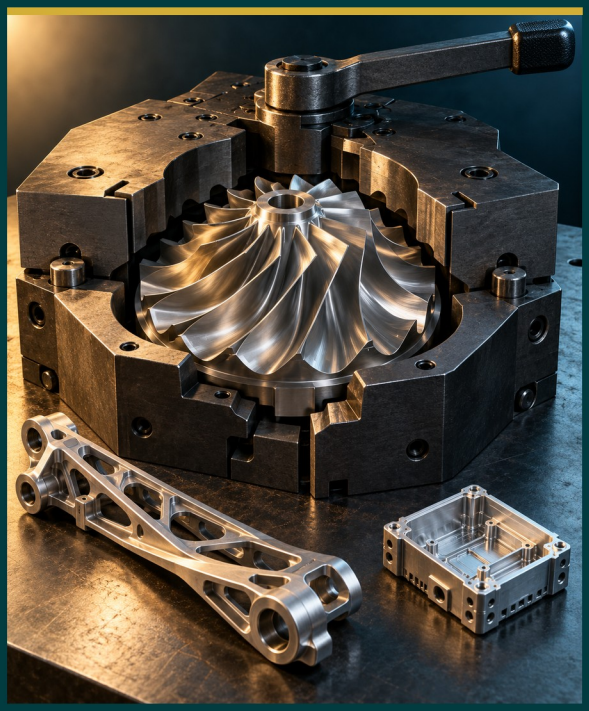
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Vietnam's Industrial Ascent

Higher Value, New Dependencies



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Vietnam’s Industrial Ascent

Higher Value, New Dependencies

Industrial upgrading creates value when firms can retain and reuse the capabilities they build. The same investment can deepen dependence on one customer, a critical input or a technology provider. Owners and boards should test transferability, delivery reliability and funded returns before committing to the next production mandate.

This article examines those cross-sector conditions. It does not rank industries or forecast a national financing gap. The financing of Vietnam’s wider growth programme is addressed in a separate companion analysis.

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Executive lead

Vietnam's next industrial step will be judged by more than the sophistication of the products leaving its factories. A country can export advanced equipment while importing the critical components, using designs developed elsewhere and leaving customer relationships in other hands. Equally, a Vietnamese business can create considerable value through an apparently modest component if it owns a hard-to-replace process, meets demanding specifications and can apply that capability across customers.

The strategic question is therefore which *functions* Vietnam can perform, improve and retain economically: engineering, specialised production, quality assurance, industrial software, testing, maintenance and the coordination of reliable supply. Moving into these functions can improve productivity and bargaining position. It also changes the risks. The equipment may be specific to one buyer; access to materials, software or technical standards may be controlled abroad; the cost of qualification may rise before orders become dependable.

The World Bank and the OECD identify stronger domestic capabilities and supplier links as priorities beyond export scale. [1][2] At Ho Chi Minh City's Autumn Economic Forum on 26 October 2026, experts called for core technologies and stronger local businesses. [5] The debate continued in the National Assembly on 31 October: Thoi Bao Ngan Hang reported deputies questioning whether export growth was translating into stronger domestic suppliers and technological autonomy. These are reported policy assessments, not new measurements of technology transfer. [8] For firms committing to equipment and qualification before repeat orders are secure, the management question is: when does specialisation create a position they can use beyond one customer or one favourable geopolitical moment?

Products do not reveal the whole position

An export classified as high technology can involve very different activities in Vietnam. One plant may assemble imported modules to a design and timetable set by its customer. Another may develop process parameters, solve recurring quality failures and qualify alternative inputs. A third may design and maintain the equipment used by both. The customs category can be similar, while the knowledge accumulated, investment required and ability to win a second customer are not.

This distinction is not an argument against assembly. Assembly can provide employment, disciplined production routines and a base from which firms learn. Nor is local ownership the only route to local benefit: a foreign-owned operation can develop Vietnamese engineers, pay wages and commission valuable local services. The relevant test is what functions are performed in Vietnam, how they improve and where the resulting income and capabilities accrue. Gross export value, domestic value added, local ownership and company profit answer different questions. [1][2]

Consider three illustrative positions. A contract assembler may deliver high volume but remain sensitive to a lead firm's allocation of orders and access to imported components. A specialist component producer may invest in metrology, process control and customer qualification; if that expertise serves several applications, it can win work even when its labour cost is no longer the lowest. An industrial testing business may employ fewer people but enable many manufacturers to meet international specifications. None is inherently superior. Their value depends on the economics of the function, the scope for learning and the ability to sell the capability again.

This is the first discipline for discussing Vietnam's industrial future: do not equate a more advanced product with a stronger domestic economic position. Ask which decisions, skills, assets and customer relationships the country's companies and workers acquire through making it.

The two faces of specialisation

Specialisation can reduce replaceability. A supplier that repeatedly meets a demanding tolerance, manages variation across batches and helps a customer redesign a difficult component has more to offer than nominal capacity. Its work can save failures, qualification time and interruptions elsewhere in the chain. That creates a plausible basis for durable demand.

But the same investment can increase dependence. A production line built to one customer's drawings may have few alternative uses. Qualification can take months while capacity and working capital are committed in advance. A supplier may be contractually free to serve other customers but unable to do so quickly because the equipment, tooling or certification cannot be transferred. The investor then bears a large part of the technical and financing risk while the customer retains the choice to move the next programme.

The crucial distinction is between **specialisation in a transferable capability** and **specialisation in one relationship**. A firm with a proprietary process, documented

quality performance and engineers who can adapt it to new specifications may be highly specialised yet commercially diversified. A plant with impressive technology can be commercially fragile if its knowledge, tooling and orders cannot travel beyond one buyer.

A concrete example shows the potential benefit of closer integration. VietnamPlus reported on 30 October that Unilever and packaging supplier Dynaplast directly connected two factories in Bac Ninh, feeding packaging into the production line instead of moving it by truck. Their cooperation also includes steam supply. The report describes operational benefits, not harmful dependence. [9]

Our inference is that closer physical integration can improve efficiency while making parts of an operation more specific to one relationship. Such a commitment may be economically sound. The investment test is whether the additional return compensates for the exposure, who bears the cost if demand changes, and which skills and assets remain useful elsewhere. Dependence needs to be priced and managed, not eliminated at any cost.

Boards considering a new industrial investment should therefore ask four linked questions. Which competence will remain after the first contract ends? What portion of equipment and qualification expense can serve another customer? Who controls the specification, production data and any jointly developed know-how? Can the firm fund the period between investment, approval and reliable payment? A positive answer on production capability alone is insufficient to establish an attractive return.

Specialisation can also change the customer's behaviour. A difficult-to-replace supplier is valuable, but it becomes a concentration risk to the buyer. The buyer may consequently develop a second source or retain ownership of critical tooling. The supplier's strategic importance is real; permanent pricing power does not follow automatically. This is an inference from the incentives of both sides, not a general finding for every Vietnamese industry.

Reliability becomes harder to produce

In his March 2026 VIR article, Sven David argued that continuity can outweigh small cost differences where buyers depend on synchronised inputs. The article traced delivery reliability through procurement, production, inland transport, ports, customs and international shipping, and identified local supplier depth as part of the response. [3] The implication for more specialised production deserves a further step.

The more specific an input and the longer it takes to qualify another source, the more costly a missed delivery may become for the buyer. A supplier's reliability then depends not just on its own factory. It may need stable electricity, calibrated equipment, specialist repairs, compliant materials, qualified staff, credible transport alternatives and timely administrative decisions. The commercial promise to deliver is produced by an interconnected system.

That can strengthen Vietnam's position if firms and institutions build a reputation for consistent execution. It can also reveal a hidden weakness: a factory may have excellent process controls but rely on a single imported material, software licence or maintenance provider. Geographic diversification by the buyer does not remove this vulnerability if the supposedly separate production sites use the same upstream source.

Purchasing priorities differ by product. When a standard item has many approved suppliers and sufficient stock, a small price difference may remain decisive. For a highly specific part that can stop an expensive line, a reliable supplier may win despite a higher quoted price. Even then, a buyer will compare the full delivered cost, including inventories, alternative sourcing and interruption risk. Reliability is an economic attribute to demonstrate and price where possible, not an unlimited premium.

For a Vietnamese supplier, the practical test is therefore two-sided: can it fulfil the customer's requirement under plausible disruption, and can it earn enough from doing so to fund the buffers and capabilities that reliability requires? Unfunded promises of resilience can consume the very cash needed to deliver them.

Geopolitical opportunity is conditional

Vietnam has benefited from international firms reassessing the concentration of their production networks. A further location can give buyers a choice when trade rules, political relationships or disruptions change. Yet the presence of another factory is not the same as an independent supply chain. Critical components may still come from one country; software, intellectual property, specialised equipment or sales channels may remain controlled elsewhere.

The question for Vietnam is not whether it should detach from international production. Greater participation and learning can be valuable. The question is which new functions it can perform while retaining options when markets, sourcing rules or technology restrictions change. A component producer qualified for multiple customers

and supported by alternative materials has different room to manoeuvre from a final assembler dependent on one imported kit and one overseas buyer.

This requires care in interpreting “localisation”. Purchasing an imported component from a distributor registered in Vietnam does not make that input locally produced. Conversely, a foreign-owned supplier operating in Vietnam may create substantial local wages, services and technical learning. Local content, ownership, physical location and strategic control need separate evidence. The earlier VIET TA analysis of Vietnam’s next growth already made these distinctions; the additional issue here is how they affect the *resilience and transferability* of an industrial position. [4]

Geopolitics can open the door to new mandates, but it cannot by itself prove a durable Vietnamese advantage. If a new order arrives primarily because of a temporary tariff difference, the investment case should withstand the possibility that the difference narrows. If the location is chosen for skilled execution, reliable supply and adaptable processes, the advantage has a stronger chance of surviving changes in trade treatment. Neither conclusion is universal; the decision belongs at the level of the actual product, customer and production network.

An advanced enclave is not yet an industrial transformation

High-performing export clusters can attract engineers, infrastructure and supporting services while remaining thinly connected to other local firms. Vietnam’s National Statistics Office reports that the foreign-invested sector, including crude oil, generated 80.7 per cent of merchandise exports in January–September 2026. [7] This measures gross export turnover by enterprise sector, not domestic value added or technological control. A large export platform and a broadly stronger domestic business base remain different outcomes.

The OECD likewise finds that the presence of foreign firms alone does not reliably produce wider regional productivity gains. Domestic suppliers need a minimum capacity to absorb technical requirements and knowledge before a linkage can create value. [2] A new industrial park can therefore succeed in attracting a major plant while nearby firms remain unable to supply its demanding inputs.

There are routes through this divide. Technicians and managers can bring knowledge to other employers; capable testing and maintenance providers can work for multiple plants; universities and training institutions can expand the skills pool; supplier-

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development programmes can help firms meet specific buyer standards. These mechanisms require an actual commercial connection and enough demand to justify investment. A training certificate or a memorandum of understanding is not equivalent to recurring qualified orders.

Policy should consequently examine the quality of links as well as the number of projects attracted. How many suppliers can deliver to specification at a viable margin? Which technical services can local customers purchase without depending on a distant provider? Do qualified employees progress into functions involving engineering and decisions? Are companies earning returns that allow them to reinvest? Those questions are harder than counting factories, but closer to the intended transformation.

Domestic customers can also provide a learning path. The forum report calls for a stronger domestic market for smaller firms without international customer networks. [5] For a testing or maintenance provider, several local industrial customers may offer opportunities to adapt a capability before competing abroad. This is a proposed development route, not evidence that domestic demand is sufficient in every segment.

The investment constraint behind the ambition

This industrial step needs capital before its rewards appear. Suppliers may need equipment, testing, certification, working capital and skilled teams; the wider system needs power, transport and other infrastructure. Some projects can be funded by commercial customers and investors from their own prospective revenues. Others depend on public investment or continuing public commitments. Neither a strategic label nor a technologically impressive plant establishes who will pay or whether the project can earn its cost of capital.

Technological upgrading also creates exposure to an investment cycle. The IMF's October 2026 Asia-Pacific outlook identifies a correction in AI-related investment as a risk, with Asia particularly exposed through technology supply chains; stronger productivity gains remain an upside possibility. [6] For an industrial supplier, this implies a further test: several customers may still depend on the same AI capital-spending cycle. Finance should stress-test their combined order slowdown, rather than treat different customer names as independent demand.

For companies, the immediate discipline is to connect capital commitments with customers, transferable capability, expected cash generation and credible downside

cases. For the country, the parallel question is whether investment creates enough productive activity and public revenue to sustain the next stage of infrastructure and skills. These financing mechanisms merit a separate analysis. They are the subject of the companion article, provisionally titled *Who Will Finance Vietnam's Next Growth?*

A decision framework for the next position

Vietnam does not need every firm to become a semiconductor designer or a consumer brand. Advanced assembly, specialised components, testing, engineering and industrial services can all make economic sense. Their prospects depend on distinct customer requirements and costs. Selection should begin with the function a firm can perform exceptionally well and then test whether it can retain a viable share of the value it helps create.

Before committing to a new position, an owner, board or investor can ask:

1. Function: What task will the operation perform beyond adding output, and what evidence demonstrates that customers value it?
2. Transferability: Which skills, data, certifications, processes and assets remain useful with a second customer or product?
3. Dependence: Which customer, input, technology, route or approval could interrupt the economics, and what alternatives are feasible?
4. Reliability: Can the entire chain deliver at the required quality and timing under plausible disruption, and who pays for the necessary resilience?
5. Returns: Does the expected margin and cash cycle justify investment, qualification, inventories and the risk of programme change?

Commercial leadership should obtain evidence of demand beyond the initial buyer. Operations should test alternative inputs, tooling reuse and delivery under disruption; finance should model qualification spending, the cash cycle and a lost-programme case. The board can then release capital in stages against those findings, with the customer's contribution or commitment specified where the supplier carries a large share of the risk.

Before approval, the investment paper should quantify the share of equipment that can be redeployed, the time and cost of qualifying an alternative input, and the peak cash requirement if the first programme is delayed or cancelled. Management should agree project-specific limits for these measures before ordering equipment. Capital release should pause if the downside cash requirement exceeds committed funding, if a critical

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input has no qualified alternative within the customer's permitted interruption window, or if the promised second application has no documented technical route. These are proposed decision rules, not universal industry benchmarks.

A negative answer does not always mean abandoning a promising opportunity. It may call for a smaller first investment, a customer commitment, shared qualification costs, another source of supply or a different sequence. The purpose of the test is to make the trade-offs visible while choices remain open.

Vietnam's opportunity is substantial. Yet the strongest evidence of industrial ascent will not be the number of fashionable sectors named in a plan or the sophistication of exported products alone. It will be the accumulation of capabilities that Vietnamese operations can apply repeatedly, deliver reliably and finance on sustainable terms. Higher value is possible. The question is whether the new dependencies created along the way remain manageable.

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