

THE HONG KONG POLYTECHNIC UNIVERSITY DEPARTMENT OF MANAGEMENT AND MARKETING

Departmental Research Seminar

How does War and Economic Sanctions Alter MNEs' FDI Strategy? An Institutional and Political Legitimacy Perspective

By



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Venue : M714, PolyU

Abstract

Foreign direct investment (FDI) strategy into host countries undergoing military conflict and facing international sanctions has attracted growing research attention due to recent global events, but the topic remains relatively understudied especially at the firm level given the complex interaction between geopolitical risk and MNE decision-making. While the evidence is mixed, studies show that host-country sanctions and heightened geopolitical risk due to the onset of a war, may alter MNEs' FDI strategy by deterring future investments and encouraging divestment especially for MNEs from sanctioning countries, at least in the short term.

What is lesser known however, is how sanctions may differentially impact firms' greenfield investments versus mergers and acquisitions (M&As) and how MNEs may navigate these sanctions. Using institutional theory and a political legitimacy perspective, we argue that MNEs from non-sanctioning countries who are more politically similar and aligned to the host country face less institutional pressure and will thus increase greenfield investments despite heightened geopolitical risk from sanctions. In contrast, MNEs from sanctioning countries face heavier home-country institutional pressures, but may bypass these pressures by switching their investment strategy from predominantly greenfield investments to acquisitions. In addition, we argue that MNEs from sanctioning countries who have greater home-country and host-country political legitimacy are in the best position to withstand institutional pressure and risk and will increase both greenfield investments and acquisitions despite sanctions.

Using the ongoing Russian-Ukraine war as our context, we explore this firm heterogeneity in FDI strategy on MNEs operating in Russia. We construct a panel dataset from multiple sources including the ORBIS database yielding roughly 70,000 investment transaction-level observations over a 3-year period from January 2021 (pre-war) to December 2024 (post-war). We employ a series of differences-in-differences (DiD) models and find strong support for our hypotheses. In addition, we attempt to uncover a "fire-sale effect" as an underlying mechanism for MNEs from sanctioning countries increasing their level of acquisitions post war. This study contributes to the growing IB literature on the impact of sanctions on FDI strategy, by shedding light on how MNEs may strategically navigate the impact of sanctions in today's increasingly tense and complex geopolitical arena.

Prof. Caleb H. Tse is an Assistant Professor in the Strategy, International Business, and Entrepreneurship Division at Nanyang Business School, Nanyang Technological University. He received his MBA and PhD from The University of Hong Kong. His main research areas include MNE strategy and innovation with a focus on emerging markets. His research has been published in *Journal of International Business Studies*, *Journal of Marketing*, *Journal of Management*, *Journal of International Marketing*, *Journal of Product Innovation Management*, *Journal of Business Research*, *Journal of World Business*, *Technological Forecasting & Social Change*, among others. He serves as an editorial review board member of *Journal of International Business Studies*, *Journal of World Business* as well as *International Journal of Advertising*. He received the NBS Research Excellence Award (REA) in 2022, and was nominated for NBS Business Teacher of the Year in 2024.



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