

Current Status Indonesia-South Korea Economic Cooperation and Future Perspectives

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Introduction

The trend of trade between Indonesia and Korea in the 2015-2019 periods recorded a positive growth of 2.5 percent. In 2019, South Korea was Indonesia's 8th export destination and 6th source of imports (Uly, 2020). The signing of the agreement between Indonesia and the Korea Comprehensive Economic Partnership Agreement (IK-CEPA) is a challenging milestone in bilateral economic relations between Indonesia and South Korea. It reflects how Korea is increasingly interested and intense in making Indonesia a new production base in the Southeast Asia. The signing of the IK-CEPA agreement will bring Indonesia's economy to be stronger, more competitive, open, and more attractive to several Korean investors by making Indonesia a production hub to enter regional and world markets.

This article contributes to discuss Indonesia and Korea economic cooperation and its' future perspectives which will bring mutual benefit. Korea and Indonesia relations nearly reached the age of 49 years. Diplomatic relations between the two countries began to be established in September 1973 which began in August 1966 by establishment of consulate. Indonesia and South Korea at the end of February 2022 agreed to carry out a number of strategic partnerships and mutually support the post-pandemic economic recovery (Indonesia Coordinating Ministry For Economic Affairs, 2022). In enhancing bilateral relations, particularly in the economic and business fields, Coordinating Minister for Economic Affairs Airlangga Hartarto held a meeting with South Korean Minister of Trade, Industry and Energy Moon Sung Wook. It was the first meeting at the Ministerial level in the Joint Committee Meeting on Economic Cooperation Indonesia - South Korea. The Indonesia-South Korea JCEC is an implementation of the Memorandum of Understanding signed in 2018 during the visit of Indonesian President Joko Widodo to South Korea. At the JCEC forum, the two Ministers discussed and agreed on cooperation in various fields as reflected in the four Working Groups, namely Investment and Trade, Industry, Energy and Mineral Resources, and e-commerce.

Table 1. Indonesia-South Korea Relations: Timeline of Important Events

No	Event(s)	Date
1	Visit of Indonesian President Joko Widodo to Busan in the Framework of the 25 th ASEAN and Republic of Korea Commemorative Summit and Bilateral Meeting	Dec. 10-12 2014
2	Indonesian Vice President Jusuf Kalla's state official visit to Korea	Aug. 26-30 2015
3	Korean Prime Minister Lee Nak-yeon's visit to Indonesia	Aug. 18-21 2018
4	Indonesian President Joko Widodo's visit to the Korea	Sept. 8-10 2018

5	Indonesian President Joko Widodo's working visit to the Republic of Korea to attend the ASEAN-ROK Commemorative Summit in Busan	Nov. 25-26 2019
6	The visit of the Minister of Industry of Indonesia Airlangga Hartarto to South Korea to encourage the growth of the industrial sector in Indonesia.	2019
7	The visit of the Minister of Trade, Industry and Energy of South Korea Moon Sung Wook to Jakarta.	Feb. 22 2022

Indonesia and South Korea have been committed to developing and enhancing bilateral relations by building strategic partnerships since 2006 to present. Cooperation in the economy, trade, and investment is certainly one of the important pillars of the partnership. The two countries have consistently made optimal efforts to strengthen sustainable strategic cooperation in this field.

Economy and Trade Relations

The Indonesian government since the administration of President Joko Widodo has actively collaborated with Korean companies, especially in the manufacturing, energy and infrastructure sectors (Wartakadin.com, 2019). In 2019, the two countries formed the Indonesia and Korea Comprehensive Economic Partnership Agreement, which targets bilateral trade to reach US\$ 30 billion by 2022. Korea-Indonesia Technology Cooperation Center was established to promote further cooperation, in particular to support Korean companies in Indonesia in the industrial technology area, carrying out a number of joint research and development programs.

Indonesia and Korea CEPA covers trade in goods which includes elements of tariff reduction/abolition, provisions on origin of goods, customs procedures, trade facilitation, and trade remedies; trade in services; investment; economic cooperation; and institutional arrangements (Indonesia Ministry of Trade, 2020). On trade in goods, South Korea will eliminate up to 95.54 percent of its tariff posts, while Indonesia will eliminate 92.06 percent of its tariff posts. Several Indonesian products whose tariffs will be eliminated by South Korea are raw materials for lubricating oil, stearic acid, t-shirts, block-board, dried fruits, and seaweed. Meanwhile, Indonesia will eliminate tariffs for several products such as gear box of vehicles; ball bearings; and paving, hearth or wall tiles, and unglazed. Through this agreement, Indonesia will also give preferential tariffs to facilitate South Korean investment in Indonesia for 0.96 percent of tariff posts worth US\$ 254.69 million or 2.96 percent of Indonesia's total imports from South Korea. From the value of imports, South Korea will eliminate tariffs for 97.3 percent of its imports from Indonesia, while Indonesia will eliminate tariffs for 94 percent of its imports from South Korea. Further, in services trade, Indonesia and Korea are committed to opening more than 100 sub-sectors; improve the integration of several service sectors in the future, including in the construction sector, postal and courier services, franchises, to computer-related services; and facilitate the movement of intra-corporate transferees, business visitors, and independent professionals.

Korea Foreign Investment in Indonesia

The South Korean government always strengthens cooperation with ASEAN countries. Since the beginning of diplomatic relations between Indonesia and South Korea in 1973, the two countries have

become partners in cooperation and accompanied in various national and regional economic development projects. Indonesian and South Korean entrepreneurs need to strengthen bilateral cooperation and empower the economic potentials, so that bilateral trade is expected to reach US\$20 billion (Antaranews.com, 2022). Although Indonesia is still overshadowed by the ongoing COVID-19 pandemic, South Korea's investment realization in 2021 has reached US\$1.64 billion. Indonesia structural reform through the Omnibus Law Job creation is considered to be one of the drivers of increasing South Korean investment to the world largest archipelagic country.

The Indonesian government through the Investment Coordinating Board has agreed on business cooperation with South Korea of up to US\$ 6.2 billion (Indonesia Investment Coordinating Board, 2018). This is the result of the visit of Indonesian President Joko Widodo to South Korea which was marked by the signing of 15 memorandums of understanding and 6 business-to-business investment commitments between the Indonesian and South Korean private sectors. However, South Korea is not one of the countries with the largest investment in Indonesia at the end of 2021 (Indonesia Ministry of Investment, 2022).

Table 2: Top 7 Foreign Investments in Indonesia

No	Countries	Investment	Percentage	Projects
1	Singapore	US\$ 9.4 billion	30.2 %	6.934
2	Hong Kong, China	US\$ 4.6 billion	14.8 %	1.418
3	China	US\$ 3.2 billion	10.2 %	1.806
4	USA	US\$ 2.5 billion	8.2 %	824
5	Japan	US\$ 2.3 billion	7.3 %	3.623
6	Netherlands	US\$ 1.8 billion	6.5 %	1.243
7	South Korea	US\$ 1.6 billion	6.2 %	2.511
Total		US\$ 22 billion	83.4 %	18.361

Indonesia-Korea Strategic Partnerships

Indonesia's foreign policy towards South Korea has often been carried out to influence the offensive decisions of North Korean leaders, especially in relation to the issue of nuclear weapon development (Manurung, 2020, p. 223). Indonesia-Korea Joint Vision Statement for Co-Prosperity and Peace issued on November 9, 2017 became the basis for priority areas of cooperation between the two countries. South Korea supports Indonesia's initiatives and together will make the G20 agenda a success in 2022. The concrete results of the JCEC forum in February 2022 were very diverse, including: 1) the establishment of the Indonesia Business Cooperation Center; 2) cooperation in the development of electric vehicle charging stations; 3) bio-Nano investment cooperation; 4) cooperation in the restoration of mining areas in Indonesia; 5) cooperation with high-complex ship industries such as tankers and cranes; and 6) development of the Machine Tools Technical Center technology transfer center at Bandung Institute of Technology.

The trade volume of the two countries still needs to be optimized to impact on increasing the economic growth and the regional peace and stability (Kompas.com, 2020). Since November 2017, the partnership has upgraded to become a Special Strategic Partnership. The development of relations between Indonesia and South Korea is significant. The two of them opened diplomatic relations in 1973. After that, Jakarta

and Seoul then formed a Strategic Partnership in 2006 and increased to a Special Strategic Partnership in 2017 (The Habibie Center, 2021).

Conclusion

Indonesia and South Korea consistently strive to strengthen relations and cooperation by agreeing on economic, trade and investment cooperation as one of the important pillars of strategic partnership. For South Korea, Indonesia is an important partner for cooperation and a key trading partner in Southeast Asia. In addition, South Korea is one of Indonesia's important economic partners in the East Asia region. The signing of the Joint Declaration for Strategic Partnerships in 2006 marked a new chapter in improving relations between the two countries. It is believed that the cooperation in the economic, trade and investment fields will strengthen the agreed Strategic Partnership.

Indonesia is currently focusing on economic recovery, especially in economic transformation, so that later it can get out of the middle income trap. South Korea has come out of the middle income trap. The support of the government and South Korean companies in Indonesia is always appreciated, in supporting the transformation and economic recovery after the global pandemic in particular.

The close relationship between Indonesia and South Korea is remarkable. Indonesia's implementation of five diplomatic priorities in the East Asia region and the Pacific in the future will be implemented through various efforts to advance the national agenda in the field of foreign economic policy, especially the expansion of the export market and the competitiveness of Indonesian products with a target focus on prospective markets, increasing maritime cooperation, maintaining territorial integrity, and Indonesia's centrality in maintaining peace and security regionally.

It is acknowledged that the two governments are still working hard to explore and elaborate a number of trade and investment potentials that can be offered by the two countries, not only to gain business benefits for the national interest, but also to strengthen bilateral relations between both countries.

However, going forward, there is still a need for the implemented appropriate and reliable strategy by relevant stakeholders in boosting beneficial cooperation in the economic field of trade and investment, while in addition to the two countries also having deepened their bilateral strategic partnership by optimizing active cooperation in the defense industry sector.

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