

Managing Global Challenges

SCENARIOS FOR MALAYSIA



C- 306 Montana Lokhandwala Complex, Andheri West
Mumbai 400 053 India Tel/Fax: 91-22-26318260

E-mail: info@strategicforesight.com www.strategicforesight.com

Managing Global Challenges

Strategic Foresight Group and the Geneva based Horasis have introduced a new seminar series for business and government leaders on the future state of the world, emerging global strategies, dynamics of globalization and sustainability. The seminar provides participants with analytical tools to develop strategic foresight and shows how to redefine their role in today's fiercely competitive economies. The seminars are conducted as a blend of lectures, case studies and scenario workshops involving and engaging participants. Each seminar is custom made, focusing on one or more of the issues facing the country at whose request it is conducted to address the specific needs of the client. This seminar series is unique as it draws upon a number of resources not available to the general public. These include:

- Insight from interaction with global leaders
- Multi-disciplinary research laboratory at SFG offices in Mumbai
- Policy exposure of seminar leaders to China, India, the Middle East, Europe and North America
- Combination of ground level experience and sophisticated conceptual tools
- Exposure to decision-making in government as well as business.

The Managing Global Challenges seminars engage the participants in collaborative learning about long-term trends and discontinuities facing their countries and sectors. All SFG events are high value, exclusive and informed networking opportunities. They enable the participants to expand their minds and look beyond the horizon.

Strategic Foresight Group has been a resource to several public and private sector institutions. These include World Economic Forum meetings at Davos and regional summits in the Middle East and Asia, UK Trade and Investment, Goldman Sachs, the World Bank, Technology Leadership Council, Investment Weekly Master Class, Dubai Consortium, Confederation of Indian Industry, and others.

Horasis provides a range of services to private and public clients who envisage growing into global and sustainable organizations. Horasis is known for its annual China Europe Business Meeting in Geneva - an unparalleled platform for potential cooperation between Chinese and European firms. Horasis has been a resource for many multinational corporations and the world media.

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Managing Global Challenges

Guest of

YAB Dato' Sri Mohd

Deputy Prime Minister

28 June 2012

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Dato' Sri Najib Tun Razak with Frank Richter and Sundeep Waslekar

WHY STRATEGIC FORESIGHT?

Sisyphus is one of the most tragic figures of Greek mythology – a man condemned by the gods to spend eternity, pushing a large boulder up a hill. Every time he gets the boulder close to the top, it rolls back down, forcing him to start all over again.

Most companies across size, industries and countries are facing the mythical endless toil of Sisyphus in a series of disorientation and despair. What many CEOs might actually be feeling is a mixture of anger and fear. They find that no matter what they do or try to develop in terms of corporate strategies, their adjustments simply make the problem worse. At least Sisyphus comes out with muscles. Many companies, however, lose out in terms of competitiveness and financial strength when pushing the rock up the mountain, as their rocky endeavours restructuring, reengineering and leadership deployment - roll back for all eternity.

The reason for this sisyphus experience is the lack of strategic foresight.

An example of such is seen in the case of Arcelor - a Luxemburg based steel company. The firm has been at the centre of a bitter take-over battle with Mittal Steel - the Indian steel giant. Arcelor was quite confident of the superiority of its European heritage; and was taken by surprise by the hostile take over bid launched by an Indian newcomer. The company was unprepared in face of Mittal's move and has been asking the Government of Luxemburg for help a fallback into the times of mercantilism and protectionism.

One of the reasons for the lack of strategic foresight is the short duration of planning cycles practiced by corporations. While at business school, I learnt that corporations have to establish 3-year business plans to prepare for the future. A time period of three years is a very short period and corporations normally do not take into account the global changes and challenges of the future. Despite the credo of creativity and innovation, most CEOs are locked into practices of the past. Companies continue to do what they always did interrupted by short-term adjustments that normally fall flat after a very short term and perish. Recent examples of failing giants are GM, Sony and Alitalia. The typical planning exercise is attributable to a short-term-oriented management style that has increasingly dominated corporate America and Europe since the seventies. The model largely relies on the market co-ordination of economic agents and seeks to address market failures by providing additional market elements where they are missing.

Professional executives usually remain in a given company for less than five years. They are driven by the need to produce immediate profits during their short tenure. The maximization of a shareholders' value is the new mantra of management thought. However, this short sighted focus on squeezing the last penny out of every part of a business has exploited its key stakeholders in many cases. Systematic short-term thinking can damage the long-term prospects of companies and often lead to greed just think of Enron and Worldcom prime examples of such practices. In addition, CEOs do always have to reinvent the wheel again when and if they notice that their companies are left out without a





vision. In this uphill struggle, they have to reinvent the wheel, to survive in this ever-changing macro-economic and socio-political environment.

Conversely, companies that stay as market leaders for very long periods of time generally display relatively long-term-focused business thinking. The CEOs of those successful companies often interact with world leaders from different disciplines - including politicians, thought leaders, the media and representatives of civil society - to understand the challenges of the future. And they adapt their corporations' business models to anticipate and map the future. They clearly focus on emerging markets like China and India, take into account changing lifestyles, and deal with wild cards like the anti-globalization movement, terrorism, and war, among others. Two examples of corporations who have failed to take into account changing global scenarios in recent times are:

The Japanese film and camera maker Konica Minolta recently announced its withdrawal from the camera and photo business. This is quite an astonishing move for the erstwhile market leader in the same. The firm failed to foresee the dramatic change in its competitive landscape - the disruptive nature of digital technologies.

Similarly, the mobile phone unit of Siemens also failed, albeit for different reasons; the company did not take account of the rise of China. China is now the manufacturing hub of the world and mass manufacturing is increasingly difficult to execute in Europe and North America. In spite of being a market leader, alongside Nokia and Motorola, Siemens produced mobile phones at too high a cost - being too hesitant to move its manufacturing facilities to China. As a result, this division was sold to BenQ, a Taiwanese High-tech firm, at a high loss for Siemens.

I call on CEOs worldwide to decrease their degree of short-term considerations and to support long-term visions. By doing so, CEOs might give up on some short-term profitability but they will gain a more lasting one. CEOs should believe in long-term and robust solutions, which tackle issues of strategic importance for corporations and society at large; rather than endlessly pushing the rock up the hill, as Sisyphus did, CEOs, can, instead leave the rock at the top by choosing to look into the future, by developing appropriate visions and by managing global challenges.

- Frank-Jürgen Richter

“Managing global challenges is like managing success in a football tournament. You need good leaders, team players, coaches and referees. You need multiracial staffing policies and a sense of ownership in the companies.

Malaysia can design a special relationship with China. It can mobilise the Islamic capital to China and facilitate Chinese business interactions with the Islamic countries. It can thus be a bridge builder between China and the Islamic world.”

J P Huang Chairman of JPI Group

WHAT IS STRATEGIC FORESIGHT?

Strategic Foresight Group has developed an analytical framework to project the futures of countries and regions. This involves the following three steps:

Step 1: Identification of drivers i.e. driving forces, which will force a change.

Step 2: Use of the following tools: trends, discontinuities, forecasts and wild cards with respect to the drivers.

Step 3: Visualising alternative scenarios.

Drivers of change:

Drivers are underlying forces that influence the policy options of a country. Hundreds of factors have a bearing on national priorities. The relative importance of these drivers varies from one country to another. In order to identify drivers, Strategic Foresight Group has developed a 4-G framework for developing national scenarios. It includes:

- **Growth:** rate, scope and quality of economic growth
- **Governance:** participation, accountability, efficiency
- **God:** religious fundamentalism, values of the society
- **Geopolitics:** regional and global strategic, political processes.

Growth:

Growth refers to rate, scope and quality of economic development. Studying the rate of growth is important, but not enough. Often economists place too much emphasis on the rate of growth and ignore its scope and quality. It is possible to have a high rate of growth with economic development concentrated in a small section of the elite or a specific geographical area, ignoring the rest of the country. The quality refers to the soundness of growth with borrowed external resources for a short period, but it may not be sustainable over a long period of time.

Governance:

People are not driven by economics alone. They respond to the sense of justice, discipline, and opportunity in society. It is the task of the process of governance to deliver such public goods.

The capacity of institutions of governance depends on participation, accountability and efficiency. Democracy and open society makes participation feasible. Accountability reflects the willingness of rulers to be answerable to the ruled and conduct affairs of the state with a sense of integrity. Efficiency relates to the ability of the state to deliver public goods to all citizens in a cost effective and speedy manner.

God:

In order to justify the role of religion in the affairs of the state, or political forces seeking to undermine the state, it is also essential to establish the role of religion in the society. The rulers and opponents use harsh methods to impose religious rituals and practices, so that a religion-based society can legitimise a religion-based state.

Professionals who carry the message of God – preachers or clerics – develop a vested interest in a society governed by religion, as only in such a society can they be the governing elite. They will have





no central role in a society where forces of modern economy and technology are important drivers. They oppose modernisation and justify their perspective by deprecating modernism as irreligious.

Geopolitics:

Geopolitics relates to the dynamics of a country with its neighbours and super powers. It is of relevance to inherently weak states that seek religious sanctions and foreign support to widen their narrow popular base at home.

It is now necessary to identify:

- Key certainties: factors which are bound to be certainly present in any scenario
- Key uncertainties: factors that are unpredictable and can change a scenario

Tools:

For the application of the framework, SFG has developed four tools:

1. **Trend:** This term refers to the extrapolation of a particular phenomenon based on its previous performance.
2. **Discontinuity:** This term indicates a break in a pattern or trajectory of a particular phenomenon. It reflects a sudden change, or a radical shift in the movement of a variable. It brings a surprise that forecasters tend to sometimes overlook. Discontinuity seriously affects the exercise of extrapolation.
3. **Forecast:** This term refers to a definitive projection of the future, or the most likely prediction. Forecasts might sometimes be rendered wrong due to factors beyond imagination at a given moment.
4. **Wild card:** This term refers to least likely, but highly influential, events. This is an unforeseen event that could cause major discontinuity or fundamental change in a phenomenon. Wild cards literally sweep away the effects of many anticipated events.

Scenarios :

Scenarios are modern management tools used for envisaging alternative futures for the purpose of taking present decisions. A scenario is a depiction of the future based on the directions of a selective set of drivers. Modern scenarios tend to depict alternative worlds, simply a series of events imagined to happen in the future. The objective of the scenario is not to provide a definitive forecast of the future but to think of various courses of events resulting from alternative sets of decisions. This might entail the abandonment of a proposed action of policy. Scenarios can be thought of as a range of forecasts, but their construction is inherently complex.

In the case of a country, scenarios help to project possible future developments resulting from different policy options. The idea is to suggest that country X would face a certain kind of future if it were to choose a certain set of policies. The policies themselves are derived from alternative visions of the country.

The objective is not to advocate any scenario. Any of the identified scenarios are plausible. The scenarios can help envisage costs and benefits of alternative trajectories. It is for the rulers and people of the countries in the region to determine which path will be best for them. The choice is theirs. It is hoped that this exercise will enable them to make an informed and meditated choice.

DOES STRATEGIC FORESIGHT METHODOLOGY WORK?

Strategic Foresight Group is known for its forward-looking analysis and skill in foreseeing the future a combination of research and insight. SFG's report, "Shifting Sands: Instability in Undefined Asia" published in March 2003, stated:

Afghanistan

Hamid Karzai will get re-elected in 2004 and will be in power till 2008. The US will support the Karzai government or any other government led by a liberal like him till 2008. US will confine its interest to Kabul and the areas where it will build military bases. Russia, China, Iran, Pakistan, Uzbekistan, Tajikistan and India will support the US policies in Afghanistan. There will be continued flow of aid, though insufficient for reconstruction. In the absence of physical and social infrastructure and investments in agriculture and mining, there will be very little productive economy. Afghanistan's aid economy will create a small group of elite in Kabul. Its warfare and poppy economy will create trafficking in drugs, illicit arms, extortion and conflicts between warlords. The resulting discontent will have a backlash on the Kabul elite. Either anarchy or a conglomeration of radical Islamic groups will return to power, as soon as the US loses its interests in protecting a regime in Kabul.

Pakistan

The military will remain in control, while the elected government will provide a cosmetic democratic face. As the Jamali government survives on a very narrow margin, it may be replaced by another government at the discretion of the army. With GDP growth rate below 4 per cent, poverty and unemployment will grow. This will result in the continued supply of unemployed youth to the ranks of jihadi groups. The control of the jihadi forces on the Pakistani state will tighten through the patrons of militancy in the army, as well as the religious parties in the national assembly. Pakistan will continue to have the dual policy of cosmetic support to the war on terror and substantive support to the forces of terror.

Iran

If the US miscalculates its strategy in West Asia, and if its war on terror is perceived as war against Islam, and if the Ayatollahs succeed in creating a sense of insecurity about the US motives in the

Debating Globalisation: Frank Richter, Jenny Shipley, David Lim and Sundeep Waslekar





The panellists: J P Huang, David Lim, Jenny Shipley, Munir Majid, Michael Nobel

region, people will rally around the clerics. Iranians will still demand a liberal social order within the country, but will accept the path of slow reforms, which permits co-existence of religious and representatives' institutions.

Saudi Arabia

Saudi politics will go through an uncertain phase due to rivalry between the two factions led by Crown Prince Abdullah and Defence Minister Prince Sultan. With growing unemployment, resulting in the popularity of radical Islam in the absence of democratic culture, conservative Abdullah has better prospects of winning the battle. Once he becomes King, he will distance himself from the United States and get Saudi Arabia closer to Iran and other Islamic countries in the region. Being pragmatic, he will not sever relations with the West, but will simply balance them by close relationship with the Islamic block. It is also possible that in view of his old age the decision makers in the royal family may decide to sidestep both him and Prince Sultan and appoint a third generation Prince as the new King. This may put an end to the battle for succession and usher stability.

SFG's report on "The Future of Central Asia" (2004) had projected that President Akayev would relinquish office in Kyrgyzstan in 2005 and the opposition would take over the state. As this was a confidential report prepared for the Directorate of Net Assessment of the Indian Ministry of Defence, it cannot be quoted verbatim.

Constructing scenarios



SCENARIOS FOR MALAYSIA

Malaysia is one of the most forward looking countries in the world. When it became an independent state in 1957, it had almost half of its population below poverty line. By the time it celebrates its golden jubilee of freedom in 2007, it would have lifted most of the population out of poverty. In 1991, Malaysia built scenarios for 2020 under the inspiring leadership of Tun Dr Mahathir Mohamad. As Malaysia completes fifty years of life as an independent state, what future does hold promise for it? Will it be the continuation of Tun Dr Mahathir's vision of reaching a developed status by 2020 or can Malaysia do much better? Or will Malaysia receive unexpected setbacks?

Urban Forum, in partnership with Malaysian Institute of Management, brought Managing Global Challenges Workshop to Kuala Lumpur on 27-28 June 2006 where Sundeep Waslekar and Dr Frank- Jürgen Richter built scenarios for Malaysia's future.

Sundeep and Frank had a distinguished panel with them to facilitate the scenario-building exercises:

- The Rt Hon Jenny Shipley, former Prime Minister of New Zealand
- Dr Michael Nobel, Chairman of Nobel Family Society
- Dr J P Huang, Founder of JPI Group of China
- Dato' Dr Munir Majid, Chairman of Malaysia Airlines
- Mr David Lim Tik En, CEO of Neptune Orient Lines and former Minister of State for Defence of Singapore

The workshop was inaugurated by Tan Sri Nor Mohamed Yakcop, Second Finance Minister of Malaysia. The highlights were dialogues with two distinguished leaders of Malaysia:

- YAB Dato' Sri Mohamed Najib Tun Razak, Deputy Prime Minister
- Tun Dr Mahathir Mohamad, former Prime Minister.

There were about 75 participants from government regulatory bodies, public sector units and private sector companies in Malaysia. In addition, senior government officials and business leaders from the neighbouring countries such as Brunei, Burma and Singapore also participated.

The workshop followed the following structure:

June 27 Morning

- Welcome by Mal Tennekoon, Managing Director of Urban Forum and Tan Sri Osman Cassim, Vice President of Malaysian Institute of Management
- Inaugural address by Tan Sri Nor Mohamed Yakcop, Second Finance Minister of Malaysia, focussing on Malaysia's future
- Dialogue by Sundeep and Frank with Tun Dr. Mahathir Mohamed, former Prime Minister, focussing on global challenges
- Panel discussion on Globalisation Unleashed featuring The Rt Hon Jenny Shipley, Dr Michael Nobel, Dr J P Huang, Dato' Dr Munir Majid and Mr David Lim, chaired by Frank

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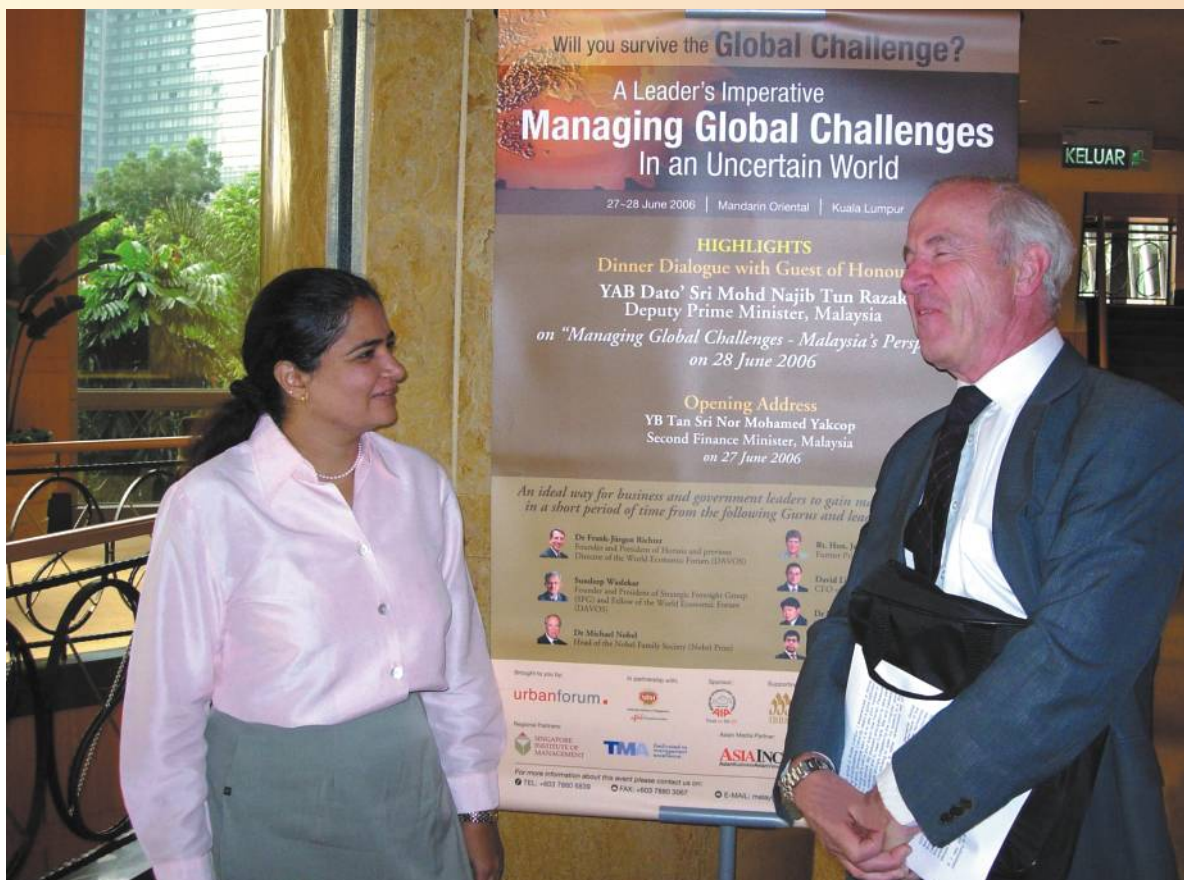
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Michael Nobel and Ilmas Futehally

"The world is running out of hydrocarbon resources. We are entering the era of alternative energy resources. New nuclear power plants with high safety standards are being built. We can also expect an increasing emphasis on wind power, solar power and bio-fuels. Any country planning its future must assume a radically different energy map of the world in fifty years from now."

Dr Michael Nobel Chairman of Nobel Family Society

June 27 afternoon

- Introduction to scenario-building methodology by Sundeep
- Formation of four groups of participants on Growth, Governance, God and Geopolitics, chaired by members of the distinguished panel
- Identification of drivers of Malaysia's future in the four working groups
- Reports by chairs of working groups

June 28 morning

- Presentation on future energy developments by Dr Michael Nobel, as an additional driver

- Analysis of drivers to determine trends, discontinuities, wild cards and forecast by Ms Ilmas Futehally, Vice President of Strategic Foresight Group
- Construction of three scenarios by participants guided by Sundeep and Frank, following SFG methodology of scenario development

June 28 afternoon

- Formation of four working groups, chaired by members of the distinguished panel, to discuss corporate and institutional response strategies to the three scenarios
- Synthesis of corporate and institutional strategies together by all the participants
- Comments by The Rt Hon Jenny Shipley on the importance of leadership and stakeholder development strategies to actualise the best scenario

June 28 evening

- Remarks by YABhg Tun Haji Mohammed Hanif bin Omar, President of Malaysian Institute of Management
- Dinner dialogue by Sundeep and Frank with YAB Dato' Sri Mohamed Najib Tun Razak, Deputy Prime Minister of Malaysia

The dinner dialogue with the Deputy Prime Minister was sponsored by American International Assurance and the workshop received generous support from the Malaysia Airlines.

Tun Dr Mahathir Mohamad arrives with Frank Richter and Sundeep Waslekar





Tan Sri Nor Mohamed Yakcop, delivering the inaugural address. Also seen Mal Tennekoon, Managing Director, Urban Forum and Tan Sri Osman Cassim, Vice President of Malaysian Institute of Management

“Malaysia has always chosen a path less travelled. It has ventured into water that was not chartered earlier. This capacity to do things differently will stand Malaysia in good stead in the future as well.

The crises have always propelled Malaysia to come out with creative policies. The race riots of May 1969 gave birth to New Economic Policy, known for equitable development in an expanding economy. The commodity crises of 1985 led to industrialisation. The financial crises of 1997 led to the restructuring of banking. With the global changes in technology, Malaysia is now focussed on information and communication technologies.

The growing competition in the region also provides opportunities. Malaysia can participate in the growth of India and China. The country has strong cultural links with both the countries. It also has cultural links to the Islamic world. And it has competency in the English language which makes interaction with the West possible. Malaysia's inner strengths should be capitalised to manage global challenges.”

Tan Sri Nor Mohamed Yakcop, Second Finance Minister of Malaysia

(Excerpt from inaugural address at the workshop on Managing Global Challenges)

DIALOGUE WITH TUN DR. MAHATHIR MOHAMAD

by FRANK-JÜRGEN RICHTER & SUNDEEP WASLEKAR

The workshop was launched with a dialogue with Tun Dr Mahathir Mohamed, former Prime Minister of Malaysia, and an elder statesman of international repute. Excerpts from the conversation.

FR: A lot of companies try to re-engineer things. They have a short term vision, rather than a long term view of how they need to shape their future. What do you see as the main challenges for the future?

MM: Globalization has come about due to technological development. There is a need to change, to take into consideration what is happening in the rest of the world. There is no one way to tackle globalization. There has been no agreement on what form globalization should take - especially between developed and developing countries. We are feeling our way about at this time. A new form of globalization needs to be worked out - one that benefits both the rich and the poor. The rich have money and technology. The poor also need to contribute. Earlier, capitalists were the only beneficiaries. Now the situation has changed with labour also playing an important role.

SW: What about regional economic integration? Does this undermine globalisation, or can it co-exist side by side?

MM: It could be either way. Earlier East Asia was not encouraged to form regional organisations. Regional organisations should be able to talk to each other on equal terms.

FR: Some time ago there was the emergence of the BRIC economies. What will be the new powers?

MM: There will be a period where the Asian countries will rise and rule the world. India and China have the brains to compete with and win against Europe. Europe needs to find a niche for itself. Europeans are curious- they are good scientists and they have a lot to contribute to the world. For a period, they may not be able to compete, but if they make an effort, they will be able to progress.

Europe has to accept that they will be Disneyland for some time. For a while they will thrive on tourism, but then they will redeem their capacities and learn to work again. Long holidays and longer breaks will not be possible in the future. When all are unemployed, who will contribute to the government? However, there is no longer a possibility for the Europeans to rule the world. They have to learn to share power.

SW: There is a growing conflict between Western and Islamic countries. What do you see as the role of the Islamic countries? What is the role of renaissance in the Islamic world?

MM: There is a difference between the two groups. One is so powerful; the other cannot gain the same degree of strength. They cannot hit back with the same degree of strength, so they resort to terrorism. The Muslim people are reacting with anger. They are not thinking as to how to strategise,

Tun Dr Mahathir Mohamad in dialogue with Frank Richter and Sundeep Waslekar





and how to overcome their weaknesses. When they no longer have hope, they act in anger.

Muslims need to think out a strategy and then implement it. Many of these countries are not well administered; this adds to the pressure that the people feel. They can become great again, but they need stability. Problems need to be resolved in a fair way. They are not against the West because they are free or that they have freedom. There is a serious territorial issue. They want their land back.

Frank: What do you think about the situation in Iran?

MM: At this time, Iran has no nuclear weapons and has no capacity for threat. The real threats are those that have nuclear weapons.

Jenny Shipley: Can you advise us on Islamic banking and the impact that it can have globally? Can Malaysia be the centre for Islamic banking?

MM: Islamic banking is growing more and more important. Islamic countries have all the oil and with oil prices going from \$30 to \$70 per barrel, they are swimming in capital. Islamic banking can mobilise that money. Even regular banks are opening Islamic windows. Malaysia has pioneered this and has developed many products that are preferred even by non-Muslims. There is no going back. People have to get used to having two systems.

David Lim: What is the role of Asean and the future of AFTA?

MM: Asean should expand with the three countries in the North to become very strong- China, Korea and Japan. Asean consists mainly of small developing countries. They are sometimes not able to make others feel the clout that they have. With the three northern countries, this would change. There is no need to form a bloc or an economic bloc, but they need to come together as leaders in the world.

J P Huang: Do you think that the Japan-China conflict will affect Malaysia? There are two groups of companies here in Malaysia. One group is Chinese. They are doing fine. The other is the Bumiputras. Their learning curve in dealing with China is much slower. These are the ones who need to contribute to the Malaysian 2020 or 9th Plan.

MM: Japan and China are a problem. The French and the Germans decided to forget about the past and go ahead. In Sarajevo because of a war 500 years ago, they decided to murder the Turks. Our friends in Japan and China need to decide which example to follow. In my view, Japan and China need to forget the past.

We have a multicultural society in Malaysia. If there are too great disparities between the communities, it could cause disturbance. The Bumiputras feel that they have a stake in the economy. It is important to share. The government has brought about affirmative action. The Chinese can interact very easily with China because of the language and culture. Bumiputras can have a share in the Chinese companies. These are the kind of companies that we would like to see emerging.

SW: Your biggest fear?

MM: The capacity to use force. There is a need to understand that the use of force is not a permanent solution. You can force a government to sign a treaty, but the people will continue to flight. The US is spending billions to keep troops in Iraq. If they invade Syria or Iran, the world will be vexed. We need to resolve problems though negotiation, though the courts.

FR and SW: Thank you, Prime Minister.

DRIVERS OF CHANGE FOR MALAYSIA

The methodology developed by Strategic Foresight Group is based on a 4-G framework of Growth, Governance, God and Geopolitics. The workshop participants identified drivers having a bearing on Malaysia's future within the 4-G framework.

GROWTH

Malaysia has maintained GDP growth rate of 6.2% during 1991-2005. It introduced new economic policies at the beginning of 1970s and successfully responded to commodity markets crash of 1985 and financial markets crash of 1997. The most important drivers of its future growth will be

- Human capital development
- Continued success in the current areas of strength (oil, palm oil)
- Impetus to service sector
- Development of new technologies
- Participation in the growth of China, India and the Middle East
- Global and national financial stability
- Hydrocarbon situation
- Shift to alternative energies.

Target: To achieve a growth rate of 6-7% on a sustained basis

Trends: Hydrocarbon situation and financial stability will be manageable. Emphasis on human capital development, current sectors and service sector growth will continue.

Discontinuities: Quantum leap in relationship with China, India and the Middle East will be required. Major investments in new technologies will be required.

Dr Frank Richter with Tan Sri Nor Mohamed Yakcop, Second Finance Minister of Malaysia



“The strategy of cost reduction is self defeatist. A country should identify new value propositions. The business of consumption is changing. As the world changes, new consumers are bound to emerge. Malaysia should undertake cultural mapping and capitalise on its cultural strengths to create new value propositions to a new range of customers.

This is a world of disruptive innovations. Some new technologies will come about and the well established technologies could fail. The success lies in being able to capitalise on the next wave of disruptive innovations.

Malaysia can go global. It can be a regional hub for many new services and then slowly emerge as a global leader. The country needs greater interface between the government and industry to get the message across to the people and to implement effective strategies.”

The Rt. Hon. Jenny Shipley Former Prime Minister of New Zealand

GOVERNANCE

Following race riots in May 1969, Malaysia has developed a model of harmonious co-existence of cultures and effective delivery of goods by public administration. The private sector players do raise questions about transparency and accountability. The most important drivers for Malaysia's governance will be

- Quality of political leadership
- Economic and political literacy
- Re-assessment of New Economic Policy
- Potential influence of vested interests and religious forces
- Accountability, transparency and effective delivery of public goods
- Structural changes in political system.

Target: To have a happy and secure society.

Trends: The quality of political leadership will be the same as the present without major disruptions.

Discontinuities: Demand for reassessing New Economic Policy, as well as current political structures are possible in the next 15 years. Pressures for enhanced accountability are bound to mount. Threats from vested interests can not be ruled out.

GOD

In the 1990s Malaysia saw rise of militant Islamic forces. In the 2004 elections the Islamic parties received a major setback and extremist groups in the north of the country have been brought under control. The drivers for future will be

- Risk of unforeseen tragedies like natural disasters and global health pandemics
- Risk of rise of extremist religious groups
- Opportunity to develop culturally relevant products and services, particularly including Islamic banking
- Opportunity to export the model of religious harmony and cultural co-existence as new diplomacy to the countries experiencing strife, as an innovative experiment in diplomacy.

Target: To maintain social harmony

Trends: Malaysia will continue to maintain cultural co-existence.

Discontinuities: Opportunities for cultural mapping and turning cultural strengths into new avenues for business and diplomacy

Wild Cards: Natural disasters, global health pandemics

GEOPOLITICS

Malaysia is located between rising giants, India and China. It is an integral part of Asean and the growing movement towards East Asian Economic Community. It is also vulnerable to United States actions in the region. The future drivers of change will be

- Relations with Asean neighbours, particularly Indonesia
- Movement of labour in the Asean region
- Political stability within the neighbouring countries in Asean
- Strategic partnership with India, China and the Middle East
- Role of the United States in the region
- Global role in partnership with Asean.

Target: To sustain regional stability and gradually emerge as a regional leader

Trends: Political stability in the Asean region will continue despite minor ups and downs.

Discontinuities: A new global role as a peace-maker and a new alignment with China, India and the Middle East.

Tun Haji Mohammed Hanif bin Omar, President of Malaysian Institute of Management in conversation with The Rt Hon Jenny Shipley.



THREE SCENARIOS FOR MALAYSIA

Scenario I: Forever Dawn

This scenario is based on the hypothesis that Malaysia will continue to progress in steady and stable manner. It will attain the status of a developed nation by 2020. It will be a harmonious member of Asean and will engage more intensely with other powers in Asia. However, it will not have any particular leadership role in the world.

Signposts

- Sustained GDP growth rate of 6% throughout until 2020
- Steady development of human capital
- Enhanced emphasis on service sector growth
- Continued reliance on oil and palm oil, with possible downstream diversification
- Global and national financial stability
- Predictable and reliable hydrocarbon supplies
- Gradual development of alternative energy sources
- Stable political leadership
- Stable relations with Indonesia and other Asean neighbours
- Malaysia as a team player in Asean
- Gradually improved engagement with India, China and the Middle East
- Stable United States role in the region and no outbreak of major conflict in Asia-Pacific
- No major threat of terrorism to Malaysia.

Dato' Dr Munir Majid, chairman of Malaysia Airlines, addresses the audience



Scenario II: Shining Stars

This scenario is based on the hypothesis that Malaysia builds on its economic success so far to achieve a higher rate of growth and assumes a leadership role in the Asia Pacific region. Malaysia is very much a part of Asean as a team leader, knowing well that a good team leader must also be a good team player. In this scenario, Malaysia uses its cultural diversity and harmony as a productive asset to charter new paths in international relations.

Signposts

- GDP growth rate of 8-9% on a sustained basis, slowly moving up from the current GDP growth rate of 6%
- Substantial investment in modernising human capital
- Substantial investment in new technologies
- Re-assessment of New Economic Policy to build on its success
- Infusion of greater accountability and transparency in governance
- Gradual structural changes in the political system to improve dynamism of the society
- Quantum leap in economic and strategic relations with China, India and the Middle East
- Development of culturally and religiously appropriate products, such as Halal food products
- Leadership in Islamic banking
- Cultural promotion to attract Chinese, Hindu, and Muslim tourists
- Team player and team leader of Asean
- Emergence as a neutral regional leader
- Promotion of the Malaysian model of cultural co-existence as an innovative diplomatic tool
- Neutrality and moral advisory role in conflicts in the region.

“We live in the age of speed. There are many opportunities for those who know how to act quickly. It is not enough to do well. It is essential to be ahead of the curve.”

The changing world brings new risks. Security is a major worry for the shipping industry. We worry a lot about prevention of risk, but not enough about recovery from a disruption. A terrorist group can disrupt the industry but if there are smart recovery strategies, their designs will be foiled.”

David Lim Chairman of Neptune Oriental Lines Group and former Minister of State for Defence of Singapore

Scenario III: Turbulent Nights

This scenario is based on the hypothesis that the country unexpectedly encounters severe crisis out of its control. In the past, it has faced the commodity market crisis and financial market collapse which it has managed to overcome. It might be similarly able to overcome problems that arise in the future.

Signposts

- Natural or environmental disasters
- Global health pandemics
- Global financial crisis
- Political instability in the neighbouring countries
- Outbreak of conflicts in the Asia Pacific region
- Political instability in Malaysia
- Rise of religious extremism in Malaysia.

Michael Nobel and participants during a coffee break



DIALOGUE WITH DATO' SRI NAJIB TUN RAZAK,

Deputy Prime Minister of Malaysia By SUNDEEP WASLEKAR & FRANK-JÜRGEN RICHTER

The workshop on Managing Global Challenges at Kuala Lumpur was led by Sundeep Waslekar and Frank-Jürgen Richter. It concluded with both of them conducting a dialogue with Dato' Sri Najib Tun Razak, Deputy Prime Minister of Malaysia, on the future of Malaysia and the world. Here are excerpts from comments made by Dato' Sri Najib in the course of the conversation.

On Scenarios for Malaysia

I am quite sanguine about the future. The 9th Malaysian Plan is more bullish on government investment and private growth. We are determined to achieve 6% rate of growth. Projects of the 9th Plan and others, which are to be announced, are strong on public-private partnership. We are on track to achieve the target. With this kind of a commitment, there is a promise for balanced and sustainable growth. However, the quality of growth is important. We need more equitable growth. Therefore, I don't know if we are in the Forever Dawn or Shining Star scenario, the scenarios developed at the workshop, but we are very confident of the future.

On Malaysia's role in the world

Malaysia is looked upon as a role model. When countries need help, they come to Malaysia. We were recently approached by the Prime Minister of East Timor for help. Malaysia has also volunteered in Southern Philippines and Aceh. We do want to contribute towards peace in the region. Besides, Malaysia has the potential to play a positive role between West and Islam. We want to show that Islam is consonant with growth and development.

On Malaysia's model of social harmony

Our first Prime Minister believed in give and take. Tunku is valued more today than during his time because he set the national psyche and political structure. Then we realized that laissez faire can be disastrous and that social justice is important.

My late father brought about the New Economic Policy (NEP) and we recovered very quickly after the 13th May 1969 racial riots. For any country to be successful, a strong value system is required. We have strong values here in Malaysia. My late father was scared of the immense powers he had. He used all the opportunities that he had to introduce parliamentary democracy. This was extraordinary, as people then had the nation's welfare at heart, rather than self interest.

Malaysia has an amazing political structure called Barisan Nasional. It is government based on the principle of consensus. There is no policy decided by cabinet, unless everyone agrees. Therefore, there is no danger of extreme policies or one that is unjust or unfair. This tends to reduce racial tensions in the country. We can share some of our values and systems, but no country is the same. We need to tinker with the system to adapt it for others. We have the Westminster system here that has been fine tuned to reflect our history and our culture.

On internal challenges to Malaysia

The challenges that we face are similar to those being faced by other countries. The first is to remain competitive with the opening up of markets. The Proton has to be competitive. MAS (Malaysian Airlines System) has to be competitive. We need to choose the right strategies to have long term edge. Secondly, we need to have very heavy investment in human capital. Presently there is a 20% investment in education. We need to increase this. Thirdly, we need to adopt a culture of high





Dato' Sri Najib Tun Razak in dialogue with Frank Richter and Sundeep Waslekar

performance. There is still room for improvement. We need to talk in terms of precision culture. For example, Germany has high precision. We also need to instil precision culture. We have the infrastructure, but we need to develop the culture.

On China and India

If you can't beat them, join them! You don't try and fight an elephant, but you can get between an elephant's legs! China is a big market. It buys a lot of Malaysian goods, including palm oil. I recently bought furniture from a Malaysian company that is making furniture in China. We are becoming part of a global supply chain. We can take advantage of the growing markets in China and India.

Malaysia is well poised to be the hub in the Asean region. Geographically, we are in the centre of Asean. We have good links with all the countries and can reach out to all of them.

On Asean plus 3 plus 2

Asean should form the core of the East Asian community. But we want it to be inclusive. That is why it became Asean plus 3 plus 2. We want to involve all the stakeholders. We believe that the Australians and the New Zealanders can contribute; therefore we have a more inclusive approach.

We see Malaysia as a driving force. If a leadership role can be played by Asean, we will see the emergence of the East Asia community. As we see greater integration on the economic sphere; market policies, people to people contact will also grow.

On North America and Europe

The United States has allowed innovative and creative thinking to flourish; therefore, they will continue to be strong. Europe is doing some rethinking. The Dutch and the French have rejected the European Union constitution. However, there is no way that there will be war between any two European countries. The same cannot be said of the Asia-Pacific region.

There are some negative characteristics of today's Europe, such as the work ethic. They need to come to terms with this to become competitive with the rest of the world, especially with the rising India and China.

On security environment

We are on the top of domestic security threat. I don't see terrorism as a major threat in Malaysia. We have exported two JI operatives to Indonesia! They received guidance from their guru in Indonesia.

Internal security is well under control. However, you cannot take your eye off the ball- to use golf terminology- something may happen at any time. Global terrorism can move rapidly from one country to another. However, a war between two states is unlikely to happen in our region.

China is not a threat. It is an economic challenge, but not a security threat. Given its capability to launch operations in the South China Sea, it is not a threat to Malaysia. Generally, we are comfortable with the security situation in the region. However, it would help global security if the Palestine issue is resolved. This would also help the overall security of the region. We need to find a solution to the Israel-Palestine issue based on the two state system.

On key concerns

Basically, it is a worry about the unexpected. Looking back at history, the financial crisis and SARS hit us. We had not anticipated them. There are unforeseen things that could torpedo our trajectory. The main thing is in terms of numbers. We need to see whether we can push our achievements higher. Politically, we need to maintain our majority in the parliament. We have been successful in the last 11 elections. In the last election we got we 90% of the votes. But one has to be concerned about the future.

At the global level, we need mechanisms to deal with problems in the future. So far we have only the UN. We need more mechanisms in place. There will be conflicts of different kinds. We need to be able to deal with conflicts, with natural disasters, and other crises.

And how can one factor in North Korea? They may test their long range missiles. There are some uncertainties that cannot be fully ascertained. We need mechanisms to deal with untoward things happening. The use of nuclear devices is unlikely, but not impossible. We have to deal with the war on terror. The world is less secure now than it was earlier and we need innovative mechanisms to deal with uncertainties of the future.

The Deputy Prime Minister of Malaysia with Mal Tennekoon, MD of Urban Forum and Tun Haji Mohammed Hanif bin Omar, President of MIM



Sundeep Waslekar

Sundeep Waslekar is President of Strategic Foresight Group, a think tank engaged in anticipating and influencing global future. Under its auspices, he has advised governments in three different regions of the world and collaborated with important institutions such as the Alliance of Liberals and Democrats in the European Parliament, King's College of London University and the World Economic Forum. His strategic insights have been sought by the international media ranging from International Herald Tribune to Financial Times and BBC World Television to CNN, besides a large number of newspapers in Asia and the Middle East.

Sundeep Waslekar has a reputation for conceptualising initiatives for positive change. He has recently launched Sustainable Global Security Initiative to construct common ground between Western and Islamic countries on critical issues, involving former and serving cabinet ministers from around the world. In the late 1990s, he had helped create the first ever all-party mechanism for consensus building in Nepal. In the first half of the 1990s, he had undertaken parallel diplomatic exercises for de-escalation of tension between India and Pakistan, engaging senior decision makers in the two countries as well as the leaders of various movements in Jammu & Kashmir. In the early 1990s he brought together former Heads of Government and other leaders from all continents to develop consensus for the phased elimination of nuclear weapons.

Sundeep Waslekar has served the Institute for Democracy and Electoral Assistance, Stockholm, and is currently on the Board of the International Centre for Democratic Transitions, Budapest. He has deposed before the committees of the Indian Parliament and the UK House of Commons. He has addressed significant business audiences such as the World Economic Forum annual meetings at Davos, Global Business Network, the World Bank and UK Trade and Investment. He is a visiting faculty for the higher command courses of the Indian defence forces. He has visited 35 countries to speak at public forums and consult leaders on global issues. He has several books and research reports on governance, scenario planning and conflict resolution. He was educated at Oxford University, UK, on a scholarship awarded in a worldwide competition.

Frank-Jürgen Richter

Dr. Frank-Jürgen Richter is the President of Horasis: The Global Visions Community. Through Horasis, he is a Senior Advisor to the leadership of corporations from Asia, Europe and North America. Prior to founding Horasis, Dr. Richter was Director of the World Economic Forum, in charge of Asian affairs. He has lived, studied and worked in Asia for almost a decade, principally in Tokyo and in Beijing where he developed and managed European Multinationals' China operations.

As one of the leading analysts of international business and Asian economies, he influences major business and governmental decisions with his public commentary. He has a thorough understanding of how the world functions today - an understanding created through an on-going interaction with top business, political and intellectual leaders around the world.

Dr. Richter is also an active scholar and has authored and edited a series of best-selling books on global strategy and Asian business. His most recent books include: *Global Future*, *Asia's New Crisis* and *Recreating Asia*. He has addressed audiences at the World Economic Forum, Brookings Institute, Harvard University, Beijing University, Royal Institute of International Affairs, and several high-level corporate events. His writings appeared in the financial and regional press, such as The International Herald Tribune, The Wall Street Journal, The Far Eastern Economic Review, The Straits Times and the South China Morning Post. He has been interviewed by several publications and appeared on CNN, BBC, CNBC, CCTV (China Central Television) as well as the Voice of America. Dr Richter was educated in Germany (his home country), France, Mexico and Japan. He is a fluent Mandarin and Japanese speaker.



Strategic Foresight Group

*A*NTICIPATING AND INFLUENCING GLOBAL FUTURE: Strategic Foresight Group

There are moments in the time when the world undergoes a paradigm shift. In 1648 at Westphalia, rule of religion came to an end and the nation state was born. In 1919 at Paris, empires made way for republics. In 1989 at Berlin, communism collapsed. In 2001 at New York, terrorism surfaced as a global force. What kind of momentous changes will take place in the twenty first century? Will the Westphalia order survive until 2048 to celebrate its 400th anniversary? Will it be a world dominated by extremist groups that make the nation state irrelevant? Or will it be a world where people bring their nations together erasing borders?

Strategic Foresight Group is a unique Think Tank engaged in providing answers to questions such as the one above. It enables policy makers to anticipate and shape the future in uncertain times. Governments, business corporations and civil society institutions can avail its services.

- Long term research projects and scenario building exercises to map the future of global issues or specific regions, countries and sectors.
- Policy change and parallel diplomacy initiatives to resolve intractable problems within and between countries.
- Boardroom briefings and seminars for leaders on managing global challenges.

Strategic Foresight Group has worked closely with important institutions such as the Alliance of Liberals and Democrats in the European Parliament, League of Arab States, World Economic Forum, Bibliotheca Alexandrina and Danish Initiative for Coexistence of Civilizations. It has particularly emerged as a voice of reason and pragmatism in the global debate on relations between Western and Islamic countries.

Most significantly, Strategic Foresight Group is known for pioneering new concepts and analytical tools. Its intervention in the peace debate by assessing the cost of conflicts, its 4-G framework for developing country scenarios, its construction of problem-solving ideas such as *An Inclusive World*, its novel analysis of developing economies, and its numerous publications have attracted the attention of the world media ranging from CNN and BBC World Television to the International Herald Tribune and Financial Times as well as Gulf News and Asahi Shimbun. As the world of opportunity competes with the world at risk, Strategic Foresight Group is what the policy community needs.

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