VIETNAM'S TRADE WITH THE REPUBLIC OF KOREA

LONGER-TERM PROSPECTS FOR THE VIETNAMESE AGRICULTURAL SECTOR

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VIETNAM'S TRADE WITH THE REPUBLIC OF KOREA

STRATEGIC PARTNERSHIP FOR AGRICULTURAL DEVELOPMENT

INTRODUCTION AND BACKGROUND

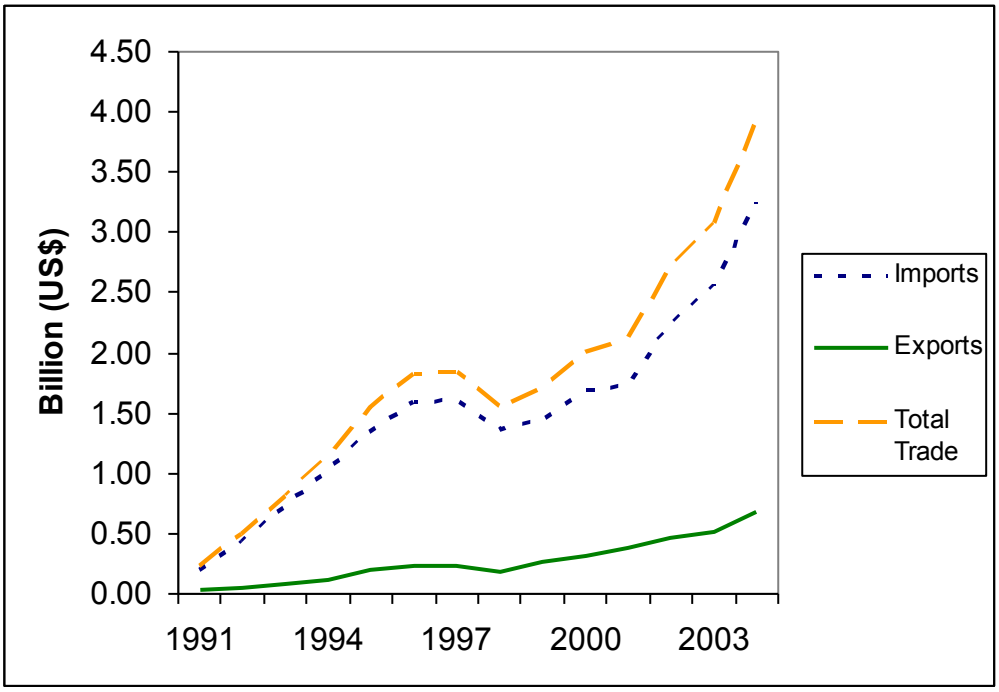
The Republic of Korea (RoK) is a relatively new, but increasingly important, trade partner for Vietnam. The RoK was Vietnam's sixth largest trade partner in 2003, and has been a growing source of foreign direct investment (FDI) in Vietnam. Trade and investment relations between Vietnam and the RoK will likely play an increasingly larger role in Vietnam's agricultural sector, which accounts for 22 percent of the Vietnam's GDP and employs 60 percent of its workforce (World Bank, 2005). By 2004, Vietnam's agricultural exports to the RoK had grown to more than four times 1998 levels, accounting for 40 percent of Vietnam's total exports to the RoK that year.

Although growing, Vietnam's trade and investment activities with the RoK have historically had a lesser impact on Vietnam's agricultural sector. The RoK is not a major export market for Vietnam for most agricultural products, and Vietnam's agricultural exports to the RoK remain limited to a small group of products. Changes in the region, including the RoK's ambitious plans for a free trade agreement with ASEAN (Association of Southeast Asian Nations), will likely produce further trade and investment opportunities for Vietnamese agriculture. Taking advantage of these opportunities will require systemic improvements to Vietnam's agricultural sector to respond to growing international competition and meet higher Korean food safety standards for imports.

Emerging Vietnam-RoK Trade Relations

Vietnam and South Korea established formal diplomatic relations in 1992, but small-scale trade between the two countries had grown steadily over the 1980s. Two-way trade surged between 1991 and 1993, roughly doubling each year. Trade nearly doubled again from 1991 and 2000 (from US$1.1 billion to $2 billion), and again from 2000 to 2004 (from US$2 billion to $3.9 billion). Despite a modest downturn in trade values in 1998 as a result of the Asian Financial Crisis, overall trade levels between the two countries have grown rapidly since 1991 (see Figure 1).

Figure 1: Vietnam's Imports, Exports, and Total Trade with the RoK, 1991-2004

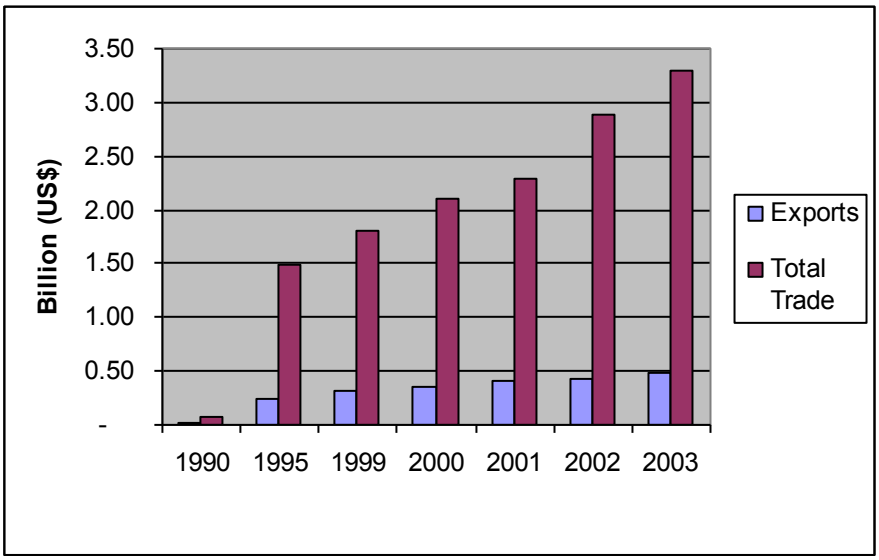


Source: Korean customs statistics, online at www.kita.org (May 2005).

Currently, Vietnam is more important as an export market rather than a source of imports for the RoK. In 2004 Vietnam was Korea's twenty-fifth largest trading partner, but its fifteenth largest export market and thirty-fifth largest import market. Among East Asian countries, Vietnam was the RoK's ninth largest export market and tenth largest source of imports. As illustrated in Figure 2, Vietnam has a steadily widening trade gap with the RoK, and its trade deficit doubled from

US$1.2 billion in 1995 to US$2.6 billion in 2004. The apparent persistence of this deficit can be traced in part to Vietnam's growing role in RoK production chains, and in the relatively recent penetration of Vietnamese agricultural and mineral products into RoK markets.

Figure 2: Vietnamese Exports to vis-à-vis Total Trade with the RoK



Source: ADB (2004).

To a large extent, the RoK represents a new market for Vietnam, rather than a redirection of existing exports. As discussed below, while Vietnam has quickly gained ground in a few specific products in the RoK, the RoK still accounts for only a small fraction of Vietnam's total exports in most of these categories. Two events in the near-term future — Vietnam's accession to the World Trade Organization and continued regional trade integration — will likely expand both the breadth and depth of Vietnamese agricultural exports to the RoK.

Trade Cooperation and Regional Change

Despite recent growth in bilateral trade, direct trade cooperation between Vietnam and the RoK remains relatively limited. The RoK's influence on the Vietnamese economy as an export market has been nearly equivalent to its influence through FDI, a style consistent with the RoK's broader production network approach in the ASEAN region (Sato, 2004). From 2001 to 2004, for

instance, RoK FDI in Vietnam (US$1.55 billion) was just over three-quarters of Vietnam's total export value (US$2.04 billion) to the RoK.[1] Vietnam was the second largest destination for RoK FDI in 2003, and has been largest ASEAN destination since 2002.[2] Much of this investment has been focused in Vietnam's communications, electronics, and energy sectors, with less of a direct relevance for agriculture.

In mid-2005 Vietnam and the RoK completed bilateral negotiations on Vietnam's WTO accession. However, deeper trade and investment integration between Vietnam and the RoK will likely take place within an ASEAN framework. Like Japan and Taiwan, the RoK is home to an acutely politicized agricultural sector that has historically proved an obstacle to international trade agreements. However, China-driven free trade momentum in the region, coupled with domestic concerns about lower export growth in an export-dependent economy, has forced the RoK government to become an increasingly active proponent of international trade. The RoK reached its first free trade agreement (FTA) in 2004, with Chile, and finalized an agreement with Singapore shortly thereafter.

Responding to China's announced FTA with ASEAN in 2001, the RoK signed a draft agreement with ASEAN members in early 2005 that will progressively eliminate barriers to investment and trade in goods and services. Despite its relative lateness, the ASEAN-Korea FTA (AKFTA) would eliminate tariffs on 80 percent of goods by 2009, one year earlier than the ASEAN-China FTA comes into effect. Details on AKFTA remain unclear, and although it may include an early harvest period similar to the ASEAN-China FTA, the agreement may sidestep significant agricultural liberalization through a greater focus on manufacturing. ASEAN is also scheduled to begin FTAs with India in 2011 and Japan in 2012.

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[1] FDI statistics are from Korean Ministry of Finance and Economy statistics, online at: http://english.mofe.go.kr (May 2005). Vietnam export statistics are from Korean Korean customs statistics, online at www.kita.org (May 2005).

[2] Korean Ministry of Finance and Economy statistics, online at: http://english.mofe.go.kr (May 2005).

The Korean Market for Agricultural Products[3]

The Republic of Korea was the world's sixth largest importer of agricultural products in 2003, with imports reaching US$15.6 billion.[4] The RoK has long been a net importer of agricultural goods, and imports up to 70 percent of its total consumption.[5] Its agricultural imports have grown steadily — by an average of 5.7 percent annually[6] — over the past ten years despite regional and domestic financial crises. Particularly over the past six years, the RoK has become an increasingly significant market for Vietnamese agricultural exports, with agricultural exports growing more than four fold from 1998 to 2004 and accounting for nearly 40 percent of total exports in 2004.[7] At the same time, Vietnam has begun to capture a growing share in RoK markets for several agricultural commodities.

Since it began industrializing in the 1970s, the RoK has sought to decrease its dependence on agricultural imports by strengthening domestic agriculture. As a result, the RoK's agricultural sector remains highly protected in some product categories, with OECD price support estimates (PSEs) consistently above 50 percent.[8] Much like Japan, rice is the centerpiece of agricultural policy, and the RoK government has successfully used price supports to maintain the country's near self-sufficiency in rice. The RoK's agricultural protection has more recently decreased in tandem with its efforts to meet commitments under the Uruguay Round Agreement on Agriculture (URAA) and restructure its agricultural sector. However, agricultural liberalization remains a sensitive area. Even though Chile was seen as a relatively easy partner with which to negotiate agricultural sector

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[3] The term 'agricultural products' is given a broad connotation here to include both agricultural and forestry products.
[4] "Leading exporters and importers of agricultural products," WTO website, online at: www.wto.org (May 2005).
[5] "Agri-food Country Profile: Korea," Agriculture and Agri-food website, February 2003, online at: http://atn-riae.agr.ca/asia/e0091.htm (May 2005).
[6] WTO Statistics Database, WTO website, online at www.wto.org (May 2005).
[7] Based on Korean customs statistics, online at www.kita.org (May 2005).
[8] "Briefing Room: Japan," United States Department of Agriculture Economic Research Service website, online at: www.ers.usda.gov/Briefing/SouthKorea/ (May 2005). Price support estimates reflect the proportion of farm output attributable to government support.

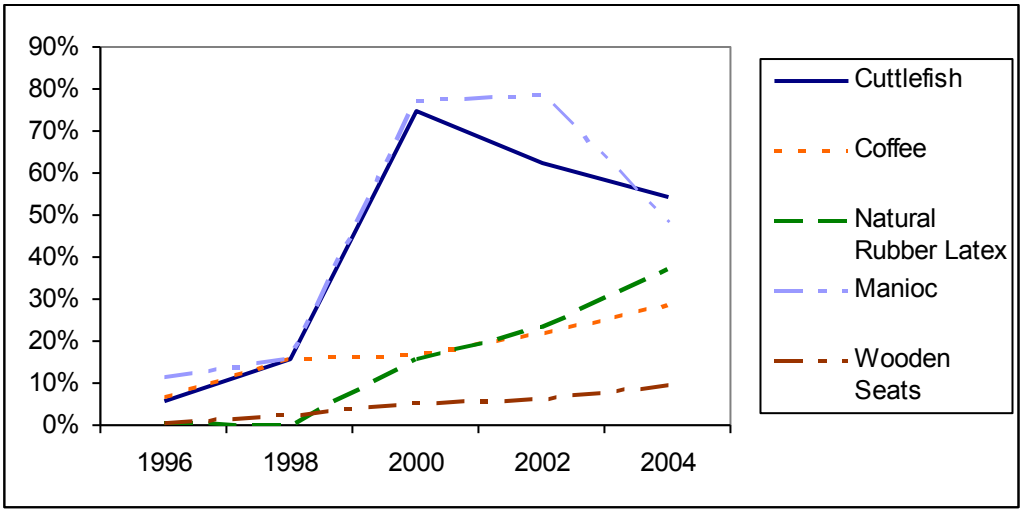
liberalization, agriculture issues alone required two years of negotiation (Chung, 2003).

Food safety has become a high-profile media issue in the Republic of Korea, and, as in much of the East Asian region, the country's import regulations are increasingly reflecting consumer pressure for higher food safety standards. The RoK's sanitary and phytosanitary standards (SPS) are becoming stricter, and South Korea's requirement for a pest risk analysis (PRA) for new commodity imports affects a range of Vietnamese products. In one example of how cooperation can overcome SPS hurdles for developing countries, the RoK government supported a study with the Vietnamese Ministry of Science and Technology to develop fruit production systems that would meet RoK SPS requirements (IFPRI, 2002).

TRADE IN SPECIFIC AGRICULTURAL PRODUCTS, VIETNAM AND KOREA

Seafood has historically been Vietnam's most important agricultural export item to the RoK, accounting for just over 20 percent of total exports, and nearly 60 percent of agricultural exports, in 2004.[9] Growth in Vietnam's agricultural exports to the RoK have been more intensive than extensive, as five major products — seafood, coffee, cassava, rubber, and wood products — comprised 88 percent of all agricultural exports from 1998 to 2004. Figure 3 shows Vietnam's climbing market share in subsets of these categories since the end of the 1990s. In three of the products in Figure 3 (cuttlefish, coffee, and cassava), Vietnam has become the leading exporter to the RoK.

Figure 3: Vietnamese Market Share for Major Export Products, 1996-2004



Source: Based on Korean customs statistics, online at www.kita.org (May 2005).

[9] Based on Korean customs statistics, online at www.kita.org (May 2005).

Vietnam's seafood exports to the RoK more than tripled from 1999 to 2004 *(see Table 1)*. In addition to high growth, Vietnam's share in RoK imports of certain seafood products grew substantially. From 1997 to 2004, for instance, Vietnam's share among octopus imports increased from 11 to 34 percent; its share of cuttlefish imports from 33 to 54 percent; and its share shrimp imports from 4 to 11 percent.[10] Vietnam's has been the RoK's largest exporter of cuttlefish and prepared and preserved fish since 1999, its second largest exporter of octopus (behind China) since 1996, its second largest exporter of frozen fish since 2000 (behind the U.S.), and its third largest exporter of frozen shrimp since 2001 (behind Thailand and China). The RoK accounted for 6 percent of Vietnam's seafood exports in 2004.[11]

Table 1: Major Vietnamese Fish Exports to the Republic of Korea, 1999-2004

Product / HSK Code(s)	Exports 1999	Exports 2004	% Change, 1999-2004
Fish / 160419- 030490- 030379	$13,223,000	$56,815,000	330%
Octopus / 030759	$8,841,000	$28,541,000	223%
Cuttlefish / 030749	$10,390,000	$25,193,000	142%
Shrimp and prawn / 030613- 030623	$1,400,000	$12,616,000	801%
Frozen Crabs / 030614	$2,013,000	$6,547,000	225%
Total above	$35,867,000	$129,712,000	262%

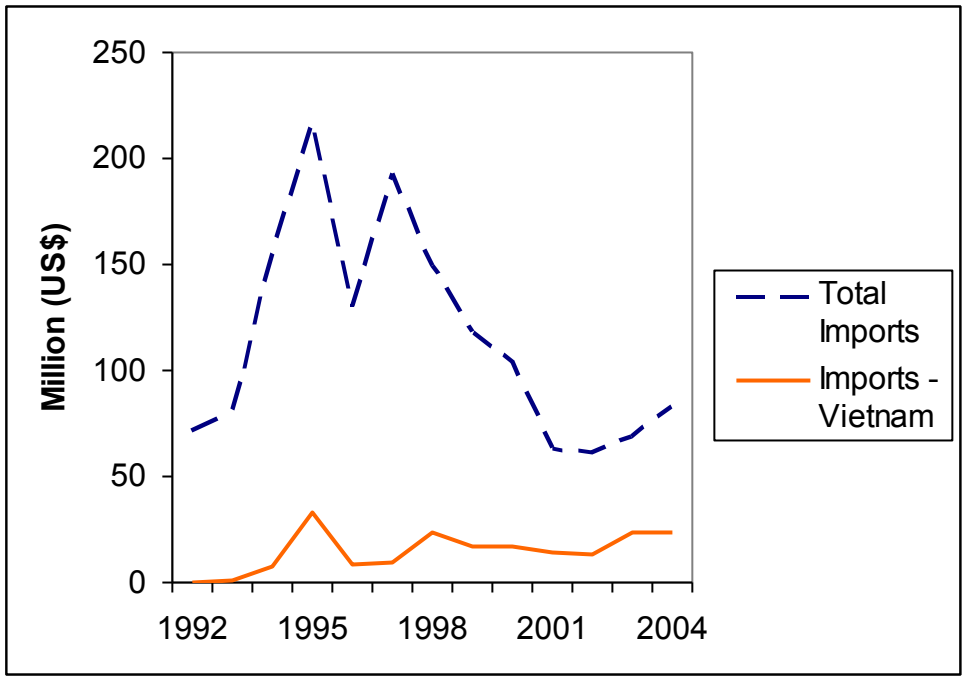
Source: Korean Customs Statistics, online at www.kita.org (May 2005).

As elsewhere, Vietnam's coffee exports to the RoK fluctuated tremendously throughout the 1990s. From 1995 to 1996 the RoK's total coffee imports fell by two-thirds, and, at their nadir in 2002 (US$61 million), were just 28 percent of their peak in 1995 ($217 million).[12] Vietnam's coffee exports to the RoK followed a similar trajectory, but Vietnamese coffee gained larger market share beginning in about 2000 *(see Figure 4)*. At their highest levels in 1995 (US$33 million), Vietnamese coffee exports made up 15 percent of the RoK's total coffee imports;

[10] Based on Korean customs statistics, online at www.kita.org (May 2005).
[11] "Export/Import Product Information", online at: www.customs.gov.vn (May 2005) [Vietnamese].
[12] Korean customs statistics, online at www.kita.org (May 2005).

at slightly lower levels in 2004 ($27 million) they accounted for 29 percent.[13] Vietnam has been the RoK's leading exporter of coffee since 2001.[14] The RoK imported 4 percent of Vietnam's total coffee exports in 2002 (GSO, 2004).

Figure 4: RoK Coffee Imports from Vietnam vis-à-vis Total Coffee Imports, 1992-2004

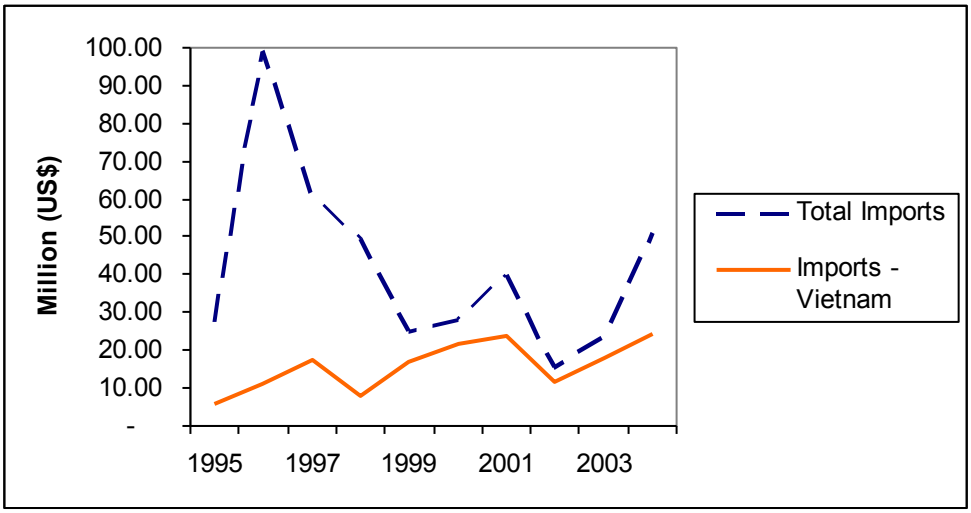


Source: Korean customs statistics, online at www.kita.org (May 2005).

Cassava — Vietnam's third largest crop by volume (ADB, 2004) — has become a major Vietnamese export to the RoK since the mid-1990s, and Vietnam has been the leading exporter of cassava to the RoK since 1999. Cassava accounts for nearly all (97 percent from 1998 to 2004) of Vietnam's fruit and vegetable exports to the RoK. Cassava has, however, not been a stable export crop, with the value of Vietnam's exports to the RoK fluctuating by an average of 61 percent annually from 1995 to 2004 *(see Figure 5)*.

[13] Ibid.
[14] Ibid.

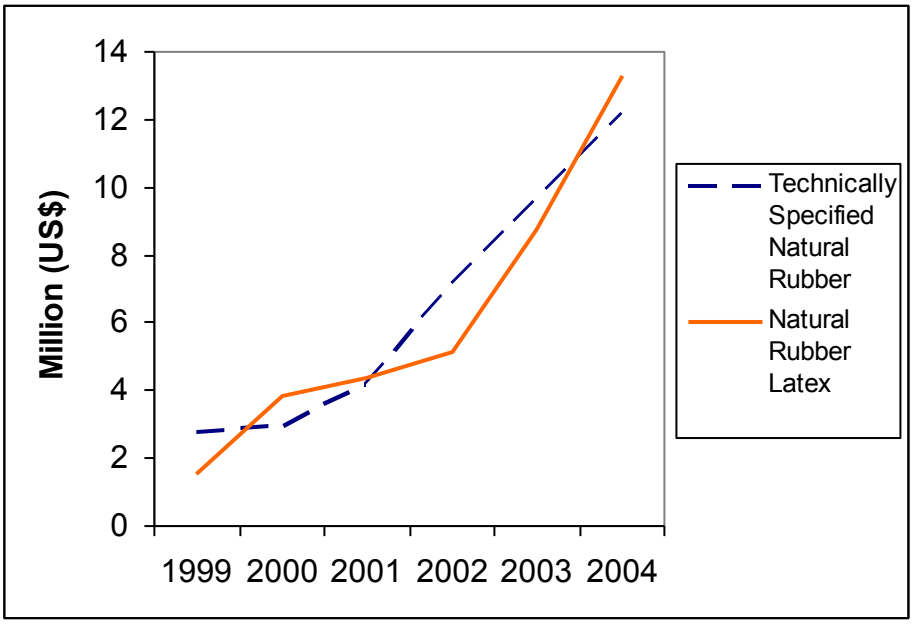
Figure 5: RoK Cassava Imports from Vietnam vis-à-vis Total Cassava Imports, 1995-2004



Source: Korean customs statistics, online at www.kita.org (May 2005).

Vietnam is the second largest supplier of natural rubber latex and the fourth largest supplier of technically specified natural rubber (TSNR) to the RoK. Vietnam's exports and market share in both categories have grown steadily since 1999 *(see Figure 6)*, reaching US$13 million (37 percent of RoK imports) and $12 million in 2004 (3.5 percent of RoK imports). The RoK has historically not been an important export market for Vietnamese rubber; exports to the RoK accounted for just over five percent of Vietnam's total rubber exports in 2002 (GSO, 2004).

Figure 6: RoK Major Rubber Imports from Vietnam, 1999-2004

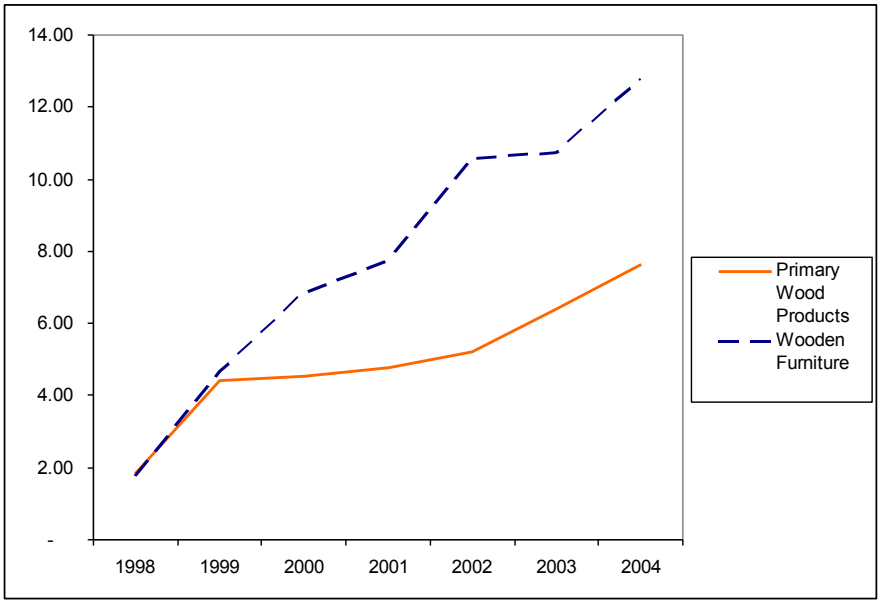


Source: Korean customs statistics, online at www.kita.org (May 2005).

Vietnamese wood product exports to the RoK more than tripled from 1998 to 2004. As Figure 7 indicates, growth in higher value added wood product exports (e.g., wooden furniture) has outpaced growth in primary wood products (e.g., logs, lumber, and wood-based panels) since the late 1990s. Among Vietnam's wood product exports, wooden furniture has comprised the lion's share; more than 73 percent of wood product exports to the RoK from 2000 to 2004 were wooden furniture.[15] Vietnamese exports accounted for roughly 7 percent of the RoK's wooden furniture imports in 2004.[16] The RoK accounted for 6 percent of Vietnam's wood product exports in 2002 (GSO, 2004).

[15] Korean customs statistics, online at www.kita.org (May 2005).
[16] Ibid.

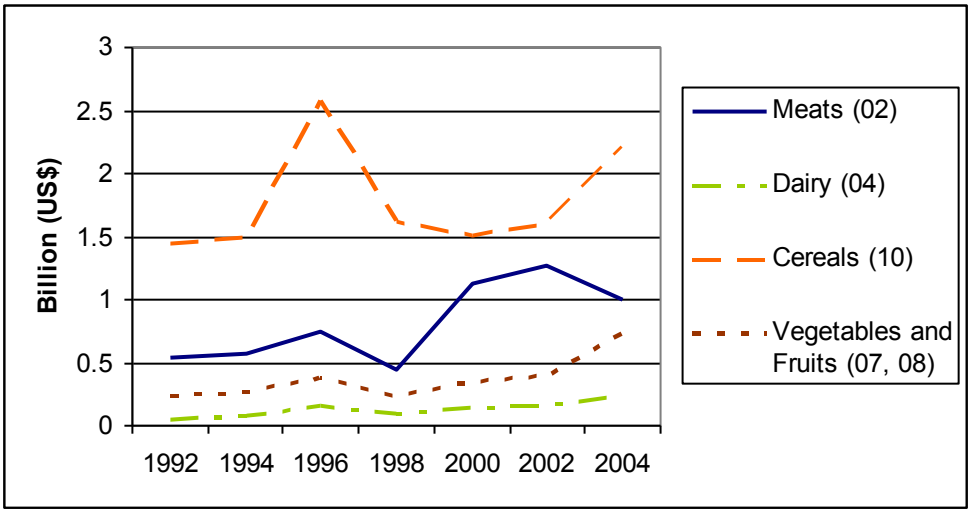
Figure 7: Vietnamese Exports of Primary Wood Products and Wooden Furniture to the Republic of Korea, 1998-2004



Source: Korean customs statistics, online at www.kita.org (May 2005).

The remaining portion of Vietnam's agricultural exports to the RoK include bamboo and rattan products, oil seeds, corn, cinnamon, pepper and canned fruits. Although the RoK's imports of meat products, dairy products, cereals, and other fruits and vegetables are substantial *(see Figure 8)*, Vietnam's exports of these products to RoK are currently negligible.

Figure 8: Republic of Korea Imports of Meats, Dairy Products, Cereals, and Vegetables and Fruits, 1991-2004



Source: Korean customs statistics, online at www.kita.org (May 2005). HS codes are in parentheses.

The RoK is not a major exporter of most agricultural inputs to Vietnam, but over the past decade it has been one of Vietnam's leading sources of fertilizer. Despite this, RoK fertilizer exports to Vietnam fluctuated wildly between 1991 and 2004, peaking at US$41 million in 2001 and falling to $7 million in 2003 before rising again to $28 million in 2004.[17]

[17] Korean customs statistics, online at www.kita.org (May 2005).

LONGER-TERM PROJECTIONS AND POLICY SIMULATIONS

The remainder of this report employs a Computable General Equilibrium (CGE) model and scenario analysis to examine how Vietnam's future trade patterns and domestic economic conditions will change under alternative trade trajectories, with dynamic forecasts over the period 2005-2020. In particular, this analysis evaluates various components of a bilateral negotiating strategy for Vietnam's trade policy with the RoK.

To illustrate the diverse universe of potential outcomes for different trade and reform strategies, and to show more specifically how different negotiating options could affect the structure of Vietnam's economy and the living standards of its people, this report considers eight scenarios. *(See Table 2.)*

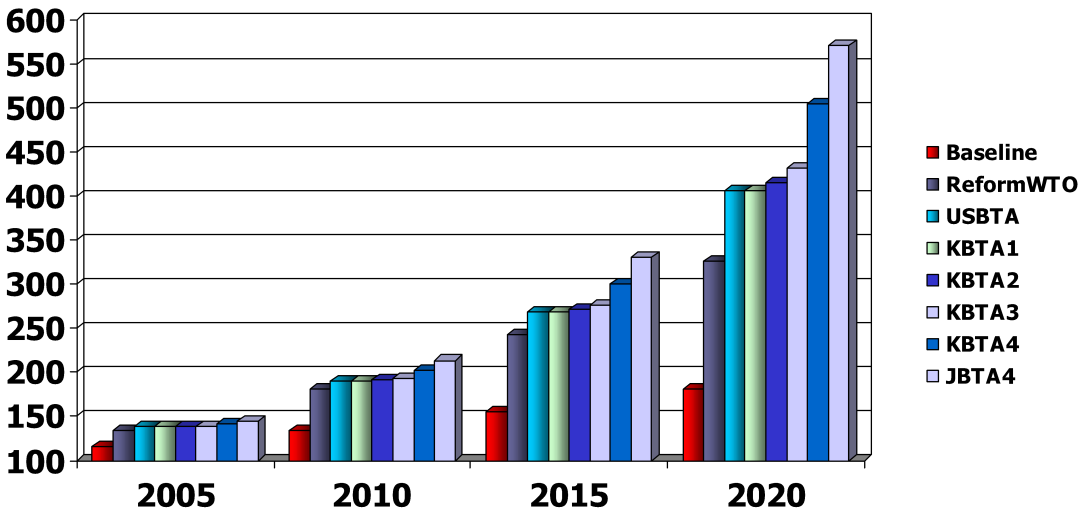
Table 2: Trade Policy Scenarios

Scenario	Assumptions
Baseline	Business as usual, with status quo protection levels and consensus macroeconomic growth rates; calibrated macro trends without reform or WTO accession
Reform-WTO	Coordinated external and domestic reform
USBTA	Bilateral trade liberalization under the U.S.-Vietnam Bilateral Trade Agreement; shown here for reference
KBTA1	Bilateral trade liberalization with tariff reductions only
KBTA2	KBTA1 with negotiated market access (5% annual import growth in all categories
KBTA3	KBTA2 with Korean direct investment. Specifically, Korea raises its share of direct investment to Vietnam GDP to equal the same GDP share for its ASEAN portfolio as a whole
KBTA4	KBTA3 with technology transfer to Light Industry, Metals, and Manufacturing (3% productivity growth)
JBTA4	Another bilateral reference agreement, bilateral tariff removal between Vietnam

	and Japan, with 5% annual increases in Vietnamese exports to Japan, Japanese direct investment, and technology transfer to agriculture and food processing (3% productivity growth)

As an OECD country, the RoK's general macroeconomic structure resembles that of other OECD members. Thus many of the scenario results obtained here are similar to those obtained for, for instance, the U.S., the EU, and Japan. The greatest similarities are with Japan, where results at the macro level are broadly consistent with those obtained in the Vietnam-Japan analysis undertaken in this research series. However, important differences between the RoK and Japan exist as well. These include natural differences in aggregate magnitudes, as the Japanese economy is over three times the size of Korea's. More fundamentally, the composition of Vietnam-Korea trade and investment is different from that with Japan, and detailed structural conditions will evolve differently.

Figure 9: Real GDP Growth Indexed to Year 2000=100



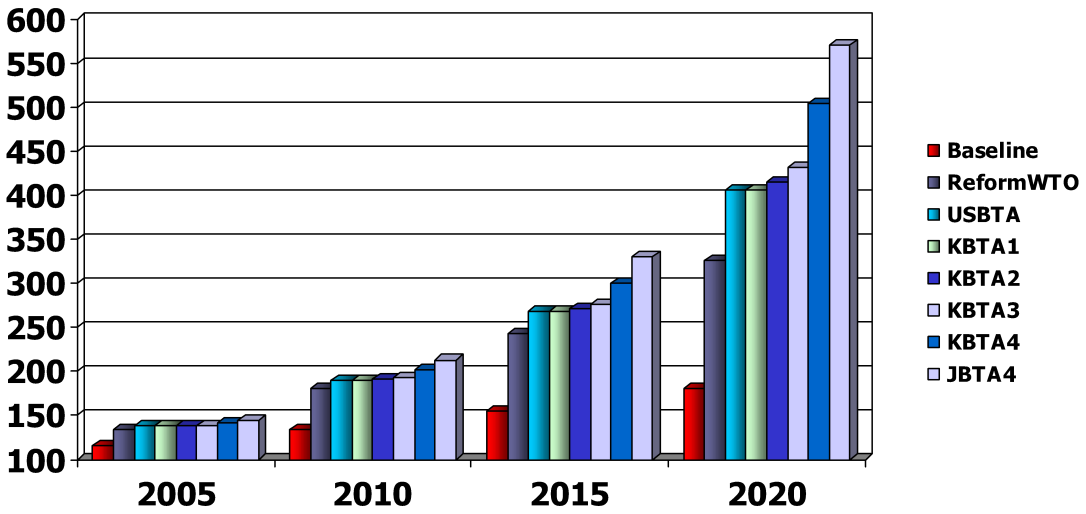
As illustrated in Figure 9, the GDP effects of Vietnam's increased bilateral engagement with the RoK depend on the degree to which trade, investment, and productivity are stimulated. More specifically, the figure shows that there is little

difference between Vietnam's current growth trajectories under the U.S.-Vietnam Bilateral Trade Agreement (USBTA) scenario (without Vietnam-Korea liberalization) and the KBTA1 scenario, where liberalization is limited to tariff reduction. The reasons for this are similar to the case of Japan — most RoK protection against Vietnam exports arises from measures other than tariffs, such as quotas, administrative barriers, and SPS requirements.

As Figure 9 illustrates, if trade negotiations are deepened to include market access, investment, and technology transfer, GDP growth increases substantially. While the corresponding Japan trade and investment scenario (JBTA4) yields higher growth, the qualitative features of a Korean agreement are quite analogous at this aggregate level.

As Figure 10 indicates, aggregate real consumption follows the pattern of aggregate income. Again this is to be expected, since income effects are relatively homogeneous in these scenarios. This observation will be borne out by more detailed household results, below.

Figure 10: Real Consumption Growth Indexed to Year 2000=100



A broader spectrum of macroeconomic aggregates are presented in Table 3, this time stated as percent changes from Baseline values in the terminal year 2020. By 2020, the most comprehensive bilateral deal considered — KBTA4 — increases Vietnam's real GDP by 179 percent over the Baseline scenario. Given differences in market size, this compares favorably with the most comprehensive Japan scenario (JBTA4), which would add 216 percent to Baseline GDP by 2020.[18] Table 3 also illustrates that the RoK can be an important direct and indirect contributor to Vietnamese investment levels, as 2020 investment increases over 250 percent under KBTA4; the same can be said for trade effects. The reason that a significantly smaller economy can approach Japan's stimulus effects is that Korea has expanded its trade and capital account links much more aggressively than Japan, particularly in Asia, and is now a larger regional player in percent GDP terms.

Table 3: Macroeconomic Aggregates
(Percent Change from Baseline in 2020)

	RefWTO	USBTA	KBTA1	KBTA2	KBTA3	KBTA4	JBTA4
GDP	**81**	**124**	**125**	**130**	**139**	**179**	**216**
Consumption	**43**	**139**	**142**	**151**	**162**	**257**	**318**
Investment	**76**	**184**	**186**	**197**	**226**	**275**	**316**
Exports	**111**	**137**	**137**	**143**	**151**	**224**	**227**
Imports	**72**	**178**	**180**	**193**	**212**	**341**	**359**

Note: All results are percentage changes in real magnitudes.

[18] We do not estimate the composite effect of both bilaterals, since neither is yet in effect. Our results for USBTA suggest that the composite effects would be less than additive.

Tables 4 and 5 summarize the more detailed bilateral trade patterns that would emerge under KBTA scenarios. As previously emphasized, tariff removal alone will accomplish comparatively little for Vietnam, increasing exports to the RoK by only 62 percent by 2020 while imports in the opposite direction jump 236 percent.

Table 4: Vietnam Exports to Korea
(Percent Change from Baseline in 2020)

Scenario	2005	2010	2015	2020
ReformWTO	22	44	75	116
USBTA	19	24	30	64
KBTA1	19	23	29	62
KBTA2	116	292	405	552
KBTA3	115	293	412	574
KBTA4	130	391	670	1121

Table 5: Vietnam Imports from Korea
(Percent Change from Baseline in 2020)

Scenario	2005	2010	2015	2020
ReformWTO	19	35	54	76
USBTA	25	62	123	209
KBTA1	35	75	142	236
KBTA2	37	83	153	253
KBTA3	38	86	163	274
KBTA4	43	108	229	443

Scenarios KBTA2 through KBTA4 indicate that more significant export expansion will require further negotiated market access and broader integration in areas complementary to trade, such as investment and technology transfer. Korean investment and technology transfer could take a variety of forms, but perhaps most dominant through wholly owned subsidiary and joint venture export manufacturing or production sharing schemes. In Vietnam's agriculture and forestry sectors, Korean investment and technology transfer is likely to be in downstream processing sectors where the RoK has an established comparative advantage, such as food processing. Spillover effects from investment and technology transfer can be substantial, as apparent from the 1,121 percent increase in Vietnamese exports to the RoK by 2020 under the KBTA4 scenario (market access, investment, and technology transfer). Though Korean exports in

the opposite direction increase less than half as much in percentage terms under the final three scenarios, the Korean economy benefits from lower cost intermediate and final goods.

Figure 11: Agricultural Output Changes
(Percent Change from Baseline in 2020)

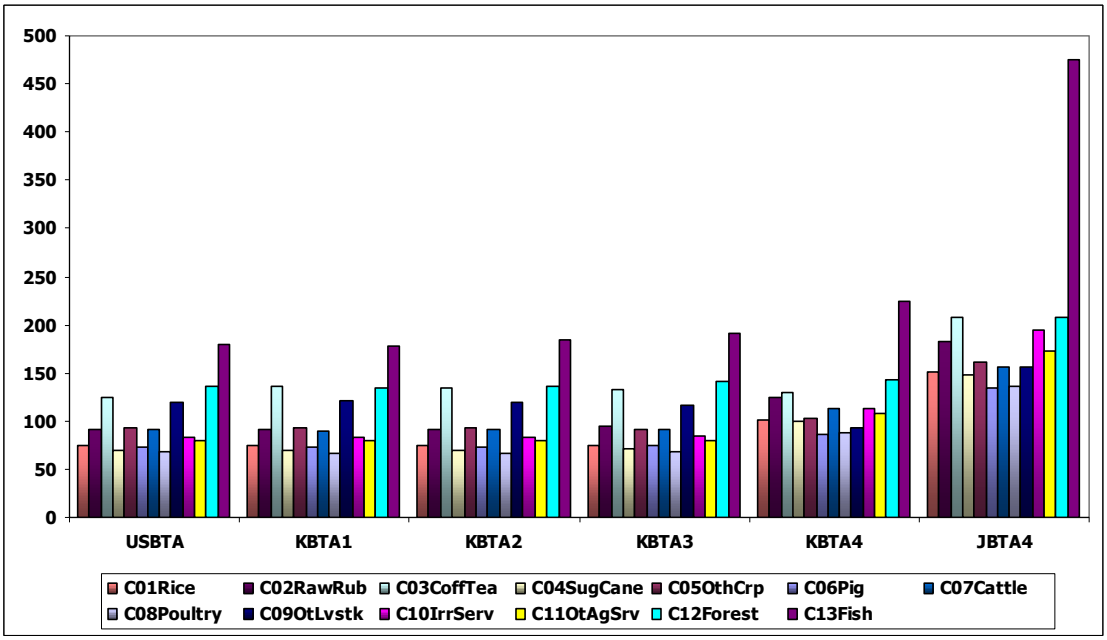
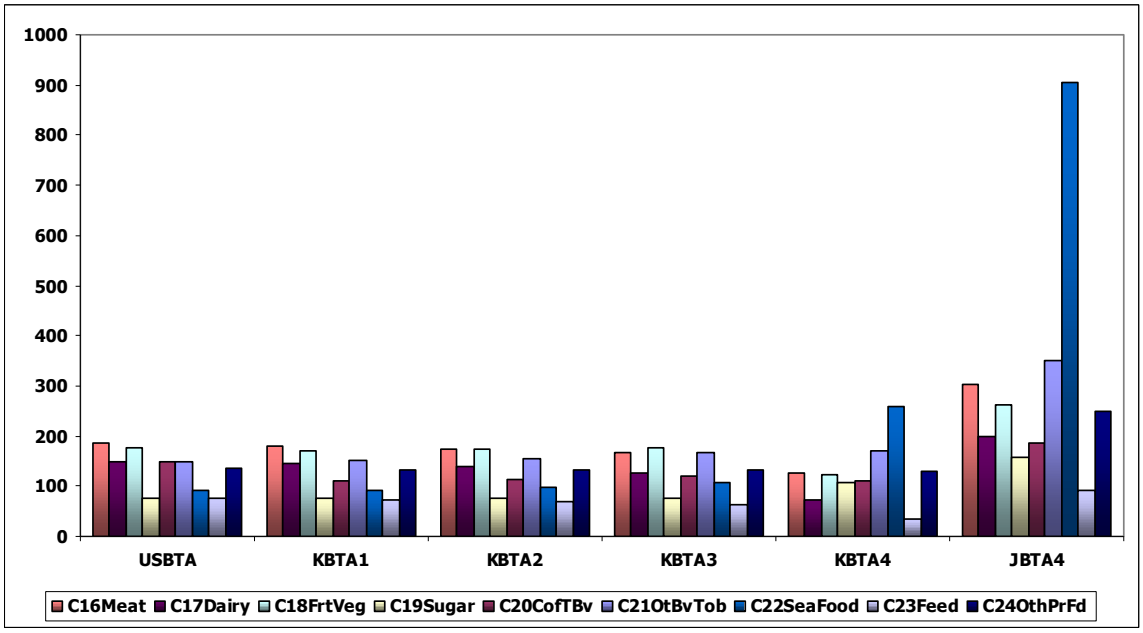


Figure 12: Food Processing Output Changes
(Percent Change from Baseline in 2020)



A closer look at economic structure reveals differences between the Vietnam-Korea and Vietnam-Japan scenarios, particularly with reference to agriculture. Figures 11 and 12 illustrate changes in sectoral output for the agricultural and food processing sectors, respectively, evaluated against Baseline values in 2020. For both groups of sectors, the first three KBTA scenarios would be little different from conditions prevailing under the USBTA.[19] Under the combined investment and technology transfer scenario (KBTA4), some compositional differences exist, but with the exception of the seafood sector (where Korean interest is already established), these are not particularly significant. The same observations apply to export responses for these sectors, although there is some indication that the Korean scenarios are less favorable to agriculture than the USBTA.

In terms of raising agricultural and food processing output, the KBTA scenarios hold less promise for Vietnam than the JBTA4 scenario. Different trade and investment patterns are largely responsible for this orientation. For Japan, agro-food is an essential import sector and one where foreign investments are already established. Although the RoK has also attained a relatively high level of food import dependence, Vietnam's agricultural exports to Korea remain limited. RoK investment in Vietnamese agriculture is also limited. Most Korean direct investment is in the communications and industry sectors, and a scenario building on this will unequally stimulate Vietnam's manufacturing sector, as shown in Figure 15 below. Under KBTA4, the sector most stimulated is not Processed Food (as in JBTA4) but Textiles and Apparel.

These results point to an essential reality of bilateralism — negotiations must adapt their objectives to natural comparative advantages to take fullest advantage of international patterns of specialization. While the Japan BTA may be well suited to direct and indirect stimulus of Vietnam's agricultural sector, a Korean BTA can still make important indirect contributions to agriculture.

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[19] There would be slightly more diversification, since a small amount of trade would be diverted from the U.S. and some other economies to Korea.

Moreover, negotiating relatively specialized agreements will limit overlap, trade diversion, and take better advantage of investment and technology resources made available in the negotiating process.

Figure 13: Agricultural Export Changes
(Percent Change from Baseline in 2020)

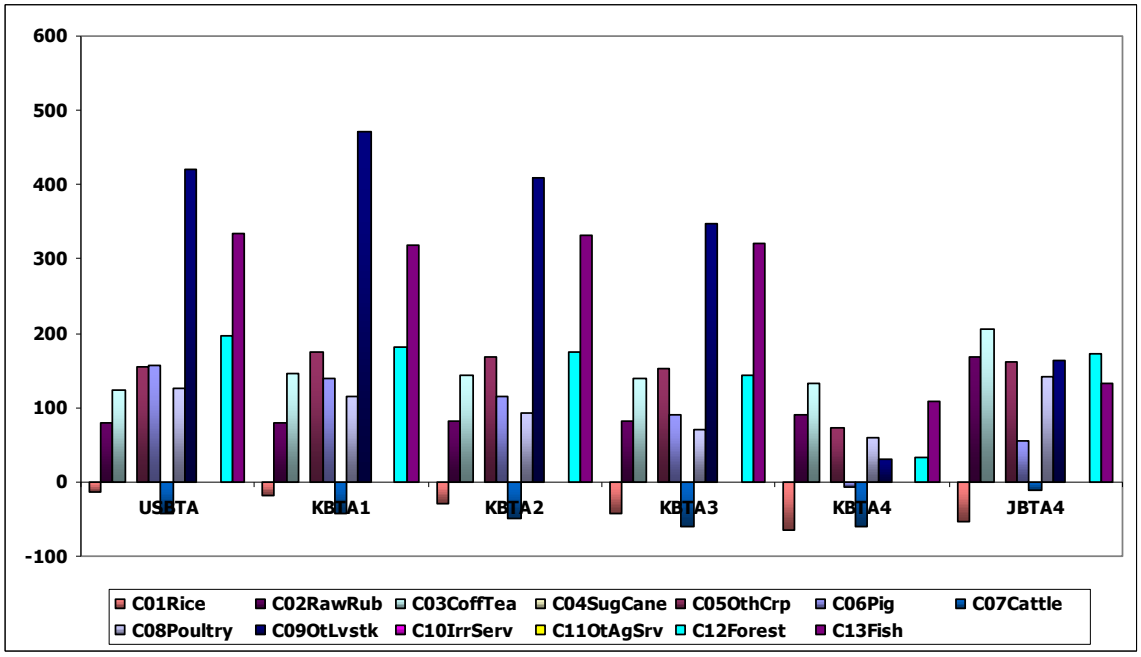


Figure 14: Food Processing Export Changes
(Percent Change from Baseline in 2020)

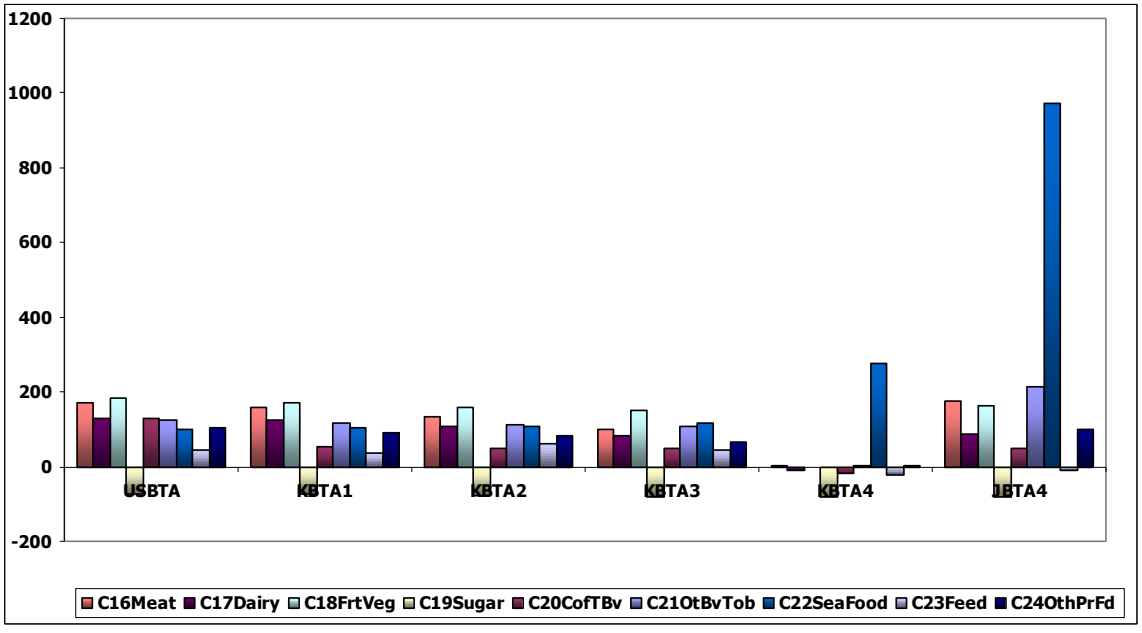


Figure 15: Sectoral Output Changes
(Percent Change from Baseline in 2020)

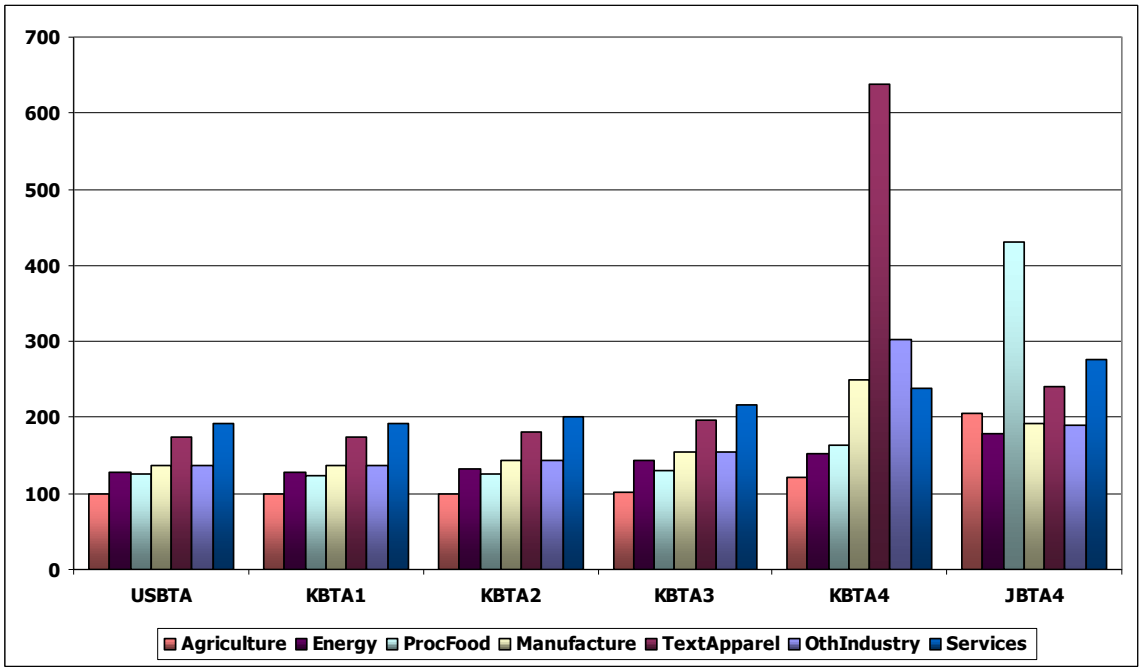
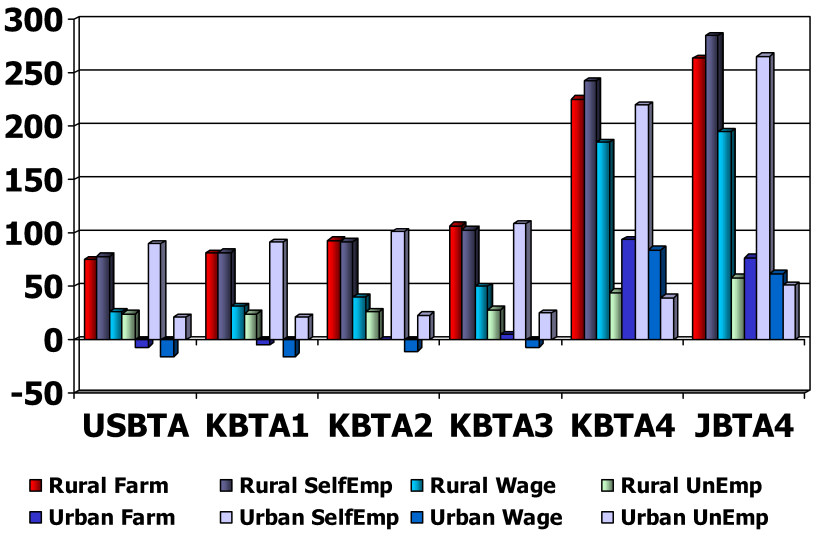


Figure 16: Real Household Income Growth
(Percent change from Baseline in 2020)



To address another important open question about the Korean BTA scenarios, Figure 16 presents changes in household real incomes, as percent changes from the Baseline in 2020. These results illustrate that rural households will benefit

from aggregate growth even if trade or other policies do not target them directly. More ideally, targeting them indirectly from diverse sources will limit overlap of estimated benefits and increase the scope for gains by the rural sector.

CONCLUSIONS AND RECOMMENDATIONS

Since establishing formal trade relations in 1992, the Republic of Korea has become a growing destination for Vietnamese agricultural exports and an increasing source of investment, though the bulk of this in sectors other than agriculture. Vietnam's agricultural exports to the RoK increased by more than four fold from 1998 to 2004, and accounted for 40 percent of total exports in 2004. Despite these relative achievements, in more absolute terms the RoK is neither a major trade partner nor a primary source of investment for Vietnam's agricultural sector.

Vietnam's agricultural exports to the RoK have thus far been limited to a small number of product categories, dominated by five products — seafood, coffee, cassava, rubber, and wood products — which made up nearly 90 percent of Vietnam's agricultural exports from 1998 to 2004. A combination of market access (e.g., high tariffs on certain products, strict SPS requirements) and domestic issues (e.g., branding, quality control) are largely responsible for these constraints. As trade negotiations progress, expanding both the scale and scope of its agricultural exports to the RoK should be a priority for Vietnamese policymakers.

Despite small scales of agriculturally-oriented trade and investment, there are important complementarities between the two economies. The RoK is a net food importer, a high income economy with substantial savings, and is highly advanced technologically. Vietnam, by contrast, has ample excess agricultural capacity, relatively low income and savings, and is technologically emergent. Such complementarities are typically ripe for gains from bilateral trade integration, where both economies can realize higher returns on their comparative strengths and resources.

Coming changes in the East and Southeast Asia region will likely propel this integration. Driven in part by pressure from China, the RoK is currently negotiating a free trade agreement with ASEAN countries — including Vietnam — that will require abolishing tariffs on a range of goods by 2009. As such, Korean-ASEAN negotiations represent a strategic opportunity for Vietnam to negotiate market access, cultivate investment, and improve technology transfer.

To better understand the potential for negotiated trade expansion between Vietnam and Korea, this report analyzed a variety of BTA scenarios that focused, in particular, on market access, investment, and technology transfer. As illustrated in the figures above, an agreement covering only tariffs would have comparatively smaller impact, while including market access, investment, and technology transfer would provide substantial gains. For example, under a more extensive liberalization scenario Vietnam's GDP could more than double by 2020.

Although the aggregate gains from a Vietnam-Korea BTA resemble other scenarios compiled for this series, in the case of Korea the composition of these gains is different because of revealed differences in existing patterns of Korean trade and investment in Vietnam. Unlike Japan and the US, the RoK has invested heavily in light and heavy industry. Although there is ample space for further trade and investment in agriculture, Vietnam's gains from deeper integration with the RoK will be comparatively smaller, both vis-à-vis other sectors and other countries, such as Japan.

Alternatively, RoK trade with and investment in Vietnam has significant implications for Vietnam's rural sector writ large because of the potential for off-farm job creation in light industry. As illustrated above, more extensive Vietnam-Korea liberalization will have particularly significant stimulus effects on the textiles industry, which has long been a natural transition point for rural-urban migrants. Because of this emphasis on light industry, greater integration with the RoK represents an opportunity for Vietnam to diversify its trade relationships vis-

à-vis the U.S. and Japan. Additionally, for this reason benefits of a trade agreement with the RoK are more likely to be sustained and not cancelled out by competing agreements.

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