

Indonesia Defense Market - Growth, Trends, Covid-19 Impact, and Forecasts (2023 - 2028)

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Report description:

The Indonesian defense market is expected to witness a CAGR of more than 3.2% during the forecast period, 2022-2031.

The outbreak of COVID-19 has adversely impacted the economy of Indonesia and forced the country to impose defense budget cuts. Nevertheless, existing procurement and development plans have only faced slight delays but no cancellations.

Though Indonesia has maintained strong diplomatic relations with its neighbors and other foreign countries over the years, the changing geopolitical climate of the region and the increasing maritime disputes have forced the country to enhance its defense arsenal in recent years.

With many of its defense systems aging, the country has been considering large-scale upgrades and replacement of the systems to effectively respond to the ever-changing strategic environment surrounding the country. The push toward modernization is driving the market growth in the country.

Most of the procurement plans of the country are aimed at enhancing its indigenous defense manufacturing capabilities. While the local players are investing in the development of newer generation weapon systems and platforms, the government is focusing on enabling technology transfer partnerships between foreign and local players to improve the capabilities of the latter.

Indonesia Defense Market Trends

Increasing Investments for Military Modernization

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Indonesia has been working on defense modernization since the beginning of the last decade. With many of its defense systems aging, the country has been considering large-scale upgrades and replacement of the systems to effectively respond to the ever-changing strategic environment surrounding the country. The recent loss of a 40-year-old Indonesian submarine has again highlighted the need for the replacement of many of its military platforms. The Minimum Essential Force (MEF) program, a 15-year scheme or medium-term plan designed to support the armed forces in replacing their obsolete weaponry, was introduced in 2010. The country entered the third and final phase of its long-term modernization program in 2020. In June 2021, Indonesia unveiled another plan to spend USD 125 billion through to the mid-2040s to upgrade and modernize its military arsenal. The total period runs through a period of five strategic plans, each lasting five years. The first strategic plan runs from 2020 to 2024 and coincides with the final phase of the Minimum Essential Force (MEF) program. The document proposes funding of USD 79 billion for defense equipment during this 25-year period, USD 32.5 billion for sustainment, and the remaining USD 13.4 billion for interest payments on foreign loans. With the investment made during the 2021-24 period, the country seeks to increase Indonesia's bargaining position to obtain defense equipment at more affordable prices. Spending priorities include strengthening the domestic defense industry, procurement of aircraft and naval submarines, communication systems, intelligence, and border security, as well as guided munitions and air-defense systems.

The military planned to reach an ideal defense posture by 2025 or 2026 and would then not need to buy major military hardware until at least 2044 (although achieving this is unlikely with the current rate of progress). For acquisitions during the forecast period, the government plans to secure foreign loans for the modernization of defense equipment that is expensive and high-tech but lasts long to maintain sovereignty, territorial integrity, and national security. Such a push for military modernization is expected to drive the growth of the defense market in the country during the forecast period.

Indonesia Focusing on Strengthening its Naval Vessel Fleet

Indonesia is embarking on a program to modernize its naval fleet and construct a more effective deterrent to confront future incursions by Chinese ships into the economic exclusion zone (EEZ) along its northern maritime border. The naval fleet comprises frigates, corvettes, submarines, fast attack craft, minesweepers, landing transport ships, support vessels, and training ships. Indonesia currently has four submarines, but only one is fully operational. Indonesia recently lost one of its submarines (Cakra Class) while conducting a naval exercise in April 2021. The other vessel from Cakra Class was undergoing MRO at PT PAL Indonesia facilities as of January 2020. In April 2019, Indonesian shipbuilder PT PAL launched KRI Alugoro (405), the third Nagapasa-class submarine which was assembled in Indonesia under a transfer of technology agreement with South Korean shipbuilder Daewoo Shipbuilding & Marine Engineering (DSME). In addition to launching the KRI Alugoro, Indonesia has also signed a contract with DSME worth an estimated USD 1 billion for the construction of an additional three submarines in the class. The government has plans to increase the submarine count to 10 by 2029. In August 2021, Indonesian shipbuilder PT Lundin launched a trimaran hull fast attack craft for the country's navy. The vessel, which will be in service as KRI Golok once commissioned, replaces a similar vessel, KRI Klewang, that was gutted in a 2012 fire. The new vessel is made from composite materials, which are lighter and stronger, can better withstand corrosion, and is less likely to be detected by the enemy. At the end of March 2021, Japan and Indonesia signed a military cooperation agreement for the delivery of military equipment. As part of this collaboration, Japan could deliver up to 8 Mogami-class stealth frigates to Indonesia, also known as 30FFM, 30FF, 30DX, or 30DEX. In January 2020, Indonesian state-owned shipbuilder PAL was awarded a contract to build four additional KCR-60M or Sampari-class fast attack craft for the country's navy. The four missile-capable boats will be delivered under a contract valued at approximately IDR 2.737 trillion (USD 195 million). The class has an overall length of 59.8 m, an overall beam of 8.1 m, and a hull draught of 2.6 m. Powered by two MTU 20V 4000 M73L diesel engines, the vessel can attain a maximum speed of 28 kt and a maximum range of 2,400 n miles at 20 kt. Ongoing and future naval projects will drive the growth of the sea-based vehicles segment during the forecast period.

Indonesia Defense Market Competitor Analysis

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Indonesia has been dependent on foreign defense contractors for the procurement of major military equipment in the past. However, in recent years, Indonesia has focused more on developing its state-owned companies. PT PAL Indonesia, PT Pindad, PT Dirgantara Indonesia, Airbus SE, FINCANTIERI SpA, and Daewoo Shipbuilding & Marine Engineering Co. Ltd are some of the prominent players in the market. Recent multi-million-dollar contracts from the government have helped the local companies to prosper. However, budget constraints can hamper the growth opportunities of these companies in the near future. Close relationships with other Asian countries like Japan and India have helped the country's defense industry to grow and even contribute to the economy through exports. Joint defense production plans can further enhance the local defense industry supply chain in the future. Thus, as Indonesia plans for a major modernization of military equipment, there is a significant growth opportunity for the defense companies to increase their presence in the Indonesian defense market.

Additional Benefits:

The market estimate (ME) sheet in Excel format
3 months of analyst support

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