

# ISAS Brief

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India and the Korean Peninsula - I

## Political Will is the Test of India-South Korea Special Strategic Partnership

*India and South Korea upgraded their bilateral relationship to the status of a 'Special Strategic Partnership' when India's Prime Minister Narendra Modi visited Seoul recently. The new partnership seeks to promote closer ties between various industries and between the defence sectors of the two countries. But the unanswered question is how and on what to build the special strategic partnership.*

Sojin Shin<sup>1</sup>

### Optimism about India-South Korea Relations

Excitement among investors in East Asian countries surged when Mr Modi visited China, Mongolia, and South Korea in May 2015. They had great expectations that the Modi Government would support the flow of their investments into India. A source said that South Korean investors vied for separate meetings with Mr Modi at the hotel where he was staying

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in Seoul during his visit, to discuss their investment proposals and projects. In fact, the excitement of Korean investors was also shared by Mr Modi even when he was the Chief Minister of Gujarat.<sup>2</sup> His attitude continues to be shaped by a strong belief that advanced technology is needed for India's further growth; this is reflected in his statement that "Korea's economic miracle and global leadership in technology has made the promise of the Asian Century more real".<sup>3</sup> His visit to the shipyard of Hyundai Heavy Industries in Ulsan during his stay in South Korea demonstrated his keenness for Indo-Korean business tie-ups. At Hyundai's Ulsan shipyard, Mr Modi said: "Your ship-building capacity and our agenda of port-led development can become [the] driver of our growth".<sup>4</sup> India seeks cutting-edge technology from South Korea, and South Korea needs the Indian market for its business groups. Such complementary expectations have encouraged the policy makers and business groups in the two countries to develop a rosy view of the bilateral economic relationship.

The Government of South Korea seems to believe that Mr Modi's visit has contributed to the development of political, economic, and cultural dimensions of the bilateral relationship. It also emphasised the importance of enhanced defence cooperation for the security of the Asia-Pacific region; trade, and investments in the areas of manufacturing, infrastructure, energy, shipbuilding, and health, besides cultural exchanges and cooperation were also highlighted.<sup>5</sup> In his blog, just after a meeting with South Korean President Park Geun-hye, Mr Modi wrote: "Our relationship started with a strong economic emphasis. But, it has also now become strategic in content. I am pleased that we have agreed to upgrade the bilateral relationship to 'Special Strategic Partnership'".<sup>6</sup>

## **How Modi can help South Korean Investors on the Ground: The Case of POSCO**

Despite such optimism about India-South Korea economic relationship, there is a group of investors which is simply not excited about the Modi Government's promises. These

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<sup>2</sup> For example, Mr Modi had signed an MOU with the Korea Rural Community Corporation in May 2007 to pursue the Kalpasar dam project in Gujarat.

<sup>3</sup> <http://www.narendramodi.in/pm-modi-s-visit-to-south-korea-day-2> (accessed on 26 May 2105).

<sup>4</sup> <http://www.ndtv.com/india-news/shipbuilding-top-priority-for-india-pm-modi-to-hyundai-heavy-industries-chairman-764359> (accessed on 15 June 2015).

<sup>5</sup> See the official website of the Blue House in South Korea, [http://www1.president.go.kr/news/briefingList.php?srh%5Bview\\_mode%5D=detail&srh%5Bseq%5D=10713](http://www1.president.go.kr/news/briefingList.php?srh%5Bview_mode%5D=detail&srh%5Bseq%5D=10713) (accessed on 26 May 2015).

<sup>6</sup> <http://www.narendramodi.in/pm-modi-s-visit-to-south-korea-day-1>, accessed on 26 May 2015.

investors have learnt an important lesson on the ground in India. Pohang Steel Company (POSCO), the world's fourth largest steel producer from South Korea, is one of them.

POSCO signed an MOU with the Government of Odisha in India in June 2005 for its foreign direct investment project. It proposed to establish an integrated steel plant with a total capacity of 12 million tons per annum at Paradip in Jagatsinghpur district of Odisha, with an investment of US\$ 12-billion. When POSCO-India, the local subsidiary of POSCO in India, was incorporated in August of the same year, not only the South Korean investors but also the political leaders at the Central Government and the Odisha Government in India were excited about the prospects of the project.<sup>7</sup>

However, POSCO soon encountered opposition from left-wing extremists and local people, as the state government began the process of acquiring land near the Paradip Port for the steel factory.<sup>8</sup> Even though a substantial part of the required land was public property, many local people were dependent on it to cultivate betel vine, a main ingredient for *paan*, as the primary source of their income. POSCO suggested the best possible compensation package for the local people in return for their lands. However, the agitation became more severe. The real challenge for POSCO, in fact, was that of dealing with the state government. In the eyes of POSCO, the state government was not sufficiently proactive in implementing its own policies in order to push the project forward. In addition, it lacked adequate commitment to pacify the social opposition to this project.<sup>9</sup> POSCO expected the state of Odisha to provide substantial support and institutional incentives such as tax-cuts for securing natural resources within the state. However, POSCO got news of progress towards the required licenses only in 2014, nine years after the MOU. It has now managed to resolve the land-acquisition problems through substantial struggles and at enormous economic cost so far. Nevertheless, the issue of mining leases still remains unclear.

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<sup>7</sup> In fact, POSCO was invited by the political leaders at the central government of India in 1990 for the steel project. However, POSCO did not enter the Indian market at that time.

<sup>8</sup> Detailed research has been done by the author for her doctoral thesis at the National University of Singapore.

<sup>9</sup> The mining leases and prospecting licenses are examples of what the state government should take care of, even though many of the investment clearances need to be approved in cooperation with the central government.

**Table 1: Foreign Direct Investment Inflows into India and China**

Country \ Year		2010	2011	2012	2013	2014
		India	FDI, net inflows (current US\$ billion)	27	36	24
FDI, net inflows (% of GDP)	1.6		2.0	1.3	1.5	1.7
China	FDI, net inflows (current US\$ billion)	273	332	296	348	-
	FDI, net inflows (% of GDP)	4.5	4.4	3.5	3.7	-

*Source:* Based on The World Bank, *World Development Indicators* (Accessed on 20 July 2015).

The lesson that the POSCO case has provided to the investors from South Korea and policy makers in India is clear: political commitment and efficient bureaucracy are necessary to make foreign investments in India viable. It is something that the Prime Minister of India alone can never provide. There have been many futile meetings between the two countries in the past ten years in order to pursue the POSCO project in Odisha. Strong support from the state government concerned is a prerequisite for attracting foreign investments, which are far behind of China (see Table 1). It is time that Mr Modi liaises with the political leaders at the sub-national state levels to provide leadership for his ‘Make in India’ campaign and translate it into reality.

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