

KHAZANAH
MEGATRENDS
FORUM

Shifting Sands
Threats & Opportunities
2008

Forum
Summary

Tan Sri Dato' Azman Hj Mokhtar

Strengths

- Economic fundamentals remain strong- current account surplus, low NPLs, and ample liquidity
- The financial sector is more resilient now due to reforms undertaken in 1998. Improved governance framework entails healthier banking and finance institutions

Challenges

- Financial turmoil in the global market will mean a softer growth pace for Malaysia- affecting the real economy
- Enhancing domestic private investments – efficient intermediation process in channeling funds to preferred sectors namely knowledge-based ones
- Sustaining robust domestic consumption

Strategies

- Re-prioritizing projects in favor of those that can be implemented expeditiously and with high multiplier effects
- Creating more opportunities for value investing
- Sustaining sufficient liquidity in the market
- Priority on SMEs' financing
- Liberalizing the services sector and reviewing the FIC guidelines

Global Economy

- The world is entering into a full-blown global economic recession – the unknown is the depth and scope of impact
- Divergence between real and monetary assets widening
- Governments across the world are injecting money into their respective domestic market in order to prevent liquidity crisis- purchasing of stakes in financial institutions, introducing flexible accounting
- US economy will be able to weather the crisis; Europe may face some difficulties

Asian Economies

- Asia is not decoupling itself from the impact of the global financial turmoil – although better prepared to face any possibilities due to resilience developed during post-Asian financial crisis
- China can provide the short-term cushion. Intra-Asian trading links need to be strengthened to diversify sources of trade.

Malaysia Economy

- Macro-economic fundamentals are strong- low NPLs, ample liquidity, current account surplus
- Need to commit the various reforms- education & taxation
- Need to focus on capacity and capability building in the services sector.

“Be fearful when others are greedy and greedy when others are fearful”- Warren Buffett

Looking Beyond the Crisis: Pitfalls in a Post-Bubble World

Stage 1: Credit Market Contagion

- Sharp contrast between current financial crisis and Asian financial crisis in 1997
 - ✓ Massive and unexpected run on US mutual funds (outflow of USD137bil in first 3 days)
- Guesstimate that 65% of the contagion is over; Morgan Stanley reports that the global economy will grow at 2½% in 2009 and at least the first half of 2010 (as compared to 5% prior to Sept '07)
- US Treasury pushing for a programme to establish some transparency to address the reluctance and distrust amongst US financial intermediaries; yet to be implemented.

Stage 2: Impact on US Economy

- 20% complete.
- Transitioning from a mild recession to a consumer-focused deep recession;
 - ✓ housing recession contributed 36% of overall US GDP; consumer 12x of housing recession
 - ✓ US consumer accounted 72% of overall US GDP; not driven by income, but by property and credit
- US Central Bank made errors in the past 10 years, allowing massive bubbles in financial sectors to affect real economies; have to formally change the legal mandate on how Central Banks operate
- Similar to Japan in the 90s, recoveries will be shortlived

Stage 3: Impact on Rest of the World

- 10% complete
- China and India make up 40% of the world's population; but contribute less than USD2trillion in terms of personal consumption, while US alone contributes USD9.7trillion
 - ✓ China and India cannot fill the void left by US

“Beneath the surface, China remains unstable, unbalanced, uncoordinated and unsustainable.”
- Premier Wen Jiabao

Leadership does matter

- When leaders do not follow values, they can easily become hostages.
- Humans are not resistant to change. Leaders should create a safe environment for staff to focus on the opportunities.
- Fundamentals: to focus on values and creating a culture of trust, social dynamics of leading and talent development.

Characteristics of leadership

- The 3 basic needs of an individual: achievement, affiliation and relationships and power.
- Too much emphasis on achievement without a moral compass will ultimately derail executives and hamper organisational performance.
- Leadership drives cultural change in an organisation.

Action oriented approach

- “Assume the worst and plan for the best”
- Anchor the whole organisation on profit and loss.
- Discipline of action – take action and adjust accordingly.
- Win coalition – work with suppliers and all parties concerned.
- Divine intervention - be a good human being, have business ethics and have self renewal and reflection.

Crisis = Opportunity

- Present crisis offers opportunity for radical political and economic reforms for the long-term
- Malaysia needs new sources of growth and enhancement of human capital.
- Malaysia should focus on building and improving its services sector

Look at the real side

- The current financial crisis needs to be looked at from the perspective of real economic history
- East Asian economies have demonstrated resilience in the face of temporary shocks
- Need to stave off dangers of neo-classical growth – quality, not quantity

Reshaping Economic Geography

- 3Ds of development: Density, Distance, Division
- Policy implications:
 - Infrastructure that connects distances
 - Incentives that are targeted in order to facilitate density
 - Policies to decrease divisions

Current financial crisis offers opportunity for radical transformation

Macro level

- Trade barriers/financial barriers have gone down
- Trade in financial products exceeds real (physical) trade
- Globally, central banks' assets not adequate anymore to address credit crunch

Micro level

- Competition in banking sector results in smaller margin
- Over leverage of financial sector brought by financial engineering
- Real CAR is much lower
- No regulation of SIVs

Future

- Go back to basics
- Improve on transparency
- Banks to give consumer 'safer' products
- Banks must protect customers' long term savings
- Smart regulation needed

Back to basics for banks

Organisation

- Human capital, talent development & leadership that recognizes the need for a shift in the mindset of what drives businesses (none of the fear and greed)
- Clarity of purpose among employees in organization is essential
- Creation of culture and value system can help to sustain the business beyond purely financial consideration
- Vision, execution strategy, execution and integrity essential for leadership.

Environment

- CSR leadership – promoting public/private partnerships for a meaningful contribution to society
- Work with NGOs and media

Market Place

- Must be customer centric, focus on markets of the future, drive towards simplicity, proactive collaboration with competitors
- Crisis brings confidence - look at values, managing greed and integrity
- Take a big leap to move forward not only locally but globally by taking advantages during the financial crisis
- Competitive advantages – make use of linkages for acquisition (through SEA, middle east etc.)

Great companies are built during crisis

Forum Summary by Tan Sri Dato' Azman Hj. Mokhtar

Cross-cutting issues

- In all the sessions, there are cross cutting issues such as leadership.

Crisis

- The world can be saved in the short run but there is a crisis of leadership which translates into nothing less than a crisis of man bred by greed and complacency.

Opportunities

- Not all is gloom and doom – Asia is in a relatively stronger position to take advantage of opportunities in a financial crisis
- Changes in business models

This is actually a “Crisis of Man”, but Asia is in a better position and opportunities are being created.

Closing Remarks by Tan Sri Nor Mohd Yakcop, Finance Minister II

Financial system

- The global macroeconomic balance cannot be achieved anymore by recycling savings surplus into excessive consumption in developed markets
- The Malaysian banking system is sound and well capitalised as a result of measures and regulations post Asian financial crisis.

Threats

- No financial crisis in Malaysia, but the financial crisis in developed markets will affect the real economy in Malaysia
- Global slowdown will affect commodities and therefore Malaysian companies, national income and rural income especially in palm oil and rubber

Opportunities

- Reform global financial architecture to focus on productive wealth
- Invest excess savings into infrastructure in developing economies
- Long term value investing
- To push for a global system of Islamic finance, uniform standards

**No financial crisis in Malaysia, but the real economy will be affected.
Reform the global financial architecture, globalise Islamic finance.**