Section a: State of the art and objectives

The global economic regime is experiencing a period of intensifying economic nationalism and the geopoliticization of trade and investment policies (Frieden 2018; Meunier & Nicolaidis 2019; Schmitz & Seidl 2023). These developments have motivated many scholars to examine the causes and consequences of the ongoing upsurge in protectionist–nationalist policy initiatives, the growing public antipathy towards global economic integration, and the geopolitical tensions that pose fundamental challenges to the global trade order that was the legacy of the postwar twentieth century (e.g. Colantone & Stanig 2018a; Frieden 2018; Barone & Kreuter 2019; Norris & Inglehart 2019; Broz et al. 2021; Mansfield et al. 2021; Walter 2021; Dippel et al. 2022). The geographical contraction of value chains in the wake of COVID-19 has only accelerated this shift to a more fragmented global economic order, characterized by unilateral policy instruments that aim to revitalize domestic production and protect national economic interests from foreign competition (Rickard 2022; Elsig 2023). German state aid, as part of its National Pharmaceutical Strategy, Italian tax breaks under its agro-industrial supply chain initiative, the so-called "autonomous and assertive" trade policy of the European Union (EU) and various tools to reinforce its "economic security" are examples of this trend (European Commission 2024a).

Firms are at the center of these developments. A key dimension of the ongoing geopolitical shift in trade and investment policy involves the ongoing pressure on firms to "de-risk" from China. This pressure consists of incentivizing the ***relocation of production***, either through reshoring – bringing operations back to the firm's home or through friendshoring – relocating production to an ally. The primary aim of these efforts is to counterbalance China's growing dominance in supply chains (Baldwin and Freeman 2022). In doing so, the aim is to mitigate threats of weaponized trade interdependencies (Poutala et al. 2022), to strengthen domestic manufacturing capacity, and to address the public backlash against economic globalization (Dür et al. 2024). Firms thus find themselves navigating a landscape in which their operations are increasingly influenced by geopolitical tensions, responding to policy initiatives affecting their manufacturing operations, and addressing public sentiment (Ballor & Yildirim 2020; Curran & Eckhardt 2020; Gereffi 2020).

Research in the fields of International Relations (IR) and International Political Economy (IPE) highlights the factors contributing to the continuing rise of economic nationalism, particularly in the face of China's growing geopolitical influence (Helleiner & Pickel 2004; Rodrik 2023; Dür et al. 2024), the popular backlash against the economic losses arising from offshoring and import competition from China (Autor et al. 2016; Colantone & Stanig 2018b), and the growing concerns over non-trade issues such as labor rights and human rights in manufacturing (Yildirim et al. 2021; Hoekman et al. 2023). What we do not yet know is how exactly such political factors influence firms' relocation decisions. Under what conditions are firms more likely to relocate their production? If they relocate, where do they relocate and why? The proposed project, RESHORE*,* aims to answer these questions by focusing on the ***political drivers*** of firms' relocation decisions. It will provide an analysis of manufacturing firms across Europe (i.e., in the member states of the EU and the European Free Trade Association (EFTA)) regarding their decisions to relocate production away from China.

From a theoretical standpoint, the existing work overwhelmingly highlights the purely *economic* factors behind reshoring and friendshoring, emphasizing cost of labor, automation, cost of logistics, cost of sourcing, and quality standards considerations (Martinez & Merino 2014; Ancarani et al. 2015; Fratocchi et al. 2016; Assche & Gangnes 2019). The overarching narrative is that the drivers of firms' relocation are based on changes in the

economic rationale for their earlier offshoring decisions (Kinkel 2012; Ancarani et al. 2015). Nevertheless, numerous European firms explicitly state that political factors are at the forefront of their reshoring decisions (Eurofound 2018; Pennacchio 2023). *Political* drivers of production relocation refer to factors that indirectly influence firms' economic performance. While purely economic factors have a direct and straightforward calculation in a firms' economic performance, geopolitical tensions, risks of non-compliance, and reputational concerns are less straightforward to quantify and difficult to incorporate into a balance sheet, yet still affect a firm's economic strategy. While studies acknowledge the critical role of geopolitics and call for a broader understanding of firms' decisions (Arik 2013; Barbieri et al. 2020; Gereffi 2020; Strange 2020), the political drivers of production relocation remain understudied and undertheorized. This is especially interesting given the increasing number of European firms that have already begun to relocate their manufacturing operations or are planning to do so (European Parliament 2021).

Empirically, firm-centric studies in IPE have so far focused on firms' productivity and gains from trade liberalization (Melitz 2003; Baccini et al. 2018; Osgood 2018), lobbying behavior (Kim 2017; Kim & Osgood 2019), and responses to foreign policies (Kim & Milner 2019), without providing a detailed empirical assessment of the factors that might affect relocation decisions. At the same time, scholarship in economics and international business has more recently focused exclusively on the phenomenon of reshoring (Barbieri et al. 2018; Pedroletti & Ciabuschi 2023), concentrating on the strategic decisions of European and American firms, especially in the wake of COVID-19 (Barbieri et al. 2020; Gereffi 2020; Stapleton & Webb 2020; EBRD 2022; Kitzmüller et al. 2022; Attinasi et al. 2023). Methodologically, they almost exclusively rely on case studies and small-n comparative designs (Bailey & De Propris 2014; Gray et al. 2017; Pegoraro et al. 2020, 2021). As a result, a comprehensive systematic analysis of the considerations that motivate firms to relocate their production operations is lacking.

To address these theoretical and empirical gaps, I propose a novel conceptualization of the political economy of relocation by bringing the *political drivers* of firms' decisions to the forefront of the discussion. This includes highlighting the implications of the geopoliticization of trade policy making, the policy initiatives affecting relocation, and the popular backlash against globalization. Geopolitical tensions expose firms to heightened political risks through trade conflicts and retaliatory measures. Concurrently, policy initiatives across Europe both directly and indirectly influence firms' decisions. Some policies grant incentives, such as subsidies, while others initiate regulatory requirements, such as due diligence requirements, that indirectly impose pressure on firms to reassess their offshore ventures. These developments take place against the backdrop of public discontent over open trade policies that expose firms to increased reputational risks of operating in previously offshored locations – *in casu*, China. Taken together, these developments highlight the interplay of political factors as critical determinants of firms' relocation decisions and call for a systematic investigation of their effects.

By highlighting the key role of political drivers, my project will provide social scientists and practitioners with a better understanding of firms' decisions – both as a diagnosis of current firm behavior and as a yardstick for future trade and investment policy. RESHORE will accomplish this goal through four specific objectives corresponding to four work packages (WPs):

1. *To develop a theory of the political drivers of firms' relocation of production* (WP1): I will develop a novel theoretical framework that moves beyond purely economic factors and focuses on the political drivers of production relocation.

2. *To map and understand firms' relocation decisions with observational data* (WP2): I will create the first comprehensive dataset of European firms' investment and ownership positions in China over a 20-year period and conduct a large-n examination of the drivers of firms' decisions to pull away from China.
3. *To understand and explain firms' relocation decisions with experimental data* (WP3): I will analyze the motivations of European firms for reshoring and friendshoring, with a firm-level survey and a conjoint experiment.
4. *To synthesize the findings and provide a comprehensive framework of firms' relocation decisions* (WP4): I will integrate the findings from the other three work packages, refine the overarching theoretical framework with empirical case studies, and provide policy recommendations.

Section b. Methodology

WP 1: Developing a theory of firms' relocation of production
Objective: To develop a theoretical framework for the implications of political drivers of reshoring and friendshoring, moving beyond purely economic factors. **Methods**: Building on existing literature on economic nationalism, trade governance, and firm-level decision-making.

WP1 will develop a novel theory of relocating production by focusing on the political drivers of firms' decisions. Heightened geopolitical tensions, policy initiatives that incentivize relocation, and public sentiment against globalization demand a fresh understanding of firms' motivations regarding their assessment of offshore ventures that goes beyond purely economic considerations. I thus propose to theoretically shift the focus towards political factors and to integrate economic considerations (i.e. cost of labor and sourcing; automation capacity, decline in quality; logistic challenges, cf., Krenz et al. 2021; Pinheiro et al. 2023 Ancarani et al. 2015; Fratocchi et al. 2016) into the empirical analyses, see Work Packages 2 and 3. This will allow the project to assess the relative weight attributed by firms to different drivers of relocation, and the extent to which economic considerations outweigh – or interact with – political drivers.

Three interconnected factors constitute the backbone of the theoretical framework that shapes firms' relocation decisions from a political perspective. They originate at the global, the (supra)national, and the individual levels. From a global, systemic, perspective, firms now find themselves in the center of a global economic order marked by the ***geopoliticization of trade and investment policy making.*** Starting from the zealously protectionist trade policies of the first United States administration under President Trump, geopolitical tensions have disproportionately escalated, amplifying trade policy uncertainty and fueling conflicts between major global powers (Fajgelbaum & Khandelwal 2022; Campos et al. 2023; Meunier & Nicolaidis 2019; Freudlsperger & Meunier 2024). These tensions manifest in escalating trade disputes and retaliatory actions that place firms and sectors in the crossfire. The EU's recently introduced tariffs on Chinese electric vehicles that have triggered trade frictions, or China's swift export ban on gallium and germanium in response to Dutch microchip export controls in 2023 are prime examples. The growing frequency of such retaliation and escalation reflect the broader capacities of both Chinese and European authorities to regulate and exert pressure for geopolitical ends. China's 'Unreliable Entity List' and 'Anti-Foreign Sanctions Law' allow for punitive actions against firms deemed non-compliant or hostile. Similarly, Europe's investment screening mechanism and the Anti-Coercion Instrument demonstrate both the

capacity and willingness to counter external economic pressures (Bauerle Danzman & Meunier 2024). Moreover, intellectual property rights violations and currency re(de)valuations have also become commonly used tools within trade conflicts, adding complexity to firms' strategic decision-making in the global marketplace.

At the (supra)national level, firms now face various ***policy initiatives*** that incentivize reshoring and influence their manufacturing operations. A new "refashioned" European industrial policy (European Commission 2020; McNamara 2023) has relied extensively on interventionist policies to revitalize domestic production; billions of euros are currently being offered in financial support across Europe through Next Generation EU, with incentives for a range of projects from the production of semiconductor lenses in Bavaria to the manufacture of electric vehicle batteries in Croatia, or the establishment of a hydrogen laboratory in Sicily. These initiatives are part of a broader policy framework that includes subsidies and incentives provided under the EU Chips Act, Critical Raw Materials Act, or national initiatives such as German and Italian tax breaks (European Commission 2023, 2024b). In parallel, both governments across Europe and the supranational EU institutions have become more concerned with non-trade issues linked to manufacturing: environmental sustainability, labor standards, and human rights (Hoekman et al. 2023; Lechner & Yildirim 2023). Such policies, which target trade and supply chains, are reflected in instruments to require due diligence or the auditing of manufacturing operations. Swiss, German, and Dutch environmental, social, and corporate governance due diligence requirements and the EU's Ecodesign for Sustainable Products Regulation are examples of this trend.

At the individual level, finally, firms operate against the backdrop of a persistent ***backlash against globalization***, defined as widespread popular discontent with the perceived negative externalities of economic globalization. The existing research indicates that those who perceive themselves as having been left behind by the economic effects of globalization in a city or a region embrace economic nationalism and self-sufficiency (Autor et al. 2016; Colantone & Stanig 2018b). Import penetration, especially the "China shock", has been shown to cause growing antipathy towards foreign-made products, creating a country-of-origin "made in" effect, which implies that brands' reputations tend to suffer more from a "made in China" label. Moreover, public antipathy towards globalization reflects the potential reputational costs faced by firms regarding their manufacturing and supply chain operations. Potential human rights violations in production plants, such as those reported in the Xinjiang region of China (against the Uyghur population), highlight a growing public demand for firms to reconsider their production priorities.

Bringing these insights together, I propose an overarching theoretical framework of production relocation that links geopoliticization, policy initiatives, and the backlash against globalization. I argue that these three pivotal factors can be combined from the perspective of a firm. Operating amidst geopolitical tensions, firms are exposed to retaliatory countermeasures and fuelling uncertainty, increasing their exposure to political risks. In the face of policies facilitating reshoring, firms can leverage incentives and thus claim higher rewards for bringing production back to their home countries. Initiatives that are concerned with non-trade issues expose firms to the risk of non-compliance with regulatory requirements. Lastly, considering the persistent backlash against globalization, firms also face a higher reputational cost if they continue operations in China. Instead, they can return to their home countries as champions of the local economy.

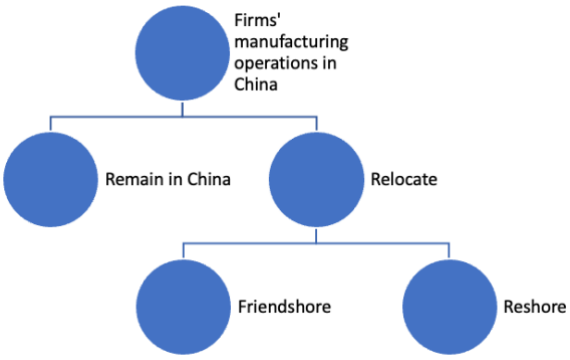
In what way do the political drivers influence firms' relocation decisions—whether to reshore back to Europe or friendshore to an ally? The interplay of the underlying political factors is key in shaping firms' strategies

and unfolds in two steps. First, firms make an initial decision to ***divest from China***. A divesting decision is more likely if the geopolitical tensions become more severe *and* the risks of non-compliance with regulatory requirements (e.g., in respect of labor rights violations) become more prevalent. Geopolitical tensions create political risks (unforeseen changes in the political environment that affect a firm's production operation) (Robock 1971; Charpin 2022). These political risks may include the escalation of trade tariffs and the creation of barriers, such as export curbs, that harm trade and create significant risks for firms remaining in China. Importantly, however, greater political risks prompt the need to *divest*; they do not predict whether divestment will lead to friendshoring or reshoring. Similarly, risks of non-compliance with regulatory requirements associated with firms' adherence to fair labor practices or use of environmentally sustainable products only explain the perceived need to divest and to relocate. Such concerns incentivize disengagement from China, as firms can minimize the non-compliance risks by relocating their production. They do not, however, explain why firms move towards the home economy or that of an ally.

Second, what explains a firm's decision to either reshore or friendshore is driven by the manifestation of policy incentives and the popular backlash against economic globalization. Specifically, ***reshoring*** is more likely to emerge as an attractive path for firms that are influenced by strong domestic policy support and perceive a popular backlash against globalization. Firms that can capitalize on policy incentives, especially subsidies and tax breaks, are more likely to consider coming back home, while those unable to take advantage of domestic policies will be less likely to do so. Similarly, a globalization backlash emphasizes public antipathy towards "foreign" products (Elsig 2023; Dür et al. 2024). This means that the intensity of the backlash against globalization in a firm's home country or region can increase the reputational costs of continuing to manufacture outside. This suggests, in contrast, that ***friendshoring*** can be a strategic move for firms that are unable to capitalize on policy incentives and are less concerned with the popular backlash in their home countries and regions. A relatively lower antipathy towards foreign-made products is likely to have a lesser push for firms to reshore, and by friendshoring a firm can mitigate the political risks while capitalizing on the economic advantages in a less risky environment.

This dual-step analytical approach recognizes the complex framework within which firms operate and provides a richer understanding of the modern dynamics of production relocation. At this stage, I formulate preliminary working hypotheses about the implications of the three selected political factors on firms' relocation decisions. While Hypothesis 1 concerns the first analytical step about a firm's decision to relocate or not, Hypotheses 2 and 3 zoom in on a firm's decision about where to relocate production. I outline firms' relocation options in Figure 1 and propose working hypotheses on both steps of this dynamic in Box 1 below.

Figure 1: Decision tree of firms' relocation



Box 1: Working hypotheses on firms' relocation decisions

H1: Firms that face high(er) geopolitical tensions and high(er) risks of non-compliance with regulatory requirements are more likely to opt for disengagement from China.

H2: When firms consider disengaging from China, those that face policy incentives and a high(er) globalization backlash prefer reshoring.

H3: When firms consider disengaging from China, those that face no policy incentives and a low(er) globalization backlash prefer friendshoring.

WP2: Mapping and understanding firms' relocation decisions with observational data
Objective: To map and analyze European firms' divestment from China using observational data. **Methods**: Collecting firm-level data from ORBIS with a focus on divestment patterns, coding the variables to capture the political drivers of firms' behavior, and conducting a fixed-effects regression analysis.

Drawing on the theoretical framework developed in WP1, the empirical part of the project will start with WP2 and an analysis of firms' initial decisions to pull away from China. My team and I will start by creating a novel firm-level "*China Position*" dataset that tracks ***European firms' ownership positions in China*** over a 20-year period, starting in 2008 and extending to 2030 (end of the project). The main added value of the dataset is to provide a quantitative (recent) historical perspective on firms' ownership patterns – that is, the extent to which European firms own enterprises in China between the years of observation. Such information is key to establishing a ***population of European firms'*** Chinese operations and capturing firms' first ***decision to divest,*** thus testing the validity of Hypothesis 1.

The dataset will track the historical ownership of firms over two decades, providing a broad view of investment/divestment patterns and shifts in European firms' engagement with China over time, and will cover the Great Recession and the aftermath of the COVID-19 shock. The feasibility of the dataset has been established and a baseline sample has already been introduced (Yildirim 2024) with approximately 16,000 manufacturing firms from up to twenty EU/EFTA countries identified, including firms that have pulled away and those that continue their manufacturing operations. The raw data comes from Bureau van Dijk's ORBIS dataset (Kalemli-Ozcan et al. 2017) that has information for over a million European firms and their subsidiaries across the world.

The first step will thus be to code each of these firms' subsidiaries in China, over time. The ownership data will be reshaped to capture each firm's subsidiary (and the level of its ownership, in percentage terms) for each year between 2008 and 2030. The dataset will also include additional economic and political variables, coded at the firm, sector, and country level, to analyze the interaction of political and economic factors that can explain firms' ownership patterns. At the firm level, each firm's country and regional (NUTS2) registration, number of employees, revenue, and sector of operation will be coded. At the sector level, the cost of labor, unit transport cost, automation capacity, and vulnerability (i.e., appearance of the sector in the EU's list of vulnerable sectors), and trade-harmful interventions between EU/EFTA members and China will be coded (Evenett and Fritz 2022). Lastly, at the country level, incentives provided by national and supranational institutions (WP2), bilateral trade disputes and trade concerns reported to the World Trade Organization (WTO), and public sentiment against economic globalization will be coded. These variables and the sources from which the data will be collected are outlined below in Table 1. The bulk of the coding for the dataset will be conducted by the PhD researchers and the research assistants, and I will take a coordinating role. I have previously gained significant experience in constructing a dataset based on EU and national member state legislation, WTO disputes, and trade-harmful barriers (Yildirim et al. 2018a 2018b; Yildirim 2017; Yildirim 2020), used firm-level data from ORBIS (Baccini et al. 2022), and already coded a pilot sample of European enterprises' ownership data from ORBIS (Yildirim *forthcoming*).

Table 1: Outline of variables and data sources for the China Position dataset

Firm-level	Parent firms' subsidiaries (ownership of other enterprises), country & NUTS2 (region) of registration, number of employees (size), revenue, sector of operation (all from ORBIS)
Sector-level	Cost of labor (International Labor Organization), cost of transport (OECD), automation capacity (Stanford AI Index), vulnerability (presence on the EU vulnerable sector list), trade-harmful policy interventions (Global Trade Alert)
Country-level	Number of WTO disputes and trade concerns (WTO), backlash against economic globalization (public opinion surveys)

The three political drivers of relocation (geopoliticization, policy initiatives, and globalization backlash) will be operationalized as follows. ***Geopoliticization*** will be captured by coding "geopolitical" trade barriers between a firm's region (e.g., EU) or country and China. Following the coding strategy by Andreas Dür (2024), me and my team will identify geopolitical barriers by screening each trade-harmful intervention reported by Global Trade Alert (GTA) from 2008 to 2030 for explicit references to foreign policy or national security. The frequency of such barriers will be aggregated at the country-sector-year level, creating a count variable that reflects the intensity of geopoliticization for a given sector in a given year. In addition, the number of WTO disputes between EU/EFTA members and China and the number of trade concerns reported to the WTO each year will be used as alternative measures – the possibility of linking disputes and concerns to targeted sectors that firms operate in will also be explored (as previously done in Yildirim 2018a).

Relocation related ***policy initiatives*** will be coded using dummy variables indicating the presence of an incentive or a regulatory requirement that have implications for relocation. With support of the PhD candidates and a research assistant, we will collect existing and newly implemented relevant policies across EU/EFTA countries, at both the supranational and the national levels, and categorize them in order to better understand the policy landscape related to reshoring and friendshoring. First, instruments that incentivize reshoring (e.g. subsidies and tax breaks) will be coded. Second, alongside financial incentives, regulatory requirements on non-trade issues will be separately coded. Unlike direct financial incentives, these impose requirements on firms and may induce relocation because of the non-compliance risks associated with environmental, social, and governance standards or other due diligence requirements. We will also provide details on the maker of the policy – either the EU or the national government. The dataset will build on WP2 and Yildirim (2024), using the Global Trade Alert data, which includes trade and investment-relevant policies enacted by EU/EFTA members. The European Union's Chips Act, Germany's planned initiatives to incentivize companies to pull out of China (Die Bundesregierung 2023), Spain's state aid for domestic production (PERTE 2023), and Italian tax credits for companies that return to Italy (Italian Trade and Investment Agency 2023) are examples of policies that will be coded.

The ***backlash against globalization*** will be operationalized through two alternative measures: public opinion on globalization and the level of growth in Chinese import penetration in the firm's NUTS2 region. Building on a large and growing survey-based IPE literature that sheds light on attitudes towards globalization (Norris & Inglehart 2019; Mansfield et al. 2016; Mansfield & Mutz 2016; Margalit 2012, 2013) and support for offshoring and outsourcing (Mansfield & Mutz 2013; Guisinger 2017), globalization backlash will first be captured as the level of anti-globalization sentiment at the country, or if available, region (NUTS2) level. Considering how firms prioritize

their reputation and shift their operations based on their perception of the public's concerns (Moretto et al. 2020; Grappi et al. 2018), whether or not there is high(er) anti-globalization sentiment in a firm's home region will be key. The raw data will be collected from various waves of the Eurobarometer survey, the European Social Survey, and the World Values Survey, with alternative measures being coded separately. Second, we will code for the level of growth in Chinese import penetration in a firm's NUTS2 region. This approach is based on the premise that firms located in regions with higher exposure to the "China shock" may face increased public antipathy towards economic globalization – and offshoring to China. As demonstrated by Colantone and Stanig (2018a), regions experiencing a significant growth in import penetration often see a rise in anti-globalization sentiment among their populations. Consequently, firms in these areas may be more acutely aware of, and responsive to, the local backlash against globalization, potentially influencing their likelihood of pulling away from China. The dataset will also include contact details of the firms, which will be utilized in Work Package 3. Figure 2 below provides an illustration of the dataset structure (example unit: manufacturing firm Daimler AG, 2008-2016).

Figure 2: Basic structure of the China Position dataset

year	eur firm	country	sector	NUTS3	partner firm	owner	parent size	parent revenue	partner size	partner revenue	labor cost	autom ation	transpor t cost (unit)	vulner able	# of geopolitcal intervention	relocation incentive	regulatory require	WTO trade concern	WTO trade dispute	import exposure	WVS anti global (NUTS1)	EB anti global (NUTS2)
2008	Daimler AG	DEU	2910	914	Beijing Benz	100	301000	902000	13600	3100	101	2	1,55	0	4	0	1	1	0	102	22	29
2009	Daimler AG	DEU	2910	914	Beijing Benz	100	302000	932000	13800	3100	101	2	1,55	0	4	0	1	1	0	102	23	28
2010	Daimler AG	DEU	2910	914	Beijing Benz	100	298000	934000	15100	4000	101	2	1,60	0	4	0	1	1	0	103	25	28
2011	Daimler AG	DEU	2910	914	Beijing Benz	100	301000	890000	15100	4200	100	3	1,60	0	4	0	1	1	0	109	25	31
2012	Daimler AG	DEU	2910	914	Beijing Benz	80	290000	913000	15200	3800	102	3	1,60	0	5	0	1	1	0	109	24	31
2013	Daimler AG	DEU	2910	914	Beijing Benz	80	291000	901000	15200	4500	102	3	1,70	0	5	0	1	1	0	110	25	33
2014	Daimler AG	DEU	2910	914	Beijing Benz	20	285000	889000	15250	4900	102	3	1,70	0	5	1	1	1	0	110	25	33
2015	Daimler AG	DEU	2910	914	Beijing Benz	20	285000	911000	14900	4900	104	3	1,70	0	5	1	1	1	0	110	25	32
2016	Daimler AG	DEU	2910	914	Beijing Benz	10	284000	912000	14900	5200	106	3	1,75	0	6	1	1	1	0	110	25	34

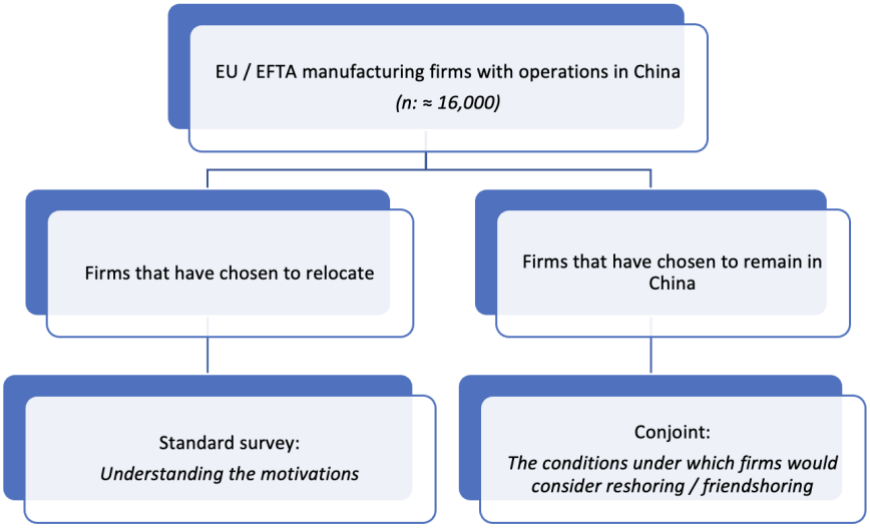
To analyze changes in European firms' disengagement from China, the project will employ ordinary least squares regression with three way fixed effects – following a list of scholarly works on international political economy and firm-level analysis (e.g., Jensen et al. 2015; Lee and Osgood 2022; Lee and Liou 2022; Baccini et al. 2024). The continuous outcome variable will be the ownership percentage held by a European firm in a Chinese enterprise for a given year, providing a view of firm-level decisions over time. Fixed effects will be incorporated at the country, sector, and year levels to control for unobserved factors specific to these dimensions, ensuring that the results are not biased by time-invariant characteristics. Control variables such as labor costs in China, automation capacity of the sector, transportation costs, and a dummy for inclusion in the EU's "vulnerable sector list", in addition to firm-level attributes, such as size and revenue, will be included in the model as well. This methodological framework addresses the complexities of multi-level data and aligns with the multi-faceted nature of both political and economic considerations that impact firms' divestment decisions. Consequently, a novel dataset of European firms' positions in China will be generated, which will be used to test the validity of Hypothesis 1 and provide correlational analyses that will shed light on firms' decisions to disengage from China.

WP3: Understanding and explaining firms' relocation decisions with experimental data
Objective: To observe and analyze the interplay of the political and economic drivers of reshoring and friendshoring. **Methods:** Conducting a firm-level survey and a conjoint experiment to infer the motivations behind firms' decisions.

In WP3 my team and I will conduct a firm-level survey and a conjoint experiment to tease out firms' motivations for relocation decisions and test the validity of Hypotheses 2 and 3. The China Position dataset and the subsequent analysis conducted in WP2 will not reveal firms' *motivations* for pulling away from China or whether they reshored or friendshored. In other words, the observational data will map firms' divestment over time and indicate which factors might matter in that decision, but they will not provide details as to why firms relinquished ownership of Chinese enterprises, or where they might have relocated. Moreover, empirically, the political factors that are expected to impact firms' rationale will be captured via proxies that fall short of fully reflecting the intricate dynamics of the political risks faced by firms. We will address this shortcoming by relying on a firm-level survey and a conjoint experiment to explore firms' rationale and provide a more comprehensive understanding of the impact of the political drivers on firms' relocation decisions – identifying which attributes (economic and political) are most influential in firms' (recent, current, or future) decisions.

As outlined in Figure 3, a standard survey and a conjoint experiment will be administered. The project will leverage the contact information provided in ORBIS and send the survey invitation to each firm's Production and Operations Manager, who are pivotal in the decision-making process concerning manufacturing operations and relocation strategies. The survey and the conjoint will both be prepared and fielded with collaborating partners, including the World Trade Institute (Manfred Elsig), the European University Institute (Bernard Hoekman), Swiss Global Enterprise (Susie Wang and Daniel Bont), and the China Competence Centre of the University of St. Gallen (Tomas Casas). Moreover, Matteo Fiorini from the Organisation for Economic Cooperation and Development also agreed to collaborate on the development of the survey.

Figure 3: Overview of Survey and Conjoint Study on Firms' Relocation Decisions



First, ***a standard survey*** questionnaire will be sent out to the firms who have already divested and moved their production away from China. The standard survey instrument will ask the respondents about their reactions to geopolitical tensions, the influence of policies (incentives and regulatory requirements addressing non-trade issues), and how their firms' perceptions of a public backlash against globalization have influenced past divestment decisions. It will also include items on firms' perceptions of risks stemming from China, e.g., regulatory uncertainty, arbitrary policy enforcement, lack of transparency, and punitive threats they might have faced – along with factors that are of a purely economic nature, ensuring a comprehensive understanding of the factors that influenced firms' past decisions. Using the China Position dataset, we will be able to identify firms that have relocated (partly or entirely) their production in the past two decades. Tentatively, I will consider firms that have relinquished more than 50% of their ownership of peer enterprises as those that have disengaged from China. This cut-off point indicates that a manufacturing European firm has divested if it now has

less than a controlling ownership of another firm in China – whether that be a subsidiary or not. This cut-off point is based on the rationale provided by company officials through interviews conducted for an ongoing study and will need to be re-visited at the onset of the project. Having established a set of European enterprises who have chosen to relocate, the standard survey instrument will be able to discover *why* they pulled production away. The initial version of the instrument is scheduled for completion by the beginning of the project's second year, after which it will undergo fine-tuning. Once a draft questionnaire has been developed, I will conduct explorative interviews with my industry contacts as a reflective exercise to gather their insights into the survey instrument, and subsequently I will fine-tune it to ensure the questionnaire reflects the real-world dynamics of firms' decisions.

Second, in addition to the standard survey***, a conjoint experiment*** will be conducted for those firms who are continuing their operations at the time of data collection. The conjoint experiment will shed light on the conditions under which these firms would prefer to reshore or friendshore. Conjoint experiments are beneficial because they facilitate the examination of multi-faceted decision-making by manipulating different factors and enable researchers to identify the relative importance of each factor (Knudsen and Johannesson 2019; Hainmueller and Hiscox 2010; Hainmueller et al. 2014). Our paired-profile conjoint experiment will target the Production and Operations Managers and present them with scenarios to grasp their ranking of the importance of the specific factors that influence their relocation decisions. Importantly, however, to provide context for the conjoint experiment, respondents will first be presented with pre-conjoint questions aimed at capturing their perceptions of operating within China. European firms report regulatory uncertainty, lack of transparency, arbitrary policy enforcement, and punitive risks associated with relocation planning as major obstacles to their operations (EuroCham 2024; Casas et al. 2023). I will present firms with survey items to capture their perceptions of these issues that are crucial to understanding the broader landscape of risks faced by firms operating in China. Including them in the pre-conjoint will help shed light on firms' China-sourced motivations for relocation and will allow me and my team to examine their interaction.

Each scenario will present a hypothetical situation where a firm considers relocation and will feature two destination country profiles with varying attributes. I estimate 6 attributes and 2 levels per variable. Participants will be presented with four tasks, each requiring a choice between two profiles. For each pair comparison, respondents will be asked (a) which of the two country profiles they prefer, and (b) to rate which profile is more attractive for relocation. The country profiles will randomly vary across the 6 factors to reflect different combinations of the variables that influence firms' decisions, selected based on the overarching theoretical framework. As factors, I tentatively propose to include, *geopolitical tensions*, exemplified by trade disputes, *policy incentives*, including subsidies and tax benefits, *regulatory requirements*, such as diligence requirements, *backlash against globalization* that heighten reputational costs, purely economic considerations such as *labor costs, sourcing costs,* and *cost of transportation*. Table 2 below provides a preliminary sample scenario as well as the pre-conjoint questions.

Table 2: Sample pre-conjoint questions and scenario for the conjoint experiment

This survey explores factors that influence your firm's decision to relocate production from its current operational location in China to alternative destinations. Below is the flow of the survey tasks.
Step 1: Pre-conjoint questions

Before evaluating possible relocation options, please reflect on your firm's current operational environment in China. indicate how influential the following factors are in shaping your firm's current operational environment in China.							
Factor	**1**	**2**	**3**	**4**	**5**	**6**	**7**
Regulatory uncertainty in China							
Arbitrary policy enforcement in China							
Lack of transparency in Chinese policies							
Punitive risks for firms planning to relocate from China							

Step 2: Conjoint Task

Consider the situation where you are contemplating the relocation of production facilities from China to a different location. Below are profiles of two hypothetical countries for relocation. Please indicate which of these two profiles is more attractive for relocation based on the characteristics provided.

Factors *(not shown to respondents)*		**Country 1 (e.g., Italy)**	**Country 2 (e.g., Turkey)**
Political	Geopolitical tensions	Engaged in a trade dispute with China	No trade dispute with China
	Policy incentive	Offers 50% subsidy on new investment	Offers 10% subsidy on new investment
	Backlash against globalization	Experiences significant popular anti-globalization sentiment	Experiences low anti- globalization sentiment
Economic	Cost of labor	Expensive labor force *(Minimum Wage X)*	Cheap labor force *(Minimum Wage Y)*
	Cost of sourcing	High cost for raw materials and sourcing	Low cost for raw materials and sourcing
	Transport cost	Low transport cost given proximity within Europe	High transport cost given distance to Europe

Based on preliminary analysis conducted (Yildirim *forthcoming*), I expect around 85-90% of firms to be continuing their manufacturing in China – corresponding to roughly 14,000 firms to be contacted for the conjoint. Given the challenges in eliciting responses in firm-level survey studies, a realistic response rate is estimated at around 10% (Kraus et al. 2015; Fischer and Henkel 2013) yielding approximately 1,400 participating firm managers for this project. As the respondents will choose between four pairs, each round presenting them with two varied profiles to compare, they will evaluate 8 profiles in total, culminating in around 11,000 profile evaluations. This approach compensates for potential low response rates by maximizing the data obtained from each respondent. Furthermore, I conducted a Power Analysis for conjoint experiments (Stefanelli and Lukac 2020; see also Schuessler and Freitag 2020) indicating that a sample size of 11,000 observations is sufficient to detect an average marginal component effect (AMCE) greater than 0.04.

The dimensions of the conjoint will require additional operationalization and pre-testing prior to deploying the survey. I have gained significant experience in designing and fielding a firm-level survey (Yildirim et al. 2019) and will hire a postdoctoral researcher with expertise in conjoint experimental designs. I will also be taking a course on experimental survey methodology offered at the School of Economics and Political Sciences of St. Gallen in the first year of the project (offered as part of the PhD in International Affairs degree). Collectively with the postdoctoral researcher and the PhD students, we will draft the survey in collaboration with aforementioned

academic and industry partners – the World Trade Institute, the European University Institute, Swiss Global Enterprise and the China Competence Centre of St. Gallen. The survey will be fielded at the end of the 2nd year.

WP4: Synthesizing findings and providing a comprehensive framework of firms' relocation decisions
Objective: To synthesize the findings from the previous WPs, refine the theoretical framework, and explore policies that motivate firms. **Methods:** Integrating the insights gleaned from WP2 and WP3 with case studies and producing policy insights and recommendations.

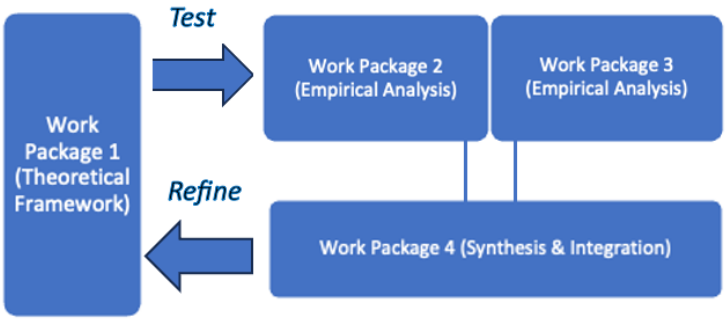


Figure 4: Connecting Work Packages & Situating Work Package 4

Building on WP2 and WP3, WP4 will serve as the capstone for the project, synthesizing the findings, triangulating them with in-depth case studies, and refining the theoretical framework proposed in WP1. While the proposed theory will be tested in the empirical work packages (WP2 & WP3), the synthesis will allow for further refinement of the theory, as visualized in Figure 4. The work package will further develop policy recommendations. WP4 will thus be completed in two parts running in parallel. The first part will focus on case studies and the second part on policy recommendations, as described below.

Part 1: Synthesis and integration of empirical findings:

To synthesize the empirical findings of the project, WP4 will rely on comparative case studies. The objective of the case studies will be to triangulate, integrate, and contextualize the findings generated in WP2 and WP3 in order to shed light on the underlying mechanisms of firms' relocation decisions. This will then provide a springboard for refining the proposed theory. The insights from the case studies will guide the refinement of the theory to more accurately capture the influence of the complex interplay of political and economic factors on firms' decisions. The selection of case studies will follow a nested research design (Lieberman 2005; Seawright 2016). Tentatively, a comparison of a typical and a non-typical case will be conducted in a particularly sensitive sector such as semiconductors that is impacted by geopolitical tensions, and in a more typical manufacturing sector such as plastic products. The case studies will subsequently focus on primary textual sources and interviews, using process tracing to establish the mechanisms at play.

WP4 also lays the groundwork for future research prospects. One possible avenue of future inquiry is the applicability of the theoretical framework to cases beyond Europe, such as firms in the United States (US). While geopolitical tensions, policy incentives, and a backlash against globalization are certainly relevant for firms in the US as well, the overarching political drivers of firms' decisions might differ. For one thing, Sino–US rivalry has a more pronounced military dimension, yet the extent to which the power struggles between the US and China are reflected in firms' relocation decisions is unclear. As regards to relocation from countries other than China, one possible avenue of research is to look at firms' decisions to shift production away from Russia in the wake of its

on-going aggression against Ukraine. I expect the conclusion of the project to consider such dynamics and highlight the possible application of the theory to cases beyond Europe and China.

Part 2: Policy implications and recommendations:

WP4 will develop practical policy recommendations for managing reshoring and friendshoring as a strategic component of industrial policy. Experts have warned that unilateral economic nationalist policies, especially those that aim to revitalize domestic production, are likely to be ineffective and instead to increase market volatility and cause a further contraction of value chains (Bown 2020). Others, on the other hand, have highlighted the need for a more balanced and proactive approach, emphasizing strategies aimed at reshoring production and disengaging from China as necessary, albeit risky, moves to improve the geopolitical position of European countries (CEPS 2023; Gehrke & Medunic 2024). Recent discussions also point to the importance of diversifying supply chains and integrating economic security measures to reduce vulnerabilities and enhance resilience (Pisani-Ferry et al. 2024). We will capitalize on the project's findings to contribute to this debate and combine the academic findings with policy-oriented outputs, including commentaries and recommendations for stakeholders.

The main objective of this part of WP4 will be to conclude the project by highlighting policies that seem to "work better" for either reshoring or friendshoring – contributing to the policy debate on particular policy instruments that are more likely to trigger firms towards relocation. Contributions will be drafted and disseminated through various channels – for example as policy briefs and blog posts through the European Centre for Development Policy Management (ECDPM), the journal *Global Policy*, the Centre for European Policy Studies (CEPS), the World Trade Institute, and the European University Institute. The goal will be to inform policy making and provide actionable insights on optimizing relocation strategies in the light of the project's findings. Together, the team members will be in an ideal position to collectively draft policy recommendations and contribute to the ongoing debate regarding production relocation in a time of geopolitical tensions.

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