

Can Vietnam Replace China as the Worlds Factory?——Political and Economic Observations on Southeast Asias acceptance of Global Industrial Chain Transfer

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Abstract: Currently, some mid-to-low-end industries are shifting from China to countries like Vietnam. This shift is driven by several factors: First, the accelerated relocation of labor-intensive processing stages that are cost-driven; Second, the gradual transfer of low-end assembly stages in tax-sensitive electronics manufacturing; Third, the rapid spillover of technology manufacturing supply chains due to market expansion; Fourth, the gradual relocation of industries and their supporting supply chains due to free trade agreements. These changes increase external pressures on the safe and stable development of Chinas industrial chains, leading to a dual constraint of rising production and resource costs. By analyzing the overlapping factors affecting the safe and stable development of Chinas industrial chains, this paper proposes policy recommendations to address the impact of the accelerated relocation of industries to Vietnam.

Keywords: Industrial chain; Vietnam; Overseas investment; International market

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1. Introduction

Located in Southeast Asia, Vietnam has emerged on the global economic stage by absorbing industries from Europe, America, Japan, and South Korea that have spilled over from China. Vietnam is one of the fastest-growing economies in Asia and globally. In 2020, Vietnams GDP grew by nearly 3%, making it one of the worlds fastest-growing economies. Since 2022, Vietnam and other Southeast Asian countries have significantly replaced China in industries such as clothing, furniture, and electrical manufacturing. According to global political and economic observers, Vietnam, with its relatively stable political situation, proactive openness to the outside world, low labor costs, and a populace pursuing secular success, has the potential to become the next international industrial relocation destination. Will Vietnam follow Chinas lead and become the next world factory?

2. Vietnams Undertaking of the Transfer of Global Industrial Chain is Influenced by the Historical Periodicity of Global Industrial Layout

(1) The cyclical change of global industrial chain transfer under the historical perspective

Historically, international industrial relocation has occurred multiple times, and the title of world factory has changed

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hands several times. Since the 19th century, global industrial relocation has gone through several stages. The first global industrial relocation occurred after the Industrial Revolution, when Britain, as the first industrialized country, became the world's first world factory. In the 1840s, Britain relocated its low-end industries to other parts of Europe and North America. Later, with changes in comparative advantages, the United States emerged as the biggest winner. The second global industrial relocation took place in the 1950s and 1960s, when the United States upgraded its industries by keeping capital- and technology-intensive industries at home and exporting labor-intensive industries like steel and textiles to Germany and Japan, making Japan the world's second-largest economy. The third global industrial relocation occurred in the 1960s and 1970s, when Japan and Germany transferred low-value-added labor-intensive industries such as textiles and machinery to the Four Asian Tigers and Latin America. Subsequently, led by the geese formation model between the United States and Japan, the Four Asian Tigers emerged as emerging industrial economies, taking over a large amount of manufacturing from the United States and Japan.

The fourth global industrial relocation took place in the 1980s and 1990s, after China initiated its reform and opening-up policy in 1978. The Four Asian Tigers transferred their mid-to-low-end manufacturing to China, turning China into the world factory and making it the largest economy in the world and history. The miracle of economic growth. Looking at the four waves of industrial relocation that have occurred internationally, each wave has profoundly transformed the industrial structure of the receiving countries, driving the upgrading of their economic growth models.^[1] As a result, current analyses suggest that some Chinese enterprises, primarily in manufacturing, have gradually shifted their production capacity to Southeast Asian countries, which offer more competitive production costs. This marks the beginning of the fifth wave of international industrial relocation, with Southeast Asia emerging as a key region for this new wave and poised to become the primary beneficiary of the next round of industrial relocation.

(2) Comparative advantages of Southeast Asia (Vietnam) in undertaking global industrial chain transfer

Vietnam, located in Southeast Asia, has a comparative advantage in the global industrial chain transfer. Vietnam borders China to the north, Laos and Cambodia to the west, and the South China Sea to the east and south. It facilitates trade with China through land routes and with the United States, the European Union, Japan, South Korea, and Thailand through maritime routes, making it convenient for imports and exports. Tracing Vietnam's economic development, in 1986, less than a decade after China initiated its reform and opening-up policy in 1978, Vietnam launched its reform and opening-up initiative. Over the decades, Vietnam has implemented reform and opening-up policies to promote economic and social development, positioning itself as one of the most competitive manufacturing hubs in the Asia-Pacific region over the next decade.^[2] Over the past three decades, Vietnam has attracted significant manufacturing industry transfers from around the world by attracting foreign investment. Whether in low-end assembly or more advanced upstream industries, Vietnam has consistently used the reform and opening-up strategy to attract overseas manufacturing companies to invest locally. In recent years, Vietnam has signed free trade agreements with Europe and reached reconciliation with the United States; it has also strengthened ties with Japan and South Korea, leading to substantial investments from these countries. By signing bilateral or multilateral free trade agreements with multiple WTO members, Vietnam has provided access and tariff benefits to support its economic growth. It is convenient.

From a broader perspective of Southeast Asia, Vietnam's political environment is relatively stable. The Communist Party of Vietnam, the sole legal party, maintains a solid position in power, providing stable support for economic development. The cost of human resources is low. Currently, one-quarter of Vietnam's 99.1 million population are young people under 25, and the working-age population accounts for 70%, indicating a rich, young, and relatively inexpensive labor force, which is still in the golden 30 years of demographic structure.^[3] The monthly wage in Vietnam is less than 3000 yuan, which is about one-third of the labor cost in China's Pearl River Delta region. From a human resources perspective, this makes Vietnam highly attractive for labor-intensive industries. However, it is worth noting that the quality of Vietnam's workforce remains relatively low. The government is actively investing in the development of transportation infrastructure to continuously improve and upgrade transportation infrastructure, thereby enhancing transport efficiency. In the future,

the ongoing improvement of infrastructure will significantly enhance the convenience of transportation, improve logistics efficiency, reduce logistics costs, and lay a solid foundation for foreign investment.

3. Vietnam is Affected by External Factors in the Transfer of Global Industrial Chain

(1) Vietnams undertaking of the transfer of global industrial chain is a product of reverse economic globalization

Global geopolitical factors. Leveraging cost advantages in labor, land, and taxation, Vietnam has increased its global trade participation, aligning with the inevitable trend of global industrial relocation. In the current context of Sino-US trade tensions, the artificially heightened barriers have intensified the trend of Chinese companies relocating their production bases overseas, and many multinational corporations have prioritized setting up or expanding factories in Southeast Asian countries. Meanwhile, Western countries, considering economic and geopolitical strategies, have intensified their economic cooperation with Vietnam.

Some argue that globalization has reached a turning point. On one hand, the economic interdependence among countries will not fundamentally reverse. China and Western countries still have a deep mutual dependence in economic production. The traditional pattern of American innovation, Chinese manufacturing, global sales is unlikely to change significantly in the foreseeable future. However, on the other hand, there is mutual distrust between China and the United States. Economic interdependence coexists with political distrust, leading to a state of tension, akin to schizophrenia. This is markedly different from the Cold War era. In the long term, this dynamic is unsustainable, and one of the two sides will eventually change. Historical evidence suggests that the political dimension is the most likely to change. Human globalization has always been driven by economic forces, which in turn drive globalization in other areas. I see no significant difference in this direction today compared to history. In terms of the real economy, a large number of mid-to-low-end manufacturing industries have shifted to China, while Western countries are undergoing a process of deindustrialization, with the majority of their domestic sectors being the broad tertiary sector. For underdeveloped countries like Africa, their comparative advantages are primarily in raw material industries. China and Africa form a dynamic relationship. The industrial cycle involves a two-to-three-sector cycle between the West and China, but the West and Africa cannot directly engage in this cycle. For the global economic and trade cycle to function, China acts as an intermediary, forming a structure similar to the Arabic numeral 8. China serves as the hub in the global dual circulation, thereby possessing a unique and structural influence. However, this does not imply that China has become the world's center. Beyond the real economy, there is a larger global capital cycle, led by the United States, with the real economy operating within this framework.

(2) Chinas role in Vietnams undertaking of the transfer of global industrial chain

In terms of its relationship with China, Vietnam has become a key trading partner for Chinese manufacturers, and it has become the preferred destination for Chinese companies to relocate parts of their industrial chains to Southeast Asia. Over the past four decades, China has experienced rapid economic growth and is now at the forefront of global industrial chains in many sectors, a position that Vietnam currently holds. To seize the opportunity of industrial chain relocation to Vietnam, it is important to understand the patterns of international industrial migration. As Chinese industries undergo transformation and upgrading, the spillover of certain specific segments is inevitable. It is expected that Vietnamese manufacturing will replace Chinese manufacturing in certain industries or products. Vietnam can currently process products for consumer mobile terminal device companies because it has obtained a large number of processing components from China. The goal of the Belt and Road strategy is to build a community with a shared future for mankind and to achieve prosperity together with neighbors, which has been the primary motivation behind the signing of various regional cooperation agreements and trade development agreements over the years. Currently, the global industrial chain is showing a trend towards regionalization and contraction, and we must be adept at identifying

opportunities in crises. On one hand, we need to further improve the policy system to guide the orderly relocation of industries. We should optimize the layout of regional industrial chains, guiding key links of the industrial chain to remain in China, and strengthen the central and western regions as well as the northeast. On the one hand, the region should enhance its capacity to accommodate industrial relocation. On the other hand, it should boost the core competitiveness of manufacturing and optimize its position in the global industrial chain. Furthermore, leveraging Chinas vast market and domestic demand potential is essential for building a domestic economic cycle. This involves coordinating domestic and international cycles to create a new development pattern where both domestic and international dual cycles reinforce each other.

(3) The regionalization of the global industrial chain and the flattening of the ASEAN industrial chain are accelerating

The shift of manufacturing to China is expected to be permanent in the foreseeable future, meaning that Chinas status as the worlds factory may become a permanent reality. This is because the transfer of a significant amount of mid-to-low-end manufacturing to China has led to profound changes in corporate organizational structures, making Chinas supply chain both efficient and resilient. This is particularly important in an era of surplus economy. In the past, when demand was limited, people simply used what they needed. Market demand was primarily for large quantities of homogeneous products, and efficiency was sufficient for production. In the past, when industries shifted from Europe and America to Japan and then to Asia, the world was largely in an era of scarcity. However, today we are in an era of surplus economy, where people demand highly personalized products. When market demand is extremely diverse and the efficiency of innovation and iteration is particularly high, the supply chain must be both resilient and efficient to meet these new demands. Additionally, when the supply chain scales up to a certain point, it may surpass a threshold, leading to changes in the key points of comprehensive cost control in the production process. In fact, China has already surpassed this threshold. In the past, cost control mainly focused on labor, land, and capital. The operational efficiency of the supply chain network itself, which I refer to as transaction costs, is also crucial. The proportion of cost control is relatively low. [4] However, as the supply chain network expands to a certain extent, the proportion of this broad transaction cost in the overall cost significantly increases. The change in the cost control structure makes industrial relocation more challenging. Therefore, when considering whether manufacturing will shift from China, it is essential to consider the various background constraints. These conditions have changed, and past trends may not be repeated.

4. The Impact of Vietnams Acceptance of Global Industrial Chain Transfer on Chinas Southeast-Oriented Economy

(1) It will help improve Chinas position in the global value chain

The processing stages of the low-end industrial chain are continuously relocating outward, freeing up more resources and development space for high-value-added segments such as R&D, design, brand building, and market expansion. This reallocation of resources to other technology-intensive areas enhances design, branding, and intelligent manufacturing capabilities, thereby boosting the influence of domestic brands within the industrial chain. Additionally, some processing stages and machinery that have lost their comparative advantages are being relocated to ASEAN countries. By leveraging local advantages in labor, land, and tax burdens, these countries can extend the industrial life cycle, improve industry profits, and gain more economic benefits. Furthermore, this will help accelerate the development of an East Asian regional industrial chain with China at its core.^[4] Appropriate industrial chain relocation can facilitate Chinas industrial upgrading, promote the formation of a regional division network with China as a key node, and enhance the international influence of Chinas industrial chain. China should capitalize on the favorable policies of RCEP, leverage its domestic market and technological advantages, and drive the development of downstream countries like Vietnam and buyer markets such as Japan and South Korea. This will actively foster an East Asian regional industrial chain with China at its core, promoting the integration of the East Asian regional industrial chain and regional economic integration.

(2) It will lead to a mismatch between supply and demand in the labor market and make it more difficult to stabilize employment

The relocation of China's industrial chain will reduce employment opportunities in the low-end sectors of related industries, leading to structural unemployment for the remaining workforce. Despite the gradual decline in China's demographic dividend, the large population base and the continuous relocation of low-end manufacturing enterprises have significantly led to a mismatch between labor supply and demand in the labor market.^[5] The supply of low-end labor far exceeds market demand, and the transfer of labor from agricultural production has further exacerbated this imbalance, directly raising the domestic unemployment rate and increasing the difficulty of stabilizing employment. Secondly, it will lead to the hollowing out of industries in certain regions. In the long term, the accelerated relocation of enterprises may spread to key components and the entire industrial chain, and the excessive and rapid relocation of enterprises will trigger industrial chain security issues, posing a risk of hollowing out in certain regions of China. Especially under the current three pressures, it is important to be wary of the large-scale international relocation of Japanese manufacturing in the mid-to-late 1980s, which led to domestic investment growth lagging behind overseas investment growth and the reduction in production chains, resulting in the hollowing out phenomenon.

(3) The global industrial chain is "spilling" from China rather than "transferring"

When discussing the relocation of industries to Vietnam, it essentially refers to the final assembly stage. The reason is straightforward: after assembly, the products are sold directly to consumers, many of which are exported to the United States, facing direct tariff impacts.^[6] Therefore, relocating to Vietnam offers better trade terms. However, the upstream supply chain produces intermediate goods that are not directly exported and thus do not need to be relocated to Vietnam. In the past, intermediate goods were sold from Wuhan to Dongguan or Huizhou, then assembled and exported. Now, factories are relocating from Dongguan or Huizhou to Vietnam, selling from Wuhan to Vietnam, and then assembling and exporting. This relocation is essentially about this. This type of relocation is particularly noticeable because the relocated are terminal links, which are to C and well-known brands; while the remaining intermediate links are to B and less familiar. Thus, news dissemination has led to a cognitive bias. The conclusion is that this is not an industrial relocation but a spillover. The spillover of these supply chain links to Southeast Asia, in a sense, means that the supply chain network centered on China has grown larger. At the same time, the production efficiency and flexibility of the entire East Asian supply chain network have also increased. Therefore, without a substantial technological leap, it still believes that the shift of low-end manufacturing to China is final and that Vietnam cannot replace China as the "world factory".

5. Analysis of China's Strategy to Deal with Vietnam's Acceptance of Global Industrial Chain Transfer

(1) Ensure that industrial and supply chains adapt to the new situation

First, it is essential to balance the development of industrial and supply chains with epidemic prevention and control measures, ensuring smooth operations in production, distribution, circulation, and consumption. This will facilitate effective connections between upstream, midstream, and downstream industries, as well as among large and small enterprises and various market entities, thereby maximizing the systemic benefits of comprehensive coordination. Second, efforts should be accelerated to build a unified national market, promoting coordinated interaction between central and local governments, departments, regions, enterprises, and production, circulation, and consumption sectors.^[7] Third, it is crucial to address the prominent issues and weak links in industrial and supply chains during the epidemic, fostering the deep integration of the five chains: industrial, financial, policy, talent, and innovation chains.

(2) Optimize and adjust the regional layout of industrial and supply chains

First, guide the rational and orderly relocation of industrial chains to maintain the integrity of industrial and supply

chains, promoting a manufacturing development pattern characterized by reasonable regional division of labor and coordinated development. Second, leverage the complementary strengths of different regions in terms of industries and resources, actively developing the domestic market and industrial value chains, and preventing the rapid relocation of certain industrial chains. Third, focus on enhancing the industrial capacity of central and western regions, precisely selecting cities with advantageous locations and solid industrial foundations to orderly take over the relocation of industrial chains from the eastern regions that lack such advantages.

(3) Enhance the position of global value chain division of labor

First, orderly promote the relocation of industries that have lost their comparative advantages from low-end processing and assembly to other sectors, while guiding these industries to retain core sectors and high-value-added activities such as R&D design, trade sales, key component production, and raw material production within the country. Second, accelerate the development of the industrial chain towards intelligence, digitalization, platformization, ecologization, internationalization, and the integration of multiple business forms, to expedite industrial transformation and upgrading, and continuously enhance product value. Third, strengthen the combination of bringing in and going out, encouraging enterprises to deeply integrate into the global industrial chains led by developed countries like Europe and America, extending their reach to upstream and downstream sectors such as R&D design, sales, and after-sales service, thereby securing a more advantageous position in the global value chain.

(4) Build an East Asian industrial chain system "with China as the main player"

First, with RCEP member countries at the core, we should rationally plan domestic and international production bases and capacities, enhance cooperation with ASEAN countries in industrial chain coordination, focus on building a regionally dominant industrial chain division system, improve the ability to integrate regional resources, and ensure Chinas manufacturing sector maintains its international competitive edge. Second, we need to enhance the industrial integration of the East Asian production network by relocating some mid-to-low-end industrial chains to ASEAN countries with abundant human resources, strengthening production and technological cooperation with Japan and South Korea in third-party markets, and building an Asian industrial chain community. Third, we should enhance the internal circulation capacity of the East Asian production network by leveraging Chinas super-large market advantages, encouraging Japan and South Korea to further open their product markets, increasing the proportion of final product trade within the region, and striving to create a common product market for Asia.

6. Conclusion

Vietnam and China have a mutually embedded relationship in the industrial chain. Vietnam cannot replace China as the worlds factory ; instead, it will form a mutually embedded relationship with Chinas supply chain. The book *The Hub* suggests that Chinas status as the worlds factory may be permanent. A key reason is that a significant amount of mid-to-low-end manufacturing has shifted from the United States, Europe, Japan, and other regions to China, leading to profound changes in corporate organizational structures. These companies have become highly specialized. As they specialize, multiple companies form complementary relationships and continuously reorganize dynamically, forming a vast supply chain network. This network combines efficiency and flexibility, which was not possible in the past due to the limitations of corporate production organization mechanisms. Only after significant changes in corporate organizational structures can both flexibility and efficiency be ensured. Another crucial factor is the scale of the supply chain network. The larger the network, the more small and medium-sized enterprises (SMEs) act as nodes, the deeper their division of labor, and the higher their specialization, leading to greater efficiency. Additionally, the more small enterprises there are, the more likely they are to form complementary combinations, enhancing flexibility.

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