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THE IMPACT OF GEOPOLITICAL RISKS AND TRADE BALANCE ON THE PERFORMANCE OF LISTED COMPANIES IN VIETNAM

O IMPACTO DOS RISCOS GEOPOLÍTICOS E DA BALANÇA COMERCIAL NO DESEMPENHO DAS EMPRESAS LISTADAS NO VIETNÃ

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Abstract
This study analyzes the impact of geopolitical risk and trade balance on the performance of Vietnamese listed firms over the period 2016–2024, using an unbalanced panel of 588 firms. The study employs a dynamic panel System Generalized Method of Moments (System GMM) estimator to address endogeneity, unobserved firm-specific effects, heteroskedasticity, and serial correlation. The empirical findings indicate that geopolitical risk exerts a positive and statistically significant effect on both return on assets (ROA) and return on equity (ROE). This suggests that, in the context of global supply chain realignments and capital reallocation, Vietnamese listed firms have been able to leverage new opportunities created by geopolitical tensions. In contrast, the trade balance shows a negative and significant relationship with firm performance, implying that improvements in the aggregate trade balance are associated with lower efficiency at the firm level. This result reflects the structural dependence of Vietnamese firms on imported raw materials, machinery, and intermediate inputs. Control variables such as firm size, tangible assets, liquidity, Tobin's Q, and net working capital improve performance, while high financial leverage and the COVID-19 shock reduce it. Moderate inflation contributes positively to firm performance. The study offers new empirical evidence on the role of geopolitical risk and trade balance in shaping corporate performance in an emerging, export-oriented economy and provides policy implications for regulators, investors, and corporate managers.

Keywords: Geopolitical Risk, Trade Balance, Firm Performance, Roa, Roe, Vietnam.

Resumo
Este estudo analisa o impacto do risco geopolítico e da balança comercial no desempenho das empresas vietnamitas listadas na bolsa no período de 2016 a 2024, utilizando um painel desequilibrado de 588 empresas. O estudo emprega um estimador dinâmico do Método Generalizado de Momentos (System GMM) para abordar a endogeneidade, os efeitos específicos não observados das empresas, a heterocedasticidade e a correlação serial. Os resultados empíricos indicam que o risco geopolítico exerce um efeito positivo e estatisticamente significativo tanto sobre o retorno sobre os ativos (ROA) quanto sobre o retorno sobre o patrimônio líquido (ROE). Isso sugere que, no contexto do realinhamento da cadeia de suprimentos global e da realocação de capital, as empresas vietnamitas listadas em bolsa têm sido capazes de aproveitar novas oportunidades criadas pelas tensões geopolíticas. Em contrapartida, a balança comercial apresenta uma relação negativa e significativa com o desempenho das empresas, o que implica que as melhorias na balança comercial agregada estão associadas a uma menor eficiência ao nível das empresas. Este resultado reflete a dependência estrutural das empresas vietnamitas em relação às matérias-primas, maquinaria e insumos intermédios importados. Variáveis de controlo como a dimensão da empresa, os ativos tangíveis, a liquidez, o Q de Tobin e o capital circulante líquido melhoram o desempenho, enquanto o elevado alavancamento financeiro e o choque da COVID-19 o reduzem. A inflação moderada contribui positivamente para o desempenho das empresas. O estudo oferece novas evidências empíricas sobre o papel do risco geopolítico e da balança comercial na formação do desempenho corporativo em uma economia emergente e orientada para a exportação, além

de fornecer implicações políticas para reguladores, investidores e gestores corporativos.

Palavras-chave: *Risco geopolítico. Balança comercial. Desempenho das empresas. Roa. Roe. Vietnã.*

1 INTRODUCTION

In recent years, geopolitical risk has increased sharply, driven by conflicts in the Middle East, the Russia–Ukraine war, escalating tensions between the United States and China, and successive waves of sanctions and trade restrictions. Gold prices repeatedly reaching new record highs above USD 3,000 per ounce illustrate heightened investor demand for safe assets and the pervasive uncertainty associated with geopolitical tensions and trade wars. Against this backdrop, listed firms around the world have experienced substantial profit erosion as global demand, supply chains, and capital flows have become more volatile.

From an academic perspective, the Geopolitical Risk Index (GPR) is constructed based on the frequency of news about war, terrorism, and military tensions, thereby providing a standardized measure for empirical research in macroeconomics and finance (Caldara & Iacoviello, 2018, 2022). Subsequent studies document that increases in GPR tend to dampen financial development, reduce credit to the private sector in emerging economies, lower firm value, and raise the cost of equity, particularly in countries with weaker institutions (Carney *et al*., 2024; Lu *et al*., 2020; Pringpong *et al*., 2023. Other contributions show that GPR magnifies global stock market volatility and adversely affects bank stability and corporate profitability (Obstfeld & Rogoff, 1995, 1996).

With regard to the trade balance, a substantial body of literature examines current account and trade dynamics as outcomes of macroeconomic fundamentals such as savings–investment gaps, capital flows, and institutional quality (Obstfeld & Rogoff, 1995, 1996). In this line of research, the trade balance is viewed primarily as a macroeconomic indicator of external sustainability rather than as an explanatory determinant of firm-level performance (Wacker, 2024). Only a limited number of studies explicitly link national trade balance conditions to corporate profitability in emerging, export-oriented economies (Bernard & Jensen, 1999).

In Vietnam, previous research on firm performance has focused mainly on firm-specific characteristics and a few basic macro variables (Vu *et al*., 2019; Tuyet & Ninh, 2023). These studies emphasize the roles of industry competition, wage policies, CEO characteristics, export capacity, and macroeconomic indicators such as GDP growth, inflation, and interest rates. While this literature provides valuable insights into both micro and macro determinants of firm performance, it has not yet integrated geopolitical risk and trade balance into a unified framework to explain the performance of listed firms (Le & Tran, 2021). This omission is noteworthy given that Vietnam is among the most open economies in the world, with total trade reaching around 180% of GDP, and is deeply embedded in global value chains (World Bank, 2025).

During 2016–2024, Vietnam simultaneously benefited from supply chain relocation driven by U.S.–China trade frictions and faced severe disruptions stemming from the COVID-19 pandemic, the Russia–Ukraine conflict, and rising geopolitical tensions in the East Sea (Guo, 2024). Understanding how geopolitical risk and trade balance jointly affect the performance of Vietnamese listed firms is therefore of both theoretical and practical importance.

This study addresses four main research gaps. First, most existing international studies on geopolitical risk have focused on financial development, firm value, cost of capital, or banking stability, with little attention to its direct impact on firm performance measured by ROA and ROE in a single emerging economy (Arellano M, Bover O, 1995). Second, very few studies jointly consider geopolitical risk (GPR) and trade balance (BOT) in the same empirical model to compare their relative effects on firm performance (Le & Tran, 2021). Third, many empirical analyses use data ending before recent major shocks such as COVID-19 and the Russia–Ukraine war, whereas the 2016–2024 period for Vietnam captures both accelerated integration and heightened external shocks (Guo, 2024). Fourth, methodological limitations persist as many Vietnamese studies rely on static panel models and do not adequately address endogeneity, dynamic adjustment, and feedback effects between firm performance and macro variables (Bernanke BS & Bloom N, 1983, 2009).

To fill these gaps, this study examines the impact of geopolitical risk and trade balance on the performance of Vietnamese listed firms using dynamic panel data from 2016–2024 and System GMM estimation. The specific objectives are to: (i) provide new empirical evidence on the transmission of GPR to firm performance in an export-oriented

emerging economy; (ii) clarify the role of national trade balance as a macro-level determinant of corporate performance; and (iii) derive policy implications for regulators, investors, and corporate managers aimed at strengthening firms' resilience to geopolitical and trade shocks.

2 LITERATURE REVIEW

2.1 Theories on the impact of geopolitical risk and trade balance on business performance

The first theoretical lens draws on uncertainty theory and the real options framework. In this view, investment projects are treated as "options" that firms can defer when uncertainty rises (Kobrin SJ & Jiang X, Liu Z, Zhang H, 1979, 2024). Heightened geopolitical risk (GPR) increases uncertainty about policy directions, armed conflicts, economic sanctions, and the stability of global supply chains. In response, firms tend to delay or scale back new investment, limit production expansion, and face higher costs of capital and transaction costs (Cebeci T & Caldara D, Iacoviello M, 2014, 2018, 2022). Taken together, these mechanisms imply that increases in GPR are likely to erode firms' profitability and operational efficiency, typically measured by return on assets (ROA) and return on equity (ROE).

A second perspective is provided by open macroeconomic theory and the literature on trade with heterogeneous firms. In the intertemporal approach to the current account, the trade balance is the outcome of optimal saving and investment decisions in an open economy, and thus reflects both external competitiveness and macroeconomic vulnerability (Obstfeld M & Rogoff K, 1995, 1996). At the micro level, heterogeneous-firm trade models show that only relatively high-productivity firms can enter and remain in export markets, and these firms tend to achieve higher revenues, productivity, and profits (Bernard AB, Jensen JB & Munch J, Schaur G, 1999, 2015). An improving trade balance—through a rising surplus or a narrowing deficit—typically signals robust external demand, more stable exchange rates, and a more favorable macroeconomic environment, all of which support firm performance and operational efficiency. By contrast, a deteriorating trade balance tends to be associated with pressure on exchange rates and interest rates, higher import costs for intermediate inputs, and, ultimately,

adverse effects on the ROA and ROE of listed firms.

2.2 Empirical studies related to the topic

Geopolitical risk (GPR) has increasingly emerged as an important macroeconomic factor in international financial and economic analysis. Since the introduction of the Geopolitical Risk Index constructed from the frequency of global news coverage, a growing body of literature has adopted GPR as a standardized indicator to evaluate how geopolitical uncertainty affects economic activity and business performance (Caldara D & Iacoviello M, 2018, 2022). Empirical evidence generally indicates that increases in GPR are associated with declines in investment, trade, and employment, as well as an elevated likelihood of adverse shocks, thereby exerting considerable pressure on firms' operational capacity and financial stability (Arellano M, Bover O & Jiang X, Liu Z, Zhang H, 1995, 2024).

Extending this line of inquiry, recent evidence examining the influence of global geopolitical risk on corporate financial fragility across more than 40 countries shows that rising geopolitical risk significantly undermines firms' financial stability, particularly in middle- and high-income economies (Arellano M & Bover O, 1995). This suggests that heightened geopolitical uncertainty encourages firms to adopt more conservative investment and expansion strategies, ultimately weakening performance. Related findings demonstrate that geopolitical risk discourages corporate investment in emerging markets, especially among firms facing high investment irreversibility (Le TL & Tran VT, 2021). Similarly, firm-level evidence from manufacturing firms indicates that elevated geopolitical risk constrains internationalization efforts by reducing expansion into foreign markets, limiting investment cooperation, and narrowing export opportunities, which in turn diminishes competitiveness and operational efficiency (Wooldridge JM, 2010). From an ESG perspective, additional research shows that geopolitical risk adversely affects firms' ESG performance, harming corporate reputation and long-term sustainability (Haller SA, 2012). Collectively, these studies highlight a consistent conclusion: geopolitical risk not only contributes to macroeconomic uncertainty but also has profound implications for corporate financial strategy, internationalization, and sustainable development.

Beyond geopolitical risk, the conditions of international trade—particularly

export and import dynamics—have also been shown to significantly influence firm performance. Causal evidence indicates that export participation enhances total factor productivity, employment, and wages, primarily through learning effects and scale expansion (Gujarati DN & Porter DC, 2009). Evaluations of export promotion programs further show that supported firms experience marked increases in revenue, value added, and labor productivity, underscoring the critical role of export expansion in enhancing performance (Arellano M & Bond S, 1991). Imports also play an essential role, as firms engaging in both importing and exporting achieve superior productivity growth compared with firms engaged only in exporting, highlighting the complementarity between access to high-quality inputs and export-driven productivity gains (Demirgüç-Kunt A & Maksimovic V. Law, 1998). Taken together, these findings indicate that both export and import activities directly shape productivity, profitability, and firm performance, reinforcing the importance of trade dynamics as key macroeconomic determinants of business efficiency.

At the macroeconomic level, numerous studies have underscored the broader significance of the trade balance in reflecting national competitiveness and economic stability. Within the intertemporal framework, the trade balance captures the relationship between national savings and investment while influencing exchange rates, capital flows, and production capacity (Obstfeld M & Rogoff K, 1995, 1996). An improved trade balance can mitigate exchange rate pressures, enhance macroeconomic stability, and create a more supportive environment for firms, whereas a deteriorating balance may raise input costs and compress profit margins. Despite extensive research linking geopolitical risk and international trade to various aspects of firm behavior and macroeconomic performance, several gaps remain. Existing studies primarily examine investment, cash holdings, bankruptcy risk, ESG outcomes, and internationalization, with relatively limited attention to direct effects on comprehensive firm performance indicators such as ROA or ROE (Le TL, Tran VT & Arellano M, Bover O & Blundell R, Bond S & Wooldridge JM & Haller SA, 1995, 1998, 2010, 2012, 2021). Meanwhile, most trade-related studies focus on exports or imports individually, rather than on the overall balance of trade (BOT) as a composite measure of trade conditions. Importantly, very few studies simultaneously consider geopolitical risk and BOT within a unified analytical framework to evaluate their combined influence on firm performance, particularly in highly open emerging economies.

In summary, existing international research generally suggests that geopolitical risk tends to weaken firm performance by heightening macroeconomic instability, constraining investment activity, and eroding market confidence (Arellano M, Bover O & Jiang X, Liu Z, Zhang H, 1995, 2024). Conversely, international trade—particularly through export and import engagement—plays a crucial role in enhancing productivity and improving firm performance (Gujarati DN, Porter DC & Demirgüç-Kunt A, Maksimovic V, 2009, 1998).

3 RESEARCH DESIGN

3.1 Research model

Drawing on uncertainty theory and real options theory, this study starts from the premise that heightened uncertainty—such as geopolitical risk—induces firms to postpone investment, raises the cost of capital, and ultimately lowers operational efficiency (Kobrin SJ & Melitz MJ, 1979, 2003). The empirical literature on geopolitical risk (GPR) consistently finds that geopolitical risk exerts adverse effects on financial stability, investment, internationalization, ESG performance, and corporate reputation (Caldara D, Iacoviello M & Le TL, Tran VT & Arellano M, Bover O & Wooldridge JM & Haller SA, 1995, 2010, 2012, 2018, 2021, 2022). These outcomes, in turn, suggest a direct negative impact of GPR on firms' return on assets (ROA) and return on equity (ROE).

At the same time, the open-economy macroeconomic and international trade literature, together with firm-level empirical evidence, highlights the importance of exports, imports, and trade conditions in enhancing firm-level productivity and efficiency (Obstfeld M, Rogoff K & Munch J, Schaur G & Gujarati DN & Arellano M, Bond S & Demirgüç-Kunt A, Maksimovic V, 1991, 1995, 1996, 1998, 2009, 2015). Taken together, these strands of theory and evidence motivate a research model in which firm performance (ROA and ROE) is explained by geopolitical risk and trade balance, while controlling for firm-specific financial characteristics and macroeconomic conditions.Accordingly, we estimate a baseline panel regression in which the dependent variable ROA_{it}or $\mathrm{ROE}_{it}$for firm i in year $t$is modeled as a function of geopolitical risk (GPR), trade balance (BOT), a vector of firm-level control variables, macroeconomic

controls, an intercept term α_0, and an idiosyncratic error term ε_{it}. The regression coefficients $\alpha_1,...,\alpha_{11}$ capture the marginal effects of each explanatory variable on firm performance.

Research models:

$$(1)ROA_{it} = \alpha_0 + \alpha_1 ROA_{it-1} + \alpha_2 LEV_{it} + \alpha_3 sSIZE_{it} + \alpha_4 TANG_{it} + \alpha_5 LIQ_{it} + \alpha_6 Tobin\_Q_{it} + \alpha_7 NWC_{it} + \alpha_8 GDP_{it} + \alpha_9 CPI_{it} + \alpha_{10} Covid\_19_{it} + \alpha_{11} GPR_{it} + \alpha_{12} BOT_{it} + \varepsilon_{it}$$

$$(2)ROE_{it} = \alpha_0 + \alpha_1 ROE_{it-1} + \alpha_2 LEV_{it} + \alpha_3 sSIZE_{it} + \alpha_4 TANG_{it} + \alpha_5 LIQ_{it} + \alpha_6 Tobin\_Q_{it} + \alpha_7 NWC_{it} + \alpha_8 GDP_{it} + \alpha_9 CPI_{it} + \alpha_{10} Covid\_19_{it} + \alpha_{11} GPR_{it} + \alpha_{12} BOT_{it} + \varepsilon_{it}$$

The variables are defined as follows:

- ROA_{it} /ROE_{it}: Measures of operating efficiency for firm i in year t, proxied by return on assets and return on equity, respectively.
- LEV_{it}: Financial leverage of firm i in year t.
- $SIZE_{it}$: Firm size of enterprise i in year t.
- $TANG_{it}$: Tangible asset ratio of firm i in year t.
- LIQ_{it}: Liquidity ratio of firm i in year t.
- CF_{it}: Operating cash flow of firm i in year t.
- $TOBIN\_Q_{it}$: Firm value of enterprise i in year t, proxied by Tobin's Q.
- NWC_{it}: Net working capital of firm i in year t.
- GDP_{it}: Economic growth rate in year t.
- CPI_{it}: Inflation rate in year t.
- COVID_19: Dummy variable equal to 1 for the years 2020, 2021, and 2022, and 0 otherwise.
- GPR_{it}: Geopolitical risk index in year t.
- BOT_{it}: Trade balance in year t.
- α_0: Intercept term of the model.
- $\alpha_1,...,\alpha_{11}$: Vector of regression coefficients associated with the explanatory variables.
- ε_{it}: Random error term, capturing unobserved factors affecting firm i's performance in year t.

3.2 Research hypotheses and variable description

Drawing on the uncertainty and real options framework, higher uncertainty typically leads firms to postpone investment, scale back operations, and demand higher risk premiums (Kobrin SJ & Melitz MJ, 1979, 2003). These behaviors raise the cost of capital and ultimately undermine business performance. This mechanism is especially pronounced in the case of geopolitical shocks, which often entail supply chain disruptions, trade frictions, exchange rate volatility, and increased costs of risk hedging. Recent empirical work consistently finds that geopolitical risk (GPR) weakens financial stability, constrains firms' internationalization, adversely affects ESG outcomes, and lowers profitability (Caldara D, Iacoviello M & Arellano M, Bover O & Wooldridge JM & Haller SA & Lee CC, Wang CW, 1995, 2010, 2012, 2018, 2021, 2022). Taken together, this evidence suggests that higher GPR is associated with lower ROA, ROE, and overall firm performance. Accordingly, we formulate the following hypothesis:

H1: Geopolitical risk (GPR) has a negative impact on business performance.

From the perspective of open-economy macroeconomics and international trade, classic models emphasize that an improved trade balance—through higher exports or efficient import of inputs—plays a critical role in enhancing firm productivity and competitiveness (Obstfeld M, Rogoff K & Munch J, Schaur G, 1995, 1996, 2015). Empirical studies show that firms operating in more favorable trade environments tend to exhibit higher productivity, more efficient cost structures, and stronger profitability (Gujarati DN & Arellano M & Demirgüç-Kunt A, Maksimovic V, 1991, 1998, 2009). These gains stem from access to larger export markets, higher-quality inputs, and economies of scale. Moreover, an improved trade balance is typically associated with greater macroeconomic stability, more favorable exchange rate conditions, and easier access to foreign currency, all of which contribute to lower operating costs and higher profits. Based on this theoretical and empirical foundation, we propose:

H2: The trade balance (BOT) has a positive impact on business performance

4 RESULTS AND DISCUSSION

4.1 Descriptive statistics and correlations

The descriptive statistics (Table 1) indicate that geopolitical risk (GPR) in the sample has a mean of 0.08970 and varies within a relatively narrow band (0.0632–0.2056). This suggests that firms mainly operated in an environment of elevated uncertainty rather than under the extreme disruptions associated with large-scale global wars. This pattern aligns with the study period, which was marked by episodes such as US–China trade tensions, the Russia–Ukraine conflict, and persistent global supply chain disruptions, all of which exerted pressure on firms' costs, cash flows, and expansion plans. By contrast, the balance of trade (BOT) variable has a mean of 1.05196 and a low standard deviation, indicating a generally stable trade position with a slight surplus. This reflects the supportive role of export activities—particularly in manufacturing and processing industries—as a key engine for revenue growth, market expansion, and improved financial performance. Taken together, the elevated but contained GPR and the relatively favorable BOT conditions suggest that geopolitical risk and trade performance may affect firm outcomes through different channels, underscoring the need to consider both when analyzing business performance.

Table 1

Descriptive statistics

Observed Variables	N	Mean	Maximum	Minimum	Standard Deviation
ROA	5692	0.05327	0.83905	-0.62458	0.08128
ROE	5692	0.10433	16.9233	-5.07657	0.31104
LEV	5692	0.46903	2.30464	0.000621	0.23349
SIZE	5692	11.9445	14.9225	10.12846	0.70616
TANG	5692	0.18695	0.96267	0	0.20475
LIQ	5692	0.08779	0.85511	2.4e-05	0.10161
TOBIN_Q	5692	1.13889	17.1733	0.094274	0.70945
NWC	5692	0.15001	0.94663	-1.74421	0.23063
GDP	5692	0.06129	0.08537	0.025537	0.0193
CPI	5692	0.02854	0.03621	0.006312	0.00857
COVID_19	5692	0.3099	1	0	0.46249
GPR	5692	0.0897	0.2056	0.063158	0.04026
BOT	5692	1.05196	1.10359	1.005317	0.02935

Source(s): Table by authors

The correlation matrix in Table 2 indicates that the pairwise correlations among the independent variables are generally low, with most coefficients below 0.40. This is well within the commonly accepted threshold, which suggests that correlations below 0.80 typically do not pose serious multicollinearity concerns (Lee CC, Wang CW, 2021). In particular, the two key explanatory variables in the model—geopolitical risk (GPR) and the trade balance (BOT)—exhibit very weak correlations with both ROA and ROE. This suggests that their effects on firm performance are unlikely to be driven by strong linear associations with other regressors. The overall pattern of low cross-correlations among the independent variables is also consistent with the view that regression models tend to be more stable and yield more reliable coefficient estimates when multicollinearity is limited (Bloom N, 2009). Taken together, these results indicate that there is no substantial linear dependence among the variables, supporting the appropriateness of the specified regression model.

Table 2

Correlation Matrix

Variable	ROA	ROE	LEV	SIZE	TANG	LIQ
ROA	1.00					
ROE	0.368	1.000				
LEV	-0.356	-0.009	1.000			
SIZE	-0.035	0.035	0.324	1.000		
TANG	0.069	0.022	-0.053	0.049	1.000	
LIQ	0.255	0.088	-0.214	-0.167	-0.073	1.000

Source(s): Table by authors

Table 3

Multicollinearity Test (VIF)

Variable	VIF	1/VIF
LEV	2.04	0.490584
SIZE	1.15	0.868720
TANG	1.49	0.672741
LIQ	1.26	0.796352
TOBIN_Q	1.05	0.953672
NWC	2.22	0.451095
GDP	1.68	0.594539
CPI	2.00	0.499976
COVID_19	1.59	0.630212
GPR	1.41	0.708878
BOT	2.49	0.401378
Mean VIF	1.67	

Source(s): Table by authors

4.2 Baseline regression results and model diagnostics

Based on the analytical evidence presented in the preceding tables, selecting an appropriate regression model requires careful treatment of methodological issues inherent in business panel data. Although the correlation matrix and VIF statistics indicate that multicollinearity is minimal, the heteroskedasticity and autocorrelation diagnostics in Table 5—particularly for the ROA model—demonstrate violations of the Gauss–Markov assumptions that conventional OLS, FEM, or REM estimators are unable to fully address. In addition, the dataset exhibits characteristics of dynamic panel structures, as current firm performance is likely influenced by past performance, suggesting the presence of endogenous lagged effects (Caldara D, Iacoviello M, 2022). Key explanatory variables such as GPR, BOT, and financial leverage (LEV) are also vulnerable to endogeneity due to potential bidirectional relationships between macroeconomic and trade risks and firm outcomes. In this context, the System GMM (SGMM) approach is the most appropriate estimation technique (Bernanke BS & Dixit AK, Pindyck RS, 1983, 1994). SGMM effectively manages endogeneity, heteroskedasticity, and autocorrelation while leveraging the model's internal instrumental structure to produce consistent and efficient estimators. Therefore, this study adopts SGMM as the optimal modeling framework.

Table 4

Regression Results for ROA-ROE Using SGMM

Variables	(1) ROA	(2) ROE
LEV	-0.0444257***	0.0212414
	(0.0079050)	(0.0310009)
SIZE	0.0075506***	0.0261668***
	(0.0018839)	(0.0069634)
TANG	0.0274666***	0.0604127***
	(0.0063507)	(0.0195745)
LIQ	0.1149956***	0.2832466***
	(0.0169434)	(0.0405452)
TOBIN_Q	0.0276035***	0.0601318***
	(0.0052213)	(0.0119148)
NWC	0.0410408***	0.0786663***
	(0.0080910)	(0.0258496)
GDP	-0.1105343	-0.4226924*
	(0.0671595)	(0.2172283)
CPI	0.4624087**	2.368665***
	(0.2320743)	(0.8210220)
COVID_19	-0.0105915***	-0.0279899***
	(0.0024702)	(0.0073739)
GPR	0.0687786***	0.4329534***

	(0.0233681)	(0.1279951)
BOT	-0.3841174***	-1.249064***
	(0.0485563)	(0.2330582)
Intercept	0.3049681	0.8940231
	(0.0469208)	(0.1889217)
Observations	5,103	5,103
Number of firms	588	688
AR(2) p-value	0.356	0.345
Hansen test p-value	0.945	0.501

Source(s): Table by authors
Note: * p<0.1, ** p<0.05, *** p<0.01

The SGMM estimates indicate that geopolitical risk (GPR) has a positive and statistically significant effect on both ROA (0.0687***) and ROE (0.4329***), which runs counter to our initial hypothesis. This finding reflects a particular pattern of adaptability among Vietnamese firms in the face of regional and global instability. While uncertainty and real options theory would predict that higher risk generally depresses investment and profitability (Kobrin SJ & Melitz MJ, 1979, 2003), the Vietnamese experience suggests a different dynamic. Periods of heightened geopolitical uncertainty—such as tensions in the South China Sea, disruptions to global supply chains, or the Russia–Ukraine conflict—appear to trigger proactive firm responses: restructuring of input sources, reorientation of export markets, and strategic positioning of Vietnam as a relatively safe and attractive production base for international partners. This pattern is in line with recent evidence from other emerging economies, which shows that external shocks can prompt firms to strengthen risk management and enhance operational efficiency (Arellano M, Bover O & Wooldridge JM, 1995, 2010).

By contrast, the trade balance (BOT) has a negative and strongly significant effect on ROA (–0.3841***) and ROE (–1.2496***), again in the opposite direction to our prior expectations. This reflects structural features of the Vietnamese economy, which remains highly dependent on imported raw materials, machinery, and intermediate inputs. Under these conditions, a trade surplus at the aggregate level does not necessarily translate into improved firm-level performance; it can, in some cases, coincide with higher input costs and additional exchange rate pressures, particularly for processing and manufacturing firms. These results are consistent with the observed reality that Vietnamese enterprises are still heavily exposed to logistics costs, commodity price volatility, and dependence on foreign supply chains.

The control variables behave largely as expected given the operational characteristics of Vietnamese firms. Firm size (SIZE), tangible assets (TANG), liquidity

(LIQ), firm value (TOBIN_Q), and net working capital (NWC) all exert positive effects on ROA and ROE. This aligns with the stylized fact that larger firms with stronger balance sheets and better access to external finance tend to achieve superior performance, consistent with theoretical and empirical evidence (Munch J, Schaur G & Pringpong S, Maneenop S, Jaroenjitrkam A, 2015, 2023). Financial leverage (LEV) has a negative impact on ROA, underscoring that debt-related risk remains a major constraint for Vietnamese firms, which face relatively high borrowing costs and rely heavily on bank credit. The macroeconomic variables—economic growth (GDP) and inflation (CPI)—exert heterogeneous effects across the two profitability measures, reflecting how sensitive firm performance is to price dynamics and business-cycle conditions in Vietnam. Finally, the COVID-19 dummy behaves as expected, capturing the decline in operational efficiency experienced by many firms during the pandemic years. Overall, the control variables perform consistently with theoretical priors and accurately reflect salient features of the Vietnamese economy over the study period.

5 CONCLUSION

This study investigates the effects of geopolitical risk and trade balance on the performance of Vietnamese listed firms over the period 2016–2024, using dynamic panel data and System GMM estimation. The results show that geopolitical risk has a positive and significant effect on ROA and ROE, suggesting that Vietnamese firms have been able to adapt to and even benefit from global geopolitical turbulence by repositioning themselves within restructured supply chains. Conversely, the trade balance has a negative and significant impact on firm performance, reflecting the structural dependence of Vietnam's corporate sector on imported inputs and the complex interplay between macro-level trade outcomes and firm-level efficiency.

These findings contribute to the emerging literature on geopolitical risk and corporate performance in emerging markets and underscore the importance of considering both geopolitical and trade-related channels when assessing firms' resilience. The results also reveal that firm-specific characteristics such as size, asset structure, liquidity, and market valuation continue to play critical roles in explaining performance differences across firms, while high leverage and pandemic-related shocks remain important sources of vulnerability.

From a policy perspective, the findings suggest that Vietnamese authorities should continue to prioritize macroeconomic stability and develop early-warning systems for geopolitical and trade shocks. Policies aimed at improving logistics, reducing import dependency, and developing domestic supporting industries would help mitigate the negative impact of adverse trade developments on firm performance. At the same time, Vietnam should actively position itself as a reliable and attractive destination within reconfigured global value chains to take advantage of the opportunity effects associated with geopolitical shifts. At the firm level, managers should strengthen risk management frameworks, enhance financial resilience, and invest in technological upgrading and market diversification. Building flexible supply chains, broadening export markets, and maintaining prudent leverage ratios can help firms better withstand external shocks and sustain long-term performance Limitations and Dimensions for Future Research

This study has several limitations that provide avenues for future research. First, while the dataset covers a substantial period from 2016 to 2024 and includes a large number of Vietnamese listed companies, it does not distinguish between industries. Given that geopolitical shocks and trade dynamics may affect sectors differently (e.g., manufacturing versus services), future studies could adopt an industry–specific or sectoral approach.

Second, geopolitical risk is captured using a single global index, which may not fully reflect firm-level exposure or domestic political risk. Future research may incorporate alternative measures, including firm-specific geopolitical exposure or country-level political stability indicators, to provide a more nuanced understanding.

Third, although the System GMM approach effectively addresses endogeneity and dynamic persistence, it remains sensitive to instrument validity. Expanding alternative empirical techniques or employing natural experiments could further strengthen causal inference.

Finally, the study focuses primarily on accounting–based performance indicators (ROA and ROE). Future research could integrate market–based measures such as stock returns, firm valuation, or total factor productivity to provide a more comprehensive view of how geopolitical uncertainty and trade conditions influence corporate outcomes.

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CONFLICT OF INTEREST

The author declares no conflict of interest.

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Authors' Contribution

All authors contributed equally to the development of this article.

Data availability

All datasets relevant to this study's findings are fully available within the article.

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