

Strategic Analysis Paper

3 February 2012

South Korea: National Involvement in the Indian Ocean Region

David Alexander

*Future Directions International Research Assistant
Indian Ocean Research Programme*

Key Points

- The Indian Ocean region provides South Korea with raw energy resources and markets for its consumer goods and nuclear technology.
- Seoul has cultivated particularly strong links with the United Arab Emirates and India and will continue to do so.
- As a source of raw materials, Australia will be increasingly important to South Korea's energy security.
- South Korea's willingness to commit its defence forces overseas will increasingly see its military deployed to the Indian Ocean region.

Summary

South Korea (officially, the Republic of Korea) has commenced a process of enlarging its strategic reach, which includes the Indian Ocean region. As a net importer of energy resources, South Korea has a growing appreciation of the security environment and stability required in the Indian Ocean. With many rapidly growing economies, the Indian Ocean region is capable of providing South Korea with significant markets for its goods and high technology industries, as well as providing the natural resources to maintain South Korea's own economic and strategic position. South Korea is becoming more ambitious in the use of its defence forces in multilateral operations beyond its own immediate region, signalling a willingness to take a greater responsibility for its own strategic future.

Analysis

South Korea has embarked upon a process of increasing its global presence and strategic reach, with a focus on the increasingly important Indian Ocean region. South Korea, as a net energy importer, is necessarily committed to maintaining the supply of the energy resources that are crucial to its economy. To facilitate the continued supply of energy and resources, South Korea has been actively increasing its level of diplomatic and economic activity with many of the states in the Indian Ocean region. South Korea has adopted a proactive role in the security of the Indian Ocean and the sea lines of communication (SLOCs) which cross it. Seoul has increased its naval capabilities and become more active in multilateral military operations, such as those in Iraq and Afghanistan. The increased activity has assisted South Korea in lifting its profile and to solidify its status as a middle power.

South Korea is heavily reliant upon imports of oil, gas and coal for its energy security. Over 95 per cent of South Korea's energy resources are imported, making it the world's fifth-largest importer of oil and second-largest importer of liquid natural gas (LNG). The reliance upon overseas energy supplies has seen South Korea's state-owned oil, gas and electricity companies aggressively seeking overseas exploration and production opportunities. South Korea set aside US\$7 billion for resource development in 2011, a 222 per cent increase over the 2010 figure of US\$2.2 billion. It can be expected that the majority of this investment will go to offshore due to South Korea's limited domestic possibilities.

Burma has been a target of considerable resource investment from South Korea, particularly in the mining, oil and gas sectors. South Korea is currently the fifth-largest source of foreign direct investment in Burma, amounting to US\$2.67 billion in 2010. Daewoo Corporation has been heavily involved in the offshore oil and gas fields with development projects in the Shwe gas field, of which the gas reserves have since been awarded to China. South Korea has co-operated in the establishment of a geology school in rural Burma, and is in the process of developing an automotive training school to increase the country's skilled worker base. Given that there is likely to be greater competition for Burma's energy reserves as Rangoon seeks to reduce its economic dependence on China – at least to some degree – Seoul may see an opportunity to increase its diplomatic influence.

While South Korea is interested to improve its ties with Sri Lanka, Colombo is more of an aid recipient than substantial trading partner. South Korea's Economic Development Co-operation Fund has assisted Sri Lanka through funding road infrastructure projects worth US\$30 million and has received requests to give further assistance in the development of the north and east of Sri Lanka. The Sri Lankan Government has also placed official requests for assistance in the development of wind energy generation, improvements in water supply and the domestic construction industry. South Korea is a destination for 7,500 Sri Lankan workers and has agreed to increase its intake to 15,000. This offers the opportunity to further increase the skill base of Sri Lankan workers.

As South Korea attempts to decrease its levels of oil imports, and increase its LNG consumption, Indonesia will be accorded a more prominent role in South Korean foreign policy. Indonesia currently exports vast quantities of LNG to South Korea and has become its fourth-largest supplier after Qatar, Malaysia and Oman. South Korea, through the Korea

Railroad Research Institute, has been heavily involved in the construction of rail projects in Indonesia estimated at US\$20 billion, with part funding from the South Korean Government and the Samsung Government. South Korea has expressed interest in deepening its relationship with Jakarta to assist with Indonesia's development and its aspirations to become one of the world's largest economies. Indonesia is also of vital importance to South Korea's maritime security, due to its geostrategic location and South Korea's reliance on maritime trade.

Next door in East Timor, South Korea has been equally active, donating three decommissioned patrol boats to the Timorese Defence Force in September 2011. A further expansion of defence links has been discussed at the ministerial level and, together with the Timorese purchase of two Chinese vessels in 2010, allows Dili to demonstrate that it need not remain strategically dependent on Canberra. For Seoul, the Timor links may be aimed at securing access to Timor's oil and gas reserves in the face of increasing Chinese interest. The October 2008 Memorandum of Understanding giving South Korea priority access to natural gas produced by the Greater Sunrise field was certainly a step in that direction. It was also the first bilateral energy agreement signed by independent East Timor.

Australia forms a crucial component of South Korea's need for energy and mineral resources. The two countries have a strengthening economic relationship based on South Korea's need for iron ore, coal and LNG. Australia, along with Indonesia, is the largest supplier of coal to South Korea, with the majority of coal imports being used in the electricity and steel fabrication industries. After coal, iron ore is Australia's second-largest export to South Korea, worth an estimated \$6 billion per year. With Australia currently only providing approximately two per cent of South Korea's LNG needs, there is considerable scope for improvement, especially since the 2009 signing of contracts to supply 1.5 million tonnes per annum (mtp/a) from the massive Gorgon project in Western Australia. With South Korea aspiring to secure a further four mtp/a, Australia is well placed to play a greater role in South Korea's energy security policies.

The supply of energy resources is critically important to South Korea, and this gives energy-exporting Middle Eastern countries prominence in South Korea's search for energy security. South Korea obtains the greatest portion of its oil imports from Saudi Arabia, which supplies 27 per cent of total oil imports. South Korea has, however, been reciprocal in its trading relations with Saudi Arabia, largely in the high technology and construction industries. The Hanwha Corporation, for example, was awarded a US\$1.05 billion contract in April 2011 for the construction of power and desalination plants at the Yanbu Industrial Complex in western Saudi Arabia.

South Korean corporations such as Hanwha are equally active in countries like Iraq and Kuwait, but South Korea's closest involvement in the Middle East is with the United Arab Emirates. The UAE is South Korea's second-largest oil supplier and Seoul has heavily invested in the UAE's oil fields. On 14 March 2011, the state-run oil company, Korea National Oil Corporation (KNOC) purchased a large stake in oil reserves in the United Arab Emirates. When the deal is finalised in 2012, South Korea will increase the level of imports it obtains from sources that it owns a stake in to 15 per cent of its oil consumption.

The most important achievement of South Korea's trade relations with the UAE – and one with far-reaching implications – has been the Gulf state's nuclear power project. In 2009, South Korea was awarded the US\$40 billion UAE nuclear power contract. The award came with the assistance of President Lee Myung-bak who visited the UAE prior to the decision to help convince the UAE to give the project to the Korean companies. It is the largest contract ever won by South Korean companies internationally. Until now, the market for nuclear power plants was controlled mainly by the United States, France, Japan, Russia and China. The South Korean nuclear power project in the UAE establishes South Korea's position as an important nuclear power plant supplier and opens the door for potential future projects worldwide.

South Korea has signed an agreement with the UAE for the transfer of unmanned aerial vehicles (UAVs) and other technologies. It is also negotiating with the UAE, Iraq and other Middle Eastern states regarding the sale of South Korean T-50 *Golden Eagle* trainer jets. The UAV agreement and the T-50 negotiations demonstrate Seoul's increased economic involvement in the region, not only in the civilian economic arena but also in the security arena. South Korea also contributes to the training of the Emirati Special Forces. Since January 2011, the "Akh Special Forces Unit" (*akh* is the Arabic word for "brother"), of 130 Korean troops conducts military training and exercises with their UAE counterparts at the Special Operations Command School in Al Ain. Not being a peacekeeping mission, the UAE deployment is a first for South Korea, and the two-year posting may, in the future, be adopted as a template by Seoul as a means of boosting relationships with other important partners.

The relationship with India is another important relationship for South Korea to achieve its strategic objectives in the Indian Ocean region. India and South Korea have developed a strong economic partnership and have taken significant steps towards a political and security relationship reflecting their numerous shared strategic interests. The two states not only share a history of national partition and confrontation with their adjoining counterparts (Pakistan and North Korea, respectively) but have also uneasy relationships with their powerful neighbour, China.

India and South Korea, like others in the wider region, are still grappling with how to simultaneously accommodate and balance China's rising power. The declaration of a "strategic partnership" by South Korean President Lee and Indian Prime Minister Singh in January 2010 included an enhanced focus on political and security co-operation. Among the topics were an agreement for an annual security dialogue between the two countries and co-operation in the joint development of defence technologies. There has been considerable defence industry co-operation between India and South Korea since 2005, including in the joint development of self-propelled artillery and mine-countermeasure vessels. In March 2007, New Delhi and Seoul began talks on the development, and purchase by India, of a number of 5,000-ton frigates, armoured vehicles and military trucks. The discussions are, however, still under negotiation. India did, however, place an order in April 2011 for eight minesweepers estimated at US\$670 million each to update the navy's current fleet. There is also potential for enhanced co-operation in terms of India's role as a provider of maritime security to South Korea in the Indian Ocean.

South Korea was one of the first countries to see the potential in India as an export market, as well as a lower cost manufacturing base. South Korea is the third-largest investor in India and is among the few countries with which India has signed a Comprehensive Economic Partnership Agreement (CEPA). The India-Korea CEPA was signed in 2009 and came into effect in 2010. The CEPA sets a target of increasing bilateral trade to US\$30 billion by 2014, up from the 2008 figure of US\$15 billion. South Korean companies such as Hyundai, Samsung and LG have established manufacturing and servicing bases in India following the “flying geese” strategy previously employed by Japanese companies to move manufacturing offshore to lower cost environments. India is a large exporter of agricultural goods to South Korea, thus assisting in South Korea’s food security. The two countries reached an agreement on civil nuclear co-operation in 2010, which could further enhance the security relationship, and solidify South Korea’s position as a supplier of civil nuclear technology and expertise.

India and South Korea have conducted joint Coast Guard operations and signed a Memorandum of Understanding (MoU) in 2006, to compliment a 2005 MoU for further naval co-operation between the two countries. Joint naval operations have included anti-piracy efforts in the Indian Ocean and Gulf of Aden. They have achieved considerable success, including the January 2011 capture of a Somali pirate ship by South Korean forces.

The security of SLOCs is of primary importance to South Korea, as 99 per cent of its international trade is conducted by sea. Due to the fact that South Korea’s only land border is with North Korea, and the often volatile relations between the two states, South Korea is denied access to oil and gas pipeline opportunities and is forced to rely on maritime trading routes. The vast majority of South Korea’s energy supplies traverse the Indian Ocean, as do a considerable proportion of South Korea’s other international trade.

The reliance upon Indian Ocean SLOCs for its economic survival has propelled South Korea to develop advanced maritime defence capabilities, with ambitions for a bluewater navy. While Seoul has plans for a future fleet capable of projecting power – tentatively called the Strategic Mobile Fleet – the responsibility for overseas maritime operations currently falls to Mobile Task Flotilla 7. The Flotilla comprises six 4,500 ton KDX-2 and two 7,500 ton *AEGIS*-equipped KDX-3 destroyers. Both ships are multi-role destroyers, which provide substantial offensive and defensive capabilities. South Korea also possesses the 18,000 ton ROKS *Dokdo*, a flat-deck amphibious assault ship and the largest East Asian naval combat vessel. The *Dokdo* can accommodate, launch and maintain multiple helicopters. It should be capable of doing the same with multiple unmanned aerial vehicles, enabling the South Korean Navy to deploy a respectable contingent of aircraft in a range of operations. Another benefit of the *Dokdo* is that it can also function as a sea base capable of accommodating and transporting marines. It can thus provide a flexible, mobile and politically palatable way of facilitating South Korea’s growing participation in multilateral peace operations. This ensures that any South Korean operations near, or along, a foreign coastline will not have to temporarily “occupy” a portion of foreign territory and operate out of stationary land bases, with all the hazards and restricted mobility that entails.

In the waters off the coast of Somalia, the “Cheonghae Unit”, comprising a 4,500 ton destroyer and 300 troops, assists South Korean vessels to safely navigate the Gulf of Aden and has even launched raids to free hostages on captured ships. Interestingly, Somalia was the location of South Korea’s first foreign military deployment, when the “Evergreen” engineering battalion was deployed in 1993-94.

South Korea’s growing military capabilities have coincided with increasing participation in a range of multilateral military operations, primarily in Afghanistan and Iraq. South Korea has come under pressure from the United States to accept greater involvement in US-led military efforts. At the same time, Seoul has been seeking reassurance from the US that the defence of South Korea remains a priority. South Korea sent an initial contingent of 3,500 troops to Iraq in 2003; the last Korean troops were recalled in December 2008. South Korea’s involvement in Afghanistan initially ended in 2007 in order to secure the release of 23 Korean Christian missionaries taken hostage by the Taliban, two of whom were killed prior to an agreement being reached. Seoul recommenced its involvement in Afghanistan in 2010 by sending a 140-strong Provincial Reconstruction Team accompanied by 320 troops to provide protection.

South Korea has also been active in the United Nations-led peacekeeping force in Southern Lebanon (United Nations Interim Force in Lebanon, or UNIFIL). The presence of the 359-strong “Dongmyeong Unit” in Lebanon has, since 2007, continued to raise South Korea’s profile in military and peacekeeping operations. South Korea’s policy of military involvement demonstrates an incremental change in the broader foreign policy objectives of South Korea, as it has gone from a passive global player to a more active player, in international institutions and regions other than the Korean Peninsula. As the Ministry of National Defence notes on its website, ‘Korea was one of the greatest beneficiaries of the UN’s assistance during the Korean War Based on this experience, Korea is returning the favour to the international community by participating in peacekeeping activities.’

Such willingness for more active international engagement in a wider range of regions could foreshadow a possible containment policy aimed at China. As China continues its economic and strategic advance, especially into the heavy traffic of the Indian Ocean, many countries – including South Korea – are considering how best to engage with, and balance, a rising China. South Korea’s growing security relationship with India, as it moves closer to the US, could assist such balancing in the eventuality of stronger strategic competition in the Indian Ocean region. The South Korea-India relationship has the potential to be strained, however, if both countries find themselves actively competing for resources, particularly foreign energy reserves.

South Korea is heavily reliant upon imports of foreign oil, gas and other natural resources. To facilitate securing these resources South Korea has aggressively increased its pursuit of investment opportunities in exploration and production, especially of energy resources. South Korea’s involvement in the Indian Ocean region has allowed its technology, defence and energy generation sectors to win considerable projects, including the construction of nuclear power plants and the sale of defence technology. As South Korea increases its involvement in the Indian Ocean region, the security of the SLOCs – South Korea’s lifeblood –

will become of paramount importance. South Korea will need to call upon its increasing naval capabilities and its diplomatic, trade and security relationships in the region to help ensure its continued growth and prosperity.

Any opinions or views expressed in this paper are those of the individual author, unless stated to be those of Future Directions International.

Published by Future Directions International Pty Ltd.
Desborough House, Suite 2, 1161 Hay Street, West Perth WA 6005 Australia.
Tel: +61 8 9486 1046 Fax: +61 8 9486 4000
E-mail: lluke@futuredirections.org.au Web: www.futuredirections.org.au