

Geopolitical Risk and Corporate Behaviors: Propagation of Shocks through Global Operations*

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Abstract

This study examines the impact of geopolitical risk (hereafter GPR) on the behavior of multi-national manufacturing firms from Japan. We construct firm-level exposures to GPR indices using data on foreign direct investment and international trade. We find that only large firms respond to GPR, whereas small firms exhibit no significant reaction. Furthermore, the effect of GPR varies depending on firms' modes of internationalization. In particular, the results indicate that firms exposed to GPR through FDI reduce cash holdings and investment.

Keywords: Geopolitical Risk, Foreign Direct Investment, International Trade, Cash Holding, Capital Expenditure

JEL codes: G32, G15, F14

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