

Strategic Responses to Tariff Shocks: A Comparative Study of Deep Localization and Regional Relocation in Supply Chain Internationalization

Boyou Liu*

School of Business, Macau
University of Science and
Technology, Macau, 999078, China

*Corresponding author:
lby1648837188@gmail.com

Abstract:

In 2025, the U.S. tariffs on Chinese goods rose to 145%, leading to a 19.5% year-on-year decrease in Chinese exports to the U.S. This dramatic shift in the international trade environment is forcing Chinese manufacturers to re-evaluate their international supply chain strategies. If companies continue to rely on Chinese exports, the 145% tariff will render their products completely uncompetitive in terms of price; withdrawing from the U.S. market means abandoning one of the world's largest consumer markets. This study uses Haier Smart Home and KUKA Home as comparative case studies to examine their differentiated paths in the face of tariff shocks: Haier achieved "deep localization" through cross-border mergers and acquisitions, while KUKA achieved "regional relocation" through greenfield investments. The study finds that the divergence between these two paths stems from differences in resource endowment, industry characteristics, and historical accumulation. This study provides a strategic framework for Chinese manufacturers to select internationalization paths aligned with their resource endowments. The proposed framework offers actionable guidance for Chinese manufacturers navigating trade uncertainties, emphasizing that path selection must balance short-term tariff avoidance with long-term supply chain resilience.

Keywords: Tariff Shock; Supply Chain Internationalization; Deep Localization; Regional Relocation; Mergers and Acquisitions

1. Introduction

1.1 Problem Statement

In 2025, the U.S. tariff rate on China climbed to 145%, coinciding with a 19.5% year-on-year decrease in Chinese exports to the U.S. and a decline in the U.S. import share from China to approximately 7%-its lowest level since 2001. Faced with the continuous impact of tariff barriers and the turbulent international trade situation, Chinese manufacturing companies face a critical choice: to “go global” - to transfer production capacity to low-cost countries to avoid tariffs, or to “go in” - to take root in the target market and achieve deep localization operations? Brouthers & Brouthers pointed out that companies face a choice between two entry modes for international expansion: “mergers and acquisitions” and “greenfield construction.” Gereffi further pointed out that trade policy drives the adaptive restructuring of global value chains through corporate strategy [1]. Existing studies mostly focus on the internationalization paths of individual companies and lack a systematic comparison between the two strategies [2]. This study takes Haier Smart Home and KUKA Home Furnishings as comparative cases to examine their different coping strategies under the impact of tariffs.

1.2 Literature Review

Brouthers and Brouthers laid the core theoretical framework, revealing that institutions, culture, and transaction costs jointly influence the choice of entry modes for enterprises’ “mergers and acquisitions” and “greenfield construction,” directly supporting this paper’s typological classification of Haier and KUKA’s two paths [1]. Gereffi, Lim, and Lee proposed that trade policy drives the restructuring of global value chains through the mediating role of corporate strategy, providing a logical basis for this paper’s analytical chain of “Tariff shock → Strategic response → Path differentiation” [2]. Dong and Kouvelis point out that tariffs compel firms to undertake systemic adjustments across the entire supply chain, rather than simply relocating a factory-this insight also prompts us to focus on the holistic nature of supply-chain realignment [3]. Yuan’s empirical study further demonstrates that trade barriers significantly stimulate China’s manufacturing sector’s outward foreign direct investment, providing empirical support for explaining the causal relationship between the 2025 tariff hikes and the overseas expansion of the two case firms [4]. Fan find that the more complex the supply chain, the more severe the adverse impact of trade friction on firm performance, a finding that is particularly relevant to analyzing the short-term cost pressures KUKA faces following its multi-site expansion [5]. Reviewing the existing literature, there are numerous studies that examine

internationalization from the perspectives of entry modes or supply-chain configurations. However, few have placed firms with differing resource endowments and industry characteristics under the same tariff shock to compare the divergent paths they take. Most prior work treats tariffs as an indiscriminate exogenous shock, paying insufficient attention to the moderating role of firm-specific factors. Particularly in an extreme tariff environment such as that of 2025, systematic comparative research remains lacking to clarify the respective conditions under which “deep localization” and “regional relocation” are most effective, and to determine which approach proves more viable.

1.3 Research Framework

This study takes Haier Smart Home and KUKA as comparative cases and proceeds in three stages. First, drawing on entry-mode theory and the theory of global value chain restructuring, it dissects the structural challenges currently confronting Chinese manufacturing firms. Second, it compares the bifurcation mechanisms underlying Haier’s “deep localization” strategy (cross-border M&A) and KUKA’s “regional layout” approach (greenfield investment), with a particular focus on how differences in resource endowments, industry characteristics, and historical legacies give rise to path divergence. Finally, it synthesizes these insights to offer context-specific strategic recommendations. Throughout the analysis, institutional theory, transaction-cost economics, and supply-chain network configuration are integrated to help firms develop a comprehensive framework for understanding supply-chain restructuring under the impetus of tariff pressures.

1.4 Innovation points

The main innovations of this study are reflected in the following two aspects. Firstly, a unified comparative analysis framework of “localization deepening” and “regional transfer” has been established. Most existing studies focus on the internationalization paths of individual enterprises or discuss the impact of trade policies on general enterprises from a macro perspective, lacking systematic comparisons of different strategic paths. This study places both enterprises in the same analytical framework and conducts a comparative analysis from three dimensions: resource endowment, industry characteristics, and strategic logic, revealing the applicable conditions and inherent constraints of each path. Secondly, the introduction of the time dimension reveals the dynamic evolution logic of strategies. Existing comparative studies are mostly cross-sectional analyses, making it difficult to present the formation process and adjustment trajectory of strategies. This study tracks the five-year evolution process of their respective supply chain internationalization strategies - Haier continuously deepens its localization layout through

continuous mergers and acquisitions, and Gujia gradually builds a global production capacity network through multiple greenfield investments. This longitudinal perspective prevents the comparison from remaining at the static difference description stage and enables the revelation of the temporal logic and phased characteristics of strategy formation, enhancing the explanatory power of the research conclusions.

2. Macro-Environmental Context and

Tariff Impact

2.1 The impact and scale of the tariff shock

In 2025, the US-China tariff conflict reached its historical peak, with the U.S. imposing tariffs on Chinese goods reaching as high as 145%. China retaliated by imposing retaliatory tariffs of 125% on U.S. goods. Trade data showed a significant structural break: Chinese exports to the U.S. plummeted by 19.5%, and the U.S.'s share of imports from China fell to 7.1%, a 24-year low. However, increased exports to ASEAN and Africa somewhat offset the losses, preventing a complete net deficit in the U.S. market (Figure 1).

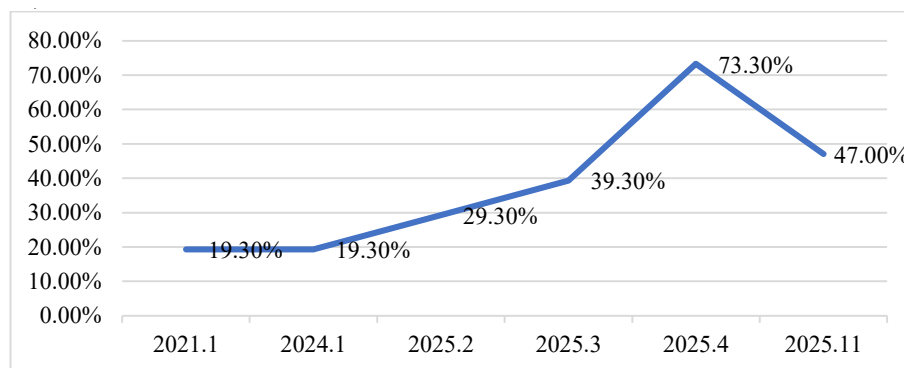


Fig. 1 US-China Tariff Rates (2025)

2.2 Supply Chain Reengineering: From "Cost Priority" to "Safety Priority"

This tariff shock is shifting the core logic of supply chains from "Cost Priority" to "Safety Priority." Multinational corporations are generally pursuing a "China + 1" strategy, with Vietnam and Mexico becoming popular destinations for production relocation. However, due to differing tariff structures in various countries, the specific relocation locations require careful consideration and weighing of options. The measures taken by various countries to reduce their reliance on China's supply chain have not led to the expected "decoupling", but instead have spurred Chinese enterprises to embark on a new round of deeper global expansion. The role of Chinese enterprises is shifting from "the world's factory" to "the global production organizer", and they are building manufacturing bases, research and development centers, and logistics hubs in Southeast Asia, South Asia, the Middle East, North Africa, Europe, and the Americas.

2.3 Two methods: Localization deepening and regional relocation

Haier Smart Home and KUKA Home have taken significantly different approaches to dealing with this round of

tariffs: Haier has relied on its localized manufacturing capabilities in North America and Mexico to establish a foothold in the local markets and minimize the impact of tariffs; KUKA, on the other hand, with limited brand premium and little bargaining power, has chosen to shift its production capacity to countries like Vietnam and Indonesia, circumventing tariffs. This divergence illustrates that the path a company chooses ultimately depends on its own resources and industry characteristics; there is no one-size-fits-all solution. Supply chain restructuring is not a short-term fix, but a long-term process requiring systemic rebuilding.

2.4 Macro risks and Uncertainties

Apart from tariffs themselves, the multiple uncertainties in the global trade environment are also worthy of attention. In 2025, the index of global trade policy uncertainty reached an all-time high. Such uncertainty itself will cause supply chains to be reconfigured among foreign sources - and the process of reconfiguration often comes with efficiency losses. During the period when enterprises are waiting for policy clarity, they may make suboptimal investment decisions or even experience a cycle of "observation-delay-passive adjustment". Geopolitical disturbances are also adding to the mix.

The conflict in Ukraine is still ongoing, and the Red Sea crisis has forced the Asian-Europe shipping routes to detour around the Cape of Good Hope, resulting in both increased shipping costs and time. For Chinese manufacturing enterprises that are advancing their overseas expansion, these factors mean that even if they have made the decision to transfer production capacity, the implementation level still faces uncertainties in logistics and delivery. In other words, supply chain adjustments not only face the explicit costs of tariffs but also the implicit costs of geopolitics - and the unpredictability of the latter is often greater.

3. Problem Analysis and Strategic Dilemma

The escalating tariff barriers have created a structural strategic dilemma for Chinese manufacturers: continued reliance on Chinese exports will lead to a loss of price competitiveness due to soaring costs; a complete withdrawal from the U.S. market would mean abandoning one of the world's largest consumer markets. Research by Eugster et al. shows that tariffs at different stages of the global value chain can suppress value added, employment, and total factor productivity through upstream and downstream transmission mechanisms [6]. This not only alters the direct cost structure of enterprises but also indirectly impacts upstream and downstream related enterprises through the ripple effect of the production network. Huang et al. further confirmed this from the perspective of capital market reactions, showing that during the tariff increase announcement window, U.S. companies with higher dependence on imports and exports to the Chinese market experienced a more significant decline in market capitalization, and the negative effects were transmitted to suppliers and customers through the supply chain network [7]. This means that the response strategy is not simply capacity relocation, but a systemic restructuring involving the entire value chain, including R&D, procurement, production, logistics, and sales. Faced with this dilemma, Haier Smart Home and KUKA Home have chosen drastically different paths, their deep divergence stemming from fundamental differences in resource endowment, industry characteristics, and historical accumulation.

3.1 Advantages and Constraints of the Deep Localization Model

3.1.1 Leveraging first-mover advantage and existing resources

Haier entered the U.S. market as early as 2016 through the acquisition of GEA (General Electric Appliances), a move that provided it with a complete local manufacturing

base, mature brand recognition, and a stable distribution network. Empirical research by Ahmed et al. shows that, compared to greenfield investments, cross-border mergers and acquisitions by companies in emerging economies can more quickly acquire existing channels, brand recognition, and management resources in target markets, thus shortening the market entry adaptation period. Haier is a typical practitioner of this logic [8]. This first-mover advantage demonstrated tremendous resilience in the face of the 2025 tariff shock. Leveraging its production capacity along the US-Mexico border, Haier achieved a "US production, US sales" internal circulation model. According to the internationalization theory of multinational corporations in emerging markets, Haier's long-term accumulated experience in cross-border integration has enabled it to continuously expand its global footprint through mergers and acquisitions, utilizing its existing management system and supply chain network to hedge against external policy fluctuations and reduce the long ramp-up period required for building new factories.

3.1.2 High entry barriers and integration risks

However, "deep localization" is not a cost-free panacea. This model places extremely high demands on a company's capital strength and cross-cultural management capabilities. First, cross-border mergers and acquisitions usually entail high premium payments and subsequent debt-restructuring costs. Second, the failure rate of cultural integration after mergers and acquisitions remains high. Fan et al., in their study on the impact of the Sino-US trade war on the operating performance of U.S. companies, found that companies with a higher degree of supply chain outsourcing suffered more significant deterioration in inventory turnover and a decline in return on assets during trade frictions [5]. This conclusion suggests that for companies attempting to build a highly integrated supply chain through mergers and acquisitions, the increased complexity of the supply chain itself constitutes an operational risk. Haier needs to continuously invest resources to maintain GEA's original union relations and corporate culture integration, which constitutes an insurmountable entry barrier for SMEs with tight cash flow or a lack of international management talent. In addition, over-reliance on localized production in a single country (such as the United States) may also face the risks of rising labor costs and changes in local regulations in that country. Huang et al.'s research on the transmission of risks in trade networks also suggests the vulnerability of this centralized layout in the face of external policy changes [7].

3.2 Opportunities and Challenges of the Regional Relocation Model

3.2.1 Survival logic in cost-sensitive industries

The furniture industry has limited brand premium capabilities, and consumers are extremely price-sensitive. Unlike Haier, KUKA cannot absorb tariff costs through brand premium and must seek breakthroughs from the cost side. An empirical study by Ding et al., using data from Chinese listed companies, found that before and after the outbreak of the US-China trade war, Chinese companies with existing foreign direct investment in the U.S. significantly outperformed pure export-oriented companies in terms of stock returns, confirming the effectiveness of foreign direct investment as a tariff “safe haven [8].” This finding provides solid micro-level evidence for KUKA’s strategic choices. Meanwhile, the trend of supply chain restructuring at the macro level also confirms the rationality of this path. Alfaro and Chor pointed out that between 2017 and 2022, direct U.S. purchases from China declined significantly, while near-shore purchases from low-wage regions such as Vietnam and Mexico increased significantly [9]. Luo et al. also observed complex trade dynamics among the U.S., China, and Southeast Asia, with Southeast Asian exporters becoming more deeply integrated into regional value chains centered on Chinese suppliers by participating more in the assembly and finished-product stages [10]. In recent years, KUKA has rapidly expanded its overseas bases, with factories in Binh Duong and Ho Chi Minh City, Vietnam, and Indonesia successively commencing production, precisely in line with this wave of “major reallocation.” By building its own factories in low-tariff regions such as Vietnam and Mexico, KUKA has successfully leveraged the local labor cost advantages and free trade agreement benefits, effectively avoided high tariffs and maintaining the price competitiveness of its products.

3.2.2 Transition costs and expanded management span

Although greenfield investments initially involve relatively lower costs compared to mergers and acquisitions, the operational challenges they face cannot be ignored. Research by Fan et al. clearly indicates that companies with higher levels of outsourcing or greater geographical dispersion of their supply chains suffer more severe operational performance impacts from trade frictions [5]. Further research by Free et al., based on large-scale corporate announcement data, found that while companies in the Asia-Pacific region generally adopted a “China-plus-multi-country” diversification strategy in their supply chain restructuring between 2018 and 2023, only 15.6% of the transfers involved relocating production capacity back to their home countries [11]. Many more companies faced the significant challenge of managing a multi-country parallel operation system. KUKA, in the process of transferring production capacity, faced high costs during the ramp-up period at its new bases. Furthermore, the global dispersed layout led to a sharp increase in management span, requiring companies to establish transnational

quality control systems, logistics coordination systems, and overseas employee management systems. Tariff shocks not only affect direct trading partners but also have significant negative spillover effects on upstream suppliers through the cross-border flow of intermediate inputs. This requires companies to carefully assess the interdependencies of each link in the supply chain when making regional layouts. In the process of transforming from “Made in China” to “Made Globally,” ensuring that the product quality of overseas factories is consistent with the original manufacturer’s standards and solving raw material procurement problems caused by an imperfect local supply chain are real challenges that KUKA must face.

3.3 Differential Supply Chain Control Configurations

3.3.1 Inward control: deep localization

Haier’s “deep localization” is essentially about tightening control over the supply chain. By holding onto core assets such as factories, channels, and brands, external policy risks are internalized, and the ability to withstand external shocks naturally increases. Ahmed’s research also mentioned that cross-border mergers and acquisitions usually allow companies to have stronger ownership control over overseas assets, which is conducive to the deep integration of technology, brand, and management systems [8]. The essence of this model lies in the absolute control of the entire chain—flexibility may be sacrificed to some extent, but in return, the stability and security of the supply chain are gained.

3.3.2 Expansion-oriented resource allocation: regionalization

KUKA’s “regionalization” layout is essentially a global reallocation of supply chain resources. This model disperses production capacity to multiple low-cost countries to share risks. The underlying logic is simply “don’t put all your eggs in one basket”. Free et al. call this multi-country dispersed layout a “pan-hierarchical restructuring” strategy – companies simultaneously retain production capacity in multiple countries to hedge against the policy and geopolitical risks of a single country [11]. This can indeed reduce dependence on the policies of a particular country, but the cost is also obvious: the complexity of the supply chain and the coordination costs increase. As Fan et al. have revealed, the higher the degree of geographical dispersion of the supply chain, the greater the fluctuation of operating performance under external shocks [5]. If scholars look at it in the context of China’s macroeconomic background, in recent years, China’s trade dependence on developed economies has been gradually decreasing, while its connection with ASEAN countries has become increasingly close. KUKA’s regionalization layout is actu-

ally a micro-projection of this macro-shift at the enterprise level. Both models have their own suitable corporate conditions and industry backgrounds, and their effectiveness depends on the dynamic matching between the company's own resource endowment and external environmental constraints.

4. Strategic Recommendations and Risk Management

Haier Smart Home's "deep localization" and KUKA Home's "regional relocation" represent two typical paths for coping with tariff shocks, but neither is inherently superior or inferior; they differ only in their applicability. The mergers and acquisitions-driven development model require substantial capital accumulation and cross-cultural integration capabilities, making it more suitable for leading enterprises with ample funds and strong brand power. The relocation of businesses to greenfield sites demands higher operational efficiency and cost control capabilities, making it more suitable for industries with limited brand premium and high price sensitivity. Research shows that tariffs primarily weaken the resilience of the supply chain by increasing production costs and reducing production matching efficiency. Therefore, for Chinese manufacturing companies, the first step is to thoroughly understand their own resources, weigh short-term costs against long-term capabilities, and then choose a strategic path that aligns with their own conditions.

4.1 Differentiated Strategic Choices by Firm Size

For leading companies with strong financial resources and significant technological advantages, it is recommended to delve deeper into "localization" -not just in manufacturing, but in upgrading the entire supply chain from R&D and production to sales. Furthermore, establishing an R&D center in the target market to specifically tailor development to local consumer preferences will allow them to build a competitive advantage through technological accumulation. Currently, the global supply chain is undergoing a major reshuffle, with production capacity shifting from China to other regions, essentially to diversify risk. Leading companies need to push their R&D forward, using their technological advantages to hedge against policy uncertainties, rather than passively responding. Localizing talent is also essential; bringing in local senior management teams can effectively reduce cross-cultural communication costs and improve decision-making efficiency. In terms of financial operations, leveraging international capital markets for financing can support global supply chain development, creating a closed-loop financial system. In 2023, my country's outward direct investment

reached US\$177.29 billion, a year-on-year increase of 8.7% against the trend. Leading enterprises can seize this window of opportunity to transform their financial advantages into long-term supply chain competitiveness.

For SMEs with limited brand premium and high-cost sensitivity, a combination of "going global as a group" and "regional layout" is recommended. Regarding supply chain collaboration, upstream and downstream enterprises should be encouraged to relocate together and jointly build industrial parks overseas. This can effectively resolve the supporting challenges encountered by individual enterprises going global alone. Overseas economic and trade cooperation zones have proven to be an effective vehicle for enterprises to collectively go global-greenfield investment in key overseas markets is no longer a solo effort, but a collective migration of the entire value chain. In terms of diversified layout, production capacity should not be concentrated in one country. It can be distributed across Southeast Asia, North America, Eastern Europe, and other regions to cope with changes in trade policies in different regions. Currently, the global supply chain is shifting from long chains to shorter, more regionalized chains. Mexico, Southeast Asia, and India are already the top three destinations for global production capacity relocation. In terms of lean management, overseas factories need to implement digital management and lean production to make up for the fact that local workers may not be as efficient as those in China, and ensure that the total cost can still maintain an advantage.

4.2 Dynamic Risk Management Mechanisms

Regarding tariffs and policy early warnings, companies need to establish dedicated macroeconomic policy research teams to closely monitor trade policy trends in major export markets. They should leverage big data tools to analyze tariff trends and develop capacity adjustment plans in advance. The global trade early warning database shows that in 2022 alone, countries worldwide introduced 1,486 trade restriction measures, with the frequency and magnitude of trade policy changes at historically high levels. In this environment, enhancing a company's resilience is more important than focusing on short-term profits. If companies can finalize and implement their capacity adjustment plans 6 to 12 months before policy changes, they will be much more prepared to face external shocks, avoiding wasted resources and lost markets due to last-minute scrambling.

Regarding supply chain resilience, companies need a two-pronged approach-promoting diversified supply strategies and adjusting inventory strategies. Key components and raw materials cannot rely on a single source, especially in geopolitically sensitive regions. For SMEs, which are inherently smaller and less resilient, a diversified supply is particularly crucial. Regarding inventory, given the rising

uncertainty, it's necessary to increase strategic material safety stocks where appropriate, or establish forward warehouses near major consumer markets to provide a buffer should logistical issues arise. A slight tariff increase may not shake existing supply relationships, but extreme tariffs will force companies to rebuild their supply chains; therefore, inventory strategies must leave sufficient margins.

5. Conclusion

5.1 Core Findings

Faced with the extreme tariff impact of 145% in 2025, Chinese manufacturing enterprises are caught in a dilemma: "losing price competitiveness" and "abandoning the US market." Through a comparative study of Haier Smart Home and KUKA Home, this paper finds that there is no absolute superiority or inferiority between the two paths of "deep localization" and "regional transfer." The root cause of their differentiation lies in the differences in the enterprises' resource endowment, industry characteristics, and historical accumulation. Haier, leveraging its early-mover advantage from its acquisition of GEA and its strong financial resources, has focused on tightening its supply chain inwards. While this approach has been stable, it has resulted in high integration costs, a relatively singular market, and less diversified risk. KUKA, on the other hand, has shifted its production capacity to low-tariff countries through greenfield investments, maintaining its price competitiveness. However, this has significantly expanded its management scope, making quality control more susceptible to problems and presenting numerous growing pains. Based on the experiences of these two companies, this article proposes a dynamically adaptable strategy: leading companies should take the next step if conditions permit, promoting the localization and upgrading of the entire supply chain; small and medium-sized enterprises (SMEs), with their smaller size and weaker risk resistance, are better suited to forming alliances and diversifying their overseas presence. Simultaneously, regardless of the type of enterprise, it is crucial to maintain policy early warning mechanisms and flexible supply chain capabilities, rather than simply focusing on rapid expansion.

5.2 Theoretical and Practical Implications

This study provides Chinese manufacturing enterprises with a clear strategic framework for dealing with trade barriers, helping decision-makers determine which internationalization path is more suitable for them based on their financial strength, brand premium capabilities, and operational management level, thus avoiding the waste of

resources caused by blindly following trends. At the same time, it also provides a theoretical basis for industry associations and governments to formulate differentiated overseas investment support policies, and has certain reference value for improving the overall resilience of China's supply chain.

5.3 Limitations and Future Research

The main limitation of this paper is that it relies on qualitative case studies and secondary data such as annual reports and trade statistics, lacking first-hand research into the decision-making motivations of corporate management. Future research could consider using a hybrid research approach: on the one hand, by conducting a large-sample econometric analysis of China's outward direct investment flows around 2025, to examine whether the distinction between the two paths proposed in this paper- "deep localization" and "regional relocation" -is universal; on the other hand, it could also delve deeper into the real considerations behind the decisions through executive interviews and questionnaires, enriching the understanding of corporate strategic behavior in supply chain restructuring.

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