

Problems of State Defense Financing Policy and Its Implications on The State Defense System in Indonesia

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Abstract

The dynamics of Indonesia's strategic environment on an international, regional, and national scale have raised concerns about the emergence of threats in the form of military threats, non-military threats, and hybrid threats that can weaken national defense. For this reason, sufficient national defense financing is needed, so that Indonesia has a strong national defense system. This study aims to explore the problems found in the national defense financing policy in Indonesia and its implications for the National Defense System in Indonesia from a defense economic perspective. This research is descriptive qualitative by using library data. The results of the study indicate that there are several problematic policies on state defense financing in Indonesia, that is funding for national defense is not sufficient enough, Defense's budget is still dominated by personnel expenditures, Implications for the funding of reserve components and supporting components, There is no synchronization of policies related to national defense financing, The defense financing policy has the potential to threaten the sovereignty, and finally, The perspective or paradigm that the defense budget at the Ministry of Defense is the only source of state defense financing in supporting the national defense function. This study also provides study recommendations through harmonization of laws related to the financing of state defense, to provide space for the public to participate in financing the national defense, and to develop collaborative governance in the financing of national defense. to strengthen the national defense system in the future.

Keywords

national defense financing policy; national defense system; defense economy



I. Introduction

The national objectives which are mandated by the government to be carried out as stated in the Preamble to the 1945 Constitution of the Republic of Indonesia are to protect the entire Indonesian nation and the entire homeland of Indonesia, promote public welfare, educate the nation's life, and participate in implementing world order based on independence, eternal peace, and social justice. National defense is one of the functions of government with a national defense unit to fulfill these national goals. National defense includes all efforts to defend the sovereignty of the state, the territorial integrity of the Unitary State of the Republic of Indonesia, and the safety of the entire nation from threats and disturbances to the integrity of the nation and state. In implementing it, Indonesia refers to a universal defense system that involves all citizens, territories, and other national resources, which the government prepares and implements in a total, integrated, directed, and continuous manner to uphold state sovereignty, territorial integrity, and the safety of all nationalities from all forms of threat (Kementerian Pertahanan, 2015). The dynamics of the strategic environment occurring at the global, regional, and national scope, which is

increasingly dynamic and complex, creates the possibility of various threats and opportunities for Indonesia's national interests (Republik Indonesia, 2021). Marketing is a process of planning and execution, starting from the conception stage, pricing, promotion, to the distribution of goods, ideas and services, to make exchanges that satisfy the individual and his institutions (Dianto in Asmuni et al, 2020). According to Tjiptono in Marlizar (2020) marketing performance is a function that has the greatest contact with the external environment, even though the company only has limited control over the company's environment. In the world of marketing, consumers are assets that must be maintained and maintained their existence in order to remain consistent with the products we produce (Romdonny and Rosmadi, 2019).

In addition, the World Economic Forum Report in early 2021 released the Global Risks Perception Survey 2020 Results. The survey is related to the perceptions of respondents (world-renowned investors and economic analysts) who predict when risks will occur, which will become critical threats to the world. The risks in the report cover various fields, including economic, environmental, geopolitical, social, and technological. The forecast for the occurrence of risk is divided into three time periods : first, Clear and Present Dangers (short-term risk 0-2 years), second, Knock-on Effects (medium-term risk 3-5 years), and third, Existential threats (Long-term risk). 5–10 years) (World Economic Forum, 2021).

In the short term, the main risks that will become critical threats stated by respondents include Infectious Diseases, Livelihood Crises, Extreme Weather, Cybersecurity Failures, Digital Inequality, Prolonged Stagnation, Terrorist Attacks, Youth Disillusionment, Social Cohesion Erosion, and the lowest risk in the short term in the Human Environmental Damage. In the medium term, the main risks that became the highest critical threats were stated by respondents, namely Asset Bubble Burst, IT Infrastructure Breakdown, Price Instability, Commodity Shocks, Debt Crisis, Interstate Relations Fracture, Interstate Conflicts, Cyber Security Failures, Tech Governance Failures, and finally, the lowest risk in the medium term in the form of Resources Geopolitization.

And lastly, in the long term, the risks with the highest critical threats stated by respondents are weapons of mass destruction, state collapse, biodiversity loss, adverse tech advances, social security collapse, multilateralism collapse, industry collapse, climate action failure, and the lowest risk in the long term in the form of backlash against science. The results of this survey provide a clear warning to countries in the world that these risks will become critical threats and will continue to overshadow, which of course, has the potential to threaten state sovereignty, the territorial integrity of the Republic of Indonesia, and the safety of all nations now and in the future.

Based on the description above, it can be predicted that there will be threats that can be classified into three types: military, non-military, and hybrid. Threats can be actual and potential based on their nature (Republik Indonesia, 2021) . A strong national defense system is needed to deal with the threats that will be faced above. In the context of Indonesia, the National Defense System adopted is a Universal Defense System (Republik Indonesia, 2004). Basically, The National Defense System in Indonesia, in dealing with military threats, places the Indonesian National Armed Force as the main component, which is supported by reserve components and supporting components. Meanwhile, when dealing with non-military threats, government institutions (Ministries and Institutions) outside the defense sector are placed as the main element, which is adjusted to the form and nature of the threat and is supported by other elements (Republik Indonesia, 2002).

The Ministry of Defense is a state institution mandated to manage the defense sector. As the implementing elements of the government in the defense sector, the Ministry of Defense has the main task of formulating, determining, and implementing policies in the fields of strategy, planning, potential, and defense strength. To support these main tasks, the Ministry of Defense compiles and establishes priority programs, including increasing defense forces, modernization of defense equipment or non-defense equipment, and professionalism of soldiers, as well as readiness for integrated land, sea, and air operations (Mujiburrahman, 2021). Things to watch out for is that one of the essential things to strengthen the military is the budget element. The budget has a significant influence on the development of a country's military sector (Darmawan et al., 2020) . It is a benchmark for assessing the country's capabilities and policies in responding to the defense system used, seeing the resources provided to its armed forces, and a commitment to managing and enhancing defense capabilities (Suhirwan et al., 2020).

A reduction in the allocation of defense equipment spending will pose a risk to combat capability and maintenance, considering that some of the Indonesian National Armed Force defense equipment is currently in an old condition (Agus Setiaji, 2020). The current state defense is deemed incapable and sufficient to protect national interests, territorial integrity, national sovereignty, and national safety. For this reason, it is necessary to identify the problems of the national defense financing policy so that funding for the national defense function, both to fund the main components, reserve components, and supporting components of national defense, can be increased, which in turn can strengthen the national defense system in Indonesia from the perspective of the defense economy.

II. Review of Literature

2.1 The Concept of National Defense Financing

Before understanding the concept of state defense financing, Law Number 17 of 2003 concerning State Finance defines state expenditure as an obligation of the central government, which is recognized as a reduction in the value of net assets, while financing is any income that needs to be repaid and/or expenses that will be received back, either in the relevant fiscal year and subsequent fiscal years (Republik Indonesia, 2003). However, the financing of state defense in this study refers to Chapter VII concerning Financing of Law Number 3 of 2002 concerning National Defense, which in Article 25 states that sources of state defense financing are funded or financed by funds sourced from the State Budget and are intended to build, maintain, develop and use the Indonesian National Armed Force and other defense components. So in this context, the financing of national defense is defined as funding sourced from the State Budget in financing the components of national defense.

2.2 National Defense System

The management of national defense is carried out in a national defense system. This system will run to overcome problems in the national defense sector, as with systems theory stated by Immegart (1972) that the system can also be understood as various forms of structure or operation, concepts, and functions which include unified and integrated parts (Tunas, 2010).

2.3 Defense Economy

Economic theory is used in this study as a macro theory because it is closely related to policies in the economic field, especially fiscal policy in financing national defense. Defense economics uses economic principles on defense aspects and issues related to defense (Sandler and Hartley, 1995), and defense economics is a branch of science that uses economics on national defense issues (Purnomo Yusgiantoro, 2014). The defense economy aims to ensure the allocation of limited resources between the defense and non-defense sectors, as well as within the defense sector itself, for optimal results. The scope and magnitude of the defense economy are determined by defense planning (Evan A. Laksmana, Iis Gindarsah, 2020).

III. Research Method

This study uses a qualitative method to describe events, people's behavior, or a situation in a particular place in detail and depth in the form of narrative (Satori & Komariah, 2010). In line with the research of Denzin & Lincoln (1994), which states that qualitative research seeks to find and narratively describe the activities carried out and the impact of the actions taken on their lives using a natural setting by interpreting a phenomenon that occurs and is carried out by involving various methods there is (Muhammad Rijal Fadli, 2021).

This research is descriptive qualitative, where this method uses library data, which aims to describe and describe scientific phenomena that occur according to the characteristics and interrelationships between research objects. In principle, this qualitative descriptive research does not provide any special treatment or manipulation of the variables studied so that the results obtained are described and described by the scientific facts found (Sukmadinata, 2011).

IV. Result and Discussion

From this study, it can be identified the problems in the national defense financing policy and its implications for the national defense system including:

- a. Funding for national defense is not sufficient enough so that targets and output targets in the defense sector can be achieved and build a strong national defense system, although the budget allocations for the Ministry of Defense and the Indonesian National Armed Force, including those included, have increased every year. Amid the broader fiscal demands arising from the coronavirus pandemic, the defense budget for 2021 remains projected at IDR 137 trillion (US\$9.4 billion), representing a real 12% increase from the year-end 2020 budget of IDR 122 trillion (US\$8.4 billion) and a significant 16% increase in spending by the end of 2020, which amounted to IDR 118 trillion (US\$8.1 billion). Despite cuts in 2016 and 2018, Indonesia's defense budget has grown substantially since 2008, with an average annual growth of 8.5% in real terms (13.0% in nominal). Nonetheless, during this period, the defense budget peaked at 0.9% of GDP in 2015 and an average annual allocation of 0.7% between 2008 and 2020. The 2021 budget increase is substantial, but defense spending will still only be taken into account for 0.8% of GDP (The International Institute for Strategic Studies, 2021). Indonesia's defense spending budget is still relatively low compared to other countries, including ASEAN. Based on data revealed by the Stockholm International Peace Research Institute (SIPRI, 2020) shows that Indonesia's military spending is only 0.86% of GDP. Other ASEAN countries are already above 1% of GDP, such as the Philippines

(1.01%), Malaysia (1.14%), Thailand (1.47%), Singapore (3.2%), and Brunei Darussalam (4.1 %) of GDP. As a country with a fairly wide area and directly adjacent to conflicting countries in the South China Sea, Indonesia should pursue the availability of the Minimum Essential Force (MEF) or Minimum Basic Strength (Mujibburahman, 2021). This figure is significantly below the country average in the Region, which is 1.8% (Alynudin & Rawinarno, 2019).

In addition, the state's financial condition is not good. Currently, the State Budget is still focused on overcoming health problems that are also a global problem, namely the COVID-19 pandemic. The Indonesian government continues to make efforts to implement appropriate fiscal policies to overcome the economic impact of COVID-19. The three main focuses of the government's current fiscal policy in dealing with COVID-19 are public health, social safety nets, and incentives for the business world, especially SMEs (Fiskal, 2020). Of course, this resulted in the budgets of other sectors, including the defense sector, being difficult to increase.

This of course, has implications for the national defense strategy. For example, the Layered Defense Strategy in the deterrence framework is realized through the maximum empowerment and utilization of all national resources, both military and non-military defense, as a unit of deterrence penangkalan (Kementerian Pertahanan, 2014). Judging from the data and facts above, it can be concluded that the defense budget has not been able to support a deterrence strategy related to a layered defense strategy. This means that the current defense budget has not been able to become a deterrent effect as a form of a defense force that functions as a vibrating force for other countries. Whereas the ability to destroy other countries can be used as a motivation for a country to avoid and influence the behavior of other countries (Thomas C Schelling, 1966).

b. Based on the Ministry of Defense's budget until 2020 is still dominated by personnel expenditures. During the 2016-2020 period, the average budget allocation for personnel expenditures was IDR 45.8 trillion (40.3%), goods expenditures of IDR 38.4 trillion (33.8%) and capital expenditures of IDR 29.5 trillion (26%). Likewise, from the growth perspective, the budget allocation for personnel expenditures also grew higher than for goods and capital expenditures. The personnel expenditure budget grew by an average of 7% per year. Then followed by the budget for goods expenditure which grew by an average of 2.81% per year and capital expenditure which was only able to grow 2.80% per year—so judging by the trend above, the personnel budget increases in line with the increase in the Ministry of Defense's budget each year (Mujibburahman, 2021). Costs allocated for procurement, research and development, operations, and training or training ranged from about 30–40% of total expenditures, most of which were budgeted for personnel and routine expenditures. The small share of the budget allocated to modernization has exacerbated the challenge of 'economies of scale' for the navy and air force, as it is not sufficient to improve operations and capability development in the long term (The International Institute for Strategic Studies, 2021).

Judging from the amount above, almost half of the Ministry of Defense's budget is allocated for personnel expenditures, goods expenditures, expenditures for necessities, or expenditures related to human resources, so only about 50% can be used effectively for modernization and maintenance or purchases. This means that it can be seen that the allocated state budget cannot be fully maximized for defense equipment or defense equipment but partly for routine expenditures, employee salaries, equipment, and goods expenditures, especially if it is associated with the evolution of war which has now reached the sixth generation, were in this generation a war that combines cyber technology, artificial intelligence (AI), electronic intelligence, communication and

information technology, high-precision long-range strategic weapons, drones (UAV- Unmanned). Aerial Vehicles and UUVs - Unmanned Underwater Vehicles), satellites, and the capabilities of special forces equipped with high technology that form the "Fog of War" to manipulate space and time waktu (Agus Setiaji, 2020). If you look at the budget allocation, the Indonesian National Armed Force , as the main component in the national defense system, will not be able to procure the best defense equipment in sufficient numbers to support national defense.

- c. **The weak** defense financing capability does not only affect funding for the main components but also has implications for the funding of reserve components and supporting components. As part of efforts to strengthen the national defense system through Government Regulation Number 3 of 2021 concerning Implementing Regulations of Law Number 23 of 2019, the government will form a reserve component. The need for funds spent on training for the reserve component is certainly not small because one reserve component member is estimated to spend around IDR 30 million (Puspitasari, 2021). The Ministry of Defense is initially planning to recruit 25,000 people. In the early stages of this program, the allocated budget is IDR 1 Trillion (Agus Setyo Hartono, 2021). Of course, the budget spent on this program is quite large and is expected to last a long time.

Funding for the government's supporting components of national defense has not been maximized, for example, funding for the defense industry. One of the biggest problems in developing the defense industry is sustainable defense industry funding (Muradi, 2018). Apart from the budget contained in the Ministry of Defense, there is indeed a State Equity Participation program to provide support for the defense and security industry program, although it is not given annually. For example, the State Equity Participation that was disbursed in 2015 amounted to IDR 2.600 billion.

Table 1. Distribution of the 2015 State Capital Participation Program

Receiver	Amount	Purpose of State Equity Participation
PT Dirgantara Indonesia (Persero)	400 Billion	Increase working capital to increase the leverage of bank facilities, investment in maritime support, and production facilities.
PT Pindad (Persero)	700 Billion	Increase production capacity, modernize production facilities, develop markets, and increase human resource capabilities.
PT PAL Indonesia	1.500 Billion	Construction of human resource development facilities, as well as procurement of submarine-building equipment

Source: Modified from the Center for Budget Studies, Expertise Board of the House of Representatives (2020)

In the 2021 State Budget Draft, the government has allocated a State Equity Participation of IDR 37.4 trillion. This figure is 18.7% greater than the outlook for State Equity Participation given to State-Owned Enterprises in the previous year, 2020. In the details of State Equity Participation, PT PAL Indonesia (Persero) will get IDR 1.3 (Thomas Hadiwinata, 2020). From the description above, it can be concluded that

the government needs adequate state defense financing so that the defense industry's role as a defense supporting component can run optimally.

- d. There is no synchronization of policies related to national defense financing. Referring to Law Number 3 of 2002 concerning National Defense and Law Number 34 of 2004 concerning the Indonesian National Armed Force regarding sources of state defense financing, it must be funded or financed by funds sourced from the State Budget and are intended to build, maintain, develop, and use the Indonesian National Armed Force and other defense components. Thus, it can be interpreted that the reserve component and defense industry financing are the supporting components of the national defense system and must be financed by the State Budget. However, suppose you look at Law Number 23 of 2019 concerning the Management of National Resources for National Defense. In that case, the problem is explained that the funding needed for the Management of National Resources for National Defense can be sourced from the State Budget, Regional Revenues and Expenditures Budget, and other legal and non-binding funding (Article 75). From the description of this article, it is found that there is a discrepancy regarding funding sources or financing for the interest of defense. Especially the management of national resources, which are not only financed by the State Budget but can use the Regional Revenues and Expenditures Budget and/or other funding sources that are legal and not binding.

In addition, there are dynamics of changes in policy regulations in the defense industry, where Article 74 of Law No. 11 of 2020 concerning Job Creation amends Article 11 of Law No. 16 of 2012 concerning the Defense Industry, which contains about enabling the private sector to play a role in industries that produce the main tools weapons (defense equipment). This, of course, has implications for funding the defense industry as a component of defense support that privately-owned public bodies can finance.

- e. The current state defense financing policy has the potential to threaten the sovereignty of the Indonesian nation because a large enough foreign loan finances it. When viewed from the number of allocations, there is a tendency to change the allocation of State Electricity Company related to the procurement of weapons for the Ministry of Defense. In the 2015-2019 strategic plan, the Ministry of Finance provides a List of Foreign Loan Priority Plans amounting to US\$ 7.7 billion and an absorption of 80%. There is a remarkable increase in the 2021 fiscal year, as the allocation increases to US\$ 9.3 billion in the Foreign Loan Priority Plan List (one fiscal year only). The Ministry of Finance can only fulfill half of this value (50%) in the form of the Determination of Financing Sources because the Ministry of Finance must also finance various other sectors at the same time during this pandemic (Alman Helvas Ali, 2021). George (1992), Tanzi, and Blejer (1988) have the same opinion that foreign debt can negatively affect developing countries as recipient countries. Such as the inability to effectively utilize debt, political motives, widespread corrupt practices, monopolies, and oligopoly (Direktorat Jenderal Anggaran, 2017). This is in line with Faisal Baasir (2001), who argues that if the dependence of the state defense and security sector budget on foreign loans increases, this will lead to a tendency for a boycott of the Indonesian government from borrowing countries. For example, on the grounds of human rights violations or other reasons (Juwono Sudarsono, 2001).
- f. There is a phenomenon that the government is more focused on finding solutions for financing or funding state defense by fighting over a small State Budget but not focusing on ways to increase the availability of funds for the defense sector by increasing the number of financing sources outside of the current conventional

instruments. For example, the indicative ceiling of the Ministry of Defense for the 2021 fiscal year is ID 129.3 trillion. The budget allocations include, among others, pure rupiahs of IDR 113.1 trillion (87.5 percent), the ceiling on the use of non-tax revenues of IDR 2.1 trillion (1.6 percent), and the ceiling on the use of BLU of IDR 3.1 trillion (2.4 percent), and SBSN (Government Islamic Securities) IDR 0.9 trillion (0.7 percent). The budget is used to support the achievement of priority targets for national development in the defense sector through the implementation of programs such as: (1) the Use of Force Program; (2) the Modernization Program for Defense Equipment and Non-Defense Equipment, and Defense Facilities and Infrastructure; (3) Defense Resources Development Program; and (4) Soldier Professionalism and Welfare Program. . (Kementerian Keuangan Republik Indonesia, 2020). The perspective or paradigm that the defense budget at the Ministry of Defense is the only source of state defense financing in supporting the national defense function will complicate efforts to increase state defense financing through collaboration with budgets outside the Ministry of Defense.

V. Conclusion

With the literature method, of course, researchers have limitations in conducting in-depth testing of the identification of problems related to the financing of national defense. Several alternative solutions to the above problems of state defense financing can be concluded as follows:

1. There is a need for harmonization of laws related to the financing of state defense in terms of funding for national defense by taking into account the characteristics of each component of the national defense in the national defense system;
2. It is necessary to provide space for the public to participate in financing the national defense. The current state defense financing policy only considers tangible assets (assets that can only be seen physically). Still, the intangible assets of the Indonesian nation that have valuable social capital are not considered. One of the social capitals owned by the Indonesian people is very expensive, namely volunteerism and generosity. Volunteering has deep roots in Indonesian culture (Hartnell, 2020);
3. It is necessary to develop collaborative governance in the financing of national defense, so it is expected to increase funding for the defense sector and be able to manage national resources for the defense that can be utilized both in times of peace and war, which in turn can guarantee independence and sustainability of funding for the defense sector.

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