Context:

Vietnam has emerged as an Asian manufacturing powerhouse, carving out a role for itself within Global Value Chains (GVCs). By specializing in assembly functions on behalf of primarily foreign firms, Vietnam has markedly increased its domestic value added, as reflected by its gross exports, which have grown on average by 16.6 percent annually between 1995 and 2011. This export-oriented development strategy has created jobs, propelled economic growth, and reduced poverty.

As successful as Vietnam has been, within the context of GVCs, its specialization has been in low value-added, low-end production activities. Its challenge is to move up the value chain into higher value-added functions. Even more ambitious would be to grasp the opportunity to become an originator of products by nurturing a nascent set of domestic firms that have the potential to carve out an "invested in Vietnam" niche in local, regional and global markets.

In short, Vietnam is at a crossroads. It can continue to specialize in low value-added assembly functions, with industrialization occurring in enclaves with little connection to the broader economy or society. Alternatively, it can leverage the current wave of growth to diversify and move up the chain into higher value-added functions. Success will require Vietnam’s policymakers to view the process of development differently and to take new realities of the global economy more fully into account.

Vietnam at a Crossroads: Engaging in the Next Generation of Global Value Chains identifies policies and targeted interventions that will drive development by leveraging GVC participation while also taking into account major trade policy shifts and rapid technological advancements.
The World Bank Group undertook an analytical assessment examining which economic policies and investment priorities would support Vietnam to further integrate and upgrade in GVCs. The recommendations support Vietnam's efforts to achieve its growth aspirations to become a high-income country by 2035.

Components of the engagement included:

- Cross-cutting determinants of GVC participation and upgrading (export competitiveness diagnostics, firm and job dynamics, services-manufacturing linkages, services regulatory assessment, connectivity and logistics performance, preferential trade agreements)
- In-depth studies of GVC-intensive sectors (ICT, textiles and apparel, automotive, agribusiness)
- Recommendations for operationalizing the GVC agenda in Vietnam

The analytical assessment informed a multi-year, programmatic engagement on trade and competitiveness between the World Bank Group and the Government of Vietnam. The programmatic engagement has been focused along two pillars: (i) promoting trade facilitation and international integration, and (ii) strengthening private sector participation in GVCs.

A gender and poverty lens was indirectly applied during the course of this project's analysis. As discussed below, Vietnam at a Crossroads focused on GVC sectors that have been particularly beneficial for employment, in particular female employment, and thus poverty, including apparel, electronics, and agro-processing value chains. By supporting greater incomes and more and better jobs, GVC participation has also led to poverty reduction.
**Key Impacts:**

**Trade**

One of the key findings of Vietnam at a Crossroads was the low level of backward linkages of exporting firms in GVCs with domestic input-supplying firms. The report also found low firm-level productivity in Vietnam by international standards. Together, these findings highlighted a need for policy to strengthen domestic private sector participation in Global Value Chains through improved firm competitiveness. A key recommendation of the report was that linkages between foreign-owned exporting firms and local suppliers need to be tightened to enable a greater number of domestic firms to export. This would also support productivity improvements through knowledge spillovers from foreign firms to domestic firms. As a result, the World Bank and the Government of Vietnam worked together to develop a 'Enterprise Competitiveness and Linkages’ program with the objective of supporting the development of a domestic supplier base. It focused on SME support programs as well as industry linkages programs.

**Poverty Reduction**

Vietnam has benefitted from its export-oriented development strategy, where export opportunities created jobs and propelled economic growth and poverty reduction. Vietnam's continued integration into labor-intensive GVCs—as supported by the recommendations put forward in Vietnam at the Crossroads–has been particularly beneficial for job creation and poverty reduction. As highlighted in the World Bank 2020 World Development Report, the provinces with more firms participating in GVCs also experienced greater poverty reductions (figure). Provinces with more internationalized firms similarly experienced higher growth in the incomes of the bottom 40 percent of the population between 2004 and 2014. The impacts were not restricted to those provinces with more GVC participation, and poverty also fell in neighboring provinces in Vietnam.

**Gender**

As recognized in Vietnam at the Crossroads, GVCs deliver more and better jobs, particularly for women. GVCs firms tend to employ more women than other firms, improving their livelihoods and those of their families. As highlighted in the World Bank 2020 World Development Report, female employment grew faster than male employment in Vietnamese provinces where GVC participation expanded the most. Vietnam's continued integration into labor-intensive GVCs—as supported by the recommendations put forward in Vietnam at the Crossroads –similarly supports better gender outcomes.

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**Figure:** In Vietnam, poverty reduction was greater in locations with an increased presence of GVC firms.