

India's Rising Significance in Korea's Economic Landscape



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Korea's interest in India has been strong for some time, but this interest has not yet translated into proportionate action.

Consider the following facts about Korea's economic relations with India, a country with the fifth largest economy and the largest population in the world.

In 2022, India was only Korea's 11th largest trading partner, accounting for 2% of Korea's total exports and imports. India accounted for only 0.5% of Korea's foreign direct investment, ranking 22nd. India, which faces gigantic development challenges despite its recent impressive achievements, received only 0.03% of Korea's bilateral development finance. It ranked 76th among Korea's 119 development partners.

These figures suggest that India, soon to be the world's third largest economy, is underweight in Korea's economic portfolio.

But this situation is about to change in a spectacular way. India is rapidly moving from the periphery to the center of Korea's international economic radar, and rightly so. Let me tell you three stories.

Towards one million

Last year, Korea's Hyundai had the second largest market share in India's passenger car market. Hyundai's market share was 14.5%, an impressive achievement, but only a third of Maruti Suzuki's.

Hyundai wants to go further in India, which overtook Japan to become the third largest vehicle market in the world in 2022. Sensing an opportunity in the booming middle class and the Indian government's industrialization push, Hyundai has been investing to expand manufacturing capacity in the country.

India is already Hyundai's largest overseas manufacturing base, with the country taking the crown from China in 2019. India is now by far the largest producer country for Hyundai – 706,000 cars in 2022 compared to 332,900 in the United States; 322,500 in Czechia; and 255,000 in China.

Hyundai's goal now is to ramp up production to one million vehicles per year in India.

The company plans to invest 200 billion rupees (\$2.4 billion) over the next 10 years to expand its existing factory in Tamil Nadu. In the first half of this year, Hyundai has already increased its production capacity by 70,000 units to 820,000 units.

Hyundai plans to take another leap by acquiring the assets of General Motors in Maharashtra. General Motors' existing plant has a production capacity of 130,000 units. The acquisition is expected to conclude within a year and, after upgrading infrastructure and equipment, the factory will be operational in 2025.

Kia, Hyundai's subsidiary, is joining the party. It plans increase its capacity at the Andhra Pradesh plant, which began operations in 2019, from 300,000 vehicles currently to more than 400,000 by the mid-2020s.

From feature phones to Flips and Folds

Another Korean company that is betting on India's future is Samsung.

Samsung's smartphone market share in India was 18% in the second quarter of 2023. Samsung has fought a long battle to become the leader, and the competition remains tough. Vivo and Xiaomi's market shares are 17% and 15%, respectively. To maintain its position, Samsung announced in April a plan to set up 15 premium experience stores across the country by year's end.

Furthermore, Samsung is expanding and upgrading production capacity to better meet the needs of the local population.

There has been a lot of hype recently about the forecast that Apple will increase the share of mobile phones it assembles in India from the current 7% to around 20% by 2025. Samsung is estimated to have already reached that level by the early 2020s, thanks to the expansion of its factory capacity in Uttar Pradesh since 2017.

Not only the quantity, but also the quality of production is changing.

Samsung began manufacturing mobile phones in India in 2007. At that time, in high-income countries, the number of mobile phone subscriptions was equal to the population, and consumers were beginning to switch to smartphones. In India, however, only 2 in 10 people had a subscription, and feature phones remained the first phone for many Indians for the next decade. As a result, Samsung's factory in India focused on producing low-end models.

A lot has changed since then. As India's smartphone market growth accelerates with rising income levels, Samsung is now manufacturing its latest models in the country. Samsung's latest S23 phones are produced in India, as are its latest niche products, the Z Flip5 and Z Fold5.

Samsung's investment in India goes beyond hardware. Considering India's talented workforce in the information and technology sector, Samsung expects India to be a key software and design innovation hub for decades to come.

Samsung's research and development center in Bangalore with 3,500 engineers, is the largest one outside of Korea. Samsung is in expansion mode, announcing at the end of 2022 a plan to hire 1,000 engineers from India's top educational institutions to work in its research labs across the country. The track record of Indian engineers justifies this plan: the Bangalore R&D center has filed more than 3,500 patents in India and 7,500 patents internationally, making it the largest patent filer in India.

A tenfold increase in development finance

The Korean government has also begun to ride the wave.

Korea identified India as a priority development partner in 2021. However, the two countries' development partnership has remained quiet until recently, perhaps because Korea had limited experience in India's development scene.

India accounted for a mere 0.1% of Korea's development finance budget for 27 priority partners in 2022, ranking third from the bottom. The situation improved slightly in 2023 as the budget increased nearly sixfold in 2023. Yet, as this increase came from a low base, India's share was still small at 0.9%, ranking fifth from last.

The preliminary 2024 budget suggests that the Korean government is serious about upping its game. Korea's development finance budget for India is expected to increase tenfold from 2023. It will increase by 149.1 billion won (\$110 million), the largest increase among priority partners, to 166.3 billion won (\$123 million). As a result, India's share in Korea's development finance budget to priority partners will rise to 6.7% ranking seventh.

Korea is currently working to sign a 'framework arrangement' with India to provide a concessional loan of \$4 billion over four years. When it enters into force, it will be Korea's largest such package, eclipsing Korea's \$3 billion framework arrangement with the Philippines. It is expected to reduce the burden of making separate arrangements for each concessional loan project, thereby accelerating development cooperation between the two countries.

These three stories are leading signals that suggest Korea has begun to make a big bet on India. Korean companies see India not only as a promising consumer market but also as a competitive manufacturing base and digital innovation incubator. The Korean government sees India as a key geostrategic partner in its Indo-Pacific Strategy with whom it wants to deepen development partnership.

Korea tends to take its time in considering a change of direction, but when it decides, it moves quickly. We are about to see this pattern repeated in Korea's sprint to India. [KIEP](#)