


Korea's ASEAN Investment Strategies: From Vietnam to the Whole ASEAN



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Korea and Vietnam have maintained more than 25 years of diplomatic relations. During the periods remarkable progress has been made in improving and upgrading their ties. A strategic partnership was signed between the two countries in 2009 in addition to free trade commitments under the framework of the ASEAN-Korea agreement (AKFTA). As a result, the trade and investment between Vietnam and Korea has increased exceptionally. Moreover, Vietnam's growth potential has been highly estimated due to favorable economic conditions such as increase in FDI inflow, multi- and bilateral FTAs, the establishment of the ASEAN Economic Community (AEC) and so on. With its abundant low-wage workers, political stability, large-scale population also serving as positive factors for investment attraction into Vietnam, Korea's investments to Vietnam are rapidly increasing.

Recently, as Korean companies have chosen Vietnam as a strategic production base, their production facilities dispersed throughout ASEAN member states are now becoming concentrated in Vietnam. Vietnam has emerged as a major investment destination which accounts for around 40% of Korea's investment to Southeast Asia. Now Korea has become the big-

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gest investor in Vietnam and bilateral trade growth is recording more than 20% per year since 2015.

The deepening of the bilateral economic relationship has become the basis of the Vietnam-Korea Free Trade Agreement (VKFTA) signed in 2015, which stands as a cornerstone in the bilateral relation and is expected to potentially and fruitfully bring about benefits to both countries. Given more intensive cooperation between Vietnam and Korea, Korea may depend more and more on trade with Vietnam. Last year Vietnam was the 4th largest export market of Korea following China, United States, and Hong Kong. Given that Vietnam was the 9th largest export market in 2010, Vietnam is clearly establishing itself as the fastest growing export partner for Korea. We are also recently witnessing a diversification of export items. In particular, a higher pace is observed for export dependence for garment and textile auxiliaries, sea transport vehicles, machinery and mechanical appliances. It is believed this tendency will continue, following the establishment of the VKFTA in 2015, and as the expansion of FDI from Korea flowing to Vietnam is expected to trigger a new boom in exports of production equipment and spare parts to Vietnam.

Since the VKFTA is more open than the AKFTA, in which both countries took part, some of the Vietnamese I met were worried about the impacts of the AKFTA. I argue that it may benefit Vietnamese firms, indeed, both in terms of exporting more agricultural products to Korea and also importing better quality inputs. It also facilitates restructuring of the Vietnamese import market, avoiding heavy dependence on other markets such as China. From another perspective, the FTA also facilitates FDI from Korea because it promotes open commitments in service and investment. However, it is a fact that for Vietnam, such benefits are conditional. Poor preparation and readiness of both its institutions will hinder Vietnam from enjoying its trade with Korea. Thus, Vietnam has to prepare itself to realize benefits from the FTA. If not, the current relationship with mutual benefits may not be sustainable.

From the Korean side, its relation with Vietnam bridges its relationship to ASEAN. With cheap labor and a large consumption market, the ASEAN area should not be ignored by Korean investors. However, we note that the role of China in the region also has been enormous. The influence that China wields in ASEAN should not be neglected. Given more and more interdependence among countries and the implementation of the AEC, Korean investment to ASEAN is still likely to be lower than that from Japan or China. Moreover, Korea has no big picture for its investment strategy for ASEAN unfortunately. This issue deserves a significant amount of consideration.

Now, Korea as Vietnam's largest investor must construct a new roadmap for regional production networks in ASEAN. Considering the increasing strategic importance of Vietnam and ASEAN, we have to keep the economic relationship sustainable. Moreover, it will be necessary for the Vietnamese and Korean governments to account for the stability of regional geopolitics in East Asia. To do so, the Korean government needs to prepare for an investment roadmap to minimize external risks by considering the whole ASEAN region as a single production base for Korea. All the process and timeline should be included in the roadmap. Korea should expand its production networks concentrated around Vietnam into neighboring countries such as Laos, Cambodia, and China as part of the roadmap. This could also contribute to geopolitical stability in the region. **KIEP**