

# ENHANCING RESILIENT SUPPLY CHAINS: EXPLORING THE ROLE OF VIETNAM AS A STRATEGIC PARTNER IN ASEAN

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## 1. Introduction

In today's dynamic global economy, the imperative of resilient supply chains for business survival and success is more critical than ever. The vulnerabilities exposed within global supply chains, exacerbated by factors like the COVID-19 pandemic, geopolitical tensions, digitalization threats, and climate change, emphasize the need for organizations to reassess and fortify their supply chain strategies. This article delves into Vietnam's pivotal role as a strategic partner for multinational firms within ASEAN, focusing on how the country can contribute to bolstering supply chain resilience. Examining Vietnam's unique attributes, including its geographical location, infrastructure, skilled labor force, and ASEAN trade agreements, provides insights into its strategic positioning in the global supply chain landscape. Understanding Vietnam's contributions offers businesses opportunities to mitigate risks, enhance operational efficiency, and ensure continuity amid disruptions.

## 2. Global supply chain vulnerabilities and the necessity of developing a resilient supply chain

In recent times, global supply chains have faced increased disruptions, unveiling vulnerabilities within their intricate networks. *Diverse factors contribute to disruptions*, including the prevailing global context marked by volatility and uncertainty due to the COVID-19 pandemic, geopolitical tensions, digitalization threats, and natural disasters exacerbated by climate change. Firms' strategies also play a significant role, with just-in-time inventory practices and single-sourcing critical components heightening vulnerability. Market conditions, particularly in e-commerce, require agile supply chains to adapt to consumer demand volatility, and transportation and logistics challenges result in significant delays, adding complexity.

*Multinational firms are responding to these challenges by shifting strategies to navigate a dynamic global landscape marked by economic uncertainties.* Developing a resilient supply chain is imperative for business continuity and success in today's unpredictable global landscape (ADB, 2023). Multinational enterprises (MNEs) are proactively exploring avenues to enhance resilient supply chains by adopting the 'China+1' strategy. This approach involves diversifying market presence and reducing overreliance on a single market, China, to prioritize security and economic resilience over sheer production efficiency

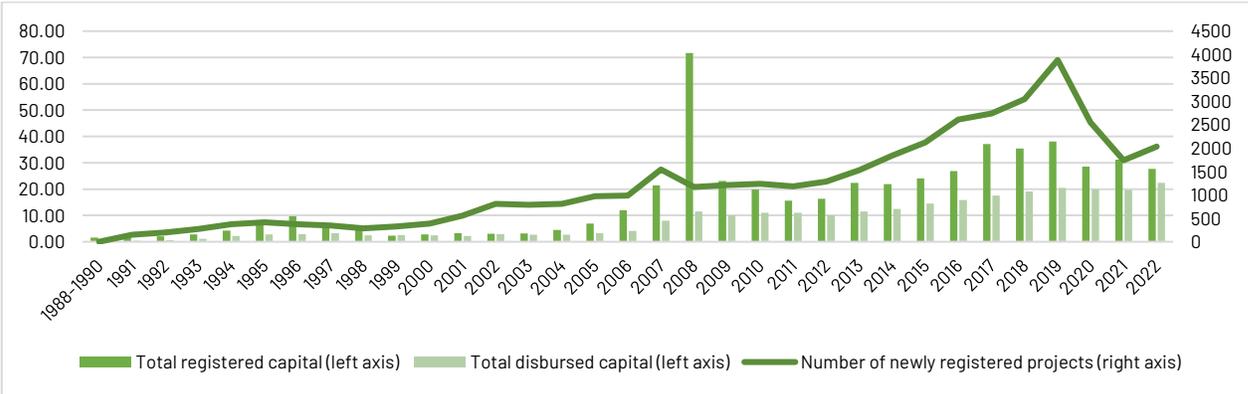
Over the past 30 years, China served as a major global manufacturing hub for cost-effective production. Escalating U.S.-China tensions, including a 25% tariff on 818 goods, prompted a shift in Foreign Direct Investment (FDI). The trade war resulted in 56 international enterprises leaving China by August 2019, with 26 opting for Vietnam. In 2019, China saw a 30% decline in investment projects. Major companies like Apple, HP, and Dell responded by considering production relocation to Southeast Asia and India, reflecting a global trend. The Covid-19 pandemic further intensified this diversification, as disruptions led to reduced dependency on China, illustrated by Google and

Microsoft's plans to manufacture in Vietnam and Thailand, respectively (Le Quoc Phuong, 2018; Nguyen & Pham, 2020; PWC China, 2020; The Economics Times, 2019).

**3. Exploring Vietnam’s roles as a strategic partner in ASEAN for enhancing resilient supply chains**

The ASEAN region stands out as an attractive destination for MNEs looking to diversify their supply chains out of China (ADB, 2023). Its geographic proximity to China, combined with a rapidly expanding consumer base, robust economic growth, and favorable trade agreements, creates an appealing environment for business. Lower labor costs, political stability, and diverse manufacturing capabilities in ASEAN countries further enhance the region's attractiveness

Vietnam, a potential global manufacturing hub in ASEAN, has consistently excelled in attracting FDI over the past three decades (Figure 1). Despite a decline in FDI inflow due to global economic fluctuations and the Covid-19 pandemic, actual capital implementation shows a positive trend. In the first 10 months of 2023, registered capital surged to over \$25.76 billion, marking a 14.7% increase from 2022, and realized FDI reached approximately \$18 billion, reflecting a 2.4% increase over the corresponding period in 2022 (MPI, 2023).



**Figure 1. Total registered capital (billion USD), realized capital (billion USD), and the number of newly registered projects in Vietnam, from 1988 to 2022.**

Source: Compiled from MPI data over the years.

Comparing with other countries in the region, Vietnam accounted for approximately 7-14% of the total FDI inflow into ASEAN during the period from 2010 to 2022, securing the third position in the region, after Singapore and Indonesia (Figure 2).



**Figure 2. FDI inflows into ASEAN countries, 2010-2022 (million USD)**

Source: Redrawn from UNCTAD (2023)

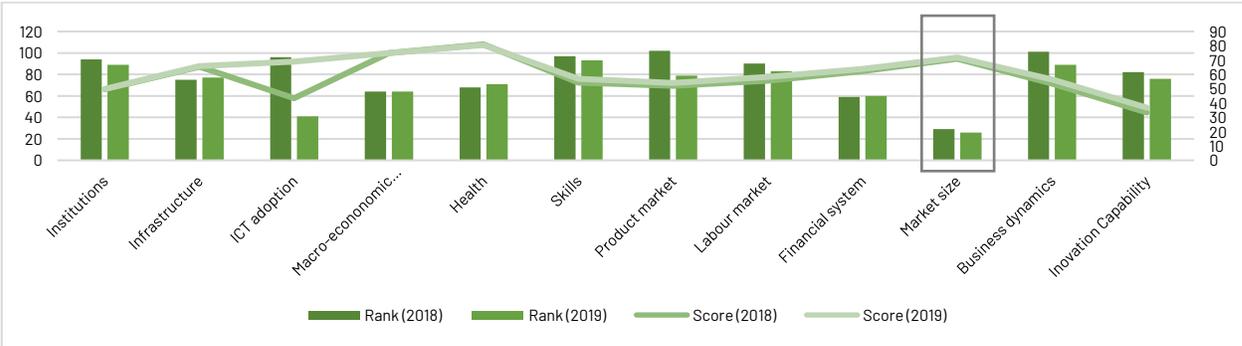
Although investors plan to relocate from China to various countries, including Vietnam, the transition is not immediate (Nguyen & Pham, 2020). Establishing a specific roadmap is essential as multinational corporations (MNEs) cannot instantly shift well-established supply chains. Even with government incentives for certain industries to leave China, businesses encounter challenges redirecting supply chains to another country. Despite the difficulty, if only a small portion (around 3-5%) of businesses in China choose to relocate, it still amounts to approximately 100 billion USD (Nguyen Duc, 2020).

A critical question persists: Can Vietnam emerge as the preferred destination for fortifying resilient supply chains of MNEs relocating from China? This is significant amid unpredictable competition from countries like India and neighboring ASEAN nations vying for FDI. China actively seeks to retain foreign businesses. While Vietnam has locational advantages, it faces notable challenges in enticing MNEs to decentralize operations away from China.

**Locational advantages of Vietnam**

*Geographical location of Vietnam in the dynamic ASEAN region:* Vietnam's strategic geography benefits MNEs with efficient access to input materials and global markets via its extensive coastline and international seaports. The shorter transportation time, compared to countries like India and Bangladesh, is advantageous. Proximity to China ensures swift access to raw materials, supplemented through efficient road and rail connections. LEGO chose Vietnam for investment, emphasizing the importance of being close to major markets for quick customer support (Tuoi Tre Online, 2022).

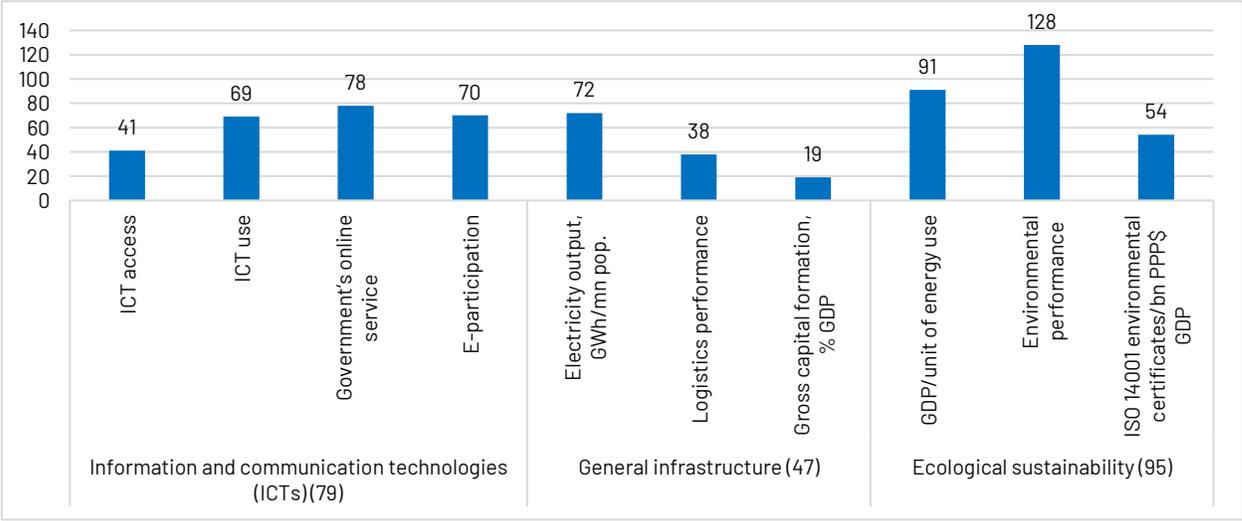
*Market size and growth:* Vietnam, with nearly 100 million people (15th globally), stands out as one of the most dynamic economies in the region, boasting sustained economic stability and ranking among the world's fastest-growing economies. Its average annual GDP per capita growth rate of 5.3% since the Doi Moi era positions it as the second-highest in growth within the region, following China (EuroCham, 2021). Notably, the World Economic Forum's assessment highlights Vietnam's strength in the Market Size index, climbing from 29th in 2018 to 26th in 2019 (**Figure 3**). As a member of 15 effective Free Trade Agreements (FTAs), Vietnam's network enhances its allure for FDI enterprises, providing advantages like an open market, robust production resources, streamlined policies, and improved access to regional and global value chains.



**Figure 3. Vietnam's GCI 4.0 competitiveness pillars**

Source: WEF (2018, 2019)

*Infrastructure:* In Vietnam, economic-social infrastructure, especially transportation, has seen substantial investment. Currently, 20% of national roads are paved, and plans for the North-South expressway, a 1,372 km project estimated at USD 14 billion by 2030, are underway. Vietnam boasts an interconnected infrastructure system that links various industrial zones (CBRE Vietnam, 2020). The findings based on WIPO (2022) indicate an enhancement in Vietnam's infrastructure index from 2011 to 2022. The Logistics Performance component index, which signifies the quality of operations and logistics infrastructure for business investment activities, holds the highest rank at 38th (**Figure 4**).



**Figure 4. Sub-indices of the GI's Infrastructure Index - Vietnam**

Source: WIPO (2022)

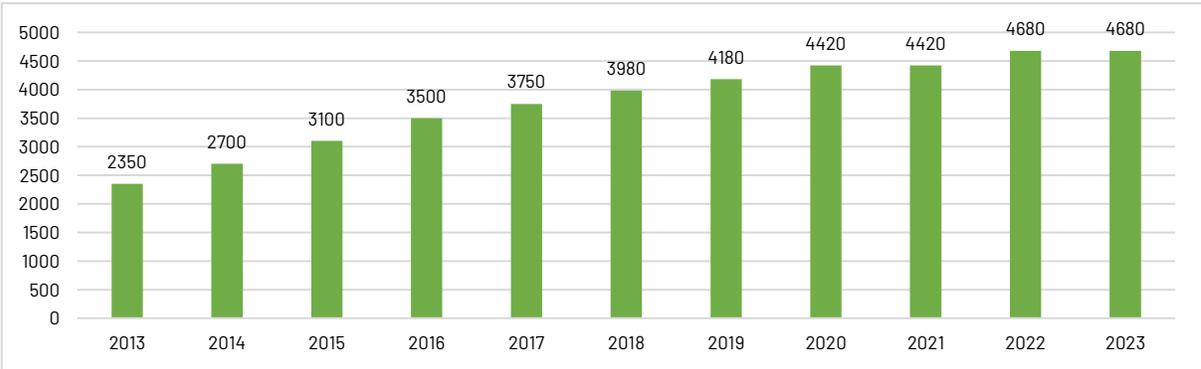
*Labour availability and quality:* Vietnam benefits from a plentiful and growing workforce, constituting approximately 50% of the total population, with lower labor costs compared to regional counterparts. The country has a significant young population, with over 60% under 35, and ongoing improvements in labor quality have garnered praise from European investors like LEGO, Ørsted, and Pandora (EuroCham, 2021; Mai Xuan, 2022; Tuoi Tre Online, 2022).

*Quality of governance and business environment:* Vietnam's governance and business environment thrive on political and social stability, positioning it as an appealing investment destination. Ranking 51st in the Global Innovation Index underscores its commitment to progress. The government actively fosters an open and resilient economy through Free Trade Agreements, aligning laws with global standards. Strategic resolutions, such as No. 19-2018/NQ-CP and No. 35/NQ-CP, focus on business landscape improvement. The 13th National Party Congress set ambitious 2030 and 2045 development goals, emphasizing tech, sustainability, and autonomy, complemented by FDI promotion through Resolution No. 50/NQ-TW. Incentives like tax exemptions and an investor-friendly regulatory environment further enhance Vietnam's appeal. For detailed insights, the Ministry of Planning and Investment's website, <https://vietnam.eregulation.org/>, serves as a valuable resource.

**Locational disadvantages of Vietnam**

*Labour costs and quality:* Despite its competitive advantage of low labor costs compared to regional counterparts, Vietnam experiences gradual annual wage increases, nearly 5.9% in 2022-2023

compared to 2020-2021 (**Figure 5**). However, challenges persist in labor quality, marked by low proportions of trained workers and inadequate skills meeting market needs. The ratio of skilled workers is below the ASEAN average, and labor productivity significantly lags behind regional and global counterparts. In 2020, Vietnam's labor productivity was 7 times lower than Malaysia, 4 times lower than China, 3 times lower than Thailand, 2 times lower than the Philippines, and 26 times lower than Singapore (Table 1, Pham et al., 2021). The productivity gap continues to widen, with Vietnam trailing Japan by 60 years, Malaysia by 40 years, and Thailand by 10 years according to the 2020 report from the Asian Productivity Organization (APO, 2021).



**Figure 5: Vietnam monthly minimum wage 2013-2023 (mil. VND)**

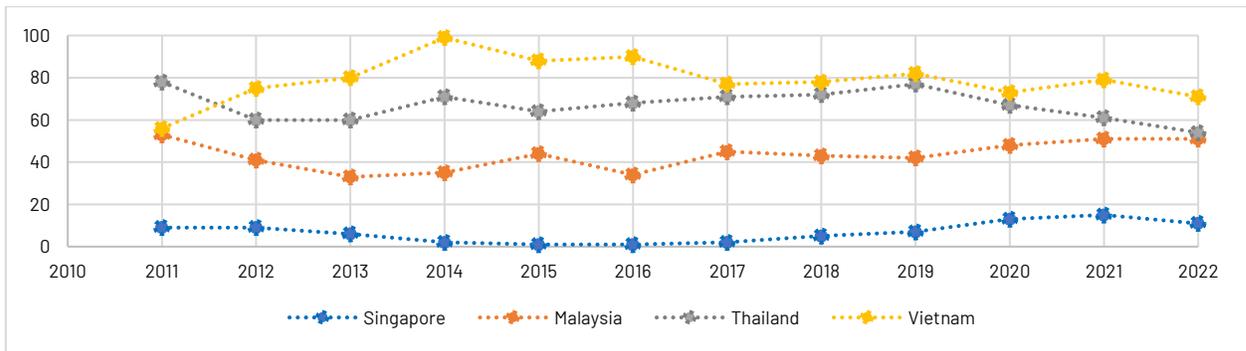
Source: Vietnam Ministry of Labour, Invalids and Social Affairs (2023)

**Table 1. Comparison of Vietnam's Labor Productivity with Other Countries in 2010 and 2020**

	2010	2020
China	3,59	4,33
India	1,68	1,81
<b>ASEAN</b>	<b>3,05</b>	<b>2,61</b>
Singapore	36,38	26,20
Malaysia	9,39	7,18
Thailand	3,85	3,21
Indonesia	3,03	2,59
Philippines	2,53	2,15
Laos	1,01	0,99
Cambodia	0,61	0,63
<b>Vietnam</b>	<b>1</b>	<b>1</b>

Source: Pham et al. (2021)

*Infrastructure:* Vietnam's infrastructure quality, a crucial factor in attracting FDI, is a noted bottleneck. According to WEF (2019), Vietnam is ranked 77th out of 139 countries globally for overall infrastructure quality, with only 20% of its roads paved (**Figure 6**). Compared to other ASEAN countries like Malaysia, India, and Indonesia, Vietnam's infrastructure, as measured by the Global Innovation Index (GII), lags. Despite ongoing efforts in developing a high-speed road system, the railway system lacks investment, and new urban rail systems are in initial stages. Seaports are underutilized, and certain airports face overload.



**Figure 6. Ranking of GII infrastructure component of Vietnam and selected ASEAN countries**

Source: WIPO (2022)

*Institutional quality:* Governance quality remains a persistent challenge, affecting Vietnam's appeal to foreign investors. Business environment indices consistently reveal governance deficiencies. The Global Competitiveness Index 4.0 recommends addressing administrative complexities and corruption to enhance Vietnam's attractiveness (WEF, 2019). In the Ease of Doing Business (EoDB) index, governance-related components lag behind Singapore, Malaysia, and Thailand. The 2022 Economic Freedom Index underscores economic constraints attributed to governance factors like Corruption, Judicial Effectiveness, and Investment Freedom, presenting challenges for MNEs in Vietnam (The Heritage Foundation, 2022).

*Investment policies:* Vietnam faces challenges in investment policies, including poor local planning causing project overlaps in renewables. Limited application of investment incentives like tax breaks diminishes their appeal, as indicated by the Provincial Competitiveness Index reflecting declining prioritization. Incoherent policy objectives complicate decisions for foreign investors, and concerns persist about complex tax regulations, retroactive legal changes, and short-term visas for foreign professionals. While efforts in investment promotion exist, sustained foreign investment growth requires clearer policies and streamlined processes.

#### 4. Conclusion

In conclusion, as global supply chains face heightened vulnerabilities, Vietnam emerges as a strategic partner in ASEAN, offering valuable contributions to enhance resilience. With favorable locational advantages, including its strategic geographical position, growing market, improved infrastructure, ample labor availability, and governance stability, Vietnam attracts MNEs seeking to diversify supply chains. While challenges such as rising labor costs and infrastructure bottlenecks exist, Vietnam's efforts in improving institutional quality and investment policies are crucial for sustained foreign investment growth. As businesses navigate uncertainties, Vietnam's role as a resilient supply chain partner within ASEAN remains pivotal, presenting opportunities for FDI enterprises to mitigate risks and ensure operational continuity.

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