

# CHAPTER I

## INTRODUCTION

### 1.1 Background

Free trade agreement (FTA) has become one of the deeply rooted concepts in the field of International relations, continuously playing its increasingly prominent role in shaping the diplomatic relations and economic landscape among nations.<sup>1</sup> FTA helps promote international trade by reducing and eliminating tariffs and protecting any circumstance in trade and investment. The rationales of these agreements are to nurture economic cooperation and solidify integration through a shared approach to trade, thereby fostering economic growth and eliminating past residues of protectionism.<sup>2</sup> Therefore, the FTA's fruits within international integration greatly contribute to economic development and address market limitations.

The agreements are practiced bilaterally and multilaterally based on the participating parties and goals. Within these aspects, various comprehensive forms of the free trade agreement expand its form and are categorized including the Economic Partnership Agreement (EPA), Regional Trade Agreement (RTA), and

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<sup>1</sup> U.S. Department of Commerce, "Free Trade Agreement Overview," International Trade Administration | Trade.gov, n.d., <https://www.trade.gov/free-trade-agreement-overview>. (accessed June 12, 2023)

<sup>2</sup> Department of Foreign Affairs and Trade, "The Benefits of Free Trade Agreements," Australian Government Department of Foreign Affairs and Trade, n.d., <https://www.dfat.gov.au/trade/about-ftas/Pages/the-benefits-of-free-trade-agreements> (accessed June 12, 2023)

the Comprehensive Economic Partnership Agreement (CEPA).<sup>3</sup> The foundational purpose of these economic partnerships may be shared but each has distinguishing characteristics. Putting FTA as its groundwork, EPA covers beyond free trade including assurance of free movement of people and coverage in services and intellectual property.<sup>4</sup> At the same time, RTA specifically serves for mutual benefit among the regional countries and aims to assist in economic development and good governance which would eventually lead to mutual peace in the region<sup>5</sup>—shown through the works of the European Union (EU) and the Association of Southeast Asian Nations (ASEAN).<sup>6</sup> Lastly, the CEPA addresses deeper economic practices, such as cutting tariffs on trading goods, and establishing non-tariff barriers with promising trade facilitation while comprehensively encompassing various cooperation in investment liberalization, finance, information, technology, human resources development, and energy.<sup>7</sup> Therefore, with its broad coverage of cooperation, many countries have adopted this agreement in present days including Indonesia-Australia and United Arab Emirates-India.

Realizing the growing economic integration and limitation on self-sufficiency, many cooperation were established and have flourished as a result. The Japan-Australia Economic Partnership Agreement is one of many partnerships that

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<sup>3</sup> Ministry of Commerce, Free Trade Agreement: Frequently Asked Questions, February 8, 2020. [https://commerce.gov.in/wp-content/uploads/2020/02/FAQ\\_on\\_FTA\\_9April2014.pdf](https://commerce.gov.in/wp-content/uploads/2020/02/FAQ_on_FTA_9April2014.pdf)

<sup>4</sup>David Ingram, “What is an Economic Partnership Agreement?” CHRON, n.d., <https://smallbusiness.chron.com/economic-partnership-agreement-3888.html>

<sup>5</sup> James Fox, An Evaluation of Trade Capacity Building Programs Regional Trade Agreements: A Tool for Development? (2004).

<sup>6</sup> Dana Smilie, “Regional Trade Agreements,” Regional Trade Agreement, April 5, 2018, <https://www.worldbank.org/en/topic/regional-integration/brief/regional-trade-agreements>.

<sup>7</sup> The Korea Economic Daily Official Channel, “FTA 가 하나가 아니었다고?” [FTA had more than one type?] January 16, 2023, <https://youtu.be/vE5DH1l40oc>

tasted thriving results.<sup>8</sup> They understood the burdens of high tariffs and the complexity of non-tariff barriers, and the need for lubricants to enhance economic ties, Japan and Australia gathered to meet an economic partnership agreement.<sup>9</sup> As a result, they gained advancement in investment, two-way people movement, and a positive reputation among businesses and consumers. Not only these, but there are also the European Free Trade Association (EFTA), ASEAN Free Trade Area (AFTA), and the North American Free Trade Agreement (NAFTA) that have shown their successful implementation bilaterally or multilaterally by fulfilling the mutual need and removing burdens of businesses.

On the other side, not all endeavours in economic cooperation resulted in a prosperous way. India-European Union Free Trade Agreement was hindered by disagreement in the negotiation, and differences in regulatory frameworks along with India's protectionism became the major obstacles in enforcing the agreement.<sup>10</sup> Moreover, the Trans-Pacific Partnership (TPP) was also hampered due to political opposition and concerns about negative impacts on the socio-economy as the new administration entered.<sup>11</sup> Following these and many more negotiations that have not been enforced, it presents that free trade agreement may

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<sup>8</sup> Australian Government, "Japan-Australia Economic Partnership Agreement," Australian Government Department of Foreign Affairs and Trade, <https://www.dfat.gov.au/trade/agreements/in-force/jaepa/japan-australia-economic-partnership-agreement>. (accessed June 12, 2023)

<sup>9</sup> *Ibid.*

<sup>10</sup> Geethanjali Nataraj, "Why Can't India and the EU Sign an FTA?," Why can't India and the Eu sign an FT, June 14, 2013, <https://www.eastasiaforum.org/2013/06/14/why-cant-india-and-the-eu-sign-an-fta/>.

<sup>11</sup> *Ibid.*

confront challenges and fail due to a variety of reason wish shows the complexities of negotiation.

Observing such triumphs and hardships faced by their neighbouring nations, the Republic of Korea and the Republic of Indonesia once engaged achieving triumph in economic cooperation within many years and gradually formulated very close economic ties. Starting from 1960s with economic exchanges pioneered by multiple companies, such as Miwon, and Korindo Group, entering Indonesia, Indonesia and South Korea developed their formal diplomatic relation in 1973.<sup>12</sup> By 2002, these two countries carried out complex international cooperation in various industries including trade, investment, infrastructure, development, and information technologies.<sup>13</sup> Over the years, their bilateral ties progressively solidified with the signing of the Joint Declaration on Strategic Partnership in 2006.<sup>14</sup> This joint declaration was set with three pillars including economic cooperation such as trade and investment. Later in 2017, this Joint Declaration was upgraded to Special Strategic Partnership under the execution of President Moon and President Joko Widodo.<sup>15</sup>

Since then, South Korea and Indonesia have become mutual strategic investors to each other. According to statistics, Indonesia is one of the significant

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<sup>12</sup> Dae-Chang Kang, "The 40th Anniversary of Economic Relations Between Korea and Indonesia," *Korea's Economy* Vol. 29 (2011): 47–54, [http://keia.org/sites/default/files/publications/koreaseconomy\\_2013\\_chapter6.pdf](http://keia.org/sites/default/files/publications/koreaseconomy_2013_chapter6.pdf).

<sup>13</sup> Ulim Maidatul Cholif and Arie Kusuma Paksi, "South Korea's Interests behind the Reactivation of IK-CEPA Negotiations with Indonesia," *Insignia Journal of International Relations* 9, no. 1 (April 11, 2022): 20, <https://doi.org/10.20884/1.ins.2022.9.1.5089>.

<sup>14</sup> *Ibid.*

<sup>15</sup> "Embassy of the Republic of Indonesia in Seoul, Republic of Korea," Kementerian Luar Negeri Republik Indonesia, n.d., [https://kemlu.go.id/seoul/en/pages/hubungan\\_bilateral/558/etc-menu](https://kemlu.go.id/seoul/en/pages/hubungan_bilateral/558/etc-menu).

investment destinations ranking second among ASEAN countries and third of 91 countries in that Korea is investing overseas—accounting for USD 8.5 billion in 2022. Reciprocally, South Korea ranked prominently in Indonesia’s FDI ranking fourth out of 144 countries. Regarding the trade sector, these two partners are undoubtedly dynamic partners. From 2013 through 2017, the total balance of trade between the two nations had decreased by -10.43%. However, in 2018, when the Special Strategic Partnership was implemented, the total bilateral trade increased by USD 18.57 billion which is a 12.58% growth from the previous period.<sup>16</sup>

However, to raise additional momentum to the growing economic relationship between these two countries, the Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA), a bilateral trade agreement, was signed.<sup>17</sup> The agreement represents a significant milestone in the economic relations between the two countries, in need for a comprehensive and mutually beneficial trade agreement, which became apparent as both nations wished to further expand their economic cooperation and address barriers to trade and investment while aiming to foster closer cooperation and enhance trade and investment flows. Therefore, IK-CEPA had been designed to facilitate the

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<sup>16</sup> “EMBASSY OF THE REPUBLIC OF INDONESIA IN SEOUL, REPUBLIC OF KOREA,” Kementerian Luar Negeri Republik Indonesia, n.d., [https://kemlu.go.id/seoul/en/pages/hubungan\\_bilateral/558/etc-menu](https://kemlu.go.id/seoul/en/pages/hubungan_bilateral/558/etc-menu).

<sup>17</sup> Alexander Koty, “Indonesia, South Korea Set to Gain from Cepa Deal: Sector Beneficiaries,” Indonesia-South Korea Free Trade Agreement to Take Effect, December 13, 2022, <https://www.aseanbriefing.com/news/indonesia-south-korea-free-trade-agreement-to-take-effect/>.

liberalization of trade barriers, promote market access, and create a conducive business environment for companies from both nations.<sup>18</sup>

However, the journey of IK-CEPA has been marked by several challenges facing delays and obstacles, leading to a period of stagnation in 2014.<sup>19</sup> One of the main factors that tackled IK-CEPA to make a promising step was the complex nature of the agreement itself. IK-CEPA covered various areas of economic cooperation already, and negotiating and implementing such a comprehensive agreement required time and extensive coordination between the two countries.<sup>20</sup> In such processes, Indonesia and South Korea failed to meet an agreement, especially in the scope of trade in goods as the South Korean government was reluctant to agree to the clause proposed by the Republic of Indonesia and stated that the investment was a private sector commitment.<sup>21</sup> Moreover, according to the Indonesian Minister of Trade, the failure to reach an agreement was in terms of investment guarantees from South Korea, as well as the acts of protectionism in the agriculture sector of the country.<sup>22</sup>

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<sup>18</sup> Ragimun Abdullah, "Analysis of Trade in Goods between Indonesia and South Korea on Cooperation Forum IKCEPA," *Journal of Economics and Behavioral Studies* 8, no. 6(J) (2017): 171–82, [https://doi.org/10.22610/jebs.v8i6\(j\).1491](https://doi.org/10.22610/jebs.v8i6(j).1491). 0

<sup>19</sup> Ulim Maidatul Cholif and Arie Kusuma Paksi, "South Korea's Interests behind the Reactivation of Ik-CEPA Negotiations with Indonesia," *Insignia: Journal of International Relations* 9, no. 1 (2022): 20, <https://doi.org/10.20884/1.ins.2022.9.1.5089>.

<sup>20</sup> *Ibid.*

<sup>21</sup> Dini Hariyanti, "Ik-CEPA: Indonesia Defensif Dalam Perundingan Dengan Korsel," *IK-CEPA: Indonesia Defensif dalam Perundingan dengan Korsel*, September 9, 2014, <https://ekonomi.bisnis.com/read/20140909/257/256111/ik-cepa-indonesia-defensif-dalam-perundingan-dengan-korsel>.

<sup>22</sup> Achmad Ismail and Darynaufal Mulyaman Mulyaman, "Pendekatan Behavioralisme Dan Kendala Perundingan Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA)," *Jurnal ISIP: Jurnal Ilmu Sosial Dan Ilmu Politik* 15, no. 2 (2018): 33, <https://doi.org/10.36451/j.isip.v15i2.17>.

Then in 2019, IK-CEPA was reactivated under national interest as the main driving factor.<sup>23</sup> Both Indonesia and South Korea acknowledged the various economic benefits relating to tariff which will contribute to expansion of trade market, and the technology exchanges.<sup>24</sup> Additionally, South Korea's New Southern Policy under President Moon has actively involved in reactivation in its aims to expand its economic ASEAN partners.<sup>25</sup> Based on these interests, the reactivation of the agreement signifies the determination of Indonesia and South Korea to further deepen their economic ties and unlock the untapped potential for trade and investment. It reflects a renewed commitment to addressing challenges and seizing opportunities in a rapidly evolving global economic landscape.

Therefore, following the economic cooperation of two prospective countries and its unexpected reactivation of IK-CEPA, this research wishes to identify the implication of the new activation and tracing the motives of each country on re-engaging through conducting studies on **“Evaluating the Reactivation of the Indonesia-Korea Comprehensive Economic Partnership Agreement (2019-Present)”**.

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<sup>23</sup> Arifa Rahim and Arfin Sudirman, “South Korea’s New Southern Policy: Viewing Indonesia as a Strategic Partner through IK-CEPA,” *Indonesian Governance Journal* 06, no. 01 (2023), <https://doi.org/10.24905/igj.6.1.2023.1-15>.

<sup>24</sup> *Ibid.*

<sup>25</sup> Ulim Maidatul Cholif and Arie Kusuma Paksi, “South Korea’s Interests behind the Reactivation of IK-CEPA Negotiations with Indonesia,” *Insignia Journal of International Relations* 9, no. 1 (April 11, 2022): 20, <https://doi.org/10.20884/1.ins.2022.9.1.5089>.

## **1.2 Research Question**

This research will focus on the recent economic cooperation between Indonesia and Korea under the bilateral partnership, the Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA). Through this research, the writer aims to fill in the gap of the study on evaluating the reactivated IK-CEPA and answering the implications and motives for reactivating the bilateral economic agreement. Here, the term “reactivating,” or as mentioned in this paper's title, indicates the discussion's reactivation toward the realization of the IK-CEPA as the discussion in negotiating had been halted in 2014. Therefore, this paper employs the following questions:

1. What are the implications on participating countries through the reactivation of the Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA)?
2. What are the economic interests that prompted the reactivation of IK-CEPA?

## **1.3 Research Objective**

Subsequent to the aforementioned research question, the objective of this research are as followed:

1. To examine the economic consequences of reactivating the Indonesia-Korea Comprehensive Economic Partnership Agreement on the participating countries and investigate the implication of IK-CEPA on specific sector.



2. To identify the self-interests of economic interests that drove nations to decide on reactivation, considering the factors such as market access, massive investment opportunities and technological collaboration.

#### **1.4 Research Significance**

The research significance of this research is to understand the impact of the reactivated Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA), followed by its official implementation on January 1st, 2023. By thoroughly evaluating the bilateral agreement, this research may provide valuable insight and a significant understanding of its economic interests for both Indonesia and South Korea.

Moreover, this paper would like to shed light on understanding new paradigms of IK-CEPA research as the writer seeks to understand the bilateral agreement in the most “up-to-date” information and data. Likewise, the evaluation would help build opinion-building on the economic relations between the two countries, including the level of cooperation and motives between respective countries.

#### **1.5 Research Structure**

This study consists of five chapters which are intended to explore the hypothesis on the reactivation that began in January 2023.

Chapter 1 provides a foundational background of the current topic, and introduces research questions and directions for the analysis. Such content is

divided into five subchapters including the topic's background, research question, research objectives, research significance, and research structure.

Chapter 2 provides preliminary information as the foundation of the research. The content is divided into two subchapters: literature review and theoretical framework and concepts. This chapter aims to collect any relevant studies and thoughts in navigating the research.

Chapter 3 provides the research methodology, divided into four subchapters explaining the research approach, research method, data collection method, and data analysis method.

Chapter 4 provides the analysis, presenting the results or findings of conducted research based on the framework built in Chapter 2 and relevant sources. Within the analysis, it aims to answer the research questions introduced in Chapter 1 utilizing the methodologies and approaches explained in Chapter 3.

Chapter 5 provides the conclusion of the findings along with a summary of the analysis and recommendations that may stimulate further research in the future.