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Opportunities in Indonesia

Trade report for the Ministry of
Foreign Affairs of the Republic of
Estonia

13 January 2025





REPUBLIC OF ESTONIA
MINISTRY OF FOREIGN AFFAIRS

The following report has been prepared for the Ministry of Foreign Affairs of the Republic of Estonia by Orissa International, with funding from NextGenerationEU.



Exchange rates used in the report

USD 1 = EUR 0.97

IDR 1 = EUR 0.00006

Focus sector: Defence

1. Defence sector overview

Figure 1: Snapshot of the Defence sector



Driven by an ambitious military modernisation agenda and evolving regional security challenges, Indonesia's defence sector is expanding rapidly. With Prabowo Subianto recently inaugurated as Indonesia's 8th president, his administration is expected to prioritise military modernisation and adopt a more centralised approach to defence and foreign policy. By increasing defence spending and focusing on naval and aerial capabilities, Prabowo aims to position Indonesia as a stronger regional power.

A key development has been the completion of Indonesia's order for 42 Rafale fighters, with the final batch of 18 aircraft secured in January 2024. Similarly, the recent order for [three additional CN235-220 transport aircraft](#) from state-owned PT Dirgantara Indonesia, valued at USD 85 million (EUR 82.5 million), highlights the government's focus on bolstering domestic defence production.

Indonesia's defence spending is projected to exceed EUR 10 billion in 2025, underscoring the government's commitment to strengthening military capabilities and achieving long-term self-sufficiency. A key aspect of this strategy is the procurement of weapons and defence systems with a strong emphasis on technology transfers from leading OEMs. The country has outlined an ambitious military modernisation plan extending through the mid-2040s. As part of this plan, Indonesian entities are advancing their expertise in areas such as land vehicles, arms,

missiles, and UAVs, with future plans to develop more complex systems, including flight controls, warheads, and jet engines. Notably, the Indonesian defence industry is dominated by state-owned enterprises, including PT PAL Indonesia for naval shipbuilding, PT Pindad for land systems and small arms, and PT Dirgantara Indonesia for aerospace.

Indonesia ranks [9th out of 12 countries](#) in the Indo-Pacific region for arms production and 5th in self-reliance and exports. To support the growth of its local defence industry, the government has implemented policies such as Indonesian Law No. 16/2012 and the 2020-24 Defence Industrial Development Plan, which prioritises domestic acquisitions over imports. While the defence sector is set for continued growth, driven by the government's focus on military modernisation and self-reliance, challenges persist, including budget constraints and the need to acquire advanced technological capabilities.

Market trends at a glance

Cybersecurity surge in defence



Heightened focus on unmanned systems



Space technology gets a boost



Indonesia is making significant strides in enhancing its cybersecurity capabilities within the defence sector, reflecting a broader push for modernisation and adaptation to emerging threats. One of the most notable developments is the planned establishment of a fourth military branch, the [Cyber Force](#), announced in mid-2024 following a major cyber-attack in June that impacted over 40 government bodies. This new branch, set to be operational by 2025, will operate alongside the existing military branches to conduct cyber patrols, implement security measures, and respond to foreign cyber-attacks. To support this initiative, Indonesia signed a [bilateral defence agreement](#) with the US Department of Defence in 2023 to strengthen its cyber capabilities. Additionally, the country is introducing new regulations, such as [Presidential Regulation No. 47 of 2023](#), which provides strategic guidelines for enhancing national cybersecurity and managing cyber crises.

Indonesia's defence sector is increasingly incorporating unmanned systems, particularly drones, to address strategic challenges. As an archipelagic nation with over 17,000 islands, Indonesia faces significant hurdles in border surveillance and maritime security. Unmanned systems enhance the country's ability to monitor vast territories and combat illegal activities such as unauthorised fishing and drug trafficking. In July 2023, Indonesia announced a [USD 300 million \(EUR 291.23 million\) deal](#) for 12 Turkish Aerospace Industries (TAI) Anka UAVs, with the acquisition planned for 2024. The Indonesian Air Force further expressed interest in [Bayraktar TB2 combat drones](#) in August 2024. Indonesia also became a regional pioneer in April 2021 when it acquired armed UAV capabilities by equipping its CASC CH-4B fleet with AR-2 precision-guided missiles. Additionally, the country is fostering domestic production, as demonstrated by BETA-UAS showcasing indigenous VTOL drones at the Indonesia Drone Expo 2024.

Indonesia is strategically expanding its satellite infrastructure and space capabilities, leveraging its equatorial location to enhance national communications, earth observation, and defence systems. Since pioneering satellite communications in 1976, the country has set ambitious goals, including the [2045 Space Map](#), which envisions the deployment of 19 satellites by 2025. Recent milestones include the June 2023 launch of [SATRIA-1](#), with operations set to begin in early 2024, and plans to launch [Nusantara-5 and NEO-1 satellites](#) in 2024. The sector’s growth is guided by key legislative milestones, such as the 2013 Space Law and the 2023 regulation on space technology protection. A significant boost came in February 2024 when [BlackSky Technology secured a USD 50 million \(EUR 48.5 million\) contract](#) for advanced earth observation systems. To address funding challenges, Indonesia is actively fostering public-private partnerships and encouraging foreign investment, aiming to reduce reliance on foreign technology, stimulate economic growth, and bolster national security. Rooted in its [2002 ratification of the Outer Space Treaty](#), Indonesia’s space initiatives span applications from high-speed internet to border surveillance, positioning the country as an emerging force in the global space industry.

2. National strategies and policies

Strategies and policies at a glance

**‘Sishankamrata’
System**



**Cybersecurity
Military Branch**



**Development of
local industry**



**Defence
Modernisation**



**Smart Defence
Strategy**



**International
partnerships**



2.1. Sector strategies and policies

Indonesia's ‘Sishankamrata’ system (Total People's Defence and Security System) is a comprehensive strategy rooted in [Law No. 20/1982](#) that integrates military and non-military resources to achieve national security goals. Employing a multi-layered approach, including the Anti-Access/Area Denial (A2/AD) concept, the system has

evolved to incorporate advanced space technologies. To foster innovation, the government offers substantial tax incentives for defence-related R&D. The [Smart Defence](#) concept exemplifies Sishankamrata's adaptation to modern threats, combining hard defence, soft defence, and diplomacy. By emphasising regional cooperation within ASEAN and integrating cybersecurity measures, Indonesia demonstrates a flexible and forward-looking defence posture for the 21st century.

A key component of the country's long-term strategy from 2010 to 2024 has been its defence modernisation plan, which focuses on upgrading military capabilities, addressing regional security challenges, and strengthening the domestic defence industry. Recent developments include a significant budget increase, with defence spending set to reach 1.5% of GDP by 2029, alongside a USD 46.6 billion (EUR 45.2 billion) equipment modernisation programme for 2024–2029.

The smart defence strategy is gaining momentum, particularly in the context of Indonesia's new capital, IKN. The National Research and Innovation Agency (BRIN) is leading efforts to develop smart defence concepts, including the integration of AI to enhance defence infrastructure. This aligns with IKN's broader smart city framework, where [defence is seamlessly integrated with urban management](#) through initiatives like the creation of an integrated command centre.

In response to growing digital threats, the government is rapidly advancing its cyber defence capabilities. One of the most significant initiatives is the establishment of a [Cyber Military Branch](#), announced in September 2024, which will consolidate cyber operations across existing military branches and headquarters. Additionally, a [Cybersecurity Academy](#), proposed at the ITSEC Cybersecurity Summit 2024, aims to cultivate specialised digital security talent. To strengthen its legislative framework, Indonesia enacted Presidential Regulation No. 47 of 2023 on National Cybersecurity Strategy and Cyber Crisis Management.

Indonesia is placing significant emphasis on developing its local defence sector. Key state-owned enterprises, including PT Pindad, PT PAL, and PT Dirgantara Indonesia, play a central role in producing land systems, naval vessels, and aerospace technologies. To further boost domestic capabilities, the government has implemented policies such as the Program Peningkatan Penggunaan Produk Dalam Negeri (P3DN), which prioritises the procurement of locally manufactured defence products over imports. Collaboration with foreign OEMs through technology transfers and joint ventures is a cornerstone of this strategy, enabling local firms to enhance their technological expertise.

International partnerships are playing a crucial role in Indonesia's defence modernisation efforts. Collaborations with the US in cybersecurity and military training, along with a landmark defence agreement signed with Australia in August 2024, have bolstered Indonesia's capabilities. Indonesia has also established a [Working Committee to finalise defence cooperation agreements](#) with five countries, namely India, France, Cambodia, Brazil, and the UAE. These agreements aim to enhance Indonesia's defence capabilities through technology transfers and joint research initiatives. Participation in regional exercises such as the Super Garuda Shield, coupled with joint defence technology initiatives, underscores the country's commitment to enhancing its military strength and fostering regional cooperation in the evolving Indo-Pacific security landscape.

2.2. Defence procurement

Defence procurement in Indonesia is primarily managed by the [Ministry of Defense \(Kementerian Pertahanan or Kemhan\)](#) and is governed by several key regulations. The primary legal framework includes Law Number 16 of 2012 on the Defence Industry and Presidential Regulation Number 27 of 2019 on Procurement Rules and Procedures of Defence and Security Equipment.

According to Presidential Regulation Number 27 of 2019, procurement of defence and security equipment (Alpalhankam) can be done through two main methods:

- Government goods procurement
- Government assignment

For high-confidentiality items, research and development of prototypes, or upgrades aimed at mass production, procurement may be done through government assignment.

The [Defence Industry Policy Committee \(KKIP\)](#), consisting of various ministers and military leaders, acts as the coordinating regulator for the defence industry. They determine the types of defence equipment to be procured under long-term contracts.

The procurement process prioritises Indonesia's domestic defence industry, particularly state-owned enterprises (SOEs), for certain tiers of defence production. This is in line with Law Number 16 of 2012 on the Defence Industry, which aims to develop Indonesia's domestic defence capabilities.

Estonian companies may participate in procurements above specific thresholds. According to Presidential Regulation Number 12 of 2021, these [thresholds](#) are:

- IDR 100 billion (EUR 6 million) for goods, construction work, or other services
- IDR 10 billion (EUR 600,000) for consultancy services

The [2012 Defence Industry Law](#) mandates that deals involving foreign companies must include technology or skill transfers, aligning with Indonesia's strategy to strengthen its domestic defence industry and reduce reliance on imports. To support this goal, the Ministry of Defense prioritises foreign engagement through countertrade, local content, and offset requirements. These mechanisms must constitute at least 85% of the main defence contract's value, with 50% allocated to countertrade and 35% to local content and offsets. Countertrade involves both defence and commercial products, including commodities such as palm oil, rubber, and coffee. Local content focuses on domestic manufacturing and integration into foreign supply chains, while offsets emphasise technology transfers to enhance local production and sustainment capabilities. These measures create opportunities for foreign firms to contribute to Indonesia's defence modernisation and establish strategic partnerships.

2.3. R&D funding for Defence

Defence sector R&D plays a crucial role in the country's national security strategy, reflecting the government's efforts to enhance the defence investment climate and expand domestic manufacturing capabilities. Two key agencies, the Agency for Defence Policy and Technology Development (BPKTP) and the National Research and Innovation Agency (BRIN), drive the development of defence technologies and oversee R&D activities.

The [Agency for Defence Policy and Technology Development \(BPKTP\)](#) is a subordinate body of Indonesia's Ministry of Defense, established on June 17, 2022, under Presidential Decree No. 94/2022. BPKTP focuses on research and development in defence and military affairs. Its research activities are organised into four clusters: Strategic Defence Research, Defence Resources, Defence Science and Technology, and Equipment Development. The agency's scope includes strategic mineral exploration, thorium-based nuclear reactor research for naval ships, propellant R&D, rocket development, and military satellite initiatives. BPKTP's operations are overseen by the Sub-directorate of Defence Research and Development Planning, which forms part of the Ministry of Defense's organisational structure.

The National Research and Innovation Agency (BRIN) also plays a role in defence-related research, with a particular focus on [smart defence concepts and AI applications for the new capital, IKN](#). Through the RIIM Collaboration Funding Scheme, BRIN provides up to IDR 1 billion (EUR 60,000) per project annually for scientific and technological initiatives, including defence-related projects. In 2022, BRIN underwent a major consolidation, integrating 919 state research units under its umbrella, a move that could influence defence-related research. The agency's emphasis on integrating military and non-military affairs in its projects reflects Indonesia's broader push toward advanced technologies in its defence strategy, suggesting continued funding support for these initiatives.

While both BPKTP and BRIN play critical roles in defence R&D, the specific allocation of their R&D funding remains undisclosed, and neither agency openly shares details about the funding provided for defence-related projects. This reflects the sensitive nature of defence-related activities and the general lack of transparency in the sector.

3. The Defence ecosystem

Indonesia's defence ecosystem comprises a combination of public and private entities, with the Ministry of Defense and the Indonesian Armed Forces (TNI) at its centre, directing policy and operational plans. The private sector is also expanding, with local businesses focused on emerging technology like as drones and cybersecurity solutions. Global collaborations also promote knowledge transfer and domestic production. The key entities include:

3.1. Private sector Defence stakeholders

Table 1: Key private sector Defence stakeholders

Organisation name	Type	Profile
PT Thales Indonesia	Multinational corporation	<ul style="list-style-type: none"> Thales Indonesia, a subsidiary of the global Thales Group, delivers advanced technology solutions in military, aerospace, transportation, and cybersecurity. The company supports Indonesia's military modernisation and national security by providing integrated defence and security solutions. Working closely with local partners and government agencies, Thales Indonesia ensures its offerings are tailored to the country's needs while facilitating technology transfer to strengthen local capabilities. https://www.thalesgroup.com/en/countries/asia-pacific/thales-indonesia
PT Sari Bahari	Local manufacturer	<ul style="list-style-type: none"> Sari Bahari, founded in 1993, is an Indonesian private company registered in the global supply chain of the North Atlantic Treaty Organization (NATO). It is appointed and licensed by Indonesia's Ministry of Defense to produce

Organisation name	Type	Profile
		<p>defence equipment and is an active member of the National Private Defence Industry Association (Pinhantanas).</p> <ul style="list-style-type: none"> ○ https://saribahari.id/id
PT Komodo Armament Indonesia	Local manufacturer	<ul style="list-style-type: none"> ○ Komodo Armament is a private manufacturer of a diverse range of firearms, including polymer and steel frame pistols, assault rifles, and sniper rifles. The company also produces NATO-calibre ammunition, ranging from 9x19mm to 12.7x99mm high-power rounds for machine guns and sniper rifles. Its operations are conducted under the direct supervision of Indonesia's Ministry of Defense. ○ https://komodoarmament.com/
PT Lundin Industry Invest	Local manufacturer	<ul style="list-style-type: none"> ○ North Sea Boats specialises in building vessels for military, law enforcement, search and rescue (SAR), commercial, and high-performance applications. The company employs advanced composite construction techniques, including dual-surface vacuum core resin infusion. Using materials from global suppliers, such as vinylester resins, multi-axial reinforcements, carbon fibre, E-glass, Kevlar, and closed-cell PVC core, North Sea Boats ensures durable and efficient vessel construction. ○ https://www.ptlundin.com/index.html
PT Dyke Global	Distributor	<ul style="list-style-type: none"> ○ Founded in 2004, Dyke Global is a specialised military and security procurement firm dedicated to acquiring advanced combat and security equipment for the Indonesian military. The company supplies the Indonesian Armed Forces and has successfully completed numerous procurement projects for the Army, Navy, Air Force, and Police. Its procurement expertise spans communications, apparel, optics, weaponry, transportation, and personal protection. Dyke Global collaborates with global partners such as Sky-Watch, L3Harris, and ISD. ○ https://www.dykeglobal.com/
PT Pacific Aman Garda	Distributor	<ul style="list-style-type: none"> ○ Headquartered in Jakarta, Pacific Aman Garda was established in early 2007 as a globally connected provider of security equipment for military and law enforcement personnel, private sector firms, and government institutions. The company specialises in products focused on detection, identification, and protection. Notable principals include Deep Trekker, Paratech, Pendar Technologies, and Diamond Aircraft. ○ https://www.pacificamangarda.com/
PT BTI Indo Tekno (BTI Defence)	Distributor	<ul style="list-style-type: none"> ○ Founded in 2015, BTI Defence is an Indonesian firm specialising in defence procurement. It represents manufacturers such as MSI-Defence Systems, Arex Defence, Fotoniks, and Sainsel. The company focuses on supplying weapons, ammunition, and electronic warfare and countermeasures (EW&C) solutions for military, law enforcement, and security forces. Headquartered in Surabaya with a branch office in Jakarta, BTI Defence provides localised solutions for its clients. ○ https://bti-defence.co.id/en

3.2. Public sector Defence stakeholders

The main public stakeholders in Indonesia's defence system play a critical role in shaping the nation's security and defence strategies. The Ministry of Defense is responsible for planning, budgeting, and policy formulation to ensure the achievement of national security objectives. The Indonesian Armed Forces, comprising the Army (TNI-AD), Navy (TNI-AL), and Air Force (TNI-AU), serve as the primary end users of weapons and equipment.

DEFEND ID (Defense Industry Indonesia) is a state-owned defence holding company established in 2022 to consolidate and strengthen Indonesia's domestic defence industry. It integrates five key state-owned enterprises: PT Pindad (firearms and military vehicles), PT PAL Indonesia (naval shipbuilding), PT Dirgantara Indonesia (aircraft manufacturing), PT Dahana (explosives), and PT Len Industri (electronic systems).

Table 2: Key public sector Defence stakeholders

Organisation name	Type	About
Ministry of Defense (Kemhan)	Government agency	<ul style="list-style-type: none"> The Ministry of Defense (Kemhan) is the government agency responsible for managing Indonesia's defence affairs. Led by a Minister who reports directly to the President, the Ministry oversees defence-related functions to support the President in administering national governance. https://www.kemhan.go.id/
Indonesian National Army (TNI)	Military organisation	<ul style="list-style-type: none"> The Indonesian National Armed Forces (TNI) is the primary military body responsible for safeguarding the nation's sovereignty and territorial integrity. TNI the Army (TNI-AD), Navy (TNI-AL), and Air Force (TNI-AU). It plays a pivotal role in defence, disaster response, and internal stability. Operating under the President's command and the Ministry of Defense's oversight, TNI leads modernisation efforts and collaborates with both state-owned and private enterprises to develop and procure advanced defence technologies. https://tni.mil.id/
Indonesian National Police (Kepolisian Republik Indonesia – Polri)	Law enforcement agency	<ul style="list-style-type: none"> Polri is the main law enforcement agency tasked with maintaining public order, ensuring safety, and upholding the rule of law throughout Indonesia. Polri contributes to national security but is distinct from the TNI. Its responsibilities include public security management, counterterrorism, anti-drug initiatives, and ordinary policing. In order to address security concerns like organised crime, terrorism, and insurgency, Polri collaborates closely with the TNI and other security agencies, even though its main duty is law enforcement. https://polri.go.id/
PT Pindad	State-owned enterprise	<ul style="list-style-type: none"> Pindad is a state-owned manufacturer specialising in military, defence, and security products. Its portfolio includes special vehicles such as military light utility vehicles, tanks, tactical vehicles, military ambulances, and armoured personnel carriers. In addition to defence equipment, Pindad produces industrial products for sectors like transportation and commercial explosives. The company's activities encompass design, development, engineering, fabrication, and maintenance. https://pindad.com/

Organisation name	Type	About
PT Dirgantara Indonesia	State-owned enterprise	<ul style="list-style-type: none"> Dirgantara Indonesia (PTDI) manufactures a wide range of aircraft to serve the needs of civil airlines, military operators, and specialised missions. With extensive experience in aircraft design, PTDI specialises in developing new aircraft and modifying existing systems and structures for specific mission requirements, such as maritime patrol, surveillance, and coast guard operations. https://www.indonesian-aerospace.com/
PT PAL Indonesia	State-owned enterprise	<ul style="list-style-type: none"> PAL Indonesia is a state-owned shipbuilding company headquartered in Surabaya, East Java. Established in 1980, it focuses on the design, construction, and maintenance of various naval vessels, including frigates, corvettes, submarines, and auxiliary ships. PAL Indonesia supports regional security and national defence by delivering domestically produced warships and naval equipment in close collaboration with the Indonesian Navy. The company also engages in exports and fosters international partnerships, facilitating knowledge transfer and enhancing its expertise. https://www.pal.co.id/

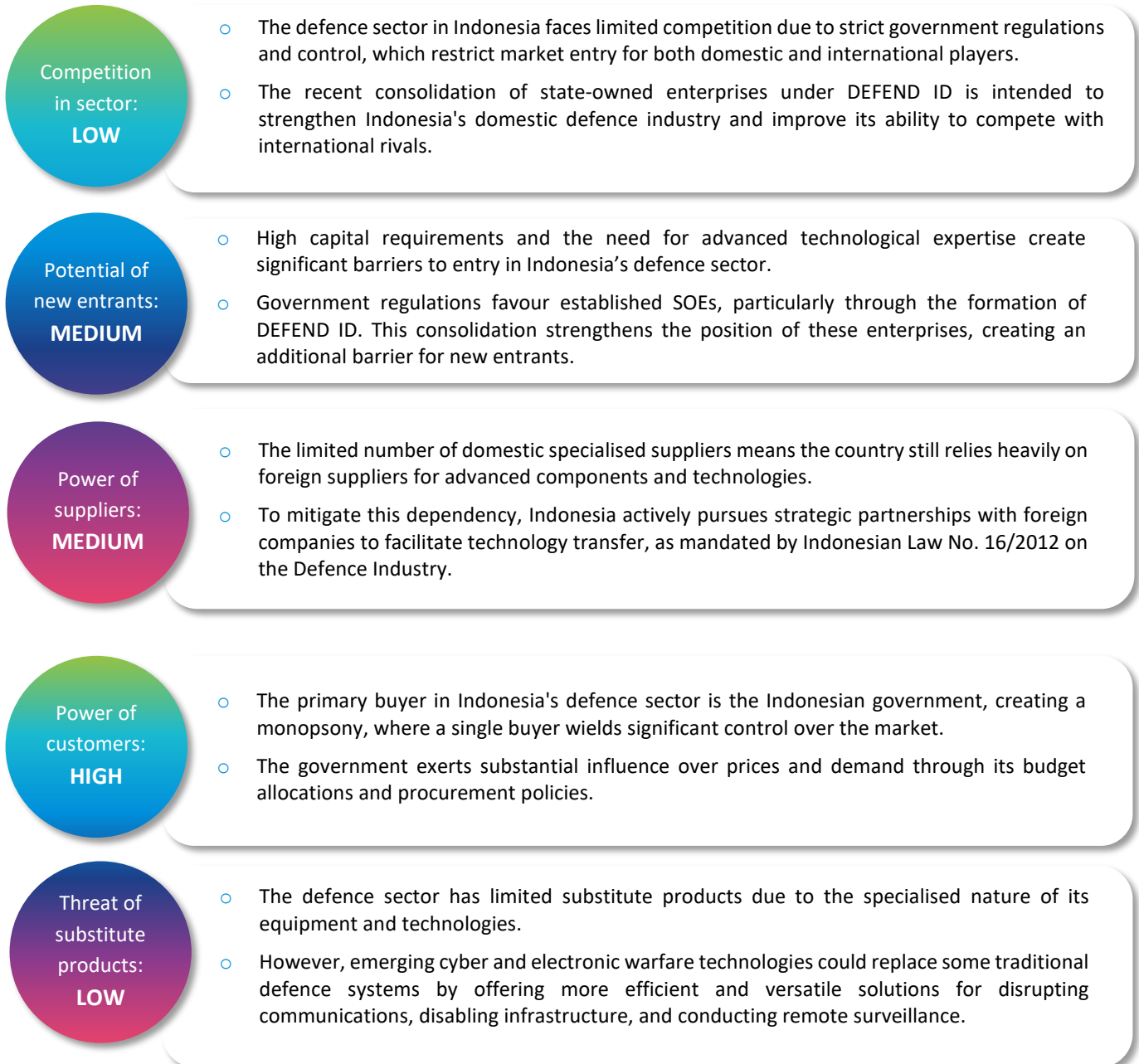
3.3. Recent Defence tenders

Table 3: Recent Defence tenders

Organisation name	About
Army Equipment Center (Puspalad) of TNI AD	<ul style="list-style-type: none"> This tender is for the supply of sniper rifle spare parts. https://lpse.tniad.org/eproc4/lelang/28740638/pengumumanlelang
TNI AU (Air Force)	<ul style="list-style-type: none"> This tender is for the supply of drone coverage material. https://lpse.tni-au.mil.id/eproc4/lelang/3362605/pengumumanlelang
TNI AU (Air Force)	<ul style="list-style-type: none"> This tender is for the supply of Automated Weather Observation System (AWOS) spare parts. https://lpse.tni-au.mil.id/eproc4/lelang/3018605/pengumumanlelang

4. Competitive landscape

4.1. Porter's five forces analysis of the Defence sector



4.2. Competitor analysis

Indonesia's defence sector is evolving, with a focus on enhancing domestic capabilities to reduce reliance on foreign suppliers. A key component of this strategy is the establishment of **DEFEND ID**, a state-owned defence industry holding company launched in April 2022, which consolidates five major state-owned enterprises. This initiative aims

to strengthen the national defence industry and achieve greater self-sufficiency. Furthermore, DEFEND ID has set an ambitious goal to rank among the world's top 50 defence companies by 2024, underscoring Indonesia's commitment to becoming a prominent player in the defence industry.




Key players in the Indonesian defence market include domestic firms like PT Pindad and international companies such as Boeing and Airbus. Recent contracts, such as the acquisition of F-15EX jets from Boeing and ongoing collaborations with companies like Thales for radar systems, illustrate the competitive landscape. Furthermore, Indonesia's participation [in joint defence production initiatives with countries like India](#) and [Turkey](#) indicates a strategic shift towards building partnerships that enhance local production capabilities.




While Indonesia's defence sector is making strides toward self-reliance and modernisation, it continues to navigate challenges related to technological dependencies and the need for advanced systems. For example, South Korea and Turkey are becoming key players in Indonesia's defence market, with companies like Hanwha Defense, KAI, Baykar, and TAI offering cost-effective, technology-driven solutions such as drones, submarines, and combat vehicles. Their competitive pricing and readiness to meet offset and countertrade requirements align well with Indonesia's defence procurement priorities, giving them a significant edge over other foreign competitors.

China and Russia also maintain a strong foothold in Indonesia by supplying advanced military hardware, including CH-4B drones and Su-35 fighter jets. Their flexible financing options and willingness to transfer technology make them appealing partners for Indonesia, further intensifying competition for other foreign defence contractors.

The table below illustrates examples of companies within the Defence sector that could potentially compete with Estonian companies. It is important to note that this is not an exhaustive list but rather a strategic starting point for understanding the competitive landscape.

Table 4: Competitor map of the Defence sector

	Land defence	Sea defence	Air defence	Space technology
Robotics	  	  	  	  
Shipbuilding				
Aircraft MRO				
Satellite communication				

	Land defence	Sea defence	Air defence	Space technology
Ordnance products	  	  	 UAV  	
Armoured vehicles	  	Maritime digital solutions   	Anti-drone   	Niche system   

5. Export opportunities

Indonesia is actively modernising its military capabilities, aiming to become a significant defence power in Southeast Asia. While not as technologically advanced as Singapore, Indonesia's large population and vast archipelagic geography present unique opportunities and challenges for its defence sector. As the country focuses on enhancing its domestic defence industry and acquiring advanced technologies, there are promising opportunities for international providers of innovative defence solutions.

Case study

Terma, a Danish defence and aerospace company, has established a strong presence in Indonesia as part of its expansion strategy in the Asia-Pacific region. In 2020, the company opened offices in Jakarta and Surabaya, with the latter including a workshop to support project management, engineering, and maintenance tasks for its customers. This local presence has been crucial in strengthening Terma's relationships with Indonesian defence entities and facilitating the timely execution of projects.

Figure 2: Terma's opening ceremony for its new office in Surabaya, Indonesia



Source: Terma Website

A key aspect of Terma's strategy in Indonesia is its focus on local workforce development and technology transfer. The company has been actively engaging in long-term collaborations with both local Indonesian partners and international specialists. This approach not only enhances Terma's ability to deliver tailored solutions but also contributes to the development of Indonesia's domestic defence capabilities.

Terma has been involved in several significant projects in Indonesia, showcasing its commitment to the country's defence modernisation efforts. Notable projects include the supply of complete C-Series Combat suites for four 60-meter Fast Attack Crafts (KCR-60), equipping Hospital Assistance Ships with SCANTER radars, and providing Electronic Support Measures (ESM) systems integrated with C-Flex Patrol for 6 vessels. The company has also collaborated with a UK electronic warfare specialist to deliver advanced ESM systems, highlighting its strategy of combining in-house expertise with specialised international partnerships to meet the complex requirements of the Indonesian market and build sustainable business relationships in the country's defence sector.

The company's product offerings in Indonesia cater to various defence needs. Terma provides C-Guard Decoy Launching Systems, C-Flex Patrol systems, and Electronic Warfare solutions, among others. These products are designed to enhance the capabilities of Indonesia's naval and coastal defence forces, addressing both above-water and underwater threats.

Estonian companies looking to enter the Indonesian defence market can learn from Terma's approach by focusing on long-term commitment and establishing a local presence. Forming strategic partnerships and diversifying their customer base are equally important. Additionally, investing in technology transfer, developing the local workforce, and tailoring solutions to local needs can enhance their competitiveness. Finally, adopting a regional strategy will help Estonian firms navigate the complexities of the Indonesian market and build sustainable business relationships.

5.1. Key opportunities and gap analysis

The following opportunities stand out when considering Estonia's strengths, Indonesia's goals, unmet demands, and emerging trends in the market:

- **Explore opportunities in drone capabilities in Indonesia.** Estonian companies should consider Indonesia's growing focus on enhancing its drone capabilities for border surveillance and defence. The market has already attracted foreign players: Turkey's Baykar is supplying [12 Bayraktar TB2 drones](#) to Indonesia for USD 300 million (EUR 291.2 million), while Turkish Aerospace Industries is providing [12 TAI Anka UAVs](#) for a similar amount. Additionally, Indonesia is integrating Chinese-made CH-4B UAVs with advanced capabilities into its air force. Looking ahead, Indonesia has announced plans to develop indigenous drone squadrons and has shown interest in acquiring unmanned combat aerial vehicles (UCAVs) for beyond-visual-range combat. These developments indicate a growing demand for cutting-edge drone technologies, creating opportunities for Estonian firms to offer their expertise in advanced drone systems, AI-assisted technologies, and electronic warfare solutions. Such contributions could support Indonesia's defence modernisation while enabling Estonian companies to expand their global market presence.
- **Leverage defence cybersecurity opportunity.** Indonesia's defence sector is advancing its cybersecurity capabilities in response to rising digital threats and a strategic drive to strengthen national cyber defences. The Indonesian Air Force has introduced a 20-year cyber defence strategy and established a dedicated Cyber Force as a fourth military branch. Simultaneously, the country is investing in cyberinfrastructure, focusing on protecting critical information systems and fostering cybersecurity research and innovation. With Indonesia's cybersecurity market projected to reach [EUR 3.5 billion](#) by 2029, there is significant potential for Estonian firms to offer their advanced cybersecurity solutions and expertise in national-level cyber defence frameworks. These contributions could position Estonian companies as key players in shaping Indonesia's evolving defence cybersecurity landscape.
- **Target space technology advancements as a prospective opportunity.** Indonesia's 20-year defence strategy prioritises the development of space-based assets and the establishment of a dedicated space force, creating a favourable environment for Estonian expertise. Foreign players such as [BlackSky Technology Inc.](#), [Thales Alenia Space](#), and [Excalibur International](#) have already secured major contracts, providing valuable benchmarks for Estonian firms. With Indonesia investing in Earth observation satellites, a domestic space launch centre, military satellites, and advanced air defence systems incorporating space-based assets, Estonian companies can leverage their strengths in satellite technologies, secure communications, and space data analytics.
- **Focus on the growth of AI in defence systems.** Indonesia's defence sector is increasingly integrating AI across various domains, exemplified by collaborations with Turkey and China on AI-powered unmanned systems and the development of indigenous drone squadrons. The incorporation of cyber warfare training in naval education and [research at PRKAKS-BRIN](#) on AI applications in cybersecurity and intelligent control systems further demonstrates this focus. Plans for an [AI research centre](#) within the Ministry of Defense and the unveiling of AI-equipped autonomous underwater vehicles at the ASEAN Defence Ministers' Meeting highlight Indonesia's commitment to AI-driven innovation. These initiatives present significant opportunities for Estonian companies to leverage their expertise in AI-assisted defence systems, offering tailored solutions to

Indonesia’s specific defence challenges and positioning themselves as key partners in its AI-driven modernisation efforts.

- **Leverage maritime defence collaboration opportunities.** Indonesia is seeking to bolster its maritime defence capabilities in response to growing security challenges in the South China Sea. Japan’s proposal for the joint development of **Maritime Self-Defense Force (MSDF)** frigates highlights Indonesia’s strategic focus on modernising its naval assets and diversifying defence partnerships amid rising regional tensions. This initiative offers access to advanced Japanese defence technologies while addressing Indonesia’s need for enhanced maritime security. These dynamics open opportunities for Estonian companies to contribute their expertise in naval technologies such as radar systems, underwater sensors, autonomous vessel navigation, and secure maritime communications. By tailoring their solutions to Indonesia’s defence requirements, Estonian firms can establish themselves as valuable partners in the country’s maritime security initiatives and expand their footprint in Southeast Asia.
- **Support Indonesia’s smart border security initiatives.** Indonesia’s extensive borders, spanning vast maritime zones, key air transit hubs, and land crossings, present significant challenges in maintaining national security and preventing unauthorised incursions. To address this, the country has begun adopting advanced technologies at critical entry points. For example, automated border control systems with facial recognition technology, supplied by **Portugal’s Vision-Box**, have been deployed at Soekarno-Hatta and Ngurah Rai International Airports. Similarly, at Batam Centre, a critical maritime transit hub, the U.ARE.U Camera Identification System by the US-based **HID Global** enhances security and expedites clearance for 500,000 travellers annually. These advancements create opportunities for Estonian companies to offer innovative solutions, such as AI-powered surveillance systems, secure maritime communications, and biometric technologies tailored to Indonesia’s unique border security needs. By providing these technologies, Estonian firms could play a pivotal role in modernising Indonesia’s border control infrastructure.

5.2. Five-year roadmap

A 5-year plan will enable Estonian companies to build and maintain a robust presence in Indonesia's Defence sector.

Table 5: A 5-year roadmap for Estonian companies for the Defence sector

Understand the market				Enter the market				Growth and Expansion
Year 1				Year 2				Years 3 to 5
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Engage with Team Estonia								
Gather initial market information								
Engage a consultant to help establish connections with local partners and to understand the market better								
Visit the market to attend a Defence event and meet potential partners								
				Localise the product				
				Obtain certifications				
				Develop market entry materials				
				Participate in as Defence trade event				

Understand the market				Enter the market				Growth and Expansion
Year 1				Year 2				Years 3 to 5
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
						Engage with stakeholders		
							Finalise strategic partnerships	
							Regular visits to the market	
							Undertake lead-generation activities	
							Optimise entry strategies	
							Expand into the region	

Year 1: Understand the market

- **Engage with Team Estonia:** Consider contacting the Ministry of Foreign Affairs, the Ministry of Economic Affairs and Communications, Enterprise Estonia, and the Embassy in the region to obtain recommendations on strategic targets and assistance in facilitating introductions and exploring potential collaborations to extend your market reach.
- **Initial engagement to gather market information:** Engage with these entities as well as others identified in [Section 3](#) of this report, to gather initial feedback on your offerings, validate your route to market, and understand customer expectations within the Defence landscape in Indonesia. Conduct a thorough analysis of the regulatory requirements for defence companies in Indonesia. Consider compliance with [Law No.16/2012 on the Defence Industry \(known as 'Law 16'\)](#) and recent changes brought by the Job Creation Law, which now allows private actors, both foreign and domestic, to invest in defence projects. Understand the countertrade, local content, and [offset requirements](#), which should be worth no less than 85% of the value of the main defence contract. Focus on key defence industry cities in Indonesia, such as Jakarta (headquarters of major defence companies), Bandung (location of [PT Dirgantara Indonesia](#)), and Surabaya (location of [PT Pal Indonesia](#)).
- **Engage a consultant:** Estonian defence technology companies should seek guidance from local consultants to identify relevant partners, distributors, and key stakeholders in Indonesia's defence sector. Apart from [Orissa International](#), market-entry consultants with offices in Indonesia and neighbouring countries include [Dezan Shira & Associates](#) and [Acclime Indonesia](#).

These consultants can facilitate introductions to state-owned defence companies, private contractors, government agencies, and research institutions. Directly liaise with the Indonesian [Ministry of Defense, the Defence Industry Policy Committee \(KKIP\)](#), and PINHANTANAS. Consider engaging with the Indonesia Investment Promotion Center (IIPC) or KADIN for broader business support.

- **Attend/participate in Defence events in Indonesia:** Estonian defence companies should participate in key events like the biennial Indo Defence Expo & Forum in Jakarta, which offers networking opportunities with industry leaders, government officials, and potential partners. The event also allow companies to showcase solutions, stay updated on trends, and explore partnerships. The table below highlights key events taking place in Indonesia.

Table 6: Key Defence trade events

Event name	Date	About
Indo Defence Expo & Forum 2025	22-25 January 2025	<ul style="list-style-type: none"> ○ Indo Defence Expo & Forum is a biennial B2B event that brings together global experts, stakeholders, official delegations, industry players, and decision-makers from the defence industry. The exhibition will also feature integrated international forums on defence, aerospace, helicopters, and marine technologies, where experts will discuss and share experiences in addressing future challenges. ○ 36,806 visitors, 905 participants (2022) ○ https://indodefence.com/
Indonesia Aero Summit 2025	30-31 July 2025	<ul style="list-style-type: none"> ○ Indonesia Aero Summit is an annual educational exhibition that aims to bring together stakeholders to discuss and explore opportunities for growth, innovation, and collaboration in Indonesia's aviation sector. Hosted by the Indonesia National Air Carriers Association, the theme of the 2025 event is the exploration of avenues for sustainable growth, innovation, and international collaboration. ○ 300+ targeted attendees, 20+ exhibitors ○ https://www.indonesiaaerosummit.com/
Bali International Airshow 2025	10-13 September 2025	<ul style="list-style-type: none"> ○ Bali International Airshow 2025 is an annual exposition for aerospace, aerotechnology, and defence, hosted by the Coordinating Ministry for Maritime Affairs and Investment, the Ministry of Transportation, and the Indonesian Air Force (TNI AU), with support from the Ministry of Foreign Affairs, the Ministry of Tourism and Creative Economy, AirNav Indonesia, and Angkasa Pura Airports. Its Ministerial VIP Delegation and Hosted Commercial Buyer Program offer exhibitors a unique opportunity to engage with high-profile delegates. ○ 100+ participating companies, 100+ hosted delegations from over 35 countries/regions ○ https://www.baliairshow.com/

Year 2: Enter the market

- **Localise products:** Adapt products to address Indonesia's unique geographical and strategic challenges, such as monitoring its vast archipelagic territory. Engage with local stakeholders to understand specific needs and operational contexts. Tailor technologies (e.g., cybersecurity, AI-driven systems, satellite technologies) to integrate with existing Indonesian defence infrastructure.
- **Obtain certifications:** To successfully enter the Indonesian defence market, Estonian companies should actively pursue necessary regulatory approvals and certifications. Ensure compliance with Law No. 16/2012 on the Defence Industry, emphasising local content and technology transfer. Consider partnerships to meet [offset requirements of up to 85% of contract value](#). Obtain AS9100 certification for quality management in the aerospace industry and ISO 9001 for general quality management systems, amongst others.
- **Develop market entry materials:** Create compelling marketing materials and competitive pricing strategies for the Indonesian defence market. Develop brochures, videos, and infographics highlighting Estonian

cybersecurity solutions, AI-driven systems, and satellite technologies. Showcase success stories from Estonia's defence modernisation or NATO deployments. Offer free trials or POCs for AI-powered threat detection systems or secure communication networks. Propose training programmes and knowledge transfer initiatives, such as joint research projects or exchange programmes. Highlight integration capabilities with existing Indonesian defence infrastructure and [compliance with local content requirements](#).

- **Engage with stakeholders:** Estonian defence companies entering Indonesia should focus on building strong relationships with key defence sector players. Participate in major events like the Indo Defence Expo & Forum, which attracts over 1,000 companies from 60 countries, to showcase technologies and network with industry leaders. Consider participating in defence education initiatives like the [Warfare and Strategy Course to connect with officials from various government agencies](#) involved in defence decision-making. Conduct workshops in key defence industry hubs like Surabaya and Bandung to facilitate hands-on experiences with Estonian technologies.
- **Finalise strategic partnerships:** Estonian companies could explore joint ventures with Indonesian state-owned defence companies just like [Thales and PT Len Industri](#). This approach allows for technology transfer, local manufacturing, and aligns with Indonesia's "Made-in-Indonesia" strategy. Estonian firms could partner with Indonesian companies to transfer knowledge and technology, similar to [France's Nexter KNDS Group's commitment to transfer defence technology to Indonesia](#). Collaborations can also be made with DEFEND ID, Indonesian universities or research institutions for joint R&D projects.

Year 3 and beyond: Growth and expansion

- **Undertake ongoing promotion for lead generation:** Showcase technologies at [the Indo Defence Expo & Forum, which features over 1,000 companies from 60 countries](#). Maintain an active presence on professional platforms like LinkedIn, targeting Indonesian defence industry professionals and military personnel. Share updates on Estonian defence technologies and their relevance to Indonesia's defence needs. Provide free trials or demonstrations of technologies, similar to commercial strategies but adapted for the defence sector. For example, offer simulation sessions of cybersecurity systems or AI-driven defence solutions. Leverage local defence publications and online platforms to showcase Estonian defence technologies and their potential impact on Indonesia's defence capabilities.
- **In-market visits:** Estonian defence companies must prioritise regular visits to Indonesia to maintain momentum and forge strong local relationships in the defence sector. These recurring visits are crucial for face-to-face meetings with key stakeholders such as the Indonesian Ministry of Defense, military officials, and state-owned defence companies. Engaging with the Defence Industry Policy Committee (KKIP) helps align with local content requirements and technology transfer initiatives.
- **Optimise market entry strategies:** Regularly review and refine your market entry strategies based on market feedback and performance data. Adapt your approach to better meet the needs of the Indonesian military and defence industry while responding to competitive dynamics in Indonesia's defence sector. This may include adjusting technology offerings, enhancing product features, or expanding support services. For example, offer flexible procurement models that align with Indonesia's defence budget cycles and local content requirements.

Regularly engage with the Indonesian Ministry of Defense and military branches to understand changing requirements and tailor your solutions to meet specific needs.

- **Expand into the region:** Leverage the insights and networks established in Indonesia to explore expansion opportunities in neighbouring countries within the region. Focus on building partnerships with local industry players and stakeholders in markets like Singapore, Malaysia, Thailand, Vietnam, and the Philippines. Tailor your offerings to align with each market's specific defence priorities and regulatory requirements. For instance, in Singapore, emphasise advanced technologies; in Malaysia, explore aerospace opportunities, particularly in maintenance, repair, and overhaul (MRO) services; in Thailand, consider collaborations in land-based defence systems; in Vietnam, partner for maintaining Soviet-era equipment; and in the Philippines, focus on naval and aerospace opportunities.

5.3. Final recommendations

Estonian defence companies entering Indonesia should focus on localisation and strategic alignment with Indonesia's specific defence needs, particularly in maritime security, cybersecurity, and archipelagic defence. Aligning with Indonesia's defence industry development goals is crucial, emphasising technology transfer and local content requirements as per Law No. 16/2012 on the Defence Industry. Align with Indonesia's defence industry holding, [DEFEND ID](#), an initiative that aims to promote collaborative combat approaches and integrated systems.

Indonesia is actively seeking foreign collaborations while simultaneously pursuing self-reliance in its defence sector. This dual approach presents opportunities for Estonian companies to offer adaptable solutions that can operate in Indonesia's diverse environments. Market entry strategies should prioritise naval systems, air defence, cyber warfare capabilities, and AI-driven technologies. For instance, the recent [Scorpene submarine deal between Indonesia and France's Naval Group](#) demonstrates Indonesia's interest in enhancing its naval capabilities through foreign partnerships.

Partnerships with local defence companies like PT PAL Indonesia, PT Pindad, and PT Dirgantara Indonesia are essential for meeting offset requirements and gaining market access. Estonian firms should develop strong relationships with key stakeholders, including the Ministry of Defense and military branches, offering comprehensive training programmes and knowledge transfer initiatives to build local capabilities. Well-connected distributors can also be very helpful in navigating regulatory frameworks, facilitating introductions to key decision-makers, and streamlining the supply chain.

A strong value proposition demonstrating enhanced operational capabilities, cost-effectiveness, and contributions to Indonesia's defence industry self-reliance is crucial. Participation in major defence exhibitions like the Indo Defence Expo & Forum and engagement in defence education initiatives are important for networking and showcasing technologies. Estonian companies should also consider engaging in defence education initiatives, such as the Warfare and Strategy Course, to connect with officials from various government agencies involved in defence decision-making.

Estonian companies should be prepared for long-term engagement, as Indonesia balances its desire for foreign expertise with its goal of developing domestic defence capabilities. Thales' [Naval Modernization Program in Indonesia](#) exemplifies a five-year refurbishment contract for four Diponegoro-class ships, complemented by long-

term post-sales support from a dedicated local service centre in Surabaya. This approach requires patience and a commitment to supporting Indonesia's defence modernisation while contributing to its self-reliance objectives.