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Geoeconomic fragmentation and the restructuring of Vietnam's trade dependencies

Tran Thi Tuyet Nhung
Academy Of Finance - Hung Yen Campus, Vietnam
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Abstract
Geoeconomic fragmentation is reshaping international trade by intensifying strategic competition and restructuring global production networks. This article examines how these transformations affect Vietnam's trade dependencies, particularly the relationship between export market diversification and structural dependence on foreign inputs, investment, and technology. Drawing on international political economy, global value chain theory, and weaponized interdependence, the study employs a qualitative approach supported by official trade statistics and secondary empirical evidence. The findings reveal a dual pattern of dependence, characterized by Vietnam's substantial reliance on the United States as an export market and China as a major source of imports. The dominance of foreign-invested enterprises further highlights structural asymmetries within Vietnam's export-oriented development model. Nevertheless, evidence of genuine production relocation and increasing domestic value added suggests that trade restructuring also creates opportunities for industrial upgrading. The article argues that geoeconomic fragmentation produces dependency reconfiguration rather than complete economic decoupling. It contributes a multidimensional framework for understanding trade vulnerability and emphasizes domestic supplier development, technological upgrading, supply-chain diversification, and institutional resilience as essential foundations for strengthening Vietnam's economic autonomy.

Keywords: Economic interdependence, geoeconomic fragmentation, global value chains, international political economy, trade dependencies, Vietnam

Introduction

The international economic order is undergoing a transformation in which trade, investment, technological capabilities, and control over critical supply chains are increasingly intertwined with geopolitical competition. The institutions and market arrangements that supported the expansion of globalization have not disappeared, but their operation has become more contested. Governments are paying closer attention to the security implications of economic integration, while firms are reassessing production networks in response to tariffs, export controls, geopolitical uncertainty, and regulatory divergence. Consequently, efficiency-based globalization is increasingly accompanied by strategic considerations concerning the geographical distribution of production and the political reliability of commercial relationships.

Geoeconomic fragmentation should not, however, be understood as the uniform contraction of international economic integration. Rather, it involves the selective reorganization of cross-border relationships according to changing political, security, and economic priorities. Some trade links weaken, others deepen, and new intermediary economies acquire greater importance within international production networks. The World Trade Organization (2026a) [8] observes that geopolitical alignment remains relevant to global trade patterns, although broader evidence does not support the proposition that all international trade is continuously fragmenting into distinct geopolitical blocs. This distinction is important because changing trade routes do not necessarily imply declining international dependence. Within this changing environment, Vietnam represents an analytically significant case. Over several decades, the country has developed an export-oriented industrialization model supported by trade liberalization, foreign direct investment, and participation in global value chains. International production networks have facilitated manufacturing expansion, employment creation, and the country's integration into global markets. The World Bank (2024) nevertheless argues that sustaining Vietnam's long-term development requires stronger domestic linkages and movement toward higher-value-added activities.

Vietnam's recent trade performance highlights both the scale of its international integration and the asymmetry of its trading relationships. According to the National Statistics Office of Vietnam (2026), merchandise exports reached US$475.04 billion in 2025 [4], while imports amounted to US$455.01 billion. The United States was Vietnam's largest export market, accounting for US$153.2 billion, whereas China remained its largest import source, supplying US$186.0 billion in merchandise. Foreign-invested enterprises generated approximately 77.3% of merchandise exports.

These figures raise an important question for international political economy: does the geographical reallocation of trade generate greater economic autonomy, or does it reorganize dependence across different countries and stages of production? Traditional trade analysis frequently evaluates diversification through changes in export markets, trade balances, or bilateral trade intensity. Such indicators provide valuable information about market exposure, but they cannot fully explain the distribution of control over intermediate inputs, technology, intellectual property, production decisions, and value capture.

Recent empirical research reinforces the need for this distinction. Schulze and Xin (2025) [5], examining trade and investment patterns among Asian connector economies, find evidence that Vietnam benefited from genuine production reallocation associated with the reorganization of

international supply chains. Their findings suggest increased domestic content in certain exports rather than merely the transshipment of Chinese products through Vietnam. However, they also identify longer-term vulnerabilities associated with fragmentation.

This article investigates how geoeconomic fragmentation influences Vietnam's geographical and structural trade dependencies; whether export market diversification translates into reduced dependence on foreign inputs, investment, and technology; and which institutional and industrial policy mechanisms can strengthen resilience while retaining the benefits of integration. It makes three intended contributions: distinguishing market diversification from structural diversification; bringing trade, FDI governance, and value creation into a common framework; and highlighting domestic capabilities and substitutability as sources of trade resilience. The approach is qualitative and explanatory, not a new causal estimation of fragmentation's effects.

Literature Review and Theoretical Framework

1. Geoeconomic fragmentation and the political transformation of globalization

Geoeconomic fragmentation refers to the policy-driven reorganization or restriction of cross-border economic relationships along strategic, political, or geopolitical lines. Unlike ordinary fluctuations in international trade resulting from prices, comparative advantage, or business cycles, fragmentation involves the increasing influence of state preferences and security considerations over international economic exchange.

Antràs (2020) [1] cautions against equating changes in global value chains with an inevitable reversal of globalization. His analysis emphasizes the institutional and political conditions shaping international production networks. Economic relationships are embedded in regulatory systems, security arrangements, institutional hierarchies, and structures of unequal bargaining power.

Farrell and Newman (2019) [3] develop the concept of weaponized interdependence, explaining how states controlling central positions within international economic and information networks may exploit network asymmetries. For Vietnam, the implication is that high trade openness is not necessarily evidence of weakness: exposure also depends on whether essential relationships are replaceable and on the availability of alternative production channels.

2. Asymmetric interdependence and structural trade dependence

Economic interdependence involves mutual effects, but its distribution is rarely symmetrical. Countries differ in exposure to markets, alternative suppliers, control over technologies, and capacity to absorb adjustment costs. Sensitivity concerns immediate effects of external changes, whereas vulnerability concerns the costs of adapting when a relationship becomes difficult to sustain.

For Vietnam, reliance on major export markets creates demand-side exposure, while imported intermediate goods create supply-side exposure. Their combination can reinforce economic vulnerability when external restrictions affect both access to customers and production inputs. The question is not whether Vietnam depends on world trade, but how that dependence is structured, concentrated, governed, and made substitutable.

3. Global value chains and the distribution of economic value

Global value chains distribute design, component manufacturing, assembly, logistics, marketing, and distribution across firms and countries. Antràs and de Gortari (2020) [2] show that the geography of these chains reflects specialization, sequential production, and trade costs. The country from which a product is exported is therefore not necessarily the country originating all of its value.

Global value chain analysis must distinguish participation from position. Participation indicates connection to production networks, while position concerns the economic functions performed, the value retained, and the influence exercised over strategic decisions. The World Bank (2024) identifies weak linkages between domestic enterprises and foreign-invested producers as a major development issue. However, foreign ownership is not equivalent to zero domestic value creation, and domestic ownership is not equivalent to technological autonomy.

4. Trade reallocation, trade rerouting, and connector economies

Trade reallocation occurs when production genuinely shifts toward another economy, increasing local economic activity and potentially domestic value added. Trade rerouting describes changes in the path or declared origin of trade that do not correspond to equivalent substantive production relocation. Similar gross trade statistics may conceal different mechanisms.

Schulze and Xin (2025) [5] identify evidence that Vietnam experienced genuine production reallocation, including increased domestic content in selected exports to the United States. This cautions against describing Vietnam as a passive transshipment platform. Nevertheless, production can relocate geographically while control over procurement, technology, and final-market access remains externally concentrated.

5. Proposed analytical framework: Dependency reconfiguration

This article proposes dependency reconfiguration to describe a process in which international trade relationships change across markets, production stages, and organizational structures without necessarily producing an equivalent reduction in structural vulnerability. Four dimensions are relevant: export demand dependence; upstream supply dependence; production governance dependence; and value creation dependence.

Domestic institutional and productive capabilities mediate their implications. Strong supplier networks, technological learning, diversification capacity, and policy coordination can make trade relationships more adaptable. No single indicator measures strategic autonomy without examining substitutability and the economic importance of the relevant relationships.

Table 1: Multidimensional framework of dependency reconfiguration. Source: Author's conceptual synthesis

Dimension	Analytical concern	Possible indicator
Export demand dependence	Foreign final-demand concentration	Destination shares; HHI
Upstream supply dependence	Imported input concentration	Source concentration; input-output data
Production governance	External control over production	FDI export share; supplier linkages
Value creation dependence	Domestic value captured	Domestic value-added share

Figure 1. Conceptual pathway: Geoeconomic fragmentation → market reallocation, input restructuring, FDI reconfiguration, and value-chain upgrading → restructured trade dependencies. Domestic institutional and productive capabilities mediate these relationships. Source: Author's synthesis.

Research Methodology

1. Research design

The study adopts a qualitative political economy design combining theoretical synthesis, documentary analysis, and descriptive secondary statistics. Vietnam is selected as an illustrative case of an export-oriented economy exposed to changes in trade and investment relations since the escalation of United States–China trade tensions in 2018. The study is explanatory, not a causal-identification exercise; observed outcomes are not automatically attributed to geopolitical rivalry.

2. Data sources and scope

Secondary sources include the National Statistics Office of Vietnam, World Bank, IMF, WTO, and published research on global value chains. The analytical period begins in 2018, with earlier evidence for historical context. The principal annual statistical reference is 2025. Evidence from later publications is used where relevant, but partial-year data are not treated as directly equivalent to completed annual observations.

3. Analytical strategy

The first stage identifies export market and import origin concentrations. The second assesses foreign-invested production and the distinction between export expansion and domestic capabilities. The third evaluates these patterns using international political economy and derives policy implications. The formulas below indicate measures for a future econometric extension; this manuscript does not claim to compute full HHI series or novel sectoral domestic value-added estimates.

Export concentration: $HHI^{x}_{t} = \Sigma_{j} (s^{x}_{jt})^2$; Import concentration: $HHI^{M}_{t} = \Sigma_{i} (s^{M}_{it})^2$.

Domestic value-added ratio: $DVAR_{kt} = (DVA_{kt} / EXGR_{kt}) \times 100$.

Here s denotes a country share of the corresponding trade flow; DVA denotes domestic value added embodied in exports; and EXGR denotes gross exports. Robust estimation requires harmonized sector-level and bilateral datasets, which are not assembled for this draft.

Results and Discussion

1. Vietnam's trade expansion amid geoeconomic uncertainty

Official statistics show that Vietnam exported US$475.04 billion and imported US$455.01 billion in merchandise during 2025. Export and import growth were 17.0% and 19.4%, respectively, bringing total merchandise trade to approximately US$930.05 billion and the trade surplus to US$20.03 billion (National Statistics Office of Vietnam, 2026). This performance demonstrates strong integration with world markets but cannot on its own establish that fragmentation caused trade growth.

Table 2: Vietnam's merchandise trade, 2025 [4].

Indicator	2025 value
Merchandise exports	US$475.04 billion
Merchandise imports	US$455.01 billion
Total merchandise trade	US$930.05 billion
Merchandise trade surplus	US$20.03 billion
Export growth	17.0%
Import growth	19.4%
Foreign-invested share of exports	77.3%
United States share of exports	32.3%
China share of imports	40.9%

Source: National Statistics Office of Vietnam (2026); partner shares calculated from reported totals.

The growth of imports alongside exports is consistent with a production structure closely integrated with international sourcing networks. Goods in production-input and capital-goods categories accounted for 93.6% of imports under official classifications. This does not, however, directly measure the foreign intermediate-input content of exports. The available descriptive evidence cannot isolate the trade effect of fragmentation from demand changes, investment, pricing, and domestic production dynamics.

2. The asymmetry between export demand and import supply

The United States purchased approximately 32.3% of Vietnam's merchandise exports in 2025 [4], whereas China supplied approximately 40.9% of imports. The first concentration indicates demand-side exposure to tariffs, regulation, and market conditions. The second indicates the importance of upstream commercial networks. Such exposure is distinct from vulnerability: criticality, alternative supply availability, product specificity, and adjustment costs must also be considered.

This dual structure complicates the claim that Vietnam simply replaces China in producing for the United States. Assembly may move to Vietnam while upstream manufacturing remains distributed through Asian supplier networks. Nonetheless, aggregate country shares do not establish sector-specific strategic dependence, and changes in origin statistics do not demonstrate changes in embodied value. Product-level trade and input–output analysis are required for more precise assessment.

3. Foreign-invested production and domestic value capture

Foreign-invested enterprises, including crude oil under the official statistical classification, accounted for US$367.09 billion or 77.3% of merchandise exports in 2025; the domestic sector accounted for US$107.95 billion or 22.7%

(National Statistics Office of Vietnam, 2026). Foreign-invested production facilitates jobs, exports, capital formation, and technological exchange. The export share alone does not quantify domestic value creation or technological dependence.

The World Bank (2024) emphasizes the need to expand productive linkages between foreign firms and local suppliers. In global value chains, lead firms can retain control over technologies, certification standards, procurement, and market access even when manufacturing activity occurs locally. Building competitive supplier capabilities is thus more defensible than indiscriminate import substitution. The developmental objective should be increased local competence and economic value rather than changing ownership composition as an end in itself.

4. Genuine reallocation versus mere trade rerouting

Recent evidence distinguishes genuine relocation of production from routing changes without corresponding domestic production. Schulze and Xin (2025) [5] find that Vietnam's increased exports to the United States in selected sectors are consistent with production reallocation and higher domestic content, not simply transshipment. These results should not be generalized to every transaction or interpreted as eliminating origin-compliance risks.

The relevant theoretical point is that genuine relocation can increase domestic value added even if technology, sourcing, and final-demand decisions remain concentrated in external firms. This is a plausible configuration of dependency reconfiguration, rather than evidence that trade relocation is illusory or that integration automatically generates autonomy.

5. From geographical diversification to structural resilience

Diversification of export destinations can reduce concentrated market exposure, but its effectiveness depends on substitution opportunities and correlated shocks. Similarly, sourcing from several countries may offer limited resilience if nominally different suppliers depend on the same upstream manufacturer, technology, material, or shipping corridor. A robust account should evaluate the substitutability of critical relationships, not only the number of trade partners.

In emerging technology industries, expanding high-tech exports does not by itself establish local control over design, engineering, intermediate manufacturing, or intellectual property. The central strategic issue is therefore whether international production participation supports domestic technological learning and adaptive production capabilities.

6. Synthesis of trade dependency reconfiguration

Table 3: Evidence and interpretation

Dimension	Documented pattern	Interpretation
Export demand	US share of exports: 32.3%	Exposure to a major final market
Import supply	China share of imports: 40.9%	Significant upstream trade concentration
Production structure	FDI share of exports: 77.3%	Foreign-governed networks play a major role
Domestic integration	Weak local GVC linkages identified	Potential constraint on local upgrading
Production relocation	Evidence of genuine relocation in selected sectors	Not equivalent to mere transshipment

Sources: National Statistics Office (2026); World Bank (2024); Schulze and Xin (2025) [5].

The descriptive evidence supports the proposition that Vietnam combines important demand- and supply-side concentrations with opportunities for real productive upgrading. It does not prove whether aggregate structural vulnerability increased or decreased since 2018. Such a conclusion requires longitudinal sectoral indicators, estimates of alternative sourcing costs, and identification of external shocks.

Policy Implications

1. Reorienting diversification toward strategic resilience

Policy should assess both export-market concentration and the availability of alternative buyers, production inputs, and routes. Sector-level monitoring can focus on criticality, market substitutability, and adjustment costs. Diversification that unnecessarily sacrifices scale without meaningfully reducing disruption risk should be avoided.

2. Strengthening domestic supplier networks

Supplier upgrading programmes can support quality certification, skills, access to finance, process innovation, and commercial partnerships with multinational producers. Targets should include higher productivity, greater technological capabilities, and durable customer relationships, rather than domestic sourcing quotas unsupported by competitiveness.

3. Building technological capabilities and domestic value added

Industrial policy can support engineering, product testing, design, advanced manufacturing services, and technological absorption. Sector-specific instruments should have transparent eligibility and performance assessment so support promotes learning rather than persistent protection of inefficient production.

4. Developing supply-chain intelligence

Coordinated trade, customs, enterprise, and input–output information could identify critical import exposures, chokepoints, and feasible supplier alternatives. Such analysis should preserve confidentiality and separate direct origin concentration from deeper dependencies across multiple production stages.

5. Maintaining multilateral engagement and strategic flexibility

Vietnam can preserve market access, strengthen institutional cooperation, and diversify feasible economic relationships while investing in the capacity to adjust to restrictions and shocks. Strategic flexibility concerns maintaining viable policy and production options; it does not require an indiscriminate reduction in trade openness.

Conclusion

Geoeconomic fragmentation changes the geographical and institutional organization of trade and creates simultaneous opportunities and vulnerabilities for export-oriented economies. Vietnam illustrates this interaction through substantial export demand concentration in the United States, significant import sourcing from China, and a dominant role for foreign-invested exporters. These structures are compatible with genuine relocation of productive activity and increased domestic content in selected sectors; they are not evidence that Vietnam merely reroutes trade.

The article advances dependency reconfiguration as a framework for distinguishing changes in trade routes from changes in structural vulnerability. Its contribution is to integrate export demand, upstream supply, production governance, and domestic value creation into a multidimensional political economy account. The immediate implication is that trade resilience depends on substitutability, technological learning, domestic supplier capabilities, and effective policy coordination rather than the sheer expansion of export volumes.

The study is limited by its descriptive methodology and lack of original sector-level econometric estimation. Future work should assemble bilateral trade data, input–output tables, and indicators of local supplier development to test the relationship between fragmentation, trade concentration, domestic value-added upgrading, and vulnerability to external shocks. Vietnam's strategic objective should not be the elimination of external dependence, but the development of productive and institutional capabilities that enable resilient participation in international economic networks.

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