

A Look Back on 50 years of ROK-Indonesia Partnership and its Future

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I. Introduction

South Korea (hereafter Korea) and Indonesia are commemorating the 50th anniversary of their diplomatic ties in 2023. Since establishing a strategic partnership in 2006, the two nations have cultivated strong bonds based on mutual trust and respect. Recognizing the deepening common interests and shared strategic values, Korea and Indonesia upgraded their bilateral relations to a "special strategic partnership" in 2017. This move is particularly significant against the backdrop of heightened strategic competition between the U.S. and China, where Indonesia has emerged as a key partner for Korea to diversify its economic and diplomatic engagements.

The challenges posed by the Russia-Ukraine war, coupled with disruptions in the global supply chain caused by the Covid-19 pandemic, have further underscored Indonesia's importance as a critical collaborator for Korea in supply chain cooperation. From Indonesia's perspective, Korea is a major economy that can contribute to the modernization of its manufacturing sector, the relocation of its capital city, and the growth of its defense industry. Notably, as middle powers in the Indo-Pacific region, the two countries share a common goal of fostering an inclusive regional order amid the escalating rivalry between China and the U.S.

In light of these dynamics, this paper assesses the progress of Korea-Indonesia relations to date and delves into the opportunities and challenges that lie ahead in enhancing bilateral cooperation.

II. Security and Defense Cooperation

The relationship between Korea and Indonesia has significantly evolved over the years, particularly since the end of the Cold War. The late 1990s and early 2000s marked Korea's broader initiative to enhance its outreach to ASEAN countries, with its relationship with Indonesia becoming a key component of this regional engagement strategy. The establishment of a strategic partnership between Korea and Indonesia in 2006 symbolized Korea's efforts to expand its strategic cooperation with Indonesia, beyond the traditional realms of trade and investment. This development signaled a shift toward deeper and more diverse engagement between the two countries, highlighting a broader and more comprehensive approach to their bilateral relationship.

Specifically, cooperation in the defense industry, where mutual interests align, has been the most important factor in advancing strategic bilateral ties. Since the 2000s, Korea has established itself as a major arms exporter to Indonesia and defense industry cooperation between the two sides has led to the joint development of fighter jets. In 2010, Korea and Indonesia signed a memorandum of understanding (MOU) to jointly develop fighter jets.

Following this, in 2011, Korea secured contracts to export T-50 advanced training aircraft and to overhaul three 1,400-ton submarines. Since 2012, the two countries have conducted annual defense industry cooperation meetings, operating under the framework of the 'MOU on Korea-Indonesia Defense Industry Cooperation Committee,' which was signed in 2011. Indonesia has recognized Korea as an ideal partner for defense industry cooperation, particularly due to Korea's openness to co-production and its willingness to transfer technology (Harold *et al.*, 2019, p. 234). According to the arms trade statistics from the Stockholm International Peace Research Institute (SIPRI), Korea is the leading arms exporter to Indonesia, accounting for 18.2% of Indonesia's total arms imports from 2000 to 2021. Conversely, Indonesia stands as South Korea's second-largest arms export destination, making up 19.9% of Korea's arms exports over the same period (SIPRI, n.d.). Notably, Indonesia's involvement in the joint development of the Korean KF-21 fighter jet in 2015 underscores the mutual recognition of both countries as trusted strategic partners.

The solid foundation of trust built through their intensive cooperation in the defense industry has led Korea and Indonesia to broaden their bilateral defense relations. This expansion includes high-level personal exchanges and participation in joint exercises on a multi-lateral scale. The Korea-Indonesia Defense Cooperation Agreement, signed in 2013 and effective from September 2018, enables regular security dialogues, information exchange,

people-to-people exchanges, technical cooperation, and defense logistics support. In August 2021, the inaugural high-level diplomatic and defense (2+2) meeting took place, bolstering strategic dialogue on key issues such as the establishment of a joint defense cooperation commission, collaborative projects in fighter aircraft, cybersecurity, maritime security and counterterrorism.

Furthermore, Korea and Indonesia have maintained their cooperation on various regional security issues, including those related to the Korean Peninsula, through ASEAN-led multilateral dialogue platforms. Indonesia stands out as the most proactive ASEAN member in facilitating inter-Korean dialogue. Furthermore, as members of both the G20 and MIKTA, Korea and Indonesia have cultivated a middle power partnership, addressing a broad spectrum of global challenges. The scope for collaboration between Korea and Indonesia has recently broadened, particularly in the context of escalating strategic competition in the Indo-Pacific region. Both countries share the goal of fostering an inclusive regional order and preserving strategic autonomy. The ASEAN Outlook on the Indo-Pacific (AOIP), spearheaded by Indonesia, resonates with Korea's Indo-Pacific strategy, which also prioritizes inclusive regional cooperation. This congruence underscores a significant overlap in their strategic orientations.

However, the differences in their core interests - Korea's intense focus on Korean Penin-

sula affairs and Indonesia's adherence to an independent and active (*bebas aktif*) foreign policy - could potentially limit the expansion of strategic cooperation between the two countries. South Korea's main security concern centers on North Korea's nuclear threats and military actions, prioritizing the ROK-U.S. alliance crucial in its security policy, especially amid ongoing Korean Peninsula tensions. While Korea's Indo-Pacific strategy, distinct from that of the U.S., is not directed at China (Octavia, 2023), a closer alignment with the U.S. could lead Indonesia to perceive Korea as a less favorable partner for hedging against the uncertainties of the US-China strategic rivalry. It is essential for both countries to persist in enhancing their strategic dialogues, thereby fostering a deeper comprehension of each other's fundamental interests. Such efforts are key to developing mutual trust and establishing themselves as reliable security partners.

Additionally, Indonesia's restrained defense budget may impede the expansion of defense industry collaboration with Korea. While Indonesia's military modernization plan targets a defense budget of 1.5% of GDP, its actual spending has consistently been around 0.8% over the past 15 years (Ashar and Malufti, 2022). The negative media attention surrounding large-scale defense industry cooperation between Korea and Indonesia largely arises from Indonesia's fiscal challenges in the defense sector. Notably, Indonesia's failure to fulfill its financial commitments to the KF-X project has fueled skepticism regarding joint arms development with Korea (Honrada,

2023). Discrepancies in technology transfer also pose a challenge. Indonesia values Korea as a defense industry partner, notably for its openness to technology transfers. Yet, often there is a gap between the defense firms of both countries regarding technology transfer. Given Indonesia's focus on technology transfer and joint production to strengthen its defense capabilities in foreign arms procurement, it is imperative to build trust and enhance collaboration among the defense companies engaged.

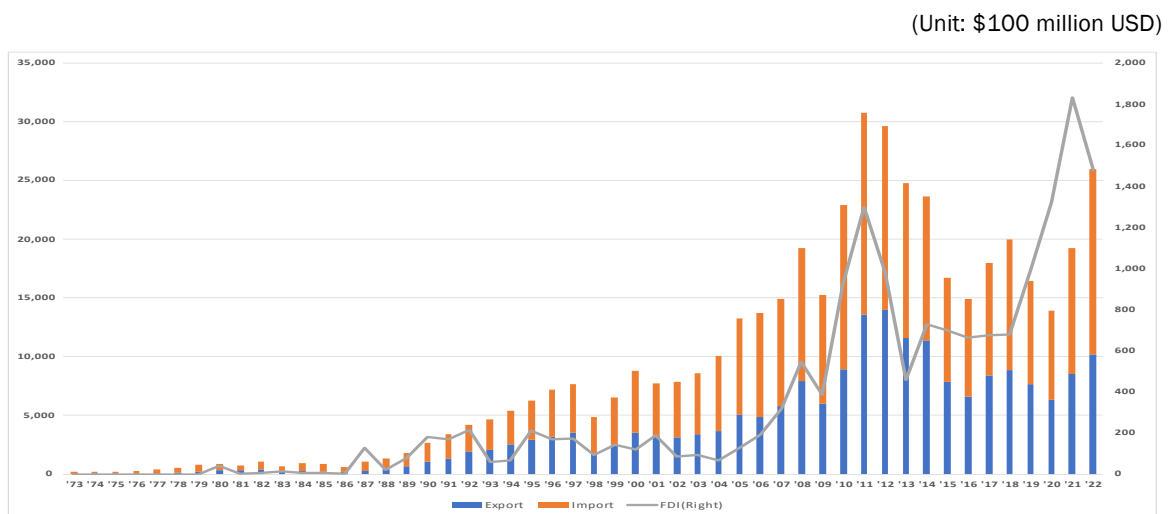
III. Economic Cooperation

Since the establishment of diplomatic relations, Indonesia has been a major supplier of natural resources, including wood, crude oil, and liquefied petroleum gas (LNG), to Korea. Despite Korea maintaining a trade deficit in its trade with Indonesia, the import of raw materials from Indonesia has been instrumental in the growth of Korea's manufacturing industry.

This reflects a mutually beneficial form of economic cooperation between the two countries. Korea's investment in Indonesia initially focused on mining and labor-intensive manufacturing. However, in recent years, it has expanded to include high-tech manufacturing and the financial sector, in tandem with the gradual growth of the Indonesian economy.

Korea's investments in Indonesia have been driven by a commitment to strengthen bilateral economic cooperation through high-level diplomacy. Direct Korean investment in Indonesia experienced steady growth from the early to mid-2000s, with a temporary decline in 2009 due to the global financial crisis. However, investment from Korea increased significantly during the Lee Myung-bak administration, a period marked by active summit diplomacy between the two nations. In 2011, substantial investments were directed towards the steel sector.

Figure 1. Trends in Korea's Trade with Indonesia and Korea's Investment in Indonesia



Sources: KITA K-Stat and KOREA Eximbank. (accessed on November 23, 2023)

While the volume of investment saw fluctuations in subsequent years due to the absence of large-scale projects, the discussion of expanding industrial cooperation gained momentum with Korea's New Southern Policy and the establishment of the Special Strategic Partnership in 2017. These diplomatic initiatives led to robust industrial collaboration between the two countries, particularly in key sectors such as automobiles, petrochemicals, and electrical and electronics. This resulted in a record-breaking \$183.2 million in Korean investment in Indonesia in 2021.

While Indonesia's large domestic market and significant production potential, coupled with the eagerness of both countries' leaders to expand economic cooperation, constitute the primary drivers behind major Korean industries' strategic investments, Indonesia's proactive measures to attract foreign investment have also played a pivotal role. For example, as part of the 'Indonesia 4.0' Initiative, Indonesia has proactively undertaken measures to modernize its manufacturing sectors and implemented legal reforms aimed at enhancing the business environment to attract foreign investment (e.g. The Omnibus Law).

Notably, Indonesia is strategically leveraging its abundant critical mineral resources to attract foreign investment, particularly in downstream manufacturing industries reliant on these materials. Central to this strategy is the enhancement of its nickel processing industry; the country has implemented an export ban on raw nickel ore to bolster local processing and climb the nickel value chain. The government

is incentivizing foreign businesses to create joint ventures with Indonesian companies to establish nickel processing facilities. Amidst the surging demand for EV battery components, Indonesia aims to become a leader in refined nickel production, particularly for lithium-ion batteries used in electric vehicles (EVs), thereby establishing itself as a major contributor in the global nickel industry. Korean firms are significantly invested in Indonesia's EV and battery sectors, aiding the nation's progress in manufacturing and global value chain integration. Hyundai Motor's investment in EV manufacturing in Indonesia exemplifies the success of the country's focus on leveraging its mineral resources for downstream industrial growth.

Furthermore, as the Indonesian government initiates the development of a new capital city in East Kalimantan, infrastructure development is emerging as a pivotal area of cooperation between the two countries. Drawing from its Sejong City experience, Korea has formed a coalition (One Team Korea) to aid in Indonesia's new capital city project. Korea has also deployed experts from the National Agency for Administrative City Construction to work alongside Indonesia's Ministry of Public Works and Housing (Kementerian PUPR). Korea's involvement in new city developments has primarily been through policy consulting via the Economic Innovation Partnership Program and K-City network. This ongoing partnership is expected to open up new opportunities for Korean construction and engineering firms in the new capital city project.

As Indonesia, one of the world's top 10 carbon emitters, commits to ambitious carbon emission reductions, the potential for bilateral cooperation on climate change also expands. Given that the land use, land use change, and forestry (LULUCF) sector accounts for over half of Indonesia's Nationally Determined Contribution (NDC) target, and that Indonesia accounts for 75% of Korea's overseas afforestation projects, collaboration in the forestry sector is promising.

With the Comprehensive Economic Partnership Agreement (CEPA) between Korea and Indonesia taking effect earlier this year, economic collaboration between the two countries is expected to deepen further. Indeed, it is encouraging to note that the proportion of Korea's manufacturing investment in Indonesia within ASEAN increased from 11.4% in 2019 to 29.3% in 2022.¹

However, Indonesia's protectionist policies might create challenges for both countries in expanding their supply chain partnership. Indonesia's imposition of export restrictions on specific commodities - including coal and palm oil in 2022 - to stabilize its domestic market indicates the potential for similar measures in the future. The export control of raw materials like nickel by Indonesia might lead to skepticism in Korea about enhancing supply chain partnerships with Indonesia. Nevertheless, given that Indonesia's restrictions, especially in the mineral sector, aim to enhance its

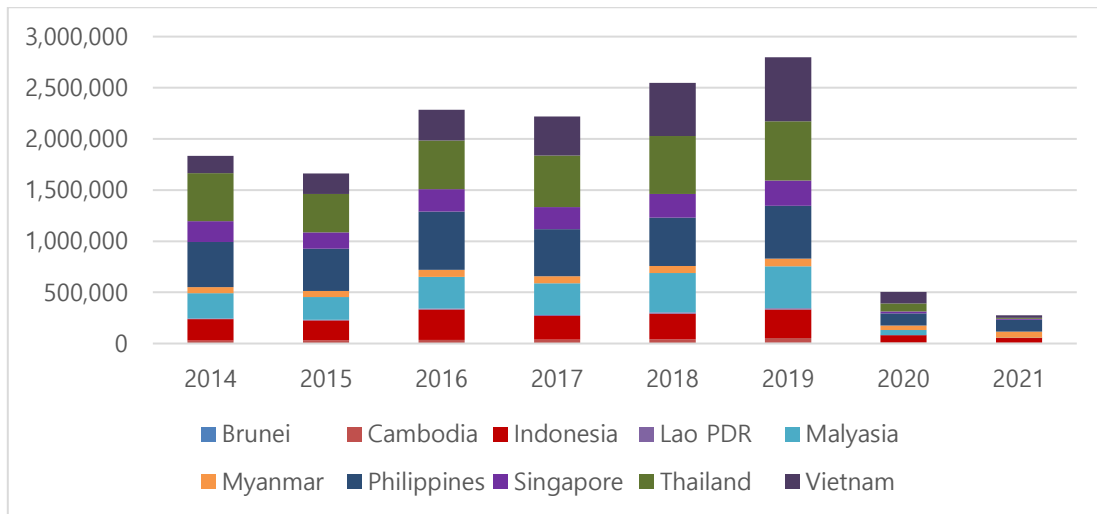
own downstream manufacturing, the two countries should build upon their successful partnership in nickel, battery, and electric vehicle production, and explore collaborative opportunities in other supply chain sectors. To achieve this, it is essential to continually identify mutually beneficial projects through robust government-to-government (G2G) and government-to-business (G2B) cooperation channels. Such efforts should encompass mutual support for stabilizing supply chains during emergencies, as illustrated by Indonesia's assistance during the 2021 urea shortage.

IV. People-to-People and Cultural Exchanges

People-to-people exchanges between Korea and Indonesia have experienced gradual growth over the past two decades. However, this growth has not been as remarkable as the achievements seen with other ASEAN countries, such as Vietnam and the Philippines. Prior to the COVID-19 pandemic, there was a noticeable increase in visitors from ASEAN countries to Korea, but the number of Indonesian visitors did not rise as significantly, indicating that Korea might not be a particularly popular destination for Indonesians (Figure 2). Furthermore, the COVID-19 pandemic has drastically affected these exchanges, leading to a substantial reduction in both short-term visits and long-term migration (Figure 3).

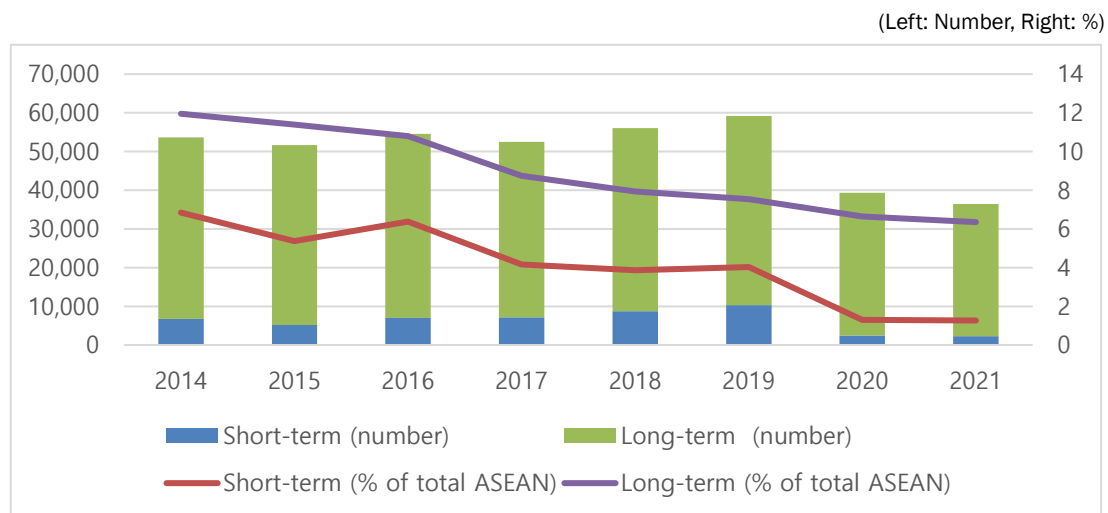
¹ KOREA Eximbank. (accessed on May 5, 2023)

Figure 2. Trend of Visitors from ASEAN to Korea (2014~2021)



Source: Ministry of Justice, "Statistical Annals of Immigration Policy."

Figure 3. Short-term and Long-term Stays of Indonesians in Korea (2014~2021)



Source: Ministry of Justice, "Statistical Annals of Immigration Policy."

To rejuvenate the diminished bilateral exchanges due to the pandemic, Korea needs to make concerted efforts to enhance public awareness and acceptance of cultural diversity, with a particular focus on increasing inclusiveness for Muslims.

On a positive note, there has been a notable development in cultural exchanges in the last two decades, primarily driven by the Korean Wave, which has heightened Indonesian interest in Korean culture and language. However, the understanding and appreciation of Indonesian culture and language in Korea remain comparatively low. Similarly, while Korean

studies have gained popularity in Indonesia, the awareness and interest in Southeast Asian studies, including Indonesian studies, remain limited in Korea. Addressing the asymmetry and imbalance in cultural exchanges presents a challenge for Korea in strengthening its socio-cultural ties with Indonesia.

V. Future Prospects

Korea and Indonesia have forged strong ties, yet there remains potential for further elevating their bilateral partnership. To achieve this, both countries should focus on intensifying efforts in the several key areas:

Deepening Trust through Enhanced Strategic Dialogue

To strengthen the special strategic partnership, it is crucial to solidify the foundation of trust as key strategic partners. Regular summit exchanges and high-level strategic dialogues are essential for this purpose. Reflecting on 50 years of ROK-Indonesia relations, there has been an increase in bilateral trade and investment when vigorous summit exchanges were made (Appendix 1). This trend underscores the importance of direct exchanges and government-to-government (G2G) cooperation in driving private sector collaboration. Since his inauguration, President Yoon has also actively engaged with President Jokowi at various multilateral diplomatic events, including his visit to Indonesia. Recognizing that these exchanges have laid the foundation for deeper

bilateral cooperation, it is imperative to maintain and enhance mutual trust through regular presidential exchanges and high-level talks. The establishment of joint committees or working groups for key cooperation areas will facilitate the implementation of agreed-upon agendas. Moreover, increasing the frequency of 1.5 and 2-track dialogues will allow expert groups from both nations to foster a deeper understanding of each other's perspectives.

Addressing Regional and Global Challenges as Trusted Partners

Both countries should actively collaborate on key security agendas and promote stability in the Indo-Pacific region and global peace. This includes enhancing ASEAN centrality and fostering peace on the Korean Peninsula, which are in line with the core interests of Indonesia and Korea respectively. Their partnership at the United Nations and MIKTA should be leveraged to tackle global challenges. Importantly, there is a need for heightened focus on complex security challenges in the Indo-Pacific region, including maritime security, counter-terrorism, and humanitarian and disaster relief (HADR) efforts. Furthermore, the development of a mutually beneficial strategy is required to sustain the robust growth seen in the bilateral industry defense partnership.

Building a Robust Economic Partnership

The potential for a mutually beneficial economic partnership between the two countries extends beyond simply enhancing trade and investment. A key area for collaboration lies

in strengthening the supply chain, particularly for critical minerals. This partnership can extend to sectors that are increasingly vital in today's economy, such as electric vehicles and batteries. The digital economy and startups leading Industry 4.0 also offer significant opportunities for joint innovation and mutual growth. There is a substantial scope for cooperation in developing sustainable infrastructure, which includes projects for new capital development. Such projects not only contribute to economic growth in Indonesia but also to the resilience and sustainability of urban and rural environments. In addition, sectors like renewable energy and forestry present opportunities for collaboration that can lead to sustainable development and environmental conservation. The partnership in maritime environmental management is another area where both countries can work together. This can involve sharing best practices, developing joint projects, and implementing strategies that protect marine ecosystems while promoting blue economy activities.

Promoting Sustainable People-to-People Exchanges and Raising Mutual Awareness

To deepen mutual understanding and awareness, enhancing cultural and social exchanges are essential. Youth exchanges, in particular, are pivotal in driving the development of bilateral relations and should be given substantial support. Additionally, greater efforts are needed to develop 'Korean studies' in Indonesia and 'Indonesian studies' in Korea, which will promote mutual awareness and understanding. Korea should also focus on supporting the development of future-oriented human resources in Indonesia. Strengthening ROK-Indonesia Technical and Vocational Education and Training (TVET) programs is key to the development of high-value-added manufacturing in Indonesia by increasing the number of skilled workers. Similarly, promoting exchange programs for joint research in science and technology will advance Indonesia's future industries. **KIEP**

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Appendix

