

The Impact of China's Manufacturing Transfer on GVC Upgrading in Vietnam: Evidence from Sectoral Heterogeneity

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Against the backdrop of intensifying global supply chain restructuring, escalating Sino-US trade frictions, and the widespread adoption of the "China Plus One" strategy, this study investigates the profound structural implications of the international relocation of manufacturing bases from China to Vietnam. Specifically, the central research question examines whether this massive influx of foreign capacity effectively catalyzes autonomous industrial upgrading and structural embeddedness within Global Value Chains (GVCs) for the host economy, or if it inadvertently locks the recipient into an "assembly hub" trap characterized by surging gross export volumes but stagnant domestic value-added. To rigorously isolate the causal mechanisms of this capacity relocation and definitively test for the presence of this structural trap, the empirical investigation employs a two-way fixed-effects panel regression model, augmented by an interaction mechanism analysis that captures the moderating effect of bilateral supply chain dependence. This methodological approach is further refined by a heterogeneity analysis designed to delineate the asymmetrical upgrading trajectories across different technological intensities. The study constructs a highly granular, industry-level panel dataset comprising 17 distinct Vietnamese manufacturing sectors over an extensive temporal baseline from 2006 to 2022. To achieve this, the true scale of bilateral production transfer is quantified utilizing a Multiregional Input-Output (MRIO) framework drawn from the latest OECD-TiVA (2023) database, moving decisively beyond the noisy, aggregate Foreign Direct Investment (FDI) proxies that have historically constrained similar literature. Furthermore, the precise GVC participation indices are disaggregated into forward and backward embeddedness are calculated utilizing the rigorous Wang et al. (2017) value-added decomposition method. These are seamlessly integrated with sector-specific operational control variables, such as labor size, labor productivity, capital accumulation, and industry profitability, synthesized from the UNIDO INDSTAT database and Vietnam's General Statistics Office (GSO). Providing novel empirical evidence on the inherent vulnerabilities of contemporary international capacity transfers, the baseline estimates reveal a robust, statistically significant increase in Vietnam's overall GVC participation directly attributable to these manufacturing relocations, an integration fundamentally propelled by demographic dividends and labor scale rather than domestic capital accumulation. However, the mechanism analysis exposes the core theoretical novelty of the research: these aggregate structural benefits are strongly and negatively moderated by an overwhelming reliance on imported Chinese intermediate inputs. This interaction demonstrates that extreme dependence on upstream foreign components actively dampens the upgrading benefits, trapping domestic sectors in a low-value-added processing model that merely assembles imported parts. Moreover, the heterogeneity estimations reveal that while positive GVC upgrading effects are observable, they are driven almost exclusively by high-tech sectors capable of cultivating localized supply ecosystems, whereas traditional labor-intensive, low-tech sectors driven purely by wage arbitrage exhibit no genuine structural advancement. Ultimately, these empirical dynamics signify a geographic elongation of highly segmented global supply chains rather than a wholesale transfer of core technological capabilities. Our results suggest that to escape the low-value-added processing trap, trade and investment policies must explicitly target the deepening of domestic backward linkages.