# Threshold Effects of Trade Policy Uncertainty on Exporting and FDI: Evidence from Korean Firms[*]

Minsu Kim[†] Dukpa Kim[‡] Yun Jung Kim[§]

August 2026

**–Preliminary–**

**Abstract**

This paper examines how trade-policy uncertainty (TPU) affects firms' international activity, with particular attention to exporting and foreign direct investment (FDI). We develop a heterogeneous-firm model in which firms face activity-specific uncertainty thresholds for foreign-market entry and continued operation. Potential entrants enter only when uncertainty remains below the relevant entry cutoff, while incumbents exit once uncertainty exceeds their operating cutoff. Higher TPU raises the productivity required for foreign-market entry and continued operation, reducing entry and increasing exit at the extensive margin, while the exit of marginal firms reallocates sales toward surviving firms at the intensive margin. We test these implications using Korean firm-level data from 2006 to 2022. Applying a panel threshold approach, we find pronounced nonlinear responses. Once TPU exceeds the estimated threshold, the extensive margin of exporting contracts: fewer firms enter or remain active in export markets, while more firms exit. At the intensive margin, export sales become increasingly concentrated among firms that remain active, consistent with the model's reallocation mechanism. The estimated TPU threshold for FDI participation is lower than that for export participation, suggesting that FDI begins to adjust at lower levels of uncertainty. We also find substantial heterogeneity, with larger, more technology-intensive, and listed firms better able to maintain international activity under elevated uncertainty.

**Keywords:** Trade Policy Uncertainty; Export Entry and Exit; Foreign Direct Investment; Firm Heterogeneity; Panel Threshold Model

**JEL Codes:** F14, F23, D22, D81, C24

[*]We thank Sookyung Hwang for excellent research assistance.

[†]Research Department, Bank of Korea. Email: mins@bok.or.kr

[‡]Department of Economics, Korea University. Email: dukpakim@korea.ac.kr

[§]Corresponding author. Department of Economics, Sogang University. Email: yunjungk@sogang.ac.kr