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Garden of Knowledge and Virtue

POLICY BRIEF

Sustaining Malaysia's AI Momentum: From Readiness to Impact

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Key Insights

- ❖ **Positive Trajectory:** Malaysia has demonstrated a robust, upward trend in its Government AI Readiness Index score between 2021 and 2024, indicating successful initial investments in digital infrastructure and strategic governance.
- ❖ **Consolidation Required:** Having reached a score of approximately 71.4 in 2024, the focus must now shift from general readiness to specialized, sector-specific deployment, particularly in human capital development and regional equity.
- ❖ **Strategic Risk:** High-level index growth masks potential disparities in regional technological absorption, necessitating place-based incentives to ensure that national progress does not leave peripheral SMEs behind.
- ❖ **Data-Driven Governance:** Malaysia's upward trend in AI readiness highlights the effectiveness of national digital strategies, but the data underscores a requirement for more granular, regional-specific public indicator monitoring to close the gap between central hubs and peripheral economic zones.

1. Introduction

Malaysia's commitment to building a competitive digital economy has reached a

pivotal turning point. Over the last several years, the nation has prioritized the establishment of a robust regulatory and technological framework designed to foster the rapid adoption of Artificial

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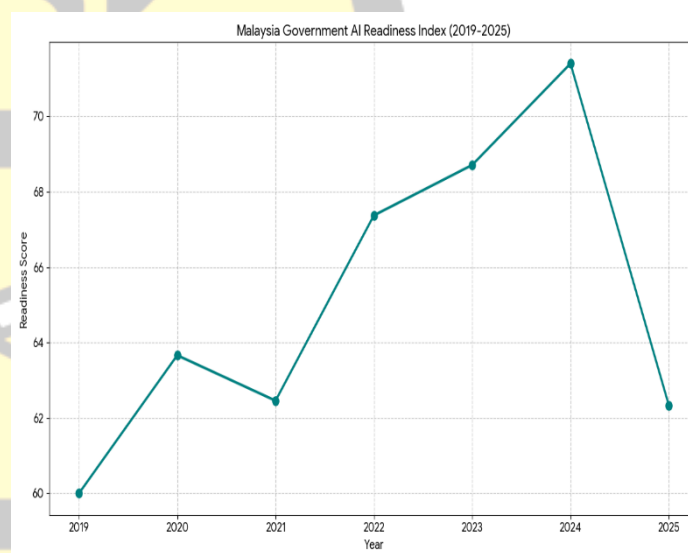
Intelligence (AI) and automated systems. As evidenced by the progression in the Government AI Readiness Index, Malaysia cultivated a foundational environment that supported innovation and digital transformation between 2019 and 2024.

The growth observed until 2024 reflects significant government investment in digital infrastructure, public-private partnerships, and strategic planning. However, the contraction observed in 2025 suggests that these index results, while previously impressive, function primarily as a measure of structural readiness rather than an assessment of tangible economic impact. Consequently, the current policy challenge is to ensure that these national scores evolve into genuine, inclusive productivity growth across all sectors.

2. Translating Readiness into Resilience

Furthermore, a granular examination of the readiness pillars reveals significant structural imbalances that hinder seamless AI integration (Oxford Insights, 2022). For example, detailed indicator data highlights that while the government's top-down strategic "Vision" frequently operates at maximum capacity (scoring 100), the underlying "Technology Sector" foundational capacity often lags significantly behind, scoring closer to 50.3 on the same index (Oxford Insights, 2022). This stark discrepancy demonstrates that ambitious national master plans and robust "Data and Infrastructure" (scoring 74.2) are insufficient on

their own (Oxford Insights, 2022). The bottleneck lies directly within the commercial and domestic technology sector's ability to absorb and scale these advancements. Until this foundational pillar is strengthened through targeted human capital interventions, the gap between government readiness and actual enterprise-level impact will continue to manifest as jobless productivity and stalled regional growth.



3. Socioeconomic Implications

The integration of AI into the marketplace has profound implications for the labour market. When firms automate routine tasks, the displaced workforce often finds few opportunities for immediate re-employment in high-skill sectors. This creates a friction-heavy labour market where the benefits of efficiency accrue to capital owners, while the costs of adjustment fall on mid-skill employees. Furthermore, developing "bridge skills"—

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specialized training designed for mid-career workers—is essential to ensuring that regional SMEs have access to the necessary human capital to leverage AI effectively.

There is a profound disparity between previous expertise, such as process management and human coordination, and the new skills required, such as advanced programming or data architecture. Without targeted interventions, the readiness scores recorded by the index may fail to deliver the equitable, high-income economic future promised by national master plans.

4. Conclusion

Malaysia's trajectory in the Government AI Readiness Index between 2019 and 2025 stands as a clear testament to strong institutional commitment and proactive digital governance. The nation has successfully laid the groundwork for a competitive technological landscape, achieving significant milestones in infrastructure and strategic planning. However, the plateauing of index performance in recent cycles indicates that the initial phase of "readiness-building" has

reached its structural limit. To sustain this momentum and transform it into long-term, inclusive economic prosperity, Malaysia's policy framework must evolve from a focus on general digital adoption toward a more nuanced, impact-oriented strategy.

This next phase requires a fundamental shift in how the state encourages technological integration. By prioritizing labour-augmenting technologies over simple automation, the government can foster a digital environment where Artificial Intelligence acts as a multiplier for human productivity rather than a substitute for human effort. The formalization of sector-specific Human Capital Roadmaps is essential in this regard; these frameworks must mandate that firms receiving digital incentives demonstrate clear, actionable plans for workforce upskilling and transition management. Ultimately, through these targeted interventions, Malaysia can ensure that its AI transition serves to strengthen the dignity, security, and competitiveness of the national workforce, effectively bridging the gap between technological potential and genuine, broad-based economic growth.

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Policy Recommendations

- ❖ **Policy Recommendation 1: Transition-Focused Grants:** Evolve digitalization grants to require a "Human Capital Roadmap" as a precondition for funding, ensuring efficiency gains are earmarked for workforce training.
- ❖ **Policy Recommendation 2: Regional Digital Equity Fund:** Establish a dedicated fund for regions—such as Sabah and Sarawak—to promote labour-augmenting AI technologies, ensuring that the "Readiness" benefits of the central hub are distributed equitably across the nation.
- ❖ **Policy Recommendation 3: Algorithmic Transparency:** Mandate algorithmic audits for digital platforms to foster trust and fairness, aligning technological progress with *Maqasid al-Shar'iah* by minimizing uncertainty and economic exploitation.

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