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# **Defense Industry Strategy in Strengthening the Indonesian Economy**

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### **Author's contribution**

*The sole author designed, analyzed, interpreted and prepared the manuscript.*

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## **ABSTRACT**

Defense is important for a country, especially Indonesia, which is the largest archipelagic country in the world, with a total of 17,500 islands with a population of 274 million. Indonesia also has a variety of natural resources and is located in a strategic location because it is a crossroads for international trade. This then makes Indonesia vulnerable to threats both from within and outside the country that can threaten the sovereignty, territorial integrity and safety of the Indonesian nation. In maintaining its sovereignty and territorial integrity, Indonesia is preparing the TNI, which is armed with Alutsista. The Defense Industry is an industry that produces Alutsista. The Defense Industry is not only built to meet the needs of the TNI's defense equipment, but is expected to have an influence on the national economy in general and the region in particular. This research uses descriptive research. The research proves that PT Pindad (Persero) Turen has a role in the national economy in general and the Province of East Java in particular. This can be proven from the amount of the company's net profit and taxes deposited by PT Pindad (Persero) every time there is a transaction or routine every month to the state treasury. The contribution to East Java Province can also be seen from the number of workers absorbed by the company and the multiplier effects it causes, such as the absorption of labor through the company's business partners. The welfare of the population of East Java Province also increases every year and almost reaches the national average. The size of the UMK to per capita expenditure is also relatively able to meet the food and non-food needs of the population of East Java Province. PT Pindad (Persero) is currently also working on many projects

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both from within and outside the country and has strategic steps to develop its business, so it is not impossible that PT Pindad (Persero) can contribute more to the regional and national economy. field.

*Keywords: State defense; defense industry; East Java economy.*

## 1. INTRODUCTION

Every Indonesian citizen is obliged to maintain the sovereignty and territorial integrity of the Unitary State of the Republic of Indonesia and protect the safety of the entire Indonesian nation from all threats, both from within and outside the country without exception. This is stated in the Law of the Republic of Indonesia Number 3 of 2002 concerning National Defense. Indonesia is the largest country in the world, because it has almost 17,499 islands with 13,466 islands frozen by the United Nations and 4,033 islands still in the validation and verification process. The total area of Indonesia reaches 7.81 million km<sup>2</sup> which includes land and sea with the potential for abundant and diverse natural resources on each island [1].

In addition, Indonesia is also in a strategic position, which is located between two oceans and two continents which allows it to become a very dense intersection of world traffic, both sea and air traffic. Indonesia is also at the crossroads of world economic activity, namely trade between industrialized countries and developing countries, such as China, Korea, Japan and countries in Asia, Africa and Europe. Wealth and strategic position are both advantages and challenges for Indonesia, namely the advantages of having more capital. to build a developed country and the challenge is to defend the country from all threats that interfere with the sovereignty and territorial integrity of Indonesia [2].

Such as the islands of Sipadan and Ligitan which are claimed and officially part of Malaysia and Timor Leste which were previously part of the Indonesian province, which have now separated themselves and become sovereign states under the name of the Democratic Republic of Timor Leste. This is the basis for the importance of State Defense for a country. As with the concept of defense economy, which is to stimulate the country's economic growth in order to achieve the welfare of the nation, safe conditions and conditions are needed or in the sense that the country's economy will continue to run. Tgrow if the security and comfort of the nation that drives the economy is guaranteed.

To uphold state sovereignty, territorial integrity and protecting the entire nation from all threats and disturbances originating from within and outside Indonesia, Indonesia formed the Indonesian National Army (TNI) which is divided into three dimensions, namely land, sea and air. As for its operations, the TNI is facilitated by Alutsista such as weapons (pistols, rifles, artillery, grenade launchers, mortars, revolvers), combat vehicles (armored armored vehicles, tanks), tactical vehicles, munitions, communication tools, electronic warfare equipment, sights, aircraft, ships and so on. Procurement of equipment can be obtained from other countries through purchases, from within the country by means of their own production or the cooperation of the two through joint production. The Defense Industry is a national industrial order that has the potential to be developed and produce products in the form of defense equipment, and the availability of goods for the benefit of a country's defense.

The defense industry is not just a defense development but as a strategy and concrete steps in an effort to move the wheels of the country's economy. In detail, the defense industry is prioritizing domestic and foreign relations and strengths. In addition, large amounts of budget funds will be allocated to social programs to support additional weapons to build strength and to create thousands of jobs. The strength of the military industry has a major influence on defense agencies and society at large.

A conducive situation is supported by the defense power of a country. This will open up great opportunities for the government in carrying out economic recovery as well as building multi-sectoral developments. On the other hand, considering the current conditions, war and military operations have spawned new tactics and innovations as well as technology or Revolution Military Affairs. The urgency of increasing defense industry technological innovation has a positive impact on economic growth in order to achieve state independence. With the RMA defense strategy, it is hoped that

the defense industry can contribute to the recovery and growth of the national economy.

The economic growth of a country can be determined by defense industry factors through trust in the relations of a country when there is cooperation with other countries. This can trigger foreign investors to invest and cooperate with local producers to develop the products they need. The high population will increase the number of defenses from internal and external threats and affect the increase in economic productivity. Along with population growth, the balance of military and economic power becomes a priority for the state.

The availability of supply is an absolute prerequisite for certainty and flexibility in formulating long-term plans for the development of defense capabilities, thereby minimizing uncertainty and concern over political and economic factors, such as embargoes or restrictions. The defense industry has contributed to the growth of the national industry on an international scale, the absorption of a very large number of workers, the transfer of technology has an effect on the research and development sector as well as the needs of the national education sector in the field of science and technology.

In an effort to realize the independence of the defense industry, the formulation of the government's Master Plan in developing the defense industry begins in 2010 to 2029. The targets for defense industry independence, elaboration, international collaboration and sustainable development are achieved. So the defense industry is able to meet the domestic market, can compete with foreign products and contribute to global economic growth.

The master plan synergizes with the efforts to build the strength of Alpahankam until 2029. The road map for the development of Alpahankam products is divided into three phases, namely phase 1 Mastery of Design 2010-2014, phase 2 of Mastery of Technology 2015-2019 and phase 3 of New Development 2020-2025. The road map contains seven priority programs for the national defense industry, namely Propellant, Rocket, Missile, Medium Tank, Radar, Submarine and Combat Aircraft. Three of the seven National Priority Programs have achieved very satisfactory results, namely the Tiger Medium Tank, Submarine and RHan-122B Rocket.

According to data from the Ministry of Defense [3], there are 9 state-owned defense industries, namely PT. Pindad (Persero), PT. PAL Indonesia (Persero), PT. Dirgantara Indonesia (PT. DI), PT. Len Industri, PT. Dahana, PT Dok Kodja Bahari (PT DKB), PT Industri Telekomunikasi Indonesia (PT. INTI), PT Garuda Maintenance Facility (GMF), and PT. Merpati Maintenance Facility (PT. MMF). Of the 9 BUMN industries, 3 (three) of them have been appointed as Lead integrators (Moda Pemadu) for Alutsista according to the dimensions, namely: PT. PAL for Marine Alutsista, PT. DI for Air Force Alutsista and PT. Pindad for Army Alutsista. Meanwhile, the Indonesian defense sector Private Owned Enterprises (BUMS) consist of 101 companies with various competencies and active roles as Indhan in tier 2 to tier 4. Unfortunately only half are active or 54 companies. Therefore, the total assets of BUMN and BUMS are around Rp. 17.3 trillion.

The Defense Industry in Indonesia was initially only processed by State-Owned Enterprises (BUMN), but now after the 2021 Job Creation Law, Private-Owned Enterprises are welcome to contribute to building the country's defense force. The products of the defense industry are not only produced for domestic needs, they are also marketed to meet foreign needs. The export transaction value recorded since 2015-2018 has met the target of USD 284.1 million, of which the total export amount of USD 161 million came from PT Dirgantara Indonesia through the sale of transport aircraft type CN-235 and NC-212 to Senegal, Vietnam, and Thailand. A total of USD 86.9 million came from PT PAL through from PT Lundin USD 3.6 million with the sale of small patrol boats to Sweden and Russia. PT. Pindad contributed USD 32.6 million in export value through the sale of rifles and ammunition as well as Anoa combat vehicles to export destination countries, namely Southeast Asia, Africa, Arabia, South Korea, Nigeria, and East Leste [4]. Sequentially from the largest to the smallest number of exports, namely PT. IN USD 161 million, PT. PAL USD 86.9 million, PT. Pindad USD 32.6 million.

In the 2015–2019 period, the realization of the defense function budget grew by an average of 2.8 percent, from Rp. 105.91 trillion in 2015 to Rp. 115.42 trillion in 2019. The budget for the defense function in the 2015–2019 period was realized among others, through: (1) Modernization Program for Alutsista/Non Alutsista/Army Service Units; (2) Modernization

Program for Alutsista/Non Alutsista/Integrative Sarpras; (3) Implementation of the Management and Operations of the Ground Forces; (4) Marine Matra Management and Operational Implementation Program; (5) Modernization Program for Alutsista and Non Alutsista and Development of Air Force Facilities and Infrastructure; (6) Modernization Program for Alutsista/Non Alutsista/Sarpras Matra Laut; and (7) Ministry of Defense Research and Development Program.

In 2021, the defense function will allocate funds of Rp. 137.19 trillion, an increase of 16.27 percent compared to the previous year 2020. Meanwhile, the Ministry of Defense for the 2021 Fiscal Year is Rp. 137.29 trillion, equivalent to an increase of 16.44% from the previous year. In accordance with KEM PPKF (2022), the Indicative Ceiling of the Ministry of Defense for the 2022 Fiscal Year is IDR 125.84 trillion. The budget is used to support priorities for developing the defense sector with the implementation of programs such as: (1) Implementation of TNI Tasks, (2) Modernization of Alutsista, Non-Alutsista, and Defense Facilities and Infrastructure, (3) Development of Defense Resources, (4) Professionalism and Soldier Welfare, (5) Defense Policies and Regulations, (6) Defense Research, Industry, and Higher Education, and (7) Management Support Program (Perpres Number 113, 2020)

In this research, PT. Pindad in East Java was chosen as a sample that supports national economic growth in the defense industry. Especially considering its very potential and strategic position in the second position after DKI Jakarta. East Java is one of the provinces in Indonesia which is the second largest contributor to Gross Regional Domestic Product, both on the island of Java and Nationally. The first position is DKI Jakarta province which is the capital of the Unitary State of the Republic of Indonesia and the center of the national economy, for economic and political activities. Based on the Central Statistics Agency, East Java Province's GRDP contributed 14.48% of the National GDP or Rp. 2,454.50 trillion, while the DKI Jakarta Province's GRDP contributed 17.19% or Rp. 2,914.58 % of the National GDP. So that East Java Province becomes one of the alternative locations to develop the defense industry in the midst of the condition of DKI Jakarta Province which is already densely populated.

PT. Pindad (Persero) has two business locations, namely in Bandung-West Java by producing weapons, special function vehicles and industrial products and the second location is in Turen - Malang which produces ammunition and explosives products. Based on the direction of the President of the Republic of Indonesia, the development of Indonesia's defense industry is not only to support independence in the defense sector, but also becomes a strategy for national economic recovery through open job opportunities. As expressed by Dr. Hery Mochtady , B.Eng., M.Eng as Vice President (VP) Performance Planning PT. Pindad (Persero) in the Postgraduate Domestic Work Lecture of UNHAN explained about 300 people who work in the production of weapons and have a multiplier effect to company partners as many as 300 companies and the ammunition line is able to create 17 new affiliated companies.

Based on the background discussed previously, this paper will further analyze the role of the defense industry on the economy in East Java, with a case study at PT. Pindad (Persero) Turen , Malang. Hasil yang akan diketahui (1) What are the proles dan strategi of the Defense Industry (2) How does PT. Pindad (Persero) contributes to the national economy and the province of East Java, (3) What are the prospects for PT. Pindad Turen -Malang in the future in advancing the national economy and East Java Province

## 2. RESEARCH METHOD

This research is a descriptive research. Descriptive research includes collecting data to test hypotheses or answer questions about the latest status of research subjects [5]. In an effort to find the truth, researchers use quantitative and qualitative data and add statements from literature studies. The quantitative data used is secondary data obtained from the annual published reports issued by the Central Statistics Agency on statistics on the welfare of the population and the economic sector in East Java. Qualitative data were obtained from direct statements from sources during the Domestic Work Lecture of the Defense Management Faculty of the Indonesian Defense University in 2022 which took East Java Province as the locus of discussion. As well as literature studies obtained from sharing books, references and the results of previous similar studies, which are useful for obtaining a theoretical basis on the problem to be studied [6].

## 2.1 Economic Growth Theory

The theory of economic growth has been widely studied by economists for a long time. This theory is often associated with the factors that can determine the increase in output per capita in the long run and explains how these factors interact with each other, resulting in the growth process. This theory is also often used as an indicator of the success of development in an area. The theories that have been researched and developed by experts are as follows:

### 1. Kaldorian Industrial Growth Theory:

Kaldor's theory reveals that the manufacturing industry sector is an engine of growth for an area in an effort to increase the growth of other sectors along with economic growth. In Dewi's research [8], there are three aspects of the industry that are highlighted in this theory. First, there is a positive correlation between GDP growth and the manufacturing sector. Second, labor productivity in the manufacturing sector has a positive correlation with the growth in the manufacturing sector. Therefore, the manufacturing sector is considered capable of increasing returns to scale.

Capital accumulation and technological innovation have a major impact on the scale. Third, the non-processing industry sector has a positive correlation with the growth of the manufacturing sector. With the background of the tendency of the non-industrial manufacturing sector that leads to diminishing returns to scale. The second Kaldorian industrial growth theory states that increasing returns to scale can only be created by the accumulation of capital and technological progress.

In addition, investment is able to provide manufacturing incentives to accelerate sector growth. Production mechanisms and innovation require very high investment. According to Djojohadikusumo [8], adding capital per worker will be able to realize a good production technique mechanism. The existence of worker productivity and the ratio of capital to labor is a representation of the growth of the manufacturing sector. This shows that the investment factor as a form of capital accumulation is very important in increasing productivity and growth in the manufacturing sector.

In this case, PT. Pindad plays a major role in the development of international investment and the absorption of domestic workers. With the capital invested, it will be directly proportional to the increase in productivity in the defense industry sector which has an impact on GDP and national economic recovery. The defense industry has a responsibility towards its citizens from threats. So that human security and national security become a lexical priority.

**2. Economic Growth Theory:** The increase in production and services in economic activity becomes a measure of growth in society. The theory of growth dynamics was developed by Neo-Keynes and Neo-Classical thinkers. Economic development has a more global meaning and includes transformations in the economic structure of society as a whole. Development is a process of change in the course of time with the characteristics of structural changes in the economy in society, changes in the basis of economic activity, and the framework of economic structure. growth as understanding the social paradigm as the achievement of ways of life and patterns of thinking from a simple level to a more complex level.

Macroeconomics or Keynesian Revolution (Keynesian Revolution) was put forward by John Maynard Keynes (1936). Keynes's theory focuses on the domestic demand cycle as a strategic element to overcome the stagnation of production factors. Domestic effective aggregate demand makes spending for consumption, investment, and government funding to have a positive impact on economic activities and reduce unemployment. Given the background of the depression in 1929 and 1930, Keynes's theory has relevance to the goal of short-term stability in development (Sritua, : 28).

Keynes's essential argument builds on the following observations. The first observation is that the market in a modern economic order can be trapped in an underemployment equilibrium. Underemployment equilibrium shows the balance of supply and demand for labor whose production is far below the potential labor force, and some others (against their will) do not find work. Keynes's second observation followed his first observation, namely that through monetary and fiscal policies, the government can

stimulate the economy and help maintain large amounts of production and employment [9].

Strengthening defense will create human security in the form of a sense of security, protected from threats both from within and outside the country. Thus the impact on economic activities of productivity, distribution and controlled consumption chain. The lack of an RMA-based defense industry shows the point of stagnation of world trust in a country, so the economic climate will not develop significantly. Thus, the defense industry plays a very important role in economic recovery efforts. The deterrence effect of the main weaponry system and the defense industry increases the honor and dignity of a nation [10-15].

### 3. RESULT AND DISCUSSION

#### 3.1 The Role and Strategy of the Defense Industry in the Economy

The government and TNI ranks have made long-term plans related to the procurement of combat vehicles and other military vehicles. Of course this is related to the needs of the Garuda XXXIX contingent who are members of the United Nations Interim Force in Lebanon or UNIFIL (United Nations Interim Force in Lebanon). The Indonesian government does not need to be dependent or interdependent on the purchase of armored vehicles and other combat vehicles from France. With self-confidence and pride, Indonesia is able to make these vehicles. Thus, Indonesia can meet domestic needs and imports from other countries. The independence of the defense industry in producing defense equipment is a representation of sustainable economic growth [16-20].

Indeed, due to the sudden demand and the very short time, the defense industry was unable to meet the demand. This is due to the limited production capacity and working capital capabilities of the industry. The military vehicle business is still relatively new for private players. As it is known that the government itself is still limiting these industrial activities so that not many business licenses or industrial permits have been issued for military business activities [21-29].

By tracing the historical trajectory in general, the current dynamics of world defense and security, it is obtained that the orientation of the defense industry has now shifted to a business sector that provides high profits. Emile Benoit, one of the classical economists, emphasized that large defense budget expenditures trigger a country's economic growth. Conversely, a small country's budget will make economic growth slower. This is understandable considering the more advanced the defense industry, automatically its very important role in opening new job opportunities, encouraging the growth of other industries because it has many multiple linkages from upstream to downstream, encouraging the acceleration of technological progress, and reducing the amount of budget that is usually spent on importing various products. defense equipment from other countries.

It should be noted that threats, challenges, obstacles and disturbances (ATHG) to world security are transformed according to the development of the strategic environment (lingstra). Even in times of peace, defense alliances still exist and ATHG for world peace is increasingly diverse. So the defense industry continues to find its role in the fields of defense, economy, and politics. It is undeniable that threats originating from non-state actors such as transnational crime, terrorism, disease, and natural disasters are currently a market for the defense industry and require a significant contribution.

Talking about natural disasters alone appears paradoxical. The first perspective, natural disasters as a threat to human survival. The second perspective is the opportunity to reap profits through the defense industry and contribute to the recovery of the national economy. For example, the Katrina disaster in Louisiana, United States where the recovery period was too long. When this disaster occurred, the state began to reduce its role and gave market power the flexibility to become the main player and at the same time the moment to change the community-based and publicly controlled social-economy landscape (the state) into a free-market social-economy system.

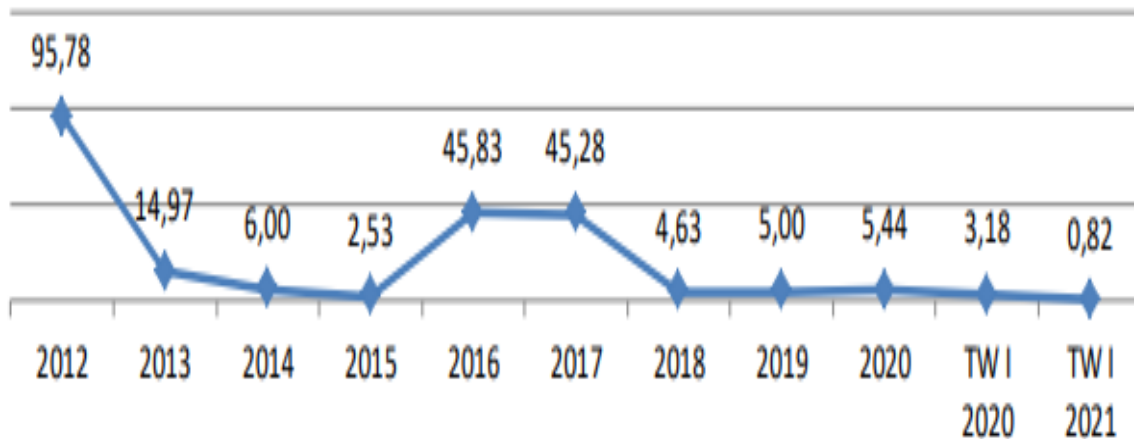
From its very strategic role and special characteristics, namely maintaining sovereignty and security in accordance with a state-centric approach. The production chain from upstream to downstream is regulated by the state based on the state's role as customer, sponsor, and

regulator. As a customer, the state puts forward a demand for the defense industry with its distinctive monopsony character. The state plays the role of sponsor, it is the duty and obligation to promote and protect the state's functions by providing goods and services needed by the defense industry. In its role as a regulator, the state creates a regulation and control mechanism for the defense industry, regulates the import and export policies of weapons that are more effective and efficient. Moreover, facing the turmoil of free market fundamentalism and privatization above the interests of the state. So the role of the defense industry depends on the very crucial role of the state.

In the context of national economic recovery, Indonesia's defense industry can be optimized in accordance with the RPJMN. Moreover, Indonesia is still a country that imports weapons compared to exports. This optimization will be appropriate at the moment of national economic recovery by absorbing labor, technology transfer and diffusion of innovation.

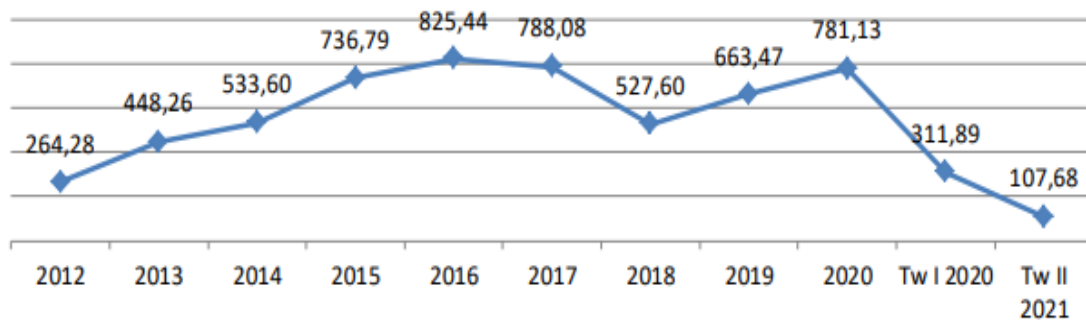
The graph shows that the highest defense equipment exports occurred in 2012 at USD 95.7 million, in 2016 at USD 45.83 million and in 2017 at USD 45.28 million. After that, 2018 to 2021 experienced a significant decline with the lowest value occurring in the first quarter of 2021 at USD 0.82 million. Of course, this is inversely proportional to the high value of imported weapons.

The highest import figures occurred in 2016 amounting to USD 825.44 million, in 2017 amounting to USD 788.08 million and in 2020 amounting to USD 781.13 million. Meanwhile, the lowest value of arms imports occurred in 2021 in the second quarter of USD 107.68 million. Although it has decreased from 2020, the magnitude of the value of imports is greater than exports. So this is where the role of the government and the defense industry in particular can be maximized in accordance with the defense strategy master plan.



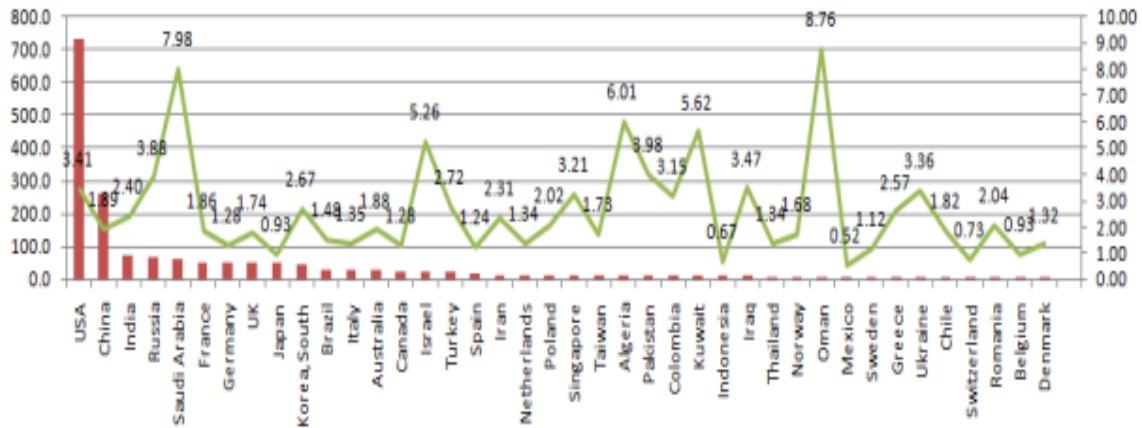
**Fig. 1. Development of total alutsista exports in 2012 – 2021 (Million USD)**

Source: Ministry of Trade of the Republic of Indonesia (2021)



**Fig. 2. Development of total alutsista import in 2012 – 2021 (MillionUSD)**

Source: Ministry of Trade of the Republic of Indonesia (2021)



**Fig. 3. Development of total arms exports in 2012 – 2021 (Million USD)**

Source: SIPRI (2020), Processed Data

Countries with advanced defense industries are supported and have large defense budgets. The ideal figure for the budget is around 20-30 percent (Karim, 2020). Currently, Indonesia's defense spending budget is still relatively small and requires special attention. Based on SIPRI data (2020), Indonesia's defense spending amounted to USD 7.7 billion or 0.67 percent of GDP in 2019. The defense spending puts Indonesia in the 27th position in the world.

Carry out the 3 roles of the state as customer, sponsor and regulator by providing affirmative policies for the development and progress of the defense industry in the future. Projections that occur in the future will not only be of economic interest but the demands for the clause on the environment and labor rights as global standards will strengthen and put pressure on strategic industries, especially defense. Therefore, the state must prepare preventive and strategic steps before the problem escalates and urges the national defense industry. So Lead integrators (Moda Pemadu) such as PT. DI, PT. PAL and PT. Pindad is facilitated by the government to play a strategic role in the defense sector and make a real contribution to the community's economy.

Dr. Hery Mochtady as Vice President of Corporate Performance Planning PT. Pindad (Persero) in the KKDN activity of the Faculty of FMP UNHAN RI said that PT Pindad (Persero) had prepared strategic steps for the growth of the defense and security product business, namely (1) developing capacity to support defense modernization mega projects (1 billion munitions per year, tanks medium etc.) and increasing the

go-to market strategy with a solution-based approach (2) Increasing the export market for munitions, weapons and combat vehicles through strategic alliances, marketing cooperation with the Ministry of Foreign Affairs/KBRI, G2G cooperation and BUMN synergy (3) Developing neighboring products (cognate) such as missiles, rockets, large caliber weapons & munitions, special vehicles through localization and partnerships with international companies, (4) Develop C5ISR and Cyber Defense to strengthen the Defense and Security product portfolio, and (5) Strategic alliances, joint ventures and acquisitions to access products /technology/new capabilities/development of import substitution and integration of upstream industries in the context of independence Defense Industry and increasing export competitiveness.

The strategic steps were formulated to achieve the target of PT. Pindad (Persero) in 2024, namely (1) To become the Top 100 global defense company, (2) Increase gross margin, (3) Increase export sales, and (4) Launch new products Conclusion PT Pindad (Persero) is a strategic industry that owned by the state to meet the needs of the state and the needs of many people. Its presence not only has a national impact, but the area where PT Pindad (Persero) operates also has a good impact because of its existence. The results of the research on "The Role of the Defense Industry on the East Java Economy" by making PT. Pindad (Persero) Turen as a case study, proves that PT Pindad (Persero) Turen has a direct and indirect impact on the economy in East Java Province.



### **3.1.1 The role of PT Pindad (Persero) turen in building and mobilizing the national economy mode and the East Java community**

The economy of East Java is quite developed because the GRDP of East Java Province contributes 14.48% to the National GRDP or equivalent to Rp. 2,454.50 trillion in the 2021 period, which is above West Java Province which contributes 13.03% and is below the Province of East Java. DKI Jakarta, which is the nation's capital and the center of the national economy, is 17.19% of the national GDP. The economic structure of East Java is 30.74 from the manufacturing sector, 18.46% from the trade sector, 11.44% from the agricultural sector and 39.36% from the other 14 sectors. This shows that the industrial sector has an important role in the economy in East Java.

In addition, the Human Development Index (HDI) of East Java Province continues to increase and is almost close to the national average HDI, namely in 2021 the HDI of East Java Province is 72.14% and national is 72.29%. The Minimum Wage for Regency/City Employees in East Java is also Rp. 1.9 - 4.3 million with per capita expenditure based on the March 2021 Susenas recorded an average expenditure for food of 50.12% or Rp . . 557,791 and non-food expenditure of 49.88 % or Rp. 555,211. If viewed from the income that comes in and out, the people of East Java are still satisfied with both basic and non-basic needs. The presence of PT Pindad (Persero) as one of the defense industries in East Java can be said to have a direct and indirect impact on building and driving the economic mode in East Java.

This is because according to Law Number 19 of 2003 concerning State-Owned Enterprises, profits from state-owned companies will be deposited into the State Treasury as Non-Tax State Revenue (PNBP) which will then be realized in the State Revenue and Expenditure Budget. Regional Development Budget which has been approved by the DPR RI regarding its nominal value. So it can be said that the profits from state-owned enterprises such as PT Pindad (Persero) Turen, do not directly impact the development of the East Java region, but the profits are processed first at the center along with other state revenues, then can only be enjoyed when the APBD . This has been ratified. PT. Pindad (Persero) annually contributes to the state and region through Income Tax, Value Added Tax

(PPN), Customs Value & Excise Value and Regional Taxes that are paid.

PT Pindad (Persero) has a workforce of 2,578 people in 2020 with a composition of 2,348 men and 240 women with an age ratio of 20-45 years as much as 46.05%, ages 45-50 years as much as 18.19%, 50 - 55 years as much as 30.37% and over 55 years as much as 5.39% of the total workforce of PT. Pindad (Persero). As for the education level of the workforce, the majority of the last education is SMP-SMA with a ratio of 67.77%, followed by S1 with a ratio of 20.21% and 10.05% with D1-D3 Diploma education with a few who are late for S2 & S3 education.

Meanwhile, when viewed from the location of the workforce, there are 1,879 people who work at PT Pindad (Persero) Bandung Branch, 8 Jakarta Branches and 691 Turen Branches. PT. Pindad (Persero) has 4 (four) divisions operating in Bandung, West Java, namely (1) weapons division (producing long-barreled weapons, handheld weapons, heavy weapons, spare parts and Surface and Heat Treatment services), (2) Ddivision special vehicles (producing personnel carriers, armored vehicles and other special vehicles), (3) heavy equipment division (producing products supporting construction, mining, shipping, electricity and agriculture), (4) transportation infrastructure division (producing forged and cast goods products) , rail fasteners, water brake production and rail facilities). Furthermore, 2 (two) divisions operating in Turen, Malang-East Java are (1) the munitions division (producing small caliber munitions, large caliber munitions and special munitions) and (2) the commercial explosives division (producing explosives).

If you look at the annual report published by PT Pindad (Persero) every year, the gross profit of the munitions division is under the special vehicle division which is priced at a fairly large price. In addition, the munitions division also strives to achieve optimal benefits together with the weapons division. Munitions' income has also increased every year and only decreased due to the impact of the Covid-19 pandemic which made production activities constrained. Likewise, the explosives/commercial division also experienced an increase and contributed to the company's revenue. So it can be concluded that the presence of the munitions and explosives/commercial divisions takes up a sizable portion of the income and taxes to be paid. In addition, PT. Pindad (Persero) also has a

multiplier effect, namely the absorption of labor through business partners in collaboration with PT Pindad (Persero). The business partners of PT Pindad (Persero) such as PT. Wijaya Karya Berharga Tbk, PT. Fire Ship Industry (Persero), PT. Perkebunan Nusantara (Persero), PT Adhi Karya (Persero) and others.

### **3.1.2 Prospects of PT Pindad (Persero) Turen to Improve the National Economy and East Java**

PT. Pindad (Persero) is one of Indonesia's strategic industries. Strategic industry is a processing industry that processes output from basic industries such as the raw material processing industry and the semi-finished product processing industry in order to have added value. Strategic industries are usually a collection of State-Owned Enterprises (BUMN) which are selected by the state to focus on their development. Based on Law Number 3 of 2014 concerning Industry, it is stated that industry strategis is an important industry for the state, able to meet the needs of many people, can generate added value for strategic natural resources and has links with the interests of the state in maintaining and securing .

Dapat it is said that the prospect of PT Pindad (Persero) in the future will continue to advance with the support of the Government or the state as the full shareholder. Based on the 2020 annual report of PT Pindad (Persero), for 2021 PT Pindad (Persero) is believed to be able to continue its production to meet the TNI Minimum Essential Force (MEF), one of which is a contract from the ministry of defense, namely the need for a supply of 4 billion munitions for 5 years ( 2020-2024). Pada tin 2021 it is planned by PT Pindad (Persero) to be able to fulfill orders for 1 billion munitions. S. In addition, ,PT Pindad (Persero) has also had menangani a mega project, namely the procurement of the latest 500 units for the Ministry of Defense, which will be completed in 2020-2024. Hal ini hints that until 2024 PT Pindad will be busy working on orders from the Ministry of Defense.

In addition to meeting domestic needs, PT. Pindad is also wide open in taking export opportunities, one of which is receiving a letter order from Thailand to meet the needs of 9 mm & 5.56 mm caliber munitions with 10,000 rounds and 5,000 hand grenades. Bangladesh, the Philippines, and even the United States also have an interest in PT. Pindad (Persero). So

through this, PT Pindad (Persero) is optimistic that it can move forward and begin to develop strategies to get optimal results.

As for indirectly because PT Pindad (Persero) as a state-owned operating profit will be deposited into the State Treasury as Non-Tax State Revenue (PNPB) and PPN, PPh & Customs Value will be received as State Revenue originating from taxes, which will then be processed together with other state revenues and culminate in its realization in the form of APBN & APBD and after that it can only be used by the central and regional governments to develop the East Java allotment.

PT Pindad (Persero) Turen as well as member kontribusi the national economy and East Java Province directly through (1) local taxes paid, (2) business fields it builds, and (3) business opportunities that are open to other businesses. This also answers the kaldorian industrial growth theory, which assumes that the manufacturing sector is an engine of growth for a region. The results of further analysis prove that the welfare of East Java Province increases every year and in 2021 it is already at the National HDI average of 72.14%. The minimum wage for employees (UMK) per capita expenditure of East Java Province is also relatively able to meet the needs of the community both for food and non-food costs, namely the lowest UMK is in Sampang Regency with a nominal value of Rp. 1,913,322/month with an average expenditure for meals of Rp. 557,791 per capita/month and non-food Rp 555,211 capita/month.

In addition, the GRDP contribution of East Java Province is also in the second position after DKI Jakarta Province which is the center of the national economy and politics, especially East Java's GRDP which is dominated by the processing industry as much as 30.74% which makes this analysis strong that PT. Pindad (Persero) Turen has an influence on national development in general and the people of East Java Province in particular. PT Pindad (Persero) also has promising prospects in the future, especially its business is driven directly by the Government as a full shareholder (Neokeynes Growth Theory).

PT Pindad (Persero) is currently working on contracts both domestically and abroad, such as from the Ministry of Defense, which requests a munition supply of 1,000 billion munitions per year and 500 munitions units. Maung finished in

2020-2024 and Thailand ordered 10,000 rounds of 9 mm & 5.56 mm caliber munitions and 5,000 hand grenades. In addition, PT Pindad (Persero) also offers its products to Bangladesh and the Philippines and manages export permits to the United States to spread its wings in the international arena.

#### 4. CONCLUSION

By tracing the historical trajectory in general, the current dynamics of world defense and security, it is obtained that the orientation of the defense industry has now shifted to a business sector that provides high profits. Spending a large defense budget triggers a country's economic growth. Conversely, a small country's budget will make economic growth slower. This is understandable considering the more advanced the defense industry, automatically its very important role in opening new job opportunities, encouraging the growth of other industries because it has many multiple linkages from upstream to downstream, encouraging the acceleration of technological progress, and reducing the amount of budget that is usually spent on importing various products. defense equipment from other countries.

The strategic steps were formulated to achieve the target of PT. Pindad (Persero) in 2024, namely (1) To become the Top 100 global defense company, (2) Increase gross margin, (3) Increase export sales, and (4) Launch new products Conclusion PT Pindad (Persero) is a strategic industry that owned by the state to meet the needs of the state and the needs of many people. Its presence not only has a national impact, but the area where PT Pindad (Persero) operates also has a good impact because of its existence. The results of the research on "The Role of the Defense Industry on the East Java Economy" by making PT. Pindad (Persero) Turen as a case study, proves that PT Pindad (Persero) Turen has a direct and indirect impact on the economy in East Java Province.

Based on the annual report published by PT Pindad (Persero) every year, the gross profit of the munitions division is below that of the special vehicle division, which in fact is priced at a fairly large price. In addition, the munitions division also strives to achieve optimal benefits together with the weapons division. Munitions' income has also increased every year and only decreased due to the impact of the Covid-19 pandemic which made production activities constrained.

Likewise, the explosives/commercial division also experienced an increase and contributed to the company's revenue. So it can be concluded that the presence of the munitions and explosives/commercial divisions takes up a sizable portion of the income and taxes to be paid. In addition, PT. Pindad (Persero) also has a multiplier effect, namely the absorption of labor through business partners in collaboration with PT Pindad (Persero). The business partners of PT Pindad (Persero) such as PT. Wijaya Karya Berharga Tbk, PT. Fire Ship Industry (Persero), PT. Perkebunan Nusantara (Persero), PT Adhi Karya (Persero) and others.

It can be said that the prospect of PT Pindad (Persero) in the future will continue to advance with the support of the Government or the state as the full shareholder. Based on the annual report of PT Pindad (Persero) in 2020, for 2021 PT Pindad (Persero) is believed to be able to continue its production to meet the TNI Minimum Essential Force (MEF), one of which is a contract from the ministry of defense, namely the need for a supply of 4 billion munitions for 5 years. (2020-2024). In 2021 it is planned by PT Pindad (Persero) to be able to fulfill orders for 1 billion munitions. In addition, PT Pindad (Persero) has also handled a mega project, namely the procurement of the latest 500 units of Rantis Maung for the Ministry of Defense which will be completed in 2020-2024. This indicates that until 2024 PT Pindad will be busy working on orders from the Ministry of Defense.

#### DISCLAIMER

The author has stated that there are no competing interests. The products used for this research are generally and mostly used products in the research area and our country. There is absolutely no conflict of interest between the author and the manufacturer of the product as we do not intend to use this product as an avenue for any litigation but for the advancement of knowledge. Also, this research was not funded by the producing company but rather was funded by the author's personal efforts.

#### COMPETING INTERESTS

Author has declared that no competing interests exist.

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