
INTERNATIONAL TRADE IN THE FOURTH INDUSTRIAL REVOLUTION: A STUDY IN VIETNAM

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Abstract: As economies of various countries are being constructed on open economic platforms, the participation of multiple economic components, including foreign enterprises or distributors engaging in domestic markets, can lead to the influence of foreign markets on the domestic market. The impact of foreign enterprises, proportional to the share of foreign businesses in the general economy and trade activities, will yield diverse effects on an economy, resulting in various transformations. Hence, for Vietnam, how has international trade influenced the nation and what international trade policies has Vietnam implemented?

Keywords: e-commerce, Fourth Industrial Revolution, Vietnam

Introduction

The COVID-19 pandemic has caused and continues to cause numerous negative repercussions for countries worldwide, particularly in the realm of economics. In response to the adverse effects of the pandemic, international trade has undergone significant changes, including the development of e-commerce, digital agreements, shifts, and restructuring in supply chains. Efficiently harnessing the opportunities presented by these trends can contribute to enhancing Vietnam's ability to adapt quickly and achieve sustainable economic development in the current new context.

1. Overview of International Trade

It is likely that every economics student is familiar with Adam Smith, the father of the theory of free-market economics. Smith put forth a simple proposition that when two individuals exchange goods at prices determined by a free market, an invisible hand leads to mutually beneficial outcomes. This principle drives specialization and encourages each individual to focus on producing what they are most skilled at, leading to increased productivity based on specialization and production scale-up. This principle also applies to nations. In "The Wealth of Nations," Smith wrote, "If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage."

David Ricardo (who voted for free trade and against protectionism through import taxes in the British Parliament in 1821) took this notion further by arguing that trade benefits are not only based on absolute advantages but also on comparative advantages. He stated, "A country, like an individual, derives advantage from trading with other countries, even if it has absolute advantages, by exporting goods or services in which it has the greatest comparative advantage in terms of productivity and importing those in which its comparative advantage is least."

In essence, if person A produces two distinct products more efficiently than person B, measured in terms of labor hours, both individuals still benefit if person A specializes in the product in which they have a comparative advantage compared to the other product. These theories from Adam Smith and Ricardo suggest that when a nation engages in international trade, it benefits from specialization and efficient resource allocation.

After the establishment of the WTO, the proportion of international trade has increased by around 3.3% annually, peaking at 51% of GDP. Since the 2008 economic crisis, this proportion has receded to 46%. Vietnam stands out as an exception with a proportion exceeding 180% of GDP, a trend that gained momentum since 2008. Even at its highest, South Korea's proportion was only 82%.

The Stolper-Samuelson theorem (1941) demonstrates that under conditions of free competition, rising prices lead to increased returns for factors of production utilized in the production of the corresponding goods, eventually equalizing the remuneration of these factors of production within and between countries engaging in trade. However, during the process of balancing due to international trade liberalization, there will be winners and losers. Winners include those exporting products with advantages due to abundant resources and low labor requirements, which increases prices and income for producers and laborers. Losers are laborers and incomes in industries that must compete with imported goods.

In reality, the Stolper-Samuelson theory can be easily refuted as it overlooks the fact that not only wages and incomes are affected but also labor mobility and retraining limitations, resulting in unemployment.

Moreover, the perfect free market theory relies on the assumption of economic sectors remaining static despite the presence of internal and external factors that induce changes in production structure. Technological advancements such as e-commerce gradually replacing traditional retail outlets and retail centers have led to unemployment for the majority of workers. The concentration of profits within a few dominant companies further amplifies this effect.

External factors may also include government policies that actively adopt scientific and technological advancements through education enhancement, investment, and learning, including illicit practices. Additionally, how can a technologically deficient nation elevate itself through education, skill development, and the adoption of new technologies? Are they permitted to protect their market in a technologically fragile era to avoid being wiped out? In a capitalist context, what actions must be taken when the market is encroached upon not under the guise of genuine free competition? Moreover, although the overall economy benefits, who specifically benefits, and which socioeconomic strata within the economy benefit? Furthermore, considering the acceptance of political disputes that lead to supply limitations, such as oil and grain, due to the conflict in Ukraine, what are the implications?

"Globalization" and "The Flat World" Are Not Just Dreams

These are the issues that mathematician Ralf Gomery and renowned economist William Baumol raised in their book "Global Trade and Conflicting National Interests" (2000), based on economic and mathematical foundations. It is not a rejection of the theory that free trade brings

mutual benefits to the world, but the two authors raised concerns about the distribution of these benefits among nations and within different strata of societies in a dynamic environment. In the current scenario, it is evident that the focus in the U.S. is primarily on serving businesses to increase profits and enrich shareholders, leading to a depletion of industrial production jobs in the U.S. economy.

Vietnam's trade surplus with the U.S. in 2021 reached \$91 billion according to U.S. reports, and \$113 billion according to Vietnam's reports. To achieve this, Vietnam had to import \$46 billion worth of goods from China and \$34 billion worth of goods from South Korea. As a result, the U.S. might argue that Vietnam has become a conduit masking the true origin of Chinese and South Korean goods, infiltrating the U.S. market.

Paul Samuelson (2004) also agreed with reframing the issue in this manner, and the works of Gomery and Baumol are considered significant after Ricardo. Gomery and Baumol even suggested that import tariffs might be necessary to counter the harmful effects of China's rise on the prosperity of the U.S.

This perspective is increasingly influencing a reassessment of concepts like "globalization" and the "flat world" that were once taken for granted. Trade balance is now being scrutinized not only in a broader context between nations but also within each individual nation, as seen in the reactions of politicians in many countries today. The specific reaction of the U.S. and other countries towards China is the most prominent example. While China's trade-to-GDP ratio falls behind many other countries, due to the large size of its economy, its total merchandise export value in 2021 exceeded that of the U.S. (\$3.5 trillion compared to \$2.1 trillion) and even the total trade value of China with ASEAN countries more than doubled that of the U.S. (see Figure 2).

It's also worth noting that the phenomenon of trade deficits has plagued the U.S. since the 1970s, with deficits increasing over the years, often exceeding 5-6% of GDP and hardly ever dropping below 3%. With deficits of such magnitude, other countries would have been flagged by the International Monetary Fund (IMF). However, the U.S. seems relatively unaffected financially, as the U.S. government can simply print money to spend, and other countries are willing to hold and lend money back to the U.S. Currently, China and Japan each hold foreign currency assets of less than \$1 trillion in U.S. government bonds out of the U.S. government's \$7.4 trillion debt (32% of GDP). Even Vietnam loans nearly \$40 billion to the U.S.

The greatest cost is being borne by the incomes of the majority of U.S. laborers, which is trending downward. The upper middle class that previously held 62% of U.S. income now holds only 42%. I've analyzed this issue in great detail in an article for Thoi Dai Magazine. This trend is causing significant political instability today.

2. International Trade Recession, Except for Vietnam

As explained earlier, a more practical reevaluation of the theory reveals the growing skepticism towards the ideal of free trade in the world, a concept that the World Trade Organization (WTO) had established as its foundation. This skepticism is likely to lead to

increasing political influence on trade dynamics. Any nation can question why the trade balance between their country and another consistently favors the other party.

The WTO was established in 1995 following the Uruguay Round of negotiations that lasted from 1982 to 1994, with the strong backing of the United States. The WTO replaced the General Agreement on Tariffs and Trade (GATT) (1948-1994) and expanded the rules of trade beyond the exchange of goods to include services and intellectual property. It particularly aimed to eliminate trade protectionist barriers like import quotas, discriminatory tariffs, and differentiation between domestic and foreign trade.

However, it's astonishing that after World War II, the expansion of global trade driven by GATT, on average, increased the trade-to-GDP ratio from 1970 to 1995 by about 2.1% annually. After the formation of the WTO, the global trade-to-GDP ratio increased even further, with an average annual growth of about 3.3%, reaching its peak at 51%. Following the 2008 economic crisis, there has been a recession in trade (except for Vietnam), and it currently stands at around 46%. The trend of deglobalization through reduced trade-to-GDP ratio is expected to continue in the future, especially after Russia's conflict with Ukraine and China's threat to peace (see Figure 3).

This recession is not only a general phenomenon but is particularly evident in China, South Korea, and the U.S. Vietnam stands out as an exception, not only maintaining but also strengthening its trade, with its merchandise trade-to-GDP ratio reaching over 180%. Even at its peak, South Korea's ratio was only 82% (see Figure 3).

In the current economic development scenario, Vietnam faces the following three characteristics:

2.1. Excessive Reliance on Exports and Imports for Development

Vietnam ranks third globally (only after Hong Kong and Singapore), with its trade-to-GDP ratio exceeding 184%. It far surpasses other countries around the world.

2.2. Excessive Reliance on Foreign Investment Attraction in Simple Industries for Labor Supply

While Vietnam previously focused on exporting textiles and garments, it now primarily exports electronics (see Figure 4). However, textile and garment production generates much higher value-added, whereas electronics manufacturing contributes significantly less value-added. Although there is no recent detailed information from the General Statistics Office of Vietnam, previous surveys revealed that the labor cost in the electronics sector accounted for only 6.6% of the product value (and a mere 3% for communication equipment like phones), much lower than the national average of 21.5% and 31% for the U.S. in 2018.

Table 5 also shows that the substantial export value of electronics requires a significant amount of imports (HS 84-85); for every dollar of export, 90 cents of imports are needed. Therefore, in 2020, even though textile and garment exports were only one-sixth of electronics exports, they contributed to a more favorable trade balance for the economy, surpassing electronics manufacturing by 50%. Electronics manufacturing indeed involves low-cost labor-intensive processes. With the current state of electronic manufacturing (HS 84-85) being referred

to as "digitization," its contribution is even worse compared to other normal manufacturing activities.

2.3. Vulnerability to External Pressures

The common issue among ASEAN countries is the trade surplus with the U.S. and trade deficit with China. However, Vietnam's trade surplus is the largest. Vietnam leads in trade surplus with the U.S., nearly 2.2 times more than the second-ranked country, Malaysia. Despite being the country with the world's largest international trade, Singapore maintains a balance with the U.S., even importing more than exporting.

Vietnam's trade surplus with the U.S. in 2021 reached \$91 billion according to U.S. reports and \$113 billion according to Vietnam's reports (see Table 6 and Table 8). To achieve this, Vietnam imported \$46 billion worth of goods from China and \$34 billion from South Korea. Due to this situation, the U.S. might perceive Vietnam as a shield masking the true origin of Chinese and South Korean goods entering the U.S. market.

In contrast to Hong Kong, where goods from China only transit and are controlled by U.S. Customs, Vietnam's goods are slightly processed to become labeled as Vietnamese products. Furthermore, producers in Vietnam benefit from cheap electricity and land. Unfortunately, there are currently no international laws defining at what level of processing goods can be considered products of a third country. Yet, U.S. politicians can use the substantial trade surplus data from Vietnam to apply sanctions and exert political pressure on various aspects of Vietnam, considering it as a critical link to impose pressure.

For Vietnam to achieve self-reliance in defense and politics, it must free itself from the economic trap it has created. With China, not only Vietnam but the entire ASEAN region has become closely intertwined, making it vulnerable to pressure. Therefore, it's essential to maintain independence from both superpowers. With a population of nearly 100 million people, Vietnam is not a small market, and achieving self-reliance in defense and politics requires the development of a strong domestic market.

Gomery (2013) writes as follows: Day after day, creativity is everyone's favorite subject. We hear repeatedly that the United States creates to survive, to compete in the global economy, and Americans can do that because they have the potential to create. Discussions about creativity approach the issue upside down. It makes no sense to speak of creativity as if creativity itself were the end... the ultimate goal. We can create until the "cows come home"; if it doesn't contribute to increasing U.S. production, what use is it for the United States? But in an era of globalization and the pursuit of profit worldwide, our global corporations have a strong incentive to move production abroad. This is not only because they have access to cheap labor, but also because in high-tech fields, where cheap labor is not attractive, they receive foreign subsidies. As a result, industrial innovation and production are moving offshore.

3. Impact of the COVID-19 Pandemic on the Global and Vietnamese Economies

Firstly, Economic Growth Decline: The COVID-19 pandemic deeply affected all aspects of the global economic and social life. Particularly in the economic sector, the pandemic

led to a severe decline in the world's economic growth rate due to disruptions in global supply chains and travel restrictions imposed by many countries worldwide.

According to the World Bank, in 2020, the global GDP growth rate reached 3.6%, the lowest in 50 years (1970 - 2020). Faced with the profound impact of the COVID-19 pandemic, countries adopted unprecedented measures to minimize the effects and consequences of the disease. These measures included international travel restrictions, social distancing, and temporary suspension of business and manufacturing activities. Most countries around the world closed their borders and suspended issuing visas to foreigners.

In 2021, the global economy quickly rebounded with a growth rate of 5.8%(1). Through vaccination campaigns and various support programs from regional alliances and international organizations, the COVID-19 pandemic was gradually brought under control. In 2022, the global economy continued to be impacted by the Russia-Ukraine conflict, leading to severe shortages of raw materials and energy, resulting in higher energy and food prices, dampening global growth rates, and raising inflation forecasts.

Being one of the countries affected by the COVID-19 pandemic, Vietnam's macroeconomic indicators underwent significant changes. In 2020, although the GDP growth rate reached 2.1%, it decreased by 4.1% compared to 2019. In 2021, Vietnam's economy grew by 2.58%, lower than both the previous year and the target of 6.5%. This was the lowest economic growth rate in Vietnam for many years.

Secondly, Decreased Share of Trade: In 2019, the global economy was negatively impacted by the COVID-19 pandemic, causing a 22% decrease in the global trade share; the global export volume decreased by \$1.4 trillion USD. In 2020, global trade began to rapidly recover, reaching its highest point at \$28.5 trillion USD, a 13% increase compared to the pre-pandemic period(2). According to the World Trade Organization (WTO), the growth rate of commodity trade in Q1 and Q2 2022 increased by 4.8% and 4.7% respectively compared to the same period in 2021. However, the forecasted growth rate of commodity trade volume in 2022 is only 3.5%, and 1% in 2023 due to the impacts of the Russia-Ukraine conflict and the tightening monetary policies of major economies.

Like other economies around the world, the outbreak of the COVID-19 pandemic in March 2020 disrupted supply chains in Vietnam. Major trading partners of Vietnam, such as the United States, the European Union, Japan, and France, all experienced a significant decrease in import demand. Vietnam's key export sectors faced dual impacts—improved input materials but challenges in finding markets. Consequently, the export proportion in 2020 decreased by more than 31% compared to 2019. Vietnam's total export and import turnover reached \$545.36 billion USD, with exports accounting for \$282.66 billion USD, making up 51.8% of the country's trade structure.

In the context of negative impacts on the global economy due to the COVID-19 pandemic, these results were considered positive signs for Vietnam's economy. In 2021, the total merchandise trade volume reached \$668.54 billion USD, a 22.6% increase compared to 2020. Export and import turnover increased by 19% and 26.5% respectively. According to the General

Department of Customs of Vietnam, in the first 10 months of 2022, Vietnam's export turnover reached \$312.9 billion USD, a 16% increase compared to the same period in 2021.

Domestic economic regions and areas with foreign direct investment (FDI) have experienced relatively uniform growth, achieving trade surpluses (with a surplus of \$9.6 billion USD). This achievement is attributed to the unified, flexible, and vigilant government management under the goal of "Adapting safely, flexibly, and effectively to COVID-19." This provides a premise for Vietnam's trade activities to continue yielding positive results amidst ongoing global economic uncertainties.

The COVID-19 pandemic accelerated trends in adjusting the structure and characteristics of international trade, as the global spread of the disease disrupted global supply chains and businesses struggled with modeling and risk assessment. In this context, Vietnam's commodity trade structure witnessed significant changes, with notable declines in certain sectors like fuel, machinery, mechanics, and steel. In contrast, demand for essential goods such as medicines, protective equipment, and food surged rapidly.

The tourism sector experienced a sharp decline. In 2020, the number of international visitors to Vietnam dropped by 78.7% compared to 2019, causing a decrease in tourism revenue. Measures to prevent the spread of the disease led to reduced productivity and production volume. Moreover, the COVID-19 pandemic directly affected the health of laborers, resulting in labor shortages in manufacturing plants.

Additionally, the supply of essential goods could not meet minimum consumer needs. Measures to cope with the pandemic disrupted many agricultural and industrial production chains, affecting the delivery of products to consumers and breaking supply chains.

4. Vietnam's Advantages and Challenges in International Trade

Seizing Opportunities Firstly, in the current context, emerging trends continue to affirm the correctness of Vietnam's foreign policy priorities. Vietnam is a member of various initiatives and regional linkages such as the Asia-Pacific Economic Cooperation (APEC), the Association of Southeast Asian Nations (ASEAN), the Asian Development Bank (ADB), CPTPP, EVFTA, and RCEP.

Furthermore, Vietnam participates in the negotiation of several initiatives and agreements, such as the Indian Ocean-Pacific Economic Framework (IPEF), the Vietnam-European Free Trade Association Free Trade Agreement (VN - EFTA FTA), and the Vietnam-Israel Free Trade Agreement (VIFTA). As a result, Vietnam's international integration process is becoming deeper, more diversified, and multi-layered. In collaboration with smaller partners, Vietnam's position is strengthened, contributing to deeper, substantial, and effective bilateral and multilateral relationships.

Secondly, the role and value of the Asia-Pacific region are increasingly solidified through bilateral, multilateral, and new regional FTAs. In this context, Vietnam plays a vital role in the regional supply chain and the economic-trade system on both regional and global scales.

Having a macroeconomic environment and stable political situation, along with a dynamic economy and expanding consumer market, improving business environment, and

significant enhancements in business environment indices and Vietnam's competitive capacity are all substantial advantages for Vietnam to capitalize on opportunities. It can attract large corporations and high-tech companies seeking to relocate their production and supply chains within the region and globally.

During the past period, the COVID-19 pandemic negatively impacted the global economy and significantly reduced global FDI inflows. Although FDI inflows into Vietnam decreased by 25% in 2020 compared to the same period in 2019, by 2021, amidst the world's economic uncertainty, FDI inflows into Vietnam rapidly increased by 9.1% (over \$31 billion).

Thirdly, digital trade and the digital economy have become driving forces for economic recovery and development. In 2021, Vietnam's digital economy contributed 6% to GDP, with the trade sector experiencing the most robust growth rate, increasing by over 50% compared to the same period in 2020. The total import and export volume of goods also reached a peak at \$668.5 billion. Many domestic and foreign companies have taken timely measures to cope with the COVID-19 pandemic and utilize opportunities to enhance operational efficiency by integrating technology into management, production, and business processes. Digital trade helps maintain and develop business chains, connecting enterprises with customers and significantly minimizing the negative impact of supply chain disruptions.

Several Challenges Firstly, in the context of the COVID-19 pandemic being timely controlled, Vietnam needs to implement rational policies to restore the economy and prepare for potential outbreaks of other diseases. Public investment remains a lever for economic growth; however, promoting public investment should focus not only on diversifying projects but also on careful examination and monitoring to ensure long-term effectiveness.

Secondly, in the process of implementing international agreements with commitments to environmental protection, Vietnam faces internal challenges. For instance, in addressing climate change, Vietnam has yet to enact a complete legal framework following international standards to fulfill its commitments in climate change mitigation.

Thirdly, the COVID-19 pandemic revealed the vulnerability and fragility of global supply chains. Despite the restructuring of supply chains, the majority of Vietnam's industrial enterprises are still small and cannot deeply integrate into value chains.

According to the Ministry of Industry and Trade, Vietnam currently has around 2,000 manufacturing companies producing components and spare parts, with only around 300 participating in supply chains. The application of science and technology, especially e-commerce, has not been fully exploited. As a result, Vietnam's export-oriented business models face slow market access, delayed commodity circulation, and direct impacts on export activities. Research and innovation activities involve risks, thus businesses need to accept risks and invest more in research and development.

It is evident that the COVID-19 pandemic has profoundly affected all aspects of the global economy with rapid and diverse changes. International trade has plummeted due to supply chain disruptions, and the service sector has been severely affected. Enterprises, especially small

and medium-sized enterprises, face negative impacts, particularly concerning debt defaults and halted production.

Consumer behavior and trade tendencies have shifted, emphasizing sustainability and efficiency (green consumption, circular economy, emission reduction) as global trends. Alongside economic-trade impacts, the COVID-19 pandemic has adjusted the structure and accelerated international trade trends.

The current changes and adjustments in international trade entail widespread effects on Vietnam's economic and trade activities. Emerging trade trends have become more prominent, including: 1- The robust development of e-commerce and its prioritization; 2- International trade pushing towards technology cooperation; 3- Trade focusing on sustainable development; 4- The shift and restructuring of supply chains towards reliability, safety, and sustainability; 5- Prioritizing bilateral, regional, and group cooperation while global integration slows down. These trends offer numerous opportunities and challenges for Vietnam. Utilizing opportunities and addressing challenges will drive rapid economic adaptation, deeper involvement in global supply chains, and sustainable, green, and environmentally friendly development.

5. International Trade Policies in Vietnam in 2022

RCEP Comes into Effect In contrast to the ongoing U.S.-China trade war that shows no signs of abating, the Regional Comprehensive Economic Partnership (RCEP) took effect at the beginning of 2022. This free trade agreement was signed by 10 ASEAN countries and five major trading partners: China, Japan, South Korea, Australia, and New Zealand. It is considered the world's largest free trade agreement in terms of total GDP.

Countries are granted exemptions on intellectual property rights for the production of Covid-19 prevention vaccines for a period of five years. This exemption solution is under negotiation to potentially apply to both Covid-19 diagnosis and treatment. This rare exemption initiative demonstrates a sense of "unity" within the WTO.

In reality, RCEP is the integration of existing ASEAN+1 free trade agreements, with about 80% of RCEP's commitments already present in these agreements. The highlight of RCEP is its status as the first trade agreement connecting the top three Asian economies: China, Japan, and South Korea. Therefore, some scholars believe that these three economic powerhouses will benefit more from reduced import tariffs compared to ASEAN countries.

As an economic regional integration initiated by a group of developing countries, ASEAN's regulations mainly focus on establishing the framework for trade in goods and services, while non-trade issues such as the environment and labor are not addressed.

Compared to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), this agreement may be "less" progressive, but it is pragmatic and aligns with the interests of its member states.

12th WTO Ministerial Conference After several postponements due to the Covid-19 pandemic, the 12th Ministerial Conference of the World Trade Organization (WTO) took place in June 2022. The outcome of this conference, also known as the "Geneva Package," primarily relates to global challenges such as concerns about food security and the Covid-19 pandemic.

The most significant achievement of this conference was the adoption of a "temporary agreement" on fisheries subsidies after over 20 years of negotiations. According to this agreement, WTO member countries are not allowed to subsidize fishing vessels involved in illegal, unreported, and unregulated (IUU) fishing activities or the overexploitation of fish stocks.

This agreement is labeled as temporary because its content merely reflects the negotiation efforts up to the present time, with crucial aspects continuing to be negotiated with the condition that they must be completed within the next four years. Failure to meet these conditions would result in the suspension of the entire agreement.

The issue of intellectual property rights exemptions for Covid-19 vaccine production has been addressed through a decision allowing countries to enjoy exemptions for a period of five years. This exemption solution is under negotiation for potential application to Covid-19 diagnosis and treatment. This is a rare example of "unity" within the WTO, where all members must address an urgent challenge.

However, on the "domestic" front, the issue of reforming WTO operations, particularly the current dispute settlement mechanism crisis, has not yet achieved a specific solution. While the U.S. remains dissatisfied with the global trade organization, negotiations for reforms are still far from being realized.

Trade and National Security In early December, the WTO Appellate Body reached a conclusion regarding the excessive tariffs imposed on steel and aluminum imports into the U.S., as part of the "America First" strategy under former President Donald Trump. The Appellate Body determined that the U.S. had violated WTO rules by justifying these tariffs on national security grounds, which they found to be inappropriate. Article XXI of the General Agreement on Tariffs and Trade 1994 (WTO) allows countries to invoke national security reasons to impose international trade barriers, such as erecting tariff walls on aluminum and steel in this case.

However, the question remains whether the national security rationale is acceptable and lawful. WTO judges believe that the U.S. does not currently qualify as being in a state of war or emergency to justify trade barriers under Article XXI.

The U.S. Trade Representative (USTR) and the domestic aluminum and steel industries strongly disagreed and did not recognize the content of the ruling. Conversely, the U.S. manufacturing industries, which may rely on imported aluminum and steel, welcomed the decision.

Nevertheless, in the current context, the U.S. can easily "nullify" the ruling by appealing to the suspended Appellate Body. The conclusion of the Appellate Body in this case brings to mind a scenario similar to the Ukraine-Russia case (2016-2019), where the WTO sided with Russia despite the country's denial of transit for goods from Ukraine to certain markets in Central Asia.

6. Trends in Vietnam's Commerce Transformation

Firstly, in the context of the COVID-19 pandemic, e-commerce continues to develop strongly and becomes a prioritized trend. Businesses are increasingly focusing on expanding e-

commerce development. E-commerce activities are evolving rapidly with various new exchange methods to align with consumer behaviors. In recent years, e-commerce has maintained steady growth, and in 2022, it surged with a growth rate of 20%.

Furthermore, during the period of 2020-2021, the circulation of cash showed an upward trend, despite a decrease in the proportion of cash in total payment methods (11.66% in 2020 and 11.48% in 2021). Non-cash payment activities saw high growth (online channel payments increased by 48.8% in terms of quantity and 32.6% in terms of value; mobile phone channel payments increased by 76.2% in quantity and 87.5% in value). The proportion of cash withdrawals through Automated Teller Machines (ATMs) in total transactions processed by the National Payment Corporation of Vietnam (NAPAS) sharply dropped from 26% (in 2020) to 12% (in 2021).

In the future, e-commerce will become a consumer priority, and the use of cash will gradually be replaced by online payment methods, promoting strong development of financial technology (Fintech). Additionally, digital commerce and cross-border commerce will accelerate the digital transformation process, developing IT infrastructure and internet connectivity.

In 2022, Vietnam's digital economy grew by 28%, marking the highest growth rate in the Southeast Asian region. The COVID-19 pandemic and social distancing measures provided impetus for businesses to proactively transform their functions and enhance customer experience through online platforms.

Secondly, international trade drives digital technology cooperation.

In addition to Free Trade Agreements (FTAs), digital agreements will be formed for goods and communication services. After three years of implementing the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), Vietnamese businesses effectively utilized opportunities from the CPTPP and achieved positive results.

According to the Ministry of Industry and Trade's report, in 2021, Vietnam's total exports to CPTPP member countries reached about \$45.7 billion, an 18.1% increase compared to 2020. Conversely, Vietnam's total imports from CPTPP member countries reached about \$45.5 billion, a 37.6% increase compared to 2020. In the first ten months of 2022, the total trade between Vietnam and CPTPP member countries reached \$88.1 billion, up by approximately 19.2% compared to the same period in 2021. Within this, exports to CPTPP member markets reached \$45.1 billion, an increase of 22.1% compared to the same period in 2021.

Digital service trade expanded, with the CPTPP emerging as a policy standard through economic and digital agreements. Encouraging the increase and application of these standards could facilitate widespread and effective adoption of digital standards.

Thirdly, commerce aims for sustainable development.

New-generation FTAs not only limit trade and services but also address other areas, including the environment and sustainable development. Provisions regarding the environment and sustainable development are integrated and form a separate chapter in agreements. After two years of implementing the Vietnam-EU Free Trade Agreement (EVFTA), Vietnam-EU bilateral

trade has shown positive growth. However, it has not yet matched the potential and needs of both sides.

In recent times, some Vietnamese businesses have actively built their own brands, improved production to meet environmental standards when participating in the EU market supply chain. Europe encourages the development of green and renewable energy sources in Vietnam. European businesses also desire to share experiences, technologies, and financial investments in sectors that promote Vietnam's economic sustainability.

In Vietnam, some businesses have proactively enhanced their capabilities, adjusted production strategies to adapt and develop towards a green and sustainable direction. Additionally, to support businesses in adapting quickly to FTA standards, the Ministry of Industry and Trade has developed a program to help businesses capitalize on FTA benefits. This includes activities such as disseminating and promoting commitments and rules of origin, promoting digital export, supporting trade connections, and raising awareness and assisting businesses to prevent the risk of being subject to trade defense measures when exporting goods.

Moreover, for markets with strict requirements for the origin of raw materials, businesses must use standard materials to meet origin criteria, enabling favorable exports to external markets, achieving high and sustainable efficiency. This is also a global trend and a mandatory requirement for Vietnamese businesses to deeply engage in new value chains.

Fourthly, a shift is occurring in more reliable, secure, and sustainable supply chain restructuring.

The COVID-19 pandemic over the past two years has posed challenges to supply chains, disrupting and breaking global value chains, especially in the logistics field. Shortages of semiconductors, rising energy prices, increased transportation costs, among others, have all driven the motivation to restructure a more flexible production network. In Vietnam, sustainable consumption is receiving more attention from both consumers and businesses.

During this time, the pandemic has prompted consumers to shop with a plan, purpose, and shift towards sustainable and rational consumption. Top chosen items include food and medical products, as these play a significant role in protecting health and ensuring life amidst the ongoing spread of more dangerous disease variants.

Despite the disadvantages and challenges brought about by the COVID-19 pandemic, reality shows that this is also an opportunity for businesses to develop more sustainably, focusing more on community values. Many Vietnamese businesses have changed their business models, from production to distribution, transportation, and consumption. This is an optimal solution for businesses to develop sustainably within the current supply chain.

Fifthly, there is a priority for bilateral, regional, and group cooperation.

The COVID-19 pandemic has revealed the downsides of globalization, stimulating protectionist trade trends, despite globalization and international connections remaining objective trends. In Vietnam, international economic links are still maintained, promoted in the context of the world economy's instability, with numerous intertwined factors, contributing to compounding effects.

The trend of regionalizing trade is also increasing. Vietnam continues to negotiate and sign new-generation FTAs such as EVFTA, the Regional Comprehensive Economic Partnership (RCEP). The Vietnamese government has identified potential sectors and promising cooperation areas that can be exploited and deployed to promote bilateral relations, especially in the recovery and economic development phase when the COVID-19 pandemic is controlled and pushed back.

Increasing regional economic links also promote a shift in trade from economies outside the bloc and encourage the regionalization of trade flows, contributing to economic recovery in the new context.

7. Business Methods and Franchise Business

7.1. Commercial Business Methods

Over the past two years, the COVID-19 pandemic has brought negative impacts to production and consumption activities worldwide. However, the pandemic has also led to positive changes in the way business transactions are conducted. Instead of relying on traditional business methods, the business landscape has undergone transformations, from production to distribution, transportation, and consumption. Business practices with a conscious approach, incorporating technological advancements in distribution, and the continued development of e-commerce remain evident trends throughout 2022.

Traditional Business Model:

According to data from the General Statistics Office, in 2022, the total turnover of goods and consumer services reached VND 5,679.9 trillion, an increase of 19.8% compared to 2021. Excluding the price factor, the growth rate was 15.6%. Compared to the period affected by the COVID-19 pandemic, these results indicate a positive recovery. In 2021, the total value of trade through the traditional business model only reached VND 4,789.5 trillion, a decrease of 3.8% compared to 2020, or a decline of up to 6.7% if excluding the price factor. In the period before the COVID-19 pandemic, in 2019, the total retail turnover of goods and consumer services reached VND 4,940.4 trillion. Despite a 15% increase in trade value in 2022 compared to 2019, the overall scale of turnover through the traditional business model is only 82.5%, estimated under normal conditions without the impact of the pandemic from 2020 to the present.

By industry, retail of goods, accommodation and dining, travel services, and other services all recorded growth in value in 2022. The highest increase of 271.5% was in the travel services sector, reaching VND 24.5 trillion, followed by a 52.5% increase in accommodation and dining services, reaching VND 578.7 trillion. This high growth can be attributed to the post-peak period of the pandemic, with COVID-19 being controlled, business activities including tourism and entertainment have been restored. Despite a growth rate of 14.4%, retail of goods remains the largest sector in the business structure of total retail turnover and consumer service revenue. In 2022, traditional retail of goods reached VND 4,475.9 trillion, accounting for about 78.5% of the total value of service activities, much higher than the scale of VND 3,950.9 trillion in 2021. Specifically: the trade value of cultural and educational goods increased by 22.9%, clothing by 19.1%, transportation by 13.8%, food by 10%, and household goods and appliances by 7% compared to 2021.

Modern Business Model:

In recent years, the modern business model has been introduced and developed strongly in Vietnam. The COVID-19 shock is seen as a factor driving new commercial forms, including e-commerce. The diversity of operating models, participants, processes, and supply chains of goods and services, supported by internet infrastructure and modern technology applications, has made e-commerce an important pillar in the country's digital economic development process. E-commerce has become a popular modern business model known to businesses and the public alike. The "Vietnam: E-commerce Accelerating after COVID-19" report by the Vietnam E-commerce Association, released shortly after the first wave of the pandemic from February to April 2020, showed the emergence of an e-commerce wave with two important signals: rapid growth in online consumers in terms of both quantity and quality, and a strong increase in the number of merchants participating in digital transformation. According to experts, key factors influencing the growth of e-commerce in Vietnam include consumer trust, technology infrastructure, internet connectivity, capital, logistics services, online payments, and human resources. In 2022, the government issued favorable policies for digital economic development; along with the collaboration of e-commerce platforms with transportation, payment, financial companies, etc., a comprehensive and user-friendly ecosystem has been created.

According to the "Vietnam E-commerce White Paper 2022", in the context of strong recovery in commodity demand after the pandemic and significant fluctuations in the global market, many countries facing high inflation, e-commerce continues to be an important distribution method, contributing to the development of supply chains and circulation both within and outside the country. B2C e-commerce revenue in Vietnam reached USD 16.4 billion with a growth rate of 20%. Statistics from the White Paper show that the number of online shoppers in Vietnam reached 60 million out of a total of 74.5 million internet users for the first time, with the online shopping value of a user ranging from USD 260 to 285. According to the "Digital 2022 Global Overview Report" by We Are Social & Hootsuite, Vietnam's weekly internet shopping user rate is 58.2%, ranking 11th among surveyed countries. This rate is lower than some countries in the region such as Thailand, Malaysia, Singapore, Philippines, Indonesia, South Korea, and China, but higher than developed economies like the United States, Australia, France, Japan, and Germany. Given the stated realities, the high growth rate is expected to continue in the 2022-2025 period due to the growth momentum from the second wave of e-commerce.

The increase in the scale of B2C e-commerce also increases the proportion of retail e-commerce compared to the total turnover of goods and consumer services, despite its modest proportion. In 2016, this figure was only 3%, and after 5 years, it increased to 7%. In 2022, the B2C e-commerce scale reached USD 16.4 billion, equivalent to about 7.5% of the revenue from goods and consumer services. In terms of product and service structure, items such as clothing, footwear, and cosmetics are the most exchanged in retail e-commerce, followed by household appliances, technology and electronics, books, office supplies, flowers, gifts, and groceries. The participation rate of internet users in online shopping reached 74.8%. In general, online users

usually shop through e-commerce websites. The "Changing Shopping Journey in Southeast Asia: From Search Demand to Delivery Experience" report conducted by Lazada in September 2022 showed that 76% of Vietnamese consumers shop online once a month on e-commerce platforms, 83% of users have the habit of searching for products directly on e-commerce platforms, and 50% of e-commerce orders are purchased without prior planning. Among the e-commerce platforms in Vietnam, the top four are Shopee, Lazada, Tiki, and Sendo. According to the report from the e-commerce data platform Metric, as of November 2022, the revenue of these four platforms reached VND 135 trillion, with Shopee accounting for 73% of total revenue at around VND 91 trillion; Lazada ranks second with around VND 26.5 trillion, equivalent to a 21% market share in revenue. The two Vietnamese e-commerce platforms, Tiki and Sendo, only account for 5% and 1% of the market share, respectively, with revenues of around VND 5.7 trillion and nearly VND 1 trillion.

7.2. Franchise Business

Franchise business activities emerged in Vietnam before 1975, through various franchise systems of US petroleum stations such as Mobil, Exxon (Esso), and Shell. After the economic renovation, franchise business resurfaced in the mid-1990s with the entry of well-known fast-food chains like KFC, Lotteria, and Jollibee. However, since Vietnam became a member of the WTO in 2007, the retail sector and franchise systems have shown signs of growth. Not only foreign enterprises but also Vietnamese businesses have adopted the franchise model to develop markets and enhance brand value, notable examples being Trung Nguyen, Pho 24, Kinh Do Bakery, Ninomax fashion, Foci, T&T footwear... Currently, there are hundreds of companies with hundreds of licensed brands for franchising in Vietnam, encompassing various business models, from pharmaceutical production to car rental stores, sales training, convenience stores, children's education, clothing business... Among these, restaurant chains are the most numerous.

Regarding the number of companies and franchise brands: The number of foreign companies registering and obtaining franchise licenses in Vietnam has been steadily increasing. According to the Ministry of Industry and Trade, by the end of 2022, 19 more businesses registered for franchising, including noteworthy names such as Harnn Global Co., Ltd; Food Zone Co., Ltd; Sushi-Tei Pte Ltd; TWG Tea Co., Ltd; BB Global Pte Ltd; Chestertons Global Franchise Holdings Limited... Currently, there are 280 international brands from 32 countries and territories licensed for franchising in Vietnam (UAE was added in 2022), including many world-renowned brands and regional brands such as McDonald's, Baskin Robbins (USA), Karren Millen, Coast London (UK), Bvlgari, Moschino, Rossi (Italy), Puma SE (Germany); Pizza Hut, Burger King, BreadTalk (Singapore), Lotteria, BBQ Chicken, Café Bene (South Korea), Swensens (Malaysia), Factory Japan Group (Japan), Jollibee (Philippines), The Pizza Company, Thai Express (Thailand), Chattime (Taiwan)... Among these brands, the top 5 countries and territories owning about 60% of franchised brands in Vietnam remained largely unchanged compared to 2021, still including the USA, Singapore, Japan, UK, South Korea. Following them are Hong Kong – China, Australia, Taiwan, Canada, the Netherlands, Malaysia...

Regarding the franchise business sectors: According to the International Franchising Association (IFA), an estimated 120 industries are active in the franchise licensing sector. In Vietnam, several large and well-known brands have been and are being franchised, as mentioned above. Compared to 2021, the franchise business sector in Vietnam in 2022 showed no significant changes. Food services, restaurants, and food businesses still accounted for the highest proportion, over 40%. Other sectors, in descending order, included fashion and footwear retail, fashion accessories; education and training; household products and services...

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