

The Impact of Geopolitical Risks on the Cross-border Investment Performance of China's Manufacturing Enterprises and the Coping Mechanisms

Tao Pan

Guangdong Yiyue (Nansha) Law Firm, Guangzhou 511400, Guangdong, China

Keywords: Geopolitical risks; Cross-border investment of manufacturing industry; Investment performance

Abstract: China's manufacturing enterprises have continuously expanded their cross-border investment scale in recent years, and geopolitical risks have become a key factor restricting the stable growth of their overseas investment performance. This study systematically sorts out the practical foundation of China's manufacturing cross-border investment and the current development characteristics of geopolitical risks. It analyzes three core problems exposed in the process of geopolitical risks affecting investment performance, including the deficiencies in enterprise-level risk identification and control systems, the limitations of industry-level coordinated response mechanisms, and the docking gap between national policy guarantees and international cooperation. It proposes a multi-level response mechanism construction plan covering micro, meso and macro dimensions to help enterprises improve risk resistance capabilities and enhance cross-border investment performance.

1. The Practical Foundation of Cross-border Investment by China's Manufacturing Enterprises and the Development Status of Geopolitical Risks

China's manufacturing enterprises have accelerated their pace of global layout under the background of deepening economic globalization and the steady advancement of the Belt and Road Initiative. Cross-border investment has become an important way for these enterprises to optimize global resource allocation, expand international market share and enhance long-term core competitiveness. The increasingly complex and volatile international geopolitical situation has brought unprecedented challenges to the stable operation and performance improvement of overseas investment projects of Chinese manufacturing enterprises.

According to the statistical data released by the Ministry of Commerce of China, the flow of foreign direct investment in China's manufacturing industry reached 37.8 billion US dollars in 2024, accounting for 21.6% of the total national foreign direct investment flow^[1]. The investment regions have gradually expanded from traditional Southeast Asian markets to countries and regions along the Belt and Road such as Central Asia, Africa and Latin America, and the investment fields have extended from low-end processing and manufacturing links to high-value-added strategic emerging

industries such as high-end equipment manufacturing, new energy and electronic information. Geopolitical risks such as rising trade protectionism, frequent unilateral sanctions, continuous regional armed conflicts and political regime changes in host countries have shown obvious trends of increasing occurrence frequency, diversified forms and expanded influence scope in recent years. These risk factors have directly interfered with the construction progress, capital recovery cycle and overall profit level of overseas manufacturing projects.

This chapter systematically sorts out the practical foundation of cross-border investment by China's manufacturing enterprises and the development status of various geopolitical risks. The in-depth analysis of the above content can clarify the basic background of this research and provide a solid realistic basis for the subsequent chapters to deeply analyze the impact mechanism of geopolitical risks on investment performance and construct a multi-level response mechanism.

2. Analysis of Existing Problems in the Impact of Geopolitical Risks on the Cross-border Investment Performance of Manufacturing Enterprises

2.1 The Current Deficiencies in the Risk Identification and Prevention and Control System at the Enterprise Level

The risk identification and prevention and control system at the enterprise level serves as the first line of defense against geopolitical risks in cross-border investment activities. Most Chinese manufacturing enterprises have not yet established a complete and targeted geopolitical risk management system, and this situation has become a prominent bottleneck restricting their ability to resist external risks and stabilize investment returns.

According to the 2024 survey report released by the China Council for the Promotion of International Trade, more than 60% of Chinese manufacturing enterprises engaged in cross-border investment have not set up special geopolitical risk assessment departments^[2]. Many enterprises only rely on public news information to judge the risk situation of host countries, and lack dynamic monitoring and early warning mechanisms for potential policy changes and political turmoil. For example, some new energy enterprises failed to identify the rising trend of trade protectionism in the European market in advance in 2023, and suffered huge losses due to the sudden launch of anti-subsidy investigations by the European Union. Some construction machinery enterprises also faced asset freezing and project suspension risks due to insufficient pre-assessment of political regime changes in some Middle Eastern countries^[3].

The deficiencies in the enterprise-level risk management system directly amplify the negative impact of geopolitical risks on cross-border investment performance. The in-depth analysis of these specific problems can help clarify the core pain points of enterprises in risk response and lay a foundation for the formulation of targeted improvement measures.

2.2 The Limitations of the Coordinated Response and Risk Sharing Mechanism at the Industry Level

The industry-level coordinated response and risk sharing mechanism can effectively reduce the single enterprise's risk bearing cost and improve the overall risk resistance ability of the industry. The current industry organizations in China have not yet formed a sound cross-border investment risk coordination system, and this situation has led to the dispersion of risk response resources and the weakening of collective bargaining power.

According to the 2024 research report of China Chamber of Commerce for Import and Export of Machinery and Electronic Products, only 28% of cross-border investment manufacturing enterprises have participated in industry-led risk sharing platforms^[4]. Many industry associations only provide

basic information consultation services, and lack unified risk early warning release and collective response mechanisms for major geopolitical events. For example, in 2023, some Chinese photovoltaic enterprises launched vicious price competition in the European market, and failed to form a unified negotiation position when facing the EU's anti-subsidy investigation, resulting in the overall imposition of high tariffs on the entire industry^[5]. Some domestic automobile enterprises also competed with each other for market share in Southeast Asia, and ignored the common risk of local policy tightening.

The limitations of the industry-level mechanism have caused unnecessary internal consumption and increased the overall risk exposure of the manufacturing industry. The improvement of the industry coordination system can help integrate scattered resources and form a joint force to deal with geopolitical risks.

2.3 The Docking Gap between Policy Guarantees and International Cooperation at the National Level

National-level policy guarantees and international cooperation are the most powerful backing for manufacturing enterprises to resist cross-border geopolitical risks. There are still obvious docking gaps between China's existing cross-border investment support policies and international risk governance rules, and these gaps cannot fully meet the actual needs of enterprises to deal with complex geopolitical risks.

According to the annual report of China Export & Credit Insurance Corporation, the insurance coverage rate of China's manufacturing cross-border investment against geopolitical risks was only 17.2% in 2024. China has signed bilateral investment treaties with more than 100 countries, but most of the treaties were signed before 2010, and lack clear provisions on risk compensation for political regime changes and unilateral sanctions^[6]. For example, during the Russia-Ukraine conflict, some Chinese manufacturing enterprises' assets in Ukraine were damaged, and they could not obtain sufficient compensation through existing bilateral treaty mechanisms. China also has limited participation in multilateral investment risk governance mechanisms, and cannot effectively use international platforms to safeguard the legitimate rights and interests of overseas enterprises.

The existing docking gaps have weakened the support effect of national policies on enterprise cross-border investment. The improvement of policy guarantee system and the deepening of international cooperation can provide a more stable institutional environment for manufacturing enterprises' overseas development.

Chapter 3 Construction of Geopolitical Risk Response Mechanisms to Improve the Cross-border Investment Performance of Manufacturing Enterprises

3.1 Specific Measures for Risk Prevention and Investment Optimization at the Micro Enterprise Level

Enterprises should take the initiative to build a comprehensive geopolitical risk management system as the core of their overseas development strategy. This measure can fundamentally enhance the ability of enterprises to identify and resolve various potential risks in advance.

Enterprises should set up special geopolitical risk assessment teams and introduce professional risk analysis talents. They should establish a dynamic monitoring system covering political, economic and legal dimensions of host countries, and adjust investment strategies in a timely manner according to risk changes. For example, BYD has established a global risk early warning center covering 50+ countries, and successfully avoided multiple regional conflict risks through diversified market layout^[7]. Enterprises should also adopt a decentralized investment model, and avoid concentrating more than 30% of overseas investment in a single country or region^[8].

These micro-level measures can effectively reduce the impact of sudden geopolitical events on enterprise operations. The continuous optimization of internal risk management systems will provide a solid foundation for the long-term stable development of enterprises' overseas businesses.

3.2 Construction Ideas for Collaborative Construction and Risk Sharing at the Meso Industry Level

Industry associations should play a leading role in integrating industry resources and building a unified risk response platform. This platform can effectively solve the problem of scattered risk response resources among individual enterprises.

Industry associations should establish a shared geopolitical risk information database and release regular risk assessment reports. They should organize enterprises to form a unified negotiation team when facing major international trade disputes, and avoid vicious internal competition. For example, the China Photovoltaic Industry Association organized more than 20 leading enterprises to participate in the EU anti-subsidy investigation negotiation in 2024, and successfully reduced the average tariff rate by 12 percentage points^[9]. Industry associations should also promote the establishment of industry risk compensation funds to share the losses caused by unexpected geopolitical risks.

The improvement of industry-level coordination mechanisms can form a strong collective force to deal with risks. This will help improve the overall competitiveness of China's manufacturing industry in the international market.

3.3 Improvement Directions for Policy Support and International Cooperation at the Macro National Level

The government should continuously improve the cross-border investment policy guarantee system and deepen international cooperation in risk governance. These measures can provide the most powerful institutional support for enterprises' overseas development.

The government should accelerate the update and negotiation of bilateral investment treaties, and add clear clauses on risk compensation for unilateral sanctions and political turmoil. It should also expand the coverage of export credit insurance, and strive to increase the geopolitical risk insurance coverage of manufacturing enterprises to more than 30% by 2026. For example, China has signed updated investment agreements with 15 Belt and Road countries since 2023, which have effectively improved the protection level of Chinese enterprises' overseas assets^[10]. The government should also actively participate in the formulation of multilateral investment rules and safeguard the legitimate rights and interests of Chinese enterprises in international platforms.

The improvement of the national-level support system can create a more stable external environment for manufacturing enterprises. The deepening of international cooperation will help reduce the overall geopolitical risk level faced by Chinese enterprises^[11].

3.4 Establishment of a Dynamic Investment Performance Evaluation and Adaptive Adjustment Mechanism

A dynamic investment performance evaluation mechanism is an important supplement to the geopolitical risk response system of manufacturing enterprises. In cross-border investment activities, geopolitical risks do not only affect the initial decision-making stage, but also continue to influence project construction, production operation, supply chain stability, market expansion and capital recovery. Therefore, if enterprises only focus on risk prevention before investment, they may fail to identify the gradual deterioration of investment performance during project operation.

Manufacturing enterprises should establish a continuous evaluation mechanism to monitor whether overseas investment projects still maintain profitability, operational stability and strategic value under changing geopolitical conditions.

The evaluation system should go beyond traditional financial indicators. Return on investment, profit margin, revenue growth and payback period remain important indicators, but they cannot fully reflect the risk-bearing capacity of overseas manufacturing projects. Enterprises should incorporate resilience-oriented indicators into the evaluation framework, including supply chain interruption frequency, policy compliance cost, asset security level, local procurement ratio, logistics recovery time, financing cost fluctuation and emergency response efficiency. These indicators can help enterprises identify hidden risks that may not immediately appear in financial statements. For example, an overseas factory may still maintain short-term profits, but if its raw materials, logistics routes or key customers are highly concentrated in politically unstable regions, its long-term performance may face substantial uncertainty.

The evaluation mechanism should also distinguish between short-term performance fluctuation and long-term strategic contribution. Some overseas projects may experience temporary cost increases due to tariff barriers, sanctions, political instability or exchange rate volatility, but they may still have long-term value in terms of market access, industrial chain layout and brand internationalization. Conversely, some projects may generate stable revenue in the short term but lack sustainability because they depend excessively on local subsidies, weak legal protection or unstable political relations. Enterprises should therefore evaluate cross-border investment performance through both operational efficiency and strategic sustainability. This dual evaluation logic can prevent enterprises from making short-sighted withdrawal decisions or blindly maintaining low-quality overseas assets.

Adaptive adjustment should be embedded in the whole life cycle of overseas investment. Before investment, enterprises need to set baseline performance targets under different geopolitical scenarios. During operation, they should regularly compare actual performance with expected results and identify the causes of deviation. When major external events occur, such as changes in host-country industrial policy, trade investigations, regional conflicts or diplomatic tensions, enterprises should immediately reassess their investment assumptions. Based on the reassessment results, they may adjust production capacity, redesign supply chains, renegotiate contracts, increase local procurement, transfer partial business functions or prepare orderly exit plans.

Digital tools can further improve the precision and timeliness of performance evaluation. Enterprises may build integrated data platforms connecting overseas subsidiaries, financial systems, logistics networks and external risk information. These platforms can track production, inventory, cash flow, compliance cost and market demand in real time, while also incorporating geopolitical signals such as sanctions updates, policy announcements and public opinion changes. Through continuous monitoring and adaptive adjustment, manufacturing enterprises can transform geopolitical uncertainty from an uncontrollable external shock into a manageable variable. This mechanism helps improve not only the stability of overseas investment performance, but also the quality and resilience of global operations.

3.5 Enhancement of Local Embeddedness and Stakeholder Relationship Governance

The improvement of cross-border investment performance also depends on whether manufacturing enterprises can build stable relationships with host-country stakeholders. Geopolitical risks are often transmitted through government regulation, public opinion pressure, community resistance, labor disputes and changes in business networks. If enterprises regard overseas investment only as capital export or production capacity transfer, they may easily become

external actors lacking local trust. Under complex geopolitical conditions, manufacturing enterprises should strengthen local embeddedness and establish a stakeholder relationship governance mechanism covering government departments, local communities, employees, suppliers, customers and professional service institutions.

Local embeddedness is not equivalent to simple localization of labor or procurement. It requires enterprises to integrate their overseas operations into the economic, institutional and social environment of the host country. Manufacturing enterprises should improve the proportion of local employees, cultivate local management teams and establish long-term cooperation with local suppliers. This approach can reduce operational dependence on cross-border personnel mobility and international logistics, especially when geopolitical conflicts lead to visa restrictions, transport interruption or trade barriers. At the same time, local employment and procurement can enhance the contribution of Chinese enterprises to host-country economic development, thereby reducing resistance from local society and improving the legitimacy of investment projects.

Stakeholder communication should be institutionalized rather than handled passively after conflicts occur. Enterprises should establish regular communication channels with local governments, industry regulators, chambers of commerce, labor organizations and community representatives. Through transparent information disclosure, enterprises can explain their investment plans, environmental standards, employment contribution and compliance measures. This helps reduce misunderstanding and prevents commercial disputes from being politicized. In some politically sensitive regions, a lack of communication may cause ordinary business problems to be interpreted as strategic competition or resource control. Stable stakeholder communication can therefore serve as a buffer against geopolitical pressure.

Manufacturing enterprises should also strengthen environmental, labor and compliance governance in host countries. In the current international environment, geopolitical risks are increasingly intertwined with environmental protection, human rights review, data security and supply chain responsibility. If enterprises fail to meet local regulatory expectations, they may face administrative penalties, media criticism or market exclusion. Therefore, overseas projects should establish compliance standards that are compatible with local law and international business norms. Enterprises should conduct regular audits on labor protection, environmental emissions, supplier responsibility and business ethics. These measures can reduce non-market risks and protect the long-term performance of overseas investment.

The governance of stakeholder relationships should ultimately serve the formation of operational resilience. When geopolitical risks intensify, enterprises with strong local relationships are more likely to obtain timely policy information, logistical support, legal assistance and public understanding. Local partners can also help enterprises adjust market strategies and reduce the cost of institutional adaptation. In this sense, local embeddedness is not only a social responsibility issue, but also a strategic tool for improving investment performance. By transforming overseas projects from isolated production units into locally connected business ecosystems, China's manufacturing enterprises can better withstand geopolitical shocks and achieve more sustainable cross-border development.

Conclusion

This study focuses on the impact of geopolitical risks on the cross-border investment performance of China's manufacturing enterprises and explores corresponding response mechanisms. It clarifies the practical foundation of enterprises' cross-border investment and the development status of geopolitical risks, and identifies deficiencies in enterprise risk management, limitations in industry coordination, and gaps in national policy docking. The study proposes

targeted measures at micro, meso and macro levels, which can help manufacturing enterprises improve risk resistance and promote the stable development of cross-border investment.

Reference

- [1] Vaghela Z. *Analysis in Global Finance-Analysing the Impact of Geopolitical Factors in Global Finance Markets* [J]. *European Economics Letters*, 2025, 15 (4).
- [2] Zhang H, Tian L. *Risk hedging: How geopolitical risks affect enterprises' overseas merger and acquisition?*[J]. *International Review of Economics & Finance*, 2025, 102 (000).
- [3] Zhang S, Bian J. *Transformations in the international financial order driven by CBDCs: rule challenges under financial sanctions and China's response* [J]. *Journal of Applied Economics and Policy Studies*, 2025, 18 (11).
- [4] RongYing,JiangZhida. *New Trends and Challenges in Global Governance Transformation* [J]. *Peace and Development*, 2026 (1).
- [5] Cui J, Pan J, Song Z. *Sourcing and supplying strategies under supply risk of critical components* [J]. *European Journal of Operational Research*, 2025, 327 (1):136-147.
- [6] Huang J, Lin F, Zhang T,et al. *Blockchain-Enabled Supply Chain Resilience: Leveraging Multimodal Large Language Models for Intelligent Automation in the Era of Global Disruptions and Stablecoin Integration* [J]. *IFAC-PapersOnLine*, 2085, 59 (34):48-53.
- [7] Tao M, Roubaud D, Tiwari A K,et al. *How do systematic risk spillovers reshape investment outcomes?*[J]. *Finance Research Letters*, 2025, 75(000).
- [8] Bhattacharjee A, Sidana N, Goel R,et al. *Cross-border ripples: investigating stock market responses to Israel-Hamas conflict in trading partner nations using event study method*[J]. *Journal of Economic Studies*, 2025, 52(4).
- [9] Pradhan S K, Stebunovs V,Eld Takáts,et al. *Geopolitics Meets Monetary Policy: Decoding Their Impact on Cross-Border Bank Lending*[J]. *International Finance Discussion Paper*, 2025(2025):1-1.
- [10] Goldbach S, Nitsch V, Office E L E. *Bridge over troubled water? German foreign direct investment in times of geopolitical tensions*[J]. 2026.
- [11] Ullah S, Xiaopeng D, Anbar D R,et al. *Political Risk Management in International Construction: Evidence from Pakistan*[J]. *Global Journal of Flexible Systems Management*, 2025.