

MALAYSIA

Overview

Malaysia has become one of the most successful economies in the Asian region. Growth rates over the past five years have averaged in the eight-to-nine percent range, with all elements of the economy benefitting. Malaysia continues to be an excellent market for American products, larger than India, Russia or Indonesia.

In 1991, Malaysia developed the "Vision 2020" initiative, a thirty year plan for Malaysia to become a fully developed country by the year 2020. This ambitious plan will be the strategy for further development of the country in the foreseeable future. The government also implemented the Sixth Malaysia Plan which covers the period from 1991 to 1996. This five year plan calls for an average annual growth rate of 7.5 percent to raise the nation's nominal output from U.S. \$42 billion to U.S. \$75 billion by 1996. The plan continues the Malaysian government's trend of privatization of key public sector operations in energy, transportation, and communications. Given Malaysia's strong economic performance and growing concerns over regional security, there are ample defense as well as commercial trade opportunities for U.S. firms.

Defense Industry Environment

Defense spending as a percentage of GDP has increased over the past three years from three percent of GDP to five percent. It is expected to stay at this level for the next few years and then is expected to return to the three percent level. The 7th Malaysian Plan began 1 January 1996 and runs through 31 December 2000.

Other than providing projected federal government development allocations for defense from 1996 - 2000, the 7th Malaysian Plan does not discuss procurement goals/policies or provide specific funding lines. This is understandable when one considers that defense procurement and policy are protected by the "Official Secrets Act" and will not be discussed publicly. Having said this, it should be noted that much is known about projected purchases and policy goals of the Malaysian Armed Forces (MAF).

During the 6th Malaysian Plan the Government of Malaysia (GOM) embarked on a modernization program for their defense forces. The GOM committed to approximately U.S. \$3.6 billion in defense purchases. MAF began receiving modern and high tech equipment reshaping their armed forces from a primarily counter-insurgency internal defense force to one which was capable of meeting the challenges of the 21st century of defending the territorial borders of Malaysia and protecting their economic zones. This modernization program is not an arms build-up, but rather a modernization/replacement of defense systems which in many cases have not been updated for the past 20 to 30 years. Additionally, it should be noted that the GOM will not purchase what it perceives to be second generation technology. The GOM will purchase and demand the latest technology for their armed forces.

During the 6th Malaysian Plan the primary modernization focus was directed towards the Royal Malaysian Navy and Royal Malaysian Air Force. Both services received the lion's share of modernization dollars. The 7th Malaysian Plan will direct these modernization dollars towards the Malaysian Army. The following constraints pertaining to the 7th Malaysian Plan should be noted:

- By the GOM admission, the 6th Malaysian Plan borrowed heavily into the 7th Malaysian Plan (U.S. \$2.4 billion of U.S. \$2.8 billion allocated) to finance modernization efforts. If the GOM requires the Ministry of Defense to live within development allocations of the 7th Malaysian Plan, only U.S. \$400 million will be available for modernization. As long as Malaysia continues its high economic growth (8 to 9 percent for the last 8 years), it can realistically be assumed the GOM will allow Ministry of Defense to "borrow" into its 8th Plan (2001-2005) to finance and continue the Malaysian Armed Forces modernization programs.
- While the primary focus will be the Malaysian Army, it can be anticipated the Royal Malaysian Air Force and Royal Malaysian Navy will continue their modernization efforts, although at a slower pace.

Malaysia's domestic defense industry capabilities are rudimentary, however improving. Malaysia is able to produce some forms of ammunition, principally small arms and 105mm artillery shells, but currently relies heavily on foreign sources for virtually everything else such as weapons, aircraft, ships, vehicles, communications, and logistic support and management.

The United Kingdom has been Malaysia's primary source of defense equipment since independence. In recent years, however, the U.S. has become an important supplier of military equipment, especially in the aviation and high technology sectors. In the past, the U.S. has supplied the Royal Malaysian Air Force with F/A-18s, C-130s, F-5s, A-4s and H-3 helicopters with associated logistical support. Other traditional defense suppliers are France, Italy, Republic of Korea, Australia, and Russia with its June 1994 sale of eighteen MIG-29 Fighter Aircraft.

Defense Opportunities

All Malaysian Armed Forces (Royal Malaysian Army, Navy, and Air Force) are seeking to upgrade existing capabilities. With a standing force of 90,000 in the Army, 12,000 in the Air Force, and 11,000 in the Navy, the requirements are varied. Currently, the focus of the Malaysian Armed Forces will be modernizing their helicopter fleet for all three services and providing the Navy 27 New Generation Patrol Vessels.

As part of the Malaysian Armed Forces modernization program, all three services will be procuring helicopters as follows:

- Air Force: Attack helicopters capable of anti-armor battlefield interdiction and combat search and rescue; and heavy lift logistics helicopters.

Navy: Multi-purpose helicopter (shipborne) capable of anti-submarine warfare/anti-ship strike/sea-air rescue; and utility/lift helicopters for ship to shore replenishment.

Army: Lightly armed scout helicopters; utility helicopters; and heavy lift and attack helicopters.

Initial purchases can be expected within the next 6 - 18 months and this will be a long term program. The cost and number of helicopters will necessitate U.S. companies to provide innovative sales packages if they expect to remain competitive in this market. Sale packages will need to include one or more of the following:

- Co-production
- Technology transfer
- Offset agreements
- Education/training packages
- Joint venture with host country

Total value of these purchases could approach U.S. \$4 billion.

The production of 27 New Generation Patrol Vessels for the Navy (the 6th thru 27th ships will be built in Malaysia) is valued up to U.S. \$2 billion and will be a long-term investment (10 to 15 years).

The Armed Services are interested in acquiring and modernizing their force capabilities. The major requirements of each service are described below.

Army Programs

The Army is interested in acquiring the following equipment in the medium term:

- Armored Vehicles (tanks and armored personnel carriers)
- Air Defense Radars
- Surface-to-Air Missiles
- Field Artillery Locating Radars
- Logistics Vehicles
- Air Defense Missile Systems

The Army is actively involved in United Nations peacekeeping operations in Bosnia. Short-fused, no-notice requests for military equipment to support these U.N. operations are frequent. U.S. firms' ability to meet the Army's requirements and react promptly to these no-notice requests will frequently result in sales.

Air Force Programs

The Air Force is currently in the midst of a major aircraft expansion program and has recently acquired the Hawk, F/A-18D, MIG-29, Beechcraft 200, and additional C-130 aircraft. In addition to providing logistical support to these aircraft and the H-3 helicopters currently in their inventory, the Air Force desires to acquire an Attack Helicopter and a Cargo Helicopter (Note: the Army will eventually assume the mission of operation and support of the Cargo Helicopter while the Air Force will perform the Attack Helicopter Mission).

Development of an integrated logistical support system to effectively maintain and logistically support these recently acquired aircraft is also a high priority for the Air Force.

Navy Programs

The Navy will, in the next year, receive two frigates currently being constructed in the United Kingdom and two corvettes from Italy. Additionally, up to 27 New Generation Patrol Vessels will be designed and constructed.

Opportunities exist in all areas to support these two high-dollar ship programs, which have an estimated value of U.S. 3-4 billion, in the design, construction, weapon integration, management, logistical support, and operation of the system. Additionally, the Navy is actively seeking helicopters to operate off the Patrol Vessels. The creation of an Integrated Logistic System (ILS) to effectively support these acquisitions remains a goal of the Navy.

Defense Procurement Process

Key decisions regarding procurement of defense equipment are made at the Senior Ministerial level and the Office of the Prime Minister. The individual services of the Armed Forces do not have the ultimate say in what defense system is purchased. Although the Armed Services Chiefs have some input, the final decision is always made at the ministerial or other senior political level. The Ministry of Defense has a limited budget for procurement. All major defense acquisitions, once approved by the Defense Ministry, must then be forwarded to the Finance Ministry for review and approval. The individual military service and the defense contractor then must frequently brief the Finance Ministry and obtain approval for the particular defense product and discuss, in detail, price/payment schedule, and other financial details. For major acquisitions, special committees are formed in the Ministry of Defense to oversee the procurement process. Large procurements always require Cabinet approval.

Diversification/Commercial Opportunities

U.S. defense firms seeking to diversify will find opportunities in the following rapidly expanding infrastructure sectors:

- Airports and Ports
- Highways and Transportation Sectors
- Electric Power Generation and Distribution

Telecommunications
Environment
Petroleum and Petrochemicals
Semiconductor, Computer Manufacture and Associated Software Development

Transportation Sector

Construction of the new Kuala Lumpur International Airport began earlier this year. The majority of the tenders, though, are not scheduled to close until sometime in this fall. The opening of the Airport is scheduled for 1997. The total cost is expected to be U.S. \$ 3.2 billion.

Contracts or concessions to be let in the medium term for this project include the following requirements:

Central Utilities
Transformer Stations
Water Supply, Waste Management
Air Traffic Control, Radars, Navigational Aids
Aircraft Fueling System
Aircraft Fire Fighting Systems
Medical Design/Construction
Hotel Development
Express Freight Terminal
Equipment and Supplies for Terminal

Malaysia is also evaluating the idea of developing and/or constructing additional airports throughout the country. Most notable of these is a new Northern Airport project for Penang. This would come to fruition in five to ten years, but those who are interested should get involved early on. The approximate value of this project is U.S. \$500 million to \$1 billion and will provide U.S. firms with a variety of trade opportunities.

An airport project is also being discussed for Bintulu in East Malaysia on the island of Borneo. This is still very much in the planning states, but again, one in which interested parties would have to begin advance work to win future contracts. The cost of this project is estimated at U.S. \$80 million.

Telecommunications

Malaysia is rapidly developing its telecommunications infrastructure to meet the demands of its tremendous growth. The country is looking for and purchasing state-of-the-art equipment and technology. Unlike many countries in the region, the telecommunications sector in Malaysia has been privatized, making it a very competitive market.

Projects that are currently underway or are being considered include the country's first satellite launch; a rural telecommunications network to bring telecommunications capabilities to

the entire country; improvements in the cellular sector; the development of the nation's second trunk carrier; GSM network development; and scores of additional projects.

Environment

Malaysia is very aware of the importance of environmental management and is witnessing emergence of this industry. Projects have already been tendered for a national sewage system and a national hazardous waste site. Many opportunities also exist in the development of solid waste sites and management, the air pollution control and monitoring sectors, and the Environmental Impact Assessment areas.

As the country is becoming more aware of these environmental needs, the government is implementing and enforcing stricter laws. This is creating significant opportunities for environmental sales in practically every field of the private sector, especially in the palm oil, textile, semiconductor, oil and gas, petrochemical, and timber and logging industries.

Medical Equipment

As the country's income and standard of living continue to rise, so will the demand for higher levels of medical care. There are both public and private facilities available in Malaysia, with the public health care sector being the largest part. It is government policy not to buy used equipment, hence new and innovative equipment is being purchased. Malaysia's goal to be a fully developed country by the year 2020 includes bringing its health care sector up to first world standards, creating opportunities in virtually all sectors of this market from MRI equipment to heart monitoring technology and other related products.

Key Malaysian Ministries

Key ministries that have a role in these diversification sectors are listed below. Points of contact and phone numbers are not listed because transactions with these agencies are handled primarily through a local agent.

- Office of the Prime Minister
- Economic Planning Unit (EPU)
- Ministry of Science, Technology and Environment
- Ministry of Energy, Post and Telecommunications
- Ministry of International Trade and Industry
- Malaysia Airports Berhad (MAB)
- Center for Remote Sensing
- Ministry of Health
- Ministry of Agriculture

Privatization

Another area of potential trade opportunities can be found within the privatization of certain government-controlled industries. The privatization of defense industries is a major goal of the Malaysian Government. The two most recent examples of the divestment of government-owned enterprises are AIROD (aerospace) and the Lumut Naval Dockyard.

- Opportunities exist within AIROD's establishment of an aircraft and engine repair/rebuild maintenance center. This center will perform aircraft parts co-production and composite manufacturing. AIROD also is interested in upgrading its technical capabilities and receiving overall managerial expertise to improve its competitiveness. AIROD is located at the Kuala Lumpur International Airport (Subang).
- The Lumut Naval Dockyard may also provide trade opportunities for U.S. firms in the areas of ship construction, design, repair, engine propulsion, maintenance, integrated logistical support, dockyard management and operation, shipboard systems integration, and technology transfer. Additionally, Lumut Naval Dockyard will be the center of the New Generation Patrol Vessel (NGPV) project, a multi-billion dollar program to further develop Malaysia's shipbuilding capabilities, and the design and construction of the 27 Patrol Vessels for the Navy.

Doing Business in Malaysia

There are several key factors that will determine whether a U.S. company will successfully conclude a sale in Malaysia:

- Ability to offer a quality product at a competitive price and provide good reliable service.
- Marketing strategy creativity and developing a personal relationship with the Malaysian defense customer. This includes frequent visits to the relevant military services and procurement officials.
- Having a reputable local representative with access to the armed forces and knowledge of specific requirements. Local agents are an accepted legitimate part of the bidding process.
- Developing a close relationship with the local agent and his customers in both the defense and non-defense sectors is most important. Because most U.S. products are sophisticated in nature, manufacturers will need to develop a comprehensive and responsive service network with the assistance of the local agent.

Technology Transfer

The Malaysian Government normally requires some sort of offset or other technology

sharing agreement as a precondition to the defense sale. Each defense sale usually entails a unique offset requirement. An effective marketing strategy by U.S. defense contractors is to incorporate technology transfer into their proposals.

Intellectual Property Protection (IPR)

Malaysia has one of the best intellectual property regimes in Asia. The country is a member of the Paris Convention on Patents and since 1990 has been a member of the Berne Convention on Copyrights. The Malaysian Government takes these obligations seriously and is very cooperative in enforcement exercises. The only current problem is the prosecution of cases because of the backlog in the court system.

U.S. Government Points of Contact

The following is a list of useful points of contact for U.S. firms that require additional information regarding the Malaysian market.

U.S. Commercial Service

International Address:

American Embassy
P.O. Box 10035
50700 Kuala Lumpur, Malaysia

APO Address:

American Embassy
Kuala Lumpur
APO AP 96535-8152

Points of Contact:

Mr. Stephen Alley, Commercial Attache
Tel: 011-603-248-9011
Fax: 011-603-242-1866

LTC Mark Swaringen, USA, Chief, Security Assistance Office (SAO)
Major Paul Oman, USAF, Deputy Chief, SAO

U.S. Department of Defense:

Mr. Wayne Laskofski
Defense Security Assistance Agency

Attn: DSAA OPS-ERP
Washington, D.C. 20301-2800
Tel: (703) 604-6609
Fax: (703) 604-6041