

CHANGING ARMS MARKET AND PROSPECT OF DEFENCE OFFSET

RSIS-Lab45 Joint Online Workshop on

Indonesia Defence and Security Outlook

20 January 2023



Discussion points

Future trends and trajectories of global arms trade

How do changes affect Indonesia's defence and security policy and doctrine?

How do Indonesia optimise defence offsets to enhance its competitiveness in the global supply chain of arms trade

What are the potential strategies in the short-to-midterm period to increase Indonesia's leverage in defence offset mechanism

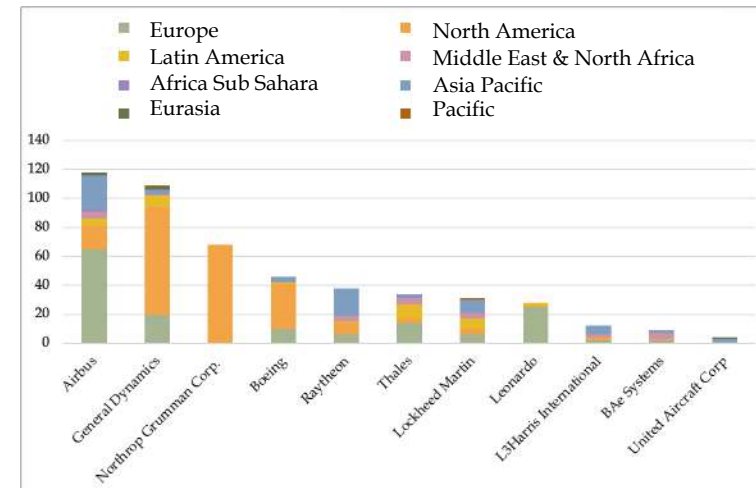
Leaders | Zero-sum

The destructive new logic that threatens globalisation

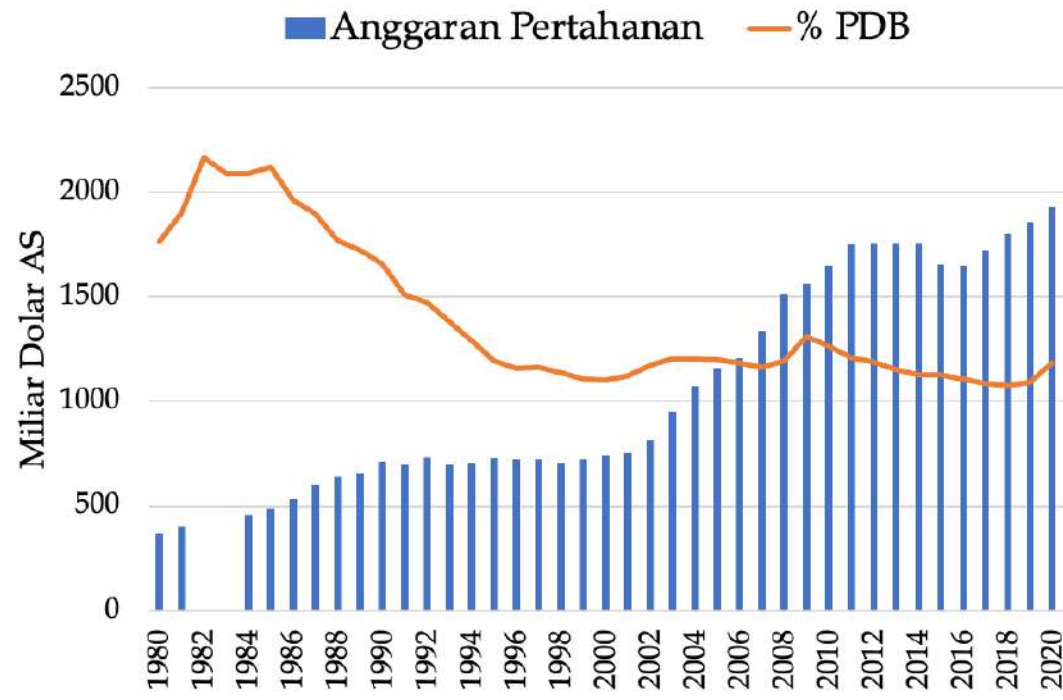
America is leading a dangerous global slide towards subsidies, export controls and protectionism



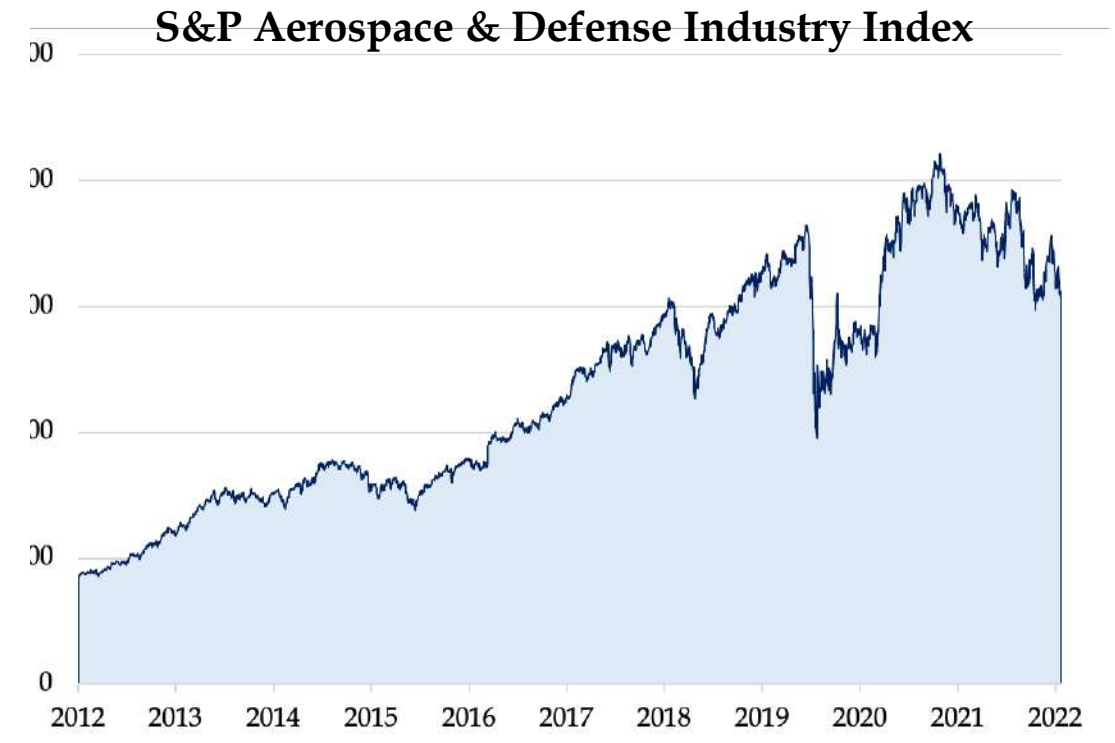
Source: The Economist, 2023



Source: Lab45, 2022

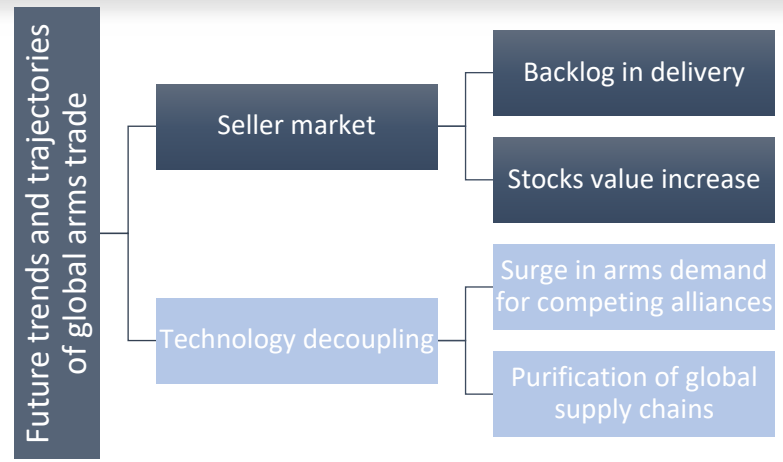


Source: Lab45, 2022



Source: S&P Dow Jones Indices (2022)

Future Trends and Trajectories of Global Arms Trade: Seller Market



DEFENSE

Pentagon suspends F-35 deliveries after discovering materials from China

The issue does not affect flight operations of F-35s already in service.



The Defense Contract Management Agency notified the F-35 Joint Program Office at the Pentagon on Aug. 19 that an alloy used in magnets contained in the F-35's turbomachine pumps came from China. | Capt. Charles Allen/U.S. Navy via AP

UKRAINE WAR

Russian military relies on Western, Asian tech components: study

Microelectronics from U.S., Japan, Taiwan, South Korea found in weapons systems



The Russian Alekzin corvette fires missiles during a parade in Baltiysk in the Kaliningrad region of Russia on July 31. © Reuters

Sunday, September 11, 2022

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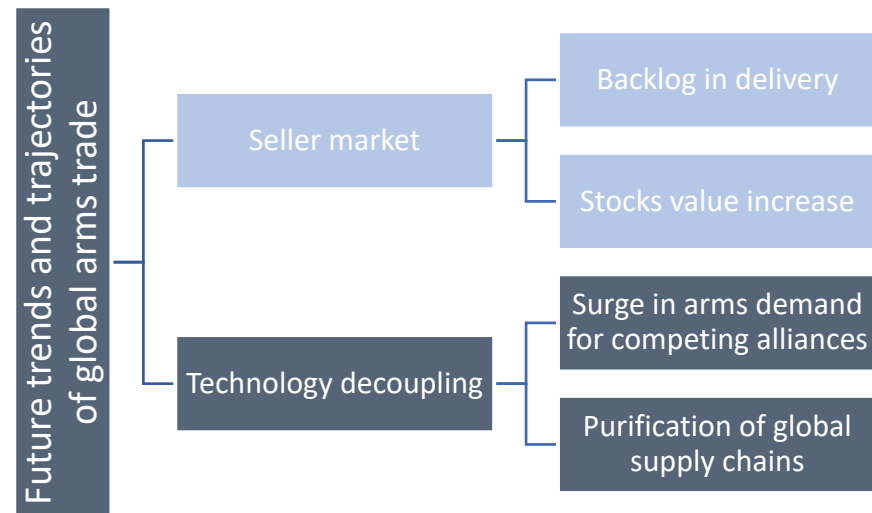
China's 'Chink In The Armor': New US Report Identifies Two Major Vulnerabilities That Could 'Kill' Its Booming Defence Industry

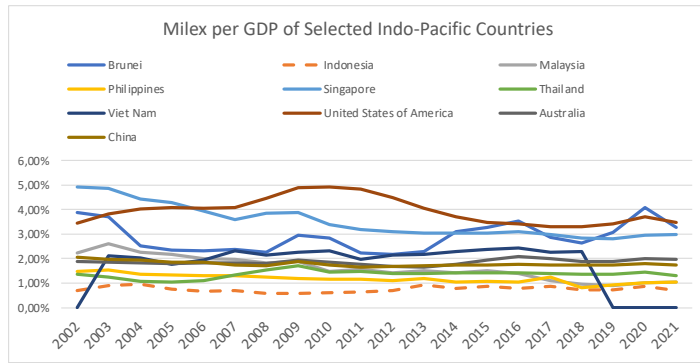
By Ashish Dangwal | March 2, 2022

China is rapidly modernizing its military to challenge American global superiority. While Beijing's military-industrial complex is working towards that goal, a new report has identified two major vulnerabilities of the Asian giant.

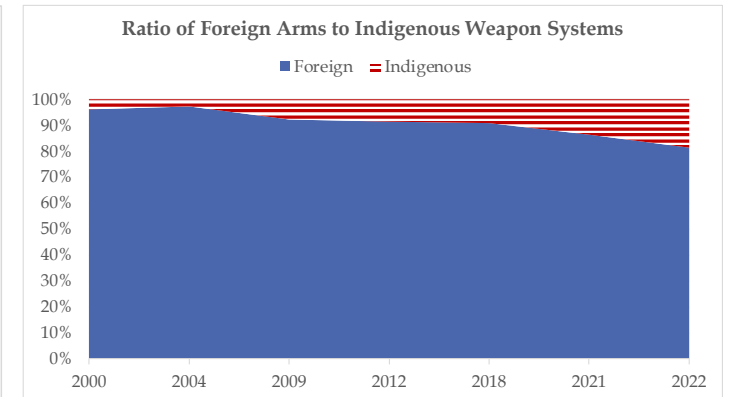
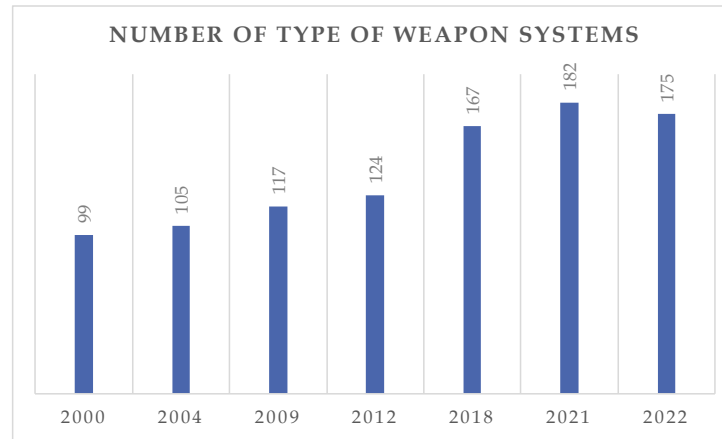
China's reliance on high-tech imports and projected workforce shortages in the coming decade are two major drawbacks of the country's defense industry, according to a new report by an American think tank. The

Future Trends and Trajectories of Global Arms Trade: Technology Decoupling

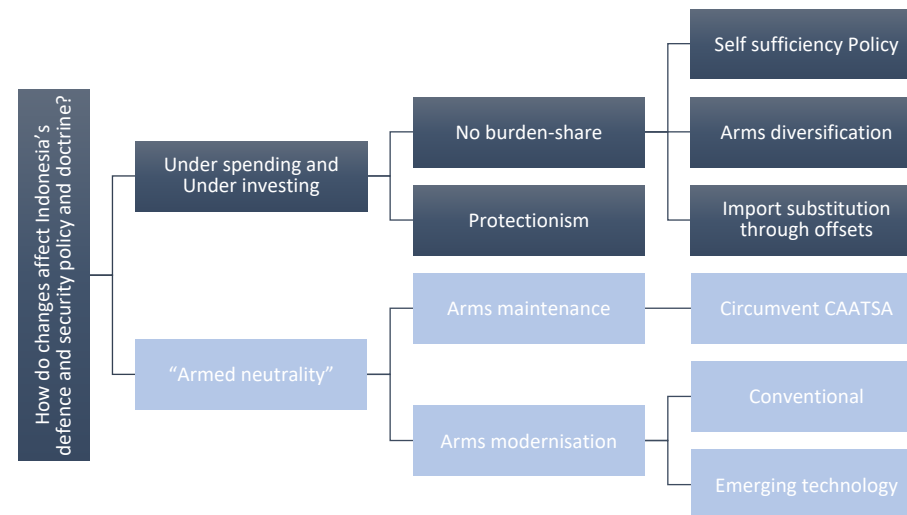


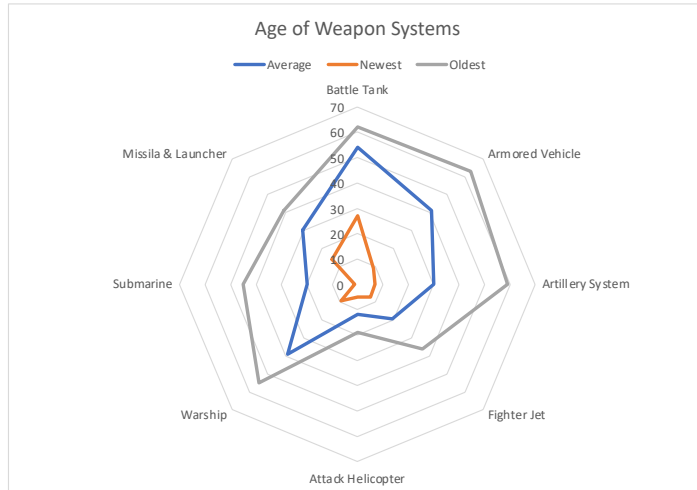


Source: Lab45, 2022

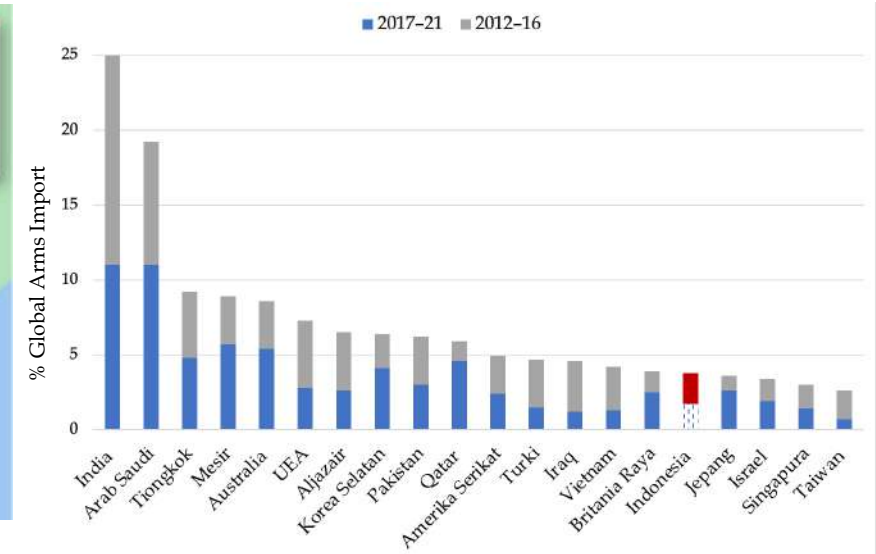
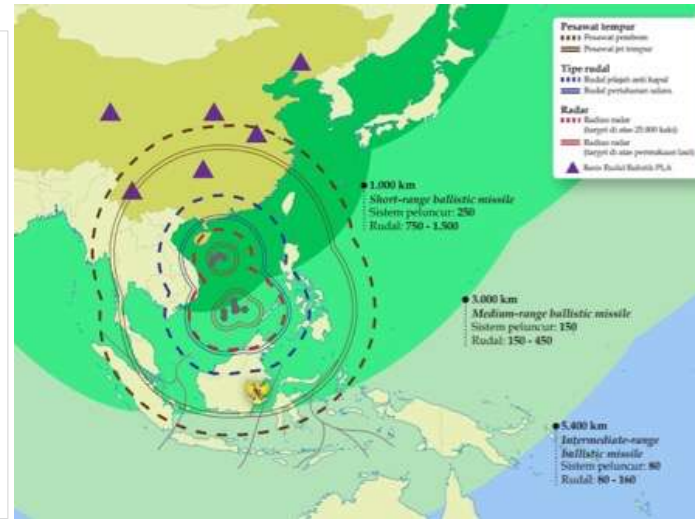


How do changes affect Indonesia's defence and security policy and doctrine?

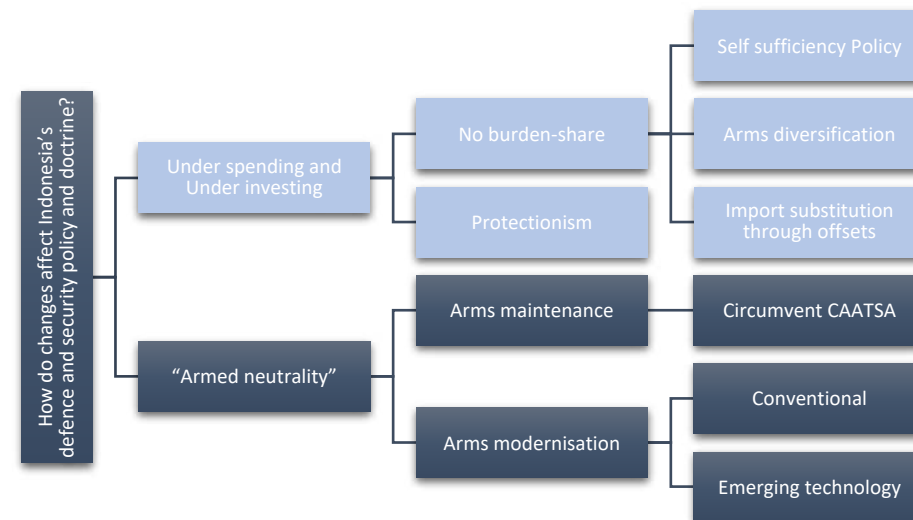


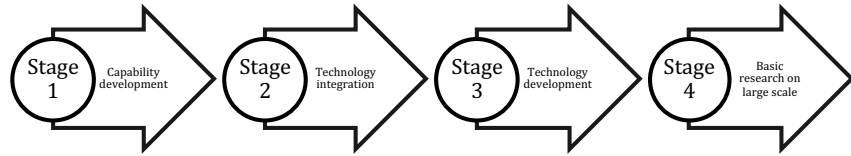


Source: Maharani, Rahmasari, Wicaksono (2021)



How do changes affect Indonesia's defence and security policy and doctrine?

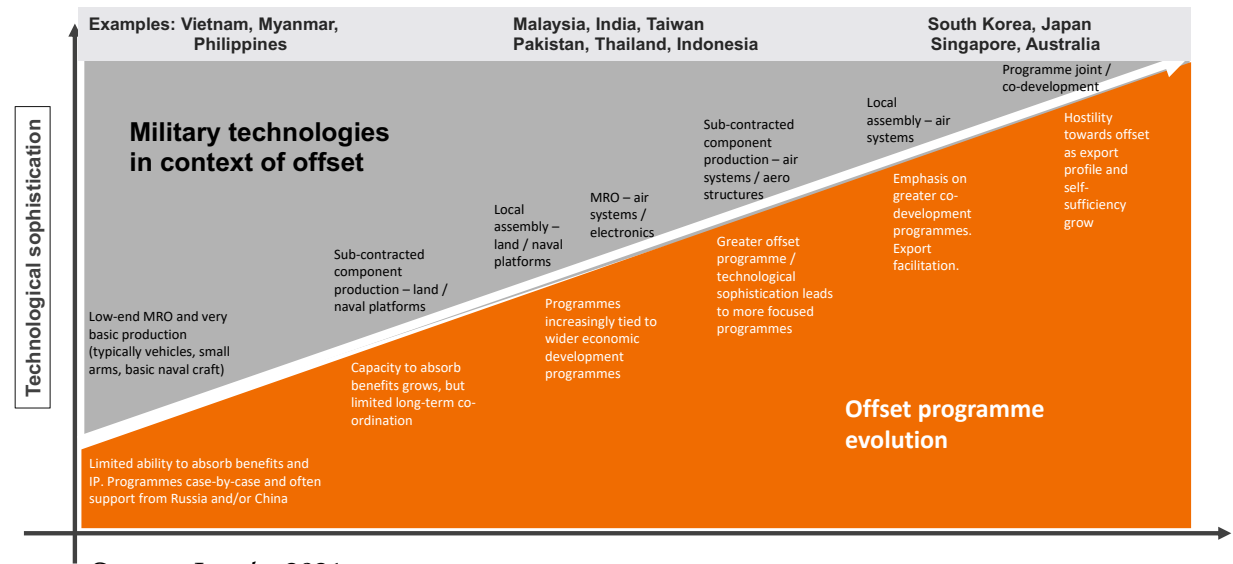




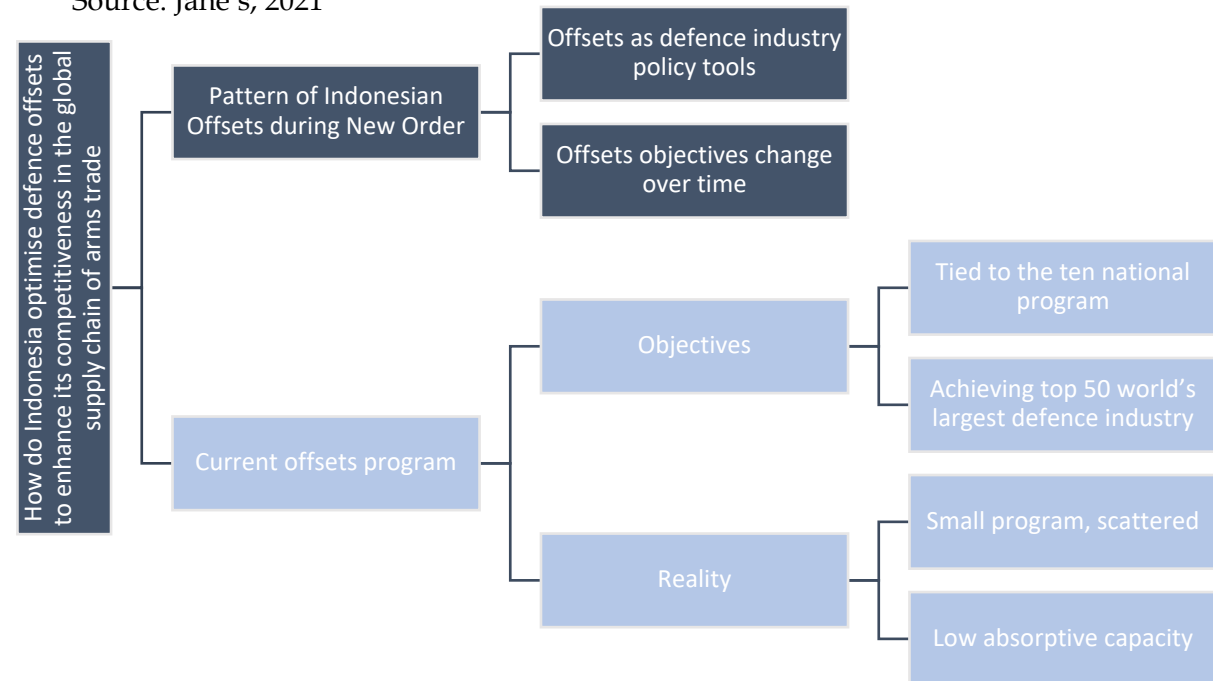
| PT PINDAD | | | | | | |
|-------------------|----------------------------------|----------------------|---------|---------------|------------------|--------|
| Stage One | | | | | | |
| 1 | N/A | Belgium | N/A | N/A | N/A | Direct |
| FNC Assault Rifle | | | | | | |
| 2 | 35 Scorpion 90 light tanks | Alvis, UK | 1995-99 | N/A | N/A | Direct |
| Stage Two | | | | | | |
| 3 | 22 Tarantula IFV | Doosan, South Korea | 2009-13 | US\$70 mn | N/A | Direct |
| Stage Three | | | | | | |
| 4 | 37 Caesar Howitzer | Nexter, France | 2012 | US\$ 124.5 mn | 85% | Direct |
| 5 | (136) Mistral SAM | MBDA, France | 2012 | N/A | Approx. US\$1 mn | Direct |
| 6 | 103 Leopard MBTs + 42 Marder IFV | Rheinmetall, Germany | 2013-14 | US\$216 mn | N/A | Direct |

Source: SIPRI

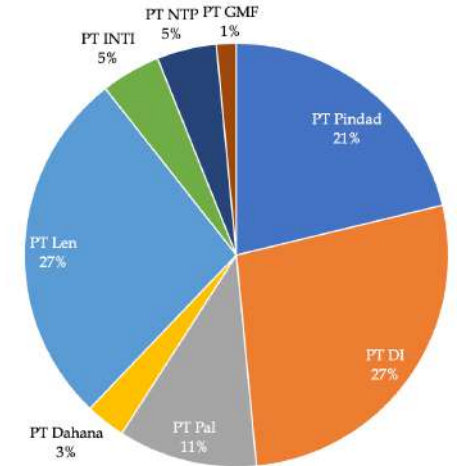
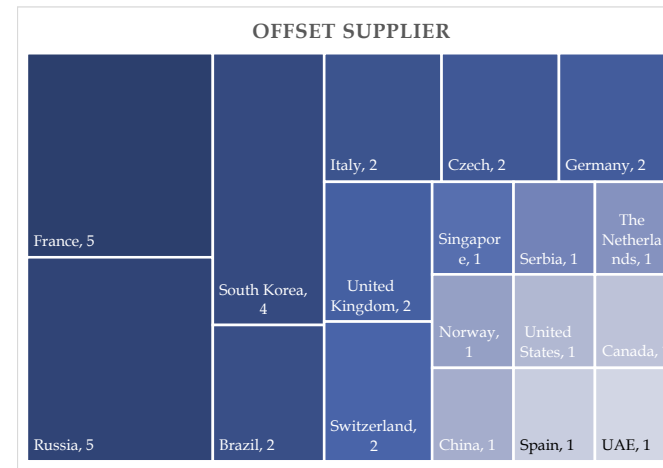
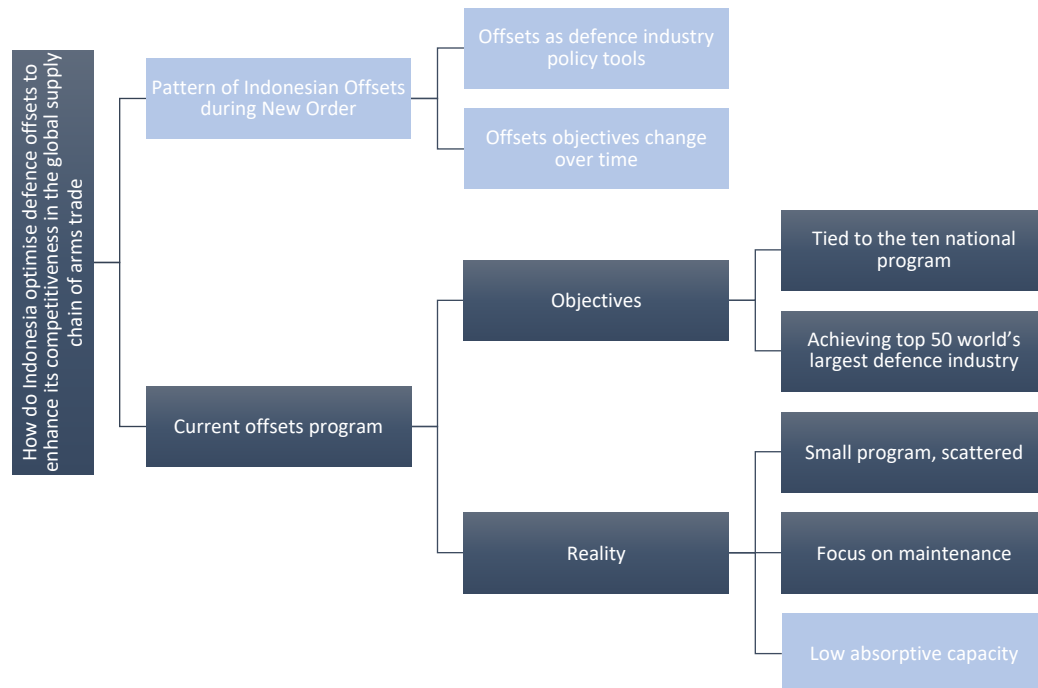
How do Indonesia optimise defence offsets to enhance its competitiveness in the global supply chain of arms trade



Source: Jane's, 2021



How do Indonesia optimise defence offsets to enhance its competitiveness in the global supply chain of arms trade



Source: Directorate General of Defence Potential, 2022

Highlight Holding Defend ID

Menjadi Top 50 Global Defence Company sebagai Target Utama

Visi

Menjadi industri pertahanan nasional yang maju, kuat, mandiri, berdaya saing & terkemuka di pasar global

Misi

- Membangun kolaborasi inovasi nasional.
- Membangun kemandirian teknologi serta meningkatkan daya saing perusahaan
- Menjadi bagian dalam rantai industri global dengan menjalin aliansi strategis
- Berperan sebagai penggerak utama berkembangnya ekosistem industri dalam negeri

Target Tahun 2024

| | |
|--------------------------------------|------------------------------------|
| 50 Top Global Defence Company | 50% Pencapaian Minimum TKDN |
| 24% Penurunan Impor | 100% Penyerapan PDN |
| 45% Penyerapan PLN | 100% TRL/MRL (rata-rata 8) |

Inisiatif Strategy (S.I.A.P)

- Selaraskan komitmen dengan pengguna dan pemerintah
- Integrasi rantai pasok dalam ekosistem industri pertahanan
- Akselerasi keunggulan komersial dan sinergi BUMN Industri Pertahanan
- Pastikan / Menjamin keunggulan produk Alpalhankam

Target Jangka Pendek

- Restrukturisasi dan konsolidasi Industri Pertahanan untuk menciptakan efisiensi biaya
- Perbaikan struktur revenue dalam negeri dan ekspor
- Meningkatnya kemampuan finansial & akses pendanaan
- Terciptanya business scale yang mampu bersaing di regional maupun internasional

Target Jangka Panjang

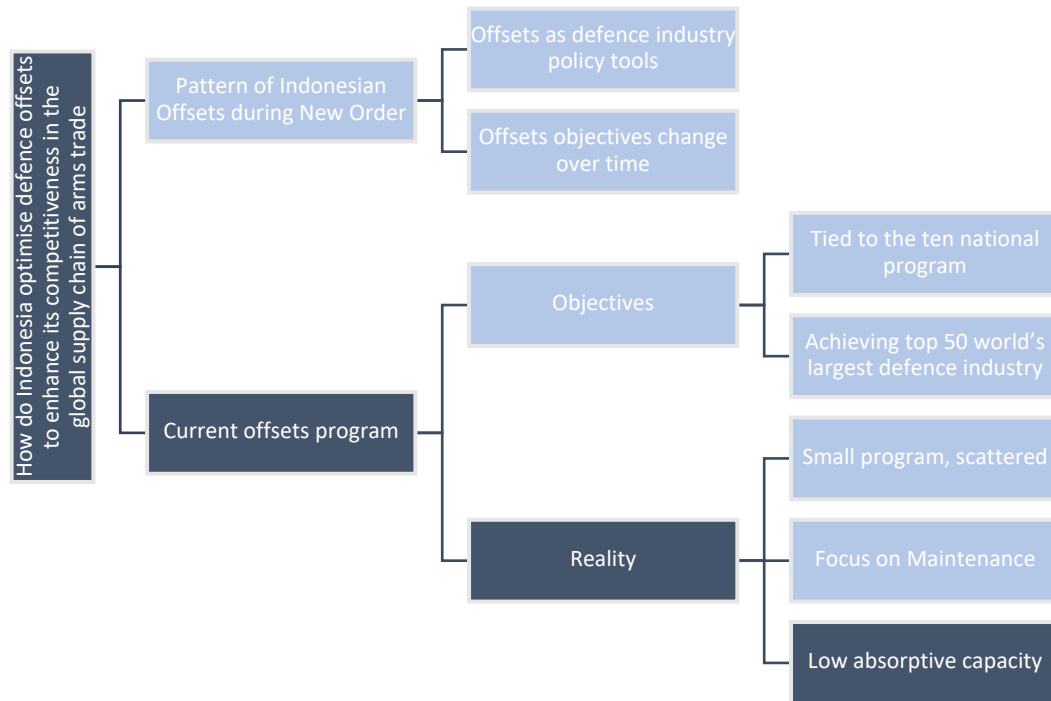
- Meningkatnya peran dan kontribusi Holding Defend ID dalam pemenuhan kebutuhan Alpalhankam TNI/POLRI sehingga tercapai kemandirian dalam Alpalhankam
- Terbangunnya Sistem Pertahanan Tri Matra Terpadu (Net Centric Warfare) berbasis teknologi CSISR
- Terbangunnya Ekosistem Industri Pertahanan dan supply chain yang kokoh dan berdaya saing untuk kemandirian Industri Pertahanan
- Tercapai target Program Prioritas Alpalhankam

Core Business

- Fokus pada CSISR*, Interoperability antar Matra dan MRO
- Pengembangan Radar, Penginderaan Bawah Air, dan Satelit Militer
- Platform matra udara dan MRO
- Pengembangan Pesawat Tempur, Rudal, dan UAV
- Platform matra darat, MRO, senjata dan munisi
- Pengembangan Medium Tank, dan Roket
- Platform matra laut dan MRO
- Pengembangan Kapal Selam
- Energetic materials (bahan peledak) untuk seluruh matra
- Pengembangan Propelan

Strong. Independent. Competitive

How do Indonesia optimise defence offsets to enhance its competitiveness in the global supply chain of arms trade



147+ companies, majority is private owned

Limited domestic supply chain: only 9% transaction among tiers (Bappenas, 2019)

Majority of industry are dual-use

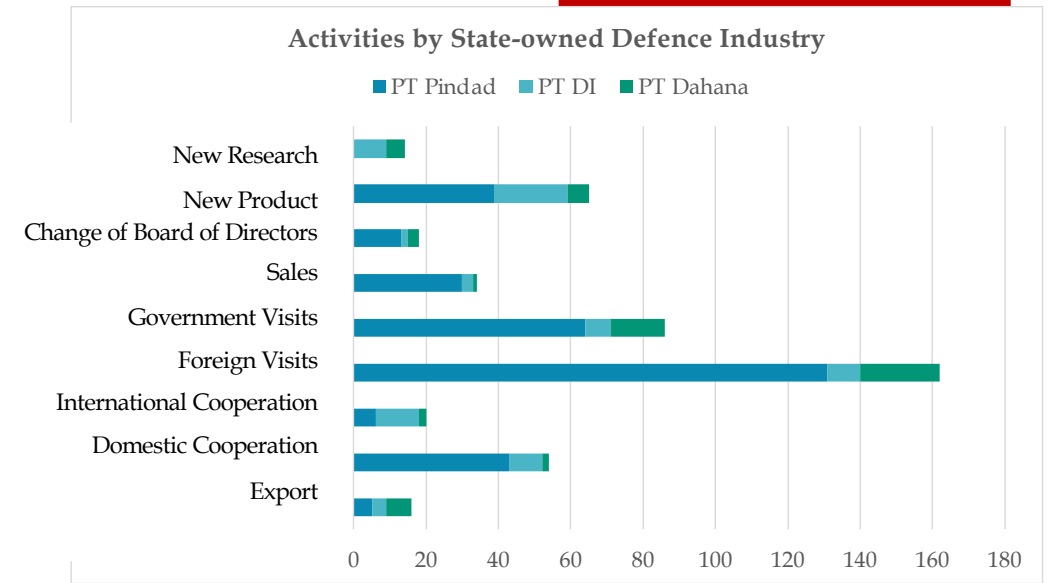
Low R&D spending: 1-2% MILEX

Only 31% depends on defence sector

Aging workforce , low skilled: only 0.1% hold Masters and Doctoral degrees (Bappenas, 2019)

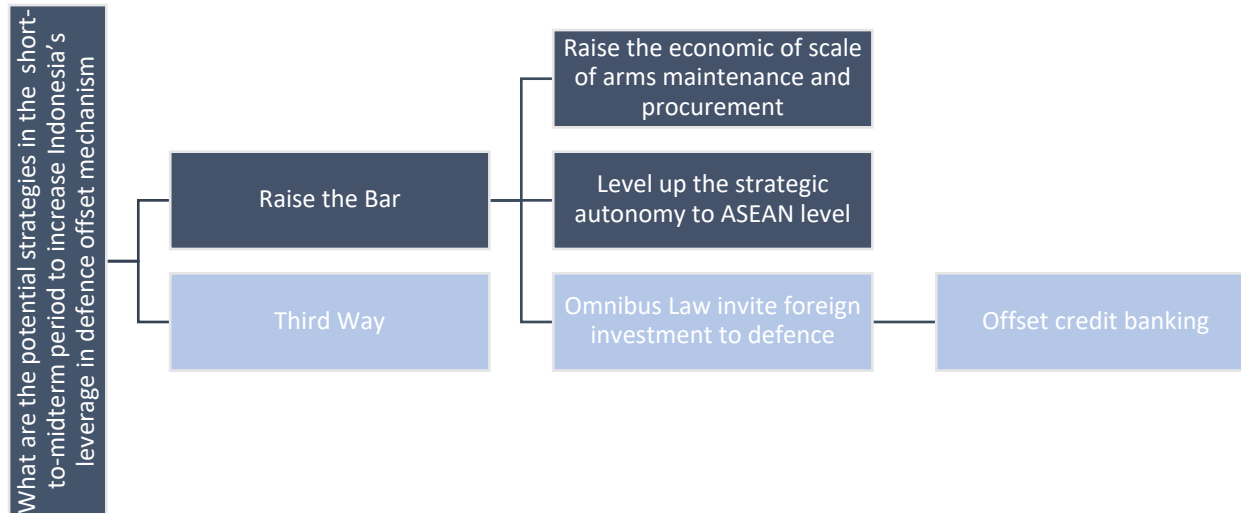
Shipbuilding dominate manufacture and maintenance

Dispersed in 8 province, but 92% located in Java Island



Source: Company websites, 2012-2023

The potential strategies in the short-to-midterm period to increase Indonesia's leverage in defence offset mechanism



| Type of Weapons | INA | MAL | THA | PHL | VIET | CAM | LAO | MYM | Qty |
|-----------------|-----|-----|-----|-----|------|-----|-----|-----|-----|
| Su-27/30 | x | x | | | x | | | | 80 |
| Mi-17 | x | | x | x | x | x | x | x | 53 |

Source: IISS Military Balance, 2022

Southeast Asia's Anti-Ship Missile Launchers

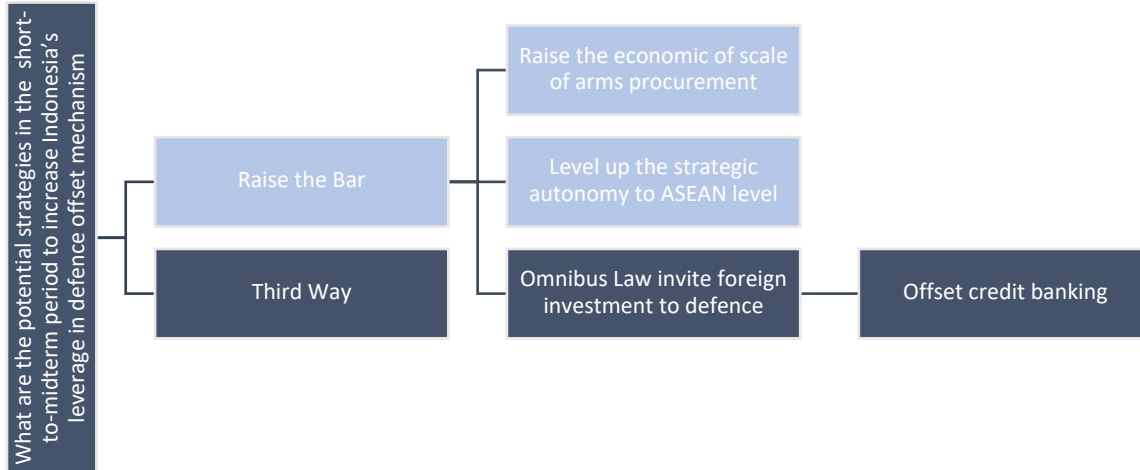
| | Indonesia | | | Malaysia | | |
|-------|-----------|--------|-------|----------|--------|-------|
| | Afloat | Ashore | Total | Afloat | Ashore | Total |
| 2005 | 100 | 0 | 100 | 80 | 0 | 80 |
| 2010 | 116 | 0 | 116 | 92 | 0 | 92 |
| 2015 | 168 | 0 | 168 | 92 | 0 | 92 |
| 2020 | 192 | 0 | 192 | 92 | 0 | 92 |
| 2025* | 318 | 0 | 318 | 92 | 0 | 92 |
| 2030* | 448 | 0 | 448 | 100 | 0 | 100 |

| | Philippines | | | Vietnam | | |
|-------|-------------|--------|-------|---------|--------|-------|
| | Afloat | Ashore | Total | Afloat | Ashore | Total |
| 2005 | 0 | 0 | 0 | 56 | 0 | 56 |
| 2010 | 0 | 0 | 0 | 104 | 8 | 112 |
| 2015 | 0 | 0 | 0 | 180 | 16 | 196 |
| 2020 | 0 | 0 | 0 | 256 | 16 | 272 |
| 2025* | 22 | 12 | 34 | 272 | 16 | 288 |
| 2030* | 52 | 12 | 64 | 288 | 16 | 304 |

Notes:
 Ships include surface combatants of 200 tonnes or more.
 * These include the continuation of normal retirement patterns and completion of currently ordered and planned production.

Sources:
 The Military Balance 2005–2021; Jane's World Navies 2005–2021; and author's estimates.

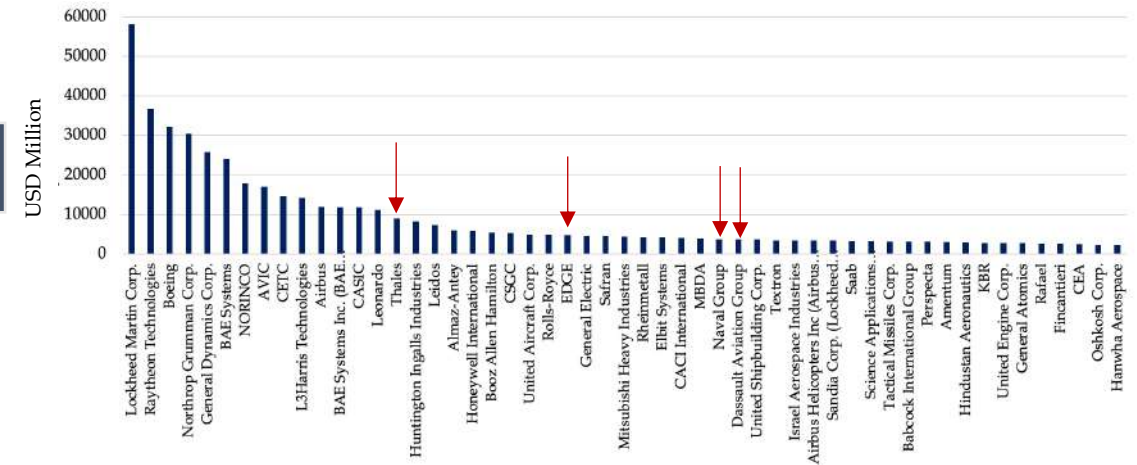
The potential strategies in the short-to-midterm period to increase Indonesia's leverage in defence offset mechanism



Ministers Subianto, Pandjaitan discuss cooperation plan with Abu Dhabi



Illustration: Minister of Defense Prabowo Subianto (left) speaks to Coordinating Minister for Maritime Affairs and Investment Luhut Binsar Pandjaitan (right) before a invited cabinet meeting in the Presidential Palace in Jakarta, Thursday (6/2/2020). ANTARA FOTO/Hafidz Mubarak A'waj/ac.



Source: SIPRI Top 100 Arms Industries, 2021

Indonesian Offset Policy as of 2022

| Element | Substance | Main Regulations | | | Implementing Regulations | |
|--------------------------------|--|--|--|--|--------------------------|------------------------------------|
| General | Definition | Law No.16/2012 | Govt Reg No.74/2014 | DefMin Reg No./2015 | Head of KKIP Regulation | Ministry of Trade Regulation |
| Value of IDKLO contract | Percentage of the IDKLO value of the procurement contract value | IDKLO 85 % Minimum offset 35% Offset is increased by 10% every 5 years | IDKLO 85 % Minimum offset 35% Offset is increased by 10% every 5 years | IDKLO 85 % Minimum offset 35% Offset is increased by 10% every 5 years | | |
| Threshold and exception | The minimum value of procurement contracts and types of defense and security that are excluded | No | No | Laboratory and medical tools | | |
| Eligible transaction | IDKLO definition, direct and indirect offset | Yes | Yes | Yes | | list of products for counter-trade |
| Multiplier | Incentives to direct offset activities to strategic sectors, SMEs, critical technologies | Yes | Yes | Yes | | Multiplier |
| Period of contract | The offset contract period is longer than the procurement, accompanied by a grace period | No | No | No | | |
| Performace Bond | Offset contract guarantee | Yes | Yes | Yes | | |
| Penalty/Sanction | Penalties to providers and recipients for delay or failure to complete | Yes | Yes, offset cannot be replaced with cash | Yes | | |
| Credit banking | Excess IDKLO recording to reduce future liabilities | No | No | No | No | No |
| Swap | Mutual agreement cancels IDKLO's obligations | No | No | No | No | No |

THANK YOU

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