AI investment bubble inflated by trio of dilemmas

REUTERS, London

Tech firms plan to pour trillions of dollars into developing artificial intelligence. Every incremental dollar of new investment carries an even higher value in the stock market. This investment splurge is unlikely to earn a positive return on capital. However, that is beside the point. Companies and investors are trapped inside the bubble, and for many of them there is no escape.

The cloud-computing giants' multibillion-dollar data centres come with grandiose names: OpenAI is constructing Stargate, Meta Platforms has Prometheus, while Elon Musk's xAI is building a supercomputer called Colossus. Icarus would appear more fitting. Big Tech's business model used to be capital-light and cash flow-heavy.

No longer. Aggregate capital spending at Amazon, Alphabet, Meta and Microsoft has risen from below $100 billion five years ago to nearly $300 billion this year. Around two-thirds of US venture capital deals involve AI or machine learning.

The surge in AI investment added a percentage point to US GDP growth in the first quarter, according to Apollo Global Management. The tech firms are just getting started. Consultancy Bain & Company's latest Global Technology Report estimates that some $500 billion a year will be spent in the United States over the rest of the decade.

That is a relatively sober forecast. Morgan Stanley sees cumulative investment in US data centres reaching $3 trillion by 2029. McKinsey & Co anticipates the bill will exceed $5 trillion by 2030.

Estimates of the level of AI-related revenue needed to justify this investment splurge are equally wide. A rapid payback is necessary because the expensive graphics processors housed in the data centres have a short lifespan. Bain reckons some $2 trillion in additional AI revenue is required by 2030.

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Working off Morgan Stanley's $3 trillion estimate, Charles Carter of Marathon Asset Management calculates that those investments must generate a similar level of annual AI sales if they are to earn their cost of capital. Yet $3 trillion is equivalent to a tenth of current US GDP and 70 times Citi's estimate of the revenue that AI will generate this year.

Tech leaders claim that AI is going to usher in a new golden age, boosting productivity and profits. However, there is little evidence so far to justify the hype. A recent report from the Massachusetts Institute of Technology found that 95 percent of businesses that had integrated AI into their operations had yet to see any return on their investment.

Of the nine sectors examined in the study, only media and technology had experienced major structural changes. It is not for want of effort, as the report states: "adoption is high, but disruption is low."

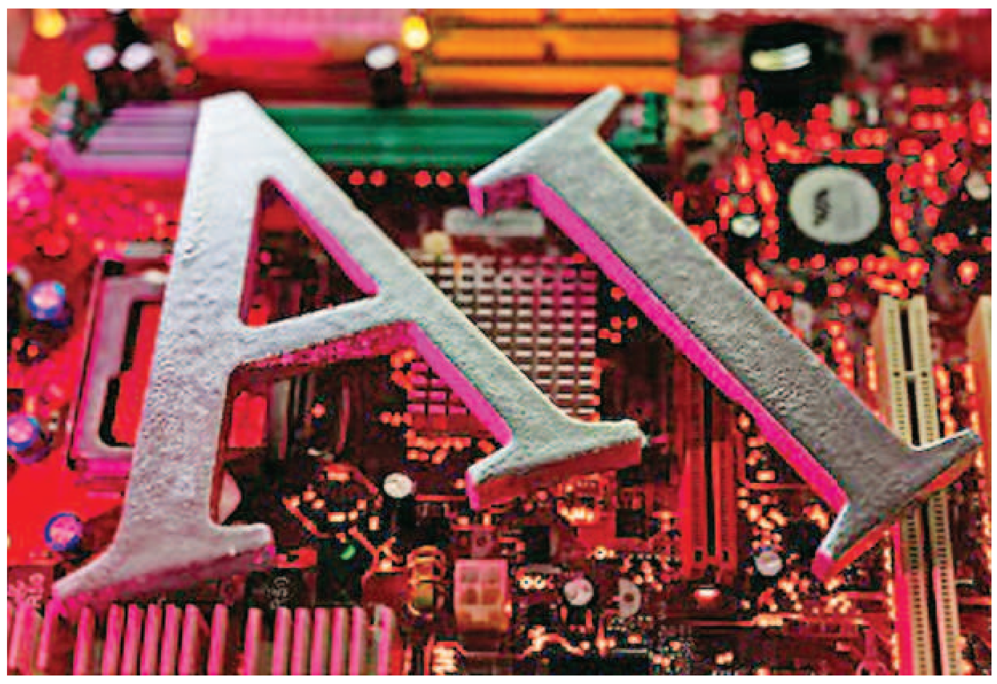
The trouble, according to MIT, is that generative AI systems do not retain feedback, adapt to context or improve over time. For mission-critical work, the vast majority of companies still prefer to use humans. Instead, employees are using personal chatbot accounts for relatively mundane tasks, such as reading emails.

Though loss-making OpenAI's revenue has grown rapidly, it does not justify the investment spend. Fewer than 2 percent of the 800 million or so people using ChatGPT pay for the service, and a growing number of them live in low-income countries such as India.

So why do companies continue to sink trillions of dollars into highly speculative and possibly unprofitable investments? Carter suggests that AI creates a so-called "innovator's dilemma" for Big Tech. There's a danger that the new technology will, at some stage, drain the competitive moats that surround their hitherto extremely profitable business models.

Cloud computing firms also face a classic prisoner's dilemma: if one operator fails to invest, it risks losing business to competitors which forge ahead. European mobile phone companies faced the same quandary during the telecom boom of the late 1990s and ended up massively overpaying for 3G spectrum auctioned by the United Kingdom and other countries.

Several top tech executives have publicly acknowledged the dilemma. Last year, Alphabet CEO Sundar Pichai stated that "the risk of underinvesting is dramatically greater than the risk of overinvesting for us." In a recent interview, Meta founder Mark Zuckerberg said much the same: "If we end up misspending a couple of hundred billion dollars, I think that is going to be very unfortunate obviously ... I actually think the greater risk is on the other side."



The surge in AI investment added a percentage point to US GDP growth in the first quarter, according to Apollo Global Management. PHOTO: REUTERS

Investors also face a dilemma. They have good reasons to adopt a conservative stance. Valuations for AI-related businesses are elevated. Around 35 percent of the market capitalisation of the S&P 500 Index trades at more than 10 times sales, according to investment firm GQG. Big Tech is diverting its cash flow into speculative investments. The previously lucrative cartel of cloud providers is being disrupted by new entrants such as CoreWeave.

The current surge in profit generated by AI investment is unlikely to last. Strategist Gerard Minack writes, "as in the TMT cycle ... a positive feedback loop (exists) between rising investment spending and rising profits: the firm selling capital goods immediately reports its profits in full, while the firm buying the capital good depreciates its cost over time." After the TMT boom ended, the returns for internet hardware companies, such as Cisco, collapsed.

On the other hand, AI is generating extraordinary stock market returns. Nvidia's stock is up nearly 350 times over the past decade. Oracle's recent announcement that cloud infrastructure revenue would reach $144 billion by 2030 sent its shares up 36 percent in a single day, adding around $250 billion to the software firm's market value. The US market is more concentrated than ever in a handful of AI-related names. Minack's list of the leading AI plays (Alphabet, Amazon, Broadcom, Meta, Microsoft, Nvidia, Oracle, and Palantir) has climbed nearly 30 percent since the start of the year, while the rest of the S&P 500 has delivered just 8 percent.

China launches visa to attract foreign tech talent

AFP, Beijing, China

China kicked off Wednesday a new visa programme aimed at attracting foreign talent in science and technology, part of ongoing efforts to position itself as a world leader in those sectors ahead of the United States.

The Chinese measure, announced in August, stands in stark contrast to recent US policy, with the Trump administration suddenly introducing new and expensive changes to its own skilled worker visas last month.

China's new K visa significantly simplifies the immigration process for those eligible, according to state media.

"Against the backdrop of some countries retracting, turning inward, and sidelining international talent, China has keenly seized this important opportunity and promptly introduced this policy," state newspaper People's Daily said in a comment piece on Tuesday.

In contrast to many other visa categories, the K visa does not require a domestic employer or entity to issue an invitation to the applicant.

"K visas will offer more convenience to holders in terms of number of permitted entries, validity period and duration of stay," state news agency Xinhua reported in August.

The official description for those able to apply is "young foreign scientific and technological talents", but the exact age, educational background and work experience requirements needed are as yet unclear.

Xinhua said visa-holders will be able to "engage in exchanges in fields such as education, culture, and science and technology, as well as relevant entrepreneurial and business activities".

Across the Atlantic, the US tech industry has been rattled by unexpected changes made by the Trump administration to the H-1B visa procedure.

Japan says 'no discrepancies' with US on investments

AFP, Tokyo, Japan

Japan's tariff envoy said Wednesday there were "no discrepancies" with the United States on the $550 billion of mooted investments by Tokyo as part of their recent trade agreement.

Under the terms of the US-Japan deal lowering threatened tariffs, Tokyo will invest the money in the United States, according to the White House.

South Korea is also on the hook for $350 billion of investments under a last-minute agreement struck in July reducing looming levies.

US President Donald Trump has said both countries will provide this "signing bonus" upfront.

A US-Japan memorandum of understanding made no mention of immediate payments, saying that would be made "from time to time".

The MoU also stipulated that Tokyo would provide the necessary funding within 45 days of Washington selecting an investment area, or face higher tariffs.

But Ryosei Akazawa, who negotiated the deal for Japan, has said that only 1-2 percent of the $550 billion will be actual investment, with the rest loans and loan guarantees.

Washington "isn't particularly interested in the distinction between investments, loans, and loan guarantees" he said Wednesday.

"I do not believe there are any discrepancies. In order to avoid discrepancies, the US proposed the memorandum of understanding and Japan responded to that. And it was signed," he told reporters.

"A memorandum of understanding is not a treaty, nor is it legally binding. A MoU is an administrative document that lays out the common understanding, which I believe we have on both ends," he added.

88% officials pass Islami Bank assessment test

STAR BUSINESS DESK

Islami Bank Bangladesh PLC has published the results of its special competency assessment test for officials, according to a press release.

ইসলামী ব্যাংক বাংলাদেশ পিএলসি

Eighty-eight percent of candidates passed the examination, which was conducted by the Institute of Business Administration (IBA) at the University of Dhaka.

As per the bank's decision, the remaining 12 percent of unsuccessful candidates will be re-evaluated after completing capacity-building training.

Stakeholders call for next-generation technology to transform remittance services

Ali Ahmmed, chief commercial officer of bKash Limited, poses for group photographs with participants of the workshop, titled "The Changing Landscape and Emerging Potential of Remittance in Bangladesh", organised by bKash in Dhaka recently. PHOTO: BKASH

STAR BUSINESS DESK

Expatriates continue to prioritise low-cost, secure and instant remittance transfers to their families in Bangladesh. To meet this demand, industry players must embrace next-generation technologies and adopt a coordinated approach across the entire remittance ecosystem, stakeholders said at a recent workshop.

The event, titled "The Changing Landscape and Emerging Potential of Remittance in Bangladesh", was organised by bKash Limited, the country's largest mobile financial service provider, according to a press release.

Speakers observed that greater satisfaction among senders would boost remittance flows through formal channels, and thus urged swift policy interventions to keep pace with global practices.

The workshop brought together senior officials from the banks and non-bank financial institutions, mobile financial service (MFS) providers, along representatives of leading international money transfer operators (MTOs).

In his keynote presentation, Zahidul Ahasan, head of remittance at bKash, highlighted the growth, potential and challenges of the sector.

Ali Ahmmed, chief commercial officer at bKash, underscored the importance of collaboration among all institutions within the remittance ecosystem.

"This is the right time for investing in technology-based infrastructure that will transform the remittance sending experience," he said.

International MTO representatives noted that the sector is becoming increasingly competitive, driven by app-based services, where customer experience is emerging as the defining factor.

They stressed that expanding instant services requires data-driven decision-making.

Given that expatriates remit funds largely for essential needs such as housing, investment and children's futures, stakeholders also emphasised the need for secure savings schemes and access to credit.

Bank representatives recalled that remittance once meant "cash over the counter" with long processing delays. Today, thanks to various initiatives, money can be sent instantly to mobile financial service platforms such as bKash. However, they agreed that more needs to be done to widen access and ensure seamless, fast and secure transactions.

Currently, over 15 million expatriates remit their income to Bangladesh annually from 176 countries. While expatriate numbers are highest in Cumilla, Chattogram, Brahmanbaria, Feni and Noakhali, contributions now come from nearly every district.

The growing adoption of digital platforms by local banks, MFS providers and MTOs has already made the remittance process faster, simpler and more reliable.

Hit by Trump tariffs

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Investment to take advantage of those benefits could kick in sooner though.

Longer term, it is unclear. New trade deals will eke out decimal points of economic growth, while EU exports to the United States and China, where demand for EU goods has slumped, make up roughly 4 percent of EU GDP. Nevertheless, not all of that will be lost.

Niclas Poitiers, research fellow at the Bruegel think tank, says average estimates for the Trump tariff impact on EU exports imply a 0.2-0.3 percent decline of GDP for the bloc, though the impact of uncertainty on corporate investment may be less benign.

Poitiers said trade agreements have political value too by offering stable relations at a time when the United States is undermining the global economic order and pushing through deals that are not compliant with World Trade Organization rules.

"It's about making sure that your trading relationships are not just reliant on international rules, which are much less firm these days, but are also bound by a bilateral treaty," he said.

What may emerge is a network of deals underpinning the multilateral system, but excluding the United States and to some extent China.

Sabine Weyand, director-general of the EU executive's trade division, told a European Parliament hearing last week that the EU was presenting itself as "the reliable trading partner for the rest of the world".

Sander Tordoir, chief economist at the Centre for European Reform, said Europe could lead a 'rest of the band' group, but noted that it and others such as Japan ran trade surpluses and so needed buyers, not more sellers.

"The challenge is enormous," he said. "The US has long constituted about 50 percent of global trade deficits, acting as a key source of incremental demand for global exports."

So, the band would have to find ways to create demand for each other's exports while pushing back against Chinese overcapacity.

India central bank

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"Despite status quo, the commentary is dovish," said Teresa John, lead economist at Mumbai-based brokerage Nirmal Bang.

"CPI inflation has been revised down to 2.5 percent while growth is expected to moderate in the second half of FY26, both of which open up policy space for rate cuts largely on external headwinds," said John, who expects a 25-bp rate cut in December.

The central bank raised its GDP forecast for the current year to 6.8 percent compared with its previous estimate of 6.5 percent.

The Indian economy grew at a stronger-than-expected 7.8 percent in the April-June quarter from a year earlier.

Economic activity has remained resilient, Malhotra said. "However, ongoing tariff and trade policy uncertainties will impact external demand," he said, adding that several "growth-inducing structural reforms", including consumer tax cuts could counter the impact of global risks.

The RBI expects inflation in the current financial year to come in at 2.6 percent, lower than its previous estimate of 3.1 percent.

The MPC said the outlook on inflation has turned more benign due to lower food prices and tax rate cuts, Malhotra said in his statement.

India's annual inflation accelerated to 2.07 percent in August as food prices inched higher, but remained close to the lower end of the central bank's 2 percent -6 percent tolerance band, giving the RBI room to cut rates.

Sakshi Gupta, principal economist at HDFC Bank, cautioned that a December rate cut is not guaranteed and dependent on how growth momentum evolves in the coming months.

The central bank also announced a raft of measures to enhance international acceptance of the rupee and ease lending rules for banks.

Banks will gain greater flexibility to lend to large corporates, reversing restrictions introduced in 2016. They will also be permitted to lend for acquisitions and increase lending against listed securities.