

## CONCEPT PAPER

Just over a year ago, the world was at the brink of an economic crisis that many deemed (then) to be worse than what the world went through during the Great Depression in the 1930s. An iconic financial institution—the 158-year-old investment bank, Lehman Brothers—filed for bankruptcy, a move that initiated a collapse of the financial world as never seen before. Within three days of that decision in September last year, almost USD4 trillion was lost in the world's equity markets and more banks and financial institutions failed. What started out as the sub-prime mortgage crisis in the US in 2007 turned into a global financial crisis, facilitated by the very "efficiencies" that contributed towards the unprecedented growth of the world's financial economy in the preceding decades. The massively over-leveraged financial economy effectively collapsed and threatened to carry with it, the whole real economy.

With financial and capital markets collapsing and prominent market institutions failing, it was governments that came to the fore. Whichever way one looks at it, it was tax payers' monies and obligations that provided much needed liquidity in the financial system while it convulsed. Banks were capitalized or nationalized, and government coffers worldwide were used to prop up the economy. The Malaysian government introduced two stimulus packages in 2009 and widened its budget deficits in the effort to make up for shortfalls in external demand. Governments that could, drew on reserves, while others borrowed heavily to spend. Some effectively printed money as new monetary policy instruments such as 'quantitative easing' were introduced.

Notwithstanding the risks and costs of government borrowings, only a year later, the consensus is that there is now a solid floor underneath the world's economy although its overall well-being is still suspect. Indeed, parts of Asia have rebounded well beyond expectations in the second half of 2009. However, unemployment is still rising in the US, Europe and Japan, albeit at decreasing rates. While the world seems to have averted an economic apocalypse, it remains unclear what "the new normal" is. The debate on what is the new "new" and what needs to be fixed, be it the lack or failure of regulation or ethical standards, is still ongoing. Could it be that the aversion of catastrophe preserved too much of the past? That a good crisis was wasted?

Thus far, the debate on what is the new regulatory regime is still continuing. The Commission of Experts on Reforms of the International Monetary and Financial System set up in November 2008 by the United Nations, for example, has called for a complete reform in the global financial system to address what is now perceived as a systemic failure of the global financial infrastructure, but things have remained largely the same.

Meanwhile, the imbalances in the world remain and the costs of the loss of wealth and jobs are rising. The OECD<sup>1</sup> forecasted that there will be 36 million unemployed persons in OECD countries by 2010 and unemployment in the US is well above 9% or some 7 million people. A small, open economy such as Malaysia will inevitably depend on external demand and the threat of unemployment becomes very real if global demand does not recover.

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The global production-consumption structure distributed such that the surplus economies of Asia produce while deficit economies in the west—the US in particular—consume was blamed as a cause of the crisis. The combination of the spendthrift consuming Americans and the frugal producing Asians is apparently bad for the economy. This is still largely true as the hypothesis is that emerging Asian consumers are not sufficiently big to replace the over-leveraged American consumers. How will the problem of US production be addressed in order to solve the unemployment problem there? How will the specter of protectionism in the US affect Asian production? How big and robust are the emerging Asian economies?

This is a particularly important period for firms, as they need to understand what all these changes mean to what they are doing and how they are doing things. What will be new sources of growth and what is the transformation agenda? This is also a time for reflection on the values that we hold as individuals and as a society, for leadership in all enterprises—commercial, educational, voluntary or political—are drawn from amongst members of society. Quite clearly, there has also been a failure of responsibility if not of values in the events leading up to the crisis.

We have therefore raised the question “Apocalypse Averted?” in this year’s Khazanah Megatrends Forum (KMF) to reflect the uncertainty that still hovers over the present environment and the subtext, “Reconfiguring the New Normal”, to seek clarity on what constitutes the New Normal and therefore, what needs reconfiguration. The key questions for KMF 2009 are:

- What is the trajectory we are on, and where are we on that trajectory?
- If the world’s economy has undergone a structural change, what is the new equilibrium? What is the new global economic model?
- What are the imperatives of this new equilibrium? How do firms, societies and the economy locate themselves in this new equilibrium?

In order to answer these questions, the Forum is organized around four themes: Macro & Markets, Firms & Transformation, Competitiveness & Development, and Leadership & Society as elaborated below. Each session will have its own unique issues as elaborated below, but deliberations for each session should seek to answer the three key questions of the Forum.

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### Session I

#### Macro & Markets

1. Although a “floor” to the economy seems to have emerged, uncertainty remains. What is the trajectory the world economy is on? Are we beginning to see a return to business as usual and the bad habits that characterize it?
2. How different is the world today?
  - The balance between regulation and self-regulation?
  - Reconnecting the financial economy to the real economy?
  - What are the effects on economies of massive bailouts and stimulus by governments? A Keynesian overdrive?
3. When the dust settles, what will the financial landscape look like post re-structuring and consolidation? What are the opportunities?
  - Where are the sources of capital and where will capital flow to?
  - Will Islamic financial institutions emerge as dominant players in the face of loss of confidence in conventional finance?
  - What about commodities as an asset class?

### Session II

#### Firms & Transformation

1. Transformation means adjustment to a new environment and/or culture, with the capacity to respond better to a different set of circumstances. What has been the impact of the crisis on firms?
  - What are the alternatives for financing growth and transactions for firms in this still intractable environment?
  - Which types of companies can create opportunities out of crises? How will cash rich companies react? How do crises drive innovation?
2. What about regulators and government?
  - What are the imperatives of change for the guardians of public interest?
  - What principles can be applied from an example of transformation in the private sector to the delivery of public services and the protection of public interest? How can the experience in improving the work culture, execution and delivery in the former be applied in the latter?
  - What is the balance that needs to be struck between being punitive and preventive in effecting change?
3. What have been the effects of the crisis on government related entities: what might be the fate of Sovereign Wealth Funds, State Owned Enterprises and Government Linked Companies?

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### Session III

#### Competitiveness & Development

1. What has changed and what has remained the same in the structure of global production and consumption?
  - Will Asia move away from an export-led economy driven by low cost and frugality to consumption?
  - Will the American consumer sufficiently de-lever and enter into production apart from consuming? What about the surplus vs. deficit economies imbalances? Is there a structural change?
  - Has the distribution of pain and gain improved?
2. How have the changes affected competitiveness?
  - While capital will still be globally mobile, the structure of global production will change to benefit the bigger consumption markets including the emerging populous economies of China, India and Indonesia. How will small open economies fit this picture?
  - How will the changed financial sector – has it really changed? – impact the real economy? Will there be a shift in comparative and competitive advantage?
3. What are the opportunities?
  - What will be the new models of intermediation to better link surpluses to where capital will be more optimally used? New businesses and institutions for tomorrow?
  - What would be strategic and new sectors for the Malaysian economy in this climate and in the next decade? Will the economy turn from red to green?

### Session IV

#### Leadership & Society

1. Is society stuck in the circularity of vicious cycles that prevent change from happening even when affected by crises?
  - Is there a failure of leadership to recognize their responsibility and accountability to the broader constituencies they serve? How important is leadership guided by values and ethics in this equation?
  - What are the parameters and boundaries of the risk taking behavior of leaders?
2. What is the talent and leadership paradigm required to face the current environment and the changes it forebodes? In line with this, what is the talent pipeline in place and how do leaders see their role vis-à-vis society?
  - What is the balance between the roles of governments and businesses in talent development as part of the broader leadership development?
  - Reassessing the new roles of leaders in corporations and governments in providing safety nets for employees and citizens in times of crisis.

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- What is the optimal organizational design to harness leadership talent while also mitigating against leadership failures? More empowerment and more autonomy as precursors for creativity and entrepreneurship that can build national competitiveness?
3. Can social capital and social networks, while empowering and enabling, also become a hindrance in effecting change in the conduct and way decisions are made in the financial sector? In the immediate aftermath of the financial crisis, what forms of new social networks can be built and help shape the design of things to come?

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