STRENGTHENING ECONOMIC TIES: THE IMPACT AND POTENTIAL OF SOUTH KOREAN FOREIGN DIRECT INVESTMENT IN VIETNAM

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Economic cooperation has been a key pillar of the relationship between South Korea and Vietnam, with the two nations joining numerous bilateral and multilateral cooperation agreements. The economic ties between the two countries have been strengthened significantly through the Korea-Vietnam Free Trade Agreement (KVFTA), which has provided a framework for promoting economic cooperation, trade, and investment, fostering stronger and more effective mutual relations between the two nations. As of 2022, Korea's investment scale in Vietnam has reached approximately 80 billion USD, fueling Vietnam's economic growth, employment opportunities, and technology transfers. The paper examines the legal basic for promoting foreign direct investment in Vietnam and delves into the patterns of Korea's FDI in Vietnam, highlighting the expected expansion of Korean firms' investments. The research assesses the potential opportunities and challenges associated with South Korean foreign direct investment in Vietnam. Finally, the study offers several recommendations aimed at mitigating negative outcomes while maximizing the positive impacts of this bilateral relationship within the current context.

Keywords: Vietnam; South Korea; Vietnam-Korea Free Trade Agreement (VKFTA); Foreign direct investment (FDI)

Introduction

Vietnam and South Korea initiated diplomatic relations on December 22, 1992, paving the way for nearly three decades of extensive economic cooperation and diplomatic relations. In August 2001, the two nations issued a Joint Statement on "Comprehensive Partnership for the 21st Century," which was followed by an upgrade to "Strategic Cooperation Partnership" in 2009.

Throughout their history, economic cooperation has been a key pillar of the relationship between the two countries, with the two sides joining numerous bilateral and multilateral cooperation agreements.

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The Vietnam-Korea Free Trade Agreement (VKFTA), which became effective in December 2015, has provided a framework for promoting economic cooperation, trade, and investment, fostering stronger and more effective mutual relations between the two nations. The agreement consists of 17 chapters, 208 articles, 15 appendices, and 1 implementation agreement, with the main contents including: trade in goods, trade in services (including appendices on telecommunications services, financial services, and movement of natural persons), investment, intellectual property rights, sanitary and phytosanitary measures (SPS), rules of origin, customs facilitation, trade defense, technical barriers to trade (TBT), e-commerce, competition, economic cooperation, institutions, and legal issues related to the agreement.

These efforts have formed the foundation of their trade and investment relations, working in a mutually beneficial and complementary manner. As of 2022, Korea has been Vietnam's largest foreign direct investment partner, with $80 billion in registered investments. Both Korean and Vietnamese goods, which have committed to reduce tariffs, have exhibited significant growth in export revenue. In the case of Vietnam, the sectors that have seen growth are seafood, textiles and garments, wood and wood products, various types of footwear, fibers, textiles, as well as fruits and vegetables. For Korea, the sectors include computers, electronic products and components, textile raw materials, leather shoes, electric wires and cables, among others.

The study evaluates the potential opportunities and challenges associated with South Korean foreign direct investment in Vietnam and provides a set of recommendations aimed at mitigating any negative outcomes while maximizing the positive impacts of this bilateral relationship in the current context.

Legal basis for FDI promotion in Vietnam

Following the implementation of ‘Doi Moi’ in the early years, Vietnam has pursued economic integration both regionally and globally after years of isolation. The Foreign Investment Law was promulgated in 1987, highlighting the significance of external resource mobilization for the Government of Vietnam.

In April 1988, the Ministry of Foreign Affairs officially granted the first foreign direct investment (FDI) project license to a joint venture between a Hong Kong firm and Ba Ria - Vung Tau Tourist company, which was a historic moment for attracting FDI in Vietnam. The Foreign Investment Law was revised thrice, in 1990, 1992, and 2000, to encourage export-oriented projects, create a favorable investment environment, promote projects in remote mountainous areas, and efficiently utilize natural resources.

Furthermore, the revisions reflected the government's development strategies during each period, from promoting labor-intensive industries to emphasizing the development of key industries, and gradually moving towards imposing local content requirements to develop local supporting industries.

In 1991, Vietnam marked a significant milestone in FDI attraction with the establishment of the first Export Processing Zone, Tan Thuan EPZ, in Ho Chi Minh City. The aim of the Tan Thuan EPZ was to provide foreign investors, mainly from Taiwan, with a secure production base. Since its establishment, Vietnam has continuously improved its institutional and legal framework by decentralizing management and providing more autonomy to local authorities to attract FDI to industrial zones across the country.
In 2005, the Joint Investment Law, also known as the Law on Investment, was approved by the National Assembly to replace both the Foreign Direct Investment Law and the Domestic Investment Law. The Joint Investment Law introduced a legal framework that facilitated investment and business activities by offering non-discriminatory incentives and promotion policies, while also simplifying registration procedures for foreign investment. This Law played a crucial role in Vietnam’s preparation for joining the World Trade Organization (WTO) and ultimately contributed to the country's successful accession in 2007. Following Vietnam's accession to the WTO, foreign direct investment (FDI) inflows have shown a steady and robust increase. A noteworthy example is the US$700 million Samsung Electronics Viet Nam factory that opened in Bac Ninh Province in 2008.

After 2010, Vietnam emerged as a significant manufacturing hub in the region, with the majority of FDI being directed towards the manufacturing and processing sectors. Tax policies, along with other preferential policies, have played a crucial role in attracting foreign enterprises to invest in Vietnam's industry, agriculture, and services sectors (Binh, 2020).

Corporate income tax: in accordance with the 1997 Law on Corporate Income Tax, FDI enterprises were granted a uniform tax rate of 25%, while domestic enterprises were subjected to a common tax rate of 32% from January 1, 1999 until the end of 2003. Subsequent amendments and supplements in 2013 and 2014 to the Law on Enterprise Income Tax No. 14/VBHN-VPQH, effective from January 1, 2015, resulted in a reduction of the general corporate tax rate from 25% to 22%, and then to 20% by January 1, 2016. Additionally, the Law on Amendments to Tax Laws No. 71/2014/QH13, effective from January 2015, expanded the fields and industries eligible for tax incentives, including education, healthcare, sports and culture, high technology, environmental protection, scientific research and technology development, infrastructure development, agricultural and aquatic product processing, software production, and renewable energy.

Commencing from January 1, 2016, preferential tax rates of 10% and 17% are available for 15 years and 10 years, respectively, from the start of revenue generation from incentivized activities. In certain socialized sectors, the preferential rate of 15% applies for the entire project lifespan. The latest guidelines on the application of incentives throughout the country are provided by Government Decree 118/2015/ND-CP.

Custom duty: in accordance with the Law on Import and Export Taxes 2005, both domestic and FDI enterprises are granted equal export and import tax incentives. The objective of preferential tax rates on exports and imports was to promote the import of machinery, equipment, supplies, and raw materials for production purposes and encourage the export of processed goods instead of raw materials. The Law on Investment and the Law on Enterprises allow FDI enterprises to export goods purchased in Vietnam, goods processed in Vietnam, and legally imported goods to a foreign country or a separate non-tariff zone. They can also import goods from a foreign country or separate customs zone.

The Law No. 107/2016/QH13 on Export and Import Duties and the Decree No. 134/2016/ND-CP on the Guidelines for the Law on Export and Import Duties, which came into effect in 2016, offer import and export duty exemptions for businesses that satisfy one of the following conditions: 1) importing goods for further processing and exporting processed goods; 2) importing or exporting goods temporarily; 3) importing raw materials and supplies for the direct production of software products, which are not domestically available; and 4) importing goods for scientific research and technological development that are not produced domestically.
Additionally, raw materials, supplies, and components that cannot be produced domestically and are imported to serve manufacturing activities of investment projects in eligible fields for special investment incentives or located in extremely disadvantaged areas, hi-tech enterprises, science and technology enterprises, and science and technology organizations are exempted from import duties for five years from the commencement of production (Hoang, 2021; Duong & Dao, 2020).

Land rental fee: in accordance with the 2003 Land Law, the government has issued decrees to regulate land use fees, land rentals, and water surface taxes to support businesses in investment and operations. These decrees provide policies on land rent and water surface rent exemption for investment projects in certain fields or areas which aim to create favorable conditions for investment activities in general and foreign direct investment (FDI) enterprises in particular. In the post-2005 period, preferential policies and solutions have been introduced to support enterprises, including a 50% reduction in land rental fees during the 2011-2014 period, a decrease in the land rental contract from 1.5% to 1%, and regulations on the application of land price indexes to determine land rents for land parcels whose rent values are indicated in the Land price list.

To attract investment and improve management, Decree 35/2017/NĐ-CP was issued in 2017, prescribing the collection of land use fees, land rentals, and water surface rentals in economic and high-tech zones, which offers FDI enterprises incentives higher than those provided for ordinary investment projects.

**South Korean FDI into Vietnam**

*Current status of South Korean FDI in Vietnam*

Since 2010, there has been a significant shift in South Korean foreign direct investment (FDI) in Vietnam, with notable changes in ranking, size, and areas of investment.

The Foreign Investment Agency, which falls under the Ministry of Planning and Investment (MPI), reports that in the first half of 2022 alone, registered capital from Korean investors in Vietnam reached USD 2.66 billion, representing 21.3% of the total registered FDI.

As of now, South Korea has emerged as the largest investor in Vietnam with more than 9,000 active projects, valued at USD 80 billion.

![Figure 1 - Korean FDI into Vietnam, from 2010 to 6/2022 (billion USD)](image)
(Source: Ministry of Planning and Investment)
At present, Korean enterprises have established a presence in 59 out of 63 provinces and cities in Vietnam. South Korean FDI has mainly been concentrated in highly populated provinces and cities, including Bac Ninh (with a total registered capital of 10.12 billion USD), Hanoi (5.85 billion USD), Dong Nai (nearly 6.08 billion USD), Hai Phong (6.82 billion USD), Thai Nguyen (7.28 billion USD), and Ho Chi Minh City (5.21 billion USD). Korean FDI enterprises have predominantly invested in the form of 100% FDI capital (4,996 projects/43.69 billion USD), joint ventures (541 projects/5.7 billion USD), and other forms (Nguyen Hoa, 2020).

Prior to 2017, the proportion of Korean FDI capital invested in the processing and manufacturing industries had consistently exceeded 70%. During this period, Korean FDI typically involved labor-intensive investment projects and the production of electronic components and equipment. However, in recent times, Korean businesses have diversified their investments in various fields and industries, including apparel, electronics, infrastructure, energy, automobiles, aerospace, real estate, banking and finance, start-ups, equitization of state-owned enterprises, logistics, and services (Bui & Doan, 2021; Huu, 2020)

Table 1 - Top Ten South Korean FDI Corporations in Vietnam
(Source: created by the author)

<table>
<thead>
<tr>
<th>FDI Corporations</th>
<th>Investing sectors and industries</th>
</tr>
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<tbody>
<tr>
<td>SAMSUNG VIETNAM</td>
<td>Mobile phones, tablets, home electronics (TVs, air conditioners, washing machines, ...)</td>
</tr>
<tr>
<td>LG ELECTRONICS VIETNAM</td>
<td>Mobile devices, audio-visual equipment, household appliances, refrigerators</td>
</tr>
<tr>
<td>LOTTE VIETNAM</td>
<td>Foods, retails, travel, services, chemicals, construction, manufacturing, finance, research and development.</td>
</tr>
<tr>
<td>HUYNDAI</td>
<td>Automobile production, assemble and distribution</td>
</tr>
<tr>
<td>CJ VIETNAM</td>
<td>Animal feed, media, television, entertainment, shopping, and confectionery.</td>
</tr>
<tr>
<td>DAEWON</td>
<td>Real estate, construction and textile</td>
</tr>
<tr>
<td>KWANG VINA</td>
<td>Fabric dyeing</td>
</tr>
<tr>
<td>JAEILL VIETNAM</td>
<td>Yarn and textiles production, products of paper and board.</td>
</tr>
<tr>
<td>NAMYANG INTERNATIONAL</td>
<td>Fashion garments</td>
</tr>
<tr>
<td>BORAMTEK VIETNAM</td>
<td>Auto parts, motorcycles, industrial engines and household tools</td>
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The largest investment project in Vietnam at present is Samsung's, with a total consulting value of over 20 billion USD. In June 2022, Samsung further increased its investment capital by 841 million USD to build the Samsung Complex HCMC - SEHC, which is its largest global factory for TV and home electronics.

Apart from Samsung, other prominent Korean corporations, such as LG, Hanwha, SK Group, Hyosung, Hyundai, CJ Group, SK Telecom, and Shinhan Finance Group, have
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invested in Vietnam. SK Group invested 1 billion USD in Vingroup and 470 million USD in Masan Group, while KEB Hana Bank purchased 15% of BIDV's charter capital.

So far, nearly 16 financial companies have become members of the Korea Financial Investment Association (KOFIA), operating in Vietnam in the field of stock trading and derivative securities, with a total investment amounting to billions of dollars (Thao, 2020).

The trade volume between Vietnam and South Korea has exhibited a consistent growth trajectory alongside investment activities, attaining approximately 70 billion USD in 2019 and crossing 65 billion USD in 2020 despite the impact of the Covid-19 pandemic. The two nations have set targets to elevate bilateral trade to 100 billion USD by 2023 and 150 billion USD by 2030 with a view to promoting equitable and enduring progress, with a special focus on bolstering Vietnam's export quantity in the forthcoming years.

Opportunities and Challenges

The presence of Korean businesses in Vietnam has been instrumental in contributing to the country's economic restructuring, export growth, employment generation, and social welfare. In the context of Vietnam's efforts to improve its business environment, establish transparent investment mechanisms, particularly with commitments to investment promotion, policy transparency, fair competition, and trade liberalization, the VKFTA is expected to bring opportunities for Vietnam to attract investment, particularly in the processing and manufacturing industries, real estate, and support industries.

The increasing inflow of Korean FDI into Vietnam has yielded positive impacts on job creation for the local labor force. Korean firms operating in Vietnam have been engaging in substantial recruitment of local workers to serve their production needs.

Leading Korean firms, such as Samsung, have generated thousands of new job opportunities through their ongoing investment expansion in Vietnam, providing stable income and attractive benefits to over 130,000 Vietnamese workers (Tran, 2020). LG, the largest investor in Hai Phong, has created employment opportunities for 21,000 local workers, specializing in the production of OLED screens for mobile devices, OLED TV screens, and LCD screens. In total, Korean FDI enterprises have created employment for over 1 million Vietnamese workers, making a significant contribution to the local job market.

South Korea's significant inflows of foreign direct investment (FDI), which represent 20.8% of the total investment capital, have played a crucial role in supplementing the country's investment capital for economic growth.

The Korean FDI also has positive spillover effects on other sectors of the economy, including construction, agriculture, tourism, services, and export, which contributes to 30% of the total export value of 24 goods and services from Vietnam. Notably, the Korean FDI has significantly changed the socio-economic landscape of Thai Nguyen and Bac Ninh, with Samsung accounting for 99% of Thai Nguyen's export turnover and 75% of Bac Ninh's export turnover.

Moreover, the entry of major Korean corporations such as Samsung, LG (in the manufacturing industry), Kumho, Doosan, Hyundai, GS, Posco (in heavy industry and shipbuilding) has greatly facilitated the development of supporting industries in Vietnam, particularly in the mechanics, metallurgy, chemicals, electronics, textiles, and footwear sectors.

The spillover effects of these Korean corporations have led to technology transfer and innovation in Vietnam, significantly contributing to technology development (Hoa, 2022; Ji
This creates opportunities for Vietnamese businesses to improve their technological levels and production capacity, promoting the industrialization of the country.

The agricultural sector in Vietnam has greatly benefited from South Korean FDI, as it has served as a significant source of investment capital for agricultural development. This has facilitated the restructuring of crops and livestock, the diversification of agricultural products, and the replacement of traditional production methods with new, larger-scale ones. By absorbing and applying new technologies to production, South Korean FDI has helped to improve the added value of agricultural commodities, thereby contributing to the socio-economic development of many localities in Vietnam.

The increase in South Korean FDI has had some positive impacts, but it has also resulted in several significant challenges.

Korean investors have intensified competition with local businesses in terms of labor, technology, market share, and export. Most investment from Korean companies is focused on major provinces and cities with better infrastructure, transportation, labor, and living conditions, providing Korean firms with an advantage in dominating the national market. Additionally, Korean companies enjoy a considerable technological edge, as well as higher quality goods, services, and management capabilities, relative to their Vietnamese counterparts (Vu, 2019; Nguyen, 2019).

As a result, domestic enterprises face significant pressure. This situation may heighten the risk of market share loss, downsizing, and even acquisition, particularly for small and medium-sized enterprises operating in industries such as textiles, spare parts manufacturing, and automobile assembly. Moreover, Korean corporations often adopt a strategy of establishing a closely-knit network of complementary and supporting Korean enterprises, enabling them to support each other and improve operational efficiency. However, this approach also allows Korean companies to dominate prominent sectors, leading to economic losses for local businesses and organizations.

Furthermore, the increase in Korean FDI inflows into Vietnam in recent years also has an environmental impact. The rapid establishment of infrastructure for Korean FDI projects has put pressure on the environment, while the production plants and business establishments generate substantial amounts of industrial waste, which negatively affects the local population's health and quality of life. This is an issue that needs to be improved in order to ensure the sustainable development of FDI flows from Korea, as well as from other countries in general.

Finally, the quality of the human resources, especially the team of experts in Vietnam, still has many limitations. The management coordination between ministries, sectors, between the central and local authorities, and foreign partners has not been truly effective, causing difficulties in formulating policies and addressing legal issues arising from Korean FDI inflows.

Policy suggestions and conclusion

Vietnam can adopt various solutions to improve its investment environment, starting with the completion of the legal system concerning tax and preferential policies for foreign-invested enterprises in compliance with international economic integration requirements. Furthermore, the Resolution 50-NQ/TW dated August 20, 2019, by the Politburo, is a positive sign for foreign investors to increase their FDI investment in Vietnam, but it needs to
be concretized by legal documents to finalize policies to actively attract foreign investment and at the same time emphasize environmental issues.

In addition, a simple and transparent legal policy system must be considered to prevent overlapping and inconsistency among legal documents causing difficulties for foreign investors.

Finally, in order to enhance the efficiency and effectiveness of foreign investment management, mechanisms for coordination and management among foreign investors, central and local governments, and relevant ministries and sectors must be strengthened. One effective measure is the implementation of the "single window" mechanism to streamline foreign investment procedures.

South Korean foreign direct investment (FDI) has experienced significant growth in Vietnam over the years, playing a vital role in the country's economic development towards industrialization and modernization. Despite the numerous opportunities and advantages that come with attracting FDI from countries worldwide, including South Korea, Vietnam must overcome various challenges to effectively promote FDI flows. This includes the need for appropriate and effective management policies that minimize negative influences while enhancing the positive impact of FDI inflows.

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*Paper submitted* 05 April 2023  
*Paper accepted for publishing* 06 June 2023  
*Paper published online* 30 July 2023