

Malaysia's Defence Policy and the Defence Budgeting

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Malaysia's defence policy is an extension of its foreign policy. This underscores the fact that diplomacy is the first line of defence and the use of force is only a last resort. It is a capability driven policy as opposed to a threat-dependent. It simply means that while we do not foresee immediate threats to our sovereignty and territorial integrity, the possibility of threats arising in the future cannot be totally ignored. Towards this end, it is necessary to develop basic capabilities to defend the nation's sovereignty and territorial integrity from external threats. The policy, therefore, adopts a defensive defence posture with deterrence being the core military strategy.

The fundamental principles of the policy are acquiring self-reliance capabilities, strengthening defence ties with the countries in the region and beyond, commitment towards the Five Power Defence Arrangements (FPDA), total defence, pursuing defence diplomacy and commitment towards the UN (especially with regard to peacekeeping and disarmament issues).

The Malaysia Armed Forces began as a counter insurgency force, fighting the communist terrorists. For more that a decade after independence, the Anglo-Malayan Defence Agreement (AMDA) provided the defence umbrella from external threats. With the withdrawal of British forces from the region in the 1970s and with the demise of communist threat in the early 1980s, the process of developing conventional capabilities was initiated. After almost a decade acquiring modest conventional capabilities, we began to focus on modernising the defence force in the early 1990s.

In Malaysia like any other countries, defence budget sets the limits within which defence planning has to take place. Malaysia's defence budget is modest compared to many countries. It is based on a percentage of annual government expenditure and it is not pegged to GDP or GNP. While there is little doubt that pegging defence budget to GNP/GDP provides greater certainty in planning and implementation, the government is of the view that there are competing priorities, namely socio-economic development projects. Defence allocation therefore depends on affordability of the government. It reflects the interplay of the military strategic objectives and national resource constraints.

It is also a manifestation of Malaysia's prudent policy, since independence, which advocates that peace and stability would not merely be guaranteed by guns and

barrels and that bread and butter issues (socio-economic development programmes) would have to be given equal if not more importance.

The budgeting system for defence is based on a formal five-year planning structure and process which establishes force-manpower-ringgit planning levels to guide the formulation of annual budget – the five year plans or development expenditure and the annual estimates or operating expenditure. The five year plans projects spending trends into the future and is used as the primary planning instrument for development or acquisition of new capabilities.

The annual estimates contain annual service spending bids and these are submitted to Treasury and tabled in Parliament for approval. It caters for emolument and allowances of the service [personnel, utilities, ration, maintenance, procurement of spares and support services. The operational budget for this year is around RM9.8 bil.

There were instances when the Ministry of Defence was unable to spend the full sum in the same year, primarily due to long lead times in the procurement of ammunition and spares. As a result, some of the commitments made in previous years would have to be carried forward. This impinged upon the subsequent years' budget thus involving some major adjustments. However, the introduction of budget planning for two years, a few years ago, has somewhat helped to mitigate the problem.

The development estimates, on the other hand, is for the acquisition of new capabilities such as the procurement of capital items and infrastructure development programmes in accordance with the objectives set in five-year plans. For example, the procurement of major weapons, systems, aircraft and ships are done utilizing the development expenditure. Similarly the construction of military bases, and quarters for the service personnel are done through utilising development funds. Currently, under the Ninth Malaysia Plan (2006 to 2010), RM14.5 bil is allocated for defence. Additional allocation is expected to be provided under the mid-term review.

A key aspect in the management of the budget and in enforcing expenditure consistent with policies is the Modified Budgeting System (MBS). The spirit behind MBS is *let the managers manage*. It was introduced more than a decade ago as a means to make the armed services more goal-driven and accountable for the money spent.

The Malaysian defence budgeting reflects some form of balance. It is sensitive to threat escalation and the socio-economic priorities of the country. At the same time, it provides and affordable allocation to enable planned development of the Malaysian Armed Forces capability.

Although the Ministry of Defence is entrusted with the task of managing the defence funds and the Secretary General of the Ministry is the Controlling Officer, it is the Federal Treasury which controls the purse and the Economic

Planning Unit of the Prime Ministers' Department which makes the final decision on major defence development programmes.

In view of the limited budget, the defence policy advocates appropriate strategies to maximize the defence outlay. The following are some of the strategies :

- i. Outsourcing of support activities/service (by private sector participation) and concentrate on core activities (combat) only;
- ii. Maintain a lean, mean and potent force (strategy of right sizing) and expand reserve force;
- iii. The ratio of defence expenditure for personnel emolument : non personnel emolument to be maintained around 40:60 which means that more money to be allocated for enhancing mission capability, transformation to a Knowledge based force (K-Force) and improving the quality of life of military personnel; and
- iv. More innovation financing methods like the Private Financing Initiative.

Every single cent spend on defence is subject to parliament's approval and examined by the Federal Auditor. Occasionally, the Public Accounts Committee summons senior defence officials to appear before it to explain on alleged improprieties in defence spending based on Federal Auditor's Annual Report.