

# MEGATRENDS

The Official Khazanah Megatrends Forum Magazine

Issue 06/2016/2 | 27<sup>th</sup> September 2016

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Kuala Lumpur Convention Centre



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The 2016 edition of the Khazanah Megatrends Forum (“KMF”) kicked off with Professor Jomo Kwame Sundaram’s powerfully delivered Opening Address, which focused on the Sustainable Development Goals (“SDGs”) of the United Nations, as well as their corresponding threats and opportunities.

To begin his Address, Professor Jomo gave a brief overview of the Global Goals for Sustainable Development (also known as Agenda 2030) which is a sustainable development framework guiding the international community from the year 2016 to the year 2030. Indeed, it is an update of the 2000 Millennium Development Goals (“MDGs”), but with three major enhancements - Agenda 2030 incorporates 17 SDGs comprising 169 targets that

cover economic, social and ecological dimensions, is inter-governmentally negotiated, and is universal in nature.

From there, Professor Jomo then outlined four threats and opportunities vis-à-vis the SDGs, namely climate justice, demographic transition, malnutrition and inequality. With regards to climate justice, Professor Jomo showed how global Carbon Dioxide (“CO<sub>2</sub>”) emissions would be best addressed by a solution that incorporates both Climate and Development considerations.

This, Professor Jomo states, forms the core of climate justice, based on five principles which are the need to reduce emissions much more quickly in rich countries than in developing countries,

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an investment-led approach to address climate change and development goals, front-loaded investments given the importance of scale and learning economies for technology leapfrogging, public investment that would crowd-in private investment and significant transfers of finance and technology for a big push. This would then form the basis for a Global Green New Deal.

The second threat and opportunity highlighted was demographic transition. Taking material from the Khazanah Research Institute's The State of Households Part 2 report, Professor Jomo showed that Malaysians are living longer but are having fewer children which would therefore imply a changing population profile over the coming years. In particular, this demographic transition would lead to changing dependency ratios where the percentage of Malaysian aged 60 and above would grow much quicker than those below the age of 5. This ageing society would increase fiscal pressures on the healthcare system due to a growing share of chronic medical treatment for the aged.

Next, Professor Jomo highlighted the problem of Malnutrition which faced three major issues – macronutrients (hunger), micronutrients (minerals and vitamins) and obesity. Malaysia faces an obesity problem, with the highest obesity rate in Asia. The economic costs of malnutrition are massive, amounting to about 2 to 3% of global GDP, and USD47 trillion over the next two decades. Indeed, the economic burden of obesity is third only to armed conflicts and smoking in the world.

Last but not least, on the topic of inequality, Professor Jomo stated that 70% of world inequality was due to international inequalities, with rich nations far outpacing poor nations in terms of income growth. In other words, 70% of inequality was explained by geography, and 30% by class. Professor Jomo concluded his Address by showcasing economist Branko Milanovic's 'elephant' chart which showed an increase in real income for the world's poor and the world's wealthy, but a decline or stagnation of income for the global middle class. The stagnation of the global middle class has important implications, both economically as well as politically, as can be seen via the rise of populist pressures such as Brexit in the United Kingdom and 'strongman' leaders in the West.

To sum, Professor Jomo's Opening Address was an apt and sobering way to kick off the 2016 Khazanah Megatrends Forum. By reminding us of the importance of geography, while instilling the belief that threats can also be opportunities, Professor Jomo thus highlighted the need for great stewardship, and that ultimately, while geography is crucial, we shape our histories by our decisions and technology, and hence we shape our destiny.

## Special Address

### Geography and Demography as Destiny

By Tan Sri Andrew Sheng



#### Malaysia Faces Strategic Choices to Break Into Advanced Country Income Levels

- Malaysia has the opportunity to be the first Islamic-majority nation, that is non-oil dependent, to hit advanced country status.
- To climb the productivity ladder, Malaysia must embrace the digital economy, leveraging on its strategic geography, developed capital markets and enterprising labour force.

#### Inequality Bound with Issue of National Identity

- However, as technology reduces inter-country inequality, the lack a socio-political framework to manage winners and losers leads to rising intra-national inequality.
- An economics-driven lens (value maximisation) is not enough. We also have to consider political (trade-off between efficiency and equality) and social (identities by ethnicity/religion/nationality) implications.

#### The Necessity for a National Dialogue

- For Malaysia, the issue of national identity is particularly critical. Malaysia must start having honest conversations, both formal and informal, on who it fundamentally is as a nation.
- These conversations must take place at all levels of society to understand how different communities can work together to compete in an increasingly complex world.

# Session 1: Macro & Markets

## Invisible Hand versus Velvet Fist - This House Believes that Markets are More Effective than Regulation at Addressing Externalities



### The Case for Markets over Regulation

- Governments rarely have all the pre-requisites (clear regulation, good mandate, resources) to make positive impact through regulation.
- Furthermore, there is still insufficient capabilities in government to both regulate industry and, at the same time, weed out market makers (typically rent-seeking) that feed on government failure.
- Government regulations at times are too late (reactive), and by the time of enforcement, the impact would have degraded the environment (e.g. haze).

### The Case for Regulation over Markets

- Markets optimise short term outcomes, but de-prioritise long term effects. This is particularly pertinent given the long-term nature of negative externalities such as pollution.
- At the same time, government can also improve its regulatory measures by providing education and information for markets / consumers to decide.
- Regulators work best where externalities cannot be priced by the market. Depending on the stage of economic development, many economies still need a guiding hand/enlightened collective action to make markets work.

### Mixing Regulation and Markets

- The opposite of free markets is not strictly state intervention, but enlightened collective action, which can bridge the shortcomings of both markets and regulation.
- Government should be proactive, rather than punitive. The role of government is to be an enabler and promote the exchange of information.
- However, markets are better at quantifying the benefits and costs of externalities. Governments need to observe and adapt as they typically lag in technological adoption.

# KMF2016 Special Event

## Belantara: A Secret Life





The KMF Special Event is now a tradition, exploring the theme from an arts and cultural perspective. This year's event was "Belantara: A Secret Life", also held in the Convention Centre.

After a delicious and eclectic dinner, guests were ushered into the venue hall, which had been tastefully draped in black, to create an elegant and slightly mysterious space.

Dato' Zainal Abidin suddenly appeared and his rendition of Sabar had stragglers rushing into the hall to secure their seats.

The emcee, Imran Ahmad, Director in Khazanah, appeared, coincidentally dressed much like Irshad Mobarak. Saidah Rastam, who gave creative direction to this event, said a few words. Datuk Sam Mannan, Director of Sabah Forestry Department, gave a presentation on the stewardship challenge of preserving Malaysia's natural heritage. Omar Ariff, photographer, presented some of his stunning photography, and surprised the audience with a selection of exotic and alien fruits for them to try. Dr Nigel Osborne and the Virama Ensemble performed music very evocative of the rainforest, which Nigel had written specially for this event.

The highlight of the evening was the premiere of Irshad Mobarak's nature documentary about Langkawi, with immersive photography and soundtrack that conveyed the forest as if we were there.

Zainal reappeared to end the evening with Hijau, and finally an encore with the popular Kau Dihati Ku.



## Special Address

### Culture as Destiny?

By George Yeo



Culture as the Underlying Factor in Shaping Everything that We Do

- Culture can be thought of as deeply embedded lines of code that acts as a code of conduct, particularly during catastrophes. Culture is most developed during challenging times where the best parts of our past will emerge and shape our future.
- It is important to keep a sense of belonging to one's own culture, ensuring the continuous knowledge-transfer to the younger generation and strictly governing ourselves.

The Culture or 'Operating System' of the Chinese

- The largest operating system of the world has consistently been the culture of the Chinese since the beginning of China's empires.
- China's approach in maintaining strategic partnerships has always differed from typical Western approaches. Instead of imposing their own culture onto that of others, they embrace the culture of others.

Culture, Humans and Leadership

- Culture is the deepest part of Destiny, but culture is not deterministic. Though deep-rooted, it does not, however, necessarily determine the future of a nation / civilisation.
- The collective brain of the world has the potential to be "god-like". This quality is due to the fact that the human brain knows no limits to what it can understand and what it can develop.
- However, this knowledge can be used for either good or for evil – creating a moral challenge dilemma. The right kind of leadership is about passing on the right values without directly forcing people's hand.

## Luncheon Address

By Ali Babacan



Turkey's Geography: Opportunity and Danger

- Turkey is located in a middle of a challenging and complicated region. Geography is difficult to change but Turkey has optimised its geography through economic links (EU customs, IIB, ADB), security alliances (NATO) and diplomatic alliances.
- Turkey's geography brings danger due to its close proximity to war-torn countries, but brings opportunity due to access to vast economic markets like EU, Africa and Central Asia.

An Open Growth Model with Smart Regulation and Social Values

- Over time, Turkey has evolved its understanding of a secular system in its social fabric and country, which is that the state should be at an equal distance to all religious sects.
- The relationship with EU and their guidelines have helped to Turkey to validate its progress in its embracing democratic values, freedom of speech, fundamental human rights and an open market economy.

Healthy Political Transition requires Strong Domestic Leadership, Support and Ownership.

- Arab Spring in the Middle East and the rise of nationalist tendencies in Europe highlight the fragility of a political transition and huge leadership deficits in the region.
- Economic interdependence needs to be woven between countries to create a common interest that benefits all. The EU is a prime example of unity brought upon by economic cooperation.
- Political transition requires support and ownership of its people in the democratic process. In Turkey's example, the people stood up and took ownership of its democracy.

## Session 2: Firms and Transformation

Solving the Corporate Impossible Trinity? Can Firms Simultaneously Deliver Financial Value, Economic Value and Societal Value in a Low Growth World?



### Corporate Malaysia Needs Reform

- The low interest rate environment, and access liquidity has not resulted in better performance in Malaysian equities. There is also little sign of recovery in Malaysian corporate earnings.
- Three reasons for underperformance include volatile global markets, national level political and economic risks, and high company valuation despite poor financial performance.
- There is no quick fix in addressing the problems of corporate Malaysia. We need to work collectively to push through change in corporate Malaysia.

### The Need to Evolve and Adapt

- A more disruptive environment implies that incumbents will have to constantly reengage with shareholders to prove that it can evolve to generate returns in an ever changing environment.
- The global economy is being disrupted due to evolving megatrends. Revenue pools of incumbents have been shrinking as competition has increased while margins have fallen.
- In the US, corporate lifespans have gone from 67 years to 17 years. This has given rise to private equity players to restructure companies and play active management roles, becoming sharks to public corporations.

### Active Investing as a Form of Stewardship

- The rise of passive investing methods has created a possible vacuum of stewardship, which may lead to rising valuations, despite mediocre corporate performance.
- Active investing is a form of stewardship. Active investing by knowledgeable investors can add an abundance of value to new businesses by structuring effective strategies for growth.
- Stewardship is not a one-dimensional concept, driven only by management. Good stewardship requires cooperation from each participant in the investment value chain.

## Special Address

### Capitalism and the New Social Contract

By Jaime A. Zobel de Ayala



### Capitalism has always been a Double-Edged Sword

- Capitalism has led to rising economic growth and higher standards of living across the world.
- However, the fallout from capitalism is more pronounced in recent times due to lower structural growth and rapid technological disruption.
- This has given rise to widespread anti-establishment sentiment (e.g. Brexit, Trump candidacy) in both developing and industrialised economies.

### Societal Interests to be Aligned with Business Strategy

- Michael Porter of Harvard Business School introduced the concept of “Shared Value”, where commercial entities and their surrounding communities thrive together based on a set of sustainable policies and operating practices.
- Ayala Corp.’s Manila Water’s flagship sustainability programme, Tubig Para Sa Barangay (TPSB), has provided affordable water to over 1.8 million people from marginalised communities since 1998.

### The Need for a New Social Contract

- A critical component that is commonly missing from political discussions and campaigns is employment.
- Economic targets that focus on employment should be given greater focus. Our “scorecards” should include social outcomes beyond economic and financial metrics.
- From firms’ perspective, businesses should provide re-training to help displaced workers adapt to globalisation.

## SPECIAL SESSION in Collaboration with TEDxKL

### Innovation without Borders 2.0



#### Unlocking the Power of Inclusive Innovation

- Hybrid Social Solutions (run by Jim Ayala) provides solar powered lights to rural areas, which bring monetary and non-monetary benefits to families, including health, education and quality of life.
- According to Barry Pousman, Founder of Variable Labs, there are tonnes of opportunities to leverage cinema for good. For instance, simulations can be used to help women negotiate better salaries.
- Blippar founder and CEO, Ambarish Mitra, states that Augmented Reality computer vision can play a role in solving world problems, from healthcare to agriculture.

#### Innovation to Improve Decision-Making

- Humans suffer from a variety of cognitive biases. The perfectly rational person is a myth. However, just a knowledge of cognitive biases doesn't help us to make better decisions.
- According to Fractal Analytics founder, Srikanth Velamakanni, there is a need to transform decision-making towards model-backed or fully algorithmic decision-making.

#### Innovation for Empathy and Humanity

- Virtual reality enables for the most immersive technology possible, according to artist Lynette Wallworth, which then allows for deeper story-telling.
- Synchronised virtual reality screenings create a collective dream using a powerful new technology. It is a portal, you get a message and you can return with that message.
- Such technologies break down geographic barriers, enabling humans to fully immerse themselves in totally different cultures, or totally different environments, thus uniting our collective humanity.

## Reflections on Day 1 by Tan Sri Dato' Azman Hj Mokhtar, Managing Director, Khazanah Nasional Berhad



The theme for KMF2016, "Geography as Destiny? Reaping the Dividends of Good Stewardship: The Political Economy of Location, Environment, Demographics" is a truly challenging one. As such, I am particularly happy to see the incredibly diverse ways in which our talented and engaging speakers have managed to consider, discuss and debate the various manifestations of the theme.

All the sessions moved along very well, including some very engaging special addresses we had this year by distinguished statesmen, George Yeo of Singapore and Ali Babacan of Turkey, an esteemed regulator, Tan Sri Andrew Sheng, and a towering corporate CEO in Jaime Zobel de Ayala. They shared some really thought-provoking and inspirational lessons, which will surely be topics of conversations for years to come.

In terms of the core sessions, we continued the debate format again this year in Macro & Markets, with Markets winning over Regulations in a spirited discussion. Hopefully, no friendships were ruined in the process! This carried over to the Firms & Transformation session, which interspersed robust discussion with great banter, keeping the audience engaged and the discussion firm, but light-hearted.

Throughout the day, we managed to keep time (not easy for a KMF), except perhaps for the Innovation Without Borders 2.0 session, but that is a small cost compared to the wonderful stories shared by the various speakers who have shown how geography can be mitigated and, in some cases, overcome by cutting-edge technology. It examined how we could use powerful tools for the greater benefit of those left behind, for the greatest good.

Day 1 of KMF2016 saw a record turnout of 1,056 participants, including all our speakers. This sets us up well for the artistic KMF Special Event and Day 2 of KMF. Today's sessions brought to life the importance of geography but, as we saw, geography is not enough; stewardship and empathy are crucial. Let us see what Day 2 brings us. Here's to an even more fruitful Day 2 of KMF2016.