

MILITARY BUSINESS IN INDONESIA: ARMY COOPERATIVE AFTER ACQUISITION POLICY 2009 AND ITS IMPACT ON CIVIL-MILITARY RELATIONS

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ABSTRACT

This paper examines Indonesian army's commitment today to professionalization, particularly in restraining themselves from doing business for profit through army cooperatives as they vastly did in the past during the New Order. It questions whether or not the army has given up all business for profit activities through the cooperative and focuses on building professional military in the post-New Order democracy. A qualitative research was conducted for this paper, using in-depth interviews and archive studies as the methods of data collection. This paper argues that the fact that the army persistently maintains their businesses indicates the drive to stay and contest in the political arena, instead of returning to barrack. This has affected civil-military relations in several ways. First, the capacity to generate income independently from the state gives the army a certain degree of leverage to the government's decision making. Second, it's partial independence reduces the capacity of the state to apply civilian control over the military through budget and policies. And third, the relatively high contestation and privilege resulted from this relation has been keeping the military a significant player in Indonesia's domestic politics that led it into oligarchy instead of liberal democracy.

Keywords: military business, military professionalism, military reform, cooperative, civil-military relations.

INTRODUCTION

Since the democratization taking place in Indonesia after the fall of the New Order military regime in 1998, the demands for reform in civil-military relations has increased significantly. They were centered on three main issues: (1) withdrawal of the military from political institutions and civilian bureaucracy; (2) separation of the national police from the military; and

(3) relegation of all military businesses to the state. To achieve the civilian supremacy, all these three demands must be met, and the military must be developed into a professional military, without intervention in politics, bureaucracy, and business (Sebastian, Syailendra, and Marzuki, 2018: 53).

To some extent, military reform has achieved significant progress, especially in institutional reform. The main contributing factor to the relative success was the cooperation from the military. The military played an important role by designing internal institutional reform including gradual withdrawal from politics and business since 1999. Although they set the agenda for full withdrawal from politics and business by 2009, the military withdrew from the legislative sooner in 2004. The Law No. 34 of 2004 on Indonesian National Armed Forces (TNI, *Tentara Nasional Indonesia*) further set the deadline for withdrawal from the business by 2009.

According to Mietzner (2006), despite the significant progress, military reform in Indonesia has not been completed. It was acknowledged that a series of military reform agendas were conducted both by the civilian government and internal military institution, for democratic civilian control. However, the reform did not expand further, particularly to the removal of the territorial command structure that was formerly utilized by the New Order to maintain control of political support and stability in all regions in Indonesia. Military willingness to cooperate and undergo internal reforms has brought trust among civilian politicians and thus there is no urge to push further reform agenda.

Withdrawal from the business is one of the important issues of incomplete military reform in Indonesia. A report from Human Rights Watch in 2010 shows that TNI is still maintaining businesses in various sectors. The Law No. 34/2004 signed by President Megawati Soekarnoputri on 16 October 2004 mandated the government to start ending military business in five years until 2009. But according to the report (HRW, 2010), there was no action from both the government and the military to stop military businesses. The government formed three teams to investigate military business in 2007 and President Soesilo Bambang Yudhoyono signed a presidential decree for government acquisition of military businesses in 2009. Yet, until the deadline to eliminate military business in 2009, there was no actual progress according to the HRW report.

This paper analyzes military business and its impact on military professionalization since the implementation of Presidential Decree No. 43/2009 on Military Business Acquisition, with particular focus on the army's business under cooperative as a case study. Military business since the New Order can be divided into three categories (Widoyoko, et.al., 2003): (1) military enterprises under foundations (*Yayasan*); (2) military business under cooperatives; and (3) illegal

businesses. In 2009, the military claimed that they had released all its business under foundations and cooperatives, as all their enterprises were then operated by inactive (retired) officials and had become civilians. However, considering the HRW report on 12 January 2010, whether or not the military retains its business, it needs to be examined. This paper is a modest effort to examine military business under the army's cooperative since the enactment of Presidential Decree No. 43/2009.

The research for this paper was conducted by qualitative methodology with in-depth interviews and archive study as the methods of data collecting. The qualitative research method is chosen to get sufficient data and information regarding the historical processes and political interactions of Army cooperative. In-depth interviews were conducted with 29 informants from the Army and Army cooperatives to gather information on cooperative business and its effects on soldiers' welfare and political interactions, and information on how the soldiers give meaning to their actions and interactions. In addition, the archive study was conducted to get data and information on Army cooperatives' assets and historical development.

The objective of this research is to seek knowledge of whether or not the military reform has expanded since the enactment of Presidential Decree No. 43/2009 and the deployment of the team for taking over military businesses. It examines the progress of ending the military business activities and its impact on civil-military relations in Indonesian democracy since 2009. At the end of this paper, based on the data and evidence presented through the narration throughout the paper, we will have the answer of the research question, whether or not the Army maintains business activities through its cooperative, and how it affects Indonesian politics.

This paper is organized into four parts. The first part discusses the theoretical framework for analyzing the Indonesian army (TNI AD, *Tentara Nasional Indonesia Angkatan Darat*) business under cooperative. Theoretical discourse in this issue can be divided into two main areas: military motivation to retain business, and its impact on civil-military relations. The second part of this paper discusses the forms of business operation by Indonesian army under its cooperatives. The third part of this paper looks at the current state of civil-military relations and the contribution of the army business. The last part, conclusion, reiterates the reflections of the data and analysis in the previous parts. Let us start with the first part, theoretical framework.

THEORETICAL FRAMEWORK: MILITARY ENTERPRISES AND CIVIL-MILITARY RELATIONS

Indonesia is not the only country in which the military owns enterprises for accumulating profit. In many other countries, especially in the countries with limited state budget to maintain its security and military spending, the military own enterprises to raise funds for its own operation.

The examples are Thailand, China, Pakistan, Argentina, Brazil, Russia, Egypt, Turkey, Iran, Syria, Sudan, and Congo, among others (Rabasa and Haseman, 2002; Brommelhorster and Paes, 2003; Grawert and Abul-Magd, 2016). In most cases, except for China and Russia, states with active military business happen to be the so-called developing countries, where the military business is justified by the limited state budget for covering the necessary spending in the security sector.

The economic motive in military participation in a liberal economy does not necessarily perceive to result in a negative effect on professional military for two reasons. **Firstly**, if the drive to develop a profit-oriented business is to complement the state budget to cover military expenditures, it can contribute to the development of professional military without necessarily leading to praetorianism. In Thailand case, the military has become praetorians with repeated coups when political crises occur, but it is rather close to professional revolutionary praetorian, in Perlmutter's category (1977) or moderator praetorian in Nordlinger's classification (1974). The military would immediately return the power to civilians when political stability is achieved, and a democratic government can be formed. **Secondly**, even if the drive for economic participation is personal or group interests, not merely a supplement to the state budget, according to Brommelhorster and Paes (2003), the income from military business can work as an incentive to military personnel to dedicate and strengthen the loyalty to the state, which would contribute to political stability and the professionalization of the military in time.

The fact that military businesses are not exclusively found in developing countries but also in industrial countries indicates that the drives for militaries to participate in the capitalist economy are not entirely as substitution to the lack of funding from their respective governments to cover military expenditures. In many cases, the states are capable of covering all military expenditures. Nevertheless, military opts to maintain the off-budget income for personal and institutional interests. Despite the fact that it is not complementary, it serves as the supplement to the budget for an incentive to soldiers and officials, or for a necessary covert mission that cannot be funded by the state budget. In this case, according to Huntington (1968), the military intervention into non-military affairs is mainly driven by political rather than economic motive. It includes military vested interests on certain policies that require military participation in making profits. Under a liberal democracy regime, the intervention in non-military business and policy making is made possible by collaboration with civilian politicians. This perspective, according to Hoadley (1975), falls into 'technological school', where military intervention occurs as a resultant of a combination of imperfect military professionalization and manipulative conservative realist politicians.

In contrast to the technological school, the 'political liberalism' school sees military intervention in non-military affairs as a temporary wartime phenomenon. The military is seen normally as one part of the system in which obedience, discipline, and dedication will support civilian democracy. Civilian supremacy doctrine is seen as inherent in political liberalism. The military tends to peacefully transfer power to civilian politicians and support democratic civilian supremacy. The military's intervention in non-military affairs, or in this case building business for profit, is mainly driven by crisis, failure of civilian leadership, and confidence in military's capacity in leadership, organization, and decision making. One of the notable studies in this perspective is Janowitz work in 1960 on "Professional Soldier".

Most studies on civil-military relations, as Hoadley (1975) puts it, favor the realist technological school, especially that military intervention in non-defense matters persists during peace time in many countries. This perspective offers more objective and contextual explanation and understanding of the motives of military intervention in politics and business, including the relations between military intervention and civil-military relations. In this regard, this school also offers a better explanation of the impact of military intervention in politics and business in the form of civil-military relations in a country.

Other than the justification by the two schools, i.e. realist technological and political liberal, on military business, there is an agreement among scholars in the field that military business is unprofessional and produce threat(s) to human security (Huntington, 1957; Croissant, 2018). The study on military business among these scholars tend to focus on the motives that drives the participation in business and the processes that make possible military intervention in non-defense affairs, particularly in the form of military business. This trend can be seen in the works of Paul Chambers and Napisa Waitoolkiat (2017), Muthiah Alagappa (2001), and David R. Mares (2018).

Chambers and Waitoolkiat (2017) wrote an edited volume on military business and its political impacts in Southeast Asia and proposed a construct for understanding this topic; *khaki capital*. To Chambers and Waitoolkiat, khaki capital is a form of income generation whereby the military, as the state-legitimized and dominant-custodian-of-violence, establishes a mode of production that enables it to: (1) influence state budgets to extract open or covert financial allocations; (2) extract, transfer, and distribute financial resources; (3) create financial or career opportunities (2017: 7). They argue that the stronger the military control over economic resources, the more insulated they tend to be from civilian political control (p. 328).

Alagappa (2001) denounced the idea to attribute the development of military intervention in business to the military as a sole actor. Instead, he argued that military intervention is the

outcome of the interaction of the interests, beliefs, and power, among other things, of institutions and actors, both military and civilians. The factors to the intervention or domination include the weight of violence, the capacity of the non-coercive institutions, the level of economic development, and the interaction of beliefs, interests, and power of the key civilian and military actors.

Mares (2018) emphasized interests and political culture as the two drivers of military intervention in non-defense matters. He asserts that interests produce variation in the pattern of domestic civil-military relations, and suggests hypothesis relating patterns of civil-military relations to the consolidation of democracy and to cooperation in regional relations. He further identified three different perspectives in analyzing civil-military relations, i.e. grand strategy perspective, historical sociology, and organizational theory. All the three perspectives tend to focus the research on the civilian actors, instead of military.

Previous studies on Indonesian military business also took the connection between military intervention and civil-military relations into consideration for understanding the cases. A number of notable worth mentioning works are the works of Mietzner (2006, 2018), Yulianto (2002), Beeson (2008), Croissant (2018), Honna (2019), and Sebastian, Syailendra, and Marzuki (2018).

Mietzner (2006) employed Herd and Tracy's theory on two generations of military reform (2005). According to Mietzner, Indonesia's military reform showed significant progress in the first generation of reform's category, which is on the institutional reorganization that ensures military withdrawal from politics and business. Some of the instances are the constitution amendment on the civilian presidential election, military withdrawal from legislative in 2004, submission of a military court to the supreme court, and law enactment on TNI that prohibits active military personnel's participation in politics and business. However, the first generation of military reform in Indonesia was incomplete, partly because the civilian government developed trust in the military after collaborative gesture during democratic transition in 1997-1999, and thus accommodated the military in decision making, such as giving autonomy to the military for self-designing reform agenda. This incomplete reform has made the military capable of maintaining self-funding and become relatively autonomous financially. The incomplete reform has also made the completion of the second generation of military reform harder. The civilian control of the military through parliament and civil society for instance, although channeled by the institutional reforms, is still difficult to apply in practice, partly because of military relative autonomy, and in part because of resource lax on civil society's side. This view was particularly in opposition to the positive review on Indonesian civil-military relations after *Reformasi*, such as suggested by Beeson (2008). Beeson argued that Indonesian military reform was extensive

and the likeliness of Indonesian military return to power was minimum, particularly if compared to Thailand and the Philippines.

In his recent study on Indonesian civil-military relations, Mietzner (2018) asserts that the form of Indonesian civil-military relations is a function of the governmental system, namely the coalitional presidentialism. Indonesia is one of the countries that have adopted the combination of presidentialism in the cabinet system and multiparty in its electoral system since democratization reforms (1998-2004). In order to ensure political stability, the newly elected presidents need to form strong coalitions. This is why the military has played an important role in Indonesian democracy and contributed to the formation of the new civil-military relations under the new democratic regime after the fall of Suharto in 1998. In order to form a strong coalition, every president in Indonesian democracy since 1998 need to embrace military's role in the government and thus compensate the participation in the coalition with freedom from fully implementing military reform for professionalization, including from self-restraining in business.

Yulianto's study (2002) employs Alfred Stepan's theory on the typology of civil-military relations in democratic countries. Stepan developed the typology from two dimensions, i.e. military contestation, and privilege. Stepan asserted that we can measure contestation and privilege from examining 11 indicators of the professional military, including business, and place the civil-military relations of the country studied in one of the four domains in the typology. The four types of civil-military relations are (1) civilian control; (2) civilian domination; (3) imbalanced civilian accommodation; and (4) military domination. Yulianto came up with the conclusion that Indonesian civil-military relations in the post-*Reformasi* were right in the middle between the four types, which he calls moderate type.

Croissant (2018) argues that in Southeast Asia, it was the civilian politicians who brought the military into the political arena, not the merely military initiative to participate. To Croissant, four factors have contributed to the civilian politicians' act. They are (1) fear of provoking military intervention if civilian control is imposed; (2) lack of tradition of civilian control; (3) civilian control issue is not only a question of whether it is prudent to attempt, but also about who wants to have it; (4) civilian control can be achieved without an outright transition of political regime (Croissant, 2018: 67). In this perspective, the political behavior of civilian politicians is rational. The civilian politicians are accommodative towards the military's participation in other sectors than defense in order to avert bigger risk and unwanted political situation. Croissant's assertion is in accordance to earlier Beeson's conclusion (2008). Beeson argues that the likeliness of military intervention in politics in Indonesia is low due to the accommodation of their economic interests.

Jun Honna (2019) pays particular attention to the need of Indonesian presidents for not only creating but also maintaining political stability in the democratic consolidation. During the early years of democratic reforms under Abdurrahman Wahid and Megawati Sukarnoputri administrations, it was clear to the leadership that partial involvement (not impartial) of the military in the government was crucial in ensuring the state's security in the time of terrorism and separation movements. Most importantly, partial involvement has been needed in supporting the leadership vis-à-vis stronger political opposition in the parliament. In the later years of democratic consolidation under Susilo Bambang Yudhoyono (2004-2014) and Joko Widodo (2014-2019) administrations, allowing military in the politics to secure its politico-economic vested interests was considered necessary to maintain political stability and ensure democratic consolidation.

Sebastian, Syailendra, and Marzuki (2018) emphasized that this form of Indonesian civil-military relations since democratic reforms was generally need-based and transactional. Indonesian leadership's invitation to military participation in the government was based on the need to balance the power of the opposition, especially to organize and mobilize support for the government vis-à-vis militaristic opposition. It was also transactional, as the military has been also benefiting from the participation in the form of power over decision making in the government.

In this research, we examine one of the indicators of reform, self-restraint from the business for profit, and how it contributes to the type of civil-military relations in Indonesia. This research is a modest effort to partially update the previous studies up to the current state of civil-military relations in Indonesia.

RETAINING BUSINESS UNDER COOPERATIVES

Indonesian Army has been doing business through cooperative since the 1950s when the government first endorsed cooperatives as pillars of the Indonesian economy. The first established cooperative was a primary cooperative under Army Intendants Corps (*Corps Intendant Angkatan Darat*, CIAD) on 7 January 1954, named Intendants Credit Cooperatives (*Koperasi Simpan Pinjam Intendant*, KOSPINT). This oldest Army cooperative finally got its business permit from the government in 1965, but since its establishment and operation in 1954, establishment of primary cooperatives by other army institutions was flourishing. This gave rise the idea of forming a tertiary cooperative at the national Army level that administers all secondary and primary cooperatives under the Army. Secondary cooperative in West Java was formed in 1958, and another secondary cooperative was established in Jakarta in 1961. The tertiary cooperative named Armed Forces Holding Cooperative (*Induk Koperasi Angkatan*

Darat, INKOPAD) was formed on 25 July 1964. The holding cooperative was considered a part of military organizational structure, particularly in charge of functional affairs such as raising money and providing financial services for soldiers. The Army headquarters later change the name of the cooperative into Kartika Holding Cooperative (*Induk Koperasi Kartika*, Inkop Kartika) in 2012.

According to the HRW report (2010), the Indonesian military still has a significant size of economic assets. Citing from government data in 2007, HRW reported that the total military gross assets from foundations and cooperatives were Rp. 3.2 trillion (US\$ 350 million), with net assets of Rp. 2.2 trillion (US\$ 235.4 million). The business activities then generated Rp. 268 billion (US\$ 28.5 million) profit. This data did not include their other and informal businesses such as business protection payment, land and building leases, criminal enterprises, and corrupt practices, which means that the actual profit was even higher.

In comparison, as HRW noted in the report, the government budget on military spending was IDR 29.5 trillion (USD 3.2 billion) in 2007 and keeps improving. In 2009, the government budget was IDR 33.6 trillion (USD 3.6 billion). Compared to the total official budget for armed forces, the reported military business profit in 2007 was relatively insignificant, 0.8% of the budget. This data supposedly stated that the government's budget on military spending is much bigger than the military's business capacity and there is simply no reason for the military to keep their businesses.

The business capacity of cooperatives under INKOPAD has also been less than encouraging. The total profit in 2009 was IDR 83 billion (USD 6 million). Compared to the government budget in military spending in 2009, the total profit of INKOPAD was only 0.08%. The total profit in 2017 was IDR 32.5 billion (USD 2.4 million), or 0.02% of the national defense budget. Although this data does not necessarily reflect the benefit of cooperatives for Army soldiers, as the cooperatives provided financial and other services to the soldiers, assuming the data is correct, it is easy for the government to compensate the loss of income if the cooperative businesses were taken over by the government.

Apart from the modest profit generated by the cooperatives, the human resources and assets employed for maintaining cooperatives businesses are considerably significant. Under the INKOPAD, there are currently 21 secondary cooperatives (PUSKOPAD, *Pusat Koperasi Angkatan Darat*), and 977 primary cooperatives (PRIMKOPAD, *Primer Koperasi Angkatan Darat*), scattering in all army institutions. All soldiers or military personnel working at the cooperatives are inactive from military duties. Tens of thousands of soldiers from low to high

ranks are assigned to run the cooperatives. They are either retired or temporarily inactive for the purpose.

When the government issued the Law No. 34/2004 on Indonesian Armed Forces, there was growing confidence among civilians and military leaders about the prospect of the transfer of military businesses to the government. The Law No. 34/2004 envisioned the application of a professional Indonesian military with the non-intervention principle in politics and non-participation principle in profit making or business. It requires the military to let go all profit maker military enterprises by 2009, and the government to improve soldiers' welfare and military spending. There was no notable objection or resistance from the military leaders when the law was in the making process.

When the deadline came in 2009 for the military to let go of all business enterprises, it became clear that the transfer of military business enterprises to the government was not going to be completed that year. To implement the law and the vision of professional military, President Yudhoyono signed the Presidential Decree No. 43/2009 on Military Business Acquisition that set a new deadline for government acquisition of all military business enterprises, including the ones under cooperatives. The decree necessitates the acquisition to be completed in five years since its enactment.

Prior to the enforcement of the presidential decree, INKOPAD still had three enterprises to be transferred to the government. The three enterprises were Reka Daya Kartika, a construction company; Mina Kartika, fishing company; and Kartika Inti Perkasa, palm oil plantation company. As of 2010, Reka Daya Kartika and Mina Kartika were reported bankrupt in 2012 and 2008, and both dissolved in 2012. Kartika Inti Perkasa merged with a private company, Sri Jaya Abadi, and then operated under a new company in 1998, Tunggal Mitra Plantation. Kartika Inti Perkasa's share in the company was 99%, while Sri Jaya Abadi held only 1%.

Retaining the enterprise is a form of incompliance to the Law No. 34/2004, although retaining cooperatives are allowed. The ownership and business orientation of cooperatives are different from enterprises. Unlike enterprises where its ownership belongs to the military as an institution, the ownership of cooperatives is distributed to each member, the soldiers. The profit of cooperatives is also distributed to members. Its business orientation is not merely to make a profit, but most importantly to improve the welfare of members and to help members by providing alternative financial services. Kartika Inti Perkasa is, in fact, operating as an enterprise despite the fact that it is owned by a cooperative (INKOPAD).

Another issue that indicates the Indonesian Army's incompliance to the Law No. 34/2004 is the Army's control in the INKOPAD. According to the Law, the military should let go of the

overlapping structure with the cooperative. In the past, the structure of the cooperative organization reflected the Army's organizational structure. The Law requires both the military and cooperative to be professional. The INKOPAD should not be administered by the active military. Instead, it should be managed by professional management.

Although formally INKOPAD is now operated by the inactive military officers, the Army headquarters still have the actual control in INKOPAD's strategic decisions. The control is not applied structurally and formally but informally applied in the procedure by giving Army Chief a position in the Board of Councilors (*Dewan Pembina*) of INKOPAD, rather than in the management. With this position, the Army Chief controls the strategic decisions of INKOPAD.

The formal structure of INKOPAD organization does not reflect the actual hierarchy and command structure. INKOPAD management does not have the autonomy to decide strategic policies of the cooperatives and report to the Chief of the Army. The appointment and assignment of cooperative management and human resources are done in tenure by Army leaders. Military officers assigned for the job return to the headquarters once the tenure ended, except for those who met retirement. Therefore, they are soldiers with inactive status but assigned to run the cooperatives under directions from the army headquarter. Civilian status for them is merely a quasi-status to justify retaining business under cooperatives, in this regard, INKOPAD. The change of its name in 2012 into Inkop Kartika did not change these characteristics of the cooperative.

MILITARY PROFESSIONALISM IN A CHANGING POLITICAL STRUCTURE

Inkop Kartika business violates the vision for military professionalism, as mandated by the Law No. 34/2004, in several ways. **First**, Inkop Kartika retains business for profit, particularly through Kartika Inti Perkasa, the enterprise that operates in palm plantation. Kartika Inti Perkasa happened to contribute the largest portion to Inkop Kartika's income. It gave IDR 18 billion (USD 1.3 million) or 55% of Inkop Kartika's total reported income in 2017. **Second**, the Army headquarter retains control over Inkop Kartika business and other strategic decisions. Chief of the Army is given a position at the Board of Councillors (*Dewan Pembina*) of Inkop Kartika where he can direct strategic management of the cooperative. The army headquarter also retains the authority to appoint and assign military officers and soldiers to work at the cooperative as temporary civilians, or inactive soldiers.

After 20 years of political reform in Indonesia since 1998, it appears that the Army has not shown strong commitment towards the principle of non-participation in business. The response to the military reform agenda in business is superficial, where formally, it gives the impression

of giving up profit-making business, but in reality, the army is still making a profit from the businesses, despite the reportedly smaller income.

In public, military leaders often emphasized that in accordance with article 39 and 55 of the Law No 34/2004 about the prohibition of doing business for military officers, none of the active soldiers are engaged in business. In the case of cooperative business management, this claim finds justification in practice, because all soldiers assigned to run and/or work at the cooperatives are given inactive status. In legal-formal perspective, it is partly true that all soldiers engaged in cooperative business are inactive soldiers, but at the same time, it is false because they are assigned and appointed to do the tasks under directions from the headquarter.

Engaging in business for profit is not a sole determinant factor of the military not being professional, but it indicates a problem of professionalism, particularly if the obtained wealth is not utilized to improve professionalism. In the case of cooperative business, cooperative is allowed under military institutions because it is assumptively owned by personnel soldiers, not military institutions, and serves to improve the welfare of its member soldiers. Improving welfare of soldiers can function as an incentive for the soldiers to improve their patriotic loyalty to the state, and thus contribute to improving professionalism.

The problem is that not all of the income from cooperative is utilized for soldiers' welfare improvement. In the case of credit cooperatives, many soldiers benefit from the credit facilities of the cooperatives. In 2017, the total profit from the credit cooperatives was IDR 1.2 billion (USD 89 thousand, 0.04% of the total cooperative profit) and they have facilitated credit for 1100 soldiers. Ma'arif's study (2014) also shows that the majority of soldiers, particularly low-ranking soldiers, appreciated and benefited from the credit and loans provided by the cooperatives. However, Ma'arif emphasizes that there were also concerns among soldiers about the transparency of the businesses, where the profit goes, and who benefit most from the businesses. According to the soldiers, most of the profit is only distributed to a certain group of officers rather than for every member's benefit.

The core of the problem is more than likely the cultural legacy of entrepreneurship among military leaders. Historically, the Indonesian army has been engaged in business activities since its formation. When the army was formed in the 1940s, the state did not have any budget to fund military expenditures. Therefore, the army had to self-generate income to cover the costs of building the national armed forces. Even during the New Order government, according to Brommelhorster and Paes (2003), the state could only cover one third or one-fourth of the military expenditures. Consequently, it was imperative for the military to develop and maintain their businesses.

Many high-ranking officers in the Army value entrepreneurship and get involved in the business. Aside from the formal excuse to help the Army raising fund and improving soldiers' welfare, many of them are motivated to prepare for their own retirement. Business is not seen as merely a profit-making, but more importantly to some of the high-ranking officers as achievement and post-duty activity insurance. In order to stay active and resourceful after retirement, they get involved in business personally while still having the power and network. It explains why most high-ranking officers get involved in business both inside and outside the military business. This entrepreneurship culture also explains cooperative business expansion despite the prohibition.

Involvement in business increases the social status and resource of power for military officers. Retired generals are often aspired to participate in politics for the status and resources they possessed. Since the military reform started in the post-New Order era, this aspiration in politics appeared in the presidential election, local election and party formation. Wiranto and Soesilo Bambang Yudhoyono were among the names that emerged as candidates in the early reform era in Indonesian democracy after the New Order. In 1999, as an initiative of retired generals, a political party, i.e. Party of Justice and Unity (*Partai Keadilan dan Persatuan, PKP*) was formed. Later in 2002, the party changed its name into Party of Indonesian Justice and Unity (*Partai Keadilan dan Persatuan Indonesia, PKPI*). In a local election in 2018, retired generals contested in 5 out of 17 gubernatorial elections.

The political context in which the military business is preserved through informal ties and personal network instead of formally institutionalized is open to ex-military participation and tolerant to military business with its current characteristics. The informal and personal military network appeared to have strong appeals in politics so that many civilian politicians accept a strategic political alliance and coalition with ex-military or retired generals. In this regard, the success of Soesilo Bambang Yudhoyono in building support to win two presidential elections in 2004 and 2009 contributed significantly to the tolerance and acceptance. After Yudhoyono's success with his Democrat Party, two other generals also succeed nurturing political parties as their political vehicle. The two retired generals are Wiranto with his People's Consciousness Party (*Partai Hati Nurani Rakyat, HANURA*) and Prabowo Subianto with his Great Indonesian Movement Party (*Partai Gerakan Indonesia Raya, GERINDRA*). Other political parties also invited retired generals to participate in their party memberships.

The tolerance and acceptance towards military business and retired generals' participation in business and politics are convergent with the consolidation of oligarchy in Indonesia, if not serving as the catalyst of oligarch consolidation. The latest manifestation of this convergence is the tripolar contestation in the 2016 gubernatorial election in Jakarta province. The local election became an arena of contestation among three candidates, each of whom was supported by retired

generals or their coalition. The candidates were Agus Harimurti Yudhoyono, supported by his father Soesilo Bambang Yudhoyono (Democrat Party); Basuki Tjahaya Purnama, supported by the governing party under Megawati's leadership (PDIP, *Partai Demokrasi Indonesia Perjuangan*, where a number of retired generals joined); and Anies Baswedan, supported by Prabowo Subianto (GERINDRA party). All other parties had to choose one among the three poles if they were to participate in the contestation for power in Jakarta.

On the other hand, in terms of civil-military relations, military as an institution so far has not demonstrated autonomy *vis-à-vis* civilian government. Military autonomy mostly manifested in the way that none of the civilian politicians and bureaucracy takes the issue of military business and territorial command structure as issues for political reform. It also manifested in the strong influence in national defense budget making. Furthermore, the military has so far been formally compliant to the rule of law and played their role professionally in democracy with only a few debatable exceptions, such as military refusal to support President Abdurrahman Wahid's decree on freezing the House of Representative, or independent procurement of defense devices during Joko Widodo's presidency, regardless to the President's instruction. In the last case, the military immediately corrected their mistake after the politicians at the House of Representative criticized them. In this regard, it can be said that the military has obtained relative autonomy and leverage to the extent that it stays within the boundaries created by the formal and legal institution.

To answer the question of whether the military's business has affected its autonomy and leverage in politics, it appears that we have to analyze it into two different dimensions, i.e. legal formal institutional dimension, and informal personal dimension. In the legal formal institutional dimension, autonomy and leverage are limited to defense matters. But in informal personal dimension, the military business has indirectly contributed to the construction of Indonesian oligarchy. It is indirect because the informal and personal network created by the informal military business generated a group of military elites with resources and aspiration to participate in the political structure. This created appeals and trust that made the military elite accepted and their background and resources tolerated.

CONCLUSION

Throughout this paper, we have discussed military business, particularly Army holding cooperative, after the enactment of Law No. 34/2004 on Indonesian Armed Forces that envisions military professionalism and prohibits involvement in politics and business. The research questions are whether or not the military committed to withdrawing from business, and how it affects civil-military relations.

It can be said that the Indonesian Army has been retaining business for profit through cooperatives by two indicators. **First**, the Army holding cooperative (INKOPAD/Inkop Kartika) maintains one company working in palm plantation. **Second**, the Army maintains control over the cooperative through the Army Chief's position and assignment/appointment of human resources in the cooperative. This practice does not indicate professionalism as the Army is retaining business and employs tens of thousands of soldiers to run the cooperatives in all areas in Indonesia.

The impact of the act of retaining business for the military can be seen in two dimensions, i.e. legal formal institutional effects, and informal-personal effects. The legal formal and institutional effects are direct, particularly on the capacity of the military institution in influencing policies. The business helps the Army institutionally improve relative autonomy and leverage in affecting policies, although it is limited in defense-related matters. In informal-personal dimension, the impacts are rather indirect, particularly on creating a group of military elites with resources such as capital and network that can be transformed into political resources. In turn, this group contributed to the formation of the Indonesian elite and oligarchy.

This has affected civil-military relations in several ways. **First**, the capacity to generate income independently from the state has given the army a certain degree of leverage to the government's decision making. This is shown especially in the defense budget making. Indonesia's defense budget has been increasing since the implementation of military reform and greatly influenced by the military. **Second**, its partial independence has reduced the capacity of the state to apply civilian control over the military through budget and policies. Despite the superficial and legal-formal implementation of the business takeover, there is a tendency among the civilian government to let the military keep their businesses. **Third**, the relatively high contestation and privilege that resulted from this relation have kept the military a significant player in Indonesia's domestic politics that led it into oligarchy instead of liberal democracy. Apart from their important role in security and defense policies, the military career path is still providing a doorway for the political career.

The theoretical implications of this study as the feedback for further studies on the topic are as follows. Firstly, this study reaffirms civil-military relations theory postulating that military relative autonomy in finance affects military leverage vis-à-vis civilian politicians which makes civilian control less effective. Secondly, this study suggests that analysis on the impact of military business (financial resources) on Indonesian democracy must include personal dimension, i.e. personal political behavior, network, and interactions of military elites, instead of mere institutional and structural relations. This implies multi-dimensional analysis, i.e. institutional and personal levels, in addition to the national level analysis. Thirdly, this area of

study opens the possibility to help explain the formation of oligarchy in Indonesia by the involvement of military elites, their networks, and interactions with other elites.

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