

# Toward Better Cooperation with Indonesia under the New Southern Policy Plus



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Last year the Republic of Korea (ROK) announced the “NSP Plus” – an upgrade version of the New Southern Policy (NSP) – to better respond to newly unfolding changes in the international environment. These include, for example: i) increased demands for health care cooperation and new cooperation methods in response to COVID-19, ii) reorganization of the global supply chain due to the suspension of goods flow and labor movements, iii) promotion of the transition to a digital economy through higher utilization of 5G and AI technologies, and reduction of the digital gap, and iv) the growing demands for both sustainable growth and improvement of quality of life in the NSP region.

COVID-19 is different from the past shocks we have experienced. Unlike previous crises, one of the most troubling changes is that lost jobs may not be recovered permanently. In other words, the economic shock from COVID-19 is temporary, but the unemployment can become permanent because of the structural changes intertwined with the COVID-19 shock. Some jobs disappear permanently as contactless economic activity thrives, combined with structural changes such as digitization and autom-

ation. The economic shock has led to massive layoffs, but the economic recovery will only create fewer jobs than before due to digital-based investment and automation.

For example, manufacturers are shifting away from the old way of producing and selling products to providing subscription platforms instead. They are investing heavily in the automation of production processes as well. Distributors are focusing their investments on advancing business models through online shopping. Many franchises and self-employed businesses that operate offline stores have already been replaced with kiosks without workers. Digital-based investment and automation creates a dual structure of employment. As digital transformation takes place around most industries, more and more advanced and skillful workers are needed. With the proliferation of “chatbots,” the number of phone worker jobs decreases, but more chatbot software developers are employed. With the introduction of artificial intelligence, high-skilled jobs increase, although middle-skilled and middle-wage jobs could disappear soon in developing countries. In particular, as most Southeast Asian countries, including Indonesia, serve as production bases for multinational corporations, middle-skilled and middle-wage jobs could disappear even sooner than expected. Without thorough preparation for the loss of these jobs, inequality will worsen on multiple dimensions – not only on the economic front, but in political and social terms, and so on.

Therefore, we need both re-skilling and up-skilling programs for the workers in a hurry. It is necessary to focus on building technical capabilities through higher education. This issue is covered by one of the seven NSP Plus initiatives, “Share Korean-style education models and support the development of human resources.” This emphasizes advanced TVET systems and the cultivation of high-quality human resources through intensive support to major ASEAN national universities. Industrial advancement in Indonesia requires more high-quality human resources than simple production workers. The high-quality human resources are also an innovation engine that can avoid the so-called “middle-income trap.”

In Indonesia the ICT and healthcare sectors grew while most industries remained sluggish due to COVID-19 last year. The growth of the information and communication field is remarkable. With the proliferation of contactless transactions, the e-commerce market has rapidly grown. The total revenue of the Indonesian e-commerce market in 2020 was \$30.3 billion, an increase of 49% from 2019. In addition, from 2020 to 2024, total sales are expected to grow at an annual average of 15%. Last year 44% of the Indonesian population bought more than one product online. According to the e-Economy SEA report by Google, Temasek and Bain & Company, 37% of all Indonesian consumers have newly used e-commerce platforms to purchase products since the breakout of COVID-19. Experts predict that the size of the Indonesian on-line market

will grow from \$44 billion in 2020 to \$124 billion in 2025.

This growth is attracting a lot of investment to Indonesia despite the COVID-19 crisis. Google decided to invest \$350 million in e-commerce company Tokopedia, and Microsoft agreed last November to invest \$100 million in Bukalapak. In June of last year, Facebook's mobile messenger platform WhatsApp and payment service provider PayPal also decided to invest in Gojek, the largest startup in Indonesia. These investments by U.S. tech giants in Indonesia demonstrate the growth potential of the digital economy in Indonesia despite the spread of COVID-19. In response to this potential seen in Indonesia, the NSP Plus initiative "Cooperate in future industries for common prosperity" emphasizes cooperation in areas related to the Fourth Industrial Revolution. This includes projects such as developing core technologies and services for contactless business support, installing fintech desks, holding training/forums for the use of Korean payment systems, providing support for opening stores and building virtual exhibition halls on local online platforms (for example, Shoppi, Q10).

In addition, the health care sector in Indonesia also grew 11.6% last year. Along with the growth of the health care sector, there is ongoing cooperation between Korea and Indonesia on COVID-19. In April 2020, Korea provided quarantine supplies to Indonesia, and the donation of COVID-19 quarantine products by Korean companies in Indonesia received praise from the Indonesian government. In February 2021, Genexine Korea signed a contract with Kalbe Farma, the largest pharmaceutical company in Indonesia, to develop and commercialize candidates for COVID-19 and cancer treatment together. The cooperation between the two countries will contribute to the maturity of the health care sector in Indonesia. Such collaboration efforts are directly related to the first of the seven NSP Plus initiatives, "Comprehensive public health cooperation in the post-COVID era."

The 7 NSP Plus initiatives aim to include as much as possible the demands of ASEAN people, collected through public surveys. However, there is still a need for much closer communication to produce better outcomes while reducing the bias resulting from a limited scope of survey respondents. As an African proverb tells, "If you want to go fast, go alone. If you want to go far, go together." The ROK wants to go far with ASEAN in the long-term perspective, not go fast in the short term. Korea and NSP partners will go together in a complementary way. The better utilization of this complementary relationship will be a concrete driver to sustain the New Southern Policy and build a new version of the NSP. **KIEP**