

CAPITAL WITH PURPOSE

BUILDING DIGITAL BRIDGES ACROSS BORDERS AND NETWORKS



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Building Malaysia's Intelligent Digital Backbone

Digital infrastructure has become a core layer of national competitiveness. It shapes how businesses operate, how public services are delivered to citizens, how industries improve productivity and how new areas of growth are created. For Malaysia, the question is no longer whether people and businesses are connected, it is about how that connectivity can translate into higher-value digital capabilities.

The telecommunications sector sits at the centre of this shift. As data-intensive applications such as artificial intelligence and cloud adoption gain momentum, networks must function as more than pipes for data transmission. They must increasingly serve as intelligent infrastructure that enables computing capabilities, cloud services, AI adoption and cross-border digital activity.

Malaysia also needs the infrastructure to process, manage and secure more of its digital activity domestically, while building platforms that allow local enterprises to move beyond consumption towards value creation. Building this capability strengthens national resilience, improves the delivery of public and enterprise services and widens participation in the digital economy.



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Guiding the Transition from Connectivity to Capability

The strategic imperative, therefore, is to build the underlying capacity that allows Malaysia to host, process and create more value from digital activity across data centres, cloud platforms, cybersecurity, AI infrastructure, software ecosystems and enterprise solutions.

This transition comes at a demanding time for the sector. Telcos must continue investing in fibre, 5G, data centres, cloud platforms and AI-ready infrastructure, even as basic connectivity faces pricing pressure and data becomes increasingly commoditised. The result is a structural tension: the economy requires deeper and more advanced digital infrastructure, but the companies expected to build this infrastructure must do so while managing the demands of higher capital requirements, margin pressure and market expectations.

Within the Digitalisation sector, Khazanah's key portfolio companies, Telekom Malaysia and Axiata, are advancing connectivity and digital infrastructure across Malaysia and the region. Through our stewardship approach, Khazanah supports commercially disciplined investments while ensuring alignment between shareholder returns and broader economic priorities, building on Malaysia's foundation to compete in a more digital, AI-enabled and regionally connected economy.

Telekom Malaysia's transition reflects this direction. Through its PWR2030 strategy, TM is working to reposition itself as a Digital Powerhouse, moving beyond traditional connectivity towards digital infrastructure and platform-led services. A key part of this is the development of AI-ready infrastructure, including data centre capacity and GPU-as-a-Service, which can provide the computing foundation needed by enterprises, startups, researchers and public institutions seeking to adopt AI at scale.



The development of TM Nxera in Johor Bahru adds a further dimension to this national capability. As a hyperconnected, AI-ready data centre developed through a joint venture with Singtel's Nxera, the facility is designed to serve hyperscalers and next-generation digital workloads across the region, with capacity to scale up to 200 MW. Its strategic location in Johor, close to submarine cable links between Malaysia and Singapore, positions it to capture cross-border data traffic and strengthen Malaysia's role in the regional digital infrastructure network.

Importantly, TM Nxera is also being developed with sustainability-by-design principles, including energy-efficient architecture, advanced cooling technologies and water management systems. This allows Malaysia to support high-performance computing and AI workloads while reinforcing its attractiveness as a trusted and responsible destination for global technology investment.

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Building Scale Beyond Borders

While TM's infrastructure push strengthens Malaysia's domestic digital foundations, Axiata's regional footprint addresses a different part of the same equation: scale. In a sector where investment requirements continue to rise, stronger regional platforms allow telecommunications groups to optimise capital, improve network economics and compete in markets where digital demand is expanding.

The merger of XL Axiata and Smartfren in Indonesia reflects this structural need. Valued at USD6.5 billion, the transaction creates a larger platform in one of Southeast Asia's most important digital markets. For Axiata, the merger provides the opportunity to strengthen competitiveness, improve operating efficiency and build a more resilient regional business. For Malaysia, it helps protect the value of a home-grown regional champion with exposure to long-term digital growth beyond the domestic market.

This matters because Malaysia's digital future will not be shaped only within national borders. Regional scale allows Malaysian-linked companies to participate in the growth of neighbouring markets, gain operating depth and develop capabilities that can be brought back into the broader ecosystem.



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Extending Capability Across the Ecosystem

Digitalisation must also create pathways for domestic enterprises to participate in the value chain. Large-scale infrastructure may provide the foundation, but the wider economic benefit depends on whether local companies, vendors and small and medium enterprises can develop the capabilities needed to serve a more advanced digital economy.

TM's Bumiputera Vendor Development Programme provides one example of developing stronger domestic capabilities. Through structured capability-building, TM continues to develop Bumiputera suppliers within its value chain, with an emphasis on long-term sustainability, readiness and participation in future areas of demand. This extends the digitalisation story beyond assets and infrastructure, showing how a national telecommunications company can contribute to enterprise development as the sector moves into more complex digital services.

This domestic capability-building is important because the next phase of digital growth will require a broader base of companies that can deliver specialised products, technical services and operational solutions. As digital infrastructure becomes more sophisticated, local vendors must also move up the capability curve. Their participation helps ensure that value is not concentrated only among large platform owners but distributed through a wider industrial and enterprise ecosystem.



Towards a More Resilient Digital Future

These developments indicate that Malaysia's digital future is being built with a clear focus on moving away from access alone towards capability, scale and ecosystem depth. Connectivity continues to matter, but the next layer of value will come from infrastructure that can host data, process advanced workloads, enable AI adoption and connect Malaysia more effectively to regional growth.

Khazanah's role in this transition is anchored in long-term stewardship. By engaging with portfolio companies through a patient, commercially disciplined lens, we seek to encourage investments that can strengthen both enterprise value and national capability. The intended outcome is a digital economy that is more locally anchored, regionally connected and commercially sustainable. By moving from passive connectivity towards intelligent infrastructure, Malaysia can strengthen its ability to participate in higher-value digital activity, attract technology investment and create more pathways for local enterprises to grow.



For further information on our efforts to strengthen Malaysia's industrial capabilities and innovation ecosystem, please refer to *Doing the Difficult Things Malaysia Needs* on pages 32-41.