Malaysian Offset Program:
A Tool for National Technology and Economic Development

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Content

- Background
- History
- Aspiration
- Malaysia Offset Management Framework
- Lessons Learned
- Expectation from clients
**About MiIGHT**

“.... MiIGHT is formed to prospect for business opportunities for Malaysia through strategic exploitation of technology for attainment of Vision 2020 objective”

Launching of MIGHT by the Former Hon. Prime Minister of Malaysia, 22 February 1993

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**Established in 1993 by the Government**

- An Organization under the purview **Prime Minister Department**
- Based on partnership between public & private sectors
- As Not-For-Profit company limited by Guarantee

**Core Business**

- Consensus building to harness **technology for business**
- **Nurturing high tech industries** via necessary interventions
- Consultative platform building linkages through membership programme

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**A PARTNERSHIP THINK TANK**

- **Government**
- **Industry**
- **Academia**
Technology Depository Agency (TDA) is a central agency that consolidates the national technology needs to support the Malaysian Offset Management Framework.

MIGHT has been mandated to undertake the Technology Depository Agency (TDA) to ensure the national acquisition provide platforms to support the country’s development strategies through offset programmes.
Background: Offsets initiatives in Malaysia

1987
- Treasury Circular Letters No. 11, 1987 Guideline to Implement *Countertrade* in Government Procurement – the initial implementation of *countertrade/offset* in Government procurements

2001-2002
- A Study On Offset Programmes of the National Defence Procurement

2005
- Counter Trade Policy in MinDEF stipulating countertrade / offset requirements in all Defense Procurement

2009
- Drafting of Economy Enhancement Program (EEP) and revised Countertrade / Offset policy at the national level

2011
- **Treasury Directive Letter** dated 18 March 2011 – Policy and Guidelines to have offset as mandatory requirements in *ALL* Gov Procurements

2012
- **Decision by MOEC** to incorporate **EEP** in the next revised National Offset Policy

2014
- **Revision of National Offset Policy**

*Source: Government Procurement Division, MOF*
Context Setting

Malaysia: Looking Back, Moving Forward

1957 to late 1970s
Agriculture Based Economy
Basic Input Factors
- Land
- Labour

1980s to mid 1990s
Resource-Led Economy
Basic Input Factors
- Infrastructure
- Collateralized risk-free capital
- Labour

1990s to 2020
Innovation/Knowledge based Economy
Basic Input and Knowledge Factors
- Technology
- Market
- Funding (risk capital)

Rewards are rapid and sustainable:
- Wealth creation
- Employment creation
- Societal welfare

Late 1990s to 2020

Technology development & Acquisition Agenda

* S2A – Science to Action initiative

OFFSET PROGRAM

Source: Government of Malaysia. 2006. Industrial Master Plan 3 (IMP3)

Now, we are here
USD15,000
GNI per capita 2020

12 NKEAs
3.3 millions of new jobs by 2020

GNI: RM1.7 trillion in 2020
compared to RM660 billion in 2009

New Economic Model

6% Growth
Defence industry is a relatively high capital investment required for the development. In order to reduce the high capital investment, a planned distribution of work may reduce the burden of high investment on the chosen main contractors.

Objectives

- Reducing the balance of payment
- Employment opportunities
- Technology gateway/spin-off benefits
- Revenue Generation
- Security
- Reduced dependency on Foreign OEMs
- To get the best out of limited budget
- Address constant threat (regionally and globally)

142 members (local companies)

Working Groups

- Automotive
- Maritime
- Aerospace
- ICT
- Weaponry
- Common Users

Source: Defense Industry Blueprint, 2000
Economic benefits enjoyed by the procuring Government resulted from major business deals made.

- Economic Development
- Industry Development
- Technology Development

Targeted Local Industry

Offset Programmes

Value-add Deliverables

OEM / Supplier(s)

Payment

Supply of goods

Net Return

Investment

- Collaborations;
- Smart business partnerships;
- Contract works on strategic & high value packages;
- Local content/Certification;
- Technology Commercialization.
Objectives of Malaysian Offset Program

The aim is to provide a platform for the country to generate a positive net revenue from investments made.

1. Foster strategic international partnership
2. Maximize the usage of local contents
3. Sustain Malaysian industry and technology for economic growth
4. Facilitate investments and Human Capital development
5. Enhance collaboration in R&D&C
6. Encourage Technology Development and know-how

Market driven and sustainable

*Source: Policy And Guideline On Offset Programmes In Government Procurement, Malaysia
# Malaysian Offsets Policy Framework

## Applied to all Procurements by Government Agencies (supply, services & works)

- **Initiation**
  - **Causality**
    - Procurement > RM50 million
  - **Offset Credit Value**
    - 100% from procurement value
  - **Responsibility**
    - Offset Providers

- **Process/Implementation**
  - **Terms & Conditions**
    - (Clause 4, 5, 6)
      - **Deliverables**
        - Direct and Indirect
        - Strategic, high value and high impact
        - Mutual benefits and sustainable
  - **Management**
    - (Clause 7, 8)
      - **MOF**: Malaysia Offset Executive Committee (MOEC)
      - **Offset Committee**
        - Agency: Offset Committee (OC)
        - Offset Management Unit - Secretariat
      - **TDA@MIGHT**
        - (Malaysia Offset Management Framework)

## Outcomes

*Source: Policy And Guideline On Offset Programmes In Government Procurement, Malaysia*
In the current policy, the Offset Management Framework is designed to maximize offset activities to become part of a competitive process. The proposed enhancement (version 3:2014) will include the implementation phases i.e. Pre, During and Post.
Offset Program: An Initiative for National Economic/Defense Growth

Offset Initiation

Procurement ~ RM X Billion (Causality)

Partnership ~ RMX (Impact/Output)

Offset Strategies

Local companies (SMEs) participation as recipients

Participation in national projects

Offset Programs Implementation

Global participation (Recipient & Obligors)

Direct & Indirect

• Global market access
• Contract work packages
• Local capacity / capability development
• Technology commercialization
• Certification / Global Standards

Offset Initiation

Alignment with current national initiatives

Spin-offs companies

Track record, product enhancement / Certification
National Offset Management

<table>
<thead>
<tr>
<th>Process Owner</th>
<th>Roles and function</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monitoring Entity</td>
<td>Policy and overall monitoring</td>
<td>Malaysian Offset Executive Committee (MOEC)</td>
</tr>
<tr>
<td>Procuring Entities</td>
<td>Program Implementation and monitoring</td>
<td>Procurement Division / TDA</td>
</tr>
<tr>
<td>Ministries / GLCs</td>
<td>Project Implementation</td>
<td>Offset Committee (OC)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Offset Management Unit (OMU)</td>
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<tr>
<td></td>
<td></td>
<td>Working Committee / Project team</td>
</tr>
</tbody>
</table>
**Offsets: From opportunities to self sufficient**

*In support of National Defence Blueprint*

- **Captured market**
- **Obligations by suppliers**

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**Offset Management Framework (based on the national offset policy)**

<table>
<thead>
<tr>
<th>Offset Recipients</th>
<th>Academia</th>
<th>Government Agencies / Private Companies</th>
</tr>
</thead>
</table>
| Potential projects | • Contract research  
• Collaborative R&D | • Transfer /sharing of skills  
• Contract work packages  
• JV/Partnership companies |
| Expected outcomes  
• IPs  
• Consumer products development | • Local capability/capacity development  
• Supply chain access  
• Global market expansion |
| Impact  
• Technology based product for industry development | • Local product for local usage  
• Local products accepted by international market  
• Sustainable development activities and businesses  
• Contribution to GNI |

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- **Independence**  
- **Sovereignty**  
- **Sustainability**  
- **Inclusiveness**
Traditionally, the offset programs are structured based on **one-to-one approach** i.e. one OEM for one program.

**Integrated implementation approach** on the offset programs will give more economical impact to support national development agendas.

**Forecasted impact in year 2020**

- Economic Contribution: ~ **RM30 billion**
- Job opportunities creation: ~ **45,000**
What we have learned:

• The offset programs shall be sustainable (not a one off type)
• The offset ‘obligation’ shall be regarded as opportunities
• The offset ‘cost’ shall be regarded as investment
• There shall be a mutual understanding (willing provider willing recipient) supported with realistic implementation plan
• The Government shall strongly support the initiative by:
  • providing effective policy, clear direction, efficient management structure and process
  • synergised/consolidated effort at the national level
Offset program is a need for Malaysia. What are expected?

From Client Perspective

People & Organization

Sincerity, transparencies and integrity of the offset providers and recipients

Adherence to the National Offset Policy and Malaysian Offset Management Framework

Process

Outcomes

Economic impact via a workable program

Sustainability of the program in support of Malaysian National initiatives

Assistance for local companies to participate in the global market
Offset Program is an initiative by the Government utilised as an effective COLLABORATIVE tool to support national economic/defense development

- A platform for impactful outputs;
  - Realization of the technology and economic/defense development needs;
  - Based on the current national resources;
  - Develop targeted industry capability and capacity;
  - Contribute into national economic development plans.

- Economic Contribution for businesses – create ‘win-win’ platform for sustainable businesses and participate in the global supply-chain

An anecdote:

The cake is big enough for us to share; Greed brings upon us devastation; Passion brings upon us progression.
Thank you!

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