

Analysis of The Different Role of State-Owned Enterprises (BUMN) and Private-Owned Enterprises (BUMS) in the Indonesian Defense Industry Sector

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ABSTRACT: *The globalization of the Defense Industry is a necessity today. Indonesia through the Omnibus Law that has been issued has become a milestone in the globalization of the Indonesian Defense Industry. The Omnibus Law revised several articles in Law Number 16 of 2012 concerning the Defense Industry, making the sector dynamic and progressive for investment. With this provision, Article 1 of Law Number 16 of 2012 which previously stated that the main equipment industry could only be controlled by SOEs was renewed by strengthening the position of the private sector so that they can also become lead integrators in the main component industry or support the main equipment industry. In recent years, the BUMS defense industry is considered to have the ability to improve the technology of defense and security equipment (ALPAHANKAM) made by the BUMN defense industry. Through qualitative studies such as book reviews, journals, and other important documents. This journal aims to show the different roles between BUMN and BUMS before and after the passing of the Omnibus Law. With the Omnibus Law, the representation of the Indonesian defense industry can at least develop in a better direction when measured in the context of investment and increasing competition.*

KEYWORDS: *Defense Industry, Omnibus Law, Lead Integrator*

I. INTRODUCTION

The defense industry as a supplier of defense facilities to the military has various demands. Basic structure The defense industry is built according to microeconomic principles, where income is the main supply chain in supporting business activities. The use of these resources includes employee salaries, purchases of raw materials and raw materials, use of machinery and energy, promotional activities, research and development activities, and so on. Income for the industry, like companies in general, is from the sale of its products. An industry will be considered healthy (financially) if the income exceeds expenditure.

For the realization of a well-established defense system that is in line with the ideals of being independent and fulfilling the availability of defense and security equipment (Alpalhankam), it is necessary to create a clear road map through correct and accurate mapping of the domestic defense industry (Susdarwono, 2020). One of the defense industry management tools deemed necessary to encourage the national industry to become more professional, innovative, effective and efficient and integrated into meeting the availability of defense equipment independently, is the regulation or legislation number 16 of 2012 concerning the Defense Industry. On the other hand, With the issuance of Law Number 16 of 2012 concerning the Defense Industry, the

manager of the defense industry is required to provide at least 5% of the net profit for the benefit of research and development in the defense sector. However, it must be admitted that these conditions have not fully bound the managers of the defense industry, due to market limitations and the sustainability of the existing industry (Muradi, 2015).

In practice, State-Owned Enterprises (BUMN) in Indonesia are designated as the main suppliers (lead integrators) of defense equipment or have the authority to integrate all major components, this certainly shows the vital role of SOEs in the national defense industry (Purwanto et.al, 2020). However, the Omnibus Law on Job Creation, which was just passed by the House of Representatives (DPR RI) on October 5, 2020, also regulates the defense and security sector industry. One of them is about the involvement of the private sector in the development of the main weapon system equipment (defense equipment). The regulation is contained in Article 74 of the Job Creation Act. The article states that several provisions in Law Number 16 of 2012 concerning the Defense Industry are amended, one of which is Article 11 which reads:

"The main equipment industry is a state-owned enterprise and/or a private-owned enterprise established by the government as the main guide (lead integrator) that produces defense equipment and/or integrates all main components, raw components, and raw materials into the main tool."(quoted from CNNIndonesia.com news source, Tuesday (6/10).

With this provision, Article 1 of Law Number 16 of 2012 which previously stated that the main equipment industry could only be controlled by SOEs was renewed by strengthening the position of the private sector so that they can also become lead integrators in the main component industry or support the main equipment industry. In recent years, the private defense industry is considered to have the ability to improve the technology of defense and security equipment made by the SOEs (BUMN) defense industry (Kurniasari et.al, 2020).

The state-owned defense industry in Indonesia consists of five companies, namely PT Pindad, PT Dirgantara Indonesia, PT Penata Navy (PAL), PT Dahana, and PT LEN. Meanwhile, the Defense Industry BUMS consist of PT Farmatex, PT Lundin Industry Invest, PT Saba Wijaya Persada, PT Sari Bahari, PT Palindo Marine, PT Indo Guardika Cipta Kreasi, PT Info Global Teknologi Semesta, PT Garda Persada, PT Persada Aman Sentosa, and PT Daya Radar Utama. The importance of synergy between BUMN and BUMS in the defense industry has indeed been conveyed by many experts and practitioners. Each production process is required to be equipped with provisions for technology transfer, joint production and joint development. This requirement is absolute so that Indonesia can absorb and even be able to produce independently in the future (Amrullah, 2016).

II. LITERATURE REVIEW

2.1. Role of State-Owned Enterprises (BUMN)

In Indonesia, the role of BUMN has a more vital role than BUMS. This is evidenced by the establishment of a defense industry holding that is directly supervised by SOEs. The formation of a domestic defense industry holding is expected to make the national defense industry more efficient and competitive so that it can not only supply domestic needs. To date, there are 5 SOEs working in the defense sector, including PT LEN, PT Dirgantara Indonesia, PT Pindad, PT PAL, and PT Dahana. As in other sectors, in the defense industry, all BUMN capital is in the state. The purpose of BUMN is to gain state benefits (Law No. 19 of 2003).

Furthermore, in Law Number 23 of 2003 concerning BUMN. SOEs are pioneers of business activities that the private sector cannot yet carry out. The government can give special assignments to SOEs according to their line of business and objectives. SOEs are currently still the key to the national defense industry so that they can be independent in producing defense equipment. In recent years SOEs have become the backbone of the

defense industry, which aims to strengthen the national defense system by having special capabilities and ensuring the availability of the required products. This condition is a prerequisite so as not to depend on other countries' defense equipment products (Yanwar and Wahyudi, 2017).

In the midst of its superiority, BUMN in the national defense industry sector also has its own problems. The economic crisis that occurred in 1997 had an impact on the domestic defense industry so that it is experiencing financial difficulties to this day. SOEs that only have the defense industry as their main business sector have experienced difficulties because they have not had time to diversify their products (Yusgiantoro, 2014).

Furthermore, Yusgiantoro (2014), stated that in Indonesia there are various problems that could potentially be faced by SOEs. First, is the structural weakness of the leadership ranks of SOEs. Second, the monopoly that is still carried out by several SOEs. In this monopoly system, SOEs act like private companies that want to maximize profits, including in the defense industry sector. In general, SOEs contribute to the government in the form of annual dividends, meaning that SOEs have an obligation to set aside some of their profits to the government as the owner of capital. This is what causes state-owned companies to act like private companies in order to extract as much income as possible in order to obtain optimal profits after dividends.

2.2. The Role of Private Owned Enterprises (BUMS)

In the process of globalization that encourages the creation of a global market economy today, private sector participation is growing and becoming an equal partner to SOEs. The market will open up and become a competitive arena, so the company strives for efficiency. The globalization of the defense industry is like the tip of the iceberg, namely more activities that are not visible such as supply chains, the majority of which require the application of the latest technology. Another example is the development of software tools in weapons systems, which can come from various global industrial sources.

Defense consumers of each government are increasingly dependent on global suppliers who actually have little incentive to comply with political and bureaucratic requirements (Yusgiantoro, 2014). This means that they do not have the burden of selling their weapons anywhere. In this case, BUMS is the one who does not have the burden to produce weapons and sell them to which consumers, even though there are several countries that limit the activities of BUMS. Yusgiantoro (2014) said that the tendency of weapons consumers, in this case, was more likely to engage in intergovernmental relations (G to G) in obtaining certainty of after-sales activities, especially spare parts.

In the terminology of the Indonesian government, privately owned public entities (BUMS) are business entities whose capital is owned by the private sector, having functions and roles that are divided into various forms of business. The Defense Industry, on the basis of Law No. 16 of 2012 provides legal certainty for BUMS to develop business. For example in the national maritime industry, maritime development cannot be separated from the BUMS Defense Industry to build a fleet of commercial ships and warships, BUMS has a great opportunity with the existence of a minimum essential force program for the Indonesian navy, which requires many warships (KRI) supported by policies government that prioritizes domestic components (Apriyani, 2012).

As disclosed (Putri and Noor, 2013), the Directorate of Defense Industrial Technology explained that the government's cooperation and support for defense industry-owned enterprises is not only limited to the level of platform manufacture, but will also increase the capacity for component production. Furthermore, with the implementation of the Omnibus Law on Job Creation, it is possible that in the future BUMS will become the lead integrator in the national defense industry sector. Citing news from the Director General of Defense Potential (Pothan) of the Ministry of Defense, there are 176 Private-Owned Enterprises (BUMS) registered to be involved in the Ministry of Defense. A number of criteria for the activity of BUMS include conducting procurement, participating in priority programs made by the government, or participate in the defense industry technology development program at the Directorate of Defense Potential. Or participate in existing programs at

the Research and Development Agency of the Ministry of Defense or the Forces Development Agency. Defense Industry BUMS consist of PT Farmatex, PT Lundin Industry Invest, PT Saba Wijaya Persada, PT Sari Bahari, PT Palindo Marine, PT Indo Guardika Cipta Kreasi, PT Infoglobal Teknologi Semesta, PT Garda Persada, PT Persada Aman Sentosa, and PT Main Radar Power.

The recently passed Job Creation Law allows for a more vital role for BUMS than before. Of course, this will also provide healthy competition to SOEs. In addition to creating healthy competition, the Indonesian defense industry will advance if state-owned enterprises (BUMN) and private-owned enterprises (BUMS) work together. Indonesia's defense cannot be separated from private contributions. Moreover, Indonesia is now in the process of increasing the independence of its defense posture. If both (BUMN and BUMS) work together, the national defense industry will be more advanced.

III. METHODOLOGY

In this study, researchers used a qualitative approach with descriptive analysis methods through data collection which was described in detail and regularly. Data collection techniques through documentation are carried out through reviewing and/or browsing several books, journals, printed or electronic documents, and other sources of data or information deemed relevant to the research or study (Supriyadi, 2016).

IV. RESULTS AND DISCUSSION

Companies in the commercial industry are not much different from the defense industry, the only difference is the type of production from the defense industry, namely defense equipment, although there are also non-defense equipment industries, including textiles for military uniforms, hats, protectors, helmets, military equipment, air umbrellas, and so on. . Referring to Law No. 16 of 2012 the role of the private defense industry seems to be seconded, but this fact was removed after the Omnibus Law on Job Creation was issued.

Basically BUMN and BUMS companies have basic characteristics (Yusgiantoro, 2014). BUMN is a business entity whose capital is partially owned by the state while the ownership of BUMS is held by the private sector. In addition, related to its own goals, BUMN has the main goal of producing public goods. Public goods are goods whose entire benefits can be enjoyed by the public without reducing the value of these goods. Referring to this fact, it can be concluded that the interest of BUMN is to generate mutual benefits for the community, not to make as much profit as possible so as to create a market monopoly. BUMS does not have an obligation to produce public goods, all profits from production will return to the private sector. BUMS will provide goods and services that will generate high profits, while keeping production costs low. These goods and services are usually excludable, which can only be enjoyed by people who buy from BUMS (Yusgiantoro, 2014). In addition, there are also differences in the form of companies where most of the BUMN are holding companies and BUMS are companies that have been privatized.

In the defense industry itself, before the Omnibus Law on job creation was issued, the difference between BUMN and BUMS was seen in their role. Where SOEs tend to function as lead integrators while BUMS are a supporting sector. The lead integrator's role is to produce defense equipment and integrate all major components, supporting components and raw materials into the main tool. Meanwhile, the role of BUMS is limited to integrating spare parts and raw materials into defense and security tools and defense system systems platforms.

The Omnibus Law changed the direction of the Indonesian defense industry. Previously in Law Number 16 of 2012 concerning the Defense Industry article 11 it was stated that the main equipment industry was only the government that assigned defense SOEs as lead integrators to produce the main equipment industry. However, now the private sector can enter the main tool industry. Problems then arise when a strategic

industry can be controlled by the private sector. The capital of a private company may come from foreigners even though the company's status is a domestic business entity. This is reinforced by the statement of the Chairman of the DPR in his public lecture at the Defense University on October 26, 2020.

"One of these regulatory changes allows the private sector to be involved in the development of the main weapon system or defense equipment" (Puan Maharani in a Scientific Oration at the Republic of Indonesia Defense University, October 26, 2020)

The government, represented by the Chairman of the House of Representatives of the Republic of Indonesia, argued that the involvement of the private sector made investment in the Indonesian defense industry more dynamic and progressive. This can certainly be seen positively when SOEs tend to monopolize the domestic defense industry too much so that unhealthy competition occurs in this sector. The negative effect of this unhealthy competition is the lack of product diversification of the domestic defense industry and causes stagnation in the development of the domestic defense industry. The strengthening of BUMS is believed to be able to provide healthy competition for the domestic defense industry

In short, the author concludes the basic differences between BUMN and BUMS in the Defense Industry sector as shown in the following table:

Table 1. Differences between BUMN and BUMS in the Defense Industry Sector

	State-Owned Enterprises (BUMN)	Private Owned Enterprises (BUMS)
Law Number 16 of 2012 (Before the Omnibus Law on Job Creation)	BUMN as Lead Integrator	BUMS Cannot be a lead integrator. Production is limited to components supporting defense equipment
After the Omnibus Law on Job Creation	BUMN as Lead Integrator	BUMS can become an integrator by remaining under the supervision of KKIP as the party authorized to appoint a Lead Integrator
Capital Ownership	Owned by the government	Owned by Private (in the Omnibus Law on Job Creation, foreign private ownership is recognized in the defense industry)
Profit	There is a dividend obligation to the government	The profit is wholly owned by the company
Company Form	Holding Company	Private
Policy	Depends on State Finance (Prone to politicization and bound by bureaucracy)	Depends on market development conditions
Standing Principle	Socialism (The obligation to produce the Public Good)	Capitalism (Oriented to maximize profits)
Products before the Omnibus Law on Job Creation	The Main Tools of the Indonesian Armed Forces' Weapon System	Spare parts, repair and maintenance of defense equipment

Source: Data processed by the author

V. CONCLUSION

Based on the description above, the writer can conclude that:

- a. The existence of the Omnibus Law provides a direction for the Indonesian defense industry to develop for the better in the context of investment and increase competition.
- b. Defense SOEs as lead integrators to produce the main equipment industry. However, now the private sector can enter the main tool industry. Thus, existing SOEs and BUMS can synergize themselves to be able to play a role in supporting the procurement of defense equipment for the needs of the Indonesian National Army in the future.
- c. With all the regulations and provisions that have been drawn up by the government to increase the role of BUMS for the realization of harmonization of BUMN and BUMS, in its implementation there will of course always be differentiation because between BUMN and BUMS have different markets. BUMN is a monopsony market while BUMS is part of an oligopoly market where in its implementation there are many sectors that cannot be touched by the government.

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