

Linkages between Domestic and South Korean FDI Enterprises in Vietnam's Electronics Industry

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Introduction

Over the past decade, Vietnam has become a prime destination for foreign direct investment (FDI), particularly in the electronics sector. South Korean enterprises have played a crucial role in this growth. Major companies like Samsung and LG, along with supporting firms, have established manufacturing operations in Vietnam, significantly boosting the country's economic growth. However, the key challenge remains enhancing linkages between domestic firms and foreign-invested enterprises to maximize the benefits that have arisen from FDI in Vietnam's electronic sector. This paper explores the current state of South Korean FDI in Vietnam's electronics industry, assesses the integration of domestic and South Korean enterprises, and proposes strategies to strengthen these linkages for continued economic development.

1. The current state of South Korean FDI into Vietnam

Since the implementation of the Doi Moi policy in 1986, which marked Vietnam's transition from a centrally planned economy to a market-oriented system, Vietnam has made significant strides in attracting FDI. Data from General Statistics Office (GSO) of Vietnam (2024), as illustrated in **Figure 1**, highlights a marked upward trend in FDI inflows from 1988 to 2023. Both the number of newly registered projects and the volume of registered capital have seen substantial growth, particularly from 2007 onwards (GSO of Vietnam, 2024). FDI has been recognized as a crucial driver of economic growth, infrastructure development, and industrial capacity expansion across various sectors. As of August 31, 2024, Vietnam had 41,142 active FDI projects, with total registered capital amounting to USD 491.39 billion. Of this, cumulative disbursed capital from these projects reached approximately USD 311.33 billion, equivalent to 63.4% of the total effective registered capital (MPI of Vietnam, 2024).

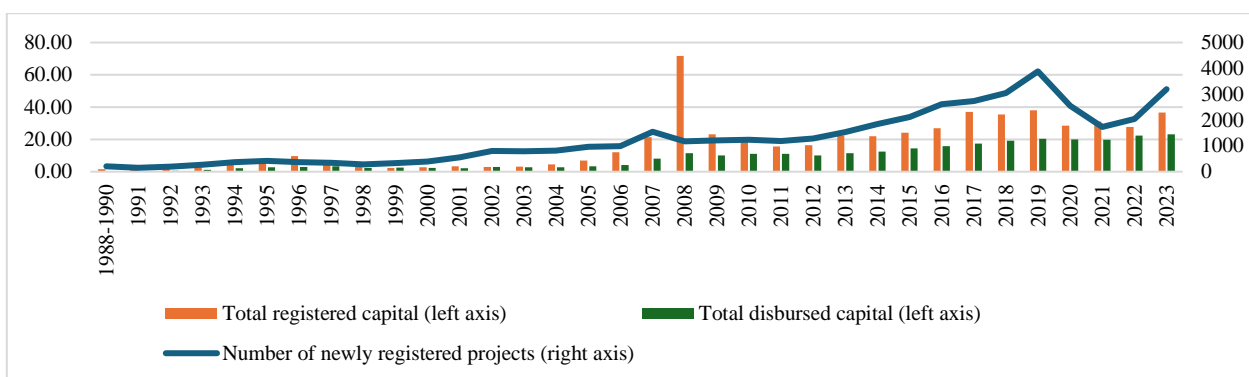


Figure 1. Total registered capital (billion USD), disbursed capital (billion USD), and number of newly registered projects in Vietnam, 1988-2023

Source: GSO of Vietnam (2024)

Vietnam's major investment partners include Japan, South Korea, Singapore, and several European countries, with South Korea as the largest investor. By the end of August 2024, South Korea led in both project numbers (10,048 projects, 24.4% of total) (**Figure 2a**) and registered capital (87.78 billion USD, 18% of total FDI) (**Figure 2b**), surpassing Singapore (80.69 billion USD, 16%) and Japan (79.27 billion USD, 16%) (MPI of Vietnam, 2024). This underscores South Korea's dominant role in Vietnam's foreign investment landscape, highlighting the strong economic ties between the two countries.

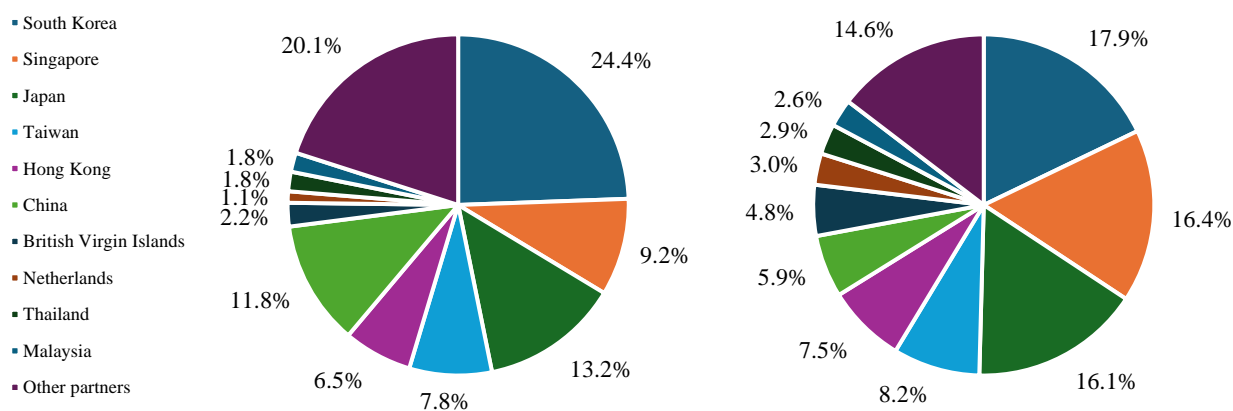


Figure 2a (left) - Percentage of FDI projects in Vietnam by partner and Figure 2b (right) - Percentage of registered FDI value in Vietnam by partner

Source: Author's calculations based on data from GSO (2024)

From 2014 to 2023, South Korea's FDI into Vietnam fluctuated but remained significant (**Figure 3**). It peaked in 2017 at USD 8.49 billion, surpassing China and Singapore. However, since 2017, Japan has consistently outpaced South Korea. This shift can be attributed to Japan's strategy of diversifying supply chains in response to global trade uncertainties and expanding its presence in

Vietnam through investments in high-tech manufacturing, electronics, and infrastructure projects like renewable energy and transport. Additionally, Japan’s active participation in trade agreements, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), has solidified its role as a leading investor in Vietnam. Singapore saw a sharp FDI increase from 2020, reaching USD 10.71 billion in 2021, making it the top investor that year. South Korea’s FDI declined from 2019, dipping to USD 3.95 billion in 2020 due to global challenges, with a modest recovery by 2023, though still trailing behind Singapore and Japan. Nonetheless, South Korea remains a key investor compared to China, which has maintained stable but lower investment levels.

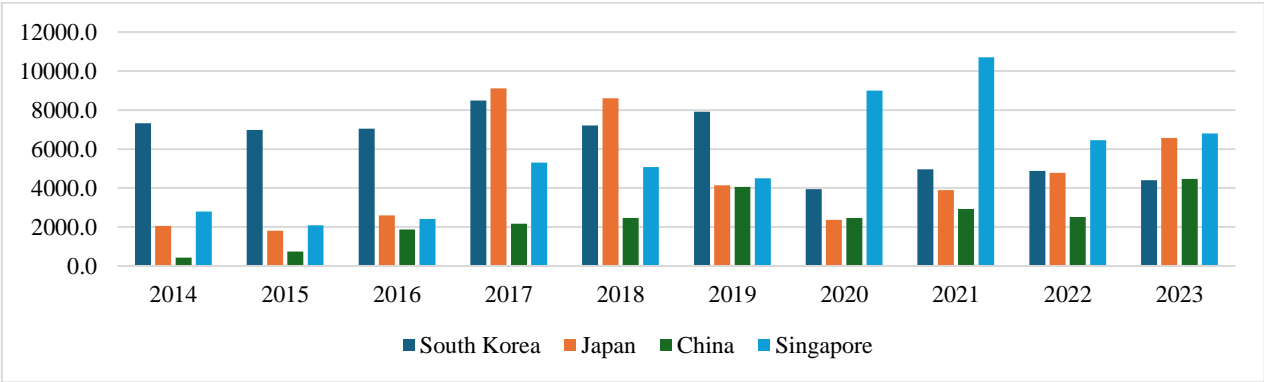


Figure 3: Total registered capital of key investment partners in Vietnam

Source: GSO of Vietnam (2024)

1.2. Overview of Vietnam’s electronics industry and South Korean FDI

Vietnam’s electronics industry has made significant progress, becoming a key contributor to manufacturing and export growth (VCCI, 2023). With production facilities from multinational giants like Samsung, Foxconn, and Intel, Vietnam is now a leading global electronics exporter. According to data from ITC (2024), Vietnam rose from 47th in 2001 to 6th place globally in electronics exports in 2023, with an export value of USD 165.21 billion, leading ASEAN (ITC, 2024).

Between 2014 and 2023, electronic goods, computers, and components increasingly contributed to Vietnam’s total export value (Figure 4). In 2014, these exports totaled USD 11.4 billion, accounting for 7.6% of the nation's exports. Although growth slowed slightly in 2021 and 2022, the sector continued to expand, reaching 16.2% of total exports by 2023 (GSO of Vietnam, 2024). This trend underscores the rising significance of the electronics sector as a key driver of Vietnam’s export growth over the decade.

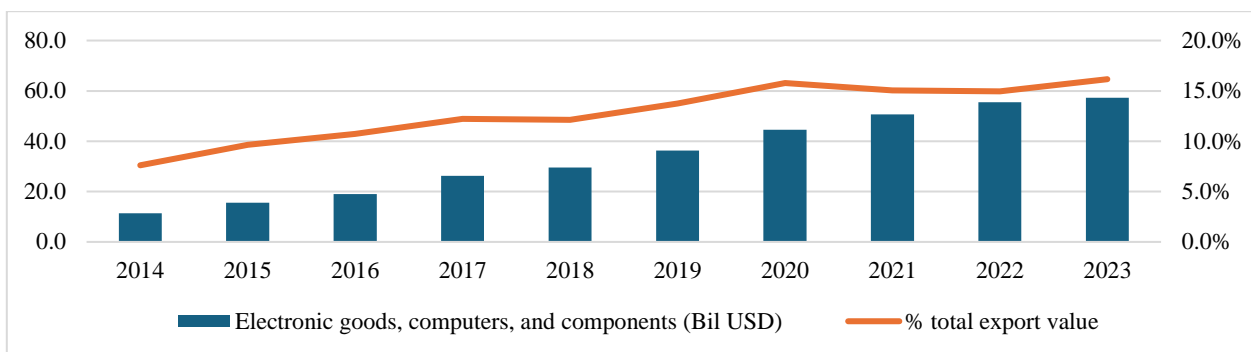


Figure 4: Export value of electronic goods, computers, and components, 2014-2023

Source: GSO of Vietnam (2024)

Vietnam's electronics industry has been fueled by substantial FDI from major companies like Samsung, LG, Intel, and Foxconn, which have established large-scale manufacturing operations. This FDI has strengthened Vietnam's role in the global electronics supply chain and spurred the development of essential supporting industries (Parsons & Vu, 2022; Tung & Oyama, 2018). Moreover, shifts in global markets, such as U.S.-China trade tensions, have driven further investment and job creation, reinforcing Vietnam's position as a key manufacturing hub in Southeast Asia (Dhar et al., 2022; Nguyen & Pham, 2020).

The rapid growth of Vietnam's electronics industry is largely driven by substantial investments from major South Korean corporations. Companies like Samsung and LG have positioned Vietnam as a key regional manufacturing hub. These investments have boosted the economy and integrated Vietnam into the global electronics supply chain. Samsung, Vietnam's largest foreign investor, plays a critical role (Sheldon & Kwon, 2023). In the first half of 2024, its factories in Vietnam saw an 8.6% revenue increase, totaling USD 31.39 billion, with the Thái Nguyên facility leading with USD 13.81 billion in revenue (Tri Khang, 2024). Similarly, LG has committed an additional USD 4 billion to Vietnam, relocating its entire smartphone production to the country, solidifying Vietnam's competitiveness in high-tech manufacturing (Vietnam Plus, 2023).

Other South Korean firms, such as Hansol Electronics, SK Hynix, and Hyundai Mobis, are also contributing to the sector. Hansol's USD 100 million investment aims to produce over 10 million electronic products annually (Vietnam Plus, 2023), while SK Hynix explores memory chip production, and Hyundai Mobis focuses on automotive electronics. These investments have transformed Vietnam into a central hub for electronics manufacturing, driving export growth, job creation, and technological advancement, with South Korean FDI playing a crucial role in positioning Vietnam as a key player in the global electronics market.

3. Linkages between domestic enterprises and South Korean FDI in Vietnam's electronics industry

Despite notable advancements, Vietnam's electronics industry's success is largely due to FDI, particularly from South Korea. This highlights the limited contribution of domestic enterprises, which remain heavily reliant on foreign investors.

The analysis shows that *linkages between Vietnamese enterprises and South Korean FDI firms in the electronics sector remains limited*. Despite the strong presence of companies like Samsung and LG, collaboration with domestic firms is constrained, with only 310 Vietnamese companies in Samsung's supply chain (Sharma, 2024). Most of Samsung's suppliers are foreign-owned (**Figure 5**), and in 2022, 26 key suppliers in Vietnam included 22 from South Korea, 2 from Japan, and 2 from China, with none from Vietnam (Viet Duc, 2023a). FDI firms focus on assembly and manufacturing, with few Vietnamese companies involved, primarily providing auxiliary services or low-value components (UNIDO, 2019; Viet Duc, 2023a). With a localization rate of just 5-10% (MOIT of Vietnam, 2024), most electronic products rely on imported parts. For instance, a report by TechInsights reveals that assembly in Vietnam contributes only 5% to the total production cost of a high-end Samsung smartphone (Viet Duc, 2023a). This indicates that although Vietnam plays a significant role in Samsung's manufacturing process, the majority of the production value still comes from other stages such as component sourcing, R&D, and marketing, which are often based in more advanced countries. The primary reason for this is that approximately 97% of Vietnamese firms are small or medium-sized, lacking the financial resources and management expertise necessary to meet the high technological demands required to become suppliers for global manufacturers. Achieving such a position involves substantial investments in technology and infrastructure (Viet Duc, 2023a).

Moreover, technology transfer remains insufficient. A key benefit of FDI for domestic firms is the potential for technology transfer and knowledge spillovers. Research shows that local firms can boost productivity through backward linkages with foreign companies, which often introduce advanced technologies and practices (Anwar & Nguyen, 2010; Ngoc et al., 2022; Nguyen, 2023). While South Korean corporations like Samsung have enhanced the technological capabilities and workforce skills of Vietnamese labor (Sheldon & Kwon, 2023), the overall level of technology transfer remains limited (Viet Duc, 2023b). South Korean FDI firms often retain high-value technological processes in their home country or in nations with more advanced infrastructure, confining operations in Vietnam to final assembly stages. The limited level of technology transfer contributes to Vietnam's low economic complexity. Vietnam ranks 61st out of 133 countries on the Economic Complexity Index in 2021, despite rapid growth over the last two decades (Harvard's Growth Lab's 2024). This places it ahead of Indonesia, Laos, and Cambodia but highlights its dependence on FDI, limiting the potential to add value in domestic manufacturing.

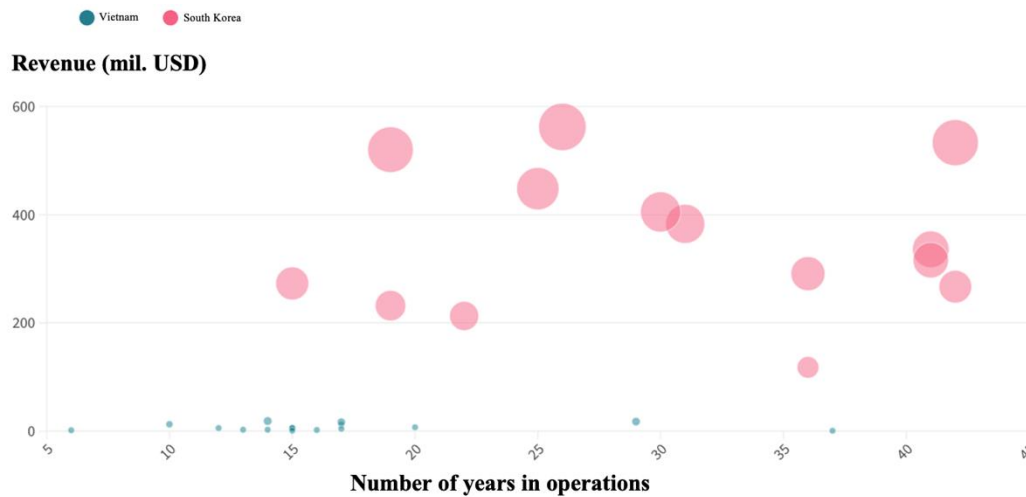


Figure 5: Vietnamese and South Korean enterprises supplying components to Samsung

Note: Revenue data compiled as of 2018-2019

Source: Viet Duc (2023b)

The core issue stems from the limited technological capacity of Vietnamese enterprises in the electronics sector. Unlike South Korea, where domestic firms have driven technological advancements, Vietnam's industry is largely dominated by multinational corporations. While these corporations have established production facilities in Vietnam, local firms struggle to develop their own brands and compete in the global consumer electronics market (Pham et al., 2020). Vietnamese companies face persistent challenges in technological capacity and management expertise, preventing them from meeting the strict quality and delivery standards set by South Korean firms, which limits their participation in higher-value segments of the supply chain (Vu et al., 2022). As a result, local firms tend to produce low-tech, low-value products, making them reliant on imports, reducing their competitiveness, and leaving them vulnerable to supply chain disruptions, such as those experienced during the COVID-19 pandemic (Huong & Larin, 2021; Mohapatra et al., 2022).

The Vietnamese government's policies to foster linkages between domestic firms and FDI enterprises have yet to reach the desired effectiveness. While various initiatives have been introduced to promote collaboration, their implementation has fallen short of expectations. The government has been proactive in creating an investor-friendly environment, attracting significant South Korean investments in the electronics sector (Oh & Mah, 2017). However, the lack of targeted policies addressing training, technological capacity building, and financial support for Vietnamese firms has hindered stronger linkages. Without such focused interventions, domestic firms continue to face challenges in forming productive partnerships with foreign investors.

4. Conclusion and recommendations to enhance linkages between Vietnamese and South Korean FDI enterprises in the electronics industry

Vietnam has successfully attracted FDI, particularly from South Korea, in its electronics industry. However, linkages between domestic firms and FDI enterprises remain weak due to production gaps and policy challenges. Strengthening these connections requires targeted efforts from both the government and businesses. To address this, the government should enhance domestic firms' capabilities through training, financial aid, and tax incentives. Improving product quality to meet international standards will make local companies stronger partners for FDI firms. Additionally, clearer industrial policies, business hubs, and technology transfer initiatives through joint ventures and R&D are crucial. Finally, investing in supporting industries and offering incentives for local production of components will reduce import dependency and improve integration into FDI supply chains.

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