

EXECUTIVE SUMMARY

1. Indonesia and the Republic of Korea have demonstrated a close relationship since the establishment of their diplomatic relations in 1973. Indonesia and Korea have been closely cooperating in many areas including economic development, information technology, foreign workers, energy, maritime and fisheries, forestry, tourism, small and medium enterprises as well as science and technology.
2. Korea and Indonesia have been benefitting from the ASEAN-Korea FTA (AKFTA), under which the Agreement on Trade in Goods came into force in June 2007. While the AKFTA and other institutions of wider coverage including the WTO, forged a common ground to strengthen their economic relation, there remain considerable opportunities to further enhance bilateral trade and economic ties through a bilateral FTA. In this context, the governments of Korea and Indonesia agreed to mandate a Joint Study Group (JSG) to conduct a joint feasibility study for a Comprehensive Economic Partnership Agreement (CEPA).
3. With regards to trade in goods, both Korea's imports from Indonesia and Indonesia's imports from Korea have tripled in the period of 2001 to 2010, recorded at USD 20.3 billion in 2010. Although it is still small, the volume of services exports from Korea to Indonesia was USD 888.2 million in 2010 and that of services exports from Indonesia to Korea was USD 308.2 million in 2008 according to Korean sources of statistics. In terms of cumulative investment approved, Korea's investment in Indonesia accrued to USD 8.8 billion from 1968 to 2010, making Indonesia the seventh largest destination of Korea's foreign direct investment. In terms of realization in the period of 1990 to 2010, Korean investment in Indonesia amounted to USD 5.5 billion. On the other hand, Indonesia's investment in Korea is relatively small at a value of less than USD 1 billion for the period of 2001 to 2010. Based on the bilateral trade and investment profile, the JSG reviewed many institutional aspects of both countries affecting trade and economic relations as well as current economic cooperation between the two countries.
4. Under AKFTA, 92.1% of Korea's tariff lines and 90.1% of Indonesia's tariff lines are subject to tariff elimination. The other products are categorized as sensitive and highly sensitive products, where tariff reduction commitment is stretched to 2016. The remaining 1.5~1.9 percent of tariff lines are not subject to any tariff reduction or elimination. While AKFTA service liberalization includes some WTO plus liberalization, it represents only a small step forward from the existing GATS. Other trade related issues, such as non-tariff measures, trade remedy, SPS, customs procedures and trade facilitation, government procurement and economic cooperation have been dealt with under AKFTA. However, there are plenty of rooms for mutual improvement by discussing and negotiating the matters on a bilateral basis.
5. The JSG estimated possible effects of Indonesia-Korea CEPA using Computable General Equilibrium (CGE). With the hypothesis of immediate elimination of both countries' tariff upon the effectuation of a CEPA, both economies of Indonesia and the Korea will be enjoying positive growth in output and welfare. With a removal of tariff under the Highly Sensitive List under the AKFTA, it is estimated that there will be USD 7.97 million-worth of welfare increase and 0.03 percent GDP increase for Indonesia and USD

1.5 billion welfare increase and 0.13 percent GDP increase for Korea. However, when considering a productivity increase in major industries under a possible CEPA including trade in goods, trade in services, investment as well as economic cooperation, Indonesia's welfare and GDP growth would be USD 10.6 billion and 4.37 percent, respectively.

6. In this context, the JSG identified possible areas for negotiation under a bilateral CEPA as reducing and eliminating tariffs on sensitive list (SL)/highly sensitive list (HSL) products under AKFTA, streamlining and easing product specific rules of origin, further liberalization in trade in service, improving the Schedules of Reservation of investment liberalization, strengthening of economic cooperation including capacity building and addressing such other trade-related issues as trade remedy, government procurement, intellectual property rights, and/or customs procedures and trade facilitation.
7. The JSG, with the common understanding that a possible Indonesia-Korea CEPA would be feasible and could bring mutual benefits to both countries, strongly recommends that the Governments of Korea and Indonesia set forth all steps that are needed for the establishment of CEPA in accordance with respective domestic procedure. The JSG also shared the view that each country should proceed to consult with stakeholders including business people, politicians, government officials and civil society.
