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Vietnam leads rapid recovery in Southeast Asian supply chains

Auto component makers ramp up output as Hanoi eases pandemic restrictions

TOMOYA ONISHI and TAKASHI NAKANO

HANOI/SINGAPORE -- As coronavirus cases fall dramatically across Southeast Asia, supply chains in the region are racing to recover to full strength after months of factory stoppages and production cuts.

Vietnam in particular is seeing a rapid return to normality as Hanoi finally eases restrictions. About 200 factories in the country contracted to make sportswear for Nike have resumed operations, according to local media reports.

An industrial park in Ho Chi Minh City that houses plants operated by Samsung Electronics and Intel will "provide assistance so that both companies' facilities will return to full production this month," said a park executive.

Starting in July, factories in south Vietnam were placed under heavy restrictions. As a condition to stay in operation, they were required to keep workers on-site around the clock, essentially hosting mass sleepovers.

The factories were also ordered to staff workers at around 30% to 50% of normal capacity at any time. The constraints led to a series of plant stoppages and production cuts.

Vietnam's number of coronavirus cases gradually declined, with the daily infection rate currently at 7,000 people or, less than half of the late-August peak that topped 17,000 cases.

Companies that produces electrical and electronic components essential for the auto industry are also returning to full strength, much to the relief of manufacturers around the globe.

Japan's Furukawa Electric expects to return to full capacity at its Vietnamese plants. Its three factories there make wire harnesses for automobiles, with the Ho Chi Minh City site alone staffed with about 8,000 workers.

The factory floors "have returned to a position where they can respond to requests from a client," said Furukawa Electric President Keiichi Kobayashi.

Mainly because of state-imposed restrictions, production at the Vietnamese operation dropped off significantly at one point. But since October, utilization rate at all three factories has been steadily recovering.

The impact from the COVID restrictions has been particularly damaging to Southeast Asia's automotive industry. Vietnam has a high concentration of wire harness factories, while Malaysia is a production hub for automotive semiconductors.

Both components had experienced shortages in supplies -- the main reason why Toyota Motor and seven other Japanese automakers were forced to cut September production in half compared to a year earlier.

Vietnam was the source of about 40% of Japan's wire harness imports last year, and domestic suppliers Yazaki and Sumitomo Electric Industries are restoring production at their Vietnamese plants as well. This trend is expected to support a production comeback in Japan's auto sector.

In Malaysia, more than 90% of adults are fully vaccinated against the coronavirus, breathing new life into factory activity.

In the northwest city of Ipoh, "we are back to normal operations, but due to the freeze of foreign workers and extreme difficulty in recruiting locals, we are operating at about 80% of our installed equipment capacity," said John Chia, chairman of Malaysian semiconductor assembler and tester Unisem.

Even though 99% of Unisem's factory workers are vaccinated, they must all undergo COVID tests every week. With global demand surging, the company is currently unable to keep up with the orders for semiconductors and is building its third factory in Chengdu, China, in response.

Malaysia dealt with its surge of infections by imposing a nationwide lockdown in June. Unisem was ordered to temporarily shut down its Ipoh plant in September. That, along with a factory stoppage at STMicroelectronics, factored into the semiconductor supply crunch, which in turn led to production cuts at major automakers.

"Our site went through a period of partial or complete closures, with a progressive return to 100% production capacity during Q3," Jean-Marc Chery, CEO of Geneva-based STMicroelectronics, said when discussing earnings at the end of October.

One side effect of the coronavirus epidemic in Southeast Asia is that manufacturers are moving to decentralize production and alleviate risks.

When the American Chamber of Commerce in Vietnam conducted a survey among members in late August, it found that roughly a fifth of respondents said they partly relocated output capacity outside of Vietnam.

Although many of the measures appear to be temporary, they came in response to overnight factory bubbles and other unforeseeably harsh government restrictions. More companies may consider shifting capacity to countries bordering Vietnam as a hedge for when the next pandemic occurs.

One example is Taiwan-based Pou Chen, the world's largest manufacturer of branded footwear. In July, the company halted its facilities in Ho Chi Minh City, and its utilization has crept back above 70%.

Vietnam is Pou Chen's main area of production, but an executive indicated to Taiwanese media that Indonesia may be the next recipient of investments. The desire to resolve the country risk in Vietnam is being echoed by other multinationals.

"The relocation and pluralization of production sites do lead to an increase in costs, but maintaining the supply chain takes priority," said an executive at a Japanese machinery component maker with a production site in southern Vietnam.

Additional reporting by Nikkei staff writer Kyosuke Jinno in Tokyo