

Navigating the Relocation Trend: The Rising Shift of Multinational Corporations from China to Other Countries

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Abstract

This study explores the rising trend of multinational corporations relocating their operations from China to other countries, examining the drivers behind this migration and its potential implications for businesses and the Chinese economy. Based on institutional theory and the resource-based view, the study identifies factors influencing MNC relocation decisions, such as rising labor costs, trade tensions, market dynamics, and regulatory changes. Through an analysis of potential benefits and drawbacks, as well as opportunities and challenges for the Chinese economy, the study contributes to the existing literature by shedding light on the nuanced motivations driving MNC relocations and their impact on global business strategies and economic development. This research provides valuable insights for policymakers, business leaders, and academic researchers seeking to navigate the complexities of the worldwide economy. It underscores the need for further empirical research to explore the long-term implications of MNC migration trends.



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1. Introduction

China has long been a hub for multinational corporations seeking cost-effective manufacturing and production capabilities. Xie and Niu (2020) highlight the potential for knowledge transfer and spillover. Song (2022) emphasizes the importance of localized advertising strategies, particularly in the case of Procter & Gamble. Moreover, Cui et al. (2020) underscore the role of regional competitiveness, with Multinational Enterprises (MNEs) being drawn to regions with favorable economic conditions and low state intervention.

As Multinational Corporations (MNCs) continue to navigate the complexities of global trade and economic fluctuations, a recent trend has emerged in which many companies are relocating their operations from China to other countries. Rising labor costs in China's coastal regions have led to the relocation of labor-intensive manufacturing firms to lower-cost locations in Southeast Asia (Yang, 2016). Quality concerns and the desire to serve the US market motivate American manufacturing companies to reshore their operations (Zhai et al., 2016). Trade tensions and changing market dynamics have also prompted many companies to explore alternative locations in other countries such as Mexico, Vietnam, India, and Thailand. This shift has sparked curiosity and speculation about the motivations driving this migration and the potential implications for both the businesses involved and the Chinese economy. Multinational corporations relocate for various reasons, including internationalization, market potential, and cost considerations (Baaij et al., 2015; Birkinshaw et al., 2006; Sleuwaegen & Pennings, 2006). The core parts of corporate headquarters (HQs) are relocated to enhance communication and knowledge exchange, access higher-quality international resources, and benefit from a lower-cost fiscal and higher-quality legal and regulatory regime (Baaij et al., 2015). Business unit headquarters move in response to changes in internal activities and product market demands. In contrast, corporate headquarters relocate due to external stakeholder demands, particularly from global financial markets and shareholders (Birkinshaw et al., 2006). The location choice for production relocation is influenced by wages and market potential, with large firms having a higher propensity to relocate to remote countries (Sleuwaegen & Pennings, 2006). The relocation of divisional headquarters is driven by efficiency, effectiveness, and legitimacy factors, with state ownership and ownership concentration discouraging such moves (Benito et al., 2011).

While some research has focused on cost-saving measures and market expansion opportunities, there remains a gap in understanding the nuanced drivers behind this relocation trend of MNCs from China to other countries and its potential impact on the Chinese economy. Additionally, more attention should be paid to this migration's probable benefits and drawbacks for the businesses involved. Therefore, there is a need to delve deeper into this phenomenon to shed light on the underlying motivations and possible implications for all stakeholders involved. This study seeks to answer the following research question: What are the key factors influencing multinational corporations to relocate their operations from China to other countries, and what are the likely effects on businesses and the Chinese economy? Therefore, the research objectives are to: Identify the primary factors driving multinational corporations to relocate from China to other countries. Examine the potential benefits and drawbacks of this migration for the businesses involved. Evaluate the possible implications of this trend on the Chinese economy. Understanding the motivations behind multinational corporations' relocation decisions is crucial for policymakers, business leaders, and academic researchers seeking to navigate the complexities of the global economy. By shedding light on this migration trend, this study aims to provide valuable insights into the strategic decisions made by businesses and the potential repercussions for the Chinese economy. This paper is structured as follows: The next section reviews the literature on multinational corporations'

relocation trends and the factors influencing their decisions. Subsequently, this study's theoretical framework and methodology are outlined, followed by an analysis of the primary drivers behind the relocation trend. The paper then discusses the potential implications of this migration for both businesses and the Chinese economy before concluding with recommendations for future research and policy considerations.

2. Literature review: Multinational corporations' relocation trends and influencing factors

This section examines the trends and factors influencing multinational corporations' relocation decisions. Rising labor costs, market dynamics, changing national institutions, and policy-related uncertainty have been identified in previous studies. Additionally, considerations such as market potential, consumer preferences, and internal and external factors play a crucial role in shaping MNCs' relocation strategies. A comprehensive review of existing literature provides a foundation for understanding the motivations behind MNCs' migration trend from China to other countries and its possible implications for businesses and the Chinese economy. Tyll et al. (2019) identify corporate restructuring and centralization of functions as key drivers, particularly in Germany. Lin et al. (2021) further emphasize the role of preferential policies, industry environment, management resources, and international communication in influencing relocation decisions in China. Valentino (2019) adds to this discussion by highlighting the impact of changing national institutions on intermediary headquarters relocations, underscoring the complex interplay of economic, political, and strategic considerations in these decisions.

One key factor identified in the literature is the rising labor costs. Wang et al. (2020) identify labor intensity as a critical determinant of relocation strategies, with more labor-intensive industries and firms being more likely to choose relocation over upgrading. Tuomala et al. (2021) further emphasize the strategic importance of relocation, particularly regarding its impact on staff productivity, costs, employee retention, operational changes, and organizational culture. Moreover, Basile and Kayam (2015) and Birkinshaw et al. (2006) emphasize the importance of internal and external factors, such as changes in market demands and the demands of global financial markets and shareholders, in driving these decisions. Deschryvere (2009) adds that while complete international corporate headquarters relocations are rare, there is a trend toward unbundling headquarters functions and spreading them across different locations. Bognanno et al. (2005) underscore the significance of host country market size, wages, and industrial relations environments in these decisions, with tariff reductions having a minor impact. Furthermore, Moradlou et al. (2021) and Panitz and Glückler (2022) highlight the significant impact of policy-related uncertainty, with Moradlou specifically noting the influence of market-seeking and efficiency-seeking advantages. Assabane (2021) and Lin et al. (2021) further emphasize the need for companies to consider various factors, including the specifics of the relocation process and the potential benefits of smart and innovative delocalization practices. Ekhart and Breese (2022) further underscore the influence of government policies on these decisions, particularly in the context of cost-effective supply chains and new technologies.

Market dynamics and evolving consumer preferences significantly influence multinational corporations' relocation decisions. Adler and Hashai (2015) emphasize the importance of considering competitors' reactions and consumer preferences in location choices. Fontagné and Mayer (2005) and Sleuwaegen and Pennings (2006) both highlight the role of market potential and the desire to be close to consumers and suppliers in location choices, with the latter also noting the influence of wages and the role of public aid. Besides, multinational firms

are seeking to diversify their supply chains away from China due to trade tensions with the US, supply chain safety concerns highlighted by the pandemic, China's lockdowns and business environment deterioration, and the regulatory changes implemented by Chinese authorities (Xia & Salaberria, 2023). However, despite industry relocation, China is still expected to play a significant role in the global supply chain due to its domestic market and industrial clusters.

In closing, various factors influence multinational corporations' relocation decisions, including rising labor costs, market dynamics, changing national institutions, policy-related uncertainty, consumer preferences, and internal and external factors. While previous studies have provided valuable insights into these drivers, there is a need for further research to explore the nuanced motivations behind MNCs' relocation from China to other countries and their likely implications for both businesses and the Chinese economy. This study addresses this gap by delving deeper into the relocation trend and its potential impacts, contributing to the existing literature on global business strategies and economic development.

3. Theoretical framework and methodology: Approaches for analyzing the drivers of MNCs' relocation

Theoretical framework

This study draws on institutional theory and the resource-based view to exploring the motivations behind multinational corporations' relocation from China to other countries and the possible implications for businesses and the Chinese economy. Institutional theory emphasizes the influence of external institutional factors, such as changing national policies and market dynamics, on organizational behavior. In contrast, the resource-based view highlights the importance of internal resources and capabilities in shaping firms' competitive advantage and strategic decisions.

Institutional theory posits that organizations are influenced by their external environment, including social, political, and economic institutions (DiMaggio et al., 1983). In multinational corporations relocating from China to other countries, institutional factors such as changing national policies, labor regulations, and market dynamics can significantly shape firms' relocation decisions. The theory suggests that organizations seek legitimacy and conformity with prevailing institutional norms, which may drive them to relocate their operations in response to external pressures or opportunities (Scott, 2013). Several studies have utilized the institutional theory to analyze multinational corporations' relocation decisions. Falaster and Ferreira (2020) and Palagi and Javernick-Will (2019) highlight the role of institutional factors in influencing these decisions, with Falaster and Ferreira focusing on subnational institutional characteristics and Palagi and Javernick-Will on the impact of regulative, normative, and cultural-cognitive elements. Valentino et al. (2019) further explore the effect of changing national institutions on relocating intermediary HQs. Donnelly and Manolova (2020) provide a comprehensive literature review of foreign location decisions through an institutional lens. By applying institutional theory, this study explores how institutional factors influence MNCs' relocation strategies and the possible implications of these decisions for businesses and the Chinese economy.

The resource-based view of the firm emphasizes the importance of internal resources and capabilities in shaping a firm's competitive advantage and strategic decisions (Barney, 1991). In the context of MNCs relocating from China to other countries, this theoretical perspective helps analyze how firms leverage their resources, such as technological expertise, management talent, and knowledge assets, to facilitate the relocation process and capitalize on new market opportunities. Kero and Bogale (2023) and Horwitz (2015) provide a resource-based view of

MNCs' relocation decisions, with Kero and Bogale identifying knowledge-based, human, physical, technological, and organizational resources as critical factors, and Horwitz emphasizing the importance of human resource policy and practice. By applying the resource-based view, this research examines how firms' unique resources and capabilities influence their relocation decisions and competitive positioning in the new host countries. Additionally, this perspective helps assess the potential benefits and drawbacks of relocation for MNCs regarding resource utilization and strategic alignment with market demands.

Integrating institutional theory and the resource-based view provides a comprehensive understanding of the motivations driving MNCs' relocation from China to other countries and the potential implications of these decisions for businesses and the Chinese economy.

Methodology and data

This research mobilized secondary data from online platforms, including McKinsey Global Institute, Statista, and BBVA Research. First, we relied on McKinsey Global Institute's data to explore primary factors driving MNCs from China to other countries. Second, data from Statista were used to analyze US companies' intention to move out of China. The same data were used to explore the distribution of American enterprises in China planning to relocate production in 2020 and 2021. Lastly, the study used data from BBVA Research to investigate the potential destinations for MNCs' relocation. We analyzed data using descriptive statistics.

4. Drivers and destinations behind MNCs' relocation

The relocation of multinational corporations from China to other countries is a complex and multifaceted phenomenon influenced by various interconnected factors. This section delves into the primary drivers and possible destinations behind MNC relocation. It will explore the key factors that have led companies to reassess their location strategies and seek alternative regional production sites.

Exploring primary factors driving MNCs from China to other countries

The decision by multinational corporations to relocate their operations from China to other countries is influenced by many factors. Multinational corporations may consider relocating outside China due to emerging risks, increased competition from local companies, changing regulatory landscape, and the need to derisk their operations (Woetzel et al., 2023). Factors such as geopolitical tensions, regulatory changes, and growing competition are prompting MNCs to reassess their presence in China and explore opportunities in other countries. According to the authors, the shift in the competitive arena, coupled with regulatory changes and derisking strategies, may lead multinational corporations to consider relocating to mitigate risks and capitalize on opportunities elsewhere.

Rising labor costs

One of the primary drivers behind MNCs' relocation from China is the steady increase in labor costs in recent years. As China's economy matured and wages rose, many companies found it more cost-effective to shift their manufacturing operations to other countries with lower labor costs, such as Vietnam, India, and Thailand. The desire to maintain competitiveness and optimize operational expenses has driven MNCs to seek new production bases with affordable labor costs.

Trade tensions and geopolitical uncertainties

The escalating trade tensions between major economies, particularly the United States and China, have created uncertainty and instability in the global business environment. This uncertainty, coupled with the imposition of tariffs and trade restrictions, has prompted many MNCs to diversify their production and investment locations to mitigate risks and ensure

business continuity. Several countries offer attractive alternatives for companies looking to reduce their exposure to geopolitical tensions and navigate complex trade dynamics.

Market dynamics and consumer preferences

Changes in market dynamics, shifting consumer preferences, and evolving supply chain requirements have also influenced MNCs' relocation decisions. As the demand for customization, agility, and responsiveness in supply chains increases, companies seek locations that offer greater flexibility and adaptability. Countries with burgeoning consumer markets, growing middle-class populations, and favorable business environments are attractive destinations for MNCs looking to capture new market opportunities and meet changing consumer demands.

Regulatory environment and policy changes

China's regulatory environment and policy changes, including labor laws, environmental regulations, and tax policies, have also played a role in driving MNC relocation. Companies facing regulatory challenges or seeking a more business-friendly environment may relocate their operations to other countries where regulations are more favorable and conducive to business growth.

In addition to the above factors, Figure 1 below presents the distribution of US companies' intention to move out of China.

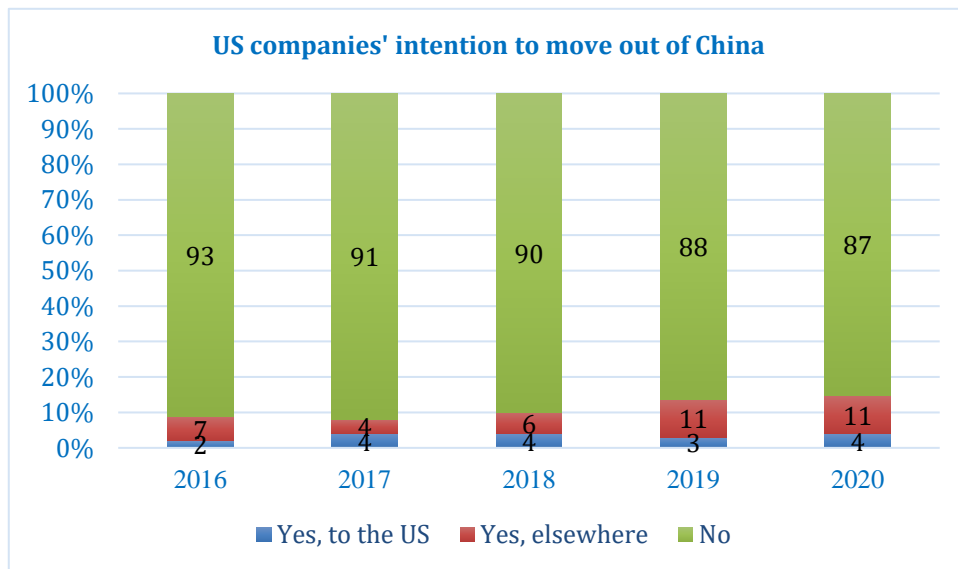


Figure 1: Distribution of US companies' intention to move out of China (Source: Statista)

Furthermore, Figure 2 displays the distribution of US companies in China planning to relocate production in 2020 and 2021 by type of planned relocation.

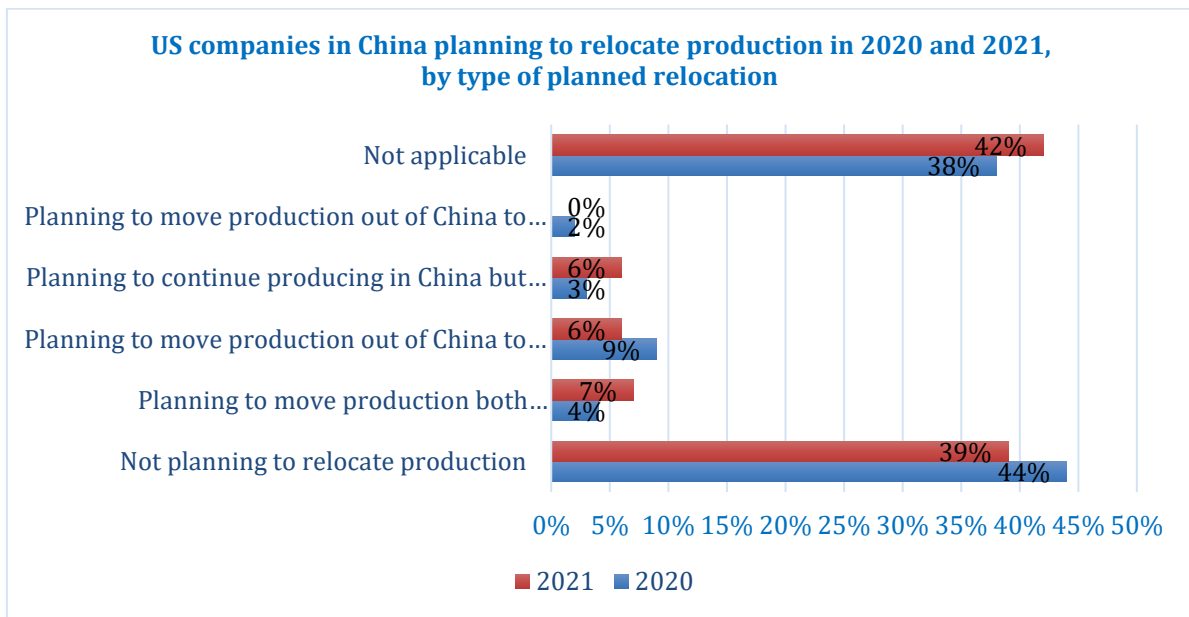


Figure 2. Distribution of US companies in China planning to relocate production in 2020 and 2021 by type of planned relocation (Source: Statista)

Potential destinations for MNCs' relocation

Multinational firms are considering diversifying their supply chains through a "China plus one" strategy, with potential relocation destinations including Asian economies, Brazil, Chile, and Mexico (Xia & Salaberria, 2023). Following the authors, European countries, mainly Eastern Europe, may benefit from the "direct competition channel" due to lower labor costs. These countries will likely attract investment as multinational firms look to expand outside of China. Table 1 displays the potential destinations for MNCs' relocation.

Table 1. Potential destinations for MNCs' relocation

Via direct competition channel				Via supply chain channel			
Machinery	Chemicals	Electronic	Transport	Machinery	Chemicals	Electronic	Transport
Netherlands	Switzerland	Taiwan	Mexico	South Korea	South Korea	South Korea	South Korea
Mexico	Belgium	South Korea	South Korea	Taiwan	Brazil	Taiwan	Taiwan
South Korea	Ireland	Singapore	Spain	Brazil	Indonesia	Malaysia	Brazil
Singapore	Netherlands	Vietnam	Belgium	Chile	Taiwan	Singapore	Chile
Taiwan	Spain	Malaysia	Czech Republic	Indonesia	Malaysia	Thailand	Indonesia
Thailand	India	Mexico	Slovakia	Singapore	Singapore	Philippines	Singapore
Czech Republic	Denmark	Netherlands	Thailand	Malaysia	India	Indonesia	Malaysia
Poland	Austria	Czech Republic	Poland	India	Thailand	Chile	India

Source: BBVA Research

In conclusion, the drivers behind multinational corporations' relocation from China to other countries are diverse and interconnected, ranging from rising labor costs and trade tensions to market dynamics and regulatory changes. As MNCs seek to mitigate risks, optimize costs, and capitalize on new opportunities, potential relocation destinations include various Asian economies, European countries, and Latin American markets. By diversifying their supply chains and expanding their global footprint, MNCs can navigate the evolving business landscape and position themselves for long-term success.

5. Implications of migration: Assessing potential benefits and drawbacks for businesses

The decision of multinational corporations to relocate from one country to another presents opportunities and challenges for businesses. This section will explore the potential benefits and drawbacks MNCs may encounter when navigating the migration trend. Various factors, such as cost savings, market access, and operational challenges, will be examined to provide a comprehensive understanding of the implications of relocation for businesses.

Benefits for businesses

Various benefits can follow MNCs' relocation from one country to another. Zhang and Filippov (2009) highlight using strategic alliances and mergers and acquisitions (M&As) as practical tools for internationalization, which can lead to increased market access and resource acquisition. Luo (2000) further underscores the potential for structural transformation and technological advancement in host countries, which can enhance productivity and competitiveness. Moreover, Cooke et al. (2019) emphasize the importance of understanding the changing cultural, institutional, and technological context in MNCs' human resource management and industrial relations, which can help them gain a competitive edge. Kim et al. (2019) suggest that the speed of internationalization can impact the financial performance of Chinese MNCs, with faster intra-regional expansion leading to better performance.

Cost savings

MNC relocation to other countries with lower labor costs can result in significant cost savings for companies, allowing them to maintain competitiveness and enhance profitability.

Diversification of risk

By diversifying their production and investment locations, MNCs can reduce their exposure to geopolitical tensions, trade uncertainties, and regulatory changes, safeguarding their operations and ensuring business continuity.

Access to new markets

Relocating to other countries can provide MNCs access to new consumer markets, growth opportunities, and strategic partnerships, enabling them to expand their reach and capture emerging market trends.

Enhanced agility and flexibility

Establishing operations in diverse locations enhances MNCs' agility, flexibility, and resilience in responding to market fluctuations, supply chain disruptions, and changing consumer demands.

Drawbacks for businesses

The relocation of multinational corporations from one country to another presents various challenges. According to Das (2015), MNCs face a transforming operational environment. Lampón et al. (2017) further emphasize the role of internal factors and operational flexibility in the international relocation of production, underscoring the need for MNCs to consider these factors carefully when relocating. Furthermore, Enyinda et al. (2019) emphasize the need for MNCs to adapt their human resource management strategies to the local environment, considering factors such as talent attraction, training, and relocation. Garcia-Bernardo and Janský (2021) discuss the issue of profit shifting, with MNCs avoiding taxes by moving profits to low-tax jurisdictions, leading to significant tax revenue losses worldwide. Wang (2021) explores the consequences of MNCs' innovation relocation, particularly the impact on production workers in countries specializing in product innovation.

Operational challenges

MNC relocation entails operational challenges such as supply chain disruptions, logistical complexities, and workforce adjustments, which can impact operational efficiency and productivity.

Talent retention and recruitment

Relocating operations to new countries may challenge talent retention and recruitment as companies navigate the host country's labor market differences, cultural nuances, and skill shortages.

Regulatory compliance

Adhering to diverse regulatory environments, navigating legal complexities, and ensuring compliance with local laws can present challenges for MNCs operating in multiple countries, requiring robust risk management and governance frameworks.

In conclusion, the relocation trend of MNCs from China to other countries carries both benefits and drawbacks for businesses. While cost savings, market access, and enhanced agility can provide opportunities for growth and competitiveness, operational challenges, talent retention issues, and regulatory compliance may pose obstacles to successful relocation. By carefully evaluating these implications and implementing appropriate strategies, MNCs can effectively navigate the migration trend and maximize the benefits of their relocation efforts.

6. Potential impact on the Chinese economy

As multinational corporations continue to navigate the relocation trend from China to other countries, opportunities and challenges have significant implications for the Chinese economy. This section delves into the potential impact of MNC migration on China, highlighting the opportunities for economic restructuring, outward investment trends, and technology transfer while also addressing challenges such as job displacement, FDI inflows, and innovation dynamics.

Opportunities

Anterior research has highlighted the opportunities for the Chinese economy in the migration of multinational corporations. Yiu (2011) emphasizes the role of Chinese business groups in generating advantages for internationalization. Luo (2000) discusses the benefits of structural transformation from multinational corporations in various industries. Rowe (2005) underscores the role of multinational firms in recent IT developments in China, particularly in outsourcing and the growth of the Chinese market. Lastly, Williamson and Raman (2013) explore the competitive advantage of Chinese emerging market multinationals through cross-border M&A activities.

Economic restructuring

The migration of multinational corporations from China presents an opportunity for the country to reshape its industrial structure towards higher value-added and technology-intensive sectors, fostering innovation, productivity, and sustainable growth.

Outward investment trends

The outflow of MNCs signals China's increasing global investment presence and strategic expansion, providing opportunities for Chinese companies to diversify their operations, access new markets, and enhance international competitiveness.

Technology transfer and innovation

MNC migration can facilitate technology transfer, knowledge sharing, and innovation collaborations, enabling Chinese businesses to leverage advanced manufacturing processes, digital technologies, and innovation practices to drive domestic innovation and competitiveness.

Challenges

The migration of multinational corporations from China to other countries can present some challenges for the Chinese economy. Chantasawat et al. (2008) suggest that this migration

may harm the extent of foreign firms moving into other developing countries, potentially limiting the benefits for the Chinese economy. Besides, Wang et al. (2019) and Tang et al. (2020) both found that such relocations can lead to a dislocation between carbon emissions and value-added, as well as distortions in the relocation decisions of Chinese firms. It can result in pollution havens and reduced economic efficiency. Bloom et al. (2019) further noted that the negative impact of Chinese import penetration on local manufacturing employment is driven by large importing firms, which can shift firm activity away from production. Finally, Chang et al. (2019) found that the US-China trade war has led to a decline in sales and stock prices for Japanese multinational corporations with Chinese affiliates, particularly those with high exposure to trade with North America.

Job displacement

The migration of MNCs may result in job displacement and labor market adjustments in China, posing challenges for the workforce in regions heavily reliant on manufacturing industries and requiring targeted policies to support retraining, reskilling, and workforce transition.

FDI inflows

The outflow of MNCs from China could impact foreign direct investment (FDI) inflows into the country, necessitating efforts to enhance the competitiveness of the domestic business environment, attract new investors, and promote sustainable investment flows to support economic growth.

Innovation dynamics

The migration of MNCs may affect China's innovation ecosystem, influencing research and development (R&D) investment, intellectual property protection, and collaborative innovation partnerships. Addressing challenges related to intellectual property rights, technology absorption, and innovation capacity building is essential to harness the full potential of MNC migration for driving technological progress and competitiveness. The migration of multinational corporations from China presents a complex mix of opportunities and challenges for the Chinese economy. While prospects for economic restructuring, outward investment, and technology transfer can drive innovation and competitiveness, concerns regarding job displacement, FDI inflows, and innovation dynamics require strategic interventions. By acknowledging and addressing these challenges, China can harness the potential benefits of MNC migration while mitigating adverse consequences, ultimately shaping a more resilient and sustainable economic landscape for the future.

7. Conclusion

This study has delved into the rising trend of multinational corporations relocating their operations from China to other countries, exploring the drivers behind this migration and its potential implications for businesses and the Chinese economy. By drawing on institutional theory and the resource-based view, we have identified key factors influencing MNC relocation decisions, such as rising labor costs, trade tensions, market dynamics, and regulatory changes. The analysis also highlights potential benefits such as cost savings, market access, agility, and drawbacks, including operational challenges, talent retention issues, and regulatory compliance. Furthermore, the study has outlined potential destinations for MNCs' relocation and highlighted opportunities for economic restructuring, outward investment trends, and technology transfer in the Chinese economy. Despite these opportunities, challenges such as job displacement, FDI inflows, and innovation dynamics have also been addressed.

Our research contributes to the literature on multinational corporations' relocation trends by comprehensively analyzing the drivers behind MNCs' migration from China to other countries and the potential implications for businesses and the Chinese economy. The novelty of this study lies in its in-depth exploration of the nuanced motivations behind MNC relocation,

drawing on institutional theory and the resource-based view to offer a holistic understanding of the migration trend.

Theoretical contributions

This study's theoretical contributions include applying institutional theory to analyze how external institutional factors influence MNC relocation decisions and the resource-based view to examine how internal resources shape firms' competitive advantage and strategic decisions. By integrating these theoretical perspectives, this study offers a comprehensive framework for understanding the complexities of MNC relocation and its impacts on businesses and economies.

Managerial implications

This study is significant for policymakers, business leaders, and academic researchers seeking to navigate the complexities of the global economy. By shedding light on the primary factors driving MNC relocation, the potential benefits and drawbacks for businesses, and the implications for the Chinese economy, this study provides valuable insights for strategic decision-making and policy formulation. Managers can use the findings of this study to make informed decisions about relocation strategies, talent management, and regulatory compliance in the face of changing market dynamics and geopolitical uncertainties.

Limitations and future research directions

However, it is essential to acknowledge the study's limitations, such as the reliance on secondary data and the need for further empirical research to explore the nuanced motivations driving MNC relocations and their long-term impacts. Future research could also investigate the interplay between factors influencing relocation decisions and the implications for sustainable development and global economic governance.

In sum, this study sets the stage for a deeper understanding of the complexities surrounding MNC relocation from China to other countries. It underscores the importance of strategic decision-making in navigating the evolving business landscape. By addressing these challenges and opportunities, stakeholders can pave the way for more resilient, competitive, and sustainable global business practices in the future.

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