

The Increasing of South Korean Investment in Vietnam

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Abstract

South Korea is one of emerging countries that has obvious effort to build its investment in various countries nowadays. South Korean companies such as Samsung, LG and Hyundai are popular South Korean brand that known well by the world. The South Korean companies public and private are produced products in some different countries which is called as investment activities. Remarkably, South Korean economic cooperation with Vietnam especially investment become more stride in this decades. South Korean investment in Vietnam shows significant growth until now. This significant investment growth is not in line with Vietnam conditions which is known as a country that still needs energy and less in natural resources. As many know that it is not an easy one to invite foreign companies to invest in one country. There are some terms to have if a country want to attract foreign investor. For example rich in natural resources and have big population. However, South Korea become more active to create and maintain its investment cooperation with Vietnam. This paper aims to explain the factors that make South Korea significantly increase its investment in Vietnam by using Foreign direct investment theory. This research is a qualitative research using descriptive analysis method. This study finds that the stability of domestic political, social, cultural conditions, economic growth, human resources, stability in labor wages and various number of Vietnam's FTA cooperation with various countries have become factors that attract South Korea to invest in Vietnam.

Keywords: South Korea, Vietnam, investment, FDI, international trade

Introduction

1992 was an important year for South Korea and Vietnam. In this year two countries agreed to re-establish their diplomatic relations. The restoration of diplomatic relations has continued to increase cooperation between the two countries in various sectors. One of them is investment that also known as Foreign Direct Investment (FDI). Before the year of the stability of diplomatic relations between the two countries, Vietnam was not the main country destination for FDI from South Korea. However, in recent years, the intensity of South Korean investment in Vietnam has continued to increase.

There has been an increase in the value of Korean FDI to Vietnam since the restoration of relations between the two countries. 1995 was the first year that Korea's FDI to Vietnam was seen to increase. The total value of Korean FDI to Vietnam in that year was US\$ 183 million. This number increased significantly from the value of FDI in 1992 which was US\$ 16 million. Korea's FDI figure against Vietnam has increased in a very large total value in 2014 - US\$ 1,558 million (Oh and Mah, 2017).

In 2020, the intensity of South Korea's focus on investment in Vietnam become more vast and shown its strength. This condition can be seen from data in 2020 released by the Ministry of Planning and Investment of the Socialist Republic of Vietnam (MPI)- South Korea is the country with the first position in the largest amount of FDI in

Vietnam with total value US\$ 70,148.59. (MPI, 2020). The following is the table of total investments from the 10 countries with the largest FDI values in Vietnam:

Tabel.1 FDI Attraction in Vietnam by Countries

No.	Countries	Number of Project	Total registered investment capital (Mil. US\$)
1.	South Korea	8.918	70.184,59
2.	Japan	4.595	59.869,73
3.	Singapore	2.566	55.053,44
4.	Taiwan	2.771	33.237,82
5.	Hong Kong	1.911	24.876,64
6.	British Virgin Islands	864	22.062,74
7.	China	3.061	21.296,71
8.	Malaysia	641	12.805,25
9.	Thailand	588	12471,02
10.	Netherlands	366	10388,13

Source: Ministry of Planning and Investment the Socialist Republic of Vietnam

From the table above, it can be seen that there is a very significant difference in South Korea's total FDI in Vietnam in 2020 compared to other investor countries. The size of the total South Korean investment has also made South Korea get the first rank of the largest investor country in Vietnam. When compared to other countries

in the region such as Asia, there are still many other countries that have great potential as investment destinations because of the natural resources owned by these countries. Such as the presence of Southeast Asia countries as countries that provide raw materials for the industries of industrialized countries in the East Asia region (China, Japan and South Korea) (Cory, 2019). However, different conditions happen in Vietnam that Vietnam has received special attention from South Korea as an investment destination for South Korean companies. This is certainly a very interesting issue to explore because while many countries get less attentions to invest in Vietnam, yet South Korea has a different situation- has strong value to invest in Vietnam. This difference can be seen in the large focus of South Korean FDI in Vietnam in recent years.

The increasing and domination of South Korean FDI in Vietnam as well as the large focus of South Korean investment in Vietnam is important to analyze. Van Su Ha and Thu Tuy Nguyen have explained how the flow of foreign investment or FDI in Vietnam has increased in the last period. Various strategies have been issued by the Vietnamese government to increase the growth of foreign investment in Vietnam (Van Su Ha and Thu Tuy Nguyen, 2020).

Furthermore, Vietnam's FDI and how its strategies and keys can be studied and adopted by other countries, in this case Myanmar, is written by Hanh Tri Vo and Duong Anh Nguyen. This paper also

discusses Vietnam's policies to achieve success in attracting foreign investors to invest in Vietnam. Of course, this strategy not only be applied by the state of Myanmar alone. This strategy can also be adopted and used by other countries that in way to build FDI. Meanwhile, more about China's success in developing Vietnam's investment has been discussed in a paper written by Lam Than Ha.

By the several literatures discussing FDI in Vietnam and how massive other countries are in investing in Vietnam, yet no one has discussed why the increase in South Korean investment in Vietnam has become increasingly significant. What are the factors that encourage South Korea to trust Vietnam more as a place to invest compared to countries in Southeast and East Asia.

Research Method

This research is a descriptive analysis research by analyzing the existing phenomena. The analysis was carried out by observing secondary data from various sources with a qualitative approach. This method is intended so that the results obtained can be more in-depth and can make it easier for the author to interpret the existing data in order to get more accurate research results (Affifudin, and Saebani, 2009).

This research is based on the concept of Foreign Direct Investment (FDI) which is applied to see the amount of South Korean

investment in Vietnam in recent years. According to Tocar, there are several factors that support the increase in foreign investment in a country, namely economic factors, infrastructure, technology, politics, certain risks, natural resources, legislation, location, entrepreneurial values and cultural factors (Tocar, 2018). The results of this study can describe the motives or reasons why South Korea prefers to invest in Vietnam compared to other Southeast Asian countries. This research is certainly very useful for individuals who are interested in FDI issues, foreign policy, Southeast Asia and East Asia and various other related issues.

Result

South Korea and Vietnam are two countries with some similarities in culture and history. The culture of the two countries is influenced by the culture originating from China such as food, clothing and many others. In terms of history, both countries have experienced a military invasion by China. On the other hand, the two countries also have a bad history when South Korean government ever release a number of troops -320,000 soldiers- to Vietnam. This dark period began to fade for the two countries with the normalization of diplomatic relations between the two countries in 1992.

The normalization of diplomatic relations that has been signed by South Korea and Vietnam become the first step of cooperation

between two countries in many sectors. One of this is the stability of economic cooperation. Trade between the two countries has begun to show a positive conditions and foreign investment or FDI which also shows a very positive trend. This increase continues with a very significant values and can provide benefits for each country.

The first factor that can be seen as a important reason why South Korea chooses Vietnam as a place to invest is the conducive conditions that Vietnam has. Vietnam well known for its sustainability in the social, political and economic sectors. According to many South Korean companies investing in Vietnam, Vietnam is far more stable in many ways when compared to other Southeast Asian countries and even China. Many South Korean companies agree that the business risk in Vietnam is low when compared to several countries in regional asia (KBS World, 2019).

The next factor that underlies South Korea in investing in Vietnam is the amount of guaranteed investment returns by Vietnam for countries that invest in their country. The guarantee of this investment can be found in the good level of education of the Vietnamese people and the high level of understanding that the Vietnamese people have in learning new things.

Low labor wages in Vietnam is also a determining reason for South Korean companies to invest in Vietnam (KBS, 2019). When

compared to countries in Southeast Asia, Vietnam's wage level is not the lowest. Even Vietnam is seen regularly raising the minimum wage periodically. As in 2019 Vietnam's minimum wage stood at 190.5 US\$ for urban areas (Vet Nam News, 2019). This number in 2019 was planned to increase by 5.5% in 2020 but the decision is still being postponed due to the weakening economic conditions as a result of the Covid-19 that is hitting the world today (Viet Nam News, 2020). However, this value is still seen as positive one for many investors, including investors from South Korea. It is proved by the stable flow of South Korean investment to Vietnam in recent years.

The next factor that supports South Korean investment in Vietnam is the Free Trade Agreement (FTA) between the two countries. With the agreement on the FTA between the two countries, which came into effect in December 2015, signifies the removal of trade and investment barriers between the two countries. The trade of goods and services for two countries have positive condition. Moreover there are also many South Korean products and services in Vietnam and the increasingly massive investment by South Korean companies in Vietnam. The growth of this investment intensity is supported by the facilities and investment guarantees agreed upon by the two countries (Vietanlaw).

Discussion and Analysis

Socially, politically and economically, Vietnam is considered as a country with good stability in social, politics and economy in the Southeast Asia region and in the East Asia region. Vietnam and also known as a Socialist Republic of Vietnam is a socialist country that adheres to a communist system with the concept of a single party -the Communist Party of Vietnam. Vietnam is led by a president who also serves as military commander. By that system Vietnam is also well known as a military country.

The stability of political condition in Vietnam cannot be separated from the political system adopted. Vietnam is often considered as one of the most stable countries in the political field. With a government system where the President is also the commander of the military and a single party system, Vietnam has made Vietnam more stable and far from domestic political constellations (Hiep, 2012). This stability is inline with Vietnam's social and economic conditions. Vietnamese people are in a fairly good social condition because the country is far from domestic social and political conflicts. Domestic security has made Vietnam able to develop its social and economic sector well (Nguyen Hoang Tien, et al, 2020). Furthermore, the stable and growing economy of Vietnam supported by a stable social and political sector has provided great support to the Vietnamese economy. Vietnam is very proud of this as one of the foundations and keys to

attracting foreign investment which continues to grow in Vietnam. Vietnam government in consistent agree that Vietnam is an expert country in attracting foreign investors to invest in Vietnam with its advantages in terms of social stability and economic growth (Nguyen Tung, 2021).

The good stability that Vietnam has in terms of social, political and economic aspects, as previously described, has contributed to building Vietnamese society into a better society in terms of education. The quality of Vietnamese society is considered as well side for many companies to invest in Vietnam. The quality of Vietnamese with well education and the ability to learn new things such as technology, languages and others are very valuable points for investors who want to build companies in a country. This is one of the keys to Vietnam's success in attracting foreign investors. Investors from South Korea also consider this as other indicator to invest in Vietnam. South Korean companies were able to detect Vietnam's eminence in this condition. So that it can be seen that the large flow of FDI originating from South Korea in Vietnam is supported by the good quality of the Vietnamese people who will later act as drivers of companies or workers and even users or consumers of the products and services produced.

The minimum wage is a main concern to companies that will invest in a country. The minimum wage indicator is always an important consideration because it involves company expenses and

income. The presence of Vietnam as a country with a minimum wage which is still considered low and stable for investors has also made FDI flows from South Korea even greater since the normalization of diplomatic relations between South Korea and Vietnam.

Vietnam is an aggressive country in building trade cooperation, especially free trade cooperation or known as Free Trade Agreement (FTA) with many countries. In 2019 Vietnam was able to record total exports of 264.610 million US\$ (worldbank.org). Furthermore, based on the data of Vietnam's foreign trade or exports in 2021 -it has reached 336.31 billion US\$ and there is an increase about 19% from the previous year. This increase was accompanied by an increase in Vietnam's exports with its largest export partner, the United States (Reuters, 2021).

The various Vietnam's FTA cooperation with many countries indicates that Vietnam's trade barriers and investment barriers are decreasing. This condition is a target for many countries who want to invest and build the company then export their products to other nations. By reducing the trade barriers with FTA cooperation, the greater the profits for the selling country and the easier it will be to invest for the investor country. This is very clearly one of the main attractors for South Korea to invest in Vietnam. Many companies originating from this ginseng country are competing to build their investment in Vietnam such as Samsung, LG, Lotte and others.

Furthermore, the positive FTA cooperation sign by Vietnam and various countries also indicates that the acceptance of products originating from Vietnam to those partner countries. This value is of great concern to South Korean companies that invest in building manufacturers in Vietnam because the products will easily enter the markets of partner countries. Products from this company will also benefit from the price side because the FTA scheme makes the price of these products become cheaper (The Vietnam Post, 2021).

It is well known that the value of South Korea's trade with Vietnam has increased since the two countries established free trade agreement which began in 2015. South Korea's trade value with Vietnam increased into 16.5% since the two countries were active in free trade cooperation known as the Vietnam Korea Free Trade Agreement (VKFTA) (The Korea Herald, 2020). The increasing of South Korea's FDI in Vietnam become more positive by creating their cooperation in energy investment where the energy sector is also one of the most important sectors today (Korea Herald, 2021).

Overall it is a real understanding to say that South Korea has a very large investment in Vietnam. South Korea even became the country with the largest value and total project on FDI in Vietnam. Also, both countries can get benefit from the investment cooperation that has great value in recent years.

Conclusion

The last few years there are the increasing of South Korean investment in Vietnam. This condition is inseparable from various factors that attract companies from South Korea to invest in Vietnam. There are several factors that encourage increased South Korean investment in Vietnam, Vietnam's domestic political conditions which are considered stable, Vietnam's social and cultural conditions, economic growth stability, human resources that are very adequate and considered to be the good criteria for foreign companies, stable labor wages and Vietnam's activeness in building free trade cooperation or FTA with many countries.

Vietnam's efforts to increase FDI in their country and South Korea's efforts to build investment in Vietnam have so far shown positive values because both countries can benefit from each other. Therefore, this paper can be an input for many countries, including Indonesia, which are intensively attracting foreign parties to invest in Indonesia. On the other hand, this paper can also be a strategy for Indonesia in seeing investment opportunities in other countries.

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Declaration of Conflict Interest

The Author declare that there is no conflict of interest regarding the publication of this article.

Biography

Silvi Cory is a lecturer at International Relations Department Faculty of Social and Political Sciences Universitas Andalas. Her speciality are International Political Economy and International Trade. Her current research interests are Foreign Direct Investment in East Asia region.