

Impact of US-China Trade Tensions on Chinese Firms' Investment in Europe

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Abstract

The escalation of United States (US)-China trade tensions has heightened uncertainty within global supply chains and prompted Chinese companies to reassess and reconfigure their international investment strategies. Based on panel data from Chinese enterprises spanning 2004 to 2024, this study employs a Logit fixed-effects model to empirically examine whether trade frictions have accelerated Chinese firms' investments in European countries. The findings reveal that trade tensions significantly increase the likelihood of Chinese firms investing in Europe. Notably, this effect is more pronounced among private enterprises, high-tech firms, export-oriented companies, and those located in the eastern coastal regions. The results suggest that Chinese companies are actively pursuing market diversification and risk mitigation through cross-border investments, reflecting the profound influence of institutional conflicts between nations on the internationalisation pathways of Chinese enterprises.

Keywords: *US-China trade tensions, Chinese enterprises, foreign direct investment, Europe, global value chains*

1. Introduction

The vehement surge of trade dispute between the United States (US) and China has taken place globally since 2018 and finally came to a confirmation in April 2025 by the White House concerning the application of tariffs in China products totalling 145 per cent. This is something that has resulted in one of the most significant international economic tussles in our 21st century. High tariffs, technological blockade measures and investment restrictions, the said trade confrontation has made the restructuring of global supply chains an irreversible trend. It is against this context that the tactics of the Chinese firms to internationalise have had to change in a major way. This is especially even in the face of increasingly proliferating stories of so-called “decoupling” and “reduction of risks” coupled with rising geopolitical uncertainties, which have seen the diminution of the long-regnant US-centric overseas investment paradigm. Europe on the other hand has been a key alternative, and this is because of the stable environment of institutions as well as the fact that the market is exceptionally large and thus more and more Chinese capital has been attracted to it.

At the same time, the global value chain configuration is also experiencing dramatic changes. The move to regionalisation and multipolarity has become more enhanced and a preference in firms is no more shifting towards the attachment of a singular market, but varied global portfolio, thus making them stronger in adapting to things when faced by macroeconomic shocks. Interestingly, there has been a significant spurt in the direct investments of Chinese companies in Europe, particularly in the emerging strategic sectors like the electric cars, battery, green power and manufacturing digitalised industries. Chinese companies are working with a faster pace to localise services and production in them thus creating a regional re-embedding strategy focusing on the European Union. The given phenomenon triggers an extremely important and scholarly-rich question: Is the US-China trade friction one of the driving factors that make Chinese companies even more likely to start making more direct investments in Europe? Moreover, do these effects vary across different enterprise characteristics, industry sectors, geographic regions, or ownership structures?

This study aims to systematically evaluate the influence of US-China trade tensions on Chinese firms' outward direct investment (ODI) in Europe, with a focus on the heterogeneity of effects at the firm level. Building upon existing literature, the study seeks to address two notable gaps: first, the paucity of empirical research specifically examining European destinations in the context of US-China trade disputes; second, the lack of systematic evidence on strategic differences among several types of Chinese enterprises navigating toward Europe. While prior scholars such as Horst (1972), Helpman (1984), and Blonigen (2002) have highlighted the potential “stimulating effects” of trade barriers on firms' overseas investments, these studies predominantly focus on capital flows among developed nations and insufficiently explore how emerging markets adjust their global strategies under trade friction pressures. Recent studies—such as Goulard (2020), who analysed the spill-over effects of US-China trade tensions on the EU; García-Herrero et al. (2020), who examined structural shifts in EU-China investment relations; and Ding et al. (2022), who investigated how Chinese firms strategically respond to external frictions—offer valuable insights that inform and enrich the foundation of the analysis in this paper.

2. Literature Review

Most existing literature examines the impact of trade tensions on outward FDI from two primary perspectives: tariffs and non-tariff barriers. However, whether escalating trade tensions serve as a catalyst for increased corporate outward FDI remains a contentious issue within academia. Some scholars argue that heightened trade frictions directly incentivise firms to expand their overseas investments. According to the Heckscher-Ohlin factor endowment theory, cross-border capital flows are influenced by tariff barriers or high transportation costs. Research indicates that, in industries with capital-intensive import sectors, imposing prohibitive tariffs or substantial additional charges tends to elevate the prices of imported goods. This, in turn, raises the returns for domestic export-oriented industries that heavily rely on specific factors, thereby stimulating international investment until factor price equalisation is achieved between

trading partners. Early theories on outward FDI, such as Horst (1972), posit that firms engage in foreign investments as a means to circumvent trade barriers. Today, although traditional trade restrictions like tariffs have gradually diminished due to active multilateral negotiations, non-tariff barriers—particularly anti-dumping cases—continue to proliferate. Helpman (1984) contended that firms pursue overseas investments to open new markets beyond domestic borders, thereby alleviating the adverse effects of trade barriers. Empirical evidence from Japanese firms' responses to US anti-dumping sanctions supports this view, "illustrating how trade barriers such as tariffs and anti-dumping measures have historically spurred Japanese firms to invest abroad," especially in countries with substantial market sizes. For example, analyses of Japanese manufacturing firms' overseas investments reveal that when host countries possess large markets, trade frictions can significantly motivate firms to undertake outward FDI as a means of overcoming barriers (Barrell, 1999). Furthermore, Haaland and Wooten (1998), utilizing oligopoly models, "empirically demonstrate that anti-dumping measures in importing countries induce foreign firms to invest directly in those markets to evade trade restrictions". Similarly, Blonigen (2002) finds that anti-dumping actions in the US substantially stimulate EU firms to increase their investments in the US market. When anti-dumping measures raise export costs for exporting firms, and these costs surpass the costs associated with establishing foreign production, firms are more likely to respond with outward FDI.

Institutional economics helps to get useful knowledge on how firms move to alter their international investment approaches in light of external shocks like trade controversies. North (1990) believed that the influence of the institutions is great in the formation of economic behaviour and choices in decision making because they change incentives and transaction costs of the firms. Specifically, the variation in institutional set ups, including the level of transparency in the regulatory regime, the consistency and predictability in policy formulation and the willingness to allow foreign investors, also has dramatic impact on the choice of location by multinational corporations (Acemoglu et al., 2005). Considering the uncertainty in institutional context that has been influenced by the US-China trade tensions, the Chinese enterprises will most likely shift their investment in areas that

have sound institutional conditions as a way of diversifying against the risks of policy unpredictability. The comparatively transparent regulatory environment and developed market institutions that can be found in Europe in this regard can then serve as a more predictable alternative and, therefore, potentially have a higher amount of Chinese direct investment inflows.

Geoeconomically, it is possible to explain the changing trends of Chinese investments additionally based on the concept that Blackwill and Harris (2016) present by stating that the modern international affairs are getting more and more influenced by economic power and investment preferences. With the rising geopolitical tension, nations and businesses tactically employ the economic means to wring economic and political benefits like foreign direct investments. Therefore, the fact that Europe is an ally as well as a competitor to the US economically brings in distinct dynamics that can be favourable to the Chinese companies that are interested in gaining strategic advantage by investing in specific areas. It is a geoeconomic incentive that supplements economic factors and can help understand the importance of strategic actions to geopolitical shocks.

In addition, the GVC restructuring lens advanced by Gereffi and Fernandez-Stark (2011) states that external shocks such as war of trades are forcing companies to re-evaluate their lead positions in the global production networks and thus, they strategically locate and shift their investments. The supply chains that are currently in position are likely to be distraught under the connotation of trade tension by larger economies, which prompts the firm to diversify their production bases in a bid to achieve stability, efficiency, and competitive advantage. An environment with a high level of advanced infrastructure, highly skilled labour & workforce, and an environment that encompasses technology systems, particularly in Europe, offers the Chinese firms that are mostly dependent on high-tech inputs and advanced manufacturing an excellent position to integrate into highly advanced parts of the global value chains, which further supports the notion of changing the strategic orientation of such firms into European markets.

On the other hand, there is a group of researchers that say that the escalation of trade tensions fails to stimulate outward FDI. For instance, Belderbos (2004) argues that companies that attempt to resist trade barriers often employ two primary strategies, namely constructing factories in the country that enforces such barriers or constructing factories in third nations that is not affected by barriers. Some researchers question the universality of the hypothesis that trade frictions invariably induce outward FDI. Smith (1987), for instance, posits that trade tensions do not necessarily lead to increased foreign investments. Firms engaged in international trade may choose to expand their overseas operations to mitigate trade barriers, and this behaviour could benefit all exporting firms within the same market. Due to externalities and varying firm-specific conditions, not all firms respond uniformly to trade barriers with outward FDI. Factors such as the host country's business environment, transportation costs, import tariffs, and the firm's transferability of cost advantages play crucial roles. For example, when the host country's economic growth leads to increased domestic demand, especially in sectors competing with imported substitutes, this can result in higher import volumes, potentially causing trade deficits. Such deficits might prompt the host country to seek protectionist measures, including anti-dumping investigations, particularly if the domestic industries face significant competition from foreign firms. As noted by Zaijunping and Guo Xiaojing (2011), trade imbalances between China and its trading partners often lead to stricter trade remedies, which raise Chinese exporters' costs. When trade friction targets Chinese labour-intensive industries, firms face limited options for circumventing barriers—either withdrawing from the market or investing in countries with lower labour costs to evade anti-dumping measures. Zhang Xiangwei and Long Xiaoning (2018) further highlight that China has experienced a higher volume and broader scope of trade frictions with developed countries compared to other emerging economies. Data from the World Trade Organisation (WTO) indicate that over the past two decades, the majority of trade sanctions against China originated from advanced economies, accounting for roughly 25 per cent of all trade disputes faced by China globally. Moreover, the average number of anti-dumping investigations initiated against Chinese exporters surpasses that of other developing nations, often resulting in

substantial tariffs imposed on Chinese exports. In summary, while some scholars support the view that trade tensions serve as a stimulus for outward FDI—particularly through mechanisms like market-seeking motives and barrier evasion—others emphasise that such relationships are conditional and influenced by a complex interplay of firm-specific, industry, and country factors. The debate remains active, reflecting the nuanced realities of international trade and investment dynamics in an increasingly complex global economic environment.

3. Theoretical Mechanisms Linking US-China Trade Tensions and Chinese ODI in Europe

3.1 Relationship Between ODI and International Trade

The relationship between overseas investment and merchandise trade fundamentally reflects the ongoing movement of factors and goods across national borders, highlighting a close interconnection. Several typologies delineate the relationship between international trade and outward FDI: substitution, complementarity, and compensatory investment.

First, trade and overseas investment can act as substitutes. Based on Mundell's (1957) classical international trade theory, which examines the linkage between commodity trade and the cross-border flow of production factors, “empirical and theoretical studies suggest that product trade and foreign investment can substitute for each other”. Within the “neoclassical trade” framework, the assumption is made that the movement of production resources across borders occurs without cost. Under these conditions, imposing prohibitive tariffs that hinder free trade between countries causes disparities in the prices and returns of production factors domestically. Consequently, this leads to cross-border flows of production factors. As these factors move across borders, the differences in their prices and returns tend to diminish, eventually equalizing across countries and resulting in similar product prices. Further, research indicates that restrictions on merchandise trade will stimulate international investment activities, serving as an alternative mechanism to mitigate trade friction referred to as tariff-induced investment.

Second, trade and outward FDI can also exhibit a complementary relationship. Markusen (1983), modifying classical models, assumes that countries differ in their production techniques. His findings show that product trade and foreign direct investment are mutually reinforcing. In this model, countries possess identical production resources, but due to technological differences, each specialises in producing different comparative advantage goods. International trade fosters increased production of these comparative advantage products, leading to divergent factor remuneration rates across countries. When factors are allowed to move freely, they tend to flow toward countries offering higher returns, further enhancing comparative advantages. Consequently, both countries expand their production and export their comparative advantage goods, while importing goods in which they are comparatively less efficient. This transfer of production factors across borders amplifies the scale of international trade. Markusen (1985), incorporating additional complexities such as differences in production technology, market distortions, monopoly structures, taxation, and external economies of scale, confirms that product trade and FDI maintain a mutually reinforcing relationship.

Third, there exists a compensatory relationship between trade and outward FDI, especially from a political economy perspective. Trade frictions often induce outward investment as a mechanism to reduce or mitigate tensions. Such investments can serve as substitutes for merchandise trade, potentially easing trade barriers, and alleviating trade tensions. Bhagwati et al. (1987) analyses this dynamic within a two-country, two-factor, two-good model, focusing on government interventions in compensatory outward investments. Similarly, Dinopoulos et al. (1986) explore how firms' foreign investments can help mitigate potential trade barriers, "considering the impact on welfare in both the home and host countries". Two primary forms of compensatory FDI are identified: first, governments encouraging domestic firms to invest abroad to reduce trade deficits and pre-empt protectionist measures; second, firms in oligopolistic markets undertaking overseas investments to counteract foreign competitors' market share and curb import penetration, thereby diminishing the likelihood of trade protection.

3.2 Mechanisms Through Which US-China Trade Tensions Affect Chinese ODI in Europe

Trade tensions tend to elevate the costs for domestic exporters. When these increased costs surpass the expenses associated with establishing foreign operations, firms, driven by profit maximisation motives, are more inclined to pursue outward FDI. Multinational corporations (MNCs) often undertake overseas investments to alleviate the pressures stemming from trade friction. Specifically, increases in the effective and nominal tariffs in the importing country can incentivise firms to expand abroad to circumvent these barriers (Horst, 1987). However, the feasibility of using outward FDI as a strategic response hinge on certain conditions. It depends on the host country's market environment, transportation costs, actual tariff levels, and the firm's relative competitive advantages within the host country (Campa et al., 1998). When a host country's economic growth boosts domestic demand, especially in sectors competing with imports, the probability of MNCs deploying overseas investments to counteract trade frictions rises—particularly if the domestic import-substituting industries weaken their competitiveness.

The impact of US-China trade tensions on Chinese outward FDI towards Europe include: first, trade frictions significantly increase the likelihood of Chinese firms investing in European markets; second, given the substitutive relationship between trade and FDI, restrictions on free trade heighten cross-border movement of production factors, leading to an increase in overseas investments aimed at circumventing trade barriers; third, trade frictions raise the prices of goods traded between China and the US, reducing bilateral trade volumes; and concurrently, China's trade volume with other partners increases. Consequently, China may respond by expanding FDI in other countries to produce goods for export to the US, thereby offsetting the adverse effects of trade barriers. This investment transfer effect results in a decline in China's direct investments in the US while boosting investments in other nations. Fourth, there are tensions in trade, which relate to growth in trade movements amidst China and other nations. The

complementary relationship existing between international trade and outward FDI together with the improvement in the growth of trade with third countries ensures that the Chinese outward investment increases in those regions. Comprehensively, the US-China trade tensions play the role of a stimulus in refocusing global investment plans of Chinese companies with specific emphasis in transferring investment to other markets, e.g., in Europe, in order to reduce the exposure to risk and to leverage emerging opportunities.

The recent years saw some alterations of the European Union investment policies that have been of immense value in informing the Chinese firms on the aspects of investing in the region. However, most importantly, the actualisation of a single FDI Screening Regulation in the EU, which was fully implemented in October 2020, has resulted in an increased level of scrutiny of prospective investments into the EU in the area of crucial infrastructure, high-tech capabilities, and national security-related considerations. This rule carries considerable implications of the Chinese investors considering that the EU is getting concerned about technology transfer and the economic vulnerability to foreign state-owned corporations. Germany, France, and Italy are amongst other countries that have stepped up their national screening levels, which are an indication of the increased geopolitical wariness of the EU to Chinese investments.

Nevertheless, these increased policy limitations have also seen different reactions among member countries, which has ensconced a subtler environment with ambiguity. Countries of Central and Eastern Europe such as Hungary or Poland that have the economic development as the primary goal of their activity are generally maintaining a relatively hospitable approach and are actively trying to attract Chinese investments with provisions of incentives and favourable local policies. Therefore, the Chinese firms are positioning themselves quite well to change emphasis of investment in a jurisdiction in the EU, preferring territories that are politically open, those that have good conditions in terms of regulations, as well as economically beneficial, thus illustrating flexibility and strategic capability to adapt to changing EU policy environments.

Besides, it is vital to note that there is much institutional variation across Europe itself which determines the locational decisions of Chinese firms and their

strategic investment patterns. Although the Western European economies from the major countries, like Germany and France, provide advanced industrial ecosystem, high degree of regulation and developed consumer markets, which are above the interests of technology-intensive firms, they have developed, on the other hand, strict investment screening procedures representing the aggravated political nepotism. Conversely, Central and Eastern European (CEE) countries such as Hungary, Poland, and Czech Republic offer relatively more strategic regulatory environment, friendly government policies towards investment and cheaper costs of operations, and can thus be used as an entry gateway into the Russian market. To illustrate these proactive policies, the example of Hungary and its policies toward major investments (generous investment subsidies, streamlined administrative procedures, etc.) should be given since it has always been under big Chinese investments like electric cars and electronics manufacturing. As a result, these intra-European disparities matter to form a complete picture of the investment relocation caused by US-China trade disputes because Chinese firms are pursuing opportunity against regulatory costs across a variety of economies in the European single marketplace.

4. Overview of Changes in Chinese ODI Towards the European Union

The Chinese outbound investment environment has been dramatically changed since the emergence of the US-China trade clash in the year 2018. With the increased export controls on high-tech items, significant tariff increases, and the growth of geopolitical uncertainties occurring especially in the last few years, the investment of Chinese companies in the US has been extremely blocked. Many export-oriented companies have been compelled to adjust their global strategic layouts to mitigate risks. In this context, the EU has gradually emerged as a strategic alternative, demonstrating its substitutional and strategic value within China's broader "re-globalisation" trajectory. In 2024, China's direct investment in the EU and the UK reached €10 billion", representing a 47 per cent year-on-year increase. This marks a remarkable rebound, the first since 2016, signalling the end

of a seven-year decline and highlighting renewed corporate confidence in the EU's relatively stable institutional environment.

Figure 1. China's direct investment in the EU (2016-2024)

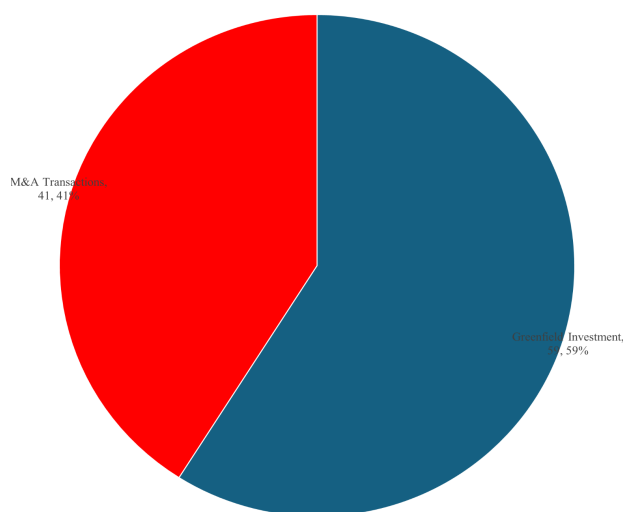


Source: Rhodium Group, MERICS, and the Go Global Navigator

In terms of investment modalities, Chinese outbound investment in Europe exhibits a dual structure characterised by greenfield investments leading the rebound and a resurgence of Mergers & Acquisitions (M&A) activity. In 2024, greenfield projects accounted for €5.9 billion, constituting 59 per cent of total Chinese investment in Europe, serving as the primary driver of the recovery. These investments are concentrated primarily in strategic emerging sectors such as

electric vehicles, batteries, clean energy, and digital manufacturing, reflecting Chinese firms' strategic intent to develop autonomous industrial chains and achieve localised operations in international markets. For example, CATL's new giga-factory in Thuringia, Germany, and BYD's vehicle manufacturing base in Hungary are capital-intensive projects with clear long-term strategic significance, also fostering deep integration into regional supply chains. Meanwhile, M&A activity has also begun to rebound, with total acquisitions reaching €4.1 billion in 2024, an increase of over 114 per cent. Cases such as Tencent's acquisition of Polish game developer Techland and Haier's purchase of Carrier Benelux's cold chain assets exemplify Chinese firms' active resource integration across key sectors within the EU, illustrating a restored sense of confidence and a strategic push to expand brand and technological influence.

Figure 2. Structure of Chinese Direct Investment in the EU (2024)

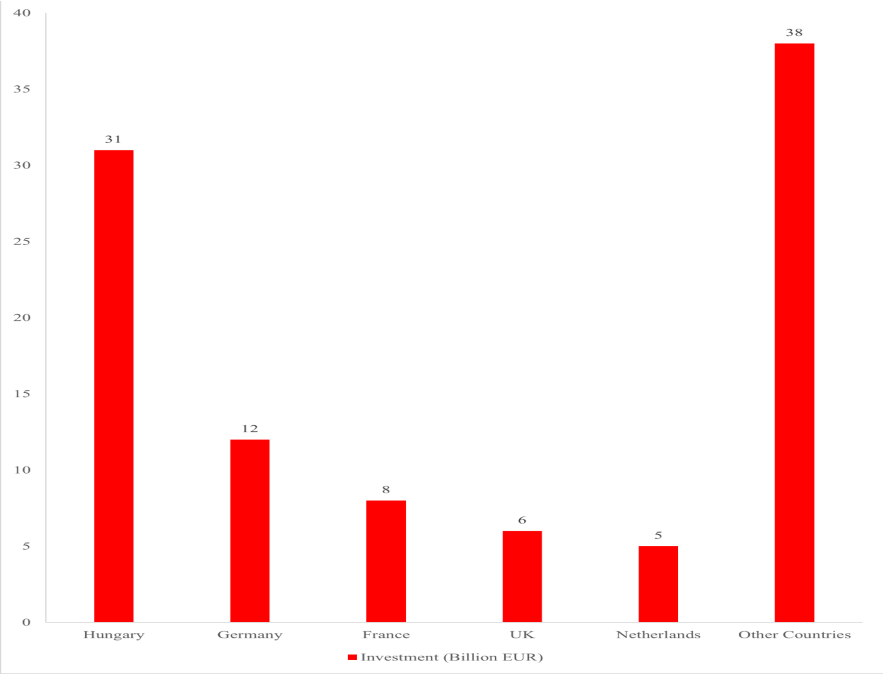


Source: King & Wood Mallesons and the Go Global Navigator

Geographically, the structure of Chinese outward investment into Europe is undergoing notable shifts. In 2024, Hungary emerged as the leading recipient with €3.1 billion, accounting for 31 per cent of China's total EU investments—significantly surpassing Germany (€1.2 billion), France (€0.8 billion), and the UK (€0.6 billion) combined. This trend indicates a decline in traditional investment

destinations, which are increasingly constrained by prohibitive costs and stricter foreign investment reviews. Conversely, emerging Central and Eastern European countries such as Hungary, Poland, and the Czech Republic are rapidly gaining prominence. Hungary, in particular, has become a focal point in the electric vehicle supply chain, with firms like CATL, BYD, and Xingwangda establishing substantial operations, with total investments exceeding €10 billion. These countries benefit from relatively lower regulatory barriers, favourable policies, and advantageous access to the EU market, positioning them as new strategic hubs for Chinese capital in Europe.

Figure 3. Country Distribution of Chinese Investment in Europe (2024)

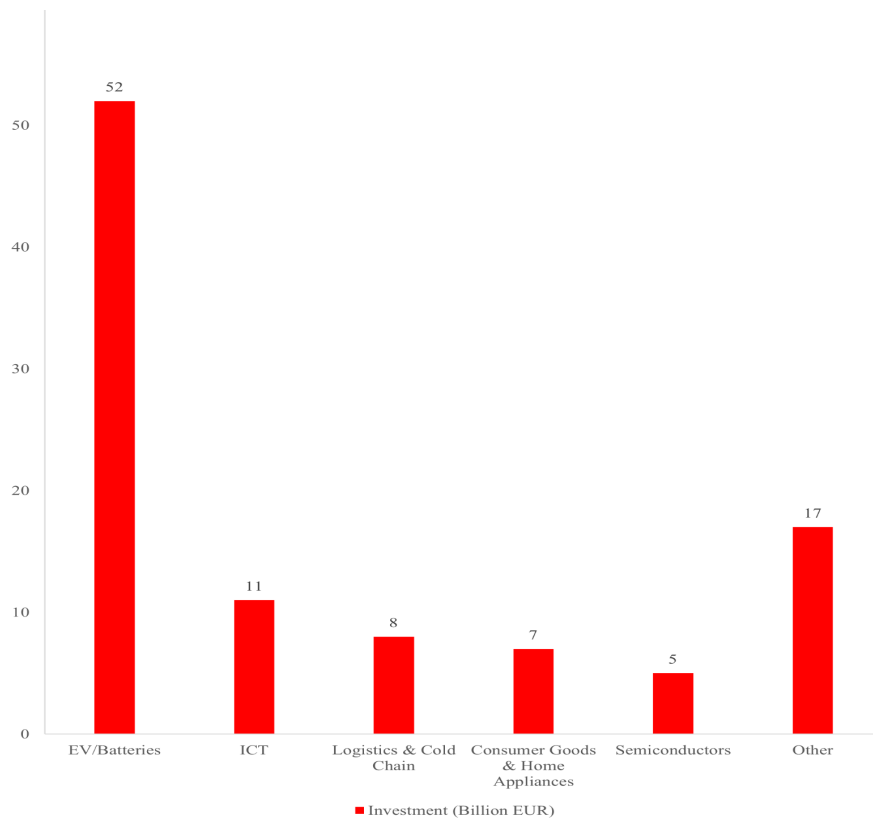


Source: King & Wood Mallesons, Rhodium Group, and the Go Global Navigator

In terms of industrial sectors, Chinese investment in Europe in 2024 remains highly concentrated in electric vehicle and battery manufacturing, with total investments reaching €5.2 billion, representing 52 per cent of overall Chinese investment in the region. Notably, greenfield projects dominate this sector,

accounting for 83 per cent, underscoring the commitment to long-term, localised production. Other significant areas include information and communication technology (€1.1 billion), logistics and cold chain infrastructure (€0.8 billion), consumer goods (€0.7 billion), and semiconductors (€0.5 billion), reflecting a trend toward diversified and technologically advanced investment portfolios.

Figure 4. Sectoral Breakdown of Chinese Investment in the EU (2024)



Source: King & Wood Mallesons and the Go Global Navigator

Overall, the evolution of Chinese outbound investment in Europe is characterised by three distinct features: first, a shift from traditional manufacturing toward high value-added sectors such as electric vehicles and advanced technology industries; second, a transition from predominantly M&A-driven approaches toward greenfield investments emphasizing local manufacturing;

and third, a geographic reorientation from Western Europe's major economies toward Central and Eastern European countries, forming a "manufacturing eastward shift." This structural reallocation not only responds to the short-term shocks induced by trade friction but also aligns with the longer-term trend of global supply chain restructuring. Among the Chinese companies, the increase of investment in the EU does not merely indicate positioning on the defence line, it is an active pursuit of entering new markets and achieving better overall competitiveness. In the future, with further China-EU exchanges, Chinese foreign investment in Europe is likely to continue its growth and it may have a pivotal role to play in the overall Chinese internationalisation effort.

The way Chinese invest in Europe and shop around in the face of rising US-China trade tensions is brightly represented in recent Chinese investments in Europe. This trend is illustrated by the largest battery maker in the world, Contemporary Amperex Technology Limited (CATL) by placing a huge investment in Thuringia, Germany. The set-up of a battery production plant of CATL in Erfurt to the tune of 1.8 billion euros in 2018, when trade frictions are intensifying highlights a strategic shift on its part to ensure stability of global supply sources and to tap the advanced European markets. Having its production sites in Germany, CATL will strategically bypass any trade barriers (The US-China trade conflict), avoid being hit by US tariffs, and access first-hand the fast-growing European electric vehicle market and environment-friendly policies. Such a strategic move is not only used to secure CATL in the market, but also is a good example to consider how high-tech Chinese companies can utilise the European institutional stability and innovation environment as the compensation to the geopolitical uncertainty.

On the same note, the recent investment by BYD in Hungary can again reinforce the geographic reorientation of Chinese companies against the backdrop of trade wars. BYD announced a factory is to be built near Budapest to build electric buses and batteries at a cost of 200 million euros in 2022. The advantageous alternative investment climate in Hungary entailed good government policies promoting investment in Hungary, highly skilled manpower and a suitable location in European automotive supply chains. BYD's Hungarian

facility allows it to integrate closely with European industrial partners, benefit from EU-wide market access, and strengthen its brand reputation amidst growing protectionism elsewhere. Furthermore, Hungary's supportive local policies and incentives demonstrate how nuanced differences within Europe itself influence the location decisions of Chinese multinationals, further enriching our understanding of institutional factors shaping global investment patterns.

5. Methodology

This study centres on the significant geopolitical event of China-US trade friction, systematically examining the evolving patterns and underlying mechanisms of Chinese firms' ODI in European countries from a microeconomic perspective. Against the backdrop of profound global restructuring of supply chains, rising protectionism, and increasingly stringent cross-border investment reviews, this research utilises panel data on Chinese outward investment spanning from 2004 to 2024. A fixed-effects Logit model is employed to analyse whether, and how, trade frictions influence firms' strategic adjustments in European investments. Through baseline estimations, subgroup analyses, lagged effect assessments, and robustness checks, it does not only confirm the fundamental hypothesis that trade friction catalyses investment reconfiguration but also uncovers how variables such as firm type, industry characteristics, regional distribution, and export dependence amplify or mitigate this effect.

It employs a panel fixed-effects Logit model as the core analytical framework to examine the influence of US-China trade tensions on Chinese firms' outward direct investment (ODI) in Europe". The basic model is specified as follows:

$$ODI_{it} = \beta_0 + \beta_1 friction_{it} + \beta_2 experience_{it} + \beta_3 lntfp_{it} + \beta_4 age_{it} + \beta_5 size_{it} + \beta_6 profit_{it} + \beta_7 operation_{it} + \beta_8 debt_{it} + \epsilon_{it}$$

The primary explanatory variable is the occurrence of US-China trade friction events, operationalised through industry-level anti-dumping cases. The dependent variable measures whether a firm has made direct investments in Europe. Control variables include firm productivity, age, size, profitability, and

capital structure. To ensure robustness, the research incorporates subgroup regressions, lagged effects, and instrumental variable techniques, aiming to achieve rigorous causal inference, heterogeneity detection, and mechanistic understanding.

Several limitations, however, should be acknowledged. Due to data constraints, certain forms of indirect or minority equity investment cannot be fully captured, nor does the analysis evaluate post-investment performance outcomes. Moreover, Europe is treated as a relatively aggregated destination; future research could further disaggregate investment locations by distinguishing between Western Europe and Central and Eastern Europe, as well as between EU and non-EU countries. Incorporating additional firm-level characteristics—such as ultimate ownership, financing sources, and political connections—would further enrich understanding of firms' adaptive responses to sustained geopolitical uncertainty.

Table 1. Matrix of Variables, Definitions, and their Representations

Variables	Definitions	Representations
ODI	Whether the enterprise has direct investment in Europe:	Represented as 0 or 1
Friction	Whether the industry in which the enterprise operates has experienced trade friction	Represented as 0 or 1
experience	Whether the enterprise has prior investment experience in Europe	Represented as 0 or 1
Intfp	Enterprise productive capacity	Estimated using the Solow residual method
age	Enterprise age	Current year minus registration year plus 1
size	Enterprise size	Logarithm of total assets or operating revenue
profit	Enterprise profit margin	Total profit divided by operating revenue
operation	Capital turnover rate	Sales revenue divided by total assets
debt	Asset-liability ratio	Total assets divided by total liabilities

5.2 Data Processing and Source Description

The Chinese enterprises data from 2004 to 2024 were utilised to examine whether US-China trade frictions significantly influence Chinese firms' direct investment in European countries. Due to the scarcity and dispersion of data on Chinese investments in Europe, the research integrates multiple data sources to construct a panel dataset at the enterprise and year levels. All variables undergo standardisation and cleaning, with extreme missing values and outliers removed to ensure data quality. For dummy variables such as ODI, friction, and experience, the binary logic (0/1) is maintained consistently. Financial data are log-transformed or standardised before inclusion in the regression analysis. The model also incorporates enterprise and year fixed effects to control unobserved heterogeneity across firms and overtime.

Table 2. Date Collection Matrix

Data Type	Main Source	Content
Chinese Enterprises' Investment in Europe	Data sourced from the Ministry of Commerce's Foreign Direct Investment Statistical Bulletin, Wind-FDI database, and the Overseas Investment Enterprise Directory.	These sources provide records of Chinese firms' direct investments in European countries (such as Germany, France, the UK, Italy, etc.), used to construct the dependent variable, ODI (whether or not a firm has invested in Europe).
Trade Friction Data	Collected from the China Trade Relief Information Network (http://cacs.mofcom.gov.cn). (http://cacs.mofcom.gov.c =)	This dataset includes cases related to anti-dumping, countervailing duties, and safeguard measures between China and the US, enabling identification of friction-affected HS codes. These codes are then mapped to ISIC industry classifications to form the explanatory variable, friction.
Firm Operational Data	) From the Industrial Enterprise Database (2004–2024, obtained through the Chinese Academy of Social Sciences) and financial datasets from CSMAR, Guotai An, and Wind (2014–2024).	These sources facilitate the construction of firm-level control variables such as total factor productivity (TFP), firm age, size, and asset-liability ratio.
Macro Control Variables	Sourced from the National Bureau of Statistics and Wind Macro Database.	These include exchange rates, tariff changes, policy uncertainty indices, energy prices, etc., used as time-level control variables.

The sample is restricted to firms with complete records of key variables—including investment activity, industry codes, and basic financial data—and ultimately retains only those Chinese enterprises that have made direct investments in Europe. This results in an unbalanced panel data structure.

6. Major Findings on the Impact of US-China Trade Tensions on Chinese Investments in Europe

The findings reveal that US-China trade tensions significantly increase the likelihood that Chinese firms expand their investment activities toward Europe. This effect is particularly pronounced among firms based in eastern coastal regions, privately owned entities, joint-stock companies, and those operating within high-technology and technology-intensive industries. These results provide empirical support for the market transfer and barrier-avoidance hypotheses, indicating that Chinese enterprises exhibit observable adjustments in their outward investment patterns in response to changing global policy and market conditions.

This study offers three main contributions to the literature on international political economy, trade frictions, and outward foreign direct investment. First, at the theoretical level, it integrates trade–FDI substitution, institutional economics, and GVC perspectives into a unified analytical framework that explains how geopolitical trade shocks are transmitted to firm-level investment decisions. By doing so, the paper clarifies the micro-level mechanisms through which external policy uncertainty reshapes cross-border investment patterns.

Second, methodologically, the study employs a long-span firm-level panel dataset covering 2004–2024 and combines fixed-effects Logit models with extensive heterogeneity, dynamic, and robustness analyses. This approach strengthens causal inference and allows for a systematic examination of how trade frictions affect firms with different ownership structures, technological capabilities, and regional characteristics.

Third, empirically, by shifting the analytical focus from the traditionally examined US market to Europe as a destination for Chinese outward investment, the paper provides novel evidence on the reorientation of Chinese firms'

internationalisation pathways under prolonged US–China trade tensions. The findings highlight Europe’s role as an important alternative investment destination within the evolving global investment landscape, particularly for private, high-tech, and export-oriented firms.

5.3 Overall Regression Analysis and Interpretation

By treating trade friction as an exogenous structural shock, this study sheds light on how Chinese firms adjust their cross-border investment behaviour amid shifting geopolitical and economic conditions. The results underscore the adaptability of Chinese enterprises in reallocating investment activities and navigating complex external environments and offer policy-relevant insights for understanding the evolving dynamics of China–Europe economic relations under prolonged global uncertainty.

Model 1’s coefficient for friction (*trade friction*) shows a significant positive effect on firms’ ODI, indicating that when firms’ industries face US-China trade tensions, the likelihood of investing in European markets increases substantially. This suggests a “shift-in investment” effect triggered by trade friction.

Upon introducing control variables in *Model 2*, the positive effect of friction remains robust, confirming the stability of the primary findings. Additionally, prior overseas investment experience (*experience*) exerts a significant negative impact on ODI, implying that firms with an existing international presence tend to approach further expansion more cautiously. Other control variables—including total factor productivity (TFP = 0.598), firm age (0.193), size (1.376), capital turnover rate (0.205), and asset-liability ratio (1.126)—demonstrate significant positive influences. This highlights that more productive, older, larger, and more highly leveraged firms are more inclined to expand abroad. Conversely, the profit margin exhibits a negative coefficient (-0.452), indicating that more profitable firms are less likely to pursue additional overseas investments.

Table 3. Overall Results of the Regression Analysis

Variables	Model (1) ODI	Model (2) ODI
friction	0.528*** (0.118)	0.768*** (0.136)
experience	-	-2.743*** (0.167)
Intfp	-	0.598*** (0.102)
age	-	0.193*** (0.025)
size	-	1.376*** (0.145)
profit	-	-0.452** (0.192)
operation	-	0.205*** (0.067)
debt	-	1.126*** (0.416)
Industry-fixed Effects	Yes	Yes
Year-fixed Effects	Yes	Yes
Sample Size	6,832	6,832
Pseudo R ²	0.152	0.239

Note: The figures in parentheses denote cluster-robust standard errors.

The levels of significance are indicated as follows: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

5.4 Subgroup Regression Analysis Results

(1) Regression Analysis of Firms According to Regions

Based on the regional codes from the China Industrial Enterprise Database, domestic firms are classified into two main groups according to their geographical locations: those in the eastern coastal regions (eastern coastal investors) and those in the central and western inland regions (central and western inland investors).

Model 3 indicates that for firms located in the eastern coastal areas, the coefficient of friction has a stronger positive effect on ODI, suggesting that these firms possess greater resources and capabilities to undertake cross-border adjustments. In *Model 4* on the other hand, the friction coefficient of firms which operate in central or the western regions is not having any significant values meaning that such firms are not very sensitive to trade frictions and also may not have the strong cross-national adjustment capacity that will enable them to effectively react in response to the trade tensions.

Table 4. Results of the Regression Analysis According to Regions

Variables	Eastern Coastal Firms (Model 3)	Central and Western Inland Firms (Model 4)
friction	0.865* (0.158) **	0.512 (0.321)
experience	-2.901*** (0.189)	-2.435*** (0.412)
Intfp	0.624*** (0.116)	0.487* (0.258)

Table 4 (cont'd.). Results of the Regression Analysis According to Regions

Variables	Eastern Coastal Firms (Model 3)	Central and Western Inland Firms (Model 4)
age	0.178*** (0.029)	0.312*** (0.072)
size	1.502*** (0.167)	1.126*** (0.354)
profit	-0.502** (0.217)	-0.281 (0.468)
operation	0.238*** (0.076)	0.142 (0.168)
debt	1.203*** (0.467)	0.887 (0.892)
Industry-fixed Effects	Yes	Yes
Year-fixed Effects	Yes	Yes
Sample Size	5,127	1,705
Pseudo R ²	0.247	0.201

Note: The numbers in parentheses are cluster-robust standard errors.

The levels of significance are denoted as follows: *** p<0.01, ** p<0.05, * p<0.1

(2) Group Tests Based on Enterprise Registration Types

According to the registration information of sample firms, enterprises are classified into four main categories based on their ownership structure: state-owned and group enterprises, private enterprises, joint-stock enterprises, and foreign-funded enterprises.

In *Model 6*, which pertains to private enterprises, and *Model 7*, representing joint-stock firms, the positive effect of friction on ODI is statistically significant. This suggests that market-oriented companies tend to be more inclined toward overseas expansion when facing trade friction. Conversely, in *Model 5* for state-owned enterprises and *Model 8* for foreign-funded firms, the friction coefficient does not show a significant effect. This indicates that these enterprises are more affected by policy regulations and origin-related restrictions, making their overseas investments relatively more cautious.

Table 5. Results of the Regression Analysis According to the Type of Enterprise Registration

Variables	State-Owned & Group Firms (Model 5)	Private Firms (Model 6)	Joint-Stock Firms (Model 7)	Foreign-Funded Firms (Model 8)
friction	0.642 (0.402)	0.927* (0.218)	0.785* (0.236)	0.613 (0.378)
experience	-3.125*** (0.482)	-3.442*** (0.254)	-2.876*** (0.287)	-2.501*** (0.412)
Intfp	0.287 (0.312)	0.758*** (0.192)	0.624*** (0.204)	0.842*** (0.298)

Table 5 (cont'd.). Results of the Regression Analysis According to the Type of Enterprise Registration

Variables	State-Owned & Group Firms (Model 5)	Private Firms (Model 6)	Joint-Stock Firms (Model 7)	Foreign-Funded Firms (Model 8)
age	0.095 (0.078)	0.224*** (0.038)	0.187*** (0.042)	0.156** (0.064)
size	2.014*** (0.512)	1.376*** (0.224)	1.502*** (0.258)	0.987** (0.418)
profit	-0.218 (0.542)	-0.672*** (0.284)	-0.385* (0.312)	-0.124 (0.487)
operation	0.178 (0.214)	0.312*** (0.118)	0.254** (0.126)	0.198 (0.204)
debt	0.875 (1.024)	1.428*** (0.542)	1.126** (0.578)	0.762 (0.892)
Industry-fixed Effects	Yes	Yes	Yes	Yes
Year-fixed Effects	Yes	Yes	Yes	Yes
Sample Size	1,028	2,456	1,872	1,476
Pseudo R ²	0.198	0.241	0.226	0.212

Note: The figures in parentheses denote cluster-robust standard errors.

The levels of significance are indicated as follows: *** p<0.01, ** p<0.05, * p<0.1

(3) Group Tests Based on Enterprise Affiliation

Using the affiliation codes from the China Industrial Enterprise Database, the sample firms are divided into two groups: those affiliated with city-level (or higher) administrative units and those with county-level (or below) affiliations.

In *Model 10*, which covers county-level and below enterprises, friction exhibits a significant positive effect, indicating that grassroots firms are more inclined toward outward investment when facing trade friction, possibly due to a stronger spill-over effect or urgency. Meanwhile, in *Model 9*, representing firms affiliated with city-level or higher authorities, the effect is directionally consistent—positive—but not necessarily statistically significant. This may suggest that larger or higher-tier firms possess a greater capacity to withstand trade shocks, thus showing a more cautious or less reactive investment response.

Table 6. Results of the Regression Analysis According to Enterprise Affiliation

Variables	Affiliated with City-Level or Higher (Model 9)	Affiliated with County-Level or Below (Model 10)
friction	0.598 (0.365)	0.832* (0.168)
experience	-2.014*** (0.428)	-3.125*** (0.198)
Intfp	0.512** (0.248)	0.687*** (0.122)
age	0.087 (0.072)	0.245*** (0.032)

Table 6 (cont'd.). Results of the Regression Analysis According to Enterprise Affiliation

Variables	Affiliated with City-Level or Higher (Model 9)	Affiliated with County-Level or Below (Model 10)
size	1.876*** (0.384)	1.324*** (0.176)
profit	-0.154 (0.412)	-0.528*** (0.214)
operation	0.102 (0.184)	0.278*** (0.082)
debt	1.542* (0.892)	1.128*** (0.426)
Industry-fixed Effects	Yes	Yes
Year-fixed Effects	Yes	Yes
Sample Size	1,845	4,987
Pseudo R ²	0.216	0.234

Note: The figures in parentheses denote cluster-robust standard errors.

The levels of significance are indicated as follows: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

(4) Grouping Test Based on Factor Intensity

Following the classification method from Xie Jianguo (2003) and based on industry codes from the China Industrial Enterprise Database, the sample firms are categorised into three main types according to their predominant factor usage: labour-intensive, capital-intensive, and technology-intensive enterprises.

In *Model 13*, which examines technology-intensive firms, the friction* coefficient shows a clear positive value, indicating that high-tech companies are more proactive in expanding into international markets when facing trade friction. Similarly, in *Model 12*, representing capital-intensive enterprises, friction also exhibits a significant positive effect. Conversely, for labour-intensive firms *Model 11*, friction does not present a significant characteristic, suggesting that these companies tend to rely more on domestic labour and are less responsive to trade tensions in their outward investment strategies.

Table 7. Results of the Regression Analysis According to Factor Intensity

Variables	Labour-Intensive Firms (Model 11)	Capital-Intensive Firms (Model 12)	Technology-Intensive Firms (Model 13)
friction	0.512 (0.324)	0.784* (0.236)	0.953* (0.198)
experience	-2.876*** (0.412)	-2.542*** (0.298)	-3.125*** (0.224)
Intfp	0.387* (0.214)	0.624*** (0.184)	0.842*** (0.156)
age	0.178** (0.078)	0.201*** (0.042)	0.156*** (0.036)
size	1.024*** (0.284)	1.502*** (0.258)	1.628*** (0.226)

Table 7 (cont'd.). Results of the Regression Analysis According to Factor Intensity

Variables	Labour-Intensive Firms (Model 11)	Capital-Intensive Firms (Model 12)	Technology-Intensive Firms (Model 13)
profit	-0.214 (0.312)	-0.385* (0.284)	-0.672*** (0.248)
operation	0.124 (0.142)	0.254** (0.126)	0.312*** (0.108)
debt	0.762 (0.892)	1.126** (0.578)	1.428*** (0.502)
Industry-fixed Effects	Yes	Yes	Yes
Year-fixed Effects	Yes	Yes	Yes
Sample Size	1,752	2,145	2,935
Pseudo R ²	0.198	0.226	0.247

Note: The figures in parentheses denote cluster-robust standard errors.

The levels of significance are indicated as follows: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

(5) Grouping Test Based on Firms' Technology Level

Using the OECD's classification of manufacturing industries by technology and the industry codes from the China Industrial Enterprise Database, the sample firms are divided into three categories: low-tech, medium-tech, and high-tech enterprises.

In *Model 16*, representing high-tech firms, the positive effect of friction on ODI is most pronounced and statistically significant. Meanwhile, for medium- and low-tech firms, this effect diminishes progressively. This pattern highlights that, amid escalating trade friction, high-tech companies are more motivated to expand overseas by leveraging technology spill-overs and transfer investments, actively enhancing their international footprint. This dynamic underscore the

strategic importance of technological capability in navigating trade tensions and seizing global opportunities.

Table 8. Results of the Regression Analysis According to Technology Level

Variables	Low-Tech Enterprises (Model 14)	Medium-Tech Enterprises (Model 15)	High-Tech Enterprises (Model 16)
friction	0.487 (0.352)	0.812* (0.224)	1.024* (0.186)
experience	-2.542*** (0.452)	-2.876*** (0.312)	-3.442*** (0.248)
Intfp	0.312* (0.178)	0.598*** (0.162)	0.875*** (0.142)
age	0.201** (0.082)	0.178*** (0.046)	0.124*** (0.038)
size	0.987*** (0.312)	1.324*** (0.268)	1.752*** (0.234)
profit	-0.154 (0.284)	-0.385** (0.248)	-0.728*** (0.214)
operation	0.102 (0.156)	0.254** (0.132)	0.387*** (0.118)
debt	0.762 (0.952)	1.128** (0.624)	1.542*** (0.542)
Industry-fixed Effects	Yes	Yes	Yes
Year-fixed Effects	Yes	Yes	Yes
Sample Size	1,845	2,356	2,631
Pseudo R ²	0.184	0.218	0.257

Note: The figures in parentheses denote cluster-robust standard errors.

The levels of significance are indicated as follows: *** p<0.01, ** p<0.05, * p<0.1

5.5 Long-Term Effects of China-US Trade Friction on ODI

By sequentially incorporating lagged variables of trade friction from over time, the analysis explores the long-term impact of US-China trade tensions on Chinese firms' overseas investments. The results reveal that, when considering the lagged friction variables, significant positive effects emerge in the current period, as well as in one- and two-period lags. Specifically, the coefficient for the first lag is 0.542, and for the second lag, it is 0.387, indicating a persistent influence over this short to medium terms.

However, beyond the second lag, the significance weakens considerably. This pattern suggests that while trade friction does have a lasting effect on investment decisions, its influence diminishes over time. The dynamic indicates strong short- and medium-term responses but a fading effect in the long run, reflecting a scenario where firms react quickly to trade tensions, but the long-term impact gradually dissipates.

Table 9. Results of the Analysis of the Long-term Effects of the China-US Trade Friction on Chinese Firms' ODI

Variables	Model (17) (For the current period only)	Model (18) (+L1)	Model (19) (+L2)	Model (20) (+L3)	Model (21) (+L4)
friction	0.768* (0.136)	0.712* (0.142)	0.685* (0.148)	0.624* (0.154)	0.587* (0.162)
L1. friction	-	0.542* (0.138)	0.498* (0.144)	0.452* (0.152)	0.412* (0.158)
L2. friction	-	-	0.387* (0.126)	0.352* (0.134)	0.324* (0.142)
L3. friction	-	-	-	0.284 (0.142)	0.256 (0.148)
L4. friction	-	-	-	-	0.198 (0.152)

Table 9 (cont'd.). Results of the Analysis of the Long-term Effects of the China-US Trade Friction on Chinese Firms ODI

Variables	Model (17) (For the current period only)	Model (18) (+L1)	Model (19) (+L2)	Model (20) (+L3)	Model (21) (+L4)
experience	-2.743*** (0.167)	-2.801*** (0.172)	-2.842*** (0.178)	-2.876*** (0.184)	-2.914*** (0.192)
Intfp	0.598*** (0.102)	0.572*** (0.106)	0.542*** (0.112)	0.512*** (0.118)	0.487*** (0.124)
age	0.193*** (0.025)	0.178*** (0.026)	0.162*** (0.028)	0.148*** (0.030)	0.134*** (0.032)
size	1.376*** (0.145)	1.324*** (0.152)	1.278*** (0.158)	1.224*** (0.164)	1.178*** (0.172)
profit	-0.452** (0.192)	-0.487** (0.198)	-0.512** (0.204)	-0.542** (0.212)	-0.568** (0.218)
operation	0.205*** (0.067)	0.187*** (0.072)	0.172*** (0.076)	0.154** (0.082)	0.138** (0.086)
debt	1.126*** (0.416)	1.078*** (0.428)	1.024** (0.442)	0.987** (0.456)	0.942** (0.472)
Industry-fixed Effects	Yes	Yes	Yes	Yes	Yes
Year-fixed Effects	Yes	Yes	Yes	Yes	Yes
Sample Size	6,832	6,124	5,487	4,902	4,356
Pseudo R ²	0.239	0.247	0.251	0.254	0.256

Note: The figures in parentheses denote cluster-robust standard errors.

The levels of significance are indicated as follows: *** p<0.01, ** p<0.05, * p<0.1

5.6 Robustness Test

To test the stability of the findings, the analysis replaced the original binary variable indicating industry trade friction (*friction*) with two alternative measures: the number of times an industry experienced trade friction within a specific period (*friction_f*) and the total accumulated instances over time (*friction_s*). Even after substituting these variables, the positive and significant impact on ODI persisted, confirming the robustness of the results.

Furthermore, when employing an instrumental variable (*IV_friction*) to address potential endogeneity, the coefficient increased to 0.815. This substantial rise reinforces the conclusion that trade friction indeed plays a causal role in stimulating Chinese firms' overseas investments, effectively reducing concerns about bias from omitted variables or reverse causality. This robust evidence solidifies the link between trade tensions and outward investment dynamics.

Table 11. Results of the Stability Test of the Findings of the Study

Variables	Model (22) (Current Frictions)	Model (23) (Accumulated Frictions)	Model (24) (Instrumental Variables)
friction_f	0.038* (0.008)	-	-
friction_s	-	0.024* (0.005)	-
IV_friction	-	-	0.815* (0.172)
experience	-2.701*** (0.169)	-2.687*** (0.168)	-2.753*** (0.170)
Intfp	0.612*** (0.103)	0.598*** (0.102)	0.584*** (0.104)
age	0.198*** (0.025)	0.193*** (0.025)	0.187*** (0.026)

Table 11 (cont'd.). Results of the Stability Test of the Findings of the Study

size	1.402*** (0.146)	1.376*** (0.145)	1.352*** (0.147)
profit	-0.467** (0.194)	-0.452** (0.192)	-0.438** (0.195)
operation	0.217*** (0.068)	0.205*** (0.067)	0.192*** (0.069)
debt	1.142*** (0.418)	1.126*** (0.416)	1.108*** (0.420)
Industry-fixed Effects	Yes	Yes	Yes
Year-fixed Effects	Yes	Yes	Yes
Sample Size	6,832	6,832	6,124
Pseudo R ²	0.231	0.229	0.225

Note: The figures in parentheses denote cluster-robust standard errors. The levels of significance are indicated as follows: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

The empirical results clearly demonstrate that trade friction significantly propels Chinese firms to increase their direct investments in Europe, thereby validating the “market transfer” theoretical hypothesis. In other words, when export channels face obstacles, firms respond by restructuring their global value chain strategies through “going out,” seeking alternative markets and investment opportunities.

Further subgroup analyses reveal notable heterogeneity in this positive effect across different dimensions. Regionally, eastern coastal enterprises are more sensitive to trade friction, displaying stronger capacity for cross-border expansion. Regarding ownership structure, private and shareholding firms

respond more proactively, whereas state-owned and foreign-invested firms show more conservative reactions. In terms of enterprise type, technology-intensive and high-tech firms exhibit more vigorous responses to trade frictions, underscoring that technological advantages and innovation capabilities are key factors in buffering trade risks.

Dynamic tests indicate that the impact of trade friction on outward investment has a lagged and persistent nature. The significant effects observed in the first and second lags suggest that firms do not respond immediately; instead, responses unfold gradually as information transmission, strategic decision-making, and execution processes occur. Robustness checks, including the use of alternative variables and instrumental variables, bolster the reliability of these findings.

6. Conclusions

In conclusion, this study develops an integrated analytical framework to explain Chinese firms' outward investment responses to US-China trade tensions by combining insights from trade–FDI substitution theory, institutional economics, and GVC restructuring. Trade frictions function as an exogenous shock that raises export costs and policy uncertainty, thereby altering firms' relative cost–benefit calculations between exporting and overseas production. Differences in institutional environments across host economies further shape firms' location preferences, while ongoing GVC reconfiguration provides the structural context in which firms reallocate production and investment activities. Within this framework, Europe emerges as a strategic destination not only due to its market size and technological capacity, but also because of its relatively stable institutional environment under heightened geopolitical uncertainty. By grounding firm-level investment behaviour within this unified perspective, the study offers micro-level empirical evidence that deepens understanding of Chinese firms' internationalisation pathways amid trade conflicts, while providing policy-relevant insights into the restructuring of global investment and production networks.

This research illuminates the micro-level mechanisms driving Chinese firms' "going out" under the environment of China-US trade tensions. It highlights adaptive transformation pathways under pressure, providing valuable empirical evidence for policymakers aiming to stimulate high-quality outbound investment and enhance the resilience of China's global economic engagement.

While the empirical findings robustly demonstrate Chinese firms' strategic investment adjustments towards Europe in response to US-China trade tensions, several analytical limitations must be acknowledged. Due to constraints on available firm-level data, some nuanced investment activities, such as minority joint ventures and indirect equity holdings, might not be fully represented, potentially influencing the accuracy of the estimated effects. Additionally, the dynamic interplay between corporate investment decisions and shifting EU-level policy environments suggests that future research could further disaggregate analyses by country or sector, enhancing our understanding of differentiated responses and long-term strategic realignments amid sustained geopolitical uncertainty.

Finally, the internal decision-making processes and strategic recalibrations of Chinese firms play a pivotal role in responding effectively to external geopolitical disruptions. With increased risks that come with not only trade wars, Chinese companies have been increasingly placing a greater emphasis on risk aversion, strategic independence, and robustness within their international operations. Political risk is often the subject of an internal assessment of the value of investment market access and supply chain disruption, and internal risk judgements. Firms with sophisticated risk management frameworks and adaptive internal governance structures, particularly large private corporations with greater flexibility, tend to exhibit quicker and more pronounced strategic shifts. For instance, firms like CATL and BYD swiftly established new production bases in Europe to offset potential disruptions in global supply chains caused by US-China decoupling pressures. Such proactive internal adjustments indicate that corporate strategies are not merely passive responses to geopolitical events but involve deliberate and forward-looking assessments of global market trends, institutional stability, and long-term competitive advantages.

Notes

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