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Geopolitical Pressure and Strategic Responses of MNEs in China

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Abstract

The geopolitical pressure for decoupling from China has become a defining feature of the new globalization, reflected in Western governments' efforts to limit dependence on China and enhance technological competitiveness and value chain (VC) resilience. As a result, multinational enterprises (MNEs) in China face heightened home-country institutional constraints that compel them to reassess and reconfigure their VCs. Drawing on institutional theory and global value chain research, we develop a conceptual framework explaining how MNEs in China respond to such home-country institutional pressure while evaluating host-country market opportunities. The framework identifies five distinct VC reconfiguration strategies, capturing how firms balance political conformity with economic rationality. By systematically linking geopolitical pressure to firm-level strategic responses, this paper contributes to international business scholarship by providing a theoretical lens for understanding strategic heterogeneity under conditions of geopolitical disruption.

Keywords: Geopolitical pressure; Multinational enterprises (MNEs); Value chain (VC) reconfiguration; Strategic responses

Academic Editor: Xing Xu

Received: November 06, 2025

Revised: November 18, 2025

Accepted: December 02, 2025

Published: December 10, 2025

Citation: Wang, Q., Zhang, C., & Gao, Y. (2025). Geopolitical Pressure and Strategic Responses of MNEs in China. *Journal of Modern Social Sciences*, 3(1), 1–11.
<https://doi.org/10.71113/JMSS.v3i1.468>

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1. Introduction

The escalation of the U.S.–China trade war, compounded by the COVID-19 pandemic, has plunged global value chains into heightened uncertainty and risk (Meng et al., 2025). Against this backdrop, western countries led by the U.S. have developed new globalization logic that privileges shared value-based partnerships over cost-reduction imperatives, aiming to substitute China's role in the world economy (Cui et al., 2023). Consequently, multinational enterprises (MNEs) in China are compelled to adapt to this new logic by reconfiguring their value chains (VCs) to balance local opportunities with the geopolitical pressure for decoupling from China (Cui et al., 2023; Peng et al., 2025). Understanding how MNEs in China respond to this tension is crucial for advancing international business research, particularly in linking geopolitical disruptions to firm-level strategies.

According to institutional theory (Meyer & Peng, 2016; Oliver, 1991), geopolitical pressure for decoupling from China—manifested through export controls, technology transfer restrictions, and outbound investment restrictions—is conceptualized as a form of home-country institutional pressure. MNEs respond heterogeneously to home-country institutional pressure depending on how they balance political conformity with strategic autonomy (Li et al., 2018; Witt & Lewin, 2007). Extant research has effectively documented the heterogeneous strategies of MNEs in response to geopolitics, yet it lacks an integrative theoretical framework to explain this strategic

variation, particularly the nuanced interplay between economic and political rationales (Moura et al., 2025). This limits our understanding of heterogeneous strategies MNEs in China employ under geopolitical pressures.

To address this gap, this paper develops a conceptual framework that explains MNEs in China strategic responses to geopolitical pressure. Drawing on institutional theory and global value chain research, the framework proposes that MNEs' VC reconfiguring strategies are jointly shaped by home-country institutional pressure and host-country market attractiveness. Based on this interaction, the paper identifies five distinct VC reconfiguring strategies that capture how MNEs balance geopolitical pressures with market opportunities in China. This typology provides an analytical framework for understanding how MNEs navigate the critical tension between geopolitical pressure and economic rationality. It thereby sheds light on a pivotal issue in contemporary international business scholarship and contributes to the emerging literature on strategy under geopolitical uncertainty (Witt et al., 2023; Luo & Van Assche, 2023).

2. Geopolitical Pressure and the Strategic Challenges of MNEs in China

2.1. The Nature of Geopolitical Pressure

Recent shifts in the global political economy have transformed the external environment faced by MNEs in China. Geopolitical pressure led by the U.S. and its allies has evolved from diplomatic rhetoric into concrete policy mechanisms aimed at restricting technological and economic interdependence with China (Cui et al., 2023). This pressure materializes primarily through export controls on advanced technologies, restrictions on cross-border data and knowledge transfer, and outbound investment screening targeting strategic sectors such as semiconductors, artificial intelligence, and quantum computing (European Commission, 2023; The White House, 2023; U.S. Department of Commerce, 2022). These coordinated policy initiatives signal the rise of state-led intervention in global value chains, shifting firm strategies from efficiency-driven globalization toward politically conditioned restructuring (Luo, 2022).

From an institutional theory perspective, the geopolitical pressure can be conceptualized as home-country institutional pressure (Meyer & Peng, 2016), which includes regulatory coercion and normative expectations that influence MNEs strategies beyond market efficiency considerations (Oliver, 1991). Unlike traditional institutional constraints—which typically aim to reduce uncertainty or ensure compliance—geopolitical pressure imposes strategic directional pressure, compelling firms to reconfigure cross-border operations in line with geopolitical objectives. For example, semiconductor firms such as ASML and TSMC have been forced to restrict technology exports to China to comply with U.S. export controls, despite substantial commercial incentives to continue market engagement. This illustrates how home-country institutional pressure now extends beyond legal compliance to actively shape the configuration of MNEs' global production networks.

2.2. Strategic Dilemma of MNEs in China: Balancing Political and Economic Rationalities

Geopolitical pressure generates structural tensions in the strategic decision-making of MNEs in China by forcing firms to reconcile conflicting external expectations and economic incentives. More specifically, MNEs operating in China face a strategic dilemma, balancing political rationality (e.g., political resources, bargaining power, and balance of interests) with economic rationality (e.g., sunk cost, competition, and opportunity) (Moura et al., 2025).

First, political rationality reflects the strategic consideration of institutional legitimacy and the management of political relations in response to home-country geopolitical pressure. As geopolitical tensions reshape global trade and investment patterns, MNEs are increasingly evaluated not only by their market performance but also by their political alignment with home-country interests (Luo & Van Assche, 2023; Witt et al., 2023). MNEs operating in China must therefore balance political conformity with their commercial objectives—a challenge

particularly salient for firms headquartered in Western economies facing growing decoupling pressure.

MNEs' decisions are significantly influenced by their political resources, which can either constrain or enable their strategic options (Boussebaa & Morgan, 2014; De Villa et al., 2019). On one hand, strong political connections may bind firms to home-country policy agendas, compelling them to adjust strategies in alignment with geopolitical imperatives rather than market logic. For example, U.S. semiconductor firms such as Intel and NVIDIA have had to scale back or delay partnerships with Chinese entities due to export controls imposed by the U.S. government—illustrating how geopolitical alignment may override commercial incentives. On the other hand, MNEs can leverage their political resources and bargaining power to negotiate more favorable positions vis-à-vis both home and host governments (Cui et al., 2023; Müllner & Puck, 2018). MNEs such as ASML and Samsung, for instance, have sought diplomatic channels to preserve critical market access in China while remaining compliant with Western export restrictions.

Ultimately, the value and configuration of an MNE's political resources determine how it navigates geopolitical uncertainty. Firms with diversified political networks and adaptive lobbying capabilities tend to perceive lower levels of geopolitical pressure from their home governments, which enables them to better mitigate institutional risks and maintain operational continuity amid conflicting state pressures (Witt et al., 2023). This political rationality thus reflects an ongoing balancing act—maintaining legitimacy in home-country institutional environments while minimizing disruption to commercial strategies in China.

Second, economic rationality emphasizes market-based considerations such as sunk costs, competition, opportunities, and supply chain efficiency (Moura et al., 2025). Decisions grounded in economic rationality evaluate market opportunities, competitive dynamics, and the relative costs of alternative investment options as central determinants of strategic behavior under geopolitical pressure (Buckley & Casson, 2019; Dean & Sharfman, 1996). Despite growing institutional constraints, China remains a vital hub in global production networks, offering economies of scale, innovation capacity, and a sophisticated industrial ecosystem (Grimes & Du, 2022). Apple and Tesla exemplify this economic logic. Apple maintains a vast supplier network in China to leverage manufacturing efficiency and quality control. Tesla's Gigafactory Shanghai remains its largest global production base, allowing the company to serve both domestic and export markets. These firms' decisions demonstrate the enduring importance of China's market size, cost advantages, and innovation ecosystem in shaping MNEs' strategies.

2.3. The Unsettled Priority between Institutional and Market Logics

The coexistence of political and economic rationalities reflects a deeper theoretical tension between institutional and market logics that shape MNEs' strategic behavior under geopolitical uncertainty. The institutional logic, grounded in home-country regulations, geopolitical alignment, and legitimacy-seeking behaviors, compels firms to comply with the expectations of political authorities. Conversely, the market logic, derived from the pursuit of efficiency, opportunity, and competitiveness, drives firms to prioritize economic rationality and resource optimization in the host market. In China, these two logics frequently collide, as MNEs' are caught between the institutional demand for political conformity and the market imperative for continued engagement with one of the world's most dynamic economies.

Institutional theory suggests that organizations often navigate within plural institutional environments, where multiple logics coexist and compete for dominance (Thornton & Ocasio, 2008; Greenwood et al., 2011). In the context of intensifying U.S.–China geopolitical rivalry, this competition produces an unsettled priority—a condition in which neither institutional nor market logic consistently dominates MNEs' decision-making (Cui et al., 2023). When geopolitical tensions escalate, institutional logic becomes more salient, prompting firms to downscale or relocate to signal political compliance. When the market logic regains strength, firms reassert

their economic interests through renewed investment or strategic adaptation in China. This dynamic interplay underscores that firms' strategic orientations are not fixed but evolve as they continuously reinterpret external pressures and internal priorities.

As a result, MNEs' strategic responses to geopolitical pressures display significant heterogeneity. Some firms adopt cautious compliance strategies to safeguard political legitimacy, while others engage in adaptive bargaining to sustain their market positions. The unsettled balance between institutional and market logics thus explains why even firms within the same industry—such as Apple, ASML, and Samsung—adopt differentiated configurations of their value chains in response to the same geopolitical environment. Building on this understanding, the following section develops a conceptual framework that theorizes how home-country institutional pressure and host-country market attractiveness jointly shape MNEs' strategic choices in China.

3. Conceptualizing MNEs' Strategic Responses to Geopolitical Pressure

While prior studies provide important foundations for understanding MNE responses to geopolitical disruption, they do not fully capture the micro-level heterogeneity of value-chain restructuring. Cui et al. (2023) conceptualize geopolitical shifts as a competition between institutional logics and classify firm responses according to how they manage macro-level institutional pressures, whereas Moura et al. (2025) highlight the role of political capabilities and real options in shaping firm-level decisions to participate, adapt, disengage, or exit. Both frameworks treat the MNE as a unitary actor and focus on strategic postures at the organizational level. Building upon institutional theory and global value chain perspectives, this paper advances prior research by arguing that MNEs' strategic responses to the U.S.–China geopolitical rivalry are jointly shaped by two interrelated dimensions: home-country institutional pressure and host-country (China's) market attractiveness. These two forces coexist but exert asymmetric influences—the former determines whether firms adopt an expansionary or contractionary stance toward China, while the latter shapes which segments of the value chain they retain, upgrade, or withdraw. This activity-level lens reveals that geopolitical responses are not binary stay-or-leave decisions, but selective restructuring across high- and low-value activities—representing a theoretical refinement beyond existing frameworks.

3.1. Home-Country Institutional Pressure

Home-country institutional pressure refers to the coercive, normative, and regulatory constraints imposed by a firm's home government and its associated institutional environment (Meyer & Peng, 2016; Yan et al., 2022). In the current geopolitical context, this pressure manifests through mechanisms such as export controls, investment screening, technology transfer restrictions, and public legitimacy concerns (Cui et al., 2023). It shapes the strategic stance of MNEs—whether to expand or contract their engagement with the Chinese market. At the micro level, the intensity of such institutional pressure varies across firms. Factors such as industry sensitivity, technological profile, dependence on government contracts, and visibility in political discourse determine how strongly an MNE experiences home-country constraints. For example, U.S. semiconductor firms face stronger institutional coercion than European consumer brands. Hence, higher institutional pressure compels firms to adopt contractionary or risk-averse strategies to avoid sanctions or legitimacy losses, while lower pressure allows more strategic flexibility and expansion-oriented behavior.

3.2. Host-Country Market Attractiveness

Host-country market attractiveness represents the perceived opportunities for value creation and growth in the host market (Rugman & Verbeke, 2007). It captures both structural factors—market size, industrial ecosystem, innovation capacity—and firm-level perceptions—strategic dependence, supply chain integration, and local partnership potential.

Crucially, it influences the value-chain positioning of firms: whether they concentrate on high-end activities (R&D, design, innovation) or low-end operations (assembly, processing, basic manufacturing). At the firm level, the perception of China’s market attractiveness is not uniform. MNEs in fast-growing consumer sectors or advanced manufacturing may view China as indispensable for innovation and market access, while those in declining or commoditized industries may perceive diminishing returns. Thus, firms facing high market attractiveness are incentivized to deepen or upgrade their VC activities in China, whereas those perceiving lower attractiveness may retain only low-end or supporting functions. Thus, market attractiveness represents the “pull” force counterbalancing institutional constraints, influencing not whether firms stay in China, but how they stay.

Although home-country institutional pressure and host-country market attractiveness are defined at the environmental level, firms’ perceptions of these forces are highly heterogeneous—even within the same industry and country. Prior research suggests that institutional pressure varies according to a firm’s degree of resource dependence on its home government (Hillman et al, 2009), its exposure to technology- or data-sensitive activities subject to geopolitical scrutiny, ownership structure (state-affiliated vs. privately controlled), and managerial ideological orientation (Gupta et al., 2017). Similarly, market attractiveness is not only a structural feature of the host economy but also a cognitively constructed evaluation shaped by firms’ strategic experience, network embeddedness, and future-oriented belief systems (Gavetti, 2012; Maitland & Sammartino, 2015). These firm-level cognitive and resource-dependence mechanisms explain why two companies in the same industry may arrive at different interpretations of “pressure” and “attractiveness,” ultimately leading them to divergent value-chain strategies under the same macro-environmental conditions.

3.3. A Framework of MNE Strategic Responses in China

By integrating these two dimensions, we develop a 2×2 analytical framework (plus a central hub cell) to capture the strategic space within which MNEs reconfigure their value chains in China under geopolitical pressure (Figure 1). The horizontal axis represents home-country institutional pressure (low vs. high), determining the firm’s strategic stance (expansion vs. contraction); the vertical axis represents host-country market attractiveness (low vs. high), determining the firm’s VC positioning (high-end vs. low-end). Each cell in the matrix captures a distinct strategic configuration reflecting how firms balance compliance imperatives with market opportunities.

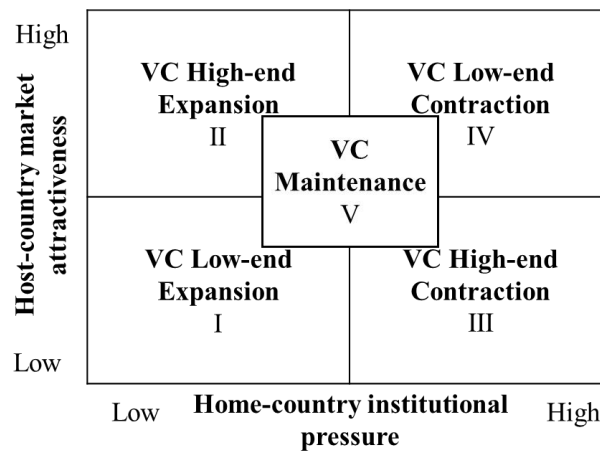


Figure 1: MNEs’ strategic responses to geopolitical pressure

3.4. VC Low-End Expansion

Quadrant (I) of Figure 1 shows the case of low ‘home-country institutional pressure’ and low ‘host-country market attractiveness’. In this scenario, MNEs face minimal coercive demands

from their home governments while perceiving limited strategic upside in the Chinese market. With few political legitimacy concerns and modest upgrade incentives, MNEs often prioritize operational efficiency. Instead of localizing high-value activities, they choose to expand or sustain low-value production and assembly in China to exploit cost advantages and supply-chain maturity.

This dynamic drives a VC Low-End Expansion Strategy, defined by expansion of low-value-added activities (assembly, packaging, simple processing) in China, rather than upgrading to R&D or design. For instance, a number of European and Southeast Asian contract manufacturers have expanded low-cost assembly operations in China's inland industrial zones, leveraging established supplier ecosystems and favorable cost structures. Under weak home-country pressure and limited market pull, their strategic logic emphasizes scale efficiency and flexibility over innovation or deep embedding.

3.5. VC High-End Expansion

Quadrant II of Figure 1 corresponds to low home-country institutional pressure combined with high host-country market attractiveness. In such a context, firms enjoy strategic latitude from their home institutions and perceive China as an innovation and growth hub. With minimal political overhead and strong economic pull, firms are incentivised to deepen their local embeddedness. They elevate their China operations from mere manufacturing to include R&D, design and innovation functions in response to the local ecosystem.

The resulting pattern is a VC High-End Expansion Strategy, characterized by upgrading into high-value segments in China (e.g., R&D centres, design labs, innovation partnerships). For example, the BMW Group expanded its R&D footprint in China substantially—its China R&D network has grown to become the largest outside Germany, with full-stack capabilities in Beijing, Shanghai, Shenyang and Nanjing. In this scenario, low institutional constraint and strong market attractiveness combine to enable strategic embedding and upgrading rather than mere cost-based Period needed.

3.6. VC High-End Contraction

Quadrant III of Figure 1 depicts the situation of high home-country institutional pressure and low host-country market attractiveness. Firms in this quadrant face strong political or regulatory demands from home governments (for decoupling, legitimacy preservation) while perceiving limited opportunities in the Chinese market. This form of contraction is primarily driven by policy coercion rather than commercial calculus: firms withdraw high-value operations not because they lack economic rationale but because continuing such activities increases institutional penalty risk (e.g., technology sanctions, export controls, legitimacy threats). Under these dual constraints, the premium value-chain activities (such as R&D or design) become strategically vulnerable. Firms may withdraw or relocate these functions to mitigate political risk and optimize global resource allocation.

Hence, they adopt a VC High-End Contraction Strategy, withdrawing from high-value functions in China while possibly retaining minimal manufacturing presence for continuity. A case in point: several U.S. semiconductor firms curtailed advanced technological collaboration in China following U.S. export controls—shifting high-end research and design operations to home or third-country locations, while maintaining basic production or sales operations. This logic reflects a legitimacy-first strategy, where political constraints dominate over market potential.

3.7. *VC Low-End Contraction*

Quadrant IV of Figure 1 reflects high home-country institutional pressure alongside high host-country market attractiveness. Firms in this configuration face intense political coercion to decouple, yet cannot easily relinquish the China opportunity given its size and ecosystem. Unlike high-end contraction, low-end contraction is primarily driven by firm-level economic optimization rather than regulatory coercion. Firms deliberately scale back lower-value manufacturing activities to reduce exposure, cost, or supply-chain rigidity, while retaining only the segments necessary to maintain market access. To reconcile this tension, they engage in selective decoupling (Cui et al., 2023; Liu et al., 2025)—shifting out high-value, politically sensitive functions while retaining lower-risk, lower-value operations.

This results in a VC Low-End Contraction Strategy, where firms scale back high-end activities (R&D, core IP) in China but continue with lower-end manufacturing, assembly or service functions in order to preserve market access. For example, the Tesla Shanghai Gigafactory remains the company's major production hub and innovation centre outside the U.S., yet in response to export controls and data-security scrutiny it has shifted certain software- and data-related functions away from China. This illustrates how firms balance market presence and political compliance in dual-high environments.

3.8. *VC Maintenance*

In the central or intermediate zone of Figure 1—where home-country institutional pressure and host-country market attractiveness are both moderate—firms tend to adopt a strategy of strategic patience and flexibility. In such conditions, neither institutional coercion nor market incentives are dominant, leaving firms in a state of cautious observation and adaptive adjustment. Instead of radical expansion or full withdrawal, they prioritize maintaining operational continuity, resilience, and future optionality amid uncertainty.

This gives rise to the VC Maintenance Strategy, in which firms retain their core presence in China while implementing incremental diversification measures such as the “China + 1” strategy (Luo & Van Assche, 2023). By keeping existing Chinese operations while simultaneously building complementary capacity in other Asian economies (e.g., Vietnam, Thailand, or Malaysia) (Witt et al., 2023), MNEs hedge against geopolitical volatility without severing ties to China's ecosystem. For example, Japanese electronics firms such as Panasonic and Sharp have maintained their manufacturing and supply-chain hubs in China while gradually developing alternative production bases in Southeast Asia. This hybrid approach—neither expansionist nor contractionary—reflects a pragmatic balance between institutional compliance and market continuity.

We further clarify that “VC maintenance” is not a residual category but a distinct strategic posture. Unlike expansion and contraction strategies, which involve directional reconfiguration of value-chain activities, VC maintenance represents a temporal hedging strategy in which firms deliberately postpone irreversible commitments while preserving operational optionality. Movement between the four strategic quadrants is not instantaneous but follows identifiable transition triggers—such as regulatory tightening, sanctions risk shocks, loss of market licensing, or shifts in perceived innovation opportunity. Accordingly, VC maintenance is a rational interim equilibrium rather than a passive non-decision, particularly when firms face high uncertainty and ambiguous geopolitical signals.

Although the two-dimensional framework identifies five dominant strategic orientations, these responses should not be interpreted as deterministic outcomes. Firms are not passively positioned within the pressure–attractiveness space; instead, managerial discretion, organizational capabilities, and adaptive learning shape how environmental signals are interpreted and acted upon. Prior research shows that firms facing identical external pressures often pursue divergent paths due to differences in managerial cognition (Gavetti, 2012), organizational culture, and dynamic capabilities that enable proactive reconfiguration rather than reactive adjustment (Teece, 2014). Accordingly, we conceptualize the five strategic responses as probabilistic strategic orientations—patterns that are more likely under specific institutional and market conditions, but moderated by firm-specific resources and capabilities. This perspective maintains the parsimony of the framework while acknowledging strategic agency and heterogeneity in firm responses.

4. Discussion and Conclusion

This paper develops a conceptual framework to explain how MNEs in China respond to escalating geopolitical pressure from home-country governments, integrating insights from institutional theory and global value chain research. By examining the interaction between home-country institutional pressure and host-country market attractiveness, the study identifies five distinct value-chain reconfiguration strategies—VC high-end expansion, VC low-end expansion, VC high-end contraction, VC low-end contraction, and VC maintenance. The framework provides a systematic lens for understanding the heterogeneity of MNE strategic behavior under geopolitical disruption, capturing the nuanced interplay between economic and political rationales that drive differentiated value chain activities.

This paper helps to advance existing knowledge in two main ways. First, by formalizing the interaction between home-country institutional pressure and host-country market attractiveness in shaping MNEs' value chain strategies, we illuminate how competing logics—coercive institutional mandates from the home country and economic opportunity in the host market—jointly influence strategic positioning across high- and low-value-chain segments. It enriches research on institutional pluralism, particularly in contexts of conflicting or competing logics, and provides a nuanced account of how firms navigate tensions between political and economic rationales. By connecting these findings to the broader literature on institutional pluralism (Greenwood et al., 2011; Oliver, 1991), our study demonstrates that MNEs not only navigate multiple institutional logics simultaneously but also strategically reconfigure specific value-chain segments in contexts of conflicting mandates. This highlights how institutional pluralism can operate at a micro-level, extending prior research that often treats firms as homogeneous actors. Second, it advances the micro-level understanding of strategic responses by demonstrating that geopolitical pressures operate not only at the firm level as a whole but often target specific value chain activities. This perspective moves beyond treating the MNE as a homogeneous actor (Moura et al., 2025) and highlights how MNEs selectively reconfigure particular business segments in response to geopolitics.

Practically, the framework offers guidance for MNE managers navigating politically contested markets. MNEs can leverage the typology to design selective value chain strategies that balance compliance with home-country regulations and the pursuit of local economic opportunities. Each of the five strategies implies a different way of reorganizing operations. High-end expansion calls for local R&D and innovation partnerships; low-end expansion focuses on increasing standardized production capacity. High-end contraction requires shifting sensitive

research and data activities overseas, while low-end contraction involves relocating labor-intensive manufacturing to “China+1” economies while keeping sales in China. A maintenance strategy emphasizes optionality—dual sourcing, alliance restructuring, and flexible capacity—rather than disengagement. These actions show how firms can adjust specific value-chain segments instead of making an all-or-nothing choice about China. For example, Apple and TSMC demonstrate how high-end technological operations can be selectively adjusted to satisfy regulatory constraints while preserving market access and operational efficiency. For policymakers, understanding these strategic levers is critical not only for enforcing home-country regulations but also for aligning regulatory interventions with broader geopolitical objectives. Policies can be designed to safeguard national security while minimizing adverse impacts on economic efficiency—for instance, by providing clear guidance for selective value-chain adjustments rather than broad-based disengagement, thereby maintaining investment incentives and operational flexibility for MNEs.

This study has several limitations that offer avenues for future research. First, the framework is conceptual and requires empirical testing across industries and firm types to validate its predictive power. Second, the analysis focuses on China as a single host market, and findings may not generalize to other geopolitical contexts with different institutional and market conditions, or to MNEs from emerging economies, which typically do not face the geopolitical pressures for decoupling from China. Third, the typology emphasizes strategic choices at the value chain level but does not explicitly model firm-level resource capabilities, managerial cognition, or organizational culture, which may moderate responses to institutional pressure. Furthermore, it also provides only a snapshot of pressures and attractiveness at a single point in time. Future research could explore how dynamic geopolitical shifts influence firms’ strategic responses over time, considering the path-dependent nature of these strategies.

In conclusion, the paper advances understanding of how MNEs strategically respond to geopolitical pressure by providing a theoretically grounded, systematic framework that integrates home-country institutional pressure and host-country market attractiveness. By identifying distinct patterns of value-chain reconfiguration, it highlights the nuanced, heterogeneous strategies firms employ to navigate complex political-economic environments, offering both theoretical insight and practical guidance for global managers and policymakers.

Funding: Shanghai Philosophy and Social Science Planning Project (grant number: 2023EGL001).

Institutional Review Board Statement: Not applicable.

Informed Consent Statement: Not applicable.

Data Availability Statement: There is no new data associated with this article.

Conflicts of Interest: The authors declare no conflicts of interest.

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