

Prospects for Triangular Economic Cooperation among Korea, Vietnam, and India

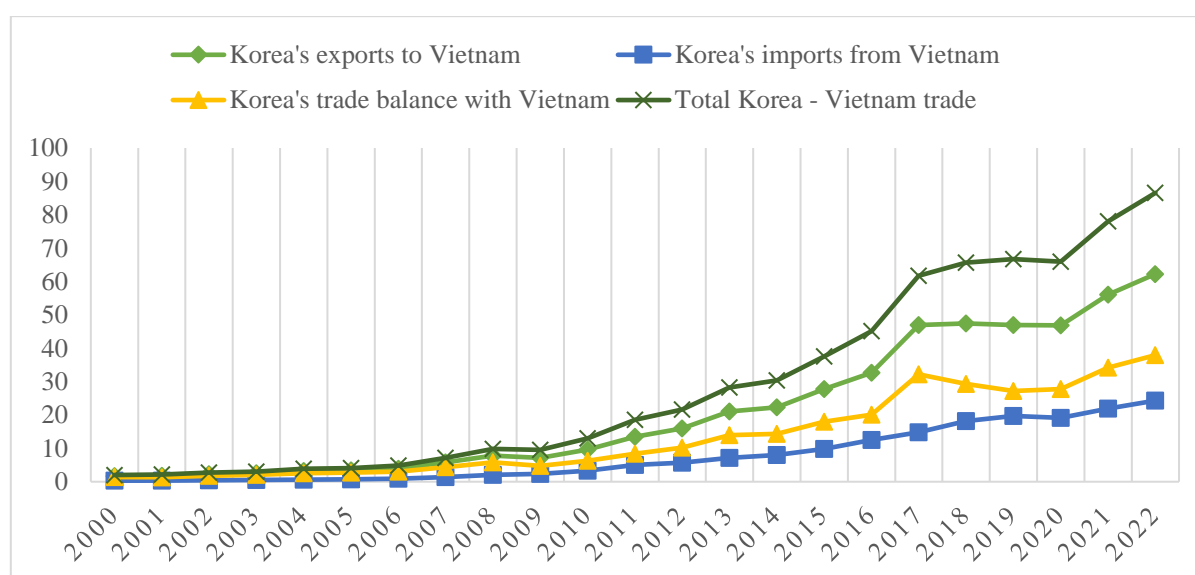
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Introduction

Bilateral foreign relations between India, Vietnam, and South Korea (hereafter Korea) have significantly expanded over the years.

In terms of economic realms, Korea and Vietnam have become important partners on each side. The total trade volume between the two sides has rapidly grown from \$2.0 billion in 2010 to \$12.85 billion in 2010 and \$86.5 billion in 2022 (See Figure 1). As a result, Korea and Vietnam have become top trading partners for each party. In 2020, Vietnam was the third-largest export destination and fifth-largest import source in Korea. At the same time, Korea was Vietnam's fourth-largest export destination and second-largest supply source¹. Korea has remained in its position as Vietnam's top foreign investor for many years, with registered capital increasing over 700 times since 1992².

Figure 1: Korea-Vietnam bilateral trade (\$ billion)



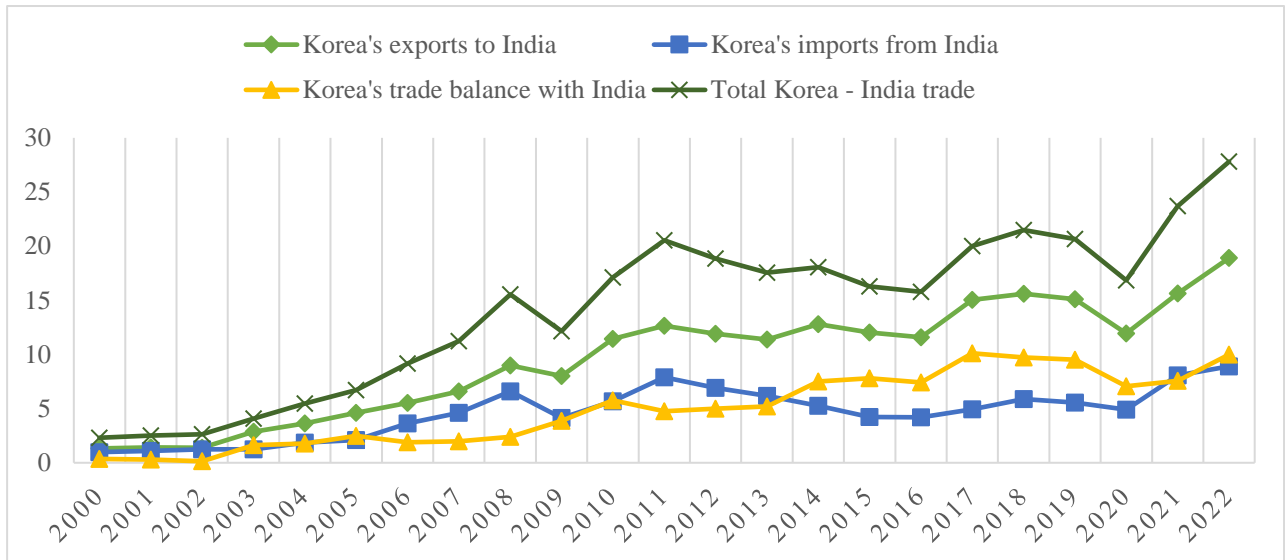
Source: Author's data processing from UN Comtrade and General Department of Vietnam Customs

¹ ASEAN-Korea Center (2022). 2021 ASEAN & Korea in Figures, https://www.aseanSouthKorea.org/eng/Resources/ASEAN_Talks.asp

² Foreign Investment Agency (2021). FDI Report in 2021, Ministry of Planning and Investment of Vietnam.

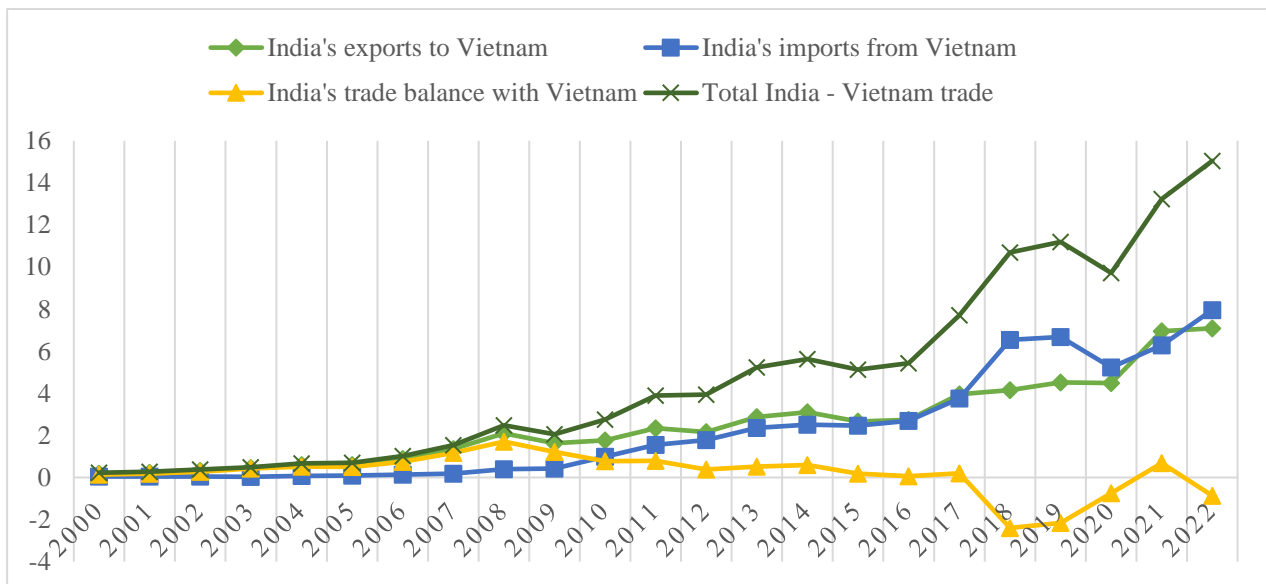
There was also a remarkable expansion in Korea –India trade in the period 2021-2022, reaching \$27.8 billion from \$16.8 billion in 2020-2021 (see Figure 2). Korea’s investment in India is four times (\$ 4 billion between 2010 and 2021) higher than India’s investment in Korea³.

Figure 2: Korea–India trade (\$ million)



Source: Author’s processing data from WITS of World Bank and Korea Trade-Investment Promotion Agency (KOTRA).

Figure 3: India-Vietnam trade (\$ million)



Source: Author’s processing data from WITS of World Bank and General Department of Vietnam Customs.

Likewise, two-way commodity trade between India and Vietnam increased from only \$230 million in 2000 to \$2.75 billion in 2010 and \$15.05 billion in 2022 (see Figure 3). It’s worth noting that after a declining year in 2020 due to the effect of COVID-19, the trade exchange between India and Vietnam rapidly

³ Kumarasamy, Durairaj (2023). Strengthening Regional Value Chain between India and South Korea: Emerging Opportunities for Trade and Investment Cooperation. KIEP Research Paper, World Economy Brief (WEB) 13(10), 1-10.

recovered and expanded. Regarding the investment field, as of December 2021, India ranked 25th out of 140 countries and territories investing in Vietnam with 313 projects, total registered capital of \$910.41 million. The average project size of India is \$2.9 million per project, lower than the national average project size of \$11.8 million per project⁴.

This paper shows that the prospect for triangular economic cooperation among India, Vietnam, and Korea is significant given the current bilateral economic relations between the three countries, the advantage and demand for the cooperation of each party, and the external factors. More specifically, the paper looks at the prospects for trilateral cooperation of the three countries in the aspects as follows. First, the paper examines the potential for cooperation in production networks and supply chains between the three countries given the context of reconfiguring the GVCs, emphasizing the leading role of Korean MNEs. Second, the paper analyses the prospect of trilateral cooperation in the digital economy, focusing on how Korea and India can collaborate on investment projects in Vietnam. Third, the paper demonstrates the rationale and possibility for forming a regional trade agreement (RTA) between India, Vietnam, and Korea. India, Vietnam, and Korea have extant bilateral trade agreements between two of the three countries including The Comprehensive Economic Partnership Agreement (CEPA) between Korea and India and a free trade agreement (FTA) between Korea and Vietnam. Nevertheless, there is no regional integration among the three countries discussed in specific.

The current paper is structured as follows. Following this introduction, the next section analyzes the prospects for trilateral cooperation in supply chains, followed by cooperation prospects in the digital economy and connectivity. Then we discuss the possibility of forming an RTA between the three countries, followed by concluding remarks.

Triangular cooperation in the production network and supply chains

The prospect of trilateral cooperation among Korea, Vietnam, and India in building resilient supply chains is promising. China is an increasingly risky place to do business, and Korean companies are seeking to better diversify their supply chains amidst US-China competition and the COVID-19 pandemic. Thus, Vietnam and India's proximity, comparatively cheaper labor, favorable FDI policies, and strong people-to-people ties make it an attractive place for Korean firms to relocate and establish their regional offices and manufacturing hubs. Likewise, ASEAN countries such as Vietnam and Indonesia have emerged as major import routes for India's intermediate goods⁵. Therefore, it is rational to link Vietnam's production bases with India to operate GVC across Asia, and Korea and India should continue to work together to share this potential. Given the leading role in regional and global markets, this current paper mainly analyses how Korean MNEs can build and strengthen supply chains with Vietnam and India.

⁴ Source: Foreign Investment Agency, Ministry of Planning and Investment, Vietnam

⁵ Kim, J. G., Han, H., Keum, H., & Pek, J. (2022). An Analysis on India's Foreign Economic Relations and Its Implications for Korea-India Cooperation. KIEP Research Paper, World Economy Brief, 22-08.

Korean firms play a vital role in Vietnam's trade activities and GVC participation, especially in the electronics and semiconductor sector⁶. Vietnam has increasingly attracted attention from Korean investors in semiconductor manufacturing. For example, in early October 2022, LS Electric, a leading Korean electric company in Vietnam, announced it would be ramping up its production capacity with a new factory in Bac Ninh. This new investment is expected to generate \$45 million per year. Likewise, Samsung intends to invest another \$3.3 billion in Vietnam with plans to mass-produce semiconductor parts in the Thai Nguyen Province in northern Vietnam. It is worth emphasizing that Samsung plays a vital role in the Vietnamese economy⁷. Meanwhile, Samsung, for its part, began operations in India in 1995 and set up its first R&D center in Bengaluru in 1996. It is another company that upholds the banner of 'Make in India' and is one of the largest electronics manufacturers in the country. In July 2018, it inaugurated the world's largest mobile factory in Noida⁸. Likewise, LG began operations in India in 1997, although it had set up its R&D center a year earlier in 1996. This research center, LG Soft India, is now the largest one outside Korea. LG also has two manufacturing facilities in the country, one in Noida and another in Pune⁹.

Therefore, there should be exchanges and collaborations between Korean factories and R&D centers in Vietnam and India in the electronic industry. For example, Indian engineers can be invited to work exchange in Korean MNEs' manufacturing bases in Vietnam, which can help Vietnamese workers improve their skills. In the opposite direction, Vietnamese engineers can be sent to Korean MNEs' factories and R&D centers for skill training. Another proposal is that Korean MNEs' electronic factories in India can increase the purchase of the input manufactured by Korean firms in Vietnam with lower costs and vice versa.

In the automobile industry, there are significant opportunities for the three countries to cooperate in automobiles, particularly in manufacturing electronic cars. For example, Korea and India may have joint-investment projects to produce electric batteries in Vietnam.

In a larger context, the triangular cooperation in supply chains between the three countries can concentrate on how Korean leading firms can facilitate Vietnamese and Indian companies' entry into GVCs by improving the drivers of investment, especially the functioning of market institutions and improving the functioning and quality of the domestic segment of value chains. The three countries should have joint-working groups with the leading role of Korean MNEs in building resilient supply chains with clear targets and work plans. These working groups will connect various economic actors, including Korean, Vietnamese, and Indian companies, governments, and institutions. In addition, given their skilled labor and advanced technology, Korea and India can collaborate in training projects to improve Vietnamese firms'

⁶ Truong, H. Q. (2022). Vietnam's Global Value Chains Participation and Policy Implications for South Korea-Vietnam Economic Cooperation. KIEP Research Paper, World Economy Brief, 22-37.

⁷ Ngoc Mai (2021). "Samsung Vietnam Earns US\$3.8 Billion in Profit in 2020", Hanoi Times, April 19, 2021, <http://hanoitimes.vn/samsung-vietnam-earns-us38-billion-in-profit-in-2020-317052.html>

⁸ Writankar Mukherjee (2019). "Samsung may switch on TV production in India," The Economic Times, 20 November 2019, <https://economictimes.indiatimes.com/industry/cons-products/electronics/samsung-may-switch-on-tv-production-in-india/articleshow/72135019.cms>

⁹ Joshi, M. (2020). Partnerships in Technology, in K.V. Kesavan, A. Singh, L. Powell, M. Joshi, A. Mukhopadhyay, N. Sahoopp (Eds), India and South Korea: Exploring New Avenues, Outlining Goals", ORF Special Report No. 101, February 2020, Observer Research Foundation, pp. 47-58.

skills development because this may speed up Vietnam's economic upgrading and densification of the GVC space with more domestic suppliers.

Triangular cooperation in digital trade

Digital connectivity, digital economy, and artificial intelligence are important foundations for the successful implementation of Industrial Revolution 4.0. These are priority areas in the economic development strategies of Vietnam, Korea, and India countries. Given Korea's leadership in the development of 5G networks and artificial intelligence and India's IT advantage, the potential for cooperation between the three countries particularly in the Vietnam market is large, including e-commerce, educational technology (Edtech), the ride-hailing industry, IT services finance, and banking and logistics.

In e-commerce, cooperation between the three countries should focus on creating e-commerce platforms and digital payment modes, such as e-wallets in the Vietnam market. In Edtech, the need for online learning tools in Vietnam after the COVID-19 pandemic remains high. Thus, Korean and Indian investors can increase joint investments in Edtech in Vietnam, such as learning management systems, school administration, enterprise learning, and early childhood education.

The ride-hailing field is a relatively nascent industry in Vietnam, so there are many opportunities for foreign firms' presence. Korean and Indian investors may concentrate on associated services, such as food delivery, hire, and shopping services.

In logistics, cooperation should focus on investing in technology infrastructure and creating digital logistics maps, centralized data warehouses, and digital platforms linking multimodal transport services in Vietnam. The final suggestion is that Korea, Vietnam, and India can establish a trilateral Joint Program of Cooperation in Science and Technology to facilitate collaborative research between three countries in the field of science, technology, innovation, and digital transformation.

An enhancing regional trade agreement among Korea, Vietnam, and India

India, Vietnam, and Korea have extant bilateral trade agreements between two of the three countries. However, there is no regional integration among the three countries discussed in specific.

A closer look at each country's exports suggests a sound basis for trilateral trade partnerships between Korea, Vietnam, and India. Statistical data show that electrical appliances were Korea's most important exports to Vietnam and India. India's main export products to Korea and Vietnam were input materials such as non-ferrous metals and iron and steel. Meanwhile, Vietnam's export structure to Korea and India focused largely on telecommunication goods. The traded products are variegated among the countries and at the same time, suggests that the three countries are responsible for different stages of production in the value chain¹⁰. With Korea, Vietnam, and India at different stages of the supply chain, the three countries are set up for the ideal trading relations, taking advantage of each other's comparative advantage to maximize efficiency in the supply chain.

¹⁰ Dhingra, S., Nam, T., & Ngo, L. (2022). India, South Korea, and Vietnam: A Triangle of Confidence in the Making. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4190104

Other factors also show the necessity of RTA formation. First, geopolitical tensions are certainly triggering high risks to the development in regional economies. Competition between China and the US is increasing. China's growing military prowess is changing the balance between the big powers. Looking ahead, the most pressing policy challenge for Korea, Vietnam, and India is to diversify their economic and strategic partnerships to hedge against these uncertainties. Second, the COVID-19 pandemic has had serious economic consequences and poses significant challenges to the economic integration of countries including the disruption of supply chain performance, a sharp drop in global consumer demand from the large negative wealth effects, the disruption of growth in connectivity, and the financial fragility. The recent slowdown of the Chinese economy due to its lockdown policies against the new waves of COVID-19, along with the Russia-Ukraine conflict, have affected trade, GVCs, and investment activities of Korea, Vietnam, and India.

In response to these challenges, Korea, Vietnam, and India have enhanced their bilateral relations, particularly in terms of maintaining product supply chains. Vietnam has offered an opportunity for Seoul and New Delhi to enter the rest of the ASEAN market. Both Korea and India consider Vietnam an important partner to reduce dependence on China's economy, diversify economic partners, and expand their influence in the region. This increases the importance of working closer between countries.

Looking ahead, Korea, Vietnam, and India can establish an intergovernmental dialogue channel for strategic economic cooperation to discuss the possibility and the main contents of an RTA between the three countries. Of course, the negotiation process will take time as it will depend heavily on domestic and external factors in each country. One certain thing is that this RTA should not be a simple combination of CEPA between India and Korea and VKFTA between Vietnam but it needs to cover the advantage and the need for cooperation in each party as well as the future transformation of supply chains and GVCs. It is suggested that RTA negotiations between the three countries focus on key industries such as semiconductors, automobiles, digital technologies and trade, 5G, and 6G wireless communications which have been analyzed in previous sections.

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