THE SPATIAL PATTERNS OF KOREAN INVESTMENTS AND THEIR EFFECTS ON REGIONAL DEVELOPMENT IN INDONESIA UNTIL 1998

by

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ABSTRACT

Korean investment in the ASEAN Region has grown tremendously during the last three decades, following the importance of Japanese investment in the same region. This is partly due to a favorable domestic growth in the Korean economy as stimulated by a successful agricultural reform and rural development on which industrialization takes place. Korea transformed itself from an underdeveloped, agricultural-based economy, into an industrialized country in Asia only within a very short span of time.

This paper is aimed at assessing the spatial patterns and effects of Korean investment in Indonesian regional development before the crisis. To achieve this general objective, an account on the general pattern of Korean investment is discussed from global level, Asian, ASEAN and Indonesia. Finally, an account for the spatial patterns and effects of Korean investment on regional development in Indonesia is presented.

The paper is based on secondary data analysis. Data are gathered from various websites related to foreign investment in Indonesia as well as publications of various government organization for the spatial patterns and impacts of Korean investment. Data are analyzed using a simple descriptive statistics and thematic mapping.

The research reveals that Korean investments in the world are mainly directed to USA, Europe and Southeast Asia. Southeast Asian Region has been the most important destination of Korean investment in the last three decades due to the availability of cheaper labor force, abundant natural resources, and favorable climate for investment and with little exception political stability. Recent investments are also directed to more capital intensive and more advanced technologies, thus facilitating the transfer of technology.

The distribution of Korean investment in Indonesia as any other foreign investments tends to be clustering in the surrounding areas of Jakarta, known as the Bogor, Tangerang, Bekasi (BOTAREX) Region where some 65 percent of foreign investment is located. The effects of Korean investment on regional development at national level in Indonesia are very limited, but there is a substantial effect on the regional production structure, economic growth and employment generation at local-regional level, more especially in the main industrial agglomeration of the BOTAREX Region.

Keywords: Korean Investment, Indonesia, regional development
BACKGROUND TO THE STUDY

South Korea (henceforth Korean) track of development is well known as a part of the Asian Miracle in which a tremendous economic growth has brought about a strongly decentralized regional development across the nation. Boxst (1996) argues that the rapid growth of Korean economy are conditioned by the investment in both human and physical capital, the egalitarian distribution of income and the importance of rapid export growth and the insular nature of government decision making. Whereas Steinberg (1982) proposed three major themes evolving from Korea's long history of development, namely cultural homogeneity, Confucianism and social classes.

The experiences of Korea in development are very different from what have been occurring elsewhere. Agricultural reform in the country was conditioning economic development facilitated by a massive rural infrastructure development (Puffer, 1954). This was followed by a substantial shift in development strategy from import substitution to export led type of industrialization and leading to spatially more decentralized regional development (Ho, 1982). In a short span of about thirty years, Korea transformed itself from an underdeveloped, agricultural-based economy, into an industrialized country in Asia. At the point of joining the ranks of developed nations, Korea has become an important source of investment to the rest of the world (Lee, 1994). Korean investment in Southeast Asia has been growing tremendously in the last three decades in search for cheaper labor and natural resources (Wells and Warren, 1978).

Indonesia is now facing the great problems of inter-regional inequality in development and at the same time, it is in the early stage of the implementation of decentralization policy, which is believed to be a panacea to the problems of poverty, inequality and unemployment. Thus, there is a crucial question: what lessons can be learnt from the experiences of Korea in regional development that may also be relevant for the regional development in Indonesia today? From the point of view of regional development studies it is important to learn the experiences of Korea in regional development through the behavior of their investors abroad, as many researchers agreed that Korean investors as a part of newly emerging economy are different from those originated from developed countries. The mode of their operation tends to be more labor intensive and be using appropriate technologies for developing countries (Sonenscher, 1992). Thus, their behaviors are mostly relevant for the conditions of the present day developing countries to learn.

In the first place, it is necessary to understand the relative position of Korean investment in Indonesia within the context the South East Asian nations. Second, it understanding the role of the Korean investment at national level in Indonesia it is also a great significance to picture out the spatial patterns of Korean investment across the region at sub-national levels. Moreover, it is also important to know whether the Korean investors behave in the same way as they occurred in their home country in the sense that they have led to a more decentralized regional development.
THE OBJECTIVES

The paper is aimed at assessing the importance of Korean investments and their conditioning as well as contextual factors at the national level and their relevance in regional development in Indonesia. This general aim is further translated into the following objectives: (1) to assess the importance of the Korean investment in Southeast Asia and the relative position of Indonesia in terms of economic and demographic factors across the national level until 1999; (2) to identify the patterns of Korean investments in various regions across the national level in Indonesia; and (3) to draw the effects of Korean investments on regional development in Indonesia, more especially on regional economic structure and development.

THE METHODS

The research is based on the analysis of secondary materials available on the websites of various official institutions. The study is conducted through the following steps:

1. Studying the relevant publications on Korean investments in various regions and their impact on regional development. A special attention is spent on the experiences of Korea in its regional development in the past. This gives a framework for which the interpretation of the data will be made. Among important issues to deal with is the literature study on the process of a decentralized regional development in Korea, the relation between agricultural and non-agricultural sectors, the role of infrastructure and regional development.

2. Assessing the Korean investments patterns in Southeast Asia at the national level as well as in terms of the development in each region. This gives a framework for which the interpretation of the data will be made. Among important issues to deal with is the literature study on the process of a decentralized regional development in Korea, the relation between agricultural and non-agricultural sectors, the role of infrastructure and regional development.

3. Assessing the patterns of Korean investments in Indonesia across the national and regional level. This will depict the patterns of the investments in various regions as a whole as well as in terms of the development in each region. This gives a framework for which the interpretation of the data will be made. Among important issues to deal with is the literature study on the process of a decentralized regional development in Korea, the relation between agricultural and non-agricultural sectors, the role of infrastructure and regional development.

4. Assessing the impact of the investments in Indonesia at the regional level in terms of employment opportunities and regional economic structure. The impacts of Korean investments at the regional level are assessed based on case studies in the BOTAREK region where Korean investments are mostly prevailing.
KOREAN INVESTMENT IN SOUTHEAST ASIA

Korean investments in Southeast Asia were initiated in the late 1960s as was in the other part of the world. The very first Korean investment was implemented in the forestry sector of Kalimantan, Indonesia by the Nam-Rang Development Corporation (Linkai, 2006 and Lee, 1994). Capital outflow from Korea in Southeast Asia is among the biggest in terms of the amount of investment in comparison to those in the rest of the world. Korean investment in Southeast Asia in the period of 1968 to 1997 is about US $7.436 million or more than 85 percent of its investment in the world (Park and Lim, 2000). Southeast Asia has been the most important area for the Korean investment for more than two decades.

Figure 1 shows the relative share of Korean investment in Southeast Asian Region in comparison to the rest of the world by main regions.

![Graph: Korean Investment by Major Regions, 1968-1997 (US$ 000)](image)

Figure 1. Korean Investment by Major Regions, 1968-1997 (US$ 000)

The housing of Korean investment abroad since the mid of 1980s has been strongly associated with the policy of Korean Government to stimulate overseas investment. The policy was indeed a response to the appreciation of the Won against the US $ and the increasing wage due to the stronger and more effective performance of Korean labor union. Recent mobility of Korean investment is attributable to a change in locational advantages of its economic development. The major trading partners of Korea impose trade restriction that encouraged Korean firms to invest abroad (Lee, 1994).

These conditions have led to a massive shifting of the more labor-intensive industries to new locations with lower labor cost somewhere in Southeast Asia. On the other hand, Southeast Asian Countries at the same time show an impressive economic growth, favorable political stability (except The Philippines), abundant natural resources (Indonesia and Malaysia) and cheap labor cost (Win, 1992).
The data also suggest that the amount of Korean investment in Southeast Asia has increased substantially from US $40.0 million in the period of 1968-1990 to US $5,367 million in the period of 1994 – 1997 (Table 1).

Table 1. Korea Net Foreign Direct Investment Outflow by Major World Regions 1968-1997 (percent)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Southeast Asia</td>
<td>31.32</td>
<td>12.49</td>
<td>40.76</td>
<td>48.82</td>
<td>45.24</td>
</tr>
<tr>
<td>Middle East</td>
<td>16.59</td>
<td>19.07</td>
<td>(5.54)</td>
<td>0.97</td>
<td>1.09</td>
</tr>
<tr>
<td>North America</td>
<td>24.64</td>
<td>38.33</td>
<td>40.65</td>
<td>23.27</td>
<td>38.93</td>
</tr>
<tr>
<td>Latin America</td>
<td>3.47</td>
<td>1.85</td>
<td>4.89</td>
<td>5.20</td>
<td>4.99</td>
</tr>
<tr>
<td>Europe</td>
<td>3.65</td>
<td>12.28</td>
<td>9.62</td>
<td>17.76</td>
<td>15.10</td>
</tr>
<tr>
<td>Africa</td>
<td>18.89</td>
<td>(8.83)</td>
<td>2.03</td>
<td>2.22</td>
<td>2.20</td>
</tr>
<tr>
<td>Oceania</td>
<td>1.23</td>
<td>15.81</td>
<td>2.57</td>
<td>1.66</td>
<td>2.25</td>
</tr>
</tbody>
</table>

Source: Park and Lim, 2000

This comprises more than 45 percent of Korean investment in the world. Thus during these two periods the total amount of Korean investment in Southeast Asia has increased by 134 times. This high increase in Korean investments is associated with the high economic growth, political stability and continued economic liberalization in the ASEAN region at least until the crisis period in 1998. Park and Lim (2000) reported that 1994 was a turning point in Korean FDI history because the Korean government changed its FDI policy from a system requiring government approval for most of FDI to a system allowing free investment abroad except for a few listed sectors.

Korean investors had established business relations with buyers in developed country markets long before they moved the operations to low-cost sites in Southeast Asia (Woo, 1991). The massive movement of Korean investment is the second half of the 1990s was an effort to seek for comparative advantages of low wage and abundant natural resources. This is in line with the findings of Park and Lim (2000) that the Korean investments in most developing countries are seeking for lower wage rather than securing the local market. Korean investments also tend to employ larger number of workers than do the projects of other source countries. This motive is so-called low-cost resource seeking or efficiency seeking in the words of Villafaña (1993). On the contrary, Korean investment in the US and Europe is associated with market seeking and technology-seeking. Under the existing demographic and economic context of the Southeast Asian region, Korean investment strongly fit with the labor seeking economy of most Southeast Asian countries.
Korean investments in Southeast Asia are not evenly distributed across the countries in the region. There is a strong tendency of concentration in Indonesia (Figure 2).

![Figure 2. Flows of Korean Investment to Southeast Asia by Countries, 1990 - 2001 (US $ 000)](image)

The existing patterns of the distribution of Korean investment in the region is strongly associated with the availability of cheaper labor force and abundant natural resources in the region as well as a relatively long history of international relations between Korea and Southeast Asian countries. Thus, it is not surprising to find that the greatest portion of Korean investment goes to Indonesia as the most populous country with a heavy burden of unemployment but with abundant natural resources that are not fully utilized. It is confirmed by the data showing that more than 54 percent of Korean investments from 1990 – 2001 are located in Indonesia. The rest goes to the other ASEAN countries such as Thailand, Philippines and Malaysia (Zhan, 2002).

Indonesia has been the main destination of Korean investment for more than thirty years for the following reasons:

1. Level of wage in Indonesia is among the lowest in ASEAN countries
2. Indonesia has been able to maintain political stability and exchange rate against US $ during the period of 1980 – 1997.
3. Export and international trade have stimulated through a more liberalized policy, known as PAKEM (1986).
4. Sufficiency in production resources as well as skilled and managerial personnel.
5. Political stability in Indonesia in the period of 1958-1997 has placed it as the safest country for investment.
6. Availability of infrastructure especially harbors to facilitate the mobility of export commodities such as those in Jakarta, Surabaya, Semarang, Medan and Ujung Pandang (Wei, 1992).
KOREAN INVESTMENT IN INDONESIA

On the basis of data published by the National Coordinating Board for Investment (BEPIM) during the period of 1978-1996 the share of Korean investment in Indonesia was more than 10 percent, following Japan (17.6 percent), Singapore (13.8 percent) and Taiwan (12.4 percent). But the figure of Korean investment in Indonesia is then falling to only 1.86 percent to total foreign investment of noms 5.4 percent of Asian investment (BPS, 2003). Thus during the crisis period since 1997, Korean investment in Indonesia has been decreasing tremendously. This is also related to the fact that political turmoil in 1998 and the image of bad political governance (Globerman and Sapatino, 2002) in Indonesia have led unfavorable conditions for foreign investors. Some indications of capital flight or investment withdrawal have been reported since then.

An interesting picture emerges from the number and size of Korean investment projects in Indonesia. Early Korean investment in Indonesia and elsewhere has been typically small whereas investments that are more recent tend to be of larger scale. So far, investments of larger size (over US $10 million) have been made mainly to Europe and USA rather than to Indonesia and other developing countries. The behavior of the Korean investment in Indonesia is also following the international pattern as outlined by Park and Lin (2000). It has developed through four different stages from the learning stage with small investments in the 1970's, to natural resource-seeking investment in the early and mid 1980's, to the growth stage in the late 1980's and the early 1990's, to the maturity stage of the mid and late 1990's. The last two stages are characterized by a combination of cost-reducing investment and market-seeking investment.

During the late 1960's, Korean investment in Indonesia was very limited in its number and size due to Korea's relatively weak economy and its trade deficit problem. In responding to the newly issued regulation No. 1/1967 on foreign investment, Nam-Rang Development Corporation began its activities in Indonesia, especially in forestry sector of Kalimantan, as a part of the resource seeking behavior of Korean investors at the very beginning of its development. This was followed by Nisun, an investee producing MSG (monosodium glutamate), with more than US $7.2 million investment (Gleed, 2000). It seems that the regulation gave many opportunities for foreign investors to take part in economic development in Indonesia.

As a response to the policy to secure natural resources after the oil crisis in 1979, Korean investment abroad began to gain its pace. The Korean economy grew stronger and gained international competitiveness in the 1980's, its trade balance changed from deficits to surpluses, stimulated further FDI outflows. Therefore, in the second half of the 1980's the value of Korean investment in Indonesia experienced an unprecedented development. The amount of investment in 1988 was more than US $209 million for 26 projects. The figure was far above the cumulative investment from 1968-1987, which was about US $115 million. This since then the value of investment per year of project tax
increased tremendously, indicating the role of Korea as a newly growing economic power from Asia. The value of Korean investment in Indonesia gained its peak in 1994 when a total investment of more than US $ 1,851 million on 35 projects were implemented. This means that the scale of investment per project has increased up to US $ 53 million (BPS, 2003).

The development of Korean investment in Indonesia since the second half of 1980s was stimulated by the policy of Korean government to relocate their business abroad, because of the appreciation of their currency. This also led to higher wage level and thus more costly production in Korea, at the same time many partners of Korean companies abroad imposed some new trade restrictions. These conditions forced many Korean investors to seek for new locations where cheaper labor is available to keep their products competitive. Indonesia is the main destination of Korean investment in Asia as it offers cheaper labor, abundant natural resources and to some extent substantial domestic market for their products.

From the Indonesian side, the period of early 1980’s was a hard time for the national economy. The drop of oil price in the world market has forced the Indonesian government to consider non-oil source of revenue. In response to this situation, the government of Indonesia introduced new regulations to attract foreign investment and to stimulate exports of non-oil commodities. Since the 1983 and after 1986 the Indonesian economy underwent a dramatic reform (Soesastro, 1992 and Arswidahyo and Hill, 1995). In 1986, the Indonesian government allowed for procurements of raw materials abroad at international price in order to stimulate exports of non-oil commodities. This was also followed by the new regulations on investment and capital market in 1987 and regulations on banking and capital market in 1988. The implementation of these packages of policies led to tremendous increase in exports and foreign investments including those from Korea.

In the period of 1994 - 1997, the total Korean investment in Indonesia was about US $2.184 million or the size of investment was about US $14 million per project. This increase was partly also attributable to the above-mentioned policies imposed by the Indonesian government. There is a new pattern of Korean investment since then. The Korean investors - who are mostly interested in smaller size and labor intensive activities - in turn also entered larger scale of projects with more capital intensive and more advance technology in nature. The involvement of Korean investors in steel, cement, electronics and automobile productions afterward are among examples of this new trend.

The importance of Korean investment in Indonesia should not only be seen in terms of value of investment, but also in terms of employment created and the transfer of new technology. Entering 1997, the number of Indonesian workers participating in Korean companies was more than 200,000 people. If each worker has four family members, the figure means that the living of about 800,000 Indonesian are depending on the existence of Korean investment. Moreover, the presence of Korean investments also gives employment opportunities to 360,000 experts and managers as well as 71,000 Korean middle workers and their families.
Korean investment in Indonesia has experienced two simultaneous changes, i.e. (1). Shifts from labor-intensive to capital-intensive activities, and (2). Shift toward the importance of more capital intensive and more advanced technology. This technology transfer is immediately supporting the acceleration of industrialization process in Indonesia. The work of Lindblad (2000) reported a strong impression that the more recent investment is oriented toward the use of more advance technology.

Concomitantly, the inter-provincial distribution of Korean investment in Indonesia, to sufficient data are presently available. Thus, the effects of Korean investment on spatial patterns of interregional disparities and regional development cannot be assessed rigorously at inter-provincial level. At present, it suffices to say that Korean investment in Indonesia is unevenly distributed over various provinces. Among the most important host provinces or islands of Korean investment are Jakarta Special Province, West Java, Central Java, East Java, Bali, Kalimantan and West Sumatra (Lindblad, 2000).

Under the existing patterns of distribution of foreign investment in Indonesia, it seems plausible to increase that the distribution of Korean investment is simply following the general spatial patterns of the other source countries. Korean investment tend to be concentrated in the vicinity of the capital city of Jakarta which is known as the BOTJNEK Region or concentrated in the outer islands, where natural resource exploitation is taking place.

Using the same token one may conclude that the existing spatial pattern of Korean investment will not be able to reduce the existing inter-provincial disparities in Indonesia, if not to worsen it (see Sjoholm, 2000). This is also in line with the fact that most Korean investments are located in the most favorable parts of Indonesia, i.e. (1). Java Island where labor are abundant and cheap, other related industries are prevailing and supports infrastructure are sufficient, and (2). Outer islands where natural resources are relatively abundant and under-exploited (land, forest and minerals). In the Eastern part of Indonesia very limited foreign investments were encountered including those from Korea. This is due to the lack of infrastructure and incentive to reduce the existing lost of regions deriving incomes from primary sector (Hil, 2000).

Because of the lack of necessary information, an assessment on the economic effects of Korean investment on regional development will be based on a set of data available at district level in the surrounding area of Jakarta. The BOTJNEK Region is a host of some 65 percent of foreign investment in Indonesia. A more detailed discussion is given as follow.

KOREAN INVESTMENTS AND REGIONAL DEVELOPMENT

The role of investment in regional development can be seen in its contribution to employment opportunities, regional incomes and technology transfer. The greatest part of foreign investments are oriented toward processing industries leading to the transformation of the economic structure of the host regions toward the importance of manufacturing and service sector as sources of employment and incomes. The same apply to the regional government revenue that is more reliant on tax and contribution from these sectors as the industrialization proceeds.
From the total investment in Indonesia, roughly some 65 percent are located in Java, more especially West Java Province. The cumulative value of foreign investment in the BOTABEK Region from 1978 to 1990 was about 29 percent of the national figure or about 44 percent of foreign investment in West Java. The region is very attractive to foreign investors as there is an agglomeration of manufacturing industries supported by various infrastructure (energy supply, water supply, telephone networks, roads and favorable regulations), easy access to an international airport and easy access to export and import service facilities (ports, warehouses and banks).

In quantitative terms, the BOTABEK Region received US $16,526 million foreign investment or some 36.8 percent of foreign investment in West Java Province in the period of 1990-2000. This leads to the importance of manufacturing industries as sources of the gross regional domestic product (GDRP) and employment in the region. The manufacturing industries strongly dominated the GDRP in the region. The contribution of manufacturing industries to the GDRP in the District of Tangerang, Bakti and Bogor were 53 percent, 59 percent and 46 percent respectively. At the same time the regional economic growth was 13.8 percent per annum, far above 8.7 percent per annum the growth at provincial level. This general picture gives an illustration that foreign investment can be a very important ingredient in regional development (Indonesia, 2003). Moreover, foreign investments play an even more important role in industrial transformation through transfer of technology, management practices, and marketing know-how, while improving the overall quality of investment (ASEAN Secretariat, 2003).

![Figure 3. Percentage of Korean Investment to Total Foreign Investment by District in the BOTABEK Region, Indonesia 1987 - 2000 (percentage)](image-url)

As part of the foreign investment, Korean investments in the BOTABEK Region are also rather substantial. The Korean investment comprises 11.2 percent of the total cumulative percentage of the total investment in the region. The contribution of Korean
investment in the region tends to fluctuate over time. The following table presents a relative contribution of Korean investment to the total foreign investment in the region 1987-2000. Most (99 percent) of the Korean investment goes to the manufacturing industries. In the manufacturing sector the investment from Korea are mainly concentrated on labor-intensive industries such as textiles, footwear, and chemical as well metal work industries. This is a very typical of Korean and to some extent most developing countries investment in other developing countries (Wells and Wazen, 1978).

There is a distinct pattern of inter-regional difference in the types of manufacturing industries established by the Korean investors in the BOTABEK Region (Figure 4). In Bogor, the Korean investments are concentrated on textile, chemical, metal works and food processing industries (Table 2). Tanggerang is the main host of textile and chemical industries. The pattern of concentration of manufacturing industries in Bekasi is somewhat different from those in Bogor and Tanggerang. Korean investments in Bekasi are more concentrated on metal works and machinery industries. One common characteristic of manufacturing industries shared by all establishments in the region is that they are foot loose, labor intensive and export oriented. Under the given structure of manufacturing industries of Korean investment, there is a limited linkage to the utilization of natural resources at local level and thus there is a weak backward linkages. However, one can easily see a relevance of the existing industries in the provision of employment through their labor-intensive operation and marketing of their products, which are partly to cater national market.

Table 2. Percentage of Korean Investment to Total Foreign Investment in the BOTABEK Regions, 1987-2000

<table>
<thead>
<tr>
<th>Year</th>
<th>Tanggerang</th>
<th>Bekasi</th>
<th>Bogor</th>
<th>BOTABEK</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>1.48</td>
<td>0.00</td>
<td>7.04</td>
<td>2.20</td>
</tr>
<tr>
<td>1988</td>
<td>16.03</td>
<td>25.57</td>
<td>23.57</td>
<td>18.13</td>
</tr>
<tr>
<td>1989</td>
<td>28.33</td>
<td>47.48</td>
<td>42.59</td>
<td>31.99</td>
</tr>
<tr>
<td>1990</td>
<td>46.07</td>
<td>18.65</td>
<td>22.89</td>
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<td>1991</td>
<td>32.65</td>
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<tr>
<td>1992</td>
<td>0.00</td>
<td>40.74</td>
<td>0.00</td>
<td>40.74</td>
</tr>
<tr>
<td>1993</td>
<td>9.39</td>
<td>7.47</td>
<td>4.97</td>
<td>8.22</td>
</tr>
<tr>
<td>1994</td>
<td>1.25</td>
<td>20.83</td>
<td>31.11</td>
<td>14.95</td>
</tr>
<tr>
<td>1995</td>
<td>0.00</td>
<td>2.07</td>
<td>2.54</td>
<td>2.54</td>
</tr>
<tr>
<td>1996</td>
<td>0.12</td>
<td>1.57</td>
<td>0.20</td>
<td>1.79</td>
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<tr>
<td>1997</td>
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<td>8.95</td>
<td>0.02</td>
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<td>1998</td>
<td>32.37</td>
<td>7.28</td>
<td>3.74</td>
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</tr>
<tr>
<td>1999</td>
<td>30.26</td>
<td>46.18</td>
<td>37.78</td>
<td>53.66</td>
</tr>
<tr>
<td>2000</td>
<td>18.70</td>
<td>33.59</td>
<td>29.14</td>
<td>26.08</td>
</tr>
</tbody>
</table>

CONCLUSIONS

Korean investments in the world are mainly directed to USA, Europe and Southeast Asia. Southeast Asian Region has been the most important destination of Korean investments in the last three decades due to the availability of cheaper labor force, abundant natural resources, and favorable climate for investment and with little exception political stability. The massive shift of Korean investments abroad has been stimulated by the general conditions such as the appreciation of the currency, increasing wages and stronger labor union as well as external factors such as new trading restrictions imposed by their business partners.

Korean investment in Indonesia has been taking place for more than three decades, oriented toward processing industries with high labor inputs in order to enter international market, which has been established before their movement to Indonesia. More investments that are recent are also directed to more capital intensive and more advanced technology, thus facilitating the transfer of technology. The factors determining the choice of industrial location in Indonesia were favorable business climate, political stability, cheaper labor cost, abundant natural resources and cheaper rent of industrial estate.

The distribution of Korean investment in Indonesia as any other foreign investment tend to be clustering in the surrounding areas of Jakarta, known as the BOTABEK Region where some 65 percent of foreign investment are located. This, the existing spatial pattern of Korean investment tends to widen the gap of inter-provincial development in Indonesia. The eastern provinces of Indonesia tend to be neglected by most foreign investors, most probably due to the lack of infrastructure and more limited agglomeration economy.

A substantial effect of the Korean and foreign investment in general on regional development could be observed in the districts belonging to the BOTABEK Region where more than 45 to 55 percent of the GRDP was derived manufacturing industries mostly financed by foreign investments. This under the relatively small investment of Korea in the region, their contribution to the transformation of the regional economy is also rather limited. A significant contribution of Korean investment in the region can be observed in the provision of mass employment in the region. The image of Korean investment -which tends to be labor intensive rather than capital and technology intensive- is highly suitable for the conditions in Indonesia where unemployment is a pertinent problem.

This study of the impacts of Korean investment on regional development in Indonesia has mainly focused on the BOTABEK Region where all foreign investments are competing for the benefit of clustering. In the period of decentralization, one can observe that many foreign investments, including those from Korea, at smaller scale are now widespread over the country. This kind of investment is most probably bringing more significant and more widely spread impacts on regional development. Special attention should be given to this newly emerging trend of investment across the country.
ACKNOWLEDGEMENTS

The author expresses his sincere gratitude to Ms. Punctada Sirivannapood and Mr. Dougalamoon Vongin, program officers of the ASEAN University Network at Chulalongkorn University, Bangkok, Thailand for their administrative supports. Special thanks go to the director of the Center for Regional Development Planning (PSFPRI) at Gadjah Mada University who made this study possible. Technical supports of Ayutth Norwita and Doddy Widianto, research assistants at PSFPRI for the painstaking and patience in data collection, analysis, presentation and reporting are also acknowledged.

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