

ISAS Insights

No. 279 – 8 April 2015

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South Korean Investments in India

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How does Narendra Modi's leadership enhance India-South Korea economic relations? There seem to be several possibilities to build closer ties between the two economies especially in the manufacturing and infrastructure sectors. This paper briefly discusses the highlights of economic achievement, new possibilities, challenges, and suggestions in the realm of trade and investment that the two economies have recently focused on.

G-to-G Active Interaction

The new Indian government under Prime Minister Narendra Modi's leadership has been in active discussions with the South Korean government to improve their economic relations as strategic partners. India's External Affairs Minister Sushma Swaraj recently visited South Korea and sought Korean investments in India. She visited just after Modi met South Korean President Park Geun-hye at the 12th ASEAN-India summit in Myanmar in November 2014. In the meeting with Swaraj, Park referred to India as "the best partner for South Korea's future and vision". Swaraj also mentioned that the two countries have established strong ties that would develop further,

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and addressed Park as *onni*, which means *didi* [sister] in Korean. Swaraj suggested to Yoon Sang-jick, Korean Minister of Trade, Industry, and Energy, that companies in the two countries co-produce LNG tankers to meet the growing energy needs in India. Such enthusiasm in India is believed to attract more South Korean investments.

The strategic partnership between India and South Korea was formed under the last United Progressive Alliance (UPA) Government, led by the Indian National Congress Party, through the Korea-India Comprehensive Economic Partnership Agreement (CEPA) in 2009. In fact, the two-way imports and exports substantially increased after the CEPA came into effect, as the agreement aimed to expand trade and investment, and enhance investment protection in both countries. According to Korea International Trade Association, the total turnover between India and South Korea until November 2014 was over US\$ 20 billion.² This reflects the progress by the two economies since they signed the first trade agreement in 1974.

Big Business-Driven Focus on Manufacturing

In terms of foreign direct investment (FDI), many of South Korean investors now consider India as the most attractive destination since the Chinese market is already saturated. Interestingly, South Korean investments in India have several distinct features compared to those of other countries in India.

First, 85% of Korean investments in India is concentrated in the manufacturing sector. This is a high proportion considering that foreign investors from many other countries have been targeting India's services sector.³ This signifies the strength of South Korean enterprises in the manufacturing sector. These enterprises enjoy comparative advantage in terms of technology and price competitiveness in the manufacturing sector of the Indian market. Their strength lies

² For example, exports from South Korea to India increased 42.7% and imports from India also rose 37% in 2010 compared to those of the year 2009 (data accessed on 21 January 2015). The chief items of export from India to South Korea are petroleum products and phytochemicals while those from South Korea to India are synthetic resins and steel plates.

³ The Department of Industrial Policy & Promotion (DIPP) under the Ministry of Commerce & Industry in the Government of India reported that 18% of total FDI inflows from April 2000 to November 2014 were made in the services sector. Data is available at http://dipp.nic.in/English/Publications/FDI_Statistics/2014/india_FDI_November2014.pdf (accessed on 21 January 2015).

clearly in the Greenfield type of FDI in which foreign investors set up manufacturing units in host countries by acquiring lands, securing infrastructure like water and power, and tackling environmental issues. For example, both Samsung and LG, South Korean electronics manufacturers, have captured more than 40% of India's mobile market share, with products from factories located at Greater Noida in Uttar Pradesh leading the way. Hyundai Motor Company, South Korean automobile enterprise, is another example of good performance. Hyundai Motor India (HMI) has 21% of India's domestic market share, as a runner-up after Maruti Suzuki, a joint venture between India and Japan. HMI has its manufacturing units at Sriperumbudur in Tamil Nadu and has a production capacity of 600,000 units per annum. However, some South Korean big businesses like Pohang Iron and Steel Company (POSCO) have faced difficulties in negotiating with protesters over the issue of land acquisition. Such conflicts cannot be resolved simply at the ministerial levels of the two countries, because intricate socio-political factors are at stake. POSCO has struggled to embark upon its steel project at Jagatsinghpur in Odisha since June 2005. This case has served as a lesson for South Korean investors that dealing with socio-political problems in the Indian market would be much more difficult than handling economic negotiations for investment.

Second, the main investors from South Korea in India are large businesses rather than small and medium enterprises (SMEs).⁴ In fact, FDI outflows by the large businesses have accelerated the unbalanced growth in South Korea's economy, even though they have enhanced the 'go-ahead' image of South Korean companies in the Indian market. In addition, the lack of institutional support from the South Korean government for SMEs has discouraged them from investing in India. For example, they have problems in accessing information and specialists about the Indian market.

New Possibilities

India's current Bharatiya Janata Party (BJP) government has emphasised the significance of the manufacturing and infrastructure sectors. Many foreign investors have paid attention to the 'Make in India' flagship initiative that Narendra Modi's government has designed. In fact, the

⁴ The ratio of SMEs' investments from South Korea to India is 19.5%. Many of the SMEs are focused on the automobile parts industry.

focus of South Korean investors on the manufacturing sector would help in enhancing it through technology transfer and the creation of employment in the Indian domestic market.

In addition, South Korean enterprises seem to have strong interest in contributing to infrastructure in India. For example, the Export-Import Bank of Korea (Korea Exim bank) signed a Memorandum of Understanding (MoU) with India Infrastructure Finance Company Ltd. (IIFCL), a wholly-owned Indian government subsidiary that specialises in providing long-term finance to viable infrastructure projects, in January 2014. According to the Korea Exim bank, the agreement included a clause that requires the Korea Exim bank to provide a tied loan of US\$ 200 million to Indian domestic companies that import goods and services from Korea via IIFCL. Such agreement would be beneficial to the two economies because it can increase trade and investment by Korean enterprises. In addition, the loan helps in the development of infrastructure in India's industry. Therefore, Indian companies facing financial difficulties can utilise such tied loans.

Challenges and Suggestions

There are several suggestions for both economies on how to enhance trade and investment. South Korea needs to promote its SMEs' investments in India, with an institutional arrangement that can facilitate their access to information and specialists in the Indian market. Without such access, it would be very difficult for the SMEs to tackle the problems that might arise from socio-political reasons in the Indian market. At the same time, South Korean big businesses could work with the SMEs. In addition, banks in South Korea can capitalise on opportunities to extend their financial services like offering tied loans to the Indian domestic companies that want to import goods and services from South Korea.

As for India, it should provide a more investment-friendly environment at the sub-national state level where many foreign investors face problems on the ground especially with Greenfield type of investments. As briefly mentioned above, as with the case of POSCO's struggle, the conflicts between foreign companies and local citizens cannot be resolved simply at the ministerial levels

of the two countries.⁵ It should be supported not only by local government but also by citizens. Especially, the attitudes of local citizens are substantially based on the state-society relations that have been built over time in the process of industrialisation. Both the state governments of India and foreign investors should not forget that the benefits of investment projects need to be considerably distributed among the local citizens in India. Such considerations would bring a win-win situation for both parties in the long run.

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⁵ The POSCO project in Odisha has been discussed at the summit meetings of two countries—South Korea and India—several times when Park Geun-hye visited India in January 2014, and when Park and Modi participated in the 12th ASEAN-India summit in Myanmar in November 2014. Furthermore, Kwon Oh-joon, CEO of POSCO, met Modi and discussed the project in New Delhi on 20 January 2015. However, citizens at the local village level who have opposed the POSCO project do not seem to interact enough with either the state government or the company for land compensation negotiations.