



Clearing the Runway for Intra-Asia Trade

Summary of Insights: Vietnam

Vietnam could solidify its position as a regional manufacturing hub in the coming decade, growing its trade value with 11 top Asian markets from USD326 billion in 2020 to USD465 billion in 2030.

This market summary provides an overview of some of the main insights on intra-Asia trade for Vietnam as part of a larger study commissioned by UPS and developed by AlphaBeta entitled: "Clearing the Runway for Intra-Asia Trade: Key insights for unleashing the potential for intra-Asia trade by 2030." The 12 markets (i.e., "Asia-12") covered in this report are Australia, China, Hong Kong, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam. The purpose of this research is to offer key critical insights on the rise of intra-Asia trade and prospects for future growth through 2030, in the context of Asia's continuing economic growth and against the backdrop of increasing volatility in global trade relationships today. The findings from this research showcase the potential for intra-Asia trade to continue its rapid growth over the coming decade, and support governments and businesses in identifying key enablers for this opportunity and steps to capture the potential. This summary is without prejudice to the status of or sovereignty over any territory or boundary. In cases where China is referred, it predominantly refers to mainland China. For the full set of insights, including data sources and methodology, please refer to the full report at: <https://about.ups.com/sg/en/home.html>



Top 3 insights on intra-Asia trade prospects for Vietnam

- 1 Vietnam has rapidly grown into an important manufacturing hub in Asia and is expected to leverage this position for greater trade in the coming decade.** Vietnam has doubled its contribution to intra-regional trade between 2011 and 2020 to 4% – a small base but still higher than Australia and Indonesia. The value of its trade with 11 other major markets (together, the “Asia-12”) could rise from USD326 billion to USD465 billion by 2030.
- 2 Trade in four key product segments is expected to drive Vietnam’s trade growth with the rest of Asia-12, particularly high-tech and IM&A.** These four segments, retail, industrial manufacturing and automotive (IM&A), high-tech, and healthcare, together account for 82% of Vietnam’s trade with the rest of Asia. The high-tech segment, which constitutes 43% of its intra-Asia trade value, will drive future growth given the rise in digitalisation across the Asia-12. The IM&A segment which constitutes 21% of Vietnam’s trade within Asia today, could nearly double by 2030.
- 3 Businesses in Vietnam can capture the intra-Asia trade opportunity through three areas of multistakeholder action that could address major barriers to regional trade.** (1) Build resilience into supply chains; (2) Collaborate on harmonising product standards across the region; (3) Negotiate comprehensive regional trade deals.

Top 3 takeaways for businesses in Vietnam

- 1 Plan for both headwinds and opportunities by diversifying supply chains.** This includes exploring resilient trade routes, such as with Taiwan, and targeting high-value and high-growth trade routes, such as with China or the rest of ASEAN. Diversifying supply chains is critical to building resilience in trade flows.
- 2 Digitalise operations end-to-end.** While the pandemic has accelerated adoption of digital technologies within Vietnam, firms could leverage new solutions to improve the efficiency of their operations and supply chains, including real-time logistics tracking and artificial intelligence (AI) tools to smoothen customs and shipping processes.
- 3 Integrate micro-, small-, and medium-sized enterprises (MSMEs) into regional supply chains.** MSMEs face higher costs in navigating trade barriers and often lack scale. Larger firms can provide MSMEs a platform to participate further in trade by providing finance, consolidating supply chains, promoting e-commerce, and creating tools to help navigate customs requirements.



Vietnam can solidify its position as a regional manufacturing hub in the coming decade

Asia is a critical component of global trade. Asia has developed into the world's largest manufacturing hub over the past century. Vietnam has written itself into this story significantly in the past two decades, becoming known for supplying technology and apparel goods in key markets from China to the US. As Vietnam and other Asian markets become the global epicentre for new consumer demand, building off a sustained period of economic growth and improvements in standards of living, trade lanes within Asia will gain importance. Already, intra-Asia trade accounts for two-thirds of the region's trade with the world.

Vietnam has rapidly developed into a regional trade hub for manufactured consumer products, and could strengthen this position in the coming decade. Vietnam's trade growth has been rapid, having doubled its contribution to intra-Asia trade to 4% in 2020, up from just 2% in 2011. Now, it contributes more than Australia and Indonesia to regional trade and a similar share to Malaysia and Thailand. The growth is set to continue, with Vietnam's trade with 11 other major markets (together, the "Asia-12") potentially rising by more than 40% from USD326 billion in 2020 to USD465 billion by 2030 (Exhibit 1). It is expected that a large share of this growth will be driven by greater trade with its ASEAN neighbours while reducing its dependence on trade with East Asian economies, particularly China, its largest trade partner as of 2020.¹

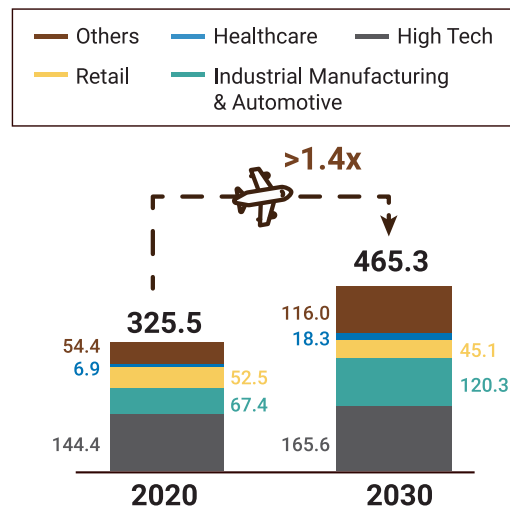
Vietnam's trade is expected to reap significant benefits from strong consumer demand from a wealthier and more urbanised Asian population, supported by ambitious new trade deals. In just the Asia-12, 567 million new entrants will be added to the middle class between 2020 and 2030, with the region's consuming class touching 1.5 billion at the end of this period. Vietnam is expected have 27 million people join its middle class population by 2030 together with over 10 million new urban residents, increasing its own consumer demand. Additionally, Vietnam's participation in the Regional Comprehensive Economic Cooperation (RCEP) and Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) allows it to access a wider range of export markets and consumer goods with minimal trade barriers.

Trade in four product segments is expected to drive this growth, particularly in high-tech and IM&A: (1) retail; (2) industrial manufacturing and automotive (IM&A); (3) high-tech; (4) healthcare – which constitute 82% of Vietnam's trade with the rest of Asia. Trade in the high-tech segment takes up the largest share of Vietnam's intra-Asia trade at 43% of total value, and could drive future growth, riding Asia's wave of digitalisation which will create significant demand in this segment. Asia-12 economies are already

Exhibit 1

Vietnam's trade with the Asia-12 is set to grow by 2030

Vietnam's trade with the rest of Asia-12 USD billions



Note: The methodology for these estimates can be found in the Appendix of the main report.

SOURCE: ITC; AlphaBeta analysis

more digitalised than the global average while also advancing on digital adoption metrics at a faster rate.² Nearly 700 million people in Asia Pacific will join its Internet population by 2025, creating a new generation of e-commerce consumers.³ Key trade lanes will facilitate this growth in trade, particularly growing trade between Vietnam and Korea – the high-tech segment outperformed all other segments along this route, growing by 29.6% annually over this period (versus 18% overall growth for all segments). Additionally, Vietnam's IM&A segment constitutes 21% of its intra-Asia trade today and has room for further export growth. This is expected to be supported by the government's policy to boost manufacturing and have the sector contribute to 20% of its national GDP by 2030.⁴ Trade value in this segment with the Asia-12 could nearly double by 2030.

Increased investment in supply chain innovation and high-quality infrastructure will also contribute to long-term resilience. The Vietnamese government has encouraged digitalisation of supply chains since the start of the pandemic, supported by the National Digital Transformation Programme which is expected to modernise the economy's supply chain infrastructure and encourage MSME participation in e-commerce.⁵ In comparison to its neighbours, Vietnam's relatively advanced manufacturing sector and associated supply chains provided resilience against supply chain shocks caused by the pandemic. As a result, it is well-placed to capitalise on trade opportunities presented by the four segments across Asia.⁶

Lags in infrastructure development and geopolitical tensions are significant headwinds that could limit Vietnam's trade potential

Despite the significant potential that intra-Asia trade holds for Vietnam, there exists a range of barriers to greater regional trade today that may intensify over the coming decade. Vietnamese businesses surveyed for this study indicated lack of harmonisation of standards as the top barrier to trade, among five other barriers identified (Exhibit 2). These six barriers remain largely unaddressed by policy and business action due to trade tensions, supply chain shifts, and uneven investment and engagement of MSMEs in supply chains.

As a result of these barriers, Vietnam's trade with the Asia-12 may decline by 2030. Trade could total USD267 billion in this "Deglobalisation" scenario – a 12% decline from 2020 levels due to intensifying impediments to trade.

Intensifying geopolitical tensions contribute significantly to these trade barriers. Geopolitical risks such as territorial, economic, and political disputes between other economies have proven detrimental to trade in the past, particularly in the high-tech and retail segments. ASEAN's consensus-building and decision-making norms further stymie economic progress and cooperation – despite deeper economic integration over the past few decades, trade remains hindered by ASEAN members' reluctance to harmonise their standards and practices. Such geopolitical tensions that create strict or restrictive trade policies in ASEAN and across Asia could damage Vietnam's long-term trade prospects.

Lack of progress on developing logistics infrastructure within Vietnam could constrain its ability to serve centres of demand in rapidly developing economies. Vietnam in particular risks losing out on trade opportunities without significant upgrades to its logistics infrastructure. Investment in the logistics sector in Vietnam faces significant challenges in raising capital for major investment.⁷ The industry is also heavily fragmented, with 95% of logistics enterprises being MSMEs, limiting its potential for innovation and large-scale investment as these smaller players would face immense difficulty in plugging industry-wide bottlenecks.⁸

Finally, pressures caused by the COVID-19 pandemic, and rapid advances in robotics and automation constrain the flow of trade. These trends could expose a shortage of labour, skills, and shorten supply chains due to shifting cost competitiveness, preventing trade from scaling up and lifting Vietnam's potential. Two-thirds

Exhibit 2

Businesses in Vietnam face six barriers to regional trade

Top barriers to trade in Vietnam

Ranking based on respondents conducting trade in Vietnam

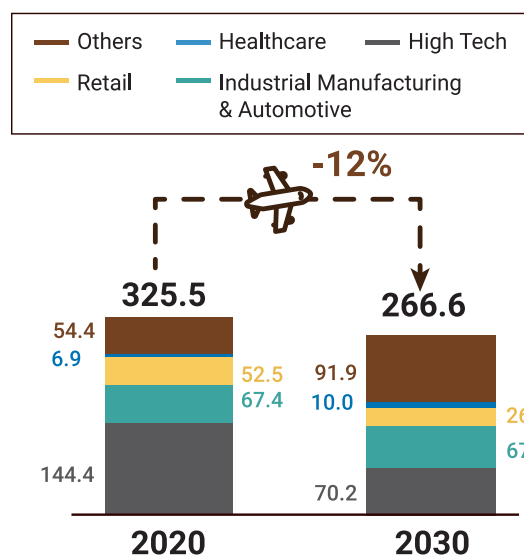


SOURCE: Industry survey of 198 businesses that conduct trade in the Asia-12 economies; AlphaBeta analysis

Exhibit 3

Headwinds could cause Vietnam's trade with the Asia-12 to decline

Vietnam's trade with the rest of Asia-12 USD billions



Note: The methodology for these estimates can be found in the Appendix of the main report.
SOURCE: ITC; AlphaBeta analysis

of Asian businesses surveyed by the Asian Development Bank (ADB) in 2021 stated that they planned to source more goods locally in the coming years – constraining the potential for Vietnam to trade more intensively with markets more distant from home.⁹

Governments and businesses must proactively mitigate these risks to capitalise on the intra-Asia trade opportunity

Multistakeholder action is required to reduce impediments to regional trade and harness the opportunities to steer intra-Asia trade towards take-off.

Action by businesses or government alone is not enough to address the key barriers to trade – active involvement by all stakeholders within the region and across the supply chain is key. There are three main areas for multistakeholder action in Vietnam: (1) Build resilience into supply chains via supportive public-private investment; (2) Collaborate on harmonising product standards by creating meaningful partnerships between business leaders, trade associations, certification bodies, and regulators; (3) Negotiate comprehensive regional trade deals that

remove remaining tariffs, harmonise standards, simplify customs, promote MSME competitiveness, and ensure cooperation and diplomacy in the event of geopolitical disputes.

Businesses with trade interests in Vietnam and those in the logistics sector must proactively account for opportunities from intra-Asia trade and build resilience against potential headwinds.

Three key actions that can be taken by businesses include diversifying supply chains, digitalising completely, and integrating MSMEs into regional supply chains.



Plan for both headwinds and opportunities by diversifying supply chains into resilient trade routes and targeting high-growth and high-value trade routes.

The COVID-19 pandemic has made diversifying supply chains an important strategy in building resilience in trade flows. Many trade routes offer opportunities for resilient growth when considering trade with Vietnam (Exhibit 4). These include IM&A trade with China; in the healthcare segment with Taiwan and Australia; and in the retail and high-tech segments with ASEAN markets such as Thailand and the Philippines. Additionally, trade routes in the IM&A segment could prove

extremely resilient, with 61% of trade value today potentially growing even in a “deglobalisation” scenario. On the other hand, in a scenario where trade grows unimpeded, a range of high-value and high-growth trade routes are available for Vietnamese businesses (Exhibit 5). China is expected to remain Vietnam’s largest trade partner across all key segments, despite Vietnam reducing its dependence on trade with China over the coming decade. Meanwhile, ASEAN markets, such as the Philippines, Thailand, Indonesia, and Malaysia, are expected to offer Vietnamese firms strong growth opportunities in trade among all key segments. In particular, as ASEAN markets increasingly invest in e-commerce platforms and logistics capabilities that can facilitate trade, businesses in Vietnam can access an increasingly wider range of export destinations. In addition to its burgeoning manufacturing capabilities (as more multinational firms set up production in the market), e-commerce platforms offer domestic retailers an opportunity to export to other markets beyond ASEAN, boosting Vietnam’s trade. With Vietnam being part of RCEP, businesses can use consultancy tools like UPS’s Trade Assist™ to develop ways to optimise their supply chains while reaping benefits the free trade agreement offers.



Digitalise operations end-to-end. While the COVID-19 pandemic accelerated adoption of digital technologies within Vietnam, firms have more room to digitalise their businesses to create more integrated and well-coordinated domestic supply chains.¹⁰ A survey of businesses in Vietnam revealed that 82% were new to utilising Industry 4.0 (I4.0) technologies, indicating potential difficulties in adopting advanced tools for operations.¹¹

Artificial intelligence (AI)-enabled tools that can analyse and identify tariff codes or automatically input customs data could also smoothen regulatory import-export procedures for businesses, making trade simpler and more efficient. UPS uses AI to learn individual shipping patterns and behaviour to simplify the shipping process and make it much easier for small businesses to ship. A range of plug-and-play application programming interfaces (APIs) allow businesses to get estimated duties, taxes, and brokerage fees for cross-border shipments. This leads to fewer customs delays and enables businesses to keep track of their costs. Businesses in Vietnam can also adopt digital tools that provide real-time visibility and automate their processes to improve productivity. For example, businesses can use open-source data for timely and accurate information for transport management, optimising transport routes and leading to 5 to 10% cost savings to users.¹²

03



**Partner with and
integrate MSMEs**

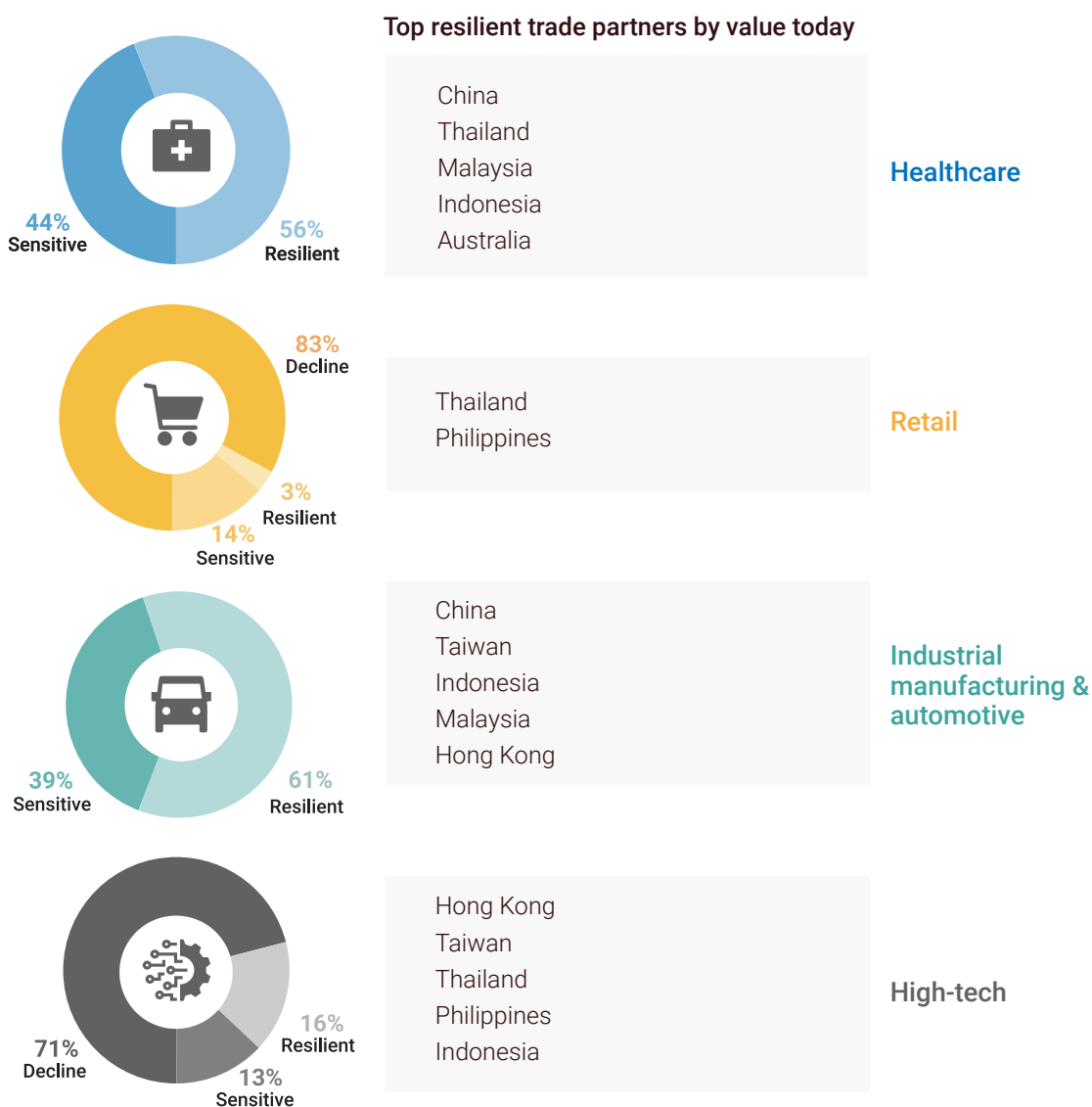
Integrate MSMEs into regional supply chains. MSMEs typically face higher costs in navigating trade barriers and often lack the scale of operations needed for trade profitability or knowledge of trade deals to support business expansion into other markets.¹³ Therefore it is critical for MSMEs and larger firms to partner to encourage greater trade participation, which can be mutually beneficial. Larger businesses have an important role to play and can connect MSMEs with investors or provide grants that boost their ability to export their products across the globe.¹⁴ MSMEs can also adopt digital tools that are compatible with international logistics networks to allow for efficient tracking – for example, leveraging UPS’s My Choice® for Business allows MSMEs to centralise shipment data and reduces the need to manage multiple logistics flows across different systems.¹⁵

Exhibit 4

Firms can invest in resilient trade routes within each segment to hedge against supply chain shocks

Share of Vietnam’s trade with the Asia-12 sensitive to geopolitical shocks, by segments¹

Share of each priority segment trade value in 2020 (%)



1. Each figure represents a share of trade value in 2020 that is forecasted to be under either the resilient, sensitive, or decline category in 2030. Resilient trade refers to trade routes that may expect positive growth in either worst-case or optimistic scenarios, while sensitive trade refers to trade routes that may see positive growth only within the optimistic scenario. Declining trade refers to trade routes that may see slight contractions regardless of either.

SOURCE: ITC; AlphaBeta analysis

Exhibit 5

China will remain key trade partner across all segments, while ASEAN markets offer growth opportunities for Vietnam

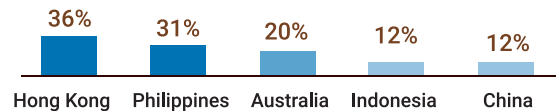
Top 5 projected trade routes in 2030 by value, USD bn¹



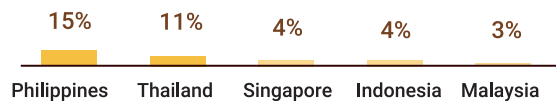
Healthcare



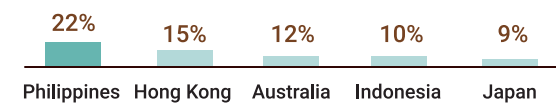
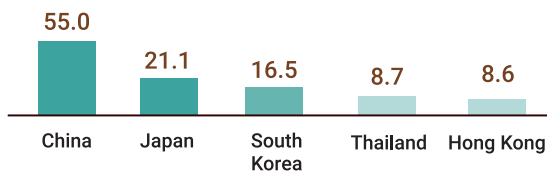
Top 5 projected trade route partners, by growth rate till 2030, %¹



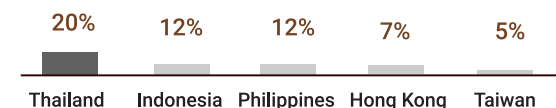
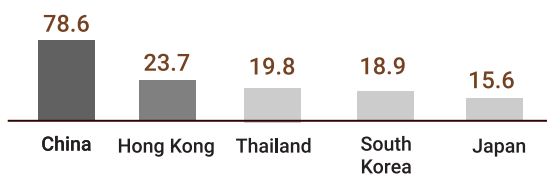
Retail



Industrial manufacturing & automotive



High-tech



1. Projections are based on an optimistic scenario of Asia's trade environment, as outlined in Chapter 1 of the main report, where intra-Asia trade will take off and be driven by trends such as regional trade agreements, supply chain innovations, and a rise in digitalisation. These projections should be taken as an ideal outcome rather than guidance.

SOURCE: ITC; AlphaBeta analysis

Endnotes

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