

# Vietnam - South Korea Trade and Investment Cooperation: 30-Year Milestone and Orientation

Nguyễn Duy Lợi\*

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**Abstract:** More than 30 years since the official establishment of diplomatic relations in December 1992, the relationship between Vietnam and the Republic of Korea (hereinafter referred to as Korea for short) has deepened, making strong progress, and achieving great cooperation. The rapid development of cooperative relations between the two countries is due to their sharing many similarities in terms of geography, history, and culture. Their economies are highly complementary regarding structure and similar fundamental interests in bilateral and multilateral cooperation. The two countries have signed and shaped legal frameworks to promote cooperation through bilateral and multilateral channels. These include the World Trade Organisation (WTO), ASEAN - Korea Free Trade Area (AKFTA), and Vietnam - Korea Free Trade Agreement (VKFTA). Since Vietnam joined the WTO and signed AKFTA in 2007 along with Korea, their relationship has been upgraded from a comprehensive partnership formed in 2001 to a strategic one in 2009, and economic cooperation between the two countries has developed strongly. In 2015, they both signed the VKFTA, creating a new wave of economic cooperation between them. This article aims to analyse 30 years of Vietnam -Korea trade and investment cooperation and future orientation<sup>1</sup>.

**Keywords:** Trade, investment, FTA, FDI, Vietnam, Korea.

**Subject classification:** Economics

## 1. Vietnam-Korea trade cooperation relation

### 1.1. Vietnam- Korea trade relation

Korea is currently Vietnam's largest investment partner, the second largest tourism and bilateral development cooperation partner, and the second largest trading partner. Economic

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\* Vietnam Social Sciences Review, Vietnam Academy of Social Sciences.

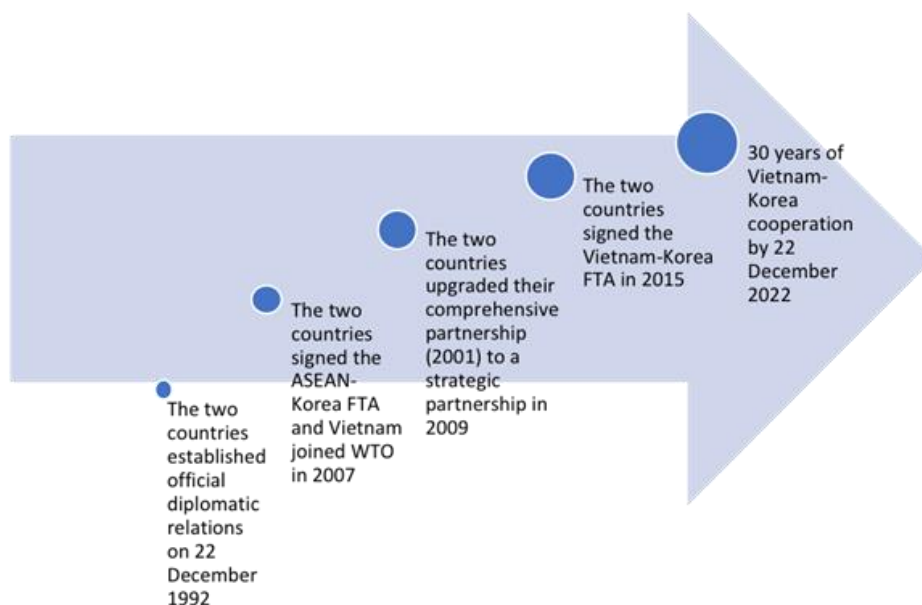
Email: loinguyen\_duy@hotmail.com

<sup>1</sup> Due to the limitation of time and volume in a research paper, the author does not give an overview of related studies but focuses on an empirical approach in analysing the situation and then suggesting some policy proposals.

cooperation has developed very strongly; however, some fields such as culture and society, national defence and security, etc., have not seen development commensurate with their economic counterpart.

The commercial cooperation relationship between Vietnam and Korea can be divided into three phases (Figure 1): (i) the period from 1992 to 2007, (ii) the period from 2007 to 2015, and (iii) phase 3 from 2015 up to now. In 1986 Vietnam began opening up, implementing reform policies, and adopting a market economy. Since then, the country has accelerated its international economic integration. First and foremost this was marked by establishing official diplomatic relations with Korea in December 1992. Then, Vietnam joined the Association of Southeast Asian Nations (ASEAN) in July 1995, the ASEAN Free Trade Area (AFTA) in 1995, and the Asia-Pacific Economic Cooperation (APEC) in November 1998. It also became an official member of the World Trade Organisation (WTO) in January 2007 and signed the ASEAN-Korea Free Trade Agreement (AKFTA) in the same year. This was the first phase that marked Vietnam’s active integration into the international economy, when trade between Vietnam and Korea increased in line with Vietnam’s integration rate.

Figure 1: Milestones in Vietnam-Korea Economic Relations



Source: Compiled by the author.

Since 1996 after the normalisation of diplomatic relations, Korea’s annual trade transactions with Vietnam accounted for more than USD 1.3 billion, making its Vietnam’s third largest trading partner. Korea is also the fourth largest foreign investor after Taiwan,

Japan, and Hong Kong. Korea has 9,223 projects and accumulated registered capital of USD 74.7 billion as of the end of 2021 in Vietnam (Nguyen Tung, 2022) where thousands of Korean companies and enterprises have been operating. According to a statistic, in 2018 Korea's Samsung Group has contributed as much as 28% to Vietnam's total GDP (VnReview, 2019). In fact, Korea's investment in Vietnam doubles every ten years. Regarding trade, within ten years since the establishment of official diplomatic relations, the volume of transactions between the two nations has doubled. In 2006, turnover was estimated at nearly USD 5 billion, more than ten times higher than the turnover at the time diplomatic relations were established. Having said this, Vietnam's trade deficit with Korea tends to increase.

Korea became an important economic partner of Vietnam within 15 years of establishing diplomatic relations. The former is always listed in the top five countries with the largest scale economic relations with Vietnam. The two countries established the Vietnam - Korea Intergovernmental Committee on Economic and Scientific and Technological Cooperation to promote bilateral economic cooperation. The two sides have signed many important agreements such as the Agreement on Economic, Scientific and Technical Cooperation (February 1993), the Amended Agreement on Investment Promotion and Protection (September 2003), Aviation and Trade Agreements (May 1993), the Agreement on Avoiding Double Taxation (May 1994), the Agreement on Culture (August 1994), Sea Transport Agreement (April 1995), the Agreement on Customs (March 1995), the Agreement on Cooperation in Tourism (August 2002), the Agreement on Cooperation in Extradition of Criminals (September 2003), the Agreement on Mutual Legal Assistance in Criminal Matters (September 2003), the Agreement on Non-refundable Aid and Technical Cooperation (April 2005), and so on. In particular in August 2001, Vietnam and Korea issued a joint statement on Comprehensive Partnership in the 21<sup>st</sup> Century, creating a foundation for comprehensive development of Vietnam - Korea relations.

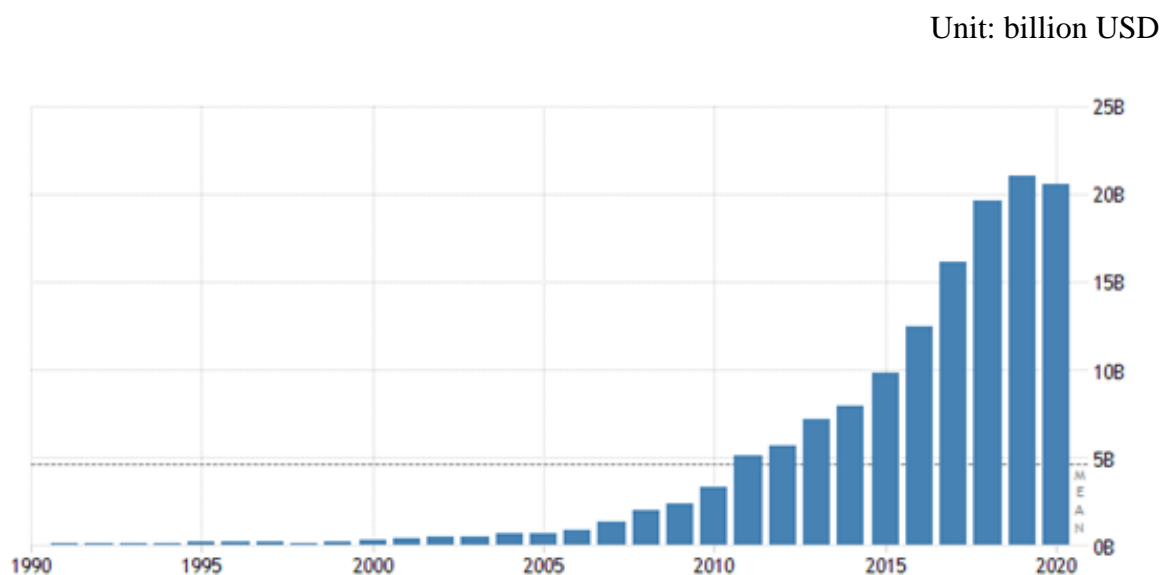
In 2007, Vietnam became an official WTO member, and then it joined the ASEAN - Korea FTA, which expanded bilateral trade with Korea. Joining the WTO and AKFTA provided great momentum, a turning point in the strong promotion of trade between Vietnam and Korea which reached new heights. In particular, in October 2009, the two countries agreed to upgrade their relations to a Strategic Cooperation Partnership. Consequently, in this second phase, Vietnam-Korea trade increased rapidly; however, some elements of AKFTA remain limited, such as high tariffs on some tax lines, and relatively short application time.

The third phase is marked by signing the Bilateral Free Trade Agreement between Vietnam and Korea (VKFTA) in 2015. This marked Vietnam's proactive and deeper international integration, and a highly-opened economy; strong export growth requires expanding markets for export. Therefore, Vietnam signed a Free Trade Agreement with the Eurasian Economic Union (EAEU) in 2016, as well as signing and ratifying major FTAs such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the EU-Vietnam Free Trade Agreement (EVFTA, 2020), and the Regional Comprehensive Economic Partnership (RCEP), etc. Such proactive integration has promoted the rapid growth of international trade, including that between Vietnam and

Korea. The period from 2015 to 2020 marked a leap for bilateral trade when Korean exports to Vietnam increased sharply up to 2017, but has since seen stagnation due to the COVID-19 pandemic and the complicated international context with increasing the US - China strategic competition.

From 1992 to 2020, Korea’s imports from Vietnam increased at an average rate of 23.4% per year. In particular, between 2015 and 2020, trade was very strong exceeding USD 10 billion, rising to USD 12.5 billion in 2016, and reaching USD 21.1 billion in 2019, growing at an average annual rate of 16% over the five years. Korea’s share of Vietnam’s exports increased from 1.96% in 1990 to 6.7% in 2020, but its share of Vietnam's imports grew faster over the same period, from 6.5% in 1990 to 17.8% in 2020. The value of Vietnam’s average exports to Korea over the past 30 years is about USD 5 billion per year (see Figure 2).

Figure 2: Vietnam’s Exports to Korea

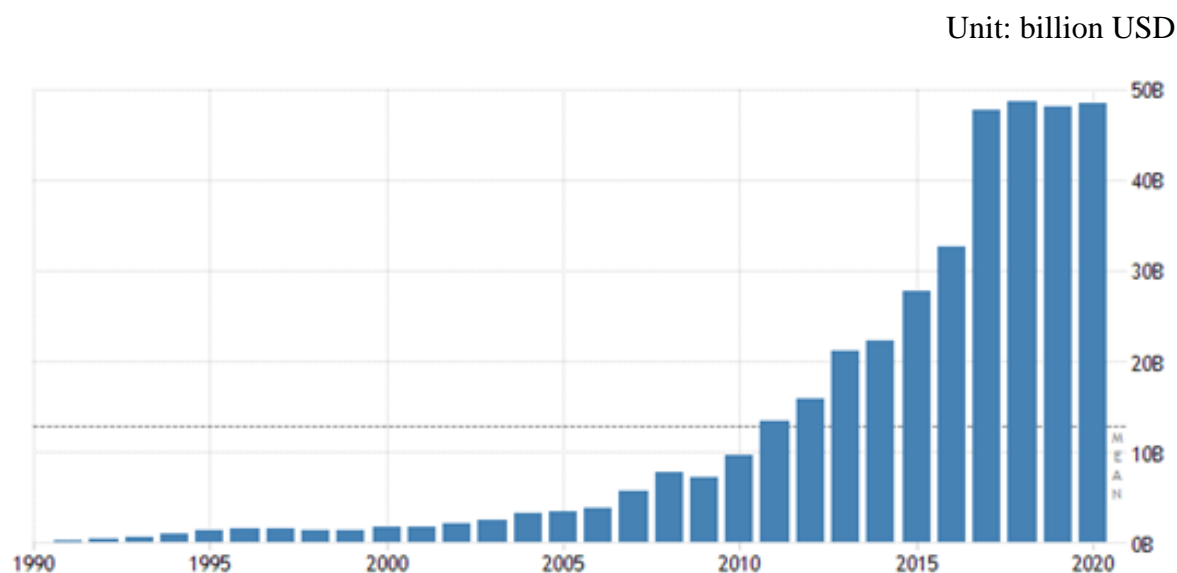


Source: <https://tradingeconomics.com/vietnam/exports/south-korea>.

In 2021, the value of Vietnam’s imports was approximately more than USD 50 billion while exports were approximately more than USD 20 billion. In 2020, Korea’s exports to Vietnam amounted to USD 48.5 billion, accounting for 9.5% of Korea’s total export turnover. Within 15 years of establishing diplomatic relations, Korea’s exports to Vietnam increased by an average of 18.8% per year, reaching USD 5.7 billion in 2007. In 2009 the bilateral relationship between the two countries was upgraded to a “Strategic Cooperation Partnership”, considered a turning point in the area of trade between Vietnam and Korea from 2007 to 2015. The value of Korean exports to Vietnam in 2009 reached USD 7.9

billion, increasing rapidly to USD 13.6 billion in 2013 and USD 18 billion in 2015. The average annual growth rate was 21.7% for a period of 8 years. The value of Vietnam's imports from Korea (or the value of Korea's exports to Vietnam) has averaged approximately USD 10 billion per year over the past 30 years (see Figure 3).

Figure 3: Vietnam's Imports from Korea



Source: <https://tradingeconomics.com/vietnam/imports/south-korea>.

The trade surplus in the Vietnam-Korea trade relationship has increased rapidly; however, by 2015, the trade surplus tended to decrease relatively. The share of Korea's trade surplus in total trade between the two countries gradually decreased, from 70% in the first period to 51% in the second period, and to 44% in the current third period. The average growth rate of Korean exports to Vietnam was 11.8% per year between 2015 and 2020 and decreased compared to previous periods, but there was a change in quality.

Vietnam has become one of the main exporting countries of Korea. However, the deficit in trade relations between the two is worsening. Vietnam has proposed solutions for the long-term trade deficit, promoting sustainable trade relations between them. This is by supporting the participation of Vietnamese enterprises in the global value chain; cooperating to strengthen Vietnam's industrial capacity; increasing agricultural product imports; and solving the problem of a highly unbalanced trade structure.

Since 1992, Vietnam's share in Korea's trade has been only 0.3% by 2020 this figure reached 7% (KWAK Sungil et al., 2021, p.34). In 2020, Vietnam became the third largest country exporting to Korea, while the latter was the fourth largest exporter to Vietnam. The

country's exports to Vietnam accounted for 2.1% of total exports in 2010 (ranked 9<sup>th</sup>), rapidly increasing to 9.5% (ranked 3<sup>rd</sup>) in 2020 (KWAK Sungil et al., 2021, p.35). In the context of US-China trade tensions and the recent rise in nationalism, the share of Korea's exports to the US, China, and Vietnam also increased, in which the importance of Vietnam in Korea's trade market has increased since 2007 (KWAK Sungil et al., 2021, p.35).

Table 1: Trade Share between Vietnam and Korea

Year	Korea		Vietnam	
	Exported to Vietnam	Imported from Vietnam	Exported to Korea	Imported from Korea
1990	0.18	0.05	1.96	6.56
1995	1.0	0.17	4.32	15.36
2000	1.02	0.22	2.43	11.21
2005	1.26	0.25	2.04	9.78
2010	2.09	0.73	4.34	11.78
2015	5.24	2.04	5.50	16.60
2020	9.14	4.09	6.79	17.86

Source: Collected data from UN comtrade.

In terms of Korea's exports to Vietnam, intermediate goods and means of production account for a high proportion. From 1992 to 2007, the average share of intermediate goods was 71.3%, means of production was 14.9%, while consumer goods was 10.2%. Since 2015, the share of intermediate goods increased from 71.3% to 76.9% and the share of consumer goods has decreased from 10.2% to 7.6%. In 2020, the share of exports of intermediate goods increased to 80.6% while the proportion of consumer goods decreased to 4.7%. The reason is that Korean enterprises imported from subsidiaries to assemble products for export to Vietnam. Recently, Korean imports of intermediate goods from Vietnam have increased while the share of imports of primary goods has decreased, the quality of bilateral trade has changed due to the changing import structure (KWAK Sungil et al., 2021, p.35).

The structure of Vietnam-Korea trade has been affected by the strong influx of Korean direct investment into Vietnam, making Korea the number one investor in Vietnam in recent years. Korean enterprises investing in Vietnam often import intermediate goods from subsidiaries in the system or parent companies in Korea, leading to an increase in Korea's exportation of intermediate goods and production materials to Vietnam. Korean enterprises have penetrated the domestic market and expanded the exportation of intermediate goods (Kyung-Hyun Koo & Hyuk-Hwang Kim 2020, p.52).

Since 2010, Korea's exports of high-tech products to Vietnam have increased sharply, accounting for 55.3% of the country's total exports, while exports of goods with medium and low technology content to Vietnam have decreased sharply.

This particularly is a trend since 2015 because domestically produced goods of Korean enterprises investing in Vietnam have replaced imports from Korea. Korea's imports from Vietnam also changed; the amount of high-tech goods imported from Vietnam has especially increased rapidly, rising from 9.2% of the total import turnover from Vietnam in 2010 to 43.4% in 2020.

The change in trade structure is also reflected in the main exports of Korea to Vietnam from time to time. Until 2007, textiles, fabrics, synthetic resins, and petroleum products, etc., were the main export items. However, in the 2010s, the focus changed to semiconductors, wireless communication equipment, flat screens, and other such machinery/technology. Since 2015, the share of exports in high value goods has increased. In each period, the proportion of the top ten export products to Vietnam also rose, accounting for 50.1% in the first period, 53.8% in the second period, and 64.1% in the third period (KWAK Sungil et al., 2021, p.39).

From 1992 to 2007, Korea imported mainly agricultural, aquatic products, and crude oil in a large proportion. After 2007, it imported the same items, with the addition of clothing and other textile products, and wireless communication equipment. After 2015, when the Vietnam - Korea FTA took effect, high-priced items began being imported from Vietnam to Korea including wireless communication equipment, sensor flat screens, computers, industrial power equipment, semiconductors, and imaging equipment, etc.

### *1.2. Some advantages and disadvantages*

Since the establishment of foreign relations in 1992, cooperation between Vietnam and Korea has developed rapidly. Factors promoting favourable trade cooperation between themselves include Vietnam's efforts to integrate into the world economy through trade liberalisation measures, participation in regional organisations such as ASEAN (1995), the ASEAN Free Trade Area (AFTA, 1996), the Asia-Pacific Economic Cooperation Forum (APEC, 1998), and the WTO (2007); and Vietnam has signed 15 Free Trade Agreements (FTAs) with trading partners around the world. Therefore, it is one of the countries with the world's highest average export growth rate at 24.4%; Vietnam's economy has the world highest openness where the ratio of total import-export turnover to GDP - a commonly used indicator of the openness of the economy, accounts for more than 200% by 2020. Moreover, the economic structures of both Vietnam and Korea are highly complementary.

The two countries have perfected the legal framework to create a foundation to promote their trade relations to become more complete and synchronous. The AKFTA took effect in 2007 and the VKFTA in 2015; and Regional Comprehensive Economic Partnership (RCEP) Agreement, to which both countries are members, took effect in January 2022. As a result, the degree of liberalisation has expanded by bringing taxes to very low levels, and eliminating additional tariffs.

The two countries agreed to establish a comprehensive cooperative partnership in 2001, which was elevated to a strategic cooperative partnership in 2009. In 2017 Korean President Moon Jae-in's administration launched the New Southern Policy (NSP), which put ASEAN and India (south of Korea) at the centre of the nation's foreign policy, and Vietnam became the focal point of this policy (Vietnam and Korea are both members of APEC, ASEAN +3, and RCEP - author's note).

Increased trade between the two countries has attracted Korean foreign direct investment into Vietnam, which in turn has boosted Vietnam-Korea bilateral trade. This trade relationship is closely related to the increasing presence of Korean enterprises in the Vietnamese market as, faced with higher Chinese labour costs, they restructure and move their production bases from China to Vietnam taking advantage of cheaper Vietnamese labour. Korea has also made adjustments to deal with the worsening business environment caused by increased strategic competition between the US and China, and the conflict between Russia and Ukraine, which has seen the US, the UK, Japan, the EU, etc., impose strong sanctions against Russia. Korean enterprises are expanding their foreign direct investment in Vietnam, leading to an increase in imports of intermediate goods. Consumer goods account for a relatively small share of Korea's exports to Vietnam, but increasing purchasing power and expanding market capacity could increase purchasing power for imported consumer goods from Korea.

Korean enterprises investing in the Vietnamese market contributed at least 23.7% of Vietnam's total export turnover in 2019 (KWAK Sungil et al., 2021). However, the rate of commercial transactions between Korean companies is relatively high, leading to a high rate of importing intermediate goods from Korea. This has led to a large trade deficit between Vietnam and Korea. Therefore, in order to solve Vietnam's trade deficit, Korea needs to increase imports from Vietnam through direct investment enterprises, to help Vietnamese enterprises develop supporting industries, and create favourable conditions for them to participate higher up the ladder, deeper in the Korean product value chain, and reduce dependence on imports from China. Moreover, the close geographical location helps to reduce transaction costs, such as transportation, travel time, etc., contributing to increasing bilateral trade.

The two governments set a target for raising the trade turnover between their nations to USD 100 billion by 2020; however, this was not achieved due to the COVID-19 pandemic. Vietnam wishes to promote more balanced bilateral trade with Korea. It wants products such as tropical agricultural and aquatic items, textiles, furniture, rubber, etc., to be able to access the Korean market more easily. At the same time, Vietnam is also willing to create more favourable conditions for manufacturing components, as well as processed, manufactured, and electronic products with which Korea has comparative advantages to enter the Vietnamese market.

The balance of trade in goods between the two countries in 2017 showed a deficit of USD 31.9 billion, with Vietnam having a trade deficit of 68%. Compared to the total value



of Vietnam's exports to Korea in 2016, this deficit was twice as high. Therefore, Vietnam wished to solve this trade balance deficit through cooperation in the fields of supporting industries, the automobile sector, and spare parts, as well as other cooperation projects, such as strengthening Vietnam's agricultural and fishery products export capacity within the framework of industry capacity building for the two countries' mutual benefit. The decline in Samsung's phone production (with an export value of up to 20% of GDP) in the second quarter of 2018 greatly affected Vietnam's economic growth. The phone manufacturing and electronics industries have a significant impact on Vietnam's economy. This is an important segment in the manufacturing and processing sectors, which accounts for the largest share in Vietnam's GDP structure (about 18.8%), often with a high growth rate of over 10%. Hence, it has always been the driving force behind general economic growth. In addition, the two countries can expand their cooperation on trade solutions in the context that they are becoming more closely integrated and have to increasingly deal with safeguarding measures of other countries, etc.

## **2. Vietnam - Korea Investment cooperation relation**

### *2.1. Korea FDI into Vietnam*

Since the two countries established diplomatic relations, Korea's investment in Vietnam has reached USD 17 billion, with an average annual increase of 23%. Vietnam's direct investment in Korea began to take shape from 2001 to now, starting at USD 120,000 in 2001, reaching USD 2.2 billion in 2019, since when it has increased at an average annual rate of 17%. Korea and Vietnam expanded the scale of foreign direct investment (FDI) up to 2019, before the outbreak of COVID-19. According to the FDI statistics of Korea Eximbank, Korea's direct investment in Vietnam in 2019 was USD 4.6 billion while Vietnam's direct investment in Korea exceeded USD 2 billion.

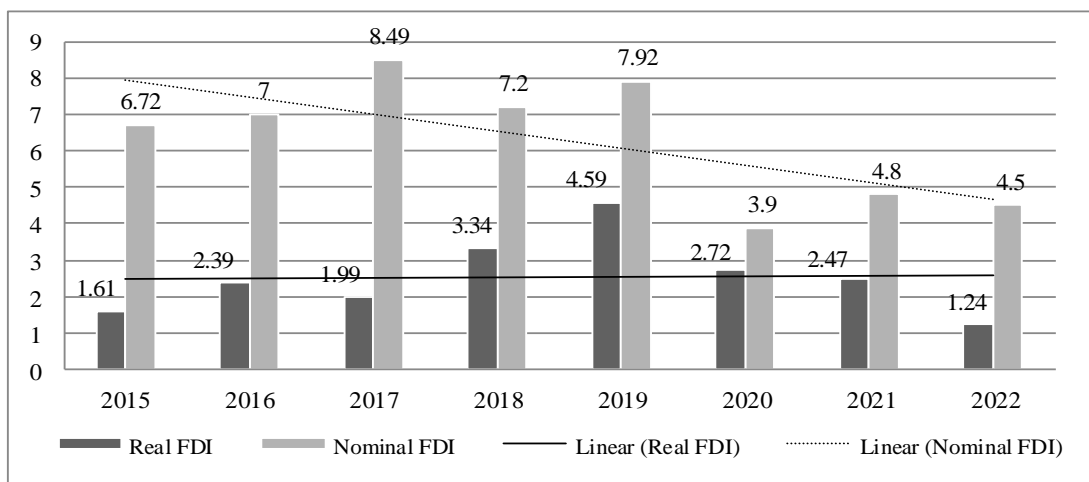
As of 20 November 2021, Korea ranked first in foreign investment in Vietnam with 9,203 valid projects with a total registered capital of USD 74.14 billion, accounting for 18.3% of the total registered investment capital of Vietnam. Korea's average project size is nearly USD 8.1 million per project, lower than the country's average project size of USD 11.8 million per project. Korea's investment capital mainly focuses on processing and manufacturing industries (74%), real estate business (13.1%), and construction (3.8%). The regions receiving the most investment from Korea include Bắc Ninh province (14.5%), Hải Phòng city (12.9%), and Hanoi (7.8%) ([fia.mpi.gov.vn](http://fia.mpi.gov.vn)).

Large Korean industrial groups such as Samsung, LG, Doosan, Kumho, Posco, Lotte, GS, Hyosung, and various satellite companies, etc., are all present in Vietnam. Korean FDI focuses on processing, manufacturing, and investment in the form of 100% FDI capital. Korea is the largest investment partner in the manufacture of electronic products in

Vietnam, with a total accumulated value of more than USD 21 billion across more than 150 major projects. Korea FDI enterprises employ about 700,000 workers and contribute about 30% of Vietnam’s total exports. Such FDI focuses on processing and manufacturing industries (which account for 84% of total registered capital), R&D, construction, real estate, etc. Main investment locations include Hải Phòng city, Hanoi, Hồ Chí Minh City, and Đồng Nai, Bắc Ninh, and Bình Dương provinces.

Figure 4: Korean FDI in Vietnam, Period 2015-2022

Unit: billion USD



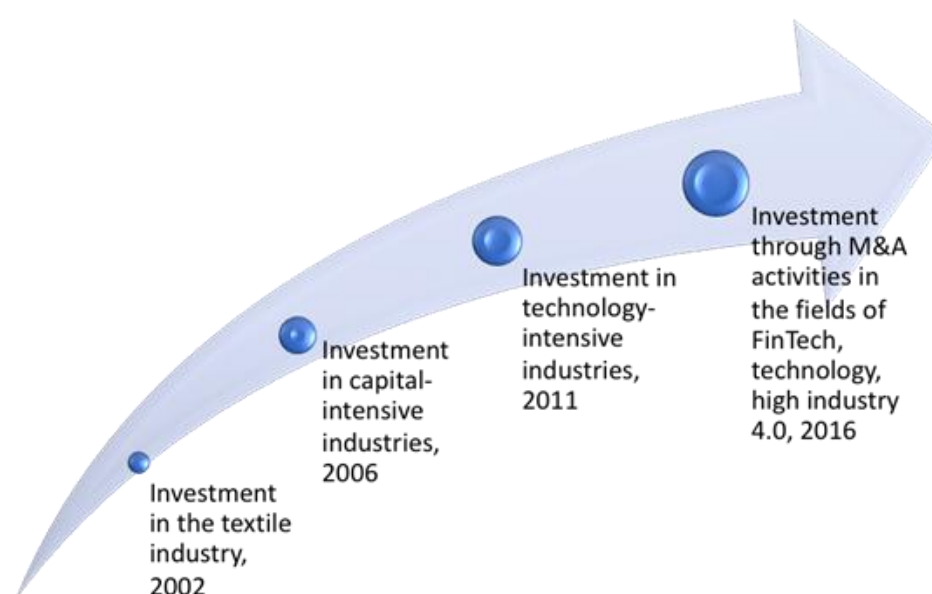
Source: Registered FDI data from the “Report on Foreign Direct Investment” of the Ministry of Planning and Investment; real FDI data is collected from the Export-Import Bank of Korea, <https://stats.koreaexim.go.kr/en/enMain.do>, retrieved on 20 August 2022.

Korea has expanded its direct investment in Vietnam to become the number one investor in Vietnam. This is due to a number of factors such as market access, low wages, an increasing size of the domestic market, access to resources, a growing middle class, stable and predictable political environment, economic government incentives, various Free Trade Agreements (FTAs), level of openness in trade, the ASEAN-Korea FTA, and the Vietnam-Korea FTA, etc. All these have promoted Korean investment in Vietnam.

Before 2007, when Vietnam joined the WTO and signed the AKFTA, Korea’s direct investment in Vietnam increased, boosted by the prospect of joining these free trade agreements. The 2008 global financial crisis caused Korea’s FDI in Vietnam to slow down. However, during the recovery period after the crisis, Korea’s direct investment in Vietnam increased rapidly until 2015 because large Korean companies began to adjust their investment locations to Vietnam aiming to reduce investment risks and find new growth

engines. After 2015, due to rising costs of Chinese labour, businesses operating in the industries manufacturing capital-intensive and technology-intensive products of Korea such as electrical and electronic products, etc., poured into Vietnam, bringing with them increased investment in the supporting services sector while the share of the service sector also rose. In general, a relatively high proportion of Korea's investment in Vietnam is concentrated in the manufacturing sector; the proportion of investment in the service industry has recently been increasing. Meanwhile, Vietnam's direct investment in Korea is mainly in the manufacturing and service industries (KWAK Sungil et al. 2021, p.52).

Figure 5: Vietnam-Korea Direct Investment Trend over Time



Source: Compiled by the author.

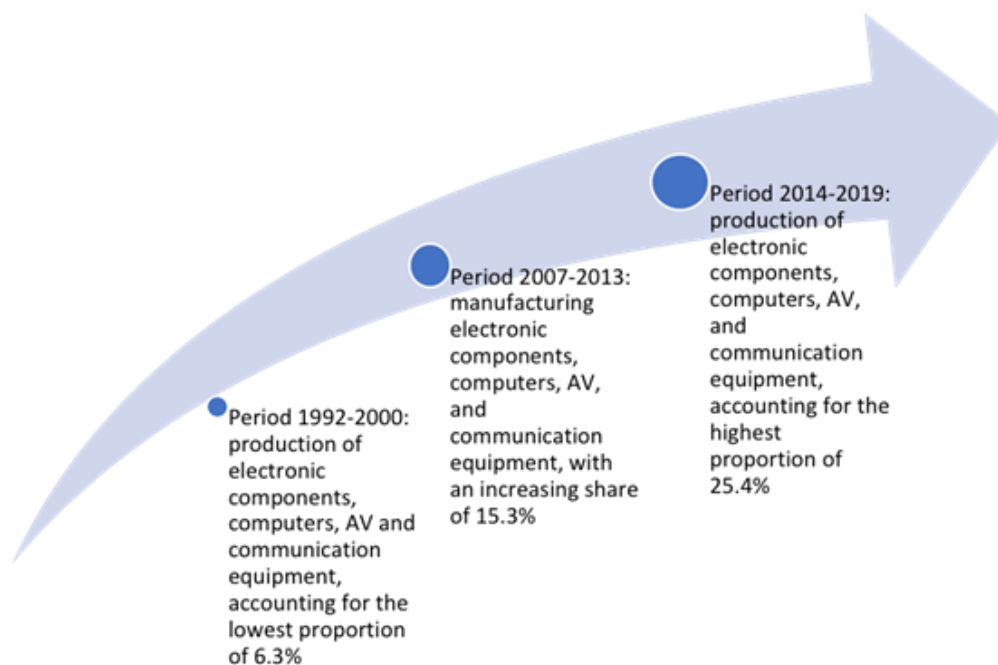
Before 2007 in the manufacturing industry, investment from Korea and Vietnam shifted from focusing on labour-intensive low-tech industries. After 2007, Korea's investment moved to high-tech, technology-intensive manufacturing industries, with the proportion of investment in the medium-low and medium-high technology industries increasing rapidly. After 2015, outward direct investment expanded into high value-added industrial sectors that required large scale investment in capital goods, such as the yarn manufacturing industry rather than the garment industry, chemical products manufacturing, base metal production, electronic components manufacturing, computers, and communication equipment (KWAK Sungil et al., 2021, p.54), etc.

With about USD 74,138 billion in total registered investment capital by the end of 2021 with 9,203 projects in operation, Korean businesses have been playing an active role in a

number of Vietnam’s key economic sectors, such as electronics, energy, automobile, garment, construction, and services, etc., contributing to economic restructuring, job creation and ensuring social security. Vietnam is one of Korea’s key investment countries highlighted by the number of Korean businesses operating in Vietnam which account for more than half the total number of Korean businesses investing in the ASEAN region.

The fourth wave of investment capital from Korea to Vietnam is concentrated in the financial, banking, and Fintech markets through mergers and acquisitions (M&A). At the end of March 2018, the investment fund group of Korea Investment Management Company (KIM) became a major shareholder of Viet Capital Securities Joint Stock Company with an ownership rate of 5.08%. This investment deal cemented KIM’s presence in Vietnam. Previously, the Vietnamese stock market also received foreign capital flows from Korean enterprises through M&A activities. Specifically, in September 2017, KB Securities, a subsidiary of KB Financial, spent about USD 33 million to acquire nearly 100% of shares of Maritime Securities Company (MSI) (Mai Linh, 2018).

Figure 6: Korea’s Main Investment Sectors in Vietnam by Period



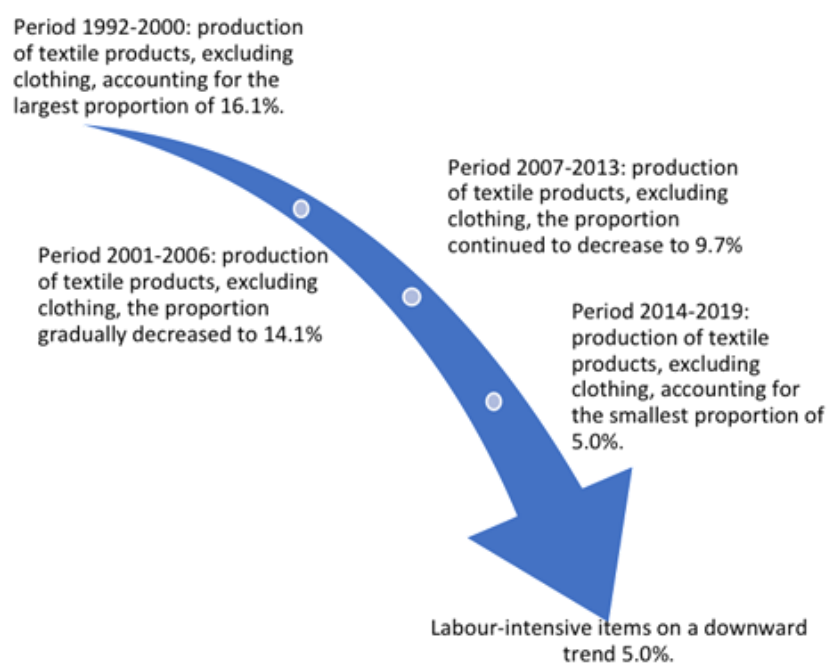
Source: Kwak Seongil et al., 2020, p.159.

In November 2017, NH Investment & Securities Co., Ltd. increased its ownership in Woori CBV Securities Corporation to 96.15% of charter capital. Woori CBV was formerly known as Viet Capital Securities Joint Stock Company. Since 2009, NH Investment &

Security started to become a shareholder of this company with an ownership rate of 12.7%, which gradually increased. It is also one of Korea's leading securities companies. In the field of consumer finance, there was also a strong penetration of indirect flow of capital from Korea (Hải Yến, 2018). Shinhan Card Company spent about VND 3,420 billion to buy Prudential Finance Company; and Lotte Card Company spent VND 1,734 billion to acquire 100% capital of Techcombank Finance Company. In Vietnam, there are many Korean financial investors such as Lotte Card, Shinhan Card, Kexim, KEB Hana, Industrial Bank of Korea, Kookmin, Busan, Nonghyup, and Shinhan Bank, etc. Korea's Hana Financial Group is planning to become a shareholder of BIDV, etc. (thanhvien.vn, 2019).

Many Korean companies in the banking and finance sector have entered the Vietnamese market to provide financial services, such as the financial technology (fintech) sector. Companies have also increased their presence in retail, wholesale, distribution, and entertainment industries. In addition, in the context of COVID-19 and implementation of its New Southern Policy Plus (NSP Plus), Korea can expand investment in logistics, medical equipment, environmental technology, and supporting industries with high potential, industries associated with the fourth industrial revolution (Industry 4.0).

Figure 7: Korea's Investment Sectors in Vietnam Has Declined Sharply over Time



Source: Kwak Seongil et al., 2020, p.159.

## *2.2. Limitations of Korean FDI in Vietnam*

Korea's FDI has contributed much to Vietnam's economy; however, many problems have also arisen, including:

(i) The investment scale of Korea's FDI in Vietnam is small although it tended to increase from 2018. In 2020, smaller-scale investment projects were implemented employing less than 200 employees, accounting for 90.7%, and an investment value of less than USD 10 million which accounted for 91.7%. The average size for each project is smaller than the national average. Large Korean enterprises often enter the Vietnamese market together with their supplying companies. Therefore, Vietnamese businesses are worried that Korean SMEs will invade their market. Some scholars (Kwak Seong-il & Lee Jae-ho, 2016; N. H. Tién, 2020) argue that this prevents the participation of Vietnamese companies in the supply chains of large Korean enterprises. Recently, however, large Korean enterprises have begun instigating technology support projects for Vietnamese companies and to increase purchases of Vietnamese companies. Samsung is developing first-tier suppliers in Vietnam, setting up a research and development centre, training for human resource development, and technology development. Therefore, Vietnamese companies (Yonhap News, 2020) can participate in the supply chain as second- or third-tier suppliers to large Korean companies.

(ii) Vietnam's supporting industries are faced with many limitations and they need the support of Korea, a country which can share a lot of its experience about investment and development policies in this field, especially in the automobile, electrical/electronics, textile, and footwear sectors. In addition, some activities need Korea's support and cooperation; for example, in electricity development and security; energy efficiency and climate change; and high-quality human resources training in the oil and gas and renewable energy industries, etc.

(iii) Technology transfer from Korean FDI companies to Vietnamese companies remains limited. As per the end of 2017, out of a total of 26,700 FDI projects, only 600 received technology transfer contracts (Phạm Chi Trung, 2018). Compared to Indonesia, Thailand, and the Philippines the level of technology transfer to Vietnam is lower. Korean companies are still hesitant to transfer technology because Vietnam has no mandatory regulation on this, and Vietnamese companies still lack the capacity to absorb technologies.

In recent years the Korean government has been implementing a variety of activities to encourage businesses to transfer technology in Vietnam. It has supported the establishment of the Vietnam-Korea Institute of Science and Technology (VKIST) through Official Development Aid (ODA), contributing to improving the quality of research and higher education. The Korea Institute for Advancement of Technology (KIAT) has established a Global Technology Commercialisation Centre (GCC) in Hanoi to promote technology

transfer and commercialisation. Korean businesses are also making efforts in technology transfer: in 2018, Samsung Electronics Co., Ltd. signed a Memorandum of Understanding (MOU) with the Ministry of Industry and Trade of Vietnam on training consultants in Vietnam to improve corporate productivity and to implement a project to train 200 consultants and 60 experts by 2020. Moreover, the link between FDI companies and Vietnamese suppliers is still limited, although the ratio of Vietnamese enterprises that can provide products and services to FDI enterprises increased slightly from 14% in 2016 to 19% in 2019 (Vietnam Chamber of Commerce and Industry, 2020).

(iv) The contribution of domestic value added to total exports of Vietnam is lower than that of competing countries. Most products manufactured by FDI companies have a low rate of domestic value added because they only import intermediate goods from abroad for assembly, not using intermediate components and accessories from Vietnamese enterprises.

Most of Korea's FDI projects in the manufacturing sector also focus on simple assembly. Products manufactured by Korean companies in Vietnam have low domestic content and domestic value-added ratios. Samsung mainly assembles smartphones in Vietnam, taking advantage of cheap labour, but it doesn't buy components and accessories provided by Vietnamese enterprises. Recently, Samsung Electronics Company has been gradually building a Vietnamese supply chain.

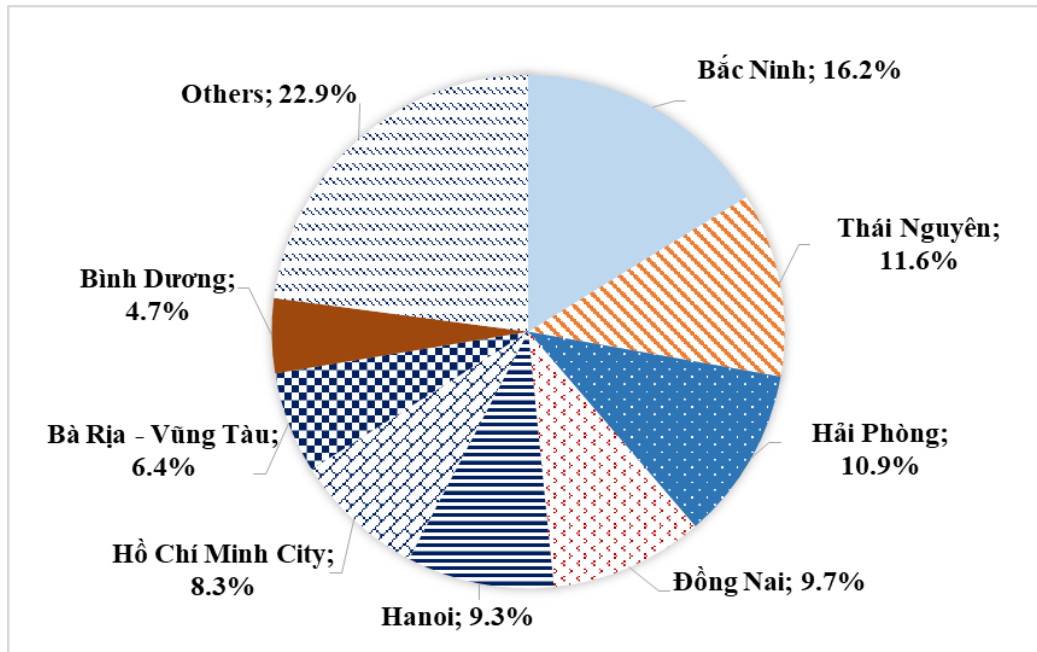
Implementing the New Southern Policy (NSP), Korea puts Vietnam in the centre of trade and investment within the ASEAN region. Therefore, if Vietnam plays a partner role in establishing a new supply chain of both countries in the ASEAN region, economic cooperation between the two can be promoted. Moreover, Vietnam has been participating in many different FTAs, but its involvement in the global production network and the regional value chain is still low. Strategic competition between the US and China, the COVID-19 pandemic, the Russia-Ukraine conflict, etc., make the supply chain increasingly unstable. Furthermore, ASEAN countries are competing to attract multinational companies that are shifting their investment from China to Southeast Asia.

(v) The ratio of invested capital that has been actually realised is low compared to the registered capital. The ratio of actually realised investment capital to registered capital was 39% in 2014, 51% in 2015, 23% in 2016, 53% in 2017, 56% in 2018, and 66% in 2019. Although the spread is decreasing, the registered capital is still about 40% higher than the actual investment. Both the latter and the registered value of Korea's direct investment in Vietnam also differed considerably in the early 2000s; however, recently it has been shrinking.

(vi) Investment in Vietnam by Korean companies tends to be concentrated in the cities and most developed regions (see Figure 8). In North Vietnam, Korea's FDI is most concentrated in Hanoi's industrial zones and surrounding areas (Bắc Ninh and Thái Nguyên provinces, and Hải Phòng city). In South Vietnam, Korea's investment is concentrated in the industrial zones of Hồ Chí Minh City, and Đồng Nai, Bình Dương, and Bà Rịa - Vũng Tàu provinces.

These eight provinces and major cities attract more than 77% of Korea's FDI, while 23% is poured into the remaining 55 provinces and cities.

Figure 8: Korea's FDI Distribution in Provinces and Cities by the End of 2019



Source: Vietnam's Foreign Investment Agency (2021), Situation of Investment Cooperation between Vietnam and South Korea, <https://ipcs.mpi.gov.vn/tinh-hinh-hop-tac-dau-tu-viet-nam-han-quoc/>, retrieved on 25 July 2022.

### 3. Conclusion and orientation

Regarding the direction of expanding Korea-Vietnam economic cooperation in the future, President Moon Jae-in, who held the presidency from May 2017 to May 2022, said that the two keywords that came to mind were “win-win cooperation” for mutual support and “future growth cooperation” to jointly prepare for the future. Regarding “win-win cooperation”, economic cooperation must create benefits for both sides to be sustainable. Therefore, he wished to develop the economic cooperation relationship between Korea and Vietnam in a mutually beneficial way, contributing to the prosperity of both countries. Regarding “cooperation for future growth”, he said that it was extremely important to respond jointly to the era of the industry 4.0 and make joint efforts to create the future growth engine. President Moon Jae-in hoped that the two countries would strengthen the foundation for their economic cooperation for future



development through cooperation in new industries such as smart cities, ICT, etc. The Vietnam-Korea Institute of Science and Technology (VKIST) groundbreaking ceremony was an example of typical cooperation embodying both “win-win cooperation” and “future growth cooperation”.

Vietnam is Korea’s third largest export destination, and Korea has become Vietnam’s fourth largest export market. Bilateral trade between the two remains basically a complementary relationship with a recent change in the structure of comparative advantage. The complementarity in the structure facilitates the expansion of trade between the two countries, but the trade deficit needs to be resolved to allow for sustainable development. There is still great potential and room for Vietnam to expand its exports to Korea.

Vietnam has an inherent comparative advantage in most primary agricultural products such as rice, coffee, tea, cashew nuts, natural rubber, etc. But among the country’s major export commodities, only a few are exported to Korea. This structure makes Vietnam an exporter of primary agricultural products with low added value, and it needs to join the global value chain (GVC) in agricultural exports to enhance adding value. This is an opportunity for Vietnam and Korea to cooperate in developing GVC for the processed food industry, and at the same time to create processed agricultural products to expand exports to Asia-Pacific markets.

The two countries need to cooperate in developing support for industries in the global value chain of Korean corporations. Samsung has been supporting technology transfer and management capacity enhancement programmes for Vietnamese companies involved in production. Vietnam also needs to establish a stable supply chain to ensure economic activities for Korean companies, contributing to their expansion of investment in Vietnam.

Currently, Vietnam has adjusted its policies to attract FDI, by not promoting backward, polluting, labour-intensive industries, but rather focusing on those with capital-intensive FDI, green technology, and modern technology. This will encourage Korean companies with advanced technology to increase investment in Vietnam’s priority investment areas with such incentives.

In addition, Vietnam also wants, and promotes, stronger technology transfer from foreign companies, especially from Korea, with more incentives. Therefore, it is necessary to coordinate between the large Korean enterprises and small and medium enterprises of Vietnam and Korea in capacity building, financial support, technology, business transformation, etc. The Vietnamese government needs to create a favourable competitive environment for Korean companies to invest in the country’s preferential fields, to put a trade orientation in place to increase imports of high-tech intermediate goods, and policies to create favourable conditions for Korean companies to invest in more Vietnamese provinces. The supporting industry is still limited and needs Korea’s support. The latter continues to share its experience, investment and development policies for supporting

industries, especially in the automobile, electrical/electronics, textiles, and footwear sectors. Korea supports Vietnam in high-quality human resources training in the fields of industry, oil and gas, and renewable energy; strengthening cooperation in electricity and energy security, and in the field of energy efficiency and climate change.

Looking back over the past 30 years, in order to create a foundation for a new phase of cooperation and to develop a sustainable bilateral relationship, Vietnam and Korea need to upgrade their relationship to the level of a “*Comprehensive Strategic Partnership for Peace, Prosperity and People*” linked to the pillars of Korea’s New Southern Policy Plus (NSP Plus). Elevating the relationship between the two countries aims to develop a more comprehensive and deeper relationship between Vietnam and Korea in the future.

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