

MALAYSIA'S NEXT SCRABBLE MOVE

Jelawang Capital – seeding new letters for the nation

By **DATUK HISHAM HAMDAN**

FOR a country to flourish and succeed, it should be able to achieve sustained economic growth. It must move beyond basic production and begin creating more complex, high-value products.

This requires not only exploring new areas of growth, but also shifting from a reliance on comparative advantage, as coined by David Ricardo, to building complexity advantage, as advocated by Ricardo Hausmann.

However, Malaysia's "National Beta" – the ability to generate returns utilising our inputs of land, labour, and capital – remains mixed. Our inputs currently deliver moderate, broad-based outcomes, rising living standards, maturing infrastructure, an expanding middle class, but muted returns on capital.

Despite our structural strengths, Malaysia must move up the ladder within the global supply chains – from basic production to more complex, high value activities in order to transition to high-income status, where Malaysia must raise its GNI per capita from US\$11,670 to at least US\$13,935, in line with the World Bank's threshold. Achieving this will require accelerating innovation, enhancing industrial capabilities, and expanding into higher-value segments of the global economy.

The Scrabble theory of economic development

To understand the nature of this phenomenon, imagine a game of *Scrabble*.

When you form short words like "cut", "tin" or "man" using common letters like the vowels of "a", "e", "i", "o" and "u", you get low points.

These are the legacy sectors from the Roaring 90s – plantations, basic manufacturing and commodities – that continue to play a role.

But to get higher points, one needs to form more complex, higher-value words using "q", "x" and "z", letters harder to manage but yield far more points.

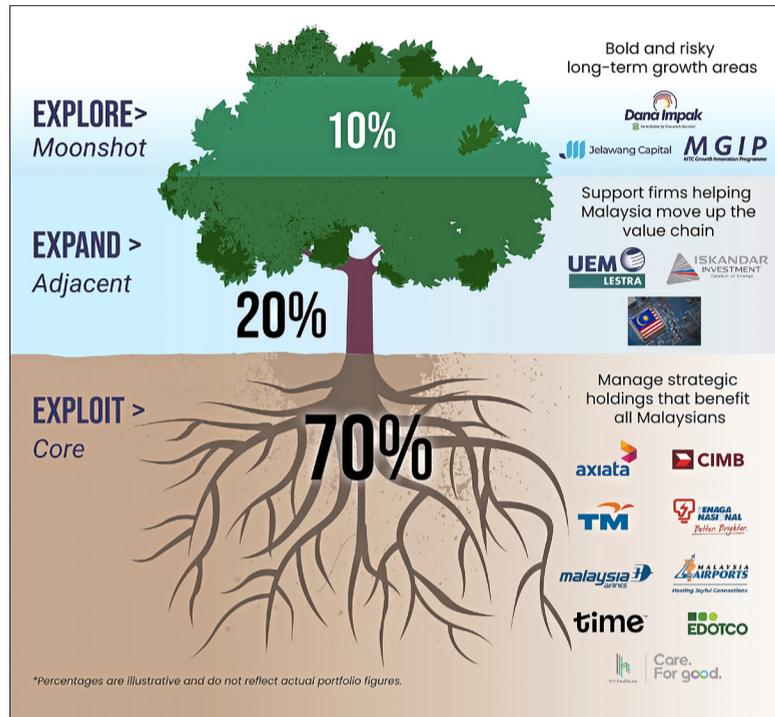
This is likened to the emerging sectors: Robotics, semiconductors, advanced manufacturing, among others. Malaysia has been forming the same words with the same old letters.

To compete, we must also explore new letters, while also exploiting existing ones.

That means investing in new capabilities, new institutions and new return streams, while optimising existing companies.

The scarcity of new "letters" in Malaysia is evident in the inertia of our capital markets.

Over the past 15 years, only a third of FBM KLCI constituents have changed, with banks, utilities and plantations still dominating the index.



In contrast, the S&P 500 has seen a higher turnover rate, driven by the rise of digital and AI-led businesses.

To revitalise Malaysia's capital markets, we need more than just growth, we need a renewal – pipeline of new firms which operate in the sectors of the future.

More new firms among top-listed companies, underpinned by a shift toward future-oriented sectors, is no longer optional. It is a transformation we must now deliberately cultivate.

The hotel economy: Hosting without rooting

Much of Malaysia's constraints comes from the model that brought us here.

For decades, we relied on foreign direct investment (FDI) to industrialise.

We offered low-cost labour, stable governance and geographic advantage. Multinational corporations (MNCs) "checked in", setting up assembly plants and service centres.

But they leave without planting deep roots. Profits were repatriated, R&D remained offshore and decision-making stayed in headquarters far away.

Even after checking into our "hotel economy", MNCs retained ownership of the capital, know-how and value creation – with profits and returns captured abroad, often appearing in the S&P 500, instead of the KLCI.

We became a stopover, not a destination for deep capacity-building.

This model exploited what we had: Labour, land, capital; but did not meaningfully grow our national champions and capabilities.

We must harness what we have and grow what we don't. Without strategic domestic capacity, FDI can reinforce dependency rather than resilience.

Rewiring for resilience: We must simultaneously explore and exploit

To move forward, the nation must shift from a system that only exploits what we already have to one that also explores what we have yet to become.

Exploitation focuses on improving existing assets, cost optimisation, incremental upgrades, dividend extraction. Exploration requires risk-taking, experimentation and bold bets on the unknown.

The key is doing both simultaneously, which is aptly captured by the metaphor of a tree.

The tree of ambidexterity: Rooting stability, reaching for renewal

A healthy tree has roots that represent the core (70%) of stable sectors and institutions that deliver services, dividends and reliability.

The trunk or stump (20%) supports adjacent growth areas that connect the core to future possibilities.

The branches (10%) are fragile and risky, but essential for upward growth and renewal.

Thriving economies and institutions maintain these ratios, which reflects the thinking of Michael Tushman and Charles O'Reilly – pioneers of the organisational ambidexterity theory on how to exploit existing strengths while exploring new frontiers.

At Khazanah, this philosophy guides how capital is allocated, both across exploit and explore activities. At the core 70%, we manage strategic holdings that benefit all Malaysians.

Investments in Tenaga Nasional power the nation, airports and airlines connect us to global markets, telecommunications expand digital access and banks deliver financial inclusion and generate stable returns.



Datuk Hisham Hamdan is Khazanah Nasional Bhd chief investment officer and chairman of Jelawang Capital.

Exploration without exploitation is fragile, while exploitation without exploration is fatal.

The adjacent 20% supports firms helping Malaysia move up the value chain.

These are the mid-tier companies in the semiconductor ecosystem and regional enablers like UEM Lestra in green energy and Iskandar's infrastructure.

In the exploratory 10%, we place bold, long-horizon bets through venture capital (VC), not tied to any one outcome, but open to frontier areas such as Web3 and artificial intelligence. This is where Jelawang Capital comes in.

Jelawang Capital: Rooting the future, branching out

Launched in October 2024 under Dana Impak, Jelawang Capital is Malaysia's national fund-of-funds to catalyse the next generation of innovators and fund managers.

It addresses the early-stage capital gap, aims to strengthen the venture ecosystem and fuel the risk appetite of Malaysia's capital providers.

By June 2025, Jelawang moved from blueprint to execution through two anchor programmes: The Emerging Managers Programme (EMP) commits up to 30% of fund size (capped at RM50mil) to local VC fund managers to boost traction and co-investor confidence.

While the Regional Managers Initiative (RMI) backs foreign VCs with global reach to attract their portfolio companies into Malaysia and link our startups to international capital.

This dual strategy is deliberate – local VCs understand Malaysia's regulatory environment and founder journeys.

Foreign VCs bring scale, structure and cross-border access. Both are vital to support the growth of innovative Malaysian companies.

This approach helps uplift Malaysia's "National Beta" by offering startups paths to grow globally to address the muted public market returns and limited dynamism.

Jelawang blends local and global

capital, roots and branches, into one catalytic platform.

It is also a *Scrabble* strategy in action, combining different letters. No single manager, fund, or country has all the letters.

But together – "x" from Kuala Lumpur, "q" from Shenzhen, "m" from Penang, "z" from San Jose – we can build longer, stronger economic sentences.

That's the essence of improving our national collective knowhow – unlocking more productive combinations by pooling diverse capabilities. This is exactly what VC enables.

VC-backed entrepreneurs reorganise land, labour, capital and ideas into new engines of growth. They raise Malaysia's "National Beta": Our capacity to extract more value from what we already have. They create the firms that will drive tomorrow's exports, jobs and resilience.

These firms need capital that embraces risk. Through Jelawang, we aim to make that risk-taking possible, so more founders can build boldly and more value stays rooted in Malaysia.

Systemic reform: From one tree to a forest

However, Khazanah cannot solve this alone. Jelawang Capital is just one spark. A true innovation economy needs the full capital stack to shift.

Today, most government-linked investment companies (GLICs) lean heavily on exploitation, harvesting dividends and preserving legacy portfolios to meet their return requirements.

We must exploit smarter, not just for dividends, but to boost local ROEs and reinvest for future growth.

These exploit roles are necessary, but when they dominate, exploration is crowded out, capital stagnates. Exit paths close. Talent leaves. Competitive jobs for young people dwindle.

A national rebalancing of capital

If we want a more vibrant and future-ready economy, we must rebalance capital across the nation. Every GLIC, pension fund and allocator should reflect on its own explore-exploit mix.

This does not mean abandoning safety. Exploitation activities like investing in mature, stable companies provide the financial returns and institutional resilience needed to support Malaysia's long term national goals of higher productivity, which translate to higher income per capita.

Just as important is making room for discovery, investments in VC, tech transfer, growth-stage companies and mission-aligned capital.

Conclusion: Writing the next sentence

The Malaysia of the future cannot be written with the same letters we've always used. It will require new letters, new entrepreneurs and new institutions.

That is what Jelawang Capital aims to ignite, even if we start small – a more innovative, connected and self-sustaining national economy.

The question is not whether we can afford to explore.

It is this: Can we afford not to?