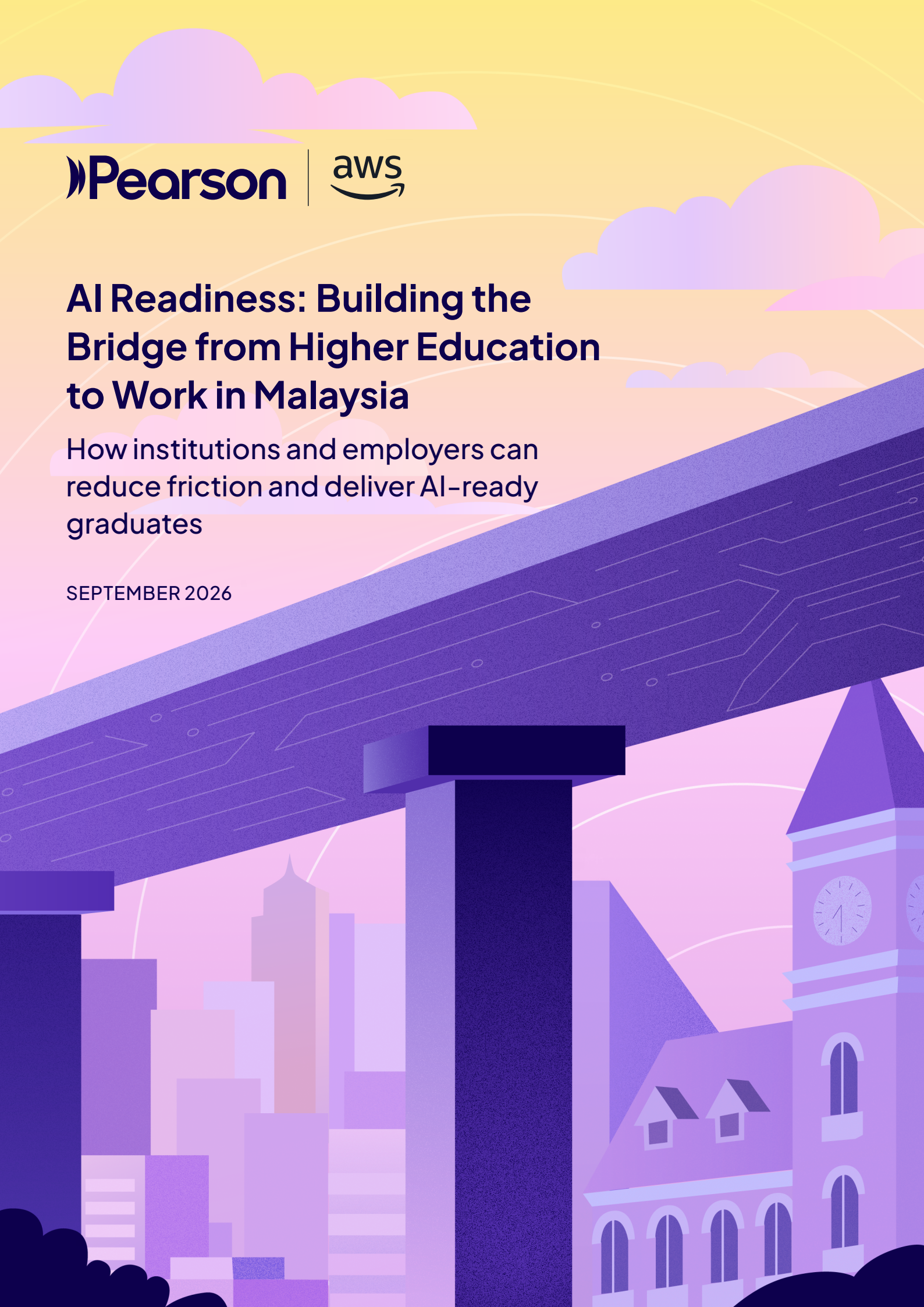




AI Readiness: Building the Bridge from Higher Education to Work in Malaysia

How institutions and employers can reduce friction and deliver AI-ready graduates

SEPTEMBER 2026



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Foreword

The transition from higher education to the workforce is a defining moment in the lives of learners and in the competitiveness of economies. In Malaysia, that transition is taking on new urgency. As the country strengthens its national AI agenda and attracts significant investment in digital infrastructure, higher education sits at the center of a larger question: how can Malaysia ensure that technological ambition is matched by human capability?

This research is the product of deliberate collaboration between Pearson and Amazon Web Services (AWS). Pearson brings decades of experience in learning science, curriculum design, assessment, and credentialing. AWS brings direct insight into how AI is being built, deployed, and governed inside the organizations graduates are entering, and the capabilities those organizations now require. Together, we set out to understand how higher education and the workforce are aligning in an AI-driven world.

Across six countries, we listened to learners, higher education leaders, and employers. Malaysia reveals a distinctive picture: learners and institutions report strong confidence, belief in the value of university education remains high, and employers and higher education leaders are already in frequent dialogue. Those are meaningful strengths, yet confidence and connection are not the same as capability and alignment. Employers still report difficulty finding graduates with the applied experience, professional maturity, and human judgment needed to work effectively alongside AI.

Malaysia has an opportunity to increase the national momentum by strategically focusing on education institutions, including supporting faculty to keep the pace, embedding practical and workplace-relevant learning, translating employer contact into genuine co-design, and ensuring governance builds trusted and responsible AI use. The goal is not more AI use for its own sake, but graduates who can apply it with judgment, adaptability, communication, and ethical awareness.

Malaysia already has the national ambition, engaged institutions, active employers, confident learners, and visible examples of innovation, which are the foundations needed for progress. The next phase is to connect those strengths more deliberately, so readiness is defined not by access or confidence alone, but by capability graduates can demonstrate and employers can recognize. We hope this report helps leaders identify where friction remains and turn today's momentum into consistent, responsible, and workforce-ready outcomes.

Craig McFarlane

Senior Lead, APAC Enterprise Learning & Skills
and Pearson Professional Assessments

Valerie Singer

General Manager, Global Education
Amazon Web Services



Reduce friction. Build the bridge.

AI readiness is not owned by higher education or industry alone.
It is built — or broken — in the transition between them.

Read the global AI Readiness report: pearson.com/ai-readiness

Introduction

The social contract between higher education and the workforce has long rested on a powerful premise: higher education institutions equip graduates for work. Yet the rapid integration of AI into workplaces is outpacing higher education's capacity to adapt, presenting institutions with a critical choice: accelerate curriculum transformation or risk graduating students who are not equipped for an AI-enabled workforce. The gap between institutional intent and graduate outcomes is therefore one of the most consequential challenges facing higher education today.

For Malaysia, navigating this transition is both an urgent challenge and a significant opportunity. As a rapidly growing digital hub in Southeast Asia, the country has set ambitious goals to integrate AI across the economy in pursuit of innovation and productivity, with economic models estimating that AI could contribute up to USD 115 billion to Malaysia's GDP by 2030.¹ This ambition is currently being supercharged by a wave of foreign direct investment: global technology leaders are making significant investments to establish cloud regions and AI supercomputing infrastructure within the country.² Realizing this potential, however, depends on the education-to-work pipeline addressing both perception gaps and operational misalignments in AI readiness across learners, educators, and employers.

In this study, Malaysia represents a unique evolution within the Fragmented Adaptive market cluster. While demand for AI readiness is high from both students and employers, the challenge in Malaysia is no longer an absence of national coordination. With the National AI Action Plan 2026–2030 now in place and the establishment of AI Malaysia, central strategic direction is strengthening rapidly. The fragmentation instead lies in institutional execution and capability, where progress remains uneven. While national coordination is strengthening, it naturally takes time for top-down strategy to materialize in classroom realities. Consequently, on-the-ground progress is currently driven by individual institutional initiatives or private-sector investments rather than a fully synchronized realization of the national agenda.³

Malaysia's AI readiness profile is one of **confidence moving ahead of proven capability**. HE leaders and learners report high levels of readiness and satisfaction, but these positive perceptions run ahead of the stricter measure of stated AI readiness. While 77% of learners are confident that they are prepared to enter the workforce, only 33% rate their own AI readiness as high, in line with the cross-market average. Employers, meanwhile, consistently encounter graduates whose foundational potential has not yet translated into the applied proficiency, professional maturity, and strategic judgment that AI-enabled workplaces require. Malaysian employers report the highest level of concern of any market in this study regarding graduate AI readiness, frequently citing limited practical experience and a lack of professional maturity.

There are nevertheless clear signs of structural commitment to reducing these frictions, building on the foundations of the Malaysia Artificial Intelligence Roadmap.⁴ MyMahir-NAICI, launched as a three-year collaboration focused on AI talent development, industry integration, policy and funding alignment, and stakeholder governance, provides one mechanism for strengthening university–industry partnership. Its workforce-readiness purpose remains consistent with the broader national AI agenda now led by AI Malaysia Berhad, the permanent agency established through the institutionalization of the National AI Office in 2026. However, national frameworks and frequent contact between Malaysian HE institutions and employers have not yet fully translated into strategic alignment: institutions continue to place less emphasis than employers on core human skills like communication, collaboration, judgment, and adaptability. At the same time, although learners are highly aware of institutional AI rules, many source their own tools and operate partly outside institutional frameworks, revealing a persistent governance challenge.

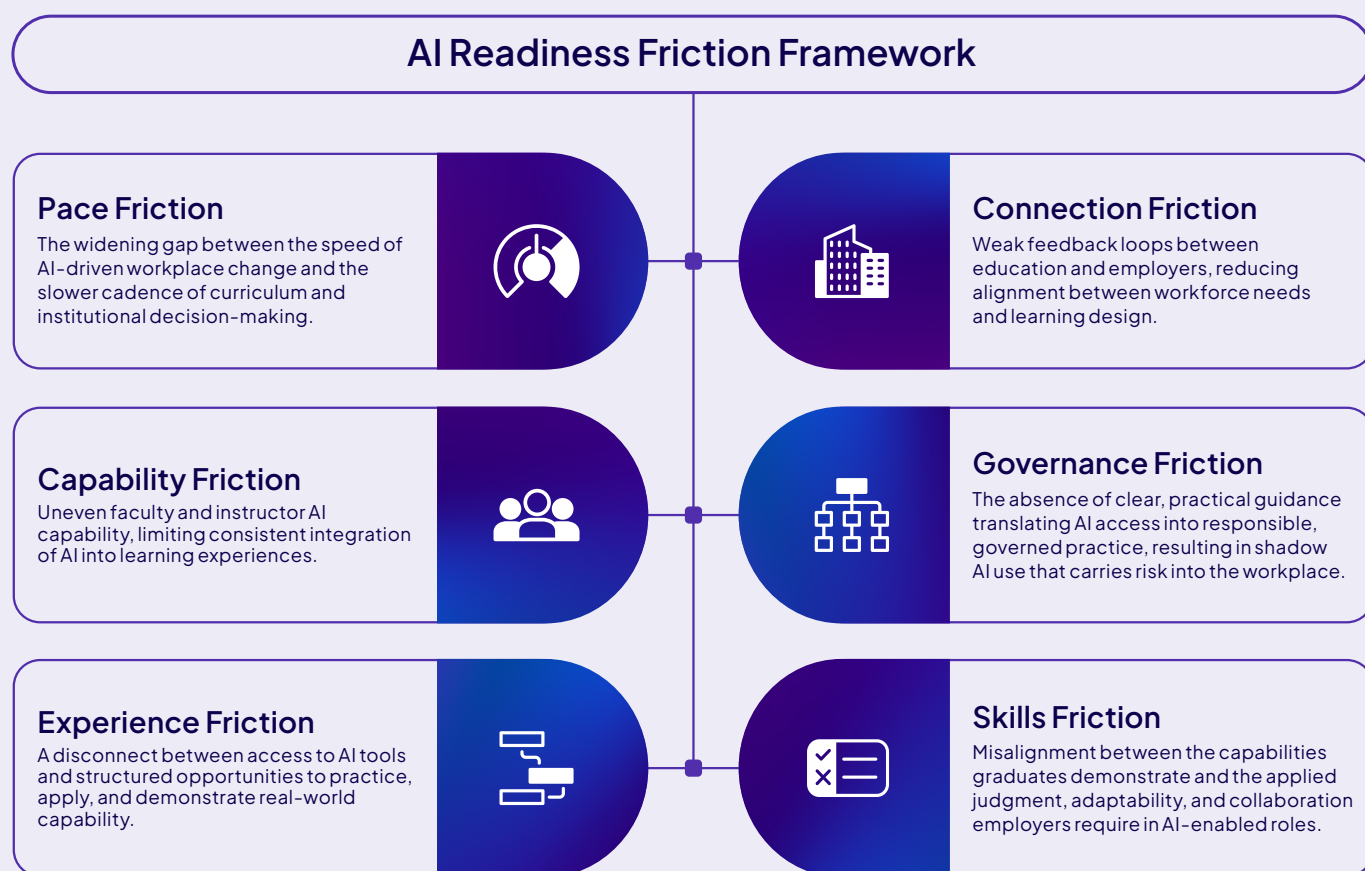
¹Kearney (2020) Racing toward the future: artificial intelligence in Southeast Asia. Available at: <https://www.kenney.com/digital/article/-/insights/racing-toward-the-future-artificial-intelligence-in-southeast-asia> [Accessed: 20 July 2026].

²Amazon Web Services (2024) AWS Launches Infrastructure Region in Malaysia. Available at: <https://press.aboutamazon.com/2024/8/aws-launches-infrastructure-region-in-malaysia> [Accessed: 14 August 2026].

³Sunway University (2026) Malaysia's AI Revolution: Your Gateway to the World's Most In-Demand Skills, 12 March. Available at: <https://sunwayuniversity.edu.my/explore/thinkpieces/malysias-ai-revolution-your-gateway-worlds-most-demand-skills> [Accessed: 12 March 2026].

⁴MyMahir and National AI Centre (NAICI) (2026) AI Talent Development and Industry Integration Initiatives. Available at: <https://www.mymahir.gov.my> [Accessed: 14 August 2026].

This report examines what this dynamic means across the full ecosystem from higher education to work in Malaysia. A synthesis of survey and interview data, along with secondary research, provides the evidence for an AI Readiness Friction Framework. The data shows that success is not random; instead, it clusters around six compounding friction points that impede progress precisely when speed matters most:



These frictions reinforce one another across education and workplace systems. Rather than prescribing one-size-fits-all solutions, this framework enables leaders to diagnose where friction is most acute in their context and target intervention at root causes rather than symptoms.

The chapters that follow examine contemporary indicators of AI readiness in Malaysia and set out practical guidance for universities at different stages of their journey.

Chapter 1

examines how fast AI is transforming the education-to-work pathway in Malaysia, where the most consequential misalignments are between university priorities and employer expectations of a graduate's experience and skills. It concludes with a consolidated portrait of the AI-ready graduate.

Chapter 2

shifts the analysis to four dimensions of the AI readiness divide: the scale and focus of university investment in AI; faculty capability as the primary vehicle for graduate AI readiness; the relationship between institutional behavior and student confidence; and the governance challenges created when rules and practice are misaligned.

Chapter 3

details the AI Readiness Friction Framework, consisting of six points at which the education-to-work transition most consistently breaks down. This includes a friction-based analysis of the Malaysian market's specific readiness profile.

Taken together, the dataset illustrates the conditions in Malaysia that have led to progress in delivering AI-ready graduates, while also highlighting the specific challenges hindering full realization of this ambition. This report is for HE leaders and employers who are navigating the intersection of AI and higher education in Malaysia and who are looking for evidence-based guidance on closing the AI skills gap, strengthening workforce readiness, and building the industry partnerships that will shape the next generation of AI-enabled graduates.

Chapter 1: The landscape of AI-driven education-to-work transformation

The accelerating pace of AI-driven change and institutional response

Across global markets, there is strong consensus that AI development is moving at a breakneck speed. This urgency is felt acutely in Malaysia. Among Malaysian learners, 71% characterize the pace of AI-driven change as ‘extremely’ or ‘very’ fast, a sentiment shared by 70% of higher education (HE) leaders. Both of these figures exceed the cross-market average of 67%. Employers in the market report a slightly more measured perception, with 61% sharing this view, which aligns exactly with the cross-market average.

Expectations of further acceleration are similarly pronounced, although they diverge across stakeholder groups. Over the next two years, 75% of Malaysian HE leaders and 69% of learners expect the pace of change to increase, above the cross-market averages of 70% and 66%, respectively. Malaysian employers are more measured: 57% anticipate further acceleration, compared with the cross-market average of 66%. This suggests that institutions and learners may feel greater pressure to prepare for imminent disruption than employers currently anticipate. This expectation gap could weaken workforce planning unless education and industry regularly test their assumptions against one another.

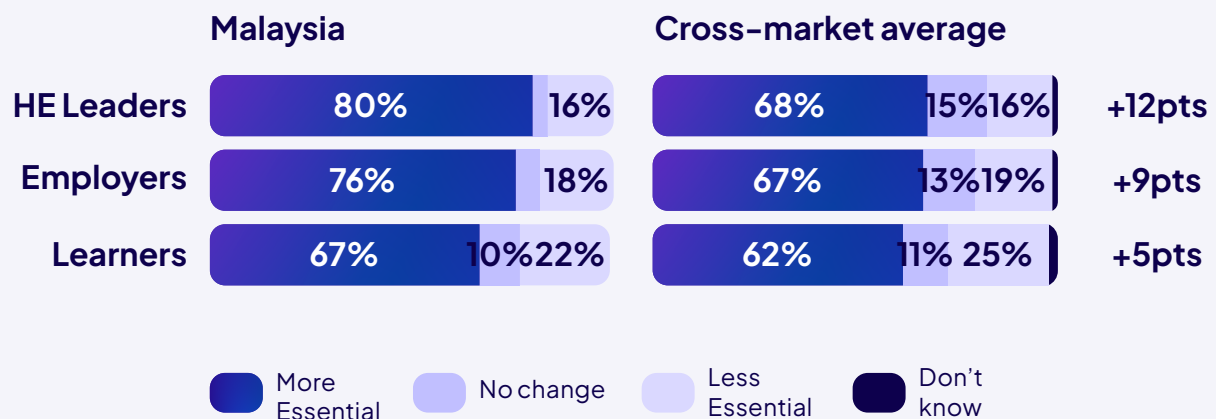
Malaysia is distinguished by comparatively high confidence in higher education’s ability to keep pace with AI developments. Nearly half of Malaysian HE leaders (49%) believe their institutions are keeping pace with most or all developments, compared with the 32% cross-market average. This optimism extends across stakeholder groups: 28% of learners and 33% of employers share this assessment, above the corresponding cross-market averages of 21% and 28%. Conversely, only 14% of learners, 12% of HE leaders and 16% of employers believe institutions are falling behind, compared with cross-market averages of roughly 20%.

Even so, Malaysia retains the broader cross-market confidence gap between stakeholder groups: HE leaders are substantially more confident in institutional readiness than learners or employers. This divergence suggests that institutional assessments do not fully reflect learners’ experiences or employers’ expectations, a dynamic explored throughout the remainder of the report.

The evolving value of higher education

AI is rapidly transforming the nature of work, while alternative routes to skills development are challenging universities to clarify their distinctive value. Despite this disruption, belief in the value of university education remains strong in Malaysia. **Rather than questioning the relevance of the degree, stakeholders see formal education as increasingly important.** Two-thirds (67%) of Malaysian learners believe AI developments make a university education more essential, as do 80% of HE leaders and 76% of employers. All three groups exceed the respective cross-market averages of 62%, 68% and 67%. Only 22% of Malaysian learners believe degrees will become less important, broadly in line with the cross-market learner average of 25%.

Views on the current importance of university education



Q. Which of the following statements is closest to your view about higher education in the context of AI:

- AI developments make university education **MORE** essential - graduates need the deep knowledge and human skills that higher education provides
- AI developments make university education **LESS** essential - practical skills and experience matter more than formal degrees
- AI developments haven't changed the importance of university education

However, while the conceptual value of a degree remains high, stakeholders diverge on the ideal foundation for an AI-enabled career. Majorities of Malaysian learners (52%) and employers (53%) favor a hybrid model in which university education and practical work experience are equally important. These figures are broadly in line with the cross-market averages of 49% for learners and 54% for employers.

However, Malaysian HE leaders take a different view and are more likely than employers and learners to favor university alone: 39% believe university education alone provides the optimum foundation, while 37% say university and work experience are equally important. This contrast points to a critical mindset gap and serves as an early indicator of the applied-capability deficit employers are currently experiencing. This specific challenge is explored in detail in the following section. While learners and employers clearly see the need to integrate practical experience with formal education, a significant portion of HE leadership retains a strong confidence in the traditional academic model alone. Where institutions place greater emphasis on the traditional academic model, there is a risk of producing graduates who are theoretically knowledgeable but lack sufficient opportunities to apply that knowledge in practice.

Ultimately, what is changing in Malaysia is not whether a degree is valued, but what that degree must deliver. Both learners and employers are increasingly aligned on the reality that higher education must evolve to keep pace with AI developments, specifically by equipping students to utilize AI alongside human judgment through authentic, work-integrated learning experiences. While a strong majority (70%) of learners in Malaysia believe their university education is preparing them well for the workplace, they concurrently recognize the imperative for institutional evolution. When asked what would most increase the value of their education in preparation for the future, 49% cite the need for more practical experience, while 37% point to more exposure to problem-solving with AI. The view these students share is that theoretical knowledge must be paired with applied experience. While Malaysian learners have clearly identified the capability gaps they face, the onus remains on institutions and employers to co-design and act upon a structural solution.

Connecting the AI-ready Malaysian graduate with the workforce



We don't just want to give students access to tools. We want them to leave here differentiated: genuinely capable of working with AI in the environments they are going to enter."

Prof. Dr. Ho Chin Kuan, Vice Chancellor,
Asia Pacific University of Technology and Innovation (APU), Malaysia

Although university education remains a vital foundation for career readiness, expectations of what it should deliver are shifting. Malaysian higher education has an opportunity to equip graduates with the blended capabilities employers value. **Doing so requires a shared understanding between education and industry; at present in Malaysia, frequent communication has not produced equivalent strategic alignment.** Nearly two-thirds (63%) of Malaysian HE leaders report interacting with employers 'very frequently' or 'frequently', compared with a 58% cross-market average. **Yet 69% of Malaysian employers say difficulty finding graduates with the right skills is a primary AI-related challenge for their organization.** The contrast indicates that contact alone is insufficient unless it is converted into specific, recurring signals that shape curriculum and assessment.

This disconnect is clear in the misalignment between what HE leaders believe employers value and what the labor market prioritizes. While HE leaders primarily focus on functional AI tool use (47%) alongside creativity and innovation (45%), employers expect a different composite. Employers place their highest premium on critical human skills: communication and collaboration (51%), combining human judgment with AI capabilities (51%), and adaptability (41%). This divide extends beyond a simple difference in rank order; it reveals an institutional underestimation of the human capabilities required in an AI-enabled economy. For instance, only 37% of HE leaders identify communication and human judgment as key employer priorities, a 14-point gap compared with employers. The widest gap in understanding, however, concerns adaptability. Heavily demanded by employers (41%), it is recognized as a workforce priority by just 22% of HE leaders. Without work to align on a shared vision of graduate preparedness, institutions risk operationalizing a skills profile that undervalues the precise adaptive and relational capabilities that employers consider central to effective AI-enabled work, while employers will continue to face challenges finding talent that meets their needs.

Key competencies for AI-ready graduates: employer vs educator views

AI skills Human skills

Market	Perspective	Priority 1	Priority 2	Priority 3
Overall	HE Leaders	AI tool use	Human judgment + AI capabilities	Adaptability
	Employers	Communication and collaboration skills	Adaptability	Human judgment + AI capabilities

Malaysia	HE Leaders	AI tool use	Innovative thinking	Human judgment + AI capabilities
	Employers	Collaboration skills	Human judgment	Adaptability

Q. HE Leaders: Based on your understanding, which THREE of the following are MOST IMPORTANT to employers hiring graduates today?

Q. Employers: Which THREE of the following are MOST IMPORTANT when hiring graduates into your organization today?

Question asked among HE Leaders & Employers

This demand for a blended skill set is strongly reinforced by how Malaysian organizations approach hiring decisions: a significant 69% of employers assert that human skills and technical AI skills are equally important. A further 24% state human skills are more important, while only 8% prioritize technical AI skills above human skills.

When examining the specific challenges employers face with recent graduates, the data reveals what the disconnect between educators and employers means in practice: Malaysian employers are more likely to report experiencing challenges with their graduate hires than their cross-market counterparts. The most pronounced of these concerns is a deficit in applied capability. Nearly half of Malaysian employers (45%) cite limited practical experience or application skills as a challenge, compared with the cross-market average of 33%. This is compounded by concerns over professional maturity (41% vs. 36%) and the development of poor AI habits, such as over-trusting outputs or exercising weak verification (37% vs. 27%). These figures demonstrate that while students may have theoretical exposure or independent access to AI tools, the absence of guided, authentic workplace practice leaves them ill-equipped to exercise the critical human judgment employers demand.

Employer challenges with recent graduate hires

Reported Challenge	% of Employers citing challenge	
	Malaysia	Cross-market average
Limited practical experience or application skills	45%	33%
Professional maturity or workplace readiness	41%	36%
Poor AI habits (e.g., over-trusting outputs, weak verification)	37%	27%
Poor adaptability to new situations or changes	31%	23%
Weak communication or collaboration abilities	29%	24%
Over-reliance on or inappropriate application of AI tools	27%	29%
Weak AI tool skills or digital literacy	24%	18%
Difficulty applying academic knowledge to real work situations	18%	25%
Limited understanding of workplace context	18%	24%
Limited continuous learning mindset	10%	16%
No particular challenges	4%	9%
Other	0%	0%
Don't know	0%	0%

Q. What are the main challenges you have observed with the recent graduates your organization has hired in the past 2 years? Please select up to THREE.

Question asked among Employers

Sample Size: Malaysia Employers – 51, All Employers – 304

However, it is important to recognize that this is a story of fragmented adaptation rather than systemic failure. When examining how employers rate their recent hires across specific competencies, Malaysian graduates receive 'excellent' ratings at rates similar to their cross-market counterparts on many key competencies. For instance, employers rate graduates highly in adaptability, creativity and innovation, and technical knowledge. In a fragmented landscape, these bright spots confirm that where effective, industry-aligned learning models exist, they successfully produce highly capable talent.

Employer competency ratings do, however, confirm the impact of the broader deficit in applied experience. Despite HE leaders identifying functional AI tool use as a top workforce priority, this is precisely where Malaysian graduates are rated weakest. Only 20% of employers rate recent hires as excellent in AI tool use (lagging the 27% cross-market average), and just 16% say the same for critical evaluation (compared to 20% cross-market). This shortfall indicates that high confidence reported by Malaysian higher education institutions is not yet translating into the consistent, applied competency that the workforce demands. While foundational attributes and theoretical knowledge may be present, the ability to execute and evaluate AI safely in a workplace context remains unevenly developed across the broader talent pool.

This data indicates that frequent interaction has not yet translated consistently into shared priorities and workforce-ready learning experiences. To close this theory-practice gap, informal interactions must evolve into structural co-design. Establishing formal advisory boards, conducting systematic skills analyses, and integrating industry-sponsored applied assessments are necessary steps to ensure universities are graduating the blended, AI-ready talent that Malaysian employers require.

A portrait of the optimal AI-ready graduate

As universities strive to keep pace with the changes driven by the AI-enabled workplace, the readiness of graduates to enter the workforce is at risk. The term AI Readiness is increasingly used but rarely defined with consistency across the education-to-workforce spectrum. Drawing on our understanding of the demands of employers, the strategic priorities of HE leaders, and the current behaviors of today's students, we have constructed a portrait of the ideal AI-ready graduate as a practical brief for what institutions in Malaysia are expected to produce.⁵ For a contemporary graduate, AI readiness is a multifaceted construct that combines:

1. Functional Proficiency

This set of skills represents the type of human-in-the-lead aptitude that employers demand. From day one, graduates must arrive functionally fluent in workplace-specific tools, applying AI technologies directly to professional workflows in ways that enhance their contribution. In Malaysia, while higher education leaders believe technical AI tool proficiency is the primary workforce demand (47%), employers report a significant gap in actual application. Only 20% of Malaysian employers rate recent graduate hires as excellent in their AI tool use, below the cross-market average of 27% and directly contradicting the confidence levels expressed by learners and HE leaders. In practice, Malaysian employers cite a lack of practical experience and application skills as a major hiring challenge. Graduates may possess foundational knowledge, but they currently lack the applied, workflow-integrated proficiency that employers require from day one.

2. Strategic Intelligence

This set of skills represents a graduate's ability to move beyond being a user of tools to a strategic operator within a business context, deploying AI as a driver of workflow and business transformation, rather than as a tool for task completion. This encompasses identifying precisely where AI adds value and understanding its broader impact on organizational decision-making and competitive advantage. Malaysian employers highly prioritize this strategic application, with 51% seeking graduates who can combine human judgment with AI capabilities. However, only 37% of HE leaders recognize this as a top employer need. This disconnect contributes to employer concerns over graduates' lack of professional maturity (41%).

3. Ethical Stewardship

This set of skills involves a graduate's ability to serve as an ethical filter and a risk mitigation manager for employers, focusing on safety, integrity, and the ethical deployment of technology. In Malaysia, developing this stewardship is challenged by a shadow AI culture. While 87% of learners are aware of their institution's AI rules, only 24% are comfortable being fully transparent with teaching staff about their AI usage. This ungoverned practice carries risks into the workplace, with 37% of employers flagging poor AI habits, including over-trusting AI outputs, as a key challenge in new hires.

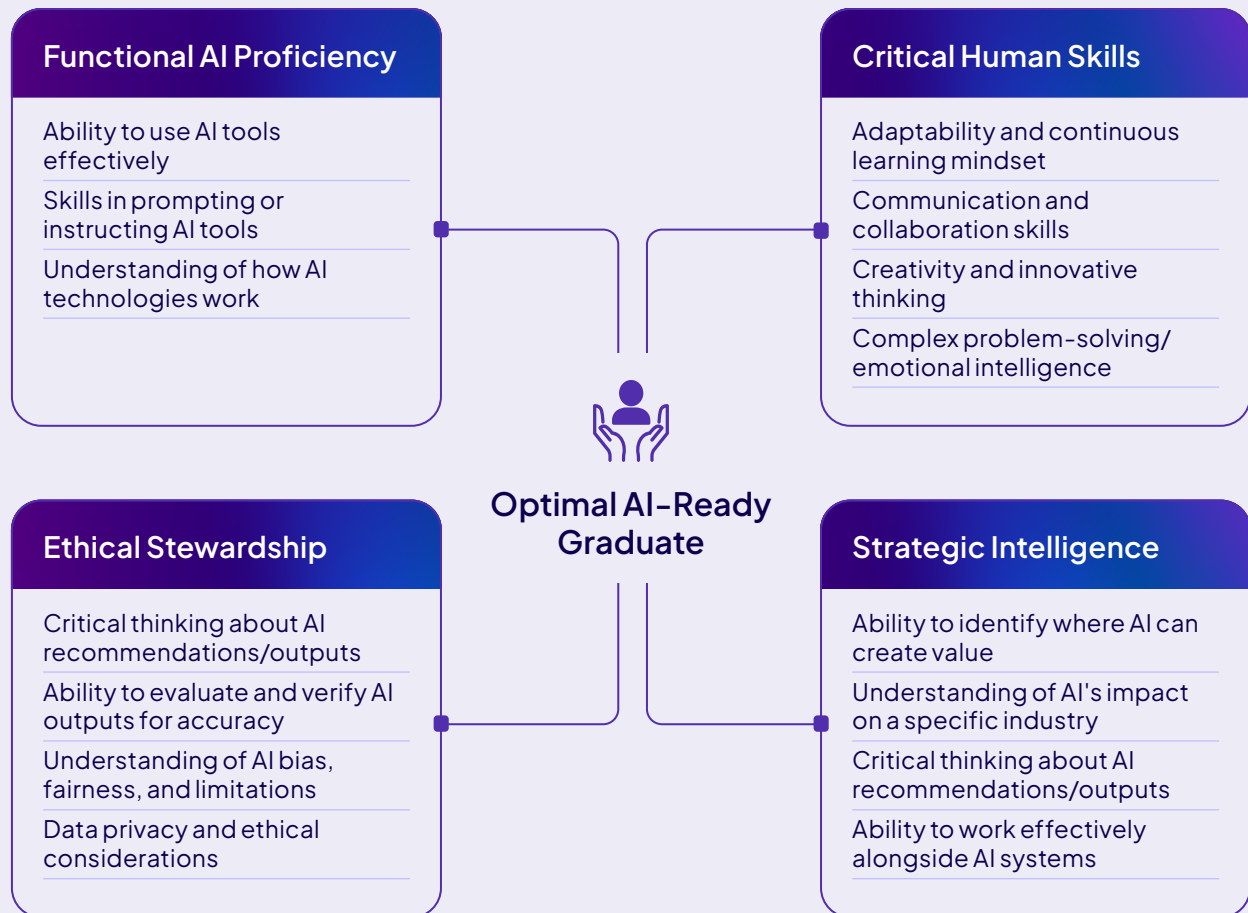
4. Critical Human Skills

This set of skills represents a graduate's competency to provide what no AI model can: human judgment, creative thinking, collaborative and emotional intelligence. Whereas AI automates execution, the AI-ready graduate possesses the relational and cognitive capabilities to bring purpose and direction. They will bring an adaptable, agile mindset, ensuring they remain relevant as the pace of change accelerates. The Malaysian workforce demands a holistic skill set, with 69% of employers stating critical human and technical skills are equally important. Specifically, employers place a premium on communication and collaboration, judgment, and adaptability. Yet this is precisely where institutional priorities diverge sharply from employer demand, with HE overestimating technical skills as a priority and underestimating, by a wide margin, the extent to which these are core requirements.

⁵For a full discussion of the optimal AI-ready graduate framework, see Pearson and Amazon Web Services (2026), Chapter 1.

The Optimal AI-Ready Graduate

Key capabilities and skill competencies⁶



This portrait represents a consolidated vision that runs from matriculated student to workforce-ready graduate. Building a more effective path from the classroom to the workplace requires alignment on these core skill competencies. Far from rendering university education obsolete, the advent of AI reaffirms its critical role in fostering the technical, strategic, ethical, and adaptable talent the workforce expects.

Developing the AI-ready graduate is nevertheless at risk because frictions compound across the education-to-work ecosystem. In Malaysia, the risk is overestimating system connectivity and equating confidence with performance. While higher education and industry networks are active, they have not yet evolved to systematically deliver graduate readiness. Furthermore, while institutions and learners feel confident in their trajectory, employer feedback highlights a stark gap in applied capabilities. To translate potential into reliable performance, curriculum and assessment must be better calibrated with workforce-academic partnerships that are able to deliver graduates with the applied proficiency, strategic judgment, and critical human skills needed to move confidently into AI-enabled roles. Chapter 2 examines the institutional conditions shaping these outcomes and identifies where targeted intervention can have the greatest effect.

⁶N.B. Some key skill competencies are essential across more than one domain of capability. For example, critical thinking about AI recommendations/outputs is a core skill required to generate strategic intelligence as well as to perform as an ethical steward of AI technologies.

Chapter 2: Progress toward institutional AI readiness: investment, faculty capability, graduate confidence and governance

Chapter 1 established Malaysia's defining tension: confidence moving ahead of proven capability. This chapter turns from outcomes to the institutional conditions that produce them. Malaysia's Fragmented Adaptive profile is characterized by strong demand for AI readiness, but uneven investment and infrastructure mean that progress remains largely institution-specific rather than consistent across the system. The focus of our analysis in this chapter is on four dimensions of institutional readiness: the scale and focus of AI investment; the capability of faculty as the primary vehicle for graduate AI readiness; the relationship between institutional behavior and student confidence; and the challenge of AI governance even where there is awareness of policy.

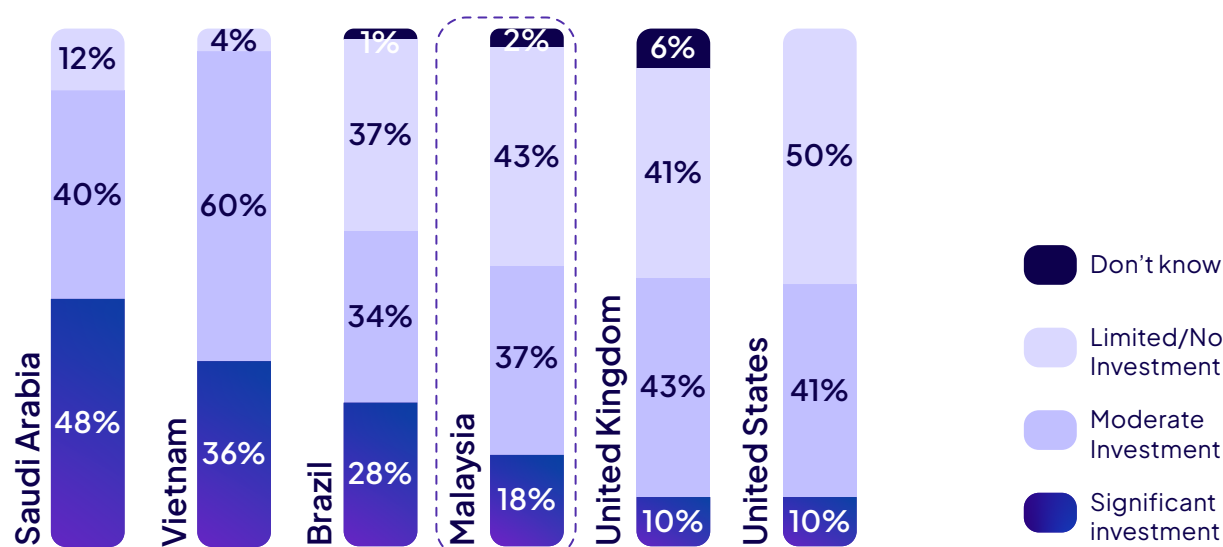
Institutional investment: scale, focus, and friction⁷

In Malaysia, institutional commitment to AI is clearly present. The most striking feature of investment is not the scale but rather the fragmented nature of distribution. While just over half (55%) of HE leaders describe their institution's AI investment as either significant (18%) or moderate (37%), a striking 43% report limited or no investment. This is a more uneven distribution than even Malaysia's Fragmented Adaptive counterpart Brazil. Malaysia's 43% reporting limited or no investment sits roughly in line with the UK, though the contrast with High Velocity Strategist markets is stark: limited or no investment is reported by just 12% of leaders in Saudi Arabia and 4% in Vietnam.

Within Malaysia, this plays out at the level of individual institutions. Institutions like Asia Pacific University of Technology and Innovation (APU) represent the leading edge, with investment in frontier infrastructure including Malaysia's first NVIDIA-powered AI supercomputing lab. At the other end of the spectrum, a substantial portion of the system operates under budget and infrastructure constraints; this gap defines what fragmented adaptation looks like in practice.

⁷In this research, the term 'investment' is used broadly, referring to both the extent to which AI is an institutional priority, a pedagogical and curriculum priority, and the scale of the resources (e.g., financial, human) allocated.

Reported university AI investment levels



Q. How would you characterize your institution's current level of investment in AI?

Question asked among HE Leaders

Sample Size: HE Leaders – 452

Where investment exists, it is directed toward capability and alignment gaps. Malaysian institutions prioritize curriculum development and course design (58%), above the cross-market average of 46%, followed by training and professional development for faculty and staff (56%). In addition, 46% of HE leaders report investment in partnerships with industry or technology providers, and 85% report having formal or semi-formal mechanisms in place to gather information about changing workforce requirements. This aligns with the workforce-readiness role of MyMahir-NAICI and with the broader national emphasis on talent development, industry integration, and AI capability under AI Malaysia Berhad. The pattern suggests that institutions recognize the need to combine academic reform with external workforce intelligence.

However, the translation of this investment into optimal graduate readiness is heavily impeded by systemic frictions. The primary barriers to delivering AI readiness that HE leaders in Malaysia point to are overwhelmingly structural, centering on resources and infrastructure. When asked to identify constraints, 45% of Malaysian HE leaders cite limited budgets or financial resources, making it the most significant barrier in the market. This financial friction is compounded by a lack of incentives and time for faculty to update curricula (35%) and inadequate computing infrastructure (35%). One-third (33%) of leaders cite the sheer difficulty of keeping pace with the exponential speed of AI developments. Faculty expertise remains a notable barrier to institutional and graduate readiness, although it is cited less frequently than resource and infrastructure constraints: 31% of Malaysian HE leaders identify it as a challenge within their institution.

The investment profile in Malaysia is one of focused intent operating within restrictive parameters. Institutions are directing their limited resources toward the critical areas of curriculum modernization and employer partnerships. Yet the compounding structural barriers of budget constraints, infrastructure deficits, and time allocations mean that the journey from institutional intent to comprehensive graduate AI readiness remains a complex work in progress.

Faculty capability is a key determinant of graduate AI readiness

Investment in tools and infrastructure is undeniably important, but the primary driving force of graduate AI readiness is faculty capability. In Malaysia, faculty capability is rated positively overall, though the data reveals a degree of inconsistency across the ecosystem that illustrates the market's fragmented adaptation. Training and professional development for faculty and staff are clearly recognized as a critical need, cited as a primary investment area by 56% of Malaysian HE leaders.

Yet, despite this being a top priority for more than half of the institutions in the study, the outcomes of this investment remain distinctly uneven. Just under half (47%) of Malaysian HE leaders rate their faculty's AI knowledge as strong or very strong, slightly above the cross-market average of 44%. However, a significant segment (41%) describes faculty capability as "mixed." This indicates that, despite institutional investment intentions, the depth of AI integration often depends on individual educator initiative rather than a standardized, sector-wide standard.

This reliance on individual initiative is exacerbated by a notable structural hurdle. While a combined 80% of Malaysian HE leaders report that their institutions provide faculty training on AI extensively (43%) or moderately (37%), 35% cite a lack of incentives for faculty to update curricula as a key barrier to institutional readiness, a figure 11 points higher than the cross-market average. This demonstrates that even in a market placing heavy emphasis on educator training and curriculum development, there is work to be done to build a more systematic approach to curriculum modernization.

Bringing greater consistency to the learner experience will likely require deliberately incentivizing this adaptive behavior among teaching staff. Furthermore, one in five (20%) HE leaders admit that faculty still receive little to no AI training at all, highlighting a substantial portion of educators operating without the systemic support necessary to adapt their pedagogy.

Students are highly attuned to the impact of this faculty capability. When faculty are equipped and actively engaged, learners benefit. In Malaysia, 35% of learners observe their instructors using AI in their teaching practice extensively or quite a lot, notably higher than the 27% cross-market average. This higher visibility sits alongside strong learner satisfaction with AI teaching: 70% of Malaysian learners report being satisfied or very satisfied with the quality of AI teaching and instruction, demonstrating that where faculty are effectively trained, incentivized, and using AI, the educational experience is highly valued by students.

Learner satisfaction with elements of AI learning

	% of Learners “satisfied” or “very satisfied” with each element	
	Malaysia	Cross-market average
Access to AI tools and technologies	79%	68%
Support for questions about AI	77%	65%
Way AI is used by teaching staff	74%	63%
Guidance on appropriate AI use	71%	65%
Quality of AI teaching and instruction	70%	61%
Hands-on practice opportunities	65%	57%
Amount of AI content in curriculum	62%	58%

Q. How satisfied are you with each of the following aspects of AI learning at your university?

Question asked among Learners

Sample Size: Malaysia Learners – 351, All Learners – 1,955

Institutional capability and graduate confidence

Despite the structural challenges and the fragmented investment landscape outlined above, general learner sentiment in Malaysia remains overwhelmingly positive, though there is a disconnect between this broad confidence and demonstrated readiness. A significant 77% of learners report feeling very or somewhat confident that they are prepared to enter the workforce, and institutional leadership echoes this optimism, with 80% of Malaysian HE leaders confident that their graduates meet employer expectations. Yet when evaluated against stricter measures of capability, only 33% of Malaysian learners place their own AI readiness in the ‘high’ category, anchoring them to the cross-market average. This reveals a critical dynamic: students feel broadly well-supported by their education but hesitate to claim the high-level, applied AI readiness that the modern workforce demands.

A key driver of the high confidence expressed by Malaysian learners is the extent to which they are being exposed to AI within their academic environment. Stated curriculum coverage of AI in Malaysia noticeably outpaces the global baseline: 43% of Malaysian learners report that AI is covered extensively or quite a lot in their studies, compared with 30% overall, while another 35% say it is covered moderately.

This exposure is also a factor contributing to positive student sentiment. Across nearly every aspect of AI learning measured in the study, Malaysian learners report satisfaction levels above their cross-market counterparts. This is a positive reflection of the work HE institutions are accomplishing to build capable environments, despite existing financial and infrastructural constraints.

However, this **confidence and satisfaction, while encouraging, do not provide evidence of proven capability**. When moving from theoretical academic settings to actual hiring, the data reveals a stark disconnect between university outputs and labor market realities.

Employers recognize recent graduates' foundational strengths, but as noted above, they also note their limitations, in particular their lack of practical experience with AI in real-world contexts. Despite their confidence, Malaysian learners also recognize this gap: 49% say more practical experience with workplace AI tools would most increase the value of their education, while 37% want more hands-on problem-solving. **The evidence therefore distinguishes exposure from readiness: institutions are building familiarity and confidence, but work remains to convert these into structured, work-integrated capability.**

The governance challenge: shadow AI and the ungoverned student experience

In many markets, the governance challenge centers on a lack of policy or basic awareness. In Malaysia, the surface indicators of governance are promising. Learner awareness of university guidance is in line with other markets in this study: 87% of Malaysian learners report at least some awareness of institutional rules regarding AI use; 39% are definitely aware and 48% are somewhat aware, leaving only 12% who report no awareness at all.

Yet this stated rule awareness does not translate into a culture of transparency. Only 24% of Malaysian learners are completely comfortable with teaching staff knowing how they use AI. With the exception of Brazil, this is the lowest rate of full transparency in the study. The majority of learners, representing 60% of the cohort, state they are comfortable with educators knowing about some of their AI use, while another 16% report they are not comfortable with any disclosure. These latter two figures are broadly in line with cross-market averages, highlighting a shared hesitation among students across markets to openly discuss their AI applications.

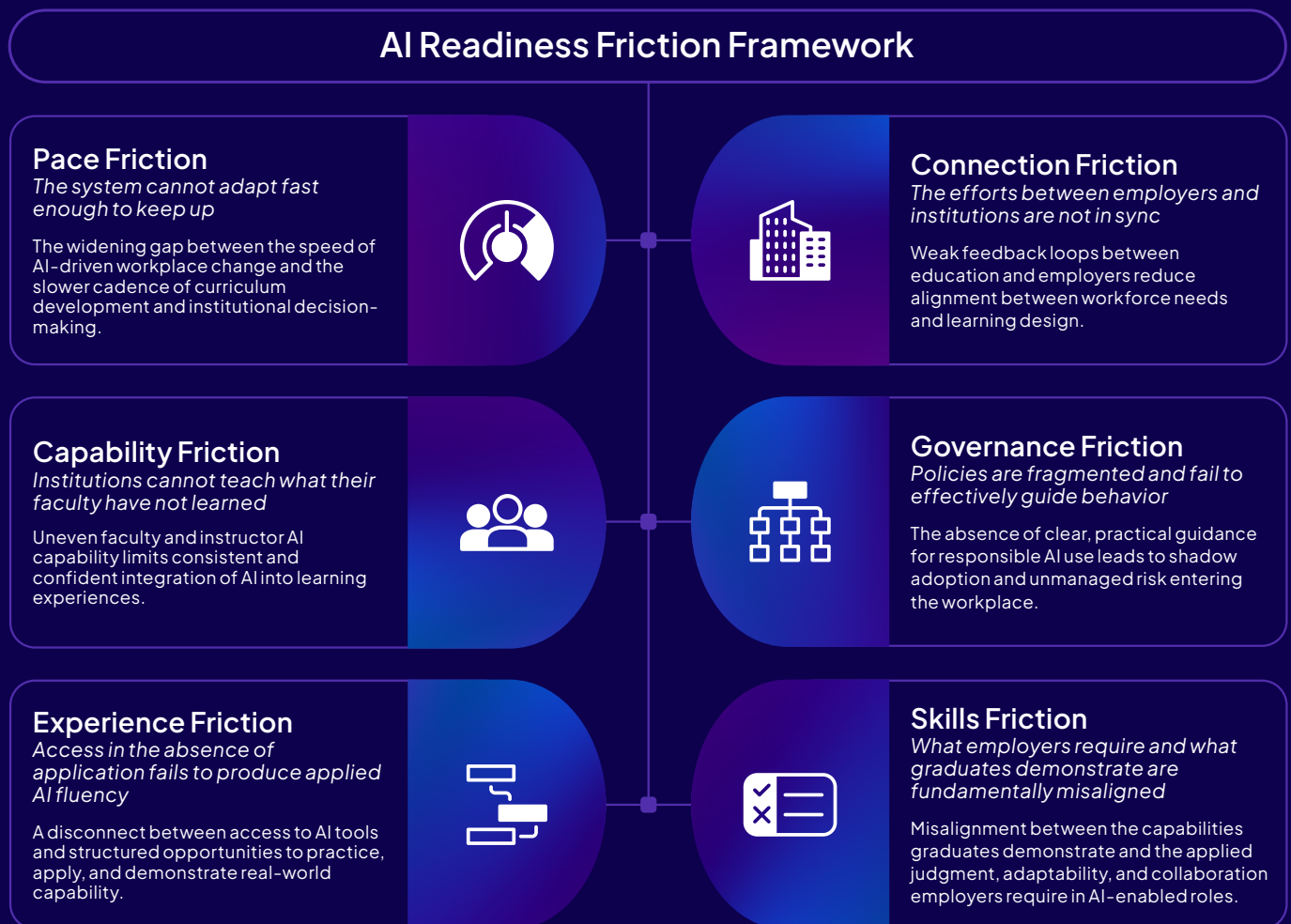
Despite established institutional rules, students demonstrate a high degree of self-reliance when selecting and deploying AI technologies. When writing or drafting assignments, 40% of Malaysian learners use independent tools they sourced themselves. Another 40% use a combination of independent and university-provided tools, while only 21% rely exclusively on the tools accessed through their university. This behavior indicates that institutional provision is not fully capturing student demand or practice.

The reliance on independently sourced tools and the reluctance to fully disclose AI use to teaching staff indicate a significant gap in transparent and trusted AI integration. Governance friction is exposed in the distance between policy awareness and learner comfort. For Malaysian institutions, the primary governance challenge is not simply establishing rules but cultivating an environment where those rules foster open collaboration. The goal of institutional governance must be to build trust in order to optimize learning opportunities and skills development. By replacing a reliance on rule awareness with structured AI adoption, universities can ensure that students develop the responsible and accountable habits necessary for professional environments.

Chapter 3: A framework for a shared direction

The AI Readiness Friction Framework

The gap between higher education and work, from institutional intent to graduate AI readiness, is real, measurable, and widening. The AI Readiness Friction Framework provides a tool for identifying where the most consequential interventions lie. It illustrates where the education-to-work transition most consistently breaks down. These frictions reinforce one another but are not fully dependent on one another. This report has outlined how the dynamics that underpin the six frictions operate in compounding procedural relationships that affect graduate AI readiness. This diagram illustrates a hierarchy that moves from macro-systemic drivers to institutional implementation and finally to individual learner outcomes.



Faculty capability defines the extent of a student's applied experience, while the pace of institutional investment and transformation informs the development of effective governance. The frequency and quality of employer engagement determine how well the curriculum and educational experience reflect workforce reality. Ultimately, high friction in any single area will result in bottlenecks elsewhere in the education-to-workforce ecosystem that begins with global technological shifts and concludes with a deficit in individual graduate AI readiness. But these frictions are also discrete and addressable. Reducing friction at any single point has the potential to generate benefits across the ecosystem.

Friction profile of Malaysia

No market is friction free. As a Fragmented Adaptive market, Malaysia combines strong demand, comparatively high confidence, and visible institutional activity with uneven capacity across the higher education system. Its principal challenge is not generating interest in AI readiness, but converting that momentum into consistent, governed, and professionally relevant outcomes. The Malaysian profile is therefore best understood as one of confidence ahead of proven capability: institutions and learners see progress, while employers continue to experience gaps in practical application, professional maturity, and critical human skills.

Pace Friction: high urgency and confidence vs. structural reality

This friction reveals the structural misalignment between the exponential speed of AI innovation and the linear, multi-year cadence characteristic of institutional curriculum design. In Malaysia, the urgency of this transition is felt acutely across the ecosystem, with a vast majority of learners and higher education leaders perceiving AI-driven change as exceptionally fast. Yet this high urgency is paired with a strong sense of institutional confidence; nearly half of higher education leaders believe their institutions are successfully keeping pace with AI developments, a figure well above the cross-market average. However, this optimism does not fully align with the lived realities of learners and employers. While institutional ambition is undeniably strong, the widening gap between the velocity of systemic change and the practical reality of curriculum adaptation means that keeping pace remains an ongoing structural challenge, rather than a resolved one.

Connection Friction: active networks lacking strategic alignment

This area of friction refers to the absence or underdevelopment of feedback loops between industry and academia, leading to misaligned views on graduate AI readiness. On the surface, the connection infrastructure in Malaysia appears robust, characterized by a high volume of interaction between higher education leaders and employers. Yet this frequent contact has failed to consistently translate into strategic alignment or curriculum relevance. As a result, a significant majority of employers report persistent difficulties in sourcing graduates with the necessary skills. The root of this friction lies in a fundamental misalignment of priorities: higher education leaders tend to overvalue functional AI tool use, whereas employers place a much higher premium on critical human skills, namely communication, collaboration, and the applied judgment required to evaluate AI outputs. Currently, informal and frequent contact is failing to deliver the learning outcomes required to equip graduates for the rapidly evolving workforce. To resolve this friction, higher education and industry leaders must elevate their connections from informal dialogue to concrete action. By building upon existing networks, they can transform these relationships into active vehicles for alignment on core priorities and the co-design of consistent learning experiences that directly enhance graduate readiness.

Capability Friction: scaling consistently in a fragmented landscape

Capability friction highlights the uneven distribution of AI knowledge and skills among faculty, which prevents the consistent integration of AI into the student learning experience. In Malaysia, this friction is defined by a lack of consistency across a fragmented ecosystem. While a portion of higher education leaders rate their faculty's AI expertise as strong, a similarly large segment describes it as mixed. While some institutions are investing heavily in faculty training and producing strong results, others lack the capacity to follow suit. In environments constrained by limited budgetary resources and a lack of structural incentives to update curricula, faculty are left unsupported, thereby compromising the learner experience. Resolving this friction will require a shift away from isolated pockets of excellence toward more structured, system-wide capability building to ensure equitable, high-quality AI education.

Governance Friction: high awareness with limited trust and transparency

This friction is driven by limitations in translating AI tool access into governed, equitable infrastructure and usable guardrails. In Malaysia, the surface indicators of governance are strong, with the vast majority of learners reporting an awareness of their university's AI policies. However, friction is exposed in the considerable distance between this awareness and actual student behavior. Only a fraction of learners are fully comfortable disclosing their AI usage to educators, leading a substantial portion to rely on independently sourced AI tools rather than those provided or vetted by their institutions. Shadow AI culture is apparent when students operate outside institutional frameworks, forming habits without the benefit of guidance for ethical stewardship. The challenge for Malaysian institutions is to move beyond mere compliance and rule awareness, fostering an environment of transparent, collaborative, and trusted AI integration.

Experience Friction: strong exposure without consistent workplace application

Experience friction is driven by a disconnect between access to AI tools and structured opportunities to apply them in professional contexts. Malaysian learners report high levels of theoretical exposure, noting that AI is covered extensively within their curricula. Yet, authentic hands-on practice is not yet a consistent component of the learner experience. Recognizing this gap, learners themselves identify the need for more practical experience as the primary mechanism to increase the value of their degree. Employers validate this deficit, citing limited practical experience and a lack of professional maturity as their most pressing challenges when hiring new graduates. The distance between theoretical, classroom-based literacy and applied professional experience remains a critical roadblock in the education-to-work pipeline.

Skills Friction: foundational strengths without the full blended capability employers require

This area is the downstream manifestation of all preceding frictions. It reflects how systemic constraints surface as gaps in a graduate's applied capability at work. Malaysian graduates are recognized by employers for their foundational potential. However, when transitioning into the workforce, they trail the cross-market average in higher-order competencies: the critical evaluation of AI outputs, professional communication, and the ability to apply academic knowledge to real-world scenarios. The modern AI workforce demands a blended, compound skill set, where human and technical skills are valued equally. Constrained by the compounding frictions across the ecosystem, Malaysian institutions are not yet reliably producing the strategic, relational, and ethically grounded talent that employers require.

Overcoming AI readiness frictions: case studies in action

Contributors to this report have provided useful case studies of how their institutions are overcoming AI readiness frictions. These innovative bright spots demonstrate that when institutions and employers embrace shared data, shared uncertainty, and shared accountability, the AI readiness gap begins to close.

A snapshot of each is presented below. Full case studies are provided in the global AI Readiness report.



Pace

To close the gap between fast-moving markets and slow-moving curricula, **Fundação Getúlio Vargas (FGV)** replaces periodic curriculum reform with semesterly immersion weeks and executives-in-residence keeping course content market-current.



Connection

To close the feedback loop between employer needs and curriculum design, **University College London (UCL)** runs the Industry Exchange Network (IXN), matching live company challenges directly to students working under joint industry and academic supervision with 40 to 45 percent of participating students subsequently recruited by their industry partners.



Capability

To address uneven AI capability across the institution, faculty at the **University of Pittsburgh** run AI Across Disciplines to train colleagues across subjects and sustain PASTA, a cross-institutional peer network for sharing practical integration experience, building the consistent faculty capability that confident AI integration requires.

To build faculty AI capability across disciplines, **Prince Sultan University** addressed the human dimension before the technical one, treating emotional and behavioral readiness as a prerequisite and using low-code approaches to enable teaching staff from law, business, and the humanities to integrate AI into their own teaching and research.



Governance

To replace fragmented policy with practical guidance, **British University Vietnam's (BUV) AI Assessment Scale (AIS)** provides a tiered framework shifting focus from policing student behavior to deliberately designing assessments around AI.



Experience

To convert AI access into applied fluency, **Asia Pacific University of Technology and Innovation (APU)** provides frontier computing infrastructure including Malaysia's first NVIDIA-powered AI supercomputing lab, and designs assessment around authentic workplace tasks, creating structured conditions for students to practice with real tools on real problems.

To bridge the gap between AI access and applied competency in healthcare, **Illinois Institute of Technology** launched the Health Tech Talent Institute, partnering with Leap of Faith to place students directly on live health informatics challenges using industry-supplied AI tools.



Skills

To move graduates beyond technical proficiency toward applied judgment, **Illinois Institute of Technology** builds its curriculum around an explicit humans-in-the-lead philosophy, treating critical thinking, systems thinking, and ethical reasoning as equal priorities alongside technical and data skills – producing graduates with the adaptability and collaborative judgment employers require in AI-enabled roles.

Conclusion: Bridging the AI readiness divide, from insight to execution

AI-ready graduates do not emerge by chance. They are deliberately built through an ecosystem designed to foster applied capability. The evidence provided in this report is a resource for determining what is required by institutions, employers, and learners.

What this means for Malaysia as a fragmented adaptive market

The Malaysia friction profile reflects the archetype of the fragmented adaptive market. Malaysia enters the AI era with genuine strength: ambitious institutions, engaged employers, high learner confidence, and visible examples of innovative practice. The challenge now is ensuring that confidence becomes capability and that the readiness learners and institutions report is the readiness employers experience. The next phase of Malaysia's AI readiness will be defined by how effectively institutions, employers, and policymakers work together to close that distance, converting today's momentum into consistent, responsible, and workforce-ready outcomes.



What this means for HE institutional leaders

To deliver AI-ready graduates at the pace that the transforming workforce demands, action is required across all six friction points. Use the Friction Framework Self-Assessment Questions⁸ to diagnose where friction is most acute in your institution, then prioritize action accordingly.



Pace

Accelerate the cadence of curriculum and institutional decision-making through modular design, stackable credentials, and faster review cycles that keep learning aligned with workplace change. In Malaysia, where urgency and confidence are high but budgets and infrastructure are constrained, industry advisory boards serve as a vital, cost-effective mechanism for keeping curriculum signals current and prioritizing investments efficiently.



Capability

Faculty AI capability is unevenly distributed across a fragmented Malaysian landscape. Invest in continuous, applied development and establish structural incentives for faculty. Connect educators to live industry contexts through embedded partnerships, secondments, and employer-hosted professional development rather than one-off experimentation. Cross-institutional peer networks are scalable mechanisms to build consistency across institutions regardless of individual infrastructure budgets.



Experience

This represents a key friction point in the Malaysian market. Move beyond providing theoretical exposure to AI by embedding structured, credit-bearing opportunities to practice, apply, and demonstrate AI capability in authentic workplace contexts. Prioritize co-designed assignments and industry-sponsored micro-credentials to bridge the gap between academic knowledge and the applied, professional maturity employers demand. Where meaningful industry partnerships already exist, these should be activated for this purpose.



Connection

Educator-employer interactions in Malaysia are frequent, but they currently lack the intentional structure required to support strategic curriculum design. Shift these relationships from informal networks to formal advisory frameworks. Conduct systematic employer skills analyses and establish ongoing feedback loops with employers and national initiatives so workforce signals directly inform learning design, assessment standards, and graduate outcomes.



Governance

Rule awareness is high among Malaysian learners, but the governance challenge extends beyond visibility into building trust. Effective governance is about creating the conditions for transparent, ethical, and confident AI use that students will carry into professional life. Acknowledge and address the “shadow AI” culture by replacing restrictive or compliance-heavy governance with a supportive culture that positions AI use as an ethical, positive, shared practice modeled by faculty and integrated into assessments.



Skills

While there is strong momentum in Malaysia, a major gap remains in aligning institutional priorities with employer needs. The curricular priority must be building out the other dimensions of the AI-ready graduate beyond functional tool proficiency, specifically the critical human skills of communication, collaboration, and applied judgment that Malaysian HE leaders currently underestimate. Explore the development of a balanced Graduate AI Attribute Framework in active partnership with employers.⁹

⁸ <https://www.pearson.com/power-of-learning/ai-readiness/diagnostic.html>.

⁹ See also the Optimal AI-Ready Graduate profiled in chapter 1 of this report.

What this means for business leaders

Malaysian employers understand well the challenges of an AI-enabled labor market, particularly the gap between foundational graduate knowledge and applied professional maturity. The graduate readiness needed for the AI-enabled workforce is not for HE institutions alone to determine. Leaders should prioritize actions that directly reduce friction, rather than adding new layers of strategy or policy. Use our Friction Framework Self-Assessment tool¹⁰ to diagnose where friction is most acute in your context, then prioritize action accordingly.



Pace

Move quickly to diagnose the AI capability needs your organization is facing now. Communicate them to university partners with specificity, regularity, and intentionality. The pace friction that you feel as an employer should be shared with institutions that build future talent. Industry Advisory Board participation is an efficient channel for translating your operational urgency into academic agility.



Connection

Build systematic, ongoing relationships with university partners that elevate frequent, informal contacts into strategic alignment. Provide clear, continuous signals to education partners about role-level expectations, validate assessments, and share feedback earlier and more often than annual cycles allow. Contribute to employer surveys and national skills analyses to ensure your specific talent needs are registered system-wide.



Capability

Support universities in understanding the practical implications of AI for your sector by opening your organizations to educators. Faculty who are unfamiliar with the impact of AI in professional contexts, or who are hindered by university infrastructure constraints, cannot teach its application credibly. Embed practitioners, share case materials, and treat faculty development as a strategic investment in the pipeline of talent your organization depends on.



Governance

Communicate what responsible AI governance looks like inside your organization and what will be expected of graduates from day one. By helping universities design authentic, governed assessments, employers can play a direct role in transitioning Malaysian students away from ungoverned “shadow AI” habits toward accountable, transparent, and professionally ethical AI practices.



Experience

Purpose-built, co-designed programs are the most effective way to address the acute shortage of practical experience and professional maturity that Malaysian employers report in recent hires. Work with universities to co-design and host authentic workplace scenarios. Sponsor degree apprenticeships. Publish case studies to support universities in their curricular development strategies.



Skills

Communicate the specific skills your sector needs directly with universities. To overcome the current misalignment, Malaysian employers must clearly articulate that communication, collaboration, and human judgment are just as critical as technical AI proficiency. The more precisely employers articulate what AI-ready skills competencies look like in practice, the better institutions can deliver them. Co-design Graduate AI Attribute Frameworks with institutions, and communicate hiring needs using common skills frameworks in job specs and postings.

Meeting this moment in Malaysia requires educators and employers to work together with shared urgency. Malaysia has established strong foundations to build on, including graduate potential, institutional capacity, and employer knowledge. The task is now to connect them more deliberately, remove the remaining frictions, and deliver AI-ready graduates.

¹⁰ <https://www.pearson.com/power-of-learning/ai-readiness/diagnostic.html>

Supporting information

Methodology

This report is based on a comprehensive multi-market study designed to capture a 360-degree view of the AI transition within the higher education ecosystem. Data was gathered through a mixed-methods approach, combining extensive quantitative surveying with targeted qualitative insights across six strategic markets: Brazil, Malaysia, Saudi Arabia, the US, the UK, and Vietnam. All fieldwork was conducted by PSB Insights.

Quantitative survey

To ensure the findings reflect the complexities of the current labor market and academic landscape, the survey engaged three distinct stakeholder groups:

- Learners:** Undergraduates currently enrolled in higher education, representing a diverse range of institutional types and academic disciplines, from STEM to the humanities.
- HE Leaders:** Comprising both Senior University Administrators and Educators. This includes faculty with 3+ years of experience and responsibility for curriculum development and/or wider strategic decisions for a department, faculty or institution and administrators with decision-making responsibility for budgets, strategy, and course design.
- Employers:** Business Leaders with responsibility for strategic decisions and talent strategy. To ensure relevant data, participating organizations must have hired graduate-level employees within the past two years.

Market	Learners	HE Leaders	Employers	Total
Overall	1,955	452	304	2,711
United States	351	101	51	503
United Kingdom	351	100	51	502
Brazil	350	100	50	500
Saudi Arabia	302	50	50	402
Vietnam	301	50	51	402
Malaysia	300	51	51	402

Fieldwork was conducted via an online survey that ran between January 7 and 28, 2026.

Qualitative interviews

To contextualize the survey data, the research included a series of seven in-depth qualitative interviews with key leaders and innovators in AI adoption from the higher education sector. These sessions allowed for a more nuanced exploration of the friction points in the transition from education to work, how institutions are overcoming them, and the shifting value of the university degree.

The views and opinions expressed by the interviewees during this project are their own and were shared in their capacity as individual professionals. These insights do not necessarily reflect the official policies, positions, or endorsements.

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