDRESS

S. Dhanabalan

The role of the state

- "Reclaiming the commons" essentially refers to going back to the basics of society and the economy
- The state has always played an important role in the economy. In the 19th and 20th century, there were 2 dominant economic models: (1) capitalist; and (2) communist; with varying combinations of the two in between (and mixed success)
- The State has not completely withdrawn from the economy even as the private sector becomes the dominant driver. However, the role and extent of State participation differs between economies.

The problem with SOEs

- State ownership is neither unusual nor detrimental per se. Problems emerge when there is a blurring of commercial and non-commercial objectives
- There is a need to focus on both profit maximization and governance for a company to be both successful and sustainable. However, both these elements are missing for a vast majority of State-owned Enterprises (SOEs)
- The major challenge faced by SOEs is to ensure that state ownership does not inhibit commercial motivation. An SOE that is not commercially-minded will not be sustainable over the long-term, regardless of the level of government support.
- The government should be an informed and active owner, establishing clear and consistent ownership policies while not interfering in operational matters.

Temasek's governance structure

- Temasek was set-up when the Singapore government decide to focus on policy-making instead of the management of companies. Ownership of these companies were transferred to Temasek. The Singapore government does not interfere directly with the running of Temasek but interact as a shareholder; and this approach is mirrored in the relationship between Temasek and its investee companies.
- The Boards of Temasek-linked companies look into the appointment of its Board members and senior management; and decide on its business strategies/operations without Temasek's direct involvement.
- Temasek has also established 3 markers over the years to instill financial discipline: (1) publishing annual reports; (2) obtaining credit ratings from S&P and Moody's; and (3) raising funds from domestic and international bond markets.

Be clear on commercial and non-commercial objectives



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Day 1: **SESSION 2: FIRMS & TRANSFORMATION**

Michael Powell, Norman Abdul Halim, Dr. Adrian D. Cheok, Atilla Kurama & Afzal Abdul Rahim

Impact of Financial Crisis

- Banks have become risk averse and reluctant to lend as a result of the global financial crisis.
- As a result, there is less capital for worthy projects in new technology, new drugs, and the creative industry.
- For Malaysia in particular, there is a profound question of whether Malaysia can allocate resources into ethical sustainable industries and lead the way in ethical and sustainable investing.

Creativity, children and society

- Creative ideas are the combination of design and technology; creative thinking adds value to society.
- We need to nurture creativity in our children for a better future. How do we get our children to be creative for the good of society? Education should become student-centric, i.e. customised and interactive learning is imperative
- The world is experiencing an exponential rate of change, accelerated by globalisation and technology. As such, ideas have become the most valuable asset of people and economies.

Transformation and Entertainment Industry

- We need to transform our method of doing entertainment business by going global through creating content for the global market by forming strategic partnerships.
- Piracy remains the main challenge to the entertainment industry, particularly in terms of illegal downloading. Consumers' mindset must be transformed to responsible consumption of internet content.
- Transformation in firms will only be successful if there is also transformation in law and order.

Transformation or crystal-balling into the future must come hand-in-hand with preparing the organisation to be adaptable



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Day 1: SPECIAL ADDRESS

Adrian David Cheok

The Science of Virtual, Mixed, and Augmented Reality

- The combination of traditional (physical) & computer (virtual) will be the technological application in commercial markets of the coming generation.
- Interaction with pets is possible with mixed reality technology. For example Chicken Hugging Device, real-world Pacman, etc.
- This technology can be applied to the current young generation who can process discontinued information, prefers non-linear forms of information and are learning by multitasking.

Positive Externalities And Challenges

- Parent-children communication can be improved through virtual hugging of children by working adults. Communication of younger generation with elderly people using food media can strengthen family bonding.
- Creativity and individuality might be lost as individual identity and self consciousness degrade but new wired self-consciousness can be harnessed for positive outcomes e.g. Wikipedia
- There is also the challenge of moving new ideas from concept stage to to product stage where workable and safe products are commercialized

Application and the Future of New Research

- Future research should tap into “experience communication” by merging real world and virtual world with all of our senses i.e. touch, visual, smell and taste
- Combines digital & traditional cultures to create a more enjoyable & secure platform for learning e.g. Ambikraf, Petimo; thus the need to rethink our educational content and how we educate our children
- Address family connectivity, an integral part of the Asian culture, through new media. A strong advantage and motivation for Malaysia to take initiative of this networked society.

At the research level, must make quantum leap innovation; it must be something that are controversial, something that haven't been thought before



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Day 2: **SPECIAL ADDRESS**
Henry Sender

Globalisation

- Global economic integration has resulted in the world to be more interlinked;
- People thought globalisation was answer to everything
- The world is disillusioned with globalisation and openness; might lead to de-globalisation and increased protectionism

Asian Challenge

- Most Asian countries rely on export-oriented growth model
- Challenge especially for Asian countries to keep their currencies from rising too much; governments forced to take action to discourage flow
- Risk of countries relying heavily on exports, e.g. Japan relies on only a handful of companies like Toyota

US Current Account Deficit

- US has trade deficit with 92 countries
- Even if China were to devalue its currency, the problem with US current account deficit will not be solved
- Many central banks buy US currency to keep their own currency down (not because of faith in US)

Financial systems is in itself a common; everyone has a right to money as we do health, but well-being requires money



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Day 2: **SESSION 3: COMPETITIVENESS & DEVELOPMENT**

YB Dato' Shahrir Abdul Samad, Dr. Alfonso Vegara, YBhg. Tan Sri Andrew Sheng,
YB Senator Dato' Sri Idris Jala & Dr. Nungsari Ahmad Radhi

The changing role of cities

- There is a redefinition of sovereign boundaries to boundaries of cities and regions. In today's economy, competition is not between countries but between cities and regions.
- Cities are crucial for social integration and sustainability of the planet. Cities are not the problem of the new economic order and cities are the solution.

Commons among the successful select few

- Transformation leadership.
- Roadmap for that transformation to exist with good alignment and a very clear and detailed program.
- Anchoring everything on true north. For a corporation, the anchor is the P&L statement and in terms of a country it is the GNI.
- Discipline of action.

Reclaiming the commons is about thought transformation

- There has been a movement to private greed from public good.
- The cities have forgotten about the rural areas and people no longer have common values.
- We need to build a 1Malaysia supply chain as we cannot compete in scale with the megacities around the world. We should be thinking about our niche in the global village.

There is a redefinition of the role of cities in attracting talent and driving growth. Competition is not between countries but between cities and regions.



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Day 2: **SPECIAL ADDRESS**
YBhg. Tan Sri Andrew Sheng

Clash of the civilizations Re-examined

- Traditional bureaucracies are not equipped to deal with inter-civilizational and inter-disciplinary processes under rapidly changing contemporary circumstances.
- Global imbalances are sources of potential conflicts. Nature of “clash” and balance of power is changing. The power is shifting from West to East and North to South.
- Western universalism is in clash with non-western civilizations. Two rules for avoidance of major inter-civilizational wars are the Abstention rule and Joint meditation rule.

Global dynamics present 3 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.

Malaysia is culturally, geographically, 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.
- Unique opportunity to solve middle income trap differently

Malaysia should collaborate domestically and compete internationally



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Day 2: **LUNCHEON ADDRESS**

H.E. Göran Persson

Issues and Challenges

- Message from IMF: Swedish debt will increase to 140% of GDP
- Fiscal deficit at 13% of GDP
- Re-election coming up
- Need to regain confidence, and not end up being an indebted nation

Programme introduced

- **No risks, no gains:** Took stock of the crisis, and acted quickly by implementing a **harsh and quick** programme, focused on reducing debt and deficit
- **Higher revenues, lower expenditures:** Increased taxes, coupled with aggressive cuts in expenditures; and when the fiscal situation became under control, taxes were lowered and paid back to taxpayers in his 2nd term
- **Reducing carbon footprint sold as a programme to tackle unemployment:** Combating climate change creates new jobs: Research, development, investments, new technologies etc. De-linking economic growth from energy consumption

Lessons for Malaysia

- **Tax reform:** To create a broader taxpayer base in order to build both physical and social infrastructure
- **Public finances and developing society:** Malaysia can have the best possible future if we (1) handle our public finances well; and (2) harness our resources
- **Quote:** “Trust your own population, if they want to work, and can work, and are treated in a fair way, you will have the best possible future.”

It is not difficult to realise what needs to be done – to deliver is the trickiest. Conviction, and the will to deliver, is imperative



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Day 2: **SESSION 4: LEADERSHIP, TALENT & CHANGE**

YB Senator Tan Sri Dr Koh Tsu Koon, Sarah Joseph, YBhg. Dato' Sri Jamaludin Ibrahim & Professor Dr. George Kohlrieser

Leadership

- Leadership can be nurtured and developed
- In Islam, leadership = stewardship; founded on principles of excellence & quality, trust and reputation
- Leadership in a changing world is extremely complex. Consensus and/or empowerment, while ideal, cannot be practiced in all situations.

Talent

- The foundation of talent development is practice + intrinsic motivation
- Challenging in current environment:
 - People on average spend 1.5 years at a job
 - Brain drain – 150,000 talent left Malaysia this year alone
- Too much emphasis on 'bricks', rather than 'brains'

Implications of Change

- Do leaders today make decisions based on facts? E.g. Steve Jobs did not conduct any research when developing the I-Pod.
- Changing business environment and pace of change requires fast moving decision makers. Are 10-year plans or 80-20 rule applicable in today's environment?
- 1Malaysia – unity in diversity; to leverage on diversity as an asset e.g. linguistics capability, religious & cultural affiliations will allow Malaysia to connect to 2/3 of the world

Leverage on diversity as an asset