Report on Supply Chain Compliance Volume 2, Number 6. April 04, 2019
Vietnam seen as cost-effective manufacturing alternative to China, but lacking resources

By Sascha Matuszak

Companies have been slowly shifting their production bases away from China toward smaller manufacturing bases, such as Vietnam and Malaysia for more than a decade. The initial moves — such as Nike manufacturing more in Vietnam than in China starting in 2009, and Adidas following suit in 2012 — were the results of wage increases in China. The more recent surge in cross-border supply chain shifts also has cost at its core, but it is being driven primarily by the Sino-U.S. trade war that raged throughout 2018.

Vietnam has emerged as the top destination for "trade war refugees," seeking relief from high tariffs and the uncertainty that comes with a trade conflict. There are several major reasons why.

Cheap labor

Vietnam's workers earn approximately USD 220 per month, whereas China's workers earn at least double that. Electricity in Vietnam is cheaper than in neighboring countries, and the cost of developing a new supply chain (including setting up a manufacturing base, creating logistics solutions, etc.) is also much cheaper in Vietnam than in countries, such as Malaysia or the Philippines.

Regulatory framework

Vietnam is a party to the Comprehensive Progressive Trans-Pacific Partnership (CPTPP), which eliminates a slew of tariffs and other costs between multiple Asian nations. Vietnam also signed a free trade agreement in Europe that went into effect the beginning of 2019. These and other deals mean businesses in Vietnam enjoy free trade with a large number of established and growing economies. Vietnam's government is also very business-friendly: If a new securities law is passed, foreign investors may be allowed to own 100% of public companies — a benefit they never enjoyed in China.

And another big advantage is the future. China has been slowly transitioning from the factory of the world into a major service provider, hi-tech hub and global economy. Additionally, the China's middle class is growing, so costs are only going to rise for companies manufacturing in China. Vietnam, on the other hand, is where China was more than three decades ago.