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Perspective+Outlook 2026

SHIFTING SANDS

The global economy has been going through a period of prolonged uncertainty, and it is not expected to be any different in 2026. The escalation in geopolitical tension and the impact of the US' tariff hikes are mounting risks. Decision-making will be challenging for policy makers, businesses and investors in this highly volatile environment.

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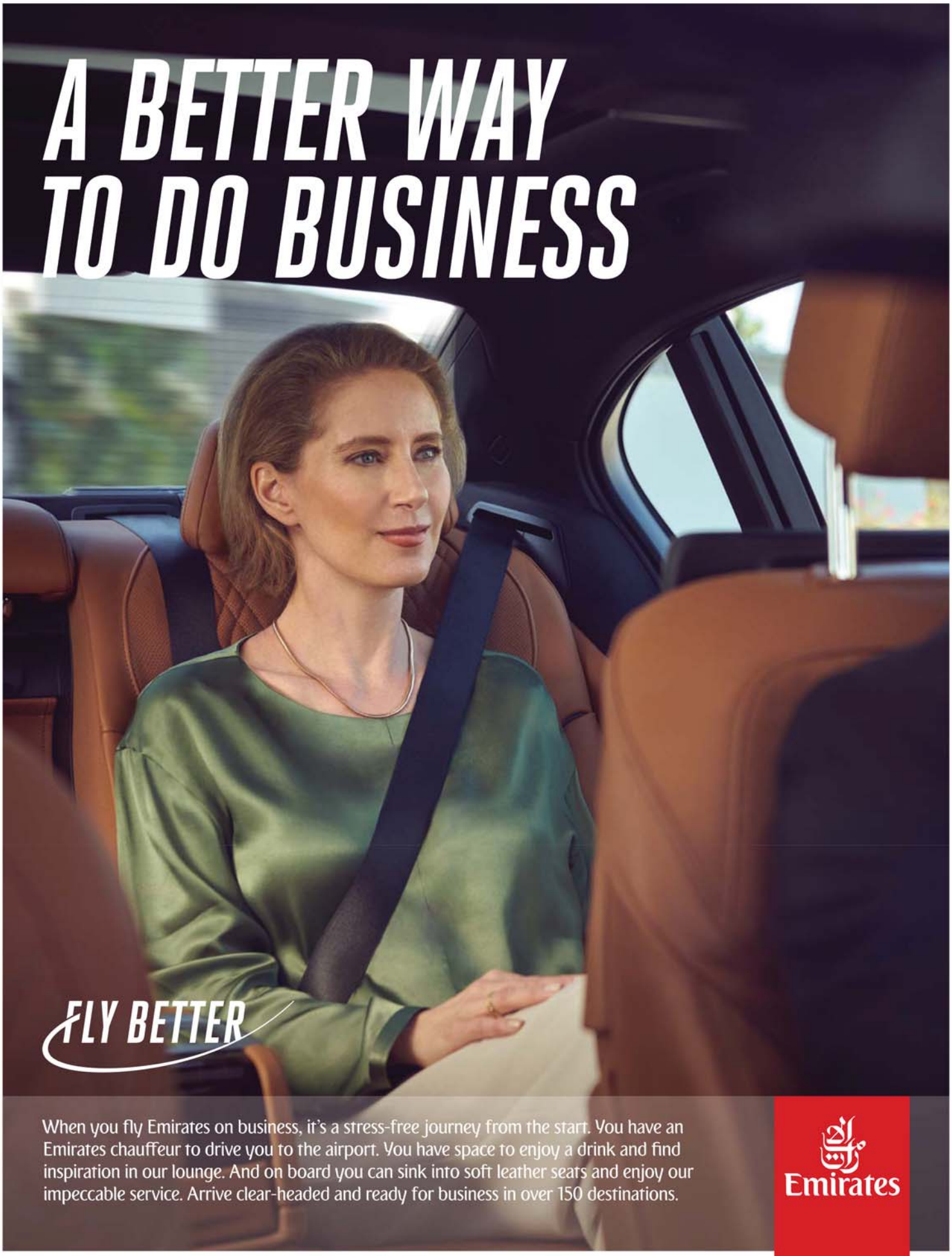
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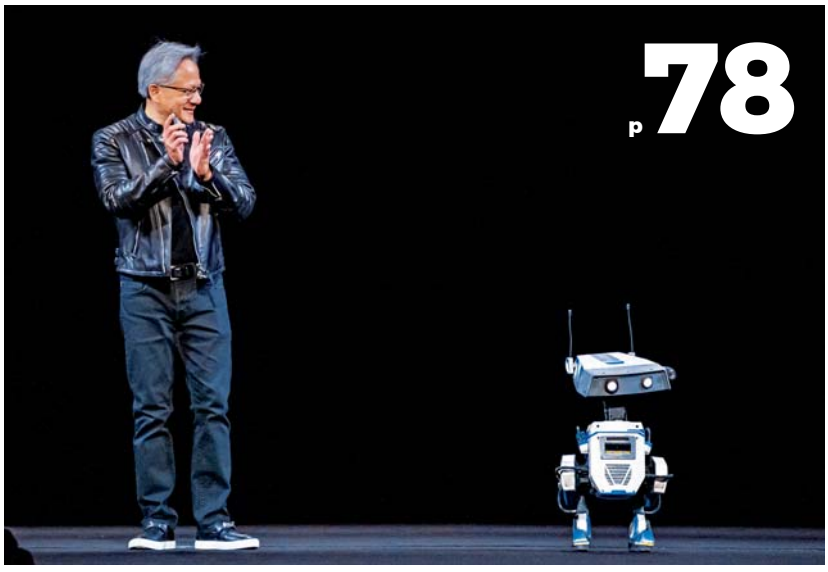
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EDITOR'S NOTE

DONALD TRUMP HAS done it again. On Jan 3, 2026, the US shocked the world when it executed a dawn raid in Caracas, Venezuela, and captured its president, Nicolas Maduro.

While safe haven assets such as gold saw a jump in prices, stock markets barely reacted to the raid. Nonetheless, it did spark a global outcry and anxiety over the chaos that could follow in the wake of the invasion. Geopolitical risks had risen another notch.

Looking back at 2025, it, too, started on a note of volatility and uncertainty, triggered primarily by the US unleashing tariff hikes on a wide spectrum of exports. This caused concerns of supply chain disruptions and escalation of a major trade war that could send the global economy into a recession.

As it turned out, the global economy managed to weather the tariff storm and rising geopolitical tensions in 2025 with surprising resilience.

Global growth is projected to hit 3.2% in 2025, slowing down from 3.4% in 2024. In 2026, the International Monetary Fund (IMF) forecasts gross domestic product (GDP) growth to come in at 3.1%.

Malaysia, too, was expected to end 2025 on a resilient note, reflected in a stronger ringgit and robust investment inflows. GDP growth is forecast at 4.5% to 4.8%, slowing down to between 4% and 4.6% in 2026.

Forecasts, however, will remain what they are — just forecasts. How the world economy, and Malaysia, will eventually perform in 2026 remains to be seen, given the fact that unexpected turns in events could take place, as they did in 2025 and 2024.

Going by global developments in the last several years, the overarching trend of prolonged uncertainty remains relevant in 2026. Hence the theme "Shifting Sands" for this special edition of Perspective + Outlook 2026, a collaboration between *The Edge* and the *Financial Times* (FT).

Literally, "shifting sands" describes the unstable landscape of sand dunes that are constantly reshaped and relocated by the wind. Metaphorically, it denotes instability and unpredictability, rendering decision-making a major challenge, whether for policymakers, businesses or investors.

It aptly describes the current state of flux that the world economy is in. While equities shrugged off the Venezuela raid, geopolitical hotspots in other parts of the globe, including the Middle East, are showing signs of heating up.

Gold, always a safe haven, saw a surge in price. Spot gold rose to US$4,485 per ounce on Jan 7, inching closer to its record high of US$4,549.71 an ounce achieved on Dec 24, 2025.

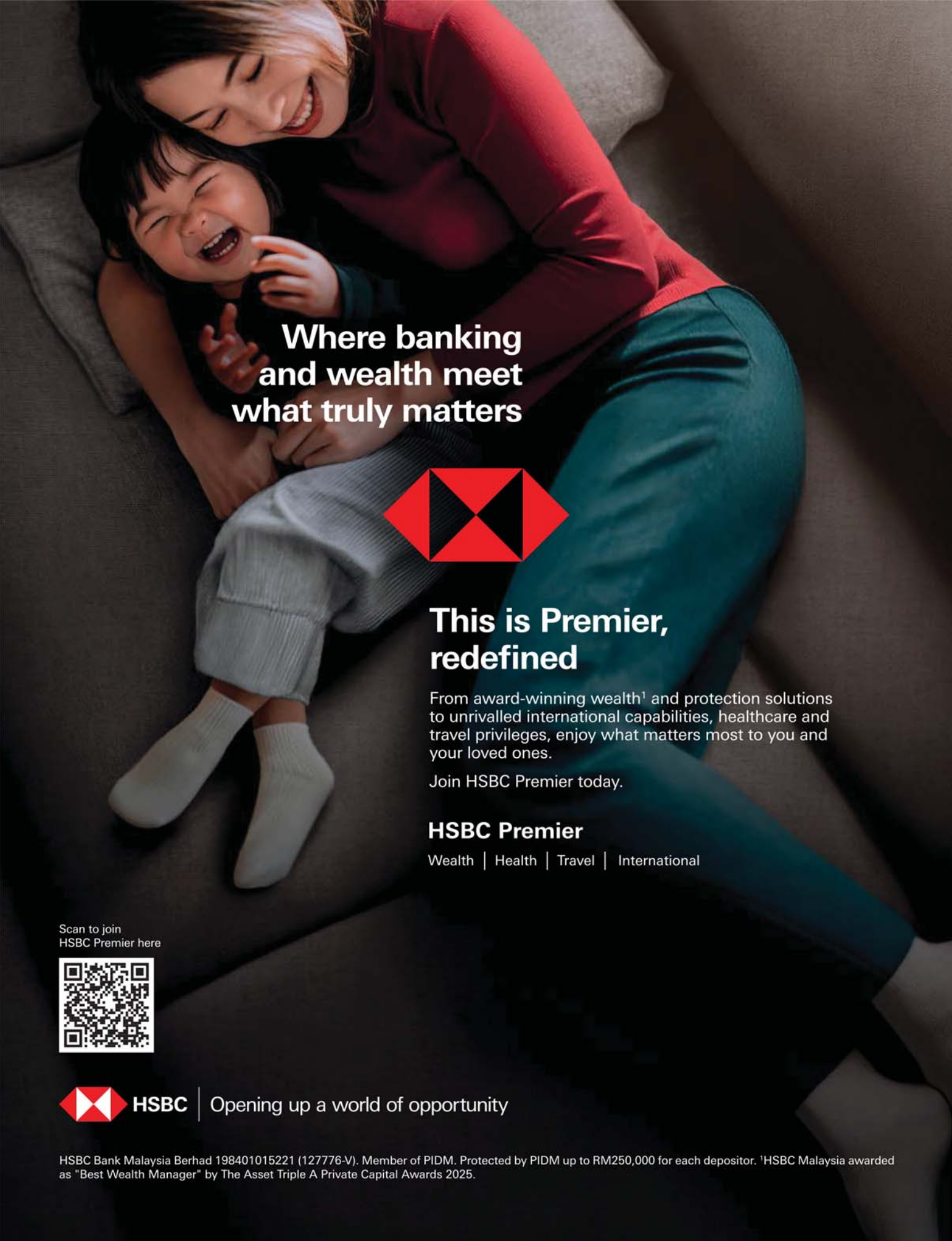
Gold prices have risen some 65% in 2025, its best annual performance since 1979. Further upside is expected. Morgan Stanley, for one, has projected gold to reach US$4,800 an ounce by the final quarter of 2026.

What trends will dominate in 2026? According to various news and research reports, the trends to look out for include technology and innovation, monetary policy and inflation, as well as the escalation in geopolitical risks.

A risk that could derail growth in 2026 is tariff hikes imposed by the US on its trading partners on a broad spectrum of goods. According to market observers and some industry players, the full impact of the tariff hikes is expected to be felt only in the second half of 2026, with implications on growth and inflation.

DBS Research says in a note that rising tariffs and a rebound in US investment could fuel a rise in inflation in 2026. While monetary policy globally has been on an easing trend, central banks could turn hawkish if inflationary pressure builds up.

Even so, expectations are that the US Federal Reserve may cut rates, but much will depend on who the new Fed chairman will be after the firing of Fed governor Lisa Cook. A Trump appointee, according to news reports, could herald further monetary easing.


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On the domestic front, Bank Negara Malaysia kept the overnight policy rate (OPR) unchanged at 2.75% at its last meeting in November 2025. DBS Research believes Bank Negara has the flexibility to cut the OPR by another 25 basis points in the first half of 2026.

In 2025, technology was a growth driver for the global economy and financial markets, but signs of a tech bubble build-up, in particular an AI bubble, are beginning to emerge. The central question facing investors in 2026 is whether this bubble will burst this year, and the implications for equities and the US economy.

In the ESG space, 2025 saw delays and cancellations of climate and ESG-related policies in the US and Europe. But the low-carbon transition, enabled by the declining cost of producing renewable energy (RE), is expected to continue at full speed in 2026.

Consequently, countries are vying to protect their stores of critical materials and rare earth elements needed to produce RE technologies. The challenge now is to ensure that the mining of the materials is done responsibly, lest the low-carbon transition, instead of promoting sustainable development, results in harm to the environment and communities.

Meanwhile, the numerous extreme weather events and natural disasters that struck the globe in 2025 have prompted governments and businesses to prepare for the worst impacts of climate change.

For Malaysia, politics is likely to take centre stage in 2026 as the country prepares for the general election before early 2028.

This special edition contains articles by both thought leaders and FT writers on a wide range of issues and topics, ranging from the economy, technology, and banking and finance to sustainability and politics.

At a time of accelerating and increasingly complex global uncertainties, the flow of good information and timely news has become even more critical for decision-makers.

While the articles are not intended to offer a crystal-ball forecast, they aim to analyse trends and events from 2025 and early 2026, and their potential impact in the months ahead. ●

ANNA TAING
Managing Editor, *The Edge Malaysia*

EDITORIAL
EDITOR-IN-CHIEF
KATHY FONG
MANAGING EDITOR
ANNA TAING
PROJECT COORDINATOR
KUEK SER KWANG ZHE,
PATHMA SUBRAMANIAM
CONTRIBUTORS
TENGKU ZAFRUL AZIZ, LIEW CHIN TONG, ANDREW SHENG, AMELIA ONG, ASHWIN CHOCKALINGAM, JASON LOH, MICHELLE CHIA AND CHEW KHAI YEN, STEPHEN DOVER, LIM CHIA WEI, IBRAHIM SUFFIAN, YONG KAI PING, DANIAL RAHMAN AND ANAS HAYYAN, KONSORTIUM AI NEGARA, TEH LIP GUAN, QARREM KASSIM, JASMIN IRISHA JIM ILHAM
CONTRIBUTING EDITOR
TAN ZHAI YUN
SENIOR EDITOR
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CHIEF COPY EDITORS
ELAINE LIM, MAH PIN PIN
ASSISTANT CHIEF COPY EDITORS
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SENIOR ACCOUNT MANAGERS
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DOMINIC LEE (012)325 3755
MEGAN WONG (012) 289 2631
MANAGER, AD-TRAFFIC
NORMA JASMA NORMAN
MANAGER, DIGITAL BOOKINGS AND INTEGRATION
AVINASH RAO
email advertising@bizedge.com

CORPORATE
PUBLISHER & GROUP CEO
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ECONOMY

At first glance, the global economy appears to be entering 2026 on a sound footing, but beneath the surface, risks are emerging. For one, the full impact of US President Donald Trump's trade tariffs is expected to be felt only in the second half of the year. Attention is also focused on who will succeed Jerome Powell as the US Federal Reserve chairman when his term ends in May. Geopolitical tensions are escalating and, in this environment, the resilience of the US and global economy will be tested.

WILL INVESTMENT TODAY SHAPE MALAYSIA'S TRADE TOMORROW?

BY TENGKU ZAFRUL AZIZ

Over the past three years, Malaysia has embarked on one of its most ambitious economic shifts in decades: a deliberate, strategic reindustrialisation agenda anchored by high-quality investment. This effort is not merely about announcing large investment numbers. It is about rebuilding the country's industrial ecosystem — from supply chains and talent to technology and standards — so that Malaysia can compete in a world in which trade is increasingly shaped by geopolitics, tech bifurcation and shifting global value chains.

As we look ahead to 2026, understanding the link between investment, industrial capability and trade performance is essential. Without this understanding, forecasts on national or regional trade flows risk being detached from the real drivers of competitiveness. And in a year in which global uncertainties will continue to reshape markets, clarity becomes even more critical.

Malaysia's experience over the last three years offers a useful lens into how investment and industrial strategy directly shapes trade outcomes.

Malaysia's reindustrialisation push since 2023 has been driven by a simple premise: Trade performance is only as strong as the industrial ecosystem behind it. Countries do not trade "products"; they trade the capabilities embedded within those products — skills, tech, innovation, standards, supply chain depth and production sophistication.

When a country upgrades its industrial base, its trade profile shifts accordingly. Export baskets become more sophisticated. Import dependence on low-value inputs decreases. Domestic firms move up the value chain. And the country becomes more resilient to external shocks.

Malaysia's ability to attract high-quality investments that diversify both its economic base and export basket is increasingly central to sustaining long-term growth and resilience, but this must be matched by the efficient and strategic use of capital to drive innovation. This is precisely what Malaysia has been working towards.

Investment is often misunderstood as a short-term economic stimulant. In reality, it is a leading indicator of future trade performance. The investments Malaysia approved and facilitated between 2023 and 2025 — particularly in electrical and electronics (E&E), automotive components, aerospace and green technology — will shape the country's export profile for the next decade. These sectors will help anchor Malaysia in global value chains where demand is resilient, margins are higher and spillovers are stronger.

Malaysia's ability to attract high-quality investments that diversify both its economic base and export basket is increasingly central to sustaining long-term growth and resilience, but this must be matched by the efficient and strategic use of capital to drive innovation. This is precisely what Malaysia has been working toward.

Factories built today are tomorrow's export engines. Supply chains established now determine future trade flows. Talent pipelines developed today define longer-term competitiveness. Tech adoption and innovation in the present set the tone (and ceiling!) for future productivity.

Thus, the link between investment and trade must be understood as sequential, not simultaneous. Trade numbers typically lag investment decisions by two to five years. Malaysia's strong investment inflows in recent years are therefore not just a sign of confidence — they are a preview of the country's future trade trajectory.

The industrial ecosystem: The missing middle in trade discussions

In the year just passed, trade was predominantly discussed in terms of tariffs, agreements and market access. These matter, but they are not the whole story. A country's ability to benefit from trade agreements depends on whether its industrial ecosystem can produce what the world demands.

Malaysia's reindustrialisation agenda from 2023 to 2025 therefore focused on strengthening key enablers, the "missing middle". These include supplier development programmes to deepen local participation; tech upgrading and innovation incentives to move small and medium enterprises (SMEs) into higher-value segments; talent and Technical and Vocational Education and Training (TVET) reforms to align skills with industry needs; infrastructure improvements to support logistics and digitalisation; as well as green transition policies to meet global sustainability standards.

These ecosystem improvements are what allow Malaysia to plug into global supply chains more effectively — and to stay plugged in as global standards rise. Without ecosystem depth, trade agreements become underutilised. With ecosystem depth, they become powerful multipliers.

Beyond being an efficient manufacturing hub, Malaysia is steadily building a stronger "Made by Malaysia" identity across a wider range of products as capital is channelled into research and development, advanced manufacturing, digitalisation and commercialisation.

The importance of ecosystem strength is not unique to economics. The English Premier League offers a surprisingly useful analogy. Take Liverpool, for example. Their success under Jürgen Klopp was never about one superstar player. It was about a system — a high-pressing philosophy, world-class sports science, data-driven recruitment, a strong academy pipeline and a culture of collective discipline.

Liverpool did not win matches because of last-minute brilliance. They won because the groundwork was done long before match day — on the training ground, in the transfer window, in the alignment between strategy and execution. Every player understood his role, and every part of the club reinforced the same identity.

Malaysia's reindustrialisation works on the same principle. Investment is our "transfer window". Talent development is our "academy". Supply chain depth is our "midfield engine". Regulatory clarity is our "tactical system". When these elements align, the economy plays with fluency — and trade becomes the natural outcome of a well-drilled system.

Just as Liverpool cannot rely on a single striker to win the league, Malaysia cannot rely on one sector or one investment wave. Sustainable success is engineered, not improvised.

Asean and regional trade: Malaysia's role matters

Malaysia's reindustrialisation is also a crucial part of a broader Asean shift towards becoming the world's next major manufacturing and supply chain hub. As companies diversify away from single-country dependencies, Asean's attractiveness grows — and Malaysia's role as a stable, strategically located and industrially capable economy becomes even more important.

Malaysia's strategic investments are enabling the country to move up the value chain in semiconductors and E&E, medical devices, aerospace, electric vehicles, green-tech equipment, industrial and speciality chemicals, palm-based derivatives, processed food and halal products, as well as locally developed digital services and software for global markets. Our growing industrial strength will influence not only our own trade performance, but also Asean's collective trade trajectory in 2026.

Forecasting trade in 2026 will be unusually challenging, as the world grapples with fresh "bending shots" (such as the US-Venezuela conflict, which could affect global energy prices and shipping costs), on top of existing stresses such as the still-unresolved conflict in Gaza, the Russia-Ukraine war and current China-Japan tensions, which collectively continue to disrupt commodity markets and supply chains. The US mid-term elections at end-2026 may also influence trade policy, tariffs and global risk appetite.

In such an environment, what matters more is not forecasting models based on historical trade patterns but understanding structural growth drivers.

Nobel laureate Philippe Aghion notes that "the key factor of economic power is technological leadership", highlighting how innovation drives competitiveness and higher-value exports. More efficient capital allocation across public funds, government-linked companies (GLCs), sovereign investments and private capital can accelerate technology transfer, strengthen supply chains and fast-track the journey from innovation to exports.

Research shows that innovation boosts both the likelihood and complexity of exports, helping

Malaysia's reindustrialisation is also a crucial part of a broader Asean shift towards becoming the world's next major manufacturing and supply chain hub. As companies diversify away from single-country dependencies, Asean's attractiveness grows – and Malaysia's role as a stable, strategically located and industrially capable economy becomes even more important.



LOW YEN YEING/THE EDGE



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In 2026, semiconductor demand is expected to support Malaysia's trade outlook

diversify beyond narrow commodities, create better jobs and build resilience. Smarter capital deployment positions Malaysia not just as a production base, but as an innovation-driven trading nation with globally competitive products proudly Made by Malaysia.

Conversely, if global uncertainties and misallocation of capital disrupt investment implementation or delay supply chain adjustments, trade performance could be more muted. The point is clear: Trade forecasts must be grounded in innovation-driven industrial realities, not just global sentiment.

The link, therefore, between Malaysia's investment, reindustrialisation and trade performance is direct and powerful — and understanding this link is essential for forecasting what 2026 may bring.

One bright spark is the 2026 semiconductor demand that will support Malaysia's trade outlook despite global uncertainties. A strong demand tailwind (forecast to rise 25%) is expected as the world buys more chips, especially as artificial intelligence (AI) leaves the cloud, enters the physical world and gradually becomes the backbone of both enterprise systems and everyday devices. In short, 2026 looks set to be the year AI scales up and becomes more ubiquitous in both business and personal applications.

Malaysia, with its strong semiconductor ecosystem, can leverage this trajectory more strategically, as it has developed a strong reputation as a partner offering a trusted, resilient and scalable E&E ecosystem (infrastructure, talent, intellectual property protection, stable regulations) within friendly trade networks.

Thanks to Malaysia's strategic reforms and geoeconomic decisiveness — including the Agreement on Reciprocal Trade (ART), New Industrial Master Plan (NIMP) 2030 and National Energy Transition Roadmap (NETR) — Malaysia truly enters 2026 from a position of stability and strategic advantage. For 2026, the real question is who captures value along the global chain, not whether the (trade) pie shrinks.

Just as Liverpool's success is built on system strength rather than individual brilliance, Malaysia's trade success will depend on the ecosystem we build — the breadth and depth of our supply chains, how quickly we embrace innovation, the quality of our talent, the sophistication of our industries and the consistency of our policies. The "global operating sands" are shifting faster than ever, but Malaysia stands ready, as we spent the last three years rebuilding our industrial base, strengthening our supply chains and preparing our economy for a more contested world. If we stay the course, 2026 could mark the beginning of a new chapter — one in which Malaysia competes not on cost, but on capability, sophistication and strategic value. (And here's hoping that the capacity and talent investments in 2025 will make Liverpool perform better in the 2025/26 English Premier League season!) ●

Tengku Zafrul Aziz is the chairman of Malaysia Investment Development Authority and former investment, trade and industry minister

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EG23 APDL: Developer: Sime Darby Property (City of Elmina) Sdn Bhd. 199301028527 (283265-U), 10th Floor, Block G, No.2 Jalan PJU 1A/7A Ara Damansara, 47301 Petaling Jaya, Selangor • Land: Free of Encumbrances • Tenure of Land: Freehold • Phase EG23A • Developer License No.: 13017/08-2028/1086(A) • Valid Period: 20/08/2023 - 19/08/2028 • Advertisement & Sales Permit No.: 13017-50/09-2027/0777(N)-(L) • Valid Period: : 18/09/2025 - 17/09/2027 • Total Units: 136 • House Type: 2 Storey Terrace House • Expected Completion Date: April 2028 • Building Approving Authority: Majlis Bandaraya Shah Alam • Building Plan Reference: MBSA/BGN/BB/600-1(PS)/SEK.U17/0149-2022 • Selling Price: RM1,252,888.00 (Min.), RM2,263,888.00 (Max.) • 7% Bumiputera Discount (Subject to Quota) • Phase EG23B • Developer License No.: 13017/08-2028/1086(A) • Valid Period: 20/08/2023 - 19/08/2028 • Advertisement & Sales Permit No.: 13017-51/10-2027/0833(N)-(L)• Valid Period: : 9/10/2025 – 8/10/2027 • Total Units: 70 • House Type: 2 Storey Terrace House • Expected Completion Date: July 2028 • Building Approving Authority: Majlis Bandaraya Shah Alam • Building Plan Reference: MBSA/BGN/BB/600-1(PS)/SEK.U17/0151-2022 • Selling Price: RM1,271,888.00 (Min.), RM2,269,888.00 (Max.) • 7% Bumiputera Discount (Subject to Quota).

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13MP WITHIN CONTEXT OF PROFOUND GEOPOLITICAL ENVIRONMENT

BY ANDREW SHENG

THE 13TH MALAYSIA PLAN (13MP) covers the period from 2026 to 2030 and focuses on reshaping national development through the Madani economic framework. Announced in October 2025, the plan stresses technology-led growth, digitalisation, artificial intelligence (AI) adoption and social equity to build economic resilience and improve quality of life. The plan faces extremely complex geopolitical shifts, technological disruption, demographics and climate challenges, and tackles them through several core pillars and national sectoral plans and initiatives.

Using the theme Madani economy, its objectives are to raise the ceiling (economic restructuring with nine focus areas like the digital economy and green sectors), strengthen good governance (public service reforms via GovTech and AI) and raise the floor (enhancing well-being through social mobility and cost-of-living relief).

The plan aims to achieve a top 30 global economy ranking, with 4.5% to 5.8% annual gross domestic product (GDP) growth, global advanced income status of RM77,200 per capita gross national income (GNI), labour income share at 45% and a fiscal deficit under 3% of GDP by 2030.



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Malaysia Digital Economy Corporation provides training on agritech solutions to local farmers, with the aim of bettering their lives and boosting the nation's food security ... Announced in October 2025, the 13MP stresses technology-led growth, digitalisation, AI adoption and social equity to build economic resilience and improve quality of life.

The plan should be read with other major sectoral plans, such as the National AI Action Plan, the National Semiconductor Strategy for semiconductor exports to hit RM1 trillion, the New Industrial Master Plan (NIMP), the National Energy Transition Roadmap (NETR), regional infrastructure like the East Coast Rail Link (ECRL) and the Johor Bahru-Singapore Rapid Transit System (RTS) Link as well as various initiatives, projects and programmes that would involve a total allocation of RM611 billion from the federal government, government-linked investment companies (GLICs) and public-private partnerships (PPPs).

While the plan is ambitious, it needs to be considered within the context of almost unprecedented geopolitical challenges, buoyant and yet high-risk monetary and fiscal imbalances, and higher climate change/natural disaster threats and opportunities.

After US President Donald Trump launched the tariff war in April last year, global trade and supply chains have faced radical uncertainties of potential and real decoupling (onshoring production back to the US). The global conflict situation has worsened with armed conflicts in Ukraine and Gaza/the Middle East; border disputes between Pakistan and India and between Thailand and Cambodia; conflicts in Africa; and now US special operations in Venezuela.

Given such wide risk spectrums, the latest International Monetary Fund (IMF) forecasts have been cautious, with the October 2025 World Economic Outlook estimating global GDP growth at 3.1% for 2026 and about the same for 2027. US growth is projected at 2.1% in 2026; China may moderate to 4.2% amid policy support while euro area growth will be flat, sustained by more defence and social spending.

Nevertheless, given Trump's unprecedented policy actions that confirm the end of the old liberal trade order, all nations must face geopolitical fragmentation, a highly uncertain global trade environment and a greater need to secure national resilience and self-dependency by improving food, energy and defence security. Owing to global financial markets hovering at very high asset price levels (stock markets, especially technology), risky bond markets due to growing unsustainable debt for major markets and record prices for gold, silver and rare metals, every nation needs to be prepared for all kinds of contingencies with relatively little help



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Stack Infrastructure's data centre project in California stands vacant while awaiting power ... Technology is highly energy intensive, relying on electricity and cheap energy sources as well as access to rare metals. This is why reading Malaysia's NIMP and NETR reveals some of the constraints on the nation's path forward in industrial policy. Technology needs deep pockets of patient capital but the risks are also huge.

available from multilateral agencies because of their constrained capital and resources.

Furthermore, Malaysia's top three export industries — oil and gas, palm oil and manufacturing — are all facing considerable challenges to productivity and value-added growth.

Firstly, oil and gas prices have now fallen to around US$60 per barrel, with Malaysian production flat at 660,000 barrels per day (BPD) and seven million cubic metres of natural gas per day. Additional export and tax revenue from this source going forward will be limited.

Investments in technology are highly fund-intensive, requiring the support of deep capital markets because technology bets can be extremely risky. They cannot be funded by risk-averse banking systems.

Secondly, Malaysia's palm oil production is restricted by land constraints and the limited increase in labour productivity levels. Thirdly, the nation's manufacturing capacity is dependent on the semiconductor industry, which has become more investment-heavy, national security sensitive and vulnerable to abrupt supply chain shifts.

Regionally, Malaysia is facing increasing competition from Vietnam, the Philippines and Indonesia, with the three countries having higher growth rates of over 5% per annum, larger domestic markets (each has a population of more than 100 million) and also ambitions in technology manufacturing and business operations outsourcing. With a population of only 35 million, Malaysia has to depend on export markets to gain economies of scale.

Plans, aspirations and impact

National planning has advanced considerably and is back in fashion with the revival of industrial policy even in advanced markets. Unlike the discredited Soviet-style rigid centralised planning, modern national planning incorporates real-time data feedback, sets very specific national industrial and technology targets, and requires much higher private sector market inputs. As technology takes centre stage in almost every advanced country's master plan, to get cutting-edge technology means that all governments must partner with global and national champions, to be funded mostly by market or private equity funds, rather than simply by government or academic sources.

The second trend in industrial policy is that investments in technology are highly fund-intensive, requiring the support of deep capital markets because technology bets can be extremely risky. They cannot be funded by risk-averse banking systems. This explains why technology clusters seem to be concentrated in a handful of economies, like the US (Silicon Valley and the Boston area), China (Shenzhen, Shanghai/Hangzhou and Beijing), Japan, South Korea, Taiwan and a scattering of tech/manufacturing centres in Europe.

Thirdly, technology is also highly energy intensive, relying on electricity and cheap energy

sources as well as access to rare metals. This is why reading Malaysia's NIMP and NETR reveals some of the constraints on the nation's path forward in industrial policy. Technology needs deep pockets of patient capital but the risks are also huge.

The most revealing aspect of Malaysia's industrial aspirations is that the nation's labour productivity has shown steady but decelerating growth over the last decade. Growth averaged 3.9% annually from 1985 to 1996 but fell to 2.5% by 2011 to 2016, dragged down by agricultural labour productivity.

In terms of expenditure on research and development, the NIMP seeks to raise the level from 1% of GDP in 2021 to 3.5% by 2030. Note that the comparable level of R&D in South Korea is 6% of GDP in 2023.

Malaysia's top three export industries – oil and gas, palm oil and manufacturing – are all facing considerable challenges to productivity and value-added growth.

Data on manufacturing value added from the World Bank portal actually shows a downward trend in relative terms since 1999, when the manufacturing share of value added peaked at 31%; since then, it has declined to 23% of GDP (2024). The key question in industrial policy is who will push this back up through productivity increases and value-added creation?

The 13MP targets private investment to grow at 6% annually, amounting to RM417.9 billion, while public investment is expected to rise by 3.6% or RM112.9 billion annually. Malaysia's gross exports are forecast to increase 5.8% annually by 2030, with the current account balance to GNI projected to reach 2.2% by 2030. However, if we look at the semiconductor industry, investments and value added are largely driven by foreign multinationals, rather than domestic champions. Even though Malaysia claims sixth place in semiconductor industry production, the majority of the Malaysian-owned domestic tech champions are still small by global standards.

As we learnt bitterly from the tariff debacle, if tariff rates can be arbitrarily changed, multinationals may shift their production to other economies which have cheaper labour and/or tariff rates. Thus, developing domestic champions in technology seems the right way to go but funding and access to cheap energy and a better-skilled labour force are constraints but can be surmounted with strong political will.

The elephant in the room

The real issue facing Malaysia's development plans is the elephant in the room — who is the real driver of development: the government sector through government-linked companies (GLCs) or the private sector?

Since the Asian financial crisis, major reforms in GLCs have helped to recover growth but investments in Malaysia's domestic private sector have declined in relative terms as Malaysian companies have sought to access regional markets in Asean to gain growth and market share. Having an annual current account surplus in excess of 2% of GDP, Malaysia is not short of national savings but a fair amount has leaked in terms of private investments elsewhere.

How to attract Malaysia's private companies to invest back in Malaysia and in what sectors is therefore a high priority in terms of reaching the national consensus on the way forward.

Malaysian manufacturers in the consumer and export fields find themselves in a global trap. If they rely mainly on foreign technology, they cannot compete on intellectual property rights and/or market scale. There is also increasingly the China manufacturing competitive juggernaut, which has superior manufacturing process skills, with price and scale advantages.

The 13MP correctly emphasises the importance of education, labour force reskilling and investments in R&D. But with the education policy still in a huge debate on whether to have English as a core competency or adopt the Unified Examination Certificate (UEC) for international university recognition, there are distractions from the critical need for structural industrial competitiveness.

In short, the 13MP has ambitious aspirations but how to execute them will require very hard-nosed dialogue and partnership between the public and private sectors on how to use domestic entrepreneurship and innovation to take Malaysia into the advanced economy levels. ●



Tan Sri Andrew Sheng is a former central banker and financial regulator in Asia and a commentator on global finance. He is pro-chancellor of the University of Bristol and a distinguished fellow at the Asia Global Institute, University of Hong Kong, as well as chairman of the George Town Institute of Open and Advanced Studies, Wawasan Open University, Malaysia.

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STRUCTURAL REFORMS, EXECUTION AND AGILITY WILL DECIDE MALAYSIA'S NEXT PHASE

The 13th Malaysia Plan (2026-30) (13MP) is a strategic blueprint that prioritises fiscal consolidation while driving high-impact growth, and seeks to achieve this by balancing short-term macroeconomic resilience with longer-term structural reforms.

BY MICHELLE CHIA AND CHEW KHAI YEN

ANCHORED BY THE MADANI economy framework and aligned with national initiatives such as the New Industrial Master Plan 2030, the National Energy Transition Roadmap and the National Semiconductor Strategy, the plan aims to strengthen Malaysia's competitiveness amid geopolitical uncertainty, environmental stress and demographic change.

Malaysia's post-pandemic recovery demonstrated notable resilience during the period of the 12MP, with the economy expanding at an average pace of 5.2% during 2021-24 and full-period growth expected to average around 5.0% (13MP target: 4.5% to 5.5%).

Under the new plan, private investment is projected to grow 6% annually, a slight increase from the revised 12MP mid-term review target of 5.8% (2021-24 average: 6.7%), while annual public investment growth is expected at 3.6%. On the other hand, gross exports are expected to grow 5.8% annually, reflecting the reality of global trade fragmentation.

Overall, the 13MP is on the right track. Its emphasis on the development of high-growth, high-value (HGHV) industries and high-impact strategic sectors positions the economy to capture higher economic complexity within global supply chains. However, the path to becoming a top 30 global economy will not be straightforward.

The first year of the 13MP is already starting off on a cautious note, with the Ministry of Finance projecting a growth range of 4% to 4.5% and a narrowing current account surplus of 1.1% of GDP (1Q2021 to 3Q2025 average: 2.3%) in Budget 2026. Achieving the high-income nation target, which calls for an annual gross national income (GNI) per capita growth of about 6%, will depend on the government's ability to implement structural reforms rather than just relying on momentum alone.

Three crucial structural reforms

To realise the ambitions laid out in the 13MP, we view three structural reforms as being critical, starting with fiscal consolidation and revenue diversification.

The passage of the Public Finance and Fiscal Responsibility Act (FRA) in 2023 marked a key milestone in institutionalising discipline in public finance, and the 13MP's goal of narrowing the fiscal deficit to below 3% by 2030, in line with the FRA, is a welcomed commitment that would rebuild fiscal space depleted during the pandemic. However, sustaining investor confidence requires a credible pathway to these targets.

Given that the government has largely completed its current sequence of subsidy rationalisation measures, the next phase must inevitably address the diversification of the revenue base, especially as petroleum-related revenue is expected to decline further. While unpopular, measures that widen the indirect tax net would be necessary to create the fiscal headroom required for higher development expenditure (DE) without compromising on the deficit target (2021-25 total DE: RM396 billion; 2026-30 target DE: RM430 billion).

Furthermore, recent innovations in the delivery and targeting of government subsidy and assistance, as demonstrated by Budi95 and Sara, should be considered for expansion to other social assistance programmes. Scaling these delivery mechanisms will be crucial to streamline programmes, minimise exclusion errors and ensure that savings from subsidy rationalisation are redistributed to the people and policies who need them the most.

(Budi95 is a Malaysian government fuel subsidy programme launched in late September last year, while Sara is a financial aid programme providing targeted assistance for basic necessities to low-income households.)

The second structural reform involves the implementation of industrial policy that upgrades domestic production from assembly (Made in Malaysia) to innovation (Made by



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Prime Minister Datuk Seri Anwar Ibrahim tabling the 13th Malaysia Plan in Parliament

Malaysia). The 13MP identifies a broad spectrum of HGHV sectors to drive this, ranging from the semiconductor and energy sectors to digital services and the creative "orange economy". To this end, investment and tax incentives should prioritise economic complexity and innovation outcomes rather than capital expenditure alone.

A major testing ground would be the rare earth elements (REEs) sector. Since the publication of the 13MP, the strategic importance of REEs in the global supply chain has skyrocketed and Malaysia should move quickly on the 13MP's stated intent to develop the REE value chain, including strictly enforcing the ban on raw REE exports, encouraging further mid-stream domestic processing of REEs and ensuring that domestic capabilities capture more value along the supply chain. A similar approach across the other HGHV sectors such as electrical and electronics (E&E) and digital economy that encourage design, innovation and intellectual property creation will be essential to push Malaysian firms up the value chain and drive higher productivity growth.

The third structural reform involves the labour market focused on addressing the challenges of talent mismatch and the dependency on low-cost foreign labour. The ready availability of unskilled foreign workers over the past decades has suppressed wages and disincentivised automation in local industries. To meet the 13MP target of reducing foreign worker dependency to 10% by 2030, the government should push forward with the implementation of the multi-tier levy mechanism. While challenging, this measure will encourage industries to mechanise, which in turn increases demand for a skilled local workforce.

However, restricting cheap foreign labour is only half the equation. The 13MP also highlights the need for a holistic wage adjustment strategy to achieve the goal of "raising the floor" as well as the target of increasing compensation of employees to 40% of GDP (2024: 33.6%).

To ensure these higher wages are commensurate with productivity levels, the mismatch between education supply and industry demand, as reflected in the elevated underemployment rate, must also be bridged. By aligning curriculum with industry needs, a skilled and future-ready local workforce would emerge capable of commanding the premium wages of a high-income nation.

Key external challenges to test Malaysia's ability

Nonetheless, we foresee the external environment posing several challenges over the medium term that will test Malaysia's ability to adapt and respond to them.

The first challenge lies in adapting to a new geopolitical reality. The post-pandemic world has witnessed an acceleration of multipolar dynamics, rapidly transitioning from the "friendshoring" policies of the Biden era to the current upending of global trade and alliance structures under the Trump administration. While Malaysia has largely emerged from recent US tariff negotiations no worse than its regional peers, the baseline cost of access to the US market has undeniably risen, with average effective tariffs now substantially higher than they were more than a year ago.

The 13MP ... and its success will ultimately depend on Malaysia's will to execute policies decisively, sustain reform momentum and remain agile in the face of global and domestic uncertainty.

To mitigate these headwinds, policymakers should capitalise on the diplomatic goodwill generated during Malaysia's successful 2025 Asean chairmanship. Crucially, Malaysia should continue positioning itself as a neutral and reliable bridge between economic blocs without having to pick sides in great power rivalry. Beyond trade, policymakers should also remain vigilant against the risk of trade or military conflicts in the region that could disrupt essential supply chains. Ensuring resilience and diversification in the supply chains for strategic commodities such as energy and food should thus be part of contingency planning.

The second adaptation concerns climate and resource security. While the 13MP rightly prioritises the strengthening of the green economy as well as flood mitigation and adaptation, policy focus should also extend to the broader systemic risks where climate change intersects with industrial ambition. A structural strain is already visible with the growth of new energy- and water-intensive industries, such as semiconductor fabrication and data centres, placing growing pressure on utility grids that also serve households and other sectors.

At the same time, physical climate risks are evolving beyond the annual flooding that regularly exacts a toll on the lives and livelihoods of the rakyat. Rising sea levels pose a threat to coastal ports and industrial zones that risk becoming stranded by mid-century, without forward-looking infrastructural planning. The agricultural sector is equally vulnerable. As weather patterns become unpredictable, both export-oriented agri-commodities and domestic food security could be affected.

Given fiscal limitations, the burden of adaptation policies in response to these risks cannot rest solely on public expenditure. A climate-finance ecosystem that mobilises private investment through green bonds, blended finance and resilience insurance will be critical to long-term sustainability.

The third challenge lies in adapting to labour force disruptions driven by the converging forces of artificial intelligence (AI) and an ageing society. On the demographic front, Malaysia faces a shrinking tax base and escalating healthcare costs as the workforce gets older, which is further exacerbated by the low levels of retirement savings among a significant portion of the population. At the same time, progress in the AI revolution is advancing at a speed that consistently outpaces forecasts, suggesting that large-scale white-collar labour displacement may arrive far sooner than anticipated, even if the likelihood of this outcome remains uncertain.

The policy response should encourage a shift from labour-intensive to capital- and knowledge-intensive growth, where AI is deployed as an augmentative tool to offset the shrinking labour supply. Over the longer term, policy innovation could focus on fostering a "silver economy" with flexible work arrangements that allow older Malaysians to remain economically active to supplement their savings, alongside continuous upskilling within the broader workforce to keep up with the pace of AI advancements.

However, in an era of accelerated disruption, traditional social safety nets may soon prove inadequate, and policymakers may find themselves forced to explore bolder social protection models such as Universal Basic Income to maintain economic stability and social cohesion.

The 13MP offers a coherent and forward-looking blueprint, and its success will ultimately depend on Malaysia's will to execute policies decisively, sustain reform momentum and remain agile in the face of global and domestic uncertainty. ●

Michelle Chia is head of research and Chew Khai Yen is an economist at CIMB Treasury and Markets Research

WILL TRUMP'S TARIFFS COME HOME TO roost IN 2026?

BY JASON LOH

WHILE THE US economy continues to show signs of resilience despite President Donald Trump's tariffs — first imposed selectively last February and then rolled out comprehensively on a global scale on April 2 (Liberation Day) — there is a strong possibility of a slowdown in the second half of 2026.

This could be when the full extent of the Trump tariffs finally set in.

As an open economy reliant on the US as a top export market, Malaysia should be affected, along with much of the world.

The US economy grew by 4.3% (real gross domestic product) in the third quarter last year, driven by increases in consumer and government spending.

It should be noted that US government spending also includes interest payments to bondholders. This effectively represents indirect deficit spending by the federal government, as the income received is channelled back into the economy through federal programmes such as Social Security and Medicare, as well as via state agencies.

This actually represents a double deficit spending, where lending translates into public expenditure on the one hand, while coupon payments on the other ultimately flow to beneficiaries such as pensioners, supporting consumer spending.

This explains why the federal funds rate (FFR) has had little deflationary impact and has not led to the rise in unemployment predicted by the NAIRU (Non-Accelerating Inflation Rate of Unemployment) framework, calling the theory into question.

However, rising unemployment, coexisting with still-rising prices, is evident.

Despite registering robust GDP growth, the US is also at the same time experiencing higher layoffs. According to the US Bureau of Labor Statistics, the unemployment rate in November stood at 4.6%, its highest level since 2021.

This translates to about eight million people out of work. The workforce participation rate



Malaysia's economy is expected to grow at above 4% in 2026

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stood at 62.5%, implying a higher number of underutilised labour that is not officially classified as unemployed. This is reflected in the 6.1 million people not in the labour force who nonetheless want a job, which is a measure of hidden unemployment.

In 2024, the number of people not in the labour force but wanting to work was less than two million. This represents a staggering jump compared to the current period. Notably, federal government layoffs account for only a small marginal share of the overall unemployment rate.

The aggregate household income in the US will, therefore, be severely affected.

Recall that consumer spending, as proxied by the Personal Consumption Expenditures (PCE), typically accounts for about 70% of the overall GDP.

While business confidence and sentiment in Malaysia remain positive, higher operating costs – as distinct from production costs – continue to be a drag going forward. In turn, this suggests that most businesses are expecting and, at best hoping for, revenue stability, or status quo, rather than stronger growth in sales volumes.

Increased consumer spending could then be attributed to the front-loading of purchases resulting from, for example, stockpiling and panic buying due to anticipated additional inflationary pressures on foodstuff such as eggs, the 90-day tariff pause or suspension, and the one-off electric vehicle tax credits of US$7,500, which expired in September. Other factors include increasing spending on healthcare and other services.

By now, a combination of persistent inflationary pressures from price hikes due to tariff pass-through, reduced purchasing power, income losses from unemployment and rising consumer debt, suggests that American households may be approaching a breaking, or inflection, point.

In fact, consumer spending is reaching financial saturation, as reported in "US consumer spending slows in September as high prices curb demand" (Reuters, Dec 6, 2025).

It's therefore, expected that in 2026, American households would be cutting back on spending and deleveraging (on the consumer debt). It's arguable that any cut in the FFR would only have minimal impact as the accumulated principal repayment is set against reduced purchasing power and/or loss of income.

Then too, lowering the FFR might further weaken the US dollar, which in turn would definitively hurt imports even still.

The lagged impact of the Trump tariffs — which are higher inflation and reduced purchasing power — partly explains why layoffs continue as businesses are worried about the sustainability of their sales volume. The fall in imports reflects the higher costs of production and the inability of the domestic supply-chain to adjust quickly and in an agile manner.

Not to mention the lack of a proper and integrated industrial policy.

The fall in unemployment is critically reflective of the investment and entrepreneurial decision of businesses — as the primary determinant of the business cycle.

As it is, the advent of artificial intelligence (AI) hasn't helped either. Big Tech such as Amazon, Microsoft and IBM have been massively cutting the size of their workforce, citing the growth of AI in the operational and productivity models.

In turn, this could pave the way for the AI bubble to burst in 2026, or even trigger a broader stock market correction followed by a real estate downturn particularly in commercial property, leading to further layoffs and multiplier effects as shocks transmit from financial markets to the real economy.

It's not only the balance-sheet interdependency in terms of the equity investment itself and the entire supply-chain but also the valuation or the return on capital. This could mean a double-whammy, an understatement, if at all, of a deflationary impulse co-existing with continuing inflationary pressures, thus giving new meaning to "stagflation".

Malaysia wouldn't be unscathed, albeit we can't be certain about the extent of the impact.

'Uncertain certainty'

Having had a good year despite the initial anxiety of the Trump tariffs doesn't preclude the uncertainty of 2026, and beyond.

Slower global demand could put Malaysia's growth momentum to a screeching halt, notwithstanding projections of a 4% to 4.5% GDP outlook for 2026.

Furthermore, the continuing strength of the ringgit could affect its exports, on top of the 19% Trump tariffs on the applicable products, thus eroding its competitiveness by making exports pricier.

And even as Malaysia saw strong investment momentum for the first nine months of 2025, which represented 13.2% jump from 2024, this could well peak by the end of Q4. There's a possibility that it won't be able to surpass the pre-existing gap between 2024 and the first three quarters of 2025.

Foreign direct investment (FDI) and domestic direct investment (DDI) are expected to have slowed down by the end of the year. Gross fixed capital formation (GFCF) — which measures investments in physical (capital) assets — slowed slightly in Q3 to 7.4% (Q2: 21.1%).

While business confidence and sentiment in Malaysia remain positive, higher operating costs — as distinct from production costs — continue to be a drag going forward. In turn, this suggests that most businesses are expecting and, at best hoping for, revenue stability, or status quo, rather than stronger growth in sales volumes.

Furthermore, the Department of Statistics Malaysia's (DoSM) Leading Indicator as released in October 2025 could well provide a "hint" that Malaysia's economy is projected to moderate in 2026. It recorded a decline of 0.8% — weighed down by a reduction in imports of semiconductors despite the current tariff exemption under the Agreement on Reciprocal Trade (ART).

Nonetheless, there remains uncertainty about the durability of this exemption within the broader macroeconomic outlook.

As for DoSM's latest external trade statistics, domestic exports only grew marginally by 0.6% in November 2025, which represented a month-on-month (m-o-m) decline of 3.6%. Total exports were partly driven by re-exports (22%), which declined by 24% m-o-m. In seasonally adjusted terms (that is, removing the seasonal fluctuations), exports showed a slight decline.

The decline includes exports to the US. The overall situation could strongly suggest an increasing subdued or uncertain outlook going into 2026. It also implies that exports and possibly capital/intermediate goods imports could well peak by the second quarter, impacting on aggregate profits.

This serves to reinforce the spectre of the Trump tariffs, which could finally be a living reality in 2026.

Malaysia's other top export markets, most notably China, show signs of uneven recovery. In fact, China is also cited as one of the top economies most at risk in 2026, as per the International Monetary Fund (IMF).

In the context of Malaysia's GDP, any contraction in domestic or private sector spending resulting in a lower surplus would be counterbalanced by its exports surplus.

A domestic or private sector surplus (net saving on its financial assets) is also made possible by the government typically running a healthy fiscal deficit position.

Other than direct injection into the economy with multiplier effects, the net financial assets (NFAs) or savings accumulated by the private sector would also drive spending and consumption in the economy.

Now, this also applies to the export sector, as the prevailing fiscal and taxation framework — along with institutional arrangements and other support schemes — is geared towards promoting and facilitating this sector.

Ultimately, only a fiscal deficit is capable of counterbalancing any decline in domestic and export sector surpluses, or of offsetting a shift into deficit.

According to Bank Negara, overnight placements are in surplus — signalling healthy and robust liquidity in the banking system and, by extension, the stability of the financial market.

A proxy of healthy government deficit is the position of overnight placements that are part of the reserves accumulated in Bank Negara Malaysia's deposit facility acting as the floor-end of the Overnight Policy Rate (OPR) corridor.

According to Bank Negara, overnight placements are in surplus — signalling healthy and robust liquidity in the banking system and, by extension, the stability of the financial market.

The government is expected to stand ready to modify and adapt, however modestly, its current medium-term fiscal stance to respond adequately to any possible fallout from the Trump tariffs in 2026.

It's not (all) about doom and gloom. Uncertainty — exogenous and/or endogenous — is what it's all about, at the end of the day. ●



Jason Loh is an independent analyst and former head of social, law and human rights at EMIR Research. He was formerly senior director at Asian Strategy & Leadership Institute (ASLI) and head of ASLI's Centre for Public Policy Studies.

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Mariyam Zihnee Rasheed has long held a clear and ambitious vision, to lead and change the world. That journey began at the age of 15, when she participated in her first Model United Nations (MUN) conference at her elementary school in the Maldives.

"That first MUN experience sparked my dream of working at the United Nations and one day visiting its headquarters in New York City," she said.

A decade later, that dream became a reality. In 2025, Mariyam was selected to represent the Maldives at the Change the World Model United Nations (CWMUN) in New York City. The prestigious programme brings together over 10,000 students annually to debate pressing global issues.

"Out of over 150,000 global applicants, only five per cent were chosen. I was shocked, but beyond excited. More than anything, I was determined to make the most of this opportunity and use it as a stepping stone toward my future," she shared.

Now in her final year of the Bachelor of Social Science (Honours) in International Relations at Taylor's University, Mariyam credits her academic journey for equipping her for high-level global platforms such as CWMUN.

Choosing the right university was a deliberate decision. "Taylor's University stood out because its International Relations programme is more diplomacy-focused, which aligns with my ambition of becoming a diplomat or ambassador. The vibrant campus life and year-round extracurricular activities were also a big bonus," she explained.



Mariyam Zihnee Rasheed at the United Nations Headquarters during the prestigious CWMUN 2025 in New York City.

One of the most valuable experiences, she noted, was participating in a United Nations Security Council simulation as part of her studies. "The simulation sharpened my public speaking, negotiation, and policy drafting skills, while teaching me how to navigate formal UN procedures. That exposure was instrumental in preparing myself for CWMUN."

LEARNING FROM DISTIGUISHED DIPLOMATS

A defining element of Mariyam's academic journey has been Taylor's University's strong commitment to real-world learning through signature initiatives such as the "Distinguished Diplomat Series". The platform facilitates candid, face-to-face conversations between students and some of today's most influential figures in diplomacy.

Through the series, Mariyam had the opportunity to engage one-on-one with Her Excellency Dato' Astanah Abdul Aziz, Deputy Secretary-General of the Association of Southeast Asian Nations (ASEAN) for Political-Security Community.





Mariyam (left) with Her Excellency Dato' Astanah Abdul Aziz, Deputy Secretary-General of ASEAN for Political-Security Community, during an exclusive dialogue session at Taylor's University.

"Meeting and interviewing Dato' Astanah was genuinely one of the most meaningful experiences I had at Taylor's University, Mariyam said. "Seeing someone who once stood at the beginning of the exact path I aspire to take was both grounding and deeply inspiring."

Hosted by distinguished Malaysian diplomat Dato' Dr ilango Karuppannan, who also serves as an adjunct professor for the Bachelor of Social Science (Honours) in International Relations programme, the quarterly series has featured leaders actively shaping regional and global affairs, including His Excellency Edgard D. Kagan, Ambassador of the United States of America to Malaysia, with more to follow.

Beyond the series, students also have access to high-level public engagements with global leaders, including an academic dialogue session by His Excellency José Ramos-Horta, President of the Democratic Republic of Timor-Leste.

FROM CLASSROOM TO CHANCERY

Taylor's University further reinforces its applied learning approach through its Work-based Learning (WBL) curriculum framework, which combines two years of on-campus study with a final year immersed in industry-based learning. Reputable WBL industry partners include the Institute for Democracy and Economic Affairs (IDEAS), The Center to Combat Corruption and Cronyism (C4 Center), among others.

Recently, Mariyam reached another significant milestone when she began her first WBL semester at the High Commission of Maldives in Kuala Lumpur, where she is currently attached. The placement represents both a professional achievement and a meaningful continuation of her diplomatic journey.

"Being part of the High Commission has given me a deeper understanding of the work behind every diplomatic initiative, things the public does not usually see," she said. The experience has allowed her to compare diplomatic operations at a foreign mission with those at a national foreign ministry, while applying concepts learned at Taylor's University in real-time.

"From how you carry yourself in diplomatic settings to networking and presenting ideas confidently, my preparation at Taylor's University translated seamlessly into this role," she added. "The exposure I gained through dialogue sessions with senior diplomats really helped me integrate into a fast-paced environment and contribute meaningfully from day one."



Mariyam at the High Commission of Maldives in Kuala Lumpur.

SHAPING FUTURE DIPLOMATS

Dr Andrea Passeri, Programme Director of the Bachelor of Social Science (Honours) in International Relations at Taylor's University, said Mariyam's achievements reflect the university's commitment on real-world learning and global readiness.

"We encourage our students to go beyond textbooks by identifying global opportunities and mentoring them through the application process. Mariyam's success is a testament to her drive and the supportive ecosystem we've built," he said.

Dr Andrea also noted that the programme is designed for students who are passionate about global affairs and eager to make a difference. "They're intrigued by how decisions made in one part of the world ripple across borders, and they see diplomacy and advocacy as tools for shaping a better future," he said.

Graduates from the programme embark on careers in diplomacy, international development, humanitarian work, global business, and public service, including roles with embassies, the United Nations, non-governmental organisations, think tanks, and multinational corporations.

For students ready to translate global curiosity into real-world impact, the Bachelor of Social Science (Honours) in International Relations at Taylor's University offers a pathway into the practice of diplomacy and global affairs.



Dr Andrea Passeri mentors and inspires the next generation of diplomats

Don't be fooled — everything has changed for the global economy

Damage caused by US tariffs has so far been muted but that will not last

BY GITA GOPINATH

2025 WAS A year when everything changed — yet, somehow, nothing did. The US raised tariffs to their highest level in almost a century, China retaliated and global policy uncertainty intensified. And, still, global growth is projected at 3.2%, exactly what forecasters expected a year earlier when none of this turbulence was on the horizon. It would be a mistake, however, to think the global economy is unaffected by tariff fights and policy chaos.

We have seen this movie before. When the Brexit referendum passed, despite the sharp increase in uncertainty, the economic impact was initially minimal. But a decade later, the UK is estimated to have lost between 6% and 8% of gross domestic product (GDP) relative to its pre-Brexit trajectory. The lesson is simple: Structural damage reveals itself slowly and always too late to be reversed.

So, why hasn't the world felt the sting of tariffs yet? The answer lies partly in actual tariffs being around half of what the US announced, thanks to numerous exemptions. Yet, at 14%, this remains a sharp escalation, the consequences of which had two offsets. First, artificial intelligence (AI) spending and the stock market surge powered by AI optimism have propped up US growth and buoyed economies such as Taiwan and South Korea that export AI-related goods. Second, fiscal policy has been more expansionary, not only in the US but even more so in Germany and China. These forces masked the drag from American tariffs and Chinese retaliation. They also made 2025 look far more stable than it actually was.

The global economy is more fragile than headline numbers suggest, starting with the fragility in the AI sector. Investors have finally begun to question the gap between sky-high AI valuations and actual AI returns. Companies such as Meta, which have signalled massive increases in AI spending without corresponding revenue streams, have been punished. And they are not alone. AI companies will soon have to confront a harsh challenge: Prompts cost money, which means subscriptions will need to rise. US$20 a month will not cover the prompt costs or sustain the infrastructure arms race against new challengers.

This is not a statement about AI's potential, which is in all likelihood transformative. It is a statement about profitability. With competitive pressure both seen and unseen, the risk of a dotcom-style correction is real.

Meanwhile, the celebrated "resilience" to tariffs is deeply misleading. Tariffs have been costly, and especially so for Americans. Roughly 95% of tariff costs have been absorbed by US firms, with only some passed on to consumers. That "some" matters: Tariffs alone have added 0.7 percentage points to inflation. Without them, inflation could have been 2% in 2025 — exactly the Federal Reserve's target. Instead, tariffs have made the typical US household US$600 poorer.

The damage from tariffs will grow more visible in 2026 as the resilience afforded by frontloaded imports fades and companies pass through a higher share of costs to consumers.

China also needs to face up to some uncomfortable truths. Continued reliance on export-led growth is untenable, and Beijing's new five-year plan, which prioritises allocating resources to technology sectors over shoring up social safety nets and boosting consumption, risks deepening structural imbalances.

Europe, for its part, has played the adult in the room by defending a rules-based global system but it still needs to pursue internal reforms on its own account. The EU must deepen its single market, raise productivity and position itself as an attractive destination for global capital seeking diversification.

And the US is not helping. Unfriending the EU — its largest economic partner — is poor economic strategy. While nothing catastrophic happens overnight, Europeans are trying quietly and gradually to decouple from US financial infrastructure as they question their reliance on Visa and Mastercard. Just a year ago, this would have been unthinkable.

IF WE FAIL TO ACT, LIVING STANDARDS EVERYWHERE WILL DECLINE ...

The reality is that 2025 was a year when everything changed. The question now is whether 2026 will be the year we correct course. There is an opportunity: the US holds the G20 presidency and France the G7 presidency. Together, they can spur action to restore stability to an uncertain and increasingly fragmented global system.

If we fail to act, living standards everywhere will decline and the inward-looking policies that command popular support today will become unpopular. But, by then, it may be too late. ● *FT*

Gita Gopinath is the Gregory and Ania Coffey professor of economics at Harvard University and formerly the first deputy managing director and chief economist of the International Monetary Fund

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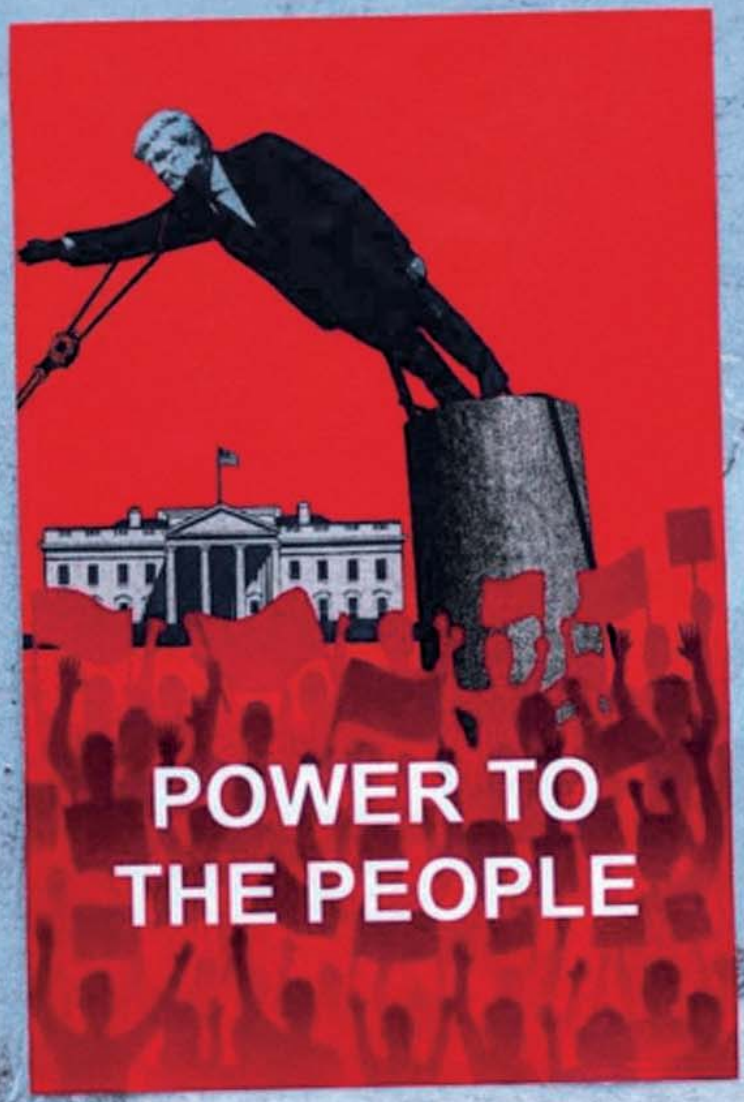
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POLITICS

The year has barely begun, yet the world is already reeling from the US military's capture of Venezuelan leader Nicolás Maduro. Geopolitical hostilities are expected to escalate further in the months ahead.

In Malaysia, political developments will also come under closer scrutiny as parties prepare for possible state elections and the general election, which must be held by February 2028.

COUNTING THE ODDS

BY LIEW CHIN TONG

SO FAR, SO good for Prime Minister Datuk Seri Anwar Ibrahim to win his second term. Of course, many caveats apply, and many things could go wrong, often at lightning speed.

Malaysian politics has entered the last lap of this parliamentary term. Parliament is due for automatic dissolution by December 2027. Three states are due for dissolution earlier: Melaka by December 2026, Sarawak (by February 2027) and Johor (by April 2027).

It is widely expected that Sarawak will call a state election this year, while the prime minister, if he wants to, can dissolve parliament earlier to hold concurrent elections with Melaka and Johor.

I believe that Gabungan Parti Sarawak (GPS) and Gabungan Rakyat Sabah (GRS), the ruling coalitions in Sarawak and Sabah respectively, will win most of the parliamentary seats there. Hence, I would focus on the key factors that will tilt the balance in the peninsula.

First, is there a 'green wave'?

There are 165 parliamentary seats in Peninsular Malaysia, where Perikatan Nasional (PN) has 66 seats and Pakatan Harapan (PH) holds 70 seats, while Barisan Nasional (BN) has 23.

What happened in the 15th general election (GE15) in 2022 was the collapse of support for BN. When the grand old party's support fell in a three-cornered setting, Malay conservative voters swung to PN, while Malay centrist voters and non-Malay voters chose PH. It was not a surge of a green wave.

The central question for GE16 is whether PH and BN, which are currently governing together as the unity government, can avoid contesting against each other.

For two consecutive elections in 2018 and 2022, there were three contesting coalitions vying for the same seats. It is difficult to bring the former rivals together. Yet, if an electoral pact materialises between PH and BN, PN will certainly be on the back foot.

Second, has PN peaked?

PN — mainly PAS and Parti Pribumi Bersatu Malaysia (Bersatu) — peaked during the state elections in Kedah, Penang, Kelantan, Terengganu, Selangor and Negeri Sembilan in August 2023, when the idea that Tan Sri Muhyiddin Yassin would return as prime minister and that PN could lead the federal government was still seen as feasible by PN supporters and a significant section of Malay voters.

Since then, Muhyiddin's star has faded, with Bersatu being split three ways among his own diehard loyalists, deputy president Datuk Seri Hamzah Zainuddin's camp and Datuk Seri Azmin Ali's group. The split now is wide open and irreconcilable.

The central question for GE16 is whether PH and BN, which are currently governing together as the unity government, can avoid contesting against each other.

Third, is PAS the future?

During the year-end hostility in PN as a result of the toppling of a PAS menteri besar in Perlis to be replaced by Bersatu's, PAS forced Muhyiddin to step aside as PN chairman. However, at the time of writing this article, PAS had yet to name Muhyiddin's replacement.

The obvious replacement would be Terengganu Menteri Besar Datuk Seri Dr Ahmad Samsuri Mokhtar, although it remains to be seen whether the conservatives in PAS would embrace him as the party's future.

PAS is in a serious dilemma. The current

Will the likes of political renegades such as Datuk Seri Rafizi Ramli or Khairy Jamaluddin Abu Bakar emerge as a third force to attack PH from the urban flank and pose a serious threat to DAP and PKR in a possible "black swan" event?

form of PAS is the result of a party coup in 1982, when the entire old leadership was pushed out. The Young Turks, among them current president Tan Sri Abdul Hadi Awang, were the leading advocates, then inspired by the Islamic revivalism happening throughout the world, including the 1979 Iranian revolution.

Their idea of global Islamism and Malay nationalism, targeting arch-rival Umno, made the party more radical throughout the 1980s and 1990s. By the new millennium, PAS adjusted its stance to be a bit more moderate. It was even part of the original Pakatan Rakyat with DAP and Parti Keadilan Rakyat (PKR) between 2008 and 2015.

However, when the conservative hardliners ousted the moderate elements in the party, PAS returned to its traditional Malay stance, but this time with a more aggressive tone and attitude, playing the race card.

Hadi has been president since 2002. While maintaining a strong grip over the party's inner circle, he has limited appeal to the middle-ground Malays, not to mention being seen with doubt and even fear among the non-Malays.

The social and global conditions have changed tremendously too. PAS' political role model, the Muslim Brotherhood, is largely decimated, while some of its social, cultural and religious reference points, including Saudi Arabia, are a very different place today.

We may see these debates playing out within PAS as it prepares for GE16.

Fourth, will there be a 'third force'?

While third forces in the form of popular movements or new political parties have made an impact in some countries, they generally have not done well in Malaysian politics. There were, however, instances when new parties stormed onto the scene and made a permanent impact, such as the rise of DAP and Gerakan in 1969, as well as the massive gains made by PKR in 2008, although almost a decade after it was formed in 1999.

Will the likes of political renegades such as Datuk Seri Rafizi Ramli or Khairy Jamaluddin Abu Bakar emerge as a third force to attack PH from the urban flank and pose a serious threat to DAP and PKR in a possible "black swan" event? Honestly, I would not dismiss the possibility.

Fifth, a Gen Z electoral revolt?

Most of the PH seats the coalition currently holds were gains made in the political tsunami of 2008, as well as those won in 2013. Some of these seats provide the feel of fortresses — until they are not.

One factor that would cause damage to PH and therefore change the entire electoral calculus (as PH needs its core seats for leverage to nominate Anwar as prime minister) is a Gen Z revolt.

A child born in 2008 will be eligible to vote in 2026 as he or she turns 18. They may or may not have a political preference yet, but judging from the issues dominating Gen Z revolts elsewhere — jobs, wages and social upward mobility (or the lack of), as well as New York Mayor Zohran Mamdani's meteoric rise — no one should underestimate the impact of young voters.

As the prime minister has the advantage of choosing when to dissolve parliament, with a likely PH-BN electoral pact, as well as governing power to shape narratives and policies to pacify the urban flank such as Gen Z, coupled with the breakdown of PN and the reckoning of PAS' brand of politics, GE16 is in Anwar's favour. At least, on paper. ●

Liew Chin Tong is deputy minister of finance and member of parliament for Iskandar Puteri



SUHAIMI YUSUF/THE EDGE

From volatility to velocity: How regions win in a fragmented world

By Datuk Syed Mohamed Syed Ibrahim, president and chief executive, Johor Corporation

THE GLOBAL ECONOMY is no longer moving through neat cycles of disruption and recovery. It is operating in a state of constant adjustment, where shocks overlap and compound. Volatility is no longer episodic. It is structural — and fast becoming the baseline.

Trade realignment, geopolitical tension, industrial policy and the rapid acceleration of artificial intelligence are converging. Supply chains once optimised for efficiency are being redesigned for resilience and redundancy. Capital is more selective as governments pursue strategic autonomy in critical technologies. At the same time, the architecture of cooperation is shifting: major powers are reassessing participation in international arrangements, renegotiating commitments and in some cases, stepping back from parts of the multilateral system. The result is a world where rules, institutions and expectations are being rewritten in real time.

The expansion of data centre infrastructure and AI-driven systems is accelerating this transition. Decision cycles are compressing. Expectations on energy reliability, data governance, cyber resilience and talent readiness are rising. Unlike short-term disruptions, these conditions alter where growth is anchored, how it is sustained and what advantages endure.

For institutions involved in long-horizon development and capital stewardship, these shifts shape daily choices around infrastructure readiness, industrial positioning and investment sequencing. In southern Malaysia, Johor's experience — shaped by cross-border flows, industrial depth, rising digital infrastructure demand and heightened investor scrutiny — reflects a broader reality: performance is shaped not only by scale or access but by the ability to coordinate, adapt and execute under persistent uncertainty.

Cross-border coordination in motion

One manifestation of this regional approach is cross-border collaboration. In Johor, the Johor-Singapore Special Economic Zone (JS-SEZ) signals a move beyond parallel development toward coordinated execution — aligning infrastructure planning, industrial activity and regulatory intent across borders. Its value lies less in incentives than in its potential to reduce friction, shorten decision pathways and enable firms to operate within a more integrated regional environment.

The changing nature of growth

National strategies remain essential in setting direction and enabling reform. Yet, the scale and complexity of national systems can slow rapid, coordinated execution — precisely when economic activity is becoming more specialised and time sensitive. Regions within those national frameworks are therefore playing a more pronounced role in turning policy direction into operational outcomes.

This is less a question of geography than of capability. Regions sit closer to industry clusters, labour markets and physical infrastructure. They must also manage the movement and matching of talent across institutional boundaries as skills alignment becomes as critical to competitiveness as physical connectivity. Increasingly, regions function as operating systems, where policy, capital, talent and execution must move in tandem.

Reframing competitiveness

Competitiveness is being reframed. For decades it was defined by scale, cost efficiency and access to global markets. These factors still matter but they are no longer sufficient. Infrastructure alone does not guarantee competitiveness. Differentiation increasingly lies in a region's ability to move decisively, align stakeholders and sustain momentum. In practical terms, this is velocity.

Velocity is not speed for its own sake. It is the sustained ability to convert intent into coordinated action — repeatedly and reliably at scale — even as external conditions shift. Regions with this capability are more resilient to shocks, more attractive to long-term investment and more consistent in delivering outcomes across cycles.

Competitiveness is shifting from scale to velocity — the ability to convert intent into coordinated action, repeatedly and reliably at scale, even as external conditions shift.

This shift has direct implications for how development strategies are designed and implemented.

In an environment shaped by frequent change, isolated projects and short-term measures are rarely sufficient. What matters instead is coherence: aligning land use, infra-

structure planning, capital allocation, governance and institutional capacity around shared objectives. Coherence enables adaptation without losing direction.

From an investor perspective, coherence underpins confidence. Incentives may attract early interest but long-term capital is drawn to environments where execution is predictable, coordination is evident and institutions operate with clarity of mandate. In this context, policy certainty often matters more than policy generosity.

How regions capitalise on fragmentation

Fragmentation and deglobalisation create constraints — but also openings for regions that can offer what investors and industries now value most: reliability, optionality and trust.

First, build optionality into the economic model: diversify export pathways, attract multi-origin supply chains and design clusters that can serve multiple markets and standards. Over-dependence on any single corridor, market or rulebook becomes a vulnerability.

Second, treat compliance as a product. As standards diverge — on carbon, data, security and trade — the edge belongs to places that make compliance simple, auditable and low-friction through traceability, digital permitting and interoperable reporting.

Third, build trusted infrastructure around the new economy's binding constraints. For data-intensive industries, the constraint is increasingly energy availability and reliability. For advanced manufacturing, it is logistics performance, ecosystem depth and skills. Winning regions design infrastructure as an integrated system, not a set of isolated assets.

Fourth, institutionalise speed. Many investor delays are coordination failures across agencies, utilities, regulators and land. Regions that build single-window execution, escalation pathways and clear mandates keep moving even when conditions change overnight.

Fifth, invest in talent velocity: develop, attract and redeploy skills — especially in AI, digital engineering, cybersecurity and next-generation healthcare. Talent is now strategic infrastructure.

State institutions and long-horizon execution

For state-linked investment institutions with multi-sector portfolios and long-term development mandates — Johor Corporation (JCorp) among them — coordination and execution are central to sustaining value across cycles. When governed clearly and positioned appropriately, government-linked companies and government-linked investment companies can help bridge long-term public objectives with private sector participation by providing continuity, anchoring complex developments and aligning diverse interests over time.

"Competitiveness is shifting from scale to velocity — the ability to convert intent into coordinated action, repeatedly and reliably at scale, even as external conditions shift."

Datuk Syed Mohamed Syed Ibrahim



Johor's trajectory, influenced in part by initiatives such as the JS-SEZ, reflects an emphasis on building an integrated operating platform — where industrial land, logistics capacity, energy readiness and digital infrastructure are planned as a system. This matters as data-intensive industries and AI-enabled operations place new demands on energy reliability, land readiness, connectivity and regulatory coordination. Energy availability and reliability are emerging as binding constraints on how and where growth can scale.

For JCorp, this means balancing commercial discipline with long-term development in capital-intensive, time-sensitive segments such as digital infrastructure and AI-related investments. Execution certainty and system readiness matter as much as capital itself. The payoff is durability: the ability to sustain investment momentum even as global conditions shift.

Across Southeast Asia, fragmentation is reshaping trade, technology and capital flows. National policies provide essential frameworks. Regional platforms, built on institutional capability and execution readiness, increasingly determine how effectively opportunities are converted into outcomes.

As global conditions continue to evolve, stability can no longer be treated as a default. It must be designed, coordinated and reinforced through institutional strength. In such an environment, regions built to move coherently, with discipline and intent, will not only adapt to shifting sands but also shape the next growth cycle.



ZAHID IZZANI/THE EDGE

REFORM, POPULISM AND COALITION CONSTRAINTS

BY IBRAHIM SUFFIAN

Prime Minister Datuk Seri Anwar Ibrahim assumed office in late 2022 under conditions that were unusually constraining yet potentially transformative. Leading a heterogeneous unity government after a prolonged period of electoral volatility, Anwar inherited a state marked by institutional erosion, fiscal stress and deep public cynicism towards elite politics. His personal reputation as a reformer — shaped by decades of opposition politics, imprisonment and advocacy for institutional accountability — became a central pillar of the government's legitimacy.

The enactment of the Public Finance and Fiscal Responsibility Act re-established medium-term fiscal discipline and signalled a return to rules-based governance. Deficit reduction from post-pandemic highs, though gradual, has reinforced perceptions of macroeconomic responsibility.

The government has also made cautious progress on subsidy reform, particularly through a targeted diesel subsidy, while signalling longer-term intent to rationalise fuel and consumption subsidies more broadly. These steps, while politically sensitive, represent a partial break from Malaysia's historical reliance on universal subsidies as a tool of political management.

Institutional reform efforts have been most visible in procurement governance. The passage of procurement legislation in 2025 addressed one of the most persistent sources of rent-seeking in Malaysia's political economy. By standardising processes and increasing transparency requirements, the reform holds the potential to generate both fiscal savings and legitimacy gains. However these reforms take place far

from the realisation of ordinary citizens, whose awareness is focused on prosecution of perceived wrongdoers as reported in the media, as well as changing key people deemed to be instruments of the previous administration.

As such reform delivery remains uneven. Politically consequential institutional reforms — political financing regulation, separation of the attorney-general and public prosecutor roles, and a federal Freedom of Information law — remain incomplete. These omissions weaken the coherence of the reform narrative. Furthermore, court rulings that seem lenient on perceived corrupt politicians feed into the narrative that the judiciary is still not fully independent. All these create doubts among the impatient electorate, whose daily lives are exacerbated by cost-of-living pressures and harbour deep-seated cynicism towards career politicians.

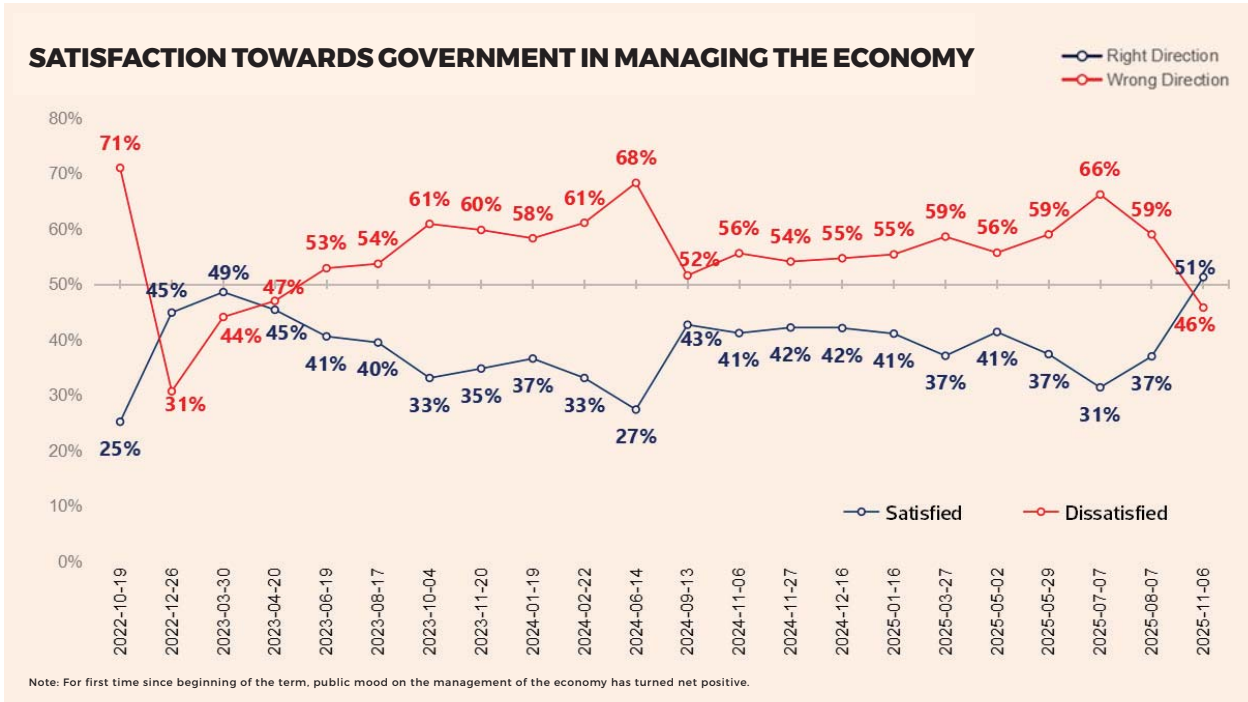
The prime minister began work immediately by tackling the biggest problems, that is, the cost of living and, subsequently, the issue of wages. The past couple of years have been marked by vigorous efforts to attract investments and diversify the country's trading partners. Coupled with diplomacy, the country's profile has reached a high, allowing Malaysia to once again punch above its weight. These efforts are recognised by the public — Merdeka Center's poll carried out in November 2025 found that 57% of the public were confident in the government's efforts to balance its domestic and international agendas, and 65% expressed confidence in efforts to strengthen economic cooperation, on the back of the 2025 Asean chairmanship. As a result, our survey found the prime minister's approval rating had strengthened to 57% in late November 2025, despite Pakatan Harapan's poor showing in the Sabah state election. Additionally, for the first time since the administration began, 51% expressed satisfaction with the government's management of the economy. (See chart below)

Politically consequential institutional reforms — political financing regulation, separation of the attorney-general and public prosecutor roles, and a federal Freedom of Information law — remain incomplete

Balancing reforms and political priorities

The tension between structural reform and political expediency is not unique to the unity government, but it carries heightened risk in Anwar's case. Unlike previous administrations, the government cannot rely on entrenched patronage networks or ethnic dominance to secure legitimacy. Its credibility rests disproportionately on claims of competence, integrity and reform.

SOURCE: NATIONAL PUBLIC OPINION SURVEY PERCEPTION TOWARDS ECONOMY, LEADERSHIP & CURRENT ISSUES



Note: For first time since beginning of the term, public mood on the management of the economy has turned net positive.

What the government has done well so far:

1 Put fiscal consolidation back at the centre of policy

Anwar — as finance minister — re-established deficit reduction as a core objective and anchored it in a rules-based framework. Malaysia's Public Finance and Fiscal Responsibility Act created a medium-term consolidation narrative that investors and rating agencies can parse, rather than a year-to-year political promise. It also gave reformers a language to justify hard choices: the deficit must narrow and debt ratios must stabilise.

The administration also hit nearer-term milestones: the Ministry of Finance reported achieving a 5% of GDP deficit in 2023, lower than 2022's 5.6%, and subsequent fiscal frameworks continued to signal a glide path towards a 3% deficit target in the medium term.

2 Began the politically hardest reform: subsidy rationalisation

Subsidy reform is where many Malaysian governments have stumbled. Anwar's government took incremental steps — starting with a targeted diesel subsidy in Peninsular Malaysia from June 10, 2024 — and framed the move as reducing leakage while protecting key sectors and vulnerable groups.

On RON95, the government's 2025 approach moved towards differentiation (citizens versus non-citizens, usage caps), even if it fell short of the earlier ambition of removing blanket subsidies for higher-income groups. Analyst views on the September 2025 RON95 adjustment are instructive: the policy direction remained "reform-oriented", but the calibration reflected political sensitivity on cost of living. Some 71% of the public approved of the BUDI95 subsidy measures.

The unity government faces an electoral geometry problem: it must retain a multi-ethnic coalition base while blunting opposition attacks that frame reforms as elitist.

3 Institutional reform: tangible legislative wins, especially procurement

The clearest "deliverable" institutional reform is procurement. Malaysia's parliament passed a Government Procurement Bill in August 2025, aimed at standardising rules and reducing rent-seeking and interference; the Senate later passed it as well. This matters because procurement is where ordinary Malaysians "feel" corruption: project quality, pricing and who wins contracts. It is also where reform has a direct fiscal payoff — better value for money and fewer leakages. Commentary from policy circles and business media framed the bill as a milestone for transparency and market confidence.

4 Broader governance architecture: anti-corruption strategy and reform signalling

The National Anti-Corruption Strategy 2024-2028 gives the bureaucracy a formal roadmap across politics, procurement, enforcement and institutions. Even critics who doubt follow-through acknowledge that a strategy with defined pillars and sub-strategies is a governance "platform" that can be monitored. The government also kept institutional reform on the public agenda through repeated commitments in budget speeches and official communications — important in a coalition setting where reform energy can dissipate into intra-government bargaining.

Where performance has fallen short (and why the "populist drift" perception grew):

1 Reform pacing is uneven — and the most credibility-enhancing reforms are delayed

Malaysia's reform "hierarchy" is clear: some reforms are nice-to-have; others change the incentive structure of politics and enforcement. The latter category includes:

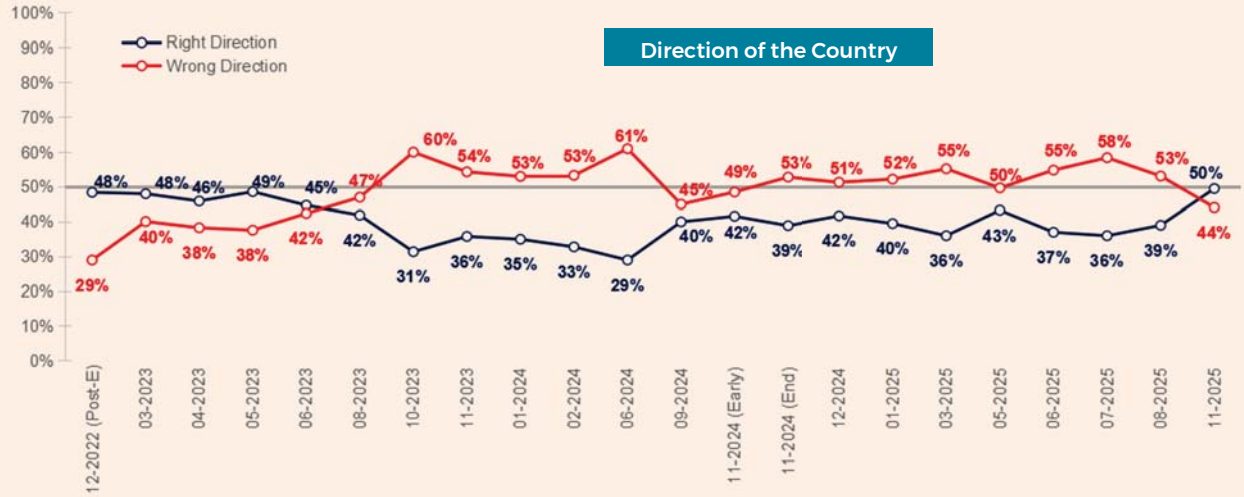
- Political financing rules (money politics)
- Separation of the attorney-general and public prosecutor roles (prosecution independence and conflicts)
- Freedom of Information (FOI) at the federal level (transparency baseline)

On political financing, the government's line in late 2025 is that stakeholder engagement is ongoing. That may be true, but repeated consultation without a tabling date invites cynicism, especially when scandals flare.

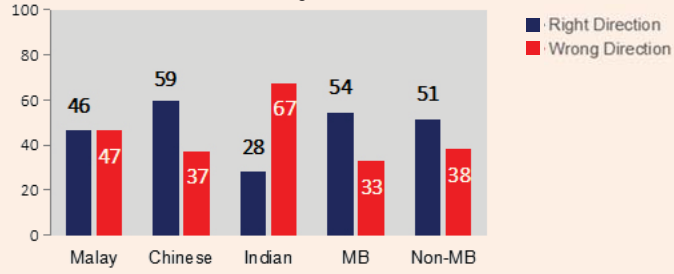
On AG/PP separation, the government moved into a more advanced phase — cabinet approval of a model and "phase 2" work — yet it is still not "done", and delays here are easily interpreted as political risk management.

On FOI, the government has signalled tabling "next year" (that is, 2026), but the long history of FOI advocacy means another deferral will be read as unwillingness, not complexity.

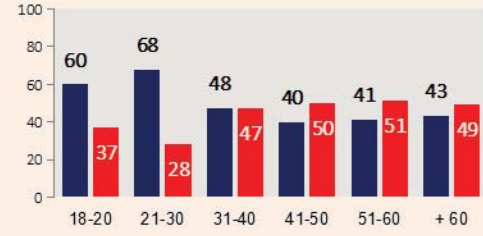
PUBLIC SENTIMENTS: DIRECTION OF THE COUNTRY AS AT DEC 1, 2025



Direction across ethnicity



Direction across age groups



SOURCE: NATIONAL PUBLIC OPINION SURVEY PERCEPTION TOWARDS ECONOMY, LEADERSHIP & CURRENT ISSUES. PERIOD: NOV 6 – DEC 1, 2025

2 Cost-of-living politics repeatedly pulls policy back into universal relief

The unity government faces an electoral geometry problem: it must retain a multi-ethnic coalition base while blunting opposition attacks that frame reforms as elitist. The result is a temptation towards broad, easily communicable relief — cash handouts, price interventions and headline-friendly measures — especially when protests loom.

The September 2025 RON95 subsidy measures (including one-off cash assistance and fuel-price pledges) captured this dynamic: reforms (taxes, subsidy changes) raise anxiety, and the government then tries to "offset" with universal gestures. The political cost is not only fiscal, but also muddles the narrative: Are subsidies being rationalised because they are unfair and leaky, or are they being retained because pressure works?

3 Procurement reform passed, but legitimacy will hinge on implementation details

This is a classic Malaysia problem: a reform law passes, then implementing regulations recreate discretion through exemptions and opaque thresholds. Media coverage highlighted civil society and opposition concerns about ministerial powers and exemptions. Thus, procurement reform is simultaneously a win and a risk — if 2026 implementation looks selective, it becomes evidence for "reform theatre".

The flagship reforms that must be delivered in 2026

If 2026 is the "proof year", then reforms need to meet three tests: (1) concrete legislation or enforcement change, (2) visible citizen-facing impact, and (3) credible fiscal and governance metrics. The following package is the minimum set that protects the reformer identity.

1 Political Financing Act

This is the single most important anti-corruption reform because it attacks money politics upstream. Consultation must end in a bill with donation limits, disclosure thresholds, audit requirements, enforcement powers and penalties — plus realistic transition rules for parties. Government statements indicate engagement is ongoing, and with tangible outcomes.

2 Legislate the separation of attorney-general and public prosecutor roles (and operationalise it)

The government has signalled progress into advanced phases and budget documents explicitly note stakeholder engagement. The year 2026 must convert this into legislation, institutional design (appointments, tenure, reporting lines) and a transition plan that prevents "independence on paper, control in practice".

3 Table and pass a Freedom of Information Bill

FOI creates routine transparency, reducing the heroics required for investigative accountability. The government has indicated tabling in 2026. It should be designed with narrow exemptions, an appeal mechanism and proactive disclosure requirements for contracts, project performance and key datasets.

Why these three matter politically — they are difficult to dismiss as "populist" and they directly counter the argument that the government protects incumbents. Delivering them in 2026 would re-anchor the "reformer" brand regardless of short-term economic noise.

Additionally, make subsidy reform politically sustainable by being targeted, predictable and compensated.

The government can achieve this by publishing a clear multi-year subsidy roadmap (fuel, electricity, selected food items) with predictable review dates rather than ad hoc announcements. The diesel reform experience shows the government can act, but predictability is what reduces panic. Additional measures include:

- Strengthen targeting architecture (eligibility, data matching, grievance/appeals) so that "targeted" is believed.
- Hard-wire compensatory transfers for low- and lower-middle-income households so subsidy cuts do not look like fiscal austerity for voters while leakage continues for the well-connected.
- Civil service and service-delivery performance reforms that translate fiscal discipline into faster permits, fewer bureaucratic chokepoints and cleaner enforcement (this is where "reform" becomes experiential for small and medium enterprises and households).

Implications for GE16

As Malaysia approaches the 16th general election (GE16), the strategic importance of reform delivery intensifies. For the unity government, GE16 will not primarily be contested on ethnic mobilisation or patronage distribution — arenas where opposition forces (notwithstanding their current travails) retain structural advantages — but on governance credibility, economic competence and institutional trust.

Delivering flagship reforms in 2026 serves a dual electoral function. First, it consolidates the loyalty of reform-oriented voters — younger Malays (both college and non-college educated, women in particular), non-Malays, younger professionals and middle-income households — who are sceptical of traditional patronage politics but vulnerable to political disengagement. For this segment, reforms such as political financing regulation, prosecutorial independence and freedom of information laws signal moral consistency and political courage. This is made more cogent because the competition's advantage rests on perceived religious moral authority.

Second, reform delivery reshapes elite competition. By moving towards institutionalising political financing, the government raises the cost of corruption-based political strategies and constrains informal resource mobilisation by rivals. While such reforms may not immediately convert conservative or rural voters, they weaken opposition organisational capacity over the medium term. It also changes the rules with which political parties have played for decades.

From an electoral management perspective, the unity government must resist substituting reform with short-term distributive politics in the run-up to GE16. Universal handouts and subsidy freezes may blunt immediate discontent but risk eroding the government's core narrative advantage. Instead, reforms should be framed as protective mechanisms for ordinary voters — reducing leakages, improving service delivery and ensuring fairness.

Strategically, GE16 will be less a referendum on popularity than on credibility. A reform agenda demonstrably delivered before the election would allow the government to contest GE16 as a choice between institutional consolidation and identity politics. Failure to do so would collapse that distinction, forcing the unity government onto political terrain where its comparative advantages are weakest. ●



Ibrahim Suffian is co-founder and programmes director of Merdeka Center for Opinion Research

MALAYSIA 2026: WHEN STABILITY STOPS BEING ENOUGH

BY DANIAL RAHMAN AND ANAS HAYYAN

As the fireworks of Malaysia's Asean chairmanship faded, the tariff-wars rhetoric became whispers, the crucial Sabah state election done and dusted, and political coalition partners continued to voice confidence, the Madani government emerged "stable" as 2025 came to a close.

In political terms, 2026 is the "middle child" year. It lacks the honeymoon excitement of 2023 and the adrenaline of the next general election due in 2027/28. Yet, history tells us that mid-term years are where governments are truly made or undone.

For the past three years, the narrative of stability — especially after the revolving door of prime ministers between 2018 and 2022 — has been crucial for the people, businesses and foreign investors.

So, as we stare down the barrel of the next 12 months, stability is no longer the benchmark. The government, seemingly comfortable, risks stagnation — and potentially loss of support — should it not forge ahead.

Prime Minister Datuk Seri Anwar Ibrahim appears to sense this urgency. In his new year's address, he upped the ante, stating that while stability cannot be underestimated, its true purpose is to allow the nation to "perform amazing feats". Equipped with a refreshed cabinet, he has set a "new direction", signalling that the era of merely surviving political turbulence is over.

The prime minister surprised many and set 2026's tempo by committing to table the Two-Term Limit Bill for the prime ministership and the long-awaited separation of the attorney-general and public prosecutor roles this year. Both are vital checks on executive power.

The mandate and expectation now are execution.

The tough reforms

Last year saw major reforms carried out, focusing on fiscal matters, key of which was subsidy rationalisation across various commodities (diesel, eggs, petrol in part) — something Malaysian governments have been attempting since the 1990s. Painful for people, adapting to the change has been buffered with increased direct cash handouts and targeted subsidies this time round.

This said, to truly "thrive" in 2026, we must be watchful over two other critical areas.

First, this January our civil servants will receive Phase 2 of their salary adjustment under the Public Service Remuneration System (SSPA). This is a massive financial commitment — costing the government RM18 billion.

Taxpayers are paying a premium price for what should translate into improved public service. In return, we need to see these adjustments translate into a service that matches the speed and innovation of the private sector — less red tape, faster digital adoption and exposure to global best practices. A big ask indeed, but there is vast potential to unlock within our civil service. This must be viewed as an investment in human capital.

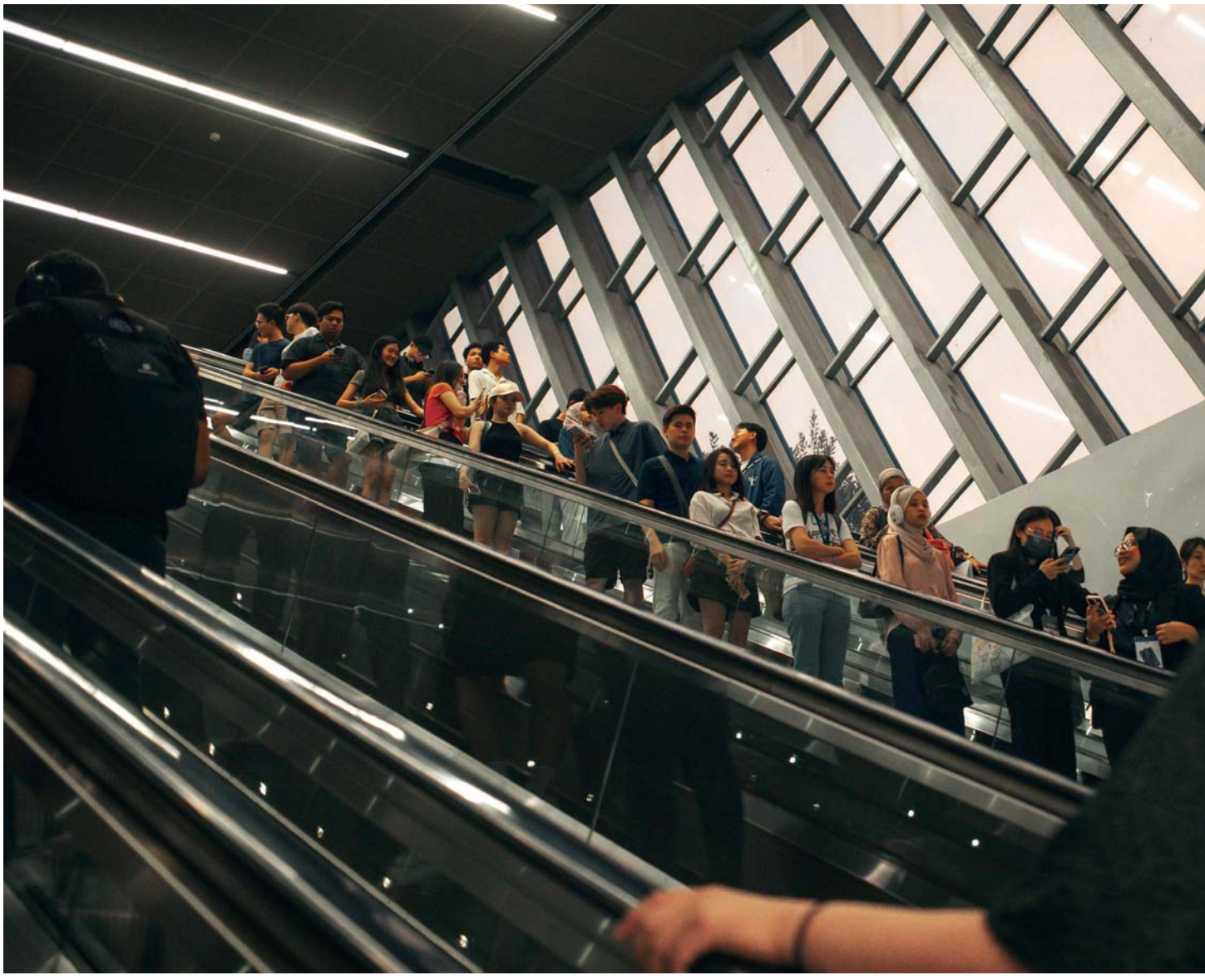
Second, we need a dedicated Political Financing Act. As long as this remains opaque, corruption will thrive. Clear political financing rules would go far towards enhancing good governance alongside the recently passed Government Procurement Act and proposed Freedom of Information Act. Even Indonesia's asset declaration system allows the public to truly scrutinise officials' wealth. In 2026, Malaysia cannot afford to be behind.

Winning the narrative

For too long, the Madani government's communications strategy has relied heavily on the charismatic personality of the prime minister. However, this is not sustainable. A government cannot run indefinitely on the stamina of a 79-year-old man.

We need to decentralise the government's "persona". Every agency and ministry must build its own bridge to the public by finding a voice that resonates beyond dreary press conferences.

Fortunately, there is a gold standard: KPDN Melaka (Ministry of Domestic Trade and Cost of Living, Melaka branch). With over 1.1 million followers on TikTok, it seems to have cracked the code with content that is educational, engaging and human. Its viral clips work because people see enforcement happening, such as officers raiding warehouses and checking scales, rather than merely hearing that it was done.



Trust-building by design

Trust will be the government's most scarce resource in 2026, especially as reforms become more complex and personally felt. When the rakyat do not understand a policy, they assume the worst. The information vacuum gets filled fast by cynicism, disinformation and political opportunism.

Therefore, the fix in 2026 cannot be just "more postings". It must be a listening-and-response system. This means every government communications apparatus needs three things: a plain-language explainer on who is affected and what are the changes; visible proof of implementation through updates and timelines; and a feedback loop with an actual service standard where complaints are acknowledged and corrected.

2026 will be the year of the youth. By the next general election, it is estimated that more than two million new eligible voters will have entered the electorate — a demographic tsunami that no party can ignore

At the same time, the government must avoid confusing social media noise for national sentiment. TikTok and X are powerful, but they are not Malaysia. A serious strategy triangulates online engagement, on-the-ground feedback, and data from service delivery because the rakyat's truth is often found in queues, clinics and district offices, not just comment sections.

And nowhere is that signal more complex, or the disconnect more dangerous, than with the demographic that lives entirely within this digital landscape: the youth.

The youth, AI and the 'vibe check'

This will be the year of the youth. By the next general election, it is estimated that more than two million new eligible voters will have entered



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the electorate — a demographic tsunami that no party can ignore.

If the last decade taught us anything, it is that the youth are very much engaged with politics and nation-building. They are however disengaged from institutions that feel distant, slow and performative. Malaysian youth's politics are now mediated by algorithms. They encounter politicians not through manifestos, but through those who can earn attention on TikTok, Instagram and short-form videos.

This changes the rules of persuasion: the loudest clip often travels farther than the best policy.

Structurally sound policies like Progressive Wage (Dasar Gaji Progresif) and minimum wage increase must not only be communicated effectively as a "Madani Economy" upside but also shown to be translated into higher disposable incomes for the gig worker in Bangsar and Kampung Kerinchi to the fresh graduate in Kota Bharu, less they risk remain sloganeering.

Furthermore, economic anxiety creates a security vulnerability. We are walking into a minefield of "rage bait" — fittingly, the Oxford Word of the Year 2025.

In 2026, the danger is artificial intelligence (AI)-generated content optimised to trigger immediate, visceral anger — potentially backed by political and non-state actors. While the government has implemented necessary licensing for social media platforms, banning our way to safety is a slippery slope for expressive freedoms.

Hence, cognitive security must be treated as seriously as physical security and a national concern. Failure to secure the youth's economic future while leaving their digital feed exposed to manufactured hate risks a democracy that drowns in hallucinated controversies while the real issues go unsolved.

The choice is clear

The urgency for these internal reforms is driven by a predatory global order — from the US-Venezuela standoff to the Saudi-United Arab Emirates rivalry. In this fracturing world, Malaysia cannot just survive; we must compete.





Prime Minister Anwar Ibrahim's ship has stabilised, but 2026 demands more. As Nobel laureates Daron Acemoglu and James Robinson argue, institutions determine destiny. We must prove ours are "inclusive" and agile, not "extractive" and archaic.

Nearly a century ago, famed linguist Tan Sri Zainal Abidin Ahmad, or better known as Za'ba, wrote that a nation's rise requires a "revolution of attitude" (*perubahan sikap*). The plans are written. The budgets are approved. The stability is secured.

Now, we just need the execution. ●

Danial Rahman (above) is CEO and Anas Hayyan is senior analyst at the Asian Strategy and Leadership Institute

Germany approves €50 bil in military purchases

Bundestag signs off record number of contracts, including a €21 bil order for soldiers' protective equipment

BY LAURA PITEL

GERMANY'S PARLIAMENT SIGNED off on €50 billion in military purchases on Dec 17, 2025, rounding off a bumper year as the European Union's (EU) largest nation ploughed ahead with a vast rearmament.

Members of the Bundestag's budget committee, which has the power to block or approve all significant weapons purchases, were asked by officials to approve the projects including a €21 billion multiyear order for clothing and protective equipment for soldiers, according to documents seen by the *Financial Times*.

Other contracts included a €4 billion deal for Puma infantry fighting vehicles and close to €2 billion for satellite systems aimed at boosting European reconnaissance capabilities on Nato's eastern flank.

Speaking after the committee meeting, Defence Minister Boris Pistorius said: "We mean it when we say that we will equip our Bundeswehr so that it is strong and capable of sustained operations — and that we will do it as quickly as possible. And we mean it when we repeatedly tell our citizens and our allies that we are taking responsibility and that we can be relied upon."

Christian Mölling, director of the Berlin-based think-tank Edina, said the mantra of German procurement was "get whatever you can by 2029" — the year officials in Berlin believe that Russia could be ready and willing to attack Nato.

The high outlay comes as items big and small — from new uniforms to a multibillion-dollar set of Arrow 3 missile systems from Israel — have begun to reach Germany's troops after decades of underfunding and neglect.

The EU's largest nation spent as little as 1% of GDP on defence in the 2000s and 2010s.

Russia's full-scale invasion of Ukraine in 2022 prompted the then German chancellor Olaf Scholz to proclaim a "Zeitenwende" — a sea change — in the nation's approach to security and defence. He unveiled a €100 billion special fund for overhauling the military.

Scholz's successor, Friedrich Merz, went further after taking office in May. He did away with borrowing constraints to allow unlimited spending on defence and vowed that he would make the German military the strongest conventional army in Europe.

Germany plans to spend €650 billion in total on defence between 2025 and 2030 — double the budget of the preceding five years. While the budget for 2025 and 2026 has already been approved by parliament, the Bundestag's budget committee must still sign off on every procurement contract worth more than €25 million, with the payments due to come out of successive budgets in the years ahead.

Berlin has made a long list of big-ticket purchases since 2022. They include a tranche of 35 US-made F-35 fighter jets that can carry American nuclear weapons stored on German soil and 20 more Eurofighter Typhoons.

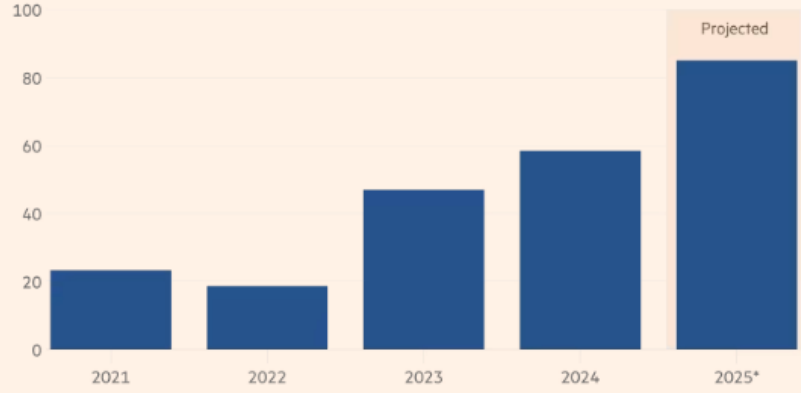
It has ordered US-made Patriot and German-made IRIS-T air defence systems, more than 100 modern Leopard 2A8 tanks, 60 Chinook heavy-lift helicopters, plus a raft of new warships and submarines and billions of euros' worth of ammunition.

The huge number of contracts signed in 2025 comes as Pistorius has strived to dramatically speed up Germany's notoriously sluggish defence procurement system. Parliament has been one of many bottlenecks, but officials are proud of having sped up the rate of approval from 46 projects in 2021 to a record 103 last year.

The spree has prompted intense debates within the defence industry, with tensions over how much

German spending on weapons and equipment has surged

Total value of defence projects approved by the Bundestag (€ bil)



*Includes €33bn in approvals to date and more than €50bn in expected future approvals.

SOURCES: GERMAN DEFENCE MINISTRY, FT RESEARCH



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A German Air Force Eurofighter Typhoon jet during an air display at the Paris Air Show in Paris, France... Germany is stepping up its defence spending before 2029, the year it believes Russia could be ready and willing to attack.

equipment should be bought from US arms makers versus European ones, and how much should be spent on "conventional" weapons such as tanks rather than on novel technologies such as drones.

German procurement officials have said they are prioritising filling Nato's capability gaps, focusing on air defence as well as offensive capabilities such as precision missiles that could strike deep into Russian territory.

"In the end I would like to defeat my enemy before he crosses my border," senior defence ministry official Carsten Stawitzki told a conference in Berlin in November.

Stawitzki argued he was "not a dinosaur" and understood the importance of supporting innovation by buying newer technologies. But he also pushed back at those from the start-up world who say that Ukraine shows that Nato must prioritise drone warfare. "Ukraine is not a blueprint," Stawitzki said, arguing that Kyiv had been forced to buy a high number of drones because it lacked the conventional capabilities of many Nato armies.

Frank Sauer, head of research at the Metis Institute at the Bundeswehr University Munich, said that Germany undoubtedly needed tanks, artillery pieces, infantry fighting vehicles and other "legacy" weapons.

But he added: "The question is how much do I need of each item, and what can I get in which timeframe? At the moment I would definitely be putting an especially strong emphasis on everything that is cheap…and available."

Sauer voiced concern about the slow pace of delivery of many traditional weapons. Germany's first operational F35s are not expected until the second half of 2027, while its new submarines are due to be delivered in the early 2030s. The order for Leopard 2A8 tanks, which are made by KNDS and Rheinmetall, will not be complete until 2030. The country's first P-8 Poseidon maritime patrol aircraft was delivered by Boeing in October, four years after it was ordered.

The Bundeswehr is planning to buy up to 12,000 armed drones for around €1 billion with delivery to start as early as this year. But that sum represents a tiny fraction of the overall spending.

"If there is a war with Russia — and I hope it never comes to that — it will not look exactly the way it looks in Ukraine," Sauer said. "But it will also not look the way that people in Berlin and Brussels envisage. If the Russians make us fight the way they want to fight, then we're in deep trouble."

Germany's rearmament comes against the backdrop of increasing uncertainty about future US support for Europe and whether Washington will retain its 90,000 troops stationed on the continent.

Pistorius also faces challenges over recruiting enough personnel as he seeks to boost the size of the professional army from around 184,000 today to 260,000 by 2035.

At the same time, he is grappling with several high-profile procurement projects that have been plagued by delays and rising costs, including a €20 billion project to digitise the army's communications and a multibillion contract to build anti-submarine frigates. ● *FT*



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The long wait of María Corina Machado

Venezuela's opposition leader weighs when to return — and whether to mobilise her supporters

BY MICHAEL STOTT AND ANDRES SCHIPANI

A resident holds an image of the faces of Venezuelan opposition leader Maria Corina Machado and Edmundo González during a celebration in Santiago, Chile ... President Nicolas Maduro has been charged in the US after he was captured and flown out of Venezuela.

WITH NICOLÁS MADURO suddenly deposed, this should be María Corina Machado's moment.

But Venezuela's main opposition leader, out of public view abroad, faces difficult choices after the US seized Maduro to face trial — when to return to her homeland and whether to call her supporters onto the streets to press for wholesale regime change.

Machado has ridden a roller coaster over the past month, going from the glory of being awarded a Nobel Peace Prize in Oslo in December to receiving a public humiliation from US President Donald Trump at a news conference on Jan 3, where he said she lacked the support or respect needed in Venezuela to be a leader.

Many of Machado's supporters were dismayed by Trump's snub and his apparent willingness to work, at least on a temporary basis, with Maduro's deputy Delcy Rodríguez, who is now Venezuela's acting president.

But if Machado was alarmed by those developments, she has not shown it.

Since the dramatic US military operation on Jan 3, the opposition leader has mostly kept a low public profile. In a brief interview on Jan 5 with Fox News, she said she had not spoken to Trump since last October but thanked him for his "courageous vision" and "historic actions". She vowed to return to Venezuela "as soon as possible". Her spokesperson declined several requests for a conversation.

On Jan 5, she posted a message on X thanking Trump "for his firmness and determination in carrying out the law", saying "the freedom of Venezuela is very close", but avoiding mentioning her own future.

Allies of the 58-year-old politician, nicknamed the "Iron Lady" by some, insist she is not despondent and is maintaining contacts built up over a long period with the Trump administration. She is biding her time, awaiting the right moment to return to Venezuela and claim the crown she believes is hers.

"She has faced obstacles like this during her entire political career," said one person who is in regular contact with her. "But whenever she hits a wall, María Corina has survived by finding a way around it. She has done that 15 times already."

By far Venezuela's most popular politician, Machado won a sweeping victory in an opposition primary in 2023, but Maduro banned her from running in the presidential election the following year.

She named a retired diplomat, Edmundo González, in her place but his landslide win at the ballot box, evidenced by polling station tallies, was ignored by Maduro. Instead, the president claimed he was the victor, without producing evidence.

A pro-American free marketeer, Machado is popular among Venezuelans because she has never compromised on her aim of bringing freedom to her country by negotiating with the regime, as with so many other opposition politicians. That same steeliness and closeness to Washington is what makes her unpalatable to the ruling Chavistas, who fear they will end up in jail under a Machado administration.

Less clear are Trump's intentions towards Machado. Former US officials say he was disappointed when his bet on then Venezuelan opposition leader Juan Guaidó to unseat Maduro failed during his first administration, and he is reluctant to wager heavily again on the opposition.

Despite her public praise of him, the US president has not met Machado and has rarely spoken about her or mentioned fresh elections in Venezuela. Instead, he has stressed the need to open up the oil industry and to crack down on drug trafficking.

Some influential US investors in Venezuelan debt and oil industry players also want to see Machado kept out of any Trump plan for the South American nation, viewing her as too radical. They prefer what they see as the safer option of working with Rodríguez to make quick profits and have lobbied in Washington for this option.

"The US wants results, not people who talk," said one person involved in dealmaking with the Venezuelan government. "Can María Corina deliver? No, she can't."

Machado's team rejects such talk, saying that unless Venezuela is stable, democratic and respects the rule of law, it will not succeed in attracting the massive amounts of capital needed to rebuild its shattered oil production and fully exploit the world's largest reserves of crude.

But in the wake of Maduro's ousting, the situation inside Venezuela is far from stable. It remains unclear, diplomats and analysts say, whether Rodríguez would be able to consolidate her authority and maintain order in an increasingly tense and nervous country.

Gangs of armed government supporters have been distributing weapons in poorer neighbourhoods in a move apparently aimed at bolstering the regime's defences against any attempted uprising.

Any move by Machado to return home would be fraught with peril. She was extracted from a secret hiding place in Venezuela to Oslo for the peace prize ceremony in a covert operation with US support that involved wearing a disguise and making a perilous small-boat journey.

With the regime on high alert after Maduro's capture, her return could be more dangerous.

"With so many weapons being distributed, the situation is like a tinderbox," said one senior executive in Caracas. "It would be a big mistake to bring back María Corina now. If she appeared in the streets, it could set the country ablaze and start a civil war."

Instead, he argued, it was better for her to await an orderly transition to fresh elections.

Marco Rubio, US secretary of state, suggested in interviews on Jan 4 that Rodríguez's interim rule would give way to a democratic transition, saying it was not realistic to expect fresh elections to be held quickly in Venezuela.

One person close to Machado said she was ready to be patient. "She's been in the fight for decades — she can wait a few more months, even a couple of years, if need be."

Others in the opposition appear less so. Leopoldo López, another opposition leader in exile in Madrid, Spain, after escaping from Venezuela, said one of the first steps would be for the regime to "free the political prisoners, stop repression against dissidents" and allow the return of political exiles.

"Maduro is out of Venezuela and facing justice for his crimes," he said. "The transition has already started; it won't be overnight but it has already started and it has to be a transition to democracy." ● *FT*



REUTERS

A member of the militia group known as 'colectivos' takes part in a march in Caracas, Venezuela, calling for the release of Nicolás Maduro

Leftwinger wins race to lead Britain's largest trade union

Andrea Egan defeats incumbent Christina McAnea, an ally of Keir Starmer

BY JIM PICKARD AND DELPHINE STRAUSS

MEMBERS OF UNISON, Britain's biggest union, have chosen as their new leader a leftwinger who was thrown out of the Labour party — creating a another problem for Prime Minister Sir Keir Starmer.

Andrea Egan, who won by 60% to 40% against former leader and Starmer ally Christina McAnea, has vowed to take a more confrontational approach towards the government as Unison's general secretary.

She has promised a "comprehensive review of our relationship with Labour to ensure we get value for money", although allies of McAnea have questioned whether that is possible under the union's rules.

Egan, a long-standing union steward, had criticised McAnea for having a "subservient approach to the Labour government" rather than prioritising the interests of Unison's more than 1.3 million members.

Under McAnea, Unison intervened to support Starmer on several occasions, including helping him change Labour's leadership rules to disadvantage left-wing candidates.

On Dec 17, 2025, Egan said she would fight against the government's "chronic underfunding, low pay and outsourcing" of the UK's public services. Unison represents workers in education, local government, the NHS, police service and energy sector.

"This result means ordinary Unison members are at long last taking charge of our union. We will put faith in members' decisions and stand up to any employer, politician or cabinet minister who acts against our interests," she said.

"Together, we will turn Unison into the remarkable force for change it should be. That journey has begun today."

Britain's ruling Labour party is heavily dependent on the trade unions for millions of pounds of donations. But Egan's victory means two of the three biggest unions are now run by openly hostile leftwingers critical of Starmer's administration.

Sharon Graham, general secretary of Unite the Union, has attacked Labour for diluting its employment rights bill, for trying to cut benefits, for letting oil refineries close and for allowing the cost of living crisis to continue.

Egan's Labour membership was terminated in November 2022 because she had shared two articles on social media from a Marxist group proscribed by the party.

She is an ally of John McDonnell, the Marxist former shadow chancellor, and has spoken warmly about former Labour leader Jeremy Corbyn's new hard-left Your Party movement.

Egan will begin her five-year term on Jan 22. Only 7.5% of Unison's total membership took part in the leadership ballot. ● *FT*



ANDREA4GS

Egan was thrown out of the Labour party three years ago for sharing articles from a Marxist group on social media

Capital meets execution: Advancing China-Malaysia cross-border deals

By Alan Inn, country head of CGS International Securities Malaysia

THE TRAJECTORY OF China-Malaysia economic ties is entering a new phase, one increasingly defined not just by trade and investment flows, but by deeper capital market integration. For corporates and institutional investors, this shift presents a timely opportunity to rethink how cross-border capital can be structured, mobilised and scaled across Asean.

China today is one of the world's most significant exporters of capital. Based on China's 2024 Statistical Bulletin on Outward Foreign Direct Investment Outbound, its direct investment reached US$192 billion in 2024, with Asean emerging as a key beneficiary. Manufacturing-led investments, particularly in green energy, advanced manufacturing and technology-intensive sectors, are no longer purely operational plays. They are increasingly accompanied by localisation strategies, regional headquarters and longer-term capital planning. This naturally creates demand for regional fundraising, balance sheet optimisation and access to diversified investor pools.

Malaysia is well positioned to meet this demand. Its capital market has matured into a resilient, rules-based ecosystem with strong regulatory oversight, credible governance standards and a broad institutional investor base. Bursa Malaysia's depth — spanning more than 1,100 listed issuers and over RM2 trillion in market capitalisation — offers multiple listing and fundraising pathways that can accommodate companies at different stages of growth. For Chinese-funded enterprises looking beyond a single-market strategy, Malaysia can function as both a regional platform and a capital markets gateway into Southeast Asia.



At the same time, China's own capital market reforms are lowering friction for cross-border participation. Streamlined access for foreign institutions, enhanced investor protection measures and deeper connectivity mechanisms are improving transparency and efficiency. These parallel developments on both sides point to a clear conclusion: the structural conditions for closer capital market collaboration are already in place.

What remains critical is execution. Cross-border transactions are rarely constrained by capital alone; they are shaped by readiness, regulatory navigation and the ability to align stakeholder expectations across jurisdictions. Issuers must meet governance and disclosure standards that global investors demand, while investors require clarity, consistency and credible intermediaries who understand both markets.

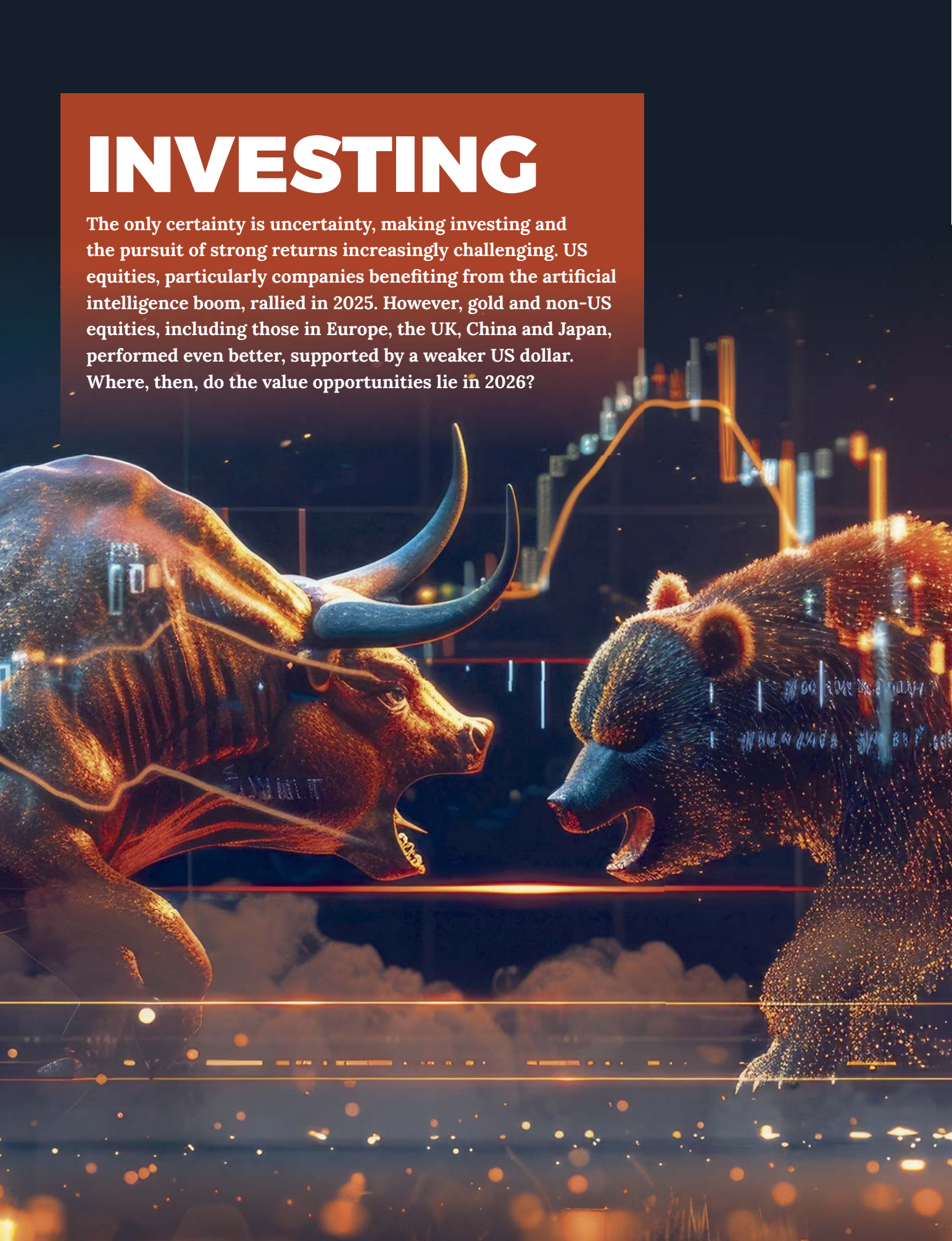
This is where experienced financial intermediaries play a decisive role. Effective cross-border capital formation depends on advisers who can integrate financial structuring, legal considerations and market positioning into a coherent strategy. Whether through initial public offerings (IPOs), mergers and acquisitions, private placements or joint ventures, the ability to translate corporate ambition into investable propositions is what ultimately unlocks value.

CGS International Securities Malaysia (CGS MY) brings this capability to the fore. With strong roots in China, Malaysia and the broader Asian markets, CGS MY operates at the intersection of capital, regulation and strategy. Its investment banking services and advisory platform is designed to support companies and investors navigating cross-border growth, from early-stage structuring to execution in public and private markets. Just as importantly, we understand that successful capital market outcomes are built on trust, long-term partnerships and a deep appreciation of local market dynamics.

As China and Malaysia look towards a new chapter of economic cooperation, capital markets will play an increasingly central role. For corporates seeking regional expansion and for institutional investors searching for scalable, well-governed opportunities, the message is clear: the bridge between China and Asean is strengthening. Those who engage early and with the right partners stand to capture sustainable growth and long-term strategic advantage.

INVESTING

The only certainty is uncertainty, making investing and the pursuit of strong returns increasingly challenging. US equities, particularly companies benefiting from the artificial intelligence boom, rallied in 2025. However, gold and non-US equities, including those in Europe, the UK, China and Japan, performed even better, supported by a weaker US dollar. Where, then, do the value opportunities lie in 2026?



NAVIGATING NEW OPPORTUNITIES AMID SHIFTING DYNAMICS

BY STEPHEN DOVER

IN 2026, WE foresee broadening opportunities across global capital markets, driven by attractive profit growth outside the US and by global monetary policy easing. Yield curves look poised to steepen, and the US dollar will remain weak. We believe emerging debt and equity markets, European equities and US smaller-capitalisation stocks should lead the way in 2026. Still, US equity returns, including in the leading IT sector, should remain solid, in our view. Within private markets, commercial real estate debt, infrastructure and secondary offerings of private equity are our preferred areas.

Longer term, the key driver of returns remains innovation, above all in the IT sector, private investments and digital finance. All that said, we think a health warning is in order. We have entered an era of big and intrusive government, which risks lowering returns and increasing risk across capital markets over the remainder of this decade.

2026 cyclical themes: Broadening, steepening and weakening

We encapsulate our 2026 (cyclical) investment analysis into three themes. "Broadening" reflects our conviction that investment opportunities across regions and asset classes are expanding. "Steepening" refers to yield curves, where falling short-term interest rates will incentivise investors to move out of cash holdings and into risk assets. "Weakening" regards the US dollar, which bodes well for emerging debt and equity markets.

1 Broadening: Beyond US exceptionalism

US outperformance has dominated investment returns in recent years — colloquially referred to as US exceptionalism. Since the global financial crisis (2008 to 2009), risk-adjusted US equity and fixed income returns have trounced those of other countries and regions. The US remains a magnet for global investment flows and its corporate and market fundamentals remain superb. However, the global investment landscape is evolving.

Changes are primarily about new opportunities based on improving profitability and more attractive valuations in sectors and regions that so far have underperformed. Within the US equity market, the earnings outlook has brightened for small-capitalisation stocks, industrials and financials. Small-cap stocks and industrials will see profitability rise as the US Federal Reserve (Fed) trims interest rates and debt servicing costs fall. Financials should benefit from a steeper yield curve, improving net interest margin and innovations in capital markets.

The implication is that US equity market performance can broaden sustainably away from the leadership of large capitalisation growth, technology and artificial intelligence (AI) companies. Similarly, prospects are brightening outside the US. Over the next 12 months, earnings growth is expected to be as high in emerging markets as in the US. Even Europe may participate, nudged ahead by both monetary and fiscal easing, paving the way for an upturn in the European growth and earnings cycles in 2026.

Our broadening thesis extends beyond equities. As US short-term interest rates fall, investors will be confronted with rollover risk in their money market holdings. Accordingly, we anticipate that many will shift from cash into fixed income with exposure to duration or credit returns. A key beneficiary will be emerging market debt, sovereign and corporate, local as well as hard currency denominated. An appreciation of emerging currencies against weakening US dollar lowers import prices and hence overall inflation, allowing emerging central banks to ease further over the coming year.

We believe emerging debt and equity markets, European equities and US smaller-capitalisation stocks should lead the way in 2026.

2 Steepening: The yield curve evolution

In September 2025, the Fed resumed cutting rates. The Fed is expected to continue easing into the first half of 2026, perhaps for longer. It joins other central banks that have already cut rates, such as the European Central Bank (ECB), and those whose rate-cutting cycles are likely to continue, such as in many emerging economies. For the Fed, easing comes at an awkward time,

as its preferred core inflation gauge remains stubbornly above target and will tick higher as tariff costs pass-through.

Partly for that reason, the US Treasury yield curve is likely to steepen as the Fed cuts short rates, with long rates only grudgingly following. We think two additional factors will contribute to steeper yield curves globally. The first is the tremendous demand for capital to fund surging investment in innovation, above all in AI and the energy infrastructure it requires. The second is the arrival of massive new government borrowing in the US, Germany, the European Union, China and perhaps Japan.

For investors sitting on large cash balances, falling short-term interest rates pose rollover risk. At the same time, gargantuan needs to finance private investment and public borrowing will tend to push up real interest rates, particularly at longer durations and in the credit arena. That creates income opportunities further along the duration and credit curves. Other potential beneficiaries of steeper yield curves include cyclically sensitive sectors and styles such as industrials, financials or small-cap firms. Falling cash yields should also prompt investors to move into alternative assets, including private credit and private real estate.

Long gone is the era of unbridled faith in free markets, deregulation, small government, globalisation and fiscal orthodoxy. We have entered a period with a larger role for government in trade, fiscal and industrial policy. Globalisation is over.

3 Weakening: The declining US dollar

Shifting global portfolio flows, reflecting more attractive opportunities outside the US, should contribute to dollar weakness. This has important implications for investors. Emerging market debt denominated in local currency is a potential winner, reinforced by the likelihood that emerging market currency appreciation will allow emerging central banks to ease further. Similarly, a weaker dollar could nudge eurozone inflation below target, prompting further rate cuts from the ECB. Lower eurozone rates would provide additional support for European equity and credit markets. A softer dollar also tends to push up the dollar price of many commodities, including gold and other precious metals.

Long-term secular outlook: 2026 and beyond

The age of intelligence

We live in an era of AI. The deployment of AI is only in its initial phase, and its contribution to growth and investment returns is just beginning. Promising investment opportunities remain in the build-out of its infrastructure, including data centres. Of all the investible themes associated with AI, one of the most compelling is the need to "feed the beast" to sate its vast energy appetite. New investment will be required in electricity production, transmission and storage. AI will also transform economy-wide efficiency, particularly in low-productivity sectors such as healthcare, education and public services.

Private markets go mainstream

Today, private equity, private credit and other "alternatives" are on the cusp of going mainstream. In the coming years, fund innovation, regulatory changes and the application of IT will hasten the mainstreaming of private investments. Governments and industry leaders are in discussions about the eligibility of such assets for individual portfolios, potentially even for self-directed retirement accounts. Mainstreaming creates opportunities for a larger number of savers to partake in sources of higher and more diversified returns. Finally, it implies larger inflows of capital, which means that, over time, average returns will likely be falling.

An era of big government

Long gone is the era of unbridled faith in free markets, deregulation, small government, globalisation and fiscal orthodoxy. We have entered a period with a larger role for government in trade, fiscal and industrial policy. Globalisation is over. Brexit and US tariffs are manifestations of the backlash against trade and migration. Reversing globalisation is not costless; it implies a less-efficient allocation of resources, which increases costs and lowers returns on capital. Regionalisation is the likely successor, centred on major trading blocs: North America, Europe and Asia.

The next manifestation is large fiscal deficits. Swelling budget deficits are visible across the US, Western Europe and China. Today's fiscal imbalances compete with surging private sector investment in AI and energy infrastructure. This represents compounded demand for



REUTERS

The New York Stock Exchange ... The coming year could see a broadening of investment opportunities, driven by global growth in profits and monetary policy easing

savings, likely resulting in higher real interest rates for the remainder of this decade. Higher real rates raise the bar for returns across all asset classes; if higher returns on capital do not follow, the result will be falling equity valuations.

The final dimension is industrial policy. The US and China stand side by side as major adopters of subsidies for healthcare, alternative energy, electric vehicles or computer chip manufacturing. While promoting strategic industries can be profitable in specific instances, the broader history suggests that free markets generally allocate capital best. Industrial policy represents a risk of falling returns on capital due to excess investment.

Risks and strategy

With respect to our cyclical calls for "broadening, steepening and weakening", a primary risk is that the Fed does not ease policy as expected. A pause in the Fed's rate-cutting cycle would probably flatten the US Treasury yield curve and boost the value of the US dollar. Those twin outcomes could inhibit some of the broadening opportunities we envisage. Geopolitical shocks, including shocks to global energy supplies, would similarly alter the outlook by introducing unanticipated risk premia.

A broader range of opportunities

Over the coming year, we anticipate a broadening of investment opportunities, driven by global growth in profits and monetary policy easing. We expect yield curves will steepen and the US dollar will remain weak. The likely winners include emerging markets, European equities and more cyclically exposed US equities, such as smaller-cap stocks. Returns in the US IT sector will likely remain solid. Within private markets, we prefer real estate debt, infrastructure plays and secondary offerings of private equity. Above all, we must recognise that an era of big and intrusive government has arrived. Vigilance remains warranted. ●



Stephen Dover is chief market strategist at Franklin Templeton and head of Franklin Templeton Institute



REUTERS

Asia is poised to enter 2026 with broadly supportive market conditions underpinned by lower US interest rates and a softer US dollar

US RESILIENT, BUT NO LONGER UNQUESTIONED

BY LIM CHIA WEI

US EQUITY MARKETS showed remarkable resilience in 2025, navigating a complex mix of trade policy uncertainty and shifting rate expectations. Despite these headwinds, US equities have held firm.

Looking into 2026, we expect US equities to remain on a steady growth trajectory, albeit more modestly. The first pillar supporting this view is monetary policy. The US Federal Reserve (Fed) has shifted towards easing and is now looking to expand its balance sheet by buying short-dated government bonds, officially ending its quantitative tightening (QT) programme. We expect up to two rate cuts in 2026, as easing financial conditions will help lower funding costs for both US corporates and households.

The second supportive factor is that the US economy appears to have moved past the most disruptive phase of the tariff shock. When President Donald Trump announced a series of aggressive tariff measures on Liberation Day, we saw US corporates delay investment decisions and consumers feeling the pinch through higher goods inflation.

However, clarity has improved over time. Companies have adjusted pricing strategies, diversified sourcing and restructured cost bases. Consumers, too, are gradually adapting. As a result, we expect US consumer spending to normalise in the second half of 2026, particularly as the drag from tariff-related price increases wanes. This normalisation, combined with easing monetary policy, should help stabilise growth momentum.

The third leg of support comes from fiscal policy. The One Big Beautiful Bill Act (OBBBA) will deliver additional tax relief to both corporates and consumers, while encouraging higher capital expenditure. The bill could support earnings through higher disposable income and stronger investment-led growth.

Taken together, easing monetary policy, diminishing tariff drag and renewed fiscal stimulus will drive US economic growth. However, we are only modestly positive on US equities. Valuations remain elevated particularly in parts of the US markets, leaving little room for negative surprises.

AI: Fundamentals will matter more

No discussion of the 2026 outlook would be complete without addressing artificial intelligence (AI), which dominated the market narrative in the past year. In our view, we are entering a phase where fundamentals will start to take precedence.

In the early stages of the AI rally, market

performance was broad and, at times, indiscriminate. Companies with tenuous cash flows or unclear business models still enjoyed strong share price gains, simply by virtue of AI association. That phase is now ending.

Companies with robust balance sheets, strong free cash flow and clear exposure to AI infrastructure demand are outperforming, while those with weaker fundamentals are struggling. This is a healthy development, in our view.

From a fundamental perspective, the AI story remains intact. Capital expenditure on AI infrastructure spanning semiconductors, data centres, power equipment and networking is still expected to grow by more than 30% in 2026. This implies continued strong earnings growth for companies along the AI value chain.

A key test for the sector will be the second- or third-quarter earnings season, where AI companies will provide guidance on the outlook for 2027. Markets are inherently forward-looking and any indication of moderating growth beyond that could trigger volatility.

We believe AI remains a long-term, multi-year growth theme. Risk management through diversification into non-AI sectors is necessary, however, as AI growth will not move in a straight line. Like semiconductor cycles, there can be AI down cycles.

Asia: Rotation may continue

Shifting our eyes to Asia, the region is poised to enter 2026 with broadly supportive market conditions underpinned by lower US interest rates and a softer US dollar. This rotation is already underway and, in our view, should continue over the near term.

The durability of this trend will hinge largely on the trajectory of the US dollar. Should the US economy reaccelerate in 2H2026, supported by fiscal stimulus and a normalisation in consumer spending, the US dollar could strengthen modestly.

Geopolitics also remains an important overlay for the region. US-China trade tensions are likely to remain a structural feature of global markets, but we expect clearer guard rails this time.

With US midterm elections approaching in 2026, the political incentive is shifting towards containing inflation and avoiding policies that could undermine growth or raise consumer prices.

This points to a greater willingness by the Trump administration to pursue more pragmatic trade arrangements, rather than risk renewed escalation. While periodic volatility remains possible, the likelihood of abrupt policy shocks appears lower, reducing tail risks for Asian markets.

Against this backdrop, Asia presents a range of differentiated opportunity sets. Within the region, we continue to favour AI-related semiconductor names in South Korea and Taiwan, where earnings momentum remains strong, supported by entrenched positions in the global AI supply chain and sustained capex spending. While valuations are on the high side, they are underpinned by clear earnings visibility and strategic importance within the technology ecosystem.

Beyond the AI theme, Singapore and Malaysia stand out for their political stability and steady, defensive growth profiles.

India could also emerge as a potential dark horse in 2026. After underperforming in 2025, owing partly to limited exposure to the AI theme, India could benefit from the lagged effects of multiple rate cuts delivered in 2025. Moreover, should global investors rotate away from crowded AI trades, India's domestically driven growth profile could gain traction and attract renewed interest from investors.

Supportive backdrop for Asian assets

Looking ahead, 2026 is unlikely to be a year of uniform market outcomes. Policy easing in the US provides a supportive backdrop, but elevated valuations and crowded positioning mean returns are likely to be more measured and uneven.

At the same time, structural themes such as AI will continue to offer long-term opportunity, albeit with sharper differentiation between winners and laggards as fundamentals take over.

A combination of lower global interest rates, a softer US dollar in the near term and clearer geopolitical guard rails is creating a more constructive setting for Asian assets. While fund flows into the region may not be linear, particularly if US growth reaccelerates, Asia could still attract interest as investors look beyond crowded markets in search of diversification. ●



Lim Chia Wei is associate director of equities at AHAM Asset Management



MDEC marks 30 years as Malaysia enters AI-driven growth phase

"Digital transformation has moved from reform to results. The world will not wait. We need to evolve faster, smarter and with greater intent."

Anuar Fariz Fadzil

AS THE MALAYSIA DIGITAL ECONOMY CORPORATION (MDEC) marks its 30th anniversary this year, the agency is sharpening its focus on execution and outcomes as Malaysia enters a more demanding phase of its digital and artificial intelligence journey.

MDEC CEO Anuar Fariz Fadzil says the milestone arrives at a pivotal point, as years of foundational work now need to translate into measurable gains in greater productivity, national competitiveness and value creation.

"When MDEC was established in 1996, the priority was to put Malaysia on the digital map," Anuar says. "That meant infrastructure, connectivity and basic digital capabilities. Today, the challenge is about translating those foundations into tangible national outcomes for the years and decades ahead."

Formed during the Multimedia Super Corridor (MSC) era, MDEC was among the earliest government-backed digital economy agencies in Asia. Over three decades, it has helped anchor foreign direct investment, supported the growth of Malaysian technology firms and contributed to frameworks that shaped national digital development.

What is less widely known is that MDEC's early contributions went beyond policy advocacy into the incubation of foundational digital systems. During the MSC years, the agency was instrumental in convening partners and seeding initiatives that supported Malaysia's push into smart identity, including smart card work such as MyKad, widely cited as the first national identity card to combine photo identification and fingerprint biometric data on a chip.

Malaysia's innovation in chip-based identity extended into travel documents too. In March 1998, Malaysia was widely reported as the first country to issue biometric passports incorporating a microchip, an early move that placed the country ahead of global adoption and helped set the direction for later e-passport standards.

MDEC's role in attracting and anchoring foreign direct investment has also been a defining pillar of its impact. One example is NTT DATA Malaysia, which has built a significant data centre presence in Malaysia and continues to expand, including a proposed hyperscale campus in Johor Bahru with a planned capacity of 290MW.

As stated by its managing director Henrick Choo (pictured below): "MDEC has been instrumental in shaping an environment where global investors like us can commit with confidence. From navigating the local ecosystem and regulatory landscape to aligning with Malaysia's national digital priorities, MDEC's support has enabled us to scale our operations here and position Malaysia as a strategic base to serve the wider region."



Anuar says such investments reflect sustained confidence in Malaysia's digital fundamentals, including talent availability, connectivity and regulatory clarity, and underscore MDEC's long-standing function as a facilitator that bridges global technology players with national priorities to

build long-term digital capacity.

Alongside foreign investment, MDEC has also supported the growth of local technology champions under its Malaysia Digital framework. Companies such as Carsome have scaled from local startups into regional players, while others including Vitrox, Exabytes and TNG Digital, which has achieved unicorn status, illustrate the breadth of Malaysian firms competing across advanced manufacturing, digital infrastructure and fintech. Anuar says the objective was to enable companies to move from early growth to scale through market access, ecosystem connectivity and policy alignment rather than trying to pick winners.

Beyond enterprise technology, MDEC has also supported the rise of globally recognised Malaysian digital intellectual property. A notable example is Upin & Ipin, developed by Les' Copaque Production, which has grown from a local animation project into an international franchise with reach across Southeast Asia, the Middle East and beyond. Such successes bring to life how Malaysia's digital economy extends beyond software and infrastructure into creative content, where storytelling, technology and export potential converge to create durable, globally competitive intellectual property.

The need to evolve faster, smarter and with greater intent

Rather than framing the anniversary as a retrospective, Anuar says MDEC is using the occasion as a checkpoint for the next decade, particularly as Malaysia accelerates towards its AI Nation 2030 ambition. The digital economy already contributes an estimated 25.5% to national GDP, with a target of reaching 30% by 2030, and he says progress now depends less on awareness-led programmes and more on disciplined and accelerated delivery across government, industry and talent pipelines.



Anuar (right) with Johor Chief Minister Datuk Onn Hafiz Ghazi. With the Johor-Singapore Special Economic Zone and Iskandar Animation and Games hub, the state is well-positioned to attract international investments and create high-value job opportunities for its people

"Digital transformation has moved from reform to results," Anuar says. "The world will not wait. We need to evolve faster, smarter and with greater intent."

Artificial intelligence sits at the centre of that push. Under AI Nation 2030, Anuar says MDEC's role is increasingly focused on operationalising national strategy together with the Digital Ministry and other agencies like the National AI Office, MyDIGITAL and other stakeholders, moving strategically from planning to delivery.

Following the RMK-13 announcement, Anuar says foundational work under the National AI Action Plan 2026 to 2030 has begun, including engagements with state governments to assess readiness for Regional AI Growth Zones ahead of full-scale implementation from 2026.

"These are not abstract discussions," he says. "They are about ensuring that the right infrastructure, skills and governance frameworks are in place before large-scale implementation begins from 2026."

He adds that MDEC is also expanding support for AI adoption among micro, small and medium enterprises, where readiness varies widely but the stakes are rising quickly. "For SMEs, digitalisation is no longer optional," he says. "It affects compliance, cost structures, access to markets and long-term survivability."

Beyond AI, Anuar says the infrastructure and governance foundations now being built will also determine Malaysia's ability to harness the next wave of technologies expected to shape the 2030s, including robotics, the Internet of Things, blockchain, quantum computing and spatial computing. "AI is the foundational layer," he says, adding that once data and compute are embedded across the economy, the conditions for new waves of innovation improve significantly.

The export numbers provide a useful snapshot of momentum. Just recently, MDEC reported RM6.8 billion in digital exports between 2024 and the first half of 2025, with RM4.2 billion generated in 2024 by 325 companies operating across 27 countries, followed by RM2.6 billion in the first half of 2025 supported by 350 companies in 39 markets. AI-enabled companies accounted for about half of total digital exports.

As MDEC turns 30, Anuar says the milestone underscores responsibility more than celebration. "The foundations are in place," he says. "What matters now is how we execute, collaborate and deliver long-term value for Malaysia and the *rakyat*."

Get ready for a spectacular IPO boom from the big beasts of Silicon Valley

SpaceX, OpenAI and Anthropic will break new ground — potentially with the scale of their losses

BY RICHARD WATERS

IT NORMALLY TAKES a lot more than three companies to create an initial public offering boom. But if those three companies are SpaceX, OpenAI and Anthropic, Wall Street may soon find itself in the middle of an IPO boom for the ages.

In one of the first clear signs that some of the most valuable private tech companies have set the wheels in motion to go public, the *Financial Times* in early December reported Anthropic had appointed lawyers to lay the groundwork. That puts it a step ahead of OpenAI, which is also considering an IPO. Reports in early December, first by Bloomberg, suggest Elon Musk's rocket company SpaceX is also gearing up to go public.

It's not hard to see why. Private equity investors have provided huge amounts of capital for these companies, but they have their limits. OpenAI raised US$41 billion of equity in 2024 and will need much more before turning a profit. SpaceX is reported to be planning to raise more than US$30 billion in an IPO.

They would fill a useful niche for public market investors. As pure-play model builders, OpenAI and Anthropic would provide a new way for Wall Street to bet on artificial intelligence. And SpaceX, which accounted for more than half of all rocket launches in 2024, would be unrivalled as a wager on the future space economy.

If all three go public at roughly the same time, it would be an extraordinary moment for Wall Street. The headline numbers would be head-spinning. SpaceX is hoping to be valued at US$800 billion in its latest private share sale, while Anthropic is targeting US$350 billion. OpenAI's most recent share sale was at US$500 billion.

Given that anyone investing now would be hoping for another big lift before IPO day, the eventual numbers, if all goes to plan, would be much larger still. Any one of these would put the previous record for a tech IPO — the valuation of more than US$230 billion Alibaba achieved in its 2014 debut — in the shade.

They might also break new ground with



BLOOMBERG

As pure-play model builders, OpenAI, led by Sam Altman, and Anthropic would provide a new way for Wall Street to bet on artificial intelligence



REUTERS

SpaceX's Starship lifts off during its fifth flight test in Boca Chica, Texas, US. The company is reportedly planning an IPO this year.

the scale of their losses and need to convince investors of the sustainability of their business models.

One indicator of the amount of red ink OpenAI is spilling has come from Microsoft, which put its share of the AI company's losses at US$4.1 billion in the latest quarter. Given that it owned about a third of the company, that suggests the ChatGPT maker as a whole may have lost roughly US$12 billion — a daunting figure, though one-off factors or other things may have inflated the number.

At the same time, though, the growth of OpenAI's business since the launch of ChatGPT has been nothing short of spectacular, and another year or 18 months could make a huge difference.

Its revenue has grown in rough proportion to its data-centre capacity, roughly tripling in each of the past two years, said a person familiar with its finances. With just under 2 gigawatts of capacity, it was ending 2024 with revenue at an annualised rate of US$20 billion. The company's plans call for capacity to jump to 6GW-6.5GW by the end of this year. It seems cautiously optimistic that the pattern will hold, putting the revenue run-rate at US$60 billion by the end of 2026, though a number of questions around the timing of its ability to monetise its new data centres may complicate the picture.

Even when they are willing to back lossmakers, though, public markets have a way of turning up the heat. Uber, the last big lossmaking tech company to list, faced intense pressure in its early years. It was not until after it reported its first operating profit years later that its shares finally found a sustainable level above the IPO price.

Then there is the question of governance. Wall Street has been open to tech companies that concentrate voting power in the hands of founders. It has less experience of groups whose missions might put them at odds with the interests of their shareholders.

A fundamental question hangs over the crop of mega-IPO candidates. Does OpenAI see ChatGPT and others as a way to fund its original mission, which was to make sure AI benefits all of humanity? Or is it a profit-maximising business that just happens to see helping humanity as a side-benefit?

A similar question hangs over SpaceX. If Musk's overriding goal is to get to Mars — the reason he said he set the company up — what kind of trade-offs might his company make between profitability and space exploration?

The stock market, though, has shown plenty of appetite for one Musk stock, lifting Tesla well above its possible value as a pure car company. Given the chance to invest in the dominant commercial rocket company, there is every reason to believe it would welcome a second. ● *FT*

Investors bet on Chinese companies powering global AI build-out

Companies such as battery maker CATL earn big margins on export sales despite US tariffs

BY WILLIAM SANDLUND



BLOOMBERG

A Contemporary Amperex Technology Co. (CATL) battery model

SHARES IN CHINESE makers of batteries, transformers and other equipment vital for the global build-out of artificial intelligence rocketed in 2025, as power-hungry data centres rush to secure alternatives to overstretched legacy grids.

Profits at Chinese companies such as CATL, the world's largest battery maker, and Sungrow, the world's second-largest supplier of integrated energy storage systems after Tesla, have soared on the back of domestic and foreign demand.

CATL's shares were up 45% as at Dec 16, 2024, with Sungrow shares up 130%. They are the two largest companies in the Shenzhen Stock Exchange's CSI New Energy index, which had risen 38% in 2025.

"Suddenly there's a scramble for this power equipment," said Brian Ho, an equity research analyst at Bernstein covering the global energy storage sector.

Neither Chinese company discloses US sales, but official data shows China accounts for the majority of US battery and energy storage system imports.

"China is not only powering China," said Matty Zhao, co-head of China equity strategy at BofA Global Research. "It's actually powering the US, Europe and the rest of the world."

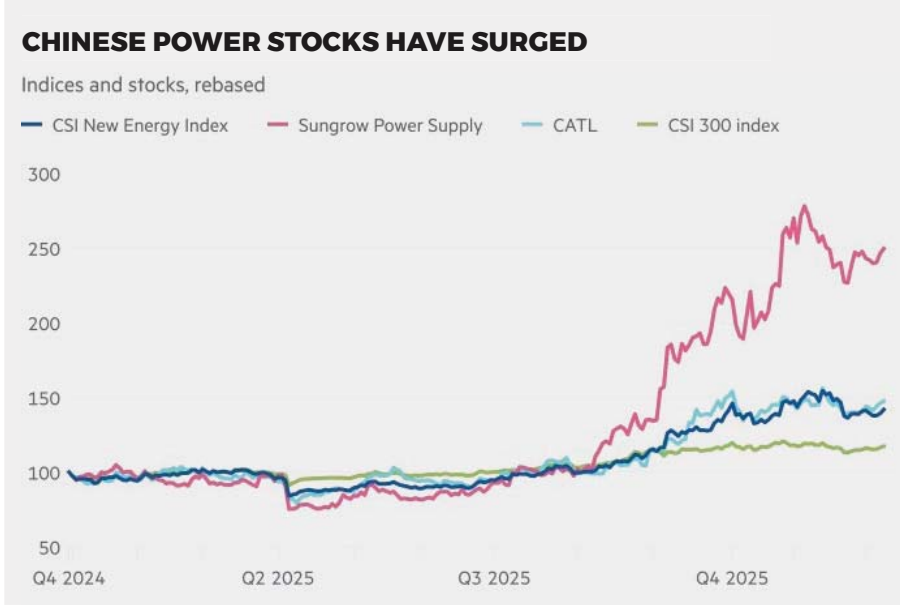
Despite US President Donald Trump's tariffs, it is export sales that are driving profits, as intense competition in China means companies can make bigger margins overseas, Zhao added.

For energy storage systems, which include batteries, DC to AC converters and other equipment, Zhao estimates that profit margins are three to five times greater for exports than for domestic sales. For transformers — vital in data centres to ensure each component gets the right power — sales domestically have 10% to 20% gross margins compared with 40% to 50% for sales to the US and Europe, she said.

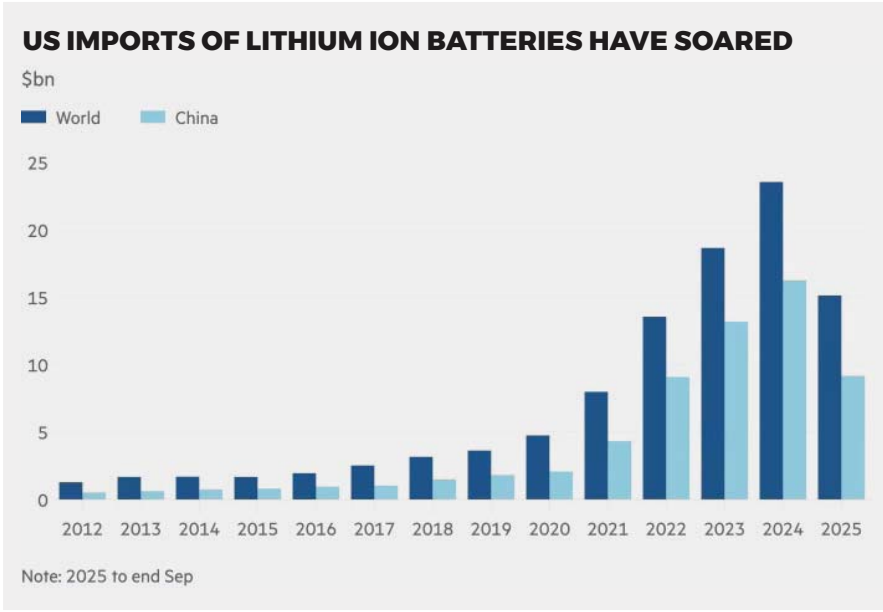
"They would rather continue to export and eat up the tariff," Zhao said.

The International Energy Agency forecasts that by 2030, data centres will consume 945 terawatt hours of electricity — more than a fifth of all the electricity currently generated annually in the US — up from about 415 terawatt hours in 2024. Legacy grids are already coming under strain.

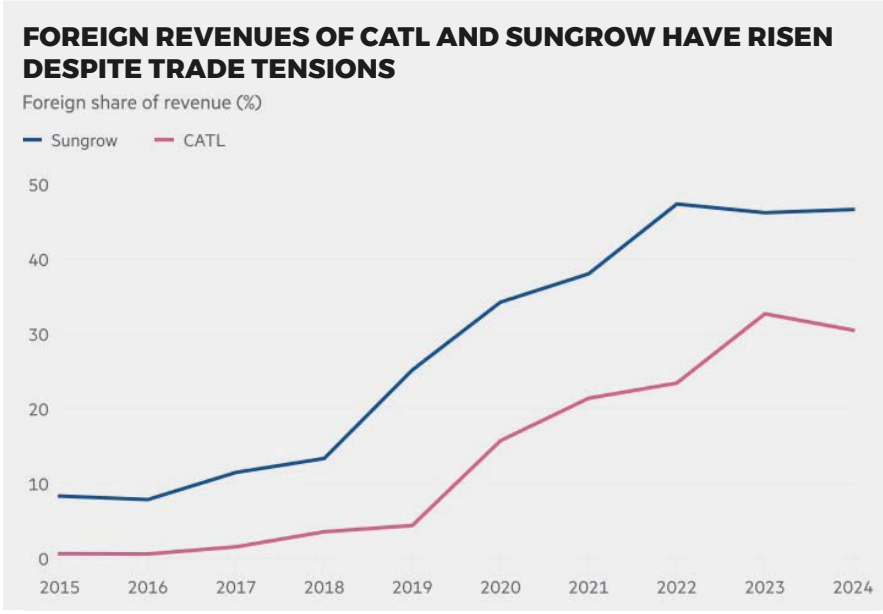
Companies building data centres are turning to banks of batteries and to "micro grids", which operate independently of conventional grids. The US Department of Energy notes that micro grids are growing



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US CENSUS BUREAU



quickly and will make up a "significant majority" of US distributed energy resources in the future.

In the first nine months of 2024, 60% of US lithium ion battery imports came from China, according to the US Census Bureau, up from 43% in 2020. The total value of such imports was US$15 billion in 2024 to September 2025, more than three times the value in the whole of 2020.

This comes in spite of US efforts to reduce the country's dependence on China amid warnings that it is leaving itself vulnerable to supply shocks. The Council on Foreign Relations, a US think-tank, said in an October report last year that the biggest threats to the US in its race with China to develop AI "stem from supply chains".

"China and the US have basically not decoupled," said Raymond Yeung, chief economist for greater China at ANZ. "They're a single economy of two different jurisdictions."

Yeung pointed to a "structural advantage" of Chinese manufacturers in the AI supply chain. For example, companies such as CATL are global leaders in producing lithium iron phosphate batteries, which are safer and have longer lifespans than alternatives.

"Despite all these tariffs and the decoupling, the demand for [lithium iron phosphate] batteries is strong," said Ho at Bernstein, adding that there are "just no other suppliers outside China".

Chinese companies also have the advantage of price and speed of delivery.

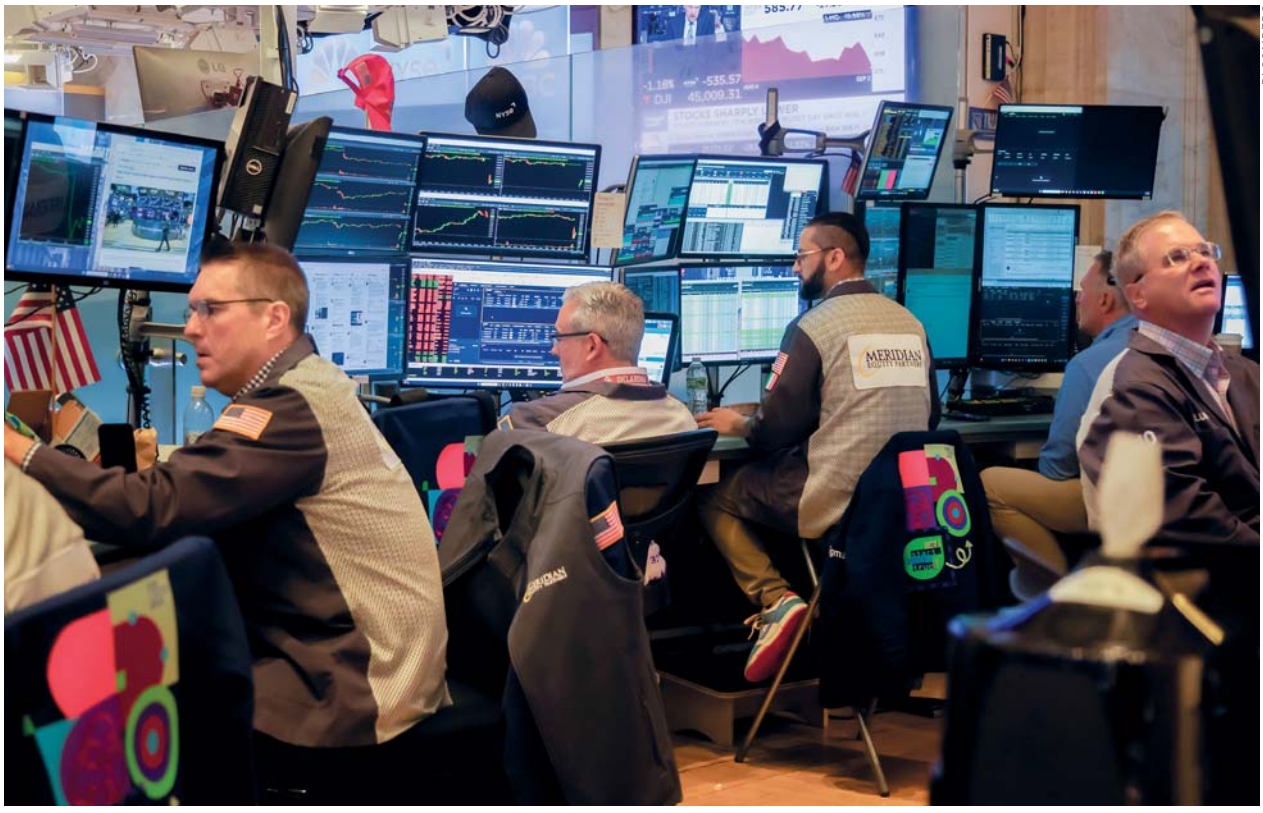
For transformers, for example, "If you buy from Korea you have to wait two to three years," said Zhao. "If you have to urgently build out your grid for a data centre, you cannot wait for two years."

Both CATL and Sungrow have seen foreign revenues surge since 2018, when Donald Trump first raised tariffs on Chinese goods, highlighting the global lack of alternative suppliers.

Power equipment and batteries are part of a broader and largely unacknowledged US dependence on Chinese inputs for AI. US data centre companies use optical transceivers — used to convert electrical signals into light, for transmission, and back again — from Chinese companies such as Zhongji Innolight, as well as printed circuit boards produced in China.

However, current trends may not continue. In 2026, the Trump administration plans to raise tariffs on Chinese batteries from 30.9% to 48.4% and to make it harder for equipment with high levels of Chinese content to get federal tax credits.

In a recent note, HSBC said that this year there had been "frontloaded installation in the US ahead of the implementation of the foreign entity of concern requirements on new [energy storage system] projects". ● *FT*



BLOOMBERG

The worried investor's guide to 2026

While markets were buoyant last year, volatility is never far away

BY GILLIAN TETT

WORRYING IS FOR wimps. If we have learnt nothing else in 2025, it's that the global economy, the companies inside it and the markets that reflect them are much more resilient than many of us predicted.

Tariffs? Whatever. Geopolitical alliances? Institutional integrity? Sure, sounds important. Despite all the challenges, and despite markets briefly falling off a cliff after Donald Trump's tariff announcement in April, stocks have mostly sailed higher, bonds are pretty well behaved and private assets have conspicuously not blown up. The consensus now is that the good vibes will last, and markets will blast through 2026 in rude health.

Nevertheless, fund managers are paid to consider risks. Some are impossible to predict or manage — think meteor strike, zombie apocalypse and the like. But some are more quantifiable.

A risk could be that excitable spending on AI may contribute to a revival in inflation

The obvious pot that could boil over is the artificial intelligence (AI) trade. Bumper tech revenues alongside massive spending on AI infrastructure mean stock outperformance is frothy, but not a mirage. What we do not yet know, however, is how deep and wide the moat around US Big Tech really is, whether China could catch up (the DeepSeek moment of January 2025 suggests that is possible), whether today's dominant companies will be tomorrow's (as Alphabet's challenge to Nvidia illustrates) and, in the long term, whether end consumers will pay enough for this technology to justify all the spending. The sheer size of Big Tech in investors' portfolios makes these questions dangerous to ignore.

Nvidia alone is still worth north of US$4 trillion, even after its share price setback in December. A dramatic pullback across the industry would leave a large mark on the wider US market, and a blast radius across global stocks. Nothing would be spared in a serious shock.

In its 2026 outlook, BlackRock underlines this point. "If the AI theme stumbles, the impact will likely dwarf any seeming diversification away from it," its team said. This is a big "if", but still. "Portfolios need a clear plan B and a readiness to pivot quickly."

Investors often tell me they are diversifying by bulking up in Asia or heading into energy infrastructure or tech-related resources to reduce direct exposure to chips. To me, this makes no sense, as these are all parts

THE OBVIOUS POT THAT COULD BOIL OVER IS THE ARTIFICIAL INTELLIGENCE TRADE. BUMPER TECH REVENUES ALONGSIDE MASSIVE SPENDING ON AI INFRASTRUCTURE MEAN STOCK OUTPERFORMANCE IS FROTHY, BUT NOT A MIRAGE.

of the same AI value chain. In a downturn, we would find out who is right.

The second big risk is that excitable spending on AI may contribute to a revival in inflation. Annual US consumer price inflation still stands at about 3%, and the Federal Reserve's preferred measure is also comfortably above target. Investors are broadly assuming that inflation will keep drifting lower, allowing the US central bank to cut interest rates at least once more in 2026. But some suspect tariff-led inflation is still lurking.

Then what? Market volatility seems inevitable. If the Fed raises rates, then stocks will probably suffer. If it holds fire or even keeps cutting — not impossible once chair Jay Powell steps aside in May — the pain would be likely to emerge in bonds and the dollar.

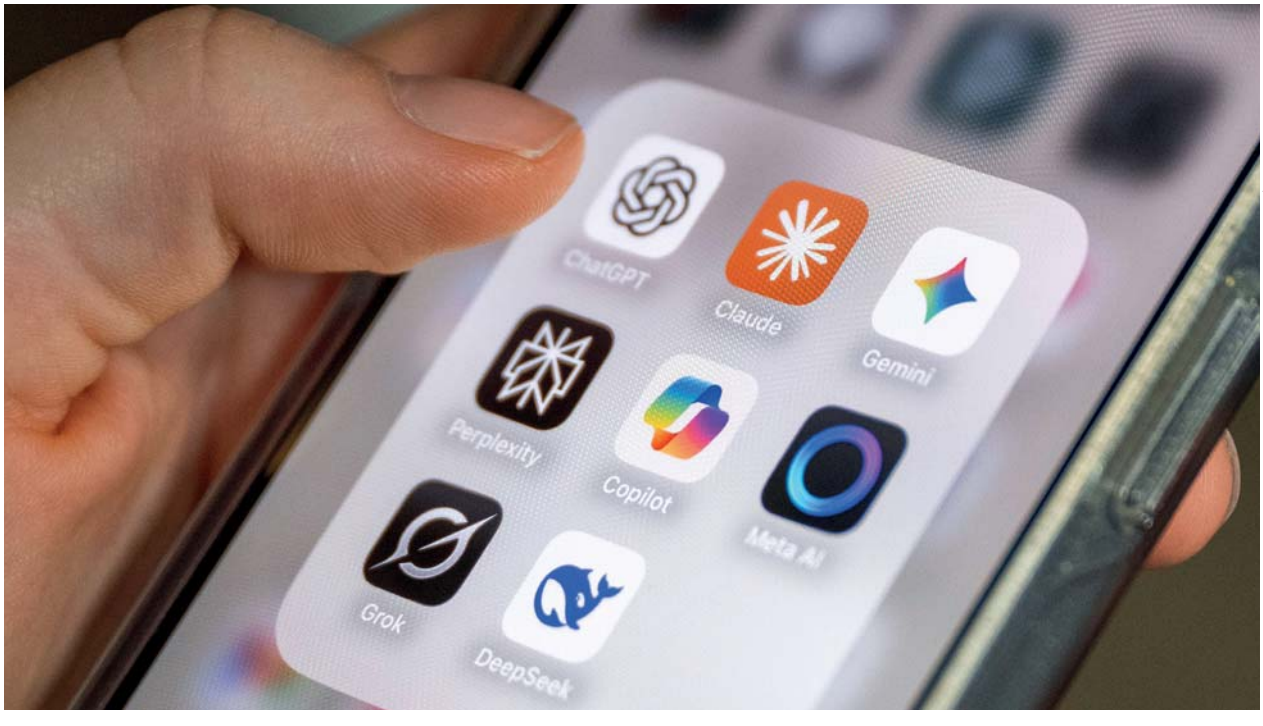
Smaller central banks, such as those in Australia and Norway, are already backing away from further rate cuts. If the US ends up in the same place, a lot of investors have a problem.

Some of the quirkier potential banana skins include crypto, which is becoming ingrained in high finance under Trump. An accident there — hardly difficult to imagine — would harm the retail investors who propped up stocks, fanning stress across other markets, and could even require central bank intervention given large reported holdings of short-term government debt among operators of stablecoins.

Meanwhile, in Japan, government bond yields are kicking higher as interest rates appear to be lagging behind a rise in inflation. Yes, this has been a risk for years, and no, it has never really bitten hard, but now it does seem realistic that yields could rise enough to mean that domestic investors feel no need to park money overseas. Taking a large buyer of global debt out of the equation right now would not be helpful.

The last big reason for caution is consensus itself. Pessimists are quite hard to find. Permabear Albert Edwards at Société Générale says he still believes US stocks are in a valuation bubble that will drag down the economy when it collapses. But even he notes that "I struggle to see an imminent macro trigger for a major bear market".

None of these things means a crash or even a decline in risky assets is inevitable. But the overwhelming optimism means small slip-ups can produce painful volatility. Each of these risks is worth watching in 2026. ● *FT*



DPA/PICTURE ALLIANCE_REUTERS

Crypto's rocky year

The industry was hugely optimistic when Donald Trump returned to the White House. But bitcoin has fallen by a quarter in two months.

BY GEORGE STEER, JILL R SHAH AND NIKOU ASGARI



FT MONTAGE/UNSPLASH

THERE WERE FEW obvious signs of the crypto market's malaise at a lively Christmas party hosted last month by industry cheerleader Anthony Pompliano at New York's Freehand Hotel. Enjoying the crudités and free booze were lobbyists, investors and even an individual selling bitcoin-denominated life insurance.

"We see this as a healthy pullback in crypto and bitcoin," Cantor Fitzgerald crypto analyst Brett Knoblauch said in a note to clients, adding that he expects bitcoin's price to eventually rise above US$1.5 million per token — 16 times its current value.

But the speed and scale of the sell-off in late November, which saw bitcoin lose a quarter of its value in two months, has sparked fresh troubles elsewhere. Speaking on Dec 1, Phong Le, chief executive of Strategy, a so-called bitcoin treasury vehicle that has accumulated 650,000 bitcoins over the past five years, warned of an impending "bitcoin winter". It was a reference to the market's last major downturn, following the collapse in 2022 of Sam Bankman-Fried's crypto exchange FTX.

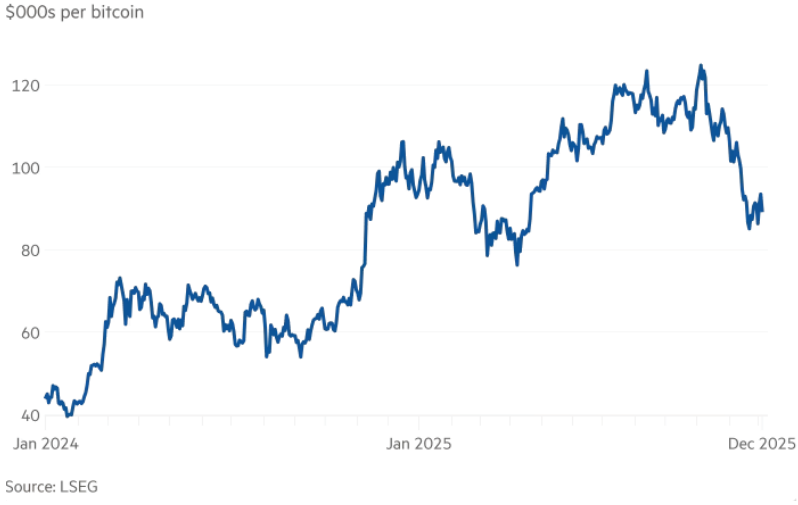
Explanations for the sell-off — more than US$1 trillion was erased from the combined capitalisation of about 18,000 digital tokens over the two months to Dec 5 — range from uncertainty surrounding the path of US interest rates to concerns about lofty tech stock valuations that have spilled over into other risky assets. (See chart.)

Bitcoin's slide from a peak just below US$126,000 on Oct 7 to just over US$84,000 on Dec 1 and around US$89,000 on Dec 5, is all the more startling given the extent to which US President Donald Trump has rolled out the red carpet for the crypto industry since his return to the White House in January 2025.

In the past 12 months, Trump has installed crypto-friendly leadership at the main US regulatory agencies, pardoned several crypto executives who had pleaded guilty to criminal charges and mandated the creation of a national bitcoin reserve, all while his family has amassed more than US$1 billion in pre-tax profits from its expanding crypto empire. Despite a strong rally in the spring and summer, bitcoin was down 4% in 2024.

Three years ago, traditional finance was relatively insulated against the crypto market's ructions. But bitcoin's subsequent recovery and move into the mainstream — a BlackRock exchange traded fund owns about 780,000 bitcoin and JPMorgan Chase is considering lending against clients' crypto holdings — means that severe sell-offs today sometimes bleed over into other markets. One institution that increased its stake shortly before the market slump was Harvard University, whose roughly

BITCOIN HAS FALLEN SHARPLY FROM THE OCTOBER PEAK



Source: LSEG

US$442 million stake in BlackRock's iShares Bitcoin Trust ETF constitutes its largest publicly disclosed US holding, filings show.

Pain has been more widespread as a result. "Unlike prior crashes, driven primarily by retail speculation, this year's [2025] downturn has occurred amid substantial institutional participation," said Deutsche Bank analysts Marion Laboure and Camilla Siazon.

As the crypto market has expanded over the past three years, the bouts of volatility to which it is prone have become harder to ignore. The question of whether its recent decline is a harbinger of trouble for broader financial markets took on added significance at the end of a year marked by rising geopolitical tensions and persistent worries about a bubble in Big Tech stocks.

"The linkage between bitcoin and [Wall Street's blue-chip] S&P 500 is strange, but it exists," says Mike Zigmont, co-head of trading at Visdom Investment Group. "We're all bitcoin investors for a while, it seems. I don't like it but I can't change it."

Like so many market wobbles last year, the spark for the recent crypto slump was a tariff announcement by the president on Truth Social.

Trump's threat to impose additional tariffs of 100% on China on Oct 10 consigned the S&P 500 to its worst daily decline since April, when asset prices were hit by Trump's initial "liberation day" tariffs.

Crypto prices collapsed in the minutes after Trump's post as panic swept through markets.

The average decline on the day of the roughly 10,000 tokens tracked by data group CoinDesk reached 47%, liquidating over US$19 billion in leveraged trades and erasing US$500 billion of value over the course of a few hours. What ended as the crypto market's worst ever one-day sell-off is now ruefully referred to by some investors as "10/10".

Autopsies carried out since then suggest that much of the damage can be traced to investors having piled into financial products known as perpetual futures. So-called perps allow traders to make highly leveraged bets, up to 100-to-1 on some crypto exchanges, to boost their returns on market moves.

Thousands of these bets were violently unwound as bitcoin and other tokens began to slide late on Oct 10. Market makers — who ordinarily buy securities from sellers and sell securities to buyers to provide much-needed liquidity — pulled back at the same time, according to analysts, amplifying price volatility in the process.

The 10/10 sell-off "exposed a fundamental weakness in crypto's infrastructure", says Adam Morgan McCarthy, a research analyst at data provider Kaiko. With market makers suddenly absent, "no one really knew the true value of any cryptocurrency, because prices varied so widely from one platform to another", he adds.

As investors counted up their losses, broader macroeconomic concerns subsequently conspired to prolong the crypto market's slump.

In late October, growing doubts about whether the US Federal Reserve would lower interest rates when it next met added to concerns surrounding the sky-high valuations attached to the Silicon Valley tech companies at the forefront of the artificial intelligence investment boom.

Lower rates, which reduce how much investors can earn from holding short-term US government debt, render risky assets like crypto tokens marginally more attractive. Bitcoin rallied in 2020 as the Fed lowered borrowing costs and slipped two years later as the US central bank raised rates to curb inflation.

"People view crypto as a riskier asset class. If investors are feeling squeamish and they want to pull back, they're going to pull back from crypto first," says Laura Katherine Mann, a partner in White & Case's Americas Capital Markets Group.

If sophisticated crypto traders using exotic derivatives drove the digital asset sell-off in October, then it was mom and pop investors, who typically buy and sell tokens at their market price or through ETFs, that were "mostly responsible for the continuation of the crypto market correction in November", JPMorgan analysts argued in a note to clients.

Withdrawals from digital asset ETFs in November



BLOOMBERG

November 2025 was brutal for bitcoin as it continued the fall that began in October, losing a quarter of its value over two months

hit US$3.5 billion, eclipsing a previous record set in February, Morningstar data shows. That coincided with a rough patch for dozens of so-called meme stocks popular with retail traders.

Analysts say crypto's influence on the stock market was on display on Dec 4 when bitcoin fell sharply at around 2pm eastern time and the S&P 500 followed suit moments later. On Nov 17, an index that tracks US tech stocks appeared to follow bitcoin's trajectory for most of the trading session.

"It is truly the tail wagging the dog when a US$1.8 trillion market cap speculative asset is significantly influencing a US$32 trillion market capitalisation index," says Mike O'Rourke, chief market strategist at Jones Trading, referring to the value of the Nasdaq 100 at that time.

"It's alarming to see the index, with its highly concentrated exposure to the largest and most influential companies in the world…take cues from bitcoin," he adds.



BLOOMBERG

A view of the New York Stock Exchange … Analysts question whether crypto's recent decline is a harbinger of trouble for broader financial markets

Over the past decade, predicting bitcoin's demise has proved an exercise in tempting fate. Unsurprisingly, it is hard to find a single crypto investor who does not think that bitcoin will eventually climb to fresh record highs.

On the week of Dec 1, 2025, BlackRock's Larry Fink noted that sovereign wealth funds had bought the dip by snapping up bitcoin while it traded just above US$80,000, in a sign that parts of the investment community remained bullish even as prices fell to their lowest level in eight months.

In last July, the US House of Representatives passed landmark legislation to regulate stablecoins, tokens mostly pegged to assets including Treasuries and the US dollar, as well as an act that sets out a framework to determine whether digital assets should be considered securities.

If and when they are passed by the Senate, crypto insiders expect both pieces of legislation to add fresh momentum to the broader market.

"Bitcoin's correction looks more like a reversion than a collapse," says Alex Thorn, head of research at crypto group Galaxy Digital.

Sceptics contend that few lawmakers in Washington have addressed the crypto market's structural weak points, several of which were laid bare on Oct 10.

As panic set in, traders rushed to buy USDT, a US$184 billion stablecoin operated by Tether, by far the world's largest stablecoin issuer. "USDT was the most traded asset during [the Oct 10] crash, reflecting its role as the deepest source of liquidity," says Kaiko's Morgan McCarthy.

Tether's ability to prop up the broader market and maintain its peg to the US dollar was called into doubt in late November, when S&P Global Ratings downgraded the reserves held by the stablecoin operator as collateral for its token.

In a widely read note, the rating agency flagged "an increase in high-risk assets" backing the stablecoin, with corporate bonds, precious metals, bitcoin and secured loans accounting for almost 24% of total reserves at the end of September last year, up from 17% a year ago.

S&P added that Tether had "limited transparency on reserve management and risk appetite, lack of a robust regulatory framework [and] no asset segregation to protect against the issuer's insolvency". Tether said it "strongly disagrees with the characterisation presented in the report".

The company has yet to provide a full audit of its reserves, but its public statements show that 77% of them are in US government bonds and other low-risk bills. "That's terrifying," says a board member at a smaller stablecoin issuer. "The number should be like 98%, plus."

"Stablecoin issuers need to be buying nothing but short-term securities," the person adds. "A Tether collapse would topple the whole house of cards, the contagion effect across the whole [crypto market] would be massive." ● *FT*

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A one-kilogram silver bar at the Valcambi SA precious metals refinery in Balerna, Switzerland. Valcambi SA, Switzerland's largest refiner, processes up to 2,000 tons of precious metals a year at its site in Balerna on the border with Italy.

BLOOMBERG

Is silver the new gold?

The surge in the precious metal's price could have ominous implications for the markets

BY GILLIAN TETT

A FEW MONTHS AGO, Germany's finance ministry took a remarkable step: it cancelled the long-planned Christmas issuance of a "Three Wise Men" commemorative silver coin, and a second (less festive) silver token celebrating monorails.

The reason? Silver prices surged in October to hit US$53 per ounce, a level where "the material value of the German €20 and €25 silver coins currently exceeds their respective face value by a significant margin", as the finance ministry explained. In plain English: issuing those coins no longer made economic sense.

And since then, silver prices have continued to soar. Indeed on Dec 10, the silver price hit US$63.86 per ounce — nearly double its level a year ago — after the Federal Reserve trimmed rates by 25 basis points.

That easily eclipses last year's nearly 60% rally in gold prices — never mind that it is gold which has grabbed all the attention. Indeed, silver's price rise has been so "parabolic", to use the trading jargon, that a rally like this has only been seen twice before in recent history: in the late 1970s (amid an oil and inflation shock) and in 2008 (during the global financial crisis).

And what is noteworthy this time is that the surge in silver prices has not occurred alongside an equity or bond market collapse; or not yet. At best, this makes the pattern unusual — and, at worst, potentially ominous.

What explains this? The answer lies in a mix of fear and greed, along with rising levels of financialisation. To start with greed: in the year 2025, industrial demand for silver has risen steadily, particularly from sectors

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such as electric vehicles and computing chips. If history is a guide, this will eventually lead to an expansion in supply (ie more mining).

But since this cannot be implemented quickly, supply and demand are currently mismatched. And this imbalance has become doubly intense because the White House recently designated silver as a strategic commodity, sparking fears of looming tariffs.

So there has been stockpiling inside America. This in turn has exacerbated shortages elsewhere, creating funky price gaps between London and New York. And — unsurprisingly — there are rumours that savvy financiers have been exploiting this gap.

If so, that presents a pale echo of the speculative dislocation — ie, price distortions caused by aggressive financiers trying to book profits — that erupted in 1980, when a fraternal trading team known as the Hunt brothers unleashed an (in)famous squeeze in silver markets.

There is also a third factor behind the surge in silver prices; retail mania is rising, as the Bank for International Settlements noted in mid-December. Most notably, a sense of "Fomo" — or fear of missing out — is prompting investors to gamble on sectors linked to artificial intelligence, alongside gold or crypto. And, as prices have jumped for those assets, some investors now seem to be turning to silver too, not least because they realise that silver has real-world uses — unlike many other speculative assets. This has made it doubly attractive. Silver, if you like, is the new gold.

Then there is fear. With the Fed cutting rates three times in 2025, even as inflation exceeds its 2% target, there is rising concern about "fiscal dominance" — ie that governments will force central banks to cut rates to make it easier to service their ever-swelling debt.

"It is all inflationary," warned Steven Blitz, chief US economist of TD Lombard, in an email to clients in December, noting that in addition to rate cuts, the Fed also pledged in December to restart purchases of Treasuries.

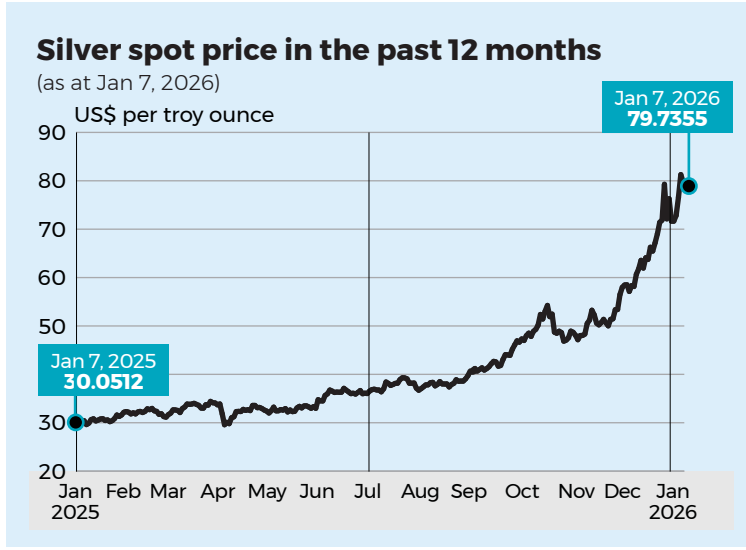
This pushed up long-term bond yields in the US — and elsewhere — in 2025, even as short-term rates fell. "This pattern of rising long-term interest rates is highly unusual when we look at historical reaction during [past] Fed cutting cycles," notes Torsten Sløk, chief economist at Apollo.

It is also leading some investors to embrace bullion as a "debasement trade", that is, a hedge against the risk that inflation or even default erodes the value of fiat currencies.

Some, such as US Treasury secretary Scott Bessent, argue these concerns are nonsense. In December, he issued a chirpy social media post featuring the cartoon character Franklin the Turtle, urging US savers to buy more Treasuries precisely because he thinks they are a reliable store of value.

And, as financial historians might note, there is certainly no guarantee that silver — or gold — is a more reliable asset. On the contrary, silver prices have been so volatile in the past, because the market is so thin, that traders quip that the precious metal is "the widow maker", because it can produce big losses. Those Hunt brothers are a case in point: after the dramatic 1980 price rally, prices crashed — wiping them out.

That could happen again. But right now, fear and greed remain rife — and are being intensified by uncertainty about what US President Donald Trump might do to the Federal Reserve or with tariffs. In that sense, then, the abortive Christmas coin is a potent sign of our times, where exuberance and unease are now entwined in markets — albeit not quite the "commemoration" that the German finance ministry wanted. ● *FT*





TECHNOLOGY

The world is increasingly relying on technology to drive economic growth, but concerns are mounting over the risks that accompany it — from cybersecurity threats to the possibility of an AI bubble. While the excitement is real, caution is warranted.

AUTOMOTIVE SEMICONDUCTORS WILL DEFINE MALAYSIA'S NEXT LEAP IN THE GLOBAL CHIP RACE

BY YONG KAI PING

MALAYSIA'S SEMICONDUCTOR industry has long been a cornerstone of the global electronics supply chain. Yet despite its deep integration into global manufacturing networks, Malaysia today sits just outside the world's top five semiconductor nations — trailing the Chip 4 grouping (the US, Taiwan, Japan, South Korea) and China, and increasingly benchmarked against fast-rising challengers such as India and Vietnam.

The question is no longer whether Malaysia can move up the semiconductor value chain. That transition is already underway. The more strategic question is where Malaysia should focus its next leap. The answer lies in a sector that is rapidly reshaping not only mobility, but artificial intelligence (AI), robotics and aerospace: automotive semiconductors.

For decades, global semiconductor growth was driven by consumer electronics — notebooks and smartphones — followed by cloud computing and hyperscale data centres. While these segments remain important, their growth is maturing and increasingly cyclical.

The next structural growth driver is automotive computing. Modern vehicles are no longer defined primarily by mechanical engineering, but by software and silicon. Advanced driver-assistance systems (ADAS), autonomous driving and in-vehicle AI demand high-performance system-on-chip (SoC) platforms capable of real-time perception, decision-making and control.

More importantly, automotive chips are no longer confined to cars. The same SoCs are now deployed across three fast-converging sectors:

- Autonomous mobility, including robotaxis
- Robotics, from humanoid robots to industrial robotic arms
- The low-altitude economy, spanning drones and electric vertical take-off and landing (eVTOL) aircraft

This convergence significantly expands the addressable market for automotive-grade semiconductors and places Malaysia at the intersection of several future industries.

When automotive companies become semiconductor companies

Among global automotive leaders, the direction of travel is already clear.

Tesla's strategy under Elon Musk signals a decisive shift towards vertically integrated computing. By floating the idea of a "TeraFab" and pushing the development of in-house AI chips targeting more than 2,000 Tera Operations Per Second (TOPS) in future AI5 and AI6 platforms, Tesla is redefining the role of semiconductors at the core of automotive, robotics and AI systems.

(TeraFAb is a next generation semiconductor fabrication plant significantly larger and more advanced than the existing Gigafabs, while TOPS is a measure of AI processing power.)

These chips are not designed for vehicles alone. Tesla's roadmap spans autonomous driving, humanoid robots and broader AI workloads — signalling that future automotive semiconductor demand could rival, or even exceed, traditional data centre demand.

Together, companies such as TCab and Weeroc demonstrate how automotive semiconductors increasingly extend beyond cars into aviation-grade and robotics-grade systems, while also complementing the growth of Malaysia's local aerospace industry.

China's XPeng is pursuing a similar path. Beyond smart electric vehicles (EVs), the company has drawn global attention for its humanoid robotics, publicly demonstrating robots capable of complex, human-like assembly tasks.

XPeng has also been awarded ARM CSS-based architectures under Malaysia's government-backed ARM initiative, positioning Malaysia as part of its semiconductor manufacturing and ecosystem footprint.

These developments reflect a broader industry reality: every forward-looking automotive manufacturer is now also an AI, robotics and semiconductor company.



BERNAMA

Proton's eMAS 7 has gained traction in Nepal, and Trinidad and Tobago

Malaysia's talent is already making its mark

Malaysia's relevance in this transformation is not theoretical. It is already evident through the achievements of Malaysian talent operating on the global stage.

One notable example is Ng Yui Yong, the Malaysian founder of Shanghai-based TCab Technology, who recently secured a reported US$1 billion eVTOL deal with UAE-based Autocraft for the E20 aircraft. This milestone underscores the growing role of Malaysian engineers in next-generation mobility and aerospace platforms.

Another is Dr Salleh Ahmad, who after nearly two decades in France, brought Weeroc, the semiconductor company he co-founded, back to Malaysia by establishing a new design centre at Malaysia IC Design Park 1 in Puchong. Weeroc specialises in radiation-hardened and analogue integrated circuit technologies for aerospace and harsh environments, with its Malaysian centre focusing on advanced chips for satellites, drones and aviation applications.

Together, companies such as TCab and Weeroc demonstrate how automotive semiconductors increasingly extend beyond cars into aviation-grade and robotics-grade systems, while also complementing the growth of the local aerospace industry.

Domestic market anchor innovation

Unlike many semiconductor nations, Malaysia has a meaningful domestic automotive market capable of supporting local innovation.

About 800,000 new vehicles are sold annually. In addition, industry estimates suggest that more than one million Chinese EVs could be assembled in Malaysia in the coming years, positioning the country as a regional EV manufacturing hub.

Recent developments reinforce this trajectory. Chery has acquired 200 acres of industrial land for its Chery Smart Auto Industrial Park in Lembah Beringin, and has commenced vehicle exports from its Shah Alam facility, with Vietnam as its first overseas market.

Meanwhile, Proton has exported 20,169 vehicles over the past five years, with the Saga, X50 and X70 among its top export models. Proton's eMAS 7 has also gained traction, with exports reaching Nepal, and Trinidad and Tobago.

This scale creates a rare opportunity to co-develop, test and deploy automotive semiconductors locally, particularly for right-hand-drive markets — representing one-third of the global population — and for hot, humid operating conditions. Such localisation shortens feedback loops between chip designers, system integrators and vehicle manufacturers.

Malaysia already has a strong base of local automotive suppliers, as well as robotics and drone companies with the engineering talent and operational scale to participate in this shift. Many of these players could complement one another to form a more integrated ecosystem.

For instance, MaiStorage, a Malaysian energy storage systems provider supplying global EV manufacturers, could see its technologies adapted for domestic platforms such as Proton and Perodua's next-generation vehicles. Similarly, ADAS and autonomous driving chips, benchmarked against global leaders such as Tesla's AI5 and AI6 platforms, could be developed through collaborations under the ARM Malaysia ecosystem, combining local design capabilities with global intellectual property.

Individually, these companies are competitive. Collectively, they can form a self-sustaining automotive semiconductor ecosystem.

Nurturing the next generation of designers

No semiconductor leap is possible without sustained investment in talent.

The Malaysia IC Design Park, together with the Advanced Semiconductor College of Malaysia (ASEM), is addressing this challenge by partnering with institutions such as IIT Madras to nurture expertise in RISC-V, an open instruction set architecture gaining strong traction in automotive and industrial applications.

RISC-V is particularly attractive for automotive use cases due to its flexibility, suitability for functional safety requirements, and ability to support custom accelerators with long product life cycles. Early investment in RISC-V and advanced SoC design capabilities allows Malaysia to avoid lock-in to legacy architectures and position itself at the forefront of next-generation automotive computing.

There should be a strategic shift in Malaysia's scholarship award system, prioritising the placement of top Malaysian students in the world's leading AI and semiconductor universities, particularly in China, India and Taiwan.

Malaysia should focus on sending its best students to premium institutions that anchor global semiconductor and AI ecosystems. These include Tsinghua University, Peking University, Shanghai Jiao Tong University and the Southern University of Science and Technology (SUSTech) in China; IIT Madras, IIT Bombay and IIT Delhi in India; and National Yang Ming Chiao Tung University, National Tsing Hua University and National Cheng Kung University in Taiwan.

These universities are not only academically elite but are deeply integrated with semiconductor manufacturing, IC design, AI systems, automotive electronics and advanced research. Their graduates feed directly into global leaders such as TSMC, MediaTek, Huawei, SMIC, ASML partners, and next-generation automotive and AI firms. Exposure to these ecosystems provides students with practical experience, industry networks and technical depth that cannot be replicated through coursework alone.

A long-term commitment

Malaysia's opportunity in automotive semiconductors is not a short-term play. It requires policy consistency, sustained investment and ecosystem coordination over a 10- to 20-year horizon.

Malaysia's opportunity in automotive semiconductors is not a short-term play. It requires policy consistency, sustained investment and ecosystem coordination over a 10- to 20-year horizon.

If executed well, Malaysia does not merely compete for sixth place in global rankings. It can leapfrog by specialising — becoming a preferred hub for automotive-grade, AI-centric and robotics-enabled semiconductors.

The foundations are already in place:

- A globally recognised semiconductor manufacturing and packaging base
- A deep pool of experienced engineering talent
- A growing domestic automotive and EV market
- Rising participation in AI, robotics and low-altitude mobility



In the next phase of the global semiconductor race, automotive intelligence — not consumer gadgets — will define the winners. Malaysia still has the time, talent and scale to claim a leading role in that future. ●

Yong Kai Ping is CEO of Selangor Information Technology and Digital Economy Corporation as well as Malaysia IC Design Park

CONTROL OVER DATA AND THE VALUE IT CREATES IS THE NEW BATTLEGROUND

BY KONSORTIUM AI NEGARA (KAIN)

HISTORY REPEATS ITSELF, often with a twist. Centuries ago, colonialism involved the taking of physical resources like rubber, tin and spices. These were shipped from the Global South to factories in the North, only to be sold back as expensive finished products.

Today, we are seeing a slick, digital version of this old pattern called AI Colonialism. In this new relationship, the raw material is not rubber but data. The final product is not car tyres but intelligence itself.

The rise of powerful large language models (LLMs) from the US and China has sparked a global competition for digital independence. As Malaysian users and businesses increasingly use platforms like ChatGPT or DeepSeek, we are unknowingly feeding a worldwide system of data collection where our shared digital activity trains algorithms based abroad.

We provide the essential input of our language, our culture and our business information. This is often given freely, while the profits generated are captured by a few major tech companies in the US and China.

Many Malaysian start-ups and government agencies depend on foreign cloud platforms and AI tools such as AWS, Microsoft Azure, Google Cloud and OpenAI. This creates ways for our data to be extracted, with the value going overseas while our local data and regulatory frameworks fall behind.

The risks for Malaysia are very serious. If we just keep using these technologies passively, we risk becoming an informational colony. This means we have to rely on outside infrastructure, having to follow the rules, values and prices set by foreign companies.

We have to decide how to go from just using AI to actually helping to create the technology that will shape what comes next for us.

The vitality-digitality gap

Digital colonialism is not just about economics. It is about the control of knowledge, which dictates who gets to decide what is true, relevant or polite in the digital age. Current global models suffer from a gap between linguistic importance and digital presence.

While millions speak Malay, our language remains underrepresented in the training data of Western models. Consequently, these models often make errors when dealing with local nuances.

Malaysian languages — including the dialects used in various states across Peninsular Malaysia, localised Mandarin and Tamil, as well as the ethnic languages of Sabah and Sarawak — often perform poorly on generic LLMs because the training sets favour English data. This shows a dominance where AI reflects the linguistic priorities of the Global North, hurting local relevance.

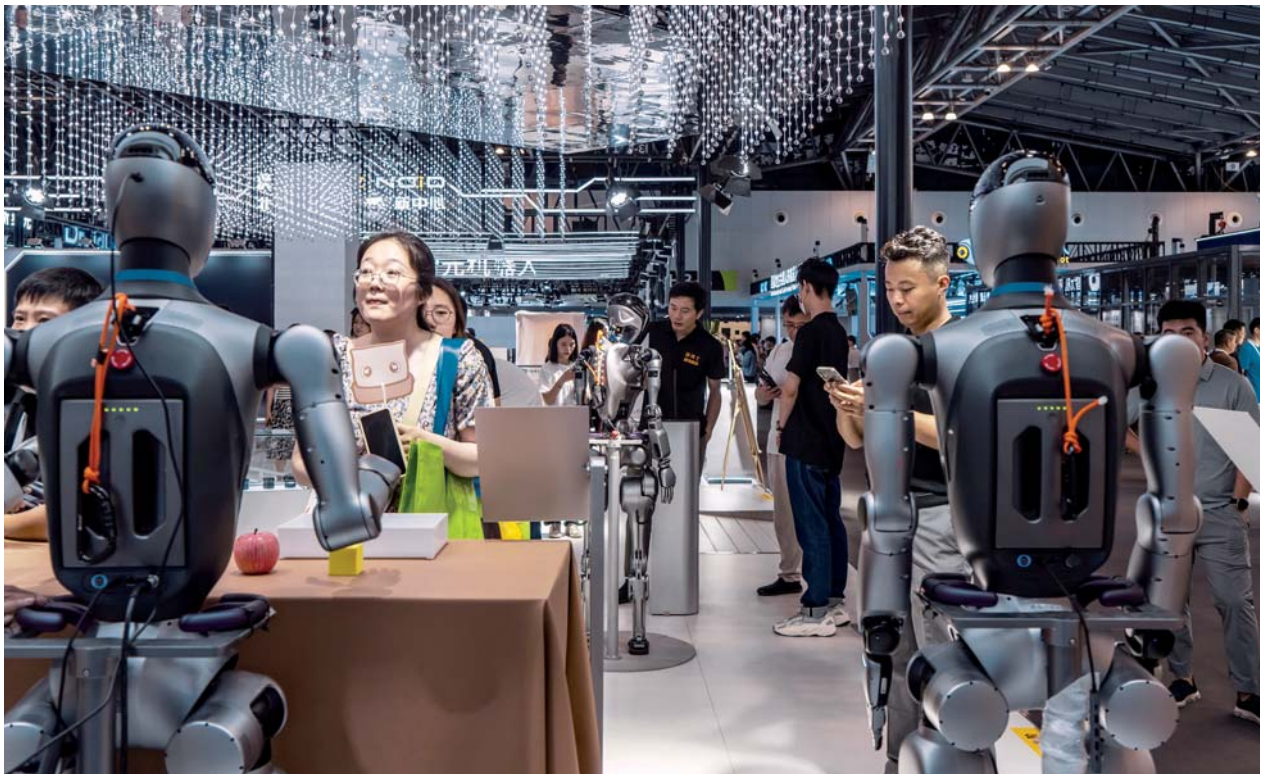
We see this in content filtering. A US-based model may lecture a Malaysian user on liberal Western values, while a Chinese model might hide historical facts to align with state rules. This is epistemic colonialism, the slow loss of our cultural control as we begin to trust foreign AI more than our own sources of knowledge. We risk a digital repeat of "history written by the victors". Without our own AI choices, we risk a future where our digital stories are written by others and our local languages are treated as second class in the AI world.

The infrastructure trap

Beyond culture, economic dependency is built on technology. The massive computing power needed for AI, including graphics processing units (GPUs), cloud servers and data centres, is largely controlled by the US and China. Even if Southeast Asian nations require data to be stored locally, the real intelligence — the algorithmic processing — often stays under foreign control.

This creates a risky reliance. Malaysian companies that use foreign application programming interfaces (APIs) are building on rented ground. If a geopolitical conflict arises or if a foreign provider decides to change their API pricing or rules, our local digital services could be destroyed overnight. We cannot call ourselves a digital nation if the core technology of our economy is completely owned by external powers.

Less visible, but no less consequential, is how US trade policy is quietly reshaping the economics of global AI. In 2025 alone, tariffs on imported server components were estimated



BLOOMBERG

US and China-led AI models are acclerating a global push for digital independence

to add roughly US$6 billion to US$7 billion to the cost of building American AI infrastructure, according to *Forbes*. These costs are first absorbed by server manufacturers, then passed to hyperscalers (cloud service providers) and ultimately transmitted to the rest of the world through higher cloud prices and API fees.

While positioned as domestic industrial policy, the tariffs function as a structural filter. Only firms with massive scale can absorb the added cost. Smaller players and AI-importing nations are pushed into paying perpetual "compute rent", meaning ongoing fees to access AI capacity they cannot afford to build themselves.

The outcome resembles a new layer of AI colonialism, defined not by who invents the models, but by who can afford the infrastructure beneath them and who must consume intelligence as a metered service rather than as a core, sovereign capability.

Building our own engines

However, resignation is not a strategy. Malaysia is fighting back by realising that strategic autonomy is within reach, even if total independence is impossible given the global supply chain. We are seeing the rise of indigenous AI Engines, which are locally developed or fine-tuned LLMs that serve as the bedrock of a sovereign ecosystem.

Leading this charge are three key initiatives that prove Malaysia can be a creator rather than just a consumer:

1. ***MaLLaM (Mesolitica)***: As an open-source initiative, the Malaysia Large Language Model (MaLLaM) project is critical to democratising access. By focusing on the intricacies of our local linguistic landscape, including code-mixing and dialects, MaLLaM ensures that high-quality and culturally attuned AI is accessible to local developers without the threat of vendor lock-in. It represents the community-driven spirit by creating a shared resource that lifts the entire ecosystem.
2. **ILMU (YTL AI *Labs*)**: Leveraging massive investment in sovereign infrastructure, ILMU represents the industrial-strength response to AI colonialism. Billed as a fully sovereign AI model with Malay-English bilingual capabilities, ILMU is backed by local supercomputing power. This ensures that sensitive government and enterprise data can be processed on Malaysian soil and governed by Malaysian laws to offer a secure alternative to foreign clouds.
3. ***Merdeka (Agmo)***: Focusing on application and context, Merdeka exemplifies how local players can fine-tune AI to serve specific national needs. By building on top of sovereign foundations, initiatives like Merdeka ensure that the application layer of AI reflects our values

and serves our unique market demands rather than forcing local businesses to adapt to generic global tools.

These three initiatives involving MaLLaM, ILMU and Merdeka are instruments of national resilience. They allow us to retain data within national borders, not just for storage but for value creation.

In 2025, Malaysia ranked 37th globally in the Oxford Insights Government AI Readiness Index (it ranked 24th in 2024), placing it mid-table in Asean, behind Singapore (7th) and Thailand (37th), but ahead of Indonesia (42nd) and the Philippines (49th).

On paper, this suggests a reasonable level of preparedness. Malaysia has policy frameworks, pilot deployments and an emerging governance narrative. Yet, the ranking also reveals a deeper vulnerability central to AI colonialism.

Malaysia's weakest dimensions are AI infrastructure, innovation diffusion and system resilience, which means the country depends heavily on foreign cloud providers, proprietary APIs and externally priced models to operationalise AI. In practice, this creates a form of soft dependency.

While strategies and ethics may be locally defined, the underlying intelligence, compute capacity and failure modes remain externally controlled. The result is a familiar post-colonial pattern in digital form, where decision-making authority exists without technological ownership and ambition is constrained by infrastructure Malaysia does not fully command.

From consumer to creator

We must speed up our transition from simply using AI to actually creating AI. This is the only way to make sure Malaysia benefits from the next AI revolution. This requires an approach that involves the whole nation.

First, we need strong data sovereignty policies. We must treat data as a national asset and ensure that the wealth generated from Malaysian data benefits Malaysians. This means supporting local data storage that respects user privacy and fuels local research.

Second, we must prioritise investment in human talent. The biggest limitation in the age of AI isn't just hardware, like chips, but having highly skilled people. We face intense global competition for AI researchers from established technology centres.

We must train a generation of engineers who can build and improve these local AI systems. This will keep the knowledge base local, not just the data. Moreover, our talent pool must keep up with global technological advancements, especially those coming from the US and China.

Third, we need infrastructure control. We must develop and control our own national computing backbone, including cloud servers, GPU clusters and data centres. Relying on foreign-owned systems and cloud services puts us in a risky position. Local digital services could be shut down overnight by global political issues or sudden changes in foreign companies' rules. This prevents true national digital independence.

Fourth, we need model sovereignty. We must achieve this by either developing our own LLMs or by smartly adapting open-source models. This ensures that the core AI processing is managed locally, prevents being locked into using only one foreign provider's system and, most importantly, allows us to build our unique languages, cultural values and local context into the AI itself, closing the cultural and digital divide. ●



Konsortium AI Negara (KAIN) is a coalition of Malaysian AI leaders advocating for national AI capability and sovereignty. It is made up of (from left) Khalil Nooh, co-founder and CEO of Mesolitica; Warren Leow, founder and CEO of Supern8n; Mohd Ridzwan Nordin, co-founder of Kotak Sakti; Tan Aik Keong, founder and CEO of Agmo Holdings Bhd; and Azmir Rahman, managing director of Dattel Asia.

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‘Game recognises game’: How Jensen Huang won over Donald Trump

Nvidia chief scores huge victory with the decision to allow AI chip exports to China

BY JOE MILLER, DEMETRI SEVASTOPULO AND MICHAEL ACTON

JENSEN HUANG, ONCE almost unknown in Washington, this week won a lobbying victory that could be worth billions of dollars to the semiconductor giant he co-founded, Nvidia.

The White House’s decision to allow exports of advanced chips to China’s vast market, largely brokered by Huang, has left competitors wondering how the soft-spoken electrical engineer charmed his way into the US president’s good books.

Donald Trump, who previously admitted he had “never heard” of Nvidia or Huang, on Dec 8,2025 defied opposition within his own Maga coalition in allowing the company to sell its H200 chips to China, with the US taking a 25% cut.

“I think game recognises game,” said a person familiar with the company’s strategy, of the president’s newfound fondness for Huang.

“The way Trump wants to control the federal government is effectively the way that Jensen runs Nvidia. There are no fiefdoms… and Jensen’s instincts kind of reign.”

The US$4 trillion company’s success in courting the president is especially remarkable because Nvidia until recently had a threadbare lobbying operation in Washington.

Huang, who had not been a regular in the capital before last year, was initially sceptical of the “value proposition” of courting Trump after his re-election in November 2024, said a person familiar with Nvidia’s strategy.

“[Huang must have] remembered enough from Trump 1 to know that he is mercurial as hell and you can’t really buy stability,” the person said. Others say he was simply assessing how best to help the administration understand America’s artificial intelligence sector.

When tech billionaires Mark Zuckerberg and Jeff Bezos flocked to pay fealty to Trump at his inauguration in January last year, Huang was celebrating Lunar New Year with employees in his native Taiwan, 8,000 miles away.

His early access to the president was brokered by Howard Lutnick, the commerce secretary.

“[Lutnick] started the conversation with: ‘Jensen… I just want to let you know that you’re a national treasure, Nvidia is a national treasure. And whenever you need access to the president, the administration, you call us’,” Huang told Joe Rogan’s podcast last month. “And it was completely true… they [were] always available.”

But the company, which sells the advanced chips that power sophisticated AI models, was drawn deeper into politics when the White House restricted the sale of its H20 chips to China — as part of Trump’s wider trade conflict with Beijing.

Understanding that the president wanted companies to commit to expanding manufacturing in the US, Nvidia soon joined a consortium that has pledged to invest half a trillion dollars domestically over the next four years.

Huang in April last year flew to Mar-a-Lago to talk to Trump on the sidelines of a US$1 million-per-head dinner. The administration softened its stance in the following months.

As well as meeting Trump privately at least six times last year and speaking to him directly on the phone, Huang accompanied the president to the UAE, Saudi Arabia and the UK.

He was front and centre at the White House’s AI Action Plan summit in July, where he drew effusive praise from Trump. “What a job you’ve done, man,” the president gushed.

In October, Huang contributed to the president’s ballroom project.

The Nvidia CEO simultaneously began courting lawmakers. Huang made the case that blocking US technology from Chinese AI developers would not stop their advances but would encourage China’s own chipmakers to catch up.

He told the House foreign affairs committee in May that Nvidia’s absence from the Asian country meant “competitors like Huawei [were] already stepping in”.

Nvidia’s teams in China produced their own research on chipmaking competitors.

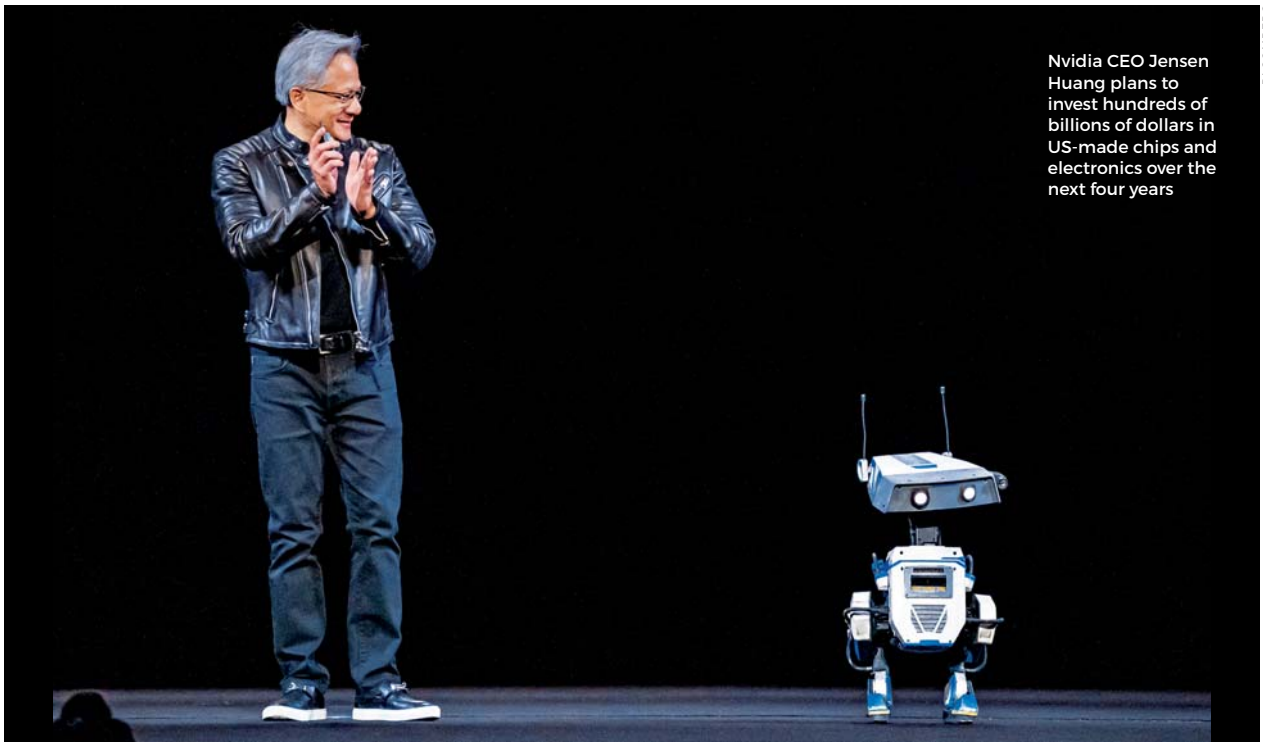
“Nvidia has focused on educating policymakers,” another person with knowledge of the strategy said. “Its predictions were often proved accurate, especially that China’s capabilities would accelerate, not slow down, if [Nvidia was] shut out of the market.”

Nvidia declined to comment on its lobbying efforts.

The company’s advocacy on Capitol Hill was led by Tim Teter, an intellectual property lawyer who as the company’s top legal executive has become one of Huang’s most trusted advisers.

Unlike many of its competitors, Nvidia has made its case directly, largely eschewing established lobbyists and industry associations. It rapidly built out an in-house team, hiring a Republican lobbyist who had worked for Ivanka Trump.

“They have significantly ramped up their efforts



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Nvidia CEO Jensen Huang plans to invest hundreds of billions of dollars in US-made chips and electronics over the next four years

in DC," said a senior Washington lobbyist. "They had a one-person shop that didn't lobby, and now have a much larger team."

Huang's efforts remained focused on chip exports. Nvidia's primary role as a hardware provider — rather than a model builder such as OpenAI — meant it was not made to answer for job losses from AI or damage to children's mental health, said three people familiar with discussions on the Hill.

Still, his campaign faced serious obstacles. Many national security officials disagree with Nvidia's arguments for selling US chips to China, as do researchers at prominent Washington think-tanks. Trump in July revealed that upon first hearing of Nvidia's huge market share, his instinct was to break up the company.

Steve Bannon, the White House strategist in the first Trump administration who is influential in the Maga camp, blasted the deal last month, saying the president was being "badly advised", and criticised Republicans for not speaking out.

Democrats, including Senator Elizabeth Warren, have denounced Huang for mainly meeting Republicans, in a sign that the company could face more opposition if Trump loses his majority in the House or Senate after November's midterms.

An initial deal to reopen exports of the H20 — for which Nvidia had to agree to give the US a 15% cut — was complicated by Beijing's resistance to these lower-specification chips.

Nvidia's attention then turned to efforts to get the White House to allow sales of H200 chips to China, which are more advanced than the H20 though still behind the company's latest generation.

Ultimately, Huang convinced the administration that it was in the US's best interests for Nvidia to maintain its dominance by selling its products as widely as possible.

Robert O'Brien, a former national security adviser to Trump who helped Nvidia hone its message to Washington, said "the US domestic market, as big as it is, is not big enough to absorb all [the] chips" from Nvidia and its rivals, including Intel and AMD, "and have them stay leaders in the game".

"This is really strongly Jensen's view," a US official with knowledge of the negotiations said. "And I think everybody takes that view as being sincere."

Nvidia has its critics in Washington. Republican Senator Dave McCormick said he was "concerned" about the H200 decision.

A measure in a defence funding bill that would have restricted its ability to sell advanced chips to China was dropped last month. But a bipartisan bill seeking to restrict the administration from greenlighting Nvidia's chip sales is gaining some traction in Congress, especially among those who fear the administration will one day approve sales of the company's leading Blackwell chips to the Asian nation.

For now, Trump's embrace of Huang's position has led many Republican lawmakers, who called for tougher export controls in Joe Biden's presidency, to stay silent.

"At the end of the day, it was a meeting between [Huang] and the president," said a person with knowledge of the H200 decision. "That's how this came about." ● *FT*



FINANCIAL TIMES/ WORLD LABS

Fei-Fei Li of World Labs: AI is incomplete without spatial intelligence

The 'godmother of AI' talks about her latest venture to create 3D worlds to 'superpower' human creativity in areas including robotics and gaming

CRISTINA CRIDDLE AND MELISSA HEIKKILÄ

Li believes that human creativity cannot be replaced, but it can be seen as superpowered

FEI-FEI LI, A Stanford professor and computer scientist, is widely seen as the "godmother of artificial intelligence".

One of the most influential voices in artificial intelligence (AI), Li is best known for developing ImageNet, the database set up almost 20 years ago that has become the foundation of modern computer vision technology. Now, she is on a new mission as a start-up founder.

Her latest venture, World Labs, is building so-called spatial intelligence, which aims to understand our physical world. The company is building "world models", which, unlike language models that only process language, are able to generate three-dimensional worlds. Her latest world model, Marble, came out in November.

In conversation with the *Financial Times*' technology correspondent Cristina Criddle, she explains how these models could supercharge human creativity and help people with various applications from robotics to game design.

Cristina Criddle: I'd love to hear more about Marble.

Fei Fei Li: World Labs is a frontier model company. We are very much focusing on building the cutting edge, pushing the frontier of artificial intelligence. And for me, AI would not be complete unless it has the scope and the depth or the capability of spatial intelligence that humans have.

Marble is the first product that [focuses] on allowing users to create incredible 3D worlds, by either lifting a real world through a photo into Marble, or a small video, or creating an imaginary world through Marble.

"SO EVERY USE CASE WE HAVE SEEN SO FAR, THERE'S ONE UNIFYING THEME, WHICH IS IT SAVES PEOPLE TIME."

Li

So whether it's real or imaginary, the ability to generate 3D worlds ... and also serve the workflow of creators, is the goal of today's Marble as a product. But it's very important for us to position this as a model-first approach, that we want to get users to use our model through the product.

What are you hoping to learn from user interactions with the model?

I really, really believe that human creativity cannot be replaced. It can be seen as superpowered, and I hope that Marble is a superpowering collaboration between creators, designers and developers. So the more they use it and give us feedback on how to superpower them, the better it is.

And what are some of the applications you envision it being used for?

So, this is a very horizontal technology, because the need to use world models is really, really wide. For example, a concrete example is the VFX [visual effects] industry, to just preview ideas, to film virtual production movies, to ideate movie sets.

There's a lot of VFX used in Marble. It can give you a 3D space, it can give you videos with precise colour control within that space, and it can be exported in different formats so that you can use it in your workflow.

We also see designers, interior designers, or architects, using Marble to not only visualise their ideas of interior or building design, but they are able to tour around this, because it's almost like taking a tour in the mind's eye. You can be immersed in that.

We also have seen robotic simulation developers using Marble as the foundation to simulate training environments for robotics, whether it's navigation or manipulation.

We also have seen game developers using Marble, especially we provide mesh colliders and mesh structure so that game developers can very easily download the worlds and the meshes and build gameplay.

We have also seen the researchers wanting to use Marble as an immersive environment to study human psychology and clinical conditions.

So every use case we have seen so far, there's one unifying theme, which is it saves people time. Because ideation, abrasion and usage is a loop of work. And Marble helps the tech artists, developers, researchers, save time.

And what will people do with more time? I think this is the big question. Is this an excuse to lay off people, or is there something that's going to be created out of giving more time to people?

It depends on if you believe creativity is bounded or unbounded. I believe human creativity is unbounded.

For example, when we worked with our Sony Studio partner on creating our video for Marble, the virtual production tech artists and developers told us, because they can use Marble to actually create the movie for us, they're able to play with far more ideas than they'd have the time for if they were doing it in a traditional way. Because the traditional way, they have to wait very, very long to get one idea visualised. Marble takes minutes.

In fact, someone we talked to in the VFX industry said it sped up the ideation and development by 40 times. And this is our time. It's the time you can use to ideate a lot more. Because as a creator, you don't just have one idea. Sometimes, you have 10 ideas. Sometimes, the 10 ideas inspire 10 more ideas. Sometimes, you want to just do some tweaking of your ideas. And all these are expensive processes.

And in the gaming application, what do you think it means for how games will be developed? There's also discussion about what the role of gaming engines are now, because you can just create these 3D environments.

Yes, I think this is all up for disruption. I think neuro-inspired engines and simulation gaming engines are due for improvements. And that is to make developers and creators' lives better. I think Marble, and also our earlier work, RTFM [a world model released in October], are all part of this latest GenAI effort. We're at the forefront of it.

And I also think games are not just purely games. We're seeing a blend of games with experiences, education, and productivity. And this new trend, what we see in creativity and content is called transmedia. And transmedia also can leverage all these generative AI tools like Marble.

World models have come up so much in my conversations with Google, Runway, and then I recently had a story on xAI building world models. And so, what makes World Labs distinct? And what are you doing that's going to set you apart from your competitors?

First of all, we are the first company that came out two years ago that is devoted to spatial intelligence. And I

"WE'RE SO FAR FROM SOLVING ROBOTICS THAT WE REALLY NEED TO BE SOBER ABOUT SOLVING THE DATA PROBLEM."

Li



FINANCIAL TIMES/ WORLD LABS

A 3D world created using Marble

see language models, what we call large language models, as a way to achieve linguistic intelligence. World models are a way to help us achieve spatial intelligence.

Spatial knowledge is the cognitive ability to allow embodied agents, whether it's humans or avatars or robots, to understand, reason, create, and interact in worlds. And that's a very deeply-rooted cognitive and physical ability of animals, humans, and the future of robots. And that's the North Star for us.

Do you believe that there's still a place for LLMs once you've reached that North Star?

Oh, yes. Just like humans, we use multi-intelligence. In fact, Howard Gardner in [1980s] already proposed this theory of multiple intelligence. Humans are really the epitome example of multiple intelligence, whether it's language, spatial, mathematical, emotional. It's very much an orchestra of intelligence.

You mentioned using it for robotic simulation, how big is the jump from exploring these virtual worlds on computers to having embodied AI that has this spatial intelligence in it?

So, first of all, I want to make sure that you get that people can upload real world images or videos and turn that into the virtual digital worlds for robots. Training robots, even in deployment in the virtual world, is part of the very important multi-dimensional and multi-ingredient approach in solving robotics.

We're so far from solving robotics that we really need to be sober about solving the data problem.

If you look at today's robotics learning efforts, the combination of real-world tele-operated data [where humans demonstrate actions remotely], web data, and synthetic simulated data [which are generated with a computer] are really the core suit of data for robotics. And we're so far from solving robotics that we really need to be sober about solving the data problem.

And self-driving cars had to go through this for decades, solving the data problem. And that's an even easier problem than robotics, because self-driving cars are a simpler form of movement compared to robots that manipulate everything and anything in the world.

Having the simulation environment, simulation data, synthetic data is a key to the success. And this is why spatial intelligence, in the form of the world models we're doing, is so important. And then, it also will set us up for the future of moving into being part of this robotics ecosystem, in addition to being a creativity ecosystem.

And do you think it represents a step towards super-intelligence? And is that something that World Labs is aiming for?

First of all, our North Star is an intelligence that's benevolent to people. I don't really care what you call it. AI, as any tool, is in service of people and humanity. And that is what every researcher and technologist business should focus on. ● *FT*

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Models by DeepSeek and Alibaba regularly excel in widely used AI benchmarks

Open source could pop the AI bubble — and soon

Valuations rest on the incorrect assumption that frontier model creators have built massive, durable moats

BY MARK SURMAN

WE CANNOT GO a day without people asking: when will the artificial intelligence bubble pop and what will be the cause? I increasingly think that open-source AI models may be the pin that pops the bubble.

Current AI valuations assume massive, durable moats. Investors have priced in the assumption that only a few companies can build frontier AI models, allowing them to extract monopoly rents.

But if open-source models can match the performance of closed models at a fraction of the cost, that assumption collapses. Think about the billions of dollars in venture investment in OpenAI and Anthropic — as well as internal investment at Google. If the market realises that closed models may be good for cutting-edge research but unnecessary for most AI applications, valuations plummet.

A recent study by MIT economist Frank Nagle shows exactly how good open AI models have become. They are on average six times cheaper to use than equivalent closed models. And they are narrowing the performance gap within a few months of each new closed-model release. The speed of this catch-up cycle is accelerating.

If users were to choose the best observable AI model based on both price and performance they could save US$20 billion-US$48 billion a year.

Of course, both OpenAI and Google also developed open models — free to use and somewhat flexible. But these often feel like side projects. They are unlikely to win market share unless the companies put more work into them.

The companies that are leading in open-source AI are Chinese. Models by DeepSeek and Alibaba regularly excel in widely used AI benchmarks. A recent study by MIT and developer platform Hugging Face showed a steep decline in the market share of open models from Google, Meta and OpenAI, and a sharp increase in the use of models like DeepSeek and Qwen.

Western companies and research labs are hot on their heels. French start-up Mistral has released all of its new models as open source. Mistral Large 3 debuted at number two among open-source non-reasoning models on the LMArena leaderboard, within striking distance of its Chinese competitors. And Seattle-based lab Ai2 released a new set of its Olmo models as truly open — meaning every step of the development pipeline was exposed, from the underlying training data to the parameters that define the model's output. The extra flexibility and utility this creates are very useful for developers building apps and services on top of AI models.

What's interesting — and worrisome — is that governments are moving to invest huge amounts in closed-model AI. European countries — and those like Canada, where I come from — talk a great deal about tech sovereignty and using AI to drive economic growth. Yet they seem to be ignoring the fact that leaning into open source could get them to these goals faster and cheaper than backing large tech companies.

More consequentially, whether governments integrate open-source AI models into their plans could be a major driver in whether they are winners or losers in the AI race over the long run.

The tipping point could come soon. When a major enterprise announces that it's switching from a closed model to an open alternative — or when a breakout consumer app is built on a truly open model — investors will realise that the game has changed.

The next question is: who will be the winners when the bubble pops? If the dotcom crash is anything to go by it could be the open-source AI model creators. The free, open-source operating system Linux — on which 90% of the public cloud runs today — proved resilient in the aftermath of that crash. The same pattern could be repeated today. The companies with lower valuations now could have significant upside tomorrow. ● *FT*

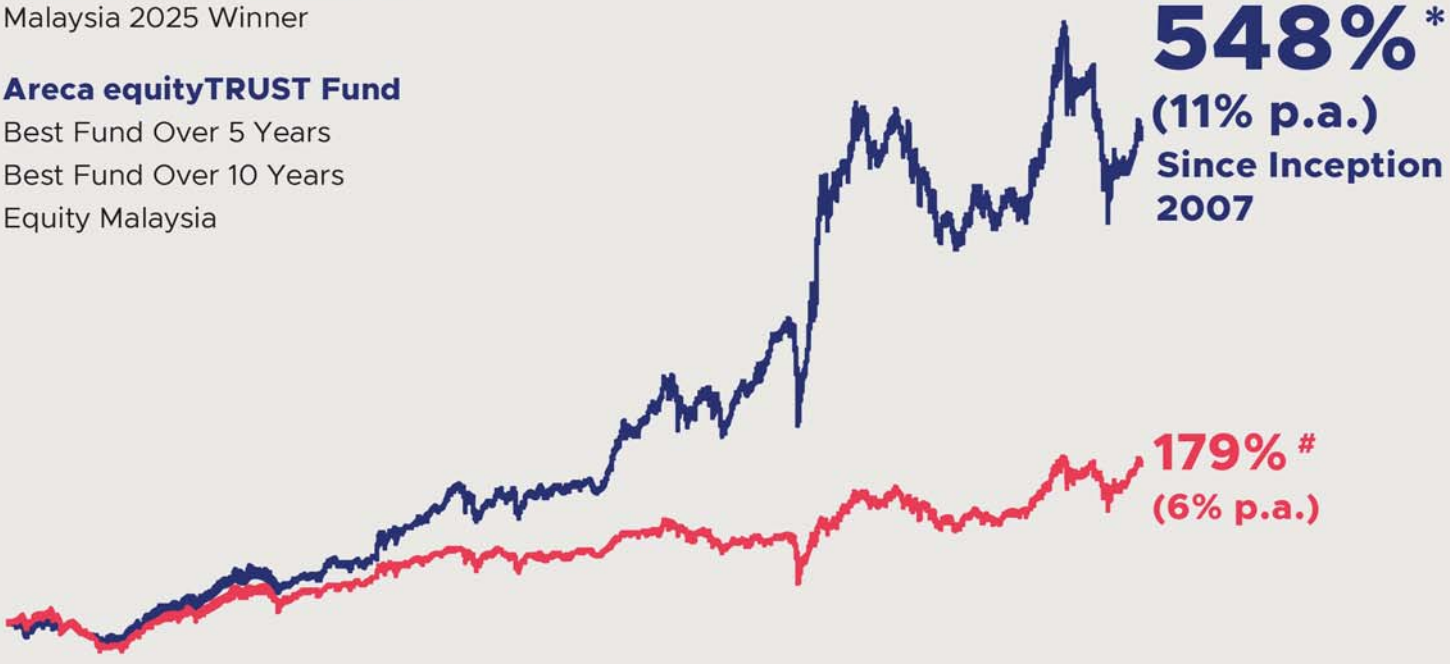
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The data breach that hit two-thirds of a country

Record hack of South Korean online retailer Coupang prompts calls for more investment in cybersecurity

BY SONG JUNG-A

ONLINE RETAILER COUPANG is known as South Korea's Amazon and built its reputation on its overnight "rocket delivery" service, but it has been a lot slower to respond to a hack that leaked the personal information of nearly two-thirds of the country's population.

Investigators said the breach began through Coupang's overseas servers in June, but the company only became aware of it in November. The chief executive of Coupang's South Korean subsidiary resigned in December, but Bom Kim, its Korean-American founder and chair, has yet to offer any personal apology. (On Dec 28, Kim apologised for the data breach.)

Coupang said the hack compromised personal information including names and phone numbers, as well as email and shipping addresses, of more than 33 million accounts. Police said it was South Korea's worst-ever data breach.

President Lee Jae Myung called the case a wake-up call for stronger cyber security, saying it was "astonishing" that Coupang, South Korea's largest online retailer by market share, did not detect the breach for five months.

"The wrong practice of not giving necessary care for protecting personal data, which is a key asset in the age of artificial intelligence and digitisation, must be completely changed," Lee said on Dec 2.

Coupang, which boasts 25 million active users and offers services ranging from food delivery to streaming, said it had yet to establish full details of the cause and scope of the hack. But former chief executive Park Dae-jun told a parliamentary hearing a week before his resignation that a former software developer was behind the attack.

Park said the alleged perpetrator was a Chinese national involved in authentication tasks at Coupang before his contract ended last December and he was believed to have returned to China.

Coupang's chief information security officer, Brett Matthes, testified that the alleged perpetrator had a "privileged role" in the company that would have given him access to a private encryption key, which allowed him to generate a forged token to impersonate a customer.

Choi Min-hee, a member of South Korea's National Assembly, said in a statement that the former employee used the key, which was still active even after he left the company, to access customer information, citing information she had received from Coupang.

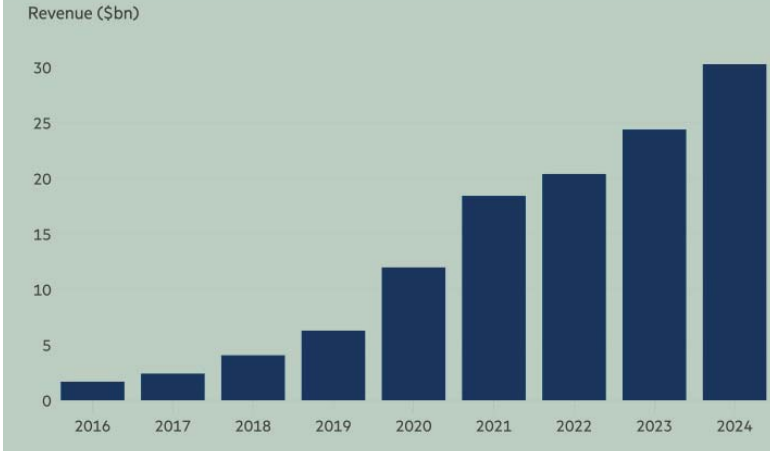
Coupang has said its users' login credentials, credit card numbers and payment details were not affected by the hack, but officials and legislators have warned that citizens could be vulnerable to targeted phishing attacks using the leaked information. "It is like the keys of almost everyone's homes in Korea are stolen," said National Assembly member Choi Hyung-du.

The company said in a statement to the *Financial Times* that after learning of the breach on Nov 18 it immediately reported it to authorities, blocked the unauthorised access route and strengthened internal monitoring. It said it would "significantly enhance our information security to prevent recurrences and will do everything we can do to recover trust".

But legislators have lambasted Coupang for what they say is a lack of caution and a slow response. They are demanding that founder and chair Kim come forward and apologise himself. He was summoned to a second parliamentary hearing in December.

Lee Hoon-ki, a lawmaker at last week's hearing, suggested Coupang had been "negligent" about security issues as it rapidly expanded. Founded in 2010 as a website offering deals to group buyers, the company has seen its revenues soar more than 30-fold in the past

COUPANG HAS EXPERIENCED RAPID GROWTH



Source: Company filings



Coupang's Park Dae-jun

REUTERS

decade to US$30.2 billion last year. It received a US$3 billion investment from SoftBank in 2015 and listed in New York in 2021 after the Covid-19 pandemic fuelled growth further. (See chart)

Cyber security experts said Coupang was far from alone, with several high-profile cases contributing to what they expected to be South Korea's worst year for large-scale data breaches.

SK Telecom, the country's largest mobile carrier, was fined US$97 million last year over the leak of information on 25 million customers. Telecoms rival KT and credit card provider Lotte Card also reported data breaches.

Upbit, the country's dominant cryptocurrency exchange, suffered a hack in November that led to the unauthorised withdrawal of 44.5 billion won in cryptocurrency.

Lee Chan-jin, governor of the Financial Supervisory Service, said South Korean companies' investment in cyber security remained "awfully inadequate" compared with countries such as the US.

Simon Choi, chief technology officer of cybersecurity start-up StealthMole, said businesses should see paying for data protection as insurance.

"If you talk to bosses of big companies, they often say there are too many offline issues to take care of, so cyber security often takes a back seat," he said. "They scramble to invest more belatedly when major incidents happen, but prevention is more important."

Kang Hoon-sik, the president's chief of staff, said in a meeting with senior administration officials that the major data leaks in recent years showed "structural loopholes" in South Korea's personal information protection and the Coupang case was an opportunity to improve the country's punitive damages system.

Lawmakers have called for Coupang, which reported 41 trillion won in sales last year, to pay 1.2 trillion won in penalties under a law that allows companies that fail to implement adequate data protection measures to be fined up to 3% of their revenue.

The country's Personal Information Protection Act also allows punitive damages of up to five times actual harm if personal data is leaked due to wilful misconduct or gross negligence.

But the clause, introduced in 2015 after leaks involving credit card companies, and the 3% rule have rarely been enforced.

"US companies have to pay huge damages if they lose class action lawsuits over data breaches," said Wi Jong-hyun, business professor at Chung-Ang University in Seoul. "But Korean companies are not afraid of this because penalties are weak and there are few cases of collective legal action."

Market tracker IGAWorks said the data leak had caused Coupang's daily active users to fall by about 2 million to 16 million. JPMorgan analysts said in a note that customer departures were likely to be "limited", citing the company's "unrivalled market positioning and Korean customers being seemingly less sensitive to data breach issues" than consumers elsewhere.

Coupang controlled 22.7% of the local ecommerce market last year, followed by Naver with 20.7%, according to the country's Ministry of Data and Statistics. ● *FT*

Australia's social media ban carries health warning for Big Tech investors

Full-on lobbying by platforms caught in Canberra's new law shows what is at stake

BY ROULA KHALAF

AUSTRALIA HAS GIVEN the world boomerangs, plastic money and black box flight recorders. Will its ban on social media for under-16s be its next gift?

Australia implemented its ban, complete with robust age verification checks in December. The EU, noting that all but three per cent of youths are online daily, is looking to follow suit. Denmark is already close to doing so. Even in the US, concerns over the addictive nature of social media apps are being aired in courts.

Full-on lobbying by the 10 platforms caught in Australia's net — including Meta Platforms, Snapchat and TikTok — shows how much is at stake. The trio each claimed between 200,000 and 450,000 youthful Aussie users during a parliamentary hearing in October. At the top end, that's more than half the estimated population of 11 to 15-year-olds.

These numbers are catnip to advertisers. A study by Harvard TH Chan School of Public Health totted up US$11 billion of revenue from ads aimed at under-18s in the US in 2022. If the US accounts for a little more than two-fifths of global ad revenue for social media companies, as it does at Meta, that's a total haul of almost US$30 billion in 2022.

Now double that, in line with Meta's growth between 2022 and 2026, and platforms could pull in an aggregated US$60 billion from ads targeted at under-18s next year. If even half of that came from under-16s, that would be something in the region of 10% of total revenue expected next year for platforms impacted.

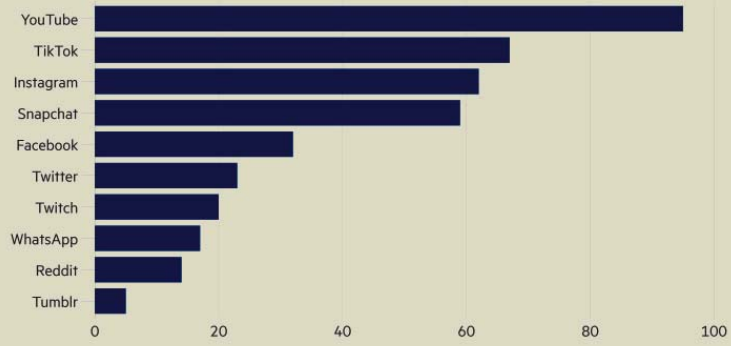
There is some precedent for what a crackdown on minors' online habits might look like for investors. Beijing began taking a broader swipe at its tech giants in the late 2010s, wiping US$1 trillion of value off the sectors' shares overall. Shares in sector giant Tencent more than halved in 2021 and 2022 after children's gaming time was further curtailed.

Washington would stop far short of Beijing's purge, which hit online education and ride-hailing too. Still, Tencent's US peers have few options beyond some serious lobbying. Of course, some wily children and teens will find ways around the ban, as they did to keep gaming in China, although Australia has stringent verification rules and some platforms will use facial recognition.

Last time social media was braced for ripples to emanate from Australia was when Canberra demanded tech groups pay for news content. That was adopted less vigorously beyond Australia, where Rupert Murdoch's News Corp dominates the print market. This antipodean innovation is likely to find more receptive ears. ● *FT*

YOUNG BUCKS

US teens (13 to 17-year-olds) that have used the apps below at least once (%)



Survey conducted in 2022
Source: Teens, Social Media and Technology 2022

BEIJING SLOWED BIG TECH

Share prices rebased



Source: LSEG via markets.ft.com

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BANKING & FINANCE

Innovations such as stablecoins and open finance are reshaping financial services, challenging existing regulatory frameworks and policies. As technology accelerates change, regulators, too, need to move swiftly to keep up.



BUILDING TRUST AND STABILITY IN A SHIFTING WORLD

BY TEH LIP GUAN

THE YEAR 2025 was one of contradictions. Globally, geopolitical tensions, tariff uncertainty and rapid technological change made the economic outlook harder to predict. Yet at home, Malaysia showed resilience. Growth remained steady, inflation was moderate and confidence improved. The ringgit strengthened and was Asia's best-performing currency in 2025, buoyed by strong economic fundamentals and exports.

This contrast between global uncertainty and domestic resilience offers an important lesson. While Malaysia cannot control every external shock, it can strengthen the domestic systems that help households and businesses navigate uncertainty with greater confidence.

One such system lies in how Malaysians transact and manage their finances. Malaysia's use of digital payments is already widespread, with near-universal adoption and a strong preference for debit cards, QR payments, e-wallets and debit cards.

It is in this context that Open Finance Malaysia (OFM) takes shape.

Open finance, as a concept, is often framed as a technical exercise. In practice, it reshapes how trust is built into the financial system. It changes how financial data moves across the ecosystem, placing control in the hands of consumers. In doing so, it becomes a quiet but powerful source of stability for the rakyat.

Unlike global open banking frameworks that focus solely on bank data, OFM spans a broader range of financial services. It goes beyond banking to include insurance, takaful, investments and retirement savings, reflecting the way Malaysians manage their finances today.

At its core, OFM empowers consumers by giving them control over how their financial data is shared and used. Consumers decide on what data to share, with whom, for what purpose and for how long.

OFM as a platform enables encrypted, consent-based access across financial institutions and approved third parties through secure application programming interfaces (APIs). The platform itself does not store or view customer data. It acts as a trusted infrastructure that allows information to move safely from data provider to a data consumer, only when a customer explicitly provides consent to his or her data provider.

This permissioned, time-bound access removes the need for manual document exchange and informal data-sharing methods. Today, Malaysians applying for a loan are required to submit lengthy bank statements, uploading PDFs and salary slips, or share screenshots of transactions through email, instant messaging platforms or even physical couriers. Once shared, these documents can be copied, stored or circulated as part of standard processes, with limited transparency for consumers on where their data goes, how it is used or who ultimately has access to it.

OFM replaces this with a more structured and transparent approach to data sharing. Think of it as switching from sending attachments to sharing secure links. Access is purpose-specific, time-bound, traceable and revocable, automatically expiring once the approved purpose has been fulfilled. Most importantly, data flows directly from system to system, eliminating the need for intermediaries to download, store or manually handle sensitive information, significantly reducing risk of misuse, duplication or unintended exposure.

Why this matters to everyday Malaysians

The value of OFM becomes clearest when viewed through everyday use cases.

Consider an employee applying for a car or housing loan who would like to shop for quotes



BERNAMA

Malaysia's use of digital payments is already widespread, with near-universal adoption and a strong preference for debit cards, QR payments and e-wallets

Open finance, as a concept, is often framed as a technical exercise. In practice, it reshapes how trust is built into the financial system. It changes how financial data moves across the ecosystem, placing control in the hands of consumers. In doing so, it becomes a quiet but powerful source of stability for the rakyat.

from multiple financial institutions to get the best deal. Today, this often involves gathering statements from multiple banks and repeating the same document submissions for each institution. Under OFM, customers can authorise direct access to the required information for a defined purpose and period, making the process faster, more straightforward and transparent.

Now consider a nasi lemak seller or a small business owner operating largely through digital payments. Cash flow may be healthy, but traditional credit assessments often struggle to capture that reality. With consent, transaction data can provide a more accurate picture of their business activity, supporting fairer access to financing. This is not about lowering standards or requirements but rather improving how risk is understood.

Or think about households managing financial commitments across multiple banks and service providers — monthly bills, savings, loans and insurance policies often sit in separate places. Today, this fragmented visibility makes it difficult to see the full financial picture. OFM enables a consolidated view of these elements through its participant interfaces, enabling people to better understand their obligations, track their progress, and plan their finances with greater clarity and confidence.

In each case, OFM gives consumers clearer control over their information, sets clear access limits and creates more predictable processes for financial institutions.

Stability in uncertain times

Global economic uncertainty can have real impact at the local level, especially for households and small businesses. People may delay decisions, hold back spending or rely on informal workarounds when systems feel opaque or unsupportive amid turmoil.

OFM addresses this at a structural level. When information flows are clearer and safer, financial decisions become less stressful and more predictable. That benefits individuals, small businesses and the system as a whole.

This is why OFM functions as foundational financial infrastructure, built to support adoption across the entire ecosystem. By improving how information flows between participants, it helps the entire financial ecosystem function more smoothly and efficiently even when external conditions are less certain.

OFM's framework is built around trust. As regulator, Bank Negara Malaysia sets the policy guard rails for the financial industry to ensure OFM is implemented in a secure, orderly and consumer-first manner. Bank Negara's Exposure Draft on Open Finance released in November 2025 places consent, consumer protection and risk management at the heart of the framework.

Consent under OFM is explicit and deliberate. Customers must opt in. That permission is easily revocable, with withdrawal designed to be as simple as granting access, keeping control firmly in the hands of the consumer.

Individuals will also be able to view and manage their consent through dashboards provided by participating institutions. This visibility supports informed decision-making and confidence in how data is used.

As the national payments infrastructure provider, Payments Network Malaysia (PayNet) is the scheme owner and platform operator of OFM. PayNet's role includes setting technical and operational standards and interoperable connectivity across the ecosystem, and supporting consistent implementation across the ecosystem by all participants.

Trust in open finance is therefore a collective effort by design, reinforced when regulation, infrastructure and implementation work together, and when every part of the ecosystem executes its role.

Financial institutions remain the primary touchpoint for consumers. Banks, insurers, takaful operators, development finance institutions and e-money issuers play a central role in building public confidence by clearly explaining consent, applying the framework consistently, and using customer data in line with established safeguards.

Trust in open finance is therefore a collective effort by design, reinforced when regulation, infrastructure and implementation work together, and when every part of the ecosystem executes its role.



REUTERS

OFM empowers consumers by giving them control over how their financial data is shared and used

Learning from global experience

Malaysia is not alone in its open finance journey. Evidence from other markets shows that open finance and open banking are able to hit mainstream adoption when data frameworks are built on trust, clear governance and tangible consumer benefit.

In the UK, open banking services have grown steadily since launching in 2018, now reaching more than 16 million users. Adoption accelerated as consumers saw practical benefits, from easier account aggregation to smoother payments and budgeting tools.

Brazil's experience offers a similar lesson. Its open finance model now supports more than 60 million users actively sharing data across a wide range of institutions. What stands out is not just the scale, but the emphasis on governance, standardisation and consumer awareness.

These examples show that open finance does not succeed because it is mandated. It succeeds when people understand it, trust it and choose to use it.

Malaysia's opportunity is to apply these lessons thoughtfully, building a model that reflects local needs, regulatory expectations and domestic consumer behaviour.

OFM will be introduced in phases from 2027, giving the industry time in 2026 to prepare, align and educate. More importantly, it allows public understanding and confidence to develop, so the concept of open finance becomes familiar and trusted with the rakyat.

In the coming years, OFM will fundamentally change how financial services work in Malaysia. It will reduce paperwork, support more accurate credit assessments and improve how financial information moves across institutions. For small businesses, including those with limited formal credit histories, this can open up fairer access to financing. For households, including the underserved, it offers clearer visibility of finances and greater confidence when making financial decisions.



In a period when global conditions are in flux, these shifts matter. They strengthen inclusion, resilience and everyday confidence in the local economy. ●

Teh Lip Guan is chief technology officer at Payments Network Malaysia (PayNet)

THE GREAT REALIGNMENT: CHASING RESILIENCE IN 2026

BY AMELIA ONG

AFTER CLOSING THE chapter on 2025, we reflect on the interesting year that venture capital has navigated through; we have seen frauds come to light, bankruptcies registered and the emergence of "zombie" companies overshadowing the year's successful acquisitions, high growth and initial public offerings (IPOs). Perhaps this period has served as a market purgatory — painful, yet creating the opportunity to clear the path for a more disciplined asset class. As we enter 2026, resilience has become the vital factor for us to navigate the markets in the year ahead.

The opportunistic window

While 2026 will likely mark a modest recovery in private market funding, the current valuation reset remains a strategic opportunity for the disciplined private market investor. As the region continues to recalibrate following the excesses of 2021, when double-digit revenue multiples were commonplace, valuations across Southeast Asia (SEA) have stabilised at more grounded levels over the past years.

Our analysis of early-stage private market funding and valuation trends points to a sustained compression of valuations across all stages, with more down rounds occurring as fundraising timelines lengthened. This is creating a more selective environment where pricing better reflects business fundamentals and execution risk as portfolios are reshaped with greater discipline and intent.

However, caution should not be mistaken for conservatism. As valuations compress and capital becomes more deliberate, investors will stand to benefit in a leaner regional environment that rewards clarity of strategy and purposeful deployment.

With the 13th Malaysia Plan (13MP) now in motion, the public sector has its most cost-effective entry point in a decade to seed the next generation of national champions. Capital that seeks only "safe" late-stage returns risks missing the innovation required to drive structural progress; selective early-stage engagement, by contrast, can combine prudence with the boldness necessary to unlock long-term value.

This shift calls for a recalibration of how risk and reward are assessed in SEA. Persistently measuring the region against liquidity and return benchmarks from more developed markets obscures the more relevant question of whether SEA capital is being deployed with sufficient discipline to test markets, validate demand and scale what works within the unique SEA context. Instead, returns in SEA will not be imported or assumed, but they will reflect outcomes of sustained, rigorous capital deployment in environments willing to underwrite innovation strategically.

SEA industry ranked by number of startup exits

	2019	2020	2021	2022	2023	2024
Financial Services	1	1	1	1	2	1
E-Commerce	3	4	2	3	5	2
EnterpriseTech	2	2	3	2	1	2
IT	5	5	4	5	4	2
CleanTech	8	8	10	8	10	5
Consumer & Retail	7	6	6	6	6	6
Healthcare	4	2	4	3	3	7
PropTech	6	7	7	7	7	8
Industrial	10	10	7	11	10	9
AgTech	12	11	12	9	13	11
Digital Media	8	12	11	10	10	11
Education	10	9	9	11	8	11
Blockchain	13	13	14	14	14	13
e-Sports / e-Games	13	13	13	13	12	14

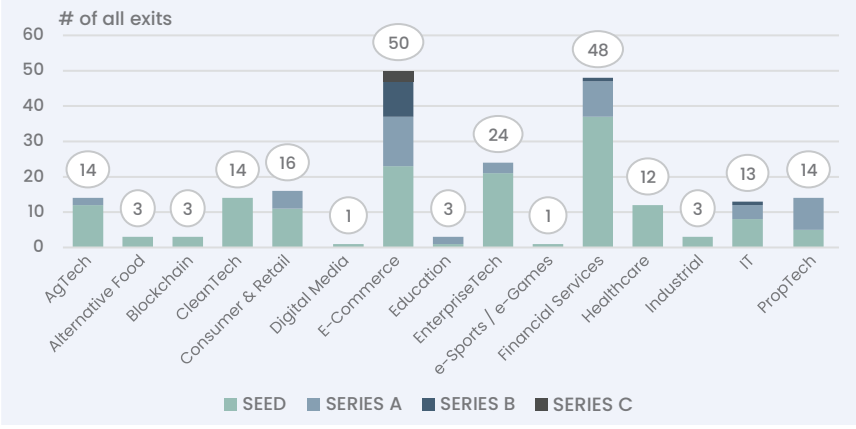
SOURCE: ALTERNATIVES.PE

2026 investment themes

We expect the private markets to grow over the next 24 months, driven primarily by artificial intelligence (AI) investment flows covering both hardware and software.

Beyond the AI narrative, however, capital allocation is increasingly shaped by longer-term structural forces: digitalisation, sustainability and sectoral convergence, which are transforming how core industries operate rather than displacing them. These themes point to

Malaysia startup exit stages observed (2019-2024)



SOURCE: ALTERNATIVES.PE

an economy where traditional sectors remain foundational, while new, technology-enabled verticals emerge alongside them, particularly in areas such as cleantech and applied AI.

But infrastructure without risk capital is a car without fuel. To move from being a technology consumer to a creator, we need to revisit our national funding mandates. If we only fund what is already profitable, we are effectively outsourcing our future innovation to markets where the risk appetite remains higher.

This shift is also reflected in how exits are materialising across the region. Our analysis of recent Southeast Asian exit outcomes indicates a growing prevalence of strategic and trade-led transactions, especially in core and emerging businesses aligned with operational efficiency, decarbonisation and digital infrastructure, enabling earlier and more consistent recycling of capital back to investors.

As exit pathways broaden, the venture asset class becomes increasingly accessible to a wider base of capital providers. In this context, the opportunity lies not only in identifying high-growth sectors but in facilitating closer integration between established corporates and scalable innovation to support long-term value creation.

Beauty of illiquidity

Private markets are, by nature, imperfect and slow-moving. Mandate shifts, and portfolio construction and operational changes often take 12 to 18 months before their effects are visible at the company level. While this friction can appear inefficient, it is precisely the long-term and illiquid structure of private markets that allows capital to be deployed with greater intentionality. The absence of short-term reporting pressures gives founders and investors the latitude to prioritise strategic execution, organisational resilience and durable business models over near-term performance optics.

This dynamic has become more pronounced as funding conditions recalibrate across SEA. As funding timelines have lengthened and valuation expectations have adjusted accordingly, this has shifted the emphasis away from aggressive growth at all cost towards margins, capital efficiency and a clearer path to profitability.

In this environment, illiquidity functions less as a constraint and more as a disciplining mechanism reinforcing governance, aligning incentives and supporting the creation of businesses designed to endure rather than simply scale quickly.

Malaysia's regional foothold

Malaysia is well placed for new economy companies to get a foothold into the wider region. Our regional foothold is backed by tangible infrastructure — Malaysia's recent record of over RM160 billion in approved digital investments in 2024, followed by a strong RM54 billion in the third quarter of 2025 alone, proves we are the regional hub for the AI era.

While we must manage persistent headwinds, from foreign exchange volatility to short-term liquidity constraints, the case for venture capital as a long-term allocation remains resolute. In a fragmented regional landscape, Malaysia stands as a strategic safe harbour, offering the regulatory stability and multifaceted capabilities necessary to capture Asean's growth.

However, we must be clear: If resilience is our foundation, risk capital is the fuel. We cannot expect to achieve the transformative goals of the 13MP by playing it safe. The entrepreneurs are waiting and the infrastructure is ready. The only missing piece is a renewed commitment to the kind of bold, disciplined risk capital that built our industrial past. Are we ready to invest with that same boldness again? ●



Amelia Ong is the executive director and CEO of OSK Ventures International Bhd

STABLECOINS TO ANCHOR BANK NEGARA'S 2025-2027 DIGITAL MONEY STRATEGY

BY ASHWIN CHOCKALINGAM

BANK NEGARA MALAYSIA'S Tokenisation of Financial Assets and Liabilities Discussion Paper, released as a precursor to its 2025 to 2027 strategic roadmap, marks a turning point in how the country intends to modernise its financial infrastructure.

Where earlier digitalisation efforts focused primarily on improving front-end consumer experiences — instant transfers, DuitNow, e-wallet adoption and, more recently, digital banks — the tokenisation roadmap moves deeper into the foundations of the financial system. It represents a shift from digitised interfaces to digitally native money and assets, enabling an entirely new financial architecture built around programmability, automation and interoperability.

Crucially, Bank Negara places tokenised money at the centre of this transformation. The roadmap envisions a future in which tokenised deposits, regulated ringgit-referenced stablecoins, and wholesale central bank digital currency (wCBDC) operate together as the settlement layer underpinning the next generation of Malaysian finance.

Rather than viewing stablecoins as speculative or peripheral, Bank Negara is preparing the ground for them to function as part of Malaysia's formal monetary ecosystem — subject to strict governance, robust collateralisation and regulatory supervision. This marks one of the most forward-looking shifts in Malaysia's financial policy in more than a decade.

A structured transition

The roadmap charts a phased transition that begins with the establishment of working groups and a formal discussion paper in 2025 before moving into proof of concepts in 2026, with regulatory and technical frameworks focused on wider adoption in 2027. A key focus throughout will be on establishing the legal, supervisory and operational frameworks that tokenised money and tokenised financial assets will require.

Bank Negara intends to establish a regulatory perimeter for stablecoin issuers, define asset-backing requirements, impose trustee or custodian oversight, and introduce reporting standards that align with global stablecoin regimes. In parallel, it will refine the rules governing tokenised deposits so that banks can begin issuing deposit liabilities represented on programmable ledgers.

Tokenised government bonds feature prominently in this first phase. Bank Negara, along with the Securities Commission Malaysia and national sovereign wealth fund Khazanah Nasional, has signalled its intention to develop a controlled pilot involving digital representations of Malaysian Government Securities (MGS) and Government Investment Issues (GII). These instruments will require a programmable settlement asset, and the central bank's paper explicitly acknowledges that tokenised deposits, wCBDC and regulated stablecoins are all potential candidates.

The government bond market is the natural starting point for tokenised experimentation. Its large scale, predictable cash flows and institutional investor base make it a stable environment in which to introduce atomic, real-time settlement.

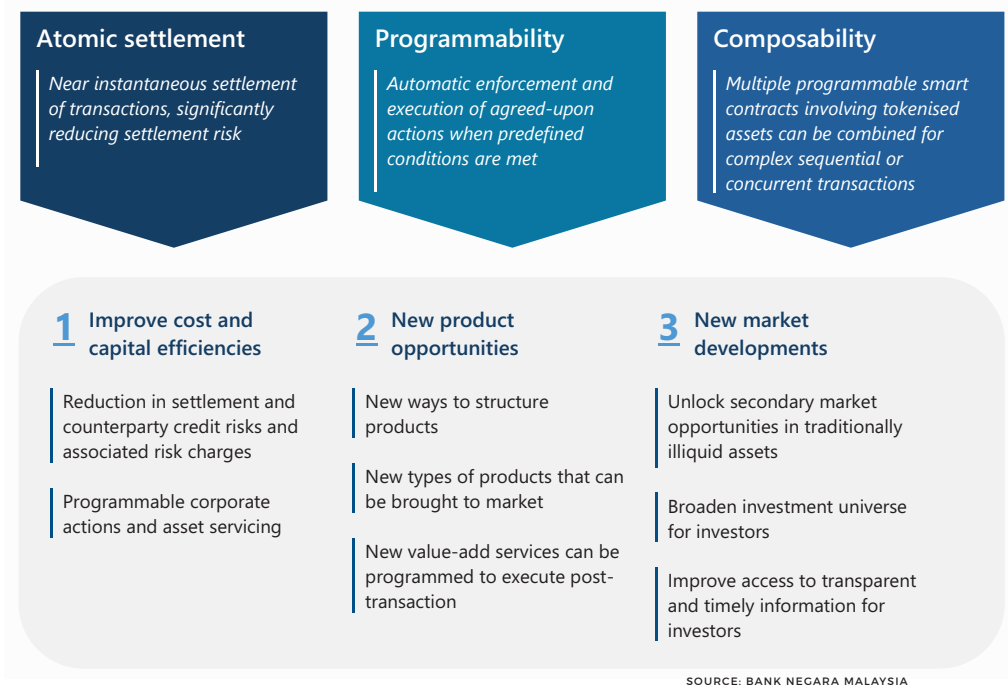
The second phase of the roadmap, projected for 2026, envisions the first real deployments of tokenised instruments. By this point, tokenised bonds are expected to move from conceptual design to issuance on controlled ledgers. Tokenised deposits may begin to power corporate payment flows. Stablecoin issuers that meet Bank Negara's governance and reserve requirements could be permitted to launch market-ready ringgit-referenced tokens with broader use cases. Critically, this phase involves building interoperability — ensuring that tokenised deposits issued by different banks, private stablecoins and any wCBDC pilots can transact seamlessly across platforms and networks.

By 2027, in the roadmap's third phase, tokenisation is expected to extend beyond pilot environments and into wider adoption. Tokenised government bonds may be offered more widely to institutional investors. Banks could incorporate programmable settlement capabilities into treasury, trade finance and corporate banking workflows. Stablecoins and tokenised deposits may function as recognised settlement instruments in capital-market transactions. Cross-border pilot corridors, particularly with Singapore and Asean neighbours, may support programmable foreign-exchange settlement.

The ambition is clear. Malaysia intends to build a modern, multi-rail monetary system fit for a digital economy.

CHART 1

Features and benefits of tokenisation



SOURCE: BANK NEGARA MALAYSIA

Why stablecoins matter in this transition

Stablecoins are purpose-built to operate in programmable environments; they can interact natively with tokenised assets, smart contracts and digital ledgers in ways that traditional payment rails cannot. They enable real-time delivery-versus-payment for financial instruments, automate coupon or dividend distributions, and embed compliance controls directly into transactions.

In a tokenised government bond ecosystem, for instance, settlement does not rely on separate payment instructions flowing through multiple intermediaries; instead, the bond and the payment can exchange atomically inside a shared digital environment.

Stablecoins also support monetary sovereignty in a digital world. Without ringgit-denominated options, domestic tokenised activity may be forced to rely on US dollar-backed stablecoins such as USDT or USDC, which would introduce foreign-exchange risk, reduce supervisory visibility and potentially divert liquidity outside the Malaysian system. Bank Negara's roadmap signals a clear intention to avoid this outcome by creating pathways for regulated ringgit-based stablecoins that remain fully backed by Malaysian assets and supervised under domestic law.

Equally important, stablecoins widen participation beyond the banking sector. Tokenised deposits will be bank-issued instruments, but the broader innovation ecosystem includes fintechs, digital-asset companies, developers, small and medium enterprises (SMEs) and corporates. These players need a programmable settlement instrument accessible without direct integration into bank cores. Regulated stablecoins provide this flexibility, supporting diverse use cases from automated escrow and supply-chain finance to cross-border treasury management and digital-commerce micropayments.

Malaysia's emerging stablecoin and tokenised money landscape

The roadmap has already catalysed activity among private issuers and corporate players. BLOX's MYRC stablecoin is fully collateralised, trustee-supervised and at a proof-of-concept level — designed as a programmable settlement token for real-economy payments, merchant settlement, cross-border flows and for capital-market use cases.

At the state-linked level, Zetrix's collaboration with Johor Regent Tunku Ismail Sultan Ibrahim on his ringgit-backed stablecoin RMJDT brings a different dimension. RMJDT's assumed focus is on digital identity, trade facilitation and ecosystem-specific settlement tools rather than broad-based monetary use, but its existence reinforces the wider national momentum towards tokenised money. The RMJDT demonstrates that

digital-currency experiments are being explored not only by fintechs and banks but also by state-level actors, echoing international trends where regional governments trial digital-asset systems to support local commerce.

Meanwhile, the partnership between Capital A and Standard Chartered reflects growing corporate appetite for tokenised treasury and settlement infrastructure. For a group with operations spanning aviation, logistics, payments and regional commerce, programmable money can streamline cross-border settlement, reduce reconciliation and automate treasury workflows. The involvement of a global bank adds institutional credibility and ensures alignment with regulatory safeguards. In many ways, this partnership represents the type of cross-sector collaboration that Bank Negara's roadmap anticipates — pairing corporate demand with bank-led issuance and digital-asset innovation.

Tokenised government bonds

The forthcoming pilot of tokenised government bonds is likely to be Malaysia's most consequential tokenisation milestone. Government bonds provide the foundation for domestic capital markets, serving as benchmarks for pricing, liquidity and risk management. Tokenising them allows settlement to occur instantly, eliminates the need for multiple reconciliation layers and dramatically simplifies custody workflows.

For investors, tokenised bonds create opportunities for fractional access and real-time asset mobility. For the government, issuance costs may fall and distribution could widen, particularly if fintech-driven channels are permitted in later phases.

The settlement asset will be central to this pilot's success. Tokenised bonds cannot rely on legacy payment rails; they require a programmable digital currency capable of synchronising with smart contracts. Tokenised deposits may be used for institutional flows, wCBDC for interbank settlement, and stablecoins for retail or fintech-led channels.

The roadmap's flexibility reflects Bank Negara's recognition that different segments of the market will require different forms of tokenised money. What matters is interoperability and regulatory certainty — both of which are central objectives of the 2025-to-2027 plan.

Implications for banks, fintechs and corporates

The roadmap's impact on Malaysian financial institutions will be significant. Banks will need to modernise core systems to support tokenised deposits, integrate digital-asset custody solutions, and adapt treasury and risk functions for programmable settlement. While some may view this as an operational burden, tokenisation also offers banks new opportunities to offer real-time settlement products, cross-border liquidity services and innovative financing structures tailored to SMEs and corporates. Banks that move early will shape the standards for others to follow.

Fintechs and digital-asset platforms may see even greater upside. Regulated stablecoins give them the ability to create programmable financial tools without relying exclusively on bank infrastructure. They can innovate more rapidly, participate in tokenised capital markets, and deliver new consumer and SME solutions ranging from automated loans to real-time remittance corridors.

Malaysia's decision to integrate private stablecoins into its regulatory roadmap places the country among a small group of jurisdictions — along with Singapore, Japan and the European Union (EU) — taking a modern, open-architecture approach to digital money.

Corporates will feel the effects as programmable settlement becomes feasible across supply chains, logistics networks and cross-border operations. Tokenised money removes cut-off times, manual reconciliation and multi-day settlement lags, allowing treasury teams to optimise working capital with unprecedented precision. For multinational groups such as Capital A, these capabilities offer meaningful operational efficiency and lower financial friction across the region.

Positioning Malaysia for regional leadership

Globally, jurisdictions are racing to define their tokenised finance frameworks. The US has moved decisively with the passage of the Genius Act, which establishes federal standards for stablecoin issuance and signals formal recognition of stablecoins as part of the regulated monetary system.

Singapore's Project Guardian and Project Orchid combine regulated stablecoins and tokenised deposits within institutional asset markets, while XSGD, its regulated Singapore dollar-backed stablecoin, has become one of the world's most widely adopted non-USD fiat-referenced tokens.

Hong Kong has issued tokenised green bonds and has a regulatory sandbox specifically for HK dollar stablecoin issuers, signalling its intention to attract institutional-grade digital money infrastructure.

Japan has approved yen stablecoins under

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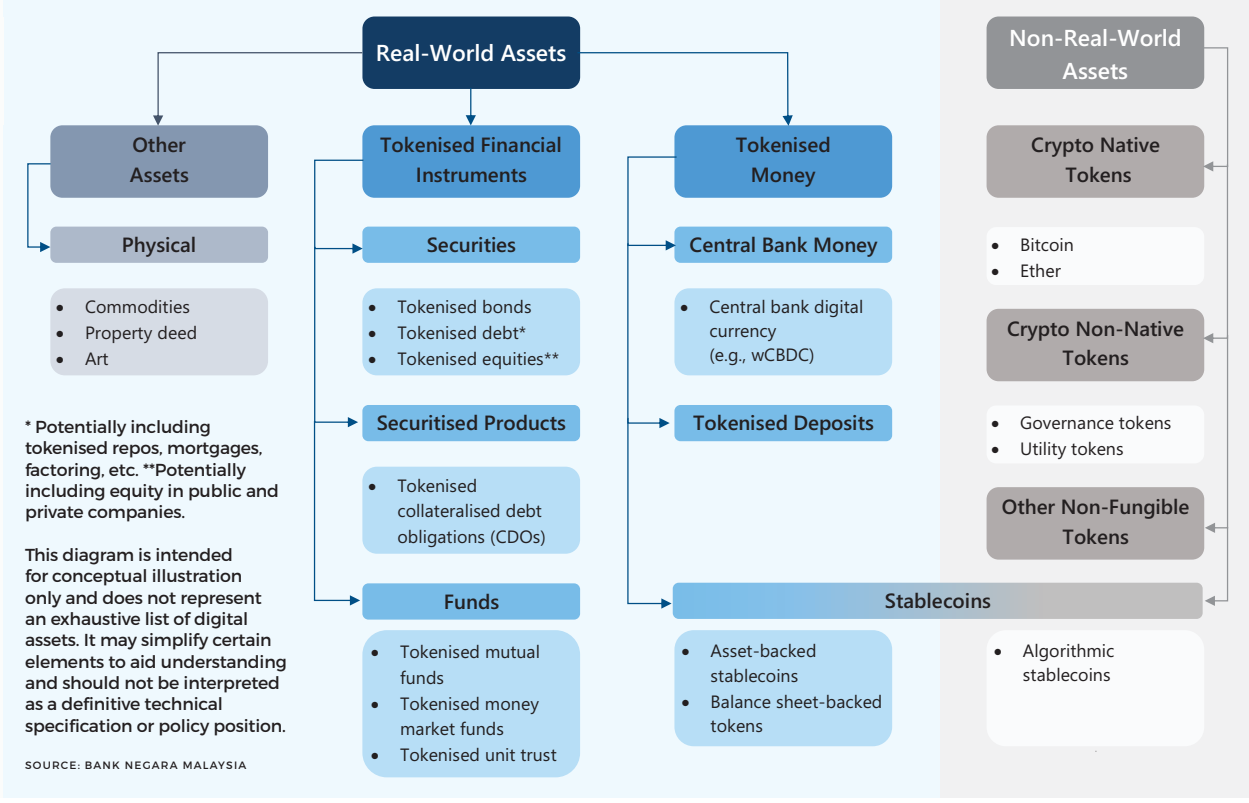
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CHART 2

Overview of digital assets



strict governance, and the EU's Markets in Crypto-Assets Regulation (MiCA) framework provides a comprehensive pathway for digital-money issuers across Europe.

Malaysia's 2025-to-2027 roadmap positions it within this emerging cohort of forward-looking jurisdictions. What distinguishes Malaysia is the deliberate combination of regulatory clarity, institutional collaboration and openness to private-sector innovation.

Rather than restricting tokenised money solely to banks or public institutions, Bank Negara appears prepared to allow regulated private stablecoins to coexist with bank-issued digital instruments — provided that reserve backing, governance, risk management and redemption rights meet strict standards.

This balanced approach gives Malaysia the flexibility to scale tokenised finance rapidly while maintaining safeguards that protect consumers and financial stability.

A tokenised future, rooted in stability and innovation

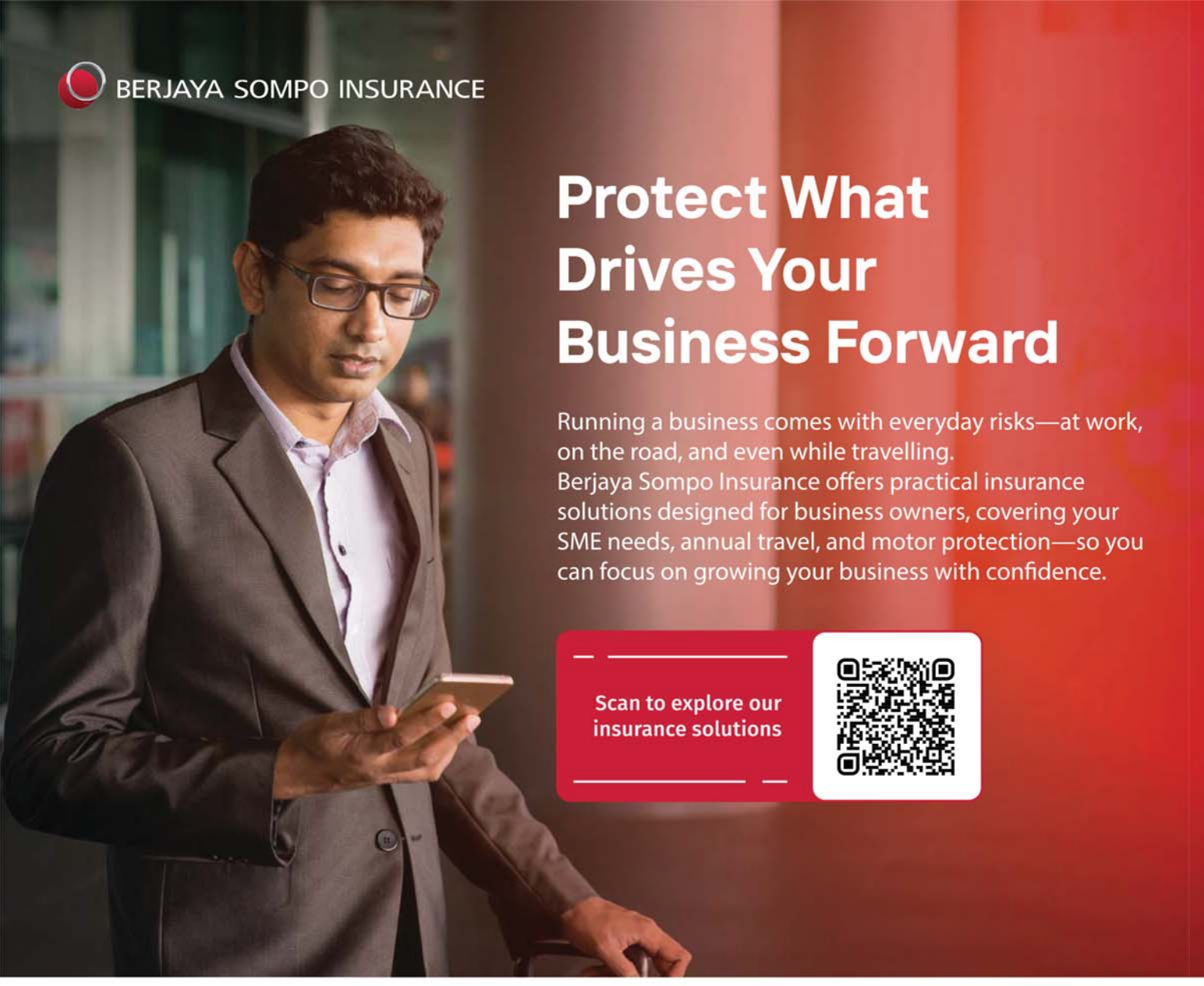
The next era of Malaysia's financial system will be defined not simply by digitalisation, but by tokenisation — the embedding of money, assets and rules into programmable, interoperable networks. Stablecoins will be central to this transition. They are the settlement layer that can bridge fintech innovation with institutional markets, support tokenised government bond issuance, enable real-time payments across borders, and expand financial access for consumers and SMEs.

Bank Negara's 2025-to-2027 roadmap provides the regulatory backbone for this transformation. Industry players are already preparing to build on it. If executed with coordination and ambition, Malaysia could emerge as a regional leader in tokenised finance, with a modernised monetary system designed for instantaneous, transparent and globally connected commerce. ●



Ashwin Chockalingam is co-founder and chief financial officer of Malaysian stablecoin issuer BLOX

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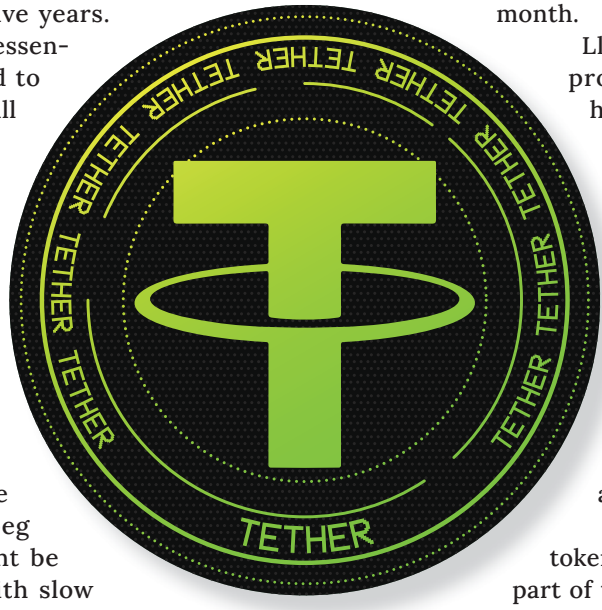
Why the 'stablecoin supercycle' could rewire banking

Some technologists believe more than 100,000 such payment systems could swamp the world within five years

BY PATRICK JENKINS

NOT SO LONG ago, you knew where you were with money. A central bank like the US Federal Reserve or the Bank of England (BoE) issued dollar bills and pound notes. And you used them to buy and sell things.

If some technologists are right, then one of the newest trends in payments technology — stablecoins — are about to enter a "supercycle" that will swamp the world with more than 100,000 such payment systems within five years. Reconciling those coins — essentially crypto that is pegged to a real-world currency — will require a whole new financial infrastructure. No wonder the establishment is getting jittery. "This is going to involve a fundamental rewiring of the financial system," one official told me.



Blockchain-based stablecoins have multiple progressive use cases. In countries with unstable currencies, a US dollar peg for a stablecoin user might be attractive. In countries with slow or dysfunctional payment systems, they offer an efficient alternative. And for those who want to trade crypto, they are a route back to the fiat financial system.

The current US administration, meanwhile, has embraced stablecoins, seeing them as a valuable source of demand for US Treasuries, as well as a way to consolidate dollar dominance.

The disruption to the status quo may be healthy in many ways — expensive money transfer services will face cheap competition; credit card companies, long criticised for the high fees they charge merchants, could be similarly disrupted.

But for a global economy that relies on so-called fractional reserve banking — turning deposits from one set of bank customers into credit loaned to others — stablecoins also threaten to be deeply retrograde. Because stablecoins facilitate payment, but not credit, they could, if they lure deposits en masse, threaten banks' funding and their ability to supply credit to the economy.

Central banks, especially those outside the US, are nervous. The European Central Bank, for example, fears a loss of sovereignty and monetary policy control, and is determined to launch its own digital currency as quickly as possible.

There are growing signs that commercial banks are scared of the upstarts, too. In an effort to stop stablecoins diverting their all-important deposit bases, some are going on the offensive. Using a blockchain as a distributed log (as stablecoins do), they are turning traditional deposits into "deposit tokens". "If you think about digital assets and tokenised deposits with AI, you can suddenly redesign significant parts of financial services," Lloyds Bank chief executive Charlie Nunn told the FT Banking Summit last month.

Lloyds is not alone. A pilot project with Britain's other high-street banks is under way, overseen by the BoE, which wants to ensure interoperability. Sarah Breeden, deputy governor, has spoken of the need to prepare for a "multi-moneyverse" and the BoE in November launched a consultation on the proposed regulatory regime for stablecoins and tokenised banking.

So far, doing business with tokenised deposits remains a tiny part of the global banking industry. Even US behemoth JPMorgan, at the forefront of experimentation, is doing barely US$5 billion of tokenised payment volumes a day, versus up to US$15 trillion in mainstream payments. But reformers reckon that if interoperability issues can be resolved then banks are in a strong position to exploit the efficiencies that digital tokens bring, while fending off stablecoin competition.

Banks' multinational clients can, for example, transfer funds around their global operations 24/7,



BLOOMBERG

The prices of Tether (USDT) against global currencies at a cryptocurrency exchange in Hong Kong, China

IF SOME TECHNOLOGISTS ARE RIGHT, THEN ONE OF THE NEWEST TRENDS IN PAYMENTS TECHNOLOGY — STABLECOINS — ARE ABOUT TO ENTER A "SUPERCYCLE" THAT WILL SWAMP THE WORLD WITH MORE THAN 100,000 SUCH PAYMENT SYSTEMS WITHIN FIVE YEARS. RECONCILING THOSE COINS — ESSENTIALLY CRYPTO THAT IS PEGGED TO A REAL-WORLD CURRENCY — WILL REQUIRE A WHOLE NEW FINANCIAL INFRASTRUCTURE. NO WONDER THE ESTABLISHMENT IS GETTING JITTERY.

with no time lag and no need for a correspondent bank in a far-flung location. But bank clients, unlike stablecoin users, are protected by anti-money laundering rules, minimum capital and transparent reporting requirements, and a central bank backstop. Bank deposits — tokenised or traditional — qualify for interest payments, whereas stablecoins can't pay interest under US and European law.

Token-based banking can also allow funds to be isolated in automatic escrow facilities to support asset sales, while "smart contracts" can automate certain payment triggers. Such facilities will more obviously modernise wholesale rather than retail banking, though Nunn is convinced the escrow option could smooth mortgage financing and house purchases.

All of this is at a very early stage. But even if policymakers preserve the fundaments of the current financial system, stablecoins and tokenised bank deposits look set to usher in a new era of digitised finance. The only certainty: life will get tougher for the Luddites. ● *FT*

Banks' asset growth outstripped by non-traditional institutions

Private credit groups, hedge funds and other institutions account for more than half of global financial assets

BY MARTIN ARNOLD

THE VALUE OF assets held by insurers, private credit providers, hedge funds and other non-bank financial groups grew at more than double the rate of those in the banking sector in 2024 as concerns grow about the opacity and potential risks posed by the sector.

The assets of these non-bank groups rose in value by 9.4% to US$256.8 trillion in 2024, meaning they accounted for more than half of global financial assets for the first time since the Covid-19 pandemic, according to research published by the Financial Stability Board (FSB) last month.

By contrast, the value of heavily regulated banks' assets rose 4.7% to just over US$191 trillion in 2024, the watchdog said.

The figures come as supervisors grow increasingly concerned about the opacity and potential risks non-bank groups could present, as well as their links back to the traditional banking system.

Since the 2008 banking crisis, the provision of finance has shifted from traditional lenders' balance sheets towards other firms that behave like banks but are more lightly regulated.

The FSB, which was set up by the G20 group of countries after 2008 to co-ordinate global financial regulation, warned of several risks stemming from the growth of non-bank finance.

"Vulnerabilities related to leverage, maturity and liquidity mismatches can amplify shocks in the financial system, such as sudden corrections in asset prices or bouts of financial market volatility, as was observed in early August 2024," it said, referring to a sharp sell-off in US equities and other assets that some regulators blamed partly on leveraged hedge funds unwinding their positions.

The FSB said growing interconnections between non-banks and banks — including via loans, deposits, repurchase agreements and derivatives — were "broadening the channels through which shocks can propagate across sectors and jurisdictions".

The watchdog also warned of "severe limitations in the availability of data for private credit in statistical and regulatory reports". It said this was partly because "there was no standard definition of private credit activities" between countries, making it difficult to identify them.

Bank of England governor Andrew Bailey, who chairs the FSB, said recently that "alarm bells" were ringing over risky lending in the private credit markets following the collapse of car parts supplier First Brands and subprime lender Tricolor, as he drew a parallel with practices heading into the 2008 crisis.

EU insurers and pension funds had €514 billion of exposure to private credit at the end of 2024, representing 5.1% of their total assets, the sector's regulator Eiopa said last month. It warned of heightened risks because private credit assets could be "illiquid and difficult to sell or redeem quickly".

Non-banks have been central to several episodes of market turmoil in recent years. These include a dash for cash in bond markets after the pandemic hit in 2020, the collapse of family office Archegos Capital Management in 2021 and the UK gilt market meltdown in 2022.

The IMF warned last year that US and European banks' US$4.5 trillion exposure to hedge funds, private credit groups and other non-bank financial institutions could amplify any downturn and transmit stress to the wider financial system. ● *FT*





New York's Financial District. Non-banks have been central to several episodes of market turmoil in recent years.

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THE FSB SAID GROWING INTERCONNECTIONS BETWEEN NON-BANKS AND BANKS – INCLUDING VIA LOANS, DEPOSITS, REPURCHASE AGREEMENTS AND DERIVATIVES – WERE "BROADENING THE CHANNELS THROUGH WHICH SHOCKS CAN PROPAGATE ACROSS SECTORS AND JURISDICTIONS".

How banks fuel the private credit boom

Lenders emphasise their safety and private credit's riskiness. In reality, the two are intertwined

BY ORTENCA ALIAJ, LOUIS ASHWORTH AND ERIC PLATT

AFTER THE IMPLOSION of auto parts group First Brands and subprime car lender Tricolor, three private credit executives appeared last month in front of a UK House of Lords committee to hit back at "misinformation".

"What is happening in private credit is fundamentally safer to happen in private credit rather than on banks' balance sheets," said Daniel Leiter of Blackstone, adding that leverage made the biggest lenders vulnerable to a "single point of failure in any of the businesses".

The banks disagree. JPMorgan Chase boss Jamie Dimon has described a "huge arbitrage taking place" as lending moves from the banking sector into more lightly regulated rivals, and recently warned there were more "cockroaches" waiting to scuttle out after the private credit boom.

The reality is lenders and private credit funds are not so distinct. The two have entwined their fates, with banks extending hundreds of billions of dollars in financing that boosts private credit funds' returns.

Regulators, economists and government officials have started to voice concerns.

The IMF in November warned "beneath the calm surface, the ground is shifting". The European Central Bank has observed that links between banks and private credit are creating channels through which "shocks can be transmitted, amplified and redistributed" across the financial system.

One senior private credit executive put it more bluntly: "The [private credit] model is going to be pushed to extremes."

"This was the problem in 2008, we got to the end of the possible in the banking system and then we were lifting cushions in the conference rooms in the hope that someone's coins fell out."

These are the ties between banks and private credit funds that have fuelled the rise of non-bank financing. (Please see chart 1 to 4)

Banks provide the plumbing for the trillion-dollar private credit market, offering leverage and liquidity throughout a fund's life.

CHART 1

Banks provide leverage to private credit funds in three key ways.

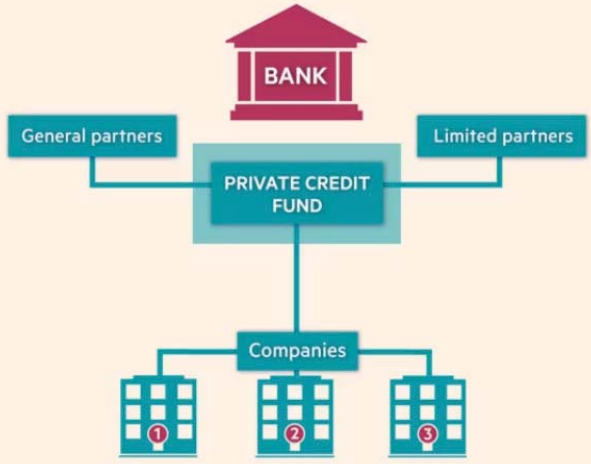
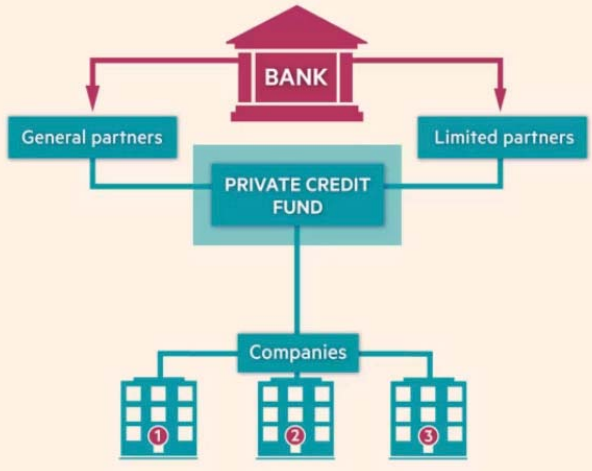


CHART 2

"Upstream" to investors backed by existing stakes in other funds.



Investor financing

This starts with a private credit fund's investors, known as limited partners and general partners. Limited partners — usually big institutions such as pension funds or endowments — are the ones which supply the capital to be lent out. The general partner is the private credit firm that manages the fund.

Both can borrow from banks. Limited partners might borrow from banks to finance their commitments to the funds, while general partners can borrow money against the fee income they receive from managing funds on behalf of institutional investors. Then there is the fund itself. Once it has secured promises from limited investors, it can start borrowing via so-called subscription lines, using the investor commitments as collateral.

CHART 3

"Midstream" to the fund and the special purpose entities that lend to businesses backed by a pool of loans.

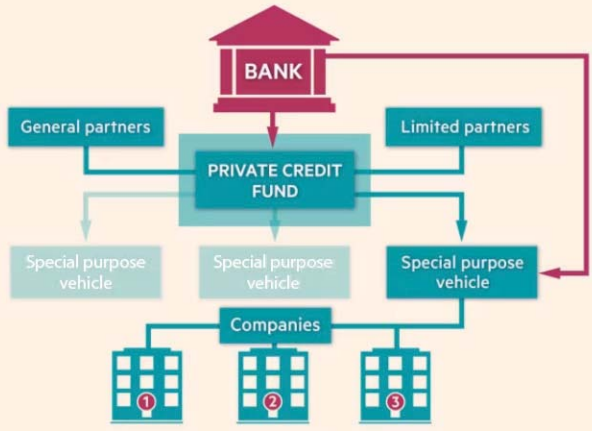
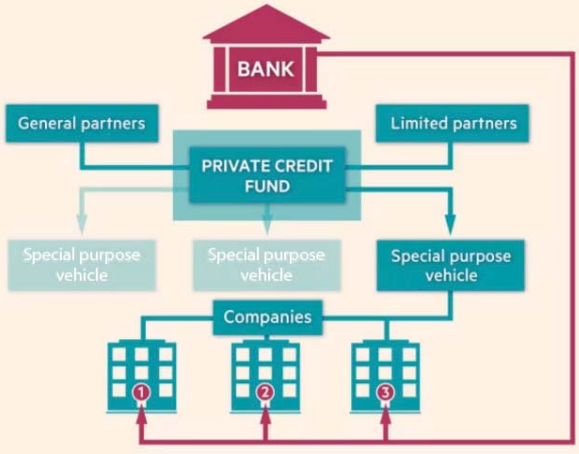


CHART 4

And "downstream" to companies that also borrow from private credit funds.



Subscription lines

These revolving credit facilities allow funds to put money to work sooner, without waiting for cash to be wired from an investor.

Subscription lines are also popular because they help to amplify performance since the industry's "internal rate of return" metric is calculated from the date the investor's cash is put to work rather than when the commitment is made.

The private credit fund will make the loans to borrowers and then turn to banks for more financing using those loans as collateral.

Back leverage

The funding banks provide to private credit firms to support their lending generally happens through entities tied to the fund, known as special-purpose vehicles.

This relationship falls under the category of "back leverage" — in effect, a layer of debt that gives the bank indirect exposure to private credit borrowers.

The private credit fund owns the equity of the SPV, but the bankruptcy-remote vehicle is separate from the fund. That enables banks to "ring fence" assets and understand exactly which loans are serving as their collateral at any one time.

New loans originated by the fund are transferred to SPVs and used as collateral for what is known as "loan-on-loan" financing, for the simple reason that funds are taking on loans to fund new ones.

An individual fund could have dozens of these SPVs if it is drawing on leverage from different banks, with each housing a revolving pool of loans and a different SPV for each bank.

A bank will typically advance 60% to 70% against the value of the loans placed in the SPV. They count on diversification across the pool of loans to help safeguard against losses, as well as security over the loans.

Banks receive the underlying performance of each

HOW BANKS FINANCE A BLACKSTONE PRIVATE CREDIT FUND

Bank	Funding amount	Borrower
Bank of America	$1,500mn	Bison Peak SPV
Bank of America	$600mn	Bushnell Peak SPV
Barclays	$1,500mn	Blanca Peak SPV
BNP Paribas	$1,650mn	Bard Peak SPV
BNP Paribas	$518mn	Bear Peak SPV
Citi	$1,900mn	Castle Peak SPV
Citi	$5,650mn	Revolving credit line
Deutsche Bank	$750mn	Denali Peak SPV
Goldman Sachs	$500mn	Granite Peak SPV
HSBC	$250mn	Haydon Peak SPV
HSBC	$198mn	Phoenix Peak SPV
Mass Mutual	$350mn	Meridian Peak SPV
Morgan Stanley	$1,000mn	Middle Peak SPV
MUFG	$1,500mn	Monarch Peak SPV
Société Générale	$1,375mn	Summit Peak SPV
Wells Fargo	$2,150mn	Windom Peak SPV

SOURCE: BCRED FILINGS

loan and mark the loans at their discretion. If they see weakening performance, they can drop a loan from the SPV and demand that the fund replace it with a performing one. The bank can also opt to cut the size of the facility, restricting the leverage provided to the private credit fund.

These loans tend to be "over-collateralised", meaning funds are borrowing less than the value of the assets pledged as security. But there is still a risk that loans deteriorate rapidly and at the same time leave banks with losses.

Repo financing

Other financial arrangements can obscure how much exposure banks have to the industry, among them repurchase or "repo" agreements and net asset value loans.

With repo financing, the SPV sells a group of loans to a bank on the understanding that it will buy them back at a premium at a later date. Repos tend to have daily margin requirements and are therefore traditionally used for ultra-safe and liquid assets such as government bonds.

However, the fund and the bank can negotiate their own terms bilaterally, making the repo market notoriously opaque. Repo agreements can be used for a pool of loans or even a single one, but it is near impossible to know how widely this type of financing is used by private credit funds.

Regulators, such as the European Banking Authority and the Bank of England, have complained of "black holes" in data and are asking banks for greater disclosure around repo funding.

One concern is that private credit funds' connection to the repo market — which financial institutions use to meet their short-term funding needs — could add to systemic risks when repos are tied to illiquid private debt that has to be sold quickly in times of stress.

The use of short-term funding markets can "introduce potential transmission channels for financial shocks", Barclays analysts wrote in a report in May, particularly as private credit firms target retail investors.

NAV loans

Net asset value loans, or NAV lines as they are called in the industry, are backed by the value of the fund's portfolio. They can be used to cash investors out earlier — further narrowing the period of time over which returns are measured and amplifying performance — or to free up capacity for new lending.

NAV lines have attracted controversy, with regulators referring to them as "leverage on leverage" given that the fund is borrowing against the value of existing investments, which are already using substantial amounts of debt.

Still, Swiss private equity firm Partners Group estimated the NAV market to be worth US$100 billion at the start of 2025 and predicted it would grow significantly.

Loans to portfolio companies

Below the fund and the SPVs, banks can also lend directly to private capital portfolio companies.

Both banks and private credit funds claim it is unusual for them to lend to the same companies. But the ECB in 2024 said this may be down to the fact that lenders do not necessarily track it.

"An important takeaway… is that banks are not able to systematically identify transactions where they are co-lenders to portfolio companies alongside private credit funds," the central bank said.

CHART 5

Funds can get more liquidity by pooling loans into collateralised loan obligation vehicles.

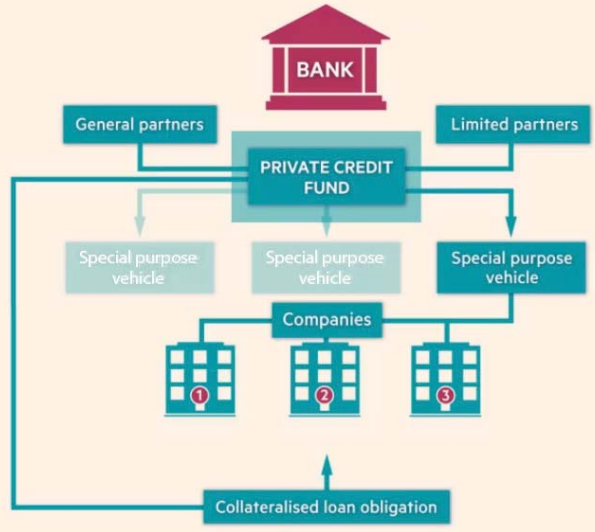


CHART 6

The debt is split into tranches and assigned a credit rating determined by how senior it is in the capital structure.

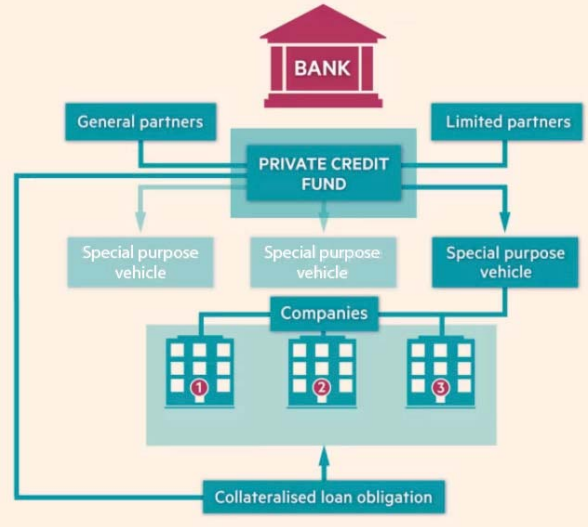
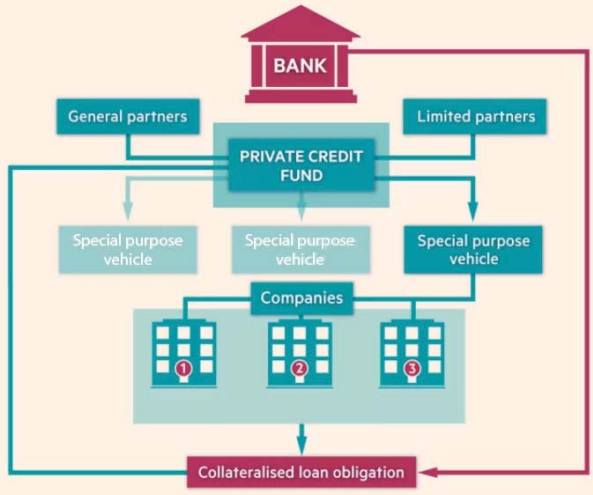


CHART 7

Banks can invest in private credit CLOs, particularly senior tranches that have a lower risk of default.



HOW HEALTHY ARE PRIVATE CREDIT BORROWERS?

Executives have long touted private credit's low default rates. But the IMF estimated earlier this year that almost half of these borrowers have negative free operating cash flows, and so funds have found other ways to avoid registering defaults that could obscure borrowers' true financial strength.

Payment-in-kind notes add interest to the outstanding loan balance, for example, in effect financing debt with more debt. That is likely to lead to lower recovery rates where defaults happen, which increases the risk that banks take losses despite holding senior-ranked debt.

"The failure to properly identify — on an aggregate level — exposures to companies that also borrow from private credit funds means that this exposure is almost certainly understated and the concentration risk cannot be properly identified and managed," it added.

From there, the concentration risk becomes harder to track. (Please see charts 5 to7)

Private credit funds also tap into the US$1.5 trillion market for collateralised loan obligations (CLOs) to help fund lending.

To form a CLO, loans originated by the fund will be grouped together and sliced into tranches, with the tranches sold to investors based on their risk appetite.

CLO investors are typically insurance companies, pension funds and sovereign wealth funds — which also invest in private credit funds themselves — as well as banks.

The CLO will need a large and diversified pool of loans, so a private credit fund's SPV will use a form of temporary financing from a bank called a warehouse line until there are enough loans to fill the pool.

The majority of this debt is floating rate, which makes the borrowers vulnerable to rising interest rates, and backed by loans to companies that are already highly levered.

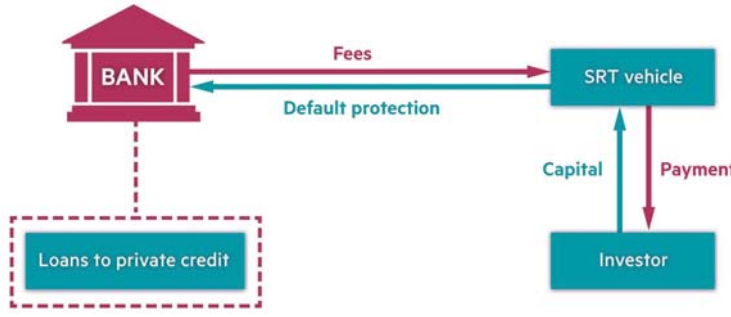
"[CLOs] are a bit more dangerous because they tend to have higher leverage and there's…an implicit bet that CLO markets will stay open and the collateral will continue to perform," said one senior banker who structures deals.

At the same time, banks are shifting some of the risk on their loan books to private credit funds through deals known as significant risk transfers.

Banks repackage their loans and buy default protection on the riskiest parts from investors, who agree to pay up if things go awry in return for a quarterly fee.

Significant risk transfers have been around for a while and were mostly used for vanilla assets such as corporate loans or mortgages.

But banks' most lucrative clients are private equity and credit funds, so they are issuing more and more deals where they offload risk tied to subscription lines and NAV loans to increase lending capacity to the sector.



Private credit funds are an increasingly large part of the group selling protection against losses on these loans. They use leverage for these transactions too — frequently provided by banks themselves — prompting "round-tripping" fears and questions over whether the risk is truly being shifted out of the banking system.

As the US Federal Reserve put it earlier this year: "Banks are lending to the same [non-bank financial institutions] including private credit vehicles that are providing the credit insurance, meaning that…some of the risk is actually not leaving the banking system as it appears."

One economist who studied the sector said he heard the familiar echo of the early 2000s.

"We've seen the movie before when we have all this shifting around of risk." ● *FT*

ESG

While 2025 saw delays and cancellation of climate and ESG-related policies in the US and Europe, the low-carbon transition, enabled by the declining cost of producing renewable energy (RE), is expected to continue at full speed.

At the same time, the many extreme weather events and natural disasters that hit the globe in 2025 have alarmed governments and businesses into preparing for the worst impacts of climate change.



RARE EARTH AMID SHIFTING SANDS IN THE GREEN TRANSITION AND GEOPOLITICS

The global energy transition is advancing at a pace few predicted a decade ago. Electric vehicles are scaling faster than the grid infrastructure can upgrade. Wind turbines are growing larger and more material-intensive. Artificial intelligence and advanced manufacturing are now central to economic competitiveness and national security. Beneath these advances, however, the material foundations of the energy transition remain, somewhat paradoxically, both geopolitically charged and strategically under-examined.

BY QARREM KASSIM

Rare earth elements (REE) sit at the nexus of this contradiction. Among the growing list of critical minerals, REEs occupy a uniquely strategic position. They are indispensable to permanent magnets used in electric vehicle (EV) motors, renewable energy and defence systems.

Yet REEs continue to be discussed as a niche commodity. This matters because without deliberate policy design, discipline and circular integration, the global rush for these minerals risks reproducing the very damage the energy transition claims to overcome.

Strategic leverage point of rare earths

The strategic importance of REEs lies first and foremost in function rather than volume. Permanent magnets, made from rare earth metals like neodymium, dysprosium and terbium, remain irreplaceable. Technological substitution, where possible, is slow, uncertain, inefficient and capital-intensive.

This is what confers REEs' major geoeconomic leverage. The industry's up-and-midstream segments are relatively small, with tightly managed margins and modest headline values, yet its downstream consequences are immense. In 2025, global REE production stood at roughly 196,000 tonnes, valued at US$12 billion to US$15 billion but underpins downstream industries estimated to be US$7 trillion worldwide.

A US-based RAND Corp study reinforced this asymmetry, warning that a 90-day disruption in REE supplies could force many US defence contractors, automotive and advanced manufacturing activities to shutter. In short, even small upstream disruptions can cascade rapidly into system-wide failure.

Geoeconomic securitisation replaces efficiency

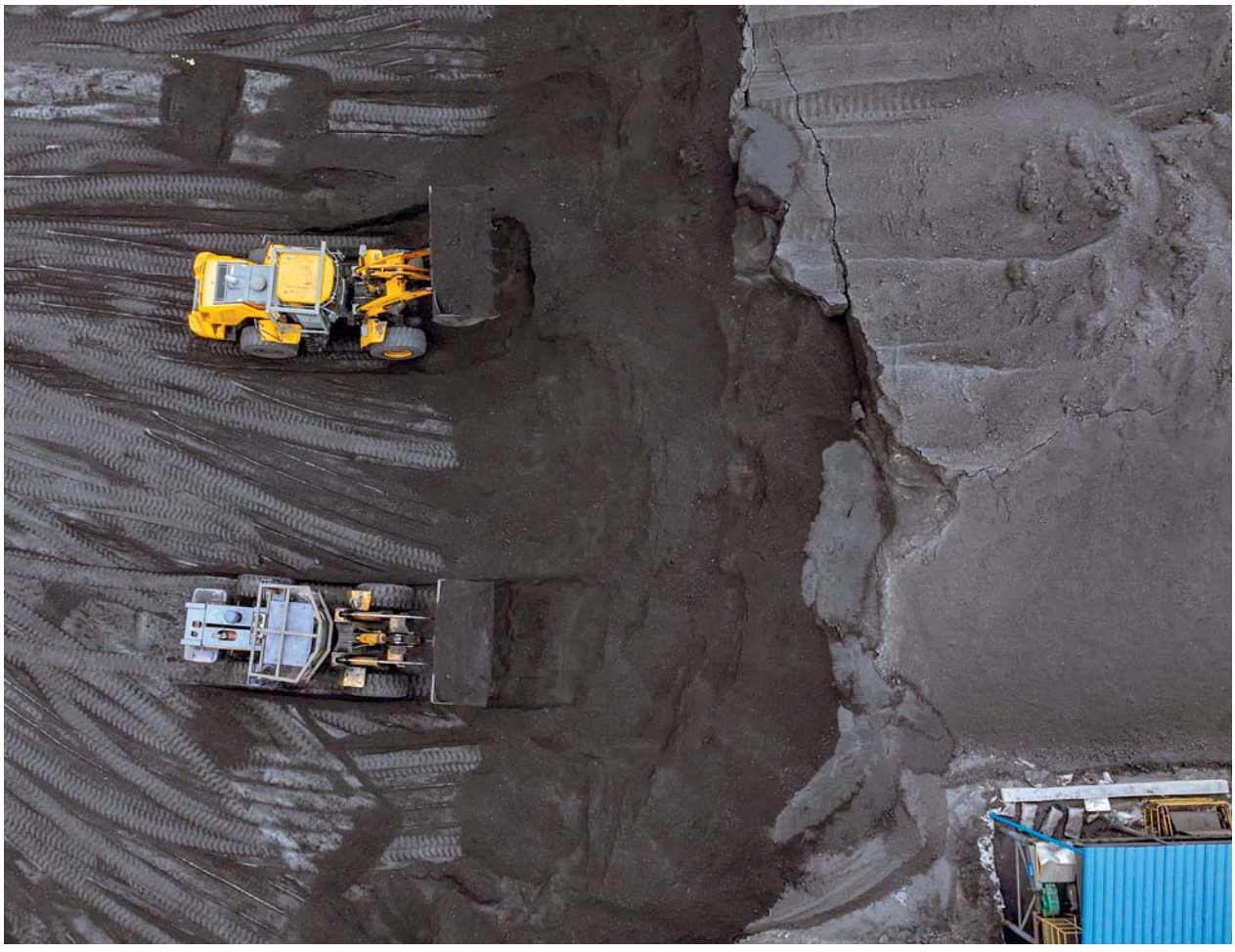
This fragility explains why REEs have become central to the reordering of the global economy. The efficiency-led, cost-optimisation model of globalisation is giving way to a more contested order shaped by resilience, securitisation and strategic redundancy.

For decades, China absorbed the high environmental and social costs of refining that others avoided. In the process, it has achieved scale, efficiency and technological mastery. Last year, this structural advantage became explicit policy amid heightened US-China trade tensions. In April 2025, Beijing tightened export licensing requirements for REEs, expanding these controls in October to cover magnets and processing technologies.

The consequences were immediate. Factory floors worldwide faced uncertainty due to magnet shortages and rising costs. For instance, India's Maruti Suzuki slashed its annual EV production target by 70%. Price volatility followed, with several rare earths seeing sharp spikes. Dysprosium prices quadrupled, driven by physical scarcity fears and speculative pressures.

What has followed is a global scramble. The US and its allies are committing billions to develop non-Chinese refining capacity, signing critical mineral partnership agreements with various countries, including Malaysia. The European Union (EU), through its Critical Raw Minerals Act (CRMA), aims to diversify REE processing across trusted supply chains while Japan seeks to secure long-term supply contracts and accelerate recycling initiatives. More than 300 million tonnes of REE deposits have been identified outside China, with over 140 projects under development.

Yet, building viable alternative supply chains



COSTFOTO.NURPHOTO/ REUTERS

Workers proportioning bituminous coal and anthracite coal in a coal storage warehouse in Yuping Dong Autonomous County, Tongren City, Guizhou Province, China, on Dec 17, 2025

is a long and risky gamble. Mines, refineries and downstream ecosystems can take over a decade to develop. Capital intensity is high, margins are thin and technology remains tightly held. China will continue to dominate the near term.

Malaysia's strategic positioning

This is where Malaysia enters the frame. Malaysia is often either overstated as a rising REE power or dismissed as a passive processing site. Both narratives miss the point. Its strategic relevance lies elsewhere as a resource-rich, trusted and regulated midstream node outside China with strong potential.

The presence of Lynas has anchored Malaysia's role as one of the few significant oxide exporters outside China. Recent investments — including the expansion of its processing site to cover heavy REEs, off-take arrangements with South Korean company JS Link and state-level cooperation on mixed rare earth carbonate supply — suggest gradual but meaningful integration into Malaysia's broader industrial fabric. This promises not only geoeconomic relevance but also geopolitical leverage.

Government policy has begun to reflect this reality. Malaysia has articulated ambitions to deepen REE value chains, particularly through ion-adsorption clays (IAC) richer in heavy REEs. Based on IAC deposits concentrated in Southeast Asia, the Ministry of Natural Resources and Environmental Sustainability projects that Malaysia could produce 30,000 tonnes of total rare earth oxides by 2030.

Ambition, however, must be matched with realism. This target would essentially amount to 13% of global output and could create unintended consequences for pricing and market absorption, particularly as other non-China producers simultaneously scale up supply. This raises the risk of future oversupply colliding with China's fully integrated, low-cost ecosystem.

Domestically, Malaysia only has one active IAC operation in Kenering, Perak, which in 2023 exported roughly 6,400 tonnes of unseparated rare earth carbonates (REC) to Chinese refiners under a special exemption from the

current export moratorium on the upstream.

Meeting the national production target may require over 10 mine operations of a similar scale (assuming standard mineral grades). Persistent public sensitivities and pressure over environmental safety and IAC mining practices suggest that rapid expansion may face stiff socio-political hurdles.

Structural constraints compound these challenges. Kenering's operations rely on proprietary technologies and chemical leaching inputs sourced from China. Although Malaysia has a strong chemicals base, several niche and speciality chemicals required for REE refining are, of necessity, foreign-sourced.

Beyond mining, national policy discourse also envisions greater downstream value capture but this is far from automatic. Over-reliance on REC alone, which trades at a discount in non-China markets due to scale and processing inefficiencies, will not anchor advanced downstream manufacturing. True value addition lies in anchoring domestic metallisation, alloying and magnet manufacturing capabilities. Without these, Malaysia cannot credibly claim an end-to-end REE ecosystem.

Trade data illustrates this limitation. In 2025, Malaysia's REE export-to-import multiple stood at 2.9x, with significant volumes sent to Vietnam for metallisation and magnetising destined for Japanese automakers. Midstream value capture, while geopolitically important, remains economically modest. Advancing downstream capabilities here demands long-term offtake commitments and regulatory and policy certainty. A national integrated federal-state REE coordinating body could impose strategic coherence where fragmentation prevails.

Resource certainty is equally critical. Mineral exploration is costly and governments cannot substitute for market risk-taking or guarantee resource estimates. What regulations should instead focus on is ensuring Joint Ore Reserve Committee (JORC)-compliant reporting, transparent data sharing and predictability in licensing regimes — prerequisites for serious downstream investment.

If there is one area where REE policy remains most underdeveloped, it is circularity. In Malaysia, REE residues are still largely regarded as waste, rather than strategic resources to be valorised. This is a strategic blind spot — economically, environmentally and geopolitically.

Globally, recycling and circular processing are moving from the periphery to the centre of critical mineral strategy. The EU CRMA explicitly links supply security to recycling, traceability and environmental, social and governance (ESG) compliance.

Circularity lowers these risks, reduces community resistance and enhances resilience. ESG performance is no longer voluntary but a condition for wider market access. A national Free, Prior and Informed Consent (FPIC) framework, traceability and governance transparency are becoming commercial necessities as investors, manufacturers and regulators increasingly price governance risks into supply chain decisions.

Responsibility and collaboration as strategic maturity

None of this, however, negates geopolitical reality. Technology, processing know-how and specialised input remain concentrated among a few key players. Malaysia should not assume frictionless diversification or automatic technology transfers, nor should China be framed as an adversary. Strategic maturity lies in constructive engagement with China alongside diversified partnerships with Western partners and regional complementarities within Asean.

Several fault lines will shape the rare earth landscape ahead: export controls that ebb and flow with geopolitical winds; traceability standards hardening into de facto trade rules; the growing strategic value of circularity; and domestically, the ability of state-federal coordination to keep pace with global change.

The broader lesson is clear. Responsible and transparent development is not a moral add-on. As supply chains increasingly act as instruments of geoeconomic power, trust and credibility become competitive advantages and, by extension, strategic necessities.

Malaysia need not be a mining superpower to matter. But it must decide whether it remains a node in foreign supply chains or can build a cohesive world-class ecosystem on its own. In the shifting sands of the global economy, responsible development of REEs may yet prove to be Malaysia's most durable source of geostrategic leverage. ●



Qarrem Kassim is an analyst at the Institute of Strategic and International Studies Malaysia

WHAT'S NEXT ON THE CLIMATE ADAPTATION HORIZON FOR MALAYSIA

Throughout the years, climate-related internal displacements in Malaysia continue to rise, with a recorded 236,000 people in the country displaced by floods in 2024, compared to 205,000 in 2023, according to the analysis from the Internal Displacement Monitoring Centre.

BY JASMIN IRISHA JIM ILHAM

While floods and storm surges have far-reaching effects on the economy, causing economic losses surpassing US$1.3 billion annually, as recorded by the World Bank, and having an impact on about 10.1% of land area annually, local communities — particularly marginalised groups such as women, children, youth, persons with disabilities, rural communities, urban poor and indigenous population — are the most disproportionately affected.

To prepare for future climate scenarios outlined in the Intergovernmental Panel on Climate Change that point to an increased frequency of extreme weather events, including more intense rainfall in Southeast Asia by the mid-21st century, countries in the region need to ramp up efforts to build the resilience of their communities and economies to climate shifts and shocks.

Recognising the urgency, Malaysia must accelerate efforts to adapt to a changing climate while advancing mitigation strategies to achieve net zero emissions by 2050.

Under the leadership of the Ministry of Natural Resources and Environmental Sustainability (NRES), five climate-sensitive sectors — water and coastal resources; agriculture and food security; infrastructure and cities (including energy); forestry and biodiversity; and public health — have been identified as a priority for the Malaysia National Adaptation Plan (MyNAP), which requires targeted adaptation measures to address vulnerabilities effectively.

The MyNAP, anticipated to take effect by end-2026, will offer a coherent national framework on adaptation planning and action to enable long-term transformational shifts that build climate resilience into national and sectoral development planning.

Guided by the Global Goal on Adaptation under Article 7 of the Paris Agreement, countries — also known as "parties" — are encouraged to formulate their first NAPs by 2025 to enhance their adaptive capacity, strengthen resilience and reduce vulnerabilities to climate change.

So far, nearly every developing country has a NAP process underway, with 144 of 154 having initiated one and 121 having an approved proposal submitted to the Green Climate Fund's Readiness Programme for adaptation planning.

Since 2015, NAP Central, managed by the United Nations Framework Convention on Climate Change (UNFCCC), has tracked

ERIC LAFFORGUE / HANS LUCAS/ REUTERS



Umbrella on a rickshaw to protect from the heat in George Town, Penang

submissions of multi-sector NAPs from 74 developing countries.

The MyNAP aligns closely with Malaysia's broader development strategies, including the 13th Malaysia Plan (2026-2030), which emphasises the critical importance of adaptation and promotes resilience to climate change through risk-informed development planning.

Call for strengthened commitment, accountability and governance, and private sector investment

What makes a successful National Adaptation Plan? Structured and effective adaptation governance is crucial to ensure smooth inter-ministerial and inter-agency coordination. A sectoral approach, informed by sector-specific situation analyses, forms the foundation of the MyNAP's design.

Cross-cutting issues, such as gender-responsive measures, climate finance and private sector investment, are key considerations that should be integrated into the MyNAP strategy to ensure they are addressed across all sectors.

In addition, it must address intersectional vulnerabilities by recognising that unique risks are shaped by intersecting factors such as gender, age, socio-economic status, background and ethnicity.

Support should be provided for women-led and youth-led initiatives and enterprises, alongside targeted capacity building, climate-resilient livelihoods and microfinance models in climate-sensitive sectors such as agriculture, fisheries and coastal resources. This ensures inclusivity across planning, implementation and monitoring processes.

Four strategic thrusts are central to the successful development of the MyNAP, aimed at enhancing Malaysia's institutional, technical and financial capacities for developing, implementing and monitoring its approaches:

- Establish governance for coordinated climate adaptation action;
- Build data systems and monitoring for informed planning;
- Enable risk-based decisions and incentivise private investments; and
- Secure scalable and sustainable funding for adaptation.

More than just a policy document and a mere fulfilment of obligations for Malaysia to the UNFCCC, the MyNAP is key to developing strategies and incentives to foster private investment adaptation solutions, establish mechanisms to highlight adaptation priorities and develop national systems for tracking adaptation finance flows.

According to the Fourth National Communications to the UNFCCC (NC4), a preliminary estimate of US$63.6 million is required for various adaptation initiatives to strengthen resilience measures throughout the country.

This is a fairly conservative figure compared to the median cost for NAP implementation derived from the NAP Global Network's assessment of submitted NAPs — an estimated US$2 billion.

It is clear that strong policy signals and enabling regulations are needed, alongside robust data systems and shared information platforms, supported by innovative financing mechanisms. Multi-stakeholder collaboration between the public, private and financial sectors is essential to unlock financing opportunities for adaptation-aligned investments.

There is no more room for adaptation to take the back seat in Malaysia's climate agenda. While the country has undertaken significant efforts in adaptation — such as the Penang Nature-Based Climate Adaptation Programme, the SMART Tunnel in Kuala Lumpur and the development of a multi-hazard platform for forecasting local-level climate extremes and physical hazards for Iskandar Malaysia — notable challenges are recognised, including a lack of capacity resulting in coordination and governance challenges, limited private sector engagement and inadequate adaptation financing.

In a country where disasters like floods are no longer seasonal but increasingly erratic and unpredictable, adaptation must be centred on resilience, with preparedness embedded in federal, state and local policies and planning to ensure that daily life, livelihoods and sources of income remain safe and uninterrupted. ●



Jasmin Irisha Jim Ilham is an independent consultant focusing on climate change adaptation, policy and diplomacy. She is a senior climate change adaptation coordinator for Malaysia with the NAP Global Network and previously held positions with Unicef, Earth Institute and the Jeffrey Sachs Center on Sustainable Development and holds an MA in Climate and Society from Columbia University.

Inside the failed green revolutions at BP and Shell

How the energy giants tried to transform their businesses — but ended up dramatically scaling back those plans and writing off billions of dollars

BY MALCOLM MOORE AND TOM WILSON

THE GREEN REVOLUTION at BP began on Feb 12, 2020, in Bernard Looney's second week as chief executive.

Looney, a charismatic BP lifer who had run the company's oil and gas operations, embraced the energy transition with the zeal of a convert.

"We have got to change, and change profoundly," he declared in a speech in London, just weeks before Covid lockdowns swept much of the world, leading to an oil price crash that seemed to underline his message.

As well as accelerating its clean energy businesses, Looney said, BP would also cut spending on oil and gas, and slash not just its own emissions by 2050, but also the hundreds of millions of tonnes of CO_2 produced when its oil and gas was burned by its customers each year. In total, he said, "that is not far off the emissions of the UK".

He also sent a warning shot to any doubters within the company. "If anyone sees BP acting counter to what I say today, then I want to hear about it."

The speech stunned BP's own senior staff.

Two former executives claim Looney had been working with consultants from McKinsey for months but had not shared the plan with the other 11 members of BP's executive team before unveiling it. "It was a big bang approach," one of them says. "[He was saying:] 'I will actually destroy my current business because it is doomed and I am going to build a brand new business on the ashes of that.'"

Observing from outside, one rival oil company boss was also shocked that BP had tied its net zero targets to the oil and gas it produced. "You are going to be toast. The only way you are going to get to zero is to get to zero production," the person recalls thinking. Looney declined to comment for this article.

By the time Looney announced BP's plans, Shell, the UK's other oil and gas giant, had been working on its own transformation for six years under chief executive Ben van Beurden.

Both companies were cheered on by the UK government, the media and by investors, such as BlackRock, which adopted new climate-friendly investment frameworks.

There was a powerful mood of optimism in the markets. By 2021, Denmark's Ørsted, the first oil and gas company to exit fossil fuels and embrace renewable energy, saw its valuation hit S$82 billion, making it around a third more valuable than BP or Shell in January 2021.

Van Beurden says that while Shell began slowly, he believed it was essential for the company to identify what its role would be after the transition to clean energy. "For the long-term survival of the business, you have to think about the future of the energy system, which is not going to be oil and gas, let's be honest," he tells the *FT*.

The two UK oil majors spent heavily on their plans, hiring thousands of new staff and promising to be part of the solution to climate change, rather than its cause.

But neither effort lasted beyond the tenure of the chief executive who launched it. The two companies have since dramatically scaled back several of their energy transition businesses, writing off billions of dollars of value as they shut down, or sell off underperforming units.

The majority of the staff they hired have now moved on and both BP and Shell have promised investors they will cut costs and focus on their core business of finding and selling oil and gas.

"Our optimism for a fast transition was misplaced and we went too far, too fast," Murray Auchincloss, BP's current chief executive, said in February last year, as he killed off Looney's plan. "Oil and gas will be needed for decades to come."

The first and biggest mistake that both companies made was to believe they could jump from oil and gas to becoming major players in electricity.

Both Shell and BP had dabbled in wind and solar power since the 1990s, but decided



FINANCIAL TIMES

Looney's sudden departure at the end of 2023 left BP with the dawning realisation that its revolution was out of step with reality

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the technology was not yet mature. By 2014 however, Shell had realised that if the world was serious about getting to net zero "you have to have deep electrification", according to Mark Gainsborough, the first head of the company's "New Energies" division.

At that time, the world appeared to be changing fast. Oil prices were collapsing after Saudi Arabia's price war against US shale producers, governments were sharpening climate policy and the Paris Agreement on emissions targets was imminent.

Even as Shell was betting on gas for its medium-term future, buying BG Group in 2015 for US$52 billion, van Beurden wanted to prepare for a post-fossil fuel world.

After closing the deal, he surprised his executives by telling them that while Shell was now the world's largest gas company, it was already cheaper to generate electricity from renewables than from gas.

There was plenty of external pressure too: van Beurden remembers attending conferences and being told Shell was a dinosaur, waiting to become extinct.

Embracing wind and solar power was the quickest way for Shell to reduce its overall carbon footprint, as it offset some of its oil and gas emissions with zero emission electricity.

It was also the only option that could be quickly scaled; other clean technologies such as hydrogen, biofuels or carbon capture were all too expensive for consumers.

But Shell's huge bureaucracy moved slowly and cautiously. Executives worried about the profitability of becoming an electricity utility, while the board fretted about the risk to Shell's reputation if a business selling power to households went awry.

After much internal wrangling, the company set out a methodical transformation plan and started building or acquiring businesses along the green energy supply chains to Shell's vast customer base.

But winning over its own oil and gas-focused staff was a huge challenge. "It was the finance guy who would come in and say, 'I don't get it. I don't know why we are investing in this, the returns are low.' And the lawyers, and the treasury. Everyone had an opinion," says one former Shell executive.

Joe McDonald, one of the founding team at Limejump, a virtual power plant start-up acquired by Shell in 2019, remembers the culture shock of joining the giant company. "You moved from one meeting to a hundred meetings. I remember one meeting where we spent the whole 45 minutes introducing everyone, and then we had to reschedule another meeting later."

For Gainsborough, the biggest challenge was that the nascent division was tiny, in an organisation pulled inexorably by the gravity of oil and gas.

"At Shell, if it does not move the dial, it gets ignored," he says. "I've done some difficult jobs and by far and away the most difficult one was running New Energies. And that was in an environment where both the CEO and the chair were massive supporters."

In the decade before Looney took charge, BP was simply trying to steady its ship. The 2010 Deepwater Horizon disaster cost it over US$70 billion and absorbed all the attention of the company's leadership.

There were some small hedges on the future. In 2017, it bought nearly half of UK solar farm company Lightsource for US$200 million. In 2018, it bought Chargemaster, the UK's largest electric vehicle charging network, for £130 million after seeing how quickly electric vehicles were being adopted in China.

But everything changed after the arrival of Helge Lund, the former Statoil chief executive, as BP chair at the end of 2018 — and then the appointment of Looney as chief executive at the start of 2020.

To consolidate control and prepare BP for disruption, Looney and McKinsey dismantled the company's traditional "upstream" and "downstream" divisions, which explored and produced oil and gas and then refined, traded and sold it.

Instead, there were 11 new business units, some of which left staff baffled. One new team was called "Cities and Regions" and its job was to imagine how urbanisation would change energy use and consult with cities on what opportunities there might be for BP to play a role. "It looked like a consulting job on a piece of paper rather than something that was really going to fly," admits one former BP executive. Last year, BP reorganised again to get rid of the Cities and Regions unit and "reduce duplication".

"You could see the mis-steps happening live. The degrees of change were just too fast," says another. "Changing the CEO is one degree of change. Then the CEO changes the strategy overnight. Then he decimates anybody in divisions that he didn't think were important."

Later in 2020, Looney set out more details. BP went beyond Shell, and any other oil company, in pledging to actually reduce the oil and gas it produced, with an initial target of a 40% cut by 2030. "No other company followed, so either you are a prophet and others did not get it, or you are the lonely guy on top of a mountain," observes the second executive.

With McKinsey teams embedded across the organisation to offer rebuttals, and amid the chaos of the reorganisation, insiders say it was hard to speak out against the plan. "You could not have a dialogue about this being the wrong thing. If the numbers did not work, you would fit them," the executive adds.

Both companies increased their spending on green technology rapidly, to a peak in 2022 of nearly a third of overall investment, or US$4.9 billion, for BP, and nearly a fifth, or US$4.3 billion, for Shell. BP promised to spend a further US$55 billion to US$65 billion between 2023 and 2030.



FINANCIAL TIMES

Shell's Pearl gas-to-liquids plant in Qatar ... When the war in Europe created an energy crisis that sent prices sky high, some investors started to push Shell and BP to stop diverging from their peers and ditch their unprofitable green plans.

The reaction from investors was mixed, at best.

Gainsborough recalls visiting one major investor who greeted him with five people from the ESG department and five from oil and gas. "The oil and gas side said, 'We prefer you to do as little as possible of this new energy stuff because you have to focus on the core,' and the ESG team said, 'You have to do this much faster.'"

Among investors, the media and the public, the two companies were mainly judged by how quickly they had increased their investment on renewable energy, and how much they were still spending on oil and gas. They found it impossible to satisfy their critics.

Van Beurden remembers trying to explain that Shell should be judged by its efforts to reduce the carbon emissions of what it supplied to customers, since the company's large trading business sold six times as much fuel as Shell produced itself.

"How much you invest in renewables is the wrong metric to judge us," he says. "But nevertheless people looked at it and said, 'Why can't you do twice as much?'"

But as the external pressure mounted, and companies such as Ørsted soared to heady valuations, Shell began chasing projects for volume rather than value.

Internally, some executives got carried away. One proposed that Shell, the largest supplier of jet fuel in the world to a network of 800 airports, should divest the hugely profitable business because it was so carbon intensive, according to two former colleagues. The idea was quickly killed.

"There was a lot of Fomo," remembers Elisabeth Brinton, who succeeded Gainsborough at New Energies in 2020. "I could already see the headwinds in offshore wind, and we all see where it is now," she says, referring to recent slump in the market.

Her regret, in hindsight, is that Shell did not stick to the businesses that would have better suited its core skill of trading, where it often bought and sold energy, including renewable electricity and clean fuels, rather than trying to produce it itself. "The mandate I had was too spread out and it was just too much for the organisation and the shareholders to really digest," she says.

Another former executive says it was never in Shell's long-term interest to adopt the business model of the

utility companies, which compete on capital discipline and thin margins. "In 2019/2020 we embraced the Ørsted model. Both Shell and BP brought in people from utilities. It's a bit like challenging Usain Bolt to a 100m race. You are never going to win so why are you trying to be a utility?"

Gainsborough disputes that the lower margins from electricity was a problem. "Oil and gas is a 10% return over the cycle at best," he says. "People only remember the peaks."

Instead, he says, there was a lack of patience. "How long did it take Shell's LNG business to get double-digit returns? Between 10 and 15 years," he says. "Now it is the jewel in the crown. With oil and gas we were prepared to take long-term bets. And there was an expectation that the gestation period for New Energies was going to be very, very short, which is just totally unrealistic."

The music stopped when Russia invaded Ukraine in early 2022. The ability of Shell and BP to spend freely on the energy transition was always constrained by the decision of their US rivals, ExxonMobil and Chevron, to maintain a focus on oil and gas.

When the war in Europe created an energy crisis that sent prices, and oil company profits, sky high, some investors started to push Shell and BP to stop diverging from their peers and ditch their unprofitable green plans altogether.

"IT WAS VERY FRUSTRATING BECAUSE ALL OF A SUDDEN THE EXPECTATIONS AND THE GAME RULES AND THE FUNDING STARTED CHANGING AND IT BECAME VERY EASY TO SCAPEGOAT THOSE BUSINESSES AND BLAME THEM AND SAY IT'S NOT WORKING. THEY STARVED THEIR CHILDREN AND THEN SAY THE CHILDREN FAILED."

Brinton

Most insiders agree that the decisive blow to the green push at both companies came with leadership change.

At Shell, Brinton saw New Energies shift from being considered a possible candidate for a spin-off IPO to a problem that needed fixing.

She says the business was performing according to its financial plan at the time of her departure in 2022. "It was very frustrating because all of a sudden the expectations and the game rules and the funding started changing and it became very easy to scapegoat those businesses and blame them and say it's not working. They starved their children and then say the children failed."

Van Beurden, who stepped down at the end of 2022, says the world changed. Inflation and interest rates rose, he argues, governments moved more slowly, and the global pace of progress on climate change is currently below the bottom end of Shell's forecasts from 2016.

He says the scale of the challenge to reduce emissions became clear during Covid, when global shutdowns only made a roughly 5% dent in the total. "People started realising that this is actually a much bigger challenge. Unless we have big pandemics every year, we are not going to get anywhere on this," he says.

At BP, Looney's sudden departure at the end of 2023, for misleading the board about his past relationships with BP colleagues, left the company with the dawning realisation that its revolution was out of step with reality.

"The problem with BP's targets was that they ignored the force of the market, so if the market changed, you did not have exit routes," says one former executive. These days, since new chief executive Auchincloss reset the strategy, there is "radio silence" about the green push, according to one current employee.

Today, Shell and BP have retreated to be more in line with their US rivals, though still with targets to have net zero emissions by 2050. The grand narrative of transformation has been discarded for renewed focus on shareholder returns.

While the world continues to electrify, and to grow the share of solar and wind power generation, the two companies are now focusing on other parts of the transition, such as moving from heavy fuels with high emissions to gas and eventually biofuels and hydrogen. In the first nine months of last year, BP cut its spending on clean energy by 80% compared with last year, to just US$332 million.

Shell says it is now "focused on disciplined capital allocation in our areas of competitive strength while driving improved returns". The company has "clear plans" for "more profitable lower-carbon businesses" which it can scale "as customer demand and government policies evolve." BP declined to comment

Yet the failed experiments left a legacy. An entire generation of executives trained at the two companies has fanned out across the energy sector. "None of the people who worked for me at New Energies have struggled to get great jobs," says Gainsborough. "I had lunch with 10 CEOs in London who had all worked for me in New Energies. The Shell diaspora into the rest of the energy transition is massive."

Van Beurden's regret is that the industry failed to clearly define a collective plan for the energy transition. "It was impossible to get everybody on the same page," he says. Climate strategy became a source of competition, with each company seeking to differentiate itself by taking a different approach. "That's where the industry collectively has made a big mistake." ● *FT*

Investing in long-term water sustainability

WHAT IF the rain that threatens floods could instead secure our water future? At KLIA, that vision is now a reality. Climate change is reshaping the way we think about water as an essential resource. Extreme weather events, rising sea levels, and flooding are making water more scarce, unpredictable, and polluted. According to the United Nations, these challenges demand urgent action to protect water security and infrastructure.

Malaysia Airports Holdings Berhad (MAHB) has stepped up to the challenge with a bold, forward-thinking solution: a state-of-the-art Water Treatment Plant (WTP) at KL International Airport (KLIA) with a goal to achieve responsible water management, flood prevention and ecological conservation. Every day, thousands of travellers pass through KLIA, but few realise that beneath the airports lies a system quietly revolutionising water sustainability.



A vision for responsible water management

Operational since late 2024, the WTP is a cornerstone of Malaysia Airports' long-term environmental roadmap and aligns with UN Sustainable Development Goal 6: Clean Water and Sanitation. Designed with a vertical compact system, it processes up to 10 million litres of water per day, ensuring KLIA's operations are supported by an efficient, eco-friendly water source.

"KLIA's water treatment system represents a practical, results-driven approach to sustainability, one that protects local communities, strengthens operational resilience and contributes to the national climate agenda," says Ir Ts Azman Yusuf, General Manager of Engineering, KLIA.

KLIA sits on a 2,000-hectare catchment area, generating large volumes of stormwater that flow into the Southern Balancing Pond for flood control. Previously, this water was an untapped resource. A feasibility study confirmed that the pond's hydrology and storage capacity could support a 10 MLD abstraction rate without compromising its flood management role. The result? A system that manages flood risks while creating an on-site supplementary water source, enhancing KLIA's operational resilience.

Supporting sustainability goals, resource efficiency and climate resilience

Since the facility went live (from December 2024 to October 2025), the WTP has successfully treated 3 million m^3 of water, equivalent to around 1,193 Olympic-size swimming pools.

This covers about one-third of KLIA's daily water needs, which total 26 million litres for firefighting, passenger terminal services such as restrooms and sanitation, landscaping, hotels, food and beverage systems, cooling systems and water supply within the terminals and KLIA Aeropolis.

"Before this initiative, KLIA relied entirely on externally treated water from freshwater sources," explains Pengiran Noraini Pg Mohd Hussein Al-Hashim, Senior Manager of Engineering Energy Environment, Technical Services Division. "Now, we have an on-site alternative water supply, an innovation from the Southern Balancing Pond's original purpose of regulating water flow and also mitigating flood risks."

"The water treatment facility enhances ecological conservation by repurposing stormwater stored in the balancing pond that would otherwise discharge downstream or infiltrate into the ground and thereby reducing flood risk, improving water quality, and supporting sustainable resource use," adds Pengiran Noraini. The water treatment facility also adopts geotube sludge dewatering for eco-safe residue handling.

Benefitting the communities

The benefits extend beyond the airport. Controlled stormwater discharge reduces downstream flood risks for villages along Sungai Sepang Kecil by controlling downstream peak flows.

Within KLIA, the Southern Balancing Pond's function is to prevent ponding near service roads, runways, and aprons, ensuring operational continuity even during heavy rainfall.

This initiative reflects Malaysia Airports' commitment to balanced development and environmental stewardship, supporting both community wellbeing and climate resilience. Having additional water capacity also aligns with KLIA's future development needs and national initiatives, such as Visit Malaysia 2026, ensuring readiness for increased passenger and commercial activity.

Part of a bigger sustainability blueprint

The WTP treats stormwater to potable standards through aeration, coagulation, flocculation, lamella clarification, filtration, disinfection, and fluoridation. Treated water is stored in a clean tank and pumped via an 8.5 km pipeline to KLIA's reservoir for distribution.

Complementing this, Malaysia Airports is rolling out a Water Efficiency Plan featuring sensor taps, smart meters, leak detection, rainwater harvesting, and awareness programs to foster water-conscious behaviour.

Beyond water, Malaysia Airports is investing in renewable energy through photovoltaic solar systems and improving electricity efficiency, reinforcing its position as a sustainability leader in aviation.

Looking ahead

With heavier rainfall expected due to climate change and water security becoming a critical issue, KLIA's water treatment facility is a strategic investment in the future of water. This investment also aligns with national initiatives like Visit Malaysia 2026 and ensures readiness for growing passenger and commercial activity.

"The project reflects a proactive approach to balancing development with environmental care, ensuring KLIA's growth aligns with sustainability, climate resilience, and community wellbeing," says Noraini.

Today, Malaysia Airports is redefining sustainable aviation infrastructure.

Is the 'energy transition' a real thing?

Fossil fuel demand has kept growing amid the rise of low-carbon technology

BY SIMON MUNDY

"**TWICE IN THE** last several hundred years, there has been a transition in the way people use energy," President Jimmy Carter told the nation in a televised address from the Oval Office in 1977.

First, Carter explained, came the change away from wood to coal; then another from coal to oil. Now it was time for a third historic shift, to reduce US reliance on unreliable supplies of oil and gas.

Carter's logic was not environmental but economic — a response to declining US oil output and projections of diminishing global supply. Yet the "energy transition" narrative that he helped popularise has become central to global discussions about tackling climate change.

The problem, as French academic Jean-Baptiste Fressoz points out, is that Carter's narrative was faulty. Coal didn't replace wood in energy systems, nor did oil replace coal. Rather, each new energy source has been stacked on top of existing ones, with demand for all of them continuing to rise.

Could the same thing happen again with low-carbon energy? Is it time to dump the "energy transition" concept for something else — and if so, what?

An inconvenient history lesson

"Energy amputation" is not the kind of phrase that will sit comfortably in policy speeches or corporate presentations.

But that — rather than the friendlier-sounding "energy transition" — is the best way to understand what's needed to prevent catastrophic levels of climate change, according to an important recent book in this field.

In *More and More and More,* French academic Jean-Baptiste Fressoz argues that the "transition" concept misrepresents both the long-term history of energy, and what's happening in the world today.

Even as new forms of energy have arrived, he notes, usage of the existing ones has continued to increase. Today's Europe burns three times as much wood as it did at the start of the 20th century. And even as low-carbon energy generation has surged, global fossil fuel combustion continues to increase each year, along with planet-warming carbon emissions.

"The concept of energy transition is preventing us from thinking properly about climate change," Fressoz writes. "A 'transition' towards renewables that would see fossil fuels diminish in relative terms but [not] in terms of tonnes would solve nothing."

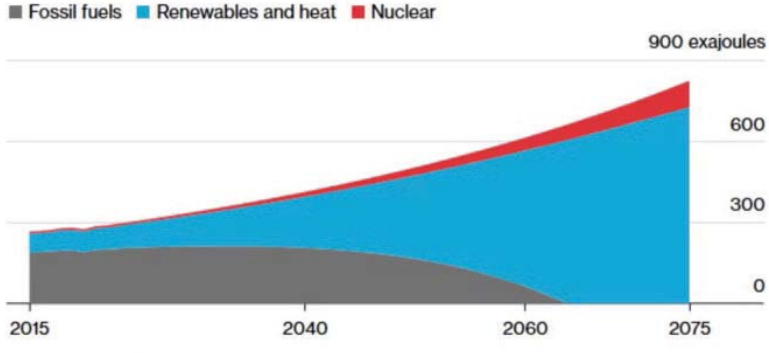
This is a useful frame through which to read today's annual report on the global coal industry from the International Energy Agency (IEA). More than a century after the "age of coal" supposedly gave way to the "age of oil", as Fressoz's history relates — and after more than three decades of UN climate COP summits — global coal consumption is still creeping upwards.

2025's demand for coal — the biggest greenhouse gas contributor of all fossil fuels — would rise 0.5% to hit a new record of 8.85 billion tonnes, the IEA estimated. That's quite a contrast with the agency's bearish coal predictions a few years ago, amid the disruption of the Covid-19 pandemic and seeming momentum around global climate action. The 2020 edition of this report had predicted that coal demand would decline from 2021 to just 7.4 billion tonnes in 2025.

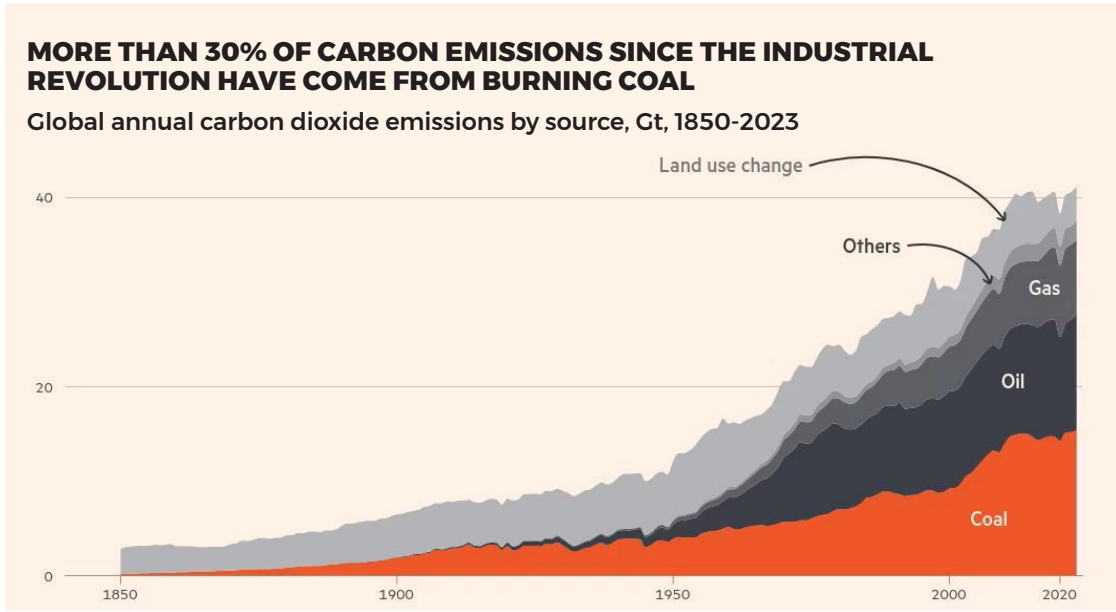
The earlier IEA research gave too much credence to Beijing's talk about a gradual shift away from coal, of which China is by far the world's biggest consumer. Coal-rich India and Indonesia continue to rely heavily on the fuel as they pursue rapid power expansion. And the analysts can't have anticipated the Russian invasion of Ukraine, which gave a boost to the coal sector by causing turmoil in the oil and gas markets.

Their latest report does point to slowing coal demand growth: this year's expansion is the weakest since an anomalous pandemic-driven fall in 2020. Notably, coal-fired power generation declined slightly last year in China, the analysts reckon — even as the country's electricity consumption grew by about 5% — thanks to continuing growth in renewable generation. The IEA is still predicting that global coal consumption will enter long-term decline before the end of this decade.

WHAT IF CLEAN ENERGY OUTGROWS ENERGY DEMAND BY 3% PER YEAR FOR THE NEXT FOUR DECADES?



Source: Liebreich Associates
Note: 1 exajoule is equivalent to 1,000 petajoules.
BloombergNEF



Any such decline would be historically extraordinary, as Fressoz's book explains. Throughout modern history, the rise of new technologies and industries has spurred demand for existing energy sources, rather than supplanting them.

"To think that we can draw some useful analogies from history dramatically underestimates the novelty and scale of the climate challenge," Fressoz writes. "The climate imperative does not call for a new energy transition, but it does require us to voluntarily carry out an enormous energy amputation [of fossil fuel energy]."

Fressoz's book has helped to fuel a fascinating debate over whether the "transition" concept is fit for purpose.

"What has been unfolding is not so much an 'energy transition' as an 'energy addition'," the influential energy analyst and consultant Daniel Yergin argued in an earlier co-authored piece.

Yergin concludes that, even if low-carbon investment continues to grow, oil and gas will play a major role for longer than was anticipated — and that this means continued new investment in hydrocarbon supplies and infrastructure.

Not so, argues Michael Liebreich, founder of New Energy Finance (now BloombergNEF). What seems to Yergin like an "energy addition", he asserts, is actually what a transition looks like in its early stage.

The key point, Liebreich writes, is that clean energy supply is growing at a faster rate than overall energy demand. For a while, that dynamic can coexist with rising fossil fuel consumption — but not indefinitely.

The Liebreich/BloombergNEF chart above illustrates a scenario in which clean energy supply grows at an annual rate of 5%, while real energy demand grows at 2% — both reasonably conservative estimates. For a long time, it looks like renewable and nuclear energy are simply complementing fossil fuel usage, which continues to grow. But thanks to the remorseless dynamic of compound growth, clean energy eventually squeezes out fossil fuels completely.

"All the transition requires is a growth rate in clean energy that remains a few per cent above the growth in energy demand for long enough — an approach which is much more plausible than walking away from our existing energy infrastructure," Liebreich writes.

Liebreich's simple model is of course intended to illustrate a fundamental point, rather than giving a detailed picture of how future economic and policy developments could play out. For the latter we have the IEA, which in November published the latest set of its long-term energy scenarios — a key reference point for policymakers and businesses.

Under its "net zero emissions" scenario, where the world takes aggressive action to tackle climate change in line with the Paris Agreement goals, demand for all fossil fuels enters a dramatic decline very soon. Under another, based on IEA assessments of the direction of policy movement, demand for oil and gas peaks in 2035 and 2030 respectively, though it declines only very modestly by 2050.

Then there's the "current policies" scenario, which takes a "cautious" view of clean technology adoption and assumes governments introduce no new policies to tackle climate change. Under this one, oil and gas consumption continues to grow right through to 2050 — though coal demand, as in all these scenarios, is already in steady decline by 2030.

The energy transition, in short, can't be taken for granted — and arguably hasn't really even begun. Such a replacement of — rather than addition to — existing energy sources would be unprecedented in modern history. But none of this proves that it's impossible. ● *FT*

Central bankers' climate efforts suffer data setback

BY SIMON MUNDY


WMO

HUMAN HEALTH, ECOSYSTEMS AND ECONOMIES CAN'T COPE WITH EXTENDED SPELLS OF MORE THAN 50 °C — IT IS SIMPLY TOO HOT TO HANDLE

Saulo

"**HUMAN HEALTH, ECOSYSTEMS** and economies can't cope with extended spells of more than 50°C — it is simply too hot to handle."

That was Celeste Saulo, secretary-general of the World Meteorological Organization, speaking ahead of the body's release early last December of a study showing how the Arab region is being affected by warming at twice the global average rate, causing waves of extreme weather events and "massive social and economic disruption".

Economic impacts from climate change are already with us. They're likely to get more severe along with the level of warming, which is on track to go far beyond 2°C in the coming decades.

But how much more severe? Trying to translate these threats into a set of numerical estimates is a fearsome (and some argue impossible) task. The retraction in December of one of that field's most influential papers has further highlighted the scale of the challenge.

Climate risk

A rough week for climate economics

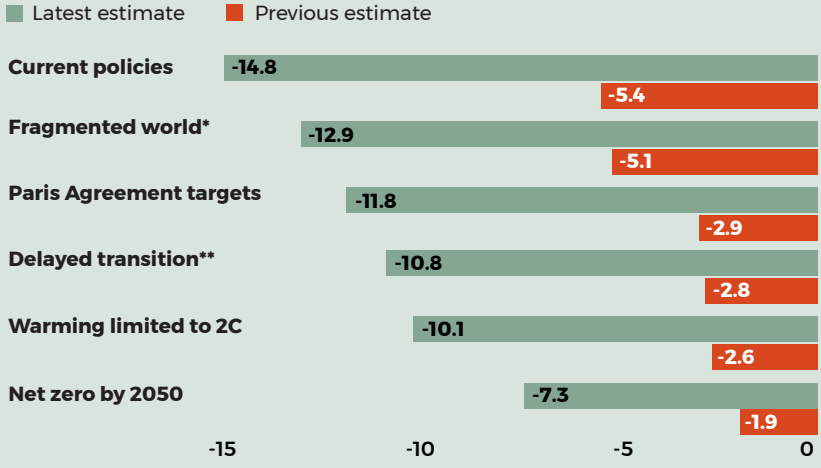
It was the starkest signal from the world's central bankers since they started paying serious attention to climate change.

In November 2024, the Network for Greening the Financial System (NGFS) — a climate-focused forum for central bankers and financial supervisors established in 2017 — published its fifth set of long-term climate scenarios, designed to help the financial sector model relevant risks.

The outlook for economic losses from physical climate impacts was far worse than the NGFS had previously suggested. Under a scenario where nations stick to their current policies, these would amount to 14.8% of world GDP by 2050 — compared with 5.4% in the previous version of this modelling. The chart shows the substantial increase in estimated damages from the previous version of the scenarios to the latest one.

THE ECONOMIC IMPACT OF CLIMATE CHANGE COULD BE WORSE THAN PREVIOUSLY THOUGHT, ACCORDING TO CENTRAL BANKERS

Global GDP losses from chronic physical risk by 2050 under various scenarios, NGFS estimates (%)



The NGFS said nearly all this difference was down to a new "damage function" based on a paper published in the journal *Nature* last year by academics from the prestigious Potsdam Institute for Climate Impact Research (PIK).

On Dec 3, 2025 that paper was retracted — raising awkward questions for the NGFS and highlighting the huge difficulty of making climate-related economic projections (or any other sort) decades into the future.

The paper in question had been challenged by other experts on several grounds. One claim was that its underlying data contained errors for a single country — Uzbekistan — so significant that they hugely distorted the overall findings.



Old town of Khiva in Uzbekistan ... One claim was that the paper's underlying data contained errors for a single country — Uzbekistan — so significant that they hugely distorted the overall findings.

Having removed the data for Uzbekistan, a trio of US-based academics found their replication of the approach gave a central estimate of a 23% hit to world GDP by 2100 — similar to previous widely cited estimates and far below the 62% figure in the original paper.

Another claim was that the authors had greatly underestimated the uncertainty around their projections, which rendered them "statistically insignificant", according to Christof Schötz, a guest researcher at PIK.

Following the criticism, the authors made amendments to the original paper — substantial enough that the Nature editors decided a full retraction was needed.

The authors have issued a revised version of the paper which is awaiting peer review. They say they've fixed the dodgy Uzbekistan data and made methodological changes to "limit the potential influence of anomalies" and address concerns about uncertainty.

These changes alter their results, they concede — but much less than the critics had suggested. Their central estimate for economic damage in 2100 is revised down by just 2 percentage points to 60%. Climate damages are expected to exceed the cost of limiting warming to 2°C by five times, rather than six times, as previously indicated.

"The core findings hold," they argue. We will find out soon enough whether the peer reviewers agree.

In the meantime, the paper's retraction creates a risk to the credibility of both its authors and the NGFS, which had presented the dramatic increase in its damage projections as "reflecting recent advances in climate economics". It made for an awkward end to a year that began with the Federal Reserve quitting the initiative, saying the NGFS' work had broadened to cover issues that were outside the US central bank's mandate.

In fairness to the NGFS, it has always stressed that its climate scenarios are illustrative reference points rather than forecasts. Users of its scenarios should be aware of the "broader limitations of physical risk estimates already detailed in NGFS documentation", it said on Dec 3, adding that an updated methodology would be used for its next set of long-term climate scenarios due next year.

Errors in a single article clearly don't invalidate the large and growing body of research pointing to significant long-term economic impacts from climate change. Indeed those impacts are already being felt, as any global property insurance executive will tell you. And as the NGFS highlighted, the "tail risk" from climate tipping points could yet lead to economic impacts even more severe than suggested in its last set of scenarios.

But this episode has underscored the need for extreme caution when dealing with long-term projections — particularly in areas as complex as the interplay between our climate and economic systems. These risks can't be boiled down to a single set of precise numbers. That won't make them any easier to handle. ● *FT*

What happens if AI data centres slip the 'surly bonds of earth'?

Outsourcing this infrastructure to space comes with a host of problems

BY ANJANA AHUJA

IF EVER THERE was proof that the race to feed the artificial intelligence (AI) boom has become detached from reality, it came in a recent Google announcement that it would build a prototype solar-powered data centre in space.

Data centres are power-guzzling physical facilities that contain computing infrastructure; planning hurdles, local opposition and energy demands are now putting limits on how far and fast AI can scale. The idea of Project Suncatcher is to shift that infrastructure, and its associated headaches, into space.

Queries to AI models like Gemini would be processed there and the answers beamed back to Earth.



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WHILE ORBITING DATA CENTRES MINIMISE THE NEED FOR PLANETARY LAND AND WATER, THEY PROMISE UNEARTHLY PROBLEMS OF THEIR OWN. ASTRONOMERS FEAR MORE SATELLITE CONSTELLATIONS WILL FURTHER CLUTTER THE SKIES, HAMPERING SCIENTIFIC OBSERVATIONS. MASS LAUNCHES RISK CREATING SPACE DEBRIS THAT COULD THREATEN VITAL SERVICES SUCH AS WEATHER AND CLIMATE MONITORING.

The data centre would not be an orbiting monolith but a flock of 81 solar-powered satellites loaded with AI chips, flying and processing in unison. Google will work with satellite company Planet to send two satellites into low Earth orbit in 2027.

This would be a cosmic challenge — but while orbiting data centres minimise the need for planetary land and water, they promise unearthly problems of their own. Astronomers fear more satellite constellations will further clutter the skies, hampering scientific observations. Mass launches into crowded orbits risk creating space debris that could threaten vital services such as weather and climate monitoring.

But we should also stop for a moment to consider this: a technology, namely AI, being pushed by a handful of companies is creating an energy demand that, by the industry's own estimates, cannot be met within planetary boundaries. For many, that is the very definition of unsustainable. The scheme also exposes the lack of effective governance when it comes to space, a commons that has slowly become the (almost) rule-free playground of tech titans such as Jeff Bezos and Elon Musk but in real life belongs to us all.

According to the preprint published by Google researchers in November last year, the satellites would travel in a Sun-synchronous orbit around 650km above the Earth. That tracking of the Sun means near-constant solar power for the AI payload but also thrusts the satellites into the single most congested route in low Earth orbit, according to Michigan university space scientist Mojtaba Akhavan-Tafti.

The satellites would be spaced just 100m to 200m apart, allowing them to talk to each other but perilously close should their paths wobble due to buffeting from air particles and space weather. At that proximity, Akhavan-Tafti explained in an article, "the margin for error [in orbital navigation] evaporates. A single impact could not only destroy one satellite but send it blasting into its neighbours, triggering a cascade that could wipe out the entire cluster and randomly scatter millions of new pieces of debris into an orbit that is already a minefield."

The European Space Agency notes that debris particles over 1cm in size can cause catastrophic damage — and there are already more than 1.2 million of them. As orbital traffic soars, the probability of the Kessler effect — flying debris that sparks a chain reaction of other collisions and break-ups, rendering those orbits unusable — also rises.

There are nearly 16,000 satellites already whizzing around the Earth. Of those, close to 9,000 belong to Musk's Starlink network, with the company's plans for 15,000 new ones under review by the US Federal Communications Commission. The reflective satellites can be seen in optical images, though the company seems willing to address the issue; stray Starlink radio emissions are showing up in frequencies meant to be protected for radio astronomy.

The Google preprint mentions that the AI chips will be exposed to radiation that can degrade electronics and corrupt data, but rather sketches over the issues of remote satellite maintenance and how to extract defunct or malfunctioning hardware.

Microsoft can offer one reality check on putting data centres in remote locations: it sank an underwater data centre off the coast of Scotland in 2018 but that effort, called Project Natick, has reportedly ended and the company is quoted as having no further subsea ambitions. Achieving the same in space would be many times harder: even as launches get cheaper, the unit costs of power in space and on land seem roughly comparable. When approached for comment, Google referred to the preprint and an associated blog summarising its position.

One might be tempted, fairly or not, to interpret the ambitious corporate effort to yoke infinite solar power to the seemingly infinite demand for compute, as a signal to investors that AI is infinitely scalable. It is also quite the metaphor for an industry that is flying ever closer to the Sun. ● *FT*

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