

GLOBAL VALUE CHAIN AND VIETNAMESE ECONOMY AFTER COVID-19 PANDEMIC

Ho Cao Viet*

Abstract

Global value chains (GVCs) have powered economic transformation by enabling developing countries to specialize and catalyze growth and job creation (Francesca de Nicola, 2020)¹. Today, GVCs are accounting for nearly 70% of the total share of global trade (Santiago Fernandez de Cordoba and Rubiah Lambert, 2020²). UNCTAD (2020) estimated that value-added trade in developing countries contributed nearly 30% to countries' GDP on average, as compared with 18% in developed countries.

Covid-19 pandemic poses unprecedented challenges to global value chains by disrupting both the supply of goods and also the demand for them. How has the coronavirus pandemic affected enterprises in Vietnam that are engaged in global value chains? How are enterprises adapting to the new normal? What is the role of policy? What are the strategic solutions for Vietnamese economy? These questions would be discussed in the paper.

Key words: *Global value chains, Covid-19, pandemic, offshoring, re-shoring.*

1. Introduction

Globalization has changed the international trade over the last 50 years not only has the volume of trade nearly tripled but also changed in its form and complexity.

Global value chains (GVCs) have powered economic transformation by enabling developing countries to specialize and catalyze growth and job creation (Francesca de Nicola, 2020)³. Today, GVCs are accounting for nearly 70% of the total share of global trade (Santiago Fernandez de Cordoba and Rubiah Lambert, 2020⁴). UNCTAD (2020) estimated that value-added trade in

* TS. Hồ Cao Việt, Giảng viên Khoa Kinh tế - Quản trị, Trường Đại học Văn Hiến

¹ Francesca de Nicola, 2020. *How covid-19 transformation global value chain lessons in Ethiopia and Vietnam*. <https://blogs.worldbank.org/voices/how-covid-19-transforming-global-value-chains-lessons-ethiopia-and-vietnam>.

² Santiago Fernandez de Cordoba and Rubiah Lambert, 2020. *Post-pandemic plea for sustainable value chains*. UNCTAD. <https://unctad.org/fr/node/2421>.

³ Francesca de Nicola, 2020. *How covid-19 transformation global value chain lessons in Ethiopia and Vietnam*. <https://blogs.worldbank.org/voices/how-covid-19-transforming-global-value-chains-lessons-ethiopia-and-vietnam>.

⁴ Santiago Fernandez de Cordoba and Rubiah Lambert, 2020. *Post-pandemic plea for sustainable value chains*. UNCTAD. <https://unctad.org/fr/node/2421>.

developing countries contributed nearly 30% to countries' GDP on average, as compared with 18% in developed countries.

Since the break of Covid-19 pandemic, there has been a discussion about changes to GVCs, the analysis of the reasons for changes both from a positive angle, analyzing expected changes in the behavior of enterprises, and policy interventions by governments (Marc Bacchetta et al.⁵, 2021).

The Covid-19 pandemic has posed unprecedented challenges to global value chains by disrupting both the supply of goods and also the demand for them. How has the coronavirus pandemic affected enterprises in Vietnam that are engaged in global value chains?. How are enterprises adapting to the new normal?. What is the role of policy? What are the strategic solutions for Vietnamese economy?. These questions would be discussed in the paper.

2. Trends of transformation of GVCS during covid-19 pandemic

Covid-19 will reinforce relocation and offshoring trends by both automation and reshoring allow more flexible adjustment to changing demand, mitigating enterprises' risk.

The supply chain disruption caused by Covid-19 might undermine economic integration and encourage self-sufficient economic system, in strategic sectors: medical equipment and drugs, production of inputs for assembling sophisticated machines, final production of which still occurs in high-wage countries (UNCTAD, 2020).

With most economies under full or partial lockdown and with trade and investment contracting, the future of offshoring is more uncertain than pre-Covid-19.

The WTO predicts a trade fall of between 13% and 32%, while UNCTAD⁶ estimates a FDI contradiction of 30% to 40% during 2020 and 2021 (Piergiuseppe Fortunato, 2020⁷).

Before Covid-19, industry 4.0 technologies were already fostering a reorganization of global value chains involving significantly relocation (and reshoring) of production activities. Automation unlocks new labor-saving technologies, which could potentially reduce reliance on

⁵ Marc Bacchetta, Eddy Bekkers, Roberta Piermartini, Stela Rubinova, Victor Stolzenburg, and Ankai Xu (2021). *Covid-19 and global value chains. A discussion of arguments on value chain organization and the role of the WTO*. https://www.wto.org/english/res_e/reser_e/ersd202103_e.htm

⁶ United Nations Conference on Trade and Development (UNCTAD), hay Diễn đàn Thương mại và Phát triển Liên Hiệp quốc), được thành lập năm 1964 theo nghị quyết 1995 của Đại hội đồng Liên Hiệp quốc. UNCTAD hiện có 194 thành viên quốc gia và vùng lãnh thổ, đặt trụ sở tại Genève, Thụy Sĩ. UNCTAD được coi là tổ chức kinh tế thương mại lớn nhất thuộc hệ thống Liên Hiệp quốc. Mục đích của UNCTAD là thúc đẩy sự phát triển kinh tế nói chung và thương mại nói riêng của tất cả các nước thành viên, nhất là các nước đang phát triển.

⁷ Piergiuseppe Fortunato, 2020. *How covid-19 transformation global value chains*. <https://unctad.org/fr/node/27709>

low-skill labor in manufacturing and reduce the benefits of offshoring. Automation also has important implications for the global geography of production, as value chains will become more regional in nature, moving closer to customer markets where ecosystems are more supportive to business (Piergiuseppe Fortunato, 2020).

In fact, global value chains with labor-intensive, multinational corporations might find it economically more profitable to maintain their production facilities close to the final markets, where labor costs are low and the supply of workers able to operate complex machines is not enough to make automation viable (Piergiuseppe Fortunato, 2020).

The Covid-19 pandemic could contribute to diversification of sources of supply whose extent will vary by sector depending on the costs of value chain reorganization. The pandemic, by contrast, is not likely to contribute much to re-shoring, the return of manufacturing activities to industrialized countries, which is more likely to be driven by pre-existing trends such as rising factor costs in emerging countries, increasing uncertainty about trade policy, and robotization and automation of production. The pandemic has led to increased attention to the provision of essential goods in situations of crisis, global cooperation such as domestic production and export restrictions (Marc Bacchetta et al., 2021).

Often these pleas favor so-called re-shoring, a return of manufacturing activity and jobs which were previously offshored to industrialized countries. Robert Lighthizer (2020), the US Trade Representative, for example argued in the New York Times that "the era of offshoring US jobs is over".

Beata Javorcik (2020), Chief Economist at the European Bank for Reconstruction and Development, observed that the Covid-19 pandemic together with uncertainty about future trade policy will force companies to think about re-shoring and diversifying sources of supply.

Caroline Freund (2020), Director of Trade, Regional Integration and Investment Climate at the World Bank, for example argues that bringing supply chains back home "would defy economic logic" and Sebastian Miroudot (2020), OECD economist, argues that self-sufficiency or domestic production will not increase robustness of GVCs.

To limit the negative impact of location specific shocks or uncertainties, firms can diversify sources of supply. A significant share of global manufacturing production is concentrated in China (Baldwin and Freeman, 2020).

3. Impacts of transformation on Vietnamese economic

“This perfect storm of demand and supply shocks could potentially derail early successes in economic growth and poverty reduction achieved in some countries in the region. Active private-public partnerships to support affected industries and to provide safety nets for workers, are critical to supporting commerce and helping to sustain lives and livelihoods during and after COVID-19.” (Hafez Ghanem, 2021⁸).

How has the pandemic affected enterprises in developing countries that are engaged in GVCs?

Table 1. Major impacts of covid-19 on enterprises in developing countries

Impacts	Results	Author
	Widespread disruptions to GVCs	Francesco de Nicola (2020)
Demand and supply shocks	Poverty reduction	Hafez Ghanem (2021)
Fall in consumer demand for clothing (Textile value chain)	Hit apparel and textile suppliers	
Lockdowns of overseas suppliers and disruption to logistics services (electronic value chain)	Shipping of raw materials and electronic components (delivery of final products to consumers & overseas suppliers)	Hoàng Thu Thuy (2020) ⁹
Slow the ability of firms to respond rapidly to the crisis	Leave firms with piles of costly inventory	Mark Green (2020) ¹⁰
Built on long-term relationships between lead multinationals (MNEs) and key suppliers	Rising protectionism. Have a keen interest in keeping their core suppliers	Mark Green (2020)
Developing a more flexible and agile production network. Accelerating ongoing trends of reorganizing GVCs	Lack of flexibility in operations	Mark Green (2020)
Encourage local firms Automate certain functions, Accelerate trends of digitalization Use online platforms	Adopt new technology & business models Boosting online sales & e-commerce Refocusing on their core products and key suppliers	Victoria Kwakwa, 2020 ¹¹
Use of 3D printing has received new impetus	Shorten supply chains and speed time to market	Victoria Kwakwa, 2020
Look for more local-to-local	Closer supply chains to the retail	Anas Tazi, 2020 ¹²

⁸ Vice President, East and Southern Africa Region, World Bank.

⁹ Assistant General Manager, Head of Global Procurement Group, Panasonic Vietnam.

¹⁰ Executive Vice President of Global Supply Chains, PVH Group.

¹¹ Vice President, East Asia and Pacific Region, World Bank.

¹² Country Director for Ethiopia, Decathlon.

Impacts	Results	Author
	markets	
Increase in digitalization in the firms' responses	Expanding use of digitalization in purchasing inputs, in reaching consumers, and in necessary government processes. Bringing more stages of production to the same location	Caroline Freund, 2020 ¹³
The longer value chain, the riskier agricultural products components	Raw materials difficult to access downstream agents in the chains	Author (2021)
Border closures and border check increased transit times	Has raised trade costs across a broad spectrum of components (Increase transportation cost and communication cost)	Marc Bacchetta et al. (2021)

(Source: Compiled from various authors 2021)

For many multinational enterprises (MNEs), the pandemic has made it clear that it can be helpful to move the various components of their business closer to one another, in order to develop and maintain a more sustainable and resilient production network. Indeed, the panel discussed steering GVCs in the direction of local-to-local, with supply chains closer to the retail market. MNEs are shortening the distance between suppliers and customers and becoming more vertically integrated with a view to improve production flexibility and operate more sustainably (Francesco de Nicola et al., 2020).

“The pandemic may also encourage local firms to adopt new technologies and upgrade their business models. For instance, the lockdown of workers might raise incentives for companies to automate certain functions, encourage digitalization and use of online platforms... and boosting e-commerce.” (Victoria Kwakwa, 2020¹⁴)

“Our supply chain has to bring more speed and flexibility, which means there will be reconfiguration of our chain. We are going to look for more local-to-local and closer supply chains to the retail markets.” (Anas Tazi, 2020¹⁵)

“One silver lining of this crisis has been the increase in digitalization in the firms' responses. They are expanding its use in purchasing inputs, in reaching consumers, and in necessary government processes.” (Caroline Freund, 2020¹⁶).

¹³ Global Director, Trade, Investment and Competitiveness, World Bank.

¹⁴ Vice President, East Asia and Pacific Region, World Bank.

¹⁵ Country Director for Ethiopia, Decathlon.

¹⁶ Global Director, Trade, Investment and Competitiveness, World Bank.

The longer global value chains the riskier to ship components, particularly the agricultural products. Vietnam's agricultural value chains occupied the upstream in which supplier of raw materials are more difficult to access downstream agents in the chains like processors, stockers, shippers, transporters, as well as end-users in developed (high-income) countries (author, 2021).

2. What is the role of policy?

Policy will continue to play a key role in helping firms adapt to new business models. For example, trade frictions can be mitigated through deep trade agreements that cover not just trade but additional policy areas, such as the protection of intellectual property rights and the environment, as in Vietnam with CPTPP and EVFTA. Supply networks can be expanded and strengthened through policies that promote digital business-to-business (B2B) matchmaking tools, skills and capacity building, and complementary logistics infrastructure. Going forward, a coordinated approach between government and the private sector is likely to be even more important. Such coordination can help developing countries promote technology adoption and diffusion, build the capacity of local firms, and implement new strategies for attracting foreign direct investment (FDI) – especially from firms that add value to local supply chains (Francesco de Nicola et al., 2020).

“The Vietnamese government is focusing on the long-term competitiveness and sustainability issues by improving the productivity of local enterprises. To promote technology adoption and diffusion, local firms building capacity and apply new strategies for FDI attraction, which focus on firms that create value added and local supply chains.” (Thuy Nguyen¹⁷)

“Overall, despite differences across industries in terms of the nature of value chain, there is a powerful trend towards a simple, flexible, and shorter value chain. A shift from fragmented to a much more resilient and responsive value chain may emerge.” (Arkebe Oqubay¹⁸)

The shift toward more sustainable and resilient GVCs has been at the core of discussions among government and business leaders in the time of Covid-19. The pandemic may catalyze supply-chain changes that were already underway – by promoting near-shoring and regionalizing of supply and production networks, more extensive digitalization, and more sustainable production networks and practices. Leading firms, local suppliers, and policymakers all have a key role to play to facilitate these changes while promoting the creation of more and better jobs (Francesco de Nicola et al., 2020).

¹⁷ Deputy Director of Industry Development Center, Vietnam Industry Agency.

¹⁸ Senior Minister and Special Adviser to Prime Minister of Ethiopia.

3. Strategic solutions for Vietnamese economy

Agriculture sector, specially, confronted with others sectors of industry and services in term of labor force, therefore, the automation and apply 4.0 industry in the sector should be consideration.

After pandemic Covid-19, the country returns to new normal, the enterprises should be adapting with transformation of global value chains by the way to improve applied technology in manufacturing, closer to end-clients and final markets, cutting down the sub-chains.

To promote technology adoption and diffusion, local enterprises building capacity and apply new strategies for FDI attraction.

To invest on the manufacturing that have value-added high and use of local supply chains. Increase the digitalization and reinforce the e-commerce, boosting online-sales in different sectors, particularly service sector.

Trend of production relocation outside of China encourages Vietnamese enterprises independences on China suppliers.

Motivation of manufacturing production out of China brings opportunities to Vietnam attracting investment, participating deeply on the chains.

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