If You Do Business in Vietnam, Are You Still Doing Business with China?

written by Jack Lifton | September 1, 2026
"Moving rare earth production from China to Vietnam does not necessarily create an independent supply chain. If the technology, equipment, intermediate materials and processing expertise remain connected to China, then only the address has changed. The flag above the factory tells you where it is located; it does not tell you who ultimately controls the industrial system upon which it depends." — Jack Lifton, Co-Chair, Critical Minerals Institute (CMI)

I have been surprised over the last few years by the number of Japanese, American, and now Korean rare earth product companies doing or trying to do business in Vietnam, supposedly to break their dependence on China. **I really don't think that goal can be accomplished.**

Debates about capitalism, socialism, and communism are commonly conducted as though these were universal systems competing under identical conditions. Capitalism is said to produce efficiency and freedom; socialism to produce equality and security; communism to promise a classless society while historically producing authoritarian government. These comparisons have value, but they frequently omit a decisive variable: political and economic systems do not operate in an abstract world. They operate within—and sometimes across—the boundaries of nation-states.

A nation state must do things that an economic theory considered in isolation does not have to do. It must defend territory, maintain public order, provide infrastructure, preserve political legitimacy, secure essential supplies, respond to demographic change, and reconcile the interests of groups that share a government but not necessarily the same economic position. The relevant question is therefore not simply which system is best in universal terms. Which combination of markets, public authority, ownership, and social obligation enables a particular state to meet its internal needs while surviving in an international system composed of competing states?

Capitalism and the Problem of the Border

Free-market capitalism rests on voluntary exchange, private property, competition, and the movement of resources toward their most profitable uses. In its pure form, it has little inherent respect for national boundaries. Capital seeks the best return, businesses seek the lowest costs, and consumers seek the best combination of price and quality. If labor is cheaper abroad, production may move abroad. If foreign minerals are less expensive than domestic ones, firms will import them. From the standpoint of the individual firm, these decisions can be entirely rational.

The interests of firms, however, are not identical to the interests of their home nation. A company may increase its profits by transferring production and technological knowledge overseas, while its home country loses industrial capacity, skilled employment, and strategic independence. Consumers may benefit immediately from cheaper imported goods, but the country may become dependent on foreign sources for medicines, semiconductors, energy, defense materials, or critical minerals.

This produces a fundamental boundary problem. The benefits of free trade may be widely distributed through lower prices, while the injuries are concentrated in particular regions, industries, and social classes. The nation remains responsible for displaced workers and declining communities even when the economic decisions that caused their displacement were made according to global market logic.

Capitalism therefore creates a distinction between the geography of economic efficiency and the geography of political responsibility. A multinational corporation can move capital from one jurisdiction to another. A citizen normally cannot move so easily, nor can the state abandon responsibility for those whose livelihoods have disappeared.

Consequently, no major capitalist country practices completely free-market capitalism. Governments protect defense industries, subsidize agriculture, finance research, regulate foreign investment, and preserve domestic capacities judged essential to national security. Even the strongest advocates of markets generally accept public intervention when national survival is involved. The argument is not truly between a market and a state, but over where the state should draw the boundaries within which markets operate.

Socialism and Bounded Solidarity

Socialism begins with a different concern: that unregulated ownership and exchange produce concentrations of wealth and power incompatible with substantive equality. It therefore gives the community, usually acting through the state, greater responsibility for allocating resources and guaranteeing social needs.

Socialism also depends upon boundaries, although for different reasons. A welfare state can provide healthcare, education, pensions, and income support only if it can identify the population to which these obligations apply and collect sufficient revenue from a productive economy. Redistribution requires a defined political community: people must accept that they have obligations to others whom they may never meet.

This is a form of bounded solidarity. Citizens consent to taxation partly because they believe that they belong to a continuing society whose members share reciprocal duties. If benefits are universal but fiscal obligations are easily escaped by moving capital elsewhere, the system becomes unstable. If the number of beneficiaries is entirely indeterminate, public confidence may also weaken. Socialism thus needs administrative boundaries, membership rules, and a state capable of enforcing contributions.

The tension becomes especially apparent when socialism is discussed as a universal moral principle. The belief that every person possesses equal human worth does not by itself tell a government how much it owes its own citizens relative to people beyond its borders. A government may recognize universal human rights while still prioritizing its population. Indeed, that preference is part of the reason nation-states exist.

Socialist policies can strengthen national cohesion by protecting citizens against the destructive consequences of economic change. But they can weaken the state if guarantees outrun productive capacity, if political allocation displaces useful economic signals, or if entrenched groups convert social protection into permanent privilege. Like capitalism, socialism cannot be evaluated without reference to the bounded society in which it must operate.

Communism Between Internationalism and the Nation-State

Communism presents the boundary question in its sharpest form. In Marxist theory, the decisive boundaries are not primarily national but economic: the division between social classes and, above all, between those who own productive capital and those who sell their labor. Classical communism ultimately anticipates the disappearance of class divisions, private ownership of the major means of production, and eventually the coercive state itself.

Communism therefore contains a universal and international tendency. Workers are understood to possess common interests across national frontiers, while nationalism can be interpreted as a means by which ruling classes divide them. A genuinely classless society would have less need for the political boundaries that organize competition among states.

Historical communist revolutions, however, did not occur simultaneously throughout the world. They succeeded in particular territories, Russia, China, Vietnam, Cuba, and others, and then had to defend them. Communist movements that aspired to international revolution became governments responsible for national armies, borders, food supplies, industrial development, and geopolitical alliances.

This transformed communism. The theoretical project of abolishing the state produced highly centralized states because revolutionary governments believed themselves surrounded by enemies and responsible for rapidly transforming relatively poor societies. Planning was justified not merely as a route to equality but as an instrument of national mobilization. Heavy industry, military power, and technological independence often received priority over immediate consumption.

The Soviet Union used communist ideology to justify an international movement, but it also pursued recognizable Russian and Soviet strategic interests. The People’s Republic of China continues to describe itself as socialist and governed by a communist party, yet its policies strongly emphasize Chinese sovereignty, national rejuvenation, technological self-reliance, and territorial integrity. National boundaries proved more durable than the universal class identity anticipated by communist theory.

This suggests a general lesson: communism did not escape the nation-state. Once communists acquired power, they became custodians of bounded political communities. International doctrine was repeatedly subordinated to national survival and state power.

The Political Brotherhood of Socialist States

Political leaders and businesspeople in capitalist countries frequently make a different error. They assume that because every country has distinct national interests, economic dealings with one socialist or communist-party state can be considered in isolation from the others.

This underestimates the political brotherhood that can exist among governments sharing similar institutions, doctrines, and concerns about regime survival. Socialist states may quarrel over territory and national interest, but their governing parties can still recognize one another as members of a common political family. They exchange theories of governance, methods of party organization, approaches to economic planning, internal-security practices, and strategies for maintaining political control while participating in international markets.

This solidarity is not equivalent to a military alliance or unquestioning obedience. It is better understood as an additional layer of affiliation. Two communist-party states can be national competitors while remaining ideological relatives.

The relationship between China and Vietnam is an outstanding example. American businesses often regard Vietnam as an economic alternative to China—a location outside China in which goods can be manufactured, assembled, or sourced. In the strictly legal sense, this is correct. Vietnam is an independent country, and a factory in Vietnam is not subject to Chinese sovereignty.

Yet the conclusion that economic engagement with Vietnam is therefore outside the scope of Chinese influence is much more doubtful.

Vietnam and China are governed by communist parties that retain ultimate authority over political and economic life. Both have incorporated market mechanisms without surrendering party control over strategic direction. Both use state-owned enterprises, industrial policy, controlled finance, land administration, and party supervision to shape economic development. Their systems are not identical, but they share an institutional vocabulary very different from that of liberal capitalism.

The relationship is openly cultivated through party-to-party channels as well as ordinary diplomacy. Their official statements call for exchanges concerning party governance, socialist construction, political security, law enforcement, industrial policy, infrastructure, and supply chains. During the 2026 leadership meetings, Vietnamese and Chinese officials again described their relationship as “camaraderie plus brotherhood” and as a strategically significant “community with a shared future.” Vietnamese leader Tô Lâm stated that both countries are socialist states led by communist parties and characterized relations with China as a strategic choice and a leading priority.

This ideological relationship is reinforced by industrial dependence. Vietnam has become a major exporter of electronics, machinery, textiles, furniture, and other manufactured products, but much of this production relies on machinery, components, and intermediate materials imported from China. The World Bank has observed that Vietnamese exports to the United States contain a significant share of Chinese inputs and that Vietnam remains highly dependent on Chinese intermediate goods across several key export sectors.

A product assembled in Vietnam may therefore be legally Vietnamese for some purposes while remaining embedded in a Chinese-centered production system. Chinese firms may supply its machinery, components, materials, financing, logistics, or technical knowledge. Chinese companies may also invest directly in Vietnam, partly to serve growing Vietnamese markets and partly to obtain better access to foreign markets.

For American businesses, “moving from China to Vietnam” may consequently represent several different realities:

- Genuine transfer to an independent Vietnamese supply chain
- Final assembly in Vietnam using predominantly Chinese inputs
- Relocation by a Chinese-owned or Chinese-connected producer
- Diversification away from direct exposure to China while retaining substantial indirect dependence
- Transshipment or minimal processing intended to change the

recorded origin of goods

These arrangements carry different commercial and strategic consequences. They cannot responsibly be treated as equivalent.

Is Vietnam Inside China’s Sphere of Influence?

Vietnam is unquestionably within the scope of Chinese influence, but it is not wholly within Chinese control. That distinction is essential.

Geography alone ensures that China will profoundly affect Vietnam. China is a neighboring great power, an enormous market, a crucial source of industrial inputs, and a potential security threat. The two ruling parties share an interest in preserving communist-party government and resisting external pressures that might weaken their political authority.

At the same time, Vietnam has powerful reasons to resist Chinese domination. The two countries have a long history of conflict. They fought a border war in 1979 and continue to have serious disputes in the South China Sea. Vietnamese nationalism is acutely aware of the danger of excessive dependence on its much larger northern neighbor.

Vietnam therefore practices strategic diversification. It seeks investment, technology, markets, and diplomatic relationships from the United States, Japan, India, South Korea, Europe, Russia, and other powers. This is not necessarily evidence that Vietnam has left China’s sphere. It is the behavior of a smaller state trying to preserve room for maneuver within that sphere.

The proper conclusion is neither that Vietnam is merely an extension of China nor that it offers an uncomplicated escape from China. Vietnam is an autonomous communist-party state operating within a powerful field of Chinese economic, ideological, and geographic influence.

American policy should therefore distinguish among three separate questions:

1. Is production legally located outside China?
2. Is the underlying supply chain economically independent of China?
3. Would the Vietnamese state align with the United States or China in the event of a serious political or military confrontation?

The answer to the first question may be yes while the answers to the second and third remain uncertain.

Capitalist Misunderstanding of Political Loyalty

Capitalist decision-makers are especially vulnerable to misunderstanding such relationships because they often assume that economic incentives will ultimately override political and ideological commitments. They expect governments to behave like firms: to select whichever partnership offers the best immediate material return.

But governments do not maximize profits. They seek security, legitimacy, autonomy, institutional survival, and influence. A communist party may accept an economic cost to preserve another communist government, avoid political dependence on a liberal power, or protect the principle of party supremacy. Shared ideology does not erase national interest, but it affects how leaders define that interest.

Capitalist countries themselves display comparable affinities. Liberal democracies share intelligence, coordinate sanctions, recognize similar legal principles, and frequently trust one another more than they trust authoritarian states. These relationships are not purely economic. It should therefore not be surprising that communist-party governments also treat institutional kinship as politically meaningful.

The mistake is to see ideology as mere rhetoric when it belongs to one's competitors, while recognizing common values as a genuine source of solidarity among one's allies.

The Nation as the Missing Unit of Analysis

Capitalism, socialism, and communism answer different questions. Capitalism asks how decentralized exchange can coordinate production. Socialism asks how economic life can be subjected to social purposes and how its benefits can be distributed more equitably. Communism asks whether class domination and private ownership of productive capital can be abolished altogether.

The nation-state must answer all three questions while also asking another: how can this society preserve its independence and continuity in a world of other organized powers?

A policy that appears inefficient according to universal market theory may be rational within national boundaries. Maintaining domestic steel, pharmaceutical, semiconductor, or critical-mineral capacity may cost more than importing those products, but the additional cost may function as an insurance premium against war, embargo, political coercion, or disrupted transportation.

Conversely, a policy that appears socially desirable in the abstract may prove unsustainable within a particular national economy. Benefits cannot be distributed indefinitely unless the productive system generates the necessary goods and revenue. Neither moral aspiration nor government decree can abolish physical scarcity.

Economic sovereignty is not the same as complete self-sufficiency. Few modern states could prosper by producing everything domestically. The practical objective is selective autonomy: determining which dependencies are tolerable, which can be diversified, and which present unacceptable risks.

That calculation must include not merely the country from which a finished product is imported, but the political and industrial system behind the entire supply chain. National boundaries remain important, but modern production networks can transmit the influence of one state through the territory of another.

Mixed Systems as National Adaptations

Most successful contemporary economies are mixed systems because the needs of nation-states do not conform neatly to ideological categories. They use markets to discover prices, motivate innovation, and coordinate complex activity. They use public institutions to provide law, infrastructure, education, research, social insurance, and defense. They regulate or directly control industries whose failure would endanger the larger society.

The proportions differ. The United States relies heavily on private ownership but supports agriculture, defense production, research, and finance through extensive government intervention. European social democracies combine competitive markets with broader social guarantees. China combines markets and private enterprise with communist-party control, state-owned firms, industrial planning, and national strategic objectives. Vietnam has constructed its own version of market activity under communist-party sovereignty.

These are not necessarily temporary compromises on the way to ideological purity. They are adaptations to the multiple responsibilities of bounded political communities.

The proper debate is therefore not whether capitalism, socialism, or communism is universally correct. It is which institutions should govern which activities, within which boundaries, under which circumstances. It must also ask how relationships among ideologically related states alter the meaning of those boundaries.

My Conclusion

The conventional contest among capitalism, socialism, and communism becomes misleading when it ignores national boundaries. Capitalism tends to treat resources as internationally mobile, although governments remain responsible for consequences within their territories. Socialism depends on a bounded community of contribution and obligation. Communism aspires to transcend nationality, but communist governments have repeatedly become powerful national states.

National boundaries do not, however, prevent ideological and industrial systems from extending their influence across borders. Vietnam is independent of China, but it is not economically, politically, or strategically detached from China. Dealing with Vietnam can reduce direct exposure to Chinese jurisdiction without necessarily escaping Chinese supply chains or the broader political influence of the Chinese party state.

Markets have no homeland unless laws give them one. Social obligations have no practical meaning unless a community can define and support them. Communist internationalism could not eliminate the territorial state, but communist-party solidarity did create durable channels of cooperation across territorial boundaries.

The nation state is consequently not a secondary complication in the ideological debate. It is the arena that determines what any economic system can accomplish, whom it must serve, and what it must protect. But national analysis must now be joined to supply chain and ideological analysis. The flag over a factory does not by itself reveal the political and industrial system upon which that factory depends.

A viable economic order must therefore be judged not only by the wealth it produces or the equality it promises, but by whether it enables a bounded society to remain prosperous, cohesive, capable, and genuinely independent.