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

Nabila Salsa Bila¹, Hasna Wijayati²*
¹²International Relations Department, Universitas Slamet Riyadi, Indonesia

ABSTRACT: The Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA) was an economic cooperation that includes a comprehensive free trade agreement that discusses issues of trade, investment, services, and Intellectual Property Rights (IPR) and has mutual relations. So as to form an access chain pattern in the form of market access, access to capacity development, and facilitation of trade and investment carried out by Indonesia and South Korea. The discussion in this study focuses on the impact that Indonesia gets from the IK-CEPA, especially in 2020 because 2020 was an important milestone in the establishment of economic relations between Indonesia and South Korea. South Korea was interested in making Indonesia a new production base in ASEAN and as a production hub to enter regional and world markets. The method used was a descriptive research method with qualitative approach analysis. The aim was to use a descriptive method to determine the impact that Indonesia gets from the IK-CEPA. Thus, it was obtained that the Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA) provides considerable benefits for Indonesia, such as the entry of investment from South Korea, skills training and student exchange, and the provision of trade facilitation for Indonesia.

Keyword: Economic Diplomacy, IK-CEPA, Indonesia, International Cooperation, South Korea.

Submitted: 1 August; Revised: 17 August; Accepted: 26 August

Corresponding Author: hasna.wijayati@unisri.ac.id

DOI: https://doi.org/10.55927/fjsr.v1i3.908
ISSN-E: 2830-6228
https://journal.formosapublisher.org/index.php/fjmr
INTRODUCTION

The Indonesia-Korea Comprehensive Economic Partnership Agreement, or IK-CEPA, was a piece of bilateral economic diplomacy between Indonesia and South Korea. Bilateral economic diplomacy was a diplomatic relationship carried out between one country and another country or a country and a non-state where decisions were made based on the agreement or approval of both parties. Bilateral economic diplomacy was also considered easier to carry out compared to other types of economic diplomacy methods because the approval process was faster and does not take a long time, and the policies or programs implemented will be faster to implement (Ismail, 2018). Bilateral economic relations between Indonesia and South Korea were first started in 1973 and have continued to this day and have experienced various degrees of progress and impacts for the two countries. This can be seen in the development and purchase of South Korean submarines and aircraft for the Indonesian military. In addition, there are also several investments from South Korea into Indonesia, namely Lotte, Samsung, Hankook Tires, KEB Hana Bank, and Shinhan Financial Group. In addition, South Korea also assists in the training and development of education in Indonesia through the establishment of Korean research institutes at the University of Indonesia and Gajah Mada University (Ismail, 2018).

The Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA) was an economic cooperation that includes a comprehensive free trade agreement that discusses issues of trade, investment, services, and Intellectual Property Rights (IPR) that have a relationship with each other. Thus forming an access chain pattern in the form of market access, access to capacity development and facilitation of trade and investment through economic cooperation (Ismail, 2018). IK-CEPA was included in the Free Trade Area Plus (FTA Plus), in contrast to the FTA, because IK-CEPA was not only a trade relationship between one country and another but also raises issues of investment, economic assistance, cooperation in renewable technology, and so on. Meanwhile, the FTA only focuses on eliminating tariff barriers (Bloom, 2018). In the IK-CEPA, there were three main pillars, namely access to trade in goods and services; facilitation of trade and investment; and capacity-building cooperation (Ragimun, 2016).

In the 2019, Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA) was re-activation after was previously stopped in 2014 because it was considered less than optimal in its implementation. Then in 2020, there was the signing of an agreement for the Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA) between Indonesia and South Korea in international trade area. International trade includes the reduction or elimination of tariffs; provisions on the origin of goods; customs procedures; trade in services; investment; economic cooperation; trade facilitation; trade recovery; and institutional arrangements. From this description, the author focused to the research question as ‘What is the positive impact for Indonesia of the 2020 Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-
CEPA)?'. This research question are important to analyze in order to describe the effectiveness of the partnership agreement and the extent to which trade relations have been developed between Indonesia and South Korea.

THEORITICAL REVIEW

To examine the formulation of the problem raised, the author uses two theories to support her writing in this study. The theory can also strengthen the content so that the research was more weighty. The theory used was:

1. International Cooperation Theory

International relations carried out by one country with other countries were certainly never separated from international cooperation (Yanuar, 2014). The same thing happened in the cooperation carried out by South Korea and Indonesia. Cooperation itself was established as a form of adjusting the behavior of actors in responding to and anticipating choices made by other actors. International cooperation covers various aspects such as economic, political, social, security, and cultural in which it is still guided by the foreign policy of each country. The purpose of international cooperation was to meet the interests of the state so that it can meet the needs of its people (Yanuar, 2014).

International cooperation was defined as a series of relationships that are not based on force and coercion and are legally enforceable. State actors play a role in building international relations through a set of agreed rules, regulations, norms, and decision-making procedures that are expected by actors and national interests to meet in international relations. The main issue in the theory of international cooperation was to meet personal needs, the results of which are mutually beneficial to both parties and can be obtained by cooperating with their own efforts or through competition (Dougherty, 1997).

In the model of international cooperation, we found that there are two states can engage in international cooperation. The two of them are ‘deep’ and ‘shallow’ modes of international cooperation. The differences between this two concepts lies in the various impact of cooperation to the countries involved. While shallow cooperation has limited effects on a state’s outside options, and the deep cooperation requires relational investments that this concepts may endogenously undermine a state’s bargaining position by reducing the value of its outside options (Urpelainen, 2012).

2. Economic Diplomacy Theory

Diplomacy was the formal communication carried out by a country with other parties outside the country (Hocking, 2012). Diplomacy was the implemented of a country’s foreign policy, so it must involve the Ministry of Foreign Affairs to gain authority as part of foreign policy. In economic diplomacy, in addition to the ministry of foreign affairs, various economic organs such as the ministry of trade, the ministry of industry, the central bank, customs
and excise, as well as the role of the community in the category of business associations, will also be carried out.

Economic diplomacy was an effort made in the form of cooperation between two countries to obtain economic results that will later be obtained by the two countries. Economic diplomacy was also a factor that supports bilateral trade and investment between two countries. If economic diplomacy can run well and optimally, it will create an increase in trade and investment. The benefit in the trade sector was that there will be a greater variety of goods in the two countries. Meanwhile, in the tourism sector, it will open up new jobs so that it can reduce existing ones. It will be beneficial, particularly in Indonesia, where the burdens are relatively high (Hartono, 2015). The concept of this research can also be understood further by looking at the following conceptual framework.

Gambar 1. Conceptual Framework

**RESEARCH METHODS**

This research uses qualitative research with a descriptive method. Qualitative research was a type of research where researchers rely on information from objects or participants to explain, analyze, and conduct research subjectively (Cresswell, 2008). The descriptive method was chosen by the author because, in the descriptive method, the author initially carried out activities in the form of collecting, compiling, and describing the data obtained and then proceeded with the data analysis process. The descriptive method focuses on the process of describing in detail the data obtained and then analyzing it according to the formulation of the problem. The use of descriptive methods in this study aims to find out more about the impact of the Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA) on Indonesia.

**RESULT AND DISCUSSION**
A. Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA)

The Indonesia-Korea Comprehensive Economic Partnership Agreement was re-opened on September 29th, 2014, and contained an agreement to accelerate bilateral cooperation with 10 main priority projects, including Special Economic Zone Cooperation, Shipping Industry Cooperation, Agricultural Machinery Cooperation, Agro-Based Multi-Industrial Clusters (MIK), Jakarta Ciliwung River Restoration, Citarum River Restoration, Jakarta Giant Sea Wall, Pekanbaru City Drinking Water Supply, Karian Water Transportation, and Coal PLTU. In addition, there has also been an increase in South Korean investment in Indonesia in the electronics, construction, telecommunications, automotive, banking, hospitality, mining, oil and gas, and clean water sectors (Sugiartningsih, 2017).

Initially, the Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA) had a target of achieving a trade value of US$ 100 billion for Indonesia and South Korea in 2020. The IK CEPA was also a complement to the ASEAN-ROK Free Trade Area agreement (Pratiwi, 2019). Efforts to achieve this target were carried out by increasing exports of natural resources such as palm oil, fruits, and several Indonesian fishery products. Increasing South Korea’s investment in industry, infrastructure, the creative economy, and tourism. Then it was also agreed to strengthen the protection of Indonesian Migrant Workers (TKI) in South Korea, especially in the fishing sector and regional cooperation such as ASEAN-South Korea and the issue of the Korean Peninsula (Susilo, 2017).

After the temporary suspension of IK-CEPA in 2014, on February 19, 2019, Indonesia and South Korea agreed to reactivate the IK-CEPA negotiations. For more details, Indonesia and South Korea again held further negotiations in April-May 2019 in Seoul. The next negotiations will be in August 2019 in Jeju, and the final negotiations will be on October 8–10, 2019 in Bali. After an agreement was reached on the results of the final negotiations, the trade ministers from Indonesia and South Korea issued a Joint Announcement on the Substantial Conclusion of the IK-CEPA Negotiation in the midst of the Trade Expo Indonesia, which was held in Banten on October 16, 2019. In addition, it also issued a Joint Declaration on the Conclusion of Negotiation for IK-CEPA at the 30th ASEAN-Korea Commemorative Summit, which was held in Busan on November 25, 2019 (Kemendag RI, 2020).

The Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA) agreement in 2020 was carried out in Seoul, the capital of South Korea, on December 18, 2020. In this case, Indonesia was represented by the Minister of Trade, Agus Surmanto, while South Korea was represented by the Minister of Trade, Industry, and Energy, Sung Yun-Mo. The signatories promised to add data from the Indonesian Ministry of Trade by 2020 to the international trade sector. Prior to the IK-CEPA, Indonesia also signed international trade
cooperation agreements with various parties, such as the implementation of the Indonesia-Australia CEPA, ASEAN-Hongkong, China Free Trade Agreement (AHKFTA), China Investment Agreement (AHKIA), Regional Comprehensive Economic Partnership (RCEP), and the 7th Trade Policy Review at the World Trade Organization (WTO) (Kemendag RI, 2020).

The re-establishment of the Indonesia-Korea Comprehensive Economic Partnership Agreement in 2020 was an important milestone in the establishment of economic relations between Indonesia and South Korea, especially now that South Korea was interested in making Indonesia a new production base in ASEAN and as a production hub to enter regional markets and the world. Indonesia as a strategic trading partner and has a state policy that focuses on Southeast Asia and Indonesia has a lot of potential that was quite high, which was an advantage for Indonesia because South Korea has a gross domestic product and the purchasing power of the South Korean people was quite high (Kompas, 2020). IK-CEPA's commitment in 2020 was to strengthen global economic relations in the midst of the COVID-19 outbreak that was currently engulfing the world. In addition, it was also an effort to accelerate the process of economic recovery in Indonesia and South Korea.

B. Progress of the Indonesia-Korea Comprehensive Economic Partnership Agreement for Indonesia and South Korea

The Indonesia-Korea Comprehensive Economic Partnership Agreement 2020 focuses on trade in goods, which includes reducing or eliminating tariffs; provisions on origin of goods; customs procedures; trade in services; investment; economic cooperation; trade facilitation; trade remedies; and institutional arrangements. The explanations regarding the IK-CEPA process for Indonesia and South Korea are:

1. Sector of goods trading

South Korea eliminated 95.54% of tariff posts, while Indonesia eliminated 90.06% of tariff posts. Products from Indonesia whose tariff posts were eliminated by South Korea include stearic acid, dried fruits, seaweed, lubricating oil raw materials, t-shirts, and blockboard. Products from South Korea that were eliminated by Indonesia were ball bearings, paving, gear boxes of vehicles, unglazed, and heart or wall tiles (Disperindag Jatim, 2021).

2. Sector of tariff reduction or elimination

In this sector, Indonesia imposes a 94% tariff on imports from South Korea. Meanwhile, South Korea removed 97.3% of Indonesia's tariffs.

3. The service trade sector

Indonesia and South Korea opened approximately 100 sub-sectors to increase integration in the service sector in the future, such as in the construction sector, postal and courier services, computer services, facilitating the movement of Intra-
Corporate Transferees (ICTs), Independent Professionals (IPs), Business Visitors (BVs), and franchises (Kominfo Jatim, 2021).

4. Investment sector

Indonesia gives tariff preference in facilitating South Korean investment by 0.96% of tariff posts, which was worth US$254.69 million, or equivalent to 2.96% of Indonesia's total imports from South Korea. Indonesia also gives an additional preference of 104 tariff posts for raw materials that South Korea needs to invest in Indonesia. In the 2015-2020 period, investments made by Indonesia and South Korea reached US$6.7 billion with a total of 12,992 projects (Kemendag RI, 2021).

5. Export sector

The total amount of trade between Indonesia and South Korea reached US$ 15.65 billion. Meanwhile, the value of Indonesia's exports to South Korea was US$ 6.44 billion. South Korea was ranked 8th for Indonesia as an export destination country, with a total of US$ 7.23 billion, and was ranked 6th as a source of imports for Indonesia, with a total of US$ 8.42 billion (Kemendag RI, 2021). Stainless steel, natural rubber, pulp, coal, briquettes, and plywood are Indonesia's leading export products to South Korea (Kemendag RI, 2020).

6. The Impact of the Indonesia-Korea Comprehensive Economic Partnership Agreement on Indonesia

The Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA) was a piece of bilateral economic diplomacy between Indonesia and South Korea. The Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA) was an economic cooperation that contains a free trade agreement that is comprehensive (comprehensive) discussing issues of trade, investment, services, and Intellectual Property Rights (IPR) that have a relationship with each other, thus forming an access chain pattern in the form of market access, access to capacity development, and facilitation of trade and investment through economic cooperation. The Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA) was first established in 2012. The main objective of the IK-CEPA was to increase the volume of trade between Indonesia and South Korea. Then in 2014, the IK-CEPA had to be discontinued due to several factors that were deemed insufficient for the interests of each country.

The Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA) provides benefits or benefits for both countries, namely Indonesia and South Korea. The focus of this paper is the impact or benefits obtained by Indonesia. There are several benefits obtained by Indonesia through the Indonesia-Korea Comprehensive Economic Partnership Agreement:

1. There is a multiplicity effect regarding the electronics sector in Indonesia's efforts to become a supporting industry for South Korean companies.
Oki Widjaja, as the General Chair of the Electronic Association (Gabel), said that the existence of IK-CEPA has encouraged the presence of component manufacturers who act to back up the assembly industry from electronic companies in South Korea that will be in Indonesia. Industry players in Indonesia use a system of "plagiarism" strategies from the development of the South Korean electronics industry. This strategy is used by Indonesian industry players as an effort to increase competitiveness through investment from foreign companies, so that with the entry of investors from foreign companies, industrial players in Indonesia can become support industries (Fauzan, 2020).

In the economic diplomacy theory, this diplomacy or cooperation actions between countries can have a positive impact on bilateral trade and investment between two countries. When economic diplomacy run well and optimally, it will create an increase in trade and investment. In this case, the CEPA IK partnership opens up opportunities for companies in Indonesia to become supporting companies for companies in South Korea. Provision of raw material supplies for companies in South Korea enhances trade and investment cooperation in Indonesia. The distribution of products from Indonesia to South Korea can also increase. This happens in accordance with the concept of economic diplomacy which states that benefit in the trade sector was that there will be a greater variety of goods in the two countries.

2. The entry of South Korean foreign investment

IK CEPA's economic diplomacy also continues deeper in investment schemes involving parties at the G to G to B to B levels. According to Enggartiasto Lukita, the Minister of Trade of Indonesia, emphasized that the existence of IK-CEPA was a bridge to attract investors. At the G to G level, the government opens and encourages cooperation between investors as a form of implementing more tangible cooperation at the B to B level. The opening of investment opportunities from South Korea has a positive impact in the form of the acceptance of Indonesian workers. Several investors from South Korea who have invested in Indonesia are Hyundai Motor, Pohan Iron Steel Company (Posco), and Lotte Chemical. Hyundai will make Indonesia one of its car manufacturers. Meanwhile, Indonesia will invest in South Korea in financial technology and other technology industries (Kontan, 2021).

Further analysis in the theory of international cooperation, there are two concepts that can be chosen by countries that cooperate, in the form of deep and shallow. The cooperation has been stated in the Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA). The Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA) was first formed in 2012. The purpose of this collaboration is to expand the scope of free items so that both can carry out their substantial roles optimally. The main objective was to increase the volume of trade between Indonesia and South Korea (Wibisono, 2017). The first IK-CEPA negotiation took place on July 12, 2012, in Jakarta by discussing the Terms of Reference for negotiations and the components of the IK-CEPA coverage. IK-CEPA stopped in 2014 and resumed in 2020 with a more
focused concept of cooperation so that the results of the collaboration could be better than before.

After the two governments seriously reopened diplomatic relations between the two countries through the IK-CEPA, the impact on the investment sector and trade cooperation could be seen. This shows that the two countries choose to carry out diplomatic cooperation in a deep cooperation scheme that requires relational investment. This concept simply makes each country weaken its bargaining position for the benefit of both parties.

3. Skills training and employee exchange

In addition to the economic field, IK-CEPA also provides for Indonesia in utilizing human resources, where in this case there is a worker exchange program and worker training, also known as an apprenticeship program. This program was certainly very useful in developing skills for workers in Indonesia so that they could apply the knowledge they had gained while in South Korea (Kemendag RI, 2020). International cooperation in the IK-CEPA scheme shows a positive impact on Indonesian workers, which has also been a challenge for Indonesia. The World Bank states that the quality of Indonesian human resources is ranked 87th out of 157 countries. Meanwhile, in the same year, Business World explained that the competitiveness ranking of Indonesian human resources was ranked 45 out of 63 countries (Sugiarto, 2019).

This showed that the problem of human resources in Indonesia is a challenge because the number is abundant while the skills and competencies are minimal. With the cooperation of IK CEPA, human resources problems can at least be fixed. Skill training and employee exchange can help improve the competitiveness of human resources in Indonesia. In addition, for South Korea, they also have the opportunity to get workers from Indonesia to fill the human due to the lack of human resources in the state companies.

4. Ease of market access

Through the IK-CEPA, Indonesia has easier access to the goods market so as to increase market access for agricultural, industrial, forestry, and fishery products. Besides that, it can also encourage trade rules and procedures for both individuals, such as MSMEs, and in the form of economic cooperation (Tira Santia, 2020). This condition shows that the impact of the IK-CEPA collaboration can provide broad benefits for Indonesia in the various level.

Economic diplomacy resulted in increases in economic activity in the two countries. With the economic cooperation being built, the available framework becomes the basis for the two countries to continue to develop mutual cooperation to encourage increased access to cooperation for business and industry players at the B to B level. This open access is a sign of the positive impact that can be enjoyed from the various cooperation and diplomacy schemes built between the two countries.
CONCLUSION

After Indonesia and South Korea agreed to reactivate the IK-CEPA negotiations in 2019, the implementation of the Indonesia-Korea Comprehensive Economic Partnership Agreement 2020 focuses on trade in goods, which includes reducing or eliminating tariffs; provisions on origin of goods; customs procedures; trade in services; investment; economic cooperation; trade facilitation; trade recovery; and institutional arrangements. The IK-CEPA agreement had a very meaningful impact, such as open opportunities for Indonesian companies to become supporting industry for South Korean companies, the entry of several foreign investors from South Korea, assistance for Indonesian workers due to skills training from South Korea, and the ease of accessing the market. The impact of this cooperation encourages an increase in economic activity and becomes a form of realization of economic diplomacy for Indonesia, which is aimed at South Korea.

ADVANCED RESEARCH

This research still has limitations due to the focus and scope taken, as well as the time span of the research being studied. Further research can be developed by looking at the implementation of the cooperation that has been further implemented as well as an analysis of the performance of trade and investment activities that take place between Indonesia and South Korea through the IK-CEPA cooperation framework.

REFERENCES


