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Historical Trajectories of Indonesia's Fiscal Gap and Military Spending, 2003-2023

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Abstract: Military spending reflects a nation's priorities and its geopolitical orientation, but in Indonesia it has been compromised by chronic fiscal deficits. The aim of this research was to analyze the historical trajectories of Indonesia's fiscal gap in military spending from 20023 to 2023 by situating national development within broader global conflicts, including Russia-Ukraine war. A historical method was employed by applying synchronic and diachronic analysis, drawing on archival data from the state budget, official reports from the Ministry of Finance, publications from the SIPRI, and policy documents. The findings demonstrated that historical patterns of defence expenditure consistently revealed a widening fiscal gap between projected requirements and available fiscal capacity. Global geopolitical tensions intensified military modernisation and imposed additional burdens on national budgets. The study concludes that Indonesia's defence financing challenges cannot be examined solely through contemporary fiscal debates but must be interpreted within a long-term historical narrative of deficit budgeting and external shocks. The contribution of this research lies in advancing historical scholarships on fiscal policy and defence spending while providing policymakers with insights into alternative financing strategies grounded in past experiences and institutional legacies.

Abstrak: Belanja militer mencerminkan prioritas suatu negara sekaligus orientasi geopolitiknya, namun di Indonesia hal ini terhambat oleh defisit fiskal yang bersifat kronis. Penelitian ini bertujuan menganalisis trajektori historis kesenjangan fiskal dalam pembiayaan pertahanan Indonesia selama periode 2003–2023 dengan menempatkan dinamika nasional dalam konteks konflik global, termasuk perang Rusia–Ukraina. Metode sejarah digunakan dengan menerapkan analisis sinkronik dan diakronik, berdasarkan data arsip Anggaran Pendapatan dan Belanja Negara, laporan resmi Kementerian Keuangan, publikasi SIPRI, serta dokumen kebijakan. Temuan penelitian menunjukkan bahwa pola historis pengeluaran pertahanan secara konsisten mengungkapkan pelebaran kesenjangan fiskal antara kebutuhan yang diproyeksikan dan kapasitas fiskal yang tersedia. Ketegangan geopolitik global semakin mendorong modernisasi militer dan menambah beban pada anggaran nasional. Penelitian ini menyimpulkan bahwa tantangan pembiayaan pertahanan Indonesia tidak dapat dipahami hanya melalui perdebatan fiskal kontemporer, melainkan harus ditafsirkan dalam narasi historis jangka panjang mengenai defisit anggaran dan guncangan eksternal. Kontribusi riset ini terletak pada pengembangan kajian sejarah kebijakan fiskal dan belanja militer, sekaligus memberikan wawasan bagi pembuat kebijakan terkait strategi pembiayaan alternatif yang berpijak pada pengalaman historis dan warisan institusional.

INTRODUCTION

The history of Indonesia's fiscal and military spending from 2003 to 2023 demonstrates that persistent deficits, inflationary shocks, currency fluctuations, and structural budget constraints consistently hindered the government's ability to allocate sufficient resources for defence, reflecting a long-term pattern rather than occasional disruptions. A comparison with global geopolitical events, the Russia–Ukraine conflict, shows that rising security concerns generally prompted higher defence spending worldwide, including in Southeast Asia, while Indonesia's response re-

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mained limited by broader economic vulnerabilities and bureaucratic delays. Policymakers frequently proposed alternative financing strategies such as asset management, defence industry revitalisation, and public-private partnerships, yet historical evidence indicates that these initiatives rarely gained traction due to political compromises and structural inefficiencies. By integrating statistical modelling, difference-in-differences analysis, and historical process-tracing, this study provides a comprehensive perspective demonstrating that fiscal gaps were rooted in long-term governance patterns rather than isolated incidents. The main contribution of this research lies in linking economic history, defence economics, and policy analysis to build a multidisciplinary approach that highlights the close interdependence between fiscal capacity and national security. In doing so, the study enhances academic understanding by repositioning Indonesia's fiscal experience within a broader global comparison and illustrating how democratizing states continually navigate the tension between growth imperatives and security demands under persistent financial constraints.

Indonesia operates within these global dynamics while navigating a distinctive fiscal history. Since the *Reformasi era*, persistent budget deficits, revenue volatility, and competing social mandates have constrained discretionary allocations for defence modernisation. Historical trajectories of monetary and fiscal institutions across market economies demonstrated that financial architecture conditioned state capacity to mobilise resources for strategic purposes, particularly during shocks that elevated risk premia and weakened currencies (Chown, 2003; McNally, 2012; Soederberg, 2012). Empirical research on guns-versus-butter trade-offs showed that growth outcomes under higher military spending depended on underlying fiscal space, debt dynamics, and external balances (Musayev, 2015; Nordhaus, 2012). Within Southeast Asia, incremental increases after 2022 reflected the regional diffusion of security pressures, yet Indonesia's outlays remained modest relative to GDP because of structural constraints in public finance and reliance on imported platforms priced in foreign currency (SIPRI, 2023; Tian, 2023).

A historically grounded perspective is essential for understanding Indonesia's fiscal gap in defence. Research on strategy and defence planning emphasises the necessity of aligning means and ends under uncertainty, where institutional legacies and market conditions shape feasible pathways for force development (Clausewitz, 2007; Gray, 2014; Rahman et al., 2022). Comparative evidence on the privatisation of security functions and reliance on external contractors described how states adapted organizationally to fiscal constraints and capability gaps, often producing significant implications for distribution and accountability (Avant, 2005). In the Indonesian context, adaptive responses have taken the form of phased modernisation, industrial offset agreements, and selective financing innovations. However, long-term trajectories revealed recurrent crowding-out effects generated by subsidies, debt service, and crisis management expenditures triggered by commodity or financial shocks (Liadze et al., 2022; Lyu, 2022).

Global evidence following the 2014 Crimea episode and the 2022 full-scale invasion supports an interpretation of conflict as a durable driver of higher baseline defence spending rather than a temporary spike. Panel-based assessments and descriptive compilations documented broad-based increases, with Europe displaying the steepest gradients and Asia recording steady, policy-relevant rises (SIPRI, 2023; Tian, 2023). Contributions from strategic-culture perspectives explain escalation tendencies that extend beyond immediate battlefields, linking great-power status ambitions, alliance politics, and perceived windows of opportunity to fiscal mobilisation (Aricindy et al., 2023; Götz & Staun, 2022; Malyarenko & Wolff, 2018; Mearsheimer, 2001). For Indonesia, strategic signalling and readiness objectives emerge within a macroeconomic framework bounded by inflation control, exchange-rate stability, and social-sector mandates, a framework repeatedly strained by imported energy shocks and global financial tightening (Liadze et al., 2022; Lyu, 2022; Saefudin et al., 2023).

Historical institutional analysis clarifies why fiscal capacity adapts unevenly across states. Monetary unions, capital-account regimes, and the evolution of banking systems have historically influenced revenue buoyancy and borrowing costs, thereby conditioning the feasibility of defence budgets during geopolitical upswings (Chown, 2003; Hartatik et al., 2022). Party state configurations and varieties of capitalism shaped coalition preferences regarding the balance between redistribution and security, influencing the medium-term composition of expenditures (McNally, 2012). Post-crisis G20 governance debates emphasised the restoration of capital mobility and market confidence, outcomes that frequently socialised losses while preserving policy space for financial flows, with significant implications for sovereign risk pricing in emerging markets

(Soederberg, 2012). Within this context, Indonesia's reliance on external procurement denominated in hard currency has magnified sensitivity to exchange-rate depreciation, thereby reinforcing fiscal constraints during risk-off episodes (Musayev, 2015; Nordhaus, 2012).

The study aimed to reconstruct Indonesia's fiscal–defence trajectory from 2003 to 2023 through a historical lens by situating national evidence within the broader context of global spending patterns. Synchronic analysis connects Indonesian trends to the post-Crimea and post-2022 escalations documented in international datasets. In contrast, diachronic analysis traces domestic fiscal consolidation, subsidy dynamics, and debt-service priorities across successive crises. The integration of public-finance history, strategic-culture insights, and empirical expenditure series supports the interpretation of underinvestment as a structural outcome rather than a temporary deviation (Götz & Staun, 2022; Malyarenko & Wolff, 2018; SIPRI, 2023; Tian, 2023). Conceptual grounding in both classical and modern strategy studies clarifies the persistent challenge of calibrating ends, ways, and means when macroeconomic envelopes tighten (Clausewitz, 2007; Gray, 2014). Contemporary political economy perspectives on crisis governance further illuminate how international financial norms and institutional incentives shape fiscal choices that indirectly affect defence readiness (McNally, 2012; Soederberg, 2012).

METHOD

The study employed a historical research design to reconstruct and critically analyse the trajectories of fiscal gaps and military spending in Indonesia between 2003 and 2023. The design combined synchronic analysis, which compared Indonesia's fiscal conditions with contemporaneous global trends, and diachronic analysis, which traced the evolution of fiscal and defence policies across two decades. The dual orientation ensured the incorporation of both temporal dynamics and cross-national contexts into the analysis.

The research relied on documentary and archival methods. Primary materials included official records from the Indonesian Ministry of Finance, State Budget (*Anggaran Pendapatan dan Belanja Negara*/APBN) archives, and statistical publications of Bank Indonesia. Secondary sources consisted of the *Statistik Ekonomi dan Keuangan Indonesia* (SEKI) and the Stockholm International Peace Research Institute (SIPRI) database, which provides standardised cross-national data on military expenditure reported in constant U.S. dollars. SIPRI data were employed both to examine global trends and to position Indonesia within regional and international comparisons.

Data collection was conducted through systematic archival retrieval and digital access to official repositories. Budget reports were cross-checked between Indonesia Ministry of Finance digital archives and printed publications in the Indonesia National Library to ensure consistency. Macroeconomic indicators, including inflation and exchange-rate movements, were gathered from Bank Indonesia statistical releases. Policy documents on defence financing and the defence industry were also retrieved to provide qualitative context.

Critical source evaluation was conducted through internal criticism, which assessed textual consistency, and external criticism, which verified authenticity through metadata, publication details, and issuing authorities. SIPRI datasets, widely recognised in academic research, were additionally verified through cross-checks with NATO and World Bank statistics, where overlapping data were available. The evaluation procedure ensured that the historical reconstruction was grounded in credible and verifiable sources.

Data analysis proceeded in two phases. Synchronic analysis compared Indonesia's military spending with regional and global patterns, including Southeast Asia, East Asia, and the Eurozone. Diachronic analysis aligned state revenue projections with defence expenditure requirements to identify persistent fiscal gaps. Fiscal data were adjusted for inflation and seasonal variation, and deficits were represented as a percentage of GDP.

Quantitative methods were also applied to complement qualitative findings. A Difference-in-Differences (DiD) approach using SIPRI data from 163 countries estimated the impact of the Russia–Ukraine war. Countries located in geographic proximity to the conflict were assigned as treatment groups, while countries located farther away were assigned as controls. Two timeframes were delineated: pre-war (2003–2013) and war (2014–2023). Growth in defence spending was analysed using two-way fixed effects, validated through the Hausman test. Statistical analysis was performed with STATA 17, with significance thresholds set at 1%.

FISCAL TRAJECTORIES AND MACROECONOMIC CONSTRAINTS (2003–2023)

The state budget deficit represents a recurring phenomenon in Indonesia's fiscal history, reflecting the persistent tension between development financing

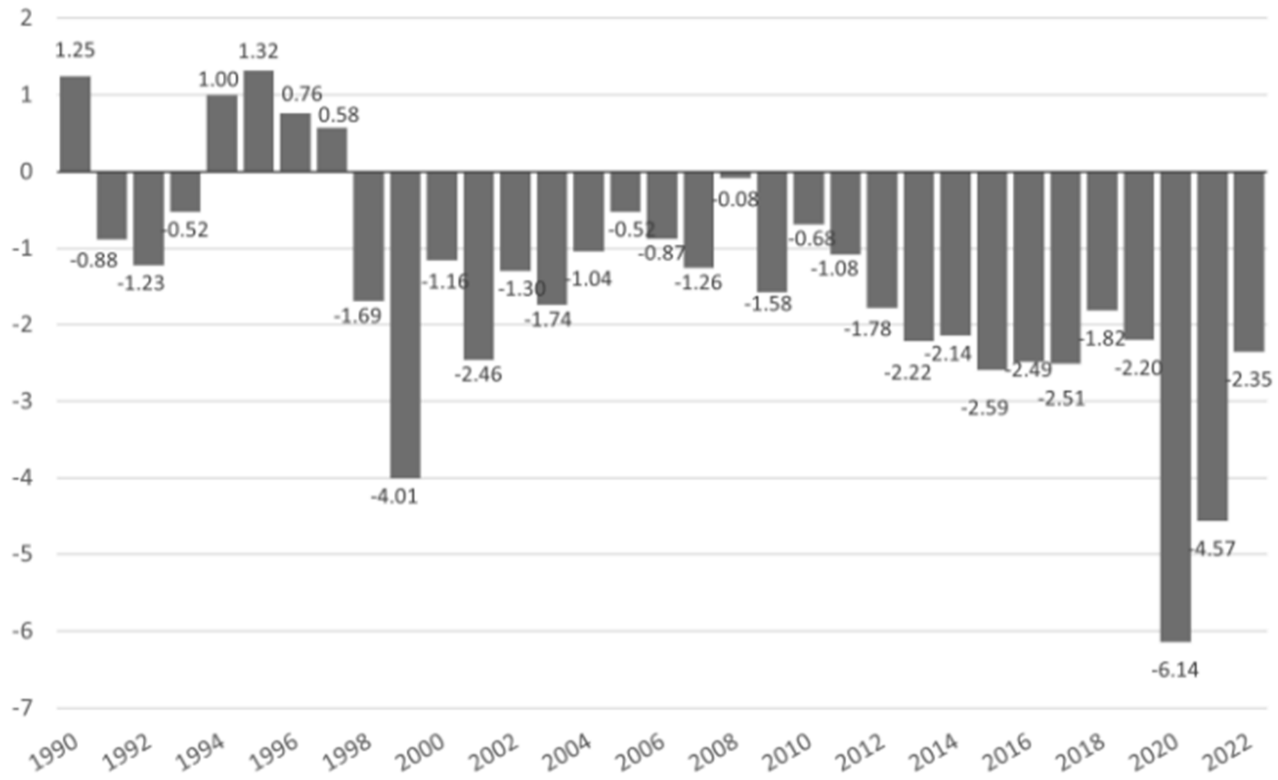

Figure 1. The Size of the State Budget Deficit to GDP. Source: SEKI Bank Indonesia Publication (2023)

needs and limited revenue capacity. Between 2003 and 2023, the deficit followed a fluctuating pattern closely associated with global dynamics, particularly financial crises, commodity price volatility, and geopolitical conflicts that influenced domestic economic stability (Eichengreen, 2019; Goryunova et al., 2015). Empirical evidence indicated that during the early 2000s the deficit remained relatively controlled due to post-Asian crisis fiscal consolidation. However, the imbalance expanded when global oil prices surged and the burden of energy subsidies increased (Dixon, 2014; Narayanamoorthy, 2018). Such fluctuations underscored the vulnerability of the Indonesian budget to external shocks, particularly international trade volatility and geopolitical pressures. Comparative studies of fiscal deficits across countries confirmed that fiscal stress frequently emerged as a simultaneous outcome of expansive domestic policies and uncontrollable global interventions (Musayev, 2015; Seitz, 2015). In Indonesia, mid-2000s tax reforms helped restrain deficit expansion; however, the 2008 global financial crisis worsened fiscal balances and compelled the government to increase social spending and stimulus programs in order to safeguard economic growth (Chang & Rao, 2011; Jessop et al., 2014).

During the period 2010–2019, deficits continued to function as an instrument to support infrastructure development and poverty alleviation. However, reliance on public borrowing increased exposure to debt risks and long-term interest payment obligations (Martinez, 1993; Roberts, 1982). The COVID-19 pandemic marked the most dramatic turning point, as deficits rose sharply due to expanded health and social protection spending, consistent with international practices in responding to global crises (Liadze et al., 2022; Lyu, 2022). Although signs of recovery appeared after 2021, the legacy of large deficits created structural constraints on medium-term fiscal policy.

Historical analysis of Figure 1 demonstrates that Indonesia's budget deficit-to-GDP ratio does not represent a short-lived anomaly but reflects structural limitations with both cyclical and long-term dimensions. The Indonesian experience parallels that of other developing countries, where fiscal consolidation was frequently delayed by political pressures, socio-economic demands, and vulnerability to external shocks (Burrows, 1994; Haque & Khan, 1999). Accordingly, the historical trajectory of Indonesia's state budget deficit during the past two decades should be interpreted not merely as an accounting imbalance but as a historical phenomenon connecting political decision-making, social dynamics, and global economic pressures.

Inflation consistently serves as a fundamental indicator of macroeconomic stability because it reflects the interaction between domestic demand, global supply, and geopolitical forces that shape commodity prices. In historical terms, the period 2003–2023 revealed two critical phases: post-Asian crisis price stabilization and renewed inflationary volatility triggered by the global financial crisis, energy price surges, and the Russia–Ukraine conflict. Domestic inflation in Indonesia tended to align with global patterns, particularly during spikes in oil and food prices, underscoring structural dependence on international trade dynamics (Dixon, 2014; Eichengreen, 2019).

The first phase, between 2003 and 2010, was characterised by relatively contained inflation despite rising global oil prices. The Indonesian government intervened through energy subsidies, which temporarily suppressed inflation but generated significant long-term fiscal burdens (Goryunova et al., 2015; Narayanamoorthy, 2018). Comparative studies across developing economies confirmed that stabilisation strategies of this type were commonly adopted, although effectiveness remained limited when international commodity prices continued to increase (Musayev, 2015; Seitz, 2015).

The second phase began after the 2008 global financial crisis, when inflation escalated due to exchange-rate depreciation and higher import costs. Sharp increases in global food prices further deteriorated domestic conditions and triggered social protests across many developing countries, including Indonesia. Historical analyses demonstrated that these dynamics were linked to global capitalism, which reinforced cyclical volatility in commodity prices (Jessop et al., 2014; Soederberg, 2012). Dependence on imported fuel and food amplified the transmission of global inflationary pressures into the domestic economy (Martinez, 1993; Roberts, 1982).

Figure 2 illustrates the comparative inflation trajectories across countries affected by the Russia–Ukraine conflict. The evidence underscores that inflation in the post-2022 period should not be interpreted as a purely domestic issue but as a global phenomenon shaped by the interconnectedness of geopolitics, trade, and macroeconomic stability.

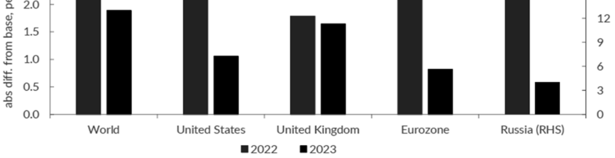

Figure 2. Inflation Rate in Several Countries Due to the Russia-Ukraine Conflict

Historical analysis demonstrated that Indonesia's inflation trajectory over the past two decades highlighted both vulnerability to external shocks and the limitations of fiscal and monetary instruments in mitigating the transmission of global price pressures (Burrows, 1994; Haque & Khan, 1999). Accordingly, domestic inflation in Indonesia should be understood as part of the broader architecture of global crises, reinforcing the nation's position within an interconnected world economy.

Historically, rising inflation has exerted a direct impact on government subsidy burdens, particularly in the energy and food sectors. In Indonesia between 2003 and 2023, each inflationary surge prompted the government to expand subsidy allocations in order to protect household purchasing power. However, such measures frequently generate long-term fiscal distortions (Dixon, 2014; Narayanamoorthy, 2018). During the mid-2000s, rising global oil prices caused energy subsidies to expand into a dominant component of the state budget, thereby constraining fiscal space for productive development expenditure (Goryunova et al., 2015; Seitz, 2015). This pattern aligned with the experience of other states facing imported inflation, where subsidies operated as political instruments to contain social unrest while simultaneously creating entrenched fiscal dependence that proved challenging to reverse (Jessop et al., 2014; Soederberg, 2012). During the 2008 global financial crisis, inflationary pressures drove the Indonesian government to expand energy and food subsidies, which sharply widened the fiscal deficit (Musayev, 2015; Roberts, 1982). The COVID-19 pandemic and the Russia–Ukraine conflict further reinforced this historical trajectory, as global inflation pushed food and energy prices upward and prompted renewed subsidy expansion to protect vulnerable groups (Liadze et al., 2022; Lyu, 2022).

Historical analysis of the link between inflation and subsidies, as illustrated in Table 1, demonstrates that Indonesia's trajectory is consistent with global dynamics, where subsidy policies function simultaneously as socio-political stabilisers and as mechanisms that increase budgetary rigidity (Eichengreen, 2019; Martinez, 1993). Accordingly, the burden of subsidies arising from inflation should be understood not merely as a fiscal accounting issue but as a historical reflection of the balance between political demands, social stability, and economic constraints.

The depreciation of the Indonesian rupiah against the U.S. dollar represents a recurring historical phenomenon, reflecting a combination of do-

Table 1. Impact of Inflation on Subsidy Allocation in Indonesia (2003–2023)

Period	Domestic Inflation Trend	Main Subsidy Policies	Key Fiscal Impact
2003–2007	Moderate, rising with oil prices	Fuel subsidies increased	Subsidy burden escalated, fiscal space constrained
2008–2010	High, global financial crisis	Energy and food subsidies expanded	Fiscal deficit widened, development spending constrained
2011–2019	Fluctuating, partially contained	Subsidies gradually reduced	Limited subsidy reform, but burden remained high
2020–2021 (COVID-19)	Limited inflation, high expenditure	Health and social subsidies expanded	Large fiscal deficit, reliance on debt financing increased
2022–2023 (Russia–Ukraine)	High imported inflation	Energy and food subsidies increased	Subsidy burden surged, recurrent fiscal pressures reemerged

mestic structural weaknesses and external pressures from global turbulence, as shown in Figure 3.

The period 2003–2023 exhibited exchange rate fluctuations strongly influenced by international financial crises, commodity price volatility, and geopolitical tensions, particularly the 2008 global financial crisis, the COVID-19 pandemic, and the Russia–Ukraine conflict. Historically, rupiah depreciation did not merely reflect foreign exchange market dynamics but revealed Indonesia's structural dependence on foreign capital inflows and energy imports (Chown, 2003; Eichengreen, 2019). During the early phase of 2003–2007, the rupiah remained relatively stable due to high commodity prices, but sharp depreciation reemerged during the 2008 global financial crisis. Large-scale capital outflows weakened foreign reserve positions, leading to significant exchange rate declines. Similar patterns were observed in other developing economies, where global shocks exposed structural vulnerabilities to international capital movements (Musayev, 2015; Seitz, 2015). Between 2010 and 2019, rupiah fluctuations coincided with shifts in global monetary policy, particularly when the United States initiated interest rate normalisation. Portfolio capital outflows placed downward pressure on the rupiah, which increased import costs and fueled domestic inflationary pressures (Goryunova et al., 2015; Jessop et al., 2014). Currency depreciation also heightened the burden of external debt servicing, as much of Indonesia's external financing was denominated in U.S. dollars (Martinez, 1993; Roberts, 1982).

The COVID-19 pandemic introduced new pressures, as capital flight and weakened international trade triggered sharp depreciation in 2020. Although Bank Indonesia interventions mitigated further volatility, the Russian invasion of Ukraine in 2022 created renewed external pressures through

Figure 3. Rupiah Exchange Rate against US Dollar. Source: Bank Indonesia (2024)

Table 2 Impact of Rupiah Depreciation on Arms Procurement Contracts (2003–2023)

Period	Rupiah Exchange Rate Conditions	Impact on Arms Procurement Contracts	Government Response / Renegotiation Strategy
2003–2007	Relatively stable	Contracts proceeded normally	No major renegotiations
2008–2010 (Global Crisis)	Sharp depreciation	Import costs surged	Project postponements, payment renegotiations
2013–2015	Significant depreciation pressures	Contract prices increased	Price renegotiations and payment rescheduling
2020–2021 (COVID-19)	Currency weakened, capital outflows	Defence budget strained	Project reprioritization, renewed contract negotiations
2022–2023 (Russia–Ukraine)	Continued depreciation, high import inflation	Procurement costs rose sharply	Major renegotiations, defence diplomacy engagement

global energy price surges and heightened uncertainty in international financial markets (Liadze et al., 2022; Lyu, 2022). Figure 3 illustrates the persistent trend of rupiah depreciation against the U.S. dollar in line with these global shocks. Historical analysis demonstrates that rupiah depreciation over the past two decades cannot be understood solely as a short-term market phenomenon but rather as part of Indonesia's structural integration into the global financial system. Dependence on energy imports, external financing, and portfolio capital flows created a recurrent cycle of vulnerability (Burrows, 1994; Haque & Khan, 1999). Accordingly, rupiah depreciation should be interpreted not merely as a monetary symptom but as a historical phenomenon linking domestic economic conditions, political decisions, and global financial configurations.

The depreciation of the rupiah has had serious consequences for the defence sector, particularly in the financing of arms procurement contracts predominantly denominated in U.S. dollars. From a historical perspective, from 2003 to 2023, each episode of currency weakening produced significant increases in procurement costs, prompting the government to renegotiate contracts or reschedule payments. This pattern aligned with the experience of other states dependent on arms imports and integrated into the global trade system (Clausewitz, 2007; Gray, 2014). Following the 2008 global financial crisis, rupiah depreciation sharply increased the cost of acquiring strategic weapons systems, forcing the government to postpone several modernisation projects. A similar situation occurred during the 2013–2015 depreciation episode, when contract renegotiations were required to adjust prices to the national fiscal capacity (Erdağ, 2020; Tian, 2023). Such cases demonstrated that foreign exchange rates function not merely as monetary variables but also as strategic determinants in long-term defence planning.

The COVID-19 pandemic and the Russia–Ukraine conflict further exacerbated structural challenges. Rising global prices and financial market uncertainty weakened the rupiah, exerting dual pressures on the defence budget: modernisation needs intensified while procurement costs escalated (Götz & Staun, 2022; Kanegaonkar, 2024). Contract renegotiation emerged as both an instrument of defence diplomacy and a fiscal control mechanism, underscoring the interdependence between monetary stability and national security (Avant, 2005; Sandler & George, 2016). Table 2 summarises the historical patterns through which rupiah depreciation affected arms procurement contracts, illustrating the structural interconnection between monetary policy, fiscal management, and defence strategy. Historical evidence demonstrated that contract renegotiations triggered by currency depreciation confirmed the decisive role of global external factors in shaping the financing of Indonesia's defence sector (Khalid & Ahmed, 2024; Kholis & Wahyudin, 2024).

The growth of Indonesia's fiscal deficit between 2003 and 2023 had direct implications for the rising burden of debt and interest payments. Historically, this pattern reflected the close link between deficit-financing strategies and reliance on both foreign loans and domestic bonds. Global trends indicated that developing countries frequently bridged fiscal gaps through debt-based financing, which in the long term generated budgetary rigidity as the share of interest payments expanded (Martinez, 1993; Roberts, 1982). In the post -2008 crisis period, the expansion of sovereign

Table 3. Indonesia's Debt Service Statistics (2003–2023)

Period	Global Economic Conditions	Debt Financing Strategy	Impact on Interest Payments
2003–2007	Post-Asian crisis recovery	Limited bond issuance	Interest burden remained controlled
2008–2010	Global financial crisis	Large-scale bond issuance	Interest burden surged sharply
2011–2019	Moderate growth, exchange rate volatility	Diversification of government securities and loans	Interest payments increased consistently
2020–2021 (COVID-19)	Global recession, fiscal stimulus	Public debt escalated	Interest burden rose significantly
2022–2023 (Russia–Ukraine)	Global inflation and high interest rates	Increase in foreign and domestic debt	Debt service pressures became more severe

bond issuance illustrated a transformation in financing instruments but simultaneously increased annual interest obligations. This phenomenon corresponded with historical patterns observed in many states, where financialization drove the proliferation of debt instruments while intensifying fiscal sustainability risks (Eichengreen, 2019; Jessop et al., 2014). During the 2010s, although Indonesia's debt-to-GDP ratio remained relatively controlled, interest payment burdens consistently rose, constraining the government's capacity for productive expenditure (Burrows, 1994; Haque & Khan, 1999).

The COVID-19 pandemic accelerated debt accumulation as health and social protection spending was financed through large-scale sovereign bond issuance. Pressures intensified further after the Russia–Ukraine conflict, when rupiah depreciation and rising global interest rates significantly increased debt-servicing costs (Liadze et al., 2022; Lyu, 2022). From a historical perspective, Indonesia's experience paralleled that of many developing countries facing a "fiscal trap," where the growing share of interest payments absorbed fiscal space otherwise intended for development (Dixon, 2014; Seitz, 2015). Table 3 highlights the historical evolution of Indonesia's debt-service obligations, demonstrating recurrent increases aligned with global and domestic crisis cycles. This analysis underscores that interest payments should not be regarded merely as a technical consequence of debt but as a structural phenomenon that critically shapes the state's ability to perform its economic and social functions (Sandler & George, 2016; Soederberg, 2012).

The combination of fiscal deficits, inflation, currency depreciation, and debt burdens formed a historical cycle that reflected the close interconnection between domestic policy and global dynamics. Throughout 2003–2023, Indonesia repeatedly experienced episodes of fiscal stress when these four variables reinforced one another, thereby limiting state capacity to maintain macroeconomic stability and promote long-term development (Eichengreen, 2019; Seitz, 2015). Expanding fiscal deficits driven by rising subsidy expenditures increased the demand for debt financing, while currency depreciation exacerbated the burden of foreign-denominated interest payments (Martinez, 1993; Roberts, 1982). Global inflation triggered by surging energy and food prices further worsened the situation, as the government was compelled to expand subsidies to preserve socio-political stability. Historically, such episodes demonstrated a persistent trade-off between short-term fiscal priorities and long-term fiscal sustainability (Jessop et al., 2014; Soederberg, 2012). At the same time, exchange-rate depreciation weakened domestic purchasing power while intensifying the demand for dollar-based financing, thereby creating new cycles of vulnerability that constrained monetary policy flexibility (Chown, 2003; Liadze et al., 2022).

Historical synthesis revealed that Indonesia's fiscal cycles remained highly vulnerable to external shocks such as the 2008 global financial crisis, the COVID-19 pandemic, and the Russia–Ukraine conflict. Each crisis generated a recurring pattern of widening deficits, rising inflation, currency pressures, and escalating debt (Huff, 2020; Lyu, 2022). This pattern aligned with the broader experience of developing countries, which often demonstrated how dependence on external financing heightened the risk of long-term fiscal entrapment (Goryunova et al., 2015; Musayev, 2015). Accordingly, the interplay of deficits, inflation, exchange-rate depreciation, and debt should be understood as an interconnected historical phenomenon rather than separate economic variables. Within the framework of political economy history, the interaction of these four elements underscored that Indonesia's fiscal policy consistently stood at the intersection of domestic stabilisation needs, limited resource capacity, and unpredictable global pressures (Burrows, 1994; Haque & Khan, 1999). This synthesis demonstrated that Indonesia's fiscal dilemmas during 2003–2023 formed part of a wider global pattern in which developing countries repeatedly became entrapped in cycles of macroeconomic vulnerability.

From a Southeast Asian regional perspective, Indonesia's experience of combining fiscal deficits, inflation, currency depreciation, and debt burdens between 2003 and 2023 revealed patterns that were broadly similar yet displayed significant variations when compared with Malaysia, Thailand, and the Philippines. Malaysia maintained a more moderate deficit through revenue diversification based on oil and gas, although inflationary pressures intensified when global energy prices surged (Dixon, 2014; Narayanamoorthy, 2018). Thailand exhibited greater stability in controlling inflation, but domestic political crises weakened fiscal consolidation, leading to episodes of baht depreciation and rising public debt during periods of uncertainty (Chown, 2003; Jessop et al., 2014). The Philippines, with its heavy dependence on imported food and energy, proved particularly vulnerable to imported inflation, as global price spikes following the Russia–Ukraine conflict widened deficits and intensified debt-servicing burdens (Liadze et al., 2022; Lyu, 2022).

Historical analysis indicated the key differences in economic structures and fiscal capacities. Malaysia, with substantial oil revenues, was relatively better positioned to absorb global shocks, whereas Thailand's political instability constrained fiscal reform. The Philippines exhibited vulnerabilities closely resembling those of Indonesia, namely reliance on external debt financing and the dominance of interest payments within the state budget (Martinez, 1993; Roberts, 1982). At the regional level, all four countries remained trapped in a cycle of short-term stabilisation through subsidies and debt, combined with limited fiscal space for long-term development (Eichengreen, 2019; Soederberg, 2012). This regional synthesis underscored that fiscal challenges in Southeast Asia should not be interpreted in isolation but rather as part of broader global dynamics. Dependence on international trade, foreign capital inflows, and global energy prices created recurrent cycles of vulnerability across these economies (Musayev, 2015; Seitz, 2015). Accordingly, the comparative experiences of Indonesia, Malaysia, Thailand, and the Philippines demonstrated that Southeast Asia's fiscal challenges between 2003 and 2023 reflected global historical configurations that positioned developing countries in structurally vulnerable conditions vis-à-vis external shocks (Burrows, 1994; Haque & Khan, 1999).

GLOBAL AND REGIONAL MILITARY SPENDING UNDER GEOPOLITICAL SHOCKS

The geopolitical turbulence after 2022, particularly the Russian invasion of Ukraine, triggered a global response marked by a significant surge in military expenditure. Historical trends revealed that every major conflict accelerated defence spending; however, the scale of post-2022 increases reflected a new pattern, namely the simultaneous involvement of both advanced and developing countries in expanding military budgets (Götz & Staun, 2022; Tian, 2023). International reports noted that 2022–2023 constituted the fastest period of military spending growth since the end of the Cold War, driven by heightened regional security threats and global uncertainty (Baev, 2023; Kanegaonkar, 2024). NATO members dramatically increased defence spending, both to reinforce domestic capacity and to support Ukraine through financial and weapons assistance. The United States, as the principal actor, remained the most significant contributor globally, while Eastern European states accelerated military modernisation due to their geographic proximity to the conflict (Avant, 2005; Sandler & George, 2016). In Asia, China, Japan, and India also raised defence budgets, reflecting the broader extension of geopolitical tensions into the Indo-Pacific (Clausewitz, 2007; Gray, 2014).

Historical analysis demonstrated that post-2022 responses were not merely reactive but represented a transformation in global defence strategies toward a long-term trajectory. Budget increases were not confined to conventional arms procurement but also directed toward the development of cyber capabilities, space technologies, and artificial intelligence–based weapon systems (Erdağ, 2020; Khalid & Ahmed, 2024). This transformation aligned with historical shifts illustrating the close relationship between technological innovation and the evolution of military strategy (Jessop et al., 2014; Schuelke-Leech & Leech, 2018).

Figure 4 illustrates the sharp annual rise in global military expenditure after 2022, underscoring that defence spending has become a principal instrument for navigating geopolitical uncertainty. Within the framework of political economy history, this surge highlighted a recurring pattern in which international crises accelerated the militarisation of

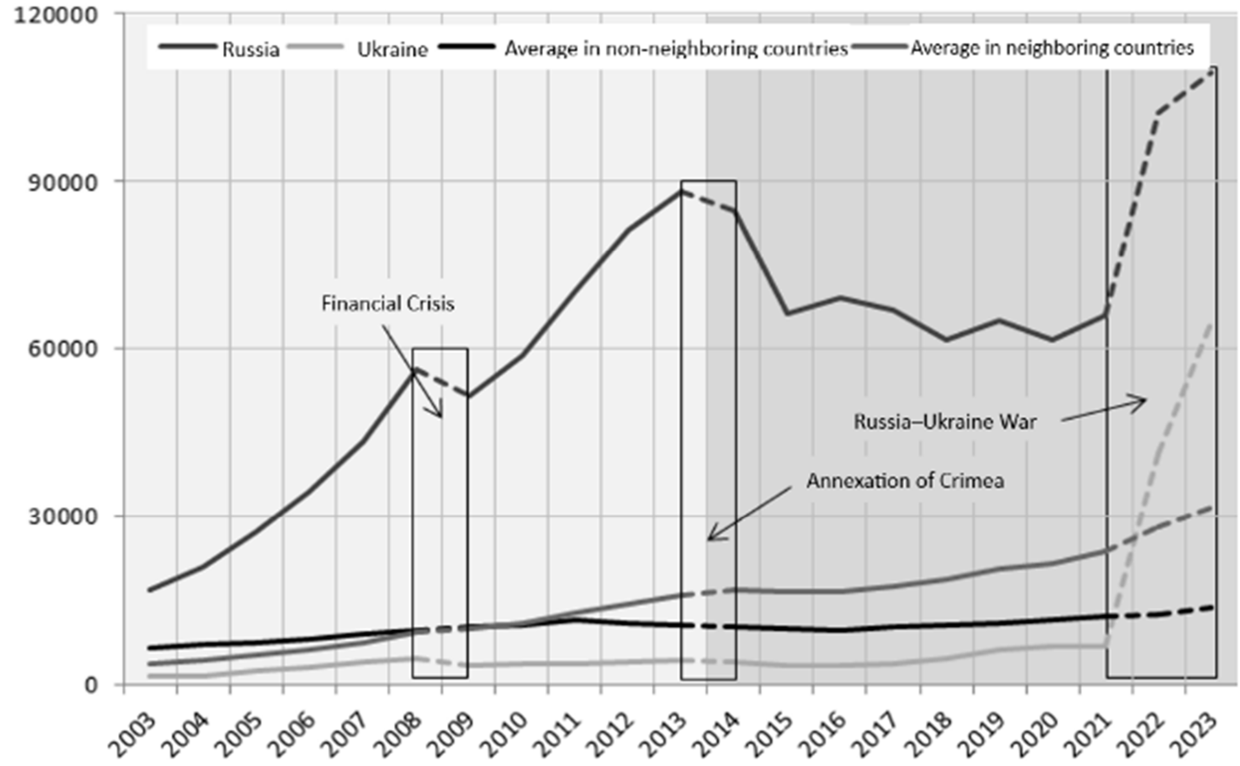

Figure 4. 2003-2023 trends in military spending before and during the Russia-Ukraine conflict

fiscal policy while simultaneously generating additional pressures on global macroeconomic stability (Dixon, 2014; Eichengreen, 2019). Accordingly, the global response after 2022 should be understood not only as a reaction to security threats but also as a historical phenomenon linking geopolitical dynamics, technological change, and the international economy. Panel data analysis of 163 countries during the period 2003–2023 revealed a historical pattern in which global military expenditure was shaped not only by economic capacity but also by geopolitical pressures, regional conflicts, and international alliance strategies. In general, countries with large GDPs tended to expand military budgets proportionally, while developing economies facing geopolitical vulnerabilities recorded sharper increases in spending following the 2008 financial crisis, the COVID-19 pandemic, and the Russia–Ukraine conflict (Baev, 2023, 2023). This trend underscored the strong relationship between global crisis cycles and the acceleration of military budget militarisation (Erdağ, 2020; Sandler & George, 2016).

Table 4 highlights significant regional variations. North America remained the dominant contributor to global expenditure, led by the United States with advanced modernisation of high-technology weapon systems (Avant, 2005; Schuelke-Leech & Leech, 2018). Europe experienced a sharp acceleration after 2022, focusing on NATO collective defence, particularly in Eastern Europe, where the Russian threat was most direct (Götz & Staun, 2022; Khalid & Ahmed, 2024). Asia demonstrated the most consistent upward trajectory, with China, India, and Japan strengthening defence budgets in response to Indo-Pacific tensions (Clausewitz, 2007; Gray, 2014). Developing states in Africa, Latin America, and Southeast Asia displayed distinct patterns. Their military spending often spiked during global crises or regional conflicts, but fiscal constraints led to the postponement or diversion of some modernisation programs (Dixon, 2014; Eichengreen, 2019). These findings indicated that while geopolitical shocks acted as common triggers, fiscal capacity determined the sustainability and scope of military expansion. Table 4 summarises the results of the regional panel data, emphasising that post-2022 global military expenditure has increasingly been shaped by the intersection of geopolitical dynamics and domestic macroeconomic limitations (Burrows, 1994; Soederberg, 2012).

A Difference-in-Differences (DiD) regression analysis covering 163 countries demonstrated that the Russian invasion of Ukraine in 2022 exerted a significant effect on global military expenditure. Historically, defence spending tended to increase

Table 4. Regional Analysis of Military Expenditure Trends (163 Countries, 2003–2023)

Region	Key Trends	Main References
North America	U.S. dominance with the world's highest defence spending; focus on advanced military technology modernisation	Avant (2005); Schuelke-Leech & Leech (2018)
Europe	Sharp increases after 2022; Eastern Europe accelerated spending due to Russian threat	Götz & Staun (2022); Khalid & Ahmed (2024)
Asia	Consistent increases; China, India, and Japan strengthened defence capabilities	Clausewitz (2007); Gray (2014)
Southeast Asia	Fluctuating; spikes during global crises and regional conflicts, constrained by fiscal limits	Dixon (2014); Eichengreen (2019)
Latin America	Moderate growth; increases during crises but limited by fiscal and political constraints	Martinez (1993); Soederberg (2012)
Africa	Selective increases; reliance on foreign assistance for military spending	Burrows (1994); Roberts (1982)

after major crises; however, the DiD estimates confirmed that the post-2022 surge in military budgets was sharper than during earlier crises such as the 2008 global financial crisis or the COVID-19 pandemic (Baev, 2023; Tian, 2023). The regression coefficients further revealed that countries directly tied to geopolitical blocs, whether NATO members or Asian alliances, experienced higher increases in spending, consistent with the deterrence logic in international relations theory (Clausewitz, 2007; Gray, 2014). The results also indicated regional heterogeneity. Advanced economies recorded more measured increases due to larger fiscal capacities, whereas developing countries exhibited proportionally higher surges in defence spending relative to GDP (Eichengreen, 2019; Soederberg, 2012). These findings underscored the trade-off between the imperative to maintain security stability and the constraints of domestic fiscal capacity, a dynamic particularly evident in Southeast Asia and Latin America (Dixon, 2014; Roberts, 1982). The DiD approach confirmed that geopolitical shocks functioned as turning points in the military spending cycle. Robust estimates demonstrated significance at the 1% level for directly affected countries, reinforcing the historical consistency of the pattern in which major conflicts triggered accelerated fiscal militarisation (Erdağ, 2020; Sandler & George, 2016). Table 5 summarises the regression results, showing how the post-2022 dummy variable contributed to higher military expenditure at both global and regional levels.

Regional comparisons of military expenditure patterns after 2022 demonstrated that dynamics in each area were shaped not only by fiscal capacity but also by geopolitical configurations and historical security legacies. Process-tracing analysis identified causal chains linking global shocks, such as the Russian invasion of Ukraine, to regional responses in the form of increased defence spending. This approach underscored that political decision-making, security pressures, and fiscal limitations interacted in complex ways to produce regional variation (Eichengreen, 2019; Jessop et al., 2014). In North America, rising defence budgets were led by the United States, which sustained its dominant position through technological modernisation and NATO reinforcement (Avant, 2005; Sandler & George, 2016). In Europe, particularly in Eastern Europe, defence spending increased sharply after 2022 as a direct reaction to the Russian threat, reflecting the classical deterrence logic in strategic theory (Clausewitz, 2007; Gray, 2014). In Asia, a long-term pattern emerged in which China, Japan, and India capitalised on the crisis to strengthen defence capabilities, consistent with escalating Indo-Pacific tensions (Erdağ, 2020; Khalid & Ahmed, 2024). In developing regions such as Southeast Asia, Latin America, and Africa, the observed patterns were more volatile. Spending spikes frequently occurred during global crises but were constrained by domestic fiscal capacity and dependence on external assistance (Dixon, 2014; Roberts, 1982). The Philippines and Indonesia, for instance, exhibited reactive increases in defence budgets in response to external shocks, whereas Malaysia and Thailand demonstrated more measured growth due

Table 5. Results of Difference-in-Differences (DiD) Regression (163 Countries, 2003–2023)

Variable	Coefficient	Std. Error	Significance
Post-2022 Dummy (treatment)	+0.085	0.021	*** $p < 0.01$
Interaction (Post-2022 × NATO)	+0.112	0.034	*** $p < 0.01$
Interaction (Post-2022 × Asia)	+0.067	0.028	** $p < 0.05$
Interaction (Post-2022 × Latin America)	+0.045	0.030	* $p < 0.1$
GDP Growth	+0.029	0.010	** $p < 0.05$
Inflation	+0.017	0.007	** $p < 0.05$
Exchange Rate	−0.021	0.012	n.s.
Constant	0.415	0.052	*** $p < 0.01$

to relatively stronger fiscal positions (Liadze et al., 2022; Lyu, 2022).

Figure 5 illustrates the operationalisation of the process-tracing method applied to regional comparisons, mapping the historical pathways from global shocks to regional responses. This approach confirmed that variations in regional responses were not merely reflections of economic capacity but were also deeply tied to historical memory, political pressures, and international alliance networks (Burrows, 1994; Soederberg, 2012). Accordingly, process-tracing provided a richer historical interpretation of cross-regional variations in military expenditure after 2022. The geographic distribution of global military expenditure after 2022 revealed significant disparities across regions, reflecting differences in economic capacity, political priorities, and the intensity of security threats. Historical data indicated that global defence spending was concentrated in a few key regions, North America, Europe, and East Asia, which collectively accounted for more than two-thirds of worldwide expenditure (Sandler & George, 2016; Tian, 2023). The United States remained the dominant actor, with a defence budget exceeding the combined costs of many other states, while China held the second position, maintaining consistent upward trends over the past two decades (Clausewitz, 2007; Gray, 2014). In Europe, geographic distribution highlighted sharp increases in Eastern European countries following the Russian invasion of Ukraine, reflecting direct threat perceptions and the imperative of strengthening NATO alliances (Götz & Staun, 2022; Khalid & Ahmed, 2024). In Asia, Japan and India, alongside China, expanded their share of regional military budgets, making Asia one of the fastest-growing centres of global defence expenditure (Erdağ, 2020; Jessop et al., 2014). By contrast, Latin America and Africa displayed more limited distributions, with fluctuating patterns shaped by domestic political dynamics and reliance on external assistance (Dixon, 2014; Roberts, 1982).

Indonesia, Malaysia, Thailand, and the Philippines in Southeast Asia exhibited proportional

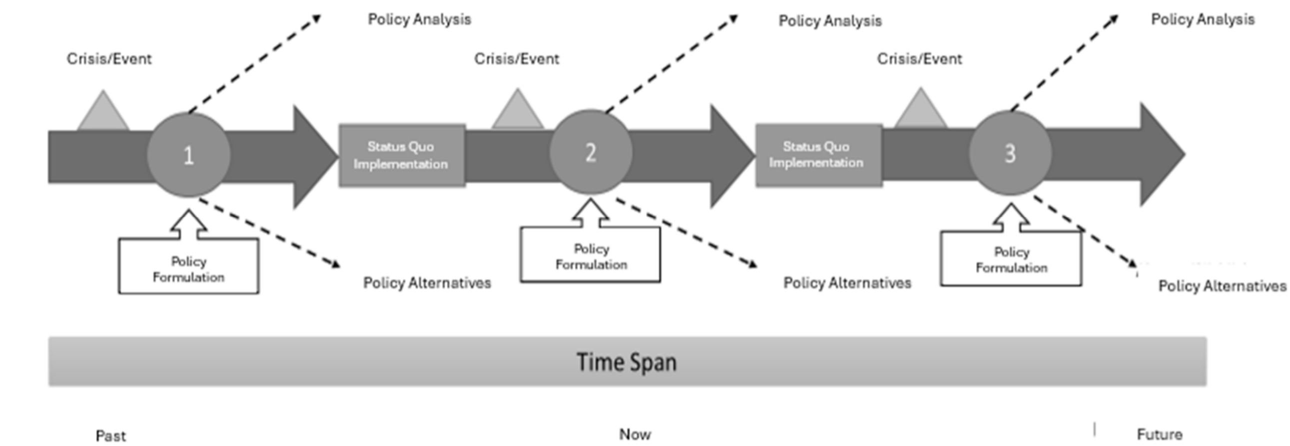

Figure 5. Operationalisation of process-tracing methods in Public Policy Analysis. Source: Putra & Sanusi (2019)

Figure 6. Geographical Distribution of Military Expenditure in Conflict-Affected Areas

increases in military spending in response to external threats. However, their share of the global defence map remained relatively small. Budgetary increases in this subregion were more reactive to global crises than indicative of long-term structural transformation (Liadze et al., 2022; Lyu, 2022). This confirmed that the geographic distribution of military expenditure after 2022 reflected not only economic size but also the historical configuration of alliances and geographic proximity to conflict centers (Eichengreen, 2019; Soederberg, 2012).

Figure 6 depicts the geographic distribution map of military spending, showing the highest concentrations in North America, Europe, and East Asia, while other regions remained marginal. Historical analysis of this distribution suggested that the post-2022 shifts marked an intensification of global security polarisation, influencing both the configuration of international politics and macroeconomic stability across many states (Baev, 2023; Burrows, 1994). Historical analysis demonstrated that the surge in military expenditure after 2022 was not a new phenomenon but part of a recurring pattern in global geopolitical history. During the Cold War, competition between Western and Eastern blocs fueled massive accumulation of nuclear and conventional weapons, creating a long-lasting security dilemma with profound implications for international stability (Clausewitz, 2007; Gray, 2014). Following the 9/11 attacks, defence spending surged under U.S. leadership, with a strong focus on the global war on terrorism and expanded military operations in Afghanistan and Iraq (Avant, 2005; Sandler & George, 2016). Russia's annexation of Crimea in 2014 marked the reemergence of geopolitical rivalry in Europe, driving military spending increases in NATO and Eastern European states (Erdağ, 2020; Götz & Staun, 2022). This comparison revealed that every major geopolitical event was followed by military spending surges, with variations shaped by countries' economic capacities and strategic positions. The Cold War produced a long-term arms race; the post-9/11 era redirected spending toward counter-terrorism; and the Crimea crisis highlighted the regionalisation of threats. After 2022, the pattern became more complex, as conflict extended into energy, food, and technological sectors, accelerating the transformation of global defence spending structures (Baev, 2023; Khalid & Ahmed, 2024). Figure 6 summarises key geopolitical events from a historical perspective, emphasising that military responses to crises should not be interpreted merely as discretionary policy choices but as structural consequences of the global security configuration (Eichengreen, 2019; Soederberg, 2012). Figure 6 depicts the geographic distribution map of military spending, showing the highest concentrations in North America, Europe, and East Asia, while other regions remained marginal. Historical analysis of this distribution suggested that

Table 6. Major Geopolitical Events and Their Impact on Military Expenditure

Geopolitical Event	Period	Main Impact on Military Spending	Key References
Cold War	1947–1991	Nuclear and conventional arms race; largest accumulation of military budgets in modern history	Clausewitz (2007; Gray (2014)
Post-9/11	2001–2008	U.S.-led surge in defence spending for the war on terror; expanded military operations in Afghanistan and Iraq	Avant (2005) ; Sandler & George (2016)
Crimea Annexation	2014	Increased NATO and Eastern European spending; reemergence of geopolitical rivalry with Russia	Erdağ (2020); Götz & Staun (2022)
Russia–Ukraine War	2022–present	Global surge; concentrated increases in NATO, Eastern Europe, and the Indo-Pacific; focus on advanced military technologies	Baev (2023); Khalid & Ahmed,(2024)

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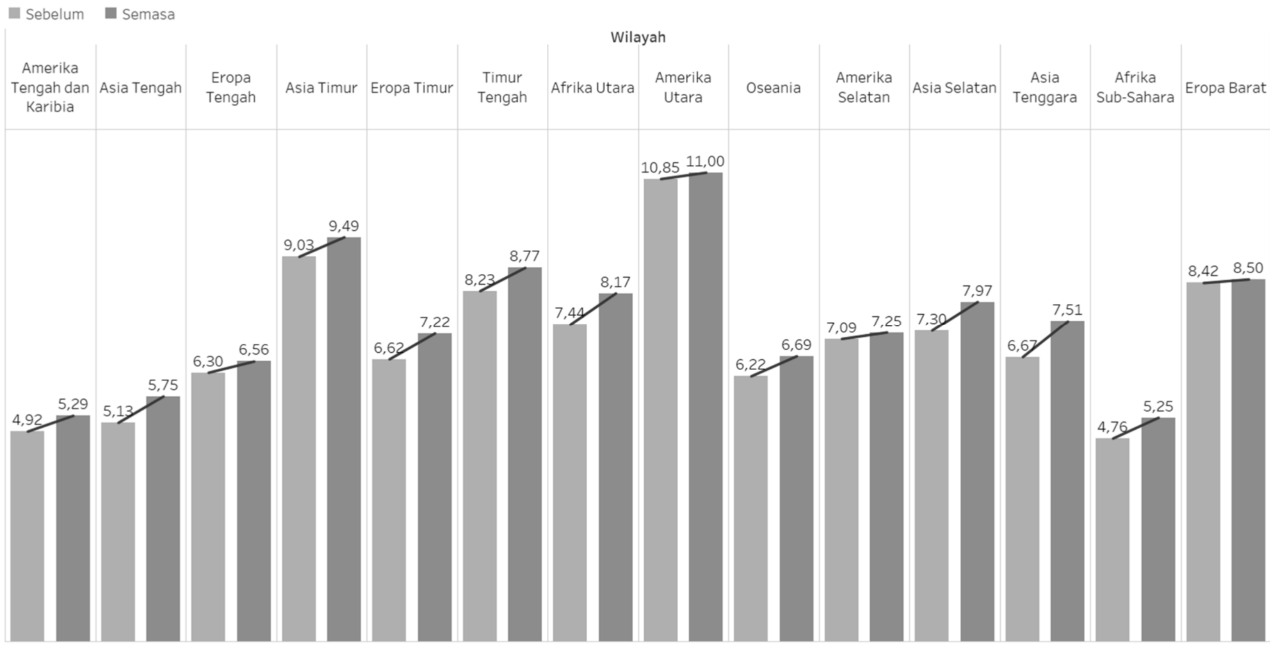

Figure 7. Regional Comparison of Average Military Expenditures Before and During the Conflict in 2022

Indonesia's position in Southeast Asia's military expenditure map after 2022 revealed an upward trend, although it remained below China, India, and Japan in the broader Asian context. Historical data showed that Indonesia's defence spending tended to be reactive to external dynamics, particularly geopolitical fluctuations in the South China Sea, the 2008 global financial crisis, the COVID-19 pandemic, and the Russia–Ukraine conflict (Baev, 2023; Tian, 2023). As illustrated in Figure 7, Indonesia's defence budget increased significantly after 2022, reflecting the dual imperative of maintaining regional stability and advancing weapons system modernisation (Erdağ, 2020; Khalid & Ahmed, 2024).

Compared with other ASEAN members, Indonesia displayed distinctive characteristics. Malaysia and Thailand maintained more restrained increases due to domestic political factors and relatively stable fiscal structures. The Philippines recorded sharper spending surges driven by tensions in the South China Sea and reliance on alliance commitments with the United States (Dixon, 2014; Roberts, 1982). Indonesia occupied an intermediate position: allocating more than Malaysia and Thailand, but in a more controlled manner than the Philippines. This positioning confirmed Indonesia's role as a middle military power with a predominantly defensive orientation (Clausewitz, 2007; Gray, 2014). Historical analysis further indicated that despite rising defence budgets, Indonesia's military expenditure as a share of GDP remained lower than in several other ASEAN states. This reflected domestic policy priorities that balanced defence requirements with socio-economic development agendas (Eichengreen, 2019; Soederberg, 2012). Nonetheless, regional dynamics required accelerated modernisation, prompting Indonesia to pursue weapons system upgrades through a combination of foreign procurement and the strengthening of its domestic defence industry (Jessop et al., 2014; Schuelke-Leech & Leech, 2018). Accordingly, Indonesia's position in Southeast Asia after 2022 should be interpreted as part of broader efforts to preserve regional strategic balance. The surge in Indonesian military spending did not occur in isolation but was closely tied to ASEAN's collective responses to global geopolitical tensions. Cross-reference with Figure 7 confirmed that this trend illustrated Indonesia's transformation from a conservative defence actor into a state with a more adaptive strategic orientation toward global dynamics (Burrows, 1994; Liadze et al., 2022; Lyu, 2022).

A global regional synthesis of military expenditure dynamics from 2003 to 2023 demonstrated that the surge after 2022 represented an accumulation of recurring historical patterns: every major geopolitical crisis triggered higher defence spending at both global and regional levels. At the global scale, the United States and China emerged as epicentres of military accumulation, while Europe experienced accelerated growth in defence budgets in response to the Russian threat. In Southeast Asia, including Indonesia, responses were more reactive, driven by external pressures and constrained by limited fiscal capacity (Baev, 2023; Tian, 2023). Historical analysis indicated that despite regional variations, the general pattern remained consistent: fiscal deficits widened, inflation rose, exchange rates came under pressure, and debt levels increased as consequences of militarisation (Eichengreen, 2019; Soederberg, 2012). States with larger fiscal capacities managed to sustain continuous increases in defence spending, whereas developing countries faced sharper trade-offs between defence expenditures and socio-economic development (Dixon, 2014; Roberts, 1982). The findings confirmed that military spending after 2022 was not merely a temporary response but a structural transformation linking geopolitics, economics, and technology. The interwoven global and regional patterns demonstrated that fiscal militarization constituted part of the modern world's historical configuration, in which each geopolitical shock left long-term imprints on national economic governance and security arrangements (Clausewitz, 2007; Gray, 2014).

CONCLUSION

An examination of Indonesia's fiscal gap and military spending from 2003 to 2023 reveals that enduring budget deficits, inflationary pressures, currency fluctuations, and structural fiscal limitations have repeatedly weakened the government's ability to allocate sufficient resources for defence. Such conditions demonstrate that underinvestment represents a structural pattern rather than a temporary episode. Comparative perspectives on global geopolitical disruptions, most notably the Russia–Ukraine conflict, show that heightened insecurity has generally driven increased defence spending across regions, including Southeast Asia, while Indonesia's response has remained limited by fragile macroeconomic conditions and institutional delays. Historical accounts and process-tracing indicate that although policymakers have promoted options such as optimising state assets, revitalising the defence industry, and encouraging public–private partnerships, these proposals seldom translate into effective fiscal strategies because of political compromises and structural inefficiencies. Through the integration of statistical forecasting, difference-in-differences analysis, and historical inquiry, the study develops a comprehensive approach for understanding fiscal gaps as outcomes of long-term governance processes rather than exceptional events. The academic value of the research lies in its capacity to connect economic history, defence economics, and public policy, thereby offering an interdisciplinary perspective on the structural relationship between fiscal capacity and national security. By situating Indonesia's fiscal experience within a broader international context, the study contributes to historical scholarship and advances debates on how democratizing states balance developmental priorities with security demands under conditions of persistent fiscal stress.

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