

Vietnam Hit by Raw Material Shortages Disrupting Supply Chains: 7 Industries to Watch

Raw material shortages are hampering global supply chains due to geopolitical tensions and China's zero covid strategy. Such shortages have also impacted Vietnam. Vietnam Briefing examines seven industries that are particularly impacted and how they are coping with the challenge.

Despite global uncertainties, Vietnam's economy is recovering at a considerable pace post-COVID-19. As per the [World Bank](#) (WB), Vietnam's GDP growth in 2022 is projected to reach 5.5 percent from a low of 2.6 percent in 2021 due to the pandemic.

However, challenges remain as the consumer price index (CPI) has been steadily increasing to a seven-month high, recorded at 2.4 percent in March, a rise of 1 percent compared to the prior month.

The upsurge in prices has been primarily driven by production cost spikes, which have resulted from a severe shortage of input material for manufacturing across industries. In fact, mainstream industries are faced with another challenge after COVID-19: surging costs and input shortages, exacerbated by supply chain disruptions.

Here, we examine the current situation of the seven most affected industries amid the competition of securing input raw materials.

Textile and garment industry

The [Vietnam Textile and Apparel Association](#) indicates that the prospects for the industry in Vietnam are bright in the long term, in light of Vietnam's reopening and implementation of several [free trade agreements](#) (FTA). The textile industry is projected to generate up to US\$43.5 million for Vietnam's economy this year under ideal conditions.

However, the ability of textile firms to fulfill orders are currently undermined by supply chain disruption due to border closures in China due to the pandemic, and surging costs due to the [Russia-Ukraine crisis](#).

China has long been the leading exporter of fabrics and garment accessories for Vietnam; between 50 percent and 55 percent of raw materials and textile accessories are imported from China for Vietnam's textile industries. However, as China shows no sign of abandoning its zero-Covid approach, many shipments of fabrics and garment pieces are piling up at its ports, leading Vietnamese garment firms to delay production and delivery.

Textile manufacturers in Vietnam face challenges and have been forced to place orders with their Chinese suppliers months in advance to secure input materials as Chinese factories are forced to operate below capacity.

The situation has deteriorated as the price of cotton has spiked. [The Vietnam Cotton and Spinning Association](#) (VCOSA) recorded a spike in cotton prices imported from Brazil, the US, and India by 0.87 percent, reaching around US\$1,625 per tonne. This has eaten into the revenue of manufacturers in Vietnam as it is difficult for them to pass on the surge in price to customers in a short term.

In addition, the US government on June 21 passed the [Uyghur Forced Labor Prevent Act](#) which prevents companies from importing goods, including cotton, which is from China's Xinjiang region to the US. This has further added to input costs.

In an attempt to support the textile industry, the [Ministry of Industry and Trade](#) (MoIT) stated they would speed up the implementation of the development strategy for the textile and footwear industry towards sustainability while looking to adopt cutting-edge technology to upgrade the productivity of the two industries.

Textile firms have made effort to diversify suppliers to loosen their dependence on China for input.

Footwear industry

Vietnam boasts the third most prominent footwear manufacturer in Asia and the fourth worldwide. In 2020, Vietnam exported up to 1.2 billion pairs of shoes, making up 10 percent of the global shoe export market, compared to only 2 percent the year before.

However, as Vietnam's shoe manufacturers import most of their raw materials, from leather to other accessories, from China, the current lockdown of the country has kept many firms from attaining raw materials and lagging delivery dates with foreign partners.

Electronic industry

The semiconductor supply chain has been significantly disrupted due to the below-capacity operation of manufacturers where lockdowns are yet to be lifted, leaving electronic businesses, from prominent ones like Intel and Samsung to SMEs, uncertain about their future production.

Samsung Vietnam held concerns that the production of its new models is currently put on hold because the shipment of components from China through the [Lang Son](#) border gate is frequently disrupted. Despite the Lang Son government's efforts to cut short the customs clearance, China's border gate shutdown has left Samsung's plan of road shipment unfeasible.

Meanwhile, Intel anticipates that the semiconductor supply shortage can continue into 2024. While the shortage is happening globally, major electric firms have to endure production challenges due to disrupted shipments of components while their suppliers fail to keep up with extensive demand.

Currently, manufacturers and the [Vietnam Electronic Industries Association](#) have petitioned the government to negotiate with the authorities of China on cushioning the border shutdown to ensure supply flow.

Wood production industry

Vietnam's wood product industry has seen immense growth post-COVID-19 thanks to higher international demand and the effect of various FTAs. The country's timber and forest products are exported to well over 140 countries worldwide, with a 2021 export value of approximately USD 14.5 billion.

The Russia-Ukraine conflict has disrupted a wide range of Russian exports, including timber. The supply of Russian timber to Vietnam's manufacturers has been impacted, resulting in high costs.

Firms have sought to diversify their suppliers, including timber from the EU and the US. However, the steep shortage has left firms competing to secure input timber during the period of increasing prices.

The stress is also on fuel price spikes; Sai Gon Trading Production Development, a wood furniture manufacturer, noted that wood processing firms are currently struggling with increasing gas prices. Due to the inflation and increasing prices, wood product manufacturers are reluctant to engage in new contracts with buyers.

Rubber industry

Vietnam's rubber industry has been far more lucrative than expected. In 2021, the export value of rubber reached a 10-year high record, according to the [Vietnam Rubber Group](#). Its pre-tax profit was at a high of US\$260.8 million, surpassing 7 percent of the target and the after-tax profit amounted to US\$218 million, exceeding 10 percent of the target.

However, the rubber industry has been hit by an input deficit. A point to note is that 70 percent of raw materials especially chemicals are imported from China,

Due to these shortages, Vietnamese firms are engaging other suppliers, such as Japan and South Korea. However, the price of importing from either country is 15 to 20 percent higher than from China. In addition, the available supply from the aforementioned countries is inadequate compared to that of China.

Agriculture

The livestock industry in Vietnam is being hit hard also by the Russia-Ukraine crisis since up to 90 percent of the raw materials for animal feed in Vietnam are imported. Since 2021, the price of raw materials, including wheat, corn, and soybeans, has surged by 30 to 40 percent as both Russia and Ukraine are the world's top wheat exporters.

The loss in profits of Vietnamese firms in the industry can amount to VND 50-100 billion due to rising animal feed costs as well as transportation costs.

Freight costs are also eating into the budget of agricultural firms as it is reported that sea freight costs have soared by 237 percent compared to 2020, meaning each container of products now costs US\$2,650.

Iron and steel

The steep fall in steel and iron supplies is contributed due two main reasons. One, China has practiced an output control policy for iron to ensure domestic demand. This has disrupted iron supply globally compounded by China’s border closures. Second, the Russia-Ukraine crisis has disrupted steel exports from Russia and Ukraine – two dominant steel exporters.

The price of steel in mid-2021 was at US\$633 per ton, a surge of 31.5 percent compared to the same period in 2020, while iron saw an increase of around 25 percent in price in 2021, compared to 2020.

High inflation and CPI

The input shortage and rising costs have forced manufacturers and firms to pass on higher costs to consumers, consequently leading to almost a two-year high inflation rate. As of June 2022, a rise of 3.37 percent in Vietnam’s CPI was recorded, according to the [General Statistic Office of Vietnam](#) (GSO).

The price spikes across different consumer goods as of June 2022, compared to the same period in 2021, are presented in the table below:

Category	% of surge
CPI	3.37
Transport	21.41
Devices and household goods	1.99
Housing, building materials	1.53
Textile and footwear	1.49

Takeaways

The emphasis is now on how Vietnam can tackle the situation regarding input shortage. The WB has suggested structural reforms for the economy to become more resilient in times of turmoil and to scale up supply.

Tax incentive policies for productive and innovative businesses, transparent legal procedures, and reduced barriers to market entry are three pivotal steps the government can look at while businesses seek to diversify suppliers. The importance of developing a domestic support industry has also been highlighted by experts in order to reduce the dependence on imports.

Vietnam's economy is particularly vulnerable due to its dependence on external trade and its partnerships with global economies.