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Vietnam as an Upcoming Production Hub and Vietnam Economy

Ahmet Faruk ISIK[1], Nguyen Cong Tung[2]

September 2021

Introduction

The Communist Party of Vietnam officially launched economic renovation policy (often known as *Doi Moi*) in December 1986 at its Sixth Party Congress. *Doi Moi* introduced a variety of market-oriented policies aimed at reviving the moribund economy, including unleashing privately-owned enterprises to commodity production; opening market for foreign direct investment (FDI) from non-socialist countries; creating a stock exchange for both state-owned and non-state-owned enterprises, etc. (CPV 2017). The adoption of *Doi Moi* is also considered as a decisive turn in Vietnam's foreign policy, i.e. changing from ideology-based foreign policymaking to a more pragmatic approach (Le 2018: 10).

After more than 30 years of reform, Vietnam has recorded remarkably high growth rates, making it ascend to the rank of lower middle-income economies. According to the Vietnam General Statistics Office (GSO), the country's Gross Domestic Product (GDP) growth reached 7.08% in 2019, which was the highest during the last 11 years, and ranked the highest in the Southeast Asiaregion, with inflation rate stable at 4%. The GDP was worth US$261.92 billion in 2019 (ranked 44th in the world), while the GDP per capita reached over US$2,700 in 2019 (ranked 130th in the world) (GSO 2019).

[1] Ahmet Faruk IŞIK, Shanghai International Studies University, International Politics, PhD Student and Researcher in Italy Torino World Affairs Institute.
[2] Nguyen Cong Tung, Taiwan National Chengchi University, East Asian Studies, PhD Candidate .

Vietnam Map[3]

Notably, Vietnamese GDP per capita increased 2.7 times between 2002 and 2018, according to the World Bank (WB) statistics (WB 2020a). During the last few years, the number of Vietnam's middle-income class has been emerging quickly. According to Vietnam's official statistics, middle class may account for more than 15% of the population, and is expected to reach 20% to 25% in the next few years (Zing 2020); while the WB estimated that middle class only accounts for 13% of the population, and is expected to rise to 26% by 2026 (WB 2020a). This emerging group of middle class is assumed to have a formidable consumption power. At the same time, the poverty rates have dramatically declined from over 70% to below 6%, lifting more than 45 million Vietnamese people out of poverty (WB 2020a).

[3]Vietnam Haritası, "Indochinese Peninsula", Nations Online, https://www.nationsonline.org/oneworld/map/vietnam-political-map.htm

Vietnam's current economy is largely driven by foreign trade and FDI, especially the sum of its exports and imports represented approximately 197% of GDP in 2019 (GSO 2019).[4] Since its accession into the World Trade Organization (WTO) in 2007, Vietnam has been active in signing other bilateral and multilateral free trade agreements (FTAs) with countries throughout the world. Until the end of June 2020, Vietnam has signed 13 different types of FTAs, and3 are under negotiation, according to Vietnam WTO Center (Vietnam WTO Center 2020a). That makes Vietnam become one of the most open and integrated economies to international trade in Asia Pacific region. Among the already-signed FTAs, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Vietnam – EU Free Trade Agreement (EVFTA) are considered to be of great importance to Vietnam's economy and its long-term development. CPTPP was signed in March 2018 and has come into effect in Vietnam since January 14, 2019 (MOIT 2019); while EVFTA was just ratified by Vietnam National Assembly in June 8, 2020, and has taken effect from the beginning of August 2020 (Vietnam WTO Center 2020b). Another important mega FTA - the Regional Comprehensive Economic Economic Partnership (RCEP) was signed on November 15 2020 (ASEAN Secretariat 2020). This bears great significance given Vietnam served as the ASEAN chair in 2020.

However, the outbreak of Covid-19 has obviously produced considerable negative effects on all socio-economic aspects given Vietnamese economy has been in deep integration into the world economy. Previously, the economic growth rate that Vietnamese Government set for the overall 2020 year was 6.8%. Yet, in a discussion session held by Vietnam National Assembly on May 15, 2020, Nguyen Chi Dung – the Minister of Planning and Investment (MPI) announced that the government decided to adjust the 2020 growth rate down to 4.5% (VnExpress 2020). Moreover, several international institutions have also lowered the 2020 growth rate of Vietnam, such as International Monetary Fund (IMF) forecast Vietnam GDP growth at 2.7% in 2020 (EVnExpress 2020);

[4] The trade volume in 2019 reached at US$516.96 billion while the GDP was worth US$261.92 billion.

Fitch Ratings adjusted the growth rate to 3.3% (Fitch Ratings 2020); while the latest prediction was made in July 30, 2020 by World Bank is 2.8%, respectively (WB 2020b).[5]

In reality, according to the latest data released by Vietnam General Statistics Office (GSO), Vietnam's GDP growth in the first six months of 2020 reached 1.81%, which is the lowest six-month growth level during 2009 to 2020 period. Specifically, the agriculture, forestry and fishery sector increased by 1.19%, contributing 11.89% to the overall growth; industry and construction sector increased by 2.98%, contributed 73.14%; service sector only increased by 0.57%, contributing 14.97% (GSO 2020). Eight sectors and industries which have been hit "hardest" by the pandemic include (1) textiles and footwear; (2) wood and its products; (3) crude oil; (4) tourism; (5) transportation and warehouses; (6) retail; (7) real estate; (8) education and training, according to a report by the Bank for Investment and Development of Vietnam (BIDV). These industries have not only shown a decline in trade volume and revenue, but their stock prices on the Vietnam Stock Exchange also greatly plummeted (BIDV Report 2020).

Despite the shrunk GDP growth, Vietnam is still among few countries to have a positive growth rate during the pandemic. Due to drastic measures taken to curb Covid-19, Vietnam's domestic economic activities have gradually resumed normal operations, all of which have helped win the confidence from foreign investors. Given this, the country has kept benefiting from trade diversion effects and the transfer of FDI inflows as a continuation since the outbreak of the US-China trade war.

In the next part of the paper, the trade diversion effects and the trend of FDI inflows transfer will be further examined and analyzed to illustrate the pros and cons of the US-China trade war on Vietnam.

Vietnam in the Trade War

Amid the US-China trade war and recent tensions, Vietnam is one of the very few countries that have been repeatedly mentioned. Various professional reports released by

[5] World Bank also predicted that Vietnam's GDP growth would reach 6.8% in 2021 if the pandemic situation improves.

different international institutions have seemingly reached a consensus that Vietnam is the biggest “winner” or “beneficiary” in the trade war. The rationale behind this assumption is Vietnam can greatly benefit from the trade diversion effects; a surge in the FDI inflows; and the shift in the supply chains, which can ultimately contribute to the country’s industrial upgrading.

According to the analysis of Nomura – a Japanese investment bank, Vietnamese economy has been boosted by almost 8% due to the shift in production during the trade war (SCMP 2019). More interestingly, senior economist Irvin Seah from Singapore-based DBS Bank in a report even made a forecast that Vietnam’s GDP will overtake that of Singapore by 2029 if Vietnam can maintain its annual 6.5% growth rate and Singapore’s annual growth rate maintains at 2.5% (Thomas 2019).

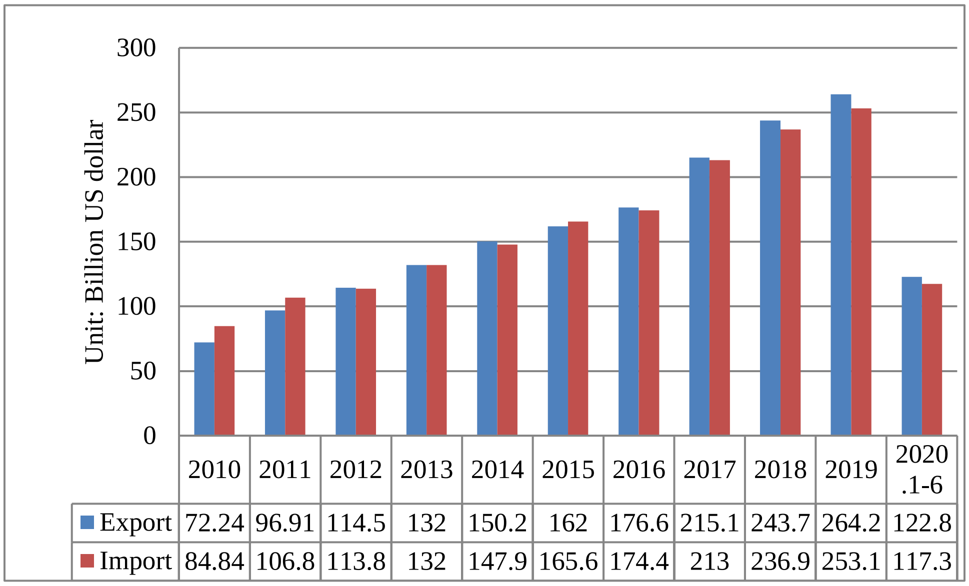
In fact, the trade diversion effects and transfer in FDI inflows have all contributed to Vietnam robust GDP growth during 2018 to 2019. However, Vietnam has simultaneously faced some risks to the economy, such as: Chinese goods re-labelling and trans-routing; lingering trade surplus with the U.S; receiving low-quality and environment-detrimental investment projects, to name but a few. In the long run, it is still hard to say whether the gain can make up for the loss.

Trade Diversion Effects

As Vietnam has been pursuing an export-oriented growth strategy for years, its economy is heavily dependent on foreign trade, in which the sum of exports and imports constitutes an average of nearly 200% to the annual GDP. By the end of 2019, the total import-export turnover of the country reached US$517.26 billion, increasing 7.6% compared to 2018. In which, the value of exports reachedUS$264.2 billion, while the value of imports reached US$253.1 billion. Vietnam, hence, enjoyed a trade surplus of US$11.1 billion in 2019. (See Figure 1)

Vietnam’s main trading partners include China, the United States, South Korea, ASEAN, EU, Japan and Taiwan. Among those, The United States and China are Vietnam’s largest export market and import market, respectively (See Figure 2 and Figure 3). And the trade war has indeed created a trade diversion effect between Vietnam's trade relations with both the U.S. and China.

Figure 1: Growth in Vietnam's Foreign Trade from 2010 to 2020



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 .1-6
Export	72.24	96.91	114.5	132	150.2	162	176.6	215.1	243.7	264.2	122.8
Import	84.84	106.8	113.8	132	147.9	165.6	174.4	213	236.9	253.1	117.3

Source: *The author collected and compiled from Vietnam General Statistics Office*

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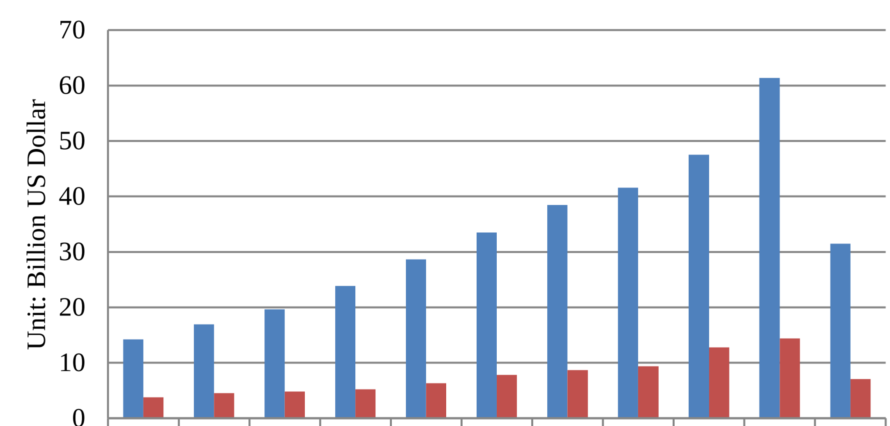
Figure 2: Growth in Vietnam-U.S. Merchandise Trade from 2010 to 2020



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 .1-6
Export	14.24	16.93	19.67	23.84	28.64	33.47	38.45	41.59	47.53	61.35	31.5
Import	3.77	4.53	4.83	5.23	6.3	7.79	8.7	9.35	12.75	14.37	7.04

Source: *The author collected and compiled from Vietnam General Statistics Office*

Trade diversion effect refers to the situation that the importers from the United States seek alternative goods supplies other than imports from China to avoid paying high tariffs. Vietnam, Taiwan, South Korea, Chile, Malaysia and Argentina are among few countries and regions to have benefited from this wave of trade diversion since the early of 2019.

According to Vietnam trade statistics, total merchandise trade between Vietnam and the United States has grown nearly 320% from US$18.01 billion in 2010 to US$75.72 billion in 2019. Especially, bilateral trade increased by nearly 26% in 2019 and the U.S. trade deficit with Vietnam rose to nearly US$47 billion, an increase of 34% compared to 2018. (See Figure 2)

The U.S. has become largest destination for Vietnam exports for many consecutive years while Vietnam ranked the 7th largest source of U.S. imports in 2019. Specifically, the exports from Vietnam to the U.S. in 2019 rose to more than US$61.35 billion, with an increase of 29% over the same period in 2018. (See Figure 2)

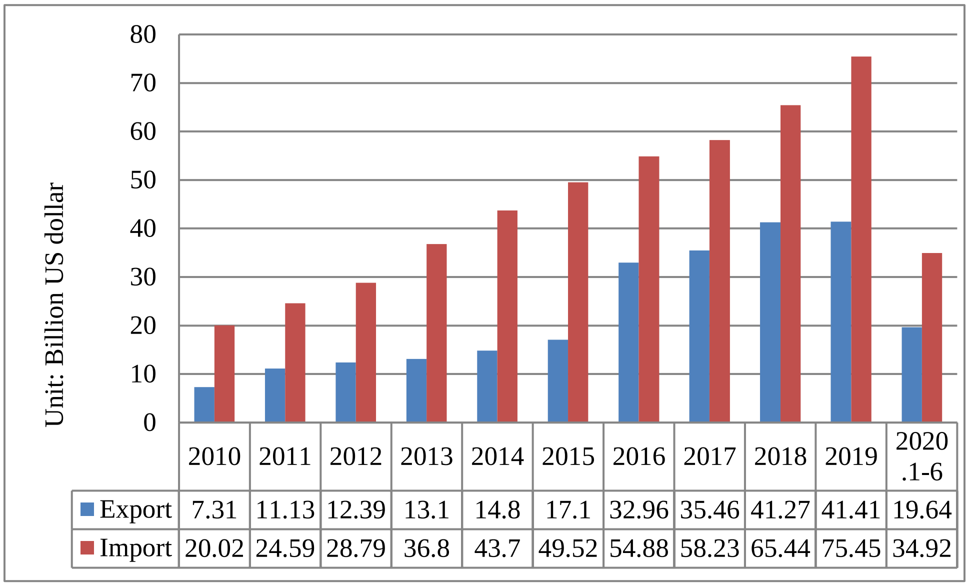
According to the latest trade statistics released by Vietnam Customs, in the first 6 months of 2020, Vietnam exports to the U.S. still witnessed an increase of 14.6%, reached US$31.5

billion, regardless of the negative impact of Covid-19. In the first 6 months of 2020, only textiles and footwear saw a decline in export turnover while exports of other commodities to the U.S. still increased. More specifically, the export value of textiles and footwear reached US$6.19 billion and US$2.93 billion, with a decrease of 11.9% and 7.7%, respectively. The exports of "computers, electronic products and components" reached US$4.38 billion, with a dramatic increase of 89%; "mobile phones and components" reached nearly US$4 billion, with an increase of 5.2%; "electronic machinery, equipment, tools and other parts" reached US$2.93 billion, a sharp increase of 73.5% (Vietnam Customs 2020).

It can be seen that the majority of Vietnam's increased exports to the U.S. came from additional imports of goods which are under the high tariffs that the U.S. posed on China earlier, including: "computers, electronic products and components" and "electronic machinery, equipment, tools and other parts." Though the exports of textiles and footwear have shrunk in the last 6 months due to the weak demand of American market, it is still predicted to benefit considerably from the trade war in the long run. Owing to the high tariffs on Chinese textile products, Vietnam-made products now have a comparative advantage in price, which is expected to be imported more into the U.S. As a result, this trend can push garment factories in China to transfer the whole or part of their manufacturing chain to Vietnam and other Southeast Asian countries. In a recent report, Fitch Solutions also concluded that Vietnam has benefited most from the shift in the textile supply chain (Vietnam Reader 2020).

Despite obvious and considerable benefits from trade diversion effects, Vietnam has faced some risks from this trend. First, as exports to the U.S. keep growing, the trade imbalance between the two countries has greatly expanded year over year. Vietnam, currently, is the 5th largest U.S. bilateral trade deficit (after China, Mexico, Japan, and Germany). That is to say, while Vietnam enjoys trade surplus, the U.S. suffers from trade deficit in the bilateral trade relations. Thus, trade imbalance issue has become a hot topic during almost all of high-level meetings between Vietnam and the U.S. officials. In May 2019, US Treasury Department added Vietnam to a watch-list of possible currency manipulators. In June 2019, President Donald Trump even directly referred Vietnam as "almost the single worst abuser of everybody" in an interview with Fox News. Given this, Vietnam has continuously pledged to import more goods from the U.S. to balance the trade relations (The Strait Times 2019).

Figure 3: Growth in Vietnam-China Merchandise Trade from 2010 to 2020



Source: *The author collected and compiled fromVietnam General Statistics Office*

Second, since the outbreak of trade war in 2018, many Chinese goods have been transported to Vietnam, relabeled as "Made in Vietnam" and then transshipped to the U.S. to dodge the high tariffs. This is the reason why while Vietnam's exports to China in 2018 and in 2019 almost remained the same, respectively reaching at US$41.27 billion and US$41.41 billion; yet, Vietnam's import value from China in 2019 suddenly rose to US$75.45 billion, with an increase of 15.3% YOY. At the same time, Vietnam's trade deficit with China also hit a record high atUS$34.04 billion in 2019. (See Figure 3)

Since the middle of 2018, Vietnamese authorities have repeatedly detected many cases that Chinese goods, such as: garments, steel and aluminum products, plywood, etc. being imported to Vietnam for simple processing before being re-packaged and re-labeled as "Made in Vietnam", and re-exported to the U.S (Thanh Nien 2020).TheU.S. has voiced concerns over this phenomenon, and put pressure on Vietnamese authorities to curb this situation otherwise the U.S. would take retaliatory measures against Vietnam's exported goods. In fact, since May 2018, the U.S. Commerce Department has imposed antidumping duties of 199.76% and countervailing duties of 256.44% on imported cold-rolled steel produced in Vietnam that uses Chinese-origin substrate (Reuters 2018).

A Surge in FDI Inflow

Vietnam has become a favored destination for international investors in recent years owing to it deep integration into global economy, pro-investment policies, stable political system, a rather young and increasingly urbanized population, and inexpensive labor wages. Nowadays, many a multinational company, such as Apple, Samsung, Nike, Adidas, etc. has already established their manufacturing factories or representative offices in Vietnam. It is roughly estimated that one in five cell phones in the world today was manufactured or assembled in Vietnam. Especially, 50% of Samsung mobile phones are being made in Vietnam (Cho 2015).

Prior to the trade war, many China-based enterprises and factories had started to move part of their manufacturing chain to Vietnam due to China's higher labor costs, stricter environmental standards, and China's shift towards more high-tech industries. As a result, the US-China trade war and the sudden outbreak of Covid-19 pandemic are like "last straws", pushing these enterprises to make a final decision to leave or stay.

In general, Vietnam has benefited from two simultaneous trends in foreign investment ever since the outbreak of US-China trade war. First, as stated above, as the U.S. imposed high tariffs on imported Chinese products, foreign firms in China have either moved or planned to move their production operations and supply chains off Chinese soil to Vietnam and other Southeast Asian countries. Second, many multinational companies have either chosen or will choose Vietnam as a location for their NEW foreign direct investment, especially in terms of export-oriented projects.

According to the statistics released by Bureau of Foreign Investment, Vietnam Ministry of Planning and Investment, the approved volume of FDI inflows in 2019 was US$38 billion, 7.2% higher than the previous year. There are 3,883 new projects which were licensed in 2019, 27.5% higher than 2018. Among those, the "processing and manufacturing sector" attracted the highest amount of FDI inflows, reached at US$24.56

billion, accounting for 64% of the total FDI in 2019 (MPI 2019).In the first five months of 2020, FDI in processing and manufacturing sector keeps increasing, with an amount of US$6.9 billion, accounting for 49.5% of the total FDI inflows (MPI 2020). This number is exactly in accordance with the investment trends as mentioned above.

In fact, international and Vietnam's local media have continuously reported that since the early of 2018, many representatives from Japan, South Korea, Taiwan, and even mainland China's corporations have been increasingly looking for production sites in Vietnam other than China. Many companies are now deploying a so-called "China plus one" strategy, which means they plan to establish production bases in other countries in addition to mainland China (Asia Nikkei Review 2019; Thoi bao Tai chinh 2020).

South Korea, Japan, Singapore, and Taiwan are the top four foreign investors in Vietnam. Up to the end of May, 2020, the FDI stocks of these four countries and regions in Vietnam are US$68 billion, US$59.9 billion, US$54.8 billion, and US$33.2 billion, respectively (See Table 1).In the context of the trade war as well as Covid-19 pandemic, investors from these countries and regions have also picked up their investment pace to Vietnam. For example: Japanese government announced that it would support Japanese firms which plan to move their production lines of China to other countries with a fund up to US$653 million for 87 companies and groups. According to the latest data provided by Japan External Trade Organization (JETRO) in July 2020, among 30 Japanese firms who are paid to move out of China, 15 firms have registered to move to Vietnam (Tuoi Tre 2020).

Notably, investment from China to Vietnam has dramatically increased since the early 2018. In 2018, China invested US$2.5 billion to Vietnam, with an increase of 19% compared to 2017. By 2019, there was a surge in the amount of Chinese investment into Vietnam, reaching US$4.1 billion, 64% higher than 2018. Even though China is the 7th investor in Vietnam in terms of FDI stocks, its ranking is much higher in terms of yearly FDI inflows. Specifically, China ranked as the 3rd biggest investor in Vietnam in the last five months of 2020, the amount of newly registered investment capital was US$1.27 billion, higher than those of South Korea, Japan and Taiwan's. (See Table 1)

Table 1: FDI Inflow into Vietnam by Origins (from 2015 to May 2020)

Unit: billion US dollar

Origin	Yearly FDI Inflows						FDI Stocks	Ranking
	2015	2016	2017	2018	2019	2020.1-5		
In total	22,757	24,373	35,883.85	35,465.56	38,019.11	13,885.75	376,591.98	
South Korea	6,983.16	7,036.30	8,494.31	7,212.09	7,917.00	1,222.12	68,159.72	1
Japan	6,983.16	2,589.86	9,111.92	8,598.95	4,137.60	1,265.28	59,941.03	2
Singapore	2,082.47	2,419.09	5,307.86	5,071.02	4,501.71	5,305.04	54,759.68	3
Taiwan	1,468.16	1,860.16	1,459.98	1,074.15	1,842.29	1,190.56	33,198.93	4
China	744.115	1,875.22	2,168.36	2,464.88	4,062.94	1,266.33	20,740.63	7
US	224.42	400.4	868.76	550.48	460.46	116.75	9,347.54	11

Source: *The author collected and compiled from Bureau of Foreign Investment, Vietnam Ministry of Planning and Investment*

It is undeniable that a new surge in FDI could provide Vietnam with capital, techniques, new management methods, which are beneficial for Vietnam's sustainable development as well as the country's industrial upgrading. For example, Samsung's biggest Research and Development Center in Southeast Asia was established in Vietnam in 2020; meanwhile Apple has started producing millions of AirPods wireless earphones in Vietnam (Asia Nikkei Review 2020).

However, the sudden surge in FDI inflows has also posed some challenges and real-time problems for Vietnam, including: fluctuations in the real estate market; overload of Vietnam's transportation and infrastructure (limited number of commercial deep-water ports); inability to screen low-quality and environment-detrimental investment projects, to name but a few. The surge of new investment projects leads to the construction of new manufacturing factories, residential buildings, shopping malls and office, etc., which has subsequently triggered a sharp increase in the flow of traffic in metropolitan areas throughout the country since the beginning of 2018. Given this, Hanoi, Ho Chi Minh City and several big cities in Vietnam have suffered from high level of air pollution these years. For example, during the end of September 2019 to the beginning of October 2010, Hanoi recorded with the highest Air Quality Index (AQI) of 272, exceeding the unhealthy levels, which adversely affected the health and life quality of people (Vnanet 2019).

More importantly, Vietnam is dwindled when compared to China in terms of territory area, population, infrastructure, skilled workers, R&D ability, and market, etc. Thus, it is really hard for Vietnam to totally replace and absorb all of the production lines which are being shifted from China. Moreover, in order to attract FDI, Vietnam also has to compete with other countries in the region, such as: Indonesia, Malaysia, and India.

Vietnam's Responses

So far, the U.S.-China trade war has created both positive and negative effects on many aspects of Vietnam's socio-economy. As stated above, trade diversion and an increase in FDI inflows can be regarded as the two most outstanding impacts of the trade war on Vietnam. Thanks to strong FDI inflows, and growth in exports, Vietnam's 2018 and 2019 GDP both grew 7.08%, the highest rate since 2008. Notably, Vietnam's GDP had a positive growth for the first two quarters of 2020 regardless of the negative impacts of Covid-19 pandemic.

It is not denied that as trade tensions between the U.S. and China drag, Vietnam is more likely to continue gaining huge benefits, especially electronics, textiles, footwear, and auto-parts sectors would benefit the most. Still, Vietnam is also facing considerable problems and risks from the ongoing trade war. Vietnamese leadership is now under pressure to reach a more balanced trade relationship with both the U.S. and China, to carefully screen new FDI projects, and to pick up the pace of reform, especially with regard to workers, wages, etc.

As to a more balanced trade relationship with the U.S. and China, Vietnam, on the one hand, has taken strict measures to prevent Chinese goods trans-routing through Vietnam to export to the U.S.Besides tightening the border trade with China, Vietnam Ministry of Industry and Trade (MoIT) even released a draft on the regulations of "Made in Vietnam" goods and products in August 2019, which set clear regulations on the origins of goods, the criteria to be considered as "Made in Vietnam" commodities, the labeling rules, etc.

(MoIT 2019). The draft, if being passed in the end, is hoped to curb the relabeling and reshipment of Chinese goods in Vietnam.

On the other hand, Vietnamese officials have repeatedly expressed that Vietnam is willing to import more from the U.S. to cut the trade deficit and to avoid being imposed high tariffs. Particularly, aircraft and energy (liquefied national gas, LNG) are among many products that Vietnam has ordered from the U.S. companies recently. For example, in December 2019, Vietnam Airlines (VNA) announced that it would buy 50 narrow-body aircrafts worth $3.83 billion from the U.S. Other Vietnamese airlines companies such as Vietjet Air and Bamboo Airways have also signed contracts to buy Boeing aircrafts from the U.S (Customs News 2019).

Regarding a new wave of FDI inflows, Vietnam is well aware of its comparative advantages to other regional countries in attracting FDI; and the pros and cons of the new FDI inflows to the socio-economy. Investing in Vietnam is regarded as a "win-win" solution to both foreign investors and Vietnam during the trade war. For foreign investors, products manufactured in Vietnam clearly have export competitiveness due to Vietnam's participation into a large web of bilateral FTAs and mega FTAs. For Vietnam, the country can capitalize on this opportunity to deepen and upgrade its industrialization. That is the reason why Vietnamese government has introduced a variety of favorable policies or incentives to attract foreign investors. These policies consist of more flexible and preferential rental policies; reduction of taxes and fees; visa friendly measures; and enhancing transparency in the investment environment, etc. All of these factors have helped Vietnam to jump to the eighth position in the ranking of the best economies to invest in 2019 by U.S. News & World Report (Vietnam Investment Review 2019).

To illustrate, Vietnam's corporate income tax is considered highly competitive in the region with a rate of 20% since 2016 (OECD 2018:221). Another example is the relaxation of visa policy for foreigners in Vietnam. Specifically, Vietnam National Assembly passed the amended "Law on Entry, Exit, Transit" on November 25, 2019, which allows foreign visitors to enter some coastal economic zones for 30 days without visa. The amended law is expected to attract more foreign tourists, investors, and businessmen to Vietnam (Thanh Nien 2019).

Despite Vietnam's hospitable attitude toward foreign investment, not all comers are welcome. That is to say, Vietnam prioritizes and encourages investment projects which are closely associated to the country's supporting industries development and sustainable development goals. After more than 30 consecutive years of attracting FDI, Vietnamese Communist Party's Politburo issued a first ever resolution (known as *Resolution No. 50*) regarding attracting foreign investment in August 2019. The Resolution requested relevant agencies to be proactive but "selective" in licensing new FDI projects, prioritizing projects with advanced technologies and friendly to environment (VnEconomy 2019).

Moreover, amid the Covid-19 pandemic, Prime Minister Nguyen Xuan Phuc agreed to establish "Attracting FDI Special Working Group" headed by the Minister of Planning and Investment with an eye to taking advantage of new FDI inflows, especially in the fields of ITC, electronic equipment and e-commerce, logistics, and consumer and retail (Vietnam Investment Review 2020). Clearly enough, both trade war and Covid-19 pandemic have provided Vietnam with more choices and opportunities. As a result, Vietnam has gradually changed the way how it selects FDI projects, from "refuse-nobody" approach to "carefully-screening" one.

Being one of the main beneficiaries of the US-China trade war and absorbing much of the manufacturing capacity that China lost from the global supply chain shifting during the Covid-19 pandemic, some have predicted that Vietnam will develop as an upcoming manufacturing hub of the world. The *World Finance* noted that given its cheap labor, stable political system, open trade and investment policies, etc., Vietnam has a high probability of evolving as a new production hub of the world (Gifford 2020). Also, Vietnam has more comparative advantages than many of its neighboring countries, such as growing economy size, diversified manufacturing sectors, resilient economic growth despite Covid-19 pandemic, lower wages compared to most regional states, etc. Given these factors, the *Seeking Alpha* also concluded that Vietnam would become the world's next growth market (Narayanan 2020).

In contrast to these above-mentioned optimistic evaluations and predictions, Vietnamese leaders have held a rather cautious attitude so far. Vietnam's state-owned media have published some prudent opinions from Vietnamese experts on this issue. The *Vietnam*

Magazine in one article entitled, "Why will Vietnam not become China 2.0?", wrote that it is undeniable that Vietnam's economy will continue propelling since it has attracted much of the high value-added supply chain from Foxcom, Lenovo, Samsung, and LG, etc. However, Vietnam's manufacturing scale is still much smaller than that of China. Vietnamese economy size simply just can never totally replace China in the global supply chain. Plus, while there will be a shortage of skilled workers for many companies flock to Vietnam, labor wages, and ground rent will subsequently rise. The bottom line is, "following the path of China is not the wisest choice for Vietnam," this article concluded (Hoang 2020). In a national forum on digital enterprise development held on 23 December 2020, Minister of Information and Communications, Nguyen Manh Hung straightforwardly said that Vietnam will not choose to be the world's factory with 100 million people being hired by others, outsourcing and assembling for others; instead, Vietnam wants to "rise to the forefront" with its own technology (Vietnammoi 2020). All of these evidences illustrate that Vietnam has not seen the possibility of being the world's production hub a totally promising future.

Conclusion

The U.S.-China trade war and Covid-19 pandemic will continue providing both pros and cons for Vietnam. First, Vietnam can harness this once-in-a-lifetime chance to realize industrialization and modernization, to add more momentum into its economic growth, and to reduce reliance on China market. Vietnam is indeed emerging as a new production hub in the region; yet, it is really hard for the country to totally replace China as a production hub of the world in the long run.

Like many other small states, Vietnam has been consistent to its no-alignment policy for many years. Hanoi's long-lasting policy has been the so-called "*Three-Noes*," including: no alliances, no foreign military bases on its soils, no activities with a second country against a third. In 2019, another "*No*" – no use of force to resolve disputes in international relations, was added in the *2019 Vietnam's Defense White Book* to form the "*Four-Noes*" policy (Vietnam MoND 2019). Despite the fact of that, Vietnam is facing the risk to take sides given the rising tensions between the U.S. and China.

Lately, Secretary of the U.S. Department of State, Mike Pompeo, in a press conference, even called Vietnam as its "Indo-Pacific friends", and invited Vietnam to join the U.S. and some other countries in restructuring global supply chains (India News 2020). This seems to give Vietnam a chance to join the American-led global value chain and to fuel robust economic gains. Yet, Vietnam might be required to take drastic structural reforms to meet up with the U.S. demands. Also, Vietnam's any closer move towards the U.S. may possibly be seen as "hostile" to China, and for this reason, Vietnam might be barred from accessing into China market. If this ever happens, Vietnam will be likely to miss out on enormous benefits from China.

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