



Exploring geographical diversification across US-ally and China-ally countries and MNE performance in a bifurcated world

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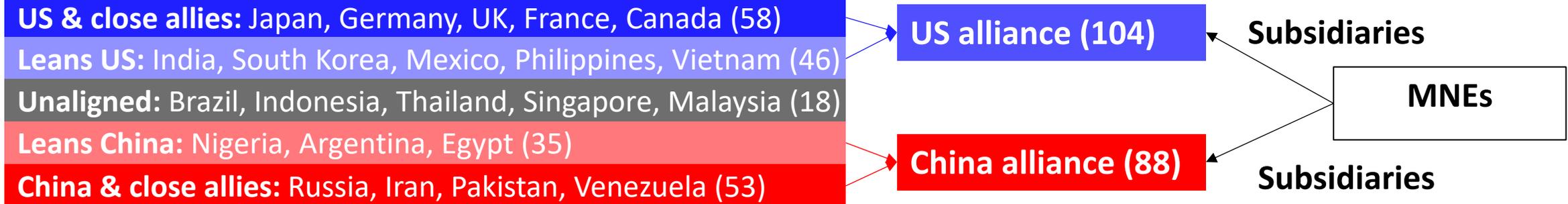
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A bifurcated world economy and IUCA diversification

- The deterioration in the US-China relationship began in 2016 when Donald Trump assumed the presidency of the US, leading to a series of measures aimed at restricting China's economic activities. Deglobalization is increasingly apparent in the divide between US-ally countries and China-ally countries, stemming from the economic separation between the US and China (Li et al., 2022; Teece, 2022; Vertinsky et al., 2023).
- Prior to the US-China dispute, both governments and MNEs were primarily focused on achieving economic efficiency in an interconnected world. However, post-US-China tensions, there has been a shift toward forming alliances with partners who share similar values or ideologies. This collision between political pressure and economic rationality has resulted in a more complex and volatile global economy (Cui et al., 2023; Li, Shapiro, et al., 2022).
- A similar trend is observable among MNEs. Some focus primarily on their international operations in China-friendly countries, while others prioritize US-friendly nations. Some MNEs strive to balance their presence between both blocs, maintaining operations in both US-ally and China-ally countries.



A bifurcated world economy and IUCA diversification



Source: Capital Economics

- **Inter-US-China-ally diversification (IUCA diversification):** the extent of international activities of multinational enterprises (MNE) spread across US-ally and China-ally countries.
- Higher IUCA diversification indicates a more balanced international operation across both camps, whereas lower IUCA diversification reflects a more concentrated presence in either US-ally or China-ally countries.
- **Research Purpose:** This study investigates how IUCA diversification influences MNE performance within the context of the US-China dispute.

Interweaving international relations theory into IB literature

- Meyer & Li (2022) offer comprehensive insight into how disruptions in the global economy impact MNEs' strategies and the functions of their foreign subsidiaries.

Realism viewpoint	Liberalism viewpoint	Constructivist viewpoint
MNEs and their subsidiaries would be considered the agents of their home country. This viewpoint can help explain why the US government implements a series of regulations to restrict the activities of Chinese MNEs in the US.	MNE subsidiaries are viewed as positive entities that foster trade opportunities, introduce new technologies, and offer access to limited resources, thereby expected to generate mutual benefits among trade participants.	MNE subsidiaries are seen as entities capable of shaping societal norms and values. This perspective frequently emerges in non-market strategy literature, highlighting the influence of MNEs on host countries' societies.

Interweaving international relations theory into IB literature

Cooperative relations	Conflict relations
<ul style="list-style-type: none">■ Investing in a host country with a close relationship to the home country can provide MNEs with access to assured resources, exclusive market information, and policy privileges (Bilgili et al., 2023).■ MNEs and subsidiaries are perceived as trustworthy partners (friends), obtaining legitimacy and benefiting from policy advantages and decreased transactional costs (Li et al., 2022; Meyer & Li, 2022).■ Positive relations tend to decrease political risks, even in traditionally perceived high-risk host countries (Duanmu, 2014; García-Canal & Guillén, 2008; Li et al., 2018; Yoon et al., 2020).	<ul style="list-style-type: none">■ Conflict relations between home and host countries pose considerable risks for MNEs, as host governments may employ various formal and informal methods to disrupt their business operations (Bertrand et al., 2016).■ MNEs and Subsidiaries are often viewed as threats (foes), encountering distrust and hostility, potentially undermining their legitimacy in overseas operations (Bilgili et al., 2023; Meyer & Li, 2022).■ Negative relations escalate political risks, even in countries boasting stable and secure institutional and economic systems for foreign direct investment (Yoon et al., 2020).

IUCA diversification and MNE performance

- Drawing on the interaction between international relations theory and IB literature, MNEs that focus their foreign business operations more on rival-ally countries are deemed to achieve poorer performance.
- However, would it be better for MNEs to concentrate their foreign operations more on their friendly countries? Or would it be better for them to have a balanced distribution across friend and foe alliances?
 - According to **real options theory**, foreign direct investments represent the real options for MNEs, offering flexibility and the ability to make strategic decisions amidst uncertainties and changing landscapes across different countries (Kogut & Kulatilaka, 1994).
 - Foreign subsidiaries play a pivotal role by providing **operational flexibility** and enabling **risk dispersion** for MNEs, granting them a unique advantage over domestic firms with access to diverse market information and the capability to shift capital across borders during market turbulence (Belderbos et al., 2014, 2020; Tong & Reuer, 2007).
 - Expanding on the principles of real options theory, this study delves into how inter-ally diversification influences MNE performance, examining this relationship from **three distinct perspectives**.

IUCA diversification and MNE performance

■ Perspective 1: Legitimacy

- Despite potential conflict in these relations, MNEs can strategically employ corporate diplomacy to secure legitimacy in host countries, even in the face of strained relations (Han et al., 2024; Li, Shapiro, et al., 2022).
- The subsidiary's attainment of legitimacy within rival ally countries holds strategic significance, serving as an invaluable option for MNEs to relocate operations if they face legitimacy challenges elsewhere (Han et al., 2024; Yoon et al., 2020).
- This **dual-legitimacy** empowers MNEs to conduct global operations with minimal disruption, preserving the advantages of globalization and ultimately bolstering MNE performance, especially when geopolitical tensions escalate (Gao et al., 2018; Hasija et al., 2019).



IUCA diversification and MNE performance

■ Perspective 2: Information and network

- A high level of inter-ally diversification offers MNEs strategic options to pivot their production chains when confronted with global political and economic volatility (Belderbos & Zou, 2009; Tong & Reuer, 2007).
- Given their investments in both ally countries, these MNEs exhibit **heightened awareness of political dynamics and policy alterations** between the two sides. This increased sensitivity enables them to swiftly analyze and respond to such developments (Han et al., 2024; Yoon et al., 2020; Bertrand et al., 2016).
- Moreover, MNEs with substantial inter-ally diversification boast **extensive networks within both sides**, leveraging specific advantages acquired through their internationalization endeavors and solid market positioning. They gain swift access to the latest information, cutting-edge technology, and diverse market opportunities from both spheres (Chi et al., 2019; Belderbos et al., 2014, 2020; Tong & Reuer, 2007).



IUCA diversification and MNE performance

■ Perspective 3: The portfolio

- Assessing an MNE's array of foreign subsidiaries involves considering each subsidiary's role in the portfolio, whether it serves as a growth or switching option. An optimal investment spread across various subsidiary functions equips MNEs with **operational agility, enabling swift adaptation** to dynamic environments (Anand et al., 2007; Tong & Reuer, 2007).
- Concentrating subsidiaries solely on one side risks missing out on valuable options unique to rival allies while gaining limited advantages in friendly alliances. (Belderbos et al., 2014; Belderbos & Zou, 2009).
- Consider **Chinese MNEs** for example: subsidiaries in US-ally countries offer advanced technology and substantial capital, whereas those in China-ally countries benefit from reciprocal investment policies and greater operational autonomy (Li et al., 2022).

Hypothesis 1: There exists a positive relationship between Inter-US-China-ally diversification and the performance of Chinese MNEs amid escalations in the US-China dispute.

The moderating effect of TMT's foreign experience

- Upper echelon theory (Hambrick & Mason, 1984) highlights how organizational outcomes reflect the cognitions and values of influential individuals within organizations, particularly the TMT (Top management teams).
- **TMT Conflict:**
 - 1) The impact of TMT's functional diversity is not solely reliant on uncertain circumstances (Cannella et al., 2008) but also on firms' strategies in response to uncertainty and conflict resolution approaches (cooperative, competitive, and avoidance-based) (Chen et al., 2005).
 - 2) The management styles of MNEs matter, especially when dealing with the relationship between the CEO and other TMT members. It is crucial to maintain a nuanced balance between the CEO and the TMT, particularly in Chinese firms where the CEO often wields substantial authority. **Conflicting views on significant matters can disrupt this balance in such organizational contexts** (Yi et al., 2022; Chen et al., 2015).



The moderating effect of TMT's foreign experience

TMT's Foreign experience:

Advantages	Disadvantages
<ul style="list-style-type: none">■ TMTs with foreign exposure possess a unique advantage in deciphering foreign policies, market dynamics, and consumer preferences (Sambharya, 1996).■ Additionally, their foreign experiences grant them access to expansive networks and diverse resources (Athanassiou & Nigh, 2002; Shin et al., 2016).■ In uncertain contexts, a diverse TMT excels in decision-making, innovation, and preventing strategic inertia (Cannella et al., 2008).	<ul style="list-style-type: none">■ Members may rely on past foreign knowledge, limiting their adaptability to new trends and stifling innovation (Xu, 2023).■ Foreign experience might breed overconfidence, causing members to prioritize their ideas and dismiss alternative suggestions (Wei et al., 2020).■ Overseas experience often fosters an international outlook, conflicting with nationalist sentiments, potentially igniting conflicts over choosing domestic versus international strategies (Luo, 2022; Wu & Fan, 2023).

The moderating effect of TMT's foreign experience

In the context of the US-China disputes:

- 1) Conflicts within Chinese MNEs could intensify due to their pivotal involvement in the US-China disputes. The pressure to make crucial decisions may lead experienced TMT members to perceive their proposals as superior, sparking heated internal debates, particularly when met with caution from others (Cannella et al., 2008).
- 2) In Chinese MNEs, **members with foreign experience may prefer international strategies, which conflict with those members with nationalist orientation**, incurring potential conflicts among TMT members (Luo, 2022; Wu & Fan, 2023).
- 3) These intensified conflicts, especially in highly diverse Chinese MNEs reliant on global markets, could hamper decision-making, escalating internal tensions and negatively impacting organizational performance (Amason, 1996; Mooney & Sonnenfeld, 2001).

Hypothesis 2: In Chinese MNEs where a higher proportion of TMT members possess foreign experience, the positive relationship between IUCA diversification and MNE performance will be weaker.



Method

- **Data sets (CSMAR, 2008-2021)**

- ① Set 1 = 2008~2016 (280 CMNEs and 1202 observations)
- ② Set 2 = 2017~2019 (280 CMNEs and 663 observations) – excluding Covid-19 period
- ③ Set 3 = 2017~2021 (297 CMNEs and 792 observations)

- **2008:** The year 2008 witnessed China navigating the global economic crisis while hosting the Summer Olympics, conducting significant outward foreign direct investments.
- **2017:** The US-China dispute sparked during the Presidency of Donald Trump in 2017, leading to a divided global economy.
- **2019:** By 2019, the world had not yet felt the impact of COVID-19, which emerged at the start of 2020.

Method

- **Dependent variable:** MNE performance is indicated by relative performance, which is calculated by the ROA (return on assets) of the MNE minus industrial averaged ROA (IROA) in a focal year (Habib & Victor, 1991).
- **Independent variables:** Inter-US-China-ally diversification is calculated by the Entropy measure that serves as an effective measure for assessing geographical diversification (Hitt et al., 1997; Lee, 2019; Qian et al., 2010).
- **Moderating variables:** TMT's foreign experience is derived by dividing the number of top management members with overseas experience by the total number of top management team members (Cannella et al., 2008; Sambharya, 1996).
- **Control variables:** (1) Firm age, (2) Firm size, (3) R&D intensity, (4) Ratio of domestic subsidiaries, (5) Host country GDP (weighted average), (6) Host country economic freedom (weighted average), (7) CAGE distance (weighted average), (8) MNE performance in the focal year (t).

Results

Fixed effect results (2008~2016)

VARIABLES	(1) Model1	(2) Model2	(3) Model3	(4) Model4
IUCA diversification		0.001 (0.008)	0.001 (0.008)	-0.002 (0.010)
TMT foreign experience			-0.006 (0.034)	-0.018 (0.041)
IUCA * TMT foreign experience				0.032 (0.065)
	(0.001)	(0.001)	(0.001)	(0.001)
GDP	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
CAGE distance	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
R&D intensity	-0.000 (0.001)	-0.000 (0.001)	-0.000 (0.001)	-0.000 (0.001)
Ratio of domestic subsidiaries	-0.017 (0.017)	-0.017 (0.018)	-0.017 (0.018)	-0.017 (0.018)
Relative performance (t)	0.140*** (0.035)	0.140*** (0.035)	0.140*** (0.035)	0.140*** (0.035)
Constant	-0.003 (0.107)	-0.003 (0.107)	-0.001 (0.108)	0.001 (0.108)
Observations	1,202	1,202	1,202	1,202
R-squared	0.041	0.041	0.041	0.041
Number of Firm_id	280	280	280	280

Note: Standard errors in parentheses, *** p<0.001, ** p<0.01, * p<0.05, + p<0.1



Results

Table 2. Fixed effect results (2017~2019)

VARIABLES	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4
IUCA diversification		0.114** (0.044)	0.113* (0.044)	0.176** (0.055)
TMT foreign experience			-0.083 (0.126)	0.172 (0.187)
IUCA * TMT foreign experience				-0.543+ (0.294)

	(0.004)	(0.004)	(0.004)	(0.004)
GDP	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)
CAGE distance	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)
R&D intensity	-0.003 (0.002)	-0.003 (0.002)	-0.003 (0.002)	-0.004 (0.002)
Ratio of domestic subsidiaries	0.195+ (0.108)	0.234* (0.108)	0.230* (0.108)	0.230* (0.108)
Relative performance (t)	-0.363*** (0.065)	-0.363*** (0.064)	-0.363*** (0.064)	-0.363*** (0.064)
Constant	0.099 (0.652)	0.218 (0.649)	0.209 (0.649)	0.170 (0.648)
Observations	663	663	663	663
R-squared	0.090	0.107	0.108	0.116
Number of MNEs	280	280	280	280

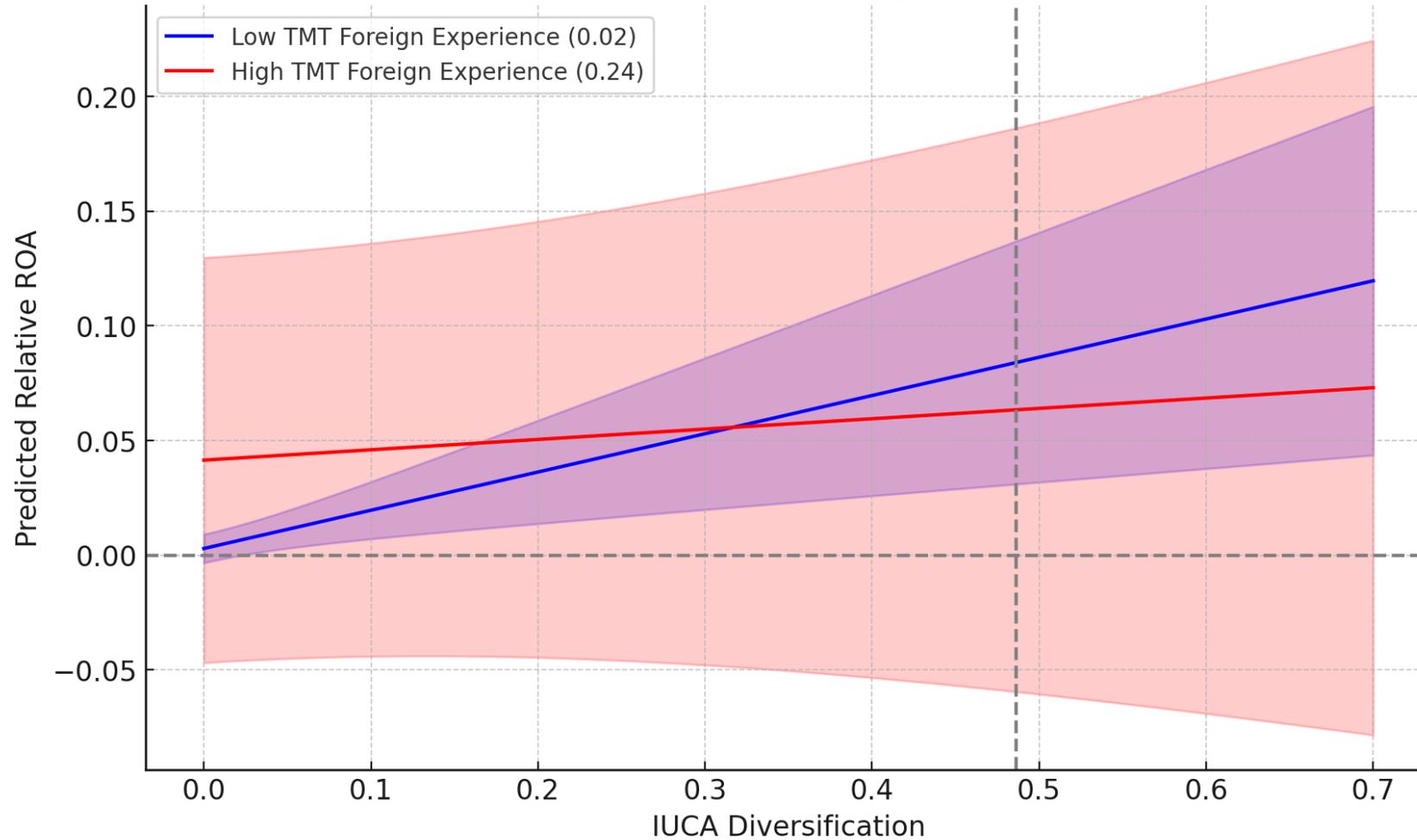
H1 supported (<0.01)
H2 supported (<0.10)

Note: Standard errors in parentheses, *** p<0.001, ** p<0.01, * p<0.05, + p<0.1

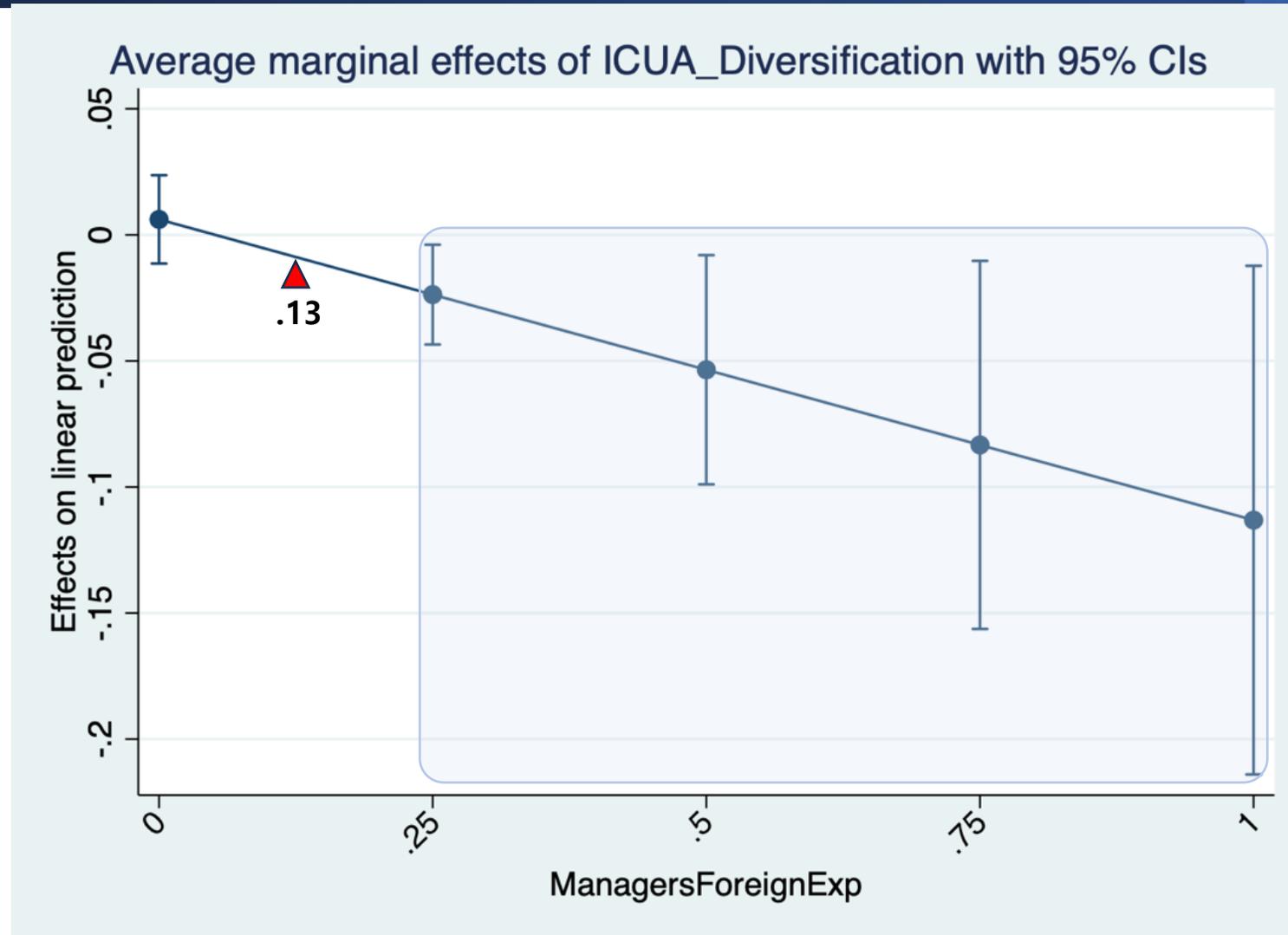


Results

Interaction Effect of IUCA Diversification and TMT Foreign Experience on Relative ROA with 95% CI



Results



Busenbark, J. R., Graffin, S. D., Campbell, R. J., & Lee, E. Y. 2022. A marginal effects approach to interpreting main effects and moderation. *Organizational Research Methods*, 25: 147–169

Results

Table 3. Comparison of statistical results for three time periods (IUCA diversification only)

VARIABLES	Model 1	Model 2	Model 3
	2008~2016	2017~2019	2017~2021
IUCA diversification	0.001 (0.008)	0.114** (0.044)	0.061+ (0.033)
Economic freedom	0.001 (0.005)	0.001 (0.028)	-0.002 (0.019)
GDP	0.000 (0.000)	-0.000 (0.004)	0.000 (0.003)
CAGE distance	0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)
R&D intensity	-0.000 (0.001)	-0.003 (0.002)	-0.004* (0.002)
Ratio of domestic subsidiaries	-0.017 (0.018)	0.234* (0.108)	0.164* (0.082)
Relative performance (t)	0.140*** (0.035)	-0.363*** (0.064)	-0.260*** (0.054)
Constant	-0.003 (0.107)	0.218 (0.649)	0.344 (0.458)
Observations	1,202	663	792
R-squared	0.041	0.107	0.063
Number of MNEs	280	280	297

- The analysis including the pandemic period (2017-2021) still yields significant positive results, albeit with a reduced level of significance and impact.

Note: Standard errors in parentheses, *** p<0.001, ** p<0.01, * p<0.05, + p<0.1



Robustness check

- MNEs focused solely on aligning with the US- or China-ally countries tend to underperform compared to those with IUCA.

VARIABLES	Model 1 2008~2016	Model 2 2017~2019	Model 3 2017~2021
IUCA diversification	0.001 (0.008)	0.102* (0.044)	0.051 (0.034)
US-ally ratio	0.008 (0.016)	-0.195* (0.099)	-0.140+ (0.083)
China-ally ratio	0.003 (0.019)	-0.236* (0.099)	-0.159* (0.079)
Firm size	0.001 (0.005)	-0.020 (0.027)	-0.015 (0.019)
Economic freedom	0.001 (0.001)	0.001 (0.005)	-0.003 (0.003)
GDP	-0.000 (0.000)	-0.000 (0.000)	0.000 (0.000)
CAGE distance	0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)
R&D intensity	-0.000 (0.001)	-0.004+ (0.002)	-0.004* (0.002)
Ratio of domestic subsidiaries	-0.016 (0.018)	0.281* (0.109)	0.205* (0.084)
Relative performance (t)	0.141*** (0.035)	-0.361*** (0.064)	-0.260*** (0.054)
Constant	-0.017 (0.112)	0.490 (0.697)	0.563 (0.499)
Observations	1,202	663	792
R-squared	0.041	0.121	0.071
Number of MNEs	280	280	297

Note: Standard errors in parentheses, *** p<0.001, ** p<0.01, * p<0.05, + p<0.1



Discussion & Implications

- This study highlights that **Chinese MNEs with balanced operations** across China-ally and US-ally countries tend **to outperform those solely concentrated in either bloc**.
- This study explores how TMT's foreign experience affects the relationship between IUCA diversification and Chinese MNE performance, revealing a (surprising) negative impact.
- This study provides important implications for both managers and policymakers.
 - ✓ MNEs can strategically distribute **operations across ally-countries**, enhancing performance.
 - ✓ Moreover, this study underscores the critical role of diplomatic ties in shaping international business.
 - ✓ Policymakers should foster stronger connections with domestic MNEs and craft trade policies that align with their interests.
- Decoupling is challenging due to the deep interdependencies in resources and markets among nations. Despite geopolitical conflicts, MNEs continue cross-border activities, reflecting the tension between political disputes and economic pragmatism (Cui et al., 2023).



Thank you Q&A



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