Annyeong, India

South Korean firms are increasingly looking at India's vast market through strategic joint ventures, balancing opportunities against regulatory complexities while diversifying their operations beyond China in key technology and manufacturing sectors. **By Nimitt Dixit**

- **Korean firms pivot to India amid China diversification strategies.**
- **Joint ventures mitigate risks in India's complex market.**
- **Regulatory navigation remains crucial for investment success.**

As geopolitical tensions reshape global supply chains, South Korean companies are making strategic pivots toward India—a market they can no longer afford to ignore. With its 1.4 billion consumers and GDP growth outpacing major economies, India represents both a massive consumption opportunity and a potential manufacturing alternative to China.

Yet despite the compelling strategic logic, deal activity remains surprisingly modest. In 2024, South Korean mergers and acquisitions (M&A) in India totalled approximately $228 million across just four deals, comprising a mere 2.85 percent of Korea's total outbound volume.

"The Indian market provides significant opportunities for Korean companies both in terms of the vast local market, as well as abundant resources that the Korean companies can utilise in India as manufacturing or service hubs for their regional or global businesses," observes Sun Yul Lee, foreign attorney at South Korean firm Kim & Chang.

Signs of deepening engagement are already visible. LG Electronics plans to list its Indian unit this year, following Hyundai Motor India's successful $3.3 billion IPO in 2024. Recently, gaming giant Krafton invested $53 million in Indian fintech firm Cashfree Payments, while POSCO has reinforced its position in India's steel sector by increasing its stake in a Pune-based processing centre.

Strategic alignment

The complementary nature of India's "Act East" policy and South Korea's "Act Southern" policy has created fertile ground for enhanced economic cooperation at a critical juncture as global companies reconfigure their supply chains.

"The alignment between Korea's 'Act Southern' and India's 'Act East' policies has created new momentum for bilateral economic cooperation," notes Zunu Lee, partner at South Korean firm Yoon & Yang.

Kim & Chang's Lee echoes this sentiment, observing that "given the geopolitical and commercial complexities faced by Korean companies in terms of their businesses with other Asian countries, Korean companies are looking for alternative venues to expand their businesses."

The strategic pivot is particularly notable as Korean companies seek to diversify beyond their traditional investment destinations. "A growing number of Korean companies are placing particular emphasis on the Indian market—not China or Vietnam, where they have traditionally concentrated their investments," explains Jongbaek Park, partner at South Korean firm Bae, Kim & Lee (BKL). This shift reflects broader "China Plus One" strategies that have become central to corporate decision-making.

India's relative resilience to global economic headwinds has further enhanced its appeal. "Although the recent U.S. tariff policies have increased global trade uncertainties, South Korean companies' appetite to invest in India, relative to other countries in the world, may be less affected by such trade barriers," observes a team of attorneys at South Korean firm Yulchon, including foreign attorneys Tehyok Daniel Yi and Jay Son Yang, and senior advisor Baek Soon Lee. "It is, in part, due to the fact that the country's economic growth is mainly driven by an immensely large local market, and exports only account for 10 percent of the country's GDP," they say.

While China still commands the largest share of South Korean overseas investment, both Vietnam and India have emerged as important alternative destinations. Vietnam remains attractive for electronics and manufacturing due to favourable trade agreements and lower costs, but India's large market, skilled workforce, and improving FDI climate are increasingly drawing Korean investors' attention.

Preferred entry strategy

When entering the Indian market, South Korean companies have shown a distinct



preference for joint venture structures, which allow them to navigate unfamiliar regulatory landscapes while leveraging local expertise.

"Incorporating a joint venture in India with an Indian partner has proved to be a compelling route for many Korean companies due to the significant advantages of leveraging local expertise, sharing risks and capital, and facilitating faster market access," observes Nohid Nooreyezdan, partner at Indian law firm AZB & Partners.

This approach helps mitigate the risks associated with entering a complex market. "Korean investors' preference for forming joint ventures stems mainly from their strategy to share risk and mitigate uncertainty in entering the new market and dealing with an unfamiliar culture," explains Yi from Yulchon.

The joint venture model has gained particular traction in sectors where local partnerships can unlock government incentives. "The JV model has gained prominence as South Korean interest is focused on sectors such as manufacturing, electric vehicles and automobiles, semiconductors, defence etc., where foreign players are encouraged to find local partners to access benefits such as fiscal and non-fiscal incentives provided by the government of India," notes Saloni Shroff, partner at Cyril Amarchand Mangaldas (CAM).

Beyond the historically successful partnerships in the automotive sector, notable joint ventures have emerged in semiconductors. Companies like Samsung and SK Hynix are expanding chip design and manufacturing operations in India. In renewable energy, Korean firms are partnering with Indian companies on solar, wind, and green hydrogen projects. Defence collaborations have also grown, with Korean firms participating in technology transfers and manufacturing under India's 'Make in India' defence initiative.

Selecting the right partner remains critical for success. "When selecting an Indian partner, it is essential to work with a transparent and trustworthy entity in order to prevent potential disputes over management control and to ensure the continuity of the business," advises Park at BKL. Lee from Kim & Chang adds that Korean companies "are looking for Indian partners with whom they can build trust and long-term relationships."

The legal structuring of these partnerships requires careful consideration. "Legal considerations include ensuring



"When selecting an Indian partner, it is essential to work with a transparent and trustworthy entity in order to prevent potential disputes over management control and to ensure the continuity of the business."

— Jongbaek Park, Bae Kim & Lee

alignment on board control, exit rights, and IP protection, with partner selection guided by compliance track record, governance standards, and local market access," explains Jiwook Kim, partner at Yoon & Yang.

Regulatory navigation

Despite India's improving business environment, regulatory complexities remain a significant concern for South Korean investors. The federal structure of India's governance creates a patchwork of regulations that vary across states, requiring sophisticated navigation strategies.

"Due to the decentralised federal structure, each Indian state maintains its own regulatory and tax frameworks, leading to significant variations across jurisdictions," explains Park at BKL. This complexity is compounded by what some perceive as inconsistent enforcement. "In some cases, regulations that did not pose issues at the commencement of business activities have subsequently become sources of legal or administrative challenges," Park adds.

The regulatory landscape encompasses multiple layers of compliance. "In India, companies may have to navigate prolonged and often contentious land acquisition processes. Securing environmental clearances and industrial licenses can be time-consuming, typically requiring repeated dealings with both state and central authorities," notes Yi from Yulchon.

However, the Indian government has made significant strides in streamlining processes. "The introduction of National Single Window System (NSWS) marks a significant advancement in India's regulatory landscape, offering a more efficient and transparent process for obtaining certain operational approvals," reports Nooreyezdan at AZB.

Recent regulatory changes have further improved the investment climate. In 2024, the Reserve Bank of India issued updated Master Directions on Foreign Investment, clarifying rules on downstream investments, cross-border share swaps, and equity issuance to foreign shareholders. These amendments permit equity instruments of Indian companies to be issued or transferred in exchange for foreign company equity, easing cross-border mergers and acquisitions.

Since 2014, India has also liberalised FDI caps and procedures in key sectors like defence (raising the cap from 26 percent to 74 percent automatic route), railways (100 percent automatic), retail (single brand 100 percent automatic), and air transport, making India one of the fastest liberalising economies for foreign investment.

Success stories from major Korean conglomerates offer valuable lessons. "Major Korean conglomerates such as Samsung, Hyundai, and POSCO have demonstrated that success is possible in India. Their achievements stem from long-term strategic commitments, deep localisation of operations, strong alignment with regional governments, and investment models designed to mitigate political and regulatory risks," observes Yi from Yulchon.

Structuring for conflict management

Another bureaucratic challenge could be the lengthy dispute resolution process in India. "Litigation in India may be a document-heavy and prolonged process given the pendency of cases before courts in India," Nooreyezdan at AZB notes.

However, the Indian Government has taken positive steps to reduce pendency and assist in the delivery of justice. "These initiatives include establishment of specific commercial courts or tribunals with experts from the industry, decriminalising several corporate offences, and amending arbitration and insolvency laws," Nooreyezdan points out.

In any case, South Korean companies have shown a preference for arbitration when structuring their Indian investments, particularly given concerns about the length of court proceedings in India.

"Arbitration has emerged as a particularly effective dispute resolution mechanism in Korean-Indian business relationships," notes Rohit Bhat, partner at international law firm Freshfields. "This preference is driven by the potential for greater speed and efficiency compared to domestic court systems, greater flexibility when it comes to choice of seat, governing law and institution, and the enforcement regime."

The choice of arbitration seat is particularly important. "Singapore has become an increasingly favoured seat for India-related disputes due to its well-regarded legal framework and arbitration infrastructure," Bhat explains. This neutral venue provides comfort to Korean investors concerned about potential home-court advantages in domestic litigation.

A notable ongoing case involves Korea Western Power Co (Kowepo), a South Korean state-owned power utility that initiated international arbitration in Singapore against India in late 2023. The dispute relates to India's alleged failure to honour fuel supply commitments for Kowepo's 388 MW Pioneer Gas Power Plant in Maharashtra. Kowepo claims approximately $400 million in damages



"Incorporating a JV in India has proved to be a compelling route for many Korean companies due to the significant advantages of leveraging local expertise, sharing risks and capital, and facilitating faster market access."

— Nohid Nooreyezdan, AZB & Partners

under the India-South Korea Bilateral Investment Treaty and CEPA.

Preventative measures at the contracting stage are equally important. "South Korean investors typically have concerns regarding the length of proceedings in India and managing parallel litigation. These risks are best addressed when drafting the contract," advises Bhat. He further notes that "Korean investors are also concerned about the risk of government interference that may diminish the value of the investment. To address this risk, it is worth considering investment treaty protection."

Sectoral opportunities

Several sectors stand out as particularly promising for South Korean investment in India, leveraging Korean technological expertise and India's manufacturing capabilities and domestic market.

Semiconductors represent a key opportunity area, driven by India's push to develop domestic manufacturing capabilities. "India's semiconductor sector is highly attractive to South Korean investors, with the investment primarily driven by proactive policy initiatives by the GoI such as the India Semiconductor Mission, SEMICON India Programme, Production-Linked Incentive Scheme," explains Shroff from CAM. Recent developments include Vedanta Group's MoU with 20 South Korean firms in the display glass industry to develop an electronics manufacturing hub in India.

The electric vehicle sector is similarly attractive. "As the world's largest producer of two and three-wheelers and the second-largest manufacturer of buses, India's EV sector has been drawing significant interest from South Korean entities," notes Shroff. Notable collaborations include "the $1.5 billion investment by LG Energy Solution and JSW Energy, and collaborations between JSW Group and South Korea's POSCO in steel, battery materials, and renewable energy."

Traditional Korean strengths in automotive manufacturing continue to find traction in India. "Korea's dominant industries, such as its automobile, semiconductor, electric vehicle, and even shipbuilding areas, to be the most likely to engage in deal activity," predicts Shroff from CAM.

Future outlook

Despite the strategic importance of India to South Korean companies, certain challenges remain, particularly around valuation expectations and global economic uncertainties. Addressing these issues will be crucial for accelerating deal flow between the two countries.

Valuation gaps have been a persistent challenge. "South Korean investors tend to approach India's high valuation expectations with caution, focusing on fundamental value and long-term viability rather than short-term growth metrics," explains Lee from Yoon & Yang. This cautious approach has sometimes slowed deal completions, though strategic investors remain committed to the market.

The capital markets offer another avenue for engagement. "Given Hyundai Motor's IPO in India, as well as expected IPOs by other Korean companies in India, there has been much interest in the IPO market in India by Korean companies," reports Lee from Kim & Chang. "From South Korean investors' perspective, utilising such IPO market as well as the stock market in general have been in the past few years and are expected to be their investment strategy for India."

Looking ahead, regulatory evolution will continue to shape the investment landscape. "Over the next 3–5 years, India's legal and regulatory framework governing green investments is expected to undergo evolution, aligning with global sustainability trends and the nation's climate commitments," predicts Shroff from CAM. These changes may create new opportunities, particularly in sectors aligned with sustainability goals.

The impact of global trade policies, particularly U.S. tariffs, remains a wild card. "If India is able to secure reduced tariff rates through negotiations with the U.S., this may further facilitate and accelerate Korean companies' entry into India," suggests Park at BKL. Zunu Lee adds that "Electronics and automotive sectors keep eyes on India's pending tariff negotiation with the U.S., which would be a touchstone to the U.S. tariff policy."

"With the recent changes in international trade policies (which are still being evaluated), certain sectors such as automobile manufacturing/ auto components should see more investments in India given the higher tariff rates on exports from other countries. Therefore, if India is able to capitalise on scaling production and boosting exports, we believe it would attract more investments from foreign jurisdictions, including Korea," says Nooreyezdan at AZB.

"To successfully penetrate the Indian market, it is critical to adopt a long-term perspective and to cultivate stable relationships with regulatory authorities, local communities, business partners, and customers," concludes Park. ●