

## **Implementation of Defense Industry Policy in Supporting National Economic Growth**



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**ABSTRACT:** This study aims to identify and analyze the implementation of defense industry policies in supporting national economic growth. The research method used is literature review research with a descriptive approach. The results of the study show that the defense industry has contributed to national economic growth during the COVID-19 pandemic. This refers to the active role of the defense industry, which does not only focus on the defense of the national border area, but also becomes the support and solution for national economic defense. In addition, the policies implemented to encourage national economic development have multiple effects on the surrounding community, where this will contribute to morale and mobilization contributions from the defense industry to encourage the growth of broad economic awareness.

**KEYWORDS:** Policy Implementation, Defense Industry, Economic

### **INTRODUCTION**

This research is motivated by the condition of the national defense industry which lags behind the defense industry of countries in the world, even with countries that are relatively young in developing the industry, even though various policies have been issued. This condition raises the question of how to implement Indonesia's defense industry policy.

Indonesia is the largest archipelagic country (airhipelago state) in the world with 2/3 of its territory is the ocean. This was recognized by the United Nations through UNCLOS in 1982 (Widodo, et. al. 2021). Therefore, Indonesia has quite heavy homework in the defense aspect. So it is necessary to develop a defense industry that makes Indonesia have a deterrence effect that is calculated on the international scene. This is certainly related to the policy of the defense industry. According to Widodo et. al. (2021) The defense industry requires a good and optimal supply, with the potential of its natural resources.

The abundance of natural resources can affect the progress of the development of the defense industry, this is certainly related to the development of human resources and other aspects of development, such as infrastructure and so on. According to BNPP (2011), border areas are generally less touched by the dynamics of development, thus affecting the level of poverty, in addition, in some areas bordering other countries, they are oriented towards neighboring countries in terms of social and economic services.

Therefore, the provisions of the 1945 Constitution affirm that; 1) The state protects the entire nation and the entire homeland; 2) advancing the general welfare and the intellectual life of the nation. In other words, there are two strong phrases in the two points of the rules above, the first is the phrase to protect, and the phrase to promote, from which two phrases can be drawn a common thread that the defense industry has an important role to protect and participate in the welfare of the nation's life. To realize the two points above, it is necessary to have support and encouragement in building the national economy. According to Deksino, et. al. (2022) the defense economy is the driving force of a nation's economy in the defense sector, where national economic growth is the result of the independence of the defense industry.

This is also related to the MEF (Minimum Essential Force) which is an important standard of strength that must be set. According to Husnah, et. al. (2020) one of the means to realize the MEF in the defense industry is the development of the domestic military industry. Where Hanneg (2014) emphasized that the optimization of the development of the national defense industry has only been implemented since 2010. Because apart from being the spearhead of a national defense, it is also one of the supports for economic development which is one aspect of defense as well. This is in line with Law No. 16 of 2012 concerning the defense industry. Where the national defense industry is able to take advantage of the defense advice procurement program at the Ministry of Defense.

Global economic conditions are likely to experience a slowdown, the fate of the trade war is not yet clear. With the situation, it is difficult to increase acceptance. As a result, the state budget deficit and debt could increase (Saputro, 2021)

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According to Muradi (2015) Management of the strategic industry and defense industry in many countries is almost always faced with three main problems, namely: First, the development of defense technology that relies on two schemes, namely the scheme for strengthening research and development of the defense industry, and through offset and technology transfer schemes. . Second, funding the defense industry with various funding models, and the third is the problem of improving the quality of the defense industry's Human Resources (HR). All three are related to one another in supporting the need for the main Armament System (Alutsista) in their country or are moving to become an exporter of weapons and war equipment.

Defense economics as a multidisciplinary study discusses resource allocation, income distribution, economic growth, and political stability as applied to topics related to defense. According to the defense economy, the impact of the use of the defense budget on the economy can be viewed from the demand or consumption and supply or production approaches (Saputro et al., 2021) If the connection between defense and economic defense is very important, then this will answer the reality of the evolution of the defense industry, which is not only talking about defending the country, but also talking about industrial procedures, diplomacy and cooperation, as well as promoting economic development as a strategy. national defense, especially during this COVID-19 pandemic. In line with that, Witarti and Armandha (2015) emphasize that the evolution of the defense industry must also adapt to current conditions.

Minister of Defense Decree Number 12 of 2016 states that national defense is essentially all defense efforts that are universal in nature characterized by populist, universal and territorial, not only that the TNI and other supporting components must be able to face military and non-military threats. In Chapter II, it is stated that the realization of a sovereign, independent and personalitybased Indonesia based on mutual cooperation is to realize national security capable of maintaining territorial sovereignty, sustaining economic independence by securing maritime resources, and reflecting Indonesia's personality as an archipelagic country. In addition, in point (g) it is stated that realizing economic independence by moving strategic sectors of the domestic economy. So that this can create a strong, independent and competitive defense industry, due to the realization of a domestic defense industry in order to fulfill Defense Equipment (Alpalhan) and support the production of equipment that supports the national economy. The integration of security stability development together with increasing strategic industrial growth and macroeconomic stability synergistically has the ability to increase economic growth (SAPUTRO, 2021)

To improve and respond to economic growth, the implementation of defense industry policies based on Law Number 16 of 2012 and the Decree of the Minister of Defense of 2016, as well as economic growth data in the last five years show that the defense industry has an important role in supporting and supporting national economic growth as a form of economic growth. national defense. Defense budget planning and the right allocation of defense spending every year can support Indonesia's defense forces, so that they are able to create and increase Indonesia's economic growth (Saputro, Rivai, et al., 2021) Security Stability and Strategic Industry Growth have a simultaneous effect on Macroeconomic Stability. The integration of the development of security stability together with increasing the growth of strategic industries in a synergistic manner has the ability to increase macroeconomic stability (Saputro & Meirinaldi, 2019)

## LITERATURE REVIEW

### 1. Public Policy

a. It is believed that there is a relationship between defense spending and the economy. In reality, there are varying effects on each country when the defense budget deals with the economy. However, from the studies of economists, there is still no convincing opinion from the empirical tests that have been carried out. For example, Kennedy (2016) tested whether the national defense budget can stimulate investment, it turns out that empirical results show that Indonesia's defense budget still has a crowding out effect on investment, where there are many other opinions from different studies.

b. The channel that can be used by the government to influence the economy, especially economic growth is through fiscal policy. The state can play a role through direct investment funding through the efficient provision of public services so as to encourage economic activity, as well as stimulate long-term investment. Defense spending, one of the government's policies, is expected to have a positive effect on the economy. Brasoveanu (2010) explains the shape of the channel in the economy that is influenced by defense spending. These channels include:

a. Research and development in the defense sector. Research and development in the defense sector can have a positive influence through externalities in the economic sector from the private sector. Military research and defense spending can stimulate innovations in technology. In developing countries defense can assist in the establishment of socio-economic structures that support growth by engaging in research and development, providing trained personnel, training and education, and building the infrastructure necessary for economic development.

b. Security (security). Defense spending can drive the economy because it provides security to maintain stability in the business environment and maintains favorable conditions to attract foreign investors. The existence of security also maintains respect for property rights and dynamics markets thus driving growth in today's global system. Recognizing that defense spending increases security, defense stimulates growth.

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- c. Request. The positive effect of defense spending can occur through an increase in aggregate demand (Keynesian effect). An increase in demand plays an important role in increasing the utilization of idle capital, reducing the unemployment rate, and increasing profits thereby encouraging higher investment, all of which lead to economic growth. Defense spending is also recognized as a fiscal policy tool so as to increase demand stimulation or reduce demand constraints. This effect depends on the multiplier effect, if it is assumed that there is no reciprocal relationship between increased taxes and financing for government spending, and there is no crowding out effect due to this expenditure.
- d. Labor. Defense spending may increase the skills of a portion of the population through training and education of members of the military. So that it has a stimulating effect on growth if it can move the economy towards full employment, formation of human resources, maintaining stability, and providing infrastructure.
- i. Investment. Capital expenditures can provide productive uses, such as private sector use of transport networks originally built for military purposes. Investment in the defense sector drives positive externalities to the private sector, such as the development of public infrastructure, spillovers from technology, and the formation of human resources.
- j. Crowding out effect. Military spending can have a detrimental effect on economic growth by crowding out with the private sector. The large defense spending creates a distortion in the allocation of resources and the separation of resources from productive activities due to the accumulation of weapons and the increase in military strength. Military spending can be detrimental because it impacts investment, savings, human resources, and infrastructure programs. The extent and form of crowding out of increased defense spending will depend on how they are used and how they are financed.
- k. Opportunity costs. To explain the negative relationship between military spending and growth, the economy focuses on the opportunity cost of defense spending. Military spending can hinder economic development by reducing savings and the inappropriate allocation of resources away from more productive uses of the public or private sectors. In the same context, research and development in the defense sector can separate research and development from the private sector. Government spending on national defense saves potential opportunity costs, because it allows for lowering economic output.
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- m. Efficiency of resource allocation. If military spending is not managed through market mechanisms, it will tend to cause distortions in relative prices. The implementation of policies to support military programs may interfere with resource allocation and economic growth.
- n. Increasing the political power of the military. Defense spending may not come from the need for security, but because of rent seeking from the complex military industry, so that it can increase weapons and military posture that exceeds its share and can lead to an arms race or war.

Many of these effects occur simultaneously, depending on the degree of usefulness and externalities of defense spending and effectiveness in dealing with threats. Through these certain channels, defense spending has an effect on economic growth that can be seen from two sides, namely the supply side and the demand side. Through a supply-side approach, the channel that can explain the effect of military spending on economic output is through the availability of production factors, be it labor, capital (both physical and human resources), as well as technology that together affect potential economic output.

This theory assumes that real output per capita and capital stock growth will be at a constant level in a certain period even though there are short-term fluctuations. It is also assumed that an increase in labor and capital at a steady level will also increase its aggregate output at a steady level (Solow, 1970). Then changes in aggregate output can be explained by changes in capital and labor. One approach that is commonly used in research on the relationship between defense spending and economic growth from the supply side is the neoclassical production function approach. That is by reviewing the description from the supply side through changes in aggregate output.

West & Thompson (1990) stated, due to defense spending, effects appeared in the economy that had a great impact on output from the supply side, which can be explained through the following neoclassical theory:

- If there is a resource-allocation effect that causes investment to crowd-out, there will be a decrease in aggregate output growth. The neoclassical model explains that the growth rate is a function of capital growth. So when this effect occurs, the transmission that occurs will reduce capital growth and be followed by a decrease in the aggregate output growth rate.
- The emergence of the resource-mobilization effect will have an impact on decreasing household savings. In accordance with the neoclassical model, of course, a decrease in savings will lower the movement of the growth rate.
- If there is a spin-off effect in other sectors from technological improvement, then according to the neoclassical model, the technological improvement that occurs will lead to higher economic growth.

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- The occurrence of an aggregate demand effect with the existence of a multiplier effect in the economy cannot be explained in neoclassical theory. In this model this is not possible, because the economic resources are assumed to be full employment.
- If there is a debt accumulation effect, high-tech products or services purchased with foreign debt without transferring technology will reduce technology growth. In the neoclassical model, this low growth is due to very limited access to foreign technology.

Strategy for Prevention of Corruption in the Procurement of Alutsista within the Ministry of Defense and the TNI includes Improving the Integrity and Ethics of Operators, Consolidating and Accelerating State Bureaucratic Reforms, Strengthening Anti Corruption Culture in the Community, Firm and Consistent Law Enforcement, and Integrated (Putro, 2021)

The channel that can explain the effect of military spending on economic output through the demand side is through the level and composition of expenditure. What happens here is that there is a multiplier effect that increases demand (Keynesian multiplier effect). This increase will increase utility and reduce the unemployment rate. According to Benoit (1973, 1978) spending on the military can have a positive influence on economic growth. He explained that this effect comes from the Keynes model based on a multiplier mechanism for underutilized countries.

The defense industry really needs an integrated and structured structure for the long term. It is hoped that the national defense equipment system can be independent to meet domestic needs, that in the long term, our defense equipment can be exported and traded abroad so that it becomes an economic source both from reducing unemployment, state income and being respected by other countries (Hanri, 2021)

Uk Heo (1996) concludes, from the various effects caused by defense spending, broadly speaking, there are three different research results from the analysis of the relationship between defense spending and economic growth, namely those that give positive results, negative relationships, or no relationship at all. The arguments of these groups are:

- The group that argues that defense spending has a positive impact on economic growth argues that defense spending will stimulate economic growth either directly or indirectly.
- The group that argues that there is a negative relationship between defense spending and economic growth focuses on arguments for two types of trade-offs, namely the allocation effect (the guns vs butter trade-off), and the growth effect (the guns vs growth trade-off).
- The third group finds that there is no relationship between military defense spending and economic growth. Defense spending can have a negative or positive effect on growth at certain times and under certain conditions. Defense spending may inconsistently affect economic growth in a statistically significant way

### 1. Policy Implementation

According to George Edward III, there are 4 factors that influence the success or failure of policy implementation, namely (1) communication, (2) resources, (3) disposition and (4) bureaucratic structure.

#### a. Communication

Communication is a very important factor because communication is related to the delivery of information, ideas, skills, regulations and others using certain means to those who are entitled to receive it. Policy implementation will be active if those who carry out the decisions know what they have to do. Communication includes:

- Communication channeling
- Clarity of communication - Communication consistency

Implementation instructions and orders can be passed on carefully, clearly, and consistently. However, if implementers lack the necessary resources to implement policies, then policy implementation tends not to work. Resources include:

- Man
- Budget
- Authority
- Information
- Facilities and infrastructure

#### c. Bureaucratic Structure

Bureaucracy is one element in policy implementation. Bureaucracy both consciously and unconsciously choose organizational forms for collective agreement in order to solve social problems in modern life which are sometimes deliberately formed to carry out certain policies.

#### d. Attitude (Disposition)

The attitude of policy implementers is a factor that has consequences in policy implementation.

#### 1) Defense Industry

Defense industry is a national industry (government or private) whose products, either individually or in groups, including maintenance and repair services, at the government's assessment can be utilized for the benefit of national defense.

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The defense industry is part of the national industrial order which specifically has the capability or potential that can or can be developed to produce products in the form of weapons systems, equipment and supplies, administrative/logistical support or services for the benefit of the implementation of national defense.

### 2) Economic Growth

Economic growth is seen and measured by comparing components that can represent the current state of a country's economy and the previous period. The components used to measure economic growth are gross national product (GNP) or gross domestic product (GDP).

## METHOD

This study uses a literature review research with a descriptive approach. Sources of data using primary data and secondary data. Primary data includes supporting official documents and secondary data using applicable regulations/regulations. This study uses a descriptive qualitative approach, namely research that describes the current state of the research object as it is based on the facts. It is hoped that this research can reveal the problem or situation or event as it is so that an objective problem solving solution is obtained based on the facts obtained in the object of research according to the actual situation. Researchers will always ask with question words "why", "what reason" and "how it happened" (Moleong, 2008:6). This study uses a qualitative method because it aims to understand a phenomenon, role, interaction and group and not to test the truth of the hypothesis as in quantitative research.

## RESULTS

According to Edward III in Widodo's (2010:96) policy implementation, there are 4 factors that influence the success or failure of policy implementation, including (1) communication, (2) resources, (3) disposition, and (4) bureaucratic structure. In this case, it can be described as follows:

### 1. Communication

The main requirement in implementing the most effective policy is communication which is then interpreted as the process of delivering information to the communicant. Policy communication is the process of delivering policies from policy makers (policy makers) to policy implementers (policy implementers). Public policy information needs to be conveyed to policy actors so that policy actors can know, understand about the content, objectives, directions, target groups of policies with the aim of policy actors being able to prepare what must be prepared so that policy goals and objectives can be achieved in accordance with what is stated. expected.

### 2. Resources

The resources in question are human resources, financial resources, equipment resources (buildings, equipment, land, and other spare parts), spare parts or material resources and the bureaucracy needed to implement policies. In this study, researchers found that in general, TNI AD personnel as users had the appropriate ability to operate and carry out light-moderate repairs.

### 3. Disposition

Even though there have been laws and Presidential Regulations to the Minister of Defense Regulation that obliges to prioritize domestically made defense equipment, the use of Anoa combat vehicles has always faced the needs of users in terms of only TNI AD units.

### 4. Bureaucratic Structure

Bureaucratic, the Regulation of the Minister of Defense of the Republic of Indonesia Number 17 of 2014 in Chapter X concerning the Use of Domestic and Foreign Production Alutsista in Part One explains the provisions for Increasing the Use of Domestically produced TNI Alutsista which in Article 70. Discussion

Referring to the implementation of the Defense industry policy, there are several things that are discussed in this research. Hartley, et al. (1995) explained macroeconomically, defense economics is a study of resource allocation, income distribution, economic growth, and stabilization which is applied to topics related to defense. Defense economics covers various sub-sectors of the economy, including public sector economics (public goods, the effects of externalities obtained by an economic sector in relation to other economic sectors, measurement of output), industrial economics (industrial base studies, procurement, research and development, collaborative industrial policies). , licensed production in the defense industry), labor economy, international economy, public choice, and other macroeconomic and economic growth.

The obstacles faced in implementing PT Pindad's Anoa combat vehicle production policy in supporting the improvement of the national defense economy were due to limited resources experienced by PT Pindad, namely capital and regulations that support PT Pindad's efforts in export market orientation (mulyani, 2022)

First, the implementation of the defense industry policy on economic growth. Second, economic growth after the Covid-19 pandemic is a form of defense industry efforts.

### 1. Defense Industry

The Defense Industry must look at regulatory aspects, technology, human and natural resources, integrated security and legal aspects. According to Widodo (2021), these five aspects must be integrated with the conditions or opportunities for national

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defense. As well as policies to strengthen the local economy as a form of overcoming the impact of the pandemic in several defense industries, one of which is PT. Pindad.

At PT. Pindad according to research conducted by Deksino, et. al (2022) seeks to improve the country's defense economy through the implementation of the ANOA combat vehicle production policy. This, in addition to minimizing the budget, can also allocate budget for activities that are economic defense development, such as disaster management programs and assistance for micro, small and medium enterprises. According to Deksino, et. al. (2022) concluded that the implementation of the Anoa combat vehicle production policy of PT. Pindad has not been supported by an increase in the national defense economy. This is due to the limited state budget allocated for defense equipment spending, the limited allocation of the state budget in the national capital participation (PMN) for PT Pindad and the government's firmness to oblige non-TNI AD personnel to use the Anoa combat vehicle.

Therefore, from the perspective of the defense industry, the production of combat vehicles is part of efforts to improve national economic defense. The Indonesian government pays attention to the domestic defense industry by forming teams, councils and bodies which in principle are to accelerate the development of the national defense industry. The formation of teams, councils, and bodies was carried out by several Presidential Decrees (Keppres) Number 40 of 1980 concerning the Defense and Security Industry Development Team, Number 6 of 1984 concerning the Board of Trustees of Strategic Industries, Number 44 of 1989 concerning the Development Board of Strategic Industries, Number 56 of 1989 concerning Board of Trustees of Strategic Industries, Number 64 of 1998 concerning BUMN Management Agency and Determination of PT Bahana Pakarya Strategic Industries (BPIS) Persero. The economic crisis and democratization caused PTBPIS to be disbanded in 2001 but efforts to revitalize the Defense Industry did not stop through the formation of the Defense Industry Policy Committee (KKIP) based on Presidential Regulation Number 42 of 2010 followed by the issuance of Law Number 16 of 2012 concerning the Defense Industry. One of the mandates of the Act is the establishment of KKIP which was later confirmed by Presidential Decree number 59 of 2013.

1. The government plays a role in encouraging the domestic defense industry to be efficient, competitive, has a comparative advantage and is able to fulfill contract requirements so as to meet the needs of achieving MEF (Minimum Essential Force) which is supported through the independence of the defense industry. This is stated in Law No. 16 of 2012 which is to create an industry in production and maintenance and repair services in order to fulfill the Defense and Security Equipment Tool (alpalhankam) which is monitored and evaluated by the Defense Industry Policy Committee (KKIP). The national security system has been built with an approach participation of citizens and society or the security sector reform agreement, the most important thing is how it affects Defense-Security Expenditure Structure againstn security stability in Indonesia (Saputro et al., 2020)

### 2. Economic Growth

Based on BPS data which shows that the increase and decrease in the national economy in 2020-2021 is part of the impact of the COVID-19 pandemic. In economic growth, the role of government industry as stated by Robert Linton in Widodo (2021) that the role is part of social interaction in accordance with the established culture. Therefore, the defense industry policy as described above has an important role in responding to economic growth, especially during the pandemic and post-Covid-19 pandemic.

To respond to economic growth that begins to increase from 2020 to 2021 and 2022, is an effort to optimize the role and synergy of effective institutional or institutional development and implement a cross-institutional coordination system. The application of Law Number 23 of 2019 concerning the Management of National Resources for National Defense, as a form of government support for the optimization of national defense. The form of the role of this policy, namely mobilization is the act of mobilizing and simultaneously using National Resources and National Facilities and Infrastructure that have been prepared and fostered as a component of the National Defense force to be used in an appropriate, integrated, and directed manner for overcoming any threats, both from abroad and from abroad. from within the country which endangers the unity and integrity of the nation as well as the survival of the nation and the Unitary State of the Republic of Indonesia.

One of the studies conducted by Kennedy (2018) on defense policy in encouraging the national economy on the Trans Papua Road is a form of program carried out to determine and support economic growth, one of the efforts made by the defense industry in the case study of this research is 14 roads. which was built on the Trans Papua road.

## CONCLUSIONS

Based on the results and discussion above, it can be concluded that:

1. Defense Industry Policy has an influence in encouraging and supporting economic growth in a region.
2. The form of economic encouragement based on the development and allocation of production of defense equipment independently provides the potential to develop the national economy.
3. During the COVID-19 pandemic, the defense industry policy in encouraging and growing the economy as a solution to the impact of the pandemic, it is enough to provide space and doors that are wide open for the community.

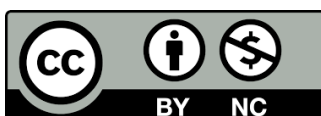
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## SUGGESTION

There is a need for a defense industry policy that is not only related to accommodation or production of defense equipment, regional development, disaster management and human resource assistance, but also a stimulus policy that can create an attitude of independence towards social welfare for all Indonesian people. In other words, there is national welfare.

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