

The Participation of Vietnamese Enterprises in the Global Value Chain: a Case Study of the Processing and Manufacturing Industry

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Abstract: *Despite being an active member in the global value chain (GVC), Vietnam yet remains in a low position due to its main participation in processing and assembling stages. Therefore, Vietnamese businesses are required to improve their capacity to seize opportunities and upstream positions in GVC. Based on a survey on businesses operated in the manufacturing, processing industries and import-export activities by the Vietnam Chamber of Commerce and Industry, the paper identifies Vietnam's businesses in the GVC, reviews and evaluates policies to support their participation in the GVC, thereby proposing solutions to promote their dynamic capabilities and position in the GVC.*

Keywords: Global Value Chain, Enterprise Capacity, Manufacturing and Processing Enterprises, Vietnam

Introduction

Vietnam has been actively participating in the global value chains (GVCs) and known as an assembling country in Asia. The country's position in the GVCs, however, remains at the lower end of production chains compared to other ASEAN countries due to its main focus of processing and assembling activities. In addition, Vietnam imports most of its input materials and components for the manufacturing and processing industry, resulting in low added value in final products. Hollweg et al. (2017) warned Vietnam for the possibility of getting stuck in the 'low-value-added trap' as the country is unable to transition

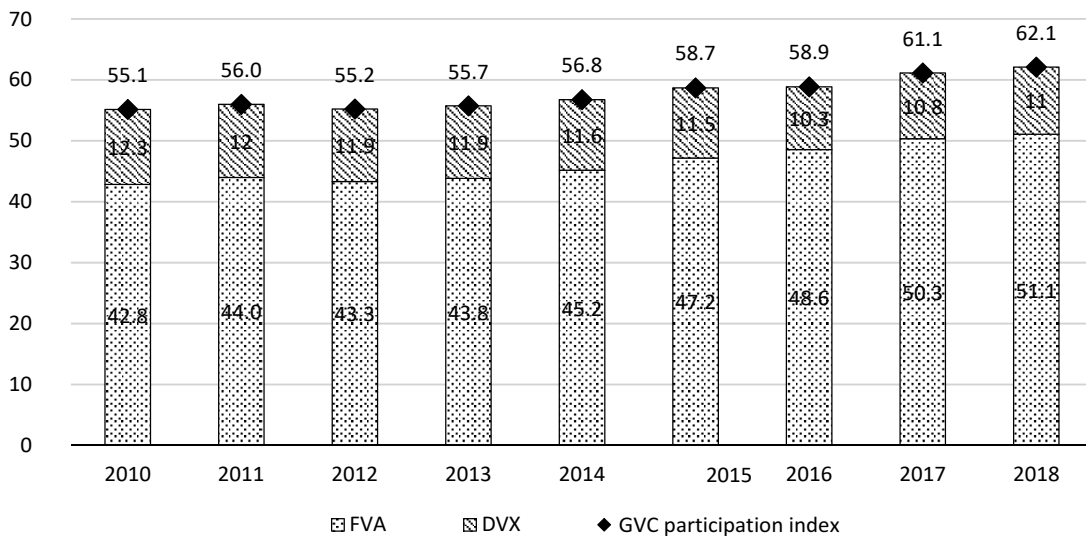
to higher value-added production stages and improve innovation capability. Vietnam will have to consider two different pathways: either to continue focusing on its low value-added industries and being the region's exporter, or to make best of its growth power to diversify products and nurture young, innovative and proactive businesses for their participation at the upper end of GVCs. Additionally, the Covid-19 pandemic has exposed deficiencies of the current GVCs and accelerated the GVCs restructuring towards localization of supply and production, stronger digitalization, and more sustainable production methods and networks (Le Duy Binh, 2020).

1. Overview of Vietnam’s participation in GVCs

Vietnam since 1986 has been gradually opening up to become one of the world’s most integrated economies. The country, as reported by Fitch Solutions in its Vietnam Trade & Investment Risk Report for the 3rd quarter of 2022, scored 74.6 out of 100 in terms of economic openness, much higher the averages for Asia (46) and the world (49.5), and ranked 20th among 201 markets globally. Furthermore, Vietnam is transforming itself into a leading import and export based economy, both in the region and the world. There has been a constant growth in the country’s import and export, with the total import-export turnover in 2022 reached a record of

and Development (OECD)¹ shows the total added value of Vietnam’s export increase constantly from USD82.1 billion to USD 246.8 billion in the 2010-2018 period, of which Vietnam’s contribution to the GVCs increased from USD45.3 billion to USD153.3 billion and comprised of two parts: (i) the foreign value added (FVA) from the foreign production industries into the country’s exports, and (ii) indirect value added (DVX) from Vietnam’s production which is incorporated in other countries’ exports. In other words, FVA indicates Vietnam’s backward linkages as a buyer or user of products in the GVCs. Whereas, DVX demonstrates Vietnam’s forward linkages as a seller or supplier of products in the GVCs.

Figure 1. GVC participation index for Vietnam, 2010-2018 (%)



Source: Author’s data analysis from OECD, https://www.oecd-ilibrary.org/trade/data/oecd-statistics-on-trade-in-value-added_36ad4f20-en

USD732.5 billion, 9.5% up from 2021. This achievement helps enlist the country in top 20 countries for international trade (GSO, 2022).

Our analysis of the data by the Organization for Economic Cooperation

Vietnam over the years has actively played those two roles. The country’s FVA and

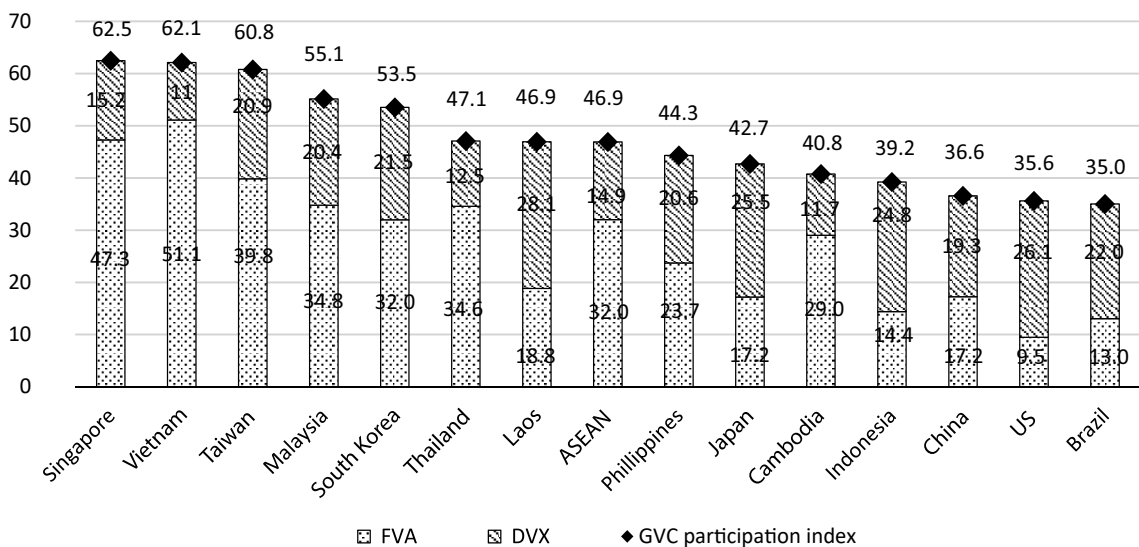
¹ OECD, https://www.oecdilibrary.org/trade/data/oecd-statistics-on-trade-in-value-added_36ad4f20-en

DVX tend to increase accordingly, from USD 35.2 billion to USD126.1 billion (3.6 times) for FVA and from USD10,1 billion to USD27.2 billion (2.7 times) for DVX. In general, the total value of Vietnamese goods in the GVCs (for both FVA and DVX) accounted for 62.1% of the total value of Vietnam’s exports in 2018 (against 55.1% in 2010) (Figure 1). This value is proportional to a country’s participation in the GVCs. The upward tendency is supported by an increase in FVA (from 42.8% to 51.1%) which offsets a decrease in

country’s value added into foreign exports. The wide disparity between the proportions of FVA and DVX also suggests Vietnam’s increasing dependence on imported production inputs.

When analyzing data from a comparative perspective, we notice Vietnam’s backward GVC participation level is much higher than the regional and global averages. Vietnam engages in backward linkages more than the countries who are dominating most of GVCs, like the US (5.4 times higher), China (3 times), South Korea (1.6

Figure 2. GVC participation indexes for Vietnam and selected countries, 2018 (%)



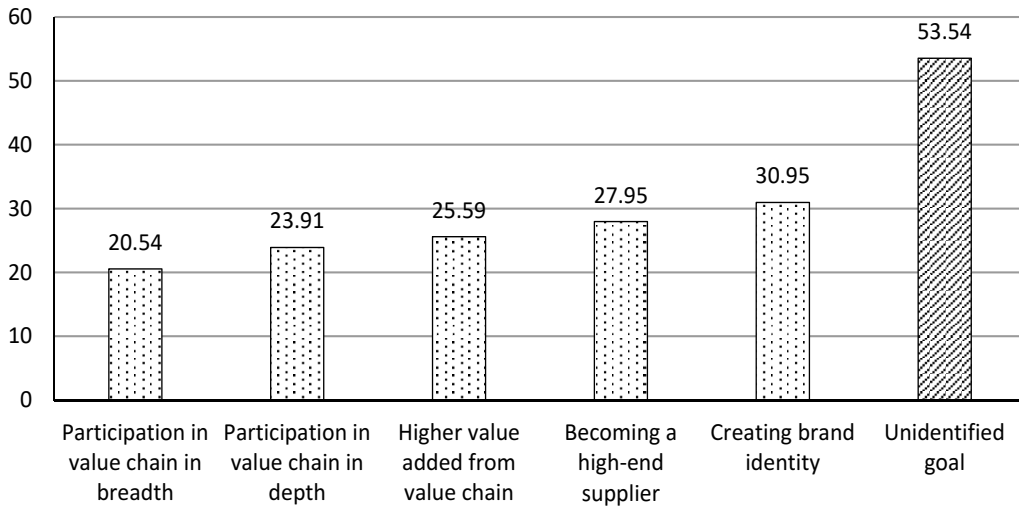
Source: Author’s data analysis from OECD, https://www.oecd-ilibrary.org/trade/data/oecd-statistics-on-trade-in-value-added_36ad4f20-en

DVX (from 12.3% to 11%). This indicates Vietnam has involved more in the GVCs but as a user rather than a supplier¹. Thus, the foreign value added into Vietnam’s exports is currently much higher than the

times), and Japan. However, its forward participation in GVCs is much less, only 0.6 times compared to that of China, 0.5 times to South Korea, 0.4 times to the US and Japan² (Figure 2).

¹ See further OECD, https://www.oecdilibrary.org/trade/data/oecd-statistics-on-trade-in-value-added_36ad4f20-en

² See further OECD, https://www.oecd-ilibrary.org/trade/data/oecd-statistics-on-trade-in-value-added_36ad4f20-en

Figure 3. Business goals for GVC participation (%)

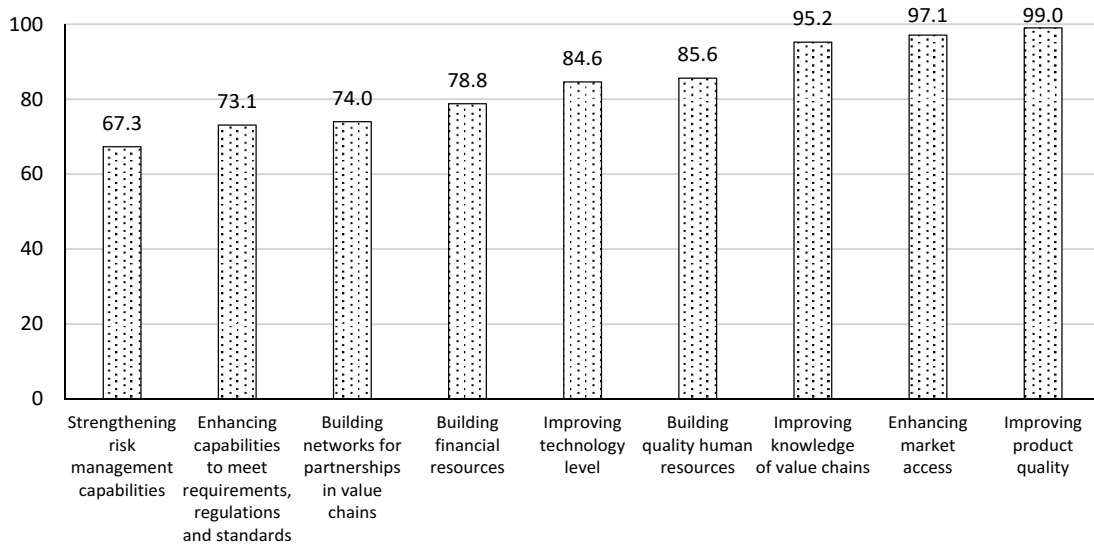
Source: Luong Minh Huan et al., (2022).

2. Positioning Vietnamese businesses in the GVCs: the case of the processing and manufacturing industry

Results from a survey of 500 businesses in the processing and manufacturing industry, which was supported by Vietnam Chamber of Commerce and Industry (VCCI) and led by Luong Minh Huan et al. (2022), reveal that more than half of the respondents (53.5%) did not set any goals when participating in the GVCs despite their proactive engagement in the GVCs (Figure 3). It thus can be seen that a majority of Vietnamese enterprises currently joining the GVCs without clearly defined directions. This is also an inherent weakness of small- and medium-sized enterprises (SMEs) who possess high-level technical expertise but unwell trained management skills. (Le Manh Hung, 2022). The lack of corporate governance knowledge and strategic thinking and planning limits SMEs in pursuing long-term and clearly defined goals and sustainable development and permits them to focus only on instant business opportunities.

Among businesses who set goals for joining GVCs, 30.98% of them wanted to create their brand identities, 27.9% aiming to be upper-level suppliers, and 25.6% targeting higher value added (Luong Minh Huan et al., 2022). These goals also suggest the wish to overcome long existing weaknesses that lower Vietnam's position in the GVCs. It is alarming, however, as these goals take a very initial shape in thinking, not yet in action. Up to 64.7% of the surveyed businesses were not prepared when joining the GVCs and only 15.3% of them had built general strategies for over five years. While nearly 15% of the respondents had set out their short- and medium-term solutions and action plans, just 5% of them having started implementation.

International practices from highly-positioned countries in the GVCs like South Korea, China and Japan show that, besides developed industries and qualified businesses, clearly defined strategies are critical for businesses to join key stages along the GVCs. They then translate those strategies into ten-year and five-year plans

Figure 4. Focuses of business plans for GVC participation (%)

Source: Luong Minh Huan et al., (2022).

and it may take decades to fortify business and be ready to make best use of market opportunities (ASEAN-Japan Centre, 2022). Vietnamese enterprises, with a high degree of openness and deep integration, should have been in a state of readiness to welcome the production shifting waves. Nevertheless, the survey by Luong Minh Huan et al. (2022) revealed they were underprepared and rather passive for market opportunities, resulting in difficulties in making business leaps.

Apart from a lack of preparation, their business plans often spread across different aspects. Nearly all of the surveyed enterprises (99%) focused on improving product quality, while 97.1% for market expansion and 95.2% for improving knowledge about value chains. Key issues, like high-quality human resources, advancement of technology level, and financial resources, are paid less attention, with 85.6%, 84.6% and 78.8% of respondents respectively (Luong Minh Huan et al., 2022) (Figure 4). It seems

Vietnamese enterprises focused more on secondary issues than primary problems, which are fundamental to the business. It requires stable financial resources, high level of technology, and quality human resources for better product quality and stronger competitiveness to penetrate markets and join at higher end of GVCs. Moreover, surveyed enterprises were also less keen on building networks, enhancing capacity to meet technical requirements and regulations, and developing risk management capability.

3. Assessment of policies and programs supporting Vietnamese enterprises in participating in GVCs

3.1. Key results

According to Le Manh Hung (2022), there have been some remarkable results regarding support from the Vietnamese government to GVCs-joining enterprises. *First*, Vietnam has promulgated laws and legal documents to form a legal framework and to regulate and guide businesses for government support, particularly targeting

SMEs who join industry clusters and value chains. Incomplete statistics, as of 31 March, 2021 show 58 localities had issued a total of 581 documents, including resolutions, programs, plans, schemes and guiding documents related to support to SMEs. Among those, 13 localities had schemes, programs, and plans supporting firms in industry clusters and value chains. *Second*, Vietnam's policy framework covers almost sectors that need government support, such as finance, innovation and technology, human resources, market information and connections, and business linkages. The current regulations have specified criteria for support, particularly for SMEs in potential sectors with higher value added and breakthrough opportunities.

Third, the Vietnamese government, line ministries and agencies have proactively switched their mode of supporting businesses. Instead of awaiting businesses to request support, they search and approach potential businesses to assist them with suitable solutions. They also diversify forms of support, not only for suppliers but demand-based programs and projects as well, such as assisting businesses to join the chains, organizing expos and trade fairs, etc. Recipients are various from domestic and foreign businesses, public and private sectors, to multinational corporations.

Fourth, there has been increasing awareness of auxiliary industries, both in terms of their activities and their roles. Current policies have prioritized auxiliary industries for the development of products, individual industries, industry clusters, localization rate, and higher value added in finished products. Policy for industry

structure has become more comprehensive with tax support, access to credits, and human resources.

Fifth, the outreach of support programs and projects has been improved to reach the target businesses. Vietnamese enterprises now have a better access to commercial credits and other financial sources. Many of them have increased their labor productivity and innovation and technology capacity thanks to programs that promote innovation and technology transfer.

3.2. Limitations

Although the improved legal framework and support policies have satisfied partial needs of businesses, there remain limitations as follows:

First, there is a lack of coordination among parties in the making and implementation of support policies. Different ministries and agencies promulgated different legal documents on the policy. Apart from Ministry of Planning and Investment and its Enterprise Development Department as the in-charge institutions for SMEs-related policies, Ministry of Industry and Trade is tasked for solutions that assist businesses joining the GVCs. Other ministries and agencies also carry out similar policies and programs. The confusing situation causes difficulties for businesses to identify proper agencies or programs to work with, not mention the weak coordination between government agencies that leads to possible duplications of resources and efforts.

Second, there is an inadequate assessment of policy impacts despite improvements in the evaluation and monitoring mechanisms and transparency. Some programs can only provides estimated numbers of participating SMEs and are unable to

assess the level of business participation (Bui Bao Tuan, 2020). This hinders the assessment and adjustment of policies for future programs.

Third, businesses found certain difficulties in accessing the support policies. Nearly half of the respondents reported “a lack of information on support policies, mechanisms and connections” when looking for the government’s support in joining the GVCs. In particular, the survey respondents also informed of “complex procedures” (37.7%) and difficulties in “meeting criteria to receive support” (36.9%). There were 23.9% of businesses in the survey saying “support policies did not match the needs of businesses” (Luong Minh Huan et al., 2022).

Fourth, there are barriers to business community who are small in scale and have no collateral, neither high credit rating in order to meet requirements of banks. Meanwhile, credit guarantee funds in Vietnam have not yet been effective as they are unable to mobilize funding to increase guarantee size. Moreover, while the local state budget remain limited, these funds also require collaterals, which is not helpful in removing financial bottleneck for SMEs.

Fifth, ministries, agencies and local governments pay less attention to legal support to business community, which relies mainly on the state budget. Legal support takes only forms of providing general knowledge without any specialized training courses and answering questions related to legal regulations. Responsible authorities, however, are unable to assist business cases.

Sixth, a state-funded training program for improving technical skills of the business

workforce is still absent. Vocational training institutions mainly focus on basic skills for new labor market entrants and unemployed people although improving capacity of existing workers is the key to business innovation. The Vietnamese government should consider building training programs for the workers of established businesses (OECD, 2021).

Seventh, policies for the development of auxiliary industries have not met practical requirements. The legislations for auxiliary industries are formed of decrees and resolutions, which are regulated by the laws. It is necessary to build a law with tailored policies to promote the development of auxiliary industries. Besides, investments and state resources to boost up auxiliary industries remain limited and not commensurate with the required scale and significance of those industries. The making of support policies for auxiliary industries is slow and lacks coordination and synchronization between central and local authorities. Many localities have not really paid attention to and invested in auxiliary industries, leading to a neglect implementation of preferential and support policies by the central government (Nguyen Vu Nhat Anh, 2021).

Eighth, policies to support businesses in joining the GVCs are not attractive enough to motivate key players. They focus more on providing input support measures while there is absent a policy to promote cooperation between foreign direct investment (FDI) and domestic firms.

4. Conclusion and recommendations

Vietnam has been actively participating in the GVCs and ranked 20th globally in terms of economic openness. The country is also

one of the leading import and export led economies with a GVC participation rate reaching 62.1%, much higher than many developed countries. However, Vietnam's GVC-participation exposes a lot weaknesses of the economy: being an importer rather than a supplier, in competitive businesses for joining GVCs, low value added production, losing advantage of low-cost labor, underdeveloped auxiliary industries, and high financial costs. In addition, Vietnamese firms lack clear directions and readiness for joining GVCs. Their business plans do not focus on solving fundamental issues and building strengths while being able to meet average requirements from partners only.

Against the backdrop, the study introduce several recommendations for governments, businesses, and business associations in order to improve business capacity to join the GVCs.

For governments: There should be synchronous coordination between stakeholders in the making and implementation of support policies for enterprises participating in the GVCs. In addition, it is expected the governments to fully and promptly implement solutions to improve capacity and support GVCs-joining enterprises more effectively. At the same time, the central government needs to improve its assessment of policy impacts as a required step for a policy cycle. Businesses also wish the government to continue its support-providing platforms to allow better access for businesses to policies, legal issues, market information and financial sources. It is an effective way to help businesses improve the quality of human resources and linkages for joining the GVCs.

For businesses: Businesses should be more proactive and build quality plans for better allocation of resources and capacity improvement to join the GVCs. Key players at the same time need to improve their leadership and support followers in technology and labor training to help them participate in the value chains.

For business associations and supporting agencies: Associations must be proactive and creative in building activities to connect large scale enterprises and FDI firms with their members in order to increase business and cooperation opportunities for development. It is also necessary to focus on fostering and improving knowledge, skills and operational methods that suit the functions and characteristics of civil and professional organizations. In addition, business associations and supporting agencies should promote multilateral cooperation in order to improve capacity and support better Vietnamese businesses in advancing in the GVCs □

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