



INVITED COMMENTARY

Decoupling in international business: The ‘new’ vulnerability of globalization and MNEs’ response strategies

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Abstract

What can MNEs learn from the COVID-19 pandemic? IB scholars have provided ample insights into this question with many focusing on risk management. Complementing these insights, we argue that MNEs should also consider the long-lasting effect that COVID-19, *inter alia*, had on the institutional logic underlying globalization. The U.S. and its allies have redefined their logic from pursuing cost-reduction to building partnerships based on shared value, aiming to substitute China’s role in the world economy. The geopolitical pressure for decoupling from China is the source of ‘new’ vulnerability of globalization. Such pressure is counteracted by economic rationality, creating unsettled priority between the globalization and deglobalization logics at the macro-level institutional space. Combining both risk-management and institutional logic perspectives, we develop a more comprehensive framework on how MNEs should respond to these challenges. This paper contributes to the debate regarding the impact of COVID-19 on globalization, suggesting that neither globalization nor deglobalization logics will prevail in the short run, and IB will likely be more fractured in the long run, based on not only geographic but also ideological and value propinquity. In strategic sectors, the balance will shift toward bifurcation while in others the balance will shift toward the globalization logic.

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INTRODUCTION

What can MNEs learn from the COVID-19 pandemic? International business (IB) scholars have provided abundant insights into this question, with many focusing on risk management, e.g., increasing the resilience of global value chains (GVCs), adapting international human resource management to the ‘new normal’, and internalizing location- and non-location-bounded firm-specific advantages to develop trust-based relationships (Caligiuri, De Cieri, Minbaeva, Verbeke, & Zimmermann, 2020; Gereffi, 2020; Kobrin, 2020; Oh & Oetzel, 2022; Verbeke, 2020). Complementing these risk management insights, we argue that MNEs should also consider the long-



lasting effect that this pandemic, *inter alia*, had on the institutional logic underlying globalization. MNEs' post-COVID strategies should combine both risk management and institutional logic perspectives.

From an institutional logic viewpoint, we suggest that pre-COVID crises and the COVID-19 pandemic have posed different deglobalization threats to the world economy. Before COVID-19, various regional and global crises (e.g., military conflicts, natural disasters, and financial crises) have endangered the globalization process with trade protection actions that caused fluctuations in FDI flows and trade (Evenett, 2019; Witt, 2019). However, they have not destroyed the globalization logic founded on the "efficiency, comparative advantage, and rationalization" arguments (Contractor, 2022: 157).

The special nature of the COVID-19 crisis, and particularly its disruption to the GVCs, the consequences of China's unpredictable COVID policies, and the uncertainty around the origins of this virus have spurred tensions between China and Western countries, and provoked re-assessment of China's role in globalization. A consensus has developed among Western nations that the extant globalization is exposed to excessively high risks resulting from an over-reliance on China for supplies, ranging from active pharmaceutical ingredients to core inputs for high-capacity batteries, as well as for consumer markets. The U.S. administration has attributed the GVC risks to the extant logic underlying globalization, which prioritizes "efficiency and low costs over security, sustainability and resilience" (The White House, 2021: 7). The U.S. decision-makers concluded that to improve the resilience of the country in the face of challenges, such as the COVID-19 pandemic, it is essential to establish a new economic order that involves significant measures of 'deglobalization'.

The U.S.' approach to resilience does not focus on breaking down globalization but rather on redefining its underlying logic, i.e., from pursuing cost reduction to "building trade and investment partnerships with nations who share our [American] values" (The White House, 2021: 8), which aims to reduce and substitute China's role in the world economic system. With China now being perceived as the "most serious long-term threat to world order" (Blinken, 2022), this new logic has gained not only bipartisan endorsement in the U.S. but also general political support by its allies, e.g., the G7 countries, which represent approximately 31.09% of the global GDP (Statista, 2022). This

new institutional logic has threatened the very legitimacy of the extant globalization logic, and thus creating what we labeled the 'new' vulnerability of globalization.

On the other hand, macro-level economic data suggest that the ultimate costs associated with significant decoupling from China and the structural changes to IB logics are too high for both the U.S. and China to absorb (Vertinsky, Kuang, Zhou, & Cui, 2023). Micro-level data collected in surveys of MNEs in China also support this argument. Thus, the political pressure for deglobalization has been counteracted by the economic rationality to continue with the extant systems, at least in the short run. The competition between the extant globalization logic and the new deglobalization logic will likely remain unsettled, creating a complex and volatile institutional field (Raynard, 2016), which calls for a reset in strategic agendas for MNEs.

We emphasize that it is not COVID-19 alone that caused the redefinition of the globalization logic in the U.S. and Western countries. The fear of 'China's rise' had already been accumulating, and the spread of nationalism, the U.S.–China trade war, *inter alia*, all contributed to increasing distrust and animosity against China before the outbreak of COVID-19. This is the context of the start of the COVID-19 pandemic, which exposed the world to unprecedented uncertainties and risks related to China and was perhaps the 'straw that broke the camel's back'. It escalated the geopolitical tensions between the U.S. and China to an inflection point that led to the transformation of the globalization logic.

Building on institutional logic and risk management literatures, we suggest a 2×2 framework to depict the macro-level challenges, by interacting the 'specificity' and 'destructiveness' dimensions of the unsettled institutional logic competition. Applying insights from both literatures, we suggest different strategies with which MNEs could manage various macro-level situations.

This paper contributes to the debate regarding the threat of COVID-19 to globalization. Some scholars argue that COVID-19 has only marginally shifted globalization, and various manifestations of globalization will continue with global coordination playing an even more important role after COVID-19 (Contractor, 2022). By contrast, other scholars maintain that COVID-19 has intensified anti-globalization sentiments, fueled protectionism, and undermined multilateral institutions, resulting in a deglobalized and particularly

regionally fragmented world economy with the U.S. and China being decoupled (Ciravegna & Michailova, 2022; Witt, Lewin, Li, & Gaur, 2023). Our paper suggests that neither logic will likely prevail in the short run, with the institutional unsettlement lasting for an undefined time period. The world economy has always been regional (Rugman & Verbeke, 2004), and we suggest that, due to the institutional unsettlement, it will become even more fractured, based on not only geographic propinquity but also ideological and value proximity. This paper also contributes to the literature on global strategy by highlighting that due to the changes to the institutional logic underlying globalization during COVID-19, MNEs' global strategies should be based on a more comprehensive framework that integrates both institutional competition and risk management perspectives.

In the rest of this paper, we first review the literature on institutional logics, based on which we develop the notions of 'old' and 'new' vulnerabilities of globalization. Then we develop a framework suggesting how MNEs could manage the 'new' vulnerability of globalization.

CRISES, INSTITUTIONAL LOGICS, AND THE VULNERABILITIES OF GLOBALIZATION

Institutional Logics

Institutional logics are "socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality" (Thornton & Ocasio, 1999: 804). Scholars suggest that organizations can simultaneously confront multiple institutional logics that provide competing prescriptions as to how to interpret and respond to a situation, referred to as 'institutional complexity' (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011). At the global level, institutional logics such as globalization and deglobalization are examples of competing orders for the same jurisdictional spaces.

The relationship between competing logics can be characterized along three dimensions: the extent of compatibility, the overlap of jurisdictional claims, and the settlement of prioritization (Raynard, 2016). Specifically, incompatibility refers to situations where the prescriptions of multiple logics are not easily combined in practice; compliance

to the demands of one logic precludes adherence to those of another (Besharov & Smith, 2014; Delbridge & Edwards, 2013; Elsbach & Sutton, 1992; Greenwood et al., 2011; Heimer, 1999). Jurisdictional overlap refers to the situation where prescriptive demands of logics target the same jurisdictional spaces, e.g., nations, industries, or firms (Smets & Jarzabkowski, 2013; Thornton et al., 2012), which increases the potential for jurisdictional disagreement between different logics. Unsettlement of prioritization refers to the lack of a widely acknowledged hierarchy of competing logics, which results in significant uncertainty as to how an organization should prioritize various institutional demands (Kraatz & Block, 2008; Pfeffer & Salancik, 1978).

When two institutional logics are incompatible and overlapping, but with a clear hierarchy, this type of institutional complexity is denoted as 'restrained'; but if their hierarchy is also unsettled, this type of institutional complexity is referred to as 'volatile' (Raynard, 2016). The notions of 'complexity' and 'volatility' are consistent with those in the Volatility, Uncertainty, Complexity, and Ambiguity (VUCA) framework, with 'complexity' referring to many interconnected and often multiform parts and 'volatility' denoting unstable and sometimes unpredictable changes (Bennett & Lemoine, 2014; van Tulder, Verbeke, & Jankowska, 2020). While these constructs do not necessarily involve each other, they can interact and create unique institutional spaces. We argue that the complexity between globalization and deglobalization logics has evolved from being 'restrained' pre-COVID to being 'volatile' during COVID-19.

Pre-COVID Crises and the 'Old' Vulnerability of Globalization (Up to January 2020)

Globalization, in its economic sense, is defined as the process of increasing economic interdependence among nations (Rugman & Verbeke, 2004). Before COVID-19, regional and global crises, e.g., military conflicts (Dai, Eden, & Beamish, 2017), terrorist attacks (Czinkota, Knight, Liesch, & Steen, 2010), natural disasters (Oh & Oetzel, 2011), and financial crises (Claessens, Dell'Ariccia, Igan, & Laeven, 2010) were often accompanied by temporary deglobalization policies threatening the globalization logic, in the form of contingent trade protection actions and import tariffs (Evenett, 2019). Following the 2002 dot-com bubble burst and 2008 financial crisis, for example, data from the World Bank (1970–2016) and KOF Globalization Index (1970–2015)



demonstrate fluctuations in net inward FDI flows and imports at the global level. Based on these data, scholars suggested that “deglobalization seems to have been in progress”, defined as “the process of weakening interdependence among nations” (Witt, 2019: 1054), which is founded upon the nationalism and protectionism logics prioritizing national or regional interests and economic security (Petricevic & Teece, 2019).

Despite the setbacks in the macro-level data, fluctuations in economic indicators are normal, as they rarely constantly go up (or down), and what happened in the past does not necessarily predict the future. To understand whether deglobalization is indeed taking place, we must examine the changes in its defining institutional logic. Thus, we focus on politics and policies, which unambiguously have the largest impact on institutional logic changes (Witt et al., 2023). Particularly, we study the U.S. policies before and during the U.S.–China trade war. The rising nationalism and populism during the Trump administration, e.g., ‘American First’, institutionally challenged the extant globalization logic, leading to the trade war between the two superpowers beginning on July 6, 2018. Despite the five rounds of tariffs and exercises of other tough negotiation tactics before the phase-one agreement was signed on January 15, 2020, the U.S.’ approaches were overall oriented towards demanding “an economic relationship with China that is free, fair, and reciprocal” (Pence, 2018). Even the hardest-line approach taken by the U.S., reflected in former Vice President Mike Pence’s speech delivered on October 4, 2018, which made the clearest articulation of the Trump administration’s policy towards China at that time, only threatened to prioritize competition over cooperation by using more tariffs. It was clear that the U.S. administration did not intend to break the political foundation needed for “a constructive relationship with Beijing where our [the U.S. and China] prosperity and security grow together, not apart” (Pence, 2018). This suggests that even during the trade war, the globalization logic maintains its primacy. Arguably, despite the deglobalization setbacks accompanying prior crises and the most recent trade war, the deglobalization threat to the globalization process was restrained before COVID-19; we label such threat the ‘old’ vulnerability of globalization.

COVID-19 Crisis and the ‘New’ Vulnerability of Globalization (2020–2022)

The geopolitical tensions between the U.S. and China soared amid the COVID-19 pandemic. This became

evident by both countries blaming each other for the pandemic, mutually expelling journalists or media workers, the U.S. ending Hong Kong’s special status, and both closing consulates in a diplomatic escalation, etc. (Council on Foreign Relations, 2022).

On July 23, 2020, the former U.S. Secretary of State Mike Pompeo delivered a speech, titled “Communist China and the Free World’s Future”, signaling a profound shift in U.S. policy towards China. The speech declared a failure of the engagement policy with the Chinese Communist Party, which had been carried out by the U.S. government in the past half a century. The historical visit of former President Nixon to China in 1972 kicked off this engagement policy, with the underlying logic that “(t)he world cannot be safe until China changes. Thus, our aim – to the extent we can, we must influence events. Our goal should be to induce change” (Nixon, 1967: 121). American policymakers had, until the Obama presidency, presumed that as China became more prosperous, it would open up, become freer domestically, and present less of a threat abroad.

But Pompeo argued that “(t)he kind of engagement...has not brought the kind of change inside of China that President Nixon had hoped to induce”. He added, “*We must admit a hard truth that should guide us in the years and decades to come, that if we want to have a free 21st century, ... the old paradigm of blind engagement with China simply won’t get it done. We must not continue it and we must not return to it*” (Pompeo, 2020).

This signaled a significant transformation in the U.S. government’s logics guiding the U.S.–China relationship shifting from cooperation to confrontation, which consequently influences the world geopolitical and economic orders. In the U.S., both the Republicans and Democrats are now completely aligned on taking a tough approach on China (Chiang, 2022). The U.S. has made it politically vital to establish an alternative world order, redefining the institutional logics underlying international business. From the U.S. perspective, the new deglobalization logic does not require every country to become less independent, but centers on decoupling from China and substituting its role in the world economy. The new logic prioritizes shared values, rule-of-law, and national security in partnership selection, promoting within-bloc over cross-bloc cooperation (Blinken, 2022; The White House, 2021). International business will therefore likely be even more fragmented, based on not only geographic closeness, i.e., regionalization (Rugman

& Verbeke, 2004), but also ideological and value proximity. Distinct from the 'old' vulnerability of globalization, the geopolitical conflict between the two superpowers, the U.S. and China, has therefore made the *foundation* of globalization vulnerable.

Pragmatically, however, this new deglobalization logic has encountered strong resistance. This is because it is economically too costly for the two blocs to decouple, and even within the U.S. bloc, countries have different incentives with regard to decoupling from China. As a result, there is still a lack of a clear priority between the two logics. Nation-states and MNEs are assessing and impacting the interactions between geopolitical and economic forces. We provide further evidence in the following section suggesting that neither globalization nor deglobalization logics will dominate and their priority will remain unsettled in the short run. Our discussion focuses on (a) the special nature of COVID-19, which, *inter alia*, has legitimated the new deglobalization logic and (b) the way deglobalization is counter-balanced by economic forces at both macro- and micro-levels.

The special nature of COVID-19 and deglobalization

Researchers have provided insights suggesting how the special nature of COVID-19 has fostered the new deglobalization logic. For example, COVID-19 has unprecedentedly disrupted the entire GVCs, thus threatening the highly decentralized world economic order and its overdependence on China (Gereffi, 2020; Kobrin, 2020; Verbeke, 2020). COVID-19 has also further fostered nationalism and unilateralism, with wealthy countries prioritizing national medical needs, at the cost of international solidarity and cooperation, a pillar of the globalization order (Youde, 2020).

In addition to these insights, another important feature of COVID-19, which also fostered the decoupling logic, has yet to be fully appreciated. It concerns the high uncertainties of China's COVID policies and economic recovery. Since the beginning of the pandemic, China has maintained unique and stringent COVID controls, namely 'zero-COVID' policy, which relied on regular mass testing and long-lasting isolation, with unpredictable lockdowns of entire cities like Shanghai for months (Graham-Harrison, 2022). This has literally destroyed its already-declining economy. According to the National Bureau of Statistics in China, China's economy recorded the worst quarterly performance

since the beginning of 2020 in the second quarter of 2022, with GDP growth plunging to only 0.4% (He, 2022).

On December 7, 2022, the government abruptly dismantled its tight 'zero-COVID' policy. The radical removal of COVID controls has caught China's medical systems and people off guard (Pierson, Qian, Wang, & May, 2022). The disease has since spread rapidly through its vulnerable and dense population with inadequate vaccination, which might kill more than 1 million people through 2023 (Hunnicut, Steenhuisen, & Rinke, 2022). If proper measures are not taken in time, the COVID-19 re-surge in China – now in its major cities and soon to its wide rural areas with less robust healthcare systems – may once again put the world economy and order in jeopardy. This is because it may further disrupt the GVCs, spawn new coronavirus variants, and elevate the risk of a new wave of the pandemic, 1 year after many countries reopened declaring the end of it (Hunnicut et al., 2022).

The COVID re-surge took place in the context of the origins of the coronavirus remaining uncertain three years after its initial outbreak. From the Western perspective, given the devastating effect that this pandemic has caused to the world, China should be more transparent and cooperative in allowing further investigations of its origins (Cohen, 2021), without which scientists would not be able to better understand "the risk levels of different human behaviors and prevent(ing) the next outbreak" (Klobucista, 2021). In such a context, the re-surge of COVID in China further heightened the anxiety over the risk that China may pose to its own stability, economic recovery, and the world order (Hunnicut et al., 2022).

China's unpredictable COVID policies, lack of transparency, and the gloomy outlook they generated have dampened foreign investors' confidence in China. A recent survey conducted by the European Union Chamber of Commerce in China (EUCCC) shows that about 77% of the respondents reported that these measures have made China less attractive as a destination for future investment (EUCCC, 2022a). In fact, some level of economic decoupling may have already taken place. Macro-level data on the outflow of capital has indicated some notable shift by foreign investors in China (Witt et al., 2023). According to the Institute of International Finance, foreign investors pulled \$US 8.8 billion of funds from Chinese stocks and bonds in October 2022, compared to just \$US 2.1 billion in



September the same year, reflecting “changes in sentiment over geopolitical concerns and anxiety over Beijing’s zero-COVID policy” (Lee, 2022). At the micro level, surveys conducted by EUCCC in April 2022 indicate that 23% of the respondents were considering shifting current or planned investments out of China due to its COVID restrictions, which was more than double the number recorded in its February survey (11%), and the highest proportion in a decade, showing that some level of decoupling is on the agenda (EUCCC, 2022b).

The unsettled priority between globalization and deglobalization logics

The process of deglobalization has not been straightforward, but counter-balanced by the heterogeneous incentives within and between the blocs at the macro level, and the concern over its high cost at the micro level. As such, the hierarchy between the two logics, and thus the direction of globalization, will likely remain unresolved, at least in the short run.

At the macro level, evidence shows that the costs of decoupling for the U.S. and its allies are enormous simply because their economies are deeply integrated with China (U.S. Chamber of Commerce China Center, 2022). From the variety of capitalism literature (Estevez-Abe, Iversen, & Soskice, 2001; Hall & Soskice, 2001), we know also that the U.S. and its allies may vary significantly in their incentives to decouple from China. It may be more favored in liberal market economies such as the U.S., but less so in more coordinated market economies such as Germany (Witt, 2019). The visit of German Chancellor Olaf Scholz to China in November 2022 demonstrates this, indicating that while Germany will side with its allies politically, it does not really intend to completely break with China, its largest trading partner economically, but try to reduce “risky dependence” by diversifying its foreign partnerships (Von Der Burchard, 2022).

From the perspective of China, it has little incentive to completely decouple from the U.S. bloc either. China depends on the Western bloc for over 53% of its exports (Workman, 2022). Particularly, China has benefited from its carefully managed interdependence by selectively coupling with Western countries in areas it needed investment, technology, and know-how (EUCCC, 2022b), such as semiconductor technologies, which are the foundation of the digital economy. China has no alternative sources for these kinds of cutting-edge

technologies that only Western countries can develop (Vertinsky et al., 2023). Thus, China has all the incentives not to completely decouple, and will strategically cooperate with U.S.’ allies that may share common interests.

Recent surveys of MNEs in China provide micro-level data consistent with the macro-level observations. The survey conducted by the American Chamber of Commerce in Shanghai in June 2022 in the middle of the Shanghai lockdown indicates that while approximately 38% of the respondents committed to some forms of decoupling, e.g., identifying suppliers outside of China, moving the majority of operations outside of China, or moving regional headquarters outside of China, 35% indicated clearly that the lockdown had no impact on their operation in China. The rest of the respondents were somewhat agnostic, with almost half of them actively assessing the evolving situation (19%) and the other half planning to maintain the status quo with some nimbleness (22%) (AmCham Shanghai, 2022). These data indicate that the sentiments for clear coupling and decoupling are almost on par, supporting our argument that the deglobalization and globalization logics are still unsettled in their priority.

To summarize, the direction of globalization post-COVID is likely to remain unclear, at least in the short run, which may take months, years, or even decades to settle as in the case of the last Cold War which lasted for 45 years. In a much longer run, depending on the interplay of political, economic, military, and social forces, the world order may evolve to a complete bifurcation or unification, but more likely to a fractured structure where in strategic sectors the balance will shift toward bifurcation while in other sectors the balance will shift toward the globalization logic. Indeed, the hierarchical relationship between the globalization and deglobalization logics will depend to a large extent on the ‘security logic’ that guides China and the U.S. (Vertinsky et al., 2023). The possibility of enduring rivalry between China and the U.S. is a source of extreme turbulence. It poses great challenges to the MNEs having stakes in the two political and economic blocs, as they are torn by the political pressure to decouple and the economic rationality not to. It is imperative for the MNEs to develop strategies for navigating the complex and volatile institutional environments.

MNES' RESPONSES TO THE 'NEW' VULNERABILITY OF GLOBALIZATION

Previous studies on institutional logics and risk management have provided important insights on how firms may respond to external shocks, focusing on the 'specificity' and 'destructiveness' of the external shocks. Combining these insights, the rest of the paper focuses on how MNEs could manage the 'new' vulnerability of globalization. We suggest that firms' responses are determined by both the 'specificity' and the 'destructiveness' of the unsettled institutional competition, which influence, respectively, the external *pressure* and internal *motivation* for firms to respond.

'Specificity' of Institutional Competition

Responses to conflicting institutional guidelines often feature a struggle, as organizations try to reconcile or mitigate those tensions, while appealing to the different logics. These responses can range from "making tradeoffs and choosing pressures with which to conform to seeking strategies for engaging both and managing conflict" (Smith & Tracey, 2016: 455). Ultimately, organizations need to decide the extent to which they symbolically or substantively comply with the institutional pressures (Kraatz & Block, 2008). Such decision depends on the 'specificity' of the institutional competition from the perspective of organizations (Smets & Jarzabkowski, 2013; Thornton et al., 2012). When the focus of the institutional competition is ambiguous, organizations have more discretion in their efforts to mitigate the tensions. In contrast, when conflicting logics focus on highly specific subjects, organizational discretion is greatly constrained, and masking and distracting attention "over controversial core issues may be unacceptable to some key constituencies" (Elsbach & Sutton, 1992: 700).

There is a large body of literature in IB that addresses 'specificity', i.e., firm-specific versus general discrimination directed against foreign firms (Evenett, 2019; Niu, Liu, Gunessee, & Milner, 2018; Wu & Salomon, 2017; Zaheer & Mosakowski, 1997). Borrowing from this literature, we argue that the tensions between the globalization and deglobalization logics are 'specific' when they focus on the micro-level jurisdictional spaces, e.g., the legitimacy of particular firms like Huawei and TikTok to operate in the U.S. (Carvajal & Kelley, 2020). They are less 'specific' when they focus on the macro-level, e.g., nations or regions. For instance, China has been a target of the

deglobalization logic, but the compliance pressure posed to MNEs operating in China is not as specific, particularly for those not considered strategically important (Witt et al., 2023). As the specificity of institutional tensions increases, the external pressure for compliance increases too, leaving MNEs with smaller room for discretion but more urgency for substantive responses.

'Destructiveness' of Institutional Competition

While 'specificity' of institutional competition denotes the external *pressure* on MNEs to respond, whether and how MNEs respond also depends on their internal *motivation*. Borrowing from the studies on risk management in IB, we suggest that MNEs' motivation to respond to institutional competition rests on whether their central or peripheral resources and markets are jeopardized (Dai et al., 2017; Mithani, Narula, Surdu, & Verbeke, 2022; Oh & Oetzel, 2022). Research on risk management suggests that the degree of 'destructiveness' is associated with MNEs' exposure to crises. As MNEs are geographically diversified, they are often more exposed to crises compared to domestic firms (Mithani et al., 2022). Contingent on the geographic scope of crises and firms, MNEs may be exposed to local or global destructions that affect specific subsidiaries or MNEs as a whole (Oh & Oetzel, 2022). Furthermore, the degree of destructiveness also depends on "the extent to which the MNE is embedded in countries affected by the exogenous threat or shock" and the embeddedness of the epicenter in the global system (Mithani et al., 2022: 7; Kali & Reyes, 2007).

Building upon the firm-specific and country-specific advantage (FSA and CSA) framework, risk management studies in IB have suggested how firms develop strategies to deal with the external destructions in VUCA environments (e.g., da Silva Lopes, 2022; Oh & Oetzel, 2022). For example, when the destruction is localized, MNEs may completely withdraw from the locale to avoid further damage, particularly when location-specific advantages are turned to liabilities (da Silva Lopes, 2022; Dai et al., 2017), or employ FSAs to coordinate resources from other locations to respond to country-specific shocks (Kogut & Kulatilaka, 1994; Mithani et al., 2022). When the destruction endangers the firms' overall survival globally, however, withdrawal from a particular location may not be an option or the optimal solution (Belderbos & Zou, 2009); instead, they must respond with high dynamic capability enabling more resilience,

Destructiveness	High	Selective Coupling II	Full Engagement IV
	Low	Symbolic Management I	Dynamic Coupling III
		Low	High
		Specificity	

Figure 1 MNEs' responses to the 'new' vulnerability of globalization.

adaptation, and reconfiguration across locations (Teece, Pisano, & Shuen, 1997; Verbeke, 2020; Wan & Yiu, 2009). If the destruction results from macro-level institutional failure, whether local or global, MNEs may "reduce their reliance on these institutions" but "engage in more elaborate micro-level contracting with the critical partners in their GVC networks" (Verbeke, 2020: 446).

A Framework of MNEs' Responses

We develop a 2 x 2 framework with the interaction of 'specificity' and 'destructiveness' (Figure 1). In Figure 1, the degree of 'specificity' is low if the unsettled competition between the two logics targets the macro-level spaces (e.g., nations), but high if it targets the micro-level spaces (e.g., firms). The degree of 'destructiveness' is low if the competing logics only threaten the peripheral business of MNEs, but high if it endangers the lifelines of firms. Applying insights from both risk management and institutional theories, we discuss MNEs' responses to different institutional situations.

Symbolic management strategy

Quadrant (I) of Figure 1 shows the case of low 'specificity' and low 'destructiveness' of the competing logics. In this situation, the jurisdictional overlap between the competing logics targets macro-level spaces, while posing little threat to MNEs' core business. For example, while the U.S. government urges U.S. firms to relocate their value chains out of China, the exact measure is not specific. Furthermore, if China is not central to the MNEs' business, then they have a large degree of discretion in how they respond.

From the risk management perspective, since the risks posed to the firms' business are low, it is a relatively low maintenance situation. However, from the institutional perspective, it is suggested

that since the fundamental institutional logic underlying globalization is in turmoil, MNEs should approach this level of 'institutional war' at least with a '*symbolic management strategy*', to avoid any potential damage to their legitimacy. MNEs can compartmentalize identities such that they commit only symbolically to certain logics while preserving a core identity (Kraatz & Block, 2008). They can establish "elaborate rational plans and procedures in response to institutional requirements in order to disguise the fact that they do not intend to implement them" (Oliver, 1991: 154; George, Chattopadhyay, Sitkin, & Barden, 2006; Pache & Santos, 2010). For example, U.S. firms without high stakes in China may symbolically comply with the decoupling logic, without implementing it. It is worth noting that 'symbolic management' normally involves risky deceptions and costly negotiations (Pache & Santos, 2013). It makes more sense to implement such a strategy if MNEs anticipate that the institutional field will progress rather quickly through "transition times until one side or the other wins and the field reforms around the winning logic" (Reay & Hinings, 2009: 632).

Selective coupling strategy

Quadrant (II) of Figure 1 shows the case of low 'specificity' and high 'destructiveness'. The jurisdictional overlap between the competing logics has not yet targeted the firms but already posed formidable threats to their MNEs' core businesses. For example, the political pressure for U.S. firms to relocate their GVCs out of China, 'friend-shore' (Coy, 2021), or 'reshore' to the U.S. (Witt et al., 2023) can potentially have a devastating effect on companies like Apple Inc., because the firm is heavily embedded in the Chinese market, which accounts for 25% of its total revenue, with majority of Apple's products being produced in China by its supplier Foxconn (Richter, 2020).

While the institutional pressure for compliance with either logic is low, the potential destructiveness and risks caused by the unsettled institutional competition are too high to be ignored. Risk management studies suggest that in this situation firms should deploy location-bound or non-location-bound FSAs to build resilience when they can to mitigate potential damage (Dai et al., 2017; Oh & Oetzel, 2022; Verbeke, 2020). MNEs could adopt a 'federated structure' (e.g., Binder, 2007; Zald & Denton, 1963), which decentralizes firms into autonomous decision-making centers, and enables

them to build requisite redundancy in their GVCs (Verbeke, 2020). At the same time, they should keep investment in the original host countries expecting to benefit from the option value in the long run (Belderbos & Zou, 2009). One possible downside is redundancies in structure and higher costs associated with the decentralization (Raynard, 2016). This is consistent with the ‘selectively coupling strategy’ suggested by the institutional logic literature, which enables firms to attend to both sides of the competing logics (Oliver, 1991; Pache & Santos, 2013). MNEs could couple intact elements prescribed by each logic and partially conform to all institutional demands (Pache & Santos, 2010). This allows them to draw upon “a much broader repertoire of institutionalized templates ... to craft a configuration of elements that fits well with the demands of their environment and helps them leverage a wider range of support” (Pache & Santos, 2013: 994).

Thus, it is not surprising that MNEs like Apple selectively satisfied both sides of the competing logics by taking a ‘China + 1’ approach. Specifically, Apple ‘friend-shored’ (Coy, 2021) a relatively small but substantive part of its value chains – 30% of Foxconn’s production lines – from China to Vietnam, to comply with the decoupling logic, while still maintaining most of its manufacturing capacity in China to comply with the old logic (Byford, 2020).

Dynamic coupling strategy

Quadrant (III) of Figure 1 shows the case of high ‘specificity’ and low ‘destructiveness’, where the competing logics target specific firms, yet their potential destruction to firms’ core business is rather limited. This is a situation where the external pressure for compliance with both logics is strong, yet firms are not necessarily motivated to respond. Firms have the flexibility in determining when and how to react to maximize their own interest, as opportunities and threats unfold in the course of institutional competition.

We were not able to find a perfect case for this situation that is directly related to the decoupling between the U.S. and China, but to present as an example, we use COVID-19 vaccine-makers, who have been facing heated disputes on how they should distribute COVID vaccines, another ‘institutional war’ between the globalization and deglobalization logics. While vaccine-nationalism prescribes that they prioritize the supply to affluent countries, the competing logic prescribes globally

equal distribution. The institutional conflict is very specific, focusing on only a handful of vaccine-makers. Yet, as stakeholders from both sides competed for the limited supply of vaccines, the institutional conflicts did not really jeopardize these firms’ businesses but ironically benefited them economically, rendering them a unique FSA, i.e., bargaining power (Burt, 1992; Lavie, 2007).

This is another situation where the risks posed to firms’ businesses are low, but from an institutional logic perspective, firms should carefully manage the unsettled competition between the two logics because they closely challenge firms’ legitimacy. Applying the identity-based view in institutional logics (Kraatz & Block, 2008), MNEs should try to align their identities with the common interests of stakeholders from both sides of the competing logics, and navigate the ‘institutional war’ by dynamically leveraging those interests. Similarly, the risk-management literature suggests that firms should apply FSAs such as bargaining power and dynamic capabilities in responding to rapidly evolving situations (Teece et al., 1997). Firms can manage the competing logics by dynamically complying with them as the prioritization between them progresses over time. We therefore label this approach a ‘dynamic coupling strategy’.

In the case of the vaccine-makers, some of them have exercised their bargaining power dynamically to their own advantage, as the hierarchy between the competing logics evolved. At the beginning of COVID-19, when the medical-nationalism logic seemed to be dominating, Pfizer/BioNTech and Moderna chose to couple with this logic, allocating more than 90% of their supplies to wealthy countries, leaving 40% of the global population under or not supplied with vaccines (Kavanagh, Gostin, & Sunder, 2021; Marriott & Maitland, 2021). They have also set prices as they like, charging approximately 4 and 24 times more than the estimated mass-production cost for COVID-19 vaccines, for both rich and poor countries (Marriott & Maitland, 2021).

As concerns mounted over the unequal distribution of vaccines, which shifted the hierarchy between the competing logics, the vaccine-makers adjusted their strategies to comply more with the equal-distribution logic. In December 2020, India and South Africa proposed to temporarily waive WTO’s obligations to enforce IPs on COVID-19 technologies. In May 2021, the Biden administration joined France to endorse the proposal and pressed the vaccine-makers to increase production



at U.S. plants and to license their technologies to foreign manufacturers (Kavanagh et al., 2021). In June 2021, the G7 countries pledged to donate 1 billion vaccine doses to the poorest countries (Amaro, 2021), which, although far from being enough, exemplifies the shift in sentiment. Vaccine-makers quickly adapted their strategies. For example, in May 2021, Pfizer and BioNTech pledged to donate 2 billion doses of vaccines to low- and middle-income nations. Moderna and Johnson & Johnson also promised to donate 200,000 and 100,000 doses, respectively (VOA news, 2021). In October 2021, Moderna announced that it would not enforce patent rights related to COVID-19 vaccines (Koukakis, 2021).

Full engagement strategy

Quadrant (IV) of Figure 1 shows the most challenging situation where competing logics result in high external pressure for compliance by focusing on specific firms, and firms' core businesses are threatened, generating strong internal motivation to respond as well. TikTok is the international subsidiary of Chinese company ByteDance can be used as an example. During the pandemic, it reached a peak of 2 billion downloads globally. It became the target of rising nationalism accusing it of transferring user data to servers in China. On August 14, 2020, former President Donald J. Trump officially signed an executive order based on national security concerns prescribing ByteDance to either shut down TikTok in the U.S. or sell it to a U.S. firm within 45 days (Kolodny, 2020). Similar bans were implemented in other markets almost simultaneously, e.g., U.K., Australia, and India.

In terms of the level of risks that firms are exposed to, Quadrant (IV) is comparable to the most complicated situation described in prior risk management studies where MNEs operating globally are exposed to disasters at multiple locations (Oh & Oetzel, 2022). Oh and Oetzel (2022) suggest that MNEs develop and recombine non-location-bound FSAs, and organize all relevant stakeholders at both local and headquarter levels to improve performance. Adapting this approach to the context of an 'institutional war' targeting specific firms, we suggest a 'full engagement' strategy. This strategy denotes that firms should fully engage with the threatening forces by mobilizing resources and key stakeholders at all levels. They should dynamically apply all plausible approaches to the unsettled

institutional conflicts, to not only prevent and mitigate the external threat, but proactively impact its legitimacy and development.

TikTok, for example, took a series of responses that exemplify this strategy to some extent. First, the firm mobilized its resources at the headquarter level to *prevent* the antagonistic situation from escalation at multiple locations. Specifically, right before the executive order was signed, TikTok announced that it would move its headquarters out of the U.S. (James & Faulconbridge, 2020) and spend \$500 million opening its first European data center in Ireland, to alleviate the concerns for data security (Fenton, 2020). Since this announcement took place before the executive order was signed, it may be viewed as "symbolically managing" the external threat (Kraatz & Block, 2008; Pache & Santos, 2010). Second, shortly after the enactment of the executive order, TikTok strived to *mitigate* the subsidiary-level threat by "selectively coupling" with the nationalism order more substantively (Pache & Santos, 2013). Specifically, TikTok actively sought local U.S. partners to take over its U.S., Canada, Australia, and New Zealand subsidiaries (Ahmed, 2020). Third, in addition to these defensive strategies, TikTok also applied a more aggressive 'defiance' strategy (Oliver, 1991) trying to *impact* the course of development by filing a complaint in a Washington federal court on September 18, 2020, challenging the prohibitory measures taken by the Trump administration. Judge Carl J. Nichols temporarily blocked the executive order.

DISCUSSION AND CONCLUSION

This paper contributes to the debate regarding the effect of COVID-19 pandemic on the future of globalization. From an institutional logic perspective, we suggest that the unique feature of COVID-19, *inter alia*, has escalated the geopolitical pressure for the adoption of the deglobalization logic post-COVID, focusing on decoupling from China. Yet, the deglobalization logic has been counteracted by many forces such as the high economic costs of the decoupling. Distinct from prior studies arguing that either globalization or deglobalization will triumph, we suggest that the dynamic relations between geopolitical pressure and economic rationality will result in unsettled priority between globalization and deglobalization logics post-COVID. We refer to the threat posed by the new

deglobalization logic to globalization as the 'new' vulnerability of globalization.

Integrating insights from institutional competition and risk management studies, we develop a 2×2 framework for MNEs to address the macro-level changes. Depending on the 'specificity' and 'destructiveness' of institutional competition to MNEs, the 'new' vulnerability of globalization at the macro-level can either pose threats or provide opportunities to MNEs at the micro-level. We accordingly suggest four types of strategies, with 'symbolic management', 'selective coupling', and 'full engagement' being employed to deal with the challenges and 'dynamic coupling' to capitalize on the opportunities.

The Time Horizon: Short-term Responses and Long-term Structural Effect

The unsettlement between the competing logics is likely transitional until one institutional logic triumphs over the other. During the transitory period, however long it may be, the structure of international business will constantly change as MNEs reconfigure their GVCs to cope with the institutional competition. As long as the unsettlement continues, semi-decoupling between the U.S. and China will likely emerge, with a more fractured world economy, based on geographical, ideological, and value proximity.

Heterogeneity about the unsettled priority, FSAs, and CSAs

It is worth noting that the degree of unsettlement between the two logics varies across regions, nations, and sectors. In the Indo-Pacific region, where the U.S. and China have been wrestling for influence (Lin et al., 2020), the competition between the opposing orders may be most intense. As MNEs in this region are torn apart by the competing logics, they are presented with either the biggest challenges to balance between the rivalrous forces, or the greatest opportunities to leverage and maximize self-interest. In some nations, such as the U.S., the decoupling logic may carry more weight, while it may be quite different in other nations such as China, suggesting heterogenous location-bound (dis)advantages, which may be taken advantage of by MNEs in navigating the institutional competition. In certain sectors, clear-cut decoupling may have already taken place, such as in the semiconductor industry, where restrictions on technology exports and talent flow to China have been enacted by the CHIPS and

Science Act in the U.S. The technology sector in general is facing a stronger decoupling pressure, with new rules on international cooperation and IPR protection being introduced (U.S. Chamber of Commerce China Center, 2022). These have altered the conditions for the creation, transfer, and protection of innovation, and consequently influencing FSAs (Marquardt et al., 2020; The White House, 2021). All these heterogeneities call for future studies to further fine-tune the 'new' vulnerability of globalization and contextualize MNEs' responses. New research questions may include: what is the impact of decoupling on the innovation strategies of U.S. and Chinese firms? How do MNEs respond to the unsettled competition between globalization and deglobalization orders that is heterogenous across locations and sectors?

External political pressure and internal polity

While this paper focuses on the external institutional competition on MNEs' response strategies, we suggest that the external political tension interacts with MNEs' internal political constellation and dynamics (Pache & Santos, 2010; Weber & Waeger, 2017), co-shaping firms' strategies. This is because organizational responses to emerging competing logics are path dependent on the organizations' polity, i.e., historically imprinted coalitions and governance systems (Waeger & Weber, 2019), and influenced by how multiple logics are politically represented within an organization (Pache & Santos, 2010). In addition, the harshness of external pressure may in theory be endogenous to the internal polity, e.g., the political orientation and ties of the MNEs. Future research investigating such interaction may shed more nuanced light on MNEs' response strategies. Possible questions may include: how does the political orientation of the top management team influence MNEs' response strategies? How do political ties of MNEs influence the specificity and destructiveness of the institutional conflict?

In sum, this paper discusses the impact of COVID-19 pandemic on the 'new' vulnerability of globalization and provides a framework of response strategies by combining insights from risk management and institutional logic literatures. We maintain that as the battle between globalization and deglobalization logics continues unsettled, a new version of '(de)globalization' featuring partial bifurcation will likely emerge. We also discuss the nuances of the 'new' vulnerability of globalization, suggesting promising directions for future research



that could deepen our understanding of the evolving challenges that globalization at the macro-level and MNEs at the micro-level face.

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