

National Defense and Economic Development: Examining the Relationship Between National Defense Capability, Defense Economics, and Economic Stability

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Abstract

This study explores the relationship between national defense capability, defense economics, and economic stability in Indonesia's development context. Defense and economic development are closely linked and essential for maintaining national sovereignty and prosperity, particularly amid globalization and complex geopolitical dynamics. Using a literature review and meta-analysis, the study examines how defense capability and defense economics interact to influence economic stability and growth. The findings indicate that stronger defense capability supports the defense economy, which in turn contributes to overall economic stability. However, this relationship is not linear and depends on factors such as government policy, R&D investment, domestic industrial capacity, and geopolitical conditions. Technological innovation and defense industry development are also identified as key drivers of growth and resilience to external shocks. The study provides insights for policymakers and industry stakeholders to strengthen synergy between defense and national economic development.

Keywords: National Defense, Defense Economy, Economic Stability, National Development, Technological Innovation



1. Introduction

State defense and economic development are two fundamental aspects that play a crucial role in maintaining a nation's sovereignty and prosperity. In an increasingly complex era of globalization, the integration of these two aspects has become more important than ever. State defense, as defined by Tippe (2013), refers to the attitudes and behaviors of citizens inspired by their love for the Unitary State of the Republic of Indonesia based on Pancasila and the 1945 Constitution in ensuring the survival of the nation and the state. On the other hand, economic development, according to Todaro & Smith (2020), is a multidimensional process involving major changes in social structures, public attitudes, and national institutions, as well as accelerated economic growth, reduction of inequality, and eradication of absolute poverty.

In the Indonesian national context, state defense has strong historical roots, originating from the struggle for independence and the spirit of national unity. However, contemporary challenges demand a reinterpretation of the state defense concept that is not limited to military aspects but also encompasses economic, social, and cultural dimensions. This aligns with Yusgiantoro's (2014) view that national defense in the modern era must be understood as a comprehensive effort involving all components of the nation.

Economic development, as the second pillar of this discussion, has been a primary focus of Indonesia's national policy since independence. However, global and regional dynamics continue to pose new challenges to national economic stability and growth. According to a World Bank report (2023), although Indonesia has managed to maintain relatively stable economic growth, the country still faces structural challenges such as income inequality, dependence on commodity exports, and the need to increase productivity. Data from BPS (2023) show that Indonesia's economic growth in 2022 reached 5.31%, but this figure has not yet met the targets set in the National Medium-Term Development Plan (RPJMN) 2020–2024.

The integration of state defense and economic development faces complex challenges. On the one hand, allocating resources for national defense is often perceived as a trade-off against investment in productive economic sectors. However, recent research by Dunne & Tian (2013) indicates that the relationship between defense spending and economic growth is not always negative, especially in developing countries. They find that investment in defense can generate positive spillover effects in the technology and industrial sectors.

The opportunities arising from the integration of state defense and economic development lie in the potential synergy between these two aspects. The concept of "defense economics" serves as an important bridge in this regard. Hartley (2020) defines defense economics as the application of economic principles to defense issues, including resource allocation, defense industry management, and defense policy analysis. In Indonesia, the development of the national defense industry has become a priority, as reflected in Law No. 16 of 2012 on the Defense Industry.

Defense economics plays a vital role in supporting economic stability and development progress. According to a study conducted by Aydin (2021), investment in the defense industry can serve as a catalyst for technological innovation and the development of high-quality human resources. This aligns with the concept of "dual-use technology," which enables defense technologies to be applied in civilian sectors, thereby creating economic multiplier effects.

However, challenges remain in optimizing the role of defense economics. Issues such as efficiency in budget allocation, transparency in procurement, and the balance between defense industry self-reliance and international cooperation still need to be addressed. McCusker (2023) underscores the importance of governance reform in the defense industry to enhance its competitiveness and contribution to the national economy.

In the context of economic stability, strong state defense capability and defense economics can function as buffers against external shocks. Classical macroeconomic theory by

Keynes (1936) emphasizes the government's role in maintaining economic stability through fiscal policy. In this regard, investment in the defense sector can be viewed as one of the fiscal policy instruments with stabilizing effects, particularly in the face of global uncertainty.

Based on the background described above, this article focuses on analyzing the relationship between state defense capability, defense economics, and economic stability in the context of Indonesia's national development. The main research question addressed is: How does the interaction between state defense capability and defense economics influence Indonesia's economic stability and growth? The sub-questions include: (1) What is the role of defense economics in bridging state defense and economic development? (2) How can defense industry development policies be optimized to support national economic growth? (3) What are the implications of strengthening state defense capability for Indonesia's economic resilience against external shocks?

This study aims to comprehensively analyze the relationship between state defense capability, defense economics, and economic stability within Indonesia's national development framework. Specifically, the objectives are: (1) to identify the mechanisms through which state defense capability contributes to national economic resilience; (2) to evaluate the role of defense economics as a catalyst for innovation and economic growth; (3) to analyze the impact of defense industry development policies on economic stability and growth; and (4) to formulate policy recommendations to optimize synergy among state defense, defense economics, and national economic development.

This research is expected to make significant academic and practical contributions. Academically, the study will enrich the literature on the relationship between defense and economics, particularly in the context of developing countries such as Indonesia. The findings can serve as a foundation for developing new theories and models in defense economics and development studies. Practically, the results can provide valuable input for policymakers in formulating integrative strategies between strengthening state defense and accelerating economic development. For industry stakeholders, this research offers insights into the opportunities and challenges in developing a globally competitive defense industry. More broadly, the general public can gain a deeper understanding of the importance of state defense in the context of economic development, thereby increasing participation and support for related national policies.

2. Research methods

The research method employed in this study combines a literature review and a meta-analysis approach. A literature review, as explained by Snyder (2019), is a systematic method for identifying, evaluating, and synthesizing existing research works to create a foundation for advancing knowledge and facilitating theory development. Meanwhile, meta-analysis, according to Borenstein et al. (2009), is a statistical method for combining results from multiple independent studies, enabling researchers to assess the consistency of findings across studies and identify patterns or trends that may not be visible in individual studies. The combination of these two methods provides a comprehensive and robust approach to analyzing the research topic.

In the context of the article "State Defense and Economic Development: Examining the Relationship Between State Defense Capability, Defense Economics, and Economic Stability," the literature review method is used to collect and analyze relevant literature on state defense, defense economics, and economic development from various academic and policy sources. Meanwhile, meta-analysis is applied to synthesize quantitative findings from existing empirical studies on the relationship between defense spending and economic growth, as well as the economic impact of the defense industry. This approach allows researchers to identify trends and patterns in the existing literature and provides a strong basis for analyzing the relationship

between state defense capability, defense economics, and economic stability in the Indonesian context.

3. Results and Discussion

3.1. Analysis of the Relationship Between State Defense Capability and Defense Economics

State defense capability and defense economics have a complex and mutually influential relationship. According to defense economics theory proposed by Hartley (2020), strong state defense capability can stimulate the development of defense economics through increased demand for defense-related goods and services. Furthermore, Sundari (2024) defines defense economics as a discipline that integrates economic knowledge with security and defense strategy studies, assisting policymakers and military leaders in making effective and efficient decisions to safeguard national sovereignty and security. This perspective highlights the importance of a holistic approach in understanding the interaction between state defense capability and the dynamics of defense economics.

Data from Katadata (2023) indicate that since the implementation of the state defense strengthening program in 2015, Indonesia's defense budget has experienced significant fluctuations. Although there were some year-to-year decreases, the overall trend shows an increase (Table 1). From 2015 to 2022, the defense budget rose from 101.69 trillion rupiah to 150.30 trillion rupiah, with varying annual growth rates. The highest growth was recorded in 2017 and 2022, at 20% and 19% respectively. Despite declines in certain years, such as -9% in 2018 and -8% in 2021, the cumulative defense budget increased by approximately 47.8% over the period. These fluctuations reflect the complex dynamics in defense budget planning and allocation, influenced by economic, geopolitical, and national policy factors. They also illustrate how strengthening state defense capability has driven strategic decision-making in resource allocation for defense, consistent with the concept outlined by Sundari.

Tabel 1. Peningkatan Anggaran Pertahanan Indonesia (2015-2022)

Year	Budget (Trillion Rupiah)	Growth
2015	101,69	-
2016	98,25	-3%
2017	117,58	20%
2018	106,68	-9%
2019	115,35	8%
2020	136,87	19%
2021	125,89	-8%
2022	150,30	19%

Source: Katadata, processed by the Author (2024)

Table 1 presents Indonesia's defense budget data from 2015 to 2022. In 2015, the defense budget was recorded at 101.69 trillion rupiah. The following year, 2016, saw a 3% decline to 98.25 trillion rupiah, possibly due to fiscal adjustments or policy changes. However, in 2017, the budget increased significantly by 20% to 117.58 trillion rupiah, indicating a higher priority for the defense sector.

Subsequently, in 2018, the budget declined again by 9% to 106.68 trillion rupiah. In 2019, there was a recovery with an 8% increase to 115.35 trillion rupiah. The year 2020 witnessed a 19% surge to 136.87 trillion rupiah, followed by an 8% decline in 2021 to 125.89 trillion rupiah. Finally, in 2022, the budget rose again by 19% to 150.30 trillion rupiah, reflecting the government's efforts to strengthen defense capacity after a period of reduction.

Further analysis shows that strengthening state defense capability affects not only the quantitative aspects of defense economics but also its qualitative dimensions. A study by Apriantara et al. (2023) reveals that state defense programs have increased public awareness of the importance of defense industry self-reliance, which in turn encourages innovation and technological development in this sector. This aligns with the “spin-off” concept in defense economics, where technologies developed for military purposes can have broad commercial applications (Sudirman et al., 2023).

Several factors influence the relationship between state defense capability and defense economics, including: (1) government policy, (2) the level of investment in research and development (R&D), (3) domestic industrial capacity, and (4) regional geopolitics. Government policies, as reflected in Law No. 16 of 2012 on the Defense Industry, have provided a legal framework that supports the development of the national defense industry.

Analysis of the Impact of Defense Economics on Economic Stability

Defense economics significantly influences national economic stability through various mechanisms. According to the Keynesian multiplier theory adapted to the defense context by Dunne et al. (2005), investment in the defense industry can generate multiplier effects in the economy. An empirical study by Aydin (2021) on G20 countries shows that every 1% increase in defense spending is associated with a 0.3% rise in GDP.

However, the impact of defense economics on economic stability is not always positive. Research by Alptekin & Levine (2012) indicates the existence of a threshold beyond which defense spending begins to negatively affect economic growth. For Indonesia, data from (2020) estimate this threshold at around 2.5% of GDP, while Indonesia’s current defense expenditure remains below 1% of GDP.

Another important aspect is the efficiency of resource allocation in defense economics. According to Hartley (2020), the defense industry often exhibits an oligopolistic market structure, which may reduce efficiency and innovation. Therefore, policies promoting competition and transparency in defense procurement are crucial to ensuring positive impacts on economic stability.

3.2. Discussion of Key Findings

The analysis reveals a complex yet significant relationship between state defense capability, defense economics, and economic stability in Indonesia. The main findings indicate that strengthening state defense capability has stimulated the growth of defense economics, which in turn contributes positively to national economic stability. However, this relationship is not linear and is influenced by various contextual factors.

One key finding is the central role of innovation and technological development in maximizing the positive impact of defense economics. This aligns with the concept of “defense-led industrialization” proposed by Brauer and Dunne (2020), where investment in the defense industry can act as a catalyst for broader technological advancement and industrialization. The case of PT Dirgantara Indonesia, as analyzed by Purwanto et al. (2022), demonstrates how investment in military aircraft design and production capabilities has generated technological spin-offs beneficial to the civilian aviation industry.

The interpretation of results also underscores the importance of balancing resource allocation between the defense sector and other sectors. This finding is consistent with a comparative study by Chakrabarti and Sreejith (2021) on developing countries, which emphasizes the need for a holistic approach to defense economic development. The policy implication is the necessity of formulating long-term strategies that integrate defense industry development with the broader national development agenda.

Compared with previous studies, this research provides a more comprehensive perspective on the interaction between state defense, defense economics, and economic stability in the Indonesian context. While earlier studies such as those by Yugianoro (2014) and Tippe (2016) tended to focus on technical or security aspects, this analysis integrates economic, technological, and socio-political dimensions. However, it should be noted that these findings have limitations, particularly regarding the availability of comprehensive longitudinal data on the impact of state defense programs on defense economics.

The implications of these findings for practice and policy include: (1) the need to increase investment in defense R&D oriented toward innovation and technological spin-offs, (2) the development of industrial policies that support clustering and integration of defense industry supply chains, (3) strengthening triple helix cooperation among industry, academia, and government in defense technology development, and (4) formulating fiscal policies that balance defense needs with overall economic development.

3.3. The Linkage Between National Character, State Defense, and Economic Development

National character plays a fundamental role in shaping state defense capability and, in turn, influencing the dynamics of economic development. According to social capital theory developed by Putnam (2000) and adapted to the Indonesian context by Praw (2014), a strong national character—marked by high levels of social trust and norms of reciprocity—can strengthen social cohesion and support the mobilization of national resources for common goals, including state defense and economic development.

A strong national character also enhances the effectiveness of state defense programs within the context of economic development. Research conducted by Apriantara et al. (2023) shows that regions with higher national character index scores tend to be more successful in implementing community-based economic programs, including the development of MSMEs that support the defense industry.

However, the relationship between national character, state defense, and economic development also faces challenges. A study by Mubarok et al. (2023) identifies a gap between the values promoted in state defense programs and the socio-economic realities faced by communities. This indicates the need for a more holistic and contextual approach in integrating these aspects.

4. Conclusion

In Indonesia's national development context, state defense capability, defense economics, and economic stability are closely interconnected in a complex, mutually reinforcing relationship. State defense capability serves not only as a pillar of national sovereignty but also as a catalyst for strengthening the defense sector through technological innovation and industrial development, which contribute positively to economic stability. However, this relationship is not linear and is shaped by contextual factors such as government policy, global economic conditions, and political and social dynamics. Therefore, a comprehensive, evidence-based approach is essential to optimize synergy among state defense capability, defense economics, and overall economic development.

Based on the study's findings, several key recommendations can be proposed. Indonesia should improve the efficiency and effectiveness of defense budget allocation, focusing on strengthening military capability and developing dual-use technologies with civilian benefits. Stronger multisector collaboration among government, defense industries, educational institutions, and the private sector is essential to promote innovation, technology transfer, and globally competitive human resource development. Defense economic diversification should

be encouraged by expanding products and technologies for both military and civilian applications to enhance national economic resilience and sustainable growth. In addition, greater transparency and governance in defense procurement and industry management are crucial to ensure accountability and optimal resource use. Finally, enhancing public education and awareness of state defense is important to foster societal participation in supporting national defense and economic policies, thereby optimizing synergy among state defense capability, defense economics, and national development.

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