

# **SOUTH KOREA - INDONESIA DYNAMICS ECONOMIC COOPERATION**

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## **Introduction**

President Joko Widodo welcomed South Korea's investment in the development of the archipelago's capital, including cooperation in the development of drinking water supply systems, and capacity building in the field of smart city development (Indonesian Cabinet Secretariat, 2022). Diplomatic relations between the two countries began in September 1973. Both countries continue to strive to improve relations regionally as bilateral cooperation entered a new chapter during President Moon Jae-in's state visit to Indonesia from 8 to 10 November 2017. Through the Republic of Korea-Republic of Indonesia Joint Vision Statement for Co-Prosperity and Peace, the two state leaders agreed to upgrade the status of the partnership, which becomes a special strategic partnership, with a focus on cooperation in four areas, namely: 1) Defence and foreign relations, 2) Bilateral trade and infrastructure development, 3) People-to-people exchanges, and 4) Regional and global cooperation.

This paper aims to elaborate on Indonesia and Korea dynamics economic cooperation after strategic partnership agreed and implement in 2017. South Korean investment in Indonesia from 2017 to 2021 reached US\$ 8.18 billion, and became the third largest foreign investor. South Korea's direct investment in Indonesia hit an all-time high of US\$1.8 billion in 2021, and is likely to continue to boost as South Korea will build a petrochemical complex, an EV battery cell plant, and so on in Indonesia (Suk-yee, 2022).

Indonesia has become South Korea's most important partner in Southeast Asia since 2022, and several policies in the field of energy development were discussed intensively. Trading in liquefied natural gas (LNG), crude oil, refinery products, coal, which was followed by beneficial cooperation in oil, gas, coal and electric power sectors, intensified. Indonesian government until August 2022 has pocketed investment commitments from a number of South Korean companies, with a total value of US\$ 6.78 billion.

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## **Economic Cooperation**

South Korea and Indonesia comprehensive economic partnership agreement is expected to accelerate bilateral trade sooner. In 2023, Indonesia and South Korea diplomatic relations will reach 50 years. The change of national leadership in the Republic of Korea in May 2017 has made President Moon Jae-in established the New Southern Policy which aims to improve South Korea's relations with ASEAN countries and India.

President Moon Jae-in and President Jokowi have agreed to elevate the status of the two countries' relations to a 'Special Strategic Partnership', based on the shared spirit of principles and values of democracy, human rights and an open economy. The two leaders agreed that the partnership are not just transactional relations but should be based on a spirit of mutual assistance. The document "Indonesia-South Korea Joint Vision Statement for Co-Prosperity and Peace" issued at the Bogor Palace on November 9, 2017 became the basis for the priority areas of cooperation. In the economic field, the agreed cooperation priorities include:

1. Enhance strategic communication at a high level through existing bilateral consultation mechanisms, or establishing new mechanisms.
2. Improve and expand investment and trade relations continuously, including achieving a trade target of US\$ 30 billion in 2022 and encouraging increased market access for Indonesian palm oil, fruit and fishery products to South Korea.
3. Indonesian government encourages South Korean companies to develop business and invest in Indonesia (acceleration of industrialization, infrastructure development and connectivity, as well as growth and development in the regions).
4. The South Korean government supports Indonesia's efforts to strengthen infrastructure (water management, transportation, public housing, and power generation) by using the Global Infrastructure and the Economic Development Cooperation Fund.
5. Both countries agreed to facilitate investment in new growth engines, such as tourism, content industry, environmentally friendly energy, health and medical services, and information technology.
6. Initiating triangular cooperation to assist development in third countries.

During President Moon Jae-in's visit to Indonesia in November 2017, the signing of the MoU G to G in the economic field as follows,

Table 1. Indonesia-South Korea Bilateral Agreement

<b>No</b>	<b>Bilateral Agreement</b>	<b>Progress</b>
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1	MoU between the Indonesian Ministry of Industry and the South Korean Ministry of Trade, Industry and Energy regarding Industrial Cooperation	2018-present
2	MoU between the Indonesian Ministry of Health and the South Korean Ministry of Health and Welfare regarding Health Cooperation	2018-present
3	MoU between the Republic of Indonesia's Ministry of Transportation and the South Korean Ministry of Land, Infrastructure and Transportation regarding Cooperation in the Transportation Sector	2018-present

Source: Indonesian Embassy in Seoul (2018)

Further, at the reciprocal visit of Indonesian President Jokowi to South Korea from September 9 to 11 2018, some agreement was signed in the economic sector,

Table 2. Indonesia-South Korea Cooperation

No	Bilateral Agreement	Progress
1	Cooperation in an effort to accelerate the development of potential industrial sectors between the two countries, covering industrial policies, increased investment, and technology transfer is expected to be able to drive a mutually beneficial economy	2017-present
2	MoU between the Ministry of Industry and the National Research Council for Economics, Humanities and Social Sciences of South Korea regarding cooperation activities related to Industry 4.0	2018-present
3	MoU between the Coordinating Ministry for the Economy and the South Korean Ministry of Trade, Industry and Energy regarding economic cooperation	2018-present
4	The signing of 15 MOUs covered cooperation in the energy, automotive, infrastructure, machinery, technology and cosmetics sectors	2018-present

Source: Coordinating Ministry for Economic Affairs of Indonesia (2022)

In 2022, an MoU was signed between the Ministry of Investment and POSCO Korea and Krakatau Steel Indonesia regarding investment in the automotive steel industry for electric vehicles and participation in the development of the *Ibu Kota Negara* (Indonesian new capital

city) with a total investment value of US\$6.37 billion and will absorb more of 58 thousand workers.

South Korean investment in Indonesia from 2019 to 2022 reach US\$ 2,757,573.5 in West Java with 4,083 projects, US\$ 1,509,859.6 in Banten with 2,168 projects, and US\$ 756,118.3 in Central Java with 1,403 projects (Indonesia Ministry of Investment, 2023). The Joint Committee Meeting on Economic Cooperation between Indonesia and South Korea was formed in February 2022, which is an implementation of the MOUs signed in 2018 during the visit of Indonesian President Jokowi to Seoul, and agreed that cooperation between the two countries in various fields was reflected in the four Working Groups, namely (Indonesia Coordinating Ministry for Economic Affairs, 2022): 1) Investment and trade, 2) Industry, 3) Energy and mineral resources, and 4) E-commerce.

### **From Strategic Partnership to Special Strategic Partnership**

In Asia Pacific, South Korea is one of Indonesia's main trading partners. In 2012, Indonesia and South Korea agreed to form the Indonesia-Korea Comprehensive Economic Partnership (IK-CEPA) to encourage increased trade and economic relations, based on 3 (three) main pillars, i.e., 1) Market access for trade in goods and services; 2) Trade and investment facilitation; as well as 3) Cooperation and capacity building. The seventh round of IK-CEPA negotiations took place in Seoul on 21-28 February 2014 and there are pending issues that need to be discussed further. According to Yoon (2022), South Korea's foreign investment in 2021 to ASEAN countries amounted to around US\$ 8.9 billion, down from around US\$ 9.95 in 2020, and increased gradually with the exception of 2021.

During the state visit of the Indonesian President to South Korea in September 2018, both leaders renewed their commitment to continue the IK-CEPA negotiations and this was followed up with a meeting between Indonesian Minister of Trade and at the East Asia Summit, November 2018 in Singapore (ANTARA, 2019). The agreement was made to explore the resumption of the IK-CEPA negotiations by taking into account the principle of achieving mutual benefits. In the 2013-2017 period, the trade trend between the two countries decreased by -10.43%. Since the agreement reached, bilateral relations from the strategic partnership level to a special strategic partnership in November 2017 elevated. The total trade between Korea and Indonesia in 2018 continued to boost by US\$ 18.57 billion, 12.58% increase from previous period. The composition of the bilateral trade value consists of US\$ 10.35 billion worth Indonesia's exports to South Korea, and Indonesia's US\$ 8.22 billion worth imports from ROK, with a trade surplus of US\$ 2.13 billion for Indonesia. The non-oil and gas trade value between

the South Korea and Indonesia in 2018 for the January-November period reached US\$ 15.18 billion. This value increased by 9.40% compared to the previous year. There was a trade surplus for Indonesian with a value of US\$ 2.13 billion in 2018, and the trade value of the two countries consisted of Korean exports to Indonesia of US\$ 8.21 billion and imports of US\$ 10.34 billion. Several Indonesian products, demand for which has boosted, are plywood, vegetable oil, footwear, and semi-finished products from iron and steel. The main non-oil and gas products exported from Indonesia to Korea are dominated by commodities such as coal, natural rubber, copper ore, pulp wood and others. Besides these products, products that have potential in the Korean market include: processed food, fishery products, coffee, footwear, furniture, plywood, textile products including yarn, charcoal, wood pellets, and palm kernel shells.

## **Conclusion**

In welcoming 50 years of bilateral relations between South Korea and Indonesia, it is still necessary to increase the strengthening of the contributions of the two countries to create international peace and regional stability. The Asia Pacific region is not spared from a number of issues and conflicts, especially with the increasing strategic competition between China and the United States (U.S) from an economic perspective. In the field of declining global economic growth, the COVID-19 pandemic has become a common challenge for all countries over the past 3 years, and South Korea and Indonesia are no exception.

In international relations, all countries are now experiencing competition and power contention simultaneously as well as economic uncertainties, giving rise to unprecedented challenges in all forms, difficult and complicated in managing and securing global supply chains in particular. Tension and competition in the South China Sea region have also added to the challenges faced by South Korea and Indonesia. China develops military facilities on islands in the SCS region, and China usurps the sovereignty of a number of countries over several areas in the region. Chinese influence is growing in Southeast Asia as Indonesia leads and initiates a number of international movements, in the non-aligned movement, and leads a number of multilateral forums such as IORA, G20, ASEAN, MIKTA, and APEC. Indonesia's free and active foreign policy has never taken sides between China and the U.S, as well as leading the ASEAN Outlook on the Indo-Pacific (AOIP). Both countries have pledged to continuously enhance defence industry cooperation, boost capacity building and research and development, and ensure the interdependence of industrial cooperation.

Indonesia-South Korea have so far discussed comprehensive issues including political economy issues and have strong defence cooperation. Indonesia is one of the biggest importers

of South Korean military weapons, naval vessels and submarines. South Korean leaders perceive that Indonesia is an important partner in the Asia Pacific strategic cooperation in order to pursue world peace and stability.

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