

South Korea's Interests behind the Reactivation of IK-CEPA Negotiations with Indonesia

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Abstract

Indonesia-Korea Comprehensive Economic Agreement Partnership (IK-CEPA) which was established in 2012, is a bilateral economic agreement that will assist both countries in developing their global markets. Negotiations were terminated in 2014 due to a discrepancy in the agreement between the Korean and Indonesian governments. Then, in 2019, Korea agreed to reactivate the IK-CEPA agreement in response to the Indonesian government's request. This paper analyzes the reasons behind South Korea's foreign policy in deciding to reactivate the IK-CEPA. The author uses the concept of national interest and the theory of economic cooperation. A qualitative descriptive approach is used to uncover data about the phenomena. The author examines data from books, journals, government data, and reliable online articles. Then, summarize and evaluate all the relevant facts. Research shows that Korea's policy to reactivate the IK-CEPA agreement is based on South Korea's desire to achieve a trade surplus while expanding direct investment in Indonesia.

Keywords: *agreement, bilateral relations, Indonesia, IK-CEPA, South Korea.*

Abstrak

Indonesia-Korea Comprehensive Economic Agreement Partnership (IK-CEPA) merupakan perjanjian ekonomi bilateral yang akan membantu kedua negara dalam mengembangkan pasar global. Negosiasi ini dihentikan pada tahun 2014 karena adanya ketidaksesuaian kesepakatan antara pemerintah Korea dan Indonesia. Kemudian, pada tahun 2018, Korea menyetujui ajakan pemerintah Indonesia untuk mengaktifkan kembali perjanjian IK-CEPA. Makalah ini menganalisis alasan di balik kebijakan luar negeri Korea Selatan dalam memutuskan untuk mengaktifkan kembali IK-CEPA. Penulis menggunakan konsep Kepentingan Nasional serta teori Kerjasama ekonomi. Pendekatan deskriptif kualitatif digunakan untuk mengungkapkan informasi dan data tentang fenomena. Penulis mereview data dari buku, jurnal, data pemerintah, dan artikel kredibel di internet. Kemudian, merangkum dan menganalisis semua informasi yang terkait dengan topik. Riset menunjukkan bahwa kebijakan Korea untuk mengaktifkan kembali perjanjian IK-CEPA didasarkan pada kepentingan Korea Selatan untuk memperoleh surplus perdagangan dan meningkatkan pembiayaan investasi di Indonesia.

Kata kunci: *hubungan bilateral, Indonesia, IK-CEPA, Korea Selatan, perjanjian*

INTRODUCTION

Diplomatic relations between South Korea and Indonesia have been established since 1973. In 2002, South Korea was able to carry out multifaceted international cooperation with Indonesia in various industries, including commerce, investment, energy, infrastructure, development, information technology, and so on (Syarief, 2016). Bilateral ties between the two nations have grown significantly over time, particularly after the two nations signed the Joint Declaration on Strategic Partnership in December 2006, which was then upgraded to the Special Strategic Partnership in 2017 (Embassy of The Republic of Indonesia in Seoul, 2021).

Furthermore, the bilateral and regional relations between South Korea and Indonesia are mutually beneficial. Indonesia considers South Korea to be an important strategic partner. On the other hand, Indonesia's central location in the Asia Pacific region makes it a strategic location for the South Korean product market. The bilateral relations between Indonesia and South Korea have been shaped by various factors leading to goods, capital, socio-culture, and people's exchange through international migration. The asymmetric demands of both nations have defined the inter-spatial transfer of those movements, which has been supported by resource complementarity and the fantastic process of economic and political advancement.

Growing closer does not imply that Indonesian - Korean cooperation ties are always seamless. The IK-CEPA, which was established in 2012, is a bilateral economic agreement that will assist both countries in developing their global markets. However, in 2014, the negotiation of IK-CEPA was forced to end due to several issues. The Director-General of

International Industrial Cooperation of the Ministry of Industry, Agus Tjahajana, stated that the IK-CEPA negotiations were terminated because South Korea had not yet issued a decision on several clauses proposed by Indonesia in the seventh-round negotiation. Furthermore, the change in leadership and the complexity of negotiations regarding the opening of tariff posts with Indonesia were cited as reasons for the agreement's temporary suspension (Ministry of Industry Republic of Indonesia, 2014).

According to Tiara (2017), the failure of the IK-CEPA negotiations was caused by the inability of South Korea and Indonesia to complete the package deal. The trade sector inequality between South Korea and Indonesia necessitates Indonesia ensuring reciprocity from this cooperation, one of which is investment guarantees from South Korea (Tiara, 2017). Furthermore, research conducted by Ismail & Mulyaman (2018) states that several clauses proposed by Indonesia which were rejected by the South Korean government were in sensitive sectors such as agriculture, fisheries, automotive, steel, and electronics (Ismail & Mulyaman, 2018).

The difficulties encountered during the negotiations had an indirect impact on the trade climate, investment relations, and market participants in Indonesia and South Korea. According to data from the Republic of Indonesia's Ministry of Trade, the trend of trade between the two countries has decreased by 51% between 2012 and 2017. The two countries' trade fell by the most in 2014-2015. On the other hand, the amount of investment from South Korea into Indonesia has decreased, the greatest drop occurred between 2013-2014, and it continued until 2017.

Marks 45 years of bilateral ties between Korea-Indonesia, President Joko

Widodo visited South Korea in 2018 and gave the news that Korean President Moon Jae In agreed to reactivate the IK-CEPA. Then the negotiations were continued until finally, the IK-CEPA was ratified in December 2020 (Directorate General of International Trade, 2020). This paper will further discuss on why South Korea agreed to Indonesia's invitation to reactivate the IK-CEPA cooperation after five years of stalling.

Concept of National Interest

The author uses the concept of national interest as foreign policy decision-making. National interest is a fundamental concept of international relations. With state sovereignty as its core, the political interests of a country embody most of its national interests (Liu, 2014). The national interest is a set of goals that the state must maximize the state's potential to get maximum results. In general, the national interest shared by all countries is to survive, increase wealth, security and increase the power to carry out their will (Nye, 1999).

The national interest has several aspects, but primarily the military and economy are seen as the country's vital national interests. The national interest is a fundamental objective and a determining factor in formulating foreign policy (Burchill, 2005). Every country needs a foreign policy to interact with other countries. Foreign policy is a state tool to fulfil national interests and the state's strategy to benefit the international world (Kiyono, 1969). In this case, the South Korean state is a rational sovereign state with national interests. One of the essential elements of the national interest, according to Morgenthau, is the interest in economic welfare, which is realized

through foreign policy (Morgenthau, 2013).

In formulating foreign policy decision-making, the state is required to make the right choice. Foreign policy must be based on an intellectual process in which government behavior applies deep reasoning in every effort to make foreign policy policies. According to Graham T. Allison, the state is a monolithic unitary actor, capable of making rational decisions based on considerations of advantages and disadvantages by optimizing available policy alternatives (Mas'ood, 1990). The use of national interest theory in foreign policy decision-making approaches will analyze South Korea's national interests to be achieved if the IK-CEPA cooperation runs effectively and as expected.

Theory of Economic Cooperation

Countries came to recognize in the post-World War II era that worldwide cooperation—politically, economically, and socially—was a critical component to achieving any kind of global peace. The goal is to level the playing field in commerce and reduce economic problems, as economic inequality can lead to more significant conflicts. Countries decided to collaborate to promote free trade and to enter into bilateral and multilateral agreements as part of the objectives (Hart & Spero, 2013). International economic cooperation is the interaction between a country and other countries in the economic field that is established via specific agreements based on the principles of justice and mutual benefit. International economic cooperation is motivated by a desire to increase economic well-being, economic growth, and the organization of national economic activities. The IK-CEPA agreement is a type of bilateral economic

cooperation. Economic cooperation is a component of a larger process than international political cooperation. Economic policy cooperation that is successful can increase political relations and national security (Meade, 1988).

This is consistent with one of the primary missions of Korean diplomacy, which is to expand economic diplomacy and development cooperation in order to achieve national interests (Ministry of Foreign Affairs Republic of Korea, 2022). The reactivation of the economic agreement under the IK-CEPA is a measure taken by the Republic of Korea's government to build an open international economic environment by boosting cooperation with developing market countries such as Indonesia. The reactivation of this collaboration would strengthen the Republic of Korea's contribution to the international community through effective development cooperation and the promotion of national interests.

Research Method

The author uses qualitative research in assessing and analyzing this research. The qualitative research produces descriptive data to characterize a phenomenon and its characteristics. As a result, technologies such as observation and survey are frequently utilized to collect data (Nassaji, 2015). The subject of this research is South Korea. Secondary data sources were used in this investigation. Researchers get information from books or other forms of literature such as journals, papers, government data, and reliable online pieces. Following data collection, the researcher drew findings based on critical points. This research is intended to reveal information and data about the reasons for South Korea to reactivate the IK-CEPA agreement.

RESULTS & DISCUSSION

The Overview of IK-CEPA

Previously, the ASEAN-KOREA Free Trade Agreement (AKFTA), signed in August 2006, linked South Korea to Indonesia and the other ASEAN countries. AKFTA considerably reduces tariff and non-tariff trade obstacles between Korea and ASEAN, increasing and deepening regional economic integration. As a result, the two countries then agreed in February 2011 to launch Joint Study Group (JSG) on the benefits of a bilateral free trade agreement (FTA). Korea and Indonesia agreed that the study would serve as the foundation for choosing whether to pursue bilateral FTA negotiations (Ministry of Trade, 2011).

Therefore, the two countries agreed to construct a Comprehensive Economic Partnership Agreement (CEPA) framework through JSG as a further step for economic cooperation between the two, as well as to boost the prospects for the success and benefits of the agreement under AKFTA. The JSG eventually led to the formation of the Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA) which is a trade and investment agreement between the two countries in the form of a CEPA to strengthen bilateral trade and economic relations by removing trade barriers in goods and services that still exist.

The CEPA will not only improve and strengthen the two countries' trade and investment sectors, but it will also create a comprehensive institutional framework for expanding bilateral cooperation between Indonesia and South Korea. Considering each country's unique economic structure, the IK-CEPA emphasizes the concepts of three primary pillars: (i) market access; (ii) trade and investment facilitation; and (iii) economic

cooperation, including capacity building (Ministry of Trade, 2011).

Korea and Indonesia recognized that a stronger bilateral FTA would benefit both economies and agreed to pursue a bilateral FTA to broaden the list of tariff-free commodities and accelerate the pace of tariff elimination from the Korea-ASEAN FTA's bilateral component. On the other hand, Indonesia had enormous development potential as well. Many experts predicted that Indonesia would become the world's seventh largest economy around 2030 (Oberman, et.al., 2012). As a result, the area of collaboration between the two nations would broaden in the future. Therefore, given the two countries' growing economic ties and great complementarity, the two countries recognized the potential benefits of the IK-CEPA. The Korean government desires that the IK-CEPA will open the market for IT, automobiles, and steel products (Daechang, 2013).

Today, most countries around the world agree that free trade is a policy that should be implemented as a means of achieving prosperity. Furthermore, if free trade grows into a comprehensive partnership relationship between two countries, the scope of the relationship expands beyond free trade (Rompas, 2019). The IK-CEPA is a comprehensive agreement between the two nations in the categories of goods trade, services, investment, origin of goods provision, and economic cooperation. In addition, the IK-CEPA deal will provide Korea and Indonesia with wider market access than the AKFTA pact.

July 2012 was the beginning of the IK-CEPA negotiations between Indonesia and South Korea. IK-CEPA divided into seven Working Groups. Namely, Trade in Goods, Rules of Origin, Customs Procedures and Trade Facilitation,

Services, Investment, Cooperation and Capacity Building, Legal and Institutional Issues, etc. (Ministry of Trade, 2019). There had been no substantial progress from any of the talks until the IK-CEPA discussions approached the seventh round. Due to difficulties in the draft IK-CEPA agreement, Indonesia and South Korea could not achieve a deal during the talks, which lasted from 2012 to 2014.

The main reason for the postponement of the IKCEPA negotiations was an imbalance in the granting of negotiating concessions, particularly in the areas of; 1) Trade in goods (Package Deal for market access of goods products), where concessions for lowering tariffs granted by Indonesia and Korea were deemed to have not accommodated their respective interests. 2) South Korea has been unable to provide investment guarantees by stating the investment value in the agreement, particularly in the expansion of automotive and electronic industries. According to the Korean government, investment decisions were totally in the hands of the private sector, hence the government could not issue investment guarantees as sought by the Indonesian government. 3) Economic cooperation and capacity building: four CCBs have been approved with market opening requirements in such areas: automotive, fishery, construction, and engineering, as well as tourist and culture services (Directorate General International Trade Negotiation, 2021).

According to Imam Pambagyo, Director General of Foreign Trade at the Ministry of Trade, another reason is related to the change of Indonesian head of state, who stated that Indonesian negotiators who handled the IK-CEPA negotiations did not receive the policy clarity they deserved due to the change of Indonesian head of state. As a result, no

agreement was achieved, and the IK-CEPA talks are likely to come to an end (Directorate General of International Trade Negotiations, 2019).

Despite ups and downs in economic collaboration, Indonesia and South Korea continue to be major trading partners. The election of new heads of state in both countries has improved relations between Indonesia and Korea. By reactivating IK-CEPA talks in 2018, the two heads of state established a significant milestone in bilateral economic cooperation. Following that, the two nations' Trade Ministers reopened the IK-CEPA discussions on February 19, 2019 (VOI, 2020).

The eighth round of discussions was held in Seoul in April-May 2019. This time, Indonesia and South Korea opted to shorten the negotiating structure in order to fulfill the October 2019 deadline for completing the substance of the IK-CEPA negotiations (Directorate General of International Trade Negotiations, 2019). Following the 9th round of negotiations, which took place in Seoul on August 28-30, 2019. The two parties, Indonesia and South Korea, agreed to further debate the draft Chapter on Economic Cooperation in the upcoming WG CCB negotiations after both parties examined the sectors to be included in the CCB chapter (Coordinating Ministry for Economic Affairs, 2019).

The tenth round of negotiations, held in Bali on October 8-10, 2019, resulted in both sides agreeing that the Korea-Indonesia CEPA negotiations had been completed in principle. The two sides also agreed that the conclusion of the Korea-Indonesia CEPA negotiations would be declared jointly at the two countries' presidential meetings. The signing of the Joint Declaration on the Final Conclusion of the IK-CEPA Negotiations took held on November 25, 2019, on the sidelines of the ASEAN-RoK Commemorative Summit in

Busan, South Korea. Furthermore, Indonesia and Korea will continue the legal cleaning process for the agreement's wording, so that the IK-CEPA can be implemented sooner (Septiari, 2019).

The Opportunities of IK-CEPA

Indonesian Trade Minister Agus Suparmanto and South Korean Minister of Trade, Industry, and Energy (MOTIE) Sung Yun-mo signed a comprehensive economic deal between Indonesia and Korea, known as the Indonesia-South Korea Comprehensive Economic Partnership (IK CEPA) on December 18, 2020 in Seoul, South Korea (VOI, 2020).

IK-CEPA indicates the two countries' willingness to strengthen financial ties in the wake of the recent harsh global economic environment. The IK-CEPA Agreement aims to achieve a comprehensive and mutually beneficial economic partnership between Korea and Indonesia by facilitating the expansion of existing trade, investment, and economic cooperation to boost the two countries' economic growth and promote partnerships to benefit from the economy's increasingly integrated relationship. The agreement will also lay the groundwork for the two countries' economic development by fostering economic collaboration in a variety of fields, thereby contributing to the further building of political, social, and cultural connections, as well as international cooperation. The success of the IK-CEPA will have an impact on enhancing productivity in a variety of sectors, including product trade, service trade, investment, rules of origin, customs operations, trade facilitation, cooperation and capacity building, and legal and institutional challenges (Rahayu, 2019). Both countries will profit economically from the IK-CEPA pact. When both nations

have implied the IK-CEPA, there will be an increase in bilateral commerce.

South Korea will reduce import tariffs from Indonesia by 97.3 percent under the IK-CEPA, while Indonesia would reduce import tariffs from South Korea by 94 percent. South Korea will abolish 95.54 percent of tariff barriers in goods trade, while Indonesia would remove 92.06 percent of tariff posts. Tariffs have been removed on South Korean stearic acid goods, T-shirts, blockboard, lubricating oil, dried fruits, and seaweed. In the meanwhile, Indonesia will eliminate taxes on items such as automobile gear boxes, pavement, fireplaces, and wall tiles. Previously, the comparable percentages were 90.2 percent and 80.1 percent, respectively, based on the stipulations of the Korean-ASEAN Free Trade Agreement (VOI, 2020).

Many Korean service companies are developing into the Indonesian service market. Some have achieved success in the fields of information technology, services, and internet games. The numerous chances for public-private partnership initiatives provided by Indonesia make it easier for Korean enterprises to establish their stores and distribution network in Indonesia. In addition, Korean financial institutions are increasing their business in Indonesia (Dae-chang, 2014). The South Korean government will use the Global Infrastructure Fund and the Economic Development Cooperation Fund to help Indonesia create infrastructure such as water management, transportation, public housing, and power generation under the IK-CEPA. As a result, Korean construction firms are actively participating in Indonesian construction projects (Ministry of Foreign Affairs Republic of Indonesia, 2022). Later, Indonesia and Korea have agreed to opening more than 100 sub-sectors through IK-CEPA.

Furthermore, the two countries will deepen their integration in industries like as construction, postal and courier services, franchising, and computer-related services, allowing intra-company transfers, business trips, and independent professionals (VOI, 2020).

IK-CEPA fosters two-way investment in the investment industry. The surge in Korean direct investment in Indonesia is wide open; the Indonesian government is even aiding South Korean corporations in developing their businesses and investments in Indonesia. Particularly in terms of increasing industry, constructing infrastructure and connections, and encouraging regional growth and development.

Economic cooperation in IK-CEPA include, among other things, the industrial sector, agriculture, trade regulations and processes, individual movement, and other areas of cooperation (SME support activities, infrastructure, investment, culture and other creative fields; health services; etc.). Economic cooperation might take the shape of technical support, human resource training, data and information exchange, expert interchange, thematic seminars and workshops, cooperative research and development, promotion, and technology transfer initiatives. Indonesia seeks to add three additional cooperation areas to the IK-CEPA Chapter on Economic Cooperation, including the health sector, energy and mineral resources, and health-related services, to the list of current sectors. Indonesia emphasized that Korea's investment in the health-care business will benefit both nations, and that capacity-building collaboration will foster public-private partnerships between the two countries (Coordinating Ministry for Economic Affairs, 2019). Indonesia and Korea have established a broad network of

collaboration encompassing regulatory, technical, and economic challenges. Even within the auspices of AKFTA Cooperation, there are numerous existing cooperation projects. CEPA, on the other hand, is supporting and encouraging additional economic cooperation and capacity building projects, with a special focus on SMEs. As a result, the existence of IK-CEPA can assist SMEs in both countries in reaping the benefits.

South Korea's Interest in IK-CEPA

Strengthen the Implementation of the New Southern Policy (NSP)

South Korea's foreign policy is based on President Moon Jae In's New Southern Policy (NSP). This policy is an attempt by the Moon Jae-in administration to reduce South Korea's reliance on large countries such as the United States, China, Japan, and Russia. South Korea is developing its collaboration network with countries in the southern hemisphere, especially ASEAN and India, through this project (Presidential Committee on New Southern Policy, 2022). South Korea's economic interests in Southeast Asia and India are addressed by the NSP. President Moon Jae-in's strategy is based on the fact that ASEAN countries are a source of economic, political, and cultural progress in the region. The trade war between the United States and China, as well as China's economic slowdown, have encouraged South Korea to explore for alternate markets in ASEAN.

President Moon's first foreign tour was to Indonesia in November 2017 as part of the NSP implementation. The two leaders agreed to upgrade the status of the partnership to a special strategic partnership, with a focus on cooperation in four areas, namely: defence and foreign relations, bilateral trade and infrastructure development, people-to-

people exchanges, and regional and global cooperation, based on the principle of "Republic of Korea-Republic of Indonesia Joint Vision Statement for Co-Prosperity and Peace." The status of the special strategic partnership is built on the spirit of shared democratic, human rights, and open economy principles and values. The two leaders also agreed that the partnership between the two countries was not just a transactional relationship but must be based on the spirit of helping each other.

The NSP is known as the South Korea's ambitious diplomatic endeavor to attain more strategic autonomy. This effort is emphasizing the so-called "3P community," which stands for a community of People, Prosperity and Peace. Furthermore, in order to create a mutually beneficial community, the Korean government is pursuing increased regional commerce and common prosperity through modification of the Free Trade Area of the Asia Pacific (FTAAP) and Comprehensive Economic Partnership Agreement (CEPA) (Kwak, 2018). South Korea seeks to expand cooperation in the socio-cultural, economic, political, and security spheres based on these three pillars. In this policy, Indonesia, as the hub of ASEAN, is an absolute partner for South Korea. Kang Kyung-wha, South Korea's Minister of Foreign Affairs, once remarked that

Indonesia's role in the NSP was as the primary partner. With an investment value of USD 8.5 billion, Indonesia is one of South Korea's most important overseas investment destinations. Indonesia is ranked second behind Vietnam among the eight ASEAN countries (Ministry of Foreign Affairs Republic of Korea, 2019).

South Korea and Indonesia, among ASEAN members, agreed to enhance their relations to make them more inclusive. This program is expected to promote trade exchanges between the two countries because the New Southern Policy wants to diversify South Korea's economy away from the big countries and pursue mutually beneficial economic cooperation. Several trade treaties have been struck under the auspices of the New Southern Policy in an effort to establish a mutually advantageous future-oriented economic foundation. South Korea's move to activate the IK-CEPA agreement could suggest that cooperation between South Korea and Indonesia has achieved new heights under Moon and Joko Widodo's leadership. The restoration of the IK-CEPA as a starting

point for enhancing and deepening bilateral relations as well as implementing the NSP. The IK-CEPA will allow South Korea to have a broader economic reach, including investment and industrial collaboration. The reactivation of the IK-CEPA is one of the tangible proofs that the Korean government is implementing its new southern policy by making Indonesia a major milestone in its program.

Enhance South Korea's Economic Growth (1): Korea-Indonesia Trade Surplus Opportunity

The IK-CEPA economic cooperation focuses on operations that might enhance the volume of the economy, such as trade and investment activities carried out by South Korea and Indonesia. One of the keys to South Korea's success is the government's policy of moving its economic orientation from agriculture to trade. According to the data presented below, South Korea's trade operations in 2018 accounted for 78,9 percent of the overall GDP increase of 1.87 percent in 2017 (World Bank, 2022).

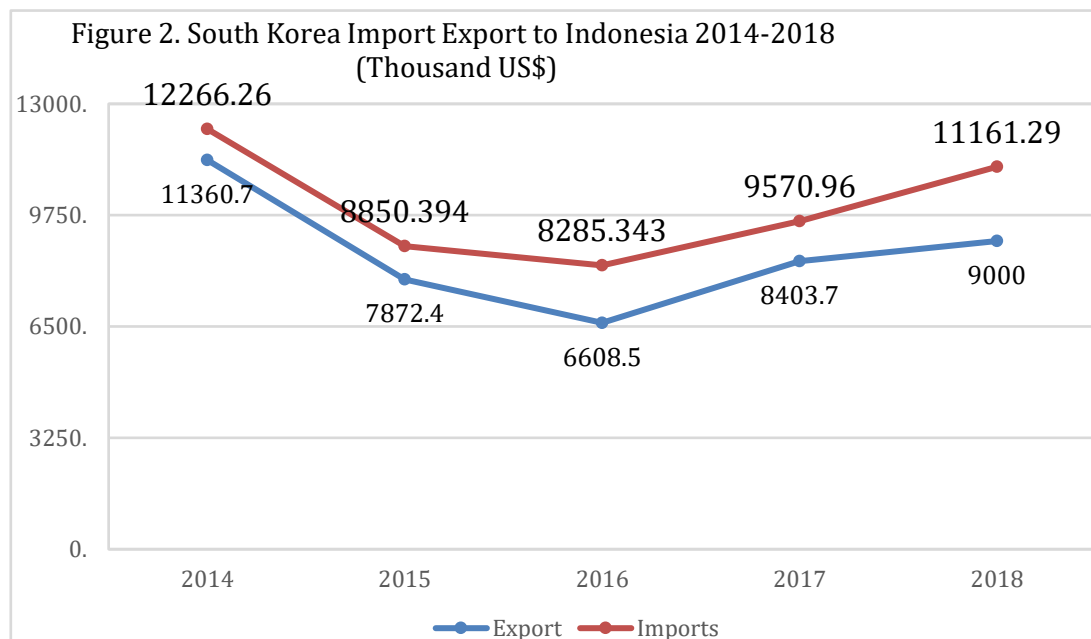


Source: World Bank, 2022

The amount of products and services exported and imported as a percentage of GDP is referred to as trade. If South Korea decides to reactivate the IK-CEPA cooperation negotiations, the two countries' foreign trade operations will increase. International trade is the interaction of countries in the form of mutually agreed-upon purchases and sales of products and services. Typically, international trade takes the shape of exports and imports. International trade often occurs due to a country's limited natural resources. This trade is vital in addressing the demands of a country's population. According to Emmy Lilimantik's textbook on International Economic Policy, the main benefit of international trade is that it accelerates a country's economic progress. Each country can also receive things that are not produced or cannot be produced in their own country through trade. The government can also expand markets, improve revenues, and transfer cutting-edge technologies (CNN, 2021).

The graphic 2 data shown South Korean trade figures during the break in the IK-CEPA cooperation negotiations. According to the data, South Korea's imports to Indonesia fell from US\$ 12.3 billion in 2014 to US\$ 8.9 billion in 2015, and then again to US\$ 8.3 billion in 2016. South Korea's imports, on the other hand, grew to US\$ 9.6 billion in 2017 and increased to US\$ 11.2 billion in 2018. In terms of exports, South Korea's exports to Indonesia totaled US\$ 11.4 billion in 2014, but dropped dramatically to US\$ 7.9 billion in 2015. South Korean exports fell again in 2016, reaching US\$ 6.6 billion. Only in 2017 did exports rise to US\$ 8.4 billion, and they are expected to rise further in 2018 to US\$ 9 billion (Korea Customs Service, 2022).

Based on the figure, it is possible to deduce that the value of South Korea's exports to Indonesia in 2014-2018 exceeded the value of imports. The entire amount of products and services produced in South Korea and sold overseas is used to determine exports. Exports have a positive



Source: Korean Customs Service, 2022

impact on economic growth, which means that the more the export value, the greater the economic growth. While imports have no substantial effect on economic growth, if the amount of imports exceeds the volume of exports, the trade balance will be in deficit, resulting in negative economic growth. This argues that in order to stimulate South Korean economic growth, the country's exports must increase. If the IK-CEPA negotiations are reopened, South Korea can suggest eliminating export duties for Korean products to Indonesia and improving the quality of their products so that they can be exported to Indonesia at low rates due to the absence of export tariffs.

South Korea is Indonesia's most important commercial partner. South Korea's major export products to Indonesia are technology and high-value manufactured goods, whereas Indonesia's exports are primarily in the energy sector, which includes natural gas, coal, and crude oil, as well as rubber, copper, and textiles. This represents a significant disparity in development between South Korea, an industrialized, inventive, and technologically advanced country, and Indonesia, a developing country rich in natural resources. Meanwhile, the existing ASEAN-South Korea FTA has cut tariffs between the two countries. However, IK-CEPA went a step further and reduced tariffs on over 1,000 product lines, including automobiles, ships, petrochemicals, steel, and others (HKDT Research, 2019).

In terms of trade, South Korea is one of Indonesia's most important trading partners. However, commerce between the two countries has fallen short of expectations. According to data from the Indonesian Ministry of Trade, changes in trade volume between Indonesia and South Korea were driven by the global

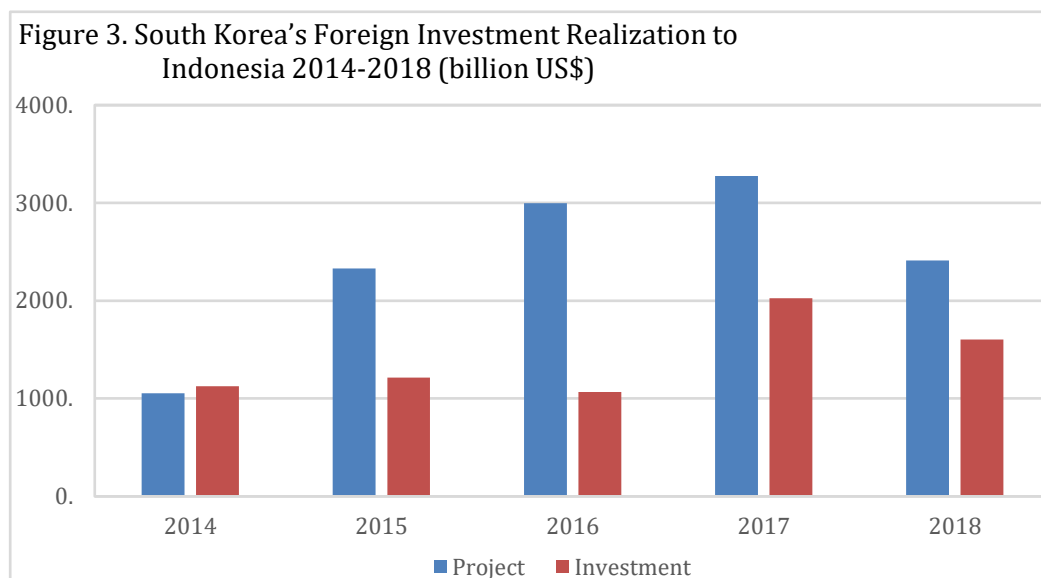
economic downturn, as well as different global uncertainties generated by the US-China trade war (Rompas, 2019). However, following an agreement in 2017 to elevate the bilateral relationship to a "Special Strategic Partnership," overall South Korea-Indonesia trade climbed by USD 18.57 billion in 2018, an increase of 12.58 percent over the previous year (Ministry of Trade, 2019). South Korea-Indonesia non-oil and gas trade volume reached USD 15.18 billion from January to November 2018, rising 9.40 percent from the previous year (Embassy of the Republic of Indonesia in Seoul, 2021). Thus, with a stronger relationship through the IK-CEPA Cooperation, the two countries' aim of US\$ 30 billion by 2022 is something possible to achieve.

Enhance South Korea's Economic Growth (2): Expand Investment in Indonesia

The Moon Jae-in administration's economic policy prioritizes income production, innovative growth, and a fair economy. The South Korean government intends to produce new ideas by focusing on inventive growth, as South Korea's low growth is projected to last for a long time due to the economic crisis, declining investment, and stagnant consumption activity. The South Korean government intends to undertake aggressive and risky investments to establish a foundation for the economic recovery. South Korea's Ministry of Plan and Finance proposes a 4+1 strategy. The South Korean government will build new industries and markets based on innovations for existing industries and markets, develop innovative technology and R&D, also improve processes and infrastructure to locate a suitable workforce for innovative growth and raise investment (KBS World, 2020).

On the other hand, as a developing country, Indonesia requires foreign direct investment, one of which is to help with economic development initiatives such as expanding labor utilization and raising productivity. Currently, Indonesia is thought to be making excellent economic progress. This is in line with the Indonesian government, led by President Joko Widodo, is armed with pro-investment policy formulations in order to begin enormous infrastructure investments in Indonesia.

South Korea invested US\$ 1126.60 million in 421 projects in Indonesia. Now, South Korea succeeded in moving Hong Kong's position with an investment of US\$ 1604 million in 2412 projects in 2018. The table below shows South Korea's investment in Indonesia from 2014 to 2018 (Embassy of the Republic of Korea to the Republic of Indonesia, 2021):



Source: Badan Pusat Statistik, 2022

Returning to the advantages of creating the IK-CEPA partnership, one of them is increased bilateral investment between Indonesia and Korea. Both sides expect IK-CEPA to provide a conducive environment for investment development in the two nations. After Japan and China, South Korea is the third largest Asian foreign investor in Indonesia in 2018. South Korean investment focuses on the construction, mining, energy, transportation, telecommunications, and professional services industries. In 2014,

South Korean investment in Indonesia is still comparatively low in comparison to total investment in Vietnam (US\$ 3,162 million), which has already implemented the CEPA agreement with Korea (ASEAN-Korea Center, 2018). As a result of the reactivation of IK-CEPA, Korea anticipates an increase in investment to Indonesia, owing to the fact that Indonesia has a lot of natural wealth and a capable market for the distribution of Korean products. The IK-CEPA agreement offers investment protection

such as: non- discriminatory treatment, fair and equitable treatment, also Investor State Dispute Settlement (ISDS) as well as expanded market access. The IK-CEPA agreement also prioritizes two ways investment. Thus, South Korean foreign direct investment in Indonesia is expected to increase, creating chances for Indonesia to invest in South Korea. The IK-CEPA is supposed to launch a new chapter of partnership between the two nations by strengthening economic cooperation in order to jointly reap the benefits of the global economy.

By reactivating the IK-CEPA negotiation, the rise in Korean direct investment in Indonesia is wide open, and the Indonesian government even assists South Korean firms in expanding their company and investment in Indonesia. Particularly in terms of advancing industrialization, constructing infrastructure and connections, and fostering regional growth and development. According to Thomas Trikasih Lembong, the Head of BKPM, President Jokowi's visit to Seoul in 2018 was marked by 15 memorandums of understanding and six investment pledges between the private sectors of Indonesia and South Korea. Several corporations, including Hyundai Motor Company, LG, Lotte, HanaBank, and others, signed the pact. In addition, Hyundai took the initiative to create Indonesia as a new Southeast Asian production base (Ministry of Investment Republic of Indonesia, 2021). Through IK-CEPA, South Korea might become one of Indonesia's top investors in a variety of areas, including the food and textile industries, the chemical and pharmaceutical industries, the metal and equipment industries, and the electronics industry (Ministry of Investment Republic of Indonesia, 2020).

South Korea may readily access the Southeast Asian market through Indonesia. Previously, numerous South Korean multinational corporations aspired to invest in Indonesia to form a holding company. However, owing to the complexities of Indonesian investment management, several Korean businesses have withdrawn. IK-CEPA ensures increased certainty in doing business and the development of South Korean business players in Indonesia. The decision to reactivate the IK-CEPA agreement became an opportunity for South Korea to invest as much as possible, displacing Japan as the most prominent capital provider in Southeast Asia.

Indonesia is ASEAN's largest market, with the highest population and GDP, and thus having the strongest domestic demand in ASEAN will be critical to the effective execution of the IK-CEPA plan. Furthermore, the number of FTA and CEPA collaborations that Indonesia has established with other countries will help Indonesian market access in ASEAN. As a result, Indonesia is a key for South Korea's economic links with ASEAN. Korea wishes for Indonesia to serve as a liaison to fill the ASEAN market with Korean product. Indonesia, which will take over as ASEAN Chair in 2023, is expected to play a more effective role in linking South Korea and Southeast Asian countries (Adelayanti, 2021). South Korea's flagship electronics companies, such as Samsung and LG, are capable of competing on a worldwide basis. Likewise, Korean automakers like Hyundai and KIA have risen to become the world's largest automakers. As a result, South Korea's industrial industry is now able to dominate the worldwide market. Indonesia is a popular outbound investment location for South Koreans. Hyundai's investment aims to establish Indonesia as an ASEAN manufacturing

powerhouse, given that the country has the greatest automotive market share in the Southeast Asian area. In 2018, Indonesia accounted for one-third of the ASEAN automobile market. According to other data, Indonesia's contribution to the whole ASEAN market demand of 2.3 T USD is worth 1 T USD (Ismail & Mulyaman, 2021).

Hyundai's market development into numerous nations, particularly ASEAN and Indonesia, is a driving factor for Hyundai's FDI in order to optimize profits while pursuing a larger market. The Indonesian economy is perceived to be growing with time; so, the desire to control the Indonesian market translates into the necessity for FDI connected to the development of electric vehicles in Indonesia. The presence of IK-CEPA will boost the benefits of both parties to better community's welfare. Thus, Korea's policy to reactivate the IK-CEPA agreement is a brave step for the development of diverse Korean great firms by protecting investment facilities and providing access to a larger and more profitable market. The decision to revive the agreement provides South Korea with an opportunity to further explore the ASEAN market.

CONCLUSION

Cooperation between countries is prevalent in order to supplement each other's requirements. Countries engage in international cooperation to address the requirements of their citizens and other interests that are directed by each country's foreign policies. This is exactly what South Korea did to Indonesia. The IK-CEPA, or Indonesia-Korea Comprehensive Economic Partnership Agreement, is the product of discussions between the two nations' Joint Study Group teams in

response to a fall in trade in both countries under the previous plan.

South Korea's approach to reactivate the IK-CEPA is founded on the logic of achieving economic objectives. This is also consistent with South Korea's President's policy, especially the New Southern Policy (NSP), which focuses on the Southeast Asian region. The reactivation of the IK-CEPA agreement demonstrates that South Korea's President is boosting the implementation of NSP policy, where he previously declared that Indonesia is a strategic partner as well as a milestone in the NSP policy.

South Korea's economic growth can be boosted by the IK-CEPA Cooperation. As previously stated, the IK-CEPA collaboration will have a significant impact, particularly on trade and investment. As a result, the reactivation of IK-CEPA is predicted to raise the value of commerce between Korea and Indonesia through free tariffs greater than AKFTA, as well as increase investment in Indonesia due to the ease and protection of investment in the IK-CEPA agreement. Not only that, but through economic cooperation with Indonesia under the CEPA, Korea may simply and cheaply take advantage of Indonesia's important position in the ASEAN market. Indonesia and South Korea are on the right route for future collaboration and long-term success.

Since the IK-CEPA has been created and has been signed, both countries must be aware of the challenges ahead that must be considered. The author hopes that the two countries can collaborate more closely and creatively in developing policies to achieve a fast economic plan. The author suggests that more accurate information about IK-CEPA be disseminated so that individuals can experience the benefits of IK-CEPA through actual activities.

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