

CHAPTER 1:

INTRODUCTION

1.1 Background

Globalization changes the world where all the people of the world are connected. The way the international community interacts has changed significantly because of globalization. Therefore, globalization may be described as an international process with strong historical origins that accelerates economic, cultural, and political interconnectedness and integration. Globalization is brought via exchange of ideas, goods, and other cultural elements. Globalization process is fostered by liberalized international trade and innovations in information technology and communication, which have been promoted and managed to a greater or lesser degree by international institutions, multinational corporations, national governments, international non-governmental organizations, and even individuals with access to the online. Globalization from an economic perspective is indicated by the increasing interdependence of the economy between one country and another, which is supported by technological developments.

Cultural globalization plays a significant role in the process as it facilitates the dissemination of ideas, arts, and fashion beyond national boundaries, encompassing a broader spectrum of intercultural exchange. Cultural globalization has facilitated the dissemination of diverse cultural heritages among individuals from various backgrounds on a global scale. Consequently, a global marketplace has emerged, facilitating the unrestricted circulation of cultural goods, ideas, and innovations. This phenomenon influences the formation of individuals' identities.

From an economic perspective, globalization signifies a shift towards enhanced economic interdependence, thereby emphasizing the increasing interconnectedness between nations. The establishment of economic interdependence has been facilitated by advancements in technology and the facilitation of trade between nations. The facilitation of international trade and investment is made possible when nations and enterprises mutually liberalize their markets. This phenomenon can be referred to as a network comprising economic relationships.

The close correlation between the promotion of economic interests and cultural exchange is evident in an increasingly interconnected global society. The global expansion of markets enables businesses and industries to access a broader customer base. Similarly, nations endeavor to enhance their economic conditions by engaging in the international market and leveraging their unique capabilities and resources. International institutions, multinational corporations, national governments, and international non-governmental organizations play significant roles in facilitating and managing the process of globalization. The internet enables various groups and individuals to collectively disseminate cultural elements and advance economic interests. The dissemination of ideas, arts, and business on a global scale is influenced by the actions, policies, and programs that shape the trajectory and magnitude of globalization.

Throughout the decades spanning the 1980s and 1990s, the phenomenon of globalization garnered significant attention and exerted a substantial influence on the realm of international cooperation and relations. The inclusion of South Korea in the Association of Southeast Asian Nations (ASEAN) serves as a noteworthy

illustration of the transformative impact of globalization on regional alliances and their evolution over the course of time. The relationship between South Korea and the Association of Southeast Asian Nations (ASEAN) has undergone various stages of transformation. The Association of Southeast Asian Nations (ASEAN) initially designated South Korea as a sectoral dialogue partner. Currently, South Korea was regarded as a nation in the process of economic and social development. However, significant alterations occurred in the nature of the partnership. South Korea was granted full dialogue partner status in the Association of Southeast Asian Nations (ASEAN) during the 24th ASEAN Ministerial Meeting held in Kuala Lumpur in 1991 (ASEAN-Korea Center, 2021).

The initiation of the second phase of this collaboration was contingent upon the occurrence of the Asian financial crisis. Consequently, ASEAN Plus Three, comprising South Korea, Japan, and China, convened in a collective effort to address the issue. At this critical juncture, there has been a significant transformation in South Korea's diplomatic relations with the Association of Southeast Asian Nations (ASEAN). The event led to the signing of a formal free trade agreement. According to Jaehyon (2019), this development has generally enhanced the bilateral relations between South Korea and ASEAN. The bilateral ties between South Korea and the Association of Southeast Asian Nations (ASEAN) have evolved into a robust and mutually advantageous partnership. In 2019, the Association of Southeast Asian Nations (ASEAN) emerged as South Korea's second most significant trading partner. In contrast, South Korea held the position of being the fifth-largest trading partner of the Association of Southeast

Asian Nations (ASEAN). Furthermore, it is acknowledged that South Korea demonstrated a significant financial dedication to the Association of Southeast Asian Nations (ASEAN) in 2019, amounting to a remarkable \$8.3 billion USD. This serves as a testament to the robust economic connections that exist between these two entities (Sunnam, 2020).

Indonesia's notable characteristic lies in its robust bilateral relations with South Korea. Since the establishment of formal diplomatic consular relations between the two nations in 1966, the bilateral relationship has exhibited remarkable resilience and continuity. Both nations have made significant efforts over time to enhance their collaborative endeavors. A collaborative committee was established by the two nations with the aim of fostering cooperation between their respective foreign ministries and enhancing their strategic alliance. In 2006, the establishment of a joint committee was initiated to enhance their strategic partnership, further indicating their mutual inclination towards increased proximity. The initiation of the Korea-ASEAN Free Trade Agreement (FTA) in 2007 facilitated market liberalization, thereby fostering mutual economic growth for both parties involved.

In 2012, South Korea and Indonesia made noteworthy progress in their bilateral relations by entering into a comprehensive economic partnership agreement, surpassing the significance of the Korea-ASEAN Free Trade Agreement. This collaboration encompasses a diverse range of domains, including trade, investment, culture, and education. Over the course of several years, there has been a significant volume of trade between South Korea and Indonesia. Through the establishment of trade agreements and collaborative efforts on various

projects, both nations have actively endeavored to enhance and reinforce their economic relations. The bilateral agreements have had a positive impact on the economies of both nations, as they have facilitated the exchange of goods and services. South Korea and Indonesia have established collaborative efforts in the realm of business, while concurrently fostering cultural and educational exchanges, thereby cultivating interpersonal connections.

The bilateral trade volume between Korea and Indonesia in the year 2019 amounted to a sum of \$16.47 billion. The Republic of Korea recorded a total export value of \$7.65 billion, while the Republic of Indonesia reported an import value of \$8.2 billion. Korea exports a variety of goods to Indonesia, including steel, petrochemicals, general machinery, and textile products. In contrast, the Republic of Korea imports bituminous coal, natural gas, footwear, apparel, and steel products from Indonesia. It is worth noting that there has been a significant shift in trade levels since 2011, wherein the trade volume exceeded \$30 billion. This phenomenon is believed to be attributed to factors such as protracted trade disputes between the United States and China, as well as fluctuations in the prices of petroleum-based commodities.

Despite encountering challenges, the level of South Korean investment in Indonesia has remained consistent. During the initial six months of 2019, a total investment of \$1 billion was recorded, while in the corresponding period of 2020, an investment of \$0.7 billion was observed. Korean enterprises have predominantly allocated their capital towards industries characterized by business-to-business (B2B) transactions, encompassing heavy industries, chemistry, pharmaceuticals,

textiles, sewing, footwear, as well as the food and beverage sector. However, the company has diversified its investments across various sectors, such as information technology and retail distribution, to establish direct connections with the Indonesian customer base. Collaboration between various entities occurs across multiple dimensions, encompassing economic advancement, intercultural interactions, and educational interconnections. The relationship between the individuals exemplifies the robustness and comprehensive nature of their collaboration one another example is IK-CEPA.

The Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA) represents a significant alliance in the realm of economic cooperation. The potential outcomes encompassing economic expansion, heightened commercial activities, and augmented investments in both Indonesia and South Korea may arise as a result. The Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA) was formally established in 2012, signifying the initiation of an extensive negotiation process. Between the years 2014 and 2017, negotiations encountered significant obstacles due to the inability of both parties to reach a consensus, particularly in relation to the terms governing the exchange of goods and investment. In the specified period, Indonesia made concessions with the objective of securing import duty exemptions for South Korean goods, as reported by the Ministry of Trade (2020). However, a consensus was not reached.

Within the framework of the Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA), both Indonesia and South Korea have mutually committed to collaborate in various domains with the aim of enhancing economic

development. The areas encompassed by the Directorate General of Bilateral Trade Negotiations include industry, agriculture, fisheries, forestry, trade rules and procedures, infrastructure, technology and innovation, cultural and creative domains, and the support of Micro, Small, and Medium-sized Businesses (MSMEs).

Globally, Korean-content exports, the power of the Korean wave which swept around the world, were \$12.45 billion in 2021, and grew 4.4% higher than the 2020 even with presence of COVID19 pandemic. Indonesia is a country that has a huge population size and political, economy, and geopolitical growth factors. Indonesia is the largest economy in ASEAN, with GDP reaching \$ 1.11 trillion and 87% of the population is Muslims and it is the world's largest halal market. Indonesia is a young country with an average population age and is expected to have a demographic bonus effect by 2030.

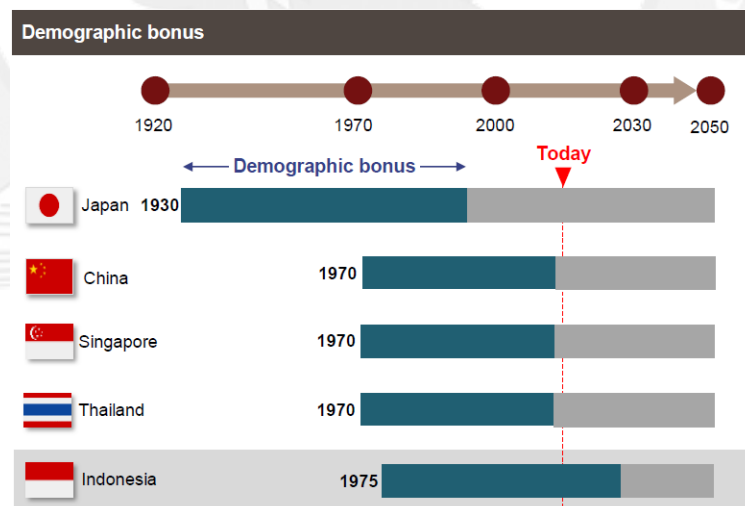


Figure 1.1 Demographic Bonus
Source: The World Bank; A.T. Kearney

In major industrial areas, the market influence of Chinese companies is remarkably high, and Japanese companies have entered the automobile industry and other manufacturing industry to create an industrial ecosystem, which has set high barriers to enter the Indonesian market, but recently Korean Wave has increased interest in Korean products. The Indonesian government is planning to reorganize the domestic industrial structure by fostering high value -added information and communication and IT industry, and Korea's IT and digital industry capabilities will have a good opportunity to advance in Indonesian market. The Indonesian government announced a Making Indonesia 4.0 plan to enter the 4th industrial-centered country in 2018 and selects high value-added flagship industries by leading digitization and automation innovation in each industry. Through the plan, Indonesia aims to increase GDP by 25%, create employment for 30 million people, and add 1 ~ 2 percentage points of economic growth (achieving 6 ~ 7% annual economic growth rate) by 2030.

1.1.1 Korean Wave Overview in Indonesia

Over the past two decades, Hallyu, commonly referred to as the Korean Wave, has undergone significant transformations. During its initial phase commencing in 1997, Hallyu primarily focused on Asian viewership and the dissemination of Korean television shows and films within these nations. The Korean Wave, which emerged in the late 2000s, has experienced a rapid and expansive growth, garnering a substantial following across various regions including North America, Europe, Latin America, the Middle East, and Africa.

Notably, this cultural phenomenon has attracted a diverse demographic, particularly teenagers and young adults residing in Western countries. The recent advancement has resulted in a substantial increase in the number of enthusiasts and consumers of Korean popular culture.

The appeal of K-pop idols, webtoons, and digital games has garnered significant interest from Western audiences, a phenomenon that was not initially evident during the preliminary stages of Hallyu, primarily targeting Asian viewers (Jin 2016; Lee and Yi 2020). The widespread utilization of social media platforms among the global youth population has significantly impacted the dissemination and consumption of Hallyu music. Digital platforms such as smartphones and social media have emerged as avenues through which young enthusiasts can access and engage with Korean cultural content that extends beyond the confines of traditional television broadcasts or domestic settings. The prevalence of social media within the realm of Hallyu has come to symbolize the dissemination of domestically produced popular culture into international markets.

The Hallyu phenomenon, also known as the "new Korean Wave" (Jin 2016) or "Hallyu 2.0" (Lee et al. 2015), has undergone significant transformations in recent times. These changes have prompted media experts, cultural creators, and fans worldwide to reassess the evolution of the Korean Wave and consider its novel characteristics. Several factors contribute to the global influence of cultural products. These include the reception of exported cultural products, technological advancements, the international reach of various cultural content, the pivotal role of social media and digital platforms, and the crucial aspect of fan reception on a

global scale. Because of these alterations, it becomes imperative to conduct a more comprehensive examination of the role that narratives assume within the realm of regional popular culture.

The South Korean government has played a significant role in fostering and supporting the development of the creative industries since the early 1990s. This support is intricately connected to the nation's strategy of transitioning away from conventional manufacturing sectors. During the tenure of Kim Dae-jung, the government initiated a comprehensive economic reform strategy. The strategic initiative prioritized the transition towards a knowledge-based economy, emphasizing the development of skills and leveraging the potential of the internet. Simultaneously, there existed a notable emphasis on the advancement of cultural industries, indicative of a proactive aspiration to achieve a fourfold increase in exports within this sector. South Korea implemented a series of policies aimed at fostering corporate investment, facilitating vertical integration within the industry, and progressively dismantling barriers such as screen quotas.

These measures were undertaken with the objective of creating a conducive environment for the expansion of the creative sector. The primary objective of these projects was not only to enhance the conditions for creative professionals but also to provide them with a sustainable means of income, thereby facilitating their growth. The government also proactively encouraged South Korean artists and designers to generate novel concepts and engage in global competition. During this project, the South Korean Ministry of Culture played a significant role. The active participation and endorsement of the Ministry played a pivotal role in shaping the

nation's creative landscape. The contributions and assistance provided by these individuals have facilitated the expansion of creative sectors, thereby enabling South Korean artists and creators to achieve global recognition. The comprehensive strategy encompassing government assistance, economic measures, and cultural diplomacy has contributed to the concept of "soft power diplomacy." The creative industries in South Korea, encompassing various forms of cultural exports such as K-pop and movies, have significantly contributed to the country's enhanced global popularity and influence. The cultural exports originating from South Korea have generated global interest in various aspects such as its language, culture, and way of life.

Simultaneously, South Korea has diligently endeavored to enhance diplomatic ties with various nations, thereby augmenting its global influence. The government has diligently endeavored to establish trade and partnership agreements with numerous nations. The development has significantly contributed to the expansion of the country's creative industries and the dissemination of its cultural exports to a wider audience. South Korea has effectively disseminated its abundant cultural heritage globally through reciprocal collaborations, thereby augmenting its status as a prominent cultural force on the international stage. Despite the current hype of K-POP, K-Wave's start was led by K-drama. During Asian monetary crisis in 1990s, cultural import from overseas were forced to be limited, that's when Korea started to cultivate its own arts and trends. Which resulted in remarkable success of Korean drama such as *Winter sonata* and *Autumn in my heart* across Asia. Furthermore, K drama acquired popularity across the globe in the mid 2000

which grew with the emergence of social media, the internet, and the birth of Generation Z.

OTT (over-the-top) is a direct-to-consumer video content platform where premium content and a superior experience are available for customers to stream on-demand, like Netflix, Disney+, Hulu, and so on. As the number of OTT users increases, the popularity of Korean broadcasting contents has increased significantly. Prior to the spread of the OTT, Indonesia's broadcasting market was formed around terrestrial TV networks, and if they do not organize Korean Wave content, the path was virtually blocked, and customer needs to watch/obtain it illegally. The experience of using OTT has significantly increased during COVID 19, and many operators who can access the contents for free through advertising such as Aichi (IQYI), We TV (We TV) comes out, OTT is becoming a new platform for watching Korean broadcasting contents.

TOP TV Shows on Netflix in 2022									
#	TITLE	POINTS	CHANGE	COUNTRIES	#/COUNTRY	Overview		TOTAL	Full Details
						DAYS	#/DAY		
1.	Alchemy of Souls	916	-	1	916	131	7	916	
2.	Business Proposal	838	-	1	838	119	7	838	
3.	Extraordinary Attorney Woo	832	-	1	832	111	7	832	
4.	Twenty Five Twenty One	809	-	1	809	129	6	809	
5.	Little Women	736	-	1	736	85	9	736	

Figure 1.2 Top TV Shows on Netflix 2022
Source: Flixpatrol, 2022, Indonesia

In Netflix, the top 10 contents are often filled with Korean TV show and Korean content is recognized as <Wajib Tonton> that must be watched, and its ranking is rising when it is newly launched. TV shows, which are not available in

Netflix Korea, are often available in Indonesia's Netflix, the monopoly of Korean TV show is highlighted as the main competitiveness of Netflix.

Indonesia is one of the Southeast Asian countries where K-POP music is extraordinarily strong. The biggest feature of Indonesia's K-POP consumption is that K-POP consumption rankings in the Korean market are reflected without time gap, and K-POP Star and Idol Group launches new songs, news about the debut songs of new idols, K-POP trend, K-POP trend is quickly translated and delivered domestically. Due to K-pop idols' extensive popularity among millennials & gen Z, K-pop idols are often used as models for advertising. Example: Tokopedia with BTS, Shopee with BLACKPINK & ITZY, Blibli with NCT. All of these platforms are for domestic products, which shows that using Korean singers and idols are not only popular in certain regions and social classes, but Korean wave is consumed extensively throughout Indonesia.

1.2 Research Questions

With the above background and analysis, this research aims to explore 2 main questions as below:

1. How does success of K-wave (Hallyu) in Indonesia lead to FDI increase (South Korea to Indonesia)?
2. How K-wave influenced the growth of Korean product related-industries in Indonesia and lead the success of re-activation of IK-CEPA?

1.3 Research Objectives

During COVID19 the consumption of Korean dramas, K-POP, and animation is increasing significantly, and Korean webtoons are rebuilt in the local cartoon studio industry by pioneering a new cartoon market that has not existed in Indonesia. It is moving forward with cultural cooperation that can be expanded in addition to the Korean Wave. K-contents is expected to continue to enter Indonesia as its consumption is increasing in the content sector as the economic growth rate continued to grow high economic growth since 2010 based on resource development.

Main objectives of this study are to examine how Korean wave has encouraged a cooperation between two states and how it helped the investments/development of certain industries such as cosmetic and entertainment so that win-win outcome such as IK-CEPA re-activation could happen.

1.4 Research Significance

The findings of this paper will aim to show how K wave brings mutual benefit to South Korea and Indonesia, not only for trade between two states but also bilateral relationship. In addition, it is hoped that this paper will encourage more cooperation and investment between two states in the future by showing growth and economic benefit raised from previous joint project that has been carried out by two states.

1.5 Thesis Outline

To provide an overview of the contents of the research results made, this paper will arrange them in a systematic sequence as follows:

Chapter 1: Introduction

In this chapter, this thesis provides a comprehensive overview of the research topic, introducing the reader to the context and significance of the study. It outlines the historical background of the economic relationship between Indonesia and South Korea, highlighting the transition from political interactions to a robust economic alliance. The chapter also introduces the concept of the Korean Wave (Hallyu) and its pivotal role in shaping the economic interconnectedness between the two nations. The research questions and objectives are clearly defined, setting the stage for the subsequent chapters.

Chapter 2: Theoretical Framework

This chapter delves into the theoretical underpinnings that guide the research. It explores relevant economic theories and frameworks that help conceptualize the impact of cultural phenomena, specifically the Korean Wave, on economic ties between nations. Theoretical perspectives on foreign direct investment, Economic-Interdependence between Indonesia and South Korea, and Neoliberalism theory are discussed to provide a solid foundation for the analysis of the research findings.

Chapter 3: Methodology

The methodology chapter details the research design and approach employed to investigate the economic interdependence between Indonesia and

South Korea, driven by the Korean Wave. It outlines the qualitative methodology chosen for this study and justifies its appropriateness. Data collection methods, such as interviews and document analysis, are explained, along with a discussion of the sample population. The chapter also addresses any limitations and ethical considerations in the research process.

Chapter 4: Results and Discussion

This central chapter presents the empirical findings of the study. It begins by providing a detailed analysis of the data collected, focusing on the correlation between the popularity of Hallyu in Indonesia and the surge in foreign direct investment from South Korea. The chapter explores the specific sectors influenced by the Korean Wave, with a particular emphasis on the beauty industry. Results are discussed in the context of the theoretical framework, allowing for a nuanced interpretation. The implications of the findings for economic interdependence and bilateral relations are thoroughly examined.

Chapter 5: Conclusion and Recommendation

The concluding chapter summarizes the key findings and their significance in the context of the research objectives. It restates the theoretical and practical contributions of the study to the understanding of economic ties between Indonesia and South Korea. The conclusion also offers insights into the broader implications of the research for policymakers, business stakeholders, and academics.