



Grant Thornton

An instinct for growth™

Newsflash

Summary on a number of notable points of Vietnam – Korea Free Trade Agreement ("VKFTA")

30 July 2015



The negotiation officially commenced on 6 August 2012, after eight (08) rounds of formal negotiations and eight (08) middle-term meetings, talks at the level of Delegation head, Vietnam and South Korea have agreed to the entire contents and come together to sign the Vietnam - Korea Free Trade Agreement ("VKFTA") on 5 May 2015.

South Korea is one of the most important trade partners of Vietnam during the past periods, being a major import/export market and leading in the capital investments in Vietnam. Currently, South Korea has cooperated with Vietnam in the framework of the ASEAN - Korea Free Trade Agreement ("AKFTA").

The signing of VKFTA is a great success for Vietnam in many aspects. The Agreement consists of 17 Chapters, 208 Articles, 15 Annexes and 1 Agreement of enforcement for all commitments on economic cooperation. The main contents of the Agreement are: Trade in Goods, Trade in Services, Investment and Intellectual Property, Measures for food safety and animal and plant quarantine, Rules of Origin, Customs Facilitation, Trade Remedies, Technical Barriers to Trade, E-commerce, Competition, Economic cooperation, Institution and Legal.

This is considered as the most comprehensive legal document for economic cooperation between Vietnam and South Korea. With the signed contents, the Agreement will bring many benefits, positive impacts to the Vietnamese economy in many aspects as well as create many challenges for the enterprises. However, the degree of impact on each country is different due to the difference in the development level, structure and absorptive capacity of the economy.

Main contents of the VKFTA commitments

- For Goods and Import/Export activities:** Both countries agree to greater expand the market for each other in comparison to AKFTA. Accordingly, many tariffs of imported/exported categories shall be eliminated while participating in each other's market.

South Korea commits to strongly expand the market for 502 items of goods, including the key export products of Vietnam such as agriculture, forestry and fishery products (i.e. shrimp, crab, fish, tropical fruits, wood) including the sensitive agricultural commodities to South Korea and being subjected to the high tax rates such as garlic, ginger, honey, and other industrial products such as textiles.

In contrast, Vietnam also commits to cut down on the tariff for 200 goods categories imported from South Korea such as textile raw materials, leather shoes; electronic components, trucks and passenger automobile parts; plastic materials; electrical appliances; equipments; cars; cosmetics, pharmaceuticals and other commodities.

Table 1: Liberalisation commitments of VKFTA

	No. of tariff lines (TLs)	Percentage of such TLs in number against all imports (%)	Percentage of such TLs in value against all import values in 2012 (%)
South Korea	506	4.14	5.5
Vietnam	256	2.77	5.91

Table 2: Synthetic commitments of VKFTA + AKFTA

	No. of TLs	Percentage of such TLs in number against imports from ASEAN (%)	Percentage of such TLs in value against import values from ASEAN in 2012 (%)
South Korea	11,679	95.44	97.22
Vietnam	8,521	89.15	92.72

- **For Service Trade:** South Korea additionally opens its market to Vietnam in comparison with AKFTA towards the following five subsectors (i) legal service, (ii) delivery service, (iii) maintenance and repairing service of railways, (iv) supporting rail transportation services, and (v) natural scientific research and development services. In the meantime, Vietnam also opens its market to South Korea beyond WTO and AKFTA commitments with two subsectors: (i) urban projects and urban landscape architecture services and (ii) rental service of machinery and other equipments without operators.
- **For Investment:** This is one of the important chapters of the Agreement with a more extensive application scope than AKFTA including the provisions on National Treatment (NT), Most Favoured Nation (MFN) treatment, Senior Manager Business Development (SMBD), ownership expropriation, compensation for damages, transferring of money, subrogation, denial of benefits. All agreements between two countries will help to create more favourable conditions for South Korean enterprises, attract more investments with greater value from South Korea and vice versa.
- **For Bilateral economic cooperation:** This is one of the chapters that is of most interest to the two parties in the negotiation process. Specific fields and cooperation projects, allocation of funds and specific implementation methods for each project are shown in the Implementation Agreement of this Chapter.
- **For Sanitary and Phytosanitary Measure (SPS):** Both countries have reached the agreement on a specific SPS Chapter. The commitments of SPS Chapter aim to promote and create favourable conditions for cooperation and improvement of the competency and consultancy to solve problems in relation to Sanitary and Phytosanitary measure in the future arising from the agricultural trade between Vietnam and Korea.
- **For Rulings and Institutions:** The commitments on intellectual property, competition, trade remedies, dispute settlement, technical measures for commercial, are unified to ensure a balance of benefits, in compliance with domestic laws' procedures and do not impact on other negotiations of Vietnam at the moment.

The signing of VKFTA brings significant impacts on the economy of the two countries, especially to the enterprises. Vietnamese enterprises, thus, learn how to enhance their competency and competitiveness, having opportunities to expand to the markets of the fields that South Korea are strong at and Vietnam has strong demands. Therefore, the enterprises must carefully analyse the regulations as well as their own capabilities to make business decisions and apply effectively in practice.

Please contact our professional tax advisors if you need further assistance.





This Newsletter has been prepared for reference purposes only. No responsibility can be accepted by Grant Thornton Vietnam for errors or omissions in this publication or for loss occasioned to any person acting or refraining from acting as a result of any material in this tax alert.

If you have any question or required further information relating to this tax alert, please contact our professional tax advisors.

Ha Noi Office

18th Floor, Hoa Binh International Office Building
106 Hoang Quoc Viet
Cau Giay District, Ha Noi
Vietnam
T + 84 4 3850 1686
F + 84 4 3850 1688

Hoang Khoi

Tax Partner
D +84 4 3850 1618
E Khoi.Hoang@vn.gt.com

Nguyen Dinh Du

Tax Partner
D +84 4 3850 1620
E Du.Nguyen@vn.gt.com

Kaoru Okata

Director – Japanese Desk
D +84 4 3850 1680
E Kaoru.Okata@vn.gt.com

Pham Ngoc Long

Tax Director
D +84 4 3850 1684
E Long.Pham@vn.gt.com

For downloads

Please visit our website:
www.gt.com.vn



Ho Chi Minh Office

28th Floor, Saigon Trade Centre
37 Ton Duc Thang Street
District 1, Ho Chi Minh City
Vietnam
T + 84 8 3910 9100
F + 84 8 3914 3748

Nguyen Hung Du

Tax Partner
D +84 8 3910 9231
E HungDu.Nguyen@vn.gt.com

Valerie – Teo Liang Tuan

Tax Director
D +84 8 3910 9235
E Valerie.Teo@vn.gt.com

Tran Hong My

Tax Director
D +84 8 3910 9275
E HMy.Tran@vn.gt.com

Tran Nguyen Mong Van

Tax Director
D +84 8 3910 9233
E MongVan.Tran@vn.gt.com

Tomohiro Norioka

Director – Japanese Desk
D +84 8 3910 9205
E Tomohiro.Norioka@vn.gt.com

Nguyen Bao Thai

Tax Senior Manager
D +84 8 3910 9236
E Thai.Nguyen@vn.gt.com