KHAZANAH NASIONAL

KHAZANAH MEGATRENDS FORUM 2026

<u>KMF2026 CONCEPT PAPER</u>

Who's Got The Power? Watching the Watchmen in an Imbalanced World

"Power is Power" – Cersei Lannister, Game of Thrones Season 1

"Without an analysis of power, it is hard to understand inequality or much else in modern capitalism." – Angus Deaton, "Rethinking my Economics"

<u>Section I – Introduction</u>

In October 1907, F. Augustus Heinze, a copper magnate from Montana, and Charles W. Morse, an ice shipping industry magnate from New York, attempted to corner the copper market. They aggressively bought the stocks of United Copper in the – ultimately mistaken –[1] belief that a large existing portion of shares had already been sold short. The scheme failed as the price of United Copper fell from $50 to $30 and then to approximately $10 over two days. The firms financing the speculation of Heinze and Morse began to collapse as they could not meet margin calls.

In the immediate aftermath, panic spread to the (wonderfully named) Knickerbocker Trust Company, one of the largest trusts on Wall Street. Depositors rushed to withdraw funds and the Knickerbocker Trust suspended operations and later collapsed. The runs on trusts and banks spread and financial turmoil began to take hold.

At that time, the United States financial system was far weaker than the behemoth it is today. For one, the Federal Reserve did not exist yet and, hence, there was no institutional lender of

[1] All "em-dashes" in this Concept Paper were human-generated. :)

last resort to prevent such runs. Secondly, the banking industry was fragmented with thousands of small, relatively weak banks who were, naturally, especially vulnerable to runs. Thirdly, there was a heavy reliance on short-term deposits to fund long-term assets. Fourthly, trust companies, who were aggressive in financial speculation and heavily exposed to the stock market, were growing rapidly. Given the context, without anything like a central bank in place, how would financial markets re-stabilise in the face of major financial turmoil and a mounting crisis?

Enter John Pierpont Morgan or, as he is more widely known today, J.P. Morgan. Morgan was 70 at the time of the Panic of 1907 and the most powerful financier in the United States. To quell the Panic, Morgan locked bankers and accountants in his home library and forced them to decide which banks or trust companies were worth saving after examining their balance sheets. His principle was to provide liquidity to solvent institutions, and to let insolvent ones fail. Next, when the New York Stock Exchange was near collapse, Morgan summoned the city's leading bankers and got them to collectively pledge $25 million to be immediately injected into the exchange, avoiding a full crash. When a major brokerage was near collapse, Morgan repeated his locked room trick, locking top bankers in his library and refusing to let them leave until they agreed on a rescue of a major holding of that brokerage, the Tennessee, Coal and Iron Railroad. On top of that, he even arranged a $30 million bond purchase to keep New York City solvent.

The actions of J.P. Morgan quashed the Panic. In essence, what Morgan had done was to behave like a central bank. He diagnosed solvency of financial institutions, he supplied emergency liquidity, he coordinated rescues (bonus points for locking bankers in a room), and he ultimately stabilised markets. Morgan behaved like a *de facto* private central bank. For finance people, the actions of Morgan make for a heroic swashbuckling tale, highlighting the impact a powerful and influential individual can have in the absence of institutional power, especially when they act boldly and decisively. Utilising his individual power and standing, J.P. Morgan was able to influence the collective actions of his fellow financiers to address greater societal needs. In the (paraphrased) words of Hogwarts Professor Minerva McGonagall, "I believe we can all agree that [Morgan's] actions were heroic, but the question is: why were they necessary?"

<u>**Section II – The Idea of Power You Have, What Is It?**</u>

If we were to poll different members of society as to what they would expect those who hold power to deliver, answers would diverge along ideological lines, though certain expectations recur across the spectrum. The left tends to emphasise social justice, welfare, inclusive economic flourishing, and environmental stewardship. The right tends to emphasise individual liberty, property rights, limited government, rule of law, and free enterprise. Despite this divergence, there is broad convergence on baseline goods: security, order, and material welfare. Indeed, as we have seen repeatedly in China's history, rulers who failed to deliver justice or basic welfare faced internal rebellions from subjects who concluded that these rulers had lost the Mandate of Heaven. And, thus, they lost power.

Power, and who wields it, is a matter of philosophical and policy inquiry for millennia. The term “power” is in itself a surprisingly slippery concept. It can mean the authority of governments, the influence of institutions, the bargaining strength of firms, or even the norms embedded in culture. Rather than pinning down a single definition, this concept paper uses the term deliberately broadly so that we may encourage further discussions at the Khazanah Megatrends Forum.

But why power? Many of the defining challenges of our world, from inequality to climate change to geopolitics to artificial intelligence and more are not *really* purely economic or technological problems. They are, at their core, fundamentally struggles over power. This is not a modern day problem, of course. History is replete with examples of emperors, kings, pharaohs and chieftains who hold absolute power in their respective societies. But history also shows us that many have wrestled with the very idea of concentrated power.

The idea of the separation of powers, which is common in many governments today, has its roots in our deep past. Indeed, the idea and execution of the separation of powers, devolving power away from a single individual, has generally existed alongside those examples of emperors. For instance, the Roman Republic, for a time, employed two annually elected consuls who commanded armies and administered the government, and, importantly for this context, could veto each other. Similarly, ancient Carthage in North Africa had two suffetes or chief magistrates, balanced by a Council of Elders; indeed, their political system was praised by Aristotle to be a “well-balanced constitution”. Centuries later, the 1688 Glorious Revolution in England shifted power and authority away from the English monarchy and towards the (elite-led) English Parliament.[2] In designing the federal constitution of the United States, James Madison argued for a separation of powers across the executive, legislative, and judiciary, aptly arguing that “ambition must be made to counter ambition,” fearing the encroaching nature of power embedded within human instinct.

This is not to say individual power no longer matters. In many governments, despite institutionalised separation of powers with bicameral legislatures, a separate judiciary, an independent central bank, anti-corruption agencies, and more, heads of state still command tremendous powers. We need not look far for instances, for the current global context is beset with examples. The unilateralism of American President Donald Trump’s administration across economic (tariffs) and geopolitical (raid on Venezuela, desire of Greenland takeover against international conventions of state sovereignty) directives signals a disproportionate power of the executive.

More significantly, power’s most potent forms lie not in headline political manoeuvres but within the politics of the everyday. Take the example of former Venezuelan president Nicolas Maduro, who was known to declare arbitrary public holidays – such as announcing Christmas as early as 1st October – to disrupt mass protests and put a chokehold on stock market volatility.

[2] There is a political economy argument that this shift was a key decisive turning point in England’s economic future and was a key foundation for why England pulled ahead of other European competitors economically during the 18th and 19th centuries.

Ironically, this symbolised a practice of absolutist power within what is ostensibly a socialist-democratic political system.

Despite these instances of institutional disregard, it remains true that the idea that power should not reside in just one individual is taken as conventional wisdom today. Checks and balances, of all sorts, maintain a critical importance in upholding democratic governance and individual accountability. Going back to the Panic of 1907, J.P. Morgan's actions had direct influence on the creation of the Federal Reserve. US policymakers at the time realised that they could not always rely on a 70-year-old financier, however powerful; a permanent lender of last resort was crucial in providing for overall financial stability. Similarly, President Trump's invocation of national emergency powers through the International Emergency Economic Protection Act (IEEPA) to bypass the legislative and impose his sweeping tariffs was ultimately struck down by the Supreme Court with a 6-3 majority. In its ruling, the court cited that actions by the executive branch of "vast economic and political significance" had to have congressional authorization – a textbook case in the upholding of the separation of powers.

Yet, in the current age of strongman politics, personified by leaders like Donald Trump, Viktor Orban, Rodrigo Duterte, the jury is still out as to whether a checked head of state will remain to hold popular credence in the time to come. At the same time, historian Stephen Kotkin's work on Stalin reminds us that even seemingly absolute personal power does not operate in an institutional vacuum, but through bureaucracies, political institutions and systems that both enable and shape its exercise.

Section III – From Individual Power to Institutional Power

If power once resided primarily in individuals, modern societies increasingly embed power in institutions. That said, it is not automatic that institutions necessarily uphold societal desires or objectives such as value-based social justice, societal welfare, and civil liberties. They may, instead, operate within a self-perpetuating and exclusive "rules-based system" designed to favour the few over the many. Institutions may very well still confuse power as an "end", as opposed to a "means" to some greater societal end.

The underlying question therefore becomes – if institutions adhere to a specific "rules-of-the-game" (bureaucratic design, process of arbitration, policy agendas, power hierarchies, etc.), who (or what) sets these rules? Is it a small group of political elites? Long established normative structures? Institutional design? Or is it simply time-fossilizing system-path dependencies? Furthermore, whose purpose do these rules serve? Do institutions benefit the very societies they claim to be representing?

This often-unchecked assumption on "how" institutions or structures are built or designed becomes crucial when we consider the words of economist Douglass C. North who writes that, "…institutions provide the incentive structure of an economy; as that structure evolves, it shapes the direction of economic change towards growth, stagnation, or decline." To give a stylised example, consider the concept of "due process", which is typically set by a given institution. Despite its seemingly innocuous spirit, purportedly to ensure every individual has a right to a set process, who decides what the "due" in due process is?

In most cases, "due process" is typically put in place by those who are in authority, usually to maintain some order. Naturally, the concept of "order" favours those in authority[3] but covered by some facade of 'fairness.' In situations like these, it is common for the "haves" to require "have nots" to protest or to oppose through due process, because due process tends to protect the "haves". As we have seen from many cases in space and time, "due process" is rarely invoked in favour of the "have nots".

Even within the field of Economics, which, at least since the 1960s or so, has largely left the concept of "power" to sociologists, there is a recent rekindling of concepts of power within economic thought. Angus Deaton, a Nobel Prize winning economist, in a recent essay entitled, "Rethinking My Economics", writes, "Our emphasis on the virtues of free, competitive markets and exogenous technical change can distract us from the importance of power in setting prices and wages, in choosing the direction of technical change, and in influencing politics to change the rules of the game. Without an analysis of power, it is hard to understand inequality or much else in modern capitalism." Perhaps a revisiting of global economic issues through the lens of power needs to become more mainstream.

Section IV – Why Power Matters: Global Megatrends and Contestations of Power

At Khazanah, in our analyses of global structural megatrends (this is the Khazanah Megatrends Forum after all), we keep track of five particular global issues, namely, geopolitics, climate change, demographics, inequality and technology. Through these five megatrends, once we apply the lens of power, it becomes evident that these are arenas in which contestations of power are paramount.

Firstly, and most apparently, geopolitics has effectively reverted to the pre-Cold War period, where international stability is dependent upon the balance of Great Powers, suggesting a shift back to Realist interpretations of international relations. What constitutes power in this case is two-fold: hard power and soft power. Hard power commonly refers to tangible sources of power, traditionally related to military, material, and economic power. But even these powers may be unevenly distributed. J.P. Morgan's Joyce Chang has pointed out that while global trade patterns are increasingly being reshaped by geopolitics, global financial capital markets remain heavily concentrated on the United States, with its weightage in the MSCI ACWI Index standing at 63.55%, despite a 25% share of global GDP.

Soft power, on the other hand, usually relates to the ability for a state to influence the action and decision of others through methods of persuasion, most successfully through the mechanisms of popular culture, developmental assistance, and media. Because it is intangible in nature, soft power tends to be underestimated in explaining the dynamic of global power hierarchies. Much of today's contestations geopolitically do not lie solely in hard power; for instance, Canadian Prime Minister Mark Carney's speech at the World Economic Forum in

[3] In the Lord of the Rings, Sauron (the chief antagonist) was trying to take over Middle-Earth to establish absolute order, control, and efficiency in Middle-earth. It's unlikely, though, that Sauron would have instituted any form of due process.

Davos in January 2026 was a quintessential example of making key geopolitical points via soft power.

Turning to climate change, the question of power takes an interesting turn. Comprehensive climate action has always been a significant pain point within the international arena, highlighting a fundamental contra between state interests and collective action. We know the arguments with regards to a just transition all too well; if richer, more powerful countries developed on the back of, among other things, coal and oil, why shouldn't poorer, less powerful countries be allowed to do so as well? Or is economic development a matter of first come, first served?

A further layer of complexity is because no one country can unilaterally solve climate issues. Like viruses, pollution doesn't stop at human-defined borders. Dealing with the environment distorts how we think about power, as it instead demands seamless collective action to be properly addressed. If anything, it signals the need for a possible rethink of power, and what forms of power matter in navigating the Anthropocene. For example, we have seen that as less geopolitically powerful countries around the world shift their industrial policies toward energy transition, core mineral deposits (copper, lithium, REE) become effective bargaining chips. Even so, that power needs to be skilfully harnessed. Oxford's Amir Lebdioui has argued that the green transition can create "green windows of opportunity" for developing countries, but capturing them requires countries to build productive and technological capabilities rather than simply possessing natural resources or adopting imported technologies.

Thirdly, as the global population ages, discussions on demographics have turned into a core concern. Beyond Europe and North America, birth rates are becoming a divergent point within Asia: dividing the younger markets of India and Vietnam with aging "grey" ones like Japan and Korea. A young, active labour force transforms into a currency of power while providing tailwinds for continued growth and increased competitiveness within Emerging Markets. Malaysia is no exception to this demographic trend. We have benefited, like many countries, from our demographic dividend – when the working age population grew faster than the dependent population – but we appear to be heading to a demographic tax. Demographic changes have further repercussions. As Stanford economist Alice Evans[4] points out, demographic growth (or otherwise) varies across segments of population in countries. For the most part, while demographic growth is slowing down in many segments of population, there is one segment where it is accelerating – among religious conservatives. Thus, in two decades or so, what will voting patterns be like or what will core societal issues be for the median voter if these trends continue? Which segments get to hold power?

Fourthly, there is the megatrend of inequality. It is perhaps a slight exaggeration, but only slight, to think that the COVID pandemic oversaw one of history's greatest wealth transfers away from labour to capital. This is seen, for instance, in the seemingly unstoppable rise of the S&P 500 and other markets around the world. This is also seen in bifurcations – so-called K-shaped patterns – in consumption in many countries. Higher earning consumers, boldened by rallying stock prices and rising property values, are spearheading spending through

[4] KMF speaker in 2024.

premium services and goods. On the other hand, after years of sticky inflation rates, lower-income cohorts find themselves struggling to afford basic necessities. The decision to "protect" markets, especially financial markets, is a choice driven by the power of capital. Yet, on the other hand, power (in this case, governments) can become a critical if not urgent equaliser. Empowered by the public mandate, targeted cash handouts funded through progressive tax schemes mitigate jarring disparities in consumption. But is that really enough? From a societal justice point of view, is the solution always ex-post redistribution of income? How far can that go in mitigating the very worst consequences of vast inequality?

Finally, there is the alleged great saviour of us all, technology. The thinking goes, technological growth will be so powerful and so rapid that it will help us overcome even our deepest societal issues. In fairness, technology has been a boon to many of humanity's deepest problems; it is agricultural productivity driven by technology that has allowed societies to break out of the Malthusian trap. But, to what extent is technology truly exogenous to societal choices? To what extent is it not influenced by the vagaries of power? Indeed, Oxford economist Carl Benedikt Frey's work on automation highlights that technological progress is not distributionally neutral, with new technologies capable of shifting economic power between labour and capital as they create winners and losers. What kinds of technologies are rewarded?

As we know, semiconductors have become geopolitically critical for the simple reason that dominating those supply chains effectively implies dominating the future of technology. Closer to home, Malaysian semiconductor firm SkyeChip's efforts to develop indigenous integrated-circuit design capabilities illustrate how technological power may depend not merely on participating in global supply chains, but on controlling increasingly valuable capabilities within them. Furthermore, the most powerful technology firms in the United States today, for instance, seem to be those that promise the wonders of Artificial Intelligence. How much of that is because AI is the greatest thing since sliced bread, and how much of that is because of effective political lobbying by wealthy, extremely powerful billionaires?

Section V –Who Watches the Watchmen? Historical Methods for Redistributing *Power*

As we take stock of how power may distort the global issues of today and, even, further entrench the already-entrenched, it is also worth remembering that history is *also* chockful of examples of how the powerful have been balanced out, defeated, or made to collaborate for a more inclusive, sustainable future. Taking some lessons from history, this essay offers the following perspective: In tackling long-term societal issues, it is not enough to simply redistribute income or even wealth, or to build up institutions that provide check and balances. Rather, above all, whatever methods we choose, it must come with the philosophy of, more than anything, the redistribution of *power*.

At least since the Glorious Revolution in Britain in the 17th century, balance of power has come via well-defined (or at least as-well-as-can-be-defined) constitutions that redistribute power away from absolute monarchs to, say, parliaments or aristocrats. But even within that, universal suffrage where every citizen is able to be involved, at least indirectly, in decision-making took centuries thereafter. This essay has covered this concept of separation of powers in Section II as is, but it is worth repeating that even the most well-meaning institutions can fall victim to an overt concentration of power, reinforcing rather than balancing the powers that be.

If we were to reduce the powers of the "powers that be", we may first ask, "How do they have their powers in the first place?" For much of history, that has come via the conquest and ownership of land. It is therefore unsurprising that land reform may be a really good place to start in redistributing power. Following World War II, both Japan and South Korea implemented sweeping land reforms that dismantled the traditional landlord class and redistributed those lands to tenant farmers. According to Joe Studwell in his book, "How Asia Works", this raised rural productivity and incomes which created a broader base of savings and demand that later supported the rapid industrialization of these Asian Tigers. But, it was not just broader domestic demand that was a positive consequence from this land reform – it was a dramatic shift in political power with a broad class of small landowners replacing landlord dominance. This is in stark contrast to the experience of Latin America where large estates remained intact, entrenching inequality in the region while failing to develop proper domestic demand. Perhaps economic development first requires a redistribution of power.

Another extremely potent method for redistributing power is societal culture, defined as "shared values, beliefs, attitudes, and social norms that shape economic behaviour, decision-making, and institutional development within a group." In his book, "The WEIRDEST People in the World", Harvard Professor Joseph Henrich[5] described how a change in societal culture (driven by policy changes by the Catholic Church) in Western Europe led to the breakdown of "kinship-based institutions" which redistributed power to more open, generalised trust-based political institutions. Even in Malaysia, the violence of the Malayan Emergency shifted societal attitudes towards democratic governance, moderation and anti-communism, paving the way for a more inclusive path towards Independence and nation-building.

Indeed, as pointed out by Stanford Professor Michele Gelfand in her book, "Rule Breakers, Rule Makers: Tight and Loose Cultures and the Secret Signals that Direct Our Lives," "…culture is a stubborn mystery of our experience and one of the last uncharted frontiers." Yet cultures are not static and are liable to change when the situation calls for it: "…we make collective choices about the kinds of norms we want to embrace. And when our norms aren't serving us well, we can, and should, take steps to rebalance them." What is true at societal levels holds lessons for the firm level as well. Stanford's Charles O'Reilly has described organisational culture as a form of "social control", shaping how individuals behave within organisations; his work on organisational ambidexterity shows how norms and structures can heavily influence the extent to which organisations successfully balance the need to exploit their core while exploring new possibilities to remain relevant, or sometimes, to simply remain in place. Overall, the power of culture cannot be underestimated; indeed, Professor Joel Mokyr, who won the 2025 Nobel Prize in Economics, has long argued that it was a change in societal culture towards progressivism against ancient thought that formed a key foundation of the Enlightenment.

[5] KMF speaker in 2019

From a corporate perspective, one historical method in rebalancing power is antitrust movements. In 1906, under the administration of then US President Theodore “Teddy” Roosevelt, the Department of Justice sued a company called Standard Oil for monopoly practices under the Sherman Antitrust Act. At its peak, Standard Oil, led by John D Rockefeller, controlled nearly 90% of American oil refining, vertically integrated the value chain from pipelines all the way to retail, and established logistical choke points in exclusive railroad benefits and controls over pipelines. Following the Supreme Court’s decision in 1911 to uphold the ruling, Standard Oil dissolved its holding company structure (in the form of a trust) and had to create independent firms with independent boards, resulting in 34 such companies including Exxon (previously Standard Oil of New Jersey), Mobil (previously Standard Oil of New York) and Chevron (previously Standard Oil of California).

These are but a few ideas taken from history as to how power may be redistributed. More than anything, it requires setting an effective mechanism to balance out power. In Latin, this concept is, *Quis custodiet ipsos custodes?* Or, as a wonderful graphic novel has it, “Who watches the Watchmen?” Amidst the great structurally challenges that we face today, we must not lose sight of “power” and how that may, in the long-term, further entrench those trends even if they alleviate some pressures in the short-term. It is worth noting that the break-up of Standard Oil did not ultimately eliminate corporate power or redistribute wealth. Indeed, Rockefeller got wealthier after the break-up as he was given proportional stakes in each broken up company. Given conglomerate discounts no longer applied, the immediate increase in valuations of the individual companies alone made him a far wealthier man. The wheel spun, unbroken.

Section VI – Putting It All Together – KMF 2026

At this Khazanah Megatrends Forum, we hope to explore this concept of power and the redistribution of it from a wide variety of perspectives. 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 crafting Our Next Episode: Orchestrating A New Development Bargain for Sustainable Growth, and most recently, to Debugging Uncertainty: Lessons from the Grasshopper and the Ant on Living with Risk.

The KMF2026 theme is, “Who’s Got the Power? Watching the Watchmen in an Imbalanced World.” In a slight modification of KMF traditions, alongside our feature addresses, core sessions will be organised along the lines of how the geopolitical fluctuations of the day affect markets, what the theme means to firms and competitive pressures, the role of power structures in growth and development, and, finally, how we regain power for societies and communities.