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Indonesia's Defence Industry: Challenges Facing the Incoming Prabowo Administration

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SYNOPSIS

Edna Caroline and Adhi Priamarizki discuss the challenges surrounding the development of Indonesia's defence industry that the incoming Prabowo Subianto administration faces. Several initiatives to stimulate the country's defence industry, such as the formation of a defence holding company and introduction of new regulations, were launched by the current administration. Nevertheless, some challenges remain, notably, establishing a conducive defence industrial ecosystem, getting access to technology, and maintaining the government's long-term support.



Moving from land warfare systems such as the APS-3 Anoa's armoured personnel carrier to complex projects such as the KFX/IFX joint development programme with South Korea will require technological leaps as well as sustained political support. *Image from Wikimedia Commons.*

COMMENTARY

The Indonesian military embarked on a modernisation journey in 2008 under the so-called Minimum Essential Force (MEF) programme. The MEF did not only aim to modernise Indonesia's armed forces but also the country's defences in general, including the defence industry. The MEF scheme outlined autarky as the ultimate goal of Indonesia's defence industry.

The enactment of Defence Industry Law in 2012 served as a crucial building block for the Indonesian authorities to enhance the capability of the country's strategic industry. The law provides guidelines and goals for the national defence industry, notably, defence industry management and emphasis on technological innovation. Under the presidency of Joko Widodo ("Jokowi"), two key efforts to improve the defence industry were undertaken: the enactment of Job Creation Law in 2020, which accommodates [foreign investment for the defence industry](#), and the establishment in 2022 of a defence holding company known as [Defend ID](#). The holding company is operated by PT Len and comprises PT Pindad, PT Dirgantara Indonesia, PT PAL Indonesia, and PT Dahana. Moreover, President Jokowi through Presidential Regulation 8/2021 on General Policy of State Defence 2020–2024 expanded the [defence industry's priority programmes](#) from seven to ten, covering submarines, jetfighters, propellants, guided missiles, rockets, radar, medium tanks, unmanned aerial vehicles (UAVs), military satellites, and underwater sensors. The Indonesian government considered these defence platforms as [integral parts of the country's defence structure](#).

Defend ID has recently reported an increase in profits. [In 2021](#), the five companies that form Defend ID recorded a total profit of IDR 36 billion or about US\$2.5 million. [The following year, the holding company](#) recorded a net profit of IDR 465 billion (US\$29.6 million). Bobby Rasyidin, Defend ID's general director, claimed the company's profit in [2023](#) was more than 56% of the 2022 profit. Despite these achievements, Indonesia's defence industry still faces some challenges: establishing a conducive ecosystem, getting access to technology, and maintaining the government's long-term support.

Establishing a Conducive Ecosystem

Indonesia needs to establish a defence industrial ecosystem that is conducive to maximising the performance of its national defence companies. The structure of the existing ecosystem has two main shortcomings.

First, the Indonesian government has placed Defend ID under the jurisdiction of the Ministry of State-Owned Enterprises. Such positioning has produced some inadvertent consequences. To begin with, it has created bureaucratic wrangling between the Ministry of State-Owned Enterprises and the Ministry of Defence over the question of supervision. More significantly, placing Defence ID under the Ministry of State-Owned Enterprises compels the commercialisation of state-owned defence companies, in which profit has emerged as a primary objective. A profit orientation might help

defence companies to increase their financial independence. On the other hand, the profit motive, where defence projects are measured by the lens of profitability, could undermine defence industry development. An excessive profit orientation could also cause state-owned companies to hesitate to share projects with private defence companies owing to their competitiveness.

Second, some defence projects require support from ancillary industries. For example, PT Dahana, which produces explosives, needs external manufacturing companies to produce the materials critical to the production of propellants. These include spherical powder plants, nitrocotton plants, and double waste wet paste plants. Although plans are in place to establish such supporting facilities, construction has not begun yet.

Getting Access to Technology

It is no secret that modern defence platforms generally consist of technologies owned by different parties. For example, a jetfighter usually consists of components owned by various defence companies. This situation creates a challenge for countries like Indonesia that aim to master the production of cutting-edge defence platforms via technology transfer. The 2012 Defence Industry Law mandated the inclusion of technology transfer deals in defence acquisitions, which Indonesia views as a way of upgrading the country's defence industry capabilities. Nonetheless, the strategy often meets roadblocks due to the different sources that hold technology licences.

One classic example is the KFX/IFX jetfighter joint development programme between Indonesia and South Korea. In addition to [funding issues](#), technology transfer restrictions involving some parts of the jetfighter have contributed to the project's stagnation. Some of these technologies are owned by third parties, such as [the United States](#). The same kind of hurdle also hindered Indonesia's national missile project. PT Dirgantara Indonesia spearheads the consortium to develop the project, together with PT LEN, PT Dahana, PT Pindad, and some private defence companies. But the project still lacks some technologies, such as seeker technology for the missile targeting system. In order to patch the gaps, Indonesia currently pursues technology transfer collaboration with potential overseas partners such as Ukraine, France and Turkey.

Maintaining the Government's Long-Term Support

The third challenge for the defence industry is maintaining the government's commitment to support the development of national defence companies. Despite increases in their profit margins, Indonesian defence companies still rely on state capital injections. In July 2024, Defend ID asked for IDR 3.46 trillion (US\$227.67 million) in [national capital investment \(PMN\)](#) to support the holding company's activities for the next five years. The PMN fund is mainly used to support various needs of the national defence industry, such as infrastructure improvements and production costs. However, the seven to twelve month gap between contract signing and funds disbursement for government projects has significantly added to the financial burden of defence companies as they must use their own funds to kick-start projects. For example, PT Pindad has been utilising PMN to support its production of ammunition. However, the disbursement of the PMN often experienced delays. Therefore, the company has had to find its own source of funding to cover the initial costs of

production, adding to its financial burden. In addition, the delay slowed down the pace of production, which in turn created supply shortages for the company's client.

Conclusion

Overcoming the financial and technological challenges outlined above will be crucial for accelerating the fulfilment of the 10 national defence industry priority programmes and the development of the national defence industry in general. As noted above, the challenges originate not only from within the defence industry, so comprehensive remedies that go beyond the defence industry are needed to fully develop the sector. First, deepening integration with and support from other industries will be crucial to improve the productivity of the defence industry. Second, it is important to build cooperation with other nations in order to increase defence collaboration channels.

Above all, unwavering political commitment from the Indonesian government is needed to sustain defence industry development in the long term. In this regard, the magnitude of the debt that the Jokowi government has accumulated, the costs of the mega project of building Indonesia's new capital, and incoming president Prabowo Subianto's promised free school lunch programme will create a heavy financial burden for his administration. These financial commitments pose a significant challenge for the incoming government's ability to provide funding support for defence industry development. The Prabowo administration would need to prudently calibrate defence industrial priorities and objectives in order to maximise the efficacy of the funds available for the development of the industry.

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