



# THE IMPACT OF GEOPOLITICAL CONFLICTS ON FINANCIAL DECISIONS OF ORGANISATIONS

1<sup>st</sup> Author: Tarunima Das  
MBA

Department of Business Management  
University of Calcutta, Kolkata, India

**Abstract:** The goal of this study at present has been to analyse and critically assess the effects of geopolitical conflicts on companies' financing decisions. At its core, geopolitical risk is defined as the risks that result from interactions between countries. The major findings of the report have further shown that with exploration of the complexities of the global investment and trade environment amid the geopolitical tensions, it is clear that firms that are heavily involved in the international market are facing severe challenges. Rising power conflicts and changing alliances are also playing a role in this scenario. Hence, the key challenges that these firms face are related to poor financial and investment choices. Exchange rates, trade policy, investment choices and risk management approaches are just a few of the key elements that are affected by geopolitical events.

Moreover, the real case scenarios such as; Apple facing poor trade and financing scope in China due to the U.S. and China trade war, and HSBC facing exchange rate or currency issues against USD are some of the fewer examples that have been incorporated in the report to make better and clear understanding of geopolitical conflicts creating adverse situations for firms in their financing decisions and investment scope. Along with this, the responses to shape firms' challenges of geopolitical conflicts, international institutions such as; IMF, WTO and UN alongside national governments focusing on fiscal and monetary policies and global economic trends related to cross-border allocation of capital has also been analysed.

Significantly, based on the overall critical discussion, certain recommendations have been drawn as the alternative financial strategy that firms can adhere to while exposed to geopolitical risks. Contextually, the recommendation of open hedging with currency exposure has been recommended as it would be safest strategy of investment and financing in context of present geopolitical climate that would address trade on innovation.

Keywords: Geopolitical conflicts; Exchange Rates; Trade Policy; Fiscal and Monetary Policies; Cross-Border Capital Allocation

**INTRODUCTION**

The present assessment aims to examine and critically discuss the impact of geopolitical conflicts on firms' financing decisions. Fundamentally, the term geopolitical risk refers to the risks arising from the interactions between countries. It can involve trade relationships as well as security partnerships, alliances and so on. Thus, it can be stated that geopolitical shocks can cause sudden losses in the flow of investment in certain industries, which could adversely impact the decisions taken by the firms in the international market. Contextually, the discussion at present would focus on the ways geopolitical conflicts can influence different economic aspects of firms. Valuable insights into real-world examples of firms in this context would further enhance the understanding of the discussion area. Based on that, it would also be possible to analyse the function of government policies, international institutions, as well as trends in global economic, which would shape firms' responses to geopolitical risk while having alternative financing strategies to be incorporated for better financing decisions.

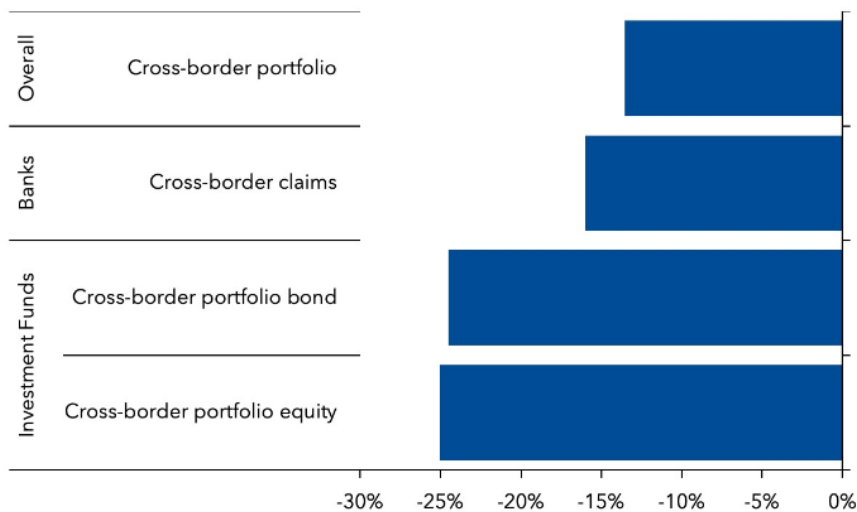
**GEOPOLITICAL CONFLICTS AND ITS RELEVANCE TO IMPACTING FINANCING DECISIONS**

Elections, polarization and inter-state conflicts would have a global and domestic impact on the economy. According to Lu et al., (2020), geopolitical risk is referred to risks related to threats, actualisation and escalation of negative political events, such as wars, terrorism and inter-state tensions. Thus, in this context, it can be stated that global economic performance in 2024 would most likely be influenced by geopolitical events, such as the war in Ukraine, and the ongoing conflict in the Middle East between Israel and Hamas, which could be observed for being further complicated by the Houthi rocket attacks on vessels in the Red Sea. On the other hand, besides these wars, there is also a political landscape as elections around the world would also have an impact on the global economy, with at least 64 countries on the ballot (Agyei, 2023). As a result, not only would these choices affect trade and investment patterns, but they can also bring with them heightened uncertainty and political polarisation. Significantly, based on the viewpoint of (Lee et al., 2021), it can be said that from a financial market perspective, this geopolitical risk could occur both directly through capital controls and financial sanctions to the firms and indirectly through heightened volatility, higher risk premiums or asset price increases in the economy.

**Geopolitics and capital allocation**

Greater tensions are associated with reduced cross-border allocation of portfolio investment and bank claims.

Response to a one-standard-deviation increase in the geopolitical distance between investing and recipient country



**Figure 1: Geopolitics and Capital Allocation**

(Source: imf.org, 2024)

On the other hand, if the market research conducted by the IMF is considered, then, it could be found that geopolitics as well as fragmentation has emerged as severe financial stability threats for firms across the world (Fania et al., 2020). Significantly, in this accordance, it is to be seen that rising tensions can certainly trigger a cross-border outflow of capital alongside increased uncertainty that can be risky for macro-financial stability in the market. In recent years, there can be observed a heightened focus on the economic and financial fragmentation of the world due to geopolitical tensions. Specifically, the tensions between the United States and China, and the invasion of Ukraine have made investment funds to be highly sensitive and tend to decrease cross-border allocation to portfolio investments as well as claims of banks. Henceforth, with the given example of geopolitical risks in the present world economy context, it is evident that financial fragmentation would have a significant impact (Yu & Wang, 2023). This instability is further seen to be fuelled by increased funding costs, reduced profitability, and reduced private-sector lending. As a result, firms' financing decisions are most

likely to be impacted severely. In this significance, the discussion would further critically evolve through analysing the impact of geopolitical conflicts on firms' financing decisions as follows.

## CRITICAL DISCUSSION ON THE IMPACT OF GEOPOLITICAL CONFLICT ON FINANCING DECISIONS OF FIRMS

### Discussion on Influences of Conflicts

At the very first stage, it would be necessary to focus on the way geopolitical conflicts would influence exchange rates, trade policies as well as investment decisions and risk management strategies (Zhao et al., 2024). This is certainly because; the aforementioned aspects are directly related to any firm's major financing decisions in the market.

#### i. Exchange Rates

According to Góes & Bekkers, (2022), risk premiums are most likely to be affected by geopolitical events, such as conditional variances in government spending, revenue growth, and monetary policy, which in turn could affect the first-and second-order moment of the exchange rate. Moreover, in this context, it is further to be observed that exogenous events would be attributable to inducing volatility of the exchange rate. On the other hand, the viewpoint of Camanho et al., (2022) considering the theoretical underpinning of "*Portfolio Balance Theory*" has reflected that unforeseen circumstances would result in a significant difference between the forecast rate and the actual rate, and the initial response might exceed the long-term response of the exchange rate.

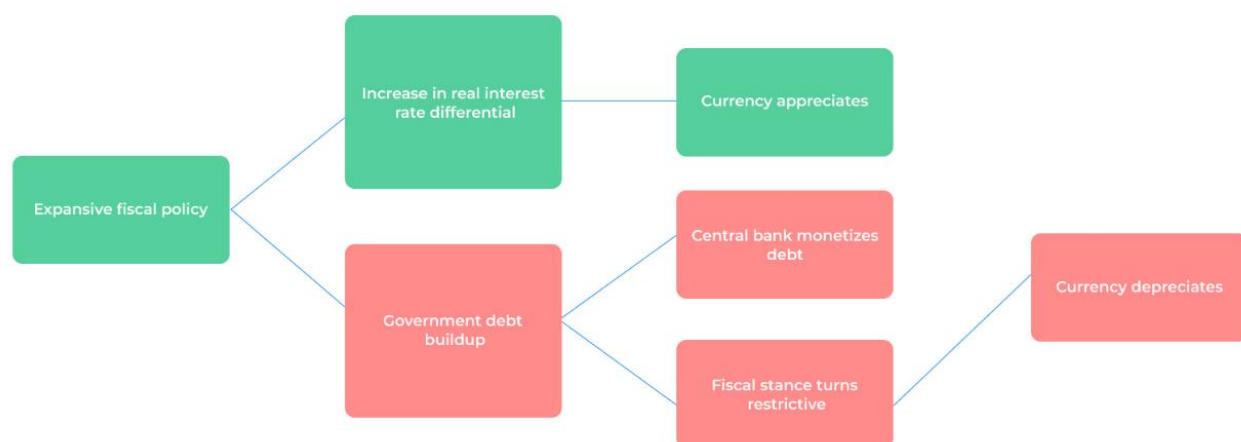


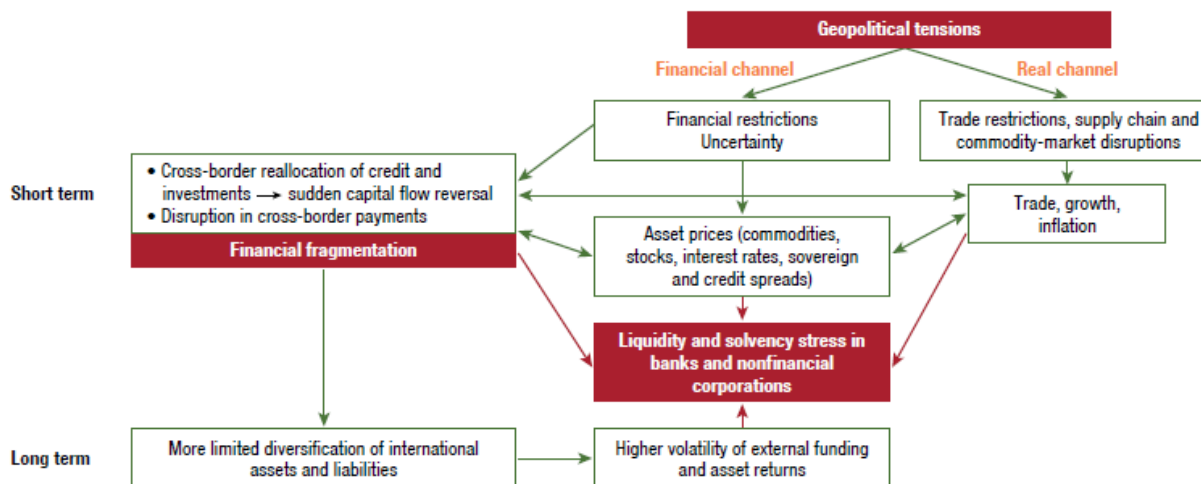
Figure 2: Portfolio Balance Approach

(Source: analystprep.com, 2024)

Significantly, it is to be observed that this view has been consistent with the "*Overshooting Theory*". This theoretical approach introduced by economist Rüdiger Dornbusch has exhibited that the exchange rate would be reacting strongly to the change within the monetary policy until the prices of the good reach a new equilibrium. Thus, in this accordance, it can be comprehended that with geopolitical risks, the currency market (Forex) is likely to have a positive influence by leading to new policies and regulations to be placed and with changing outlook on currency exchange rate there can also be fostering economic growth. However, the contradictory vision of (Ritchie et al., 2021) has shown that geopolitical shocks or conflicts always result in dilemmas and often lead to increased uncertainty in the long run. Thus, having a positive influence of geopolitical conflicts on exchange rates would be nearly impossible considering the geographic and political climates of the economies. Therefore, with this uncertainty, it is evident that investors would become highly sensitive and cautious causing a negative influence on exchange rates and rapid depreciation.

#### ii. Trade Policies

Another major aspect of a firm's financing decision is trade policies. It can be seen that trade policy is also increasingly influenced by geopolitical conflicts. According to Alsagr & Van Hemmen, (2021), trade restrictions due to geopolitical tensions might disrupt trade and cause supply chain issues even in countries. Therefore, it can be seen that trade restrictions could also influence commodity prices and cause shortages of essential commodities like oil and gas, which can affect industrial production around the world. According to Lu & Liu, (2024), as democracy works as a stabilising force against geopolitical shocks, thus, geopolitical distances would not have any negative influence on international trade policy.



**Figure 3: Transmission Channel of Geopolitical Tension**

(Source: imf.org, 2024)

However, in reality, some of the key worries of policymakers and practitioners about the negative consequences of trade restrictions have been swept aside. For example, it would be common to assume that technology would remain in the hands of domestic firms, thus reducing trade gains to "static" gains. This assumption can make it impossible to deal with one of the biggest long-term effects of ongoing geopolitical conflicts or declining globalisation (Zhang et al., 2023). That is also in terms of reduced technology and knowledge spillover that might occur through trade.

### iii. Investment Decisions

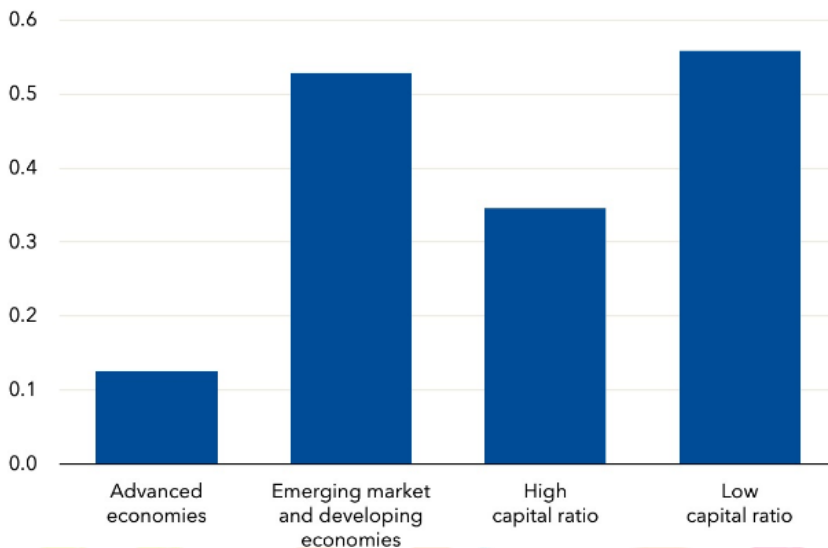
On the contrary, in the context of the impact of geopolitical conflicts on firms' financing decisions, it can be seen that geopolitical shifts are observed to be profoundly influencing global investment patterns by affecting the decisions of MNCs and individual investors in the same manner (Khoo, 2021). Geopolitical events are observed to be a growing concern for global corporations and individual investors alike, as they directly affect the stability, profitability and risk profiles of investment opportunities. In this context, it can be depicted further that sanctions, trade wars and regulatory changes could all have an impact on market access and the overall investment environment (Gozgor et al., 2022). Moreover, new economic powers and regional trade arrangements might also open up new investment opportunities or can change the competitive environment in ways that necessitate strategic changes.

On the other hand, it can be observed that geopolitical tensions are most likely to influence the equity investment decisions of firms. As geopolitical conflicts are observed to be directly linked to political connections as well as corporate investments, thus, with the moderation of the political connection for firms with increased political expenditure, could be seen in decreasing capital expenditures (Alsagr & Hemmen, 2020). Moreover, in this addition, it can be stated that with the uncertainty created by the geopolitical conflicts, there would be weights on the equity markets and investors would be more risk-averse. As a result, it can lead towards lower prices of stocks, specifically in the short term. It is known that the equity market treats geopolitical conflicts as a Beta factor or systematic risk. These systematic risks are further observed to be creating higher marker volatility due to which investors tend to become more risk-averse and further refrain from making any investments. In turn, in other words, due to geopolitical conflicts, it becomes tough or challenging for the firms to gain equity investment. This further makes the firms rely more upon debt financing (Abbas et al., 2023). However, on the bigger picture, it is also not easier for firms to secure or rely upon debt financing investment solely during geopolitical conflicts. This is because; geopolitical conflicts threaten the financial stability of a financial channel, therefore, related consequences such as; imposed financial restrictions, increased uncertainty alongside cross-border credits and outflows of investments are most likely to be triggered.

## Tensions and bank performance

Banks experience higher funding costs after an increase in geopolitical tensions, especially in emerging economies.

**Response of banks' funding costs to a one-standard-deviation increase in geopolitical distance with foreign lenders**  
(percentage points)



**Figure 4: Geopolitical Tensions and Bank Performance**

(Source: imf.org, 2024)

Thus, as a result, these escalations of the tensions could give rise to bank's rollover risk and funding costs of debt capital to the firms (Salisu et al., 2022). In this regard, if debt capital sanctioned by banks to the firms is considered, then, it can be found that with geopolitical tensions, the bank faces the challenges of higher funding costs to the firms. The reason behind this could be the increasing risk premiums needed by investors while firms in emerging economies would have a lower scope of international risk diversification for higher debt cost and leverage risks.

### iv. Risk Management Strategies

According to Alqahtani & Klein, (2021), risk management during times of geopolitical uncertainty would be critical. Companies need to carry out thorough risk analysis and scenario planning to identify potential risks and mitigate them. This is certainly because; for firms geopolitical conflicts could emerge as a persistent threat that might have a significant impact on the investment portfolio. Significantly, in the context of geopolitical investment risks, two prompt issues could be a risk of capital control and client-led demands for divestment. However, on the other hand, Anguelov, (2021) has identified that geopolitical conflicts do always not impose threats on firms in making investment decisions for the financing of capital. The occurrence of geopolitical conflicts is also observed to develop risk management mechanisms among firms to fight against volatility and market fluctuations or uncertainties (Hemrit, 2022). Therefore, it can be stated that geopolitical shocks strengthen the insights of the firms regarding their financing or investment decisions as the two most popular risk management strategies that firms across the world focus on diversification in the portfolio management of the investments and assets allocation.

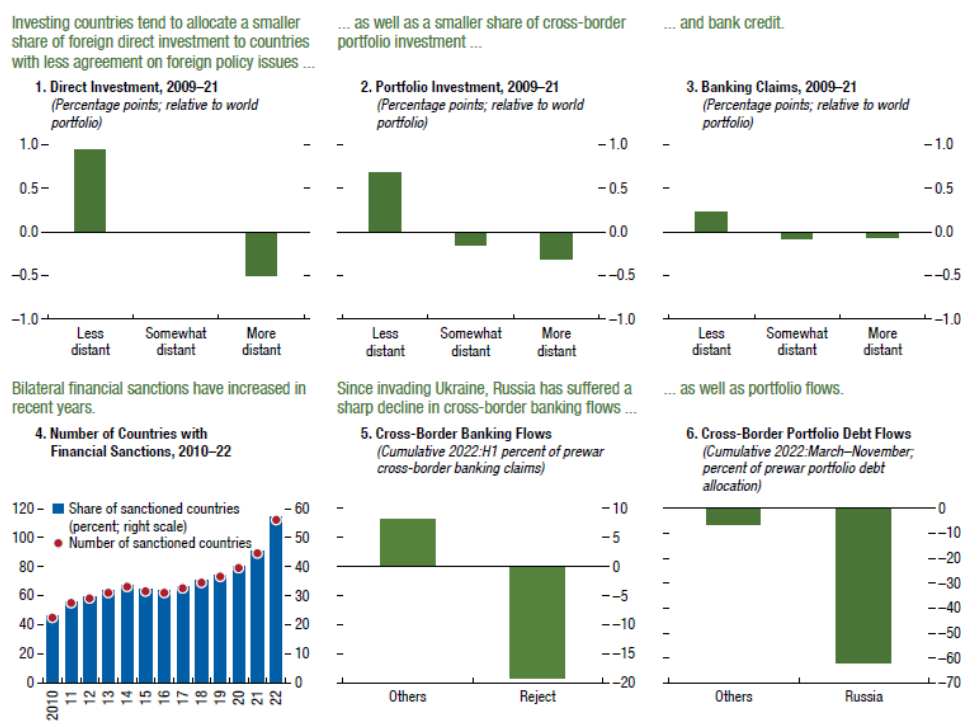
One of the most important ways that portfolio management can help in managing geopolitical risks is by diversifying the investment portfolio. In this accordance, it is to be seen that by diversifying the investments across asset classes, geographies, and industries, firms would gain the scope to reduce exposure to any one geopolitical risk (Adebayo et al., 2022). For instance, if a firm's only investment is affected by a political event in a particular country, other investments made by the firm across different regions or nations may not be affected, which in turn can certainly reduce the overall impact on the portfolio. Thus, by unveiling firms' uncertainties and vulnerabilities, geopolitical conflicts indirectly provide a solidified and strategic vision to mitigate the risks.

Furthermore, contextually if the recent geopolitical conflict of the Russian invasion is considered while focusing on the U.S. and China equity markets, it can be found that both financial markets have exhibited better hedge against the geopolitical threats (Dutta & Dutta, 2022). Interestingly, in this accordance, it is further seen that both countries have robust defences and are far from the areas that have been affected by the recent Russian incursion. As a result, investors are most likely to feel comfortable investing in the equity markets of both countries. From this significance, the scope of asset allocation to markets and specific sectors that are investment-resilient in nature can be considered. In addition, portfolio managers of firms are subjected to having a clear vision of adjusting asset allocation based on

geopolitical risks. For example, firms making sound financing decisions can look at the potential effect of different geopolitical events on different asset classes and use this information to make strategic choices, which is also for increasing or reducing exposure (Moradlou et al., 2021). Moreover, in this accordance, the influence of geopolitical risks is indirectly highly influential in building up risk resilience mechanisms for firms against heightened geopolitical tension. Portfolio managers in this context are observed to reduce their allocations to riskier or more volatile assets and increase their allocations to safer assets, such as government bonds or defensive stocks.

## EXAMINING CASE SCENARIOS OF FIRMS BEING AFFECTED BY GEOPOLITICAL TENSIONS AND THEIR CONSEQUENCES

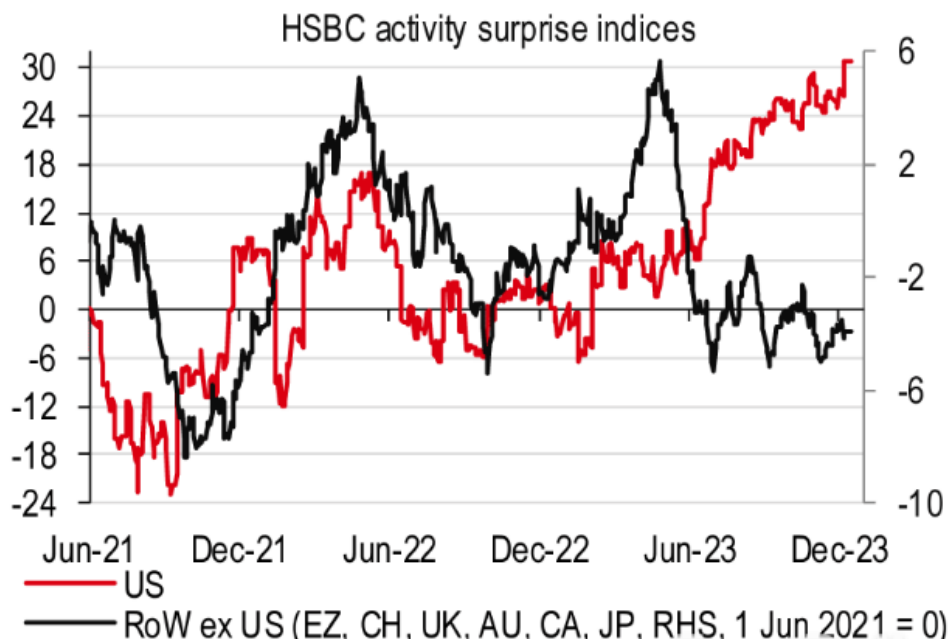
In significance with the discussion above, it is seen that the critical discussion has focused on certain recent geopolitical conflicts or events and majorly emphasised how geopolitical conflicts have influenced the financing decisions of firms in general (Ratten, 2023). Now, following the discussion, the evaluation and examination of the impact of geopolitical conflicts or tensions on firms can be understood with more clarity based on case studies of firms operating in different regions and being affected by geopolitical events.



**Figure 5: Geopolitical Tensions and Fragmentation of Global Finance**

(Source: imf.org, 2024)

One of the significant examples of a firm facing geopolitical tension and getting affected by it is Apple under the geopolitical tension between the U.S. and China trade war. It can be found that Apple Inc. has been a significant drag on relative performance in the last few quarters (Flouros et al., 2022). This is certainly because; it has seen modest earnings growth but a significant expansion in its P/E ratio. However, the existing geopolitical tensions U.S. and China have exposed Apple to equity market vulnerabilities specifically in the context of securing equity investment capital financing. With the Chinese government blocking employees from using the iPhone, the new product introduction of the iPhone in China market of Apple has been declining with lower growth. Therefore, raising equity capital in the China market has been highly tough and challenging for this firm. Additionally, with disrupted supply chain of Apple in the Chinese market affected Apple's investment decisions (Agaton, 2022). With evident relatively lower EPS growth, Apple's investment has further been heavily aided by share buybacks. That means if a company has slower EPS growth while having a higher P/E ratio for that level of growth, there would not be excellent performance of long-term share price with more equity financing scope. To be more specific, it is known that because EPS is so commonly used by stock pickers, a high EPS would certainly draw in investors and push up stock prices. On the other hand, a low or declining EPS would mean that a company is more likely to pass some of its profits on to shareholders in the form of dividends. Thus, for a company with a low EPS, there can be a poor scope of equity capital financing (Sohag et al., 2022). Thus, as the alternative solution to fight back against the lower equity scope, Apple has been observed to take advantage of the lower interest rate financing scope in the investing climate and lock income scope from issuing bonds.

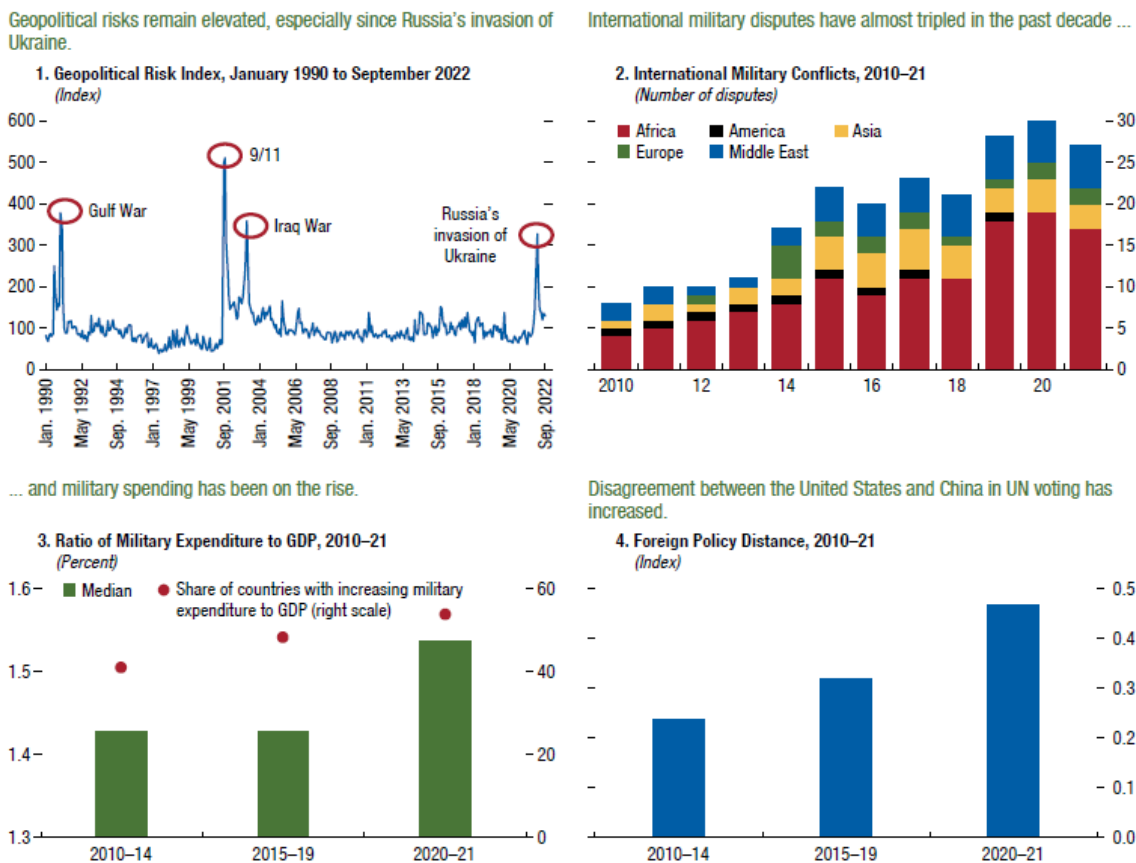


**Figure 6: HSBC Activities**

(Source: fastbull.com, 2024)

On the other hand, considering the financial service firm or bank from the UK, which is HSBC Holdings Plc, it can be stated that this organisation has further been exposed to the exchange rate threat of Russia-Ukraine geopolitical conflict (Tosun & Eshraghi, 2022). Contextually, it can be seen that HSBC is exposed to a wide range of macro-prudential and geopolitical risks. Moreover, considering the current economic recession of the UK and Brexit's impact on this financial service firm, it could be seen that if one or more eurozone countries exit the euro area due to the economic crisis, it could lead to significant losses as other European banks would also come under distress. As a result, the negative impact of geopolitical risks has created an adverse impact on the foreign exchange rate. That has further resulted in a falling GBP rate against the U.S. Dollar in the international financial market (Pandey et al., 2023). In turn, HSBC has faced significant challenges in terms of its lending process and rates to its customers, specifically to other European countries. Therefore, from this example, it can be comprehended that with adverse impact of geopolitical conflicts on exchange rates imposes significant threat to firms. These threats can further be seen in terms of changing cost of supplies that would be purchased from other nations and also in terms of the reduced attractiveness of products and services to overseas customers (Khudaykulova et al., 2022). Henceforth, with these threats, gradually in long run the firm would have lower profitability and market exposure.

On the other hand, the example of U.S. and UK-based oil and energy firms such as; Shell, BP as well as Chevron and ExxonMobil has reflected that geopolitical shocks could have positive influence on the financing decisions of the firms. Shell, BP, Chevron and ExxonMobil, as well as Total Energies, have paid out a total of \$200 billion in dividends to shareholders since the Ukraine crisis began. Moreover, it has also been seen that after making record profits in 2022 due to rising energy prices, the five biggest fossil fuel companies were able to pay out an all-time high of \$111 billion in dividends in 2023 (An et al., 2020). Furthermore, it can be stated that Russia has been one of the world's largest producers of fossil fuels, and the war cut off their supply. Moreover, at the core of this bonanza for fossil fuel producers is observed to be conflict. The Russian invasion of Ukraine caused wholesale gas prices to spike, resulting in record profits for the oil and gas industry. Thus, from these case scenarios, it can be stated that if geopolitical risk on cash dividends might be insignificant however, in factual terms firm's dividend payout would not be impacted by it. Based on the observations, this can be due to geopolitical threats appearing to influence corporate investment more than geopolitical acts would do. This may be because action is seen as a solution to uncertainty (Elsayed & Helmi, 2021). Thus, dividends, another cash-generating activity for companies, do not seem to be affected by shifts in geopolitical risk. This implies that there is only finite halves of a geopolitical event.



**Figure 7: Global Geopolitical Tension**

(Source: imf.org, 2024)

However, if the Merger and Acquisition example of Intel Corporation is considered, then, it could be found that geopolitical tensions have adversely affected this U.S. technology company's investing activities. Intel, a US-based chipmaker with a long-standing presence in China, has announced that it had reached an agreement with Tower Semiconductor to end its plans to merge with this Israeli chipmaker (Tampubolon, 2022). Significantly, it is to be found that this agreement came after China's anti-trust authorities failed to make a ruling on the deal before Intel and Tower Semiconductor agreed on a timeline. Therefore, this stoppage in the M&A between the firms is primarily to be considered as a risk diversification strategy to secure their investments through mutual agreement. Moreover, in this accordance, it can be comprehended that geopolitical fragility could also make firms more vulnerable to shocks. That is also by reducing the extent to which portfolio diversification of cross-border exposures could be taken into account in risk management strategies (Yazdanparast & Alhenawi, 2022). In addition to the macro-financial stability implications of different firms from different regions discussed above, it can be interpreted that financial fragmentation could also increase capital flow volatility in the long term by reducing the ability to diversify international risk exposures. On the other hand, geopolitical risks can also create a negative impact on firms' capital structure by lowering the debt level. This is because; the number of available loans decreases and borrowing costs rise. As a result, banks and other financial institutions would react to increased geopolitical tensions by decreasing lending and increasing loan interest rates to firms. With increasing interest rates and borrowing costs, the investment potentiality and attraction could decrease while increasing the leverage risks (Kalantzakos, 2020). Thus, in the long term, geopolitical conflicts are observed to have adverse effects on a firm's financing and investment decisions in choosing appropriate financing strategies.

## **ROLE OF GOVERNMENT POLICIES, INTERNATIONAL INSTITUTIONS AND GLOBAL ECONOMIC TRENDS TO SHAPE FIRM'S RESPONSE TO GEOPOLITICAL RISKS**

Following the discussion above, it is now essential to identify and assess the role of government policies as well as international institutions and global economic trends (Luo & Van Assche, 2023). This is certainly because; their roles and responses would further be attributable to shape firms' responses to geopolitical risks and their severe impacts.

### i. Government Policies

In context of government policies to help firms across different regions against adverse impacts of geopolitical conflicts, it can be seen that the focus has been on reformation of fiscal and monetary policies and international trade restrictions (Mattera & Soto, 2022). It is to be seen that fiscal policy of government would depend upon ability to increase taxes and issue debt secured by future tax revenue. On the other hand, it is also found that monetary policy has been providing government with major authority to issue *“money”*, which could be an irrevocable debt of state. That is further to be used as the payment instrument. These powers would therefore reinforce each other against geopolitical risks. That means, the obligation of paying tax with money could sustain demand for money, which can further encourage its usability as a form of payment. Thus, it is evident that stable monetary system would strengthen tax base (Bazilian et al., 2020). Additionally, money issuance would support fiscal revenues through the form of seignior age and might become helpful in terms of preventing technical government default and helping firms fight against geopolitical threats. For example; if the geopolitical conflicts between China and USA are considered then it could be found that USA's tariffs and export controls and imposing a 15% tariff on Chinese imports have been major government initiatives to restrict international trade between two countries amidst the geopolitical conflicts (Li et al., 2021). As a result, with higher tariffs on Chinese products, the flow of money in the USA economy due to consumer's preferences of buying relatively less expensive goods in domestic markets has increased. Therefore, the international trade restrictions and reformation of fiscal and monetary policies against geopolitical shocks are subject to prevent economies and governments from facing technical debts (Mitsas et al., 2022). As with higher local and domestic market demand, firms would be able to invest more in their domestic market which would further keep circulation of money in the economy even during the period of global economic distress.

### ii. International Institutions

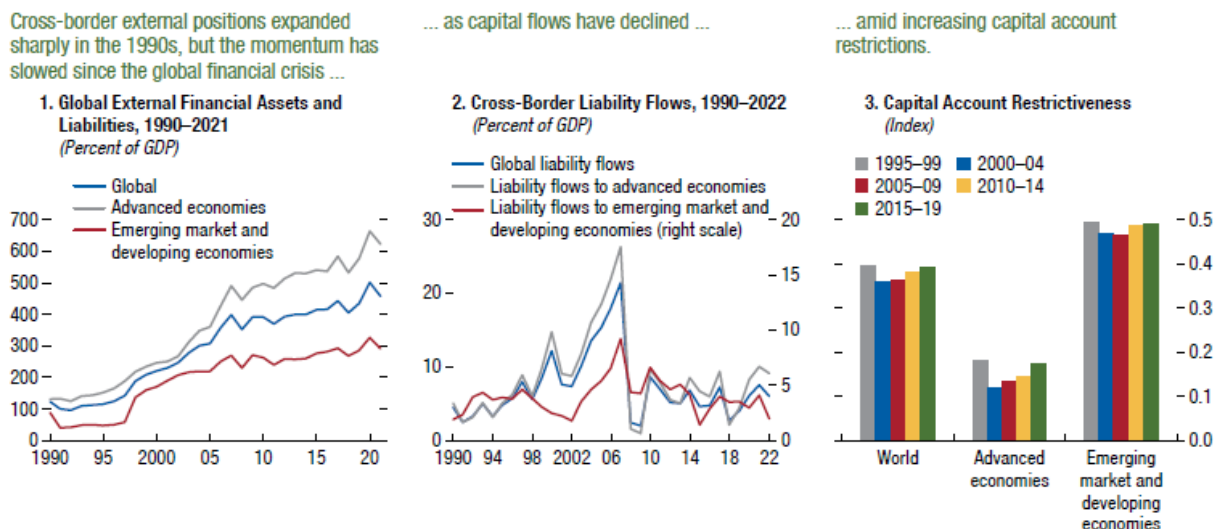
On the other hand, it can be observed that to shape firms' response to geopolitical tensions, international institutions such as; *“IMF or International Monetary Fund”*, *“WTO or World Trade Organisation”* and *“UN or United Nations”* has addressed the geopolitical tensions (Hoekman et al., 2023). IMF has addressed that better understanding and transparency between geopolitical risks and more traditional ones concerning credit, interest rate as well as market, liquidity would be feasible in preventing potentially destabilising fallout from any sort of geopolitical events. Therefore, in this context, firms' policymakers are required to strengthen crisis preparedness. Moreover, IMF has identified that in the context of geopolitical uncertainty, international regulators and standard-setters, including the *“Financial Stability Board”* and the *“Basel Committee on Banking Supervision”* are required to continue to advocate for common financial rules and standards (Andresen & Sturm, 2024). That would further help the firms in avoiding rise in financial fragmentation.

On the other hand, by considering the recent geopolitical conflicts between U.S. and China as well as Russia and Ukraine, WTO has outlined that progress is being made to recover the international trade based on resilient supply and multilateral trading framework (Borzenko & Panfilova, 2023). As these are vital for improving consumer livelihood and welfare, thus, firms would be able to operate in stable and predictable business environment. In addition to this, UN agencies further encourage national level banks and financial institutions to hold adequate capital and liquidity buffers to help the firms in the period of geopolitical crisis. The global financial safety net must be adequately resourced through substantial international reserves held by states, bilateral and regional financing arrangements, alongside precautionary lines of credit from global financial institutions. The main reason behind this is that comprehensive efforts would be helpful for firms to strengthen engagement and address geopolitical tensions while avoiding economic and financial instability (Bronckers, 2020). It would further help in having the capacity to gain investment and financing decisions adequately in the market.

### iii. Global Economic Trends

Furthermore, in response to the geopolitical threats, it is seen that global financial integration has increased significantly in the run-up. In turn, global economic trends have been observed in terms of cross-border capital flows (Le Pere, 2020). Considering the contemporary economic environment, it could be found that even during the declining capital account restrictions, cross-border capital flows have surged in advanced economies as well as emerging markets and developing economies. However, this trend reversed at the initiation of global financial crisis, when, cross-border flow of capital to many countries decreased. But, with capital flow relative to the output being good below the precise peak, this trend of cross-border capital flows has slowed down (Wapmuk & Ali, 2022).

Research Through Innovation



**Figure 8: Global Financial Integration Development**

(Source: imf.org, 2024)

On the other hand, it can be stated that in the landscape of dynamic global trade, the trend of shifting alliances alongside evolving trade agreements is observed to be reshaping patterns in international trade and economy. Initiatives such as; "**Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)**" and the "**African Continental Free Trade Area (AfCFTA)**" seem to be creating new trade blocs (Bokona, 2023). These initiatives are further observed to be signalling the way multinational firms are being able to engage and strategically reflect realignment in cross-border economic landscape. For example; if CPTPP initiative is considered, then, it could be found that CPTPP has been transforming global trade and investment patterns of Chinese firms across other Asian regions. That could also be seen based on the formation of a large free-trade area (Suleman, 2021). That has further accounted for significant share of global GDP while directing and prompting firms to re-strategise for new growth opportunities in member markets.

### RECOMMENDED ALTERNATIVE FINANCIAL STRATEGIES TO REDUCE RISK EXPOSURE

Significantly, based on the overall discussion above, it is certain that firms are most likely to be impacted by geopolitical risks in context of poor investment exposure as well as risk in foreign investment and exchange rate. These risks are further subjected to make the firms suffer from lack of proper financing decisions in international market (Kartal et al., 2024). Thus, considering the geopolitical tensions faced by the firms as a whole, following are some of the recommended alternative financial strategies that can be used alongside the policies of government and financial institutions to mitigate or reduce the risk exposures;



**Figure 9: Global Financial Integration Development**

(Source: skydo.com, 2024)

**Hedging Currency Exposure:** Firms having foreign market exposure can consider hedging their currency exposure while being exposed to geopolitical risks. With currency swap forward contracts, hedging the currency exposure would allow them to lock in the price they pay for the currency (Zakaria, 2023). Therefore, even in the future, market faces volatility or fluctuations, the firm will gain the same

currency value. Thus, currency hedging would seek to decrease the exposure of foreign exchange risk by retaining original exposure of equity.

**Open Hedge Funding:** This financing strategy would contain no limits on the issuance of shares. Thus, firms would get the scope of funds continuously issuing new shares and redeeming existing shares with the investors (Liu, 2023). Thus, by gaining exposure to stocks of defence sectors at present, firms at present can hedge against geopolitical threats.

## CONCLUSION

In navigating the intricacies of the global investment and trade landscape amidst the geopolitical conflicts, it is evident that firms that majorly operate in international market are subjected to be impacted severally. The interplay of rising power conflicts as well as shifting alliances is also responsible in this context. As a result, the major challenges that the firms are facing are in context of poor financing and investment decisions. The exchange rates, trade policies alongside investment decisions and risk management strategies are some of the major factors that are being influenced by geopolitical events. Thus, the firms irrespective of their sizes and operational activities are likely to be impacted by geopolitical risks, specifically in the context of ensuring the financing decisions. Since the currencies of affected countries tend to depreciate in line with events as investor uncertainty increases due to geopolitical risks, it's clear that companies' financing choices in terms of investments, exchange rates and policies would be negatively impacted. However, contrarily, it is seen that as global economic and business environment is changing continuously. The geopolitical shifts fostering the innovation scope for the firms further underscore the complexity and dynamism of global economic trends. Henceforth, considering the cross-border capital allocation and scope of asset allocation and diversifying funding channels, firms can consider hedging openly specifically focusing on hedging currency exposure.

## REFERENCES

- [1] Abbas, J., Wang, L., Belgacem, S. B., Pawar, P. S., Najam, H., & Abbas, J. (2023). Investment in renewable energy and electricity output: Role of green finance, environmental tax, and geopolitical risk: Empirical evidence from China. *Energy*, 269, 126683. [https://www.academia.edu/download/102375239/Dr.\\_Puja\\_sunil\\_Pawar\\_Energy\\_Elsevier.pdf](https://www.academia.edu/download/102375239/Dr._Puja_sunil_Pawar_Energy_Elsevier.pdf)
- [2] Adebayo, T. S., Akadiri, S. S., & Rjoub, H. (2022). On the relationship between economic policy uncertainty, geopolitical risk and stock market returns in South Korea: a quantile causality analysis. *Annals of Financial Economics*, 17(01), 2250008. [https://www.researchgate.net/profile/Seyi-Akadiri/publication/358956423\\_On\\_the\\_Relationship\\_between\\_Economic\\_Policy\\_Uncertainty\\_Geopolitical\\_Risk\\_and\\_Stock\\_Market\\_Returns\\_in\\_South\\_Korea\\_A\\_Quantile\\_Causality\\_Analysis/links/6253cf7c4f88c3119cf13e70/On-the-Relationship-between-Economic-Policy-Uncertainty-Geopolitical-Risk-and-Stock-Market-Returns-in-South-Korea-A-Quantile-Causality-Analysis.pdf](https://www.researchgate.net/profile/Seyi-Akadiri/publication/358956423_On_the_Relationship_between_Economic_Policy_Uncertainty_Geopolitical_Risk_and_Stock_Market_Returns_in_South_Korea_A_Quantile_Causality_Analysis/links/6253cf7c4f88c3119cf13e70/On-the-Relationship-between-Economic-Policy-Uncertainty-Geopolitical-Risk-and-Stock-Market-Returns-in-South-Korea-A-Quantile-Causality-Analysis.pdf)
- [3] Agaton, C. B. (2022). Will a geopolitical conflict accelerate energy transition in oil-importing countries? A case study of the Philippines from a real options perspective. *Resources*, 11(6), 59. <https://www.mdpi.com/2079-9276/11/6/59/pdf>
- [4] Agyei, S. K. (2023). Emerging markets equities' response to geopolitical risk: Time-frequency evidence from the Russian-Ukrainian conflict era. *Heliyon*, 9(2). [https://www.cell.com/heliyon/pdf/S2405-8440\(23\)00526-1.pdf](https://www.cell.com/heliyon/pdf/S2405-8440(23)00526-1.pdf)
- [5] Alqahtani, A., & Klein, T. (2021). Oil price changes, uncertainty, and geopolitical risks: On the resilience of GCC countries to global tensions. *Energy*, 236, 121541. [https://pure.qub.ac.uk/files/244513738/E\\_global\\_risks\\_unmarked.pdf](https://pure.qub.ac.uk/files/244513738/E_global_risks_unmarked.pdf)
- [6] Alsagr, N., & Hemmen, S. V. (2020). Oil rent, geopolitical risk and banking sector performance. *International Journal of Energy Economics and Policy*, 10(5), 305-314. [https://www.zbw.eu/econis-archiv/bitstream/11159/7948/1/1756649960\\_0.pdf](https://www.zbw.eu/econis-archiv/bitstream/11159/7948/1/1756649960_0.pdf)
- [7] Alsagr, N., & Van Hemmen, S. (2021). The impact of financial development and geopolitical risk on renewable energy consumption: evidence from emerging markets. *Environmental Science and Pollution Research*, 28, 25906-25919. <https://link.springer.com/content/pdf/10.1007/s11356-021-12447-2.pdf>
- [8] An, J., Mikhaylov, A., & Richter, U. H. (2020). Trade war effects: Evidence from sectors of energy and resources in Africa. *Heliyon*, 6(12). [https://www.cell.com/heliyon/pdf/S2405-8440\(20\)32536-6.pdf](https://www.cell.com/heliyon/pdf/S2405-8440(20)32536-6.pdf)
- [9] analystprep.com, (2024), *The Portfolio Balance Approach*, Retrieved from: <https://analystprep.com/study-notes/wp-content/uploads/2021/09/The-Portfolio-Balance-Approach.jpg> [Retrieved on 04.04.2024]
- [10] Andresen, L. L., & Sturm, J. E. (2024). Do geopolitical interests affect how financial markets react to IMF programs?. *Review of International Political Economy*, 31(1), 304-329. <https://www.tandfonline.com/doi/pdf/10.1080/09692290.2023.2200963>
- [11] Anguelov, D. (2021). Banking 'development': the geopolitical-economy of infrastructure financing. *Area Development and Policy*, 6(3), 271-295. [https://www.academia.edu/download/64784096/Banking\\_development\\_the\\_geopolitical\\_economy\\_of\\_infrastructure\\_financing\\_1\\_.pdf](https://www.academia.edu/download/64784096/Banking_development_the_geopolitical_economy_of_infrastructure_financing_1_.pdf)
- [12] Bazilian, M., Bradshaw, M., Gabriel, J., Goldthau, A., & Westphal, K. (2020). Four scenarios of the energy transition: Drivers, consequences, and implications for geopolitics. *Wiley Interdisciplinary Reviews: Climate Change*, 11(2), e625. <https://wrap.warwick.ac.uk/133545/1/WRAP-four-scenarios-energy-transition-Bradshaw-2019.pdf>
- [13] Bokona, F. (2023). The African Continental Free Trade Area and sustainable development in Africa. *African Human Rights Yearbook*, 7, 260-283. [http://www.scielo.org.za/scielo.php?pid=S2663-323X2023000100013&script=sci\\_arttext](http://www.scielo.org.za/scielo.php?pid=S2663-323X2023000100013&script=sci_arttext)

- [14] Borzenko, O., & Panfilova, T. (2023). Escalating crisis in the governance of the global trading system. *Bulletin of the Karaganda university Economy series*, 112(4), 75-83. <https://economy-vestnik.ksu.kz/index.php/economy-vestnik/article/download/612/553>
- [15] Bronckers, M. (2020). Trade conflicts: Whither the WTO?. *Legal Issues of Economic Integration*, 47(3). [https://www.researchgate.net/profile/Marco-Bronckers/publication/343770060\\_Trade\\_Conflicts\\_whither\\_the\\_WTO/links/5f3e9879a6fdcccc43d93c6e/Trade-Conflicts-whither-the-WTO.pdf](https://www.researchgate.net/profile/Marco-Bronckers/publication/343770060_Trade_Conflicts_whither_the_WTO/links/5f3e9879a6fdcccc43d93c6e/Trade-Conflicts-whither-the-WTO.pdf)
- [16] Camanho, N., Hau, H., & Rey, H. (2022). Global portfolio rebalancing and exchange rates. *The Review of Financial Studies*, 35(11), 5228-5274. <https://academic.oup.com/rfs/article-pdf/35/11/5228/46558758/hhac023.pdf>
- [17] Dutta, A., & Dutta, P. (2022). Geopolitical risk and renewable energy asset prices: Implications for sustainable development. *Renewable Energy*, 196, 518-525. <https://www.sciencedirect.com/science/article/pii/S0960148122010254>
- [18] Elsayed, A. H., & Helmi, M. H. (2021). Volatility transmission and spillover dynamics across financial markets: the role of geopolitical risk. *Annals of Operations Research*, 305(1), 1-22. <https://link.springer.com/content/pdf/10.1007/s10479-021-04081-5.pdf>
- [19] Fania, N., Yan, C., Kuyon, J. B., & Djery, S. (2020). Geopolitical risks (GPRs) and foreign direct investments: A business risk approach. *Global Journal of Management and Business Research*, 20(1), 1-9. <https://www.academia.edu/download/95070488/1-Geopolitical-Risks-GPRs-and-Foreign.pdf>
- [20] fastbull.com, (2024), *Euro-Dollar Falling Towards 1.02 in 2024 Says HSBC*, Retrieved from: [https://www.fastbull.com/news-detail/eurodollar-falling-towards-102-in-2024-says-hsbc-553905\\_0](https://www.fastbull.com/news-detail/eurodollar-falling-towards-102-in-2024-says-hsbc-553905_0) [Retrieved on 04.04.2024]
- [21] Flouros, F., Pistikou, V., & Plakandaras, V. (2022). Geopolitical risk as a determinant of renewable energy investments. *Energies*, 15(4), 1498. <https://www.mdpi.com/1996-1073/15/4/1498/pdf>
- [22] Góes, C., & Bekkers, E. (2022). The impact of geopolitical conflicts on trade, growth, and innovation. *arXiv preprint arXiv:2203.12173*. <https://arxiv.org/pdf/2203.12173>
- [23] Gozgor, G., Lau, M. C. K., Zeng, Y., Yan, C., & Lin, Z. (2022). The impact of geopolitical risks on tourism supply in developing economies: The moderating role of social globalization. *Journal of Travel Research*, 61(4), 872-886. <https://journals.sagepub.com/doi/pdf/10.1177/00472875211004760>
- [24] Hemrit, W. (2022). Does insurance demand react to economic policy uncertainty and geopolitical risk? Evidence from Saudi Arabia. *The Geneva Papers on Risk and Insurance-Issues and Practice*, 47(2), 460-492. <https://link.springer.com/content/pdf/10.1057/s41288-021-00229-3.pdf>
- [25] Hoekman, B. M., Mavroidis, P. C., & Nelson, D. R. (2023). Geopolitical competition, globalisation and WTO reform. *The World Economy*, 46(5), 1163-1188. <https://cadmus.eui.eu/bitstream/handle/1814/75906/World%20Economy%20-%202023%20-%20Hoekman.pdf?sequence=1>
- [26] imf.org, (2024), *GEOPOLITICS AND FINANCIAL FRAGMENTATION: IMPLICATIONS FOR MACRO-FINANCIAL STABILITY*, Retrieved from: <https://www.imf.org/-/media/Files/Publications/GFSR/2023/April/English/ch3execsum.ashx> [Retrieved on 04.04.2024]
- [27] imf.org, (2024), *Geopolitics and Fragmentation Emerge as Serious Financial Stability Threats*, Retrieved from: <https://www.imf.org/en/Blogs/Articles/2023/04/05/geopolitics-and-fragmentation-emerge-as-serious-financial-stability-threats> [Retrieved on 04.04.2024]
- [28] Kalantzakos, S. (2020). The race for critical minerals in an era of geopolitical realignments. *The International Spectator*, 55(3), 1-16. <https://www.academia.edu/download/73113478/03932729.2020.pdf>
- [29] Kartal, M. T., Taşkın, D., & Kılıç Depren, S. (2024). Dynamic relationship between green bonds, energy prices, geopolitical risk, and disaggregated level CO2 emissions: evidence from the globe by novel WLMC approach. *Air Quality, Atmosphere & Health*, 1-13. <https://link.springer.com/content/pdf/10.1007/s11869-024-01544-z.pdf>
- [30] Khoo, J. (2021). Does geopolitical uncertainty affect corporate financing? Evidence from MIDAS regression. *Global Finance Journal*, 47, 100519. <https://www.academia.edu/download/94701825/j.gfj.2020.10051920221123-1-hr904a.pdf>
- [31] Khudaykulova, M., Yuanqiong, H., & Khudaykulov, A. (2022). Economic consequences and implications of the Ukraine-russia war. *International Journal of Management Science and Business Administration*, 8(4), 44-52. [https://www.researchgate.net/profile/Bojan-Obrenovic/publication/362057842\\_Economic\\_Consequences\\_and\\_Implications\\_of\\_the\\_Ukraine-Russia\\_War/links/62d3bfff85aab971198b63e2c/Economic-Consequences-and-Implications-of-the-Ukraine-Russia-War.pdf](https://www.researchgate.net/profile/Bojan-Obrenovic/publication/362057842_Economic_Consequences_and_Implications_of_the_Ukraine-Russia_War/links/62d3bfff85aab971198b63e2c/Economic-Consequences-and-Implications-of-the-Ukraine-Russia-War.pdf)
- [32] Le Pere, G. A. R. T. H. (2020). The geo-economics of global trade: Implications for the African continental free trade agreement. *Africa and the world: Navigating shifting geopolitics*, 78-104. [https://mistra.org.za/wp-content/uploads/2020/01/Chpt-4\\_finalised-for-layout.pdf](https://mistra.org.za/wp-content/uploads/2020/01/Chpt-4_finalised-for-layout.pdf)
- [33] Lee, C. C., Lee, C. C., & Xiao, S. (2021). Policy-related risk and corporate financing behavior: Evidence from China's listed companies. *Economic Modelling*, 94, 539-547. <https://fardapaper.ir/mohavaha/uploads/2022/01/Fardapaper-Policy-related-risk-and-corporate-financing-behavior-Evidence-from-Chinas-listed-companies.pdf>
- [34] Li, F., Yang, C., Li, Z., & Failler, P. (2021). Does geopolitics have an impact on energy trade? Empirical research on emerging countries. *Sustainability*, 13(9), 5199. <https://www.mdpi.com/2071-1050/13/9/5199/pdf>
- [35] Liu, S. (2023). Is Bitcoin a Safe-haven Against Geopolitical Events: An Analysis Based on Russian-Ukrainian Conflict. *Highlights in Business, Economics and Management*, 7, 263-272. <https://dpress.org/ojs/index.php/HBEM/article/download/6957/6746>

- [36] Lu, B., & Liu, W. (2024). Does comprehensive geopolitical risk deter FDI Outflows: Evidence from China. *Defence and Peace Economics*, 35(3), 383-399. <https://www.tandfonline.com/doi/pdf/10.1080/10242694.2022.2160140>
- [37] Lu, Z., Gozgor, G., Huang, M., & Chi Keung Lau, M. (2020). THE IMPACT OF GEOPOLITICAL RISKS ON FINANCIAL DEVELOPMENT: EVIDENCE FROM EMERGING MARKETS. *Journal of Competitiveness*, (1). <https://pdfs.semanticscholar.org/4051/38f9660b501cf3924de800816d3ed2a9b2f7.pdf>
- [38] Luo, Y., & Van Assche, A. (2023). The rise of techno-geopolitical uncertainty: Implications of the United States CHIPS and Science Act. *Journal of international business studies*, 54(8), 1423-1440. <https://link.springer.com/content/pdf/10.1057/s41267-023-00620-3.pdf>
- [39] Mattered, M., & Soto, F. (2022). Dodging the bullet: overcoming the financial impact of Ukraine armed conflict with sustainable business strategies and environmental approaches. *The Journal of Risk Finance*, 24(1), 122-142. <https://www.emerald.com/insight/content/doi/10.1108/JRF-04-2022-0092/full/pdf>
- [40] Mitsas, S., Golitsis, P., & Khudoykulov, K. (2022). Investigating the impact of geopolitical risks on the commodity futures. *Cogent Economics & Finance*, 10(1), 2049477. <https://www.tandfonline.com/doi/pdf/10.1080/23322039.2022.2049477>
- [41] Moradlou, H., Reefke, H., Skipworth, H., & Roscoe, S. (2021). Geopolitical disruptions and the manufacturing location decision in multinational company supply chains: a Delphi study on Brexit. *International Journal of Operations & Production Management*, 41(2), 102-130. [https://dspace.lib.cranfield.ac.uk/bitstream/handle/1826/16418/Geographical\\_disruptions\\_a\\_Delphi\\_study\\_on\\_Brexit-2021.pdf?sequence=4](https://dspace.lib.cranfield.ac.uk/bitstream/handle/1826/16418/Geographical_disruptions_a_Delphi_study_on_Brexit-2021.pdf?sequence=4)
- [42] Pandey, D. K., Lucey, B. M., & Kumar, S. (2023). Border disputes, conflicts, war, and financial markets research: a systematic review. *Research in International Business and Finance*, 101972. [https://www.researchgate.net/profile/Dharen-Pandey/publication/367794757\\_Border\\_Disputes\\_Conflicts\\_War\\_and\\_Financial\\_Markets\\_Research\\_A\\_Systematic\\_Review/links/63e1584ef8cf684fe96f040f/Border-Disputes-Conflicts-War-and-Financial-Markets-Research-A-Systematic-Review.pdf](https://www.researchgate.net/profile/Dharen-Pandey/publication/367794757_Border_Disputes_Conflicts_War_and_Financial_Markets_Research_A_Systematic_Review/links/63e1584ef8cf684fe96f040f/Border-Disputes-Conflicts-War-and-Financial-Markets-Research-A-Systematic-Review.pdf)
- [43] Ratten, V. (2023). The Ukraine/Russia conflict: Geopolitical and international business strategies. *Thunderbird International Business Review*, 65(2), 265-271. <https://onlinelibrary.wiley.com/doi/pdf/10.1002/tie.22319>
- [44] Ritchie, P. D., Clarke, J. J., Cox, P. M., & Huntingford, C. (2021). Overshooting tipping point thresholds in a changing climate. *Nature*, 592(7855), 517-523. <https://nora.nerc.ac.uk/id/eprint/530416/1/N530416PP.pdf>
- [45] Salisu, A. A., Lasisi, L., & Tchankam, J. P. (2022). Historical geopolitical risk and the behaviour of stock returns in advanced economies. *The European Journal of Finance*, 28(9), 889-906. [https://repository.up.ac.za/bitstream/handle/2263/86857/Salisu\\_Historical\\_2022.pdf?sequence=1](https://repository.up.ac.za/bitstream/handle/2263/86857/Salisu_Historical_2022.pdf?sequence=1)
- [46] skydo.com, (2024), *How to Choose the Right Currency Exchange Rate for Invoicing*, Retrieved from: <https://www.skydo.com/blog/how-to-choose-the-right-currency-exchange-rate-for-invoicing> [Retrieved on 04.04.2024]
- [47] Sohag, K., Hammoudeh, S., Elsayed, A. H., Mariev, O., & Safonova, Y. (2022). Do geopolitical events transmit opportunity or threat to green markets? Decomposed measures of geopolitical risks. *Energy Economics*, 111, 106068. <https://www.sciencedirect.com/science/article/pii/S0140988322002341>
- [48] Suleman, O. S. (2021). The African Continental Free Trade Area; a Strategy for Improving Trade in Africa in the 21st Century. *African Scholar Journal of Humanities and Social Sciences (JHSS-6)*, 20(6), 146-158. [http://www.africanscholarpublications.com/wp-content/uploads/2021/06/AJHSS\\_Vol20\\_No6\\_March\\_2021-13.pdf](http://www.africanscholarpublications.com/wp-content/uploads/2021/06/AJHSS_Vol20_No6_March_2021-13.pdf)
- [49] Tampubolon, M. (2022). Russia's invasion of Ukraine and its impact on global geopolitics. *ESJ Humanities*, 18(20), 48-70. <http://repository.uki.ac.id/9288/2/HasilTurnitinRussiaInvasionofUkraine.pdf>
- [50] Tosun, O. K., & Eshraghi, A. (2022). Corporate decisions in times of war: Evidence from the Russia-Ukraine conflict. *Finance Research Letters*, 48, 102920. <https://www.sciencedirect.com/science/article/pii/S1544612322001908>
- [51] Wapmuk, S., & Ali, J. M. (2022). The african continental free trade area (AFCFTA) and regional economic integration: prospects and challenges. *Zamfara Journal of Politics and Development*, 3(1), 15-15. <https://zjpd.com.ng/index.php/zjpd/article/download/66/58>
- [52] Yazdanparast, A., & Alhenawi, Y. (2022). Impact of COVID-19 pandemic on household financial decisions: A consumer vulnerability perspective. *Journal of Consumer Behaviour*, 21(4), 806-827. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC9083242/>
- [53] Yu, M., & Wang, N. (2023). The influence of geopolitical risk on international direct investment and its countermeasures. *Sustainability*, 15(3), 2522. <https://www.mdpi.com/2071-1050/15/3/2522/pdf>
- [54] Zakaria, S. (2023). Hedging Effectiveness as an International Financial Risk Management Strategy. *Golden Ratio of Mapping Idea and Literature Format*, 3(1), 01-22. <https://goldenratio.id/index.php/grmilf/article/download/352/248>
- [55] Zhang, D., Chen, X. H., Lau, C. K. M., & Cai, Y. (2023). The causal relationship between green finance and geopolitical risk: implications for environmental management. *Journal of Environmental Management*, 327, 116949. [https://researchportal.hw.ac.uk/files/79755199/JEMA\\_D\\_22\\_10826\\_R1compressed.pdf](https://researchportal.hw.ac.uk/files/79755199/JEMA_D_22_10826_R1compressed.pdf)
- [56] Zhao, D., Chaudhry, M. O., Ayub, B., Waqas, M., & Ullah, I. (2024). Modeling the Nexus between geopolitical risk, oil price volatility and renewable energy investment; evidence from Chinese listed firms. *Renewable Energy*, 225, 120309. [https://www.researchgate.net/profile/Muhammad-Sibt-E-Ali/publication/378849746\\_Modeling\\_the\\_Nexus\\_between\\_geopolitical\\_risk\\_oil\\_price\\_volatility\\_and\\_renewable\\_energy\\_investment\\_evidence\\_from\\_Chinese\\_listed\\_firms/links/65f25996c05fd2688007ae32/Modeling-the-Nexus-between-geopolitical-risk-oil-price-volatility-and-renewable-energy-investment-evidence-from-Chinese-listed-firms.pdf](https://www.researchgate.net/profile/Muhammad-Sibt-E-Ali/publication/378849746_Modeling_the_Nexus_between_geopolitical_risk_oil_price_volatility_and_renewable_energy_investment_evidence_from_Chinese_listed_firms/links/65f25996c05fd2688007ae32/Modeling-the-Nexus-between-geopolitical-risk-oil-price-volatility-and-renewable-energy-investment-evidence-from-Chinese-listed-firms.pdf)