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RESEARCH ON THE GLOBAL SUPPLY CHAIN SHIFT IN VIETNAM

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Abstract

Globalization and international economic integration are taking place strongly around the world, promoting integration and interdependence between countries with a focus on economic openness, creating conditions for effective combination of domestic and foreign resources, and expanding development space. Globalization and international economic integration are both objective requirements and internal needs in the process of economic development of countries. In the process of globalization and international economic integration, the global supply chain plays an important role, is an indispensable method, and is referred to as the "lifeline" of the global economy. When the Covid-19 pandemic broke out, the global supply chain was disrupted, causing economic and social disruption in countries. The causes of the disruption of the global supply chain include complex interwoven factors such as: extreme weather events; natural disasters; pandemics; lack of supply and labor; logistics bottlenecks and low port efficiency; trade wars; geopolitical conflicts... The Vietnamese economy has a high degree of openness and relies heavily on imported raw materials and energy. Therefore, the global supply chain plays an important role in the Vietnamese economy. Disruptions and changes in the global supply chain all have an impact, causing significant consequences to the country's development process.

Keywords: Shift, Global Supply Chain, Vietnam

INTRODUCTION

The global economy is facing challenges in supply chains in the context of the Covid-19 pandemic that originated in China in mid-December 2019. As of May 2020, SARS-CoV-2 has spread to 198 countries and territories (WHO, 2020), affecting many aspects of the economy, supply chains, manufacturing and financial markets. The spread of the coronavirus shows that supply chains in the fields of technology, automotive, electronics, pharmaceuticals, medical devices and consumer goods are concentrated in China because the country plays a role as a middleman providing raw materials and components to the world. Recognizing the risks that dependence on China poses to national industries, some governments are encouraging businesses to gradually withdraw production activities from China. Japan has provided a rescue package of up to 23.5 billion yen to support Japanese companies in China to transfer production activities back home or to Southeast Asia. In mid-May 2020, the US government also issued an executive order to supplement the authority of the foreign investment authority to support US businesses to relocate production out of China (Araz et al., 2020). In 2019, the US, Japan and Europe sought to move production lines out of China due to the impact of the US-China trade war, but the Covid-19 pandemic has further accelerated the plans of these economies to reduce their reliance on supply chains in China (Baldwin and Evernett, 2020). In addition to rising labor costs and trade tensions between China and the United States, the pandemic has prompted global brands to take a more serious look at the risks of having only one source of

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input from China. In addition, manufacturers also want to ensure that the supply chain will recover more quickly in the event of similar abnormal risks in the future, therefore they will enhance their risk prevention capabilities through reducing their reliance on production activities in China. Overall, SARS-CoV-2 has made countries around the world aware of the potential risks when the value chains of industries are too dependent on the Chinese economy, and tend to gradually shift production activities out of the country (Linton and Valkin, 2020).

1. Trends in the Reshaping and Operation of Global Supply Chains

Global value chains (GVCs) represent the division of production between countries. Downstream participation is the import of foreign inputs for processing and re-export. Upstream participation is the export of inputs to other countries for the production of their export goods.

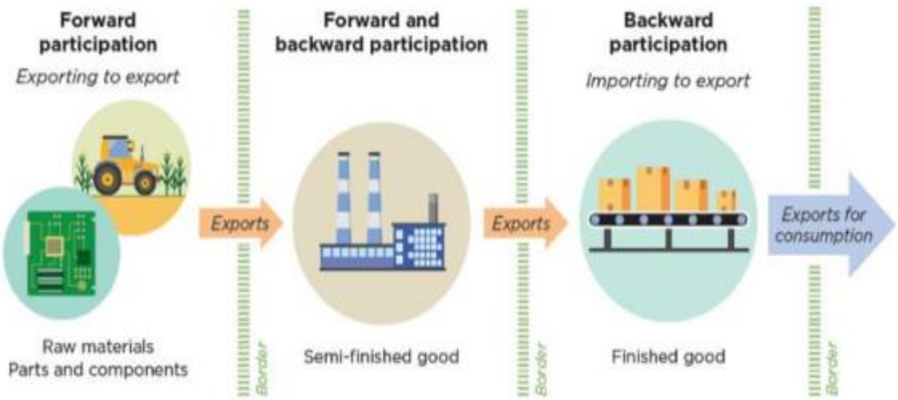

Figure 1: Global value chain

Source: World Development Report, World Bank (2020)

As shown in the figure above, participation in the global value chain involves cross-border transactions and transactions with buyers and international companies. Globally, more than two-thirds of world trade takes place through global value chains, in which production crosses at least one border before reaching the final assembly stage.

When the Covid-19 pandemic occurred, most business activities were affected by supply chain disruptions. In the US economy, as of March 2021, up to 95% of businesses reported that their supply chains were affected by the pandemic. However, after a short period of time, the business community found solutions to strengthen supply chains, seize opportunities, and build trust with customers. The pandemic taught the business community about the flexibility and adaptability of supply chains and transportation networks in the new context. From there, the business community regained balance to carry out production and business not only during the pandemic period, but also to develop in the new normal. The Covid-19 pandemic, geopolitical instability, and other uncertain factors have created five trends in the reshaping and operation of global supply chains.

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First, flexible, adaptable supply chains, the application of digital technology, and the promotion of transparent e-commerce are inseparable from the trend of sustainable development.

During the pandemic, the business community realized that a strong and sustainable supply chain is a chain that needs to have many suppliers, and that the manufacturing company and the supplier company operate in the same geographical region. Steve Sensing, CEO of Ryder Global Supply Chain Solutions (Ryder) of the United States, summed up: "A strong supply chain never puts all its eggs in one basket, and has a geographic advantage with suppliers." When the pandemic occurred, companies with a geographic advantage with suppliers had an easier time than other companies in ensuring raw materials for production. This reflects that in order to survive and adapt in the context of a world with volatility and uncertainty, supply chains need to diversify their networks within the same geographical region.

When volatility and uncertainty occur, production and business activities will quickly change, requiring suppliers to have a dynamic, flexible transportation system to meet the changing needs of customers. Ryder showed that freight service increased by up to 150% when the company transported all types of packaged consumer goods for customers. The flexibility has given Ryder the ability to serve food and beverage consumers, and to use dedicated freight cars from warehouses to retail stores. Therefore, a supply chain with a dynamic, flexible transportation network becomes a competitive advantage in a world of upheaval.

Currently, suppliers in the global supply chain are using digital technology and platform business models to create an environment where manufacturers and consumers can interact directly with each other, making it easier to exchange goods, services, money, and create value for all participants. This reflects that digital technology and e-commerce will continue to be the leading and important trend and solution for operating supply chains and international trade in the context of a world with many uncertainties, having a strong impact on economic and social activities. The application of digital technology has been and is promoting a transparent e-commerce system that meets the expectations of customers, and this will also be a trend in the development of supply chains in the future.

Second, the global production network will still determine the future of supply chains, but regional production networks will increase.

The current decade of globalization is still ongoing, but uncertainty and policy risks are driving the process of fragmentation and regionalization of the economy faster and stronger. When regionalized production affects supply chains, it will lead to changes in government policies that support the processing and manufacturing of strategic goods in the region, rather than outsourcing them elsewhere. Currently, regionalization instead of globalization of production has not yet penetrated into the production networks of the United States and Europe, although globalization is facing instability and political disruption.

The trend of fragmentation of the world economy was the focus of discussion at the World Economic Forum in 2022 in Davos, Switzerland (Davos Forum). Governments and multinational corporations have discussed the trend of fragmentation - meaning choosing to cooperate with countries that are close and friendly to each other, from which to shape their

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own development strategies. This trend will harm countries that benefit from the global trading system.

In addition, a new topic - geoeconomics - was also discussed extensively at the Davos Forum, as the reality is that economic cooperation is now heavily dependent on the geographical location of partners. If they are close geographically, they will avoid the risk of supply chain disruptions. The process of globalization is also shifting strongly towards prioritizing cooperation between friendly countries in order to avoid political factors affecting businesses. For example, the United States is cooperating with Australia to produce rare earths, they accept higher costs, but the risk of political factors is lower when cooperating with China.

The IMF chief economist believes that the world will divide into many large blocks, not trading much with each other and having different standards, and this will be a "disaster for the global economy."

The IMF warned that the fragmentation of the global economy into geopolitical blocs with different standards for trade and technology, payment and monetary systems, and reserves would cause many fluctuations, causing the global economy to suffer major losses in terms of efficiency in the long term.

Third, China is still the workshop of the global economy

The realignment of production networks out of China to emerging markets is a long-term strategy that cannot be implemented overnight by global corporations. The benefits of moving production out of China are always weighed against the advantages of the large production platform in China. Currently, China still has outstanding competitive advantages in terms of market, scale efficiency, infrastructure, logistics system, network of supporting industries, and skilled labor supply compared to economies in Asia-Pacific.

Although many investors want to diversify their production and distribution networks in Southeast Asian countries, there are very few solutions to implement, because of the limited capacity of these countries. Investors always analyze and evaluate very carefully in changing the strategic growth opportunities when relocating production facilities to other emerging economies. In particular, investors always consider and compare factors of capacity and input costs, such as processing costs, labor, and transportation in other countries compared to China before making investment relocation plans.

Fourth: Increasing globalization of services

Services such as information technology, business and financial services, research and development, etc. are becoming global services, creating new growth opportunities and increasing global competition for business and financial services, new consumer services such as remote medical consulting, diagnostic imaging. When these types of services develop, they will lead to a series of other types of services. This development requires managers to have a new approach to accounting and managing global service export activities.

So far, it is not clear which market will become the "global workshop" for services. Currently, the United States is leading in the export of services, with the example of business and financial

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services. However, other markets such as China, India, and Ireland are growing very rapidly in this type of service and challenging the leading position of the United States.

When global services develop, it will lead to the development of a skilled workforce in emerging markets, competing with workers with the same skills in developed markets, making global service prices lower. At that time, companies want to transfer production and service processing activities to emerging markets, where there are many young skilled workers to compete with the workforce of the same level in developed economies with an aging population. In the next decade, competition for skilled labor between emerging and developed markets will open up new opportunities in the use of global talent. However, this door will gradually close as wages in emerging economies rise. Demographic constraints, coupled with rising global wages, will drive automation, with machines and robots replacing humans.

Fifth: The development of regional supply chains will increase inflation in the next decade

The rearrangement of supply chains will increase inflationary pressures in the next decade. The consequences of supply chain disruptions were reflected in the rapid and high rise in production prices in 2021, causing high inflation, exceeding the 2% target in the European Union, the United States, the United Kingdom. Emerging markets such as Brazil, the Russian Federation, Turkey, and Argentina also had high inflation in 2021.

Increased energy costs, commodity transportation prices, and transportation risks are factors that drive up production costs. The upward pressure will persist if most cheap labor is replaced by local labor with higher wages. The business community needs to prepare a business strategy in the context of high inflation, leading to a shift in consumption structure, when people only focus on the essentials of life. Businesses need to have a contingency fund to deal with the risk of inflation and increase in capital costs, when production costs increase due to rising prices of raw materials and energy and wages, while many central banks are tightening monetary policy due to high inflation.

2. Trends in Global Supply Chain Shifting

Optimizing production, reducing costs to optimize profits, minimizing risks from political conflicts and trade wars, with the rapid development of science and technology, the shifting of supply chains from one country to another is an objective trend that is already taking place. Global supply chains shift in three directions, namely:

- First, shifting supply chains to countries in the same geographical region to reduce dependence or avoid risks from trade wars or mutual sanctions between economies. Simple production activities that do not require high technology such as processing, assembly with low added value are often shifted to many countries to disperse risks and optimize production costs. The industries and sectors that are shifting in this direction include: textiles, electronics production, simple components and spare parts;
- Second, shifting supply chains that require investment, often associated with high-tech production activities, strategic goods with high added value, related to technological secrets and national security. This shifting direction leads to businesses moving all or

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part of their production back to their home countries, taking place in developed economies such as the United States, Japan, and the European Union;

- Third, restructuring and reorganizing supply chains through diversifying sources of supply, expanding the network of suppliers to disperse risks, such as placing orders to purchase raw materials and components from many suppliers in different countries.

In the coming time, competition to participate in the supply chain will be more intense, especially between developing countries with similarities in the market, human resources, and technology, such as Southeast Asian countries, India, Turkey, and Mexico.

To welcome the shifting of supply chains, in addition to political stability and macroeconomic stability, countries need to prepare infrastructure, a workforce with qualifications, skills, and easy to train to meet the recruitment needs of multinational companies when relocating production facilities to other countries to avoid risks from trade wars.

3. Changing Globalization Model, Protectionism Is Back

Globalization, international economic integration, and trade liberalization have been important drivers of global economic growth in recent decades. However, due to economic inequality between regions, countries, and social classes within each country, there has been a trend towards anti-globalization and trade liberalization. Some countries, through preferential economic policies, are calling for and encouraging investors to return in order to increase national interests.

The United States has issued a number of policies to attract investment, production, and business in the United States, such as reducing income tax from 25% to 21% for US businesses, and introducing more flexible standards to enhance the competitiveness of some US industries. The countries of the European Union are promoting "strategic autonomous economy", controlling foreign investment. Germany and Italy have tightened regulations on foreign investment in strategic industries; France is implementing the "Made in France" strategy to promote domestic production for high-value-added industries.

The disruption of supply chains, geopolitical instability, has led to a trend of clustering cooperation in large blocs; Europe, the United States, and China are looking for plans to build their own economic autonomy, no longer unconditionally supporting globalization and free trade as before.

The car industry is a production model based on the foundation of economic globalization, the manufacturing process is broken down, what can be made cheapest in which country is outsourced to that country, with the condition of on time delivery. For example, Renault of France hires up to 17,000 suppliers around the world to manufacture different components. When the pandemic broke out, chips produced in Asia could not reach the assembly plants in Europe. If the supply chain is clogged, even for just 1 week, the globalized production model will also be disrupted.

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The Russia-Ukraine crisis is shaking the world, directly impacting the collapse of trade in the Eastern region bordering the European Union, indirectly impacting global demand for goods, causing commodity prices to rise, and supply of raw materials and input components is interrupted. Europe, the United States, and Russia imposing sanctions on each other make trade more complicated; economic sanctions, trade wars create more invisible barriers to separate markets. Faced with unpredictable fluctuations, managers and multinational economic groups are discussing ways to modify the globalization model to be suitable for the new situation. In April 2022, US Treasury Secretary Janet Yellen called for the reshaping of globalization, which she assessed as "being threatened."

In recent times, protectionism has returned and has caused trade conflicts between economies, hindering the flow of goods, direct and indirect investment, and negatively impacting global economic growth. Protectionism, with the emergence of many new tools and widely applied globally.

Protectionism brings short-term benefits to domestic producers, encourages the development of some industries; balance the balance of payments, stabilize government budget revenue; create new jobs and redistribute income; ensure national security. However, protectionism creates opportunities for domestic businesses to speculate on sales prices at the most beneficial level, disrupt the market; reduce the motivation to apply solutions to improve product quality and lower product costs, causing harm to consumers.

In addition, protectionism has a negative impact on the process of economic modernization, declining growth. However, in the near future, the trend of protectionism will still continue, alongside the issues of globalization and international trade.

4. Global Supply Chain Shift Trends

Restructuring and shifting a supply chain, especially a global supply chain, is a highly complex process that requires careful analysis of the entire supply chain, consideration, and careful calculation of each step, each stage, each partner... under specific conditions, and then finding suitable solutions for each chain. However, with the common weaknesses of most global supply chains today:

- Deep dependence on China.
- Long, complex global supply chains that are highly vulnerable to risks and crises in the global transportation and internet networks need to shift in two following directions:

First Trend: Shifting the supply chain out of China, including transferring important, key, and high-tech stages to the home country to maintain control over the entire chain. Meanwhile, manufacturing and processing stages will be relocated to neighboring countries to avoid the risk of putting "all eggs in one basket," helping to minimize risks when the Chinese market experiences fluctuations. In early 2020, when the US-China trade war reached its peak and was compounded by the Covid-19 pandemic, governments in North America, Western Europe, Japan, South Korea, Australia, and others introduced attractive policies to encourage their businesses to shift their supply chains out of China. Neighboring countries also actively

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prepared to attract investment and shift production facilities from China. However, the US government changed its stance, the Chinese pandemic temporarily subsided, and China's economy gradually recovered. In 2020, China was the only large country with positive economic growth, leading to a temporary slowdown in the shift of supply chains out of China. This can be explained by the fact that while governments and investors desire to move supply chains out of China, the ultimate goal of investors is still profit (alongside other objectives). To date, no country has been able to replace China in terms of market size and production capacity. Therefore, to attract the wave of investment shifting supply chains from China, active preparation of attractive conditions is the only way, at least not inferior to China.

Second Trend: Transforming long, complex, and high-risk global supply chains into shorter, simpler, more flexible, balanced, and sustainable supply chains. To embrace this trend, once again, we need to be ready to step in as substitutes. To be substitutes, we need to understand what investors want and prepare accordingly. The results of a survey of 867 global financial leaders on Covid-19 by PwC in May 2020 showed that in response to the question: "After Covid-19, are you planning to change any aspects of your supply chain strategy? Please select the top three most urgent areas," the respondents chose the following: (1) Identifying and developing alternative sources of supply: 51%; (2) Wanting to understand more about the financial situation and activities of current and future suppliers: 45%; (3) Changing contract terms (e.g., flexible contract terms and protecting businesses from vulnerabilities): 45%; (4) Applying automation to improve the speed and accuracy of decision-making processes: 37%; (5) Using tools to better understand customer requirements (e.g., changing service mix, better understanding of ordering reasons): 31%; (6) Enhancing transparency of the supplier system (e.g., risk alerts, scenario-based planning): 30%; (7) Improving risk prevention measures (e.g., more flexible natural disaster insurance, more flexible force majeure terms): 30%; (8) Diversifying assembly and/or service locations (e.g., contributing to legal compliance, shortening lead times for finished product delivery): 20%.

5. Current Status of Vietnam's Participation in the Global Value Chain

Since the implementation of the Renovation program in 1986, Vietnam has transitioned from being one of the world's poorest countries to a market-oriented economy. Vietnam has integrated into the global economy more deeply and has achieved significant milestones, including: On July 28, 1995, Vietnam became the seventh member of the Association of Southeast Asian Nations (ASEAN); on January 11, 2007, Vietnam became the 150th member of the World Trade Organization (WTO); At the end of 2015, the ASEAN Economic Community was established through an agreement among ASEAN countries, including Vietnam.

As of now, Vietnam has signed 13 free trade agreements (FTAs) and is negotiating 3 more FTAs (details can be found in Appendix 1 and the chart below). Joining ASEAN in 1995, accession to the WTO in 2007, and various bilateral investment agreements and preferential trade agreements with ASEAN, China, the European Union, Japan, South Korea, the United States, and others have helped Vietnam attract an increasing amount of Foreign Direct Investment (FDI). Vietnam has diversified its economic partners, such as through enhanced

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integration within ASEAN, the expected Regional Comprehensive Economic Partnership (RCEP) agreement, and most recently, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the EU-Vietnam Free Trade Agreement (EVFTA).

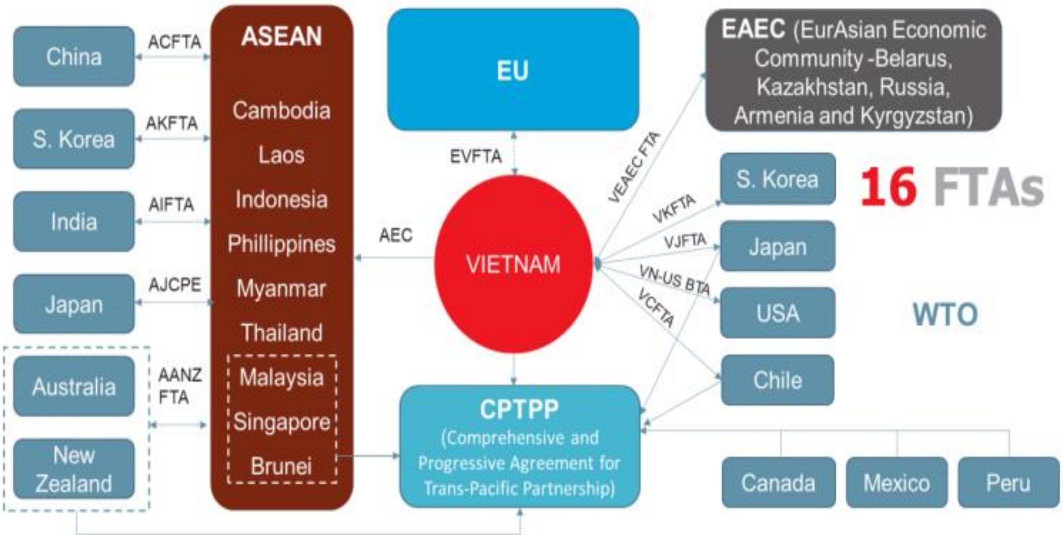

Figure 2: Vietnam's Free Trade Agreements

Source: Economica Vietnam (2020)

Over the past 30 years, Vietnam has gradually opened its economy from a closed one to become one of the most integrated economies in the world. As a result of this opening process, Vietnam's level of trade openness exceeded 210% of GDP in 2019 (WDI, 2020). The poverty rate has significantly decreased alongside economic development during this period, from 52.9% in the early 1990s to around 2.0% in 2019 (Ministry of Labor, War Invalids and Social Affairs, 2019).

Chart 3 shows the export-to-GDP ratio, import-to-GDP ratio, and actual per capita income of Vietnam over nearly three decades. The government's export-driven growth policies have contributed to an almost fourfold increase in actual per capita GDP, from $433 in 1990 to $2,082 in 2019 (Chart 3). This achievement has been made possible through trade liberalization reinforced by several FTA agreements. Vietnam is transforming into a country with a focus on both exports and imports. Since 2012, the export-to-GDP ratio has exceeded the import-to-GDP ratio (Chart 3).

In Asia, Vietnam is one of the most open economies to international trade. Vietnam's top export items include electronic equipment and appliances, footwear, technology products, and automatic data processing equipment. Major import items include integrated electronic circuits, machinery, precision assembly tools, and petroleum (according to Vietnam General Statistics Office's 2019 trade openness data, the main trading partners are China, the United States, South Korea, ASEAN, the EU, Japan, Australia, and India).

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Vietnam's economic model still relies heavily on foreign investment and exports, especially with countries such as ASEAN, China, South Korea, Japan, the EU, and the United States. The value of goods exports reached $246.2 billion, and goods imports reached $253 billion in 2019, resulting in a trade surplus of $11.2 billion in 2019 (MOIT, 2020). According to preliminary data from the Vietnamese government, the manufacturing sector significantly contributed to expanding the trade surplus, with industrial exports exceeding $10 billion for the first time in 2019. Vietnam is a net importer of services, with imports reaching $18.2 billion in 2018, while exports were $14.9 billion.

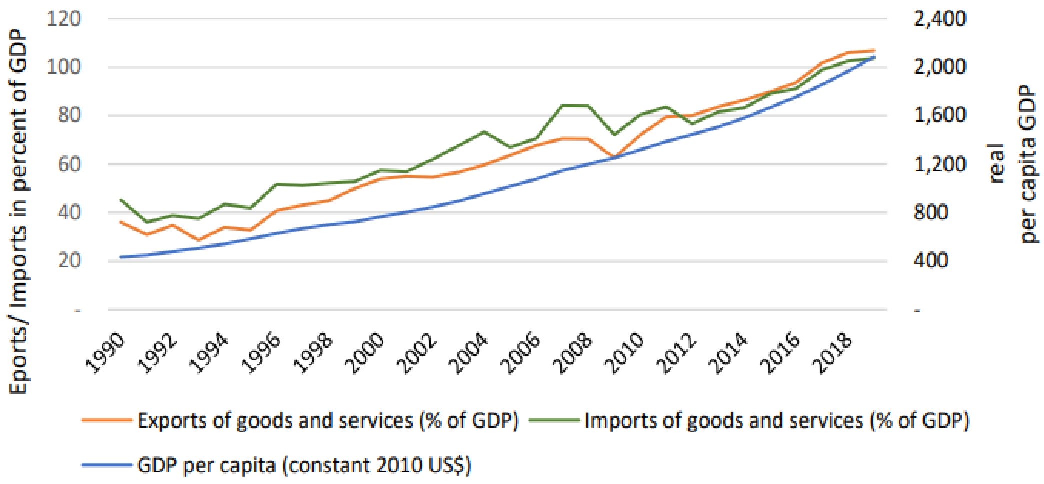

Figure 3: Export-Import as a Percentage of GDP & Actual Per Capita GDP

Over more than three decades, foreign direct investment (FDI) into Vietnam has increased from less than $41 million to over $145 billion (in 2018)1. The highest level of FDI registered in Vietnam was reached in 2017, followed by a decrease in 2019 (Chart 4). However, in the first seven months of 2020, the total newly registered and additional FDI capital reached $14.2 billion, an increase of 21.2% compared to the same period in 2019. Total foreign direct investment (FDI) into Vietnam has been steadily increasing during the period from 2013 to 2019.

Vietnam's participation in Global Value Chains (GVC) is primarily in the upstream part, and it has been the dominant part since 1990 (ASEAN Trade, Investment, and Tourism Promotion Center, 2020). The Global Value Chain Participation Index explains a country's participation in GVC from both the upstream (through Forward Value Added - FVA) and downstream (through Backward Value Added - BVA) perspectives. The higher the share of FVA in total exports and the higher the value of domestically produced intermediate products in third-country exports, the more a country is integrated into GVC3. Over the past three decades, Vietnam has actively participated in both forward and backward linkages. For example, Vietnam imports raw materials, components, and parts for processing and exports finished goods and services for further processing or completed goods and services for consumption.

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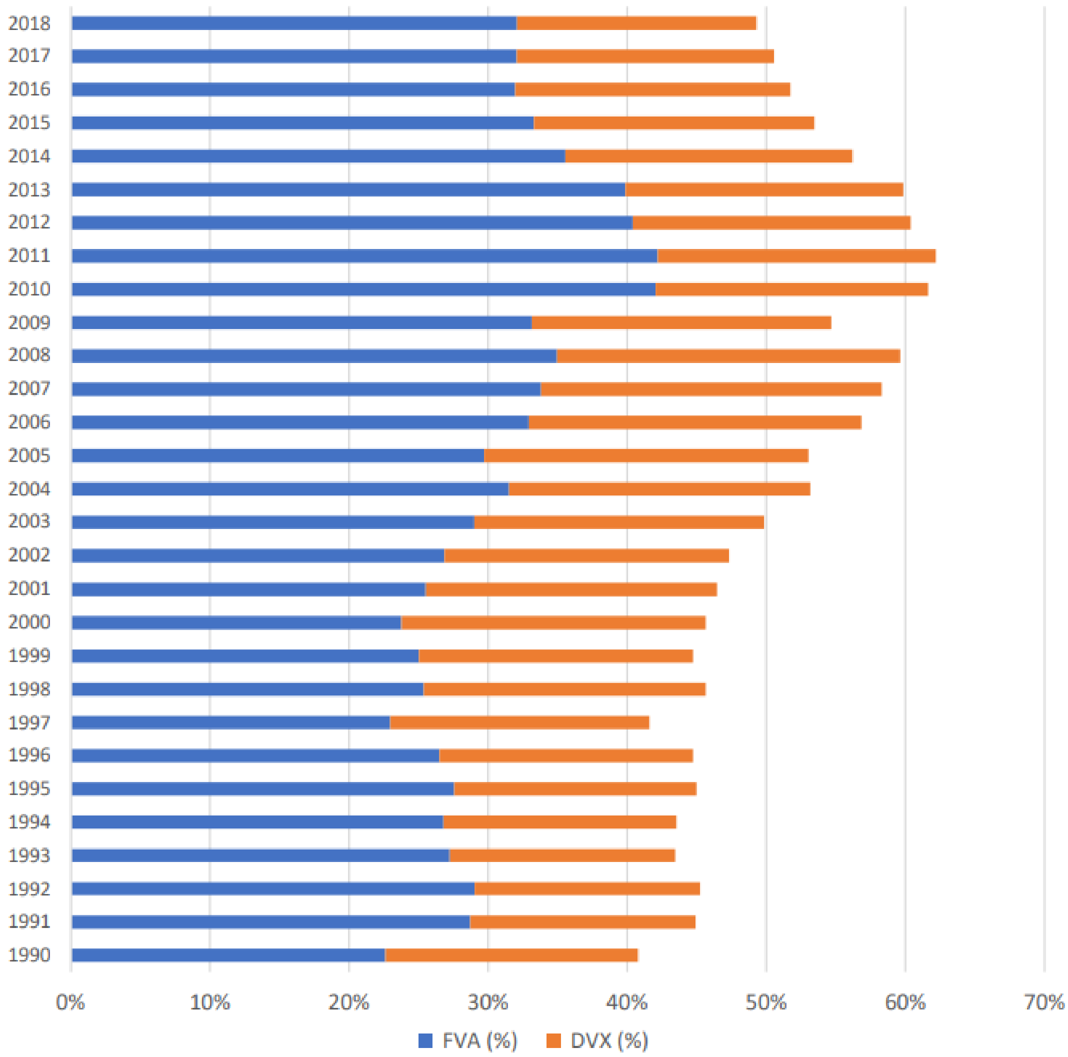

Figure 4: Vietnam's GVC Participation, 1990 - 2018 (% of total exports)

Source: UNCTAD-Eora Global Value Chain Database

Vietnam's Global Value Chain (GVC) participation index has fluctuated between 41% and 62% since 1990 (Chart 5), primarily due to changes in the backward component (BVA). After reaching a peak of 62% in 2011, the GVC participation index shifted downward, mostly driven by a decrease in the FVA ratio. This is a result of more value-added activities in Vietnam being generated by both domestic and foreign-invested enterprises, notably in the production of high-value-added products.

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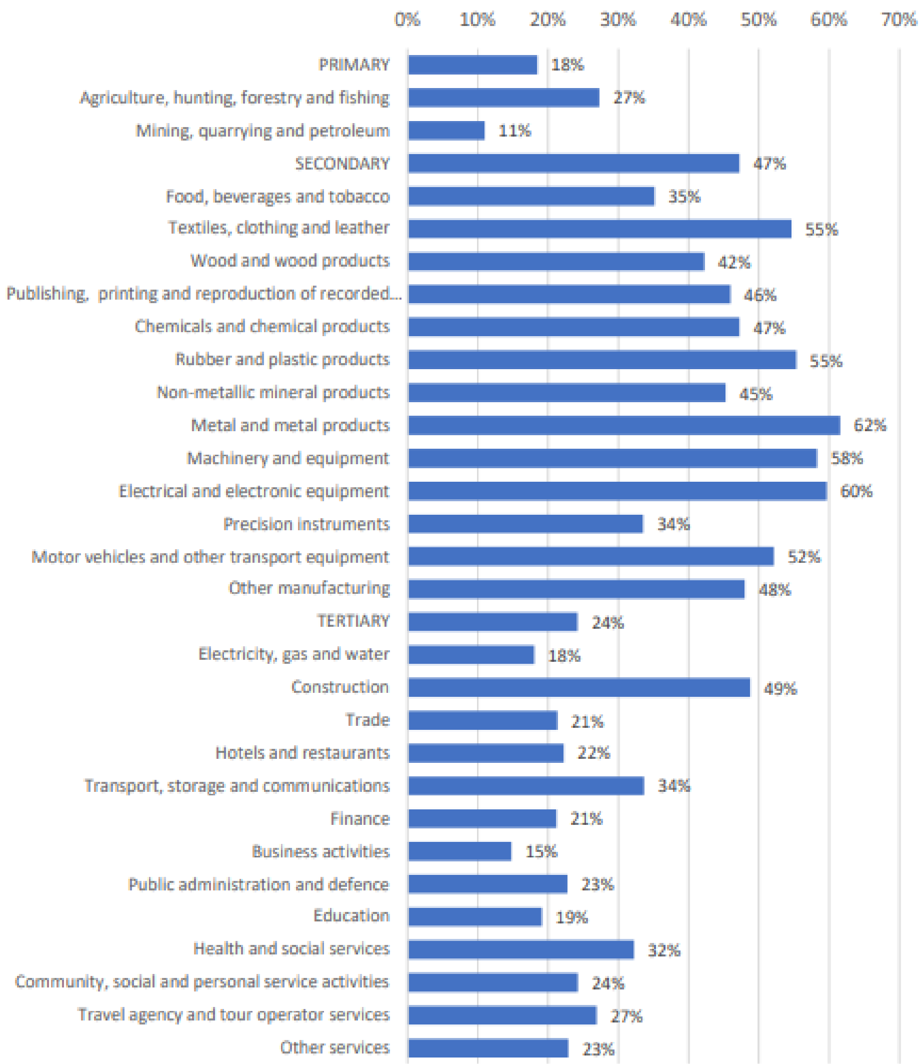

Figure 5: Share of Foreign Value Added in Vietnam's Export Goods by Sector in 2017

Source: AJC-UNCTAD-Eora Global Supply Chain Database

Digging deeper into the participation in Global Value Chains (GVC) by sector reveals that the second region is the most globally integrated, followed by the primitive region and then the third region. Specifically, textiles, apparel, leather and footwear, and mining, quarrying, stone, and petroleum extraction are all equally important and contribute the most to Vietnam's GVC participation index.

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Firstly, in the long term, Vietnam's exports will be less reliant on non-renewable resources like minerals.

Secondly, Vietnam has expressed its goal to attract more Foreign Direct Investment (FDI) into high-tech industries instead of relying heavily on labor. Manufacturing and processing, agriculture and fisheries, logistics, maintenance, repair, and overhaul, and tourism have been identified as priority sectors.

Thirdly, enhancing Vietnam's integration into the global economy through signed Free Trade Agreements (FTAs), including those with major ASEAN members, facilitates trade between Vietnam and international trading partners. Vietnam aims to increase the importance of domestic production in total exports to generate more value-added and export more to meet final demand. These initiatives have been and are changing Vietnam's GVC participation, with a noticeable trend of reduction in the shares of Forward Value Added (FVA) and Backward Value Added (BVA) in total exports but not Domestic Value Added (DVA).

In Vietnam, the share of Foreign Value Added (FVA) in total exports in the manufacturing sector is the highest among the three regions of the economy, and this sector is the most related to GVC. In 2017, the share of FVA in exports for the manufacturing sector was 47%, nearly double that of the service sector (24%) and approximately three times that of the primitive sector (18%). The primitive sector had the lowest FVA share in exports among the three regions in 2017, with agriculture, hunting, forestry, and fishing being the dominant industries in agricultural exports, having a high-value chain with a share of foreign value-added in exports of 27%. In the service sector, the construction industry had the highest share of foreign value-added (49%), followed by the transportation, storage, and communication sector with the second-highest foreign value-added ratio (34%).

Figure 6 shows that most of the major export industries (such as electrical and electronic equipment; rubber and plastics; wood and wood products; textiles, apparel, and leather) are sectors with a higher GVC participation. This statistical data is consistent with the preferred type of FDI inflows into Vietnam in the manufacturing sector. ASEAN member countries, China, Japan, the EU, South Korea, and the United States have become more significant contributors to the value-added of Vietnam's exports, with Japan continuing to hold an extremely important position in Vietnam's GVC. Although the input of production from China fluctuated between 1990 and 2000, the contribution of China has increased significantly over time, becoming the largest contributor in 2015. Japan and ASEAN have always played an important role in adding value to Vietnam's exports.

he participation of Japan and ASEAN began with a large share in 1990 at 3%, reached its highest level in 2010 at 10% and 8% respectively before decreasing to 6-7% in 2019. South Korea's input gradually increased from 1% in 1990 and reached its highest point of over 3% in 2010. Similarly, the EU's input increased from 2.5% in 1990 and reached its highest point of 4.2% in 2010, and then decreased to a stable 2.8% in 2019. In contrast to the overall trend in ASEAN, the importance of the United States has been decreasing, but its contribution to the value-added of Vietnam's exports has remained stable at 2% over the past three decades.

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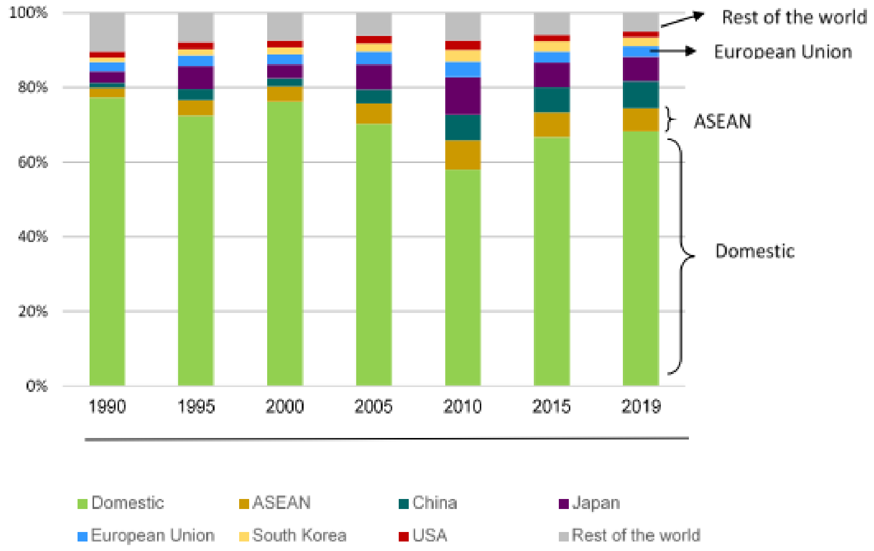

Figure 6: Value added in exports generated by Vietnam, ASEAN, and non-ASEAN countries, top value-added generating region outside ASEAN, 1990 - 2019 (% of Total Exports).

Source: AJC-UNCTAD-Eora Global Value Chain Database ASEAN.

Table 1: Statistics on the impacts of Covid-19 on global supply chain activities.

Region	Impact of Covid-19 on Global Supply Chains
North America	- The latest monthly data from the United States on total imports show a significant decrease in the import of computer and telecommunications equipment, vehicle bodies and trailers, and other products related to the U.S.-China global supply chain compared to February 2019. - According to the U.S. Supply Chain Management Institute, 75% of companies report disruptions in the supply chain from China. Additionally, according to this survey, production times have doubled for many U.S. companies. Furthermore, there have been shortages of raw materials and final products. All of this has become more severe due to the lack of air and sea transportation channels to distribute products worldwide.
Europe	- Large multinational companies such as Gap, Hugo, Ralph Lauren, Nike, Airbus, Damien Klassen, General Motors have had to close their factories and stores in China. - Logistics giants in Germany, such as DHL, UPS, and FedEx, have reported facing severe disruptions in their supply chain services both domestically and internationally when it comes to transporting goods to and from China through air, road, and rail. - H&M announced the closure of 45 stores in China; other major brands including Gap, Hugo, Ralph Lauren, Nike, Levi Strauss, and Adidas have also publicly announced the closure of their stores in central China. - Large multinational companies in the automotive and transportation industry like Airbus, Damien Klassen, General Motors have also declared the closure of their production facilities in China.

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Region	Impact of Covid-19 on Global Supply Chains
East Asia	The shortage of components from China has forced the South Korean automotive manufacturer Hyundai to close all of its car factories in South Korea. Japanese company Nissan has temporarily closed one of its factories in Japan.
Southeast Asia	- In February 2020, Vietnam witnessed a decrease in total exports by 1%, whereas in the Democratic Republic of Laos, it was 3.6%, Cambodia 3.9%, and Singapore 4.4%. - Garment companies in Cambodia and Vietnam had to cope with disruptions in the supply of raw materials from China (Cambodia's garment industry currently imports up to 60% of its raw materials from China). - Manufacturing activities in Indonesia were affected by disruptions in the supply of raw materials, with estimates suggesting that 20% to 50% of raw materials for the country's factories originated from China.
South Asia	The chemical industry in India has been severely affected due to its heavy dependence on imported goods from China. In consumer goods, Indian manufacturers rely on 75% of Chinese components for products like TVs and nearly 85% for smartphones. Critical components such as mobile screens, TV control panels, circuit boards, memory, and LED chips are all imported from China. It is very challenging to replace intermediate imported goods in a short period of time.

Source: Baldwin and Evernett (2020), Maliszewska and colleagues (2020), UNCTAD (2020), and WTO (2020).

5. VIETNAM: OPPORTUNITIES AND CHALLENGES IN THE NEW GLOBAL CONTEXT

5.1. Regarding Opportunities:

In the trend of adjusting and shifting global supply chains, Vietnam has several advantages to capitalize on the supply chain shift. Vietnam is an attractive destination for foreign investors, with eight key advantages: a stable macroeconomic environment, a dynamic economy, a growing consumer market with 100 million people, including an expanding middle class; political stability and consistent economic development policies that attract foreign investment; a comprehensive legal framework; flexible foreign investment policies, open market access, administrative procedure reforms, and investment incentives; an improved business environment with various business environment and competitiveness indices showing improvement; Vietnam's membership in significant multilateral and bilateral trade agreements with large-scale and extensive reach; a young and abundant workforce that is easy to train and low labor costs; a geographically advantageous location with a long coastline, deep-water ports, and international trade gateways via sea routes. Furthermore, Vietnam's synchronized infrastructure and technology are also appealing to foreign investors.

According to a UNCTAD report, in 2020, Vietnam became a bright spot in attracting foreign direct investment (FDI) inflows, ranking among the top 20 countries globally for FDI attraction for the first time. Vietnam led the race for FDI against potential competitors like China, Indonesia, India, and Mexico. In 2020, Vietnam became one of the key destinations for investment diversification from China, as global businesses accelerated the diversification of their supply chains. Vietnam is also seen as having significant potential to compete for FDI

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inflows in the current global production shift. In 2021, despite being amidst the COVID-19 pandemic, FDI inflows into Vietnam reached $31.15 billion, a 9.2% increase compared to 2020. FDI in the processing and manufacturing industry reached $14.3 billion, accounting for 72.5% of total FDI. This demonstrates the high confidence of foreign investors in Vietnam's role in global supply chains.

If Vietnam maximizes and leverages these advantages, along with its favorable position and independent foreign policies, diversification, and multilateralism, it has significant opportunities to participate in regional and global supply chains. This would attract large corporations and high-tech firms looking to relocate their production and supply chains, thereby promoting economic growth and shifting the economic structure towards industrialization and modernization.

Compared to many countries in the region, Vietnam has several advantages for seizing investment and supply chain relocation opportunities, such as political and social stability, a young and abundant labor force, and a near 100-million-strong consumer market with a growing middle class. Vietnam's network of free trade agreements (FTAs) is also considered a significant advantage, attracting foreign investors looking to access markets with FTAs with Vietnam. For instance, the Vietnam-EU Free Trade Agreement (EVFTA), which took effect in August 2020, provided Vietnam with a head start over most regional countries with 7-10 years of exclusive access to the vast EU market with commitments to reduce tariffs on nearly 100% of tariff lines.

Moreover, Vietnam's successful dual goal of controlling COVID-19 and promoting economic and social development has enhanced its reputation as a safe investment destination with strong management capacity and relative resilience to global uncertainties. This positions Vietnam favorably compared to many regional countries that have struggled to control COVID-19 (e.g., India, Indonesia, the Philippines) in attracting foreign investment.

By harnessing these advantages to the fullest extent, Vietnam has significant opportunities, given its favorable position, diversification, and participation in global supply chains. This can attract large corporations and technology firms seeking to relocate production and supply chains, thereby driving economic growth and facilitating industrialization and modernization. Apart from the long-term significance of this opportunity, attracting foreign investment in sectors undergoing production and supply chain shifts (electronics, textiles, automotive components) can directly contribute to economic growth, job creation, and social well-being during and after the COVID-19 pandemic.

However, opportunities and advantages always come with challenges and difficulties. Vietnam's investment environment still has several weaknesses that need to be addressed promptly. These include limitations in management capacity, infrastructure, investment procedures, skilled labor shortages, support industries, and logistics networks. The capabilities of domestic enterprises, especially in the technology sector, are a major obstacle to attracting the supply chains of technology corporations to Vietnam and limit Vietnam's ability to participate in high-value production stages within the global manufacturing network. Failure

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to address these weaknesses may increase the risk of falling into the trap of low-quality investment, market monopolization, and shadow investment.

The extent to which Vietnam can seize opportunities and overcome challenges depends on the state's mechanisms, policies, as well as the determination and efforts of domestic businesses. Resolution No. 50-NQ/TW, dated August 20, 2019, of the Party Central Committee (12th tenure), titled "Direction for perfecting the foreign investment development mechanism, policies, enhancing the quality and efficiency of foreign investment cooperation until 2030," consistently emphasizes attracting selective, high-quality, and environmentally friendly investments as the main evaluation criteria. Prioritizing projects with advanced, new, high-tech, clean technology, modern management, high added value, ripple effects, and global production and supply chain connectivity. The government has issued an action plan to implement this resolution, delegating specific tasks to ministries, sectors, and localities. The challenge is to promptly put these strategies, policies, and appropriate measures into practice.

The trend of global investment and supply chain shift is both an opportunity and a challenge. Therefore, in attracting FDI now and in the future, it is essential to thoroughly implement the sustainable development perspective, build an independent and self-reliant economy, ensure national defense, security, and environmental protection. To achieve this, proactive and positive efforts are required from ministries, sectors, localities, and businesses. First and foremost, it involves actively and positively refining mechanisms, policies, and laws related to investment; proactively accessing high-quality investment sources through investment promotion and engagement with large corporations and technology conglomerates; proactively promoting investment and supply chain cooperation within the frameworks of collaboration with financially and technologically capable partners; proactively selecting foreign investment projects and firmly rejecting projects that do not align with the development strategy, economic and social planning, as well as those that do not meet standards for technology, environment, labor, and origin of goods produced in Vietnam in investment assessment and licensing to encourage investment associated with high technology; at the same time, preventing potential risks related to security, environmental pollution, outdated technology, "shadow investment," customs evasion, transfer pricing, and trade fraud.

In addition to short-term measures, medium and long-term measures should continue to promote growth model innovation and economic restructuring, develop strong Vietnamese enterprises with the ability to connect with global technology corporations in global supply chains. Only in this way can Vietnam fully capitalize on opportunities and minimize challenges from the trend of investment and global supply chain shift, achieving rapid, sustainable development and advancing the industrialization and modernization of the country in the near future.

5.2. Regarding Challenges

Alongside opportunities and advantages, challenges and difficulties always intertwine. Vietnam's investment environment still faces some unresolved issues, such as limitations in management capacity, infrastructure, investment procedures, a shortage of skilled labor,

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supporting industries, and logistics networks.

The domestic business sector's capacity, especially in the technology field, poses a significant obstacle to attracting the supply chains of technology giants to Vietnam and limits Vietnam's ability to participate in higher stages of the global production network. This is also a limitation for Vietnam to adapt to the trend of reshaping and operating global supply chains. If these weaknesses are not addressed promptly, there is a risk of falling into the trap of low-quality processing and assembly investments, foreign investments dominating the market, and domestic businesses operating in the shadow of foreign ones.

Supporting industries and the self-reliance of manufacturing sectors are still limited, and many economic sectors heavily depend on imported raw materials, components, and accessories. Currently, 37% of raw materials used in production in the national economy must be imported, and the value-added of many sectors remains low. Importation of raw materials for production in some industries heavily relies on a few markets. For example, Vietnam's economy is quite dependent on the Chinese market, which accounts for 25% of the total export-import turnover of the entire economy. Imports of production materials from China make up 34% of the total import turnover of production materials. Many sectors have a high proportion of production materials imported from China, such as fertilizers at 42%, pesticides at 47.3%, textile fibers at 56.6%, fabrics at 63.3%, and iron and steel products at 60.5%.

Supply chain operations involve linking, dependence, and mutual influence among five partner groups: raw material and input suppliers, commodity manufacturers, distributors and logistics providers, retail agents, and customers. In the process of participating in the global supply chain, Vietnam is focusing on developing its position within the group of commodity manufacturers among these five partner groups. The roles of distributors and logistics providers remain unclear, with various limitations. For example, the scale of Vietnam's maritime transport fleet ranks third in the ASEAN region and 28th in the world. Some domestic companies have invested in specialized, high-capacity ships, such as oil tankers with a capacity equivalent to 320,000 tons, and many specialized cargo ships with capacities exceeding 100,000 tons. This provides a foundation for the domestic fleet to gradually transform in line with global trends toward larger vessels, aimed at optimizing transportation costs.

However, despite having a long coastline and numerous seaports, more than 90% of the country's import and export cargo is handled by foreign shipping companies, leading to a significant trade deficit in transportation services. In 2021, Vietnam's service exports in transportation reached $446 million, while service imports in transportation amounted to $9.99 billion, resulting in a trade deficit of $9.54 billion.

The lack of proactivity in cargo transport significantly impacts Vietnam's import and export businesses. Given the increasing trade volume, it is essential to develop Vietnam's international maritime transport fleet to maximize profits, reduce risks when hiring international shipping companies for international trade activities.

Vietnam's fleet structure is not ideal, with smaller cargo capacities. This is a major reason why the domestic maritime transport fleet struggles to compete internationally, and the low

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exploitation volume makes it difficult to integrate into the international maritime trend.

Vietnam's maritime transport development is concentrated in three segments: domestic, intra-Asia, and transoceanic routes. Vietnam mainly focuses on the domestic market, with minimal presence in the intra-Asia and transoceanic segments. Moreover, Vietnam lacks large-scale, high-capacity ship fleets. Currently, Vietnam only has a domestic shipping fleet and short routes to Singapore, Hong Kong, and, more recently, India, opened by the Maritime Corporation.

Despite the challenges, Vietnam's maritime transport market has shown impressive growth recently, with many shipping companies earning profits due to the maintenance of high freight rates. However, developing Vietnam's international maritime transport fleet requires comprehensive and long-term solutions.

The retail network plays a crucial role in the supply chain as an intermediary partner essential for delivering goods to consumers. In recent times, Vietnamese retail corporations and businesses have been vigorously investing and regaining their market share in the domestic retail sector after a period dominated by foreign enterprises.

However, despite some corporations making systematic and strategic investments in retail businesses, the majority of domestic retailers are small in scale, lacking capital, professional management, weak competitiveness, insufficient collaboration to build collective strength, and a shortage of trained human resources. Therefore, domestic retail businesses need to make efforts to improve in all aspects, from training a professional workforce to building modern infrastructure to meet the requirements of digital technology.

In the near future, competition in participating in global supply chains will become more intense, especially among emerging economies with similar markets, development levels, technology, and labor forces, such as Southeast Asian countries, India, Turkey, and Mexico.

Political instability and the trend of trade protectionism have led to a slowdown in global economic growth, negatively affecting macroeconomic stability, investment capital flow, and international trade of businesses and international commerce. These have created many difficulties and challenges for Vietnam's economy. Particularly, the trade tensions between the United States and China, as well as among other economies, have had both positive and negative effects on attracting foreign direct investment to Vietnam. Vietnam can benefit from the wave of investment relocation from China to neighboring countries, especially in Southeast Asia. However, Vietnam will also face the risk of reduced foreign direct investment and the diversion of investment capital back to the United States due to latent trade conflicts, which have eroded the confidence of foreign investors. In addition to this, global political tensions, trade conflicts, and trade protectionism, coupled with the risks posed by the COVID-19 pandemic, have made investors more cautious. As a result, there is a tendency for investors to withdraw capital from emerging markets to safer, less risky markets, which has also affected indirect investment inflows into Vietnam.

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6. SOME SUGGESTIONS

To attract international investors and foreign investment capital to their country and shift global supply chains, people often think about the attractiveness of market size, favorable tax policies, land rental prices, environmental regulations, investment procedures, skilled labor force, and high-quality logistics infrastructure. To replace Chinese companies in global supply chains, Vietnam cannot rely solely on the advantage of market size.

While Vietnam's market with 100 million people is substantial, China's market with 1.4 billion people is enormous, making it an irresistible investment destination for all investors. Regarding land rental policies, we believe that Vietnam should not overuse this advantage, as Vietnam is a "land-scarce, people-dense" country, and leasing land at very low prices may cause significant harm to the nation in the long run. Additionally, continuously attracting Foreign Direct Investment (FDI) through tax incentives can lead to inequality among domestic investors and hinder the growth of domestic businesses. Furthermore, compromising on environmental policies is not advisable, as environmental damage is challenging to reverse, and the cost of restoration is too high.

As an economy with a high degree of openness, Vietnam is increasingly integrated into the global value chain. Therefore, disruptions and interruptions in the supply chain can significantly impact Vietnam's trade and economic growth. Supply chain disruptions can lead to higher import prices, affecting production costs and driving up domestic consumer prices, thus impacting the Consumer Price Index (CPI). Rising export prices can also reduce the competitiveness of Vietnamese goods.

To stimulate the economy and address supply chain issues, the government has implemented various measures in recent times, including: (i) Implementing growth promotion packages, flexible financial and monetary policies, combined with addressing difficulties for businesses and ensuring social welfare. (ii) Implementing short-term and long-term measures to restructure production, reshape supply chains by diversifying input sources, promoting technology application, and digital transformation to optimize production processes. Simultaneously, diversify partner networks and utilize free trade agreements. (iii) Encouraging proactive adaptation by businesses.

However, based on the experiences of other countries in dealing with global supply chain adjustments, Vietnam needs to focus on several solutions: First, the current supply chain disruptions stem from the COVID-19 pandemic, so it is essential to focus on controlling the disease and building community immunity. Accelerating vaccination for children aged 5-12 to maintain production and prevent supply chain disruptions is crucial. Ensure a labor supply and provide training for new necessary skills; focus on investing in improving infrastructure. Alongside this, maintaining macroeconomic stability is vital to ensure the economy is less vulnerable to global economic and financial shocks and can cope with international fluctuations.

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Second, supply chain disruptions and rising energy prices, coupled with the impact of previous fiscal and monetary stimulus packages, are increasing inflationary pressures on many countries, including Vietnam. Therefore, it is necessary to proactively monitor and update international and domestic market supply and demand trends to timely adjust appropriate fiscal and monetary policy responses to balance market prices. Enhancing the diversification of imported fuel sources is also essential.

Third, according to the IMF, Vietnam's GDP has increased, but labor productivity has not contributed significantly. Therefore, it is essential to increase labor productivity through technology innovation, digital transformation in the production process, and investing in human resources to participate in supply chains. Additionally, Vietnam needs to continue reforms, streamline procedures in tax and customs to reduce cost risks for businesses, accelerate the pace of digital transformation and e-commerce, thereby contributing to Vietnam's labor productivity.

Fourth, gradually diversify and multilateralize markets to avoid dependence on a single market and a single economy. In the context of Vietnam's deep and extensive economic integration, it is necessary to enhance the ability to take advantage of benefits from free trade agreements (FTA), harmonious rules of origin, measures to facilitate trade and investment to increase exports and participate more deeply in the regional value chain.

Fifth, in the long term, to attract more partners to join Vietnam's supply chain, a specific strategy is needed to upgrade the infrastructure system, such as larger and more modern seaports, logistics development, road construction, vocational training, and supporting industries.

Sixth, in the context of political tensions, trade tensions, and lingering health crises, it is essential to focus on building an independent and self-reliant economy. This is crucial to withstand shocks from the world's economic and political uncertainties, which is significant in creating the premise for Vietnam's stable and sustainable development and ensuring the country has enough capacity to minimize the damages caused by global economic and political shocks.

7. CONCLUSION

Vietnam is facing significant opportunities to catch the wave of global supply chain shifts and restructuring. This wave not only allows us to penetrate deeper into high-value-added links in the supply chain but also attracts high-tech FDI capital, thereby improving domestic production and national economic development. Vietnam needs to leverage its strengths and address weaknesses through resolute and strong measures to maximize these opportunities, allowing our country to participate more deeply in global value chains and assert a new position for Vietnam on the world economic map.

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