THE IMPACT OF SOUTH KOREA’S NEW SOUTHERN POLICY ON INDONESIA: ECONOMY AND DEFENSE SECTORS

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ABSTRACT

South Korea’s economy has been heavily depend on major power countries such as US, China, Japan, and Russia. However, with the changing dynamics in international world such as growing protectionism in US during Trump leadership, China’s expansion of influence in Asia, as well as trade war between US and China causing President Moon Jae In to switch South Korea’s economy horizon. New Southern Policy is a diplomatic initiative established to reduce those dependence. South Korea invites India and ASEAN as its brand-new partners. South Korea stated that Indonesia is a major partner in New Southern Policy. This research aims to analyze the impact of New Southern Policy in Indonesia, especially in economy and defense sectors. The impact on economy sectors is both countries agreed to signed IK-CEPA agreement, South Korea which eager to make Indonesia as new production base in ASEAN through Hyundai company factory construction, and LG Consortium investment in the electric vehicle battery cell industry. Moreover, the impact on defense sectors is joint venture project to produce KFX/IFX fighter jets.

Keywords: New Southern Policy, Impact, Indonesia, Economy, Defense.

ABSTRAK


Kata Kunci: New Southern Policy, Dampak, Indonesia, Ekonomi, Pertahanan
INTRODUCTION

South Korea and ASEAN relations has been going around since the end of 1980s. The cooperation has been through several development in the process. In early cooperation, South Korea was originally a sectoral dialogue partner of ASEAN, which back then South Korea was still categorized as developing country. South Korea position then being upgrade into full dialogue partner of ASEAN in 1991 during 24th ASEAN Ministerial Meeting in Kuala Lumpur (ASEAN-Korea Centre, 2021). The second stage of the cooperation was as a result of Asian financial crisis which caused ASEAN Plus Three (South Korea, Japan, and China) to joint effort in overcome the crisis. From that moment, South Korea and ASEAN relations become closer by signed free trade agreement and upgraded bilateral relations (Jaehyon, 2019). In 2019, ASEAN is South Korea’s second-largest trading partner while South Korea is ASEAN’s fifth-largest trading partner. Meanwhile, in 2019 alone, South Korea investment in ASEAN reach 8.3 billion USD. This show just how much important ASEAN for South Korea’s trade and investment (Sungnam, 2020).

Although South Korea and ASEAN relations remain strong, South Korea economy has been heavily dependent on the major power countries such as US, China, Japan, and Russia. However, with the growing protectionism in US during Donald Trump administration, China’s expansion of influence in Asia as well as US-China trade war, South Korea begin to seek for another alternative to reduce their dependence on those countries. Moreover, South Korea also wish to expand their economic horizon with other countries but at the same time maintaining their relations with US and China. As a result, President Moon established New Southern Policy to create a strategic foreign policy based on the more balanced form of diplomacy with their traditional major power countries (US, China, Japan, and Russia) and Southern Asia region (Kwak, 2018).

New Southern Policy first introduced by President Moon Jae In in November 2017 in Jakarta, Indonesia during his state meeting. New Southern Policy is South Korea’s ambitious diplomatic initiative to achieve greater strategic autonomy. This initiative proposes three pillars such as peace, prosperity, and people. Based on those three pillars, South Korea intend to boost cooperation in the socio and cultural (people), economy (prosperity), as well as political and security (peace). This policy aims to realize South Korea’s potential as a regional middle power as well as diversify its economic and strategic partnerships. South Korea sees Southeast Asia and India as their brand-new partnership because of their economic growth. As stated above, New Southern Policy objective is to elevate South Korea cooperation with ASEAN so that it would be on the same level as their ties with major power countries (Ong, 2020). Although South Korea’s ties with Southeast Asia countries are relatively strong, there is still a chance for further development (Wongi, 2021).

South Korea want to improve its ties with Southeast Asia, so that Southeast Asia no longer the “second choice”. By strengthening relations with India and Southeast Asia, especially in the
economic field, South Korea wants to protect itself from the risks of trade and strategic friction between the two great powers. In addition, they hope to promote middle-powered diplomacy and improve relations with India and Southeast Asia in response to increasing economic and strategic importance. However, the author would like to focus on the impact of New Southern Policy on Indonesia’s economy since South Korea and Indonesia decided to strengthen their cooperation into more inclusive one. Among ASEAN countries, South Korea chose Indonesia as major partner in New Southern Policy because of its potential market (Suoneto, 2021). In addition, the fact that Indonesia is the most populated country in ASEAN with the average of its citizens are in productive age also become consideration for South Korea to choose Indonesia as major partner in this initiative. As South Korea New Southern Policy aim to expand South Korea’s economic horizons amidst in the increasing number of protectionisms through economy diversification (Kedutaan Besar Republik Korea untuk Republik Indonesia, 2021).

The author used international cooperation theory to explain the discussed phenomenon. Cooperation is an important aspect in the dynamics of international relations, especially in the era of globalization which interconnectedness is clearly emphasized. International cooperation is carried out by countries to meet the needs of their citizens and other interests guided by the foreign policy of each country. Countries can’t survive alone in the international world, thus it cause dependence from one country to another. Generally, international cooperation is carried out in the social, political, cultural, defense and security, and economic fields. Some scholars conclude that “cooperation occurs when actors adjust their behavior to the actual or anticipated preferences of others, through a process of policy cooperation” (Milner, 1992). In this case, it can be understood that the policies issued by countries in cooperating with other countries have been adjusted to reduce negative consequences that may have an impact on these countries and to achieve mutual benefits.

There are several forms of international cooperation, namely bilateral, multilateral, and regional. However, in this case the author would like to focus on the bilateral cooperation. According to Anak Agung Banyu Perwita and Yanyang Mochamad Yani, there are three motives that are sought by two countries when conducting bilateral relations. Those three motives are maintaining national interest, maintaining peace, and increasing economy prosperity. On the other hand, bilateral trade cooperation is carried out with the aim of expanding access between two countries' markets and increasing their economic growth. The cooperation usually regulates the reduction of trade barriers such as reduce or eliminate tariffs, quotas, and other trade restrictions on goods traded between the countries involved.

There are several reasons why countries decide to cooperate with other countries. One of the goals of international cooperation is to improve friendly relations between countries. The existence of international cooperation will be able to strengthen relations between the
countries involved. This is because the countries involved can meet each other’s needs and help if at any time one of them needs support. Moreover, bilateral cooperation is expected to meet the economic needs of the two countries which are mutually beneficial and to achieve economic stability. Bilateral cooperation can help to introduce and sell products produced by one country to other countries involved in the agreement. Furthermore, cooperation that reduces trade barriers is expected to encourage increased productivity of goods and expand production markets, which will increase profits for the country. In addition, international economic cooperation is also commonly used to obtain debt or investment in a country. The investment or debt is used to accelerate infrastructure development, which in turn can speed up the distribution process and facilitate distribution coverage so that all people can feel the equitable development throughout the region. Furthermore, foreign entrepreneurs investing in one country can provide jobs for residents.

This paper will examine the impact of New Southern Policy on Indonesia’s economy. Previous studies conducted by Choe Wongi entitled “New Southern Policy” Korea’s Newfound Ambition in Search of Strategic Autonomy explained in detail about what New Southern Policy is and its effort to improve relations with ASEAN and India. It also explained about the challenges faced by South Korea to brace its position as strategic partner in the region (Wongi, 2021). Even though the paper already stated about trade volume after the implication of New Southern Policy between South Korea and ASEAN as well as India, yet it only attached trade volume between South Korea and ASEAN in overall. Thus, in this paper the author would like to discuss about the impact of New Southern Policy especially on Indonesia’s economy and defense sectors.

METHODOLOGY

This paper would be analyze the impact of New Southern Policy on Indonesia’s economy as Indonesia is major partner in this initiative. The author used qualitative method to conduct the research. Qualitative research is a continual process in order to improve understanding by making new significant distinction of the phenomenon studied. The result of qualitative research was drawn out by generating and analyzing empirical materials using deduction method. The author would collect data and understand facts related to general research topics and then apply or direct them to specific things. The empirical materials will be collected from journal articles, book, news, magazine, reliable website, and so on which can support the research process conducted by the author. The scope or limitation of this research is the impact of South Korea’s New Southern Policy on Indonesia’s economy and defense sectors. The author would solely focus on analyzing New Southern Policy’s significance in Indonesia, especially in term of economy and defense (Corte, 2019).

RESULTS AND ANALYSIS

In this section, the author would like to discuss about the impact of South Korea’s New
Southern Policy on Indonesia’s economy and defense sectors. The discussion would be divided into several parts which unfold the significance of New Southern Policy on Indonesia, especially on its economy and security impact since Indonesia is the major partner of this initiative. Thus, it creates high expectations because New Southern Policy is a way for Korea to reduce its dependence on major power countries such as US, China, Japan, and Russia. Moreover, New Southern Policy was established to strengthen South Korea’s position as strategic middle power in the region amidst rivalry between US and China. Therefore, in this paper the author would like to examine New Southern Policy’s impact on Indonesia’s market and security sectors.

**Indonesia as New Southern Policy’s major partner**

Before analyzing the significance of New Southern Policy on Indonesia’s economy and defense sectors, the author would like to discuss about Indonesia position as major partner in New Southern Policy. As explained above, South Korea and Indonesia decided to strengthen their relations into more inclusive one. Moreover, South Korea and Indonesia also upgraded their partnership status from Strategic Partnership into Special Strategic Partnership in November 2017. The upgraded Special Strategic Partnership is the only one among other ASEAN countries. South Korea and Indonesia agreed to boost cooperation in economy, transportation, industrialization, and defense. The partnership aims to accelerate industrialization in Indonesia, increase economic and trade cooperation as well as people-to-people exchanges (Sheany, 2017).

South Korea Minister of Foreign Affairs, Chung Eui-yong, said that Indonesia was a major partner in the New Southern Policy (Suoneto, 2021). Since Indonesia controls 40% of the population, area, and GDP as well as the only member of the G20 in the ASEAN region, South Korea considers that Indonesia is a major member of ASEAN. In addition, the fact that Indonesia has the largest population in ASEAN with a population of 260 million people and the average Indonesian population is categorized in the productive group.

Kang Kyung-wha, former South Korea Minister of Foreign Affairs, stated that Indonesia is a major and important partner for South Korea and cooperation between the two countries continues to increase in various areas including trade and investment, defense, infrastructure, and others (Timorria, 2019). Furthermore, the South Korea Ambassador in Indonesia stated that the two countries would continue to strengthen strategic alliances and cooperation in the components and materials sector such as environmentally friendly vehicles, secondary batteries, petro-chemicals: the defense industry sector, and the energy industry sector.

Even though New Southern Policy emphasize more on the economy aspects, but it also does not rule out security aspects. One of the aims of the establishment of New Southern Policy was so that South Korea does not get caught in the competing rivalry between US and China. Chloe Wongi, the head of the Center for ASEAN-India Studies of the Korean National Diplomatic Academy (KNDA), also stated that
both South Korea and Indonesia are unwilling to take side in the rivalry between USA and China. While Santo Darmosumarto, Indonesian Foreign Ministry’s director for East Asia and Pacific affairs, emphasize both countries share similar view that cooperation in the Indo-Pacific region should be ensure it would not become a battlefield between more influential power. As both South Korea and Indonesia share common value that they do not want to get caught in the US and China rivalry, New Southern Policy is a way to strengthen their position as middle power countries amidst feud between major power countries.

**New Southern Policy impact on Indonesia’s economy**

As mentioned before, New Southern Policy is an effort to reduce Korea’s economy dependency on major power countries as well as elevate South Korea relations with ASEAN and India. It focuses more on improve economy engagement between partner countries. As Indonesia became major partner in this initiative, it raises expectation on how much impact does New Southern Policy have on Indonesia. Thus, in this section the author would like to discuss about the significance of the implementation of New Southern Policy on Indonesia economy.

So far, South Korea and Indonesia enjoyed quite good bilateral cooperation, especially in the field of investment, trade (export-import), and tourism. Even before the establishment of New Southern Policy, South Korea already became one of important partners in Indonesia’s economy. However, both South Korea and Indonesia government are eager to improve economy cooperation between two countries. One of the efforts made was to reactivate Indonesia-Korea Comprehensive Economy Partnership Agreement (IK-CEPA) which was signed on December 18th, 2020. Agus Suparmanto, former Indonesian Minister of Trade, stated that IK-CEPA is an important milestone in bilateral economic relations between Indonesia and South Korea considering that South Korea is interested in making Indonesia a new production base in ASEAN (IDN Financial, 2020).

IK-CEPA covers trade in goods which includes elements of tariff reduction/abolition, provisions on origin of goods, customs procedures, trade facilitation, and trade remedies; trade in services; investment; economic cooperation; and institutional arrangements. On trade in goods, South Korea will eliminate up to 95.54 percent of its tariff posts, while Indonesia will eliminate 92.06 percent of its tariff posts. Several Indonesian products whose tariffs will be eliminated by South Korea are raw materials for lubricating oil, stearic acid, t-shirts, blackboard, dried fruits, and seaweed. Meanwhile, Indonesia will eliminate tariffs for several products such as gear box of vehicles; ball bearings; and paving, hearth or wall tiles, unglazed (Indonesia Ministry of Trade, 2020). As IK-CEPA regulates the reductions of trade barriers on goods traded between South Korea and Indonesia, this agreement is expected to increase exports and imports for both countries.

Furthermore, South Korea and Indonesia government is also continuing to boost South Korea investment in Indonesia through New
Southern Policy. As mentioned above, South Korea desire to make Indonesia as a new production base in ASEAN. South Korean automotive company, Hyundai Motor Company, has spent US$ 1.55 billion to build a factory in Indonesia. Indonesia became the first country in ASEAN to become a research and development center for Hyundai. The production capacity of this factory reaches 150,000 units per year and 250,000 units annually for its maximum capacity. While this company will provide employment as many as 2000 workers (Kementerian Investasi/BKPM, 2022).

Hyundai’s efforts to invest in Indonesia can be seen as positive things that are in line with the government’s desire to make Indonesia not only as a market but also as a production base in ASEAN. From this factory, Hyundai will develop world-class electric car (EV) production which will be exported to international markets. With the construction of a research and development center for the Hyundai Company in Indonesia, of course, Indonesia would enjoy profits, investment, increased employment opportunities, increased exports, and the use of local raw materials.

Furthermore, LG Consortium, a company from South Korea, has also invested a large amount for a single corporation. The LG Consortium invests US$9.8 billion in the electric vehicle battery cell industry. A Memorandum of Understanding (MoU) was signed on December 18th, 2020, which contains the cooperation of giant and strategic investment projects in the electric vehicle battery cell industry integrated with mining, smelters, refining as well as precursor and cathode industries. Indonesia Minister of Investment, Bahlil Lahadalia, said that "Indonesia will move up from being a producer and exporter of raw materials to becoming an important player in the world supply chain for the electric vehicle battery industry" (Badan Koordinasi Penanaman Modal, 2020).

In the realization of project investment, this joint venture will prioritize collaborating with local entrepreneurs and local SMEs (Small and Micro Enterprises) who have the capability and capacity in each supply chain. Thus, it is expected to be able to drive the national economy which has a positive impact on the region. Furthermore, another thing that is also part of the memorandum of understanding is prioritizing local products to increase the competitiveness and productivity of the national industry. The Indonesian government also ensures that this giant investment project will absorb as much as possible number of Indonesian workers.

New Southern Policy impact on Indonesia’s defense sector

The New Southern Policy does not only deal with the economic sector, but also deals with the defense and security sector which is included in the pillar ‘peace’. Through the New Southern Policy, Indonesia and South Korea carried out several cooperation to strengthen defense equipment to protect the sovereignty of their respective countries. Furthermore, cooperation is also carried out to strengthen two countries’ position as middle power countries and prevent the region from being involved in conflicts between the great powers, namely the
US and China. Therefore, in this section the author will focus on analyzing the impact of the New Southern Policy in the Indonesian defense and security sector.

The collaborative fighter aircraft manufacturing project between South Korea and Indonesia has been developed since 2011 in which South Korean government bears 60 percent of the financing, 20 percent is borne by the Korean Aerospace Industries (KAI), and 20 percent is borne by the Indonesian government. However, the project encountered problems when the Indonesian government was in arrears and proposed contract renegotiation. However, the Indonesian Minister of Defense, Prabowo Subianto, during his visit to South Korea said that Indonesia had agreed to re-run the fighter aircraft project to enhance defense cooperation between the two countries. In April 2021, the first launching ceremony of the KFX (Korean Fighter Jet) fighter jet prototype was held and President Joko Widodo in his speech hoped that this project would provide positive benefits for the defense and security of both countries. Furthermore, the Head of the Center for ASEAN-India Studies at the Korea National Diplomatic Academy, Choe Wongi, assessed that Indonesia and South Korea could promote a more proactive relationship because there is no historical burden between the two countries and this cooperation is the only South Korean defense collaboration (Natalia, 2021).

In carrying out cooperation in term or production of defense equipment, adjustments are needed because of the changing dynamics faced by each country. Considering that collaboration in the production of defense equipment can last for decades. As what happened in the project of making KFX/IFX in which each country adjusted their preferences by conducting several renegotiations to face the challenges faced by one country at that time. Re-negotiations are carried out to be able to produce mutually beneficial cooperation and minimize losses for both parties.

**CONCLUSION**

To sum up, New Southern Policy is South Korea’s diplomatic initiative to reduce their economic dependence on major power countries such as US, China, Japan, and Russia. This initiative aims to elevate South Korea and ASEAN relations as well as seek economy diversification so that it will be on the same level as South Korea’s relations with major power countries. In globalization era, when cooperation and interconnectedness are being pushed through international cooperation, South Korea proposed New Southern Policy to achieve their national interest. To achieve this goals, South Korea began by strengthening their relations with each ASEAN member countries, especially with Indonesia.

South Korea elevates its partnership status with Indonesia to become a Special Strategic Partnership and made Indonesia a major partner in the New Southern Policy. This was done because South Korea saw the market potential of Indonesia. By making Indonesia a major partner in the New Southern Policy, it certainly brings a lot of expectations about how much impact the New Southern Policy will have on the economy and defense sector for
Indonesia. Considering that these two sectors are included in the pillars of prosperity and peace in the New Southern Policy.

The impact given by New Southern Policy on the Indonesian economy is the signing of the IK-CEPA agreement in 2020 which regulates the elimination of trade barriers to goods traded between the two countries. This will certainly help to increase exports and imports of both countries. Furthermore, South Korea is also eager to make Indonesia as a production base in ASEAN. Hyundai, automotive company from South Korea, has invested quite a lot to build a research and development center in Indonesia, which is the only one in ASEAN. With the construction of a factory in Indonesia, it will certainly help to increase existing investment, provide a lot of jobs, and increase Indonesian exports. The same thing was done by LG, South Korean company, which contributed a giant investment in the electric vehicle battery cell industry.

Furthermore, the impact given by New Southern Policy on the defense and security sector is the smoothing of the joint venture project for the manufacture of KFX/IFX fighter jet which has been initiated since 2011. Although this project was stopped for several reasons, renegotiations were carried out to continue the project. Negotiations are carried out to achieve the same benefits and minimize existing losses.

Based on the research conducted by the authors, the authors hope that the results of this study can add insight regarding the impact of the New Southern Policy on Indonesia, especially in the fields of economy and defense. Furthermore, future researchers are expected to examine more data and references so that further research results can be better and more complete.

REFERENCES


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The Impact of South Korea’s New Southern Policy on Indonesia: Economy And Defense Sectors


