



Received: 07-04-2024  
Accepted: 17-05-2024

ISSN: 2583-049X

## **Fragmentation of the World Economy: Solutions to Limit Negative Impact in Vietnam**

**Nguyen The Hue**  
Haiphong University, Vietnam

Corresponding Author: **Nguyen The Hue**

### **Abstract**

Political instability, environmental challenges, technological change, market regulations, protectionism, and trade wars make countries focus on developing domestic production and look for trading partners close to them. This creates world economic fragmentation, causing damage and impact

to the world economy and individual countries, including Vietnam. To limit the negative impacts of economic fragmentation, we need to have proactive solutions to deal with this phenomenon.

**Keywords:** Fragmentation, Economy, Vietnam

### **1. Context of world economic fragmentation**

Over the past decade, political instability, environmental challenges, changes in technology, and market rules have emerged. In particular, the rise of protectionism and trade wars have created a complex and unpredictable business environment. Countries and regions around the world are increasingly focusing on developing domestic production and finding close trading partners. In April 2022, US Treasury Secretary Janet Yellen first mentioned the concept of fragmentation (friend-shoring) as an official US economic strategy at the Atlantic Council. Governments will encourage their businesses to structure their supply chains and shift production away from countries considered "geopolitical rivals" to political and economic allies, thereby reducing risks and disruptions in business operations. Fragmentation is considered a less extreme version of reshoring, the term for bringing production from abroad back to the country of origin.

The fragmentation trend raises the risk of geopolitical fragmentation and further imbalance of the global economy as countries, businesses, and international organizations become less dependent on each other. This trend can help enhance trade security but will reduce economic performance because it is largely influenced by political factors.

### **2. Demonstrates fragmentation of the world economy**

#### **1. Geopolitical tensions**

Geopolitical tensions in the world are increasingly complicated, including the Russia - Ukraine conflict, the Israel - Hamas war, attacks by Houthi rebels in Yemen, and upcoming elections in Taiwan ... This makes policymakers look towards safety in technology sharing and supply chain integration, coupled with that costs will become more expensive, the economy will recover more slowly. Compared to the forecast.

#### **2. Trade and investment barriers**

Going against the trend of globalization, countries are finding more sophisticated ways to apply such as:

**Tariff:** This is a tax levied on goods when moving through a country's border gates to regulate import and export activities or protect domestic production.

**Import and export restrictions:** Countries often place restrictions on the import and export of goods.

**Import and export control:** Countries often control the import and export of goods.

**Quality regulations and technical regulations:** Countries often set quality regulations and technical regulations for imported goods.

▪ **Protection measures:** Countries often apply protection measures such as export subsidies and domestic purchasing policies.

### 3. Formation of economic blocs

Countries form opposing economic blocs, and two main blocs can be mentioned:

The G7 (Group of Seven) includes seven countries with developed economies: The United States, Japan, Germany, Great Britain, France, Italy and Canada. G7 countries hold the largest amount of technology and capital globally.

The group of emerging economies (abbreviation: BRICS) includes countries: Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Iran, Saudi Arabia, and the Emirates United Arab Emirates. BRICS countries account for 30% of the world's area and 45% of its population.

### 4. Protectionism

World economic fragmentation fuels the rise of protectionism. This is a policy that the government implements to protect domestic manufacturers from foreign competition. Common methods of protection include import tariffs, import quotas, product standards, and subsidies. While it may bring temporary benefits in developing countries, overall protectionism is often harmful to the country's economy, industries, workers, and consumers.

### 5. Reduced global GDP

Fragmentation causes trade to decrease and barriers to rise, leading to a decline in overall GDP. The International Monetary Fund (IMF) estimates that prolonged economic fragmentation could lead to a decrease of up to 7% in global gross domestic product (GDP), while the WTO forecast is a decrease of about 5%. This is a negative signal for expectations of world economic recovery after the recession.

### 6. Impact on the supply chain

Fragmentation can cause financial and supply chain disruptions, causing great damage to the economy. Disruptions may occur due to: Supply disturbances, difficulty determining commodity demand, and risks due to changes in the business and political environment.

## 3. Impact of world economic fragmentation

### 1. General impact

Economic fragmentation can have a major negative impact on the global economy. Specifically, according to the International Monetary Fund (IMF), the increasingly serious fragmentation of the global economy after decades of economic integration could reduce global economic output by up to 7%. This loss can even reach 8-12% in some countries if technology is also separated.

Economic fragmentation can cause financial and supply chain disruptions, thereby causing global GDP to decline. In particular, in the post-COVID-19 pandemic context and the prolonged conflict in Ukraine, skepticism about the benefits of globalization is increasing.

If trade links are weakened, less developed countries and low-income consumers in developed countries will be hardest hit. Global fragmentation will make it difficult to address common challenges such as climate change.

### 2. Impact on Vietnam

According to the IMF, among the "connected" countries, the intermediary role of Mexico and Vietnam will help reduce the global impact of economic fragmentation. However, in the medium and long term, this economic fragmentation will cause heavier losses to the global economy and have a significant impact on Vietnam through the following aspects:

Impact on supply chains: Economic fragmentation can cause disruptions in global supply chains, which can affect

Vietnamese businesses that are gradually participating deeply in these supply chains.

Impact on export markets: If other countries increase protectionist policies to protect their domestic industries, this may reduce Vietnam's ability to export products.

Impact on foreign investment: Economic fragmentation can affect the investment decisions of foreign businesses, which can affect the amount of foreign investment pouring into Vietnam.

The fragmentation of the world economy is not only a risk but has had impacts on Vietnam's economy in recent times. Vietnam's economy develops with motivation from attracting foreign investment capital, export processing, and participating in the global supply chain. This has posed many challenges and difficulties that need to be resolved to ensure the growth momentum of the Vietnamese economy is maintained.

## 4. Solutions to limit the negative impacts of world economic fragmentation in Vietnam

According to leading economic experts in the world, economic fragmentation cannot last forever, it is only temporary, posing short-term challenges. In the long term, the globalization trend will adjust towards a balance between integration and strategic autonomy. Partners will join the common game, finding ways to improve resilience within each country and each economy.

Vietnam is no exception in the context of world economic fragmentation. However, in 2023, our country's economy will achieve positive growth results in the region: GDP will increase by 5.05% compared to 2022, higher than many countries in the region and the world. The good recovery of trade, consumption, and tourism activities has contributed to compensating the economy. Notably, the service sector has made the most significant contribution (over 62%) to the added value of the country's economy. This shows good resistance to fluctuations in the global economy. Entering 2024, with expectations for flexible operating policies, along with more drastic efforts to improve the investment and business environment, to reduce the negative impact of world economic fragmentation. Vietnam needs to implement some of the following solutions:

Consolidate and strengthen the macroeconomic foundation: This includes controlling inflation, and improving the internal capacity and autonomy of the economy.

Diversifying export markets and industries: This helps reduce dependence on traditional markets and industries.

Promote domestic consumption: This can help strengthen domestic demand and reduce dependence on exports.

Develop digital economy, green economy, circular economy, night economy, e-commerce, emerging industries and fields, new and effective business models.

Promote economic restructuring associated with innovating growth models.

Closely and effectively coordinate fiscal, monetary, and other policies to stimulate appropriate aggregate demand, remove difficulties for production and business, and promote growth.

The above solutions are all aimed at sustainable economic development and enhancing competitiveness. In addition, continue to promote and effectively promote traditional growth drivers, and effectively exploit new growth drivers such as digital economic development, and green growth associated with proactively coping with challenges. World

economic fragmentation.

## 5. References

1. EC. Autumn 2023 Economic Forecast: A modest recovery ahead after a challenging year, 2023.
2. IMF. World Economic Outlook: Navigating Global Divergence. WEO. 2023; 10.
3. OECD. OECD Economic Outlook Report: Growth Recovery, 2023.
4. WB. East Asia and Pacific Economic Update: Services for Development, 2023.
5. General Statistics Office. Report on the socio-economic situation in the fourth quarter and 2023, 2023.
6. General Statistics Office. A picture of the business registration situation in 2024, 2023.