CONCEPT PAPER

Introduction – The Glorious Revolution and a Change in Power

In 1688, the British Parliament removed King James II and invited William the Orange and his wife Mary, daughter of King James II (it's complicated) to take the throne. This sequence of events is known as the Glorious Revolution, a culmination of years of struggle between the British Crown and the British Parliament epitomised by the English Civil Wars of the 1640s. Once the dust had settled on the Glorious Revolution, the big winner of the Revolution was the Parliament – with the British government structure changing from an absolute monarchy to a constitutional monarchy, and the introduction of new legislation such as the Bill of Rights.

And so, the Parliament was no longer some body at the beck and call of the Crown when the Crown needed taxes; it was now a permanent governing body sharing administration with the Crown. According to Chapman University economist Jared Rubin[1], this shift in the balance of power between Crown and Parliament meant that the Parliament now had much greater legitimacy and authority in the policies of Great Britain. The Parliament was primarily constituted by Britain's economic elite and merchant class who were, above all else, concerned with their property and wealth. It's hardly a surprise then that the 1689 Bill of Rights was largely concerned with the protection of property rights, which, as it turns out, was a key ingredient for a more widespread market economy, laying the seeds for Britain's Industrial Revolution.

The Glorious Revolution is a clear example of how changes in the political structure of a country can have serious consequences for its economic trajectory. A political structure which is heavily

[1] Rubin, J. (2017). Rulers, Religion, Riches: Why the West Got Rich and the Middle East Did Not. Cambridge, UK: Cambridge University Press

tilted towards merchants will see more commercially friendly national policy. Likewise, one that is more slanted towards the military will see a more defence and security-heavy national policy. The common thread here is that this pow-wow and bargain between those in authority and how they obtain legitimacy will determine what policies are actually introduced and implemented, and ultimately, the fortunes of that country. Put another way, the direction of a country comes down to its development bargain.

What do we mean by a Development Bargain?

Oxford economist Stefan Dercon, in his book, *Gambling on Development: Why Some Countries Win and Others Lose*[2], defines a development bargain as "an underlying commitment to growth and development by members of a country's elite." The weight of global history tells us that this is not a straightforward proposition. Those in authority or power for a given government, nation, or kingdom may have priorities that aren't necessarily aligned to economic development. There are many who seek personal riches, others who seek military might and conquest, and others who seek religious dominion.

The divergence of Ethiopia and the Democratic Republic of Congo (DRC)'s development is one such example. One has been more successful in establishing a development bargain, while the other struggled. Ethiopia had successfully implemented its Growth and Transformation Plan and enjoyed a 7% growth rate in per capita terms from 2004 to 2019; three times faster than the DRC. In contrast, the DRC's GDP growth over the same period was a measly 4.7%, despite existing efforts to implement similar-sounding development plans for the DRC.

While both countries undertook similar actions in pursuing development, the emerging outcomes could not have been more different. Naturally, this raises the question of why countries can follow seemingly identical development frameworks and playbooks yet arrive at drastically divergent destinations with varying levels of success.

Closer to home, Malaysia and Thailand have both enjoyed strong economic growth since the 1960s, thanks to two types of bargains: **open bargains[3]**, and **closed bargains[4].** While both kinds of bargains helped these countries grow, they also strengthened the grip of powerful elites and led to a dualistic industrial structure. But then came the Asian Financial Crisis, which caused Malaysia and Thailand's growth to slow down and their political landscapes to become more chaotic. Malaysia experienced political polarisation and ethno-religious tensions, while Thailand

---

[2]Dercon, S. (2022). Gambling on Development: Why Some Countries Win and Others Lose. London, UK: Hurst

[3] Defined in *Deals and Development* (edited by Lant Pritchett and Kunal Sen) as "transparent, inclusive deals offered to export oriented sectors but often relied on quick fixes" – "Pritchett, L., & Sen, K. eds (2017). Deals and Development: The Political Dynamics of Growth Episodes. Oxford, UK: Oxford University Press"

[4] Defined in *Deals and Development* (edited by Lant Pritchett and Kunal Sen) as "offered to domestic firms in non-tradeable sectors protected from foreign competition, benefiting a select few at the expense of everyone else" – "Pritchett, L., & Sen, K. eds (2017). Deals and Development: The Political Dynamics of Growth Episodes. Oxford, UK: Oxford University Press"

went through political crises and military coups that weakened its democratic institutions and increased social divisions.

As we can see, it isn't always a given that those in power necessarily produce a development bargain. The key question is, therefore, what does it take for a country's "elite" to choose the development bargain, over any other form of bargain? The Glorious Revolution gives us a clue – legitimacy. If the "elite" gains legitimacy from the merchant class, then we will get policies that favour commerce and business. If legitimacy comes from generals and military might, then we will get policies that favour military spending and conquest. If legitimacy comes from religious leaders, then we will get policies that favour religious edicts and actions. The broader point is that the development bargain is a conscious choice and should not be taken for granted.

Global economic conditions – Light at the end of a long, dark tunnel

The global economy is anticipating a future marked by renewed growth prospects. While emerging markets are poised to surge ahead, developed markets are expected to tap the brakes with the help of Central Banks. The process to engineer a slowdown is a delicate balance. Raising rates too quickly often leads to misallocation of resources as investors need to shift their investments to match a higher cost of funding environment. The fallout experienced by the Silicon Valley Bank ("SVB") in March 2023 serves as a cautionary tale. With a depositor base heavily skewed towards tech and healthcare startup, SVB was vulnerable to rising rates. When its depositors withdrew funds in search of higher yields, SVB responded by selling its bonds, but at huge losses, which then worried the customers and led to a bank-run. Evidently, volatility induced by rising rates can dampen investor sentiments, leaving many to hold on to cash-like assets and miss out on riskier but more productive investment opportunities.

As we approach 2024, the future is one of cautious optimism. According to World Bank estimates, 2024 is slated to be the year of new growth: post Covid recovery, growth is expected to pick up modestly, as policy headwinds abate, and energy markets stabilise. Emerging markets are poised for robust returns, thanks to their lead in earnings cycle adjustment and anticipated wider growth differential compared to developed markets. Additionally, these markets present attractive long-term opportunities such as a high growth potential, favourable demographics, and low valuations compared to developed markets. **How can Malaysia take advantage of recovery tailwinds and chart her own trajectory to growth**? To do so, Malaysia must build a new development bargain to steer its way through a perfect storm and invent its own tomorrow.

But what does an effective development bargain look like for Malaysia, or any country, for that matter? The Covid pandemic has shown us that complex problems require unlocking ecosystem blockages and synergies. The E&E sector in Malaysia is a good example. Building out the semiconductor industry in Malaysia involves more than just electricity subsidies or cheap labour; in particular, if we intend to move up the value chain, investors also seek attractive conditions include highly skilled talent, supply chain and bureaucratic efficiencies, and favourable tax conditions. Yet, the "person-in-charge" of these different pain points all differ. As such, solutions to developmental problems must be multipronged, multistakeholder, and multi-phased; a set of solutions as opposed to one solve-all magic pill.

Firms – Beta and Alpha Activism All At Once

In achieving its nation building aspirations, Malaysia needs to increase its national competitiveness, and build national resilience, or “raising the ceiling” and “raising the floor” respectively, as per Prime Minister Datuk Seri Anwar Ibrahim’s *Ekonomi Madani* framework. That being said, in any economy, firms are where that economic activity actually takes place. Start-ups, SME, as well as GLCs and GLICs should therefore take active responsibilities as significant nation building actors.

While the real economy is seeing light at the end of the tunnel, the outlook for financial markets slightly more murky, with a host of factors driving the beta downwards for both developed and emerging economies. High inflation may be easing, but underlying drivers like scarcity and labour market tightness remain. Interest rates are a wildcard, with the only certainty being that they will be "higher for longer". Amidst all of this lie the constant undercurrents of geopolitical turbulence, with the Russia-Ukraine conflict and China-US tensions still simmering.

Putting it all together, all of this means substantial investment is needed, and a capex boom may be on the horizon just as central banks raise rates and capital becomes scarce. For savvy investors, there are opportunities to be found. Public equity investors are rotating out of growth into value and quality, and seeing outperformance in the same while growth has underperformed YTD in global markets[5]. Private equity, on the other hand, has a track record of thriving during economic downturns. During the last recession, general partners (“GPs”) with value creation teams produced higher returns and raised more capital post-recession. As global markets look towards the next growth chapter, institutional investors are making room for more private equity in their portfolios. With cheap capital and low interest rates a thing of the past, it is clear that value creation plans, bilateral bargains and sector expertise are more important than ever – alpha matters when beta deteriorates.

But if the “doing well” part of firm performance is challenging enough, we have also increasingly seen how “doing good” isn’t so straightforward as well. When it comes to ESG commitments, the biggest asset managers have been more talk than action. Back in 2017, BlackRock and Vanguard flexed their muscles by requiring Exxon Mobil to report on climate change, but in 2023 they voted for 99% of U.S. large cap energy and utility company-proposed directors. And when questioned about their ESG efforts, they were vague and accused of greenwashing.

Besides the significant disparity in ESG scores across different rating providers, it is also increasingly apparent that developed market companies are reaping greater benefits from the widespread adoption of ESG standards. As ESG scrutiny of emerging market companies increases, it is worth questioning whether developed market firms deserve their higher ESG

[5] Bloomberg figures, UBS monthly factor performance as at September 2023

ratings. First, we must consider whether ESG criteria were originally designed to foster better social and governance responsibilities for the global populace, rather than exclusively catering to Western markets. Second, we must assess whether ESG criteria provide a fair and impartial evaluation, given varying developmental stages among countries. For example, the labour force in some emerging economies may prioritise wage security over labour rights protection, while emerging markets may lack the ability to transition away from energy-intensive industries to pursue their next developmental phase.

The global energy transition is a case in point. In 2021, the final COP26 agreement emphasised urgency in scaling up clean power[6], phasing down coal and phasing out fossil fuel subsidies. A group of 46 countries (including the U.K., Canada, Poland, and Vietnam) — committed to phase out unabated domestic coal, while an additional 39 countries committed to end new overseas finance of fossil fuels by the end of 2022 and redirect this investment to clean energy. While renewable energy installations enjoyed a 10% YOY increase in 2021, the reality on the ground is far from ideal. Energy shortages caused by the Russia-Ukraine conflict have forced European countries to reopen coal power plants and approve new coal mines, making a mockery of promises to phase out fossil fuels. And when it comes to bargaining power, emerging economies like Malaysia are often left out in the cold - how can they meaningfully chart a path towards a just transition when the deck is stacked against them?

Growth – an all-of-Malaysia Development Bargain

It should come as no surprise that despite firms' best efforts, nation building really requires an all-of-Malaysia approach: private firms cannot build national competitiveness alone. The Government is the primary actor in increasing national resilience, but it contributes to increasing Malaysia's competitiveness as well. However, Firms are the primary drivers of national economic strength and finally, Civil Society Organisations ("CSOs") have the chief remit of fostering tenacity in the face of societal challenges. All three forms of organisations are needed to Advance Malaysia.

The role of Government in cultivating a national edge can be seen clearly from the participation of Taiwan in the global semiconductor industry. The story of how TSMC became a lynchpin of the global economy was written on a blank cheque: when Texas Instrument rejected Morris Chang's proposal of a chip "foundry" and CEO ambitions in 1985, Taiwan's government called and gave him a blank cheque to develop his foundry idea in Taiwan. Today, TSMC is the world's largest semiconductor foundry and a leading supplier to top chipmakers. Across the East China Sea in the last two decades, renowned chae-bol[7] Samsung evolved on the back of successful, state-led industrial policy in South Korea, which bet heavily on the growth of heavy industry and electronics.

[6] Cogan et al. (2022). "Where Do We Stand on COP26 Climate Promises? A Progress Report" World Resources Institute. Sourced from - https://www.wri.org/insights/cop26-climate-pledges-tracking-progress
[7] (in South Korean): a large family-owned business conglomerate. Other notable South Korean chae-bols include Hyundai, SK Group and LG Group.

Malaysia has also attempted to grow its industry players, albeit with mixed success. Key strategies included the establishment of special economic zones, tax incentives, infrastructure, and other support to attract FDI and promote local industry. While not all efforts were successful and lessons must be learnt from developmental mistakes, some positive outcomes did emerge: Malaysia's success in developing its Electronics and Electrical (E&E) industry in Penang is often cited as a model for other developing countries. The E&E industry has become a major contributor to Malaysia's economy, accounting for around 40% of the country's total exports.

That being said, for Malaysia's long-term growth prospects, we cannot rest on our laurels. The value-added component of Malaysia's E&E exports remains muted given that Malaysia is primarily involved in the assembly, testing and packaging portions of the global supply chain. Improving the technological component of existing activities such as moves towards advanced packaging, or moving up the value chain towards integrated circuit design will be crucial. Long-term economic growth is about increasing the diversity and sophistication of economic activities. The surest way to remain stuck in a low- or middle-income trap is to be an exporter of "commodity-type" goods such as natural resources, raw materials or low-end inputs, and be an importer of finished products. A strong economy is one where its price-setting activities far outweigh its price-taking activities.

As such, to continue embracing the light at the end of the global macroeconomic tunnel, we need everyone to play their part – no single actor can do-it-all when it comes to Malaysia's societal goals. Each has a role to play - from shaping policies such as MITI's New Industrial Master Plan 2030 and providing human capital to deploying capital and undertaking corporate stewardship. To achieve Malaysia's growth ambitions, active participation and collaboration between (i) Private sector firms, (ii) Public sector government ministries and agencies, and (iii) Philanthropies is crucial. But ultimately, the success of these partnerships hinges on a fourth P – the People driving them.

People and Leadership – Human Resources as the cornerstone of Malaysia's development

Sustainable economic growth hinges on the backbone of labour productivity: civil servants crafting policies, TVET graduates manning manufacturing machines, finance professionals making impact investments. Tyler Cowen and Daniel Gross in "Talent: The World's Most Valuable Resource and How to Use It" argue that talent reigns supreme in the global economy, surpassing capital and natural resources. In an era of globalisation and technological competition, talent is more valuable than ever before. Yet, high-skill industries like tech, finance, and healthcare face a talent scarcity, leading to increased wage inequality for the gifted few.

The scarcity of high-skilled talent is fuelled by a hyper-competitive global market for talent. While this drives innovation and growth, it also deepens the divide between organisations and countries that can or cannot secure top talent. Moreover, talent distribution has never been fair, with certain regions and countries having an edge in some areas and not others. Covid has caused dramatic shifts in our work life, from the sudden move to remote work, to the larger questions of work-life balance, as well as the relationship between worker, employer, and talent. Furthermore, the pandemic accelerated the need for digital upskilling, as physical interactions were no longer viable. Tasks like conferencing, collaborating, and even caring went digital, rendering physical infrastructure and manpower obsolete.

As of 2022, 37% global organisations have implemented Artificial Intelligence ("AI") in some form, using AI systems to learn and adapt through experience, allowing performance improvement over time. The rapid evolution of AI is poised to radically alter many aspects of our everyday lives, transform industries, and significantly disrupt the labour market[8]. Furthermore, generative AI is expected to play an increasingly important role in the labour market, with the potential to automate tasks that were previously considered beyond the capabilities of machines, and create new job opportunities that require the skills to design and manage AI systems.

What does this mean for Malaysia? Firstly, Malaysia's talent crunch is intensifying: students suffered a 2-year setback in their education due to Covid, lowering their employability and hurting Malaysia's education scorecard. Meanwhile, current talent must adapt to the digital wave to stay productive in hybrid work. However, only 36% have received learning and development training, despite 85% believing it's crucial. Further, as remote work becomes a more permanent feature of global work, the geographical boundaries of where work can be performed cease: Malaysians increasingly move abroad to work, exacerbating the brain drain problem for Malaysia. Countries around the world aren't going to hesitate to pick the best people they can, regardless of where they come from. Similarly, Malaysia needs to continue building its Collective Brain, nurturing, attracting and training Malaysians *and* non-Malaysians alike. Growth can really only be sustainable with sufficient talent.

Yet, talent isn't just the only issue facing Malaysia. A big part of sustainable growth is sustainable talent, which means, a strong pipeline for leadership and succession planning. Without great leaders, even the best talents would be stymied. Yet many leaders face challenges in retirement and succession planning at the risk of their own survival, despite the mark of a truly great artist being the knowledge of when to quit[9]. Interestingly, women seem to do better at recognising when it is time to step down: in February 2023, New Zealand's prime minister, Jacinda Ardern announced her resignation in an emotional but graceful speech, declaring that after five and half gruelling years at the top she no longer had "enough in the tank to do it justice". She was quitting, "not because the job was too hard but because she believed leadership was about giving it everything you've got for as long as possible, but recognising when your time is up". Senior leadership in corporate Malaysia is fairly homogenous across gender, ethnicity, and age. For improved diversity among senior leaders and successors, greater emphasis must be placed in uncovering and nurturing talents that look, sound, and appear different to the current leadership composition.

---

[8] Part of this concept paper may or may not have been written by ChatGPT and/or Bard.
[9] Sherlock Holmes: the Adventure of the Norwood Builder, by Arthur Canon Doyle: "But he had not that supreme gift of the artist, the knowledge of when to stop."

But perhaps the most important reason to focus on People comes back to the Development Bargain. While we know that the multistakeholder approach is key, the challenge, as Dercon puts it, is how policymakers “gamble” on development, which typically takes a long time before the fruits of the labours can be seen, but political cycles, at least in democracies, are usually far shorter. It’s not a strong assumption to say that politicians want to remain in power and thus, would favour policies that serve them in the short-term even if they may be, at best, meaningless; and at worst, detrimental, in the long-term. The key ultimately comes down to legitimacy and in democracies, it therefore comes down to people and society and how we, as a collective, want to move forward together.

Putting it all together – KMF 2023

After the global turmoil and domestic instability of recent years, Malaysia is ready (and eager) for a brand-new episode. And as we’ve discussed, how that new episode turns out will be a result of a multi-stakeholder public-private-philanthropic-people partnership approach to sustainable growth or, in short, a Development Bargain. Malaysia must seize the opportunity to craft an effective development bargain: one that addresses the challenges faced by firms, promotes tech innovation, and ensures the country plays a meaningful role in the global ESG standards setting regime. To succeed in the tech race, Malaysia must bargain for bargains that encourage local innovation and entrepreneurship, while nurturing, attracting, and training its labour force to ensure Malaysians are equipped to participate fully in the digital economy.

Closing

Since the inception of KMF, themes have been discussed ranging from a new context where uncertainty is normality to whether or not good stewardship based on the political economy of location, environment, and demographics can overcome geography as destiny; to the juxtaposition between Artificial Intelligence and Human Intelligence; to building our Collective Brain and, most recently, to understanding Development and its Complexities and how we may Steer Our Way through a Perfect Storm to achieve more inclusive development outcomes for markets, firms, economies and, most importantly, societies.

The KMF2023 theme is: Our Next Episode: Orchestrating a Development Bargain for Sustainable Growth. In upholding KMF traditions, panel discussions will continue to be organised along four core sessions: how various markets globally are affected; what the theme means to firms, and society at large; what are the imperatives of leadership and people.