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Regulatory Changes and Strategic Responses of Digital Platforms — A Study on Market and Non-Market Synergy in SHEIN's European Operations

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Abstract. In 2026, SHEIN faces three institutional pressures simultaneously in the European market: a formal investigation under the Digital Services Act (DSA), intensified environmental enforcement by EU member states, and the EU's removal of the small-package tariff exemption. These pressures are not isolated policy shocks but jointly erode the regulatory arbitrage space on which SHEIN's cross-border direct-shipping model has long depended. Based on an "narrative–signal–audience" integrated framework that combines strategic narrative theory with signaling theory, this paper finds that SHEIN's response constitutes a differentiated strategic narrative system. Specifically, a "resilience narrative" directed at investors and supply chain partners, and a "localization narrative" directed at national governments, have relatively high credibility because they are matched by observable, high-cost action signals. In contrast, a "responsibility narrative" directed at regulators and consumers remains largely discursive at present, and its effectiveness still requires further testing. The deeper commonality underlying the three pressures is that the regulatory arbitrage space that SHEIN previously relied upon is being progressively closed off.

Keywords: Strategic narrative, Signaling theory, SHEIN, Digital platforms, Institutional pressures

1. Introduction

In recent years, the European Union has continued to intensify its efforts in digital governance and trade regulation, successively enacting the Digital Services Act (DSA) and the Digital Markets Act (DMA), while also adjusting environmental legislation and tariff policies. Thus, forming an increasingly strict institutional fence for non-EU digital platforms. Given the above, cross-border digital platforms such as SHEIN are facing increasing regulatory scrutiny in the European market, and the low-price direct-shipping model that has driven their expansion is now under pressure for legitimacy.

In 2026, SHEIN will face the combined pressure of three institutions in Europe. Most existing research on crisis communication has focused on communication strategies for a single group. However, it does not have analytical tools for more complicated cases where a company has

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multiple audiences with different legitimacy concerns at the same time. This paper does not consider SHEIN's response to a crisis or compliance rectification; rather, it is viewed as a differentiated strategic narrative system aimed at multiple institutional actors. Therefore, this paper puts forward a general "narrative-signal-audience" framework to address the following problem: In the face of complex and changing institutional rules, how can a firm tell different stories to different stakeholders and persuade each one?

SHEIN is a typical case because the pressures it faces are varied in terms of type, such as digital compliance, ecological regulations and tariff costs, and its response strategy has a clear differentiated narrative structure that provides rich research material for observing the "narrative-signal-audience" framework. SHEIN is a typical case of a Chinese cross-border e-commerce platform, and its experience in Europe provides a reference for Chinese digital enterprises in institutional adaptation and compliance construction during global expansion.

The rest of this paper will be as follows. First, it will review the literature on strategic narrative and signalling theory, and then build an analytical system. Next, the three institutional pressures on SHEIN and the three corresponding narrative lines will be introduced. The third is the research results and their applications.

2. Literature review and theoretical foundation

2.1. Strategic narrative theory: how firms tell different stories to multiple audiences

According to the research on organisation theory, the strategic narrative is defined as "an organised story that is intentionally created to shape the perception of external stakeholders" [1], and it differs from traditional brand communication in that it has a specific aim and is audience-oriented. Under the pressure of change in the institutional environment, a single story may no longer be acceptable to all parties involved. Therefore, the company should build a "multi-threaded narrative" system to present different but consistent stories for various groups of people.

Many foreign enterprises in Europe have applied the theory to some extent. Consumer demands in the European market are not uniform; for instance, Northern Europe is environmentally conscious, Southern Europe is more price-sensitive, and the regulations in the market are relatively strict. Cross-border platform enterprises thus face a complex structure of "multiple audiences with diverse expectations". Therefore, when studying SHEIN's response to a series of regulatory changes in the European market, it should not be viewed merely as a crisis communication incident but as a planned strategic narrative aimed at multiple institutional actors.

2.2. Signaling theory: how firm narratives are perceived and trusted

However, a story does not become convincing simply by being spread. Only if the audience receives it and believes it will be effective. Signaling theory is used to explain the above. Signaling theory originated in information economics [2], and its basic problem is: under conditions of information asymmetry, how can the party with better information convince the party with less information of its "quality"? Based on the above, Connelly proposed a necessary condition for signalling theory: signal cost [3]. Sending signals is expensive, and the cost varies by the quality of the sender. High-cost signals are thus credible because they establish a "screening mechanism" between the sender and the receiver; only firms with genuine commitment and ability are willing to bear such costs. Signaling theory also requires observability and verifiability; that is to say, a signal must be sufficiently visible for receivers to notice it, and it should be verifiable by third parties.

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The aim of applying signalling theory to the study of strategic narratives is to add an observable "signal" that can be realised in practice for the narrative. If there are no supporting actions for the narrative storylines in Europe, the European regulators and consumers may deem it "greenwashing" or "empty promises" and thus harm the brand's reputation. Signaling theory thus serves as a "verification mechanism" in this study to help us determine whether SHEIN's narratives are mere castles in the air or substantial commitments with genuine credibility.

2.3. Integrated framework: narrative-signal-audience

Strategic Narrative Theory and Signalling Theory have different emphases, but they are often used in conjunction by multinational enterprises to respond to regulatory pressure in various countries. Knoben, Wang and Denoo explicitly state that signals and narratives should be used together [4], and one of the necessary functions of narrative is to clarify the complex information contained in signals so that audiences can correctly understand the meaning of firm behaviour. Nyagadza, Kadembo and Makasi also believe, from the perspective of signalling theory, that a company's brand story is a signal sent to stakeholders [5].

Based on the above, this paper believes that the effectiveness of a strategic narrative depends not only on the internal factor of "whose story wins" [1], but also on whether observable behavioural signals offer external verifiability. Narrative itself is also part of the signaling system. When SHEIN confronts the removal of tariff exemptions, the DSA investigation, and environmental penalties in Europe, abstract narratives alone are unlikely to convince multiple audiences; discursive narratives and action signals must be systematically integrated.

This paper will construct an integrated "narrative–signal–audience" framework to analyze the three narrative lines that SHEIN directs at three types of European audiences—regulators and consumers, supply chain partners and investors, and national governments—namely, the responsibility narrative, the resilience narrative, and the localization narrative. Each narrative line requires observable commercial actions as supporting signals, and the degree of alignment between narrative and signal determines how audiences judge the firm's credibility.

3. Three regulatory changes facing SHEIN in Europe

What SHEIN currently faces in Europe is not a single-dimensional policy challenge, but the superposition of three institutional regimes: digital compliance, ecological regulation, and tariff costs. This chapter will examine the specific content and mechanisms of these three policy areas respectively, laying the groundwork for Chapter 4's analysis of SHEIN's strategic responses.

3.1. Official investigation under the EU Digital Services Act (DSA): compliance pressure

The EU adopted the Digital Services Act (DSA) in 2022, with full application taking effect in February 2024. The DSA aims to establish a unified framework of obligations for online platforms operating within the EU, covering illegal content moderation, user protection, and transparency. In April 2024, SHEIN was designated as a "Very Large Online Platform" (VLOP) because its average monthly active users exceeded 45 million, thereby triggering the DSA's most stringent compliance obligations. On February 17, 2026, the European Commission opened a formal investigation into the firm [6]. The core allegations include: suspected sale of illegal products; concerns that its points-based reward mechanisms and gamified design constitute "addictive design"; and insufficient

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transparency of its recommendation systems. If ultimately found in violation, SHEIN faces fines of up to 6% of its global annual turnover.

A closer examination of the three allegations reveals that although they belong to different regulatory domains, they share a common institutional logic: bringing SHEIN's "ultra-fast product turnover" operational rhythm within the reach of compliance review. This paper argues that the deeper impact of the DSA lies not in the amount of fines but in the fact that, for the first time, it redefines "speed" as a source of risk requiring governance, rather than SHEIN's core competitive weapon. This redefinition makes it impossible for SHEIN to respond passively with a mere "cooperating with the investigation" posture; it must construct a "responsible platform" narrative directed at both regulators and consumers.

3.2. Strengthened environmental enforcement by EU member states: the multi-source accumulation of ecological pressure on SHEIN

SHEIN's ecological pressure in Europe has expanded from a single dimension of product safety disputes into three dimensions: the legitimacy of its business model, the credibility of its environmental disclosures, and consumer public health and safety.

At the legislative level, in June 2026 the French Parliament passed the world's first "anti-ultra-fast-fashion" law [7]. Its tiered ecological penalties and comprehensive advertising ban will cause costs to surge for SHEIN's signature "few-euro T-shirts". In doing so, the law institutionally severs SHEIN's most important customer acquisition channel in Europe. At the level of greenwashing enforcement, the German Environmental Aid organization (DUH) has accused SHEIN's net-zero claims of "lacking substantive evidence," pointing out that its carbon emissions rose by 23% year-on-year in 2024. Meanwhile, France's DGCCRF has issued fines totaling at least tens of millions of euros over issues including contradictions between SHEIN's environmental claims and its business model [8]. In addition, in August 2025, the Italian antitrust authority fined SHEIN approximately €1 million for failing to adequately disclose product origin information and for making misleading environmental claims [9]. At the product safety level, in June 2026 the Bremen Institute for Environmental Research in Germany found that 7 of 18 SHEIN garments tested contained excessive levels of chemical substances, with PFAS levels in one children's jacket exceeding the limit by more than 1,100 times [10].

The convergence of these three pressures has elevated ecological compliance from a matter of compliance costs to a question of SHEIN's fundamental viability in the European market.

3.3. EU tariff administration: cost pressure

From July 1, 2026, the EU formally abolished the tariff exemption for small packages valued below 150 euros [11], imposing a fixed tariff of 3 euros per item on all low-value parcels shipped directly from outside the EU. For SHEIN, whose average order value is generally low, the new policy directly strikes at its reliance on the "direct shipping from China plus high-volume, low-price" model. A large share of SHEIN's products sell for only 5–15 euros, meaning the fixed 3-euro tariff per item translates into a cost increase of 20%–60%, which would completely erode profit margins. Industry analysts note that "the business of driving volume through duty-free advantages no longer leaves room for profit."

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4. SHEIN's strategic narrative in Europe: market and non-market synergy

In response to the three institutional pressures described in Chapter 3, SHEIN has developed three narrative lines directed at different audiences: the compliance pressure is addressed to regulators and consumers, the cost pressure to supply chain partners and investors, and the ecological and legal pressures to national governments. Each narrative line is accompanied by observable commercial actions, and the degree of alignment between narrative and signal serves as the basis for assessing the credibility of its strategy.

4.1. The responsibility narrative: legitimacy repair toward regulators and consumers

To be seen as a "responsible" platform, SHEIN must speak and act in ways that persuade European regulators and consumers. However, in a European context where environmental issues have become highly politicized, "responsibility" is not a dispensable brand enhancement but a threshold requirement for obtaining operational legitimacy.

In terms of ESG commitments, SHEIN supplemented its official website with specific data for its decarbonization roadmap shortly after the DUH allegations. This is a typical "action in response to questioning" signal, which converts an abstract net-zero commitment into time-bound milestones and quantifiable indicators that can be verified by third parties. SHEIN accepted the penalty and promised to strengthen the internal audit system in the Italian fine case. However, this remediation is still at the level of procedural commitment and has not yet produced verifiable signals of the same magnitude as those after the DUH incident.

In short, the current responsibility narrative is still mainly discursive commitments and lacks observable, high-cost action signals. The supplementary decarbonisation roadmap released after the DUH incident is an improvement over purely verbal commitments, but as the data have not been verified by a third party, their reliability is still lacking and thus not a strong signal. SHEIN's response to the Italian fine is also only at the level of procedural compliance and has even weaker signal strength.

4.2. The resilience narrative: business model reshaping toward supply chain partners and investors

The removal of the tariff exemption directly strikes at the "direct shipping from China plus low-value duty-free" model. SHEIN therefore needs to demonstrate to investors that its business model can reinvent itself by shifting from "policy-arbitrage-driven growth" to "efficiency-driven growth."

In terms of supply chain relocation, SHEIN's Executive Chairman Donald Tang has explicitly stated that the firm is advancing localized production in Turkey, Brazil, and other locations to reduce transportation costs and circumvent tariffs [12]. The signaling significance of supply chain relocation lies in its irreversibility—the physical migration of production capacity demonstrates SHEIN's willingness to bear the high short-term costs of supply chain restructuring in exchange for medium- to long-term institutional access in the European market. The establishment of a logistics center in Wroclaw, Poland [13], transforms SHEIN from a "cross-border shipper" into a "local fulfiller," reducing the risk of being identified as a "regulatory arbitrageur" at the institutional level. The Hong Kong IPO, for its part, provides signal support from the capital dimension. In July 2026, SHEIN passed the listing hearing of the Hong Kong Stock Exchange [14], with proceeds earmarked for "European logistics expansion." The ongoing disclosure obligations that come with listing further enhance transparency.

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However, all of the above adjustments come with visible costs. In Q1 2026, SHEIN's operating profit margin declined from 3.9% to 2.9%. This figure precisely confirms the core logic of signaling theory: high-cost signals are credible precisely because of the authenticity and irreversibility of their costs.

Taken together, the four signals of the resilience narrative form a progressive pathway from "supply chain restructuring" to "identity transformation" and then to "capital endorsement." Their combined effect sends a clear message to investors: SHEIN is paying real institutional costs for its long-term operations in the European market.

4.3. The localization narrative: localization strategies toward national governments

The fundamental difference between the localization narrative and the previous two narratives lies in the specificity of its audience—national governments do not need compelling stories, but a "local identity" that can be institutionally accepted. The essence of the localization narrative is to transform itself, through a series of institutional embedding actions, from a "dispensable outsider" into an "entrenched local presence." SHEIN's recent actions in Europe unfold precisely along four complementary paths of institutional embedding.

In November 2025, SHEIN opened its first permanent physical store in the BHV department store in Paris [15]. Although this move generated short-term public opinion risks by provoking protests from local retailers, from a strategic narrative perspective it sent an irreversible "sunk cost" signal to the French government—namely, that SHEIN has made a major physical investment, which reduces the likelihood of abrupt withdrawal and provides a material foundation for subsequent government relations. The core function of this signal is to convey SHEIN's commitment of "I am here to stay for the long term." The appointment of Quentin Ruffat as SHEIN's spokesperson in France [16], and his appearance at hearings, transformed SHEIN from a "distant Chinese company" into a legal entity with local representation that can be questioned by local institutions, thereby addressing the governance concern of whether the firm can be held accountable. The decision to base its EU operating entity in Dublin, Ireland [17], signals in legal posture that SHEIN no longer operates as an "extraterritorial entity" outside the EU regulatory framework, and thus accepts EU jurisdiction. The launch of the "SHEIN X" program, with an investment of 10 million euros to recruit young European designers [18], responds to the question of whether the firm "respects local culture" and addresses value recognition.

The four signals of the localization narrative form a clear embedding pathway of "from the symbolic to the institutional": the physical store addresses visibility anxiety, local executives address accountability concerns, the European headquarters addresses compliance posture, and the designer program addresses cultural compatibility. These four signals correspond respectively to the four core dimensions through which governments evaluate foreign firms.

5. Conclusion

5.1. Key findings

This paper has three core findings. First, the three regulatory changes SHEIN faces in Europe are not isolated policy shocks, but attacks on different foundations of its business model. The DSA redefines "speed" from a competitive advantage into a source of risk; environmental enforcement interrogates the integrity of its business model through the two dimensions of business model legitimacy and the credibility of environmental disclosures; and the new tariff policy directly dismantles the arbitrage

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space of the "direct shipping from China plus duty-free channel" model. The combined effect of the three institutional pressures indicates that, at a basic level, the space for regulatory arbitrage in the rapid development of SHEIN has been systematically closed off.

Secondly, there is a story structure in the response strategy of SHEIN. First, present different but consistent stories for all parts of society: a sense of responsibility for regulators and consumers; a story of resilience for supply chain partners and investors; and a localised narrative for national governments. The three divisions of these narrative lines correspond to the basic problems that three kinds of audiences are concerned about: the legitimacy of the business model, the sustainability of growth, and the local acceptance of the firm.

Third, the credibility of a story is related to whether there are corresponding observable, high-cost signals. SHEIN's three narrative lines all have corresponding commercial activities, but the signal strength of these narrative lines varies. The resilience narrative has relatively high credibility due to the irreversibility of supply chain relocation, the identity-transforming effect of the Polish logistics centre, and the transparency constraints imposed by the Hong Kong IPO. The localization narrative likewise enjoys strong signal support through institutional embedding actions such as the physical store, local executives, and the European headquarters. The responsibility narrative, on the other hand, compensates for the lack of discourse with quantitative indicators of its decarbonisation roadmap, but the verifiability of these signals still awaits third-party auditing and continuous data disclosure.

5.2. Practical implications

The above results provide three practical references for the strategy of a foreign digital platform in Europe.

First, when facing multiple institutional pressures, a single type of crisis communication should not be used. Identify the main interests of all parties involved and present different stories according to these interests. When there are multiple parties involved, a single story may not be appealing to everyone and is therefore less effective.

Second, the narratives should be in line with observable behaviour. With the tightening of European regulations, purely verbal commitments are no longer trusted by the public and may be considered "greenwashing", thus incurring additional compliance risks and reputational damage. Firms can use narrative as part of the signalling system and ensure that all links in the narrative are supported by actual behaviour.

Third, the Space for regulatory arbitrage is gradually narrowing and will no longer be available indefinitely for multinational platforms. SHEIN has shifted from "policy-arbitrage-driven growth" to "efficiency-driven growth" and provides a reference case for other platform companies employing the cross-border direct-shipping model. In the new normal of institutional costs as fixed expenses, supply chain localisation, forward deployment of logistics infrastructure, and transparency building at the capital level will all become competitive barriers.

5.3. Research limitations and future directions

The foundation of this study is a case study of secondary research, and the materials include reports from public media, regulatory documents and corporate announcements. No first-hand data is available on the internal decision-making process or the strategic goals of management's narrative design at SHEIN. There is no empirical research to examine how European regulators, consumers and investors and other parties feel about and are affected by trust in practice. Therefore, the

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analysis will focus on what narratives and signals SHEIN has sent out, rather than whether these narratives and signals have actually been received and trusted by the public.

In the future, building on the analysis framework proposed in this paper, other researchers may carry out interviews with SHEIN's European management and other related parties, conduct surveys of consumers and investors, collect quantitative data on changes in SHEIN's sales and market share across European countries, etc. The above ways can also determine whether narrative-signal alignment is related to firm performance.

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