By Adam Dempsey, Research Associate in residence for the UK Defence Forum

On the 28th September, 2010, Indonesia's House of Representatives unanimously approved the appointment of Navy Vice Admiral Agus Suhartono as the new Chief of the Indonesian Armed Forces (Tentara Nasional Indonesia, TNI). Suhartono is now at the helm one of the world's largest armed forces and responsible for securing over 17,000 islands scattered over a distance comparable with London to Baghdad. Yet the TNI remains beset by some familiar problems. Suhartono's brief is to overcome a number of problems, starting with the integration of the three forces under a single line of command. But while force integration may shape the TNI into a more effective organisation this should not be Suhartono's first priority.

Whilst systemic reform of the TNI has been underway since the late 1990s emphasis was initially placed on depoliticising the military rather than changing its strategic outlook. This altered in 2002 with the passage of Law No.3/2002 on National Defence. Law No.3/2002 states that Indonesia's future defence planning should prioritise maritime security. This was expanded in 2007 when the Department of Defence (DoD) published a planning document analysing the TNI's force structure. The document identified the protection of Indonesia's sea lanes of communication (SLOC) as the TNI's main strategic consideration. This mainly focuses upon safeguarding SLOCs around the Malacca Sunda, Lombok and Makassar Straits.

Underpinning the DoD's strategy is the development of Defence Area Commands (KODAHAN) administered by a joint command structure. Implementing KODAHAN will inevitably mean that the TNI will have to increase naval and air capabilities at the expense of its traditional strategic approach. Since independence Indonesia has experienced significant challenges to domestic security. This has included separatist movements in Aceh, Papua and Maluku as well as sporadic communal violence throughout the islands. As a result, Indonesia's armed forces developed a hybrid strategy combining conventional and guerrilla warfare to gather intelligence and fight counterinsurgency campaigns. This prompted the development of territorial commands that disperse army units throughout Indonesia.

Yet despite increasing emphasis on the importance of Indonesia's maritime security, the TNI has shown little appetite for dismantling its territorial structures. This is because the TNI see territorial commands as fundamental to preserving Negara Kesatuan Republik Indonesia (Unitary State of the Republic of Indonesia, NKRI). As the ultimate guarantor of Indonesian identity, the 'idea' of the NKRI is – in the eyes of the TNI – a non-negotiable concept. The territorial command structure also has the support of the incumbent President, Army General (Ret.) Susilo Bambang Yudhoyono. According to President Yudhoyono territorial commands form part of the 'People's Defence and Security System' (Sishankamrata).

As the territorial commands form a legal part of Sishankamrata, government attempts to change the mindset of the TNI will continue to be met with some resistance. Further complicating matters is that despite being one of the worlds largest and most populous states, successive Indonesian governments have spent very little on defence. In 2006, for example, the TNI's defence budget accounted for 0.93% of Indonesia's GDP. Over the next three years the TNI's budget actually declined. This placed Indonesia behind many other Southeast Asian states who allocated on average 2% of GDP to defence spending. Budget allocations for procurement have also been compromised by personnel and capital expenses. In 2005 the TNI was allocated $480 million for equipment, whereas almost $2 billion went on wages, benefits and administration. Moreover, defence spending has traditionally favoured the army over the navy and air force. The 2006 organisational allocation prioritised $1.2 billion to the Army, whereas the Navy and Air Force received $483 million and $362 million respectively.

Selected 2009 defence budgets for the South East Asia region

Country	2009 Budget	% GDP
Indonesia	$3.5 billion	0.63
Malaysia	$4 billion	1.00
Philippines	$1.16 billion	0.70
Singapore	$8.23 billion	5.00
Thailand	$5.13 billion	2.00
Vietnam	$2.80 billion	3.00
Australia	$24.2 billion	2.00
China	$70.3 billion	10.00

Source: International Institue for Stratetgic Studies

According to the International Institute for Strategic Studies the lack of government expenditure has resulted in the TNI relying on 'creative arrangements' to ensure big-ticket purchases. In 2007 Russia provided $1 billion-worth of credit facilities for substantial arms and hardware procurement. Over the past few weeks, Indonesia has been reaping the benefits of these arrangements. On the 27th September Russia handed over three Sukhoi SU-30 MK fighters at an airbase in southern Indonesia. This forms part of a $300 million deal to provide six aircraft. At the handover ceremony Indonesia's defence minister also outlined plans to purchase an additional 180 Sukhoi aircraft over the next twenty years. Several days earlier Indonesia also received three
Mi-35M Hind
assault helicopters as part of the same agreement. The 2007 agreement also makes provisions for the purchase of two Kilo-Class diesel-electric submarines.

Also contributing to the TNI's reliance on overseas credit are tensions with Indonesia's defence enterprises. Over the past several years, Indonesia's defence sector has experienced a period of rejuvenation. Despite a U.S.-led arms embargo for alleged human rights abuses Indonesia's

defence industries have nevertheless benefitted from international cooperation. On 28th December 2009 a Jakarta Post article entitled ' the rise of the Indonesian strategic industry ' highlighted the launching of the first of four landing platform docks (LPD) built by the state-owned PT PAL. The LPD was developed in conjunction with the Dae Sun Shipyard, South Korea. Whilst the Dae Sun Shipyard led the development of the first two LPDs additional South Korean credit has allowed PT PAL to undertake production of the final two vessels.

The LPD programme also demonstrates PT PAL's shift from producing solely commercial vessels to the development of military hardware. PT PAL has developed fast patrol vessels and submitted designs for a helicopter carrier based on its 50,000 cargo vessel. In 2009 the TNI placed an order with PT PINDAD for 154 armoured personnel carriers (APC) based upon French-built Renault vehicles. Yet the APC purchase has done little to change domestic opinion about the quality of Indonesian defence products and services. After becoming Defence Minister in late 2009 Purnomo Yusgiantoro ran a series of workshops to explore further revitalisation of Indonesia's defence industries. The workshops demonstrated the chasm between the producers and end-users.

Indonesia's defence industries lamented that, despite the APC purchase, there were not enough orders coming from the TNI to sustain domestic production. Industry officials also cited the lack of government support and use of overseas suppliers. Despite a return to the global defence marketplace, Indonesia's defence industries account for only 20% of TNI purchases. Yet Indonesia's defence and security forces indicated that many domestically-produced items were of poor quality and subject to delays in delivery. In this respect it appears that the TNI presented the more compelling argument. With the conclusion of the workshops Purnomo declared that domestic defence businesses needed to do more in terms of quality, delivery and after-sales service.

Yet even before the workshops the Indonesian government attempted to improve the status of the domestic defence sector and rein in the TNI's reliance on foreign credit. As a result of a government loan in 2008 to cover rising oil prices and inflation, Indonesia's state-owned defence companies offered policy solutions aimed at stimulating sectoral growth. These included supportive tax regulations and guidance on boosting exports. The government has responded with the recent formation of the Defence Industry Policy Committee (KKIP). One of the key tasks of the KKIP is the formulation of strategies to enhance the kind of foreign cooperation associated with the LPD contract. In doing so, the KKIP will also drive further advancements within Indonesia's defence sector.

A series of military aircraft crashes throughout 2009 provided Indonesia's aircraft industry with an opportunity to enhance its reputation. Following the accidents the TNI entered into an $80 million contract with PT Dirgantara Indonesia to purchase replacements for its fleet of N-22 Nomad surveillance aircraft. These are expected to be modelled on the CN-235 airframe with enhanced anti-submarine warfare (ASW) capabilities. The accidents also led to a proposed 21% increase in the TNI's 2010 budget. More recently Yudhoyono has indicated that all of the TNI's armaments and units need to be modernised. This prompted Yusgiantoro to declare that the TNI would need an investment of $16.8 billion over the next five years to bring its arsenal up-to-date and in line with Indonesia's increasing commitment to overseas deployments.

Whilst the government's plans suggest that the TNI is on the cusp of a new era in defence expenditure, this is simply not the case. Despite Yusgiantoro's bid the Indonesian government will only allocate approximately $10 billion to the initiative. Instead the shortfall is expected to be made up by credit arrangements similar to the 2007 deal struck with Russia. In the short-term, this arrangement will be of little benefit to Indonesia's domestic defence industries. Continued reliance on global defence contractors will only reinforce the TNI's belief that the domestic sector is unreliable and not good value-for-money. As a result, Indonesia's defence industries are likely to receive mixed messages on the imperative to change. Whilst international partnerships might enhance productivity and efficiency, overcoming the TNI's preference for international products will be a different challenge altogether.

Even greater obstacles to changing the mindset of the TNI are their own extensive commercial enterprises. Since independence the TNI have owned businesses under the guise of foundations and cooperatives as well as in partnership with the private sector. According to a recent Human Rights Watch (HRW) report as of 2007 the TNI possessed gross assets worth $350 million and made a profit of $28.5 million. Yet these figures do not take into account the TNI's more corrupt activities. The HRW report also lists a catalogue of the TNI's illicit enterprises and their involvement in such corrupt practices as protection rackets. One notable incident in 2004 involved a coal mining company recruiting a local TNI cooperative to combat the activities of illicit small-scale miners. Yet rather than helping the company, the cooperative instead organised the illicit miners and used intimidation against them to earn profits on illegal sales of coal.1

Since 2004 the Indonesian government has been trying to enact legislation which initially required the TNI to cease many business activities by mid-October 2009. Yet this was thwarted by the government's inability to define exactly which enterprises the TNI needed to give up. The lack of government spending on defence also proved to be influential. Indonesia's then Defence Minister Juwono Sudarsono advocated that the TNI should not give up its businesses until its budgets were increased. To overcome problems the government introduced new regulations in 2009 that allow the TNI to keep businesses but with a partial restructuring of the bodies through which it holds its investments. These arrangements are to be monitored by an inter-ministerial oversight team.

Yet the government's new regulations seem unlikely to radically alter the TNI's business activities. HRW raised concerns that the oversight team is composed mainly of uniformed officers and will be administered by MoD staff. Moreover the regulations appear to identify businesses owned by foundations and cooperatives as not bona fide TNI concerns. This means that the regulations are likely to prioritise the handing out of advice on the restructuring of businesses rather than widespread transfers into government ownership. Crucially, the government regulations do not take into account the TNI's alleged illicit – or indeed individual – commercial activities. Thus as with other aspects of defence reform there is little in the way of incentive for the TNI to enact wholesale change.

As Indonesia continues to view its security from an increasingly international rather than domestic perspective reform of the TNI will remain essential. But prioritising force integration seems misguided in light of some fundamental and long-standing problems. Since

independence the TNI invariably formed part of the government, operated beyond the rule of law and developed very lucrative and sometimes illicit commercial activities. Yet the TNI's business acumen was partially in response to domestic factors. Not only have successive governments failed to provide the TNI with adequate defence budgets, Indonesia's defence industries have also proved unable to supply equipment. This means that government initiatives aimed at enhancing both defence spending and manufacturing will be playing catch-up with the TNI's preference for foreign products for some time. As a result, Indonesia needs to show that it can provide for the TNI if it is to tackle their reluctance to change.

Reference

Unkept promise: failure to end military business activity in Indonesia. Human Rights Watch report, January 2010, p. 5