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Remoulding of Indonesian Defence Capability

Curie Maharani and Ron Matthews

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Indonesia recently announced that it intends to go ahead and purchase the three SU-30 fighters that form part of last year's US\$1 billion arms deal with Moscow. Sidetracking recent US overtures, this latest acquisition continues a trend that began earlier this decade of buying off-the-shelf Russian weapons. Jakarta clearly intends to raise its modest defence capacity, but does it have either money or the capability?

The Indonesian government talks big in its determination to raise the country's modest defence capability. Yet, whilst defence spending has increased from 10 Trillion Rupiah in 2000 to 32.6 Trillion Rupiah in 2007, the proportion of defence spending to national income spent has remained unchanged at around 1% of GDP over 2000-07. This suggests that eight years of continuous economic growth has sponsored a tripling in defence expenditure from an extremely low level rather than a genuine government commitment to raise the proportion of public resources allocated to defence.

Although big in population (242m) and territory, Indonesia does not possess a large defence economy. It was not always thus, however. The government did harbour lofty ambitions for the development of local defence production back in the 1980s through then Research and Technology Minister Dr B.J. Habibie's policy of sponsoring ten "strategic" civil-military industries. These were designed to stimulate commercial high technology production as well as to promote investment in the creation of an indigenous defence-industrial capacity. By the latter part of the 1990s real progress had been made, albeit at great cost to the public finances. It was the 1997 Asia-Pacific financial meltdown that stopped Habibie's great experiment in its tracks.

In the 10 years since the financial crisis, Indonesia's defence industries have stagnated. Strategic only in name, they have been starved of funds through the absence of major MoD contracts and over-emphasis on off-the-self weapons imports, amounting to US\$850m across 2000-2006. Russian defence companies have been the principal beneficiaries of Indonesia's arms buying spree, accounting for around 32% of the overseas purchases during this period.

Russia-Indonesia Arms Transfers: No Strings Attached

Russian penetration of the Indonesian market is a microcosm of its recent remarkable global arms export performance. For instance, across 2002-06, Russia became the world's second biggest exporter of military equipment, capturing US\$30,764 billion worth of sales compared to first-ranked America's US\$ 32,128 billion.

Russia's supremacy in the global arms market has been due to several factors, including the upgrading of weapons technology, the sponsorship of joint arms development and production with partner countries, e.g. the India-Russia Brahmos missile system, and the enhanced competitiveness of its product portfolio, particularly through keener pricing of both the initial product and the services associated with through-life capability management. For Indonesia, in particular, Russia's arms are attractive for three additional reasons:

Firstly, unlike American and British arms deals, Russian weapons come without strings attached; there are no government edicts and no limitations on deployment and use. Moscow's arms packages are also devoid of political conditions or linkage.

Secondly, Jakarta's embrace of Russian defence contractors was predictable, given the 1999 US arms embargo. President George H.W. Bush imposed the embargo because of Indonesia's failure to prevent bloody conflict during the 1999 referendum in Timor Leste. The subsequent six year ban severely affected the Indonesian Armed Forces (TNI)'s operational capability, forcing Jakarta to seek an arms supplier that could be trusted not to embargo future supplies of spares as well as the acquisition of additional systems. Rightly or wrongly, Russia was viewed as a more reliable partner than the capricious US.

Defence relations between the US and Indonesia have since become more normal. The US resumed arms sales to Indonesia in 2005. Although tensions remain, particularly in the field of human rights, Indonesia has quickly become the second biggest recipient of US military aid, amounting to US\$15.7m. Moreover, Washington has indicated a willingness to sell F-16s, C-130s, helicopters and also upgrades to Indonesia's existing inventories of military equipment. Indonesia has, however, been lukewarm in its response, as evidenced by Jakarta's decision to ignore the US overtures in favour of Russian acquisitions.

Thirdly, Indonesia has been able to tap the Russian government for concessionary loans, essential for part-leveraging the high cost of procuring top-of-the-line Russian SU-27 SK/Flanker B and SU-30 MKI fighters. Reportedly, Russia's loans have a discounted interest rate of between 3 and 6%, payable over a 10-15 year time period. Moreover, it is reported that Jakarta's most recent 2007 purchase of Russian arms included an 'export credit' value representing 85 % of the entire weapons package.

Russian arms have become a strategic imperative to plug the "capability" gap caused by the US embargo, hurting particularly the Indonesian Air Force, still heavily dependent on US arms. Arguably, however, the real cause of the widening capability gap was something else entirely: an emerging 'budgetary' gap.

New Procurements Strain Defence Budget

Although Indonesia's 2008 defence budget, at IDR 36.39 trillion, represents an increase of 11% over the 2007 figure, the acquisition budget has seemingly run out of funds. Indonesia's financing gap is the product of a double-squeeze on defence spending: on the one hand, weapon purchases have accelerated, and on the other hand, the growth in defence funding has been swamped by long-delayed wage hikes for TNI personnel, leaving precious little left for capital spending. The result of this resource squeeze is an anticipated 2008 defence budgetary gap of US\$11.6bn. This will likely be filled

by a combination of government borrowing and Russian defence export credits.

Notwithstanding the challenge of closing the defence budgetary gap, Jakarta is pressing ahead with a series of policy measures to re-invigorate Indonesia's network of strategic defence industries. These began in early 2007 with President Susilo Bambang Yudhoyono's commitment to boost the contribution of local defence industries to defence acquisition. In December 2007, Vice President Jusuf Kalla added to the momentum by calling for speedy government regulation (*Peraturan Pemerintah-PP*) to extract IDR 7.6 trillion (equal to US\$835m) in domestic loans to fund the five-year national defence equipment acquisition (*alutsista*) programme.

Remoulding Indonesia's Defence Industries

Re-energizing Indonesian defence production requires more than money, however. There is also a need for long-term planning, greater connectivity between defence policy and acquisition, and increased availability of loans to support investment in an industry almost entirely located in the private sector.

Although Indonesia's strategic industries were initially conceptualised as dual-use, apportioning 20% capacity in peace-time to defence production and 80% to commercial activity, the disappearance of major MoD defence contracts has meant that for PT PAL (shipbuilding), some 95% of its capacity is now focused on commercial activity. Equally, PT DI sustains its defence division on low-value maintenance of TNI transport aircraft, with the remainder of the work directed towards commercial sales, both domestic and foreign. It now exports to the UAE, Venezuela and Burkina Faso.

Indonesia's defence industries have belatedly started to attract the attention of government. Indonesia's economic recovery has resulted in the revival of support for the sovereignty of supply as an essential ingredient of a robust national security policy. Additional investment in the local defence sector is regarded as critical and urgent. However, while additional resources are essential, on their own they are insufficient. It is also necessary to improve the entire spectrum of acquisition, competition, funding and governance systems. This will require a cultural shift in the attitude of both the government and the TNI. Yet, until such time as this is achieved, the problem of capability and funding gaps will continue to undermine Indonesian security.

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