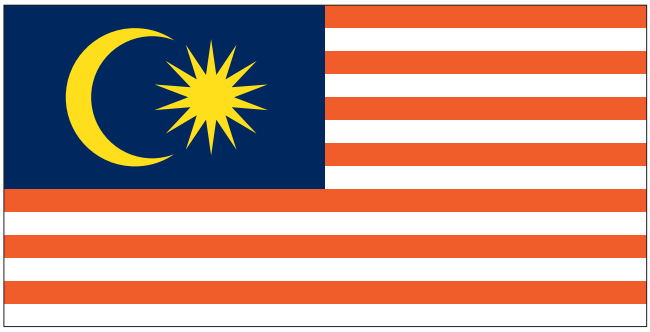
UK TRADE & INVESTMENT

UKTI DEFENCE & SECURITY ORGANISATION

## UKTI DSO PRIORITY MARKET BRIEFS

# DEFENCE & SECURITY OPPORTUNITIES: MALAYSIA



## WHY THIS MARKET IS IMPORTANT

Malaysia has historically been an important market for the UK. Despite the fact that much of the Malaysian inventory is of UK origin there was a clear intention for Malaysia to have a wide and diverse base of equipment providers, to reduce the risk of over dependence on one single supplier. However, recent indications are that the Malaysian Government is seeking to focus on a smaller number of key suppliers including the UK.

Historic ties still bind UK and Malaysia and there remains a mutual respect. Many senior government and military figures (including the Prime Minister) were educated in UK and the tradition continues to the present. Malaysia is a vibrant economy, growing by 7.2 per cent in 2010. It presents opportunities not just for sales but also for investment and is an ideal entry point to the wider ASEAN market.

## ECONOMIC BACKGROUND

**GDP (National Currency BN):** 740.907 (2008) 679.687 (2009) 744.428 (2010)

**GDP (BN$):** 222.272 (2008) 192.955 (2009) 218.95 (2010)

**GDP per capita (National Currency):** 27,142.05 (2008) 24,483.14 (2009) 26,366.96 (2010)

**GDP per capita (US$):** 8,142.62 (2008) 6,950.47 (2009) 7,754.99 (2010)

Predicted GDP Forecast is available in chargeable version of document.

## DEFENCE ECONOMICS

**Defence Budget:**
**2008:** US$4.41bn
**2009:** US$3.89bn
**2010:** US$4.38bn

**GDP:**
**2008:** US$222.27bn
**2009:** US$192.96bn
**2010:** US$4.38bn

Predicted Budget Forecast is available in chargeable version of document.

## DEFENCE OPPORTUNITIES

Malaysia has an ongoing defence modernisation programme and therefore opportunities exist across the full defence and security portfolio. However, there is no specific list published beyond major procurements and it is therefore necessary to investigate specific requirements on a case by case basis. For more details please contact the UKTI DSO Malaysia Desk.

## THE MALAYSIA DEFENCE MARKET AND HOW TO DO BUSINESS

The following general information is intended as a preliminary guide to help UK defence companies understand the Malaysia Defence Market. It is not intended to be exhaustive.

**The Malaysia Defence Market**
Malaysia reigned in its defence spending in recent years; however, there are indications that spending is once again on the increase with the announcement of major vehicle, ship, and multi-role combat programmes. Malaysia is planning to modernise its armed forces, which are historically land dominated but have recently diversified through a recognition that peninsular Malaysia is effectively a maritime nation. As a consequence the Royal Malaysian Navy has grown its ability to project force and is in the process of transforming from a coastal to a deep water navy. In tandem the air force is seeking to extend its range by the acquisition of surveillance and longer range strike aircraft.

The Joint Headquarters is growing in influence and is responsible for the development of a number of joint capabilities; most notably the establishment of a joint C4i system. Malaysia regularly contributes to UN peacekeeping missions (it currently has a major deployment to Lebanon) and is developing its expeditionary forces. The Government is committed to the acquisition of new assets but also to realising the maximum return on existing assets stressing the need for backwards compatibility with existing equipment and an evolutionary approach to growth. Consequently support, maintenance and upgrade programmes are a priority.

**Fundamentals Needed to Succeed in the Malaysia Defence Market**

The Government's defence acquisition policy is inextricably linked to its wider aspirations to develop industry and move itself up the value chain from providing MRO facilities to becoming a manufacturing hub with the potential to export to the wider Asia-Pacific region. In order to achieve this step change it needs to attract both foreign investment and technology transfer. It is therefore essential to be responsive to these drivers and be prepared to contribute to the country's technological development by means of technology transfer, shared development and local manufacture. The Government are establishing a defence technology park (**www.mdstp.com.my**) which it hopes will catalyse the growth of its indigenous industry.

Malaysia budgets for capital expenditure programmes in a series of five year plans. The 10th plan commenced at the beginning of this year: **(www.epu.gov.my/html/themes/epu/html/RMKE10/rmke10_english.html)**. It is generally essential to have secured funding for programmes prior to the start of the plan, although here is a mid-term correction at which the plan is reviewed. As a consequence the gestation period for programmes can be extended and many fail to meet the cut when budgets and priorities are set.

Requirements are generally advertised and competed although some are subject to closed competition or direct negotiation. The defence ministry often runs informal assessments of capabilities before proceeding to a more formal stage. It is important to be involved in these early stages despite that fact that no formal programme has been declared. For more detail please contact the Malaysia desk officer at UKTI DSO.

**Routes to Market**

Malaysia is a market that is responsive to assistance from industry in the development of its requirements and appreciates insight into developing technologies. Direct approaches to military staff requesting opportunities to brief are generally receive a positive response.

A local presence is reasonably important to gather local insight and to follow opportunities as they arise.

The willingness of exporters to establish a joint venture with local industry is a key discriminator from the Government's perspective.

Local defence industry is dominated by a handful of major companies all, to a lesser or greater extent, linked to government. Below these are several second tier companies without direct government involvement but still acceptable as partners. A successful campaign generally requires a twin track approach aimed at both end user and local partner.

**HMG Support**

There is an officer in the British High Commission supporting defence and security exports who can provide assistance and guidance to doing business in country. The High Commission also has a Defence Adviser post. (**www.ukinmalaysia.fco.gov.uk/en/**)

**Malaysia Export Controls**

Malaysia has, over the past few years, taken significant measures to strengthen its export control mechanisms to the extent that the penalties for infraction are some of the harshest in the world. The Strategic Trade Act 2010 (**www.miti.gov.my/storage/documents/a30/com.tms.cms.document.Document_eed8163e-c0a81573-bf50bf50-e98fea24/1/Strategic%20Trade%20Act%202010.pdf**) largely adopts the EU list of controlled goods.

**Visit Security Clearance**

Further guidance and the required forms are at: **http://www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/SecurityandIntelligence/DESPSYA/InternationalVisitsControlOffice.htm**

## ARMED FORCES – MILITARY STRENGTH

| **Active** | **109,000** |
|---|---|
| Army | 80,000 |
| Navy | 14,000 |
| Air | 15,000 |
| Paramilitary | 24,600 |
| **Reserve** | **51,600** |
| Army | 50,000 |
| Navy | 1,000 |
| Air Force | 600 |
| **Paramilitary** | **244,700** |

Source: IISS and the Military Balance 2010

## SECURITY ISSUES

**Memberships:**
Five Power Defence Arrangements (Australia, Malaysia, New Zealand, Singapore, UK).
**www.ukinmalaysia.fco.gov.uk/en/about-us/working-with-malaysia/defence-new/five-power-defence-arrangements**

**Involvement in overseas deployments:**
Lebanon – UNIFIL
Bamiyan Province, Afghanistan – Medical and humanitarian team
Mindanao – International Monitoring Team
Gulf of Yemen

## DOMESTIC DEFENCE INDUSTRIAL CAPABILITY

Information available in chargeable version of document.

## DEFENCE IMPORTS & EXPORTS 2006-10

**Identified country suppliers/market share:**

| | |
|---|---|
| **Italy** | (24%) |
| **UK** | (23%) |
| **Brazil** | (21%) |
| **USA** | (11%) |
| **Germany** | (6%) |

**Identified Malaysia Defence Exports:** $24m

Source: UKTI DSO Survey of Defence Exports & Various Open Sources

## COMPETITORS

Information available in chargeable version of document.

## PROCUREMENT ORGANISATION

Defence Industry Division, MinDef
Procurement Division, MinDef

## OFFSET POLICY

Minimum 50 per cent contract value to a maximum of 100 per cent on a negotiated basis. Minimum of 50 per cent of obligation delivered as offset, the remainder as countertrade. €10m threshold.
5 per cent contract value default penalty.
See **http://midas.mod.gov.my/index.php?option=com_phocadownload&view=category&download=11&id=2:.-1-.-1-2010&Itemid=171**

## KEY PERSONALITIES

| | |
|---|---|
| **Prime Minister and Finance Minister (Former Defence Minister)** | Dato' Sri Haji Mohd. Najib bin Tun Haji Abdul Razak |
| **Defence Minister** | Dato' Sri Dr Ahmad Zahid Hamidi |
| **Deputy Defence Minister** | Dato' Dr Abd. Latiff bin Haji Ahmad |
| **Secretary-General, Ministry of Defence (PUS)** | Datuk Dr Ismail bin Ahmad |
| **Under Secretary, Procurement Division, Ministry of Defence** | Nadzri bin Siron |
| **Under Secretary, Defence Industry Division, Ministry of Defence** | Dr Kogila Balakrishnan |

## FURTHER INFORMATION

If you require further information, a more detailed fact sheet is available to UK registered companies for £100 from:

UKTI Defence & Security Organisation
BD Market Analysis
1 Victoria Street
London SW1H 0ET

T: +44 (0)20 7215 8209
E: dso.businessservices@ukti.dso.gsi.gov.uk

## NEXT STEPS – HOW UKTI CAN HELP

British companies wishing to develop their business in the Malaysian market are advised to undertake as much market research and planning as possible in the UK. UKTI's team in Malaysia, with its wide local knowledge and experience, can provide a range of services to British-based companies wishing to grow their business in global markets.

This can include:
- Provision of market information
- Validated lists of agents/distributors
- Key market players or potential customers in the Malaysian market
- Establishment of interest of such contacts in working with you.

This work is available via our Overseas Market Introduction Service (OMIS) a chargeable service which assists British-based companies wishing to enter or expand their business in overseas markets.

To find out more about commissioning this work, or accessing other UKTI services and specialist advice, please visit the UKTI website to find contact details for your local UKTI office.

## OTHER USEFUL CONTACTS

**Malaysia Desks; UKTI Defence & Security Organisation**
RD East
UKTI Defence & Security Organisation

T: +44(0)20 7215 8128

**Malaysian Embassy London**
45-46 Belgrave Square
London

T: +44(0)20 7235 8033
F: +44(0)20 7235 5161

**British Embassy Malaysia**
185 Jalan Ampang
50450 Kuala Lumpur

T: (+60) (3) 2170 2200
F: (+60) (3) 2170 2370

E: trade.kualalumpur@fco.gov.uk
KualalumpurDefence@fco.gov.uk
**http://ukinmalaysia.fco.gov.uk/en/**

## OTHER USEFUL WEBSITES

**UKTI – Doing Business in Malaysia**
**http://www.ukti.gov.uk/export/countries/asiapacific/southeastasia/malaysia/item/108715.html**

**Malaysia Travel Advice**
Travel information and general embassy contact details can be found at: **http://www.fco.gov.uk**

**BBC Country Profiles**
**http://news.bbc.co.uk/1/hi/world/asia-pacific/country_profiles/1304569.stm**

**The Malaysian PM's Website** provides detailed information on the strategic development of Malaysia to a first world high-tech country by 2020 (vision 2020) and on the Economic Plan required to deliver this (Economic Transformation Programme). It is essential to understand these policies in order to meet Malaysian Defence Industrial aspirations that will have a direct bearing on any offset obligation.
**http://www.pmo.gov.my/**

**The Malaysian MOD Website:** An excellent source for news, organisation, etc but with good links to the armed forces, and trade associations etc.
**http://www.mod.gov.my/**

Whereas every effort has been made to ensure that the information given in this document is accurate, neither UK Trade & Investment nor its parent Departments (the Department for Business, Innovation and Skills, and the Foreign and Commonwealth Office), accept liability for any errors, omissions or misleading statements, and no warranty is given or responsibility accepted as to the standing of any individual, firm, company or other organisation mentioned.

Crown Copyright ©
Published 2011 by UK Trade & Investment