

# **Role of Trade and Multinational Companies (MNCs) in Improving China's International Relationships**

# Table of Contents

<b>1. Introduction</b>	<b>2</b>
1.1 Objectives	3
<b>2. Impact of Business Interests on International Relations</b>	<b>3</b>
<b>3. Multinational Companies in China</b>	<b>5</b>
<b>4. Future Trends and Predictions for MNCs in China</b>	<b>8</b>
<b>5. Trade Relationships and Policies</b>	<b>9</b>
<b>6. Diplomatic and Political Influence of MNCs in China</b>	<b>10</b>
<b>7. Primary Research Findings</b>	<b>11</b>
7.1 Research Philosophy: Pragmatic Approach and Interpretivist Philosophy	11
7.2 Profile of Top Executives Interviewees for Primary Research	11
7.3 Key Areas of Focus	12
7.4 Key Findings and Discussion	13
7.4.1 Interdependency between Trade Relations and International Relations will Remain	13
7.4.2 Predicting the Future of International Relations and Its Implications for MNCs	14
7.4.3 Rising Market Opportunities in China	15
7.4.4 Understanding Local Nuances is a Key	16
7.4.5 Using Sustainability as a Competitive Advantage	17
7.4.6 Highlighting the Strategic Importance of China	17
7.4.7 Applying Strategic Approach for Influencing and Managing International Relations	18
7.5 Comparative Analysis and Concluding Statement:	19
7.5.1 Perspective of European MNC CEOs	19
7.5.2 Perspective of Indian MNC CEOs	20
7.5.3 Perspective of American MNC CEOs	21
7.5.4 Concluding Statement	22
<b>8. Conclusion</b>	<b>23</b>
8.1 Overall Summary	23
8.2 Recommendations for Businesses	23
<b>Works Cited</b>	<b>25</b>

# 1. Introduction

The rise of multinational companies (MNCs) in China has been one of the defining features of global economic integration in recent decades. China's transformation from a largely agrarian society to the world's second-largest economy has attracted substantial foreign investment. This investment, in turn, has influenced both China's domestic development and its international relations. The web between multinational companies and international relations is complex, encompassing economic, political, and cultural dimensions.

Since 1978, when China announced its 'open-door' policy to pursue its long-term national goal, the Four Modernizations, more than 220,000 foreign-funded ventures have been approved. By the end of 1994, some US\$300 billion of contracted investment had been agreed and US\$95 billion of utilized investment, making the country the most important recipient of foreign direct investment (FDI) in the developing world. ([Kaiser 06](#))

Through a series of high-profile initiatives, including "Made in China 2025," the Chinese government has made innovation a top priority in its economic planning. The plan was announced in 2015 to upgrade and modernize China's manufacturing in 10 key sectors through substantial government assistance to make China a major global player in these sectors. ([CRS 19](#)) Overall, China's commitment to making a positive business environment and strategic partnerships with global corporations shows its role as a key player in the international economy, promoting innovation and sustainable growth.

China's economic growth also has one key player to thank - Multinational Companies (MNCs). For MNCs, international relations play a major role in shaping the business environment. Positive diplomatic relations between home and host countries can lead to favorable trade agreements, reduced tariffs, and a stable regulatory environment, all of which are essential for smooth business operations.

Recent government announcements over the past 6-9 months have further emphasized the focus on new industries and technologies, particularly in electric vehicles (EVs), solar energy, and other emerging sectors. [Chu 24](#) writes that Tesla and Apple have strategically chosen China for their operations due to its infrastructure, supportive government policies, and vast market potential. Tesla's Shanghai Gigafactory and Apple's extensive supply chain networks show China's role in global technology and innovation. [Reuters 24](#) finds that Germany does not want to impose duties on EVs from China, reflecting the interdependence of the German and Chinese car markets. This arrangement helps prevent higher tariffs on German vehicles in China, emphasizing the importance of EU-China economic ties.

This paper analyzes the impact of MNCs operating in China on international relations, focusing on the economic, political, and cultural dimensions. It will explore how the presence and activities of MNCs influence diplomatic

ties, trade policies, and cultural exchanges between China and other countries. By examining specific case studies and historical contexts, the paper seeks to provide a comprehensive understanding of the role MNCs play in shaping international relations.

## 1.1 Objectives

1. To define and characterize the presence and influence of major MNCs in China.
2. To assess MNCs' economic contributions and impacts on China's GDP, employment, and technological innovation.
3. To analyze the role and influence of trade bodies such as AmCham and the China-Britain Business Council.
4. To investigate the trade relationships and policies introduced by MNCs, including bilateral agreements and trade policies.
5. To understand MNCs' diplomatic and political influence, including their role as diplomatic actors and the impact of geopolitics.
6. To present primary research findings on the strategies for the successful operation of MNCs in China and how leaders of MNCs from America, Europe, and India foresee future opportunities and challenges for their businesses emanating from international relations. In specific:
  - a. interdependency between trade relations and international relations
  - b. expectations of international relations between China and other countries over the next five to seven years and the implications for the MNC businesses operating in China
  - c. China market opportunity over the next five to ten years
  - d. MNCs' role in influencing international relations and its importance in MNC's strategic approach to being successful in China over the medium to long term.

## 2. Impact of Business Interests on International Relations

[Ronesans](#) finds that multinational companies now hold more sway in shaping national trade policies and international relations than ever before. Global foreign direct investment flows have recovered after falling below

USD 1 trillion in the first year of the COVID-19 epidemic, according to UNCTAD's "World Investment Report 2022." These inflows climbed by 64% in 2021 to reach USD 1.58 trillion. Still, the importance of global corporations goes beyond statistics.

Specifically, [Kim and Milner argue in 2021](#) that MNCs' economic dominance reduces the relative cost of engaging in political activities, while their large-scale transnational activities increase the marginal benefits of influencing policy-making individually. They find strong evidence for increased lobbying expenditures when firms become multinational. They also find that MNCs tend to lobby on more diverse foreign policy issues. This shows that MNCs are important political actors whose distinct interests and influence should be incorporated into our understanding of foreign policy-making.

Since 1990, the number of multinationals has surged from just three thousand to over 63,000. These companies and their 821,000 subsidiaries worldwide employ 90 million people, including around 20 million in developing countries, and contribute 25 percent of the world's gross product. The top 1,000 multinationals generate 80 percent of the world's industrial output. Exxon-Mobil, with \$210 billion in revenues, ranks 21st among the world's largest economies, just behind Sweden and ahead of Turkey. ([Koksal 06](#))

Probably one of the most important opinions here is that of realist [Robert Gilpin](#), who argues that MNCs are successful in influencing their home government's policies and are able to influence the host government's policies via their home governments, who act as agents for their own countries.

Trade bodies such as the American Chamber of Commerce (AmCham) and the China-Britain Business Council (CBBC) play a major role in bringing up business interests and influencing international relations. These organizations act as intermediaries between multinational companies and government entities, advocating for policies that improve trade and investment. They provide a platform for dialogue and cooperation, helping to resolve disputes and create a more favorable business environment. By promoting trade and investment, trade bodies strengthen economic ties between China and other countries. Their activities help build mutual understanding and trust, reducing tensions and creating a more cooperative international environment. The presence of strong trade bodies can also act as a stabilizing force during times of geopolitical uncertainty, as they provide channels for dialogue and negotiation.

In summary, trade bodies like AmCham and the CBBC support MNCs in China. Their efforts in policy advocacy, market intelligence, networking, and support services benefit businesses and enhance international relations by promoting economic cooperation and stability.

### 3. Multinational Companies in China

Multinational companies (MNCs) have centralized head offices where they coordinate global management but operate in multiple countries through branches, subsidiaries, or joint ventures. [Gratton 24](#) finds that this helps MNCs handle their large-scale operations, create a global presence through centralized control, and create strategic asset-seeking and a diverse workforce, thus enabling high revenue through expanded markets. These further contribute to leveraging economies of scale, acquiring quality resources at reasonable prices, remaining cost-effective, and effectively penetrating new markets.

In recent history, the major MNCs operating in China have spread across various industries. Notable examples of this would be Apple Inc., General Motors, Volkswagen, Samsung Electronics, Siemens, Unilever, Nestlé, Procter and Gamble, Coca-Cola, and McDonald's. These companies have established operations in China, contributing to the country's economic growth and also benefiting from its large consumer market, manufacturing capabilities, and infrastructure. The presence of these big MNCs shows the importance of China as a critical hub for global business operations.

MNCs such as Apple, General Motors, Volkswagen, Huawei Technologies, and McDonald's illustrate their impact on international relations. [DW 23](#) writes that Apple's extensive manufacturing in China affects the U.S.-China trade policies, while GM's joint ventures exemplify U.S.-China collaboration. Volkswagen's investments influence EU-China economic relations, and Huawei's global operations impact China-U.S. diplomatic ties. McDonald's success in China reflects cultural exchange and market adaptation. These examples show how MNCs navigate regulatory challenges and market demands, influencing global economic and political prospects.

[Gratton 24](#) writes that MNCs contribute to the Gross Domestic Product (GDP) and employment of host countries where the large-scale operations and substantial investments help with economic growth by creating jobs and generating income. In China, MNCs like Apple and General Motors provide thousands of employment opportunities, both directly within the companies and indirectly through related industries. These jobs enhance skill development and raise living standards, contributing to economic prosperity. Residents of these countries also benefit from the presence of MNCs as there is a transfer of technology, bringing innovation and allowing the locals to expand their knowledge and grow within the framework, which opens new opportunities for them based on evolved skill sets and knowledge. By bringing these advanced technologies and expertise to host countries, they use local firms' exposure to cutting-edge practices and innovations, which broadens the skill set of the people living there.

In pursuit of long-term returns, these companies have ramped up investments in innovation centers and advanced manufacturing facilities in China. This strategic move aims to bolster their competitive edge while preparing for future challenges.

As an example, [Nan 24](#) writes that Marelli Holdings Co Ltd, a joint Italian-Japanese supplier in the mobility products sector serving the automotive industry, plans to expand its engineering team in China from 800 to 1,000 members. This expansion is driven by the growing demand for innovation in the region.

[PwC](#) research affirms this. MNCs are drawn to China's market and economic growth, with 70% of participants expressing optimism about China's market potential and economic expansion.

The findings continue. Nearly [60%](#) of MNCs have strategic plans to expand their operations in China within the next 1-3 years. Among these, [91%](#) indicate that their primary objective is to enhance their market presence and expand their customer base for existing products and services. The East and South China regions are identified as priority markets for these expansions.

However, MNCs face several challenges in China, with talent recruitment and retention, policy regulations, and intellectual property (IP) protection ranking as the top concerns. [59%](#) of respondents show "recruiting and retaining talent" as the foremost challenge they encounter.

These insights show both the opportunities and the complexities that multinational corporations navigate in China's dynamic business environment.

Over the past few decades, China and multinational corporations (MNCs) have developed a mutually beneficial relationship. [Ngai 23](#) finds that from 1990 to 2019, China's real GDP grew at an average rate of nearly 10 percent per year, contributing to over a quarter of global GDP growth. The average household income rose dramatically from about \$750 to \$13,000 during this period. This economic dynamism attracted MNCs eager to tap into China's growth. He [finds](#) that at their peak, MNCs employed 16 million people and accounted for more than half of China's exports. They introduced best practices in various industries, from chemicals to cosmetics, enhancing the economy's productivity.

Today, leading Chinese companies are not just competing with MNCs but are even outpacing them in various domains. What has led to this shift? According to [Ngai 23](#), CEOs attribute this to local competitors effectively leveraging innovations like e-commerce, digital media, and big data to capture market share and create entirely new markets. In response, the most successful MNCs are quickly adapting and securing scarce talent. Those who delay risk seeing their market share dwindle.

CEOs remain optimistic about China's future despite the slowdown in economic growth. The country's GDP continues to grow faster than most other nations and from a much larger base. Since 2012, China's economic expansion has been equivalent to adding the GDP of Sweden, South Africa, and Nigeria combined. The immense size and ongoing growth of the Chinese economy continue to offer opportunities for multinational companies (MNCs). McKinsey and Company mentions that if China's economy grows by 4% to 5% over the next few years, the growth will account for more than the growth of India, Indonesia, and South Korea combined.

[KPMG](#) writes that the Chinese government is implementing the next stage of reforms, with key areas expected to see changes over the next 5-10 years. This includes accelerating infrastructure investment reforms and shared ownership reforms of State-Owned Enterprises (SOEs), which will open new strategic partnership opportunities for MNCs. The government is enhancing support from financial institutions for economic development, broadening market access, and strengthening intellectual property rights protection. These measures will drive further innovation and growth.

Chinese companies are leveraging digital media, big data, and e-commerce in ways that often surpass practices in Europe and the United States. By upending traditional business models, they are directly challenging MNCs. This reality is particularly challenging for those who still perceive developing markets as trailing the developed world.

To succeed, MNCs must be prepared to innovate more in China than elsewhere. Without this agility, they will struggle to compete with local competitors and meet the expectations of increasingly demanding customers. CEOs frequently express admiration for the speed at which agile local companies are adapting new technologies.

As cultural gaps narrow and mutual understanding grows, foreign companies are increasingly contributing to the development of China's economy. Businesses in China are clearly thriving, partly due to the presence of MNCs, which in the past have provided much-needed knowledge, technology, and talent.

MNCs are reassessing their relationships with China, with recent surveys showing a decline in the share of US MNCs considering China among their top three investment priorities—from 77 percent in 2010 to 45 percent in 2022. ([Ngai 23](#)) While many MNCs continue to invest in China, some are scaling back operations or diversifying investments into other countries, and a few are withdrawing entirely.

This reappraisal is notable despite China's vast opportunities, notes [Ngai](#). As a major global pole, China now constitutes 18 percent of the world's GDP, equivalent to the entire European Union, and second only to the United States (at 24 percent). China leads in advanced technologies like artificial intelligence, advanced connectivity, and space technology. The country's ambitious climate transition plans, requiring trillions of dollars in investments,

promise substantial business prospects for certain industries. Moreover, China is a leading producer of renewable energy products, such as solar panels and battery components for electric vehicles.

MNCs are now critically evaluating their strategies for such a situation; however, China also presents unique risks to MNCs. Escalating geopolitical tensions with the US and Europe threaten global value chains, particularly in critical sectors. China's aging population poses challenges to its labor supply. Moreover, high exposure to real estate investments and a historically high debt-to-GDP ratio of 274 percent add to economic uncertainties. ([Ngai 23](#))

The gap between high-performing and low-performing MNCs is widening. Top performers have seen accelerated revenue growth in recent years while struggling companies face sharper declines, exacerbated by pandemic-related impacts.

In essence, while China offers immense opportunities, navigating its complex prospects requires MNCs to reassess risks and align their strategies with the economic environment, government priorities in China, and geopolitical dynamics.

#### **4. Future Trends and Predictions for MNCs in China**

[Yu 24](#) writes that Corporate executives, speaking at the sidelines of the ongoing Boao Forum for Asia Annual Conference 2024, emphasized China's commitment to high-standard opening-up and innovative development, showing the vast market opportunities and expansive prospects this creates for multinational corporations (MNCs). China's strengths include its extensive market scale, industrial infrastructure, talented workforce, innovation ecosystem, and notable institutional advantages. These factors, coupled with the enduring fundamentals of China's long-term economic growth, show its attractiveness as a strategic hub for global business.

As noted in the [Harvard Business Review's analysis](#) of China's New Innovation Advantage, the country possesses a unique asset: a population that has experienced unprecedented societal changes, making a remarkable capacity for adopting and adapting to innovations. This agility enables China to lead in global innovation efforts, leveraging its unparalleled ability to innovate at scale and speed.

These insights show China's role in the global economic prospects and its position as a powerhouse for innovation and market opportunities, needed for MNCs looking to expand and thrive in dynamic global markets.

## 5. Trade Relationships and Policies

[ITA 23](#) finds that The People's Republic of China (PRC) has established bilateral investment agreements with over 100 countries and economies, including Austria, the Belgium-Luxembourg Economic Union, Canada, France, Germany, Italy, Japan, South Korea, Spain, Thailand, and the United Kingdom. These agreements encompass provisions for expropriation, arbitration, most-favored-nation treatment, and the repatriation of investment proceeds. China maintains 17 Free Trade Agreements (FTAs) with its trade and investment partners and is currently negotiating or implementing an additional eight FTAs.

[The Economist](#) writes that China's current trade policies and practices center around four main priorities: Indigenous innovation, promoting self-sufficiency, bolstering national security, and advancing market reform and openness. These priorities are evident in the government's sustained efforts to support domestic industries and its increased commitment to ensuring fair competition for foreign companies. However, as China's relations with the US and its allies worsen, national security concerns will increasingly influence economic and industrial policies, hindering market reforms.

China employs a state-driven, top-down strategy to boost its global trade competitiveness, particularly in high-tech sectors, which it considers strategic emerging industries (SEIs). This strategy includes providing financial and non-financial support to domestic industries through government-backed investment funds and industrial subsidies despite international criticism for distorting the market and disadvantaging foreign companies. For example, while China downplayed its Made in China 2025 plan during trade tensions with the US, it continues to implement it extensively under the SEI framework.

[Bin 15](#) writes that According to the Foreign Trade Law, China's primary trade policy objectives are accelerating its integration with the global economy, developing foreign trade, and promoting sustainable economic growth. To achieve these goals, the Chinese government aims to:

- Increase value-added manufacturing and ensure continuous export growth by importing energy, essential raw materials, technologies, and equipment; reforming customs and port clearance procedures as enablers.
- Utilize foreign capital to enhance industrial structure and technological capabilities, particularly by encouraging Foreign Direct Investment (FDI) in new and high-technology industries, modern services, agriculture, and in the central and western regions of China.
- Encourage qualified domestic companies to invest abroad by supporting them with more credit, insurance, and foreign exchange and strengthening guidance and coordination for enterprises investing overseas.

China is committed to achieving these trade policy objectives through a multi-track approach, including multilateralism, bilateralism, regionalism, and unilateralism.

## 6. Diplomatic and Political Influence of MNCs in China

With increasing geopolitical tensions globally, multinational corporations (MNCs) are navigating unprecedented levels of uncertainty in their operating environments. Research co-authored by [Marcelo Bucheli from the University of Illinois Urbana-Champaign](#) and [Xavier Durán from the University of the Andes in Colombia](#) explores how MNCs can influence diplomatic relations between their host and home countries by acting as diplomatic intermediaries. However, this strategy carries risks. When an MNC invests in location-specific assets in the host country and negotiates on behalf of that country, the host government may later use these assets as leverage—essentially as "hostages"—to compel the MNC to advocate on its behalf in negotiations with the MNC's home country.

Coming to Chinese MNCs, [Su 21](#) writes that due to strong ties with their home-country political systems, Chinese MNCs headquarters often hold an "insider" position that integrates economic and political interests, as noted by [Meyer et al. \(2014\)](#), [Su et al. \(2020\)](#), and [Sun et al. \(2010\)](#). This dual focus influences the resources, knowledge assets, and strategic priorities of Chinese MNC headquarters (HQs), impacting the nature, frequency, and focus of their activities (e.g., [Duanmu, 2014](#); [Luo et al., 2010](#); [Wang et al., 2012](#)). This prevalence of political ties complicates the HQs' role in overseeing foreign subsidiaries.

Recognizing the innovation gaps among Chinese firms as a concern, the Chinese government prioritizes innovation to bolster national development and competitiveness ([Sutherland and Ning, 2011](#)). The low-cost advantage for global manufacturing has largely over the past decade. With governmental backing, seeking assets through outward investments becomes a strategic endeavor for Chinese MNC HQs, particularly those with political connections. This approach aims to enhance firms' innovative capabilities and bring organizational learning, thereby boosting national innovation competitiveness ([Deng, 2009](#); [Luo and Tung, 2018](#)).

In contrast to Western MNCs, where HQs typically provide innovative capabilities to subsidiaries to create value, Chinese HQs with asset-seeking motives are more likely to receive innovative competence from their foreign subsidiaries to enhance overall MNC performance and value creation.

## 7. Primary Research Findings

### 7.1 Research Philosophy: Pragmatic Approach and Interpretivist Philosophy

The research adopts a pragmatic approach combined with an interpretive philosophy to explore the complex relationships between MNC businesses and international relations. The pragmatic approach emphasizes practical outcomes and real-world applications, focusing on how trade and international relations can pragmatically influence business strategies and operations. This approach aligns with the objective of understanding how MNCs navigate and shape their strategies in response to geopolitical prospects.

The interpretive philosophy underpins the analysis by seeking to understand the subjective experiences and perspectives of top executives of MNCs. This philosophical stance recognizes that these executives' opinions and strategies are shaped by their unique experiences, perceptions, and interactions with stakeholders in China and abroad against the backdrop of the broader geopolitical context.

### 7.2 Profile of Top Executives Interviewees for Primary Research

Primary data for this research was collected through in-depth interviews with Shanghai-based 7 top executives from various MNCs operating in China. Interviewees included Shanghai-based China/ Greater China/ Asia Pacific CEOs of two American MNCs, two European MNCs, and two Indian MNCs. All these MNCs have a large operating scale in China and are listed on stock markets in their home countries. In addition, the interview includes views from the Shanghai-based Director of a trade organization that helps member MNCs set up their businesses in China, representing opportunities and issues to the Chinese government for member MNCs and, in general, helping the businesses to successfully navigate the complexities of operating in China. To ensure there is a rich perspective, all of the selected seven interviewees are foreigners living in Shanghai and have witnessed China's high-growth period in the past. Inputs reflect, as heads of the organisations, how their own leadership and company strategy are shaped by their beliefs on dealing with the subject. It dovetails with their personal experience of living in China and professional expertise of successfully running an MNC organization in China over the years.

A brief overview of the number of years each of the executives participating in the primary research spent working in China:

- American MNCs: 12 years and eight years respectively
- European MNCs: 11 years and six years respectively

- Indian MNCs: 23 years and 14 years respectively
- Director of Trade Organisation: 7 years

In total, the research represents the collective experience of executives leading big MNCs in China for >80 years. By interpreting these subjective viewpoints, the research aims to provide a nuanced understanding of how MNCs perceive and respond to international relations dynamics. The interviews provided rich qualitative data, revealing insights into the interdependency between trade and international relations, the future trajectory of international relations involving China, market opportunities, and strategic approaches for MNCs in managing international relations.

Due to the sensitive nature of the information shared, the roles of the top CEOs, and the high profile of their respective companies operating in China, the identities of these executives remain anonymous. Convenience sampling was utilized to select the interviewees, ensuring a diverse representation of industries and perspectives.

### 7.3 Key Areas of Focus

Interviews with each leader revolved around the following key questions and clarificatory follow-up questions.

1. What do leaders think about the interdependency between trade relations and international relations between the countries?
2. What role do multinational companies and their business interests play in international relations between countries?
3. How do leaders expect international relations between other countries and China to emerge over the next five to seven years? What do leaders expect to be the implications for the MNC businesses?
4. What is the leader's view about the China market opportunity for their overall industry over the next five years? What would it be if the time horizon is over the next ten years?
5. Will influencing and managing international relations (on their own or through trade bodies) be part of MNCs' strategic approach to success in China over the next 5 to 10 years?
6. Thoughts on how MNCs could define key stakeholders and what approach they could take to put their case forward/influence stakeholders.

## 7.4 Key Findings and Discussion

***"Why, despite the global political tensions and trade wars, do the world's largest multinational corporations still view China as the safest and most promising market?"***

As the media often emphasizes risks surrounding China—whether it's ongoing trade disputes, political unrest, or strained international relations—many would be surprised to learn that top executives from American, European, and Indian multinationals with over 70 years of collective experience in China, consistently describe the country as not just a viable option but the safest place for MNCs to thrive.

In interviews with six CEOs who have steered their companies through decades of change, a strikingly different narrative emerged. *"What you don't hear enough of is how China continues to offer unparalleled stability for long-term growth,"* remarked the Asia-Pacific CEO of a major American tech firm. *"Even in times of global uncertainty, we've always been able to count on China's infrastructure, talent pool, and commitment to business."* A European manufacturing executive echoed this, stating, *"The support we get here—from both local governments and the central leadership—is unlike anywhere else in the world. For a company looking to expand, it's not just a risk we're willing to take; it's an opportunity we're eager to seize."*

This perspective is echoed by an Indian CEO who's been leading operations in Shanghai for over two decades. *"The geopolitical tensions may grab headlines, but on the ground, China is a haven for companies looking to scale up. It's a mistake to overlook the continued investment in innovation, infrastructure, and policies that make doing business here both practical and profitable."*

As these insights reveal, beneath the surface of political strife lies a reality that is rarely discussed: China is not only safe for MNCs but also an essential part of their global strategy. The question is no longer *"Is China too risky?"* but rather, *"How are MNCs capitalizing on the unique opportunities it provides?"*

### 7.4.1 Interdependency between Trade Relations and International Relations will Remain

The executives unanimously emphasized the foundational role of trade relations in establishing and strengthening international relations between countries. One executive said, "Trade Relations are the starting point and base to build international relations between two countries. The main objective is to create a common agenda that brings mutual benefits for both sides." This perspective shows that economic exchanges serve as a critical catalyst for diplomatic and political ties, reflecting mutual understanding and cooperation.

The consensus among the executives suggests that successful trade relations create a platform for dialogue and negotiation, enabling countries to address broader geopolitical issues. This interdependency is particularly major in the context of MNCs, as they operate at the intersection of economic and political spheres, influencing and being influenced by the international relations between their home and host countries.

Furthermore, executives noted that trade relations often act as a stabilizing force in international relations. By bringing economic interdependence, countries are more likely to seek peaceful resolutions to conflicts and disputes. This economic interdependence creates a vested interest in maintaining stable and amicable relations, as the disruption of trade can have negative repercussions for all parties involved. Therefore, MNCs play a major role in this dynamic by sustaining these trade relations through their operations and investments.

One executive provided a pertinent example: "A few years back, the deteriorating political relations between China and Australia led China to impose additional and prohibitive import tariffs on a number of products imported from Australia, including wine. Almost overnight, Australian wine disappeared totally from the Chinese market. The relations between these two countries have started to improve since last year, and now we see the withdrawal of those measures and Australian wine reappearing in the Chinese market." This example illustrates how political dynamics can directly impact trade relations and business operations, showing the critical need for MNCs to navigate these interdependencies strategically.

#### 7.4.2 Predicting the Future of International Relations and Its Implications for MNCs

Predicting the future trajectory of international relations, particularly involving China, was deemed challenging by the executives due to the multitude of influencing factors such as elections, political changes, and the macroeconomic environment. However, there was a general expectation that relations between China and Western countries would remain challenging in the near future. One executive noted, "Amid the global economic downturn, the competitive advantage of China in certain industrial sectors, notably electric vehicles, becomes undeniably obvious, and protectionism in Western countries will grow as a political and economic answer to the issue."

The implications for MNCs are significant, as they must navigate a complex and uncertain trading environment. The executives stressed the need for agility, adaptability, and quick response mechanisms to survive and thrive amid these uncertainties. They anticipated that MNCs would face heightened political and economic risks but also potential opportunities as economies recover and trade tensions ease over time.

Another executive elaborated on the potential impact of geopolitical shifts on supply chains. They mentioned that MNCs need to be prepared for disruptions caused by political tensions, such as tariffs, trade barriers, and changes

in regulatory environments. These disruptions could necessitate supply chain adjustment, including diversifying suppliers, increasing inventory buffers, and enhancing logistics capabilities. Therefore, MNCs must maintain a proactive approach to risk management and contingency planning to mitigate the impact of such geopolitical risks.

Some executives expressed concerns about the potential for increased scrutiny and regulatory challenges for MNCs operating in China. They showed that governments in Western countries might implement stricter regulations and oversight on companies with operations in China, particularly in sensitive sectors like technology and telecommunications. As a result, MNCs need to stay abreast of regulatory prospects and engage in effective compliance practices to avoid potential legal and reputational risks.

Executives also provided insights into China's global economic position. One executive emphasized, "China is home to 1 out of every six people globally and is one of the largest economies by any measurement. It's taken more people out of poverty in the last century than any other country in the history of humanity and is ambitious to achieve even greater achievements going forward." This perspective is part of China's critical role in the global economy and its focus on maintaining strong trading relationships with numerous countries. MNCs operating in these countries are likely to see continued opportunities for trade and growth.

#### 7.4.3 Rising Market Opportunities in China for MNCs

Executives expressed a positive outlook on the market opportunities in China over the next five to ten years. One American executive representing a major player in the beverage industry showed their long-standing presence in China, operating numerous production sites and celebrating their 40th anniversary in the country. They anticipated continued growth in consumer demand, particularly for premium and super-premium products, driven by the expanding middle-income population.

This optimistic view suggests that the Chinese market remains a vital and lucrative area for MNCs despite the geopolitical challenges. The executives believed that companies with a deep understanding of local consumer preferences and the ability to adapt to changing market dynamics would continue to find success in China.

Moreover, several executives pointed out that China's emphasis on innovation and technology presents opportunities for MNCs. They noted that the Chinese government has been actively promoting initiatives such as the Made in China 2025 plan, which aims to enhance the country's capabilities in high-tech industries. MNCs operating in sectors like artificial intelligence, renewable energy, and biotechnology can leverage these initiatives to drive growth and innovation in their respective industries.

In addition to technological advancements, executives showed the importance of sustainability and environmental considerations in the Chinese market. With increasing awareness and demand for sustainable products and practices, MNCs that prioritize sustainability in their operations and supply chains are likely to gain a competitive edge. This includes adopting green manufacturing processes, reducing carbon footprints, and engaging in corporate social responsibility initiatives that align with the values of Chinese consumers.

An executive from an American MNC summarised the market potential succinctly: "We need to observe some trends first: Ageing population, Urbanization, Rise of middle and high-class population. China's GDP will grow at mid-single digits, which still brings to the economy an additional USD 1T per year... which is massive! Companies like Pfizer are investing in China," said an executive from a European MNC. These trends show how important China is for MNCs, and this will continue.

MNC CEOs understand that operating in China requires a unique approach. Key themes coming out to grow business successfully in the interview were as follows:

- Localising China's operation remains the best strategy for protecting market share and growth.
- Localising means understanding and responding to the local competition's strengths and weaknesses, solving Chinese consumer pain points, streamlining the team to be leaner and more agile, and believing in the China team to innovate by investing in local R&D.
- Chinese competitors can provide foreign firms with lessons and even inspiration. Local firms are more innovative than ever and, in many cases, are market leaders.
- Geopolitics and regulatory changes can make or break a business and cost millions. Foreign firms that stay ahead of the changes and commit to meeting a given policy's objective can find opportunities.
- Firms developing products in China for Chinese consumers are finding that they can sell well in similar markets abroad – "China for World".

#### 7.4.4 Understanding Local Nuances is a Key

One key factor that emerged from the conversations was understanding and appreciation of local nuances within China. China is a big country, and there could be differences between various provinces, be it consumer preferences or government policies. One of the executives mentioned, "You can mention anything or talk about anything as a trend, and it could be true given the diversity in this huge country." Another executive mentioned, "I need to remind HQ time and again that running China operations is like managing a continent."

Executives emphasized the importance of policy understanding. Policy changes matter in China more than in many other markets. Understanding and preparing for policy changes can make or break a firm's prospects. Getting on board with policy goals is more beneficial than connections alone. One of the Indian MNC CEOs mentioned, "The push for common prosperity, rural revitalization, and Document 551 (mandating local content in hundreds of publicly procured goods) made sweeping changes. The earlier we understood these policies, the more we gained."

#### 7.4.5 Using Sustainability as a Competitive Advantage

Executives noted that China's focus on sustainability is not just a trend but a core aspect of its long-term development strategy. The government's commitment to achieving carbon neutrality by 2060 has spurred interest in green technologies and sustainable business practices. MNCs that align with these goals by investing in energy-efficient technologies, reducing waste, and promoting circular economy practices can not only meet regulatory requirements but also build stronger brand loyalty among consumers who are increasingly eco-conscious.

#### 7.4.6 Highlighting the Strategic Importance of China

"China is not only a huge market with a big opportunity but is leading the world in a few things now. While multiple companies talk about 'China for China' as part of de-risking against the backdrop of geopolitics, 'China for the World' is also an important thing we focus on. If you take Social Commerce and Digital Commerce, China has one of the world's most evolved and advanced ecosystems. China is similarly ahead in Instant Commerce and certain aspects of the use of Generative AI. Our China operations are quoted as the best practice for other countries to follow for things like Social Commerce," quoted one of the European MNC CEOs. It highlights the importance of China as an innovation hub and best practice for MNCs.

Summing up the market potential, another executive pointed out key trends shaping China's economic future: the aging population, urbanization, and the rise of the middle and high-class population. Despite expected GDP growth at mid-single digits, which might seem modest compared to historical levels, this growth still adds approximately USD 1 trillion to the economy each year. This massive economic expansion shows the continued importance of China for MNCs.

An executive from a European MNC argued that China's market, with its unique blend of modernization and deep-rooted cultural heritage, requires companies to adopt a nuanced approach. Those with a deep understanding of local consumer preferences, coupled with the agility to adapt to changing market dynamics, are well-positioned to succeed. The potential for growth in China is vast, but it demands a strategic focus on innovation, sustainability, and premiumization to fully capitalize on the opportunities.

As observed by a leading trade body, “No country is as complete as China in terms of its supply chain infrastructure. Chemical companies, for instance, can receive raw materials within 48 hours of order placement, thanks to an exceptionally efficient transportation and distribution system. The local companies' production capabilities and the swift, effective certification processes further enhance this. MNCs want to stay in China and ideally wish to have a bigger presence, but they are concerned about the Chinese economy, the suddenness of market closures, and geopolitical factors like war. It is important to recognize that trade and international relations are never entirely separated; it is normal for them to be related. China exemplifies this complex dynamic where economic opportunities are deeply intertwined with geopolitical considerations.”

In conclusion, while geopolitical challenges persist, the Chinese market remains an indispensable and lucrative arena for MNCs. By aligning with national priorities, investing in innovation, and adopting sustainable practices, companies can secure a competitive edge and drive long-term success in this dynamic market.

#### 7.4.7 Applying Strategic Approach for Influencing and Managing International Relations

Managing international relations effectively is seen as an important aspect of MNCs' strategic approach in China. An American executive emphasized the importance of considering a wide range of stakeholders, including consumers, customers, communities, governments, and media. Understanding and addressing the needs and perspectives of these stakeholders was viewed as essential for operating successfully in any environment.

Executives shared examples of how their companies have engaged with local stakeholders to create mutually beneficial solutions. For instance, one company collaborated with a local government and farmers to grow high-quality limes, benefiting all parties involved. This approach not only supported rural revitalization efforts but also satisfied consumer demand and increased local tax revenues. One other executive mentioned building a community center for a village near the factory only to ensure they respect the request from the local government officials.

Such strategies show the importance of MNCs being proactive and collaborative in their stakeholder engagement. By doing so, they can build strong relationships and contribute positively to the local communities and economies in which they operate.

Furthermore, the executives discussed the role of trade bodies and industry associations in influencing international relations. These organizations can serve as valuable platforms for MNCs to collectively address common challenges, advocate for favorable policies, and make dialogue between governments and the private sector. By actively participating in these trade bodies, MNCs can amplify their voices and contribute to shaping the regulatory and policy environment in ways that support their strategic objectives.

Another key aspect of managing international relations, as mentioned by executives, is the importance of transparency and ethical conduct. MNCs operating in China need to demonstrate a commitment to ethical business practices, including anti-corruption measures, fair labor practices, and respect for human rights. By upholding high standards of integrity and transparency, MNCs can build trust with local stakeholders and enhance their reputation, which is important for long-term success in the market.

Some executives emphasized the need for continuous monitoring and analysis of geopolitical developments. They recommended that MNCs establish dedicated teams or departments focused on geopolitical risk assessment and management. These teams can track political and economic trends, assess potential risks and opportunities, and develop strategies to mitigate adverse impacts on the business. By staying informed and prepared, MNCs can navigate the complexities of international relations more effectively and make informed strategic decisions.

One executive articulated the strategic importance of managing bilateral relations: "MNCs, if they want to be successful in China, must incorporate management of bilateral relations as part of their business strategy in the next ten years and beyond. This should involve building relations and engaging with different layers of relevant ministries within the Chinese government. This can be done by MNCs themselves or through trade bodies and industrial associations, depending on the topics and purposes."

Engaging with trade bodies and industry associations was also emphasized as a strategic approach. These organizations can help MNCs navigate complex regulatory environments, advocate for favorable policies, and enhance collaboration with key stakeholders. Executives showed the importance of lobbying efforts in their home countries to engage with their own governments, diplomatic representations, and international organizations such as the European Commission.

## 7.5 Comparative Analysis and Concluding Statement:

One of the key purposes of selecting two CEOs each from US, European, and Indian MNCs was to explore, analyze, and understand if the expectations around opportunities and risks are perceived differently based on the home country of the MNCs. There is a consistent message from all the interviewed senior stakeholders on the high importance of China for their respective companies, industries, and the global economy as a whole. As one of the executives quoted, "The only other market that can come close to China in terms of opportunity and importance is China," emphasizing the irreplaceable opportunity the market offers. At the same time, there were nuances in the overall outlook of China, according to region.

### 7.5.1 Perspective of European MNC CEOs

European executives approach the Chinese market with a mix of strategic caution and a strong focus on sustainability. They recognize China's vast market opportunities, particularly in sectors like luxury goods, automotive, and technology. However, their optimism is tempered by concerns over regulatory unpredictability, economic slowdowns, and potential market closures due to geopolitical tensions.

Sustainability is a key theme for European MNCs. They see China's growing consumer demand for sustainable products and the Chinese government's focus on sustainability as an opportunity to differentiate themselves. These executives are keen on aligning their operations with global sustainability standards, even as they adapt to China's specific environmental regulations. This commitment not only enhances their brand reputation but also positions them favorably among a consumer base that is becoming increasingly conscious of environmental issues. Traditionally, European luxury brands have commanded huge premiums in the Chinese market. Overall, European MNCs saw an opportunity to play to their brand strength, integrating it with sustainability, wherein multiple brands play in luxury and premium segments in various industries.

On the other hand, geopolitical tensions were at the front and center of their thinking. European executives see low consumer sentiments in China and the consequent impact on the businesses as more of a temporary phenomenon, but they are more concerned about the potential impact of tax and regulatory changes as a result of geopolitical tensions. One of the executives mentioned gave an example of the EU potentially imposing anti-dumping duties on Electrical Vehicles from China in Q4 of 2024 and China's anti-dumping investigation in dairy, pork, and spirits from the EU, which was initiated earlier during 2024. There was a concern that this could further strain business interests and international relations between China and the EU.

### 7.5.2 Perspective of Indian MNC CEOs

Indian executives are particularly enthusiastic about China's growth potential, especially in sectors like pharmaceuticals, IT, and consumer goods. Given its large population and rising middle class, they view China as a critical market for expansion. Indian MNCs are eager to leverage China's advanced manufacturing capabilities and vast consumer base to scale their operations and increase market share. They also see China as a big opportunity to source machines, etc., for their operations in India.

One theme that emerged differently for Indian executives than for other regional executives was the emphasis on cultural understanding and the significant importance it holds to successfully operate and grow in China. Indian executives stress the importance of adaptability in the Chinese market. They acknowledge the challenges of cultural differences, regulatory complexities, and the need to build strong local partnerships. For them, success in

China hinges on a deep understanding of local consumer behavior, regulatory framework, the importance of the Chinese government's key priorities, and the ability of businesses to swiftly adapt to changing market conditions. Success in China relies on being nimble, allowing them to quickly pivot strategies in response to changing market conditions and consumer trends. This adaptability often involves leveraging local talent and expertise to navigate the nuances of the Chinese business landscape effectively. One of the executives mentioned they had a bumpy ride in the initial years and had to invest significant time in explaining nuances of how operating in China differed from operating in India, although both could be termed as “glorious ancient civilizations which are rapidly growing developing markets in the present.” However, those nuances are increasingly well understood and much respected by their headquarters in India.

On the other hand, Indian executives are cognizant of the relatively strained international relations between China and India after the 2020 border incident between the two countries' armies. One of the executives mentioned that there are no direct flights between China and India post-Covid led travel restrictions were relaxed, and this potentially was the only exception for the two big economies. Separately, there was a mention of the lack of a strong association of Indian MNCs in China, unlike the US and EU, which could help them resolve some of the routine issues faced by the businesses. The other executive mentioned the difficulties in obtaining an India visa for their Chinese employees. Visa issues are having a significant impact on their business as some of the machines the Indian businesses are sourcing from China are not able to have Chinese technicians on the ground to install the machines. Their repetitive pleas to the Indian embassy and consulate helped them to secure a few concessions but still didn't help them find any significant breakthroughs. From all executive interviews, this came out as one of the very specific and key examples of how international relations could impact businesses.

### 7.5.3 Perspective of American MNC CEOs

American executives express a blend of enthusiasm and caution regarding their operations in China. It was also apparent that American businesses were far ahead compared to European and Indian businesses incorporating ‘de-risking’ as part of their business strategy.

Executives recognize the immense opportunities in sectors such as technology, consumer electronics, and finance. The sheer scale of the Chinese market makes it an attractive destination for investment and growth. Both American enterprises had one thing in common: they didn't exclusively rely on their global brands to grow in China. The enterprises had a big part of the business coming from the locally acquired portfolio, and that was called out in the conversations as something that was important not only for scale but also for delivering innovation at pace. The executives called out “China Speed” as an important factor for them to win big in China

and that their global headquarters quote examples from their business in are using their China as best practice on agility.

On the other hand, American MNCs are particularly concerned about geopolitical risks, including trade tensions and the potential for sudden market disruptions. These executives are focused on risk management strategies, such as diversifying their supply chains and reducing dependency on China. They also show the importance of aligning with U.S. regulatory expectations while navigating the complexities of the Chinese market. This regulatory alignment is not merely a legal obligation but also a means to build trust and credibility with stakeholders in both countries.

#### 7.5.4 Concluding Statement

Across all regions, there is a unified recognition of China's importance in the global economy. Executives from China, Europe, India, and the United States all acknowledge that despite the challenges, the Chinese market remains indispensable for MNCs seeking growth and innovation. None of the executives talked about reducing the investments in China. However, in summary, their approaches vary as follows:

- European executives prioritize sustainability and cautious expansion, emphasizing a strategic and responsible approach.
- Indian executives focus on leveraging growth potential and demonstrating adaptability to the local market.
- American executives are driven by the need to balance opportunity with geopolitical risk, ensuring resilience in their operations.

The primary data findings from the interviews with top executives at various MNCs operating in China provide valuable insights into the interdependency between trade relations and international relations, the future trajectory of international relations, market opportunities, and strategic approaches for managing international relations. These insights show the critical role that MNCs play in shaping and responding to geopolitical dynamics, showing the need for agility, adaptability, and proactive engagement with a wide range of stakeholders. As MNCs navigate the complexities of the global business environment, their ability to manage international relations effectively will be key to their long-term success and sustainability in China and beyond.

## 8. Conclusion

### 8.1 Overall Summary

The research shows several critical insights into the perspectives of MNC executives regarding the Chinese market. Despite facing geopolitical challenges and economic uncertainties, there is a unanimous recognition among executives from various regions that China remains a market with immense potential. One of the advantages identified is China's unparalleled supply chain infrastructure (“ecosystem”), which enables efficient operations. Executives, particularly those in the manufacturing, chemical, and consumer goods sectors, showed the speed at which raw materials are processed and the effectiveness of China's distribution system. This logistical efficiency is seen as a component of maintaining competitiveness in the global marketplace.

However, alongside this optimism, there are notable concerns about the volatility of the Chinese economy and the unpredictability of market closures, exacerbated by geopolitical tensions. International relations and trade/business interests have a high level of interdependence. Influencing international relations for business stability and growth comes out to be one of the key strategic priorities for businesses. American and European executives, in particular, are approaching the Chinese market with caution, striving to balance their growth ambitions with strategies that mitigate risks associated with potential trade disruptions. At the same time, the importance of ‘localizing China businesses’ has come out to be a key theme from executives. The increasing demand for environmentally friendly products and practices in China presents a unique opportunity for MNCs to differentiate themselves. Furthermore, China’s strong emphasis on innovation, supported by government initiatives such as the Made in China 2025 plan, is viewed as an area for growth, particularly in high-tech industries like artificial intelligence, renewable energy, and biotechnology.

### 8.2 Recommendations for Businesses

In light of these findings, businesses aiming to succeed in the Chinese market should adopt a strategic approach that capitalizes on these insights. Localizing MNCs' businesses is critical to sustaining and capitalizing on opportunities presented by the market. One step MNCs can take is to leverage China's highly efficient supply chain, technological advancements, and well-developed ecosystem for manufacturing and logistics infrastructure. By fully integrating local production capabilities and ensuring good turnaround times, companies can optimize

their operations, which is especially important for sectors where speed and efficiency are key to maintaining market leadership.

At the same time, it is essential for businesses to develop risk management strategies to navigate the economic and geopolitical uncertainties present in the Chinese market. This involves diversifying supply chains, creating contingency plans for potential market disruptions, and maintaining operational flexibility. Companies are increasingly talking about multiple strategies for de-risking, including “China for China” and “China plus one.” Companies must also stay informed about the geopolitical prospects and be prepared to adapt their strategies as necessary. Furthermore, prioritising sustainability and innovation is needed to remain competitive in China. Businesses should align their operations with the growing consumer demand for sustainable products by adopting green manufacturing practices, reducing carbon footprints, and engaging in corporate social responsibility initiatives that resonate with Chinese consumers. A deep understanding of the Chinese government’s priorities and policies is critical to business success. Investing in innovation, particularly in areas where China is making advancements, such as technology and renewable energy, will also be essential for driving long-term growth. Managing and influencing international relations should be a strategic priority to sustain and grow in China.

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