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Capacity Building Through Innovative Approaches to Defence Offsets: The National Defence University of Malaysia

By
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Offsets have been defined in several different ways and can be generally stated as a term for reciprocal arrangements in international procurement, usually but not necessarily, confined to defence procurement.

The evolution of offsets can be traced back to the 1800s but its usage only gained prominence after World War Two, and which was leveraged as part of war reconstruction efforts of Europe and Japan. Since the 1950s, offsets have been used as a commercial tool to secure contracts, especially so in the defence domain. Despite opposition, offsets have grown in prominence internationally, especially in international defence procurement, with the value running into billions of dollars. Today, they are used as a tool by buying nations for economic, industrial and technological benefits.

It must be mentioned that offsets are viewed differently in different countries but Malaysia has adopted the practice since the 1990s with the purchase of overseas defence equipment. It has since been pursued with much vigour, wherein defence contractors, commonly referred to as Overseas Equipment Manufacturers (OEMs), are required to provide offset packages to the Ministry of Defence in conjunction with defence purchases, based on the value of the contracts. It was done in a somewhat unstructured manner in the initial years, until a codified Defence Offsets Policy was introduced in 2005. This was then replaced by the Policy and Guidelines, Industrial Collaboration Programme (ICP) in Government Procurement, which applies to government procurement as a whole.

It can certainly be argued that Malaysia has been able to leverage defence offsets, and counterpurchase that comes along with it, for economic, industrial and technological benefits. Many organizations, largely defence industry companies, and to some extent, non-defence organizations, have been beneficiaries of these offsets. The National Defence University of Malaysia (NDUM) is one such organization.

Offsets can generally be divided into direct and indirect offsets. The former relate to the equipment or technology that is being procured, while the latter are those that are not linked to the equipment or technology in question. Through these direct and indirect offsets, Malaysia has been able to leverage them to carry out technology transfer such as the setting up of Maintenance, Repair and Overhaul (MRO) facilities, as well as human capital development. It has also been able to embark on localisation, buy-backs and to become part of international supply chains. Offsets have also been successfully adopted for the non-defence sector, such as the Astronaut Programme to send the first Malaysian into space. In the area of counterpurchase, it has been able to make palm oil and other products as part of its defence procurement requirements.

NDUM is a public university, having transformed itself from the Malaysian Military Academy in 2006 to become a full-fledged university. With its vision of becoming the premier defence university in the region for education, training and knowledge creation, it has been somewhat constrained in its capacity building efforts since its inception due to inadequate resources, especially financial resources. Like other public universities in the country, it is dependent on the government for its financial resources, and to some extent, its own revenue generation. However, NDUM has come under increasing pressure to move forward its trajectory of growth in spite of these budgetary constraints. This limited budgetary allocation, challenging its growth and capacity building, has called for creative financing and innovative approaches. This is where offsets come into play wherein NDUM has been able to leverage indirect defence offsets for its capacity building efforts based on offsets provided to the Ministry of Defence by the OEMs in conjunction with defence purchase.

It must, however, be stated that securing defence offsets is not a straightforward process but one that involves engaging and securing buy-in from several actors, including the Defence Industry Division of the Ministry of Defence, the Malaysian Armed Forces (MAF), OEMs, defence attaches, high commissions or embassies, as well as reputable international universities and institutions, especially those of France, the United Kingdom, South Africa and Sweden.

Leveraging on offsets funding, NDUM has been able to continue its efforts in capacity building through the following:

- a. Academic collaboration and strategic partnerships with leading international universities.
- b. Professional development of MAF personnel.
- c. Technological development

In the area of academic development and strategic partnerships, NDUM has been able to utilize offsets funding for human capital development of university academics and personnel of the MAF at the Masters and PhD levels as well as short courses, designing of curriculum and modules, advice on support facilities and infrastructure, delivery of lectures, quality assurance and the creation and running of the following postgraduate programmes:

- I. **MSc in Engineering Business Management (MEBM)** for three years in strategic partnership with WMG, Warwick University, United Kingdom and Cranfield University, United Kingdom, with offsets funding provided by Thales International. This programme is now run by NDUM as the **Master of Business Management (Defence and Security)**.
- II. **MSc in Engineering (Aeronautics)** in strategic partnership with ISAE, France with offsets funding provided by Airbus Helicopter (formerly Eurocopter Group).

- III. **Master in Cyber Security and Management** for three years in strategic partnership with WMG, Warwick, with offsets funding provided BAE Bofors, Sweden. This programme is now run by NDUM as the **MSc in Cyber Security and Management**.
- IV. **Master in Maritime Technology** in strategic partnership with Ecole Centrale de Nantes, France with offsets funding provided by Naval Group.
- V. **MSc in Digital Security** in partnership with EURECOM, France with offsets funding provided by Naval Group
- VI. **MSc in International Technology Management for Defence and Security** for three years in strategic partnership with WMG. Warwick University, United Kingdom, with offsets funding provided by Thales, United Kingdom. This is now to be run as a NDUM programme.

As for professional development of the MAF personnel, NDUM has been working with the Council of Scientific and Industrial Research (CSIR), South Africa with offsets funding provided by Denel SOC Ltd, South Africa. This has been realised through the running of courses in Radars, Sensors, Electronic Warfare (EW) and Network Centric Warfare (NCW), as well as attachments and visits of personnel to South African defence companies involved in these domains.

As for technological development, NDUM has worked with KONGSBERG, Norway for developing capability in research, design and systems integration through an offsets package provided by the company. It is working with another European OEM for the same through an offsets package to be provided by the company. The name of the company is not being disclosed because of a non-disclosure agreement which NDUM has signed with the company. Work is also in progress to set up a Centre of Excellence in Radars, Sensors, EW and NCW at NDUM using offsets funding.

Offsets funding secured by NDUM has certainly facilitated its scope, speed of capacity building and strategic growth. The total amount of offsets funding secured by the university thus far is in excess of RM100 million.

NDUM must continue in earnest with its journey of capacity building, and it must certainly look for new and creative ways to find resources towards this end. Strategic partnerships, supported by the ability to secure and leverage offsets funding has been one such way, and it must always remain as part of this endeavor, acting as an enabler and whatever measure, contribute to NDUM's efforts to become a leading defence university in the region for education, training and knowledge creation, as laid down in its vision.

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