

Revisiting Indonesia-South Korea Economic Partnership in the 50th Anniversary of Diplomatic Ties

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Introduction

1.1. Indonesia-South Korean Bilateral Relations: Past, Present, and Future

The relationship between Indonesia and South Korea has been growing stronger and stronger over the years, with both countries working towards a more positive future. Indonesia-Korea Comprehensive Economic Partnership Agreement (IK- CEPA) is officially realised as of January 1st 2023. The implementation marks the 50th anniversary of diplomatic ties between Indonesia and South Korea, which represents distinctive strategic partnership between the two countries.

Indonesia is the only one ASEAN countries that has established a special strategic partnership with South Korea. This shows how important Indonesia's position is in the eyes of South Korea. Besides Indonesia and South Korea are also members of regional and global cooperative forums, including the United Nations, APEC, ASEAN 3+, G20, and including Mikta, a diverse and cross-regional grouping of middle power partnership between Mexico, Indonesia, South Korea, Turkey, and Australia.

Historically, Indonesia and South Korea had a somewhat limited relationship in 1968 indicated by the placement of Consulate General office, which was subsequently changed to an official Embassy in 17 September 1973. Lieutenant General TNI Sarwo Edhi Wibowo was the firstly appointed to be the first Indonesia's plenipotentiary Ambassador in 1974. In the early years, the relationship was characterized by a lack of interaction and limited diplomatic exchanges. However, this changed in the late 1980s when the two countries began to see the benefits of having a closer relationship. In 1988, Indonesia and South Korea established formal diplomatic relations, marking the start of a new era of cooperation between the two nations.

Indonesia and South Korea gradually strengthened their cooperation in the fields of defence, human capacity building, research and development. The economic and trade relationship between Indonesia and South Korea has also grown significantly over the years. The two nations have established close economic ties, with South Korea being one of Indonesia's largest trading partners. The trade volume between the two countries reached a record high of \$22.3 billion in 2020. This is a clear indication of the strong economic ties between Indonesia and South Korea.

The economic cooperation between Indonesia and South Korea is further reinforced by the existence of a number of agreements between the two nations. These agreements have been designed to enhance economic cooperation and facilitate the flow of goods and services between the two nations. The Indonesia-Korea Comprehensive Economic Partnership Agreement (CEPA) is one of the most notable agreements between the two nations. This agreement was signed in 2010 and has been instrumental in strengthening economic ties between the two nations.

The trade relationship between Indonesia and South Korea is also characterized by a large volume of bilateral trade. In 2020, the total trade volume between Indonesia and South Korea reached \$22.3 billion, with Indonesia exporting goods worth \$9.5 billion and importing goods worth \$12.8

billion from South Korea. The two nations have a strong trade relationship, with South Korea being Indonesia's fourth largest trading partner.

The two nations have also established a number of investment partnerships, with South Korean companies investing heavily in Indonesia. The investment from South Korean companies has had a significant impact on the Indonesian economy, contributing to the growth of the Indonesian economy and creating jobs for Indonesian citizens.

After the change of government in the Republic of Korea (South Korea) in May 2017, President Moon Jae-in established the New Southern Policy which aims to improve South Korea's relations with ASEAN countries and India. In the context of implementing the New Southern Policy, an important development noted was President Moon's first overseas visit in November 2017 to Indonesia. During the visit, President Moon Jae-in and President Joko Widodo agreed to elevate the status of the two countries' relations to a 'Special Strategic Partnership' based on the shared spirit of principles and values of democracy, human rights and an open economy. Furthermore, President Joko Widodo visited South Korea on July 2022 to meet President Yoon Suk-yeol as well as local Korean business leaders. The two leaders have agreed that the partnership the two countries are not just transactional relations but must be based on a spirit of mutual assistance.

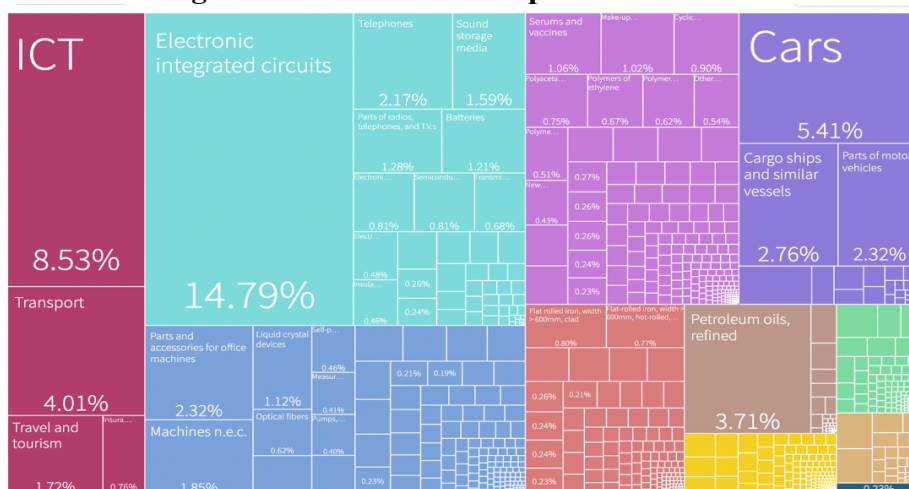
Furthermore, in order to understand the economic relation among Indonesia and South Korea, this article will explore the various challenges and weaknesses of the trade and economic cooperation between Indonesia and South Korea, and discuss ways in which these challenges can be addressed. In the following paragraphs, explanations will be focused on the macro-overview of the Indonesian and South Korean economic foundation, exchange service, Indonesian workers in South Korea, and foreign direct investment especially in Nickel mining industry and electric vehicle sector. In the end, conclusion will draw some ways to increase both countries strategic relation in the future.

1.2. A Macro Economic Overview of Indonesia and South Korea

South Korea's successful economic transformation in the post-World War II has laid a strong economic foundation of the country. By magnificently moving labour and other resources from lower- to higher-productivity activities, South Korea has turned to be an export-led growth oriented, in which the country has seek economic development by opening itself up to international trade. In 2020, South Korea exported products worth USD \$596 billion.

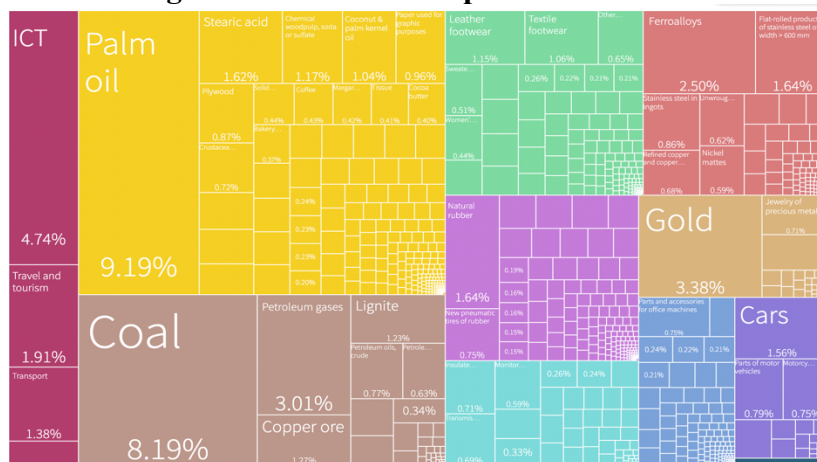
Considering the full year of 2022, exports climbed 6.1% to a record peak of USD 683.9 billion, mainly due to a rise in sales of semiconductors and petrol products, as well as electric vehicles and secondary cells. Sales were up for chips (1%), semiconductor (20%), petroleum (65.3%), and auto (16.4%). By the destination, shipments rose to the US (14.5%), the ASEAN countries (14.8%), the EU (7.1%), while fell to China 4.4%). The government anticipated export in 2023 to fall 4.5%, attributed to the weak chip prices, economic slowdown in China, and the weakening foreign demand as global inflation pressures persist internationally resulted in a global economic slowdown. As for the types of commodities exported by South Korea, they are as follows:

Figure 1. South Korea's export commodities



Meanwhile, Indonesia's economy still has to catch up behind Korea. Indonesia exported products worth USD \$177 billion in 2020. Exports have been an engine of economic growth in Indonesia. However, after reaching a peak in 2012, it has been in a steady decline and represents a shrinking segment of the economy due to lower commodity prices and dwindling global demand. As for the types of commodities exported by Indonesia, they are as follows:

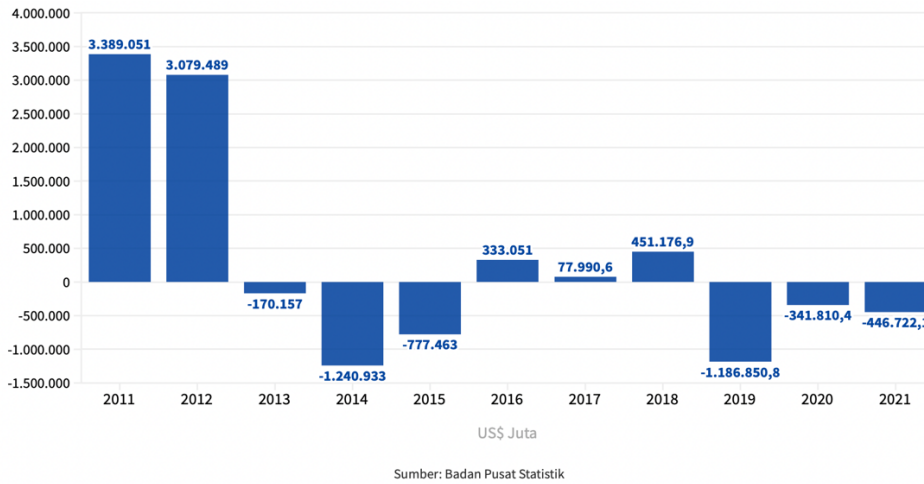
Figure 2. Indonesia's export commodities



The data shown in the Figure 2 above indicates that Indonesian economic characteristics are quite different with South Korea. South Korea was predominantly an agricultural society, but it did remarkably undergo some industrialization by controlling several sectors, particularly related to electronic, ICT, automotive, and others. Its successful story provides valuable lessons for Indonesia and other developing countries to learn on how economic transformation strategy can implemented to achieve the better future.

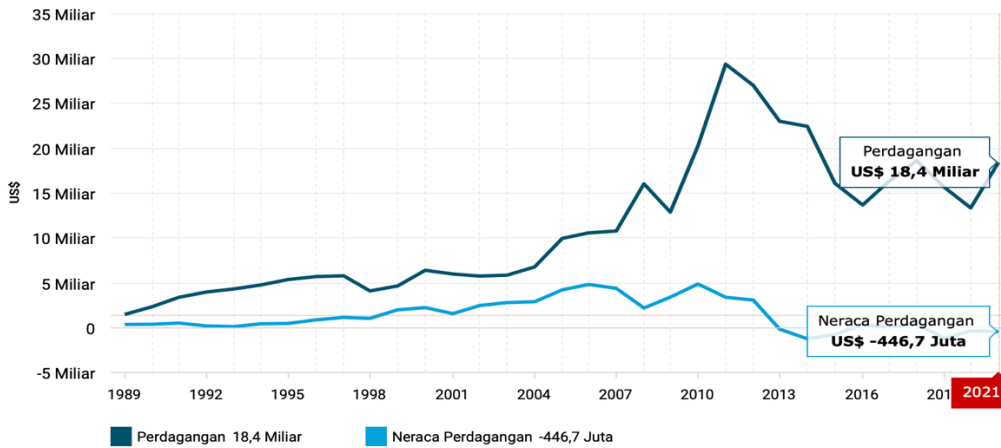
The close relationship between Indonesia and South Korea is also supported by the nature of the complementarity of natural resources and advantages possessed by each. The capacities have opened up opportunities for cooperation in economy. However, in recent years, Indonesia have experienced a persistent trade deficit or imbalance in the last three years, with Indonesia importing more goods from South Korea than it exports to the country. In 2021, the trade balance between Indonesia and South Korea has experienced a deficit of US\$ 446.72 million. See the data below:

Figure 3. Indonesia-South Korea Trade (1989-2021)



Based on the data above, Indonesia's trade with the Korea reached its highest level in 2011-2012 with a total value of US\$29.39 billion. In that year, Indonesia's trade balance also experienced a surplus of US\$3.39 billion. Subsequently, Indonesia's trade with South Korea decreased to US\$13.36 billion in 2020. This was the lowest level in the last ten years, in line with the emergence of the pandemic Covid-19. Furthermore in 2021, Indonesia's trade with South Korea began to recover to US\$18.41 billion, growing 37.8% from the previous year. However, Indonesia's trade balance experienced a deficit of US\$446.72 million. This deficit is the third time it has occurred in a row since 2019, or the fourth time since 1989. For more details, please see the following figure of the trade balance between the two countries:

Figure 4. Indonesia-Korea Selatan Trade (1989-2021)



One of the main reasons for the trade deficit between Indonesia and South Korea is the difference in the structure of their economies. South Korea is highly developed, with a strong emphasis on technology and manufacturing, while Indonesia has a more agrarian-based economy. As a result, South Korea produces more technologically advanced products that are in high demand, while Indonesia has limited capability in producing such products (Kim, 2020). Additionally, the high level of competition in the global market has led to a shift in South Korean companies focusing on exports, rather than domestic consumption. This has resulted in South Korean products becoming more affordable and accessible to Indonesian consumers, leading to an increase in imports (Kwon, 2019).

Indonesia's lack of infrastructure and logistical support also contributes to the trade deficit. The country has a weak transportation system, and its ports and airports are not equipped to handle the volume of trade between the two countries (Lee, 2018). As a result, Indonesian businesses face challenges in exporting their goods, leading to a lower volume of exports to South Korea.

As a result, the persistent trade deficit between Indonesia and South Korea has significant implications for both countries. For Indonesia, the trade imbalance puts pressure on its balance of payments, as it is spending more on imports than it is earning from exports (Bank of Indonesia, 2021). This can result in a shortage of foreign currency, making it difficult for Indonesian businesses to purchase foreign goods and services.

Furthermore, the trade deficit also has a negative impact on Indonesia's domestic economy, as it reduces the demand for local goods and services. This can result in lower economic growth, increased unemployment, and reduced income for Indonesian workers (World Bank, 2022). For South Korea, the trade deficit with Indonesia may impact its overall trade surplus, as the country depends heavily on exports to maintain its strong economic growth. Additionally, a trade deficit with one of its largest trading partners may negatively impact South Korean businesses that depend on exports to Indonesia (Korea Trade Association, 2021).

1.3. South Korea's Export to Indonesia

According to data from 2020, South Korea's exports to Indonesia were valued at \$11.8 billion, making Indonesia one of South Korea's largest trade partners in the Asia-Pacific region. The main products that South Korea exports to Indonesia include machinery, electronics, and vehicles. These products are in high demand in Indonesia, due to the country's growing manufacturing and technology industries. The export of these products to Indonesia has a significant impact on the Indonesian economy, contributing to the growth and development of the country's manufacturing and technology industries. For example, the import of machinery and electronics from South Korea has helped to modernize and improve the efficiency of Indonesian businesses, while the import of vehicles has helped to support the growth of the Indonesian transportation sector.

In addition to these products, South Korea is also exporting a range of other goods and services to Indonesia, including textiles, chemicals, and consumer goods. These products are in high demand in Indonesia, due to the country's large and growing consumer market. The export of these products helps to diversify the Indonesian economy, providing a range of goods and services to meet the needs and demands of the country's consumers.

Despite these positive trends, there are also challenges associated with South Korean exports to Indonesia. One of the main challenges is the fluctuation of global commodity prices, which can have a significant impact on the export of machinery and electronics. Another challenge is the competitiveness of South Korean products in the Indonesian market, as the country is home to several large and established manufacturing industries.

To overcome these challenges, Indonesia and South Korea need to work together to strengthen their economic relationship, focusing on areas of mutual benefit and opportunities for growth. For example, South Korea could provide technical assistance and investment to help develop Indonesia's manufacturing and technology industries, while Indonesia could work to increase the competitiveness of South Korean products in the Indonesian market. Please see the South Korea's export commodities to Indonesia below.

Table 1. South Korea's export commodities to Indonesia (2021)

South Korea's Commodities Exported to Indonesia	Value	Year
Machinery, nuclear reactors, boilers	\$1.02B	2021
Plastics	\$977.01M	2021
Iron and steel	\$935.02M	2021

Electrical, electronic equipment	\$870.23M	2021
Mineral fuels, oils, distillation products	\$751.73M	2021
Knitted or crocheted fabric	\$395.89M	2021
Rubbers	\$375.75M	2021
Organic chemicals	\$253.61M	2021
Articles of iron or steel	\$221.31M	2021
Miscellaneous chemical products	\$218.87M	2021
Vehicles other than railway, tramway	\$181.52M	2021
Inorganic chemicals, precious metal compound, isotope	\$170.86M	2021
Optical, photo, technical, medical apparatus	\$154.23M	2021
Manmade filaments	\$123.48M	2021
Paper and paperboard, articles of pulp, paper and board	\$122.28M	2021
Aluminum	\$117.20M	2021
Copper	\$108.41M	2021
Zinc	\$104.41M	2021
Tanning, dyeing extracts, tannins, derivatives, pigments	\$84.09M	2021
Manmade staple fibers	\$78.70M	2021
Impregnated, coated or laminated textile fabric	\$78.09M	2021
Tools, implements, cutlery of base metal	\$75.68M	2021
Essential oils, perfumes, cosmetics, toileteries	\$74.20M	2021
Miscellaneous edible preparations	\$70.17M	2021
Lead	\$68.40M	2021
Pharmaceutical products	\$65.10M	2021
Musical instruments, parts and accessories	\$55.67M	2021
Articles of apparel, not knit or crocheted	\$53.80M	2021
Raw hides and skins (other than furskins) and leather	\$50.00M	2021
Soaps, lubricants, waxes, candles, modelling pastes	\$47.96M	2021
Special woven or tufted fabric, lace, tapestry	\$41.85M	2021
Arms and ammunition, parts and accessories	\$40.55M	2021
Wadding, felt, nonwovens, yarns, twine, cordage	\$40.24M	2021
Footwear, gaiters and the like,	\$35.81M	2021
Pearls, precious stones, metals, coins	\$33.59M	2021
Pulp of wood, fibrous cellulosic material, waste	\$29.72M	2021
Residues, wastes of food industry, animal fodder	\$27.44M	2021
Aircraft, spacecraft	\$26.90M	2021
Miscellaneous articles of base metal	\$25.79M	2021
Ships, boats, and other floating structures	\$25.68M	2021
Cereal, flour, starch, milk preparations and products	\$23.61M	2021
Albuminoids, modified starches, glues, enzymes	\$22.83M	2021
Beverages, spirits and vinegar	\$21.41M	2021
Fish, crustaceans, molluscs, aquatics invertebrates	\$19.03M	2021
Cotton	\$16.18M	2021
Tobacco and manufactures tobacco substitutes	\$15.94M	2021
Articles of apparel, knit or crocheted	\$15.60M	2021

Furniture, lighting signs, prefabricated buildings	\$14.92M	2021
Ceramic products	\$13.97M	2021
Explosives, pyrotechnics, matches, pyrophorics	\$13.77M	2021
Salt, sulphur, earth, stone, plaster, lime and cement	\$13.44M	2021
Miscellaneous manufactured articles	\$12.76M	2021
Other made textile articles, sets, worn clothing	\$11.62M	2021
Stone, plaster, cement, asbestos, mica or similar materials	\$9.87M	2021
Fertilizers	\$7.39M	2021
Sugars and sugar confectionery	\$7.01M	2021
Toys, games, sports requisites	\$6.88M	2021
Vegetable, fruit, nut food preparations	\$6.23M	2021
Oil seed, oleagic fruits, grain, seed, fruits	\$6.12M	2021
Glass and glassware	\$5.83M	2021
Wool, animal hair, horsehair yarn and fabric	\$5.67M	2021
Wood and articles of wood, wood charcoal	\$5.30M	2021
Animal, vegetable fats and oils, cleavage products	\$4.90M	2021
Edible fruits, nuts, peel of citrus fruit, melons	\$4.01M	2021
Printed books, newspapers, pictures	\$4.00M	2021
Lac, gums, resins	\$3.38M	2021
Bird skin, feathers, artificial flowers, human hair	\$3.25M	2021
Articles of leather, animal gut, harness, travel good	\$3.04M	2021
Milling products, malt, starches, inlin, wheat gluten	\$2.98M	2021
Nickel	\$2.55M	2021
Railway, tramway locomotives, rolling stock, equipment	\$2.50M	2021
Meat, fish and seafood preparations	\$1.62M	2021
Ores slag and ash	\$1.52M	2021
Headgear and	\$1.29M	2021
Tin	\$1.14M	2021
Vegetable textile fibers not specified elsewhere, paper yarn, woven fabric	\$782.68K	2021
Cocoa and cocoa preparations	\$675.35K	2021
Furskins and artificial fur, manufactures	\$668.46K	2021
Products of animal origin	\$518.97K	2021
Clocks and watches	\$510.61K	2021
Edible vegetables and certain roots and tubers	\$380.23K	2021
Base metals not specified elsewhere, cermets.	\$306.38K	2021
Coffee, tea, mate and spices	\$302.81K	2021
Works of art, collectors' pieces and antiques	\$205.53K	2021
Photographic or cinematographic goods	\$189.58K	2021
Carpets and other textile floor coverings	\$169.98K	2021
Umbrellas, walking-sticks, seat-sticks, whips	\$115.40K	2021
Live animals	\$39.96K	2021
Dairy products, eggs, honey, edible products	\$28.59K	2021
Live trees, plants, bulbs, roots, cut flowers	\$26.41K	2021
Vegetable plaiting materials, vegetable products	\$17.19K	2021

Cork and articles of cork	\$10.12K	2021
Manufacturers of plaiting material, basketwork	\$4.78K	2021
Silk	\$875	2021
Cereals	\$588	2021

1.4 Indonesia's Export to South Korea

Indonesia and South Korea have had a strong economic relationship for many years, with trade and exports playing a key role in this partnership. Indonesia's export to South Korea was US\$8.98 Billion during 2021. A year before, Indonesia's exports to South Korea were valued at \$11.5 billion in 2020, making South Korea one of Indonesia's largest trade partners in the Asia-Pacific region. The main products that Indonesia exports to South Korea include coal, palm oil, and nickel ore. These natural resources are in high demand in South Korea, due to the country's large manufacturing and energy industries.

The export of these products to South Korea has a significant impact on the Indonesian economy, generating much-needed revenue and creating jobs in the country. For example, the coal and palm oil industries are two of Indonesia's largest employers, providing livelihoods for millions of people. The export of nickel ore also contributes to the development of Indonesia's mining industry, helping to create a more diverse and sustainable economy. In addition to natural resources, Indonesia is also exporting a range of other products and services to South Korea, including machinery, electronics, and textiles. The export of these products helps to diversify the Indonesian economy, reducing the country's dependence on natural resources and creating a more sustainable and resilient economy.

Despite these positive trends, there are also challenges associated with Indonesian exports to South Korea. One of the main challenges is the fluctuation of global commodity prices, which can have a significant impact on the export of natural resources like coal and palm oil. Another challenge is the competitiveness of Indonesian products in the South Korean market, as the country is home to several large and established manufacturing industries.

To overcome these challenges, Indonesia and South Korea need to work together to strengthen their economic relationship, focusing on areas of mutual benefit and opportunities for growth. For example, South Korea could provide technical assistance and investment to help develop Indonesia's manufacturing and technology industries, while Indonesia could work to increase the competitiveness of its products in the South Korean market.

Table 2. Indonesia's Commodities Exported to South Korea

Indonesia's Commodities Exported to South Korea	Value	Year
Mineral fuels, oils, distillation products	\$2.49B	2021
Electrical, electronic equipment	\$777.14M	2021
Ores slag and ash	\$726.90M	2021
Iron and steel	\$571.28M	2021
Wood and articles of wood, wood charcoal	\$454.63M	2021
Animal, vegetable fats and oils, cleavage products	\$451.56M	2021
Miscellaneous chemical products	\$374.07M	2021
Inorganic chemicals, precious metal compound, isotope	\$311.30M	2021
Tin	\$280.88M	2021
Rubbers	\$277.82M	2021
Paper and paperboard, articles of pulp, paper and board	\$179.25M	2021

Articles of apparel, not knit or crocheted	\$176.57M	2021
Footwear, gaiters and the like,	\$171.67M	2021
Pulp of wood, fibrous cellulosic material, waste	\$150.59M	2021
Organic chemicals	\$145.16M	2021
Machinery, nuclear reactors, boilers	\$143.71M	2021
Articles of apparel, knit or crocheted	\$142.24M	2021
Copper	\$141.38M	2021
Residues, wastes of food industry, animal fodder	\$123.48M	2021
Manmade staple fibers	\$116.11M	2021
Plastics	\$75.40M	2021
Cotton	\$63.81M	2021
Fish, crustaceans, molluscs, aquatics invertebrates	\$63.08M	2021
Furniture, lighting signs, prefabricated buildings	\$34.29M	2021
Vehicles other than railway, tramway	\$33.81M	2021
Cereal, flour, starch, milk preparations and products	\$31.76M	2021
Articles of leather, animal gut, harness, travel good	\$31.45M	2021
Pharmaceutical products	\$29.36M	2021
Soaps, lubricants, waxes, candles, modelling pastes	\$26.74M	2021
Tobacco and manufactures tobacco substitutes	\$22.52M	2021
Impregnated, coated or laminated textile fabric	\$19.96M	2021
Musical instruments, parts and accessories	\$19.92M	2021
Glass and glassware	\$17.72M	2021
Sugars and sugar confectionery	\$16.88M	2021
Stone, plaster, cement, asbestos, mica or similar materials	\$15.59M	2021
Ceramic products	\$15.33M	2021
Optical, photo, technical, medical apparatus	\$14.62M	2021
Vegetable plaiting materials, vegetable products	\$13.79M	2021
Fertilizers	\$13.77M	2021
Articles of iron or steel	\$13.69M	2021
Miscellaneous manufactured articles	\$12.28M	2021
Coffee, tea, mate and spices	\$11.80M	2021
Aluminum	\$11.31M	2021
Tanning, dyeing extracts, tannins, derivatives, pigments	\$10.93M	2021
Wadding, felt, nonwovens, yarns, twine, cordage	\$10.83M	2021
Vegetable, fruit, nut food preparations	\$10.55M	2021
Raw hides and skins (other than furskins) and leather	\$10.38M	2021
Manmade filaments	\$10.38M	2021
Bird skin, feathers, artificial flowers, human hair	\$9.84M	2021
Pearls, precious stones, metals, coins	\$9.60M	2021
Edible fruits, nuts, peel of citrus fruit, melons	\$7.96M	2021
Essential oils, perfumes, cosmetics, toileteries	\$7.79M	2021
Oil seed, oleagic fruits, grain, seed, fruits	\$7.59M	2021
Meat, fish and seafood preparations	\$6.76M	2021
Other made textile articles, sets, worn clothing	\$6.21M	2021

Printed books, newspapers, pictures	\$5.78M	2021
Miscellaneous articles of base metal	\$5.28M	2021
Lead	\$5.16M	2021
Miscellaneous edible preparations	\$4.60M	2021
Toys, games, sports requisites	\$4.21M	2021
Cocoa and cocoa preparations	\$4.00M	2021
Salt, sulphur, earth, stone, plaster, lime and cement	\$3.42M	2021
Knitted or crocheted fabric	\$3.36M	2021
Manufacturers of plaiting material, basketwork	\$2.91M	2021
Headgear and	\$2.66M	2021
Aircraft, spacecraft	\$2.25M	2021
Milling products, malt, starches, inlin, wheat gluten	\$2.25M	2021
Albuminoids, modified starches, glues, enzymes	\$1.94M	2021
Vegetable textile fibers not specified elsewhere, paper yarn, woven fabric	\$1.65M	2021
Live trees, plants, bulbs, roots, cut flowers	\$1.62M	2021
Clocks and watches	\$1.61M	2021
Zinc	\$1.42M	2021
Edible vegetables and certain roots and tubers	\$1.38M	2021
Lac, gums, resins	\$1.10M	2021
Commodities not specified according to kind	\$1.01M	2021
Nickel	\$759.69K	2021
Railway, tramway locomotives, rolling stock, equipment	\$628.18K	2021
Special woven or tufted fabric, lace, tapestry	\$575.74K	2021
Products of animal origin	\$487.41K	2021
Beverages, spirits and vinegar	\$451.22K	2021
Base metals not specified elsewhere, cermets.	\$337.53K	2021
Dairy products, eggs, honey, edible products	\$330.98K	2021
Tools, implements, cutlery of base metal	\$247.33K	2021
Live animals	\$159.29K	2021
Carpets and other textile floor coverings	\$150.81K	2021
Wool, animal hair, horsehair yarn and fabric	\$140.61K	2021
Works of art, collectors' pieces and antiques	\$6.68K	2021
Umbrellas, walking-sticks, seat-sticks, whips	\$3.86K	2021
Explosives, pyrotechnics, matches, pyrophorics	\$500	2021
Photographic or cinematographic goods	\$315	2021
Furskins and artificial fur, manufactures	\$260	2021
Ships, boats, and other floating structures	\$7.40K	2020
Meat and edible meat offal	\$115.36K	2019
Cereals	\$30.18K	2018
Arms and ammunition, parts and accessories	\$10.5K	2017
Cork and articles of cork	\$723	2017
Silk	\$82	2012

Despite the strong economic and trade relationship between Indonesia and South Korea, there are still some challenges and weaknesses that need to be addressed. In this article, we will explore the various challenges and weaknesses of the trade and economic cooperation between Indonesia and South Korea, and discuss ways in which these challenges can be addressed.

One of the main challenges facing the economic cooperation between Indonesia and South Korea is the trade imbalance between the two nations. According to data from 2020, Indonesia has a trade deficit with South Korea, with imports from South Korea significantly outstripping exports to South Korea. This trade imbalance is a cause for concern, as it indicates that Indonesia is not receiving the full benefits of its trade relationship with South Korea. To address this challenge, both Indonesia and South Korea need to work together to ensure that trade is balanced and both nations are able to benefit from their economic relationship.

Another challenge facing the economic cooperation between Indonesia and South Korea is the lack of infrastructure and connectivity between the two nations. This lack of infrastructure makes it difficult for goods and services to flow freely between Indonesia and South Korea, leading to delays and added costs for businesses in both nations. To address this challenge, both Indonesia and South Korea need to invest in infrastructure development, such as improving transportation links and communication networks, to ensure that goods and services can be moved quickly and efficiently between the two nations.

The lack of investment from South Korean companies in Indonesia is also a concern, as this limits the potential for economic growth and job creation in Indonesia. To address this challenge, Indonesia needs to create a more attractive investment environment for South Korean companies, by improving the business climate, reducing bureaucratic barriers, and providing incentives for investment. In addition, the protectionist policies adopted by either Indonesia or South Korea on behalf of “nationalism” and “local product protection” can also limit the potential for economic cooperation between the two nations. Protectionist policies can limit the flow of goods and services between the two nations, leading to reduced economic growth and fewer opportunities for businesses in both nations. To address this challenge, both Indonesia and South Korea need to adopt more open trade policies, and work towards creating a more open and free trade environment.

1.4. Foreign Direct Investments in Nickel mining and Electric Vehicle

The story of Indonesia-South Korean foreign direct investments (FDIs) is an interesting one, too. In line with the Indonesian Presidency at the G20, the Indonesian Embassy in Seoul and the Indonesia Investment Promotion Center (IIPC) Seoul actively encourage investment from South Korean business actors in Indonesia, particularly in three main priorities, namely global health architecture, digital transformation, and energy transition.

In order to support healthy investment environment, the Government of Indonesia is also devoted to retain financial stability to support economic progress. Monetary policy is applied to maintain Rupiah stability, intensify digitization, apply the QR Indonesia Standard and Bank Indonesia fast payment for easy, cheap, and safe retail sales, and develop Unicorn into Decacorn. Bank Indonesia is also introducing Local Currency Settlement to reduce pressure from volatility in foreign currency changes.

Currently, Indonesia has prepared and strengthened new investment sectors such as digital services, health services, electronic assembly, communication tools, as well as chemical and mineral product processing. Indonesia’s Ministry of Investment has recorded a 9% growth from the total investment realization target in 2015-2019 of IDR 3,381.9 trillion to the total investment realization target in 2020-2024 of IDR 4,983.2 trillion. There is an increase in investment flows to value-added or downstream-based industries by 90.7%, from IDR 61.6 trillion in 2019 to IDR 117.5 trillion in 2021. However, most of the foreign direct investments coming to Indonesia are mostly focusing on mining industry.

In 2022, Indonesia has outstripped its target for apprehended investment in four consecutive years as the mining sector in conjunction with the development of downstream industries attracted vastly greater funding last year. Capital injections in the real sector increased by 34 percent to Rp 1.207 quadrillion (US\$80.3 billion) in 2022, surpassing by Rp 7 trillion a target proclaimed by the President. The Investment Ministry report does not include investment in the financial sector, the oil and gas sector nor in micro, small and medium enterprises (MSMEs). This achievement has been anticipated by Indonesian government which aggressively convinced investors to invests in renewable energy which has been claimed as one of the government top priorities.

In this context, Indonesia is passionately pursuing an effective transition from imported oil to homegrown green power by using electricity for transportation, domestic activities, and industrial activities. In anticipation of the global shift to electric vehicles (EVs), Indonesia is preparing for expectations that Evs will represent more than 50 percent of new vehicle sales globally by 2035. However, in Indonesia, the EV sector is still developing. Around 15,000 Evs, mostly all bikes, were sold in 2019, representing less than 0.2 percent of annual vehicle sales. According to Gupta and Hansmaan (2021), the demand for passenger electric cars will reach 250,000 units per year by 2030, equal to 16 percent of all new passenger car sales, while the demand for electric two- wheelers could reach 1.9 million units per year in that time frame, or 30 percent of new two- wheeler sales.

As such, the Indonesian government, in an effort to position Indonesia as a pivotal player in global EV supply chains, began leveraging the country’s reserves of nickel, bauxite, copper, and other valuable materials for the manufacture of electric batteries. However, it must be recognized that the number of Evs is still very limited in Indonesia. Therefore, as part of an effort to accelerate development of the EV market, the newly issued Presidential Instruction No.7/ 2022 mandated the use of battery electric vehicles for government officials across the country. Moreover, the use of Evs will also be exhibited by President Jokowi at the G20 Summit in Bali on November 15–16, 2022.

In this regard, investment from South Korea in Indonesia, particularly in the fields of Nickel mining and electric vehicles, has been growing in recent years. One of the major investments made by South Korean companies in Indonesia is in the nickel mining industry. Indonesia is a major producer of nickel, and South Korean companies have been investing heavily in the country’s nickel mines in order to secure a stable supply of this valuable resource. According to data from 2020, South Korean investment in Indonesia’s nickel mining industry was valued at over \$1 billion. South Korean investment in Indonesia’s nickel mining industry has several benefits for both countries. For Indonesia, it provides much-needed capital for the development of the country’s mining industry, and helps to create jobs and stimulate economic growth. For South Korea, it provides access to a stable and secure supply of nickel, which is essential for the production of stainless steel and other products.

Figure 5. South Korea Imports from Indonesia’s Nickel

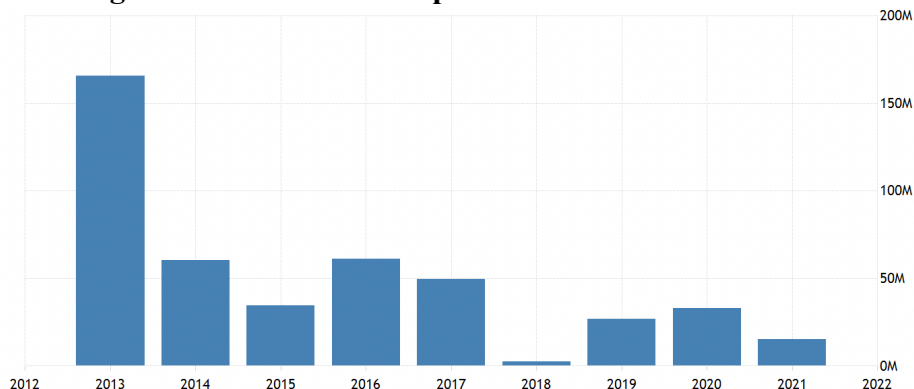


Table 3. South Korea Imports from Indonesia of Nickel

South Korea Imports from Indonesia of Nickel	Value	Year
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Nickel Mattes, Nickel Oxide Sinters	\$14.70M	2021
Nickel Waste and Scrap	\$243.81K	2021
Articles of nickel, not specified elsewhere	\$127.20K	2021
Nickel powders and flakes	\$12	2018
Nickel tubes, pipes and tube or pipe fittings	\$1.59K	2017
Unwrought Nickel	\$96	2016
Nickel bars, rods, profiles and wire	\$8.21K	2012

However, there are also challenges associated with South Korean investment in Indonesia's nickel mining industry. One of the main challenges is the environmental impact of nickel mining, which can cause significant damage to the local ecosystem and harm the health of local communities. Another area in which South Korean investment is growing in Indonesia is in the electric vehicle industry. South Korean companies, such as Hyundai and Kia, have been investing in Indonesia to produce electric vehicles and batteries, in order to take advantage of the country's growing market for electric vehicles.

To make EV production sustainable, Indonesia's government must develop three enablers, namely; increased long-term nickel production for batteries; local manufacturing; and supportive infrastructure. The adoption of electric vehicles in Indonesia is still early. But, if government stakeholders and investors can effectively collaborate to build the EV ecosystem, there exists great potential to significantly increase both Indonesia's economy and the quality of its environment.

1.5. Implementing the Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA)

Furthermore, Indonesia and South Korea trade as well as investment relations will grow rapidly, especially after the implementation of Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA). Through this partnership agreement, Indonesia and South Korea will open wider opportunity for trade through eliminating tariffs on import duties on trade in goods, increasing opportunities for trade in services, increasing investment opportunities, and increasing economic cooperation programs and human resource development. IK-CEPA will also provide various benefits for Indonesia, namely; *First*, through the partnership agreement, South Korea will provide an easiness in import duty tariffs by eliminating 11,267 tariff posts. *Second*, the partnership agreement will open more than 100 service subsectors with foreign investment varying from 49 percent to 100 percent. The agreement will also facilitate the mobility intra-corporate transferees, business visitors, and independent professionals. *Third*, chance to long-term investment will upsurge. IK-CEPA will facilitate and encourage South Korean business players to invest in Indonesia, particularly in the automotive, metal, chemical and renewable energy sectors. *Fourth*, IK-CEPA will facilitate the transfer of knowledge to increase human capacities in the sectors of industry; agriculture, fisheries, and forestry sectors; facilitative trading rules and procedures; mobility of individuals; and the likes. By focusing on human resource development, this agreement will not only about export or import of goods and services, but also about collective efforts to promote economic competitiveness.

In general, the newly implemented partnership agreement is expected to bring numerous benefits to both Indonesia and South Korea. *Firstly*, it will help to increase trade and investment between the two countries. IK-CEPA provides a legal framework for increased economic and trade cooperation, which is expected to lead to an increase in the volume of trade and investment between Indonesia and South Korea. *Secondly*, IK-CEPA will create a more favourable business environment for companies from both countries. The agreement provides greater market access for Indonesian and South Korean companies, reducing the costs of doing business and increasing the competitiveness of companies from both countries. *Thirdly*, IK-CEPA is expected to boost economic growth and job creation in both Indonesia and South Korea. The increased trade and investment between the two

countries is expected to drive economic growth, while the creation of new trade and investment opportunities is expected to create new jobs.

While IK-CEPA is expected to bring many benefits to Indonesia and South Korea, there are also potential challenges that need to be addressed. *Firstly*, there is the challenge of implementing the agreement effectively. Both Indonesia and South Korea need to ensure that the provisions of IK-CEPA are implemented in a transparent and effective manner, in order to ensure that the benefits of the agreement are realized. *Secondly*, there is the challenge of increasing the competitiveness of Indonesian and South Korean companies. In order to fully realize the benefits of IK-CEPA, both Indonesia and South Korea need to improve the competitiveness of their companies, particularly in the areas of innovation, technology, and entrepreneurship. *Thirdly*, there is the challenge of ensuring that the benefits of IK-CEPA are shared equally between Indonesia and South Korea. Both countries need to work together to ensure that the benefits of the agreement are distributed equitably and that the economic and trade relationship between the two countries remains strong and sustainable.

1.6. Conclusion

In conclusion, Indonesia and South Korea have a strong and enduring relationship that has been further strengthened by the signing of the Indonesia-South Korea Comprehensive Economic Partnership Agreement (IK-CEPA) in 2019 and now just started to be implemented since the beginning of January 2023. IK-CEPA is a comprehensive trade agreement between Indonesia and South Korea, covering trade in goods and services, investment, and intellectual property rights. The agreement aims to provide a legal framework for increased economic and trade cooperation between the two countries, as well as to create a more favorable business environment for companies from both countries.

The agreement is expected to bring many benefits to both countries, including increased trade and investment, a more favourable business environment, and improved economic growth and job creation. However, there are also potential challenges that need to be addressed, including the effective implementation of IK-CEPA, increasing the competitiveness of Indonesian and South Korean companies, and ensuring that the benefits of the agreement are shared equally between the two countries. In order to ensure that the benefits of IK-CEPA are realized, both Indonesia and South Korea need to take proactive measures to address these challenges.

In terms of recommendations, the following actions could be taken to enhance the implementation of IK-CEPA, namely; *Firstly*, increase transparency and cooperation in implementing the agreement. This could include regular monitoring and review of the agreement and increased collaboration between government agencies and businesses from both countries. *Secondly*, promote innovation and technology transfer between the two countries. This could include the establishment of joint research and development programs, as well as the creation of technology transfer and investment partnerships.

Thirdly, foster entrepreneurship and SME development. This could include providing support and resources for start-ups and small businesses, as well as promoting entrepreneurship education and training programs. *Fourth*, encourage people-to-people exchanges and cultural cooperation. This could include promoting tourism and cultural exchanges, as well as supporting cultural heritage preservation initiatives. *Fifth*, ensure that the benefits of IK-CEPA are distributed equitably between Indonesia and South Korea. This could include establishing a mechanism to monitor and address potential trade imbalances, as well as promoting fair trade practices and standards.

In short, Indonesia and South Korea comprehensive partnership holds great promise for enhancing the economic and trade relationship between Indonesia and South Korea. However, to ensure that the benefits of the agreement are realized, it is important that both countries take proactive measures to address the challenges and implement the agreement effectively. By working together and pursuing these recommendations, Indonesia and South Korea can build a stronger and more sustainable economic and trade partnership for the future.

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