



**Government Defence  
Integrity Index**

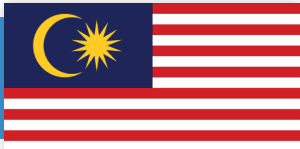


**2020**



Country Brief:

**MALAYSIA**

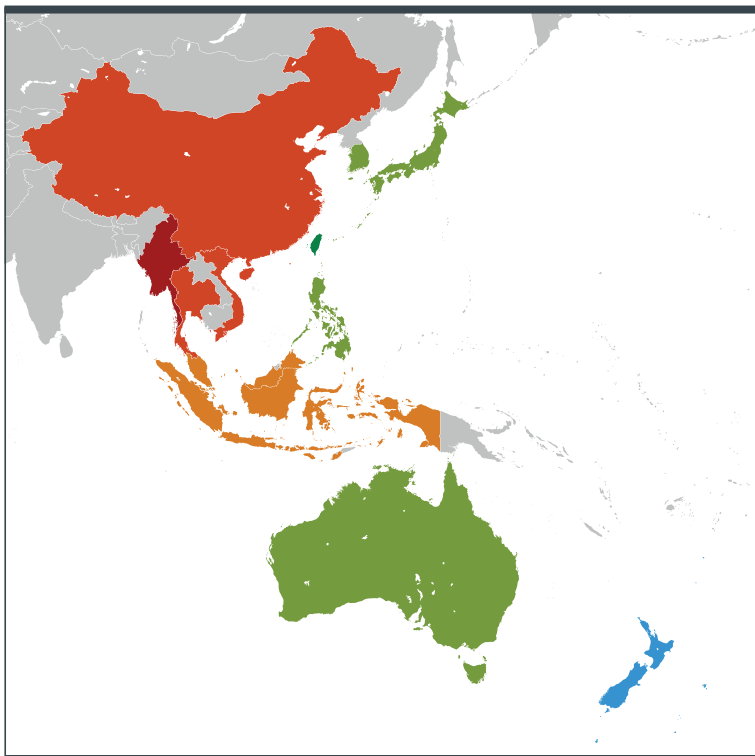


# MALAYSIA

After six decades of rule by the Barisan Nasional (BN) political coalition, which manipulated electoral districts, appealed to ethnic nationalism and suppressed opponents, Malaysia experienced its first peaceful transition of power in 2018.<sup>1</sup> The winning opposition alliance, Pakatan Harapan (PH), campaigned on a good governance platform, pledging to instigate economic reforms and address entrenched government corruption that had led to the plundering of billions of dollars from 1MDB, the Malaysian development state fund, chaired by former Prime Minister Najib Razak.<sup>2</sup> However, the election victory did not prove the watershed moment democracy campaigners had hoped for. The dramatic collapse of the coalition in 2020 brought UMNO,<sup>3</sup> the pro-Malay bloc and main party in the BN, back into power at the helm of a new coalition amidst significant political turmoil and uncertainty as to Malaysia's political trajectory.<sup>4</sup>

The upheaval has also significantly delayed much needed defence reforms. The implementation of the PH coalition's Defence White Paper has stalled since its collapse, which has coincided with the COVID-19 pandemic. Proposed reforms affecting civil-military relations, civilian control of the armed forces, national defence industry and international cooperation are urgently required to face long-standing and non-traditional security challenges. These include the threat posed by extremist and separatist groups in the region and China's increasingly belligerent stance in the South China Sea.<sup>5</sup> As things stand, despite some progress, corruption risks remain significant throughout Malaysia's defence governance architecture. Parliamentary oversight is nascent and requires sustained attention to ensure progress is not lost. Auditing practices remain limited in their power to enforce recommendations, while financial secrecy continues to undermine transparency. Procurement is still prey to powerful interests, both foreign and domestic, and vulnerable to corruption. Corruption risks are critical in terms of military operations, and personnel ethics frameworks are undermined by uneven implementation.

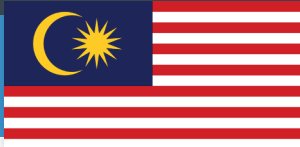
Member of Open Government Partnership	No
UN Convention Against Corruption	Ratified in 2008.
Arms Trade Treaty	Has not ratified.



## Asia-Pacific

The Asia-Pacific region is home to some of the biggest military and economic powers in the world, as well as critical financial and trade hubs, natural resources and around 60 per cent of the world's population, and the region has become a major area of geopolitical rivalry. The continuing deterioration of Sino-American relations is having widespread implications for countries in the region. Security challenges presented by an increasingly assertive China, the continuing threat posed by North Korea and the protracted insurgencies in Thailand, the Philippines, Myanmar, Indonesia and Malaysia will also remain key concerns moving forward, as will emerging security threats related to cyberwarfare and the impact of climate change. However, Asia-Pacific has huge variations in the quality of defence governance mechanisms, which will determine how well defence institutions can respond to these challenges. It is home to both New Zealand, the highest scorer in the index, and Myanmar, one of the lowest. Though challenges are extremely varied across the sample, corruption risks are particularly pronounced in relation to financial management and procurement, where defence exceptionalism remains pervasive and exempts the sector from standard reporting and publishing standards. Operations too are highly vulnerable to corruption, while personnel management and policymaking are considered significantly more robust.

<sup>1</sup> Freedom House, 'Freedom in the World – Malaysia', 2020.  
<sup>2</sup> Hannah Ellis-Petersen, '1MDB Scandal Explained: A Tale of Malaysia's Missing Billions', *The Guardian UK*, 28 July 2020.  
<sup>3</sup> Jonathan Head, 'How Malaysia's Government Collapsed in Two Years', *BBC News*, 5 March 2020.  
<sup>4</sup> Ben Dolven and Bruce Vaughan, 'Malaysia', *Congressional Research Service*, 9 June 2020.  
<sup>5</sup> Nik Mohammed, Rashid Nik Zurin and Ivy Zwek, 'Malaysia's Planned Defense Reforms Need Implementing', *The Diplomat*, 7 July 2020.



# MALAYSIA

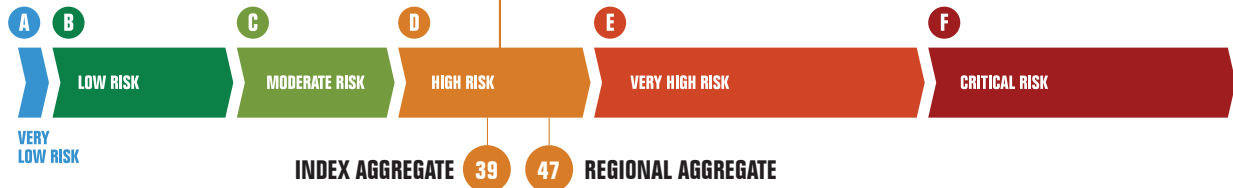
## Overall scores

The size of the colour band corresponds to number of countries that fall into that category.

**MALAYSIA SCORE**  
**HIGH RISK**

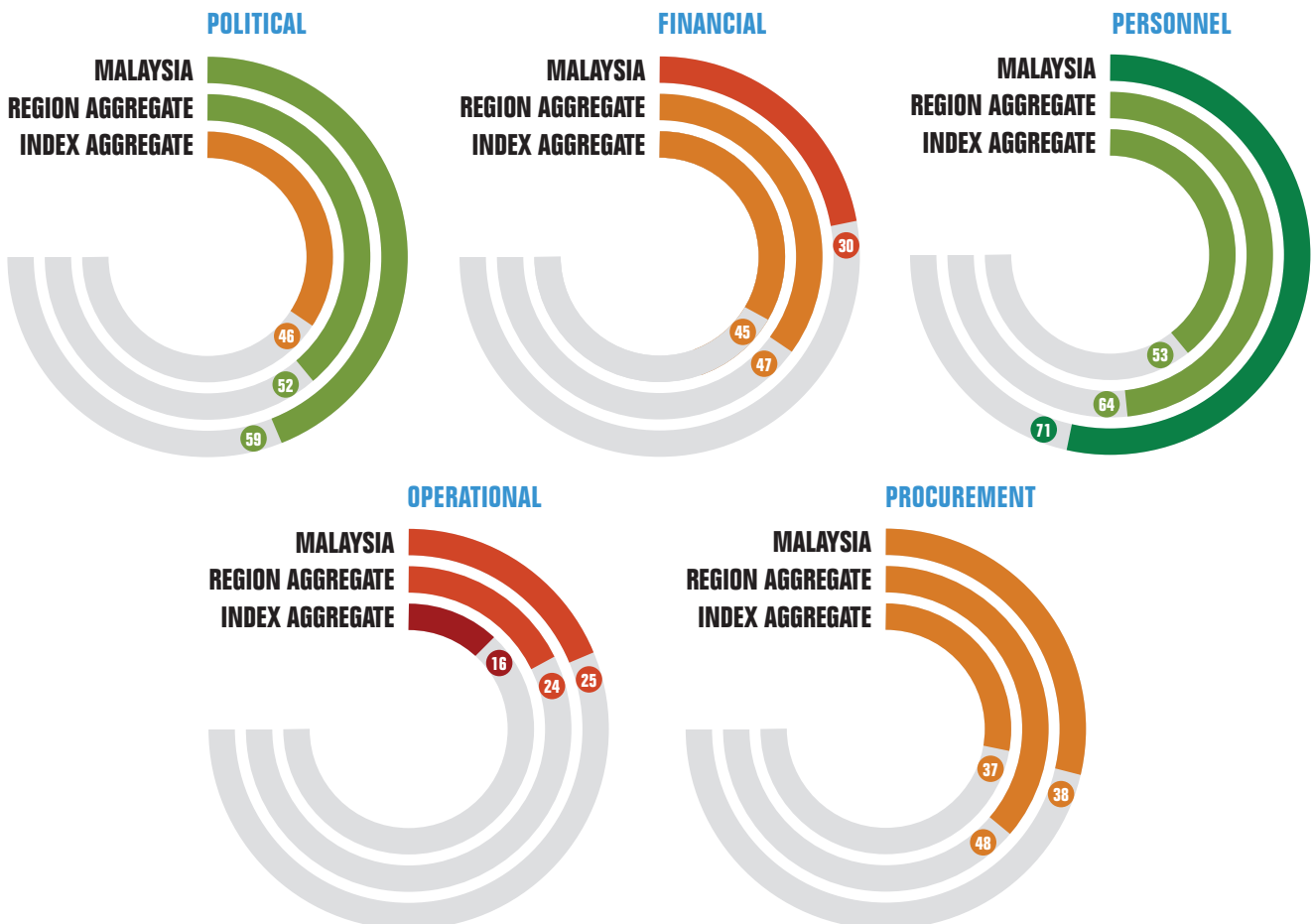
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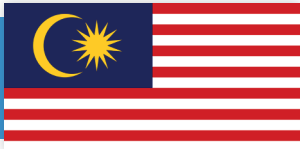
**45**



**A > 83-100** VERY LOW    **B > 67-82** LOW    **C > 50-66** MODERATE    **D > 33-49** HIGH    **E > 17-32** VERY HIGH    **F > 0-16** CRITICAL

## Risk Comparison





# MALAYSIA

## Parliamentary Oversight

Legislative oversight of budget (Open Budget Survey, 2019)	31/100
Military expenditure as share of government spending (SIPRI, 2020)	4.2%
Committee members with defence expertise (%)	Data is not publicly available.
# of meetings/year	No evidence of meetings between 2018 and 2020.
Last review of defence policy/strategy	2019 (National Defence Policy)

Under BN rule, the constitutionally-established separation of powers was undermined by the executive's interference and influence over the other two branches of government, with the judiciary in particular co-opted by powerful government figures.<sup>6</sup> The legislature was similarly undermined in its oversight of government policies. Though the 2018 election signalled a strengthening of democratic institutions, the PH coalition's collapse raises questions as to the future of its reform programme.<sup>7</sup> The defence sector is one of the areas of government where such reforms are most needed, as civilian and democratic control over the armed forces is not yet well-established. Key defence documents, such as the National Defence Policy, are produced internally by the Ministry of Defence (MINDEF) before being presented for parliament for approval, with little space for debate and no mandate to make amendments. Nevertheless, after taking over, the PH coalition undertook reforms to strengthen parliamentary authority over the sector. This included the formation of a Defence Committee,<sup>8</sup> with a mandate to provide oversight of the policies, administration and budgets of the defence services.<sup>9</sup> A Special Investigation Committee on Procurement was also established to scrutinise all of MINDEF's past development and procurement projects in an unprecedented attempt to exercise parliamentary control over the military.<sup>10</sup> The committees' only recent creation, combined with significant political turnover in Malaysia, make it difficult to assess their effectiveness as things stand. Oversight is also supported by active internal and external audit mechanisms. The MINDEF's internal audit unit conducts financial management audits of all agencies.<sup>11</sup> Reports are made available to the Auditor General, which scrutinises the unit's activities, though the long-standing absence of a special parliamentary committee led to a lack of parliamentary engagement with such reports. The Auditor General carries out external financial and performance audits of defence institutions, however, there remain question marks over the enforcement of its recommendations. Numerous examples, including the non-delivery of six helicopters in 2017 and 2018, underline how MINDEF fails to respond to or take into account audit findings in its practices.<sup>12</sup>

## Financial Transparency

Defence-related access to information response rates	(1) % granted full or partial access: Data is not publicly available.
	(2) # subject to backlog: Data is not publicly available.
Defence-related complaints to ombudsman/commissioner #	No such body exists.
Does the commissioner have authority over the MoD?	No such body exists.
Audit reports on defence (2015-2020) #	Data was not available at the time of research.
Open Budget Index (IBP, 2019)	47/100
World Press Freedom Index (RSF, 2021)	119th out of 180.

Throughout the BN party's rule, the government was highly opaque, with centralised decision-making and a lack of independent oversight. Upon its election in 2018, the PH government pledged to operate with greater openness and strengthen transparent governance to combat corruption.<sup>13</sup> Its record, however, was mixed and the PH's collapse leaves many of its proposed reforms affecting access to information and transparency in legislative limbo. The defence sector, in particular, has long been held as the most opaque area of government activity, owing to its sensitivity and proximity to the regime. Budget transparency, for instance, has long been restricted. The published defence budget provides only a general outline rather than a comprehensive breakdown of expenditure across functions. Moreover, Parliament has less than 20 days to discuss and approve the budget and,<sup>14</sup> prior to 2019, the absence of a specialised parliamentary committee to exercise budgetary oversight severely undermined the legislature's ability to influence budget formulation. Additionally, access to information mechanisms are weak. Malaysia has no unified Freedom of Information Act, with only a handful of states having adopted comparable legislation.<sup>15</sup> Instead, access to information is constricted by the Official Secrets Act, which limits the publication of defence data.<sup>16</sup> Though there have been some positive steps in recent years, such as the launch of the government's Open Data platform,<sup>17</sup> the majority of defence information remains difficult to access. While the military derives the entirety of its funding from central government allocations, there remains a degree of secrecy around the workings of LTAT, the military's pension fund that owns numerous publicly listed companies. A number of these have come under scrutiny for mismanagement and misuse of funds during election campaigns and represent potentially serious corruption risks.<sup>18</sup> While some degree of scrutiny exists over these holdings, it remains weak, especially in terms of the highly opaque appointment of board members and executive directors.

<sup>6</sup> Bertelsmann Stiftung, *BTI Country Report 2020: Malaysia*, Gutersloh, Bertelsmann Stiftung, p. 12.

<sup>7</sup> Bertelsmann Stiftung, *Malaysia*, p. 14.

<sup>8</sup> It should be noted that the Defence Committee has already been renamed the Special Select Committee on Security under the current administration, potentially indicating a broader remit than it had under the previous coalition, see The Malaysian Reserve, 'Dewan Rakyat Passes Motion on 9 Special Select Committees', 12 November 2020.

<sup>9</sup> Syed Umar Ariff, 'Six New Parliament Standing Committees Announced', *New Straits Times*, 4 December 2018.

<sup>10</sup> Mohd Azizul Osman, 'Special Committee to Investigate Mindef - Ambrin', *Malaysia Gazette*, 16 July 2018.

<sup>11</sup> Ministry of Defence, 'Charter'.

<sup>12</sup> Nicole Ng, 'Mindef, AG in final talks on helicopter deal', *Free Malaysia Today*, 4 November 2019.

<sup>13</sup> Freedom House, 'Malaysia', C3.

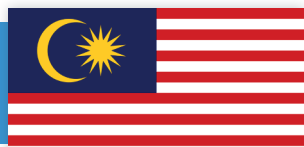
<sup>14</sup> Jitkai Chin, Chin-Tong Liew, and Nur Jazlan Mohammad, 'The Role of Defence Budgeting and Parliament', 4th Workshop of the ASEAN Inter-Parliamentary Forum on Security Sector Governance, 2008.

<sup>15</sup> 'Freedom of Information (State of Selangor) Enactment', Resources, MBPJ, Official Portal Petaling Jaya City Council.

<sup>16</sup> Official Secrets Act 1972.

<sup>17</sup> General Circular No.1/2015 on Implementation of Open Data, 30 September 2015.

<sup>18</sup> M. Shanmugam, 'Fort LTAT Breached', *The Star Online*, 13 April 2019.



# MALAYSIA

## Personnel Ethics Framework

Whistleblowing legislation	Whistleblower Protection Act (2010)
# defence-sector whistleblower cases	Data is not publicly available.
# Code of conduct violations	Military: Data is not publicly available.
	Civilian: Data is not publicly available.
Financial disclosure system	# submitted: Data was not available at the time of research.
	# of violations: Data was not available at the time of research.

Despite attempts to improve governance and reduce corruption, the military has been regularly involved in corruption cases, involving senior and lower-ranking officials who circumvent ethics rules to profit from their positions. The case of the missing helicopters, the corruption scandal involving land swap deals with private companies,<sup>19</sup> and the recent charging on corruption offences of senior intelligence and military officers in a bid rigging scheme,<sup>20</sup> point to failings in the enforcement of anti-bribery and anti-corruption rules for personnel. Despite strong formal codes of conduct for military and civilian personnel, enforcement relies on the Malaysian Anti-Corruption Commission (MACC), which has only limited resources to investigate and prosecute abuses, although it has proved itself effective regardless.<sup>21</sup> Though its enforcement efforts have increased since 2018, it remains to be seen how the new government will approach the MACC and whether it will restrict its investigative powers. A key obstacle to strengthening anti-corruption standards and reporting is the weakness of whistleblower legislation. The Whistleblower Protection Act outlines provisions for those reporting wrongdoing but falls short in its ability to ensure protections.<sup>22</sup> In the defence sector, personnel are largely unable to harness the Acts protections as they are bound by the Official Secrets Act, which prohibits any such disclosures. There have been no attempts to align the two laws. Amongst personnel, there is scepticism that protections will prove adequate, despite MINDEF taking steps to implement the Act's provisions, including the establishment of an Integrity Unit to process complaints. Additional weaknesses lie in the promotion and appointment processes. At senior levels in particular, political connections are key to progression and can supersede formal processes. Cultivating relationships with power brokers is critical to securing such senior appointments. Similarly, at lower ranks military politics play an outsized role in promotion decisions and there is little transparency surrounding these procedures. Parliament is not involved in reviewing appointments at senior levels and the process is not made public.

## Operations

Total armed forces personnel (World Bank, 2018)	136,000
Troops deployed on operations #	820 in Lebanon (UNIFIL)

Though not actively engaged in large scale deployments, the Malaysian Armed Forces are involved in two theatres, the first in Lebanon, where Malaysia deploys a contingent of troops with the UN mission<sup>23</sup> and the second in the Sabah peninsula where terrorist attacks by Moro separatists have necessitated military deployments to ensure border security.<sup>24</sup> However, such deployments are occurring without proper attention to the threat corruption poses to the success of operations. Malaysia has no military doctrine recognising corruption as such. Though corruption is addressed in the Integrity Plan, this is not a strategic document and the guidelines provided are far from comprehensive. As a result, anti-corruption is also at the margins of operational forward planning and relevant corruption risks are not necessarily included at planning stage for operations. These gaps are exacerbated by further failings in relation to training. Commanders do not receive training on corruption issues ahead of deployments that address specific corruption risks in the theatre of operations. As a result, troops are deployed without awareness of such risks and ill-equipped to respond and mitigate these threats in practice.

<sup>19</sup> Global Defense Corp, 'Malaysian Military: Corruption at the Heart of its Defense Procurement', 16 April 2021.

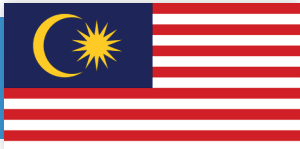
<sup>20</sup> Free Malaysia Today, 'Ex-Military Intel Chief, 2 Senior Army Officers Charged with Corruption', 27 October 2020.

<sup>21</sup> Jia Vern Tham, '6 Malaysian Politicians Arrested For Corruption Since GE14', Says, 9 May 2019.

<sup>22</sup> Government of Malaysia, 'Whistleblower Protection Act'.

<sup>23</sup> United Nations Peacekeeping, 'Country Contributions by Mission and Personnel Type – Malaysia', 31 March 2021.

<sup>24</sup> Richard Heydarian, 'Will the Philippines Risk War with Malaysia Over Sabah', *Nikkei Asia*, 18 September 2020.



# MALAYSIA

## Defence Procurement

Military expenditure (US\$ mil) (SIPRI, 2020)	3,910
Open competition in defence procurement (%)	20-30%
Main defence exports – to (SIPRI, 2016-20)	N/A
Main defence imports – from (2016-20)	Spain, Turkey, South Korea, United Kingdom, Germany

Even prior to the COVID-19 pandemic, weak economic growth amid falling oil revenues had negatively impacted defence procurement.<sup>25</sup> With the added economic constriction resulting from the pandemic, the military's funding issues are likely to persist. However, with a huge number of programmes currently ongoing or near completion, procurement is forecasted to remain stable.<sup>26</sup> Nonetheless, weak enforcement of rules and regulations in the field risks undermining such processes and fuelling corruption. Formal procurement regulations are fairly strong. Tendering rules are set out by the Financial Procedure Act<sup>27</sup> and Contracts Act,<sup>28</sup> which prescribe open tendering except when acquisitions are related to national security. The defence procurement cycle as a whole is formalised in the Government Procurement Regime, which outline the tender process, design of specifications and asset disposal processes.<sup>29</sup> Yet in practice, deviations are frequent. The abuse of national security exemptions means that less

than a third of procurement is done through open competition, with the rest conducted through single-sourcing.<sup>30</sup> Such procedures overwhelmingly favour politically-connected companies such as DEFTECH, Malaysia's largest domestic contractor. With a number of former senior military officials on the company board, DEFTECH secures the majority of high-value defence contracts and can influence tendering decisions.<sup>31</sup> Procurement is also subject to external influences, with decisions often vendor-driven and against strategic interests.<sup>32</sup> For instance, Malaysia sometimes procures hardware in exchange for palm oil, exposing the procurement process to political influence from suppliers.<sup>33</sup> External oversight of the process is also weak and political influence is regularly used to circumvent established protocols. For instance, the purchase of military helicopters in 2015 was done in violation of the Ministry of Finance's procedures, as the contract was awarded through direct negotiation, with unfavourable terms and approved without any military specifications.<sup>34</sup> For their part, parliament and audit bodies do not have the power to question or cancel selected procedures and can provide only ex-post scrutiny.

<sup>25</sup> Mike Yeo, 'Malaysian Defense: Budget Hinders Military Asset Procurement', *Defense News*, 15 March 2017.

<sup>26</sup> Mahadzir, 'COVID Adds to Malaysian Defence Funding Problems.'

<sup>27</sup> Government of Malaysia, *Financial Procedure Act 1957*.

<sup>28</sup> Government of Malaysia, *Contracts Act 1950*.

<sup>29</sup> Ministry of Finance, *Malaysia's Government Procurement Regime*, Putrajaya, Government Procurement Division, 2010.

<sup>30</sup> TI-DS, *Government Defence Integrity Index – Malaysia*, 2020, [Forthcoming].

<sup>31</sup> New Straits Times, 'DRB-Hicom Shares in the Red after MACC's probe on Deftech', 14 May 2019.

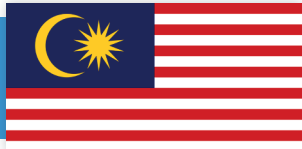
<sup>32</sup> Jerry Chong, 'Defence Ministry to be Overhauled, Says Deputy Minister', *MalayMail*, 10 September 2019.

<sup>33</sup> New Straits Times, 'Malaysia seeks to barter arms purchase with palm oil', 26 August 2019.

<sup>34</sup> New Straits Times, 'Cabinet to decide on Helicopter Scandal', 25 November 2019.

Version 1.0, October 2021

GDI data collection for **Malaysia** was conducted August 2019 to May 2020. The narrative discussion in this GDI brief was produced at a later time with the most recent information available for the country, which may not be reflected in the GDI country assessments or scores.



# MALAYSIA 2020 GDI Scorecard

		Grade	Score
<b>Political Risk</b>		<b>C</b>	<b>59</b>
Q1	Legislative Scrutiny	D	42
Q2	Defence Committee	D	33
Q3	Defence Policy Debate	B	81
Q4	CSO Engagement	B	67
Q5	Conventions: UNCAC / OECD	B	75
Q6	Public Debate	E	25
Q7	Anticorruption Policy	A	88
Q8	Compliance and Ethics Units	A	100
Q9	Public Trust in Institutions	NS	
Q10	Risk Assessments	B	75
Q11	Acquisition Planning	D	33
Q12	Budget Transparency & Detail	D	38
Q13	Budget Scrutiny	C	50
Q14	Budget Availability	C	50
Q15	Defence Income	A	100
Q16	Internal Audit	C	63
Q17	External Audit	C	63
Q18	Natural Resources	B	80
Q19	Organised Crime Links	A	88
Q20	Organised Crime Policing	A	100
Q21	Intelligence Services Oversight	F	0
Q22	Intelligence Services Recruitment	C	50
Q23	Export Controls (ATT)	C	50
Q76	Lobbying	F	0
<b>Financial Risk</b>		<b>E</b>	<b>30</b>
Q24	Asset Disposal Controls	E	17
Q25	Asset Disposal Scrutiny	D	42
Q26	Secret Spending	F	0
Q27	Legislative Access to Information	F	0
Q28	Secret Program Auditing	F	0
Q29	Off-budget Spending	D	42
Q30	Access to Information	C	50
Q31	Beneficial Ownership	D	38
Q32	Military-Owned Business Scrutiny	C	63
Q33	Unauthorised Private Enterprise	B	75
Q77	Defence Spending	F	0
<b>Personnel Risk</b>		<b>B</b>	<b>71</b>
Q34	Public Commitment to Integrity	D	42
Q35	Disciplinary Measures for Personnel	A	88
Q36	Whistleblowing	C	58
Q37	High-risk Positions	E	25
Q38	Numbers of Personnel	B	67
Q39	Pay Rates and Allowances	A	100
Q40	Payment System	A	83
Q41	Objective Appointments	E	25
Q42	Objective Promotions	E	19
Q43	Bribery to Avoid Conscription	NA	
Q44	Bribery for Preferred Postings	A	100
Q45	Chains of Command and Payment	A	100
Q46	Military Code of Conduct	B	81

## OVERALL COUNTRY SCORE

**HIGH RISK**

**D**

**45**



### RISK GRADE

- A > 83-100 **VERY LOW**
- B > 67-82 **LOW**
- C > 50-66 **MODERATE**
- D > 33-49 **HIGH**
- E > 17-32 **VERY HIGH**
- F > 0-16 **CRITICAL**

		Grade	Score
<b>Personnel Risk</b>		<b>B</b>	<b>71</b>
Q47	Civilian Code of Conduct	A	88
Q48	Anticorruption Training	A	83
Q49	Corruption Prosecutions	A	100
Q50	Facilitation Payments	A	83
<b>Operational Risk</b>		<b>E</b>	<b>25</b>
Q51	Military Doctrine	E	25
Q52	Operational Training	E	25
Q53	Forward Planning	E	25
Q54	Corruption Monitoring in Operations	E	25
Q55	Controls in Contracting	E	25
Q56	Private Military Contractors	NS	
<b>Procurement Risk</b>		<b>D</b>	<b>38</b>
Q57	Procurement Legislation	B	75
Q58	Procurement Cycle	D	42
Q59	Procurement Oversight Mechanisms	E	25
Q60	Potential Purchases Disclosed	C	63
Q61	Actual Purchases Disclosed	D	38
Q62	Business Compliance Standards	E	25
Q63	Procurement Requirements	D	42
Q64	Competition in Procurement	NEI	
Q65	Tender Board Controls	C	50
Q66	Anti-Collusion Controls	D	33
Q67	Contract Award / Delivery	E	25
Q68	Complaint Mechanisms	B	67
Q69	Supplier Sanctions	C	50
Q70	Offset Contracts	E	25
Q71	Offset Contract Monitoring	B	67
Q72	Offset Competition	E	25
Q73	Agents and Intermediaries	F	0
Q74	Financing Packages	F	0
Q75	Political Pressure in Acquisitions	NS	

**KEY**

- NEI Not enough information to score indicator
- NS Indicator is not scored for any country
- NA Not applicable



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Foreign, Commonwealth  
& Development Office



Ministry of Foreign Affairs of the  
Netherlands