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Published: 21:13, August 1, 2025

Navigating the AI chip divide: Malaysia's strategic dilemma in a fractured tech order

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The United States' recent move to restrict the export of advanced AI chips to Malaysia and Thailand is far more than a targeted regulatory action. It is a calculated gesture in a broader geopolitical strategy that seeks to redraw the global technological landscape. The draft rule, proposed by the [US Commerce Department](#), must be read not merely as a measure against illicit semiconductor smuggling, but as part of a wider effort to construct a new architecture of digital control—where supply chains are weaponized, technological ecosystems are bifurcated, and innovation itself is deployed as a tool of geopolitical leverage.



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This development places Southeast Asia — especially Malaysia — at the heart of a deepening competition between the world's major powers. For decades, Malaysia has positioned itself as a neutral, pragmatic, and globally connected node in the global semiconductor and [digital economy](#). Over the decades, Malaysia has transformed from a peripheral player into a central hub for chip testing, data infrastructure, and cloud-based services. The country's skilled workforce, stable regulatory environment, and strategic geography have attracted major investment from both Western and Chinese technology firms. Yet, the very success of Malaysia's digital ascent has rendered it geopolitically exposed.

The proposed US restrictions reflect not a doubt in Malaysia's technical capability, but in its geopolitical reliability. Implicit in the draft rule is the suspicion that Malaysia, and others in the region, may serve as conduits through which controlled technologies find their way into destinations not desirable by the US. This presumption casts a shadow over Malaysia's

stance effectively undermines national sovereignty by seeking to extend American export compliance regimes extraterritorially, compelling smaller states to align with US objectives under the banner of "cooperation."

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In a proactive response to growing geopolitical scrutiny, the Malaysian government has recently taken a significant step by imposing a strategic trade permit requirement on high-end AI chips originating from the United States (US). This new oversight measure is designed to tighten control over the movement of sensitive technologies. It signals Malaysia's commitment to responsible regulation, technological transparency, and national sovereignty amid external pressures.

Still Malaysia finds itself caught in a web of competing strategic imperatives. This geopolitical pressure reveals a critical vulnerability: Malaysia's lack of a robust institutional architecture to independently govern sensitive technologies. The issue is not the absence of talent or ambition, but the underdevelopment of a national framework that commands both domestic legitimacy and international confidence. To respond effectively, Malaysia could move beyond reactive diplomacy and articulate a coherent doctrine of technological sovereignty—one that preserves openness while asserting regulatory autonomy.

Such a doctrine requires institutional innovation. Malaysia should consider establishing an independent National Technology Security Agency tasked with vetting high-risk exports, auditing end-use declarations, and penalizing violations through transparent, legal channels. Modeled after agencies such as Singapore's Infocomm Media Development Authority, such an institution must be tailored to the Malaysian context, embedded in national priorities, and accountable to democratic oversight.

But institutional reform alone is insufficient. Malaysia must reframe its global narrative. It should reject the passive framing of being a compliance risk and instead present itself as a responsible actor in global [AI governance](#). This means spearheading initiatives that elevate regional norms. For example, Malaysia could lead ASEAN in drafting a regional Code of Conduct on Dual-Use Technologies, one that includes shared due diligence frameworks, pooled databases on trusted entities, and a mechanism for collective sanctions on

terms.

At the same time China could invest in co-development programs, support R&D institutions in Malaysia and Thailand, and adhere to transparent frameworks for digital infrastructure cooperation. Such symmetrical partnerships would not only strengthen trust but also solidify the region's resolve to pursue autonomous digital futures—neither beholden to nor manipulated by outside powers.

Malaysia's position is not merely about hardware or market access; it is about authorship over its own digital future. AI chips are not neutral technologies. They are the engines of cognitive infrastructure—shaping how societies analyze data, make decisions, and govern themselves. Ceding control over their production, regulation, or distribution is tantamount to surrendering national agency in a domain that will define the 21st century.

To avoid such a fate, Malaysia must act with vision and resolve. It should immediately launch a regional taskforce under the ASEAN framework to harmonize export control standards, establish end-user vetting protocols, and enhance regulatory interoperability. At the national level, legislation must be introduced to criminalize technology diversion and implement stringent audit mechanisms for sensitive technologies. Furthermore, Malaysia should institutionalize transparency by publishing quarterly anonymized data on AI-related exports and create a National AI Certification Body to ensure ethical and secure deployment.

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Most critically, Malaysia should adopt a forward-looking technological diplomacy that reflects the realities of an emerging multipolar world. Rather than being forced to choose between competing great powers, Malaysia can deepen its cooperation with innovation leaders across Asia and beyond—including China, South Korea, India, Germany, and the United Arab Emirates (UAE) — to co-create a more inclusive and equitable digital future.

In particular, Malaysia's comprehensive partnership with China offers a unique platform for joint R&D, localized AI development, and infrastructure collaboration grounded in mutual respect and long-term strategic trust. By engaging with China not merely as a market but as a technological partner,

As the global order continues to shift, middle powers like Malaysia are not merely observers—they are potential agenda-setters. This moment of realignment presents Malaysia with a rare opportunity to help shape the rules, standards, and values that will govern tomorrow's digital infrastructure. Whether Malaysia seizes this opportunity will determine whether it emerges as a confident architect of the future or risks being marginalized in a system shaped by others. With strategic clarity and constructive partnerships—especially with nations that respect sovereignty and promote shared development—Malaysia can lead in building a digital order that is not only secure and open, but also just.

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