Globalization and Corporate Financial Decision-Making: A Multi Dimension of Industry, Market and Institutional Influence

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Keywords: Globalization, Corporate Financial Decision-Making, Reciprocal Tariff Policies, Manufacturing, Retailing, Service Industries.

Abstract: This study investigates how industries in China, Japan, and the United States respond to the U.S. reciprocal tariff policies, focusing on manufacturing, retailing, and services. Using a comparative case study method, it explores financial decision-making through the lenses of Pecking Order Theory, Trade-Off Theory, Net Present Value (NPV) Method, and Real Options Theory. The findings show that Chinese manufacturers are shifting operations abroad and adopting flexible investments, while retailers emphasize internal financing and national branding. In services, firms like Aliyun balance debt to maintain financial stability amid geopolitical risks. Japan, though less directly impacted, is relocating production, diversifying supply chains, and leveraging third-country trade agreements to maintain U.S. market access. The U.S. aims to restore industrial strength but faces inflation and retaliation. Government responses, including subsidies and regional trade negotiations, play vital roles. The study concludes that financial strategy under globalization is deeply shaped by industry characteristics and national policy and offers theoretical insights for managing uncertainty. Future research is encouraged to explore firm-level case studies for greater depth.

1 INTRODUCTION

Eric C.E. et al. (2025) report that in 2025, global trade entered a new period of tension and realignment as the United States issued aggressive tariff measures under the "reciprocal tariff" policy proposed by President Donald Trump (Accountancy, 2025). In this policy shift, the U.S. imposed a flat 10% tariff on all imported goods and significantly higher rates, ranging from 25% to 125%, on imports from countries that, according to U.S. trade officials, did not offer reciprocal market access or fair-trade practices. This marked a sharp turn away from decades of liberalized trade policies that had underpinned globalization.

China, as the U.S.'s largest trading rival, faced a steep 125% tariff on its exports to the U.S., prompting Beijing to retaliate with up to 34% tariff on American goods such as agricultural products and consumer goods and impose export restrictions on vital materials like rare earth elements. These actions have disrupted global supply chains and intensified tensions between the two largest economies.

Meanwhile, Japan, subjected to a 24% tariff, was seeking exemptions through diplomatic channels. Prime Minister Shigeru Ishiba advocated for the removal of tariffs, especially the 25% levy on auto imports, which is a core pillar of Japan's export economy, during the talk with President Trump. Despite these efforts, the Japanese government allocated a sum of ￥980 billion (approx. $6.3 billion) as assistance funds to support the affected industries and small businesses. (Christopher, 2025) Besides, Japan has intensified negotiation with regional partners to stabilize its trade outlook.

In response to escalating trade barriers, China, Japan, and South Korea have agreed to resume negotiations for a trilateral free trade agreement, aiming to strengthen regional economic cooperation and defused the impact of U.S. protectionist policies. These developments highlight a shift towards regional alliances and a revaluation of global trade strategies, as nations navigate the complexities introduced by the U.S.'s reciprocal tariff policy.

The broader implications of these changes are significant. First, Eiteman et al. (2016) suggest that multinational corporations are reassessing their production and sourcing strategies, increasingly looking to Southeast Asia, Mexico, and Eastern Europe to hedge against geopolitical risks (Moffett et al., 2021). Second, the rise in tariffs and trade barriers is contributing to inflationary pressures worldwide,

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with consumers in all three countries−especially in the U.S.−facing higher prices for imported goods.

Therefore, this study will focus on identifying the characteristics of the manufacturing, retailing and service in China, Japan, and the United States. And analysing what strategies these three industries took to cope with the reciprocal tariff policies issued by the United States. In the study, a comparative case study approach will be applied to analyse financial data from manufacturing, retailing, and service companies in China, Japan, and America to validate the theoretical frameworks.

2 RESEARCH QUESTIONS

What are the characteristics of manufacturing, retailing and service in China, Japan and America and what strategies do they adopt in response to the reciprocal tariffs imposed by the USA.

3 THEORETICAL BASIS

To better illustrate the characteristics of manufacturing, retailing and service in China, Japan and America and to analysis their response respectively to the tariffs imposed by USA, some relevant theories will be introduced below.

3.1 Financing Decision Theories

3.1.1 Pecking Order Theory

The Pecking Order Theory explains how companies prioritize financing options, which may affect their strategies in response to tariffs. For instance, during the U.S.-China trade war, many Chinese manufacturers prioritized internal financing to avoid the signalling risk associated with external equity financing. (Brealey et al., 2022) Proposed by Stewart Myers and Nicolas Majluf in 1984, it elucidates that when financing new projects, the company will prioritize using internal profits, which is equal to net profit plus depreciation minus dividends, because internal financing does not require signing contracts with investors or paying various fees, which means fewer restrictions. When stock prices are overvalued, managers will issue new shares based on internal information, making investors discover the information asymmetry, resulting in investors lowering the valuation of existing and newly issued stocks, which leads to a decrease in stock prices and the market value. But if issuing bonds unrelated to asymmetric information, the value of the company will not decrease. Therefore, bond financing is preferred over equity financing.

3.1.2 Trade-Off Theory

The Trade-Off Theory explains how companies balance debt and equity to maximize firm value. It is crucial for understanding how companies manage financial risks under tariff pressures (Ross et al., 2021). When industries, specially manufacturing and retailing, are facing high tariffs, the cost of imported inputs will increase, resulting in lower revenue or profit margins. Managers need to use this theory to pull off the appropriate balance in capital weights to maximize their firm value and create positive shareholder value. When the debt-to-equity ratio is low, the tax shield benefits of debt enhance the company's value. Until the debt ratio reaches a certain extent, the tax shield benefits of debt begin to be offset by the cost of financial distress. When the marginal tax shield benefits are exactly equal to the marginal financial distress costs, the company's value is maximized, and the debt ratio range that time is the optimal capital structure of the company.

Together, the Pecking Order Theory and the Trade-Off Theory provide a comprehensive framework for understanding how companies balance financing options and manage financial risks, which is crucial for formulating strategies in response to tariffs. By understanding the principles of these two theories, companies can optimize their financing decisions and minimize financial risks, thereby enhancing their resilience to tariff changes under globalization.

3.2 Investment Decision Theories

3.2.1 NPV Method

Net Present Value refers to the shortfall between the present value of future cash inflows and the present value of future cash outflows.

$$\text{NPV}=\sum_{t=1}^{n}\frac{NFC\ (t)}{(1+K)^t}-I^* \tag{1}$$

The NPV Method is used to evaluate investment projects by comparing the present value of future cash inflows and outflows. It helps managers decide whether to proceed with projects under current tariff rates (Damodaran, 2012). It converts the net cash flows of an investment over its entire life into the sum of equivalent present values based on a predetermined

target rate of return. Assuming that the expected cash inflow can be realized at the end of the year, and considering the initial investment as borrowed at a predetermined discount rate, when the net present value is positive, the project still has spare income after repaying the principal and interest. When the net present value is zero, there is no profit left. When the net present value is negative, the project's income is insufficient to repay the principal and interest. For example, when a transnational company needs to evaluate an investment project, it needs to estimate cash flows in local currency first, and then, convert projected local cash flows into the parent company's currency. Thirdly, it uses the cost of capital, adjusted for country risk premium, exchange rate risk and inflation differences to determine the discount rate, which will be applied calculating the present values. Adjustments for transfer pricing, tariffs, and capital controls that affect repatriation should be put into consideration. Finally, it subtracts the initial investment from the total present value of future cash flows and decides whether the project is feasible.

*NFC (t) refers to the net cash flow in year t; K refers to the discount rate; I refers to the initial investment amount; n refers to the expected service life of the project

3.2.2 Real Options Theory

Real Options Theory provides a framework for making flexible investment decisions under uncertainty. This theory helps companies adapt to changing tariff environments by allowing them to delay or modify investment decisions(Trigeorgis, 1996) (Copeland & Antikarov, 2001). In theory, a real option is an economically valuable right (without an obligation) to gain real assets whose expected future cash flows are linked to the development of a new product through R&D investments, patent exploitation, expansion of production scale and so on. Under globalization, companies can use real options to delay investment decisions until more information is available about tariff changes, thereby minimizing potential losses. It helps firms reframe reciprocal tariffs not just as threats, but as triggers for strategic flexibility. Instead of locking into rigid plans, companies can design adaptive strategies that treat investment decisions as options—waiting, switching, abandoning, or expanding—as conditions evolve. This dynamic approach enhances competitiveness in an uncertain and protectionist global trade environment.

In short, the NPV method helps managers decide whether a project is profitable or not under the current tariff rates while The Real Option Theory values the flexibility to adapt decisions over time in uncertain environments, which helps companies to respond dynamically to changing tariffs. However, NPV method may have some limitations when tariffs keep changing because it assumes fixed conditions.

4 CROSS-INDUSTRY ANALYSIS: TAKE CHINA AS AN EXAMPLE

The reciprocal tariff policy has sent ripples across China's economic landscape, particularly affecting its key industries: manufacturing, retailing and services. Each sector has experienced distinct challenges while also adopting innovative strategies to adapt and remain competitive in a changing global trade environment.

In Cross-industry analysis, the study is going to introduce the characteristics of manufacturing, retailing and service industries in China and analyse what strategies do they adopt in response to the reciprocal tariffs imposed by the USA.

4.1 Manufacturing

The manufacturing industry in China is characterized by high output volume and cost efficiency. It has become the global leader in manufacturing through its extensive industrial infrastructure, low labour costs, and government support for export-driven growth. The industry focuses on electronics, textiles, machinery, and more recently, electric vehicles and green energy technologies. Recently, it was showcasing China's national strength to the world with its remarkable rapid development.

When it comes to problems, however, the sector has borne the brunt of U.S. tariffs. Key exports, such as electronics, machinery, automotive components and consumer goods, are facing increased costs and reduced competitiveness in the U.S. market due to high import duties. The 125% tariff on critical businesses like electric vehicles and solar panels has sharply curtailed Chinese manufacturers' access to one of their largest export markets (Hong Zhu et al., 2025). This has led to decreased factory orders, margin compression, and concerns about overcapacity in domestic production.

To alleviate the economic losses caused by tariff pressure, many manufacturers are seeking alternative solutions. By calculating the net present value of continuing versus shifting operations, managers make decisions on whether to retain the US market or not.

With declining NPV of U.S (Moffett et al., 2021). market-oriented production due to tariffs, firms are instead investing in South Asia, Mexico, and Africa where markets contain a higher future cash flow potential and lower trade barriers. Besides, firms are adopting "option-based" flexibility. For example, keeping idle capacity in China while building modular plants in Vietnam or India creates operational flexibility, allowing them to observe the change of trade climate. Since this approach treats international expansion as a series of real options, which minimizes risk in uncertain global conditions.

4.2 Retailing

As one of the most dynamic and tech-driven sectors in the world, the retailing industry in China is prosperously developing. There's an obvious characteristic of the industry in China, which is called "E-Commerce Dominance". Many platforms like Alibaba, JD.com and Pinduoduo dominate retail, with online sales making up a large portion of total retail revenue. These sales are promoted by the emergence of a new promotion mean called real-time livestream selling.

While not directly subject to tariffs, Chinese retailers are facing downstream effects from higher input costs and disrupted supply chains for imported goods. Additionally, reduced household confidence because of macroeconomic uncertainty affects consumption.

Continuously meeting consumer demands while maintaining industry stability have become the top priorities for Chinese retailers. Firstly, they are trying to leverage national pride and consumers' nationalism, strategically promoting local brands. This sentiment-driven strategy, while not grounded in traditional finance theory, complements real options logic: it provides a low-risk, high-upside branding shift without major capital expenditure. Secondly, large retailers are prioritizing retained earnings and internal cash flows to finance supply chain optimizations, smart inventory systems and AI-based customer analytics. Here's a classic case: JD.com.

Rather than relying heavily on external equity markets, especially during periods of macroeconomic instability and investor scepticism. Moffett et al. (2021) highlight that rather than relying heavily on external equity markets, JD has prioritized internal cash flows and retained earnings to fund its supply chain restructuring and AI-driven retail technology (Brealey et al., 2022). For instance, JD reinvested a significant portion of its net income into expanding its proprietary warehousing and logistics infrastructure, rather than issuing new equity. This aligns with the logic of the Pecking Order Theory: Firms prefer internal financing to minimize information asymmetry and avoid signalling risk to the market.

4.3 Service

Since China is the second most populous country in the world, its service sector is highly developed, and it is still growing. The industry has provided 331 million people with job opportunities. What's more, it now accounts for over 50% of China's GDP, which signals a shift from manufacturing-led growth. The integration of the service industry with emerging technologies has also brought new vitality to this sector. For example, digital services like fintech, online entertainment, education platforms and cloud computing are expanding rapidly, too. However, they are undergoing significantly indirect consequences due to slowing trade, rising operational costs and weakened investor confidence. Meanwhile, cross-border financial services and logistics firms have experienced reduced volumes and higher geopolitical risk premiums.

The study will take Aliyun as an example to explain how a cloud computing company responds to reciprocal tariffs and how it copes with the risks. According to the FY 2022 Annual Report and the FY 2024 Annual Report of Alibaba Groups Investor Relations website, the total debt of the firm rose from 154.5 billion RMB to 180.8 billion RMB, while its EBITDA increased from 186.2 to 210.3 billion RMB. This resulted in a stable Debt/EBITDA ratio hovering around 0.86, well within safe limits. During the same period, Aliyun's revenue surged from 100.2 to 137.6 billion RMB, reflecting successful capital deployment into high-growth digital infrastructure (Alibaba Group, 2022; Alibaba Group, 2023; Alibaba Group, 2025). Data mentioned above can be seen in figure 1.

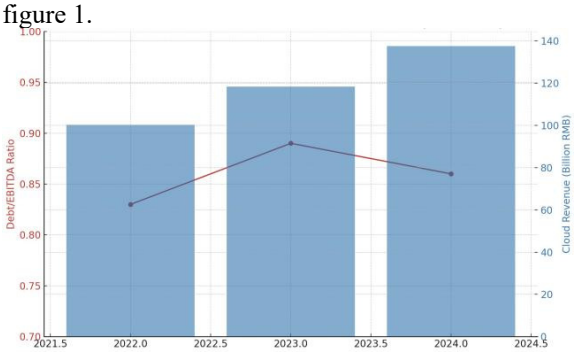

Figure 1: Alibaba Cloud: Debt/EBITDA Ratio vs Cloud Revenue (2022-2024). Picture credit: Original

This financing decision exemplifies a balanced risk-return approach. By maintaining moderate leverage, Alibaba maximizes tax benefits and avoids the dilution of control associated with equity financing, especially critical in a volatile geopolitical landscape. It can be concluded that a firm should borrow just enough to fund growth efficiently, while safeguarding its financial stability. As U.S. reciprocal tariffs continue to strike global markets, such theory-based decision-making offers a blueprint for resilient corporate finance in China ' s evolving service sector.

4.4 Government Response

In all three sectors, China's governments have played a practice role. For examples, a large amount of subsidies and tax relief have been provided as support to export-heavy manufacturers and logistics providers. Besides, billions have been allocated to AI, green energy and industrial automation to help industries move up the value chain. In the field of diplomacy, China is actively engaging in regional and global trade forums to open alternative markets and reduce dependency on the U.S.

5 CROSS-MARKET ANALYSES: TAKE JAPAN AS AN EXAMPLE

While China has been the primary target of the United States's reciprocal tariff policy, Japan's deeply export-oriented economy has not been immune to the indirect effects.

In cross-market analysis, the study aims to explore how Japan's labour market, merchandise market and financial market are responding to an evolving under these new global trade conditions.

5.1 Labor Market

Japan's labour market has shown notable resilience largely due to its diversified export portfolio and stable domestic service industry. Although it was not directly targeted by the tariffs, industries linked to U.S.-China supply chains, such as automobiles, semiconductors and precision machinery, have seen slower growth. Among the huge market, Toyota is a good example illustrating automotive sector adjustment amid global shocks.

In a strategic move, it announced plans to relocate a portion of its GR Corolla production from Japan to its Burnaston plant in Derbyshire, UK. This decision is influenced by a recent UK-U.S. trade agreement that reduces tariffs on UK-manufactured vehicles exported to the U.S. from 25% to 10% for up to 100,000 vehicles annually. (Karim C., 2025)

The Burnaston facility, currently operating below capacity, will receive an investment of approximately ¥8 billion to establish a new assembly line capable of producing 10,000 units annually, primarily for the North American market.

To facilitate the production transition, it plans to dispatch Japanese engineers to the UK to assist in setting up the new assembly line. This temporary redeployment underscores the need for workforce flexibility and may influence future training and development programs within Japan to support internationalization operations. Data mentioned above can be seen in figure 2.

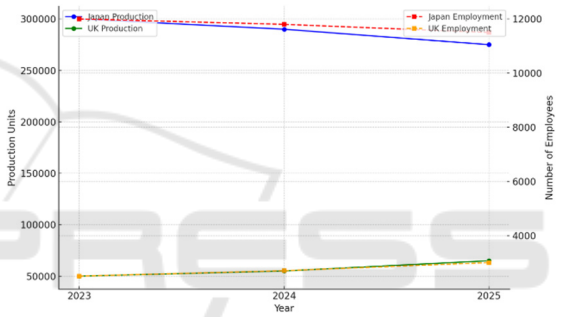

Figure2: Toyota Global Production and Employment Impact (2023-2035) Picture credit: Original.

5.2 Merchandise Market

As the U.S. shifts its tariff posture, Japan is facing dual challenges such as reduced cost-efficiency in regional supply chains, especially those involving China, and increased pressure to prove reciprocal trade fairness.

To save themselves, Japanese importers are actively diversifying sourcing strategies. Many firms have increasingly localized workshops in the United States and Southeast Asia to bypass tariff-related costs. For example, Panasonic has expanded its battery production facilities in Nevada, while companies like Denso are investing in North American R&D hubs. These moves support U.S. operations but reduce the volume of finished goods exported directly from Japan. Data mentioned above can be seen in figure 3.

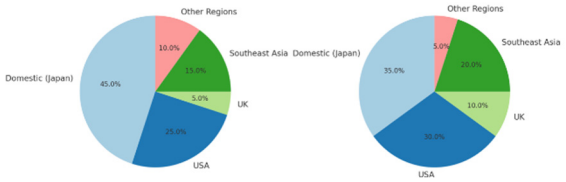

Figure3: Pre&Post-Tariff Production Localization Picture credit: Original.

With the reciprocal tariffs raising the cost of Chinese components, Japan is deepening its economic partnerships with Vietnam, Thailand and India to build more resilient and cost-effective supply chains. This strategy not only mitigates immediate tariff risks but also aligns with Tokyo's long-term economic diplomacy goals under its Indo-Pacific strategy

5.3 Financial Market

Japan's financial market can be seen as a safe haven in a volatile landscape. The yen has maintained its role as a safe-haven currency, appreciating during periods of global uncertainty driven by tariff escalations. Although this strengthens investor confidence, it also poses challenges for exporters by making Japanese goods more expensive abroad.

The financial market is always inseparable from equities and dividends. Japanese equity markets have reflected sectoral divergence. Export-heavy firms in the automotive and electronics sectors have experienced volatility in response to tariff developments, while domestically focused industries, such as retail, healthcare and financial services, have remained stable or developed. Institutional investors and corporate treasuries have responded by diversifying asset allocations, with increased investment in non-U.S. markets and local innovation.

At the policy level, the Bank of Japan has continued its accommodative stance, which provides liquidity and maintaining low interest rates to support capital flows and ensure credit stability. Government-backed agencies have also extended credit and insurance to exporting SMEs facing demand uncertainty.

By spreading production risk, investing in new markets, and preserving employment stability, Japan offers a blueprint for how advanced economies can navigate the uncertainties of modern trade while sustaining long-term growth.

6 CROSS-COUNTRY ANALYSES

The United States' policy of reciprocal tariffs, where taxes match or exceed those imposed by trade partners, has reshaped the dynamics of international commerce. While originally aimed at correcting long-term trade imbalances and advocating for more equitable market access, the ripple effects of these tariffs have significantly impacted major economies such as China and Japan. This analysis explores how each of these three countries, China, Japan and the United States, has been influenced by and responded to these reciprocal tariffs across trade, production, and economic strategy.

6.1 China

China, as the primary target of the United States' tariffs in this trade war, has undergone a burden over $300 billion worth of goods, including electronics, machinery and consumer products, disrupted export volumes and pressured manufacturers to reassess their global positioning.

In response, China has pursued a dual strategy. Firstly, it accelerated the diversification of its export markets under the Belt and Road Initiative and deepened trade ties with ASEAN nations, the Middle East and Africa. Secondly, Chinese firms have increasingly "decoupled" sensitive supply chains, especially in the tech sector, by localizing plants or investing in third countries such as Vietnam and Indonesia.

Moreover, the government has provided subsidies and tax relief for affected export enterprises while promoting domestic consumption to counterbalance weakening external demand. However, these strategies haven't fully offset losses because foreign investment inflows to China have slowed, and manufacturers face rising costs due to the need to "tariff-proof" supply chains.

6.2 Japan

Although not being directly affected, the imposition of a 25% tariff on Japanese car imports by the U.S. in 2025 marked a turning point, prompting major manufacturers to adapt. Toyota's decision to shift production of the GR Corolla from Japan to the UK exemplifies how Japanese firms are leveraging third-country trade agreements to bypass U.S. tariffs. By exploiting the UK-U.S. trade deal that offers preferential tariff treatment, Japanese firms are maintaining U.S. market access without escalating costs.

Japanese companies are also expanding workshops in North America and Southeast Asia, thereby isolating themselves from tariff exposure. Meanwhile, Tokyo has responded diplomatically by strengthening bilateral and multilateral trade frameworks, such as the CPTPP and the Japan-EU Economic Partnership Agreement, to reduce dependence on any single trade corridor.

Japan's economic resilience is also supported by a stable financial market and a robust monetary policy, although these come at the cost of reduced export competitiveness. Labor markets remain stable due to domestic redeployment strategies and the country's long-standing tradition of lifetime employment in major firms.

6.3 The United States

For the United States, the reciprocal tariff policy is a part of a broader industrial policy aimed at restoring manufacturing, protecting intellectual property, and correcting structural trade deficits. While these measures have achieved some near-term gains, for example, a rebound in U.S. steel and semiconductor investments. They have also raised import costs, contributing to inflationary pressures and supply chain distortions. The reason why side-effects exist is that U.S. consumers and businesses have faced higher prices for imported goods, especially electronics and textiles. What's more, retaliation from China and other trading partners has hurt U.S. agricultural exports and high-end manufacturing industries like aerospace.

However, the U.S. has encouraged domestic investment through legislative tools like the Inflation Reduction Act and CHIPS Act. These policies aim to create high-value jobs and rebuild industrial capacity in strategic sectors. Still, the full economic benefits of these policies are long-term, while the short-term disruptions of tariff wars continue to ripple through the economy.

7 CONCLUSIONS

The study finds that companies in China, Japan, and the United States adopt different strategies to cope with reciprocal tariff policies, influenced by industry characteristics, market conditions, and institutional factors, which provide valuable insights for policymakers and business leaders on how to navigate the complexities of global trade and tariff policies. However, this study is limited by the availability of data on specific companies' financial decisions. Future research could explore case studies of individual companies to provide more detailed insights.

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