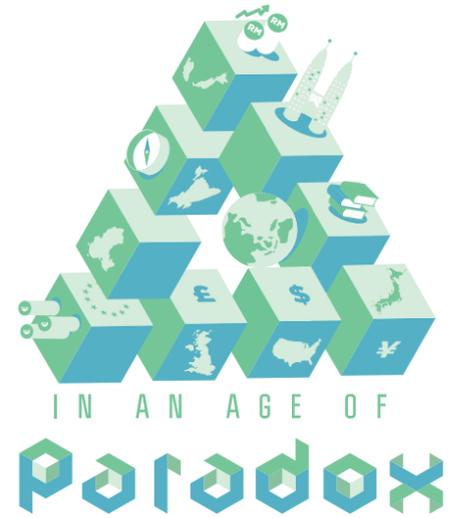




**KHAZANAH
MEGATRENDS
FORUM 2013**
KHAZANAH
NASIONAL

Growth WITH Inclusion



Same Game, New Players

Special Address

By YBhg Datuk
Ranjit Ajit Singh

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Luncheon Address

By Sunny Verghese

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**Special Event:
Finding Harmony
in Paradox**

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NEW PLAYERS, SAME GAME: GRAPPLING WITH PARADOX

"The paradox universe can be classified into two categories: Paradoxes that we are unable to explain because we have yet to have the knowledge or technology to understand. As such it would only be a matter of time before we rationalize it or; paradoxes that will forever remain a mystery for God Almighty has chosen it to remain so. In this, case we have to trust our given faith that it is so."

Drawing from examples of other countries that have trodden successful development paths and then bringing the focus sharply on Malaysia, the Minister of Finance II, Dato' Seri Ahmad Husni Mohamad Hanadzlah drove home the importance for policymakers to be nimble and flexible in the rapidly changing global environment. One aspect of this is the ability to balance the demands of domestic political configurations with the need to respond to global events and the fluidity of any so-called global status quo. In the example of the United States where a powerful

private sector also means a political system susceptible to lobbying and capture by powerful groups, it was this susceptibility that contributed to the events five years ago now known as the Global Financial Crisis. On the other hand, even the most disciplined centrally planned economy must be vigilant and accept that the days of seeing five-year plans impervious to global shocks are steadily being relegated to the annals of history.

Acknowledging the achievements of countries such as South Korea and the Nordic countries on developing economically while also achieving equitable growth, Dato' Seri Ahmad Husni was careful to remind the audience that countries are bound by their historical, cultural and social circumstances in adopting their development strategies. In doing so, he urged appreciation of what is known in political science as "path dependence," i.e. the idea that countries are bound by history such that their current situations can be explained substantially by past events and the circumstances they found themselves in previously. In the case of South Korea, the experience of war and extreme hardship (which caused great social dislocations and even geographical separation of the two Koreas) led to "strong passion, zeal, and

hard-nosed determination down to the single individual level" that can help explain South Korea's distinction of being one of the few countries in recent times that managed to transition from a middle to high income economy. Similarly, South Korea joins Japan and China as countries with a highly disciplined populace conditioned by strong societal norms to conform to tightly-defined behavioral patterns. These were examples that Dato' Seri Ahmad Husni used to argue that while admiring the achievements of other countries is natural, appreciating the differences between them and Malaysia is equally as important if the discussion of the country's long-term development is to move ahead in a fulfilling, fruitful manner.

Unlike the developed economies in North America and Western Europe, Malaysia does not have 20 or 30 years to move from middle to high-income status. It is six years and fewer than 2300 days until 2020, the year by which the government targeted Malaysia to become a high-income economy. The current situation whereby government expenditure accounts for 23.5% of GDP per annum since 2009, is unsustainable and unwise policy practice. The government is a major player, but the private sector from across the spectrum needs to also

contribute to moving the economy up the value chain and securing the requisite productivity gains. Bridging socioeconomic disparities is the anchor to Malaysia's long-term stability and sustainable economic growth. Dato' Seri Ahmad Husni cited Fiji, South Africa and Singapore as examples of countries where economic insecurity in the majority population has brought repercussions in the realm of political stability and peace. No stranger to such pressing concerns, Malaysia too needs to create a more level playing field by achieving a target of one-third of the wealth for two-thirds of the population, i.e. the Bumiputera community. As a diverse country with a variety of value systems, beliefs and aspirations, Malaysia must work doubly hard to decrease income inequality, as this is the single most important factor for interethnic assimilation. For Malaysians to truly come together in their daily lives, the gap between the haves and have-nots must be reduced.

The Opening Address was an elegant summation of the task borne by policymakers and people in Malaysia to achieve growth with inclusion while addressing the paradoxes that may come to the fore along the way.

Macro AND Markets

The session on Macro and Markets discussed new economic realities, especially in the emerging markets (EM), as monetary policy in the United States (US) begins to normalise. >Page 3



Firms AND Transformation

Don't assume the rules are written. Be contrarian. >Page 3



Ethics - THE Philosophic APPROACHES TO Agreeing TO Disagree

Differences do not cause conflict; disagreements on the other hand challenge the core principles of a person's beliefs and can potentially cause conflict. >Page 2



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The Paradox of the Financial Markets

Creating inequality when seeking to reduce it

- Policy makers in several jurisdictions have attempted to narrow the wealth gap in financial assets by encouraging broader asset ownership, lower interest rates and abundant credit facilities.
- Paradoxically, the new policies have led to even greater issues: actively promoting participation in the capital market to narrow the inequality created loopholes in the system which led to the Global Financial Crisis.

Financial System Regulations Should be Attuned to the Real Economy

The financial system has become detached from the real economy

- Two ideal roles of the financial system: a) to enable and promote real economic growth, and b) to help industry players obtain financing in the most efficient way possible.
- However, the financial debt to real assets ratio grew significantly from 1980 to 2012
- Financial system should be attuned to the real economy: enabling productive ventures, meeting consumption needs of businesses and households, and generating positive externalities to the broader society.

Regulations Should Not Stifle Growth

In regulation, rules must not substitute for supervision and surveillance

- Capital markets are markets for risk, and regulators must remember that their task is not to regulate to the point that there is stifled growth amongst market players.
- In Malaysia, capital market growth is guided by an inclusive social mandate. Regulators should strive for a middle ground of sensible and effective oversight while encouraging positive innovation and ensuring protection of investors, fair markets, mitigation of risk.

Asian Regulators: The Need for Unity and A Stronger Presence

On the global stage, the voice of Asia is sorely lacking

- There is a greater push for greater transparency on the massive global capital flows that caused the Global Financial Crisis and Eurozone Crisis.
- Asian regulators lag behind their European and American counterparts in terms of voice uniformity, and are unable to influence capital flows transparency discussions on a global level.
- Asian policymakers must stand united to provide a strong voice in addressing the agenda of capital flow transparency on a global scale.

- Paradoxically, new regulatory policies targeted to address inequality in the financial market led to the Global Financial Crisis.
- Regulators should strive for a middle ground of sensible and effective oversight while encouraging positive innovation. Financial system regulation should be attuned to the real economy.

SPECIAL ADDRESS

Speaker: YBhg Datuk Ranjit Ajit Singh, Chairman, Securities Commission Malaysia.



Surging Demand

Food Security: Growing Demand

- Surging world population and shift in demand requirements: the global middle class will grow by 3bn over the next 20 years. Food security will have to meet basic nutritional needs, sustenance and a greater demand for protein. This is compounded further with input demands into protein production and food for energy initiatives.

Shrinking Supply

Food Security: Strained Resources

- Resource constraints : arable land and water sources are being depleted.
- Farming production is seeing few breakthroughs: food prices saw a decline of approx. 70% between 1900-2000 from massive productivity boosts. Ironically the resulting lower prices have dampened funding for greater R&D towards further productivity improvement.

Key Emerging Economies

Barrier to Sustainable Growth: Lack of Political Will

- Vulnerable to demographic shift: China and India have high growth rates, but will soon face food shortages. They are the most vulnerable to the demographic shift: large poorer population base will see the greatest leap in middle-income class growth.
- Wrong policy responses, weak enforcement: food price controls to appease the people only sends a distorted price signal, preventing producers from responding to low food stocks.

Olam's Strategy

Long-Term Strategy: Repeatability & Differentiation in Niche Markets

- Not mooning the giant: creating own space by avoiding markets with established players.
- 3 ways of differentiation: (i) Buying straight from the gate; (ii) Value-added solutions for customers; and (iii) Selective integration in the value chain.
- Repeatability: scalable adjacency based growth formula to minimise execution risk.
- Shareholder Paradox: balancing long-term strategy with shareholders' shorter term horizon is a huge burden. Ideally, Olam would have only 30-40 shareholders with long-term horizons.

Inclusion

Private Profits, Public Losses

- Growth Paradox: world output has grown from \$27tn in 1990 to \$72tn in 2012 (nominal), yet there are still 1bn undernourished, with only 70m from developed countries.
- Cost of externalities mounting: companies are not factoring in costs to nature, which will return to bite us in the back. Private companies are gaining at the expense of the public.

- Food Security not only involves meeting the demands of an accelerating population growth but also needs to address the shifts in dietary habits towards a higher protein base amidst resource constraints (shrinking arable land and water sources).

LUNCHEON ADDRESS

Solving the Food Security Challenge: Building a Sustainable Global Agri Business

Speaker: Sunny Verghese, Co-Founder, Group Managing Director and CEO, Olam International Limited, Singapore.



Identities & Learning from Diversity

- Ethnicity, religion, class and politics now overlap with other identities which can create disagreement/agreement depending on the topic of discussion.
- Having this view of multiple layers of identities (pillarisation) can help create alliances and forge greater understanding across different cultures and societies.

Differences and Disagreements

- Differences do not cause conflict; disagreements on the other hand challenge the core principles of a person's beliefs and can potentially cause conflict.
- Although there are deep fundamental differences between the core principles of religions and culture, consensus is not as important as respectful engagements between other religions and cultures.
- Facilitating these disagreements drives change and progress within society.

Silence of the Learned Majority

- The silent majority is busy getting along with their daily lives and leaving intellectual dialogues to the extremists and the ignorant.
- "Ethical universalism": Agreeing to respect each different culture/religion without having to agree on each of their fundamental beliefs. It can help decide what kind of disagreement is acceptable and promote a culture that accepts disagreement.

Universities as a Platform for Discourse

- Universities should be institutions that promote personal growth and the concept of challenging ideas; not just entirely focused on meeting market needs.
- "Global ethic": universities can be used as a platform for people to discuss issues and agree to disagree without imposing their views on each other.

- Disagreements and intellectual discourse are key drivers of progress and positive change.
- Society excels at learning to do and learning to know but fail miserably at learning to live together.

SPECIAL SESSION

Ethics - THE PHILOSOPHIC APPROACHES TO Agreeing TO Disagree



SESSION 1

Macro AND Markets

The session on Macro and Markets discussed new economic realities, especially in the emerging markets (EM), as monetary policy in the United States (US) begins to normalise. The speakers emphasised the need for both policymakers and investors to stay nimble in the face of greater uncertainty.

Macro

- Ultra-easy monetary policies have not been inclusive and are potentially distortionary. Despite record liquidity injections, socioeconomic inequality remains a pressing concern in many countries. The end of the global credit cycle also leaves EM bond markets susceptible.
- Emerging market economies need to identify sustainable sources of growth. Sustainable sources of growth, such as infrastructure development and productivity gains, are anchored on the real economy. As China seeks to rebalance its economy, gradual economic reforms may prove more meaningful than Western-prescribed political reforms.

Markets

- The recent selloff only puts a small dent on the bullish EM story in the medium term. Investors should differentiate between fundamentally-driven and liquidity-driven opportunities. There are still EM countries with strong growth prospects and attractive yield differentials.
- Firm and sector-level fundamentals count equally. Alpha can be found in "bad" economies and vice versa. It is not just about GDP growth!

- In the face of monetary policy normalisation in the US, EM economies need to keep themselves competitive by identifying sustainable sources of growth and by conducting necessary structural reforms.
- Investors can still find alpha in EM countries with strong fundamentals at the firm, sector and macro levels.



SESSION 2

Firms AND Transformation

Growth

- Growth has to be inclusive and sustainable**
- There needs to be a measure of inclusive growth
 - Rising inequality remains a challenge. Widening income disparities is a concern to policy-makers and poses a risk for social cohesion. There is a need for more policies towards the inclusiveness of growth, minimising discrepancy between areas, genders, sectors.

Players

- Human capital matters, invest in it**
- Crisis lead to new opportunities and new players. New players are more productive while young smaller firms grow faster than the bigger ones. However, in emerging economies young small firms are constrained by limited access to capital and they are not subject to privileges that are given to the bigger ones.
 - Be a contrarian. Deploy your own sensors and stop listening to economist from the West (US & Europe) to tell you what to do. Do it in your own way, do what you want to do.
 - Spend time nurturing existing business before expanding.

Game

- New players take the world by storm**
- The second global venture capital hub is China and Chinese companies now surpass competitors from developed economies.
 - Need to believe that the rules are not written. Winning the game can also happen in non 'high-tech' sectors like Inditex (ZARA) in textiles and apparel, and Inka Kola in soda beverages.

Competition & Inclusion

- Beating competitors and working with them are both key strategies**
- There are always risks by looking at creative destruction and cooperating with competitors. but should look more at what's the net positive from that arrangement, as well as how do you enhance that net positive and how do you exploit that position.

Innovation

- It's ok to copy in the beginning, but it is important to cultivate for changes in the future**
- Copy the good idea and innovate on the process, execution or other aspect of the value chain.
 - Copy from the other market and apply it domestically. Shift the landscape in your favor.

- Rules are not written, it is possible to grow inclusively and competitively at the same time.
- Don't simply copy and follow, copy in a smart way and innovate at the same time.



BRAIN SWITCH!

finding harmony in paradox



▶ Huzir Sulaiman performed extracts from his plays.



▶ Dato' Dr Ng Kah-Ming performed on his harpsichord.

A MEMORABLE AND MAGICAL EVENING

Monday evening at KMF was highlighted by a very special event. "Finding Harmony in Paradox" was a unique and elegant event dedicated to exploring dimensions of the Arts.

As curator, Datin Saidah Rastam was tasked with bringing together an eclectic team of highly talented and renowned artists and crafting an event that allowed them to display their talents in a complemented effort. This special event was extremely well-attended, drawing an audience from far beyond the KMF attendees.

The challenge was to showcase the many dimensions of the Arts in about one hour, so the show moved quickly and energetically. Each artist had a segment of about ten minutes.

The presentations were by:

- Huzir Sulaiman
Playwright and director
- Nani Kahar
Architect
- Dato' Dr Ng Kah-Ming
Conductor - Harpsichordist - Musicologist
- Tan Twan Eng
Writer

There was also a segment featuring the work of Latiff Mohidin. He was in the audience and came on stage at the end of the performance.

The energy and mood of the event was exhilarating, and audience appreciation was tremendous. This special event provided an opportunity to explore further the 'Paradox' theme of KMF 2013.



▶ Tan Twan Eng read a short story which he wrote especially for KMF 2013.



▶ Latiff Mohidin shared a few words with Tan Sri Dato' Azman Hj Mokhtar



▶ Nani Kahar presented on architecture: public and private space.



▶ Welcome remarks from Curator Datin Saidah Rastam.