The New Geography of Multinational Investment: Network Reallocation under Geopolitical Fragmentation

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Abstract

This paper examines how geopolitical fragmentation reshapes multinational firms' foreign direct investment (FDI) across destinations and how pre-existing international networks across geopolitical blocs condition this adjustment. Using firm–destination–year-level data for 2010–2025, we analyze changes in FDI allocation following the intensification of geopolitical tensions since 2018. A simple conceptual framework links geopolitical tensions to FDI allocation through geopolitical-affinity and geopolitical-cost channels. We find a significant reorientation away from rival-bloc and toward within-bloc destinations, alongside a growing role for connector economies, with substantially stronger responses among firms previously exposed to the China–Russia bloc. Firm-level heterogeneity further shows that the structure of pre-existing international networks systematically shapes firms' responses to geopolitical shocks.

Keywords: Geopolitical fragmentation; Foreign direct investment; Multinational Enterprises; Global production networks; Investment reallocation; Firm heterogeneity

JEL Classification: F21, F23, F51, F61

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