Future of the Indonesian Defense Industry – Market Attractiveness, Competitive Landscape and Forecasts to 2020

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Summary

“Future of the Indonesian Defense Industry – Market Attractiveness, Competitive Landscape and Forecasts to 2020” report offers the reader detailed analysis of the defense budget over the next five years. Alongside it offers insights into the market opportunities and entry strategies adopted by foreign OEMs (original equipment manufacturers) to gain a market share in the Indonesian defense industry.

The report provides detailed analysis of the current industry size and growth expectations during 2016-2020, including highlights of the key growth stimulators. It also benchmarks the industry against key global markets and provides detailed understanding of emerging opportunities in specific areas.

Key Findings

Indonesia, the world’s sixteenth largest economy, is currently one of the most attractive defense markets in South Asia and recorded a CAGR of XX% during 2011–2015 to reach US$XX billion in 2015. The country’s increasing military expenditure is reflected in the ongoing modernization drive to replace its aging military hardware along with building its indigenous defense industrial base. Furthermore, continuous territorial disputes and the country’s vulnerability to natural disasters have led to the upgrade of military equipment such as military transport aircraft, rescue helicopters, and naval vessels. As a percentage of GDP, Indonesia’s defense expenditure is expected to increase from XX% in 2015 to XX% in 2020, due to the country’s continuous procurement and modernization of military equipment. The country’s cumulative expenditure on the procurement of advanced military hardware is projected to be US$XX billion over the next five years. The various procurements expected to be implemented over the forecast period include multi-role aircraft, submarines, cyber security, armored vehicles, and missile defense systems, among many others. Although the country historically procured the majority of its defense imports from Russia, it is now focusing on opening its market to various suppliers either through direct government-to-government deals or by establishing joint ventures and partnerships. The country’s homeland security market, which valued US$XX billion in 2015, will primarily be driven by terrorism and border security to control organized crime, which includes illegal immigration, illegal fishing, human trafficking, drug smuggling, and kidnapping.

Key Features and Benefits

The report provides detailed analysis of the Indonesian defense industry during 2011–2020, including the factors that influence the military expenditure. It provides detailed expectations of growth rates and projected total expenditure.

It provides the manufacturers with insights on market opportunities along with industry structure and dynamics prevalent in the country. In addition, the report focuses on the regulations governing the Indonesian defense industry and the potential market entry strategies with an expert analysis of the competitive structure.
1. Market Attractiveness and Emerging Opportunities

1.1. Defense Market Size Historical and Forecast

1.1.1. Indonesian defense budget anticipated to increase at a CAGR of XX% during 2016–2020

In 2015, the Indonesian government allocated US$XX billion to its total defense budget, recording a CAGR of XX% during 2011–2015. The country’s defense budget is further expected to grow at an estimated CAGR of XX% over the forecast period, to reach US$XX billion in 2020. Indonesia, a trillion dollar economy that has grown at approximately 6% annually during the last five years, is the emerging defense spender in the South Asian economies, owing to its focus on the modernization of its armed forces. The increased military budget is driven by the need to upgrade existing aging equipment along with increased focus on developing the indigenous defense industry.

The following table and figure show Indonesian defense expenditure during 2011–2015:

<table>
<thead>
<tr>
<th>Year</th>
<th>Defense expenditure (US$ bn)</th>
<th>Defense growth percentage</th>
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</thead>
<tbody>
<tr>
<td>2011</td>
<td></td>
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<td>2012</td>
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<td>2014</td>
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<tr>
<td>2015</td>
<td></td>
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</tbody>
</table>

CAGR 2011-2015

Source: Ministry of Defense, Indonesia and SDI analysis © SDI

Source: Ministry of Defense and SDI analysis © SDI
The following table and figure show projected defense expenditure of the Indonesian over the forecast period:

Table 2: Indonesian Defense Expenditure, 2016-2020

<table>
<thead>
<tr>
<th>Year</th>
<th>Defense expenditure (US$ bn)</th>
<th>Defense growth percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
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<tr>
<td>2017</td>
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<td>2018</td>
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<tr>
<td>2019</td>
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<tr>
<td>2020</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

CAGR 2016-2020

Source: Ministry of Defense, Indonesia and SDI analysis © SDI

Figure 2: Indonesian Defense Expenditure, 2016-2020

Source: Ministry of Defense and SDI analysis © SDI
1.2. Analysis of Defense Budget Allocation

1.2.1. Capital expenditure share in defense budget to expected to be same over the forecast period

The Indonesian MoD allocated an average of XX% of the total budget to capital expenditure during 2011–2015, which is expected to remain same over the forecast period. The substantial allocation for capital expenditure is primarily due to a number of procurements and modernization programs formulated by the Indonesian MoD. The country's 2010 strategic defense plan outlined a modernization program that included the procurement of 10 jet fighter squadrons, 274 ships, and a dozen submarines by 2024, a significant increase in the country's military capabilities. Moreover, the country's military investments are in tandem with its strategy. Recent purchases include Sukhoi Su-30MK2s aircraft, Su-27 SKM, F-16 and Su-35 fighters, AS565 Panther anti-submarine warfare (ASW) helicopters, Chang Bogo-class tactical submarines, AH-64 Apache Longbow gunship helicopters, and German Leopard tanks, among many others.

The following table and chart display Indonesia’s defense budget share of capital and revenue expenditure during 2011–2015:

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital Expenditure Share</th>
<th>Revenue Expenditure Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td></td>
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<td>2015</td>
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</table>

Source: Ministry of Defense, Indonesia and SDI analysis

© SDI
The following table and chart display Indonesian defense budget share of capital and revenue expenditure over the forecast period:

**Table 4: Indonesian Defense Budget Split Between Capital and Revenue Expenditure (%), 2016–2020**

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital Expenditure Share</th>
<th>Revenue Expenditure Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
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<td>2020</td>
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Source: Ministry of Defense, Indonesia and SDI analysis © SDI

**Figure 4: Indonesian Defense Budget Split Between Capital, Revenue and Other Expenditure (%), 2016-2020**

Source: Ministry of Defense and SDI analysis © SDI
2. **Industry Dynamics - Porter’s Five Forces Analysis**

**Figure 4: Industry Dynamics – Porter’s Five Forces Analysis**

- **Barrier to Entry**
- **Bargaining Power of Supplier**
- **Intensity of Rivalry**
- **Bargaining Power of Buyer**
- **Threat of Substitute**

Source: SDI analysis

© SDI
Report Methodology

SDI’s dedicated research and analysis teams consist of experienced professionals with a background in industry research and consulting in the defense sector. The following research methodology is followed for all databases and reports:

Secondary Research

The research process begins with exhaustive secondary research to source reliable qualitative and quantitative information related to the defense market. The secondary research sources that are typically referred to include, but are not limited to:

- Industry associations
- National government documents and statistical databases
- Company websites, annual reports, financial reports, broker reports, investor presentations
- Industry trade journals and other literature
- Internal and external proprietary databases
- News articles, press releases, and webcasts specific to the companies operating in the market

Primary Research

SDI conducts hundreds of primary interviews a year with industry participants and commentators in order to validate its data and analysis. A typical research interview fulfills the following functions:

- Provides first-hand information on market size, market trends, growth trends, competitive landscape, and future outlook
- Helps to validate and strengthen secondary research findings
- Further develops the analysis team’s expertise and market understanding
- Primary research involves e-mail interactions, telephone interviews, and face-to-face interviews for each market category, division, and sub-division across geographies

The participants who typically take part in such a process include, but are not limited to:

- Industry participants: CEOs, VPs, business development managers, market intelligence managers, and national sales managers
- External experts: investment bankers, valuation experts, research analysts, and key opinion leaders specializing in defense markets

Conventions

- Currency conversions are performed on the basis of average annual conversion rate format calculations
- All the values in tables, with the exception of compounded annual growth rate (CAGR) and compounded annual rate of change (CARC), are displayed to one decimal place; therefore, due to this rounding method, growth rates may appear inconsistent with absolute values
- The forecasted values are projected on the basis of nominal values; the inflation was not taken into account
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