



South Korean President Moon Jae-in and his Vietnamese counterpart Tran Dai Quang meet at the Presidential Palace in Hanoi, Vietnam, March 23, 2018 (AP photo by Nguyen Khanh).

South Korea and Vietnam Set Ambitious Trade Targets, With ‘Almost Identical’ Strategic Goals

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On March 23 in Hanoi, South Korean President Moon Jae-in and his Vietnamese counterpart, Tran Dai Quang, announced plans to rapidly increase trade (<http://www.asahi.com/ajw/articles/AJ201803230050.html>) between their two countries from more than \$60 billion today to \$100 billion by 2020. Bilateral trade has been growing quickly since South Korea and Vietnam signed a free trade deal in 2015, building on economic ties formed after diplomatic relations were established in 1992. In an email interview, Lee Jaehyon, a research fellow and director of the Center for ASEAN and Oceania Studies at the Asan Institute for Policy Studies, discusses South Korea and Vietnam’s deepening relationship and how it fits into both countries’ regional foreign policies.

WPR: What is the current state of bilateral ties between South Korea and Vietnam, and how has the relationship evolved in recent years?

Lee Jaehyon: Vietnam is one of the most important partners in Southeast Asia for South Korea economically, socially and culturally. Bilateral trade between the two countries is currently more than \$60 billion a year, and South Korea’s trade surplus is huge—more than \$20 billion. Vietnam is South

Korea's fourth-largest trading partner, while South Korea is Vietnam's second-largest trading partner. South Korea is also the biggest foreign investor in Vietnam, as large South Korean conglomerates, including Samsung and Lotte, have helped spur economic growth in Vietnam by establishing factories there.

Bilateral people-to-people exchange is significant, as well. More than 1.5 million Koreans visit Vietnam every year. Vietnam is the biggest beneficiary of South Korean official development assistance in Southeast Asia, a region that accounts for a quarter of all such assistance from Seoul. Vietnam's diaspora community in South Korea is one of the country's biggest foreign communities. While most Vietnamese in South Korea are either married to Koreans or are migrant workers, the number of students who pursue their higher education in South Korea is rapidly growing.

The main driver of the deepening bilateral relationship is economic. South Korea's venture into Southeast Asia, particularly in Vietnam, is a post-Cold War phenomenon. It really took off, however, after the Asian financial crisis in the late 1990s. South Korea fully took advantage of the relatively low cost of labor in Southeast Asia, while Southeast Asian countries welcomed South Korean investment as an instrument to develop their economies. In addition, Vietnam modeled its strategy for economic growth on the South Korean experience. South Korea was the most practical model they could emulate for economic development, given that China's economy was too big and Japan's economy was too advanced for Vietnam to copy.

More recently, what we call the Korean Wave or "Hallyu"—the growing popularity of Korean culture outside the peninsula—has broadened and strengthened the relationship. This "K-Wave" created a positive image of South Korea that later translated into rising consumption of Korean goods, tourism to South Korea and increasing demand to study in South Korea.

WPR: What opportunities and challenges are there for reaching their ambitious goal of \$100 billion in bilateral trade by 2020?

Lee: It is a reasonable goal to achieve, on top of another announcement Moon made last November (<http://www.straitstimes.com/asia/south-korean-leader-shows-political-will-to-upgrade-ties-with-asean>) to increase South Korea's bilateral trade with the Association of Southeast Asian Nations, or ASEAN, from nearly \$120 billion last year to \$200 billion by 2020. If both goals are realized, Vietnam alone would account for half of South Korea's trade with the 10-member ASEAN bloc.

Many large South Korean corporations, which account for a major portion of South Korea's trade with ASEAN, are investing heavily in Vietnam, and the number of investments is expected to grow. Vietnam is an ideal production base for South Korean businesses because of its productive and well-

educated labor force, and the still relatively low cost of labor.

The economic structures of the two countries complement each other, forming an ideal division of labor. South Korea is technologically more advanced and Korean companies have brand power, while Vietnam has production experience and lower-cost labor. The trade relationship has substantial room for further growth on top of the rapid expansion over the past decade. This means higher income for Vietnamese people, the emergence of a strong middle class and, naturally, an expansion of the Vietnamese domestic consumer market. In addition, Vietnam's membership in ASEAN makes it even more attractive because Vietnam can be a beachhead in Southeast Asia for the further promotion of South Korean trade and investment.

But the picture is not all rosy. There is growing concern in Vietnam with its \$20 billion trade deficit with South Korea. Vietnam's government has been calling for a correction to this trade imbalance, even though it is a result of market forces. The South Korean government cannot simply direct private businesses to trade or invest more with Vietnam.

Of course, Seoul does not want the issue to sour its relationship, either. The government is making an effort to ameliorate the situation by increasing official direct investment and underscoring South Korean businesses' corporate social responsibility in Vietnam, among other things.

WPR: How does the relationship fit into both countries' regional foreign policy strategies?

Lee: The Moon government calls its approach to expanding ties in Southeast Asia, as well as India, the "New Southern Policy," which is tied to other regional initiatives launched since Moon took office in May 2017. During his election campaign, Moon said it was his goal "to elevate Korea's relationship with ASEAN to the level of its relations with the four major powers around the Korean Peninsula"—those being the United States, China, Japan and Russia.

For many years, South Korea's foreign policy has focused on the Korean Peninsula and the major powers active in its immediate vicinity. A consequence of this limited foreign policy scope is that South Korea has been under the heavy influence of greater powers, namely China and the United States. The Moon government is trying to expand Seoul's diplomatic scope as a way to overcome these constraints and to increase its autonomy. It is also logical for South Korea to seek more diverse diplomatic networks and to exert its influence beyond just advancing its economic interests. The argument is that South Korea needs to behave more like the middle power that it is and make a greater contribution and be more responsible on global issues, rather than focusing only on its own narrow national interests.

Likewise, Vietnam has an imperative to build as many diplomatic networks, or strings to pull, as it can. The country has two overarching goals: growing its economy and expanding strategic autonomy, especially given the dispute in the South China Sea between China and other countries in the region. In order to resist being continually squeezed by great-power competition, Vietnam has been keen to form crisscrossing strategic alignments with its ASEAN comrades. Given their almost identical strategic goals, the basis for partnership between South Korea and Vietnam is quite solid.