KHAZANAH MEGATRENDS FORUM2010

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Reclaiming the Commons: Collaborating and Competing in the New Economic Order

CONCEPT PAPER

As it unfurled, the global financial crisis was most striking in revealing the weaknesses and vulnerabilities of the very institutions entrusted to guard against it, and demonstrated yet again the frailties in a globalized world where the decisions of private actors can have resounding effects on the wider "commons". The European sovereign debt crisis as seen at its extremes in Greece, the Goldman Sachs trial and a change of government in the United Kingdom are some of the key shapers of 2010 where turbulence in developed economies is keenly felt across the globe in Asia, the Middle East and Africa.

The governments of G-20 countries are considering the withdrawal of fiscal stimuli, and there are increasingly popular drives for fiscal austerity and re-regulation in the US and Europe which will bring about changes in the economic order as these countries are the traditional big markets for Asian exports. In Asia, China is facing the long awaited Yuan appreciation with other regional currencies fast rising at its heels, taking a cue from the East Asian behemoth. Juxtaposing the rising currencies in Asia with the downturn in the United States and Europe begs the question on whether higher purchasing power and capacities for domestic consumption in Asia will lessen the drive to export to developed economies and open new and bigger playing fields within Asia and the Middle East. Will these increasingly interacting economies also now follow China's large investment footsteps to Africa and elsewhere? Where China is spending its surplus and expanding its economic—and therefore, social and political—reach will undoubtedly be shaping the investment climate.

The key attribute of what is typically described as globalization is almost certainly how the world has evolved into a system where the different parts are increasingly inter-linked and inter-dependent at various levels, environmentally, politically and of course, economically. This systemic view of the world whether it is the result of the flow of funds, mobility of people, diffusion of technology or the speed of information flows should be the departure point at understanding and resolving the crises we face today.

The crises we face today, the result of a combination of unbridled greed, regulatory failures, imbalances and marginalisation have their origins in the fact that the world is increasingly a closed system. The solutions to the global problems should therefore be predicated on the fact that increased globalization has resulted in a greater global commons. While new private domains emerge with increased interconnectedness, what is common to us has also grown bigger.

Thus the problem of the commons, first expounded by the professor of human ecology, Garett Hardin in 1968, is no longer a local or communal problem. The non-sustainability of the commons when individual private interests rationally and independently optimise their decisions extend to the global commons. Resolving the recent financial crisis through better regulations without due recognition of the totality of the interested parties globally will fail or at least be sub-optimal. Bringing back the equation of people, socio-political frameworks and the environment we live in into economics seems inevitable. According to Hardin, every workable distribution system must meet the challenge of human interest. An unmanaged commons in a world of limited

material wealth and unlimited desires inevitably ends in ruin and a tragedy of the commons. The global crisis and megatrends facing us such as climate change, water shortages, health epidemics, finite natural resources and environmental degradation are but some of the symptoms of this tragedy.

In a new economic order, perhaps there is a bigger place in the discussion for parties to collaborate in pursuing their interests and yet compete effectively. A collaborative approach can increase interactions between interested parties, effectively lengthening the time horizon of decision-makers, and (hopefully) making a better collaborative solution possible[1]. Collaboration and cooperation should not be misnomers for stagnation or uncompetitive behaviour however. The balance of keeping Keynes' "animal spirits" alive to induce creativity and innovation in the competition of new wealth creation and the need to collaborate to protect the increasing commons is at the heart of ensuring a more sustainable resolution to the crises we face and the environment we find ourselves operating in. How can we re-claim the commons by managing finite resources and competing interests in the new economic order without destroying the commons?

The KMF theme of "Reclaiming the Commons: Collaborating and Competing in the New Economic Order" reflects the interpretation of the times we live in today and aims to release a wealth of discussion on a variety of issues affecting the investment community.

Key Questions:

- What are the trends and fault lines in the global economy that have emerged from the crisis and the relational aspects of the economy that we need to pay attention to? Is this the end of the emphasis on economics of markets?
- What is the terrain of the new playing field for firms that have experienced the effects of the crisis? How ingrained is the need for transformation in preparing firms to compete and survive in this new environment?
- How will countries locate themselves along the continuum of competitiveness in the aftermath of the crisis? What role do location and specialization have to play in this equation, and what collaborative models can be harnessed in boosting competitiveness?
- What lessons has the crisis taught us on the type of leadership that is needed to effect change and depart from "business as usual"?
- How do we make economic growth and ecological concerns compatible to pave the way for sustainable economic development?

In order to answer these questions, the Forum is organized around four sub themes: Macro & Markets, Firms & Transformation, Competitiveness & Development, and Leadership, Talent & Change as elaborated below.

Session I: Macro & Markets

Key issues:

1. The three-legged road to recovery: If the outcome of global recovery is pegged to the fortunes of the US, Europe and Asia, what assumptions are being made in each case? Is it correct to assume that resilience in the United States, avoidance of further sovereign crises in Europe and a "soft landing" in China will hold? If there is agreement on the existence of a floor to the crisis, what are the assumptions made in order to support this?
2. The "Rising Asia, Appreciating Dollar" paradox: As a region that has surpassed OECD countries in incremental growth figures, why has Asia not seen its leading currencies become

[1] Robert Axelrod of the University of Michigan's Department of Political Science and Public Policy has written extensively on collaboration amongst parties in the absence of a central regulating authority.

the “safe haven” currency of choice? Is the Dollar’s position in the role of currency of choice secure for the near future, or has a potential competitor been found in the Yuan?

3. Trade imbalance in China vs. The rest of Asia: Will China pursue a “prosper thy neighbour” effort in Southeast Asia to address trade imbalances? Would this coincide with the country taking a bigger leadership in recovery in the region?
4. The view from Malaysia: How will the investment community in Malaysia pursue a broader view that goes beyond national borders? Are the conditions right for the country to redefine the boundaries of its proverbial pond, looking outwards towards opportunities at the regional level and beyond?

Session II: Firms & Transformation

Key issues:

1. Have the crisis and post-crisis periods influenced change in the boundary of firms and how they interrelate along the supply chain?
2. How are companies effecting change in the current circumstances? With a view on climate change, how might it transform business models and present investment opportunities?
3. Are Malaysian companies adapting quickly enough to changes in the economic landscape? Will their sights be set further afield and more importantly, are they prepared to embark on an expansion into more markets?
4. How have Malaysian firms fared in terms of innovation and transforming to become game changers rather than game joiners? Is there enough emphasis that goes beyond micro innovation to standard setting, breakthrough innovation instead?

Session III: Competitiveness & Development

Key issues:

1. In a world recovering from the crisis through exports, where is demand coming from? Are export driven economies turning towards domestic consumption instead?
2. The role of the government: What lessons have been learnt from the crisis on the role of government in business and national competitiveness? Will there be redefined boundaries on this relationship given the need for government intervention in preventing the collapse of many companies during the crisis?
3. Malaysia’s New Economic Model: is it new? Related to the country’s aspirations to move to high-income status, will “moving up the value chain” be easier said than done and are there lessons to be learnt from the experience of countries that have tread this path before? How do our neighbours view this development and how can Malaysia enhance its economy through managing its relations with its neigbours in the region?
4. What is Malaysia doing with its natural capital – is it acknowledged and harnessed, and how much emphasis is given to sustainability? On a regional scale, what opportunities are presented by game changing megatrends such as severe water shortages in rapidly urbanizing Asia?

Session IV: Leadership, Talent & Change

Key issues:

1. Leadership in times of change: What are the failures in leadership that can be drawn from the crisis, and what type of leadership is needed to emerge from it better prepared to prevent a recurrence? What is being done to cultivate the key values in the current and future leadership?
2. Mobile Capital vs. Mobile Labour: Having already seen the effects of mobile capital on the global economy, do we know what impact mobile labour would bring about? What can be done to attract mobile labour to work and live in a country?

3. Talent management in different settings: A comparison between talent importing and exporting countries. Where does Malaysia fall on this continuum? How do you effect a global transformation with respect to talent and leadership in a changing country and company strategically and effectively?
4. How does our education system impact our talent pool? What would be the face of a transformed public education system in Malaysia, and how would the government go about to execute the transformation, with a view of the partnerships and potential pitfalls of such an initiative?

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