

ISAS Brief

No. 414 – 29 March 2016

Institute of South Asian Studies
National University of Singapore
29 Heng Mui Keng Terrace
#08-06 (Block B)
Singapore 119620
Tel: (65) 6516 4239 Fax: (65) 6776 7505
www.isas.nus.edu.sg
<http://southasiandiaspora.org>



Korea's Efforts to Enhance Economic Partnership with India

While South Korea has already established a conspicuous market presence in India, the two sides, now looking for ways to enhance their economic partnership, should focus on not only business-to-business and government-to-government ties but also explore avenues of interaction at the sub-national levels.

Sojin Shin¹

India and South Korea's Special Strategic Partnership seems poised for a step forward both in Business-to-Business (B-to-B) and Government-to-Government (G-to-G) areas. Korea's business tycoons and political leaders recently visited New Delhi to find a way to deepen their political and economic relations with India. Both countries pay much attention to India's manufacturing and infrastructure sectors for the purpose of Korean investment. Making city-to-city friendship looks like a good G-to-G strategy for both countries to enhance the Special Strategic Partnership.

¹ Dr Sojin Shin is Visiting Research Fellow at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore. She can be contacted at isassos@nus.edu.sg. The author, not ISAS, is liable for the facts cited and opinions expressed in this paper.

Enhancement of B-to-B in Manufacturing and Infrastructure

On 14 January 2016, 500 industrialists and political leaders from Korea and India got together in New Delhi to discuss business opportunities in both countries.² Entrepreneurs from Korea included Samsung Electronics' President Park Sang-Jin, LG Vice-President Koo Bon-Joon, Hyundai Motors' Vice-President Chung Eui-Sun, Lotte President Shin Dong-Bin, CJ President Son Kyung-Shik and many others. The entrepreneur-group attracted attention because many of them are *chaeböl* [conglomerate in Korean] companies that had played a greater role in promoting domestic output and exports during Korea's industrialisation. Further, Korea International Trade Association's Chairman Kim In-Ho, Vice-Speaker of the National Assembly Chung Gap-Yoon, Vice-Minister of Trade, Industry, and Energy Moon Jae-Do, and some other political leaders also participated in the meeting. Their participation in the meeting seemed to catalyse political support for India-Korea economic relations. From the Indian side, Minister of State for Finance Jayant Sinha, NITI Aayog CEO Amitabh Kant, Chairman of India Exim Bank Yaduvendra Mathur, CII President Sumit Mazumder, Vice-Chairman of Bharti Enterprises Rakesh Bharti Mittal, Chief Minister of Haryana Bansi Lal, and many industrialists and political leaders were invited.

India and Korea are good business partners. For India, the Korean business tycoons, whose accumulative worth is US\$ 600 billion, are welcome investors. For the Korean investors, India is now the third-most-favourable market after the United States and China. Especially, Korean investment to India has been focused on the manufacturing sector. Table 1 presents the number and amount of Korean investment made in the manufacturing industry of India during the past 15 years. The average annual investment in India's manufacturing sector from Korea is around 71.9% of the total Korean investment into India. In fact, Samsung in Noida has been leading the white goods market in India since the mid-1990s, and has recently begun heading the mobile market as well. Hyundai Motors based at Sriperumbudur in Tamil Nadu has contributed to India's exports. Hyundai Motors is planning to expand its factories to meet the demand of the Indian market and promote India's exports. It is widely known that their business successes can be traced to their marketing strategy of producing customised products that favour the

² ChosunBiz, "500 Korea-India Business Tycoons at A Meeting [Han-Indo Jaegye Chongsu Deung Jooyo Insa 500yeomyeong Hanjarie]", 14 January 2016 (accessed on 1 February 2016). See also *The Economic Times*, "India-Korea Business Summit: Make in India Gets a Leg Up from South Korean Honchos", 14 January 2016 (accessed on 1 February 2016).

Indian domestic consumers. Many models of mobile and automobile products that Samsung and Hyundai are making in India are marketed only in India. Beyond the manufacturing industry, CJ is looking for an opportunity to introduce ‘Hallyu’ [The Korean Wave] through the media industry in India.

Table 1: Korea’s Manufacturing-Oriented Investment in India (2001-2015)

Year	Number of Korean Investment projects in Manufacturing Sector in India	Amount of Korean Investment in Manufacturing Sector in India (US\$ thousand)	Manufacturing Sector Investment to Total Investment in India from Korea (%)
2001	21	6,325	20.8
2002	17	22,000	47
2003	17	3,619	21.4
2004	44	29,102	71.4
2005	58	82,224	89.5
2006	106	83,617	83.1
2007	161	475,029	93.8
2008	152	134,716	71.2
2009	80	215,850	89
2010	97	155,214	78.5
2011	107	423,941	93.4
2012	106	236,377	76.4
2013	86	293,633	85.7
2014	76	298,836	92
2015	63	149,501	66
Ave.	79.4	173,999	71.9

Source: Based on the Korean Exim Bank (accessed on 4 February 2016).

After the Korea-India business meeting in New Delhi, the Indian Embassy in Korea and the Infrastructure Leasing & Financial Services Limited (IL&FS) organised a meeting in Seoul to showcase investment opportunities in the infrastructure sector and find a way to cooperate with

Korean financial institutions.³ IL&FS is one of India's leading infrastructure development and finance companies that has built a number of infrastructure projects in different sub-national States in India. The Indian Embassy in Korea mentioned that the Government of India has plans for US\$ 234-billion worth investments in the infrastructure sector in 2016-17, and it would bank on the private sector for securing the 43% of this targeted funds.

The Government of India's plan for enhancing the crucial infrastructure sector was reflected in the Union Budget for 2016-17. Finance Minister Arun Jaitley has highlighted that public investment has to lead the way while fighting a global slowdown. He put it, "Public investment has been stepped up in the last year and it will continue to remain stepped up".⁴ The Government was considering the private sector to manage smaller airports, while the Railways would want to invite bids for renovating 400 stations. FICCI President Harshvardhan Neotia also mentioned that there is a need for government to increase public spending after which the private investment will follow, and such public spending should not be made at the cost of slippage on the fiscal front.⁵ As part of the infrastructure development agenda in India, the Narendra Modi Government has announced plans for smart cities, where not only basic infrastructure such as electricity, water supply, sanitation, efficient public transport, and security are secured but also health- and education-programmes are provided. The smart city project would attract foreign investors with capabilities in the infrastructure industry.

A New Strategy for G-to-G Cooperation

On 29 January 2016, Pohang city in South Korea celebrated the Republic Day of India with the assistance of Indian Embassy in Korea. Pohang is well known as the city of POSCO, one of the world's largest steel producers. POSCO has invested in India by building two production corporations, three manufacturing corporations, and a distribution centre. However, POSCO's Odisha project has struggled to secure mining concessions and land for manufacturing factories.

³ The Financial News, "India Infra Investment Roundtable [Indo Infra Tooja Roundtable]", 19 January 2016 (accessed on 1 February 2016).

⁴ *Business Today*, "Budget 2016: Government to Step Up Investment in Infrastructure Sector", 6 January 2016 (accessed on 3 February, 2016).

⁵ *The Economic Times*, "Budget 2016: India Inc Seeks More Public Spend in Infrastructure, Rural Sectors", 7 January 2016 (accessed on 3 February 2016).

Lee Kang-Deok, Mayor of Pohang, has put forth a multilateral effort into interacting with India actively since he took office in 2014. Lee stressed that Pohang-India close relationship is significant for POSCO that has a vital role on the economic landscape. He promised that Pohang would support the Indian entrepreneurs that would like to expand their business in the city. India's Ambassador to Korea responded to Lee, saying that cooperation would bring successes for both countries. In India's Andhra Pradesh State, many Korean entrepreneurs are based, and there are possibilities of further economic cooperation.

In fact, Pohang is not the first local government in Korea that attempts to enhance its friendship with India. For example, Gunsan in Korea and Jamshedpur in India agreed to a sister-city relationship in 2004. Some of the Korean sources said that Suwon and Hyderabad also agreed to a sister-city affiliation in 2005 to interact in the economic, cultural, and tourism areas. In 2007, Incheon and Kolkata signed an agreement on a sister-city relationship. Also, Busan and Mumbai became sister cities in 2009 to share similar cultural experiences as coastal city with advanced film industry.

However, many cases of the sister-city agreement were not widely known to the public. The political convention of the sister-city relations seems nominal that does not facilitate much cultural and economic exchanges between the two countries' citizens. There has even been a case of a sister-city agreement becoming dysfunctional. In 2005, the Government of India did not accept Korea's suggestion when Gyeonggi Province Governor Sohn Hak-Kyu proposed a twin-city interaction with the Indian State of Maharashtra. At that time, it was said that provincial states of India had never been in such relationships with foreign States before.⁶ There was the lack of a clear communication between the two parties and of knowledge about the other side. Detailed plans and budget proposals are needed to promote the city-to-city relations. Political and administrative will is also required for public relations. Both India and Korea need to let their citizens actively participate in the process of enhancing friendship between the two countries. Building the city-to-city relations would be a good way to make both countries feel closer.

.

⁶ Gyeonggi Bangsong, "Sudden Rescission of Gyeonggi-Maharashtra Sister-City Agreement [Gyeonggi-Maharashtra Jamaebyeolyeon Dolyeon Chuiso]", 7 April 2005 (accessed on 4 February). See also Tayal, Skand R. *India and the Republic of Korea: Engaged Democracies*. New Delhi: Routledge, 2014. According to Tayal, the state governments were not allowed to be in such relations by policy.