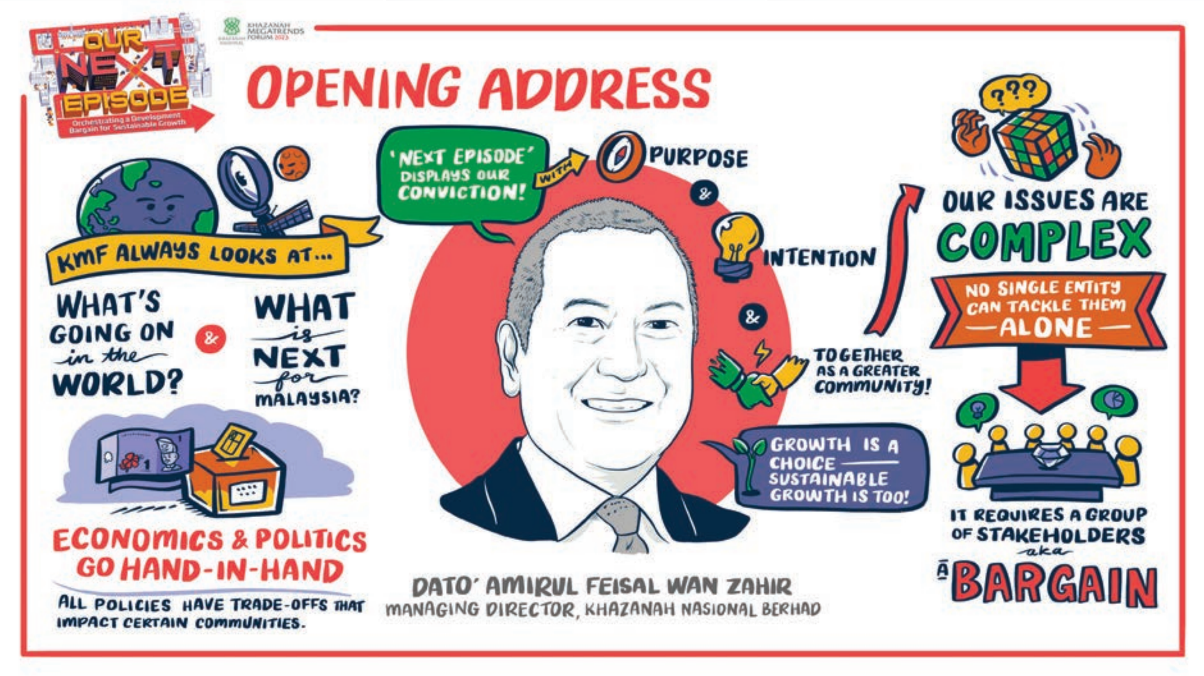
KHAZANAH NASIONAL

KHAZANAH MEGATRENDS FORUM 2023

ADVANCING MALAYSIA

DAY 1 SESSION SUMMARIES

OPENING ADDRESS
by Dato' Amirul Feisal Wan Zahir



KEYNOTE ADDRESS
by Prof Stefan Dercon

Malaysia's Development Bargain: Can it be Renewed and Enhanced?

1. **A development bargain represents a mutual agreement among stakeholders regarding objectives and strategies for growth.**

    - **Economics and politics are closely intertwined**, influencing the success or failure of countries' development.
    - Common factors affecting countries' development include (im-)perfect political governance, **diversity of political systems** and variety of economic strategies.
    - **Successful countries often employ diverse economic policies**, including macroeconomic stability, outward orientation via exports, and comprehensive strategies involving infrastructure and education, as part of a broad set of policies for success.

2. **An elite bargain with multistakeholder buy-in is crucial for development and growth.**

    - **An elite bargain is where powerful individuals from politics, business, military, civil service, and intellectuals collaborate.** It involves both a political deal, determining state control, and an economic deal, concerning resource access and distribution.
    - **Successful elite bargains are marked by a strong, shared commitment to growth and development.** Historically, elites have maintained their commitment to development out of conviction, a desire to uphold their legitimacy, and the pursuit of maximizing rents.
    - **Key ingredients to a successful development bargain recipe include** a commitment to peace, self-awareness, and a capacity for continuous learning and correction, involving both external and internal accountability.

3. **Malaysia's development bargain has been relatively successful despite structural imperfections. However, moving forward, there needs to be a stronger focus on inclusivity and accountability.**

- Phase one (up to 1997) in **Malaysia's development featured a growth bargain with a deeply clientelist and patronage-based economic deal**, including land-based capitalism, extensive rent distribution, and multinational corporation involvement, while striving for inclusivity through rent distribution.

- The second phase (since 1998) **became more open with the inclusion of diverse forces and interest groups, creating risks.** Malaysia's political and economic deal largely built on the same national narrative, but inclusivity is still limited, evidenced by subsidies which are increasingly costly yet ineffective when poorly targeted.

- **Looking ahead, Malaysia must prioritize greater inclusivity and development** and improve internal accountability in constructing Malaysia's renewed development bargain.

CORE SESSION 1: MACRO AND MARKETS

Allen Ng, Frances Lim, Dr Peter Berezin

Some Things, Some Places, at Specific Times: Addressing Global Macroeconomic Challenges in an Era of Less Abundance

1. The world is entering an era of higher interest rates, weaker economic growth and hence, less abundance.

- **The macroeconomic environment this year has been a continuing saga of last year's narrative around geopolitical tensions and tightening monetary policy.** Russia and Ukraine are still at war while US-China trade relations remain hostile. As a result, the global economy is shifting away from hyperglobalisation, where supply chain bottlenecks are bound to restrict growth. On monetary policy, inflation remains sticky, and the impact of tighter monetary policy and credit markets are materialising.

- **We are seeing trends that previously reigned deviate from the norm.** Commodity prices now move with in tandem with the US Dollar (rather than against it), hence a stronger Dollar will amplify the negative terms-of-trade impact on commodity importers. Financial cycles (both global and domestic, typically 8 and 15 years long respectively) are getting significantly shorter, leading to increased volatility.

- **The last 15 years of near-zero interest rates have been an anomaly, and markets are now starting to price in higher real yields.** The economy is now more resilient to higher rates: home vacancy rates are at record lows, the European banking sector is in much better health, the competitiveness gap between core and peripheral European countries is closing, and many of the secular forces that drove deflation are dissipating (e.g. de-globalisation, political populism, demographic aging). This is countered somewhat by opposing forces such as the artificial-intelligence-led productivity boost and China's economic weakness.

2. Macroeconomic regime transitions are difficult to navigate, leading to heightened volatility in financial markets.

- **The "most anticipated recession in history" has yet to arrive, but recessions often happen when investors least expect it.** Thus far, market anticipation of rate cuts and strong government demand (due to the green transition, supply chain diversification, etc) have kept the economy afloat. However, monetary policy acts with long, variable lags, and structural changes in the economy (e.g. stronger corporate investment after a decade of US deleveraging) compound the difficulty in estimating the neutral rate, hence policymakers are moving cautiously.

- **Higher rates means less liquidity in the system, and therefore more tactical volatility.** Higher yields will lead to lower equity risk premium, which would lower expected equity returns to 2-3% in nominal terms rather than 6%. The sharp public markets correction in 2022 did not immediately filter through to the private markets, but the private markets have re-priced this year.

- **The geopolitical splintering between the US and China is one of the fundamental driving forces in the region.** The outcome could be either further fragmentation of the world economy along geopolitical blocs, which the IMF is warning us about, or deeper and broader reintegration in supply chains and emerging economies, which the WTO is championing. In the former situation, the APAC region would suffer the most; the IMF has forecasted an 8% drop in output.

3. A new macroeconomic regime requires new investing approaches. However, there are also pockets of opportunity.

- **Investors (LPs) are looking for new asset classes for portfolio diversification and income, including infrastructure, real estate, and commodities.** The classic 60:40 portfolio of bonds and stocks may not work well anymore because the negative correlation between bonds and stocks has diminished. Infrastructure also benefits from demand tailwinds like green transition, supply chain reshoring and friendshoring, and reindustrialisation in ASEAN. Besides that, private credit has outperformed in an environment where banks' lending standards have tightened despite resilient economic growth and therefore demand for credit.

- **More volatile markets means it is more difficult to generate returns from beta, so investors need to either take a more tactical approach, or look for alpha (illiquidity premium).** In private markets, this entails generating returns from operational improvements, business expansion, and value creation rather than just valuation mark-ups. That said, many companies will have to restructure to survive in an environment with higher rates, so there are opportunities in transactions such as carveouts and take-privates. Furthermore, structural economic reforms in some APAC economies that have seen relative political stability (e.g. Japan, India, and China) are now bearing fruit, hence there are investment opportunities here too.

- **ASEAN as a region will benefit from preparing for either scenario of increased fragmentation or reintegration of global supply chains.** This would entail developing domestic competitiveness to attract investments (as seen in reindustrialisation in Vietnam and Thailand), expanding trade in services especially leveraging on digital technology, expanding and further diversifying trade (both imports and exports), and tackling cross-border challenges, e.g. climate change and local currency payments systems, together.

OUR NEXT EPISODE
Orchestrating a Development Bargain for Sustainable Growth
KHAZANAH MEGATRENDS FORUM 2023
CORE SESSION 1 : MACRO & MARKETS
SOME THINGS, SOME PLACES, of SPECIFIC TIMES: ADDRESSING GLOBAL MACROECONOMIC CHALLENGES in an ERA of LESS ABUNDANCE
THE WORLD is ENTERING an ERA of:
HIGHER INTEREST RATES
WEAKER ECONOMIC GROWTH
HENCE, LESSER ABUNDANCE
TRENDS that PREVIOUSLY REIGNED DEVIATE from the NORM
MARKETS are NOW STARTING to PRICE in HIGHER REAL YIELD
AFTER 15 YEARS of NEAR-ZERO INTEREST RATES HAVE BEEN AN ANOMALY
A CONTINUED SAGA of GEOPOLITICAL TRENDS & TIGHTENING MONETARY POLICY IN THE MACROECONOMIC ENVIRONMENT
MACROECONOMIC REGIME TRANSITIONS are DIFFICULT to NAVIGATE, LEADING TO HEIGHTENED VOLATILITY in FINANCIAL MARKETS
THE "MOST ANTICIPATED RECESSION in HISTORY"
HAS YET TO ARRIVE, BUT RECESSIONS OFTEN HAPPEN WHEN INVESTORS LEAST EXPECT IT
THE GEOPOLITICAL SPLINTERING BETWEEN
US & CHINA
IS ONE of the FUNDAMENTAL DRIVING FORCES IN THE REGION
A NEW MACROECONOMIC REGIME REQUIRES NEW INVESTING APPROACHES
HOWEVER, THERE ARE ALSO POCKETS of OPPORTUNITIES
INVESTORS on LOOKOUT for NEW ASSET CLASSES
• INFRASTRUCTURE
• REAL ESTATE
• COMMODITIES, etc
FOR PORTFOLIO DIVERSIFICATION & INCOME
INVESTORS to EITHER
TAKE a MORE TACTICAL APPROACH
or
LOOK for ALPHA (ILLIQUITY PREMIUM)
ASEAN WILL BENEFIT from PREPARING for EITHER SCENARIO of INCREASED FRAGMENTATION or REINTEGRATION of GLOBAL SUPPLY CHAIN

FEATURE ADDRESS

by Dr Eric Li

Chinese New Economy and Globalisation – The Sequel

1. **The peripherals/developing countries are now challenging the status quo with China as the leader of the Global South is demanding for a new development bargain.**

   - **The initial globalization 'grand plan' has change.** It started with the US-led Western economies which possessed the greatest tech and economic resources, in contrast against developing countries providing cheap labour, raw materials and the end demand market for consumer products.

   - **The old 'grand plan' benefited US and China but is no longer sustainable.** The West has been resisting change and limiting the economic and technological growth of the peripherals. However, China now wants to move out of "peripheral" status and emerge as the core of globalization.

   - **To successfully graduate from peripheral status, China must address its broad structural challenges.** Domestically, politics in China is turning left with power being totally centralized. This is made worse by the intensifying tech war with US and the decoupling of tech and supply chains.

2. **The growth of China's economy in the past two decades has been anchored by three pillars: (1) Real estate which accounts for 30% of the country's GDP; (2) The rise of consumer internet platforms; and (3) The buildup of industrial capacity and global supply chain.**

   - **Today, the growth of real estate has run out of steam.** Once the main growth engine of the Chinese economy, the domestic real estate sector has collapsed, dragged by aggressive cooling measures, highly leveraged property developers and demand destruction by consumers.

   - **Monopoly and monopsony structure have dragged innovation in the past decade.** These characteristics in the local market have a chain reaction, causing the underinvestment in tech, stagnation of technological innovation, rising inequality and environmental degradation.

   - **Insufficient Total Factor Productivity.** The Chinese economy appears to have hit a ceiling in productivity growth since 2010, growing in size without actual productivity improvement. This highlights the fact that China's old growth engines are no longer valid.

3. **The sequel to Chinese economic growth depends on tech-enabled industrial capacity, and the growth of new sectors (new energy, life sciences) alongside structural shifts in the broader market.**

- **China's best asset is possessing the largest industrial capacity in the world -- larger than the US, Japan and Germany combined.** A renewed focus on this sector by upgrading it with new technology presents 30-40% upside potential through various sub-sectors such as semiconductors, manufacturing tech, life sciences and synthetic biology.

- **China is already changing its economic model, proposing a wholesale structural change to one of the biggest economies in the world.** This is driven through top-down initiatives to accelerate breakthroughs of chokepoints in strategic areas; hence, creating losers from the existing system while winners remain to be seen in the short-term.

- **The main challenge for China is in creating a 'small yard, big world', away from the West's 'small yard, high fence'.** In the war between US and China, the concept of 'small yard, high fence' refers to keeping small yard for advanced technologies and building high fences to prevent Chinese access, but the big question moving forward is if China, as the biggest Global South country, is able to lead the way and drive a new wave of globalization outside the 'fence' created by the west.

FIRESIDE CHAT with Lim Chern Yuan

1. **Transformation is essential for firms looking to transition from mature to emerging industries.**

   - **In a world marked by constant disruption, businesses must fearlessly embark on transformation journeys on the back of organisational agility and adaptability.** Given the disruptive technological advancements, business strategists need to be adaptable, open-minded about scaling and change, and possess the agility required to respond to sudden shifts in consumer demands.

   - **Furthermore, transformation is critical to safeguard a company's long-term earnings integrity.** For example, Yinson proactively aligned its focus with the Green Industry, driven by global climate goals, such as achieving Net Zero Emission by 2050. Businesses should prioritize development during periods of stability, rather than waiting until they have no other choice but to adapt.

   - **During the process of transformation, companies should not compete against each other, but against the common "enemy".** Companies in the same industry should join forces and work towards ousting aging technology.

2. **In addition to a business transformation strategy, reinvestment plays a pivotal role in building firm value.**

   - **Reinvestment is crucial to ensure business growth and promote innovation.** Capital providers and investors should acknowledge their roles as enablers and custodians in facilitating growth.

   - **The concern that reinvestment will erode company value is often overblown.** A culture of risk-taking is important for firms undergoing transformation, and Yinson's approach to addressing this challenge involves recognizing the value of time, allowing for mistakes, and embracing the idea that failure is acceptable, as long as the company learns quickly.

   - **Consequently, companies must find a balance between shareholder interest and the overarching goals of the company.** While pursuing innovative business models can be challenging when shareholders demand capital returns on investments, transparent shareholder engagement is crucial to gain their support.

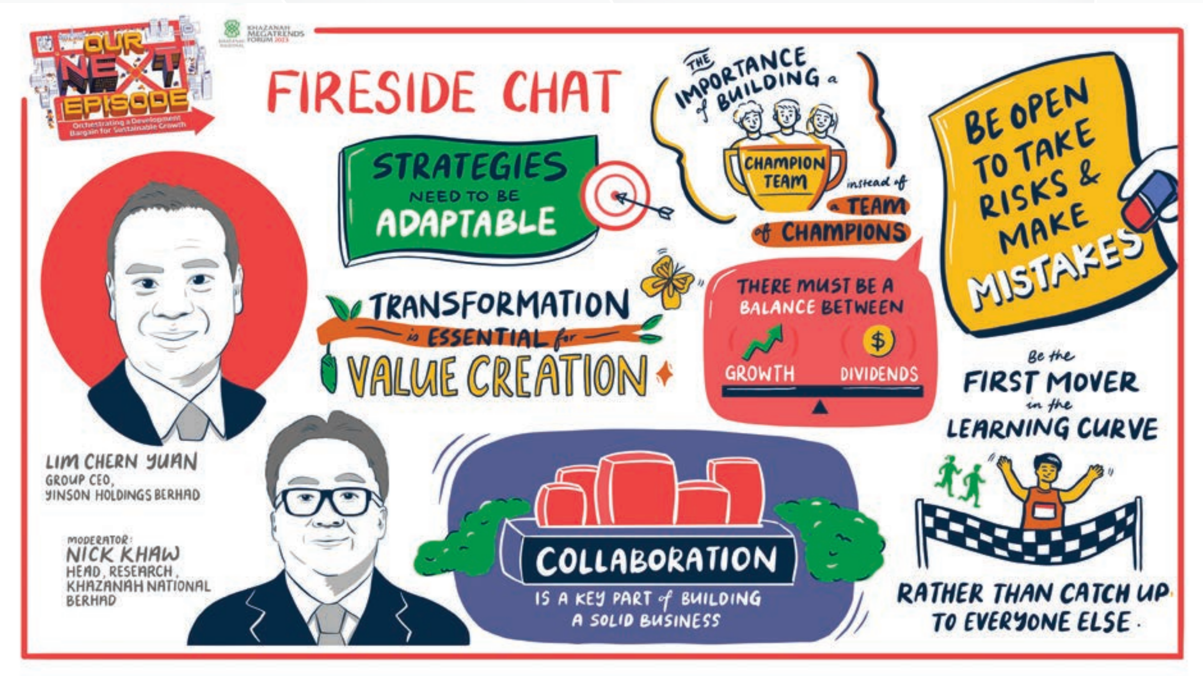
3. A robust work culture and talented workforce is essential to sustain a company's growth.

- **Decentralization is key to business agility and efficiency.** By delegating authority and empowering divisions to make decisions, it cultivates a sense of ownership and responsibility.

- **The importance of 'Building a champion team instead of a team of champions'** lies in creating a cohesive team with a shared passion and a hunger for success. This approach is often more effective than assembling a group of industry titans who may have conflicting ideologies.

- **Emphasis on the importance of team chemistry.** Strong team chemistry fosters collaboration, trust, and a shared commitment, which are essential pillars for driving innovation, productivity, and adaptability in a disruptive business landscape.

> “The best decision is the right decision, the second-best decision is the wrong decision and the worst decision is to not make a decision at all”
>
> **CY Lim**



CORE SESSION 2: FIRMS AND TRANSFORMATION

Arni Laily Anwarrudin, Datuk Muhamad Umar Swift, Till Vestring

All Across the (Corporate) Tower – Combining Alpha and Beta Activism for Value Creation

1. Investors should actively advocate for transformation to realize the full potential of a firm and have low tolerance of underperformance.

- **Corporations should embark on transformative initiatives not solely as a response to crises but as an ongoing strategy to overcome underperformance and create value.** Companies can transform by changing their business model, strategy, and organizational structure. It is also essential to assign clear accountability for underperformance rather than resorting to rationalization.

- **Successful conglomerates focus on business fundamentals while embracing emerging trends.** These top conglomerates are agile to reshape their portfolio or business by acquiring or venturing into new segments, while maintaining core business performance.

- **Activist funds play a vital role in creating the urgency of change within a firm.** Shareholder activism is a constructive force that compels companies to re-evaluate their strategies. Although most activist funds in Southeast Asia are still nascent, their role in shaping corporate strategies may grow in the future.

2. Effective transformation can be facilitated internally through a top-down approach, or externally through investor activism.

- **It is imperative that leaders establish ambitious goals and communicate them transparently within the organization.** As a cohesive unit, the company should strive to be at the forefront of its industry and implement policies that incentivize employee outperformance.

- **The proactive engagement of both management and activist investors will compel firms to continuously pursue excellence.** In pursuit of a successful transformation, it is important to foster conviction and overcome any fear of change within the organization. Institutional investors such as Government-linked Investment Companies (GLICs) can play a pivotal role in advocating for consolidation in sectors facing stagnant or decelerating growth, thereby improving the industry structure.

- **Seize control by taking action now.** Firms should adopt a structured approach for transformation and focus on innovation for value creation. To commence this journey, companies can collaborate proactively with ecosystem partners to address industry-specific customers' pain points.

3. Businesses must collaborate with partners to achieve greater success.

- **Collaboration is key for future businesses.** Collaboration within an ecosystem allows businesses to gain access to their partners' expertise, resources, and networks, which can help them to achieve their goals faster and more efficiently.

- **Synergy across teams enhances an organization.** When different teams leverage their individual strengths and collaborate towards shared objectives, they accomplish more than what is possible individually. This can impact all aspects of the organization positively, from its financial performance to its reputation.

- **Coalitions can foster a culture of continuous learning and innovation.** This can help the organization improve its efficiency, effectiveness and develop new strategies to stay ahead of the curve.

Science, Technology and Innovation in Malaysia and Beyond

Khailee Ng
Managing Partner, 500 Global

500 Global's latest research on The Rise of the Next shows that the pathway to the next $30 trillion in the tech sector requires a balance between innovating for the estimated incoming 3 billion users while catering for the usage of the current 5 billion users.

- **The global tech stack, comprising affordable software and hardware, has facilitated the emergence of tech giants, with a combined market cap of $30 trillion today.** By 2040, an estimated 3 billion new internet users are anticipated to join online platforms, contributing an additional $30 trillion.
- **Ventures can address the penetration gap between the Rise 30 and developed markets** by expanding beyond the US and China markets and venture into the Rise 30, which comprises 30 emerging economies.
- **The economic development of countries can only succeed if there is ownership over what is produced by the countries**, a process that should be facilitated by stakeholders, particularly state-owned investors.

Ethan Lin
Co-Founder and CEO, Klook

Klook, a leading platform for travel synthesis, focuses on authentic travel experiences in its growth strategy.

- **Experience is the new travel currency.** Current tourism in APAC is at 75% of the pre-Covid levels. This recovery is **catalysed by immersive experiences and mega events**, underscoring the idea that experiences have become the new currency of travel.
- **AI technology plays a critical role in Klook's operations.** Klook is incorporating AI technology to personalise and generate content to accelerate growth, particularly through the use of its digital concierge, K.ai.
- **Travel is now intrinsically linked to social media**, which Klook capitalises with their Klook Kreator programme, involving 13,000 creators who have garnered 1.8 billion views across 13 social media platforms.

Jan Nicholas

Executive Director, Consulting - Semiconductors, Deloitte Consulting (SEA)

In the current techno-economic revolution, semiconductor companies are the greatest beneficiaries of new technological advancements.

- **Geopolitical influences and macroeconomic risks are essential factors to consider when it comes to investing in semiconductors**, which is why Southeast Asia is better positioned as an investment location for the semiconductor industry compared to the incumbents, USA and China.

- The newly expanded companies and those that have announced sustainability ambitions need to be **able to deliver their promises and develop collaboration platforms.**

- **There is a global talent shortage within the industry and it is expected to worsen.** Chipmakers can combat this by increasing flexibility, having more public-private partnerships ("PPPs"), increasing specialised training, and considering a non-traditional workforce.

Kelvin Teo

Co-Founder and Group CEO, Funding Societies

Funding Societies faced unique challenges during their innovation journey in Southeast Asia.

- **Innovators in Southeast Asia need to adopt a long-term perspective** due to the nascent and fragmented nature of the ASEAN market.

- **A tribe is crucial for ventures to drive innovation** as they will weather uncertainty together with shared core values.

- **Innovation requires a critical mass of talent** which can only be accomplished through consistent rewarding of good leaders and team players.

Sophie Viger
Managing Director, 42

42 is revolutionizing the world of education through technological innovations, empowering everyone to learn, and sharing their education model globally.

- The limitations of classical pedagogy are that it is **rooted in a bureaucratic system that focuses on teacher centeredness, theoretical knowledge, and unidirectional information flow.**
- 42 employs principles from philosophers and psychologists which focus on **a student-centred curriculum, project-based learning, and gamification to cultivate intrinsic motivation.**
- To date, **37,000 students from diverse backgrounds** have graduated from 42, where their employability was enhanced by the development of both hard and soft skills.