



South Korea's New Southern Policy: Viewing Indonesia as a Strategic Partner through IK-CEPA

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Abstract: The Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA) is a significant bilateral agreement in the trade and economic fields between Indonesia and South Korea. It is based on three main pillars: market access for trade in goods and services, trade and investment facilitation, and cooperation and capacity building. This study aims to analyze the bilateral relationship between Indonesia and South Korea through the lens of IK-CEPA, with a particular focus on the rationale, implementation, obstacles, and significance of this cooperation. Using a qualitative approach with a descriptive method, the study collects data through document-based research, internet-based research, and interviews. To ensure data validity and reliability, data triangulation procedures are applied. The study finds that IK-CEPA requires Indonesia and South Korea to commit to higher tariff positions and to facilitate market access and better protection for investors. This fosters a closer relationship between the two countries and enables interdependence. Both countries complement each other's weaknesses to meet their national interests. Although obstacles exist in the negotiation process and the signing of IK-CEPA, the bilateral relationship between Indonesia and South Korea is improving and demonstrating success in economic cooperation.

Kata Kunci:

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Abstrak: *Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA) merupakan perjanjian bilateral yang signifikan di bidang perdagangan dan ekonomi antara Indonesia dan Korea Selatan. Ini didasarkan pada tiga pilar utama: akses pasar untuk perdagangan barang dan jasa, fasilitasi perdagangan dan investasi, serta kerja sama dan peningkatan kapasitas. Kajian ini bertujuan untuk menganalisis hubungan bilateral antara Indonesia dan Korea Selatan melalui lensa IK-CEPA, dengan fokus khusus pada rasionalisasi, implementasi, kendala, dan signifikansi kerjasama tersebut. Menggunakan pendekatan kualitatif dengan metode deskriptif, penelitian ini mengumpulkan data melalui penelitian berbasis dokumen, penelitian berbasis internet, dan wawancara. Untuk memastikan validitas dan reliabilitas data, prosedur triangulasi data diterapkan. Studi ini menemukan bahwa IK-CEPA mensyaratkan Indonesia dan Korea Selatan untuk berkomitmen pada posisi tarif yang lebih tinggi dan untuk memfasilitasi akses pasar dan perlindungan yang lebih baik bagi investor. Hal ini mendorong hubungan yang lebih dekat antara kedua negara dan memungkinkan saling ketergantungan. Kedua negara saling melengkapi kelemahan masing-masing untuk memenuhi kepentingan nasionalnya. Meskipun terdapat kendala dalam proses negosiasi dan penandatanganan IK-CEPA, namun hubungan bilateral antara Indonesia dan Korea Selatan semakin membaik dan menunjukkan keberhasilan dalam kerjasama ekonomi.*

INTRODUCTION

The bilateral and regional relations between South Korea and Indonesia are deemed mutually advantageous. This is due to Indonesia considering South Korea as a crucial strategic partner. Moreover, Indonesia’s location in the Asia-Pacific region positions it as a strategic market for South Korean products. However, bilateral relations between the two countries have been declining due to various factors concerning trade, capital, socio-cultural, and people exchange through international migration. Asymmetric demands between the two countries influence the inter-spatial movements transfer, which have been supported by resource complementarity and the impressive economic and political progress processes (Cholif & Paksi, 2022).

Since the Joint Declaration on Strategic Partnership to Promote Friendship and Cooperation in the 21st century was established between Indonesia and South Korea in 2007, the economic cooperation between the two countries has been growing. Through this forum, the Indonesia-Korea Joint Task Force on Economic Cooperation (JTF-EC) has held three meetings and produced two Memorandums of Understanding (MoU) during the second meeting in 2010. In the third meeting in 2011, the forum was revitalized as the Working Level Task Force Meeting (WLTFM) to become one of the forms of realization of real and concrete cooperation plans between Indonesia and South Korea in the Indonesian Masterplan for Acceleration and Expansion of Economic Development (MP3EI). In the Working Level Task Force Meeting (WLTFM) itself, there are nine main cooperation plans, three of which have been realized well (Wibisono, 2017; Susilo, 2017; Aulia, 2017).

The bilateral cooperation between South Korea and Indonesia has brought mutually beneficial advantages for both countries, as demonstrated by the numerous cooperation agreements that have been established and developed over time (Yanuar, 2014; Ruffini, 2016; Jackson & Sorensen, 2014; Hocking, 2012). In 2017, the bilateral relationship between the two countries was further strengthened by President Moon Jae-in’s visit to Indonesia and the signing of the Korea-Indonesia Joint Vision Statement for Co-Prosperity and Peace, which introduced the status of a “Special Strategic Partnership” between the two countries. The increased partnership status focuses on four main areas of cooperation: bilateral trade, infrastructure development, defense and foreign relations, regional and global cooperation, and people-to-people exchanges. In the context of implementing the New Southern Policy, both countries also agreed to facilitate investment in various new growth sectors, such as tourism (Mahendra & Suryani, 2021), environmentally friendly energy, content industry, information technology, and health and medical services.

After the signing of the Korea-Indonesia Joint Vision Statement for Co-Prosperity and Peace, Indonesia and South Korea have further strengthened their cooperation in the economic field, building upon their already established good track record. Since the inception of this partnership, there have been significant improvements in the economic benefits generated from exports and foreign investments. In 1977, South Korea’s exports to Indonesia amounted to 69 million US dollars, which has consistently increased over the years and reached 14 billion US dollars in 2012. Foreign investment, however, did not show a consistent increase until 2006, after which it increased steadily. Indonesia’s exports and foreign investment to South Korea also

continued to grow from 1977 to 2012, with the highest increase in foreign investment occurring in 2012 (Dae-Chang, 2013).

The close cooperation and relationship between Indonesia and South Korea has been mutually beneficial by leveraging each other’s resources and strengths. The robust economic and political progress in both countries has created numerous opportunities for collaboration across various sectors. Moreover, both nations actively support one another in regional and global forums, including nominations to international organizations. The bilateral relationship between the two countries has been positive and expanding, covering diverse areas. In 2022, Indonesia further strengthened its bilateral ties with South Korea by enhancing cooperation in the business and economic sectors through the Committee Meeting on Economic Cooperation (JCEC). The meeting resulted in a Government-to-Government (G2G) Memorandum of Understanding (MoU) outlining deliverables such as the establishment of a Special Economic Zone. The Indonesian Coordinating Minister for Economic Affairs and the MOTIE of Korea also signed an MoU, demonstrating their commitment to deeper collaboration (Masitoh & Hidayat, 2022; Hariyanti, 2014).

Collaboration among nations plays a crucial role in the endeavor to establish efficient governance and service-oriented bureaucracies (Vandayani & Widiyarta, 2022), which are indispensable for the holistic development of nations in the digital era (Tuhumury, 2020; Mulyaningsih, 2021; Eldo & Inzana, 2022). One of the important collaborations between Indonesia and South Korea is their bilateral trade cooperation, which is facilitated through a trade liberalization agreement negotiated by the Joint Study Group (JSG). This agreement is commonly known as the Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA). The IK-CEPA is a bilateral trade and economic cooperation agreement between Indonesia and South Korea, based on three main pillars: access to trade in goods and services; trade and investment facilitation; and cooperation and capacity building (Cholif & Paksi, 2022). The IK-CEPA was first proposed and drafted in 2012, with the first meeting on the IK-CEPA focusing on the discussion and exchange of views on several parts of the Terms of Reference (TOR) (Suryanto, 2012). The IK-CEPA is a crucial agreement for the economic relationship between Indonesia and Korea.

However, the negotiation process of IK-CEPA was temporarily suspended in 2014 and then reactivated in 2019, finally being signed in 2020. The halt in the negotiation process of IK-CEPA in 2014 was caused by several issues, including South Korea’s failure to make a decision on some of Indonesia’s proposed clauses during the seventh round of negotiations, which left Indonesia feeling uncertain about investment guarantees. Another reason was that the IK-CEPA was deemed difficult to achieve in the near term and was not yet suitable for promotion. Additionally, South Korea was reluctant due to the lack of assurance regarding South Korean FDI in Indonesia and the opening of Indonesia’s agricultural market (Korean Government, 2020). At that time, the Director-General of Foreign Trade Negotiations at the Ministry of Trade, Iman Pambagyo, stated that in 2014 Indonesia was in the midst of holding an election. This caused the Indonesian negotiators for the IK-CEPA to not receive policy certainty when consulting with relevant ministries and agencies (DP, 2019).

After a hiatus of 5 years, the IK-CEPA negotiations were reactivated in 2019. The main driving factor for the reactivation of the IK-CEPA was the national interests of each country (Dewi & Santoso, 202). This was demonstrated by South Korea itself, which believed that the IK-CEPA could be beneficial for both countries if the negotiations continued. Likewise, Indonesia

felt that pursuing the IK-CEPA negotiations could boost the Indonesian economy to be more advanced, strong, and competitive (Cholif & Paksi, 2022).

The IK-CEPA agreement, in addition to strengthening the bilateral relationship between the two countries, provides various benefits for each country. One of these benefits is related to tariffs. The agreement is beneficial for the economic growth of each country as it facilitates the expansion of trade, investment, and economic cooperation. The success of the IK-CEPA agreement will have a positive impact on productivity in several sectors for both countries. Several aspects of the IK-CEPA negotiations are intriguing, including the bilateral cooperation process between Indonesia and South Korea throughout the negotiations. Researchers are interested in understanding the cooperation process between Indonesia and South Korea, as well as the targets that both countries hope to achieve through the IK-CEPA.

The reasons behind the suspension and reactivation of the IK-CEPA negotiations are interesting to investigate further. After seven rounds of negotiations, the IK-CEPA was suspended for several reasons, such as Indonesia’s proposed clause being rejected and a change of leadership in Indonesia. Additionally, the reactivation of the IK-CEPA occurred due to the national interests of each country, which raises many questions about what the interests of each country are that led them to decide to resume negotiations after a five-year hiatus. This study aims to analyze the Indonesia-South Korea bilateral relationship through the IK-CEPA.

Literature Review

This study is built upon several prior researches conducted on the IK-CEPA. One significant study in this regard is titled “South Korea’s Interests behind the Reactivation of IK-CEPA Negotiations with Indonesia” authored by Ulim Maidatul Cholif and Arie Kusuma Paksi (2022). The study analyzes the reasons behind South Korea’s decision to reactivate the IK-CEPA negotiations. Its findings have vital implications for both countries in relation to the implementation of the IK-CEPA. With the IK-CEPA in place, Indonesia and South Korea can reinforce their longstanding economic ties. The agreement can also raise the value of trade between the two countries by facilitating more substantial tariff liberalization compared to the AKFTA, as well as by enabling improved market access and investor protection. Over time, this closer economic collaboration is expected to expedite the economic growth of both countries and promote broader investment and technological development. Furthermore, the IK-CEPA can also contribute to the political and economic stability of the Southeast Asian region.

Another study, titled “Analysis of Trade in Goods between Indonesia and South Korea on Cooperation Forum IK-CEPA” by Ragimun Abdullah (2016), examines the trade relationship of goods cooperation between Indonesia and South Korea, as well as South Korea’s potential market for Indonesia’s flagship exports. The study reveals that the implementation of the ASEAN-Korea Free Trade Agreement resulted in growth in Indonesia’s trade sector in the import segment, with an average growth of 21.36 percent, surpassing the export growth of 8.19 percent. The study also identifies many goods that have the potential to become leading exports to South Korea but are hindered by existing tariffs. The IK-CEPA agreement is expected to address the gap between the two countries in terms of reducing tariffs, increasing exports of both countries, and improving market access.

A study titled “The Impact of the Indonesia-South Korea Comprehensive Economic Partnership Agreement (IK-CEPA) for Indonesia” by Nabila Salsabila and Hasna Wijayati (2022) examines the benefits of IK-CEPA for Indonesia in the year it was signed, 2020. The study

concludes that the agreement offers several advantages to Indonesia, including increased investment from South Korea, streamlined trade, and opportunities for skills training and student exchange. Additionally, the study notes that South Korea is keen on using Indonesia as a new production base in ASEAN and as a hub for regional and global markets.

A scholarly work titled “The Impact of South Korea’s New Southern Policy on Indonesia: Economy and Defense Sectors” (2022) authored by Auralia Salsabila Tuada Pasha and Arie Kusuma Paksi, examines the implications of the New Southern Policy on Indonesia’s economy and defense sectors. According to the study, the New Southern Policy is a diplomatic strategy adopted by South Korea to reduce its reliance on major powers such as the United States, China, Japan, and Russia. Indonesia is a key partner in this policy, with South Korea also involving India and ASEAN in the initiative. The study also analyzes Indonesia’s economic diplomacy towards South Korea through the Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA). The main objective of the agreement is to enhance trade and investment between the two countries, thereby supporting Indonesia in balancing its national interests. The study was published by Rina Ariyanthi Dewi and Rizal Budi Santoso in 2022.

Several studies have examined the reasons for reactivation, trade relations, and potential markets following the implementation of IK-CEPA, as well as the impacts of the agreement on various aspects and the New Southern Policy’s effects on the economic and defense sectors. Other studies have focused on Indonesia’s economic diplomacy towards South Korea in the context of IK-CEPA. However, this study has a different focus. It analyzes bilateral cooperation between Indonesia and South Korea after the implementation of IK-CEPA, including the targets of the agreement, as well as the reasons for the suspension and reactivation of IK-CEPA.

RESEARCH METHOD

This study adopts a qualitative approach with a descriptive method designed to explain the process of bilateral cooperation between Indonesia and South Korea during the implementation of IK-CEPA. This approach is selected to enable the researcher to investigate the reasons behind Indonesia’s rejection of certain clauses that led to the suspension of IK-CEPA and the national interests of each country that resulted in the resumption of negotiations. The use of descriptive qualitative research aims to describe the bilateral cooperation between Indonesia and South Korea through IK-CEPA (Yin, 2011).

The data was collected through document-based research, internet-based research, and interviews. The researcher served as the main instrument of the study, which is common in qualitative research. The validity and reliability of the data were tested through data triangulation procedures. The triangulation technique was carried out by comparing or cross-checking data results about a particular information from one source with other sources. The purpose of data triangulation was to seek at least three ways to verify and strengthen certain events, descriptions, or facts reported by a study. The collected data was then analyzed using five stages of analysis, including: (1) compiling; (2) disassembling; (3) reassembling; (4) interpreting; and (5) concluding (Yin, 2011).

RESULT AND DICUSSION

Bilateral Relations between Indonesia and South Korea

Indonesia and South Korea have enjoyed bilateral relations since 1966, which have continued to flourish over time, encompassing cooperation in bilateral, regional, and multilateral domains. The robust economic and political growth of both countries has presented

numerous opportunities for collaboration in diverse sectors, including free trade agreements (FTA). In 2006, Indonesia and South Korea signed a Joint Declaration on Strategic Partnership to Promote Friendship and Cooperation, encompassing 32 areas of cooperation in the fields of economics, social welfare, culture, politics, defense, science, technology, and law. This cooperation has ushered in a new era in the strategic relationship between the two nations (Indonesian Ministry of Foreign Affairs, 2017; Hidriyah, 2009).

Bilateral cooperation between Indonesia and South Korea is facilitated by their complementary resources and strengths, resulting in job opportunities across various fields. South Korea offers promising investment opportunities to Indonesia, which has achieved significant economic growth. The two nations share a common interest in the development and security of Southeast Asia, and therefore collaborate in multilateral, bilateral, and regional efforts. The bilateral relationship between Indonesia and South Korea is well-established, with both countries providing mutual support in various regional and international activities, including nominating international organizations.

During the state visit of President Joko Widodo of Indonesia and President Moon Jae-in of South Korea, the two nations affirmed their commitment to bolstering bilateral relations and trade. In 2017, the volume of trade between Indonesia and South Korea exceeded 17 billion USD, marking a 20% increase from the previous year. At the same event, six memoranda of understanding (MoUs) were signed between the two countries, which encompassed cooperation in various areas such as maritime security, economic development, the Fourth Industrial Revolution, immigration, human resource management, and intergovernmental communication between the Indonesian Cabinet Secretariat and the South Korean Ministry of Government Legislation. In addition, CJ Group, Hyundai, and other prominent business entities met with President Widodo to explore business opportunities, resulting in transactions worth 6.2 billion USD.

South Korea regards Indonesia as a crucial player in its New Southern Policy, its latest foreign policy vision that aims to deepen and diversify its diplomatic and economic ties with countries in Southeast Asia, Australia, and New Zealand. The strong and multifaceted bilateral relationship between Indonesia and South Korea is evident in their robust trade, investment, and tourism sectors (Zitri et al., 2020). In January 2020, the total trade volume between the two countries amounted to USD 1.311 billion, with Indonesia supplying raw materials and energy to fuel South Korea’s industrial growth. Indonesia has also become a prime destination for South Korean investment, attracting significant interest from numerous Korean companies. Furthermore, the Korean wave, which comprises K-Pop, K-Drama, and South Korea’s halal food industry, has gained tremendous popularity in Indonesia, enhancing cultural ties between the two nations. In 2017, South Korea emerged as the sixth-largest foreign investor in Indonesia, contributing 6.3% of the total foreign direct investment inflows, while Indonesia ranked as South Korea’s 14th largest trading partner.

The Republic of Indonesia and the Republic of Korea have established a robust and enduring relationship since the inception of diplomatic ties in 1973. In February 2011, both nations concurred to carry out a joint feasibility study on a bilateral Free Trade Agreement (FTA), which would lay the groundwork for determining whether or not to progress towards bilateral FTA negotiations. Indonesia possesses abundant natural resources and labor, alongside a vast domestic market potential. In contrast, Korea has made significant strides in economic advancement, particularly in capital-intensive industries, high technology, and skilled labor/management. The amalgamation of resources from both nations portends significant benefits, as evidenced by the rapid expansion of trade and investment relations in recent years.

Korea has adopted an active FTA policy and is presently engaged in negotiating seven fresh trade accords with diverse nations, including Canada, Mexico, and Turkey. The two-way bilateral trade between Indonesia and Korea amounted to approximately USD 20.3 billion in 2010, with cooperation in various fields such as information technology, energy, forestry, tourism, and science and technology.

In February 2011, Korea and Indonesia conducted a feasibility study on a project that would form the bedrock for deciding whether or not to proceed with bilateral FTA negotiations. The two nations have fostered intimate relations since 1973, encompassing diverse sectors such as politics, economy, culture, and others. Both countries possess considerable domestic market potential and have collaborated on numerous fronts such as economic development, information technology, energy, and more. Despite their participation in FTA negotiations with other countries, untapped opportunities abound to further strengthen bilateral trade and economic relations by surmounting residual obstacles to the trade of goods and services. A bilateral FTA between Korea and Indonesia could also amplify bilateral investment relations to a higher echelon (Kemlu, 2022).

IK-CEPA and the Advancement of Bilateral Economic Relations between Indonesia and South Korea

The mutual benefits reaped by Indonesia and South Korea have led to their decision to establish a bilateral partnership. This move was catalyzed by the Joint Study Group (JSG) formation, which focused on the Comprehensive Economic Partnership Agreement (CEPA). The JSG aimed to identify the advantages and challenges inherent in Indonesia-South Korea’s collaboration under the IK-CEPA framework. CEPA is anchored on three basic principles, namely market access, trade and investment facilitation, and economic cooperation, including capacity building. The JSG findings indicated that cooperation under IK-CEPA could foster a more liberal trading environment for goods and services, leveraging tariff concessions and service commitments outlined in the AKFTA agreement (Ismail, 2018; Bila & Wijayati, 2022).

The JSG also noted that importers and exporters have benefited from the preferential treatment accorded under the AKFTA agreement. The percentage value of imports from South Korea to Indonesia and vice versa increased significantly. South Korean imports from Indonesia increased from 57.6% in 2008 to 64.7% in 2010, while Indonesian imports from South Korea surged from 1.3% in 2008 to 19% in 2009. These results underscore the advantages of preferential treatment under AKFTA. Furthermore, the JSG approximated that the CEPA between Indonesia and South Korea could spur positive economic growth for both countries in terms of output and welfare. The elimination of tariffs under IK-CEPA would result in Indonesia enjoying economic benefits worth US\$ 10.6 billion and a GDP increase of 4.37%. In contrast, South Korea would realize economic benefits of US\$ 1.5 billion and a GDP increase of 0.13% (Kemendag RI, 2020, 2021; Pratiwi, 2019).

The initial round of negotiations for the Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA) was conducted on July 12, 2012, under the leadership of Sahala Lumban Gaol as the Chief Negotiator of Indonesia for IK-CEPA, and Kim Young Moo as the Chief Negotiator of South Korea. In this round, various aspects were approved and encompassed within the Scope and Overage of IK-CEPA, such as trade in goods, rules of origin, taxes (including customs regulations), and trade facilities, trade in services, investment,

intellectual property rights, sustainable development, and competition. Trade Remedies and Cooperation, including capacity building, were deferred to subsequent rounds.

The negotiations continued until the seventh round held on February 27-28, 2014, in Seoul. The seventh round of negotiations focused on issues related to services, such as the Draft Text Chapter on Trade in Services, Request Offer, Annexes (which included Financial, Movement of Natural Persons, and Telecommunications), and Cooperation and Capacity Building implemented within the IK-CEPA framework. These areas included Textiles, Coal, Small Medium Industries, ICT, Machinery, Shipbuilding, Metal, Oil and Gas, Forestry, IPR, Government Procurement, Statistics, Certification and Standardization, and Movement of Natural Persons.

Despite being initiated some time ago, the IK-CEPA negotiations were suspended in 2014 due to the inability to reach an agreement on several issues. On September 10-11, 2018, President Jokowi paid a visit to South Korea, during which he met with President Moon. The two leaders agreed to reactivate the IK-CEPA negotiations. This meeting was followed by another between the Indonesian Minister of Trade and the South Korean Minister of Trade, Industry, and Energy, which took place during the East Asia Summit in November 2018 in Singapore (Kemlu, 2022). The reactivation of negotiations was initiated by a meeting attended by senior officials in Seoul on February 12, 2019. As a result of these meetings, the two countries issued the Joint Ministerial Statement on the Launch of the Reactivation of Negotiations for the IK-CEPA on February 19, 2019, marking the start of the reactivation of IK-CEPA negotiations (Santia, 2020).

The Fundamentals and Implementation of the Indonesia-South Korea Comprehensive Economic Partnership Agreement (IK-CEPA)

According to the Ministry of Trade, South Korea ranked as the 6th largest importer and exporter for Indonesia in 2018, based on data from the Central Statistics Agency (BPS). The South Korean Ministry of Trade, Industry and Energy also indicated that Indonesia was its 12th largest trading partner in the same year. Both nations aim to increase their bilateral trade volume to \$30 billion by 2022, emphasizing the significance of fostering trade relations between the two countries. In this regard, Indonesia and South Korea have agreed to facilitate their bilateral trade through various means.

Furthermore, both countries seek to bolster cooperation in the investment sector. South Korea was the 6th largest country for foreign direct investment (FDI) in Indonesia in 2018, while Indonesia ranked as the 10th largest destination for South Korean investment. With the growing status of the relationship between the two countries, President Jokowi invited investors from South Korea to invest in Indonesia, and it is expected that this trend will continue under the upgraded status of Special Strategic Partnership between the two nations.

The IK-CEPA will not only cover bilateral trade, but also investment and industrial cooperation. The Joint Vision, which underpins the Special Strategic Partnership between the two nations, outlines their commitment to bolster cooperation in the economic sector, including in the areas of bilateral trade, investment, and industry. Therefore, the IK-CEPA is a pivotal tool for enhancing cooperation between the two nations.

The Joint Ministerial Statement on the Launch of the Reactivation of Negotiations for the Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA) document highlights the role of the IK-CEPA as a platform for achieving a second economic partnership

between Indonesia and Korea. To ensure the success of the reactivation of negotiations for the IK-CEPA, four understandings must serve as its foundation:

1. The IK-CEPA must be of high quality, mutually beneficial, and comprehensive, covering trade in goods and services, investment, economic cooperation, and other areas, and substantially increasing bilateral trade and investment volumes as much as possible.
2. The IK-CEPA must be based on previous multilateral and regional agreements and the result of negotiations between the Republic of Indonesia and the Republic of Korea.
3. The IK-CEPA must have economic significance while recognizing shared interests and sensitivities that both countries may have.
4. The 8th round of negotiations must take place on April 29-30 in Seoul, with the goal of completion by the end of the year (Kemlu, 2022).

The aforementioned processes represent the three phases of pre-negotiations conducted by both countries before resuming negotiations for the IK-CEPA. The aim is to strengthen cooperation in the economic sector, particularly in bilateral trade, investment, and other areas of economic cooperation. It has been recognized that the IK-CEPA will play a vital role in maximizing this cooperation, and thus, South Korea and Indonesia have agreed to resume negotiations for the IK-CEPA to be swiftly concluded and serve as a platform for enhancing cooperation between the two nations (Kemlu, 2022).

South Korea and Indonesia have reached an agreement to revive the negotiations for the Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA), which had been postponed since 2014. The 8th round of negotiations was held in Seoul in February 2019, following a commitment made in the Joint Ministerial Statement on the Launch of the Reactivation of Negotiations for the IK-CEPA. Subsequently, the negotiations achieved substantial completion in October 2019, and the agreement was announced at the opening of the Trade Expo Indonesia attended by the Indonesian Trade Minister and the South Korean Minister of Trade, Industry, and Energy (Kemlu, 2022; Coordinating Ministry for Economic Affairs, 2020).

Bilateral cooperation refers to a mutually beneficial relationship between two countries that aims to meet their respective national interests. In this cooperation, both countries engage in the concept of give-and-take (Boy, 2017; Dougherty & Pfaltzgraff, 1971). Indonesia and South Korea have been engaged in bilateral cooperation since 1966, which has continued to grow, especially in the areas of investment, trade, and tourism. Both countries engage in the concept of give-and-take to meet their respective national interests. In 2012, trade cooperation between the two countries increased to 14 billion US dollars. However, South Korean foreign investment in Indonesia did not continue to increase as in the export sector, but it experienced a significant and consistent increase after 2006. In contrast, Indonesia’s exports and foreign investment in South Korea have continued to increase since 1977 (Wibisono, 2017).

Furthermore, as a form of expanding and strengthening bilateral cooperation in the field of trade, Indonesia and South Korea held the IK-CEPA, a trade liberalization agreement discussed through the Joint Study Group covering several areas such as trade in goods, services, investment, economic cooperation, law, and institutions (Cholif & Paksi, 2022). The IK-CEPA aims to eliminate tariffs on many products, establish a more advantageous partnership in the services sector, and broaden investment protection. It can be considered a strategic move in

enhancing economic, trade, and investment relations between Indonesia and South Korea and has the potential to have a positive impact on the welfare of the people in both countries.

Indonesia’s primary exports to South Korea comprise coal, oil, and gas. However, non-oil and gas products, including crude palm oil, coffee, footwear, chocolate, textiles, electronic goods, rubber, machine spare parts, and furniture, are also exported. Additionally, Indonesia exports a range of other products such as food and beverage items, essential oils, fisheries, spices, traditional medicines, leather goods, handicrafts, jewelry, and health supplies to South Korea. While foreign investment figures are not consistently increasing, there has been a significant and consistent increase in the number of South Korean investors in Indonesia since 2006. The Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA) is a form of cooperation that includes tariff elimination agreements, more beneficial partnerships in the service sector, and broader investment protection. The IK-CEPA is, therefore, a strategic action to enhance economic, trade, and investment relations between Indonesia and South Korea, with the potential to have a positive impact on the welfare of both countries’ communities (Maulana, 2023).

The IK-CEPA is a free trade agreement between Indonesia and South Korea that offers significant benefits for both countries. The agreement eliminates as many as 11,267 Korean tariff lines to 0%, which amounts to 92% of the total tariff lines when the IK-CEPA is implemented. Additionally, 402 Korean tariff lines, which represent 3.4% of the total tariff lines, will be gradually eliminated over 3-20 years since the IK-CEPA’s implementation. Economic cooperation under the IK-CEPA covers several sectors, such as industry, agriculture, regulation and trade processes, individual movement, as well as other cooperation areas such as supporting SME activities, infrastructure, investment, culture, creative industries, and health services. The focus of economic cooperation in the IK-CEPA is on trade and investment activities conducted by Indonesia and South Korea to increase the economic volume.

The IK-CEPA provides significant benefits not only in trade but also in services and investment. According to the Trade Attaché of South Korea, Dwinanto Rumpoko, the IK-CEPA is essential for Indonesia because it will broaden market access for Indonesian goods in Korea and provide greater opportunities for Korean investment in Indonesia. Moreover, Indonesia will gain cooperation in various economic sectors. South Korea has successfully shifted its economic orientation from agriculture to trade, making it a vital partner in the economic cooperation under the IK-CEPA. Technical support, human resource training, data and information exchange, expert exchange, thematic seminars, workshops, research, cooperative development, promotion, and technology transfer initiatives can be provided under this cooperation. The IK-CEPA is, therefore, an important and strategic agreement for Indonesia and South Korea, providing significant benefits for both countries and enhancing their long-term economic cooperation (Maulana, 2023).

The suspension of the Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA) in 2014 has had significant effects on investment, trade, and market players in both Indonesia and South Korea. The Ministry of Trade’s data reveals that trade between the two countries experienced a sharp decline of 51% between 2012 and 2017, with the largest dip occurring in 2014-2015. The cessation of the negotiations was caused by dynamic negotiation processes, changes in government, and the inability of Indonesia and South Korea to reach an agreement package. The obstacles to the negotiation process included trade sector imbalance,

investment guarantees from South Korea, and Indonesia’s rejection of proposed clauses (Ismail & Mulyaman, 2018).

The IK-CEPA was subsequently revived in 2019 with the establishment of a memorandum of understanding between the two countries. The memorandum outlines four fundamental principles that guide the ongoing negotiation process, including the need for a high-quality and mutually beneficial agreement that covers trade in goods and services, investment, economic cooperation, and other relevant areas. Additionally, the agreement must be constructed on the foundation of existing multilateral and regional agreements, as well as on the outcomes of previous negotiations between the Republic of Indonesia and the Republic of Korea. Moreover, the agreement must be economically meaningful, while also recognizing the common interests and sensitivities of both countries. Finally, the eighth round of negotiations took place on April 29-30, 2019, in Seoul, with the goal of concluding the negotiations as soon as possible before the end of that year.

The Significance of Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA) for Indonesia and South Korea

Indonesia and South Korea, as G20 members, have significant roles in advancing regional cooperation and global integration, especially in the Asian region. The two countries share strong economic and strategic ties, and the implementation of the IK-CEPA is expected to boost economic growth, trade, and investment flows between them, thereby strengthening their bilateral relationship. South Korea is deemed a “special strategic partner” for Indonesia, and its commitment to IK-CEPA negotiations with Indonesia is perceived to be higher than its commitment to ASEAN. Indonesia relies on South Korea for capital, investment, technology transfer, and technology products, while South Korea requires Indonesia’s natural resources, labor force, and large market.

The IK-CEPA agreement, signed in 2020, was ratified by the Indonesian government through Law Number 25 of 2022 and implemented on January 1, 2023. The agreement has significant implications for both countries, particularly for Indonesia. South Korea has agreed to reduce import tariffs from Indonesia by 97.3 percent, whereas Indonesia will decrease its import tariffs from South Korea by 94 percent. Moreover, South Korea has committed to removing 95.54 percent of tariff barriers in trade in goods, whereas Indonesia has pledged to eliminate 92.06 percent of tariff lines.

IK-CEPA also provides preferential tariffs to South Korean foreign investment in Indonesia, offering 0.96 percent of tariff lines worth USD 254.69 million, as well as 2.96 percent of Indonesia’s total imports from South Korea. In the trade of services, both countries have agreed to open more than 100 sub-sectors, enhancing the integration of various service sectors in the future, such as postal and courier services, computer-related services, construction, and franchise sectors. Additionally, Indonesia and South Korea have also pledged to facilitate the movement of Business Visitors (BVs), Intra-Corporate Transferees (ICTs), and Independent Professionals (IPs).

In the context of the Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA), several products have been exempted from tariffs, including lubricating oil, seaweed, dried fruits, stoves, sidewalks, gearboxes, and wall tiles. Prior to this agreement, the respective comparative tariffs under the ASEAN-Korea Free Trade Agreement (AKFTA) were 90.2 percent and 80.1 percent. The expectation is that these measures will enhance trade in goods and

services, promote capacity building and investment cooperation between the two nations, and bolster Indonesia’s trade balance.

IK-CEPA has broadened the prospects for South Korean Foreign Direct Investment (FDI) in Indonesia by endowing them with improved market access and protection compared to previous arrangements. In Indonesia, South Korea will offer services such as construction, engineering, and audio-visual. By virtue of the business facilitation offered by IK-CEPA, South Korean FDI will be better positioned to conduct business operations in Indonesia. This puts South Korean FDI in a superior position to other developed nations like the United States, China, and Japan.

As stated by Baskara Pradipta, Middle Diplomat Coordinator for the East Asian region, the primary objective of IK-CEPA is to promote trade and investment between Indonesia and South Korea by removing tariffs. In contrast to the Free Trade Agreement (FTA), the Comprehensive Economic Partnership Agreement (CEPA) has a wider and more intricate scope. In addition to focusing on trade in goods, CEPA can also comprise other aspects such as tariff reduction (zero tariff). Implementation of IK-CEPA has already led to an increase in exports from both countries. The agreement can help boost Indonesia’s macroeconomic performance, provide market access and export opportunities for Indonesian goods and services, generate a conducive business environment, ensure trade rule uniformity, and improve the quality of human resources in Indonesia through technical assistance and knowledge transfer. Furthermore, IK-CEPA can create new job opportunities and accelerate the development of industrial sectors such as agriculture, forestry, and ICT, thus indirectly leading to increased employment opportunities in Indonesia.

The ratification of the Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA) by Indonesia is predicated on the premise that IK-CEPA provides a more extensive opportunity compared to the ASEAN-Korea Free Trade Area (AKFTA) due to the latter agreement constraining the ambition of the Indonesian government. The decision to ratify the AKFTA agreement was made by consensus among the ASEAN member countries, thereby prioritizing their interests. According to the Indonesia-Korea CEPA Joint Study Group report, the elimination of IK-CEPA will have a positive impact on the growth of both countries’ outputs and national welfare. The elimination of tariffs on goods will lead to an estimated increase of USD 7.97 million in welfare improvement and a 0.03% increase in Indonesia’s GDP. Meanwhile, South Korea’s welfare is projected to increase by USD 1.5 billion, and its GDP is expected to grow by 0.13%. Moreover, if Indonesia’s productivity increases in various sectors such as trade in goods, trade in services, investment, and economic cooperation, the country’s GDP growth and welfare value will increase to 4.37% and USD 10.6 billion, respectively.

IK-CEPA represents a novel opportunity for both countries to optimize their capabilities and reap more benefits. The agreement provides fresh impetus for trade, economic growth, and investment for both Indonesia and South Korea, with more than 11,000 Indonesian products able to enter South Korea without incurring tariffs. This is expected to bolster the development of Small and Medium-sized Enterprises (SMEs) in Indonesia. Despite the potential for a surge in imports, the Indonesian government has instituted Minister of Finance Regulation (PMK) Number 219/PMK.04/2022 regarding the Procedure for Imposing Import Duty Tariffs and PMK Number 227/PMK.010/2022 concerning the Determination of Import Duty Tariffs to address this issue.

CONCLUSION

Indonesia and South Korea have fortified their bilateral relations through the signing of the Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA). This agreement encompasses several domains including services, trade, investment, and economics, and has a more extensive and comprehensive coverage than prior collaborations. IK-CEPA obliges both Indonesia and South Korea to uphold greater commitments with regards to tariff positions and to facilitate market access and provide enhanced protection for investors. Consequently, this has resulted in a closer relationship between the two countries, facilitating interdependence. Both countries are viewed as being able to complement each other’s weaknesses in order to fulfill their respective national interests. Despite obstacles encountered during the negotiation process and the signing of IK-CEPA, the bilateral relationship between the two countries is considered to be improving and indicative of successful economic cooperation.

IK-CEPA between Indonesia and South Korea presents new opportunities in trade, investment, and economic cooperation for both nations. The agreement enables Indonesian products to enter the South Korean market and vice versa, while simultaneously offering ease and protection for investors from both countries. It is hoped that this agreement will bolster economic growth and generate job opportunities in both countries. Additionally, IK-CEPA has the potential to strengthen bilateral relations between Indonesia and South Korea, as well as providing a positive model for ASEAN countries and South Korea in expanding regional economic cooperation.

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