

Strategic Partnerships for Defense Industry Advancement in Developing Nations: Case Studies of Indonesia and Malaysia

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Abstrak

Studi ini menganalisis bagaimana diplomasi pertahanan dapat berkontribusi untuk meningkatkan industri pertahanan, khususnya di negara-negara berkembang seperti Indonesia dan Malaysia. Melalui studi kasus kedua negara ini, penelitian ini menjelaskan mekanisme kolaborasi strategis yang mendorong pertumbuhan dan inovasi dalam industri pertahanan. Di Indonesia, kemitraan strategis dengan negara-negara seperti Tiongkok, Hongaria, Australia, dan India telah memfasilitasi transfer teknologi dan pertukaran pengetahuan untuk meningkatkan kemandirian dalam produksi pertahanan. Di Malaysia, kemitraan dengan negara-negara seperti Amerika Serikat, Australia, dan Turki, serta perusahaan pertahanan multinasional, telah mendukung pengembangan teknologi lokal dan integrasi ke dalam rantai pasokan global. Diplomasi pertahanan memainkan peran penting dalam memperkuat kemampuan pertahanan dan mendorong pertumbuhan ekonomi dan stabilitas regional di negara-negara berkembang.

Kata Kunci: *Diplomasi Pertahanan, Kemandirian dalam Industri Pertahanan, Kemitraan Strategis.*

Abstract

This study analyzes how defense diplomacy can contribute to enhancing the defense industry, particularly in developing countries like Indonesia and Malaysia. Through case studies of these two countries, the research explains the mechanisms of strategic collaboration that promote growth and innovation in the defense industry. In Indonesia, strategic partnerships with countries such as China, Hungary, Australia, and India have facilitated technology transfers and knowledge exchanges to boost self-reliance in defense production. In Malaysia, partnerships with countries like the United States, Australia, and Turkey, as well as multinational defense firms, have supported local technological development and integration into the global supply chain. Defense diplomacy plays a crucial role in strengthening defense capabilities and promoting economic growth and regional stability in developing countries.

Keywords: *Defense Diplomacy, Self-Reliance in Defense Industry, Strategic Partnerships*

Introduction

The enhancement of national security systems and the promotion of economic growth and domestic innovation are significant benefits derived from the defense industry in numerous countries (Dos Reis, 2021). Not only advanced nations, but also developing countries like Indonesia and Malaysia, are actively bolstering their own defense industries to ensure long-term viability. Despite the potential for promising outcomes, these countries still rely on defense products from more advanced nations (Béraud-Sudreau et al., 2022).

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The concept of self-reliance in a country's defense industry refers to its ability to independently develop and manufacture military goods and services to meet various military requirements, without relying heavily on foreign technology. However, there is still a need for further exploration and comprehension of this concept, particularly within the context of developing nations.

Global transformation in the defense industry, including research and development collaboration among developing countries, has provided opportunities for these countries to enhance their defense production capacity and industrial policies. This includes partnerships, mergers, acquisitions, and joint ventures in efforts to address rising production costs (Kurç & Neuman, 2017). Amid pressures on defense and national budgets, developing countries also see opportunities in export-oriented industrial policies, market liberalization, privatization, and integrative industrialization regulations that support cooperation (Kurç & Bitzinger, 2018). Thus, these opportunities provide a foundation for developing countries, such as Indonesia and Malaysia, to develop their defense industries through strategic partnerships and policy innovations that strengthen their independence and competitiveness in the global market.

The study will analyze defence industry developments in Indonesia and Malaysia, focusing on the role of strategic partnerships in promoting growth and selfreliance. By examining case studies from both countries, we aim to explain the mechanisms through which strategic collaboration contributes to the advancement of defence capabilities and industrial innovation for future strategies in the development of defense industry in other developing countries.

Research Method

This research employs a qualitative approach using case study and document analysis methods to provide an in-depth understanding of the defense industry developments in Indonesia and Malaysia. Data were obtained from various credible secondary sources, including academic journals, research reports, and government policy documents. Through comprehensive literature review, this study outlines the background of the defense industry in both countries, identifying existing challenges and opportunities. The data were analyzed qualitatively by categorizing information based on themes such as technology transfer, R&D collaboration, industrial policies, and economic impact. The analysis results were used to interpret the role of strategic partnerships in enhancing the self-reliance and capabilities of the defense industry, and to discuss the implications and application of these strategies in other developing countries. The validity of the research was enhanced by using credible and valid data sources, while reliability was achieved through systematic and consistent analysis, and cross-referencing data from various sources to ensure the accuracy of findings. Through this approach, the article provides deep insights into the dynamics of collaboration and innovation in the defense industry, which can be adopted by other developing countries to achieve self-reliance and sustainable growth in their defense industries.

Result and Discussion

Background of Indonesia's Defense Industry

By creating state-owned military companies, the Indonesian government has been committed to promoting self-sufficiency since 1970. According to (Maharani & Matthews, 2023), this strategy includes actions such as import substitution, giving the manufacturing sector priority, and using defense offsets. These are all important ways to maximize the

benefits of military technology acquisitions. Indonesia placed ninth and fifth, respectively, out of twelve nations in the Indo-Pacific area in terms of exports, self-reliance, and the manufacturing of armaments, according to research by Béraud-Sudreau in 2022. The scale of domestic arms production and military industry entities, the percentage of domestic and licensed arms production relative to all major arms procurement from 2016 to 2020, and the capacity for researching and developing emerging military technologies are the three main factors that determine these rankings.

Even with the paucity of research on these countries' ability to produce armaments, Béraud-Sudreau found differences in the degree of self-reliance among Indonesia and its peers (Béraud-Sudreau et al., 2022).

In Southeast Asian nations such as Indonesia, Malaysia, and Thailand, the majority of domestic production is limited, relying entirely on imports for procurement. However, there is a growing focus on developing self-sufficiency through the enhancement of maintenance, repair, and production capabilities. Currently, Indonesia's defense industry is primarily controlled by nine specialized state-owned enterprises, supported by 105 smaller private firms. These entities play a crucial role in domestic weapon production, licensed production of foreign-designed ammunition, as well as providing maintenance, repair, and enhancement services. Additionally, they have the authority to export certain internationally designed weaponry and even market these products overseas (Béraud-Sudreau et al., 2022).

Despite experiencing development, Indonesia's defense industry still faces various challenges. One of them is the limitation in terms of technology and adequate human resources. Additionally, there are constraints in terms of infrastructure and finance that limit Indonesia's ability to develop the defense industry independently (Widyatmoko et al., 2022).

Indonesia Strategic Partnerships for Defense Industry Advancement

Strategic partnerships in defense diplomacy refer to the cooperative relationships between two or more countries in developing their defense capabilities (Montratama & Yani, 2017). This involves the exchange of technology, knowledge, and other resources to enhance collective security and achieve broader strategic goals. Such partnerships often entail formal agreements between governments and defense industries, as well as collaboration on research and development projects (Adhit Prayoga, 2020).

In order to increase the growth of the domestic defense industry, a series of national policies have been put into effect since 2010, with the aim of enhancing technology transfer. The 2020–24 Defense Industry Development Plan and Law No. 16/2012, which both explain these objectives, highlight the government's expectation that the Armed Forces prefer homegrown acquisitions over imports. This strategic approach is in line with the objective of promoting self-reliance in manufacturing and fortifying the military industry (Presiden Republik Indonesia, 2012)

The advancement of the defense industry is crucial for Indonesia's national security. By having a strong and independent defense industry, Indonesia can reduce its dependence on weapon imports from other countries. This will enhance the country's sovereignty in terms of defense and security. Additionally, the development of the defense industry can create job opportunities, stimulate economic growth, and improve domestic technological capabilities (Rachmat, 2014). As a strategically located archipelagic nation, Indonesia needs to have a robust defense industry to safeguard its security and sovereignty in the region.

Since 2011, Indonesia has embarked on a series of strategic partnerships with several countries, including China, Hungary, Australia, and India, in an effort to enhance the self-reliance of its defense industry and strengthen national defense capabilities. The partnership with China began with the signing of a Memorandum of Understanding (MoU) aimed at

transferring C-705 missile technology on March 22, 2011, in Jakarta. Indonesia aimed to acquire expertise in producing key defense system components independently through this technology transfer (Wulandari, 2015).

The partnership with Hungary also focuses on defense technology transfer. Indonesia seeks to improve the quality and quantity of military equipment by importing two transport aircraft from Brazil and training and reconnaissance aircraft produced in Czechoslovakia. These efforts aim to enhance the country's defense capabilities in facing various security challenges (Ardipandanto, 2024).

On the other hand, cooperation with Australia is more focused on developing the domestic defense industry. This partnership involves joint efforts to enhance Indonesia's defense capabilities through the development of military equipment by PT Pindad, a state-owned company, and the prioritized establishment of other defense industries by the government (Sudirman et al., 2023). The goal is to strengthen the nation's resilience against potential threats.

Furthermore, Indonesia has also collaborated with India with the aim of absorbing defense industry technology to enable independent production of key defense system components. This partnership emphasizes the importance of knowledge and skill exchange between the two countries in enhancing national defense capabilities (Syakbani, 2023).

Through these various partnership initiatives, Indonesia, as a developing country, seeks to strengthen its domestic defense industry and enhance its defense capabilities, thereby becoming more self-reliant and reliable in securing national interests in the future.

Background of Malaysia's Defense Industry

Until the 1990s, the Malaysian defense industry was generally limited to small industries providing common user items and a few large companies which, although carrying out substantial work for the military such as building local ships and maintenance and servicing of aircraft, such work was ancillary to their main civilian businesses. However, this changed due to several factors that required and resulted in a significant expansion of the defense industry (Abdullah & Mohd Zahari, 2023).

The Vision 2020, championed by then Malaysian Prime Minister Mahathir Mohamad, aimed to make Malaysia a fully industrialized and technologically advanced nation by 2020. To achieve this vision, the focus was on developing industries, particularly the aerospace and defense industries, by implementing technology transfer strategies and offset programs as conditions for purchasing defense equipment from foreign countries. The combination of sustained economic growth in Malaysia and an increase in the education level of the local population resulted in a workforce that was not only skilled and knowledgeable but also available in sufficient numbers to support industrial development (Mohammad & Mahathir Mohamad, 1991). These conditions created an ideal environment for the significant growth and development of the defense industry.

The Malaysian defense industry has grown steadily but requires structured development and more government support. The Malaysian Defense Industry Council (MDIC), established in 1999, serves as the umbrella organization for the industry, led by the defense minister and involving government officials and heads of local companies. MDIC has six working groups for strategic fields such as aerospace, maritime, weaponry, automotive, information and communication technology (ICT), and common-user equipment, each led by industry representatives. The government has also formulated the Defense Industry Blueprint, which outlines strategies for development in these six fields, with emphasis on human resource development, technology, industry, self-sufficiency, and international market (Goh, 2018).

Malaysia Strategic Partnerships for Defense Industry Advancement

Strategic partnerships for the advancement of the defense industry in Malaysia encompass collaborative efforts between governmental bodies, defense corporations, and research institutions aimed at strengthening the nation's defense capabilities, promoting indigenous technological development, and enhancing its industry's competitiveness on the global stage. The Malaysian government encourages close collaboration between key governmental agencies, such as the Ministry of Defense and Ministry of International Trade and Industry, with domestic defense corporations. Entities like Boustead Heavy Industries Corporation (BHIC) and DRB-HICOM Defense Technologies (DEFTECH) are actively involved in these partnerships. Together, they work to streamline defense procurement processes, promote technology transfer, and stimulate local defense production (Rushdi, 2021).

Malaysia actively engages in strategic alliances with foreign defense firms and governments to access advanced defense technologies, expertise, and investment. Notable examples include collaborations with countries like the United States, Australia, and Turkey, as well as partnerships with multinational defense companies like BAE Systems and Thales. These alliances facilitate knowledge exchange, joint research and development initiatives, and the integration of Malaysian defense companies into the global supply chain. Malaysia encourages collaboration between defense industry players and academic institutions to drive innovation and technological advancement. Initiatives such as joint research projects, technology incubators, and talent development programs aim to cultivate a skilled workforce and promote cutting-edge research in areas such as cybersecurity, aerospace engineering, and military electronics (Ministry of Defence, 2020).

By leveraging public-private partnerships, Malaysia harnesses the strengths of both sectors to advance its defense industry. Through initiatives like the Defense Industry Development Program (DIDP), the government provides financial incentives and regulatory support to encourage private investment in defense-related ventures, stimulating innovation and competitiveness (Sapri et al., 2016).

Malaysia actively participates in regional defense forums and multilateral initiatives to strengthen defense cooperation and build strategic partnerships with neighboring countries and international organizations. Platforms such as the ASEAN Defense Ministers' Meeting (ADMM) and the Five Power Defense Arrangements (FPDA) provide opportunities for Malaysia to enhance interoperability, share best practices, and collectively address regional security challenges (Lotilla, 2019). Through these strategic partnerships, Malaysia aims to enhance its defense capabilities while stimulating economic growth, promoting technological innovation, and contributing to regional peace and stability (Ministry of Defence, 2020).

Through collaborative efforts with domestic and international stakeholders, Malaysia seeks to position its defense industry as a key player in the global defense market while safeguarding its national security interests.

Conclusion

Defense diplomacy plays an important role in enhancing the defense industry, particularly in developing countries like Indonesia and Malaysia. Developing countries face unique challenges in building and sustaining strong defense capabilities, including limited access to advanced technology, financial constraints, and capacity gaps. However, through strategic partnerships and collaborative efforts, these nations have been able to leverage external expertise, technology transfer, and investment to address these challenges and foster domestic industry growth. In Indonesia, strategic partnerships with countries like China, Hungary, Australia, and India have facilitated technology transfers and knowledge exchanges

aimed at bolstering the nation's self-reliance in defense production. These collaborations have enabled Indonesia to acquire expertise in key defense system components and enhance its industrial capabilities, contributing to greater sovereignty and security in the region. By leveraging partnerships with both developed and 8 developing nations, Indonesia has been able to overcome the technological limitations often faced by developing countries and advance its defense industry. Similarly, Malaysia has pursued a proactive approach to defense diplomacy, forging alliances with both domestic and international partners to access advanced technologies and promote indigenous development. By engaging in strategic collaborations with countries such as the United States, Australia, and Turkey, as well as multinational defense firms, Malaysia has facilitated technology transfer, joint research initiatives, and integration into the global defense supply chain. These partnerships have enabled Malaysia to strengthen its defense capabilities and position its defense industry as a key player in the global market, despite being a developing nation. Defense diplomacy serves for enhancing the defense industry in developing countries by facilitating access to resources, expertise, and markets. By raising collaborative relationships and leveraging external partnerships, nations like Indonesia and Malaysia can overcome technological limitations, stimulate economic growth, and contribute to regional stability while advancing their defense capabilities. Moving forward, continued investment in defense diplomacy and strategic partnerships will be essential for sustaining the growth and competitiveness of the defense industries in these developing countries.

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