

Bilateral Trade between Korea and Vietnam: Issues and Prospects*

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I. Introduction

Relations between South Korea and Vietnam began in the mid 1980s, but they remained limited to merchandize trade for most of the first decade. After establishing diplomatic relations in December 1992, the two countries rapidly broadened their bilateral relationship into many areas, including foreign direct investment, official development assistance, human resource development, and tourism. In a decade following the normalization of relations between Vietnam and Korea (hereafter 'South Korea' will be referred to as Korea unless a contrast is required with North Korea), Korea became one of Vietnam's major trading partners and an important investment source.

From 1992 to 2004, bilateral trade between the two countries grew eight fold from US\$ 493 million in 1992 to US\$ 3,929 million in 2004, with an average growth rate of 19 percent per year. By 2004, Korea

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had become Vietnam's sixth largest trading partner, accounting for 7.5 percent of Vietnam's world trade. Further economic integration of the East Asian region is bound to bring the two countries even closer together if recent developments in bilateral trade are anything to go by.

The objective of this study is to investigate recent developments in bilateral trade between Korea and Vietnam. Specifically, the study seeks to (a) review the performance of bilateral trade during the last decade, (b) examine salient characteristics in the bilateral trade relations, and (c) offer some suggestions for exploring ways to promote bilateral trade and economic cooperation in the future.

For this specific purpose, we review Korea's overall trade performance in the 1990s and the early 2000s by industry and then by region in section II. In section III, recent trends in Vietnam's foreign trade are briefly reviewed. Following this, we examine Korea-Vietnam trade relations in the context of economic integration in the East Asia in section IV. In section V, some issues and problems of bilateral trade and policy recommendations for strengthening bilateral cooperative relationships in trade are explored. Finally, this paper concludes with a review of the salient points discussed throughout the report.

II. Recent Trends in Korea's Foreign Trade

1. Overview

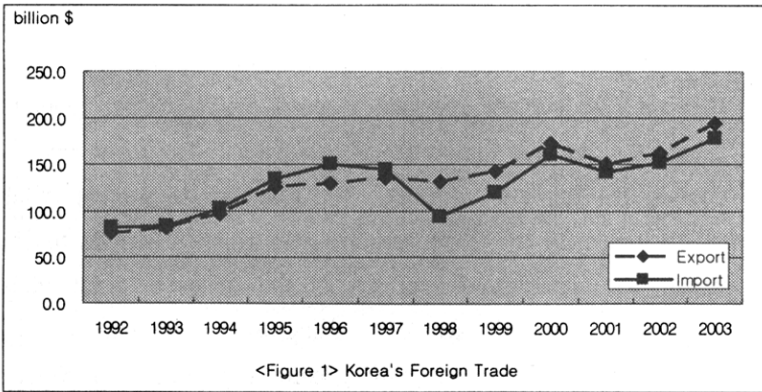
Despite fluctuations in growth from year to year, Korea's trade grew substantially between 1992 to 2003 with an annual average rate

of 9 percent for exports and 8 percent for imports (see Figure 1). For example, in 1995, trade grew rapidly with import and export growth rates exceeding 30 percent per year. Among major trading partners, the U.S. and China made important contributions to the rapid increase in Korean trade. Imports from the U.S. rose by 41 percent, while exports to China rose by 48 percent. In 1998, Korea's exports fell by 2.8 percent, due mainly to the effects of the Asian financial crisis. Exports rebounded in 1999 and 2000, rising by 8.6 percent and 19.9 percent, respectively. Export growth greatly contributed to Korea's recovery from the financial crisis. In particular, exports to the U.S., Japan and China increased greatly throughout these years.¹⁾

Big changes also occurred in Korea's imports. They fell for two consecutive years by 3.8 percent in 1997 and by 35.5 percent in 1998. The import volume contracted to US\$ 93.2 billion in 1998, which was only 62 percent of what it was in 1996. Imports recovered and showed 28.4 percent and 34.0 percent growth rates in 1999 and 2000, respectively. The economic recovery and the optimistic views on the future of Korean economy resulted in dramatic increases in imports in 1999 and 2000. Imports from the U.S., Japan and China increased notably in these years. In 2000, imports totaled US\$ 160.5 billion, 6.7 percent increase from 1996.

Korea's export and import trade recorded negative growth rates in 2001 due to the world-wide recession. However, Korea's trade rebounded substantially in 2002 and 2003 in the wake of the world recovery and China's economic boom. In 2003, export volume increased by 19.3 percent to US\$ 193.8 billion, and import volume increased by 17.6 percent to US\$ 178.8 billion.

1) Korea's exports to these three countries grew by more than 28 percent per year, respectively, in 1999 and 2000.



Source: KOTIS

Korea had experienced chronic deficits every year in foreign trade until 1997. From 1995 to 1997, especially, the trade deficit increased considerably, amounting to US\$ 39.1 billion. The trade balance turned into surplus from 1998, due mainly to the devaluation of the Korean won.²⁾ In 1998, the trade surplus was US\$ 39 billion, the highest amount for a single year in Korean trade history. The trade surplus in 1999 reached US\$ 24 billion, which was still considerable but less than that of the previous year. Since then, favorable foreign exchange rates as well as the restructuring of Korean companies has helped Korea maintain a surplus in foreign trade. In 2003, the surplus was recorded at US\$ 15 billion.

2. Korea's Trade by Industry and by Country

Traditionally, Korean exports have been concentrated on a few

2) Korean currency was devaluated by 18.2 percent in 1997 and 47.1 percent in 1998 to U.S. dollar in terms of average exchange rate.

select goods, notably semiconductors, automobiles, machinery, chemicals, computers and their components, and cellular phones. Semiconductors were the most important export item with 10.1 percent of Korea's total exports in 2003. Export of semiconductors reached the amount of US\$ 19.5 billion, which was 17.5 percent higher than that of the previous year.

Exports of other electronic and electrical goods, such as computers and their parts, cellular phones and liquid crystal display (LCD) devices also rose significantly. The export of electronic and electrical products rose by 22.9 percent and 29.0 percent in 2002 and 2003 respectively, reaching US\$ 34.8 billion in 2003. Exports of passenger cars rose significantly as well, by 16.3 percent in 2002 and 31.2 percent in 2003, comprising of 9.0 percent of total exports in 2003. Exports of machinery and precision equipment, iron and steel products, and chemicals also showed steady growth during the 2000s (with the exception of 2001). On the other hand, the export of textiles and garments fell continuously to US\$ 11.3 billion in 2003 from US\$ 15.1 billion in 2000.

On the import side, increases were especially dramatic for crude materials and capital goods from 2000 to 2003, with the exception of 2001. Imports decreased sharply in 2001 because of the world-wide recession. Crude oil imports, the largest import item in Korea, grew by 20.2 percent in 2003 to US\$ 23.1 billion. Machinery, the second largest import item, amounted to US\$ 21.7 billion in 2003. Semiconductors followed, with imports amounting to US\$ 21.3 billion in 2003. Chemicals, durable consumer goods, iron and steel products, and information and telecommunication equipment were also major import items and showed high rates of increase in 2002 and 2003.

China, the U.S. and Japan were Korea's major trading partners.

They accounted for 44.5 percent of Korea's exports and 46.5 percent of Korea's imports in 2003. Before the Asian crisis, more than 50 percent of Korea's exports went to Asian countries and more than 15 percent to ASEAN countries. After the crisis, Korean firms engaged in more global strategies aimed at diversifying their export markets rather than limiting themselves to Asian countries. The percentage of Asian countries that Korea exported to grew to 49 percent in 2003, but the percentage of ASEAN countries that Korea exported to dropped to 10 percent.

Ⅲ. Recent Trend in Vietnam's Foreign Trade

1. Overview

Since the introduction of reform policies in the late 1980s, Vietnam has established diplomatic and economic relations with most Western European and East Asian countries. Consequently, Vietnam's exports to countries outside the Communist Bloc increased rapidly in 1989 and 1990. From 1991 to 1997, Vietnam's exports grew at an annual average rate of 30 percent, due mainly to increases in foreign direct investment and industrialization. Vietnam's export growth slowed to 2.4 percent in 1998, in the wake of the Asian financial crisis, but rebounded to 23.1 percent and 25.4 percent annually in 1999 and 2000, respectively (see Table 1). The growth rate slowed again to 4.5 percent with the worldwide recession in 2001, but recovered to nearly 10 percent in 2002. In 2003, merchandise exports rose by 20.3 percent to US\$ 19.9 billion.

<Table 1> Vietnam's Foreign Trade

(In million US dollars, %, export; fob price, import; cif price)

Year	Export		Import		Trade Balance
	Amount	Inc. Rate	Amount	Inc. Rate	
1998	9,361	2.4	11,495	-0.8	-2,134
1999	11,523	23.1	11,636	1.2	-113
2000	14,448	25.4	15,635	34.4	-1,187
2001	15,100	4.5	16,200	2.3	-1,100
2002	16,530	9.5	19,700	20.6	-3,170
2003	19,880	20.3	25,200	28.0	-5,320

Source : Vietnam Customs Service

The import growth trend showed almost the same pattern as that of export growth until the financial crisis. Imports then rose more slowly than exports until 1999, reflecting the diminished inflow of foreign direct investment, a more realistically valued dong, and a variety of administrative measures, including temporary import bans and restricted access to foreign exchange and credit.³⁾ Import growth picked up once again and soon outpaced exports in 2000, growing by 34.4 percent per year. The growth rate slowed to 2.3 percent in 2001, but jumped up by 20.6 percent to US\$ 19.7 billion in 2002. This trend continued in 2003 and imports rose by 28.0 percent year on year to US\$ 25.2 billion.

Despite strong exports, the trade deficit rose to nearly 7 percent of GDP in 2003 from 2.6 percent in 2002. This is because of Vietnam's trade structure, i.e., imports increase at an even higher rate than exports as trade grows. The current account deficit is estimated to have widened to about 4 percent of GDP in 2003 from 1.1 percent in 2002.

3) See EIU, *Country Report Vietnam* (2004).

2. Vietnam's Trade by Industry and by Country

Vietnam has two main categories of exports: primary products and manufacturing products. The former includes crude oil, marine products, rice, coffee, rubber, and cashew nuts. The latter includes textiles and garments, cloth and footwear. In 2003, primary products constituted about 40 percent of exports, while manufactured products made up 30 percent in value terms. Exports of primary products grew by relatively low rates on average and fluctuated year by year, showing negative growth rates in some years. However, the export of manufacturing products increased rapidly, representing strong demand for Vietnam's products in overseas markets. Exports of textile and garments, for example, rose by 36 percent and 34 percent per annum in 2002 and 2003, respectively.

Machinery, chemical products, textiles and garments, iron and steel products, and cloths are major import products in Vietnam. Among them, machinery imports led the import surge, indicating a sharp jump in investment in the economy. Machinery imports rose by 37 percent in 2002 and 45 percent in 2003. Most other large increases were in imports of intermediate goods, including steel, plastic, and cloth and fabrics.

Japan, the U.S. and China are the major trading partners for Vietnam, accounting for 43.2 percent of total exports and 31.4 percent of total imports in 2003. Unlike Japan and China, the U.S. became an important trading partner quite recently, just after the establishment of a trade agreement between the two countries in 2001. Vietnam's remarkable export growth in 2003 was due, in good part, to the strong performance of exports to the U.S. market which grew by over 80 percent from 2002. The U.S. market share of Vietnam's

exports increased rapidly to 22.1 percent in 2003 from 5.1 percent in 2000. Singapore, Taiwan, Korea and Australia are also major trading partners for Vietnam. Korea became Vietnam's sixth largest trading partner in 2003.

IV. Korea-Vietnam Trade Relations and Trade Structures

1. Bilateral Trade Relations

Since the normalization of diplomatic relationship in 1992, bilateral economic relations between Korea and Vietnam have expanded by leaps and bounds. The most active areas of initial economic relations included merchandise trade and foreign direct investment (FDI). Bilateral trade more than doubled to US\$ 493 million in 1992 compared with US\$ 240 million in 1991. The increase was due to an expectation of normalized diplomatic relations (see Table 2). Trade volume increased remarkably to US\$ 819 million in 1993, resulting from the establishment of diplomatic relations in December 1992. Since then, trade relations have expanded rapidly between Korea and Vietnam, and have become the focal point of the bilateral relationship. It should be noted, however, that bilateral trade was sluggish during the period of the Asian financial crisis. Trade volume stagnated in 1997 and even shrank by 16.1 percent in 1998. Trade relations recovered to healthy, positive growth rates from 1999.

<Table 2> Yearly Trends of Korea's Trade with Vietnam

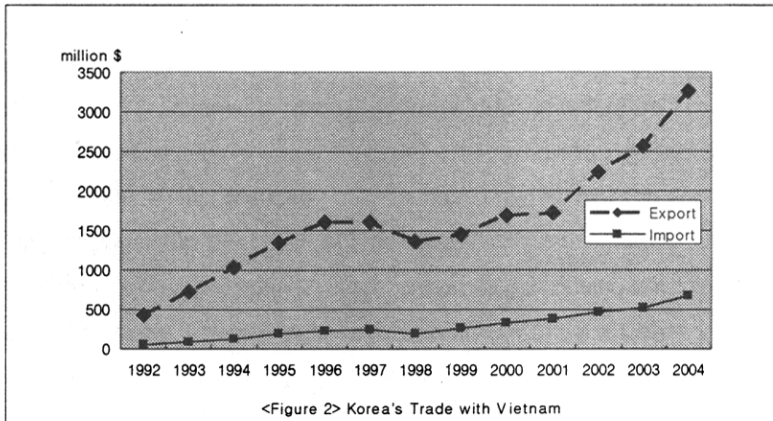
In million US dollars, %

Year	Total Trade Volume	Korea's Exports to Vietnam	Korea's Imports from Vietnam	Trade Balance
1992	493 (105.4)	436 (119.2)	57 (39.3)	379
1993	819 (66.1)	728 (67.0)	91 (58.1)	637
1994	1,141 (39.3)	1,027 (41.1)	114 (25.5)	913
1995	1,545 (35.4)	1,351 (31.5)	194 (70.2)	1,157
1996	1,831 (18.5)	1,599 (18.4)	232 (19.9)	1,367
1997	1,842 (0.6)	1,603 (0.3)	239 (2.8)	1,364
1998	1,545 (-16.1)	1,361 (-15.1)	184 (-22.9)	1,177
1999	1,709 (10.6)	1,445 (6.2)	264 (43.7)	1,181
2000	2,008 (17.5)	1,686 (16.7)	322 (22.0)	1,364
2001	2,118 (5.5)	1,732 (2.7)	386 (19.6)	1,346
2002	2,710 (28.0)	2,240 (29.3)	470 (21.9)	1,770
2003	3,072 (13.4)	2,561 (14.3)	511 (8.6)	2,050
2004	3,929 (27.9)	3,256 (27.1)	673 (31.8)	2,583

Source: KOTIS

Note: Figures in parentheses are increase rates relative to previous years.

Over the 1992 to 2004 period, Korea's trade with Vietnam increased by 18.9 percent per year on average. The trade volume exceeded US\$ 1 billion in 1994, US\$ 2 billion in 2000, and US\$ 3 billion in 2003. Korea became Vietnam's sixth largest trading partner in 2004, accounting for 7.5 percent of Vietnam's world trade. Increases in Korea's exports and FDI to Vietnam were positively correlated to each other, and grew together. A surge in FDI was the main reason for the high growth rate of Korea's exports to Vietnam during the periods of 1992 to 1996 and 2002 to 2004 (Oh 2004). Korea's imports from Vietnam showed steady high growth rates during the entire period except in 1997 and 1998 (See Table 2 and Figure 2).



Source: KOTIS

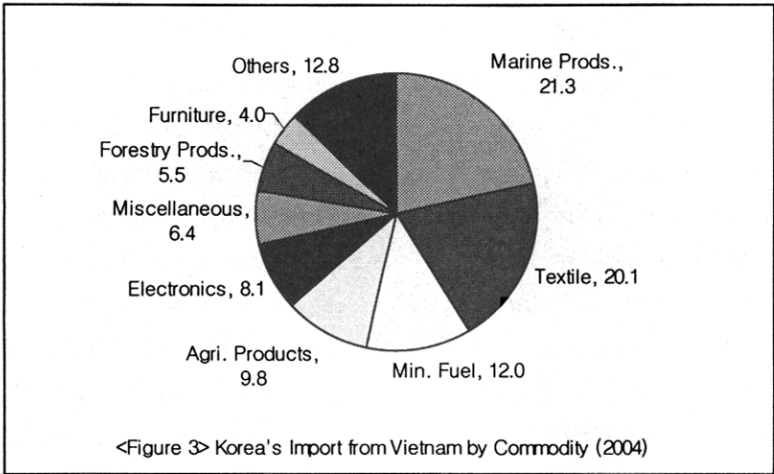
As shown in Table 2, Korea has had a persistent trade surplus with Vietnam. This is because Vietnam's demand for capital goods has been very strong due to its rapidly growing industrial sectors. Capital goods were also related to Korean direct investment in Vietnam as well as Vietnam's industrialization. As a consequence, Korea's exports to Vietnam overshadowed Korea's imports from Vietnam. Korea's exports to Vietnam amounted to US\$ 3,256 million in 2004, accounting for 11.9 percent of Vietnam's imports from the world, while Korea's imports from Vietnam amounted to only US\$ 673 million in the same year, accounting for 2.7 percent of Vietnam's global exports. Vietnam's trade deficit with Korea worsened over time. It grew to US\$ 2,050 million in 2003 and to US\$ 2,583 million in 2004 (see Table 2 and Figure 2).

2. Structure of Bilateral Trade

The structure of bilateral trade between Korea and Vietnam is

rather simple. Korea purchases natural resources and primary and light industry products from Vietnam and sells capital goods and raw materials to Vietnam (see Figures 3 and 4). Figure 3 shows the composition of Korea's imports from Vietnam by commodities in 2004.

Korea's principal import items from Vietnam are mainly marine products, textile materials, mineral fuel, agricultural products, and electronic equipment. These items make up more than 70 percent of Korea's imports from Vietnam. Korea also imports forest products, footwear, and furniture from Vietnam.



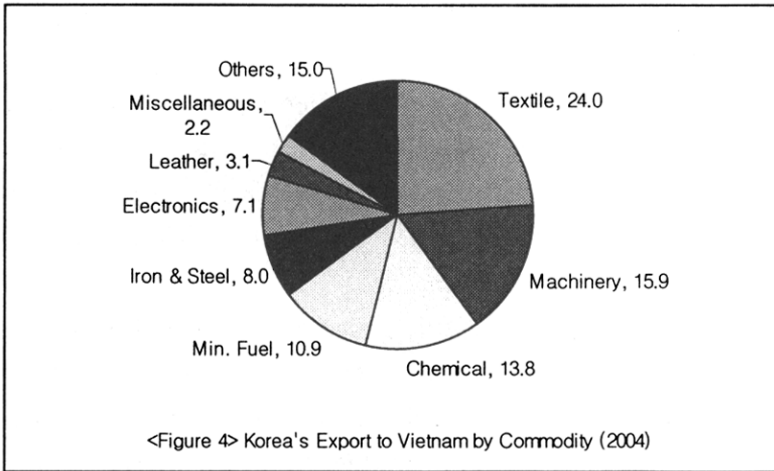
Source: KOTIS

Korea's principal export items to Vietnam are mainly capital goods (see Figure 4). These include machinery (including automobiles), chemical products, iron and steel products, electrical and electronic equipment, telecommunication equipment, etc. Capital goods comprise about 50 percent of Korea's exports to Vietnam. Textile materials,

including fabrics, yarn and other textile materials, are also important export goods, consisting of almost a quarter of Korea's exports to Vietnam. Many of these exported items are related to Korea's direct investment to Vietnam. Most of the capital goods as well as raw materials from Korea, for example, are used in the projects financed by Korea's direct investment and in the production of Vietnam's export goods.

From examining the proportions that major commodities hold in each country's trade, it is evident that the structure of Vietnamese export specialization in agricultural products, seafood, and light industry products matches the structure of Korea's import needs. At the same time, Korea's export specialization in manufactured goods, equipment, and facilities matches Vietnam's import demand. This suggests that the two economies are complementary, not competitive, and bilateral trade is consistent with the comparative advantage theory of foreign trade. The complementary pattern of bilateral trade is based primarily on the differences in resource endowments and industrial structures, and on the different stages of economic development between Korea and Vietnam.⁴⁾ As long as this symbiotic relationship between the two economies persists, and both economies continue to grow, the operation of a free market system will foster the growth of bilateral trade.

4) Korea is one of the advanced industrial countries, while Vietnam is in the initial stage of industrialization.



Source: KOTIS

3. Prospects for Bilateral Trade

Prospects for bilateral trade are examined in this section by analyzing growth rate trends of principal items in exports and imports of bilateral trade. Table 3 shows increase rates of Korea's exports to Vietnam for principal commodities. Textile material, the largest export goods, showed some fluctuations in its increase rates year by year, but benefited from relatively high growth rates from 2002 to 2004 with diminishing rates. Machinery, the second largest export item, recorded high growth rates during the early 2000s, but the growth rates diminished sharply over time and became zero in 2004. Exports of chemical, and electronic and electrical equipment rose rapidly, especially from 2002 to 2004. However, the increase rates of exports for mineral fuel, iron and steel and miscellaneous items fluctuated irregularly year by year. Since the Vietnamese

economy is likely to grow rapidly for a while, the demand for capital goods and raw materials from Korea will increase substantially during the foreseeable future but probably not as fast as before. As mentioned, Korea's imports from Vietnam consist of two main categories: primary products and manufacturing products. The import of manufacturing products, such as textile materials, electronic and electrical machines, and footwear and furniture, grew at high increase rates (see Table 4).⁵⁾

<Table 3> Increase Rates of Korea's Export to Vietnam by Commodity
%, In million US dollars

Commodity	2000	2001	2002	2003	2004	
					Amount	%
Textile materials	5.3	-4.7	35.9	26.2	782.6	12.5
Machinery	79.1	21.4	23.9	18.0	516.9	0.0
Chemicals	22.0	-9.7	12.3	16.5	449.1	34.8
Mineral fuel		25.1	-10.7	1.7	356.1	311.1
Iron and steel	-7.5	19.8	113.5	-26.4	259.0	28.9
Electronic & electrical	21.8	5.7	52.3	37.0	231.8	23.1
Leather & fur	-8.3	-14.4	32.7	16.9	100.5	10.6
Miscellaneous	3.1	-2.7	-4.2	-3.8	72.2	34.5

Source: KOTIS

5) Miscellaneous item in Table 4 included footwear.

<Table 4> Increase Rates of Korea's Import from Vietnam by
Commodity

%, In million US dollars

Commodity	2000	2001	2002	2003	2004	
					Amount	%
Marine product	82.7	40.5	20.3	6.4	143.5	10.5
Textile materials	54.3	6.7	15.3	13.0	135.2	29.9
Mineral fuel	-85.1	494.5	13.2	-23.1	80.5	448.6
Agricultural product	3.1	-3.5	-24.0	52.4	66.2	24.2
Electronic & electrical	27.4	74.0	90.6	-29.7	54.7	7.3
Miscellaneous	31.5	24.7	32.7	42.4	43.0	21.6
Forestry product	32.4	12.0	24.1	36.7	36.9	24.1
Furniture	29.7	6.6	49.6	11.2	26.9	21.1

Source: KOTIS

Imports of primary products showed somewhat different patterns compared to those of manufacturing products. Marine products, Korea's largest import item from Vietnam, recorded high growth rates, but these rates are diminishing sharply. Forest products recorded high growth rates, while agricultural products fluctuated period by period. Agricultural products showed negative growth rates in 2001 and 2002, but transitioned to high positive growth rates in 2003 and 2004. It is likely that Vietnam's exports of primary products to Korea will increase for a while, but with decreasing rates, while Vietnam's exports of manufacturing products will grow at high rates.

V. Issues and Policy Recommendations

1. Problems for Bilateral Trade between Korea and Vietnam

(1) Trade Imbalance

One major concern about trade between Korea and Vietnam is the trade imbalance. Vietnam has suffered from a chronic deficit with Korea since the normalization of their relations. From 1992 to 2004, Vietnam has recorded US\$ 17.3 billion of cumulative deficits. The magnitude of the trade deficit is too large for Vietnam when compared against the bilateral trade volume. Vietnam's deficit from bilateral trade amounted to US\$ 2.1 billion in 2003 and US\$ 2.6 billion in 2004, equaling two thirds of the total trade volume in the respective years.⁶⁾

Another problem is that the imbalance has worsened over time, with Vietnam's imports from Korea increasing more rapidly than its exports (see Table 2). This trade imbalance resulted from a structural problem. Vietnam imports capital goods and raw materials from Korea, which are essential for Vietnamese economic development. These are mostly investment driven imports and are related to the industrialization of the Vietnamese economy as well as the production of export goods. Therefore, they increase as Vietnam's exports increase and as Korean foreign direct investment to Vietnam grows.

6) The amounts of trade deficits are about four-fold of Vietnam's export to Korea (see Figure 2 and Table 2)

(2) Trade Barriers

Trade barriers, tariffs and non-tariff barriers, are other concerns in bilateral trade. Import duties are charged on a wide variety of goods in Korea as well as in Vietnam. Rates generally range from 0 percent to 54 percent. In Korea, most manufacturing goods have a basic rate of 8 percent while agricultural and marine products have higher rates. Products such as shrimp and lobster have a 15 percent rate, banana and coffee are at 30 percent, cashew nuts are at 32.8 percent, etc.⁷⁾ In Vietnam, the rates are as high as 200 percent for goods such as liquor, cigarettes, and cars (although there will be reductions in these rates following Vietnam's entry into AFTA and the WTO). Exemptions are generally granted on goods brought in as capital in a foreign investment, an important incentive for foreign investors. Export duties are charged on only a few items in Vietnam including natural resources such as crude oil, minerals, forest products, as well as rice and fish, and scrap metal.⁸⁾ Rates range from 0 percent to 45 percent. Vietnam's entry into AFTA requires its tariff rates to be reduced to no more than 5 percent by 2006. Besides tariff barriers, there are various types of non-tariff barriers between the two countries. The still immature judicial and economic systems in Vietnam also pose serious barriers for trade promotion, as do differences in cultures, history, and mindset.

7) See Korea Customs Service's Table of Tariff Rate (2004).

8) See EIU, *Country Profile 2003*, Vietnam (2004).

2. Policy Recommendations for Trade Expansion

(1) Increase Korea's Imports from Vietnam

One way to reduce the trade imbalance would be for Korea to increase imports from Vietnam and/or for Vietnam to reduce imports from Korea. Since Vietnam's imports are essential to its industrialization and export growth, Vietnam should not reduce its imports from Korea. A better way to address the trade imbalance would be for Korea to increase its imports from Vietnam more rapidly than before. Since Korea already imports substantial amounts of tropical fruits, vegetables, and marine products from many countries in Asia every year, Korea can increase imports from Vietnam through a transition of import sources. Korea also imports more primary products by simplifying the import process for agricultural and marine products. At the same time, Vietnam should make every effort to increase its export of primary products to Korea. In the long run, however, Vietnam should accelerate the development of its industries, especially machinery and raw material industries, to reduce its dependency on Korean capital goods.

Another alternative would be for Korea to increase its import of crude oil from Vietnam. Crude oil, the most important export item for Vietnam (amounting to US\$ 3.8 billion in 2003), also happens to be the most important import item for Korea. Importing more Vietnamese petroleum would lessen Korea's dependency on Middle Eastern oil as well as reducing the trade imbalance with Vietnam.

(2) Promotion of Industrialization in Vietnam

As seen above, the principal items of Vietnam's exports to Korea are mainly agro-forestry and fishery products. Eventually, Vietnam's export growth will level off, due mainly to low income elasticity and unfavorable terms of trade for primary products.⁹⁾ Demand for primary products does not increase proportionally as income grows. For example, Korea's recent imports of seafood from Vietnam increased with a diminishing rate. In comparison to manufacturing products, the price of primary products does not rise as rapidly over time. This is why it is so important to promote Vietnam's industrial sectors in order to increase Vietnam's future exports. Vietnam should increase its efforts to attract more FDI in strategic areas to accelerate the industrialization of its economy. China serves as a good model of fast industrialization through FDI.

Korea has gradually lost its competitiveness in many of the manufacturing sectors due to high costs of labor. Therefore, Korea should continuously increase its imports of manufacturing products such as textiles and cloths, electronic and electrical equipment, and machinery from developing countries over time. If Vietnam produces these manufacturing products for Korean consumers through attracting Korean FDI, then Vietnamese exports will increase rapidly, not only to Korea but to other countries in medium and long-term.

(3) Establishment of a Free Trade Agreement

In the process of industrialization and economic development,

9) Primary products consisted of about 50 percent in Vietnam's export to Korea in 2004.

Vietnam needs more capital goods and raw materials as well as a greater market for industrialization and economic development. Korea also requires a bigger market for her manufacturing and service industries as well as greater investment opportunities. Since trade and industrial structures between Korea and Vietnam are complementary, a free trade agreement (FTA) would expand bilateral trade and economic cooperation between the two countries. An FTA between Korea and Singapore has already been successfully concluded in early 2005. In addition, Korea is seeking to establish an FTA with ASEAN. They signed a framework agreement for FTA in December 2005 and agreed to conclude this matter by 2010.

An FTA will inevitably expand overall bilateral trade and economic cooperation between the two parties through the effects of trade creation and trade diversion. By eliminating trade barriers through the FTA, Vietnam can increase its exports to Korea, not only of primary goods but also of certain manufacturing products. In addition, an FTA with Korea will help Vietnam attract more FDI from other countries. Korea can exploit the ASEAN market as well as Vietnamese. Therefore, an FTA will result in a win-win environment for both countries.¹⁰⁾

(4) Promotion of a Tourism Industry

One good strategy for correcting the current account imbalance with Vietnam would be to promote its tourism industry. Vietnam has many natural attractions and historical sites that could be developed

10) Korea Institute for International Economic Policy estimates that an ASEAN-Korea FTA will enhance ASEAN's GDP by 0.41 percent and Korea's GDP by 0.13 percent (Kwon 2005).

for tourists. Besides these, Vietnam has good weather conditions with warm temperatures and sunshine during most of the winter months, attracting people from Far East as well as Europeans. Tourism is a high value-added and environmentally friendly industry. Therefore, Vietnam should provide incentives to attract more FDI to tourism industry.

VI. Concluding Remarks

Bilateral economic relations between Korea and Vietnam have expanded rapidly during the last decade. Korea has comparative advantages in capital, technology, management skills, and development experience. Vietnam has comparative advantages in natural resources, cheap but highly motivated labor, and various business opportunities. Since the two countries have complementary economic structures and each others needs each comparative advantage, Korea and Vietnam have accelerated economic cooperation after normalization of their diplomatic relations. Merchandize trade grew to US\$ 3.93 billion in 2004 making Korea the sixth largest trading partner to Vietnam. To encourage these trends, the two countries should re-examine their bilateral relationship and, if necessary, establish appropriate policies to overcome any obstacles that still exist between them.

However, there have been persistent problems in the development of the bilateral trade between the two countries. These include trade imbalance and trade barriers. The trade deficit of Vietnam is too large with respect to its bilateral trade volume, and this imbalance is increasing year by year. To deal with the problem, Korea should import more goods from Vietnam. The two countries should make

every effort to eliminate existing trade barriers. In order to expand the bilateral trade and industrial cooperation, tariff and non-tariff barriers should be removed or reduced, if possible. For this purpose, an FTA should be established between the two countries.

If we consider service trade and labor exports, however, Vietnam's trade deficit is not as serious as it looks. Thousands of Korean visited Vietnam after the diplomatic normalization of their relationship. Korea accounted for 5.3 percent of total number of foreign visitors to Vietnam in 2003. Korea was the fifth important markets for Vietnam's tourism industry after China, the U.S., Japan and Taiwan. There are also many Vietnamese working in Korea. Vietnam dispatched thousands of workers to Korea, accounting for one thirds of total number of labors sent abroad in 2003 (Pham 2004).

Vietnam is pursuing membership in the World Trade Organization (WTO). To be a member of the WTO, Vietnam should restructure its economic system to comply with global standards and the market economy. Korea, as a chair country in the working committee for evaluating Vietnam's case, should support Vietnam in its bid to acquire membership early. If Vietnam becomes a member of the WTO, economic cooperation between the two countries will be expanded further.

There will be many opportunities for expanding economic cooperation between Korea and Vietnam in the future since the two economies are complementary. Bilateral trade between Korea and Vietnam will further expand in the foreseeable future, provided the structures of the two economies remain relatively unchanged and the present complementary relationship remains undiluted. Indeed, the effectiveness of bilateral trade depends mainly on the complementarities of the two economies involved which are in turn

based on their comparative advantages. In recent years, Vietnam has held a comparative advantage mainly in natural resource, seafood, and agricultural products, as well as some light industry products, while Korea has had a comparative advantage in heavy and chemical industry products. As long as this symbiotic relationship persists, and both economies continue to grow, the operation of a free market system will continue to foster the growth of bilateral trade and economic cooperation.

Key words : bilateral trade, trade imbalance, tariff and non-tariff barrier, free trade agreement

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< 초 록 >

한국과 베트남간 쌍무무역의 현황과 발전방향

오 인 식

한국과 베트남은 1992년 말 공식적인 외교관계 수립 후 급속히 경제 협력을 확대하여 왔다. 경제협력은 특히 국제무역과 해외직접투자 분야에서 두드러진 성과를 보였다. 양국간 무역은 1992년부터 2004년까지의 기간 중 연평균 19%의 높은 증가율을 보였으며, 2004년에는 교역량이 39억 달러를 넘어섰다. 특히 한국의 베트남에 대한 수출은 2004년에 32.6억 달러에 달하여 베트남은 한국의 주요 수출상대국이 되었다. 한국기업의 베트남에 대한 직접투자도 지속적으로 증가하여 왔으며, 이는 곧 수출 증대로 이어져 베트남에서 한국의 직접투자와 수출은 비슷한 패턴을 보이며 성장하였다.

양국간 무역부문에서의 당면 과제는 무역불균형과 무역장벽을 지적할 수 있다. 무역불균형 문제는 매우 심각하다. 2004년의 경우 한국의 베트남에 대한 수출은 32.6억 달러인 반면 수입은 6.7억 달러로 무역수지 흑자가 25.9억 달러에 달했다. 이는 양국간 교역규모의 66%에 해당되며, 베트남으로부터의 수입금액의 3.9배에 달하는 큰 규모다. 문제가 더 심각한 것은 이러한 무역불균형 문제가 구조적이며, 시간이 지남에 따라 확대되어 왔다는 것이다. 무역장벽 문제는 양국간 무역에서 관세 및 비관세 장벽이 존재한다는 것이다. 한국은 베트남이 관심있는 농수산 및 임업 상품에 높은 수입관세를 부과하고 있다. 또한 통관절차의 어려움, 상이한 법률 및 제도 등의 비관세 장벽도 해결해야 할 과제이다. 양국간

교역확대를 위해서는 베트남 상품에 대한 한국의 수입확대, 관세 및 비관세 장벽의 완화 혹은 제거 등이 시급하다. 장기적으로는 베트남이 제조업 수준을 향상시켜 수출을 증대하고 수입대체를 앞당기는 것이 시급하다. 양국간 무역확대를 위해서는 한국과 베트남간 자유무역협정 체결이 바람직한 방안이 될 수 있다.

주제어 :쌍무 무역, 무역 불균형, 관세 및 비관세 장벽, 자유무역협정