



‘Caught in the middle’: Effects on and reactions of Vietnamese timber exporters in the context of US-China economic sanctions

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ABSTRACT

The impact of primary sanctions on firms has been well-documented in the literature. However, the impact of secondary sanctions on businesses in third countries and their strategic responses has been under-researched. This study explores this issue by investigating Vietnamese timber exporters in the context of US-China economic sanctions. Taking a case study approach, interviews were conducted with key government and industry officials as well as firms in Vietnam. Using the key concepts from the realism school of thought and the stakeholder theory as the analytical lenses, we found that third countries' businesses encountered both positive and negative impacts of the sanctions and employed four strategies, namely aligning, aspiring, influencing, and insulating to respond to the challenges and opportunities these sanctions presented. This study contributes to identifying the notion of temporality and explaining how and when third-country firms intertwine both reactive and anticipatory strategies.

1. Introduction

Conflicts between countries have occurred throughout history. However, rather than being managed through armed military responses, international diplomacy, and economic sanctions have been the primary tools of conflict management in the last few decades. The role of the State is critical in determining the level and scope of the sanctions to achieve the intended goals of behavioral change (Peksen, 2019b). Historically, economic sanctions primarily targeted state-owned enterprises. Over time, non-state actors and enterprises have also become targets of sanctions (Hufbauer & Jung, 2020). Given recent geopolitical conflicts and turbulences, it is important to explore the effects of economic sanctions on firms and their responses to them.

The International Relations discipline explains these sanctions from the ‘realism’ school of thought (Beugelsdijk & Luo, 2024). Realism identifies the nation-state as a rational actor that makes decisions, and so serves its self-interests. To achieve their goals, nation-states form alliances and expect the allies to support each other. Translated into sanctions, nations would expect their allies to support actions taken by

the State and implement them (Filipenko, Bazhenova, & Stakanov, 2020). Some recent examples of such activities include the United States (US) economic sanctions on Iran, China, and Russia (He, Li, Wang, & Zhang, 2024).

With strong global integration, sanctions impact not only firms in the sanctioning and sanctioned countries but also businesses in a third country. If they fail to comply with the sanctions regime, they may have to face penalties, which are called secondary sanctions (Meyer, Fang, Panibratov, Peng, & Gaur, 2023), such as when the US applied penalties on Chinese firms for conducting financial transactions with North Korea. Despite the significance of these secondary sanctions on business activities, the conceptual and empirical insights regarding diplomacy and the effects of sanctions, especially in third countries, remain largely limited across the International Business (IB) literature (Doh, Dahan, & Casario, 2022; Li, Shapiro, Peng, & Ufimtseva, 2022a; Meyer & Thein, 2014).

The recent Russia-Ukraine conflict saw a raft of economic sanctions against States and firms doing business with Russia (Ciravegna, Ahlstrom, Michailova, Oh, & Gaur, 2023). For third countries, the

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implications of these sanctions have been multifaceted. Economically, companies must reassess their business ties, as dealings with sanctioned entities can lead to punitive measures from sanctioning bodies, primarily the US and the European Union (Hofer, 2023). Politically, these sanctions can strain relationships between sanctioning countries and third-party states, especially those with close ties to Russia. Some countries are forced to balance their economic interests with geopolitical pressures, leading to a complex interplay of alignment and dissent. Furthermore, secondary sanctions inadvertently amplify economic instability, particularly in sectors like energy, where Russia plays a significant role in global supply (Korosteleva, 2022).

These are some of the issues that international firms are increasingly facing. However, while the International Relations area discusses the effectiveness of these sanctions broadly at the macro-level (Tsouloufas & Rochat, 2023), the IB literature has yet to capture the impact of secondary sanctions on international firms and their strategic response to these restrictions. This study addresses these issues and contributes to the IB literature by attempting to answer the following questions:

How do trade wars and related sanctions affect exporting firms in third countries? What strategies do third-country exporters employ to respond?

We look at the effects of the US-China trade war on Vietnamese timber exporting firms. The US is Vietnam's largest export partner (The World Factbook, 2023). Vietnam was said to be a significant beneficiary of the US-China trade war fallout, with wood and timber products among the top exporting commodities, achieving an average growth of more than 30 percent (Lam & Nguyen, 2019). In 2020, Vietnam's timber exports came under the scrutiny of the US Trade Representative (USTR), who accused Vietnam of exporting illegally harvested Chinese timber products to the country.

To understand how the Vietnamese exporters continued to operate in this volatile environment and how the Vietnamese government supported them, we conducted semi-structured interviews with key stakeholders in the country's timber export industry and analyzed relevant documents. Our findings point to four strategies that third-country firms employed when internationalizing. We present them as a dynamic process involving strategies of full compliance (aligning and aspiring) that evolve into more selective compliance strategies (influencing and insulating). Our study reveals that firms intertwined both reactive and anticipatory strategies – they responded to immediate pressures but also scanned the trade war situation as being temporal and strategized beyond the conflict.

These observations have important implications for our understanding of economic sanctions and the involvement of third countries in trade wars under realism conditions (Doh, et al., 2022; Li, et al., 2022a). We also add to research on how internationalizing firms respond to competing stakeholder demands in the geopolitical context (Li, et al., 2022a; Meyer, et al., 2023; Oliver & Holzinger, 2008). Finally, this study adds to the International Business-Government relations literature and highlights the critical importance of this relationship in mitigating risks in the global business environment (Cavusgil, et al., 2020; Dang, Jasovska, & Rammal, 2020).

2. Economic sanctions and international business

Sanctions are used to respond to perceived unfairness in trade and investment activities and/or as a prominent tool for promoting human rights, non-proliferation, counterterrorism, and other international security objectives. Economic sanctions are a step up from diplomacy and an alternative to military conflict (Meyer, et al., 2023), and include a wide range of penalties, such as embargoes on trade and investment, movement of people, or restricted communications (Brady, 1987).

Sanctions can be classified into two categories: comprehensive sanctions and targeted sanctions. Comprehensive sanctions are aimed at a country's economy as a whole and are intended to exert maximum pressure on the target country (Hawkins & Lloyd, 2003). Targeted

sanctions, on the other hand, are aimed at specific individuals, organizations, or sectors of the economy and are intended to be more focused on and less harmful to the overall economy (Drezner, 2011). These sanctions can be imposed unilaterally by a country attacking one or a group of countries (Ahn & Ludema, 2020), which can be endorsed and followed by other countries or by a supranational institution like the United Nations and implemented by the member states (Biersteker, Eckert, Tourinho, & Hudáková, 2018).

The option to place economic penalties on countries that do not comply with the generally accepted rule of trade was one of the drivers for the establishment of the World Trade Organization (WTO). However, the ability of global institutions to enforce these actions has been questionable (Liebman & Tomlin, 2015). For example, the dispute on illegal subsidies between the United States-based Boeing and the European Union-based Airbus took the WTO 17 years to resolve (Trebilcock, 2022). Such delays in resolving conflicts are potential drivers for increased unilateral economic sanctions imposed by countries. In the last few decades, we have witnessed several such actions initiated by countries, some of which have been responded by counteraction from the target country, leading to trade wars, such as the technology trade war between the US and China. The COVID-19 pandemic saw an increase in economic nationalism (Hitt, Holmes, & Arregle, 2021; Rammal, et al., 2022), and sanctions were used by countries to punish target countries for criticizing them. For example, the Chinese government placed sanctions on importing coal and wine from Australia after the Australian government criticized the Chinese government's response at the onset of the COVID-19 outbreak (Lim & Ferguson, 2022).

Using sanctions in IB has been a controversial issue for many years. Sanctions have a negative impact on the targeted and imposing countries' economies and their people, leading to widespread poverty and suffering (Ali, 2010; Shojai & Root, 2013). How effective these sanctions are in avoiding military conflict is another issue that remains unanswered. For example, in 1964, the US government imposed economic sanctions against North Vietnam. A year later, the US committed troops to military conflict in Vietnam (Freeman, 1993). For businesses, sanctions can create several challenges (Gaur, Settles, & Väättänen, 2023), including restrictions on trade and investment, limitations on access to certain markets, and difficulties in obtaining raw materials.

While the literature predominantly focuses on the impact of economic sanctions on the enforcing and target countries, these actions also have consequences for industries and firms operating in third countries (Pangestu, 2019). In fact, the United Nations acknowledges the harm that the sanctions can inflict on vulnerable groups and third states and encourages the General Assembly and the Security Council to reduce the humanitarian costs to civilian populations as far as possible (Hufbauer & Oegg, 2000). The sanctions' consequences on third countries could be either positive or negative (Meyer, et al., 2023). Sanctions can increase trade between sanctioning and third countries (Yang, Askari, Forrer, & Teegen, 2004) and accelerate investment activities from sanctioning countries to third countries (Barry & Kleinberg, 2015).

There are also risks of secondary sanctions for third countries if the sanctioning country deems them as engaging with the sanctioned countries' entities (Meyer, 2009; Svetlicinii, 2022). Countries employ secondary sanctions to extend their economic and regulatory powers beyond the primary target to third-party states that engage with the sanctioned nation (Meyer, 2009; Morgan, Syropoulos, & Yotov, 2023; Ruys & Ryngaert, 2020). Secondary sanctions are a subject of debate due to their extraterritorial application (Andresen, 2023) as they can target foreign individuals or companies that are typically beyond the purview of the sanctioning country's jurisdiction (Meagher, 2020; Peksen, 2019a). The rationale for resorting to secondary sanctions emerges when primary sanctions do not yield the desired change in the behavior of the target nation (Fabre, 2016). In instances where third-party states continue their economic engagements with the target nation, they potentially weaken the impact of primary sanctions by filling the economic void left by entities from the sanctioning country (Han, 2018).

In policy discussions, secondary sanctions are typically described as punitive strategies designed to sever foreign entities from the sanctioning country's financial and commercial sectors (Onder, 2023). Unlike primary sanctions, which may be upheld through legal prosecution or financial penalties, secondary sanctions are executed through economic constraints (Ruys & Ryngaert, 2020). In practice, businesses and countries have been reported to be targets of secondary sanctions. Nevertheless, the stock of impacts has been mostly taken from a macro and aggregated level. Sanctions' impacts on third countries' businesses have been noted as a substantial gap in the literature (Meyer, et al., 2023).

3. Theoretical background

The rise of nationalism, especially over the last two decades, has seen nation-states taking punitive action against others using sanctions without the formal approval of supranational institutions like the World Trade Organization (WTO) (Ghauri, Strange, & Cooke, 2021). These actions have resulted in an increase in economic sanctions, resulting in trade wars and third countries being forced to choose between supporting sanctioning and sanctioned countries. China's Belt and Road Initiative (BRI) is an example of how States are forming multi-nation trade blocs that are independent of the WTO and other similar institutions (Buckley, 2020; Li, Van Assche, Li, & Qian, 2022b). Hence, it is necessary to understand the relationship between states, what motivates government actions (Filipenko, et al., 2020), and how companies can engage with them as one of the most important stakeholders.

We apply the concept of *realism* to discuss the motivation of governments (Boucher, 1998). Realism is a school of thought in international relations that emphasizes the role of power and self-interest in shaping states' behavior (Donnelly, 2000). Realism has been used in the IB literature to explain techno-nationalism and technology war (Luo, 2022; Luo & Van Assche, 2023), and corporate diplomacy (Li, et al., 2022a). Realists contend that states exist in a state of anarchy, meaning that there is no central global authority to enforce rules or resolve conflicts. As such, states must rely on their own power to survive and achieve their objectives. Realists assume that states are the primary actors in the international system and that their behavior is driven by a rational calculation of their interests. They argue that states seek to maximize their power and security and that pursuing self-interest often leads to conflict and competition between countries. Hence, realism contrasts with idealism or liberalism, which emphasizes cooperation (Herz, 1951).

In addition, realists often view international institutions and cooperation with suspicion, arguing that they are ineffective at best and detrimental to a state's interests at worst (Galston, 2010). They contend that international agreements and institutions are often used by stronger states to impose their will on weaker ones rather than as a means of achieving genuine cooperation and mutual benefit (Guzzini, 1998). In recent years, this assumption no longer holds sway as even stronger states have questioned the decisions of supranational institutions (Feinstein & Pirro, 2021). This perhaps explains why many countries choose to make unilateral decisions, with support from their allies, as far as economic and political sanctions are concerned.

Critics of realism argue that it oversimplifies the complexities of international relations by reducing states to mere units of power and ignoring the role of ideology, culture, and other factors in shaping state behavior (Cozette, 2008). They also contend that realism's emphasis on power and self-interest can lead to a focus on short-term gains at the expense of long-term stability and cooperation. As this study is concerned with understanding how secondary sanctions affect and influence third-country governments and firms' decisions, realism provides the theoretical base required to analyze our case study.

For IB companies, engaging with domestic and international stakeholders can provide them with updated information regarding political risks and can help them prepare for such events by drafting contingency

plans that require tapping into their international network. *Stakeholder theory* emphasizes the importance of considering the interests and needs of all stakeholders in business decision-making processes. From the International Business-Government relations perspective, international firms must be engaged with home and host country governments (Boso, et al., 2023). These relationships can help them identify the political risk challenges they face, and by working with other internal and external stakeholders, they can strategize how to navigate these issues.

Stakeholder theory argues that businesses have a responsibility to create value for all stakeholders, not just shareholders. This means that businesses should strive to create long-term, sustainable relationships with their stakeholders by engaging in ethical business practices, promoting social responsibility, and considering the impact of their decisions on the broader society. By doing so, businesses can create a positive reputation and gain the trust and loyalty of their stakeholders, which can lead to long-term successes.

In the context of IB, stakeholder theory is particularly relevant because businesses operating across borders face unique challenges and must navigate complex cultural, legal, political, and social systems (Lievens & Blažević, 2021). Stakeholder theory encourages businesses to adopt a global perspective and to consider the needs and interests of all stakeholders, regardless of their location or culture (Freeman, Wicks, & Parmar, 2004). To collaboratively work with multiple stakeholders requires that the organization first identifies all stakeholders, their links with each other, and whether they have a direct/primary interest in the operations of the firm or an indirect/secondary interest (Freeman, 1984). Thus, by mapping the stakeholders, we can identify the key players in the sector and how they work to address issues such as economic sanctions (Donaldson & Preston, 1995).

One of the key challenges that we discussed earlier relates to third-country identity. Firms based in countries directly affected by sanctions know what their immediate challenges are. However, for firms from third countries, it is more challenging to predict what the impact of economic sanctions imposed on another country will be on them. This is another issue that we address in this study and add to the application of the stakeholder theory in the IB field of research.

By integrating realism and stakeholder theories, we can examine the driving forces for and the consequences of economic sanctions on firms from third countries, as well as their strategic response to these limitations. Realism helps explain how third countries are affected by secondary sanctions and how they manage their relations with both the sanctioning and sanctioned States. The stakeholder perspective helps analyze the relationships and roles of the various stakeholders that third-country firms interact with when confronted with and responding to sanctions.

4. Research method

We adopt a case study approach to study how firms in third countries are affected and react to sanctions. We selected the case of the Vietnamese timber industry with firms involved in international business activities, representing multiple embedded units of analysis (Scholz & Tietje, 2002). This design helped capture the unique nature of firm responses without referring to the Vietnamese timber industry merely as a context. For this reason, the qualitative procedures were also appropriate for the setting where the causality of industry-level events and firm responses was complex and not immediately apparent. Notably, the implications of the US-China trade war and consequent threats of secondary sanctions imposed on Vietnam generated distinct reactions.

4.1. The context: US-China conflicts, sanctions and Vietnam timber industry

4.1.1. US-China trade relationship and sanctions

The trade relationship between the US and China started to develop in the 1970s (Siripurapu & Berman, 2022), accelerated in 2001 after

China joined the World Trade Organization (WTO), and has become the “world’s largest bilateral trade partnership” (Yuan, Rodrigues, Wang, & Behrens, 2023). Despite the resulting economic benefits – e.g., lower consumer prices, increased exports, and stabilization of interest rates (Li, He, & Lin, 2018) – trade frictions between the two nations have been prevalent since the 1980s (Guifen & Xinying, 2019). The bilateral relations became grimmer since the initiation of Section 301 in 2017, which various authors consider the starting point of the current trade war (Fajgelbaum & Khandelwal, 2022). Section 301 is a provision included in the Trade Act of 1974 that allows the US President to take measures to eliminate ‘unjustifiable’ or ‘unreasonable’ foreign trade barriers (Baker, Gross, & Tower, 1997). The aforementioned Section 301 was used in 2018 and determined that Chinese trade practices had injured US producers, leading to the implementation of multiple tariffs on Chinese goods, including wood and wooden-based products (Fajgelbaum & Khandelwal, 2022). The US has since applied an anti-dumping tax of 183.36 % and an anti-subsidy tax of 22.98 % to 194.90 % on many wooden products from China (Son Trang, 2022). Although China and the US reached an agreement in January 2020, most existing tariffs remained in place (Fajgelbaum & Khandelwal, 2022; Siripurapu & Berman, 2022).

4.1.2. Vietnam/China and Vietnam/the US relationships

The key milestones of relationships between Vietnam/China and Vietnam/the US are summarized in Fig. 1. Vietnam and China have maintained long-standing and deep relations, with China being the first nation to establish diplomatic relations with Vietnam in 1950 and the largest commercial partner since 2004 (Ninh, Dinh, & Vo, 2020). In 2008, Vietnam and China established the Comprehensive Strategic Cooperative Partnership, which is the highest level of partnership that Vietnam has with another country, covering all aspects, including economic, social, security, and political fields (Ninh, et al., 2020; Vu & Thanh, 2022). In addition, China shares a border with Vietnam, the two nations follow a socialist political ideology with the government led by the Communist Party, and consider each other as comrades, supporting and contributing to socialist construction (Ninh, et al., 2020). Therefore, China is an important and indispensable partner of Vietnam.

While China is the largest trading partner of Vietnam, the US is the second largest trading partner (Communist Party of Vietnam, 2022). After 28 years of normalization of relations between the countries, the US and Vietnam have been increasingly developing comprehensive and cooperative relations spanning economic, political, and security areas (Chinhphu.vn, 2022). The US – Vietnam Comprehensive Partnership was signed in 2013 (U.S. Embassy & Consulate in Vietnam, 2013). The relationships between the two are characterized by common interests, with Vietnam being a critical partner of the US in Southeast Asia.

Vietnam aims to balance its relationships with the major powers without compromising one relationship for another, as characterized by the openness, multilateralization, and diversification of its foreign policy (Embassy of The Socialist Republic of Vietnam in the United States of America, 2023). Therefore, in the context of the trade war between the U.S. and China, Vietnam has consistently shown a neutral attitude (Bui, 2019).

4.1.3. Vietnamese timber industry

The Vietnamese timber industry has integrated deeply into the global value chain. It exports to 160 countries while importing from 117 nations and territories. The key exporting products are wood chips, logs and timbers, wood panels, and furniture. The country usually imports logs, sawn timber, boards, chairs, and furniture components (Go Viet, 2022). The most popular export destinations are the US, China, Japan, South Korea, and the EU – accounting for approximately 90 % of Vietnam’s total timber exports (Go Viet, 2022). Timber exports are booming, making the sector a key contributor to the national economy. After the US-China trade war, in 2019 and 2020, the timber industry’s export revenue reached US\$ 10.3 billion and US\$ 12.5 billion, respectively, continuously being on the list of top-eight sectors with annual exports of over US\$ 10 billion in the last few years (Vietnam National Trade Repository, 2022). Vietnam’s timber processing sector has converted the country into the largest wood-product exporter in Southeast Asia, the second largest furniture exporter in Asia, and the largest wood chip exporter in the world (Cuong, Chinh, Zhang, & Xie, 2020; Nguyen, Ariyawardana, & Ratnasiri, 2020). Vietnam is also the main furniture exporter to the US and the world’s second biggest pellet exporter (Nguyen, 2021). According to the Vietnam Timber and Forest Product Association (2022), Viforest, Vietnamese exports of timber and timber products to the US reached US\$ 8.8 billion in 2021 (representing an annual increase of 22 %), compared to US\$ 1.5 billion to China, which is the second biggest export destination.

The US-China trade war has created opportunities for some countries. In fact, the deviance from economic integration – which for decades had been, paradoxically, a main focus of the United States (Fajgelbaum & Khandelwal, 2022) – is heralding Vietnam as “the winner from the era of deglobalization” (The Economist, 2022), and the timber industry is said to be the one that is most impacted (Anh Hoa, 2021). Vietnam is a revelatory case – being connected to both rival countries with weak formal institutions which can enable Chinese firms to re-route their exports. Pan, et al. (2021) assess the impact of the trade war on timber product markets, concluding that Vietnam’s timber processing industry may obtain considerable welfare gains from the trade shift which, between 2018 and 2021, has been moving away from China and towards the US market (Fig. 2). Vietnam’s timber industry is the second

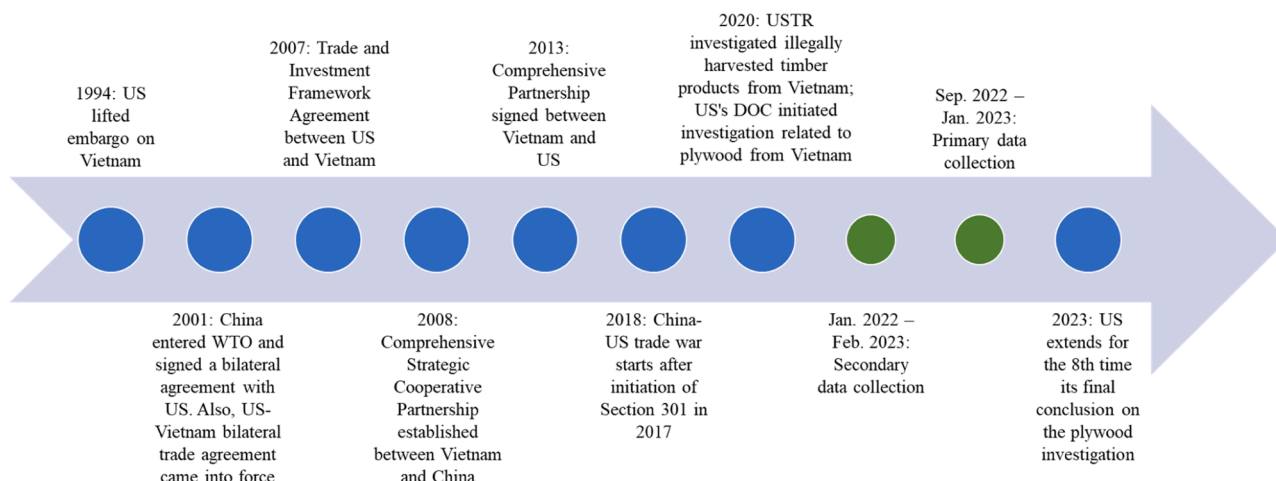


Fig. 1. Timeline related to the study's context and data collection.

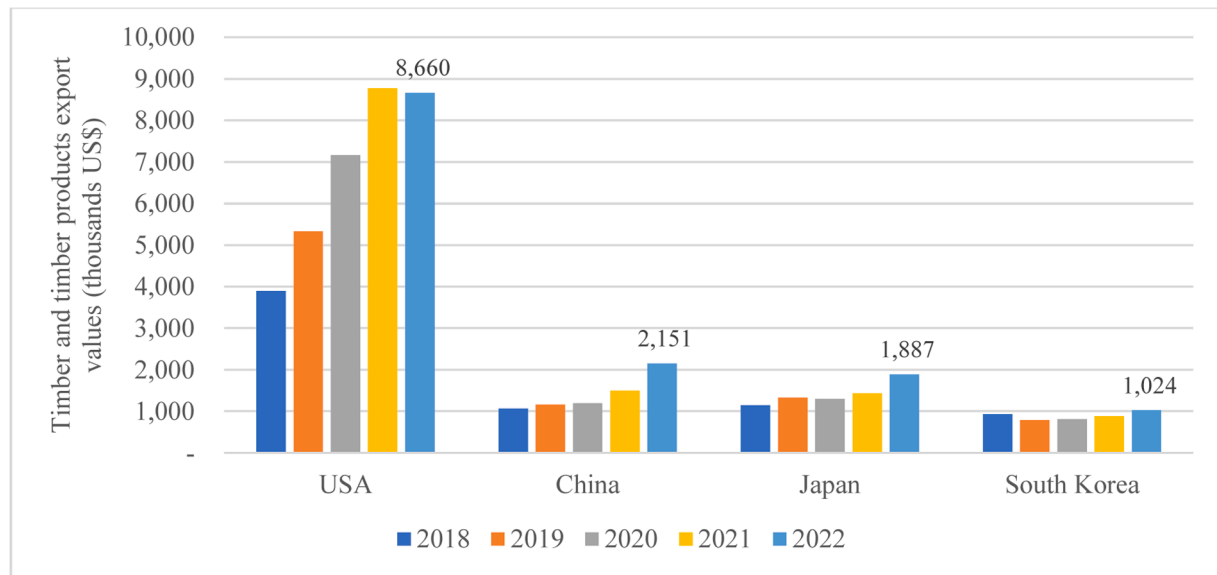


Fig. 2. Timber and timber products exports from Vietnam to the US and some other countries (Adapted from Goviet.org) (colored).

biggest exporter of timber to the US market after China. With China being sanctioned, Vietnam could capture the opportunities in the US.

The trade war and sanctions bring about not only opportunities but also challenges. The Vietnamese timber industry has been the target of investigations initiated by the US since the US-China trade war due to the country's trade relationship with China. In June 2020, the US DOC initiated an investigation on the circumvention of sanctions with a particular focus on all plywood imported from Vietnam (Ngoc Mai, 2020). In October 2020, the Office of the United States Trade Representative initiated a Section 301 investigation on importing and using of illegal timber from Vietnam (USTR, 2020). In June 2022, US DOC further initiated an investigation into Made-in-Vietnam wooden cabinets and vanities that used Chinese parts concerning circumvention inquiries on antidumping and countervailing (Federal Register, 2022). While the Section 301 investigation has been concluded, the other two investigations are still active. Given the significance of the timber industry to the Vietnamese economy and its position in the trade triangulation with the US and China, the country's timber industry provides an interesting context for the research on the impact of economic sanctions on a third country.

4.2. Data collection and analysis

4.2.1. Data collection

We collected data via in-depth semi-structured interviews and documents to understand how firms in third countries are affected and react to trade sanctions. Interviews with various stakeholders were conducted as a primary source of data between September 2022 and January 2023 (Table 1). We interviewed government officials to understand the context of the trade war and what role government agencies played in navigating the implications of sanctions. We also talked to industry associations to learn about the timber industry and how timber production and value chain complexities formed unique challenges for Vietnamese exporters. Firm representatives were asked to describe their strategies to capture opportunities and overcome challenges generated by the US-China trade war. Moreover, the key informants were asked to explain their strategic plans for the future, including the possibility of the trade war ending. The interview questions are provided in Appendix A.

We selected five Vietnamese timber firms that export to the US. These firm cases varied in their size and embeddedness in the industry (e.g., managers of Companies 2 and 3 sit on local industry associations'

Table 1
Data inventory - interviews.

Interviewee	Organization	Company characteristics	Position	Experience	Length of the interview
1	Ministry No.1	-	Officer	15 years	83 min
2	Ministry No.2	-	Officer	5 years	45 min
3	Ministry No.3	-	Officer	10 years	46 min
4	Association 1	-	Vice President	30 years	78 min
5	Company 1	Size: 1600 employees Year of establishment: 2005 Products: Garden furniture, indoor furniture, nursery furniture, kitchen	General Director	11 years	55 min
6	Company 2 Association 2	Size: 2000 employees Year of establishment: 2002 Products: Garden furniture, indoor furniture	Chairman President	21 years	89 min
7	Research Organization 1	-	Researcher	8 years	40 min
8	Company 3 Association 3	Size: 1500 employees Year of establishment: 2004 Products: Indoor furniture	Chairman Vice President	25 years	45 min
9	Company 4	Size: 4500 employees Year of establishment: 1989 Products: Indoor furniture and interior services	General Director	18 years	86 minutes
10	Company 5	Size: 450 employees Year of establishment: 2002 Products: Laminates, furniture, particle board, plywood, MDF	Chairman	19 years	58 min

boards - see Table 1). We expected to find variation in strategic responses based on the extent to which firms were embedded in the home country industry and connected to powerful stakeholders. We also included Company 1, which reported a profit decrease due to sanctions. Although, we found that all firms experienced ups and downs in their profitability throughout the studied period.

The interviewees were selected using snowball and convenience sampling. In addition, some key informants were identified in the timber industry's Ancestral Anniversary festival. The leading author, who is fluent in Vietnamese, met with the key informants face-to-face. In several instances, emails were sent to the key informants requesting additional clarification. For example, we encountered inconsistent responses regarding the Section 301 investigation and its link to the US-China trade war. The interviews were transcribed verbatim and translated into English.

Moreover, we relied on document data to provide us with holistic insights into the US-China trade war, the Vietnamese timber industry and the responses of Vietnamese firms (Table 2). Documents also helped us triangulate our data and overcome the challenges due to the gaps between the events and the interviews. For example, the information found in documents validated our chronology of events and clarified the meaning of the significant trade acts and trade agreements between China, the US and Vietnam. The research strategy we initially adopted included the analysis of articles from Go Viet Magazine and various reports detailing exports and imports of Vietnam Wood and Wooden Products. These documents embraced all levels of analysis that was important for our research inquiry. To gain more insights, we consulted documents issued by the US and Vietnamese governments to learn more about various trade acts and trade investigations in the context of the timber industry. Whenever possible, we complemented these official documents with newspaper articles mainly covering the period between 2018 (the initiation of the US-China trade war) and 2023. Although media materials often provided a more simplified version of events, they were important sources of public accounts of the timber industry in Vietnam, the US, and internationally. We also obtained data about the firms (annual reports and websites), particularly those interviewed.

4.2.2. Data analysis

The data were analyzed iteratively by cycling among our data, theory, and emerging constructs (Golden-Biddle & Locke, 2007). We began with an in-depth analysis of the case of the Vietnamese timber industry. We read the documents covering country and industry levels to gain a chronology of key events. Such events include, for instance, the Section 301 investigation and the subsequent inquiries into Vietnamese exports of plywood and wooden cabinets. Interviewee transcripts, mainly those from government officials and industry associations' representatives, provided background information about the timber industry and international relations of Vietnam with both the US and China. The materials constituted the primary data, which we read and highlighted the segments discussing consequences on firms and their reactions.

To address the research questions, we started by focusing on firms and their international activities as embedded units. We turned to interviewee transcripts in which individual firms described their distinct responses and complemented them with documents. We paid attention to the text sections detailing individual firms' reactions and what role industry stakeholders played. At this stage, we started noticing that although the initiation of the US-China trade war was a critical event for Vietnamese timber firms in terms of new market opportunities in the US, the resulting threats of secondary sanctions played a profound role in firms' approaches to internationalization. Details of the four aggregate theoretical dimensions and their empirical derivation can be found in Appendix B.

5. Findings

Our data suggest that, in response to a trade war between two

Table 2

Data inventory – documents.

Data	Source/Author(s)	Quantity	Use in the study
Go Viet Magazine	Vietnam Timber & Forest Product Association (Viforest)	61 issues (all monthly issues from 01/2018 to 01/2023)	- Extract data on Vietnam timber industry - Obtain information related to the impact of the US-China trade war and sanctions on Vietnam timber industry
Vietnam's Wood and Wooden Products Export and Import Reports	Viforest, Forest Product Association (FPA) of Binh Dinh, Handicraft and Wood Industry Association of Ho Chi Minh city (HAWA), Binh Duong Furniture Association (BIFA), Dong Nai Wood and Handicraft Industry Association (DOWA)	5 reports (2018–2022)	- Extract data on Vietnam timber industry's exports and imports - Explore the reactions and involvement of companies and other stakeholders - Understand experts' opinions
Third-party articles, reports and data	U.S.'s Federal Register Notice – The Daily Journal of the United States Government	5 notices (Oct 2020, Nov 2020, June 2022–2 notices, Aug 2022)	- Provides the context of the investigations - Provides the stakeholders involved in the investigations - Provides the reasons and issues under the investigations
	Section 301 Investigations' documents – Vietnam Timber – United States Trade Representatives	4 documents	- Understand the reasons, details, stakeholders and issues of the investigations
	Forest Trends reports and country dashboard	1 country dashboard and 4 reports (May 2021, July 2021–2 reports, November 2021)	- Gain an overview of the timber industry in Vietnam - Explore the status of timber products on international markets
	Joint Report – Forest Trends, Viforest, Forest Product Association of Binh Dinh	1 report (March 2022)	- Understand the global value chain of the timber industry - Gain understanding about the impact of sanctions on Vietnamese timber industry - Gather information about the reactions and strategies of timber firms in Vietnam - Gain understanding about the involvement of different stakeholders
	Vietnamese timber companies' financial reports	Various	- Explore companies' performance,

(continued on next page)

Table 2 (continued)

Data	Source/Author(s)	Quantity	Use in the study
Websites	Vietnamese Government's departments and ministries	Various websites of relevant Ministries and Governmental Departments	<ul style="list-style-type: none"> reactions and strategies - Understand the involvement at the governmental level - Obtain information published by the governmental bodies related to the effects of the US-China trade war and sanctions - Investigate the role of governmental bodies
	Vietnamese Timber Associations	5 websites: Viforest, Hawa, Dowa, Bifa, FPA Binh Dinh	<ul style="list-style-type: none"> - Understand the roles and operation of Vietnamese timber associations - Explore the reactions and advice of the associations for members - Explore the stakeholders and their roles in responding to the effects of the sanctions
	Companies	Various Vietnamese timber companies' websites	<ul style="list-style-type: none"> - Explore business activities of companies - Explore the companies' export and import markets - Explore companies' reactions and engagement in the influence of the US's sanctions on China
	Local news and media in Vietnam, international news	Various official and mainstream news and media, international news	<ul style="list-style-type: none"> - Explore the influence of US-China trade war and sanction on the timber industry of Vietnam in general and find particular companies that are affected - Explore the relevant stakeholders in the issues, their roles, their reactions and solutions

nations, international firms from third countries take strategic approaches to capture opportunities and manage warnings and threats. We present this as a dynamic process of third countries responding to opportunities arising from trade war. Third-country firms need to adapt to the imposition of sanctions against their trading partner. For them, sanctions create new market spaces due to firms' withdrawal from sanctioned countries. Yet the status of a third country – having trading relationships with both sanctioning and sanctioned countries – makes them vulnerable to threats and warnings of secondary sanctions. Third countries are in a position of being fully or partially compliant to either one rival country or both (Li, et al., 2022a). This represents a central challenge of operating in a highly uncertain environment characterized

by a trade war under the conditions of realism. In such circumstances, third countries can be stuck in the middle. To address this challenge, firms in third countries adopt heterogeneous responses. These involve full compliance (aligning and aspiring) that evolve into more selective compliance strategies (influencing and insulating). We also observed in our data that firms that have pre-existing links to industry stakeholders were able to transition from full- to selective- compliance. Together, these strategies enable firms with existing trade relationships in sanctioning and/or sanctioned countries to sustain their internationalization.

In this section, we present our empirical illustrations. Our findings are organized around the conceptual building blocks and highlight the interactions and responses we observed. Fig. 3 is a visual representation of our framework.

5.1. Short-term opportunities: Third country's involvement in trade war

With its distinct international position and inter-government relationships, the Vietnamese economy benefitted from the trade war between the US and China. Many timber businesses profited in the short term from the withdrawal of Chinese investors and exporters from the US market. This led to increased demands from the US customers who were forced to find a substitute source of timber, as mentioned by Interviewee 1: “*American buyers had to look for alternative sellers, and Vietnam was one of those*”. Other countries in the region, such as Malaysia or Indonesia, could benefit similarly. However, interviewees also indicated that Vietnam represented the second largest source of timber in the US market (after China). The exports from Vietnam to the US grew from approximately US \$3.9 billion in 2018 to US\$ 5.3 billion in 2019 and US\$ 8.8 billion in 2020 (Go Viet Magazine, 2019, 2020, 2021), as also recalled by the interviewed government official: “*Vietnam's exports to the US have set a new record. They replaced Chinese goods that have been affected by tariffs and sanctions*” (Interviewee 2).

5.2. Full compliance with one of the rival countries

5.2.1. Aligning

We define aligning as a reactive response to increased trade opportunities in one of the rival countries. To align, third countries engage in strategies to build capabilities and legitimacy. In our case, this meant that the third-country firms implemented changes that enabled them to join the market in a sanctioning country after the sanctioned country firms had to withdraw. Data indicates that almost all studied companies employed the aligning strategy, except Company 1, which reported decreased productivity as a result of sanctions and lacking resources to catch up. In the immediate aftermath of the US imposition of tough sanctions on China in 2018, Vietnamese timber firms significantly increased their production to meet new demands. However, to do so, the firms had to quickly adapt to a more sophisticated market: “*For those firms, which were not really ready, they had to improve very quickly in order to catch up*” (Interviewee 8). Vietnamese timber firms had to implement new systems and processes to comply with the US regulations in the timber industry. For example, firms had to commit to different safety standards and International Organization for Standardization (ISO) certifications. Some of them also needed to obtain various certifications related to social aspects, such as human rights (SMAT, PSTI, certificate on the protection of workers). Thus, Vietnamese timber firms encountered stricter conditions in the US market. To illustrate, a timber firm representative described their experience from the US market:

Commodities entering the US market must be high quality in accordance with the regulations and standards the US government and the US market require. The quality of products and manufacturing sites needs to be assessed regularly. Therefore, production plants must build laboratories, quality management systems, and quality manufacturing processes. Samples must be sent to international quality assurance organizations.

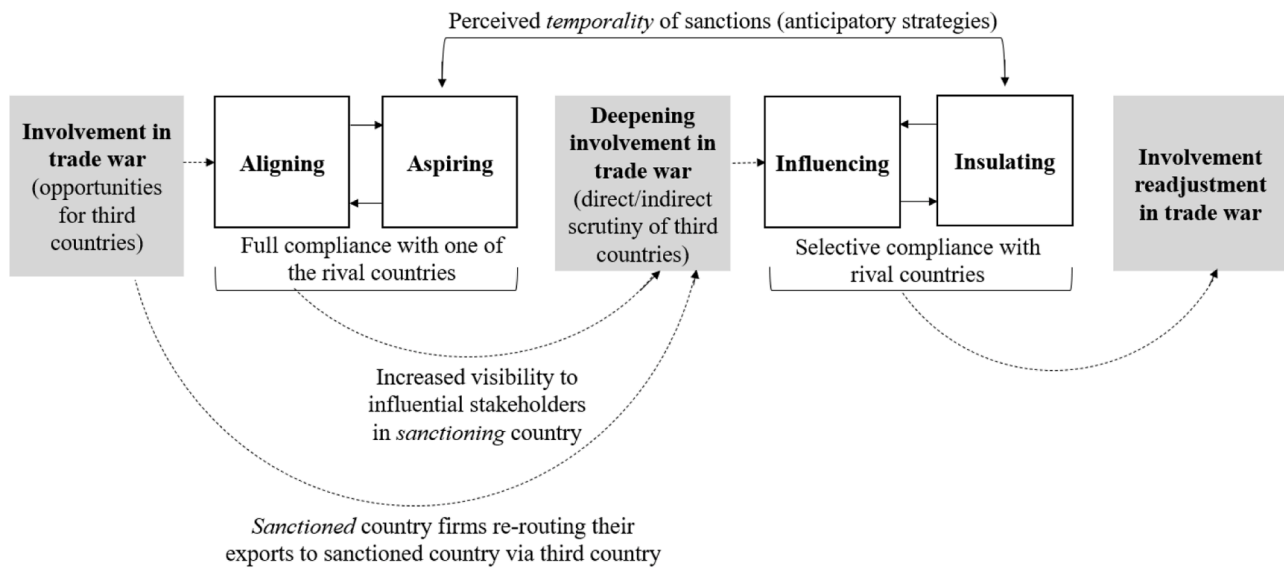


Fig. 3. Third-country firms' responses to economic sanctions.

Vietnamese firms entering the US market need to comply with all the criteria. (Interviewee 10)

Firms had to act swiftly. They knew such opportunities do not often occur: "That's a really rare opportunity that we might not always have in a lifetime" (Interviewee 6). All in all, stricter US regulations were beneficial for building capabilities and legitimacy to compete in the US market and globally.

5.2.2. Aspiring

The strategy of aligning was intertwined with a more proactive approach of aspiring, which refers to firms strengthening the status and international position of the whole industry to future-proof their newly gained market share in one of the rival countries. Although trade wars often affect the global market structure, these changes are temporary. The aspiring strategy signifies how firms plan beyond the already captured opportunities to account for this temporality of geopolitical conditions. Similar to the previous strategy, Company 1 was unable to completely embrace short-term benefits arising from the US-China trade war. Lacking resources and problems with profitability could play a role. Increased capabilities contributed to a better competitive position of Vietnamese firms in the global market. These newly gained capabilities were also crucial for firms' preparedness when the sanctions would be lifted, and China would again be Vietnam's direct competitor. The industry representatives expressed a widespread belief that the sanctions were only temporary and that the period of the trade war was an important window of opportunity for Vietnam to improve and promote its Made-in-Vietnam country of origin label. For example, the government official mentioned:

Another opportunity came from the chance to imprint the brand names and values of Made-in-Vietnam timber products into the perceptions of American consumers and businesses as well. An example is real estate and civil construction developers. It's the opportunity to show them that our timber products are of good quality and good value for money. Furthermore, we, Vietnamese timber firms, have a chance to show them that our timber value chains are sustainable. (Interviewee 1)

Firms anticipated that the sanctions might soon be removed, and they wanted to future-proof their global market position: "The end of the trade dispute doesn't mean that Vietnam will face hardships. We are quite strong already. We can play with Chinese firms fairly" (Interviewee 6). Getting ahead of China was an essential driver for firms to act quickly, as also shown in the following quote made by a firm representative:

Vietnamese businesses can achieve the level of Chinese firms. Because China is in a difficult situation, Vietnamese companies can improve and compete with Chinese companies. Like manufacturing industries, Vietnamese timber firms can now compete with Chinese ones in the global supply chains. So, in my opinion, Vietnamese timber firms will have the capabilities to compete even when Chinese firms come back to the US market. (Interviewee 10)

However, as our key informant mentioned, "China is really good at manufacturing timber on a large scale, of high quality and for very low prices" (Interviewee 4). Hence, instead of competing with China directly on price, Vietnamese companies planned to focus on specialized or high-value production and leverage positive Country-of-Origin. For example, the representative of the leading timber industry association (AS1) in Vietnam highlighted the following:

Sooner or later, the trade dispute will definitely come to an end. Enterprises must brace themselves and know which products can compete with China, and which can't. Vietnamese enterprises must focus on hand-crafted products encapsulating Vietnam's values rather than mass-produced goods manufactured by machinery on a large scale, because that's China's competitive advantage. Vietnam must also enhance its efficiency and quality in order to compete with China. (Interviewee 4)

5.3. Long-term scrutiny: Third country's deepening involvement in trade war

Although the trade war provided opportunities for Vietnamese firms, these opportunities indirectly formed threats. We identified two major factors that contributed to these threats: (1) indirect – sanctioning country firms' responses to rising competition and (2) direct – sanctioned country firms' responses to imposed sanctions. Both factors are bolstered by weak institutions in the home country that impeded the industry's alignment with global standards – in our case, not procuring illegally sourced wood from tropical forests.

5.3.1. Indirect scrutiny: Sanctioning country firms' responses to rising competition

As an indirect result of the trade war with China, the increased Vietnamese timber imports to the US markets raised important questions about the ethical sourcing of Vietnamese timber firms. Their exports soared, and the US firms were in a position of unfair competition as their local institutions directly forbid illegal sourcing of wood (USTR, 2021).

The US timber associations, representing local producers, lobbied the US government to raise accusations against Vietnam. They claimed that Vietnam was sourcing illegally harvested wood, mainly from Cameroon, Gabon, Laos or Papua New Guinea (To, Cao, & Tran, 2020). These allegations culminated in a Section 301 investigation. In the following quote, a government official explained how the trade war between the US and China developed into disputes between the US and Vietnam:

The US initiated the Section 301 investigation against Vietnam. Section 301 allows the US government to ask a particular authority to investigate a particular country if the government perceives any threat against America's national security. This is very dangerous since it's unclear what is considered to be a threat. (Interviewee 1)

This scrutiny was partially a response of the US firms to the influx of Vietnamese firms, which allegedly had different conditions – they could source cheaper timber from illegal sources. The following quote by Ambassador and United States Trade Representative Katherine Tai:

Illegal timber in the supply chain damages the global environment and the natural resources on which we all depend, and is unfair to U.S. workers and businesses who avoid such timber... USTR's first use of Section 301 in this investigation shows the strength of using this tool to address concerns regarding environmental risks or the enforcement of environmental laws. (USTR, 2021)

The situation increased uncertainty for Vietnamese firms as they feared that the whole industry would face sanctions. Such sanctions can be implemented very quickly, as mentioned by the government official: “Section 301 also allows US presidents to issue sanctions immediately on a country without obtaining approval from anybody if the president perceives any harm to the US. That's very dangerous” (Interviewee 1). This represented a major threat.

To solve the issue diplomatically, government officials and industry representatives from the US and Vietnam met on multiple occasions. The outcome of the negotiations was positive for Vietnam, and sanctions were not imposed, as confirmed by the representative of the Vietnamese industry body – ASI: “After negotiations, both parties signed an agreement to eliminate illegal sources of wood from production” (Interviewee 4). The working group consisting of representatives from both nations agreed to meet bi-annually to review the situation and articulate further steps.

Although the sanctions against China helped Vietnam capture immediate trade opportunities in the US, in the long-term, negative consequences occurred. The timber industry operates under global value chains in which one product can be produced from input-materials procured from several countries, including the ones that can be sanctioned. As the sanctioning actor, the US government used Section 301 investigation as an essential soft power tool to manage its trade relationship with Vietnam. Instead of using sanctions, the US was more careful about possibly losing another trading partner: “As the timber industry alone exports to the US approximately 50 to 54 %, it would raise several challenges if the US decided to set up a trade sanction” (Interviewee 3). Thus, the US government used Section 301 investigation as a form of signaling: “We perceived that they actually wanted to send some warnings to Vietnam. If we did not behave properly, the consequences for us might be serious” (Interviewee 1). Although sanctions were not actually imposed, such a tool was deemed very effective as it facilitated Vietnamese firms and other stakeholders to behave in desired ways.

5.3.2. Direct scrutiny: Sanctioned country firms' responses to imposed sanctions

The trade war also directly caused scrutiny of Vietnamese firms. Due to the trade war, Chinese firms could not sell their products to the US because they became too expensive. Thus, Chinese firms turned to Vietnam. They started selling their products via Vietnam by exporting close-to-finished timber products to Vietnam. Then, local factories finalized the production with minimal value-added investments. Alternatively, Chinese firms would make foreign direct investments or rent

factories in Vietnam. The timber products were then exported to the US with the Made-in-Vietnam Certificate of Origin. Lacking oversight by Vietnamese authorities enabled such a strategy, as highlighted by the firm representative:

Currently, there are some Chinese businesses that come to Vietnam to rent a factory. After that, they bring goods from China and replace the labels and packaging to pretend they are made in Vietnam. Then they seek the Chamber of Commerce and Industry to ask for the certificate of origin with “lubrication payments”. Many industry insiders even guide these people on how to proceed. As a result, it dangerously impacts the integrity of other businesses in the industry. (Interviewee 8)

Similarly, the following excerpt from the local newspaper mentions the lack of regulatory framework that would prevent foreign firms from using Vietnamese Certificate of Origin:

Nguyen Liem, general director of wood exporter Lam Viet JSC, argued that Chinese enterprises are using these gaps to their advantage and raising their presence in Vietnam to not only produce here but also label their products as if they were entirely from this country. (Nguyen, et al., 2020)

Plywood and wooden cabinet producers were the primary targets of the investigation. In the case of plywood, the US regulators and other stakeholders suspected that wood layers were brought from China and assembled in Vietnam (Nguyen, et al., 2020). In 2018, Chinese plywood imports grew to 90 % of total imports (Nguyen, et al., 2020). These strategies of Chinese firms are further described in the following quote:

To commit origin fraud, Chinese companies with FDI in Vietnam use raw materials and semi-finished products imported from China. For instance, pre-manufactured frames or details for the final products are completed in Vietnam. In recent years, exports of plywood and wooden cabinets have experienced a significant increase in value, which raised some suspicion from the US as they launched investigations. (Interviewee 6)

For kitchen cabinets, some Vietnamese factories were accused of buying cheap materials from China. Hence, the US imposed anti-dumping and countervailing measures on firms engaged with Chinese imports or investors, and the whole industry was regularly screened.

Vietnamese timber firms found the sanctions too restrictive, mainly because Vietnam did not possess all the natural sources needed to produce plywood. For instance, one of the firm representatives, Interviewee 9, questioned the guidelines made by the US government about using no Chinese components. In the following quote, they described the complexity of how the US authorities check the origin of plywood materials:

In production, the origin is very important and also complicated. For example, plywood has many layers. To know which layers come from where, you have to cut that timber open to audit. So, it is pretty complicated. (Interviewees 9)

The profitability of those firms, which had their production already taxed, was negatively impacted, as reported by one of the interviewed firm representatives: “Yes, my business is taxed up to 200 %. This high tariff into the US market negatively affects Vietnam's competitive advantage” (Interviewee 5). On the other hand, firms that were not directly sourcing from China, such as the Interviewee's 8 firm, could, without major problems, continue their export to the US:

As for my business, I don't source anything from China. So, I just provided adequate documents to the US Department of Commerce to prove this. Our company has a good system which we use to manage our inputs and outputs. Therefore, when problems arose, we could easily explain to protect ourselves. (Interviewee 8)

Hence, individual companies, either blacklisted or not, were thoroughly screened by the US authorities. Nevertheless, firms feared that the consequences could be extended to the whole industry:

The wood industry is still being investigated individually, but the number of companies is fairly high. The list includes around 36 enterprises manufacturing plywood and nearly 50 companies producing kitchen cabinets. But when it's applied on a large scale, the tax will be applied to the whole industry and not individual companies. And if this happens, the industry will be affected significantly, making it hard to compete when entering the US market without even mentioning that the US market could be closed entirely for us. (Interviewee 10)

Uncertainty about the whole situation with the plywood and kitchen cabinets and possible sanctioning of the whole industry was also highlighted by the government representative:

Yes, that's what we are most afraid of. If the US government just targets several companies that violate the law, that's not a big problem. However, we are worried that they will apply sanctions on the whole Vietnamese industry. So, the Vietnamese government needs to ensure that we can fight against commercial/trade fraud. (Interviewee 1)

5.4. Selective compliance with rival countries

5.4.1. Influencing

Third countries adopt selective compliance in the form of influencing – negotiating with the host country counterpart to temper imposed threats and respond to signaling. Third-country firms aim to protect their market position, which was formed because of a trade war. Our data suggest that third-country firms engage in corporate diplomacy to avoid secondary sanctions and maintain legitimacy. We observed that connection to influential stakeholders and significant market position were important for firms adopting influencing strategies (Companies 2, 3 and 4). In particular, Company 1 reported profitability issues, and Company 5 was the youngest and smallest from the studied sample. More importantly, neither Company 1 nor Company 5 reported any position on the boards of the local industry associations. To engage in insulating, firms use two mechanisms: (1) corporate diplomacy via a joint effort to maintain the status quo and (2) scapegoating to delegitimize nonconformers. These two approaches capture the diversity of third-country firms – the large firms being able to respond and engage in corporate diplomacy benefiting their operations and smaller or less powerful firms being unable to meet new criteria (e.g., language barriers or resource constraints).

Corporate diplomacy via joint effort. We find that multiple stakeholders cooperated in response to threats and warnings made by the US and engaged in corporate diplomacy. Our data indicate that the major stakeholders were the Vietnamese government, timber industry associations, and internationalizing firms, as shown in Table 3.

Vietnamese government actively participated in the discussions with the US government. The discussions not only focused on the timber industry but also involved conversations related to benefits and losses for other industries from both countries. From the Vietnamese government side, there were times at which conflicts and tensions occurred between different representatives of industries and ministries, as shared by Interviewee 1:

We had multiple serious meetings among different ministries and agencies. It was not easy to agree on a solution, which satisfied all parties. Sometimes, one sector had to sacrifice for another. For example, if we wanted the US side to make concessions to the timber industry, we [the Vietnam side] had to concede to US exporters in other sectors, affecting Vietnamese players in those sectors.

Hence, tensions were unavoidable on the Vietnamese side and between the Vietnamese and the US side. In this case, according to Interviewee 1, the Ministry of Industry and Trade was the main agency overseeing supporting the Vietnamese timber industry. The agency had to carefully weigh the gains and losses of all parties, both in Vietnam and from the US. They also had to persuade various parties from Vietnam

Table 3

Stakeholders managing US-Vietnam international relations in the timber industry.

Government	<p>Stakeholders:</p> <ul style="list-style-type: none"> - Ministry of Industry and Trade (MIT) + Trade Remedies Authority of Vietnam (TRAV) + European-American Market Department + Agency of Foreign Trade - Ministry of Agriculture and Rural Development (MARD) + Department of Plant Protection and International Cooperation Department + International Cooperation Department - Ministry of Foreign Affairs (MFA) - Ministry of Finance + General Department of Customs - Embassy of Vietnam in the US <p>Involvement</p> <p>Legislative:</p> <p>Taking legal actions (hiring lawyers when investigations are initiated)</p> <p>Decision 102 to enact the Vietnam Timber Legality Assurance System (efforts of Vietnam to eliminate illegal timber and timber products from the supply chain)</p> <p>Diplomatic (mainly MFA and the Embassy of Vietnam in the US)</p> <p>Maintaining positive relationships with the US</p> <p>Department of Taxation reduces taxes on some imported goods from the US; coordinating with other government bodies to give a priority to some US firms to make large-scale investments in Vietnam)</p> <p>Complying with the requests of the US authorities to inspect the Vietnamese factories and products</p> <p>Providing information (documents and updates) to the US government important for investigations</p> <p>Being present at the hearings</p> <p>Maintaining positive relationships with China: "It is actually not easy to ask a third-country like Vietnam to weight and choose one side between the two countries like the US and China." (Interviewee 1)</p> <p>Controlling (Department of Customs)</p> <p>Monitoring imported products into Vietnam</p> <p>Cooperating with the industry bodies (mainly MARD, MIT and MFA)</p> <p>Managing domestic firms (mainly MARD, MFA and TRAV)</p> <p>Provides guidelines to firm to avoid secondary sanctions</p> <p>Warning firms about the possibility of further investigations</p> <p>Providing early warnings to firms when there are any signs of sanctions</p>
Industry bodies	<p>Stakeholders:</p> <ul style="list-style-type: none"> Association of Vietnam Timber and Forest Product (Viforest) Handicraft and Wood Industry Association of Ho Chi Minh City (HAWA) Binh Duong Furniture Association (BIFA) Forest Products Association of Binh Dinh (FPA Binh Dinh) Dong Nai Wood and Handicraft Industry Association (DOWA) <p>Involvement:</p> <ul style="list-style-type: none"> Collaborating with Vietnamese government Bridge between government and firms (organising events connecting firms and government bodies) Representing timber firms Assisting firms in providing correct information about the origin of the timber (guidance about how to declare) Providing training, equipping members with necessary knowledge on safeguard measures Raising funds to hire international lawyers: "We had to hire 2–3 American lawyers to come to Vietnam and help with the case. Their lawyer contract was worth around \$55,000. The association with no financial resources had to raise a donation from the members while asking supports from other associations in the region in order to pay for the lawyer fee." (Interviewee 8) "Viforest has acted as a representative for Vietnamese enterprises in hearings and site inspections with the US in Vietnam." (Interviewee 4) Working with the US government Providing needed information to relevant Vietnamese and US government bodies such as exported value and equivalent value of imported materials
Firms	<p>Align with regulatory framework and requirements for export to the US</p>

(continued on next page)

Table 3 (continued)

Declaring the origin of the sources and providing details on value chain partners and tax related data to the US authorities

and the US to reconcile the conflicts before reaching a final solution. Moreover, government agencies provided support and information to Vietnamese firms in many areas, such as updating them on the status of sanctions, providing them with relevant guidelines about banned components and products, or advising them on how to proceed if the US authorities investigate a firm. These new arrangements were viewed positively by the Office of the US Trade Representative, as highlighted in the below online statement:

I commend Vietnam for its commitment to address our concerns regarding the importation and use of timber that is illegally harvested or traded... With this Agreement, Vietnam will provide a model – both for the Indo-Pacific region and globally – for comprehensive enforcement against illegal timber. USTR looks forward to working with Vietnam to deepen collaboration and information exchange, including through a newly created Timber Working Group. (USTR, 2021)

However, when declaring to US authorities, firms had to act individually. Furthermore, the Vietnamese government brought indirect stakeholders in the US into the force to influence the decisions of the US government, as highlighted below:

Not only the stakeholders in Vietnam, we, [Organization's name] from the position of a coordinating organization, also observed that there were some organizations or associations in the US that may have benefits in Vietnam, such as [Organizations' names]. Vietnam is a big market for these associations. Therefore, we approached them and asked them to help us and tell the US government how important the Vietnamese market is to them and that Vietnam did not do anything wrong. They might write letters to the US government, for example. We even asked big corporations that had an interest in the Vietnamese market to do the same. (Interviewee 1)

Vietnamese industry associations played an important role in providing direct support and information to firms. They acted as a bridge between firms and the Vietnamese government, as mentioned by our key informant:

Each business needs to be well engaged with associations and government agencies to gain information and insight in a timely manner. By doing so, you can prepare the evidence and reports to support your causes in case of investigation. (Interviewee 9)

Although sanctions were negotiated at the inter-governmental level, individual firms had to bear the direct consequences. This included around 300 firms in the Vietnamese timber industry. Specifically, they were asked to use an online system (US Department of Commerce's website) and report the origin of their materials and sourcing partners, among other often confidential information. Importantly, Vietnamese associations did not have access to this data, and all the commentaries for the purposes of investigation delivered by associations and government entities were only for referential purposes. The documents provided by firms were the only information that mattered to the US agencies.

However, Vietnamese firms often lacked knowledge when dealing with the US authorities, particularly regarding requirements to properly declare their goods and the sources of the input-materials. Around one-third of firms accused of importing materials from China were identified as unresponsive and uncooperative with the US authorities in the investigation process (Vinh Tho & Chi Tue, 2022). Some firms even hired international lawyers who often lacked insights from the Vietnamese timber industry context.

Scapagoating. The cooperation of different stakeholders was necessary for creating a joint response to accusations made by the US

counterparts. In addition, firms themselves promoted that the sense of community and cooperation should be prioritized against individual profit orientation – counterbalancing the geopolitical conditions under realism. Timber firms highlighted the need for the whole industry to work together without trying to violate the rules and policies dictated by the US. Sense of community appeared important: *“That sense of community is the spirit that the industry associations need to promote and encourage”* (Interviewee 8). Deputy Minister Le Quoc Doanh also highlighted this in the following newspaper excerpt:

In difficult times, wood enterprises need to calm down, share, link and support each other in terms of market information, management experience ... thereby improving the overall strength of Vietnam's wood industry instead of competing. (Viet Bach, 2022)

Indeed, firms disdained the cases of individual firms misbehaving, such as importing from China or collaborating with Chinese producers. Thus, the sense of community was amplified by heralding the dangers that could result from the misbehaving of other firms:

Some of them just care about profits and import Chinese materials, helping Chinese firms fake their country-of-origin and use the Vietnamese one. The whole industry might be punished if many firms like that get caught. If the association members are united, they can identify those bad practices and exclude those companies from the associations or report them. (Interviewee 7)

Protection of the industry was also crucial for ensuring that secondary sanctions were not imposed:

As such, they can help prevent the situation in which one scabby sheep may spoil the whole flock. I mean, together, Vietnamese timber firms can protect the whole industry from bad influences. If the firms do not care, the consequences could be severe, and the US may decide to impose sanctions on the entire industry. (Interviewee 8)

5.4.2. Insulating

Although influencing is crucial for third-country firms to respond to unwanted scrutiny, more proactive and anticipatory strategies are important to protect the continuity of their operations. These insulating strategies are characterized by avoidance of direct interaction with the sanctioning country – focusing on other markets and actions to prevent secondary sanctions. The responses are undertaken in anticipation of further change in the trade war and are also a result of learning from the involvement in the trade war – highlighting the notion of temporality mentioned earlier. Our data showed that well-resourced and connected firms were able to enter other markets to avoid involvement in the US-China trade war. Interestingly, Company 1, although having profitability issues and lacking connections to important local stakeholders, expanded to new industries and countries (EU and Great Britain). This suggests that low embeddedness in a local market could motivate their diversification to other countries. Our analysis indicates that two mechanisms were present: (1) escaping the third-country status when firms start focusing on markets that are not directly involved in the trade war, and (2) exercising alertness as scanning activities to be prepared for future trade war opportunities that might turn into threats.

Escaping the third-country status. Our data suggest that firms in the third country can completely or partially escape their third-country status and focus on other markets. This alternative strategy was presented as a solution to stalling exports due to investigations in which many Vietnamese timber firms participated. The government representative mentioned the following:

Companies are also planning to export plywood to other markets, such as South Korea, instead of the US. It's been two years, and business owners cannot sit still and wait for the US' judgment on this matter. Exports to the US have stalled, and businesses must find alternatives to survive. (Interviewee 3)

Firms mentioned that they heavily relied on the US market since the beginning of the trade war. Hence, they sensed the danger of putting all eggs into one basket, especially after experiencing the threats of secondary sanctions. Being dependent on one market was perceived as too risky. Diversifying exports to other countries also appeared to be a prevalent future-proofing strategy. This was collaboratively supported by domestic industry associations, which organized various fairs in foreign countries, for example, in the Middle East, to promote the Vietnamese timber industry (Tran, 2023). Firms also often quoted this strategy as a form of survival in case a similar situation would happen again and/or elsewhere:

Market diversification to countries like Australia or Canada has also garnered the attention of Vietnamese timber companies. Previously, before experiencing frequent investigations from the US, firms relied a lot on this market. Since the investigations from the US, these companies have started looking at various markets to avoid overdependence on a single market. (Interviewee 4)

The threat of secondary sanctions contributed to already high uncertainty in the industry. Moreover, unlike China, the probability that Vietnam (being a less powerful country) would use retaliation against the US was very low. Indeed, the Vietnamese government and key industry bodies made significant efforts to avoid sanctions. On the other hand, some firms decided to escape the situation and export to smaller but less risky markets, as mentioned in the following quote by a firm representative:

Regarding the furniture business, the Japanese market is smaller than the US, but it is highly stable. My products are made of walnut wood, which is a high-quality and preferred type of wood. The products are expensive and only focus on the niche market of wealthy consumers. So, they are also not greatly affected by the overall economic development. (Interviewee 8)

Exercising alertness. Our data also indicated that Vietnamese firms learned from their negative experience. Threats and warnings from the US created high uncertainty about the future of the timber trade. Firms need to prepare for similar events because when they happen, it is often too late. They sensed that being alert to inter-governmental relations was as crucial as any other business conditions, recalled by a firm representative:

We need to systematically forecast and prepare for any politically related trade barriers. We should not passively wait for the sanctions and then complain about them. (Interviewee 9)

The risk of secondary sanctions in the timber industry was high due to the complexity of the value chain, processes involved in timber production, and the use of natural resources that are sometimes available only in certain countries. For example, in some cases, using Chinese materials was not more than 2 %. Therefore, firms raised important questions about limiting what is not allowed. Moreover, given the possibility of sanctions being imposed on individual firms and the whole industry (or country), even firms that did not import Chinese materials admitted to employing future-proofing strategies.

Our data showed that firms already created an analogy between the US-China trade war and the conflict between Russia and Ukraine. Notably, Vietnamese firms often used Russian birch wood and other materials. This has already alarmed firms about possible sanctions being imposed on them. The US has already issued a series of warnings and threats to countries that would import products from Russia (Tatarski, 2022). In the following quote, the industry representative describes such a situation as risky and suggests that Vietnamese firms should avoid importing from Russia:

Highly possibly. The US has only issued warnings up until this point. They said that we must be careful but haven't said that they would not import products with parts of the materials from Russia yet. The US sent

representatives to Vietnam to discuss the usage of Russian birch wood in Vietnam. The US representatives gave out warnings, which the US's prominent newspapers also published about. Although the US hasn't decided to ban Russian birch wood, it would be best if Vietnam avoids importing it due to its high risks. (Interviewee 6)

Such an anticipatory approach shows how investigations regarding threats and warnings made by a foreign government (without sanctions being imposed) can be disruptive for businesses.

6. Discussion and conclusions

6.1. A framework of effects and reactions of third-country businesses in sanctions

Using an in-depth qualitative analysis of the Vietnamese timber industry, we have conceptualized the impacts of economic sanctions on internationalizing third-country firms and the strategic responses of these businesses, as depicted in Fig. 3. Table 4 further expands on our framework and details the four strategic responses: aligning, aspiring, influencing and insulating. In response to initial opportunities created by a trade war, firms in third countries adopt strategies to fully comply with the sanctioning country, which has become their major trading partner due to the withdrawal of competitors (aligning and aspiring strategies). As the international trade of third-country firms grows, the visibility and scrutiny of their operations and associated legitimacy grows as well. The threat of secondary sanctions arises. Third-country firms turn to a more defensive position and start engaging with the trading partners in the sanctioning country with more caution, which we label selective compliance (influencing and insulating strategies).

As the case of the Vietnamese timber industry shows, deepening the involvement in the trade of two rival countries, China and the US – both being political and economic partners of Vietnam – may complicate internationalizing firms' ability to fully comply with the demands of both rival countries. This led to conflicting stakeholder pressures and threats of secondary sanctions that Vietnamese firms and other stakeholders had to navigate. In these circumstances, firms intertwine their reactive strategies with more anticipatory (proactive) strategies that involve scanning the environment and predicting future policy changes (Li, et al., 2022a; Oliver & Holzinger, 2008). As the case of the Vietnamese timber industry illustrates, such dynamic evolution of responses (reactive versus proactive and full compliance versus selective compliance) led to the readjustment of their involvement in the trade war.

These observations suggest that in response to trade wars, third-country firms adopt strategies to address the evolving geopolitical conditions. Specifically, scanning the trade war situation, associated sanctions and their future developments are incorporated into the strategizing of third-country firms. Such anticipatory strategies (aspiring and insulating) are fueled by perceived *temporality* – firms realizing that the trade war is only provisional; therefore, opportunities might disappear, and any threats can turn into real sanctions or spillover from other rival countries. In these circumstances, a trade war, such as the rivalry between the US and China, perceived temporality may explain why Vietnamese firms adopted anticipatory strategies along with reactive ones as the geopolitical situation under realism evolved.

Our study also reveals that stakeholders' power, influence, and interest in home (third) and host (sanctioning) countries also evolve as the situation changes, as shown in Table 4. In the beginning, domestic stakeholders (third country) played a more indirect role, whereas as the situation intensified due to the increased risk of secondary sanctions (signaling by the sanctioning country), their interest and so direct role increased. The proactive and collaborative approach of third-country stakeholders was more evident, for example, in the form of corporate diplomacy (influencing strategy). In the case of host country stakeholders (sanctioning country), their power and influence grew as third-

Table 4
Responses of third countries to trade war involvement.

	Aligning	Aspiring	Influencing	Insulating
Dimensions of strategies				
Tactic	Building capabilities and legitimacy	Strengthening status and international position of the whole industry	Engaging in corporate diplomacy	Avoiding direct interaction with the sanctioning country
Desired outcome	Gain access to one of the rival countries	Future-proof the market position in one of the rival countries and internationally	Avoid secondary sanctions and maintain legitimacy	Protecting continuity of operations
Nature of the strategy	Reactive	Proactive/ anticipatory	Reactive	Proactive/ anticipatory
Relationship with one of the rival countries	Full compliance	Full compliance	Selective compliance	Selective compliance
Impact of the trade war on third country	Short-term opportunities in sanctioning country (trade)	Short-term opportunities in sanctioning country (trade)	Long-term threats by sanctioning country (secondary sanctions)	Long-term threats by sanctioning country (secondary sanctions)
Stakeholders				
Third- country stakeholders (industry associations and government)	Providing information about the requirements and standards needed to access new markets	Supporting firms in developing future-proofing strategies	Collaboratively negotiating with the government of sanctioning country	Collaboratively promoting domestic industry in new markets or to provide information
Sanctioning/host country (firms, industry associations and government)	Low interest, indirect role	Low interest, indirect role	High interest	High interest
	Setting the standards for market entry	Setting the standards for market entry	Signaling of secondary sanctions	Signaling of secondary sanctions
	Power and influence are building up	Power and influence are building up	High power, influence	High power, influence

country firms became more dependent on the sanctioning country's market. As the case of Vietnamese firms illustrates, their dependence on the US market increased as Chinese competitors withdrew from the US market because of imposed sanctions. This increased the power and influence of the sanctioning country's stakeholders - the US increased the use of signaling as a soft power tool to threaten Vietnamese third-country counterparts with the possibility of secondary sanctions.

Despite many similarities, we observed variability among firms. This can be explained by the extent to which firms are embedded in local industry, that is, the strength of their connections with powerful stakeholders. The power and interest of domestic stakeholders increased as the situation developed, and firms that were already connected to these actors could leverage these ties to respond to secondary sanctions threats, such as via government lobbying. However, our intuition that company visibility and reputation could also be contributing factors needs to be further explored in future research.

These findings reveal how stakeholder theory and International Business-Government relations literature can be integrated to understand internationalizing firms' responses to political changes.

6.2. Theoretical contributions

First, our study begins to shed light on the unexplored mechanisms through which third countries are involved in a trade war between two rival countries under realism conditions. We have responded to the call to better understand how the trade war impacts firms in third countries and how they strategize accordingly (Doh, et al., 2022; Li, et al., 2022a) by examining the trade war between the US and China and the role of Vietnam as a third country. Prior research has identified that trade wars can positively and negatively impact third countries (Meyer, et al., 2023). Our observations offer a more nuanced perspective by articulating four distinct strategic responses of firms in third countries (see Fig. 3 and Table 4). Specifically, we draw attention to how firms respond to opportunities and threats arising from the trade war as they intertwine both reactive and anticipatory strategies. By incorporating the notion of *temporality* and foregrounding that opportunities and threats are typified by present and future outcomes, our findings articulate sanctions already put in place and the chance of further threats and gains in the future. For sanctioning countries, this represents an important soft power tool to impose influence on third countries, as was illustrated by the US authorities using signaling that sanctions can be set on Vietnam. Identifying these strategies also contributes to the nascent research on

secondary sanctions (Meyer, et al., 2023).

Second, our findings, more broadly, enrich our understanding of how internationalizing firms respond to competing stakeholder demands in the geopolitical context characterized by realism. While existing research highlights that firms would respond to political pressures through strategies ranging from compliance to influence (Li, et al., 2022a; Oliver & Holzinger, 2008), we know little about how these strategies develop as the political conditions change and as relationships between countries become more unfavorable. Successful strategies might require firms to comply with the requirements of one set of stakeholders, for example, those residing in a sanctioning country. In other cases, firms might choose to engage in corporate diplomacy to shape the norms and policies to their interests. However, due to the competing demands of the rival countries, strategies that focus on one or the other party might be difficult and represent a short-term solution. Our model articulating four strategies advances research by demonstrating that strategic responses to geopolitical conditions are not an abrupt choice but develop as the situation unfolds and firms learn to scan the political environment. Thus, our study illuminates the process of reactive/anticipatory strategies and full or selective compliance strategies that underlie international firms' efforts to respond to geopolitical changes rooted in realism.

Finally, our framework also extends the literature on International Business-Government relations by providing evidence for the involvement of the target market (sanctioning country in this case) and the home country (third country in this case) (Dang, et al., 2020). From a stakeholder perspective, the third-country focus broadens the stakeholder mapping, as the decisions by different states and governments that may seemingly not relate to the firm (i.e., bilateral economic sanctions) may have implications. Thus, stakeholder mapping helps capture these governments as stakeholders and assists firms in responding to their policies accordingly.

We also add insights about the third-country stakeholders (in Vietnam) working together to find common ground in how they respond to the effects of the sanctions and the increased power and influence of the sanctioning country (the US). This shows that engagement requires a much deeper relationship than merely identifying the stakeholders. As we found in this study, national-level decisions require national-level responses, and the decision to create a neutral identity for third countries and their firms requires close coordination on policy. In addition, the current study furthers the stakeholder theory by elaborating on the question of how stakeholders participate in firms' problem-solving

(Doh, et al., 2022; Freeman, et al., 2004). Although international business diplomacy (IBD) mainly focuses on multinational enterprises (Doh, et al., 2022), our findings show that international firms correspond well to the elements of IBD.

Our findings also indicate how the realism school of thought can be applied in IB research to underlie the conditions when some states tend to favor taking unilateral action on sanctions and what the consequences for internationalizing firms are. The realism approach brings to the fore the economic power of the states that are sanctioning and those that are being sanctioned. It also helps evaluate the role of supranational institutions and their relationships with the states.

6.3. Managerial relevance

Within the context of the US-China trade sanctions, the findings of this study have important implications for managers in the Vietnamese forestry and wood-processing industry. Various strategic practices should be considered, not only to navigate the current sanctions (or threat of sanctions), but also to increase the competitive advantage of their businesses. First, managers should continuously inform themselves about the geopolitical landscape of the US and China trade relationships (including the role and actions of Russia and other major actors relevant to the industry) to anticipate changes that could impact their business activities. Second, given the sense of community that has been underlined in our paper, managers should strengthen their relationships with strategic stakeholders across their value chain to improve communication and identify any possible issues that could affect their activities, and those of other industries in Vietnam. This stakeholder engagement (including government agencies, timber associations, forestry co-operatives, and timber-product traders) could open new opportunities for collaboration, resulting in opportunities for innovation and increasing efficiency across the supply chain. Third, managers would be well advised to identify new markets to diversify their product offering, taking note of these markets' requirements related to product preferences. This again underlines the importance of generating more value on timber products (through collaboration and innovation) and adherence to practices that support sustainability, chain of custody and timber legality. Finally, to increase control and transparency in the supply chain, as well as to provide more attractive timber products across markets, managers should embrace new digital technologies, which can improve their capabilities to, for example, track the origin of raw materials, improve management of plantation areas, optimize transportation, improve product-processing, and forecast changes in future demand.

6.4. Limitations and suggestions for future research

The current study bears some limitations that could be addressed in future research. First, the study focuses on one industry in a third country. Although the findings can be applicable to other countries and industries, the differences in the pre-existing economic and political ties between the sanctioning, sanctioned, and third countries could induce different degrees of impacts on third-country businesses, and their responses to the impacts. Second, the level of economic development and firms' maturity could affect the impacts and responses. We suggest that future studies may investigate firms in other industries and/or other third countries to compare with the current study's findings. Qualitative comparison can reveal if these factors play a role in the impacts on firms and their responses, and subsequent quantitative studies can test them as moderating factors. Lastly, while the current study finds that political and economic relationships between countries can influence the degree of impact and the responses of third-country businesses, the qualitative nature of the study does not allow us to test the relationships. Furthermore, the perspective on decision-making within and among stakeholder groups would further provide insights into the complexities of third-country firms' strategic responses. Therefore, future studies can

consider examining these relationships with a larger sample in various industries and countries.

CRediT authorship contribution statement

Quyen Thao Dang: Writing – review & editing, Writing – original draft, Data curation, Conceptualization. **Hussain Gulzar Rammal:** Writing – review & editing, Writing – original draft, Formal analysis, Conceptualization. **Pervez N. Ghauri:** Writing – review & editing, Writing – original draft, Conceptualization. **Pavlina Jasovska:** Writing – review & editing, Writing – original draft, Methodology, Formal analysis. **Santiago Velasquez:** Writing – review & editing, Writing – original draft, Data curation.

Data availability

Data will be made available on request.

Supplementary materials

Supplementary material associated with this article can be found, in the online version, at doi:10.1016/j.jwb.2024.101583.

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