Korean FDI in India: Perspectives on POSCO-India Project

Jongsoo Park∗

Abstract: This paper reviews the dynamics of POSCO-India project, a combined “mine-steel plant-port” project in Orissa, India during the last five years. In contrast with the market oriented FDI undertaken by Korean companies like LG, Samsung, HMI in India, POSCO-India project is a natural resource seeking FDI that has faced hurdles from the very beginning in setting up its integrated steel plant. Especially there has been strong protest against this Korean project from the prospective displaced persons. The main reasons for the delay in the project are the failure to build local political consensus on the project, regulatory complexities, dispute on government record on the land, and compensation. We conclude that it is important to recognize the difference between the market oriented FDI and resource seeking FDI like Posco-India project. In this regard, the reasonable and fair compensation for the affected peoples is essential. Creating sustainable new employment in the relocation zone is necessary as well. Framing of socially responsible resettlement policy and fostering of local consensus on the cost and benefits of resource seeking FDI projects can be useful in expediting the implementation of such projects.

Keywords: Korean FDI in India, POSCO-India project, Orissa, Anti-POSCO factors, displacement issues

1. Introduction

Since the launch of reforms in 1991, India has been a host to increasing number of Korean companies that have formed joint ventures with Indian companies or made greenfield investment in automobiles, consumer goods and other sectors. With the basic objective of accessing host market, the major triple Korean companies such as HMI (Hyundai Motors India), LG and Samsung have developed their industrial clusters in India that now encompasses a wide range of fields. More recently, Pohang Steel Company (POSCO), the world’s fourth-largest Korean steel company signed a Memorandum of Understanding (MoU) on June 22, 2005 with the Government of Orissa to set up an integrated steel plant and a captive port in the Ersama Block of Jagatsinghpur District, Orissa. POSCO has plans to invest about 12 billion US dollars to produce 12 million tons of steel per annum. It is so far going to be the largest single FDI project in India.

In contrast with earlier market oriented Korean FDIs, the POSCO-India project had been embroiled in legal, procedural quagmires and protested by many anti-POSCO groups. Especially, the project has been one of the most controversial issues in the state and has generated a lot of protests. What has happened over the last five years that prevented the project from moving ahead? Why has POSCO-India faced

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strong opposition and barriers unlike earlier Korean FDI into India? In this paper an attempt has been made to seek answer to some of these questions.

The paper is organized as follows. Section 2 examines the contents of POSCO-India project. Section 3 highlights the factors that led to the delay and unsatisfactory progress in the starting of the project. In Section 4, we discuss on the measures to tackle displacement and civil protest. Section 5, summarizes a few lessons that can be learned from POSCO-India project for expediting Korean FDI project in India and conclude the paper.

2. POSCO-India project and Orissa

One of the key developments in the mineral sector in the wake of economic reforms in India was the New Mineral Policy of 1993 and the amendments to the Mines and Minerals Act 1957, which brought about the deregulation of the mining sector by allowing 50% investment by foreign companies in mining and opening all non-atomic and non-mining minerals to private investment. In December 1999, the Act was renamed as the Mines and Minerals Development and Regulation (MMDR) Act, which has introduced a provision for reconnaissance permits, provided the states the right to grant leases for exploiting 15 minerals and raised the cap on foreign direct investment to 100% in February 2000 (Asher, 2009). Given the rising metal prices and deregulation, mineral rich states like Orissa started aggressively attracting both domestic and foreign investment into this crucial sector.

Orissa had only two iron and steel plants until 1995. Growth in the iron and steel sector remained marginal in the 1995-2000, but saw a rapid spurt in the post-2000 period. By November 2005, the BJD-led government in Orissa had signed 43 MoUs in the iron and steel sector. Of these, six (including POSCO-India) were mega steel projects, all above 3 MTPA capacity (Table 1). The Orissa government notified its new industrial policy in March 2007. In order to attract investors, the policy created a framework of governance structures with the sole purpose of speedy and easy establishment of industrial projects (Asher, 2009).

<table>
<thead>
<tr>
<th>Company</th>
<th>Location</th>
<th>Capacity (million ton per annum)</th>
<th>Investment (crore Rs.)</th>
<th>Year of MoU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tata Iron and Steel</td>
<td>Kalinganagar, Duburi, Jajpur</td>
<td>6.0</td>
<td>15,400</td>
<td>2004</td>
</tr>
<tr>
<td>Sterlite Iron and Steel</td>
<td>Palasponga, Keonjhar</td>
<td>5.1</td>
<td>12,502</td>
<td>2004</td>
</tr>
<tr>
<td>Hygrade Pellets</td>
<td>Paradeep</td>
<td>4.0</td>
<td>10,721</td>
<td>2005</td>
</tr>
<tr>
<td>POSCO-India</td>
<td>Paradeep</td>
<td>12.0</td>
<td>51,000</td>
<td>2005</td>
</tr>
<tr>
<td>Jindal Steel and Power</td>
<td>Deojhar, Keonjhar, Angul</td>
<td>6.0</td>
<td>13,135</td>
<td>2005</td>
</tr>
<tr>
<td>Bhushan Steel and Strips</td>
<td>Meramundali, Dhenkanal</td>
<td>3.0</td>
<td>5,828</td>
<td>2005</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>36.1</td>
<td>108,586</td>
<td></td>
</tr>
</tbody>
</table>

Source: http://orissagov.nic.in/
On June 22, 2005, the Orissa government entered into an MoU with the Korean steel major, Pohang Iron and Steel Company (POSCO), for the establishment of POSCO-India project. Increasing demand for steel in Asia and the availability of abundant iron ore in Orissa prompted the POSCO to look towards India. As per the MoU between POSCO and Government of Orissa, based on the needs of the ‘Steel Project’, the Company will also develop and operate the following infrastructure (http://POSCO-india.com):

1) Mining facilities in the areas allocated by Government of Orissa/Government of India (the ‘Mining Project’);

2) Road, rail and port infrastructure (the ‘Transportation Project’), including the dedicated railway line from the mine-belt to Paradeep;

3) Integrated township;

4) Water supply infrastructure (the ‘Water Project’).

The project has three parts; a steel plant, captive iron ore mines and a private port. The 12 million ton plant was to be supplied with 600 million tons of iron ore from captive mines, 30% of which is to be exchanged with low-alumina-content iron ore, along with 400 million tons more to be sourced for export. The objective of the project is “to build one of the world’s most competitive steelworks with advanced technology and stable iron ore supply from captive mines, together with the economic development of Orissa”(http://POSCO-india.com).

NCAER observes large gains from the state. It estimates that the project would contribute about 10 to 11 per cent of state gross domestic product by year 2016/17, contribute about 24.2 billion US dollars to the central exchequer and 19.5 billion US dollars to state exchequer during the 30 years life of the project and generate direct and indirect employment of 870 thousand per annum for thirty years. Clearly the expected contribution of the project is quite large (NCAER, 2007). Of course POSCO-India could get large benefit from the project. According to the estimates of J.N. Mahanty, the major benefits the company could get from the ‘mining project’ are:

1) 20 million tons of high grade iron ore at a cost of 12.5 US dollars / ton (the cost of mining and handling) as against the international price of 100 US dollars / ton. Thus the amount saved by POSCO is 1.75 billion US dollars per year, as POSCO is buying iron ore from the international market for her Korean plants.

2) On an average to produce one ton of steel, it need to procure about 4 tons of various raw Materials - iron ore, coal, lime stone, manganese, dolomite, etc. Thus POSCO is saving the sea freight for 48 million tons of raw materials per annum. On the basis of a flat sea freight rate of 50 US dollars /ton, the savings on account of this parameter is estimated as 2,400 million US dollars per annum (http://hindtoday.com/Blogs/ViewBlogs.aspx?HTAdvtId=975&HTAdvtPlaceCode=IND674ORIS SA).

3. Reasons that delayed POSCO-India project
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In spite of being India’s largest inward FDI project with significant development contributions to the host state and country as described above, the starting of the POSCO-India project has been delayed considerably. It has been over five years since the signing of the MoU, the regulatory clearance for the project has been stuck for various reasons.

Unlike earlier Korean FDI projects that are more into consumer durables, POSCO-India project is into sensitive natural resource sector and involves massive infrastructure developments requiring acquisition of a vast track of coastal and forest land. Therefore, the POSCO-India project encompasses a plethora of issues related to access and use of local raw materials including iron ores, displacement and compliance with environmental regulation of the host country covering forest and coastal rules. The main reasons for the delay in the project are the followings:

### 3.1 Failure in the ability of host state to build local political consensus on the MOU

One important factor that appears to have played a negative role is the failure of the state in building local consensus on the costs and benefits of hosting India’s largest FDI project. The political party in power at the state has not been effective in generating debate at the state and local level for a broad-based informed backing for the project. The immediate fall out of the signing of the MoU has been an anti-POSCO movement1 and political turmoil in the State with leaders cutting across party lines questioning its terms. The bone of contention is the State government's decision to allow POSCO to export a certain quantity of iron ore. Despite stiff resistance from four opposition parties - the Communist Party of India (Marxist), the Communist Party of India, the Orissa Gana Parishad and the Janata Dal (Secular) - Chief Minister Naveen Patnaik had his way (Figure 1). The State unit of the BJP (Bharatiya Janata Party), a partner in the ruling coalition led by Patnaik's BJD (Biju Janata Dal), started questioning the MoU on various counts. BJP State president conveyed the party's opposition over the ‘iron ore swapping clause’ in the MoU. According to the MoU, POSCO will need “the equivalent of 600 million tons of iron ore of an average iron (Fe) content of 62 per cent to meet the requirements of the project. The company may swap certain quantities (not exceeding 30 per cent of the total annual requirement for the Paradeep plant) of such iron ore which have high alumina content with equal quantities of low-alumina-content iron ore of equivalent or better ‘Fe’ content imported for blending in order to produce better quality steel” (http://orissagov.nic.in/posco/POSCO-MoU.htm)

<table>
<thead>
<tr>
<th>Political opposition</th>
<th>Civil society opposition</th>
<th>Negative fallout from other natural resource-based projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Congress</td>
<td>POSCO Pratirodh Sangram Samiti (PPSS), Nav Nirman Samiti (NNS) Bhitā Maṭi Bachao Andolan (BMBA) Naxalite, NGO</td>
<td>Incidents of Kashipur (Tata Steel) Incidents of Kalinganagar (Alcan) Case of Niyamgiri (Vedanta)</td>
</tr>
<tr>
<td>BJP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Janata Dal (Secular)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CPI, CPI(M)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Orissa Gana Parishad</td>
<td></td>
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</tbody>
</table>

**Source:** Author’s own construction mainly based on: (i) On the Orissa politics, (Misra, 2004; Pati, 2001; Kanungo, 2003); (ii) On the Kashipur incident, (Das, V., 2004; Sarangi, 2002; Sarangi et al., 2005); (iii) On the Kalinga Nagar conflicts, (Mishra, I., 2007; Mishra, S.K., 2005; Padhi and Adev, 2006); (iv) On the Naxalite, (Kujur, 2006); (v) On the anti-POSCO group-PPSS, NNS, BMBA- (Asher, 2009; Bijulal et al., 2007; Wysham, 2007); (vi) On the Tata, (Pradhan, 2007).

**Figure 1. Major Anti-Posco factors**

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1 On the theoretical background of the anti-POSCO argument, see (Asher, 2009; Das, A., 2005; EPW Editorial, 2005; Pattanayak, 2007; Bhaduri, 2007).
3.2 Legal and procedural clearance

While clearances from State Government and State Pollution Control Board were received fairly early, on 19 November 2006 (for the captive port) and 12 June 2007 (for the steel plant), clearances from central regulation has not been smooth. It received Environment and Coastal Regulation Zone (CRZ) clearances from the Government of India in 2007 but the clearance under the Forest (Conservation) Act from Government of India came late in December 2009 to be suspended since November 2010 for non-compliance with the Forest Rights Act 2006 and again granted conditional clearance in February 2011. The suspension of forest clearance has forced the State government of Orissa to halt land acquisition and transfer to Posco (Government of India, 2010, b).

The present conditional clearance that came in early 2011 has some 60 additional conditions on Posco's steel plant and captive port project in Orissa. Environmental clearance for the steel-cum-captive power plant is being accorded with 28 additional conditions over and above stipulated in the original environmental clearance of July 19, 2007. The environmental clearance for captive port is being accorded with 32 additional conditions over and above stipulated in the original environmental clearance of May 15, 2007. The Environmental Minister has also sought categorical assurance from the state government that there is no violation of Forest Rights Act (FRA) in the land acquisition process. Orissa government's assurance that those claiming dependence on land in the project area were not categorized as “other traditional forest dwellers (OTFD)” under Forest Rights Act is necessary (Government of India, 2010, b).

3.3 Influences of government decision on vedanta case

On 16 August, 2010, N.C. Saxena committee, was appointed to look into the forest clearance proposal for bauxite mining in the Niyamgiri hills of Orissa for the Vedanta aluminum project, gave its report (Government of India, 2010,a), categorically stating that the proposed mining lease in the area should be disallowed because it would deprive tribal people, particularly Primitive Tribal Groups (TPGs) of their forest rights and destroy their lives. The Ministry of Environment and Forests acting on this report disallowed the forest clearance, rendering the mine inoperable. Since POSCO, like Vedanta is a large mineral based company in the process of establishing a major project in Orissa, the two projects are often equated in the public mind. There was an immediate assumption, therefore, that the POSCO project, too, would be disallowed. 2 The police firing and death of adivasis opposing the Tata Steel Plant at Kalinganagar in January 2006, and in Nandigram over forced acquisition of land by the state has played a major role in putting pressure on the BJD-led government to treat cautiously in the POSCO case.

3.4 Displacement issues

The numerous protests from local people and environmental experts on land acquisition that delayed the green clearance clearly shows that state and central government are not able to address the displacement

2 It is important to point out that POSCO and Vedanta are different projects and operate in different environments and circumstances. Vedanta’s alumina plant (and the bauxite mine for which lease was applied for by the Orissa Mining Corporation), is located in the less developed western part of Orissa, in a Scheduled Area which is home to two Primitive Tribal Groups. POSCO’s plant, on the other hand is to be located in a coastal district, in the more developed eastern part of Orissa; the area is not a Scheduled Area and has virtually no Scheduled Tribe people. A very important difference also is that while the construction of the Vedanta project is almost complete (including unauthorized construction of the expanded portion for which no environment clearance had been taken), construction on the POSCO project is yet to start, the land not having been handed over to the company by the State Government, so far (Government of India, 2010,b).
issue properly and to make the local people aware of the prosperity that POSCO project can bring with it. Much of the opposition to the project happen because the displaced people do not see any marked improvement in their lives after being displaced. The construction of the POSCO-India steel plant and captive port are expected to have far-reaching socio-economic impacts on their traditional life. As a result, there has been growing opposition to the project in the project affected area as well as the State in general. The three Gram Panchayats in Jagatsinghpur district - Dhinkia, Nuagaon and Gadakujang - that were to be affected came together to oppose the project. In all, 471 families would be affected from three panchayats. More 90% of people in the area are engaged in cultivation and allied activities. *Dhan* (paddy), *Pan* (betel), *Mina* (fish) are the staple sources of livelihood in the area.

Only 438 acres of the 4,004 acres required for the POSCO-India steel plant site are private land, the rest being government land, recorded as ‘under forest’ or ‘anabadi’. The fertile ‘anabadi’ land is under the possession of the local people for ages as it is suitable for the growth of *Pan* (betel), more than 15,000 *Pan Baraj* are in the Government land. Government records do not show that most of this land has been under betel, cashew and other cultivation for generations. The last settlement record was prepared in 1984. It recognizes only claims on agricultural lands under regular occupation. Other uses like grazing, collection of firewood, forest produce and cashew cultivation or even fishing are unrecorded. These are livelihood activities that account for the subsistence of a large number of families in the area. Yet the records show the land as belonging to the government. That’s why resistance to POSCO-India is so strong (Bijulal, et.al., 2007; Asher, 2009).

4. Measures to tackle displacement and civil protest-impoverishment risks and reconstruction (IRR) model

Compulsory displacements that occur for development reasons embody a perverse and intrinsic contradiction in the context of development. Development-induced displacement unleashes widespread social, economic and environmental changes that follow well-established patterns. Although they vary in severity, these patterns are remarkably consistent regardless of what type of project or industry is responsible for the displacement. Forced displacement epitomizes social exclusion of certain groups of people. It cumulates physical exclusion from a geographic territory with economic and social exclusion out of a set of functioning social networks. The most widespread effect of involuntary displacement is the impoverishment of considerable numbers of people. If impoverishment is the looming risk in displacement, the challenge is to organize risk prevention and provide safeguards. This can increase the benefits of development by eliminating some of its avoidable pathologies (Cernea, 2000; Downing, 2002).

<table>
<thead>
<tr>
<th>Project</th>
<th>Families displaced (numbers)</th>
<th>landless among displaced families(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Before displacement</td>
<td>After displacement</td>
</tr>
<tr>
<td>Sam Barrage</td>
<td>318</td>
<td>24 38</td>
</tr>
<tr>
<td>ITPS</td>
<td>44</td>
<td>12 75</td>
</tr>
<tr>
<td>Lb Valley</td>
<td>39</td>
<td>56 92</td>
</tr>
<tr>
<td>UKP</td>
<td>74</td>
<td>12 31</td>
</tr>
</tbody>
</table>
Failure to mitigate or avoid these risks may generate ‘new poverty’, as opposed to the ‘old poverty’ many affected peoples already suffer (Cernea, 2002); poor people do become even poorer (Pandey, 1998). Evidence of ‘new poverty’ is well illustrated by pre/post displacement research on those forcefully resettled by six infrastructure projects in the State of Orissa in eastern India (Table 2).

In this context, we suggest for the compensation on the bases of ‘impoverishment risks and reconstruction model (IRR model)’ for resettling displaced populations. According to IRR model for resettling the displaced, displacement risks results from deconstructing the multifaceted process of displacement into its identifiable, principal, and most widespread, components. These are: (a) landlessness; (b) joblessness; (c) homelessness; (d) marginalization; (e) food insecurity; (f) increased morbidity; (g) loss of access to common property resources; and (h) social disarticulation. It suggests that preventing or overcoming the pattern of impoverishment would require risk reversal. This can be accomplished through targeted strategies, backed up by adequate financing. Turning the model on its head shows which strategies must be adopted and which directions should be taken: (a) from landlessness to land-based resettlement; (b) from joblessness to reemployment; (c) from homelessness to house reconstruction; (d) from marginalization to social inclusion; (e) from increased morbidity to improved health care; (f) from food insecurity to adequate nutrition; (g) from loss of access to restoration of community assets and services; and (h) from social disarticulation (Cernea, 2000).

5. Conclusions

We had reviewed the contents of POSCO-India project and examined the factors that led to the delay in the starting of the project. The main reasons for the delay in the project are the failure to build local political consensus on the project, dispute on Government record on the land, and compensation. Then what we can be learned from POSCO-India project for expediting Korean FDI project in India?

First of all, it is very important to recognize the difference between the market oriented FDI - HMI, LG and Samsung - and resource seeking FDI like Posco-India project. The sheer magnitude of the project and its three interlinked but distinct components - the captive port, steel plant and mines - which have each faced separate ‘hurdles’ at every point. Especially there has been strong protest against the project from the prospective displaced persons. Compulsory displacements owing to the project unleash widespread social, economic and environmental changes. Forced displacement epitomizes social exclusion of certain groups of people. It cumulates physical exclusion from a geographic territory with economic and social exclusion out of a set of functioning social networks (Cernea, 2000; Downing, 2002).

In this regards, the reasonable and fair compensation for the affected peoples is essential. Especially in the agricultural society like Orissa, it is important to comprehend what land means to the farmers. Land is an asset that provides food for survive for them. It enables them to utilize the major skill that they possess. It can be passed on to the next generation and hence provides security to several generations. And it is
marketable and in times of distress, serves as collateral. Displacement is more severe to the landless. The only economic opportunity the landless have in rural India is to work in other people’s land. And this relationship is not simply a one-time transactional one but has a history and complex social dimensions. So, when the landless are displaced, they have to be compensated more carefully (Venkateswaran, 2007). Settling displaced people back on cultivatable land or in income-generating employment is the heart of the matter in reconstructing livelihoods. Creating sustainable new employment in the relocation zone is essential as well. Furthermore, it should not overlook the socio-cultural and psychological dimensions, and should be concerned with facilitating reintegration within host populations or compensating community-owned assets (Cernea, 2000).

But compensation alone is not a solution. It would be unrealistic to conceive of reconstruction only as a top-down, paternalistic effort, without the participation and initiative of the displaced people themselves. The required strategy is not a one-actor strategy, for the state alone; rather, it is an all-actors strategy. Despite the polarized situation to be expected a displacement context, the participation of all relevant actors (POSCO-India and the affected peoples, local leaders, Orissa Government and non-governmental organizations, host populations) in reconstruction is indispensable. Socially responsible resettlement can counteract lasting impoverishment and generate local consensus on the cost and benefits of POSCO-India FDI project.

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