

Malaysia looking to AI to get its mojo back

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FIVE decades after electronics gained a toehold in Malaysia and helped drive years of stellar growth, leaders are again putting their faith in chips. Artificial intelligence (AI), and the competition to present as the most friendly destination for investment, stands to give the place a much-needed lift. Once seen as a template for developing economies, the country now contends with a slower expansion and fractious politics. The trick will be sorting the AI hype from the substance — and whether Malaysia can avoid some own goals.

Prime Minister (PM) Datuk Seri Anwar Ibrahim recently made his pitch. The government promised RM25 billion to support the semiconductor industry. Anwar nodded to a long-standing challenge, which is the need to graduate from a centre for assembly and testing to more lucrative areas like design. The premier is also betting that Malaysia, one of the biggest chip exporters to the US but with a history of cordial ties to China, can be a player in an era when supply chains are increasingly sorted along national security lines. “I offer our nation as the most neutral and non-aligned location,” he said.

The mania for most things AI, and a couple of pledges from technology icons, is generating good press. An educated workforce, relatively low costs, and proximity to Singapore has companies singing Malaysia’s praises in the way they did during the glory days of Tun Dr Mahathir Mohamad, the former PM who ruled with a strong hand but recognised the need to make life easy for big multinationals. Satya Nadella, chairman of Microsoft Corp, last month vowed

US\$2.2 billion (RM10.34 billion) to build digital infrastructure. YTL Power International Bhd became a market darling after it announced a venture with Nvidia Corp for a US\$4.3 billion data centre in the southern state of Johor.

The enthusiasm for Malaysia led me to recall the history of Penang, an island in the north. On visits there, I was always struck by the reverence for Intel Corp and early leaders Gordon Moore and Andrew Grove. They came to the place when it had a port, fantastic seafood, and not a whole lot more.

Though it did have a state administration eager to promote development. Intel opened its first assembly and testing business outside the US in 1972, and the place is still a major hub for the company. Chips are now almost everything to Penang, which residents have come to call Silicon Island. Large-scale dredging and land reclamation are underway to add space for more industrial parks.

So, is AI and a new wave of technology investment going to give Malaysia its mojo back? GDP rose at an average of about 4% in the past decade, markedly slower than the heady days of 1990s and early 2000s. The federation also offered stability; one party dominated from independence through 2018. That was followed by rickety coalitions and a succession of leaders until Anwar forged a government of national unity in late 2022. It's anybody's guess whether this team can last a full five-year term.

The investment that flocked to Penang became a template for development and urbanisation, as factory workers moved from rural villages to urban centres. The trend was repeated throughout emerging markets. To keep the money coming, nations had to invest heavily in education, and infrastructure, and develop

regulatory regimes that supported this. Growth was there to be had; societies were radically transformed. Malaysia is today on the cusp of becoming a high-income nation, but is crawling across the finish line.

Another challenge: South-East Asia's semiconductor scene is concentrated around assembly, testing and packaging.

“Although the rise of AI offers vast business opportunities and growth potential for the semiconductor industry, the benefits are not evenly distributed along the chain,” Sunny Liu, an economist at Oxford Economics, wrote in report. “As long as ASEAN countries remain focused on ATP, the benefits they derive will be limited compared to economies engaged in design and fabrication.”

The idea of neutrality, as framed by Anwar, is also a stretch. The clamour for a slice of the AI pie might bind countries more tightly to the US, or at least America's West Coast. Diplomats may mouth bromides about not wanting to pick sides, but decision-by-decision officials will probably align with one camp more than the other. Straddling Washington and Beijing, something at which Malaysia has excelled, gets harder.

The country is right to woo AI. It can't let growth slow too far, nor afford to let neighbours steal a march. And let's have some realism. Mistakes have been made, and will again. Malaysia can talk a big game and not always come through.

Bad luck can also play a role. In 1996, Dr Mahathir began to develop plans for the Multimedia Super Corridor, a tech zone that stretched from Kuala Lumpur

through the new administrative capital and down to the airport. Then the nation endured a massive electricity failure. The premier was humiliated.

Anwar will be hoping a different historical analogy prevails. In 1975, a few years into Intel's presence in Penang, fire destroyed a huge part of the facility. Employees were determined to press on and fill orders. They were given T-shirts emblazoned with the words "Intel Still Delivers". If Malaysia is in the market for a rally cry, it could do worse than emulate that sentiment. — Bloomberg

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