

BUKTI KORESPONDENSI
ARTIKEL JURNAL INTERNASIONAL BEREPUTASI

Judul Artikel : Geopolitical Risk and the Financialization of Firm Vulnerability in Emerging Markets.
Jurnal : Journal of Risk and Financial Management. 25 Juli 2026 Vol. 19 No.8, EISSN 1911-8074 <https://www.mdpi.com/1911-8074/19/8/555>
Penulis : Sugeng Suroso, Sri Wulandari, Chajar Matari Fath Mala.

Daftar Isi

No.	Perihal	Ket./Tanggal
1.	Bukti Submission	26 – 05 – 2026
2.	Manuscript awal yg disubmit	
3.	Bukti Email Notifikasi Submission	26 – 05 – 2026
4.	Bukti Email Notifikasi “Major Revision Required” pertama	16 – 06 – 2026
5	Lampiran email no 4 “Major Revision Required” pertama	
	- Comments Reviewer 1	
	- Comments Reviewer 2	
	- Comments Reviewer 3	
6.	Bukti email submission respond to major revision requirement Pertama	27 – 06 – 2026
7.	Lampiran email no 6, “Respond to Editor/Reviewer” pertama	
	- Respond to Lead Editors	
	- Respond to Reviewer 1	
	- Respond to Reviewer 2	
	- Respond to Reviewer 3	
8	Bukti Notifikasi “Major Revision Required” kedua	01 – 07 – 2026
9	Lampiran email no 8 “Major Revision Required” kedua	
	Comments Reviewer 1	
	Comments Reviewer 2	
	Comments Reviewer 3	
10	Bukti email submission respond to major revision requirement kedua	07 – 07 – 2026
11	Lampiran email no 10 “Major Revision Required” kedua	
	- Respond to Lead Editors	
	- Respond to Reviewer 1	
	- Respond to Reviewer 2	
	- Respond to Reviewer 3	
12.	Email Notifikasi “Minor Revision Required”	
	- Comment Reviewer 2	
13.	Lampiran email no 12, “Respond for minor revision”	
14.	Notifikasi email “Minor Revision”	12 – 07 – 2026
	- Respon to Lead Editor	
	- Response to Reviewer 2	
15.	Bukti Email Accepted	21 – 07 – 2026
15.	Bukti email “Final Profreading” dari editor	22 – 07 – 2026
	- Manuscript hasil “final Profreading”.	
16.	Manuscript published https://www.mdpi.com/1911-8074/19/8/555	25 – 07 – 2026

BUKTI SUBMIT ARTIKEL DAN ARTIKEL YANG DI SUBMIT

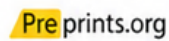


Login



Continue

This login page provides you access to the following platforms operated by MDPI:



[Forgot your password?](#)

Not registered yet? [Register now.](#)



Login with your ORCID iD

Geopolitical Risk and the Financialization of Firm Vulnerability in Emerging Markets.

Sugeng Suroso¹, Sri Wulandari², Chajar Matari Fath Mala³

^{1,2} Faculty of Economics and Business, Universitas Bhayangkara Jakarta Raya, Jakarta, Indonesia

³ Management Department, Universitas Pembangunan Jaya, South Tangerang, Indonesia

Abstract

This study investigates the impact of geopolitical instability on corporate financial performance in emerging Asian economies by examining the mediating roles of supply chain resilience, currency volatility, and foreign investment confidence. The research adopts a quantitative cross-sectional design using survey data collected from 308 firms operating across Southeast Asia. Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) to evaluate the structural relationships among geopolitical risk factors and firm-level financial outcomes. The findings demonstrate that geopolitical instability significantly influences corporate financial performance primarily through financial transmission mechanisms. Currency volatility and foreign investment confidence emerge as the strongest mediating variables, indicating that exchange rate fluctuations and investor sentiment substantially shape firm performance under geopolitical uncertainty. In contrast, supply chain resilience improves operational adaptability but does not exert a statistically significant direct effect on financial performance. The model explains 66.7% of the variance in corporate financial performance, indicating substantial explanatory power. This study contributes to the literature by integrating operational, financial, and institutional perspectives into a unified framework of geopolitical risk transmission. The findings also provide managerial and policy implications, emphasizing the importance of financial risk management, institutional stability, governance transparency, and strategic resilience in mitigating the adverse effects of geopolitical turbulence in emerging Asian economies.

Keywords: Geopolitical Risk, Corporate Financial Performance, Supply Chain Resilience, Currency Volatility, Foreign Investment Confidence,

JEL Classifications: F51, F23, G32, L25, M16, O53

1. Introduction

For decades, theories of firm performance have rested on an implicit foundation: institutional stability and predictable market conditions. Geopolitical turbulence has shattered that foundation. Escalating trade conflicts, territorial disputes, and regional political instability are no longer exceptional disruptions but structural features of the global economy (Caldara & Iacoviello, 2022). Yet firm-level scholarship has yet to fully absorb their implications. The US-China trade war, persistent South China Sea tensions, and recurring political instability across Southeast Asia represent distinct but intersecting dimensions of geopolitical risk that fundamentally alter the environment in which firms operate. Existing research, however, has largely examined geopolitical risk through a macroeconomic lens—its

effects on growth, trade flows, asset prices, and aggregate investment (Bajaj et al., 2023; Caldara & Iacoviello, 2022). This macro-level focus has generated valuable insights but has inadvertently reinforced a conceptualization of firms as passive recipients of external shocks. It offers limited purchase on a more urgent question: why do firms exposed to identical geopolitical disturbances exhibit such markedly different financial outcomes? This question is especially consequential for emerging Asian economies. Firms here operate within export-dependent production networks, face acute exposure to currency fluctuations, and rely heavily on foreign capital inflows (Athukorala, 2017; UNCTAD, 2023). Geopolitical shocks are not distant concerns but immediate operational realities. Yet existing theories struggle to explain the heterogeneity in how these firms navigate—and survive—such turbulence.

We argue that this heterogeneity arises because geopolitical turbulence transmits through three distinct but interconnected mechanisms that prior research has examined only in isolation. First, geopolitical shocks disrupt operational continuity by destabilizing global supply chains. Firms must invest in resilience-enhancing strategies—supplier diversification, logistical flexibility, inventory buffers—whose costs and uncertain returns directly shape financial performance (Ivanov, 2021). Second, geopolitical instability amplifies exchange rate volatility. This reshapes cost structures, compresses profit margins, and alters financial risk exposure, particularly for firms with unhedged foreign currency positions or cross-border operations (Bartram et al., 2010). Third, heightened geopolitical uncertainty erodes foreign investors' confidence in institutional stability and policy credibility. This constrains firms' access to external financing and depresses valuation multiples, affecting both the cost and availability of capital for growth (Bekaert et al., 2016). These channels do not operate in isolation. Supply chain disruptions may force firms into spot markets at unfavourable exchange rates, amplifying currency exposures. Currency volatility may heighten investor sensitivity to geopolitical events, magnifying shifts in foreign investment confidence. The mechanisms interact, yet the literature treats them separately. Isolated evidence links geopolitical risk to corporate investment behavior (Le & Tran, 2021), financial market volatility (Zhang et al., 2023), and currency returns (Liu, 2024). But these streams have developed in parallel rather than in conversation. No study has examined how operational, financial, and behavioral mechanisms operate jointly—and potentially interact—to transmit geopolitical shocks to firm performance. The literature lacks an integrated firm-level framework capable of explaining the multi-layered transmission process through which geopolitical turbulence shapes corporate financial outcomes.

We develop and test a multi-mediator model that conceptualizes supply chain resilience, currency volatility, and foreign investment confidence as interrelated transmission channels linking geopolitical turbulence to firm performance in emerging Asian markets. As illustrated in Figure 1, we examine how three distinct dimensions of geopolitical risk—US-China trade war effects, South China Sea tensions, and regional political instability—operate through these mediating mechanisms to shape corporate financial performance.

2. Literature Review and Hypothesis Development

2.1. Geopolitical Trade Conflicts and Supply Chain Resilience

Institutional uncertainty theory provides a powerful lens for understanding how geopolitical turbulence reshapes firm-level operational capabilities. North (1990) famously argued that institutions—the formal rules and informal constraints governing economic exchange—determine the transaction costs of coordination. When institutions stabilize, firms can plan, invest, and coordinate

across borders with reasonable confidence. When institutions destabilize, transaction costs surge, contract enforceability weakens, and the predictability essential for complex production networks evaporates (Henisz, 2000). Geopolitical trade conflicts represent precisely such institutional shocks—exogenous disruptions that fundamentally alter the governance environment within which global supply chains operate. Trade conflicts, whether through tariffs, sanctions, or retaliatory measures, introduce policy uncertainty that cascades through supply networks. Firms that once relied on stable trading relationships suddenly face unpredictable cost structures, delayed shipments, and suppliers whose reliability can no longer be taken for granted. The coordination costs that institutional stability had minimized—costs of monitoring, enforcing, and adapting—re-emerge with force. Supply chain resilience, defined as the capacity to anticipate, absorb, and recover from disruptions, erodes not because any single disruption overwhelms the system but because the institutional foundation upon which resilience was built has fractured. Studies document that heightened tariffs and retaliatory measures did not simply raise costs; they fundamentally destabilized multinational supply networks, forcing firms into reactive revisions of sourcing and production strategies (Zhou, 2020; Mao & Görg, 2020). The uncertainty itself—the inability to predict what trade policies might look like next quarter, next year, or after the next election—proved as damaging as the tariffs themselves. Firms could not plan. They could only react. Some scholars argue that trade conflicts may inadvertently strengthen resilience by incentivizing diversification, reshoring, or regionalization (Gereffi, 2020; Bown, 2022). Firms forced to reduce dependence on any single source may emerge with more robust, distributed supply networks. This argument carries intuitive appeal. Adversity, after all, can breed adaptation. Yet institutional uncertainty theory suggests a more sobering conclusion. The adjustments firms make under geopolitical pressure are fundamentally different from the deliberate, strategic investments in resilience that occur under stable conditions. They are reactive, rushed, and often suboptimal choices made under constraint rather than from strength. Evenett (2021) documents how the diversification spurred by trade conflicts frequently produces fragmented, inefficient networks rather than genuinely resilient ones. The costs of adjustment compound, and the systemic vulnerabilities created by geopolitical fragmentation prove difficult to offset, particularly for firms with limited bargaining power and constrained resources. Deeply embedded in China-centric supply networks, these firms cannot easily disentangle themselves. Their redundancy is limited. Their bargaining power with larger partners is weak. When geopolitical shocks hit, they absorb disproportionate damage not because they are less capable but because their structural position leaves them few alternatives.

Thus, while trade conflicts may occasionally produce resilience-enhancing adaptations for some firms in some contexts, the dominant effect—particularly for the vulnerable firms at the heart of our study—is negative. Institutional uncertainty erodes the predictability essential for resilience. It transforms supply chains from coordinated systems into collections of reactive, short-term transactions. Therefore, we hypothesize:

Hypothesis 1. Geopolitical trade conflicts negatively affect firms' supply chain resilience.

2.2. Geopolitical Turbulence and Foreign Investment Confidence

From the perspective of real options theory and behavioral finance, heightened policy and geopolitical uncertainty increases the value of waiting, leading investors to delay, scale back, or redirect capital commitments when future payoffs become less predictable (Dixit & Pindyck, 1994; Pastor & Veronesi, 2013). Geopolitical turbulence amplifies uncertainty regarding regulatory continuity, trade access, and political stability, thereby eroding foreign investors' confidence in host economies. As uncertainty rises, expected returns decline relative to perceived risk, weakening incentives for foreign direct investment (FDI). Empirical evidence from the US–China trade war supports this theoretical expectation. Studies show that trade policy uncertainty significantly reduces firm entry, investment commitment, and FDI

inflows, particularly in economies closely integrated into global value chains (Cui & Li, 2023; Yan et al., 2022; Gao et al., 2024). While some research documents temporary investment diversion toward alternative destinations, such reallocation is largely defensive and does not reflect sustained improvements in investor confidence (Dong et al., 2025). Firm-level analyses further reveal that policy uncertainty constrains outward FDI and induces precautionary capital flight, as firms hedge against domestic and international risk exposure (Wu & Shao, 2023; Song et al., 2021). Importantly, emerging Asian economies are especially sensitive to fluctuations in foreign investment confidence due to their reliance on external capital, export-led growth strategies, and evolving institutional frameworks. Consequently, geopolitical trade conflicts are expected to exert a systematically negative influence on foreign investment confidence across the region. Therefore

Hypothesis 2. Geopolitical trade conflicts negatively affect foreign investment confidence.

2.3. Maritime Geopolitical Risk and Supply Chain Resilience

Geopolitical risk associated with contested maritime regions introduces a distinct form of supply chain vulnerability by threatening the physical continuity of trade routes and logistical corridors. Transaction cost economics suggests that increased exposure to expropriation risk, transit disruption, and security uncertainty elevates coordination costs and reduces the efficiency of cross-border exchange (Williamson, 1985). The South China Sea (SCS), as a critical maritime chokepoint, exemplifies this mechanism, with escalating territorial tensions increasing transit risk, insurance costs, and routing uncertainty for firms reliant on maritime trade. Recent studies highlight geopolitical risk as a central determinant of global supply chain fragility, demonstrating that prolonged geopolitical tensions weaken network adaptability and increase disruption severity (Blessley & Mudambi, 2022; Huchzermeier & Stehle, 2025). Empirical evidence indicates that firms with concentrated exposure to contested trade corridors face disproportionately higher disruption risks, whereas diversification strategies only partially mitigate these vulnerabilities (Zhu et al., 2024). Although organizational practices such as enhanced information sharing may alleviate uncertainty, they are insufficient to neutralize persistent geopolitical stress in strategically sensitive regions (Coşkun & Erturgut, 2024). In the context of the SCS, geopolitical tensions necessitate costly adjustments in sourcing and routing decisions while leaving residual risk largely unresolved. Consequently, maritime geopolitical risk is expected to exert a negative effect on firm-level supply chain resilience. Therefore

Hypothesis 3. Geopolitical tensions in contested maritime regions negatively affect supply chain resilience.

2.4. Maritime Geopolitical Risk and Foreign Investment Confidence

Behavioral and institutional theories suggest that geopolitical risk heightens investors' risk perceptions by increasing uncertainty over political stability, security conditions, and policy continuity, thereby diminishing foreign investment confidence. Caldara and Iacoviello (2022) demonstrate that geopolitical risk shocks significantly suppress investment by amplifying market uncertainty and risk premiums. These effects are particularly pronounced in regions characterized by strategic competition and military tensions. Empirical studies confirm that geopolitical instability redirects capital flows and reduces FDI inflows across emerging and transition economies (Agoraki et al., 2024; Feng et al., 2023). Country-level evidence from Vietnam and Türkiye illustrates that heightened geopolitical risk undermines investor confidence and deters long-term capital commitments (Truong et al., 2024; Altiner & Bozkurt, 2023). In the specific context of the SCS, rising tensions have been shown to redirect strategic investments toward politically less volatile regions, reflecting investors' sensitivity to

maritime and security risks (Yu et al., 2021). Given the SCS's central role in global trade, geopolitical instability in this region is likely to generate spillover effects that further erode foreign investment confidence across emerging Asia. Therefore

Hypothesis 4. Geopolitical tensions in contested maritime regions negatively affect foreign investment confidence.

2.5. Maritime Geopolitical Risk and Currency Volatility

International finance theory suggests that exchange rates respond sharply to geopolitical shocks as investors reassess risk, reprice assets, and reallocate capital across borders under heightened uncertainty. In particular, geopolitical instability increases risk premia, accelerates capital flow reversals, and intensifies speculative activity, thereby amplifying exchange rate volatility (Akram, 2020; Caldara & Iacoviello, 2022). These effects are especially pronounced in emerging economies, where financial markets are less deep, policy credibility is evolving, and currencies are more sensitive to shifts in global risk sentiment. Geopolitical conflicts in strategic maritime regions, such as the South China Sea (SCS), represent a critical source of external shock to exchange rate stability. As a major conduit for global trade and energy transportation, instability in the SCS disrupts trade expectations, commodity flows, and cross-border investment, all of which are key determinants of currency valuation. Empirical evidence indicates that geopolitical risk significantly heightens exchange rate volatility in ASEAN economies, underscoring the susceptibility of regional currencies to maritime disputes and security tensions (Hui, 2021). Similarly, Adeosun et al. (2024) demonstrate that geopolitical shocks propagate volatility across financial markets, with currency markets exhibiting particularly strong responses due to their sensitivity to capital movements and policy uncertainty. Evidence from recent geopolitical conflicts further supports this mechanism. Studies show that large-scale geopolitical shocks, such as the Russia–Ukraine conflict, triggered pronounced foreign exchange volatility as investors engaged in rapid portfolio rebalancing and flight-to-safety behavior (Aliu et al., 2022; Akarsu & Gharehgozli, 2023). Comparable dynamics are expected in the context of the SCS, where heightened geopolitical tensions may disrupt energy trade routes, alter commodity prices, and induce speculative pressures in regional currency markets. Research also highlights the role of investor sentiment and contagion effects, showing that geopolitical shocks intensify volatility spillovers through exchange rate channels across interconnected economies (Asad et al., 2020; Abdulsalam & Onipede, 2023). Taken together, these theoretical and empirical insights suggest that escalating tensions in the South China Sea increase uncertainty over trade continuity, energy supply, and capital mobility, thereby amplifying exchange rate volatility through heightened risk perceptions, capital outflows, and speculative activity. thus

Hypothesis 5. Geopolitical tensions in the South China Sea are positively associated with currency volatility.

2.6. Political Instability and Foreign Investment Confidence

Foreign investment confidence is fundamentally shaped by perceptions of political stability, institutional credibility, and policy continuity in host economies. Institutional theory posits that stable political environments reduce uncertainty, strengthen contract enforcement, and enhance the predictability of regulatory outcomes, thereby lowering transaction costs and encouraging long-term capital commitments (North, 1990; Henisz, 2000). Conversely, political instability undermines these institutional foundations, eroding investor confidence by increasing uncertainty over policy direction, governance quality, and security conditions. Real options theory further suggests that heightened political instability increases the value of waiting, leading investors to postpone or scale back

irreversible investment decisions when future payoffs become uncertain (Dixit & Pindyck, 2012). Under such conditions, foreign investors demand higher risk premia or redirect capital toward more stable jurisdictions, weakening foreign investment confidence even in economies with otherwise attractive fundamentals. Behavioral finance complements this perspective by emphasizing that investors' subjective risk perceptions and confidence are highly sensitive to political signals, magnifying capital withdrawal and hesitation during periods of instability (Pastor & Veronesi, 2013).

Empirical evidence consistently supports these theoretical expectations. Kiptoo (2024) demonstrates that political stability promotes FDI by enhancing policy predictability and institutional trust, while instability discourages capital inflows. Country-specific studies reinforce this relationship. For instance, Tjandrasa (2021) shows that political stability and institutional reforms significantly improve foreign investment attractiveness in Indonesia, underscoring investors' sensitivity to governance quality. In fragile and vulnerability-prone economies, political instability exerts particularly strong deterrent effects. Bitar, Hamadeh, and Khoueiri (2019) find that insecurity and policy unpredictability in Lebanon significantly reduced FDI inflows, while Kurecic and Kokotovic (2017) document both immediate and persistent declines in foreign investment following episodes of political instability.

Institutional quality plays a critical moderating role in this relationship. Weak institutional frameworks amplify the adverse effects of political instability on foreign investment confidence by intensifying uncertainty and weakening enforcement mechanisms (Saha et al., 2022). Recent studies further highlight that political stability is essential not only for attracting FDI but also for sustaining innovation, green growth, and long-term economic development, all of which depend on credible and consistent policy environments (Qamruzzaman & Karim, 2024; Wang et al., 2024). Evidence from Indonesia similarly confirms that political stability enhances both foreign investment inflows and economic growth by reinforcing investor confidence in policy continuity and governance reliability (Kristofano & Febriani, 2024).

Taken together, this literature suggests that regional political instability undermines foreign investment confidence by increasing uncertainty, weakening institutional trust, and raising perceived business risk, thereby discouraging long-term capital commitments. Therefore

Hypothesis 6. Regional political instability negatively affects foreign investment confidence.

2.7. Political Instability, Investor Behavior, and Exchange Rate Volatility

From a behavioral finance perspective, political instability influences exchange rates by shaping investor expectations and risk perceptions. Heightened geopolitical uncertainty erodes investor confidence, leading to precautionary capital withdrawals, currency depreciation pressures, and increased volatility as market participants respond heterogeneously to evolving information (Pastor & Veronesi, 2013). These dynamics are reinforced in emerging markets, where institutional fragility and limited monetary policy credibility magnify currency sensitivity to external shocks. Empirical studies consistently demonstrate that political and security shocks intensify exchange rate volatility by increasing firms' and investors' exposure to currency risk (Abbassi et al., 2022; Aliu et al., 2022). Hui (2021) further shows that ASEAN foreign exchange markets exhibit persistent volatility in response to geopolitical risk, reflecting the region's exposure to political instability and capital flow fluctuations. Adeosun et al. (2024) provide additional evidence that geopolitical uncertainty, when combined with economic policy uncertainty, exacerbates financial instability and amplifies currency volatility.

Commodity-linked mechanisms further reinforce these effects. Political instability often disrupts energy and commodity markets, which in turn affect exchange rates in both exporting and importing economies. Akram (2020) demonstrates that oil-exporting countries experience heightened exchange

rate volatility during periods of geopolitical uncertainty, while Liu et al. (2025) show that US–China geopolitical tensions transmit shocks through commodity markets, contributing to exchange rate instability. These findings align with contagion models in international finance, which emphasize the role of exchange rate channels in disseminating shocks across financial systems (Asad et al., 2020).

Accordingly, political instability associated with geopolitical tensions is expected to amplify exchange rate volatility through capital outflows, speculative behavior, and commodity-linked transmission mechanisms. Therefore

H7. Geopolitical instability is positively associated with exchange rate volatility.

2.8. Supply Chain Resilience and Corporate Financial Performance

Supply chain resilience (SCR) refers to a firm's capacity to anticipate, absorb, adapt to, and recover from disruptions while maintaining operational continuity and performance. Drawing on dynamic capabilities theory, resilient supply chains enable firms to reconfigure resources, sustain strategic flexibility, and mitigate performance losses under uncertainty, thereby contributing to superior financial outcomes. In volatile environments, SCR functions not merely as an operational attribute but as a strategic capability that enhances firms' long-term competitiveness and profitability. Empirical evidence consistently supports the positive association between SCR and corporate financial performance. Firms with higher resilience demonstrate superior returns on assets, profit margins, and growth during periods of market turbulence (Li et al., 2017). Recent studies further show that resilience embedded within sustainable supply chain practices strengthens stakeholder trust and improves financial performance by aligning operational stability with long-term value creation (Zhu & Wu, 2022; Lin & Li, 2025). Digital capabilities reinforce this relationship by enhancing supply chain visibility, coordination, and recovery speed, allowing firms to translate resilience into tangible financial gains (Zhao et al., 2023).

Supply chain finance (SCF) has emerged as an important complementary mechanism through which resilience enhances financial performance. By easing working capital constraints and improving liquidity across supply networks, SCF strengthens firms' ability to absorb shocks and sustain investment in innovation and operations (Zheng et al., 2025; Feng et al., 2024). Empirical evidence confirms that firms adopting SCF mechanisms exhibit improved financial outcomes across industries, particularly in environments characterized by financing frictions (Paul, 2025). While prior studies highlight sustainability, digitalization, and financial integration as key enablers of resilience, most examine these mechanisms in isolation, leaving limited understanding of their combined effects—especially in emerging economies.

Taken together, the literature indicates that SCR operates as a strategic capability that positively influences corporate financial performance by enhancing adaptability, reducing disruption-related losses, and supporting sustained value creation. Therefore

H8. Supply chain resilience positively affects corporate financial performance.

2.9. Currency Volatility and Corporate Financial Performance

Currency volatility represents a critical external financial risk that affects firms' cost structures, pricing strategies, investment decisions, and international competitiveness. International finance theory suggests that heightened exchange rate fluctuations increase uncertainty, raise transaction and

hedging costs, and distort investment planning, thereby undermining firm-level financial performance—particularly in economies with limited risk-management capabilities.

Empirical research provides robust evidence of this negative relationship. Exchange rate volatility has been shown to weaken corporate profitability and financial stability across both developed and emerging markets (Bris et al., 2004; Morina et al., 2020). Recent firm-level studies confirm that exchange rate instability adversely affects performance by eroding margins, increasing financing costs, and discouraging long-term investment (Kim & Han, 2024; Aminaho, 2025). Macroeconomic evidence further indicates that volatile exchange rates impede productivity, trade competitiveness, and investment, reinforcing their detrimental effects on firm performance (Musyoki et al., 2012; Yensu et al., 2022; Fofanah, 2022). Importantly, the magnitude of these effects varies across institutional contexts. Firms in advanced economies often possess more sophisticated hedging instruments and financial depth, enabling them to partially buffer currency risk, whereas firms in emerging markets remain more exposed due to weaker financial infrastructure and limited access to risk management tools (Aminaho, 2025). This vulnerability underscores the importance of currency stability for sustaining corporate financial performance in emerging economies. Accordingly, the literature converges on the view that currency volatility undermines firm performance by increasing uncertainty, costs, and financial risk exposure. Therefore

H9. Currency volatility negatively affects corporate financial performance.

2.10. Foreign Investment Confidence and Corporate Financial Performance

Foreign investment confidence reflects investors' expectations regarding institutional credibility, governance quality, and long-term economic prospects in host economies. From an institutional and resource-based perspective, foreign investment enhances firm-level financial performance by providing access to capital, managerial expertise, advanced technologies, and global networks, thereby improving efficiency, governance, and competitive positioning. Empirical studies consistently demonstrate that firms with higher foreign ownership or stronger exposure to international investors exhibit superior financial performance, particularly in emerging and transitional economies (Pasali & Chaudhary, 2020). Foreign investors often impose more stringent governance practices and performance monitoring, contributing to enhanced profitability and productivity. Evidence from both developed and developing contexts supports this mechanism, showing that firms with foreign participation outperform domestic counterparts in financial outcomes (Bentivogli & Mirenda, 2016).

However, the strength of this relationship depends on firm-level and institutional conditions. Large firms are generally better positioned to leverage international networks and economies of scale, while smaller firms may face constraints related to absorptive capacity (Bentivogli & Mirenda, 2016). Moreover, weak institutional environments may dampen the positive effects of foreign investment by increasing risk and limiting effective governance transmission. Despite these contingencies, the literature broadly confirms that foreign investment confidence plays a critical role in enhancing firm-level financial performance through improved governance, innovation adoption, and global integration. Therefore

H10. Foreign investment confidence positively affects corporate financial performance.

Development of Conceptual Model

Building on the above arguments, this study proposes a conceptual model that examines how geopolitical instability influences corporate financial performance through firm-level transmission mechanisms. Specifically, geopolitical risks—manifested through the US–China trade war, South China

Sea tensions, and regional political instability—affect corporate outcomes indirectly via supply chain resilience, currency volatility, and foreign investment confidence. This framework integrates operational, financial, and institutional channels to explain how external geopolitical shocks are translated into firm-level financial performance, highlighting the strategic importance of resilience and investor confidence in navigating uncertainty within emerging Asian economies.

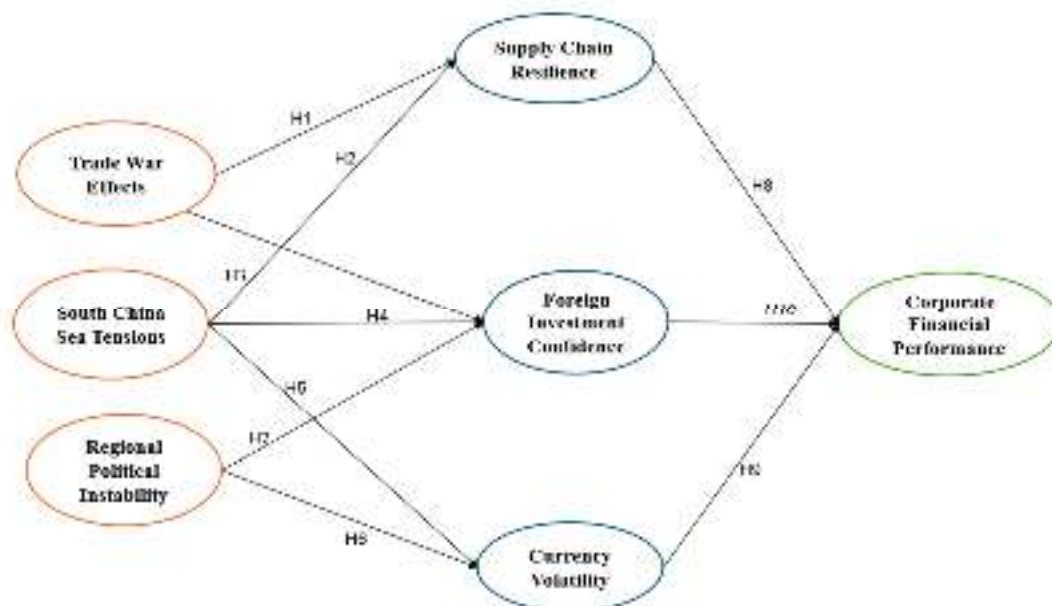


Figure 1: Research Conceptual Framework

3. Methodology and Design

3.1. Research Design

This study adopts a quantitative, cross-sectional research design to examine how geopolitical instability influences corporate financial performance in Southeast Asia through multiple mediating mechanisms. The research framework integrates geopolitical risk factors with firm-level strategic and financial responses, requiring an analytical approach capable of simultaneously estimating complex causal relationships. To achieve this objective, Partial Least Squares Structural Equation Modeling (PLS-SEM) was employed. PLS-SEM is particularly suitable for this study for three reasons. First, the model incorporates multiple latent constructs and parallel mediators, increasing structural complexity. Second, the study emphasizes prediction and variance explanation, consistent with the objectives of PLS-SEM rather than strict theory confirmation. Third, several constructs—such as geopolitical tensions and investment confidence—represent context-dependent phenomena that benefit from PLS-SEM’s robustness to non-normal data distributions and moderate sample sizes (Hair et al., 2019; Hair et al., 2022). Accordingly, PLS-SEM is well aligned with the study’s exploratory–explanatory orientation and emerging-market context. The survey instrument was developed based on established and validated measurement scales, adapted carefully to reflect the geopolitical and institutional context of Southeast Asia. All constructs were operationalized as reflective latent variables and measured using multi-item indicators on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

Measures of geopolitical risk—including the US–China trade war, South China Sea tensions, and regional political instability—were adapted from prior political risk and international business research (Kobrin, 1982; Stevens & Newenham-Kahindi, 2021). Mediating constructs—Supply Chain Resilience (SCR), Currency Volatility (CV), and Foreign Investment Confidence (FIC)—were drawn from validated scales in the supply chain management and international finance literature (Pettit et al., 2019; Wang & Ngai, 2020). Corporate Financial Performance (CFP) was measured using subjective assessments of profitability, growth, and competitive position. Such perceptual measures are widely accepted as reliable proxies for objective performance, particularly in emerging-market contexts where secondary financial data are limited or inconsistent (Dess & Robinson, 1984).

To ensure content validity and contextual relevance, the questionnaire was reviewed by three academic experts specializing in international business and two senior industry practitioners with regional experience. A pilot study involving 35 respondents was conducted to assess item clarity and reliability, resulting in minor refinements to wording without altering construct meaning. The empirical setting comprises mid- to large-sized enterprises operating in Southeast Asia, with a focus on industries highly exposed to geopolitical and trade-related disruptions, including manufacturing, logistics, technology, and international business services. A purposive sampling strategy was adopted to target firms with direct exposure to cross-border trade, supply chain fragmentation, and international investment flows. Data were collected between March and June 2025 using structured questionnaires distributed through professional networks, industry associations, and targeted email invitations. A total of 420 questionnaires were disseminated, of which 308 valid responses were retained after excluding incomplete or inconsistent submissions, yielding an effective response rate of 74.3%.

The final sample size exceeds the minimum threshold recommended for PLS-SEM using the 10-times rule and satisfies the statistical power requirement (0.80) based on G-Power analysis (Cohen, 1988; Hair et al., 2022). The sectoral composition of the sample includes manufacturing (41%), logistics and shipping (27%), technology and electronics (19%), and business services (13%). In terms of firm size, 36% employ fewer than 500 employees, 44% employ between 500 and 1,000 employees, and 20% employ more than 1,000 employees. Respondents primarily held senior and middle management positions in supply chain management, finance, and strategic planning, ensuring informed assessments of firm-level performance and risk exposure. Data analysis was conducted using SmartPLS 4.0 following a two-stage analytical procedure. First, the measurement model was evaluated by assessing internal consistency reliability, convergent validity, and discriminant validity using composite reliability, average variance extracted (AVE), and the heterotrait–monotrait (HTMT) ratio. Second, the structural model was examined through path coefficients, coefficient of determination (R^2), effect sizes (f^2), and predictive relevance (Q^2). To test the statistical significance of hypothesized relationships, a bootstrapping procedure with 5,000 resamples was applied. This non-parametric approach enhances the robustness of parameter estimates and mitigates concerns related to non-normal data distributions commonly associated with survey-based research (Henseler et al., 2009). Collectively, this analytical strategy ensures rigorous hypothesis testing and reliable inference regarding the mediating mechanisms linking geopolitical instability to corporate financial performance.

4. Findings And Analysis

Measurement Model Evaluation

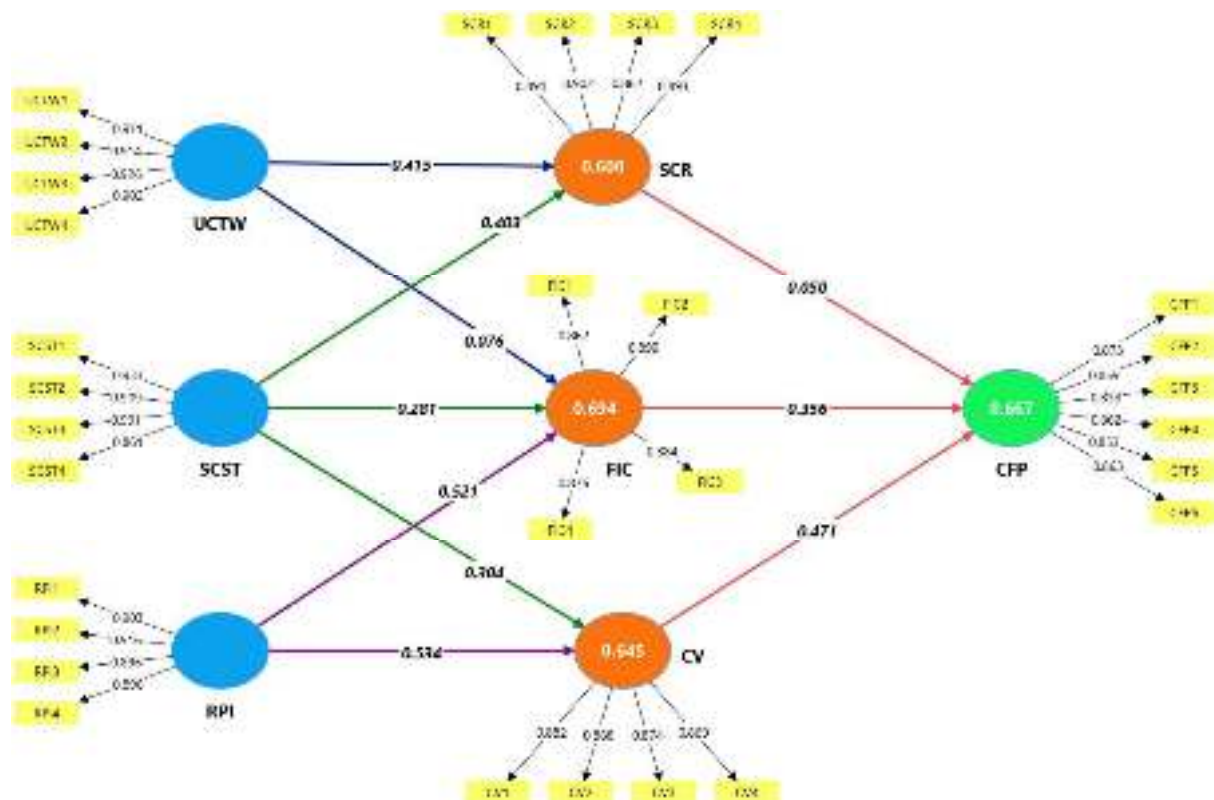


Figure 2. Measurement Model Evaluation Results: Outer Loadings, Reliability, and Validity (SmartPLS Output)

Measurement Model Outer loadings

Construct Outer loadings

CFP1 <- CFP 0,873

CFP2 <- CFP 0,859

CFP3 <- CFP 0,833

CFP4 <- CFP 0,862

CFP5 <- CFP 0,853

CFP6 <- CFP 0,863

CV1 <- CV 0,882

CV2 <- CV 0,888

CV3 <- CV 0,874

CV4 <- CV 0,869

FIC1 <- FIC 0,862

FIC2 <- FIC 0,899

FIC3 <- FIC 0,884

FIC4 <- FIC 0,875

RPI1 <- RPI	0,903
RPI2 <- RPI	0,916
RPI3 <- RPI	0,896
RPI4 <- RPI	0,896
SCR1 <- SCR	0,891
SCR2 <- SCR	0,902
SCR3 <- SCR	0,862
SCR4 <- SCR	0,893
SCST1 <- SCST	0,933
SCST2 <- SCST	0,909
SCST3 <- SCST	0,931
SCST4 <- SCST	0,861
UCTW1 <- UCTW	0,911
UCTW2 <- UCTW	0,914
UCTW3 <- UCTW	0,926
UCTW4 <- UCTW	0,902

Table 1. Measurement Model Evaluation Results: Outer Loadings.

Construct Reliability and Validity

	Cronbach's alpha		Composite reliability (rho_a)		Composite reliability (rho_c)
	Average variance extracted (AVE)				
CFP	0,928	0,928	0,943	0,735	
CV	0,901	0,901	0,931	0,771	
FIC	0,903	0,903	0,932	0,775	
RPI	0,924	0,924	0,946	0,815	
SCR	0,909	0,910	0,936	0,787	
SCST	0,929	0,930	0,950	0,826	
UCTW	0,934	0,934	0,953	0,834	

Table 2: Measurement Model Evaluation Reliability, and Validity (SmartPLS Output)

Discriminant validity

Fornell Lacker

CFP	CV	FIC	RPI	SCR	SCST	UCTW
-----	----	-----	-----	-----	------	------

CFP	0,857						
CV	0,783	0,878					
FIC	0,760	0,791	0,880				
RPI	0,732	0,784	0,813	0,903			
SCR	0,566	0,607	0,646	0,755	0,887		
SCST	0,716	0,744	0,770	0,823	0,732	0,909	
UCTW	0,594	0,683	0,718	0,806	0,735	0,793	0,913

Table 3: Measurement Model Evaluation Results, Discriminant validity Fornell Lacker (SmartPLS Output)

Heterotrait-monotrait ratio (HTMT)

Construct	Heterotrait-monotrait ratio (HTMT)
CV <-> CFP	0,855
FIC <-> CFP	0,830
FIC <-> CV	0,877
RPI <-> CFP	0,791
RPI <-> CV	0,859
RPI <-> FIC	0,890
SCR <-> CFP	0,615
SCR <-> CV	0,670
SCR <-> FIC	0,712
SCR <-> RPI	0,822
SCST <-> CFP	0,771
SCST <-> CV	0,812
SCST <-> FIC	0,840
SCST <-> RPI	0,887
SCST <-> SCR	0,796
UCTW <-> CFP	0,638
UCTW <-> CV	0,744
UCTW <-> FIC	0,782
UCTW <-> RPI	0,867
UCTW <-> SCR	0,797

UCTW <-> SCST 0,851

Table 4: Measurement Model Evaluation Results, Heterotrait-monotrait ratio (HTMT) - List (SmartPLS Output)

Findings: Measurement Model Evaluation

The measurement model was assessed using SmartPLS output, focusing on indicator reliability, construct reliability, convergent validity, and discriminant validity. As shown in Table 1, all outer loadings exceeded the minimum threshold of 0.70 (Hair et al., 2021), ranging from 0.833 (CFP3) to 0.933 (SCST1). This indicates that each indicator strongly contributes to its respective latent construct. The consistently high loadings across constructs such as CFP, CV, FIC, RPI, SCR, SCST, and UCTW demonstrate that the reflective indicators are reliable measures of their underlying constructs.

The results in Table 2 confirm that all constructs achieved high internal consistency. Cronbach's alpha values ranged from 0.901 (CV) to 0.934 (UCTW), while composite reliabilities (ρ_c) were between 0.931 and 0.953 — all surpassing the recommended cut-off of 0.70 (Nunnally & Bernstein, 1994). The Average Variance Extracted (AVE) values were also robust, ranging from 0.735 (CFP) to 0.834 (UCTW), well above the 0.50 threshold (Fornell & Larcker, 1981). These results provide strong evidence of convergent validity, indicating that the indicators share a high proportion of variance in measuring their respective constructs. The Fornell–Larcker criterion results in Table 3 show that the square root of each construct's AVE (diagonal values) was greater than its correlations with other constructs (off-diagonal values). For instance, the square root of AVE for CV (0.878) exceeded its correlations with CFP (0.783) and FIC (0.791). Similarly, UCTW (0.913) had a higher diagonal value than its correlations with other constructs such as RPI (0.806) and SCST (0.793). These findings confirm that all constructs are empirically distinct, satisfying the discriminant validity requirement.

The Heterotrait–Monotrait (HTMT) results in Table 4 further strengthen the evidence for discriminant validity. All HTMT ratios ranged from 0.615 (SCR–CFP) to 0.890 (RPI–FIC), below the conservative threshold of 0.90 (Henseler, Ringle, & Sarstedt, 2015). This indicates that each construct captures a unique dimension of the conceptual model, with no evidence of multicollinearity or redundancy among constructs.

The measurement model evaluation demonstrates strong reliability and validity across all constructs. The high outer loadings and AVE values confirm convergent validity, while both the Fornell–Larcker and HTMT criteria establish discriminant validity. These results collectively indicate that the latent constructs are well-defined, distinct, and measured consistently, thereby providing a solid foundation for evaluating the structural model in the next stage of analysis.

Structural Model Evaluation

R square (R²)

	R-square	R-square adjusted
CFP	0,667	0,664
CV	0,645	0,643
FIC	0,694	0,691

SCR 0,600 0,598

Table 5. Coefficient of Determination (R^2 and Adjusted R^2) for Endogenous Constructs

F Square (F^2)

f-square

CV -> CFP	0,239
FIC -> CFP	0,126
RPI -> CV	0,259
RPI -> FIC	0,230
SCR -> CFP	0,004
SCST -> CV	0,084
SCST -> FIC	0,071
SCST -> SCR	0,151
UCTW -> FIC	0,006
UCTW -> SCR	0,160

Table 6. Effect Size (f^2) of Exogenous Variables on Endogenous Constructs

Q Square (Q^2)

	$Q^2_{predict}$	RMSE	MAE
CFP	0,567	0,665	0,540
CV	0,644	0,607	0,470
FIC	0,690	0,565	0,452
SCR	0,592	0,648	0,473

Table 7. Predictive Relevance (Q^2) and Prediction Metrics (RMSE, MAE)

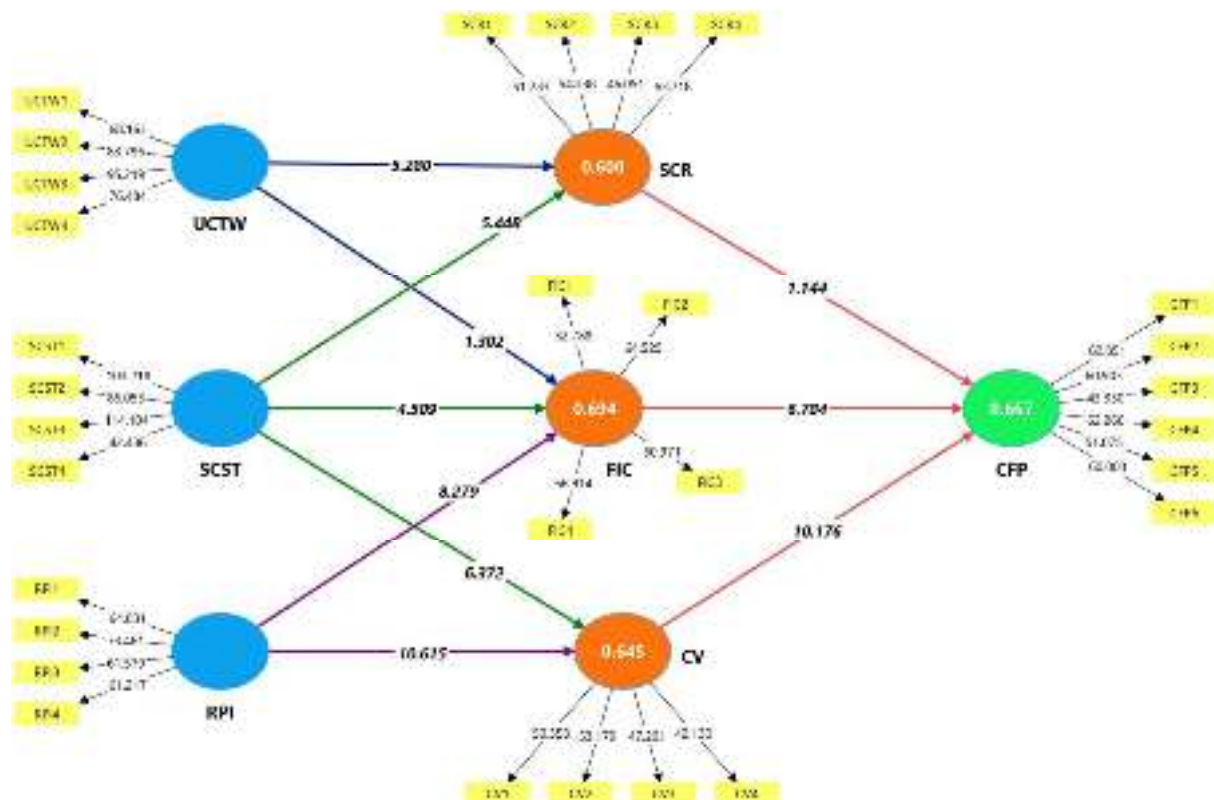


Figure 3. Structural Model Evaluation Results: Path Coefficients, R^2 , and Effect Sizes (SmartPLS Output)

Path Coefficient

	Original sample (O)		Sample mean (M)		Standard deviation (STDEV)		T statistics	
(O/STDEV)	P values							
CV → CFP	0,471	0,471	0,046	10,176	0,000			
FIC → CFP	0,356	0,358	0,052	6,784	0,000			
RPI → CV	0,534	0,532	0,050	10,615	0,000			
RPI → FIC	0,521	0,519	0,063	8,279	0,000			
SCR → CFP	0,050	0,047	0,044	1,144	0,253			
SCST → CV	0,304	0,305	0,048	6,372	0,000			
SCST → FIC	0,281	0,278	0,062	4,509	0,000			
SCST → SCR	0,403	0,408	0,074	5,448	0,000			
UCTW → FIC	0,076	0,079	0,058	1,302	0,193			
UCTW → SCR	0,415	0,409	0,079	5,280	0,000			

Table 8. Path Coefficients of the Structural Model (SmartPLS Output)

Specific Indirect Effect

Original sample (O) (O/STDEV) P values	Sample mean (M)		Standard deviation (STDEV)		T statistics
RPI -> FIC -> CFP	0,185	0,186	0,036	5,160	0,000
SCST -> SCR -> CFP	0,020	0,019	0,019	1,067	0,286
RPI -> CV -> CFP	0,251	0,251	0,036	6,899	0,000
UCTW -> SCR -> CFP	0,021	0,019	0,018	1,144	0,253
SCST -> FIC -> CFP	0,100	0,100	0,028	3,614	0,000
SCST -> CV -> CFP	0,143	0,143	0,026	5,478	0,000
UCTW -> FIC -> CFP	0,027	0,028	0,021	1,269	0,204

Table 9. Specific Indirect Effects in the Structural Model (SmartPLS Output)

Structural Model Evaluation: An Advanced Analysis

The structural model demonstrates substantial explanatory capability in explaining firm-level financial outcomes under geopolitical instability. The coefficient of determination (R^2) for Corporate Financial Performance (CFP) is 0.667 (adjusted $R^2 = 0.664$), indicating that approximately two-thirds of the variance in firm performance is explained by the proposed mediators and geopolitical risk factors. This level of explanatory power is considered substantial for firm-level studies in complex, uncertainty-driven environments. The mediating constructs also exhibit meaningful explanatory power. Foreign Investment Confidence (FIC) records an R^2 of 0.694, while Currency Volatility (CV) shows an R^2 of 0.645, indicating that geopolitical risk variables account for a significant proportion of variation in investor sentiment and exchange rate instability. Supply Chain Resilience (SCR) exhibits moderate explanatory power ($R^2 = 0.600$), reflecting the heterogeneous and context-dependent nature of operational adaptation across firms.

Effect size (f^2) analysis further clarifies the relative importance of the predictors. Following Cohen (1988), values of 0.02, 0.15, and 0.35 indicate small, medium, and large effects, respectively. CV ($f^2 = 0.239$) and FIC ($f^2 = 0.126$) exert medium and small-to-medium effects on CFP, underscoring their economic relevance. Regional Political Instability (RPI) demonstrates medium effects on both CV ($f^2 = 0.259$) and FIC ($f^2 = 0.230$), highlighting its central role in transmitting geopolitical uncertainty to financial and investment channels. Predictive relevance was assessed using the blindfolding procedure. All endogenous constructs exhibit positive Q^2 values, confirming that the model possesses meaningful predictive relevance and is capable of reproducing observed data patterns beyond mere explanatory fit (Hair et al., 2019). Path coefficient estimates indicate that Currency Volatility ($\beta = 0.471$, $t = 10.176$, $p < 0.001$) and Foreign Investment Confidence ($\beta = 0.356$, $t = 6.784$, $p < 0.001$) significantly influence corporate financial performance. These results confirm that financial market instability and investor sentiment constitute primary transmission mechanisms through which geopolitical risks affect firm outcomes. Regional Political Instability significantly increases currency volatility ($\beta = 0.534$, $t = 10.615$, $p < 0.001$) and weakens foreign investment confidence ($\beta = 0.521$, $t = 8.279$, $p < 0.001$). South China Sea tensions also significantly affect CV, FIC, and SCR, reflecting their disruptive influence on trade routes, capital flows, and operational continuity. In contrast, the direct effects of SCR on CFP ($\beta = 0.050$, $p > 0.05$) and the US–China trade war on FIC ($\beta = 0.076$, $p > 0.05$) are not statistically significant, suggesting that their influence operates primarily through indirect mechanisms. Mediation analysis confirms this interpretation. Significant indirect effects are observed for RPI and SCST through CV and FIC, whereas mediation via SCR is not supported. These findings indicate that financial-market and

investor-confidence channels dominate operational resilience mechanisms in shaping firm performance under geopolitical stress.

Theoretical and Practical Contribution

This study advances geopolitical risk theory in three important ways. First, it shifts the analytical focus from macroeconomic aggregates to firm-level transmission mechanisms, demonstrating that geopolitical instability affects corporate performance primarily through financial-market volatility and investor confidence rather than direct operational disruptions alone. Second, by integrating multiple mediators within a single structural framework, the study reconceptualizes geopolitical risk as a multichannel phenomenon, where financial and strategic pathways interact to shape firm outcomes. Third, the findings extend emerging-market theory by revealing that limited hedging capacity and dependence on foreign capital amplify the dominance of financial over operational mechanisms in Asia, thereby establishing clear boundary conditions for existing resilience theories. The results suggest that managerial responses to geopolitical instability should prioritize financial risk governance alongside operational resilience. Firms should strengthen currency risk management, enhance transparency to sustain investor confidence, and align governance practices with international standards. Policymakers, in turn, should focus on institutional stability, predictable regulatory environments, and regional cooperation to reduce risk premiums and support firm-level financial sustainability.

5. Limitations and Future Research

Despite its contributions, this study is limited by its cross-sectional design, which restricts causal inference over time. Longitudinal analyses could capture dynamic adaptation to sustained geopolitical shocks. Additionally, reliance on perceptual measures may introduce bias; future studies should triangulate survey data with archival financial indicators. Finally, comparative research across regions with differing institutional quality would further refine the generalizability of the proposed framework.

6. Conclusion

This study analyzes the impact of geopolitical instability on corporate financial performance through key mediating factors. By incorporating supply chain resilience, foreign investment confidence, and currency volatility into a structural framework, this study advances the theoretical and empirical understanding of firm-level responses to disruptions. The model shows significant explanatory capabilities, indicating that foreign investment confidence and currency volatility are critical in translating geopolitical risks into financial outcomes. From a theoretical perspective, this study enriches the geopolitical risk literature by linking macro-level instability with micro-level firm performance mechanisms in emerging Asian economies. The findings suggest that financial resilience depends on operational efficiency, institutional uncertainty management, investor confidence, and the mitigation of currency fluctuation exposure. In Practice, the results underscore the need for corporate leaders to integrate resilience building, currency risk management, and transparent governance into strategic planning during instability. Policymakers should enhance regional stability and institutional frameworks to bolster business confidence and economic adaptability. In conclusion, this study shows that geopolitical risks are strategic challenges that test organizational agility, financial discipline, and innovation capacity. By elucidating how firms can maintain financial performance amid uncertainty, this study provides insights into academic discourse and strategic management practices.

Authors' Contributions: Sugeng Suroso : Conceptualization, Formal analysis, Methodology, Supervision, Validation, Writing – review & editing; Sri Wulandari : Methodology, Data curation ,Writing

– review & editing. Hajar Matari Fath Mala: Conceptualization, Data curation, Investigation, Validation, Visualization, Writing – review & editing.

Funding: This research received no external funding.

Institutional Review Board Statement: Not applicable.

Informed Consent Statement: Not applicable.

Data Availability Statement: The raw data supporting the conclusions of this article will be made available by the authors on request.

Conflicts of Interest: The author declares no conflicts of interest, and there has been no significant financial support for this work that could have influenced its outcome

References

- Abualjarayesh, N., & Habuda, H. (2025). A Comparing Study for Currencies Exchange Rates Fluctuations Due to the Shock in Russia-Ukraine War & Other Determinants. SSRN Electronic Journal. <https://doi.org/10.2139/ssrn.5247968>
- Abbassi, W., Kumari, V., & Pandey, D. K. (2022). What makes firms vulnerable to the Russia–Ukraine crisis? The Journal of Risk Finance, 24(1), 24–39. <https://doi.org/10.1108/jrf-05-2022-0108>
- Abdulsalam, S. A., & Onipede, S. F. (2023). Economic policy uncertainty and the ECOWAS exchange rate mechanism. Scientific African, 21, e01844. <https://doi.org/10.1016/j.sciaf.2023.e01844>
- Adeosun, O. A., Anagreh, S., Tabash, M. I., & Vo, X. V. (2024). Return and volatility transmission among economic policy uncertainty, geopolitical risk and precious metals. Studies in Economics and Finance, 41(5), 1057–1084. <https://doi.org/10.1108/sef-10-2023-0586>
- Agoraki, M.-E. K., Wu, H., Xu, T., & Yang, M. (2024). Money never sleeps: Capital flows under global risk and uncertainty. Journal of International Money and Finance, 141, 103013. <https://doi.org/10.1016/j.jimonfin.2023.103013>
- Aliu, F., Hašková, S., & Bajra, U. Q. (2022). Consequences of Russian invasion on Ukraine: evidence from foreign exchange rates. The Journal of Risk Finance, 24(1), 40–58. <https://doi.org/10.1108/jrf-05-2022-0127>
- Akram, Q. F. (2020). Oil price drivers, geopolitical uncertainty and oil exporters' currencies. Energy Economics, 89, 104801. <https://doi.org/10.1016/j.eneco.2020.104801>
- Akarsu, M. Z., & Gharehgozli, O. (2023). The impact of the Russia-Ukraine War on European Union currencies: a high-frequency analysis. Policy Studies, 45(3–4), 353–376. <https://doi.org/10.1080/01442872.2023.2268543>
- Altiner, a., & Bozkurt, e. (2023). Reflections of Geopolitical Risk on Foreign Direct Investments: The Case of Türkiye. İnsan ve Toplum Bilimleri Araştırmaları Dergisi, 12(3), 1292–1309. <https://doi.org/10.15869/itobiad.1271884>
- Athukorala, P., & Menon, J. (2015). Global production sharing, trade patterns and determinants of trade flows: the role of East Asia. In Handbook on Trade and Development. Edward Elgar Publishing. <https://doi.org/10.4337/9781781005316.00027>

Amin, A. A., & Hamdan, A. M. (2018). Evaluating the effect of ownership structure on firm performance: Evidence from Saudi Arabian listed companies. *Journal of Economic Cooperation & Development*, 39(3), 65–92.

Aminaho, F. (2025). The impact of exchange rate volatility on firm performance: Evidence from Nigerian Exchange (NGX) Group and London Stock Exchange (LSE) Group. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.5364657>

Asad, M., Tabash, M. I., Sheikh, U. A., Al-Muhanadi, M. M., & Ahmad, Z. (2020). Gold-oil-exchange rate volatility, Bombay stock exchange and global financial contagion 2008: Application of NARDL model with dynamic multipliers for evidences beyond symmetry. *Cogent Business & Management*, 7(1), 1849889. <https://doi.org/10.1080/23311975.2020.1849889>

Athukorala, P., & Wei, Z. (2017). ECONOMIC TRANSITION AND LABOUR MARKET DYNAMICS IN CHINA: AN INTERPRETATIVE SURVEY OF THE 'TURNING POINT' DEBATE. *Journal of Economic Surveys*, 32(2), 420–439. <https://doi.org/10.1111/joes.12206>

Bajaj, n. K., Aziz, t., Kumari, s., Alenezi, m., & Mathkur, n. M. (2023). The Impact of Geopolitical Risk on Financial Conditions of Emerging Economies. *The Journal of Asian Finance, Economics and Business*, 10(1), 133–143. <https://doi.org/10.13106/JAFEB.2023.VOL10.NO1.0133>

Bartram, S. M., Brown, G. W., & Minton, B. A. (2010). Resolving the exposure puzzle: The many facets of exchange rate exposure. *Journal of Financial Economics*, 95(2), 148–173. <https://doi.org/10.1016/j.jfineco.2009.09.002>

Bekaert, G., Harvey, C. R., Lundblad, C. T., & Siegel, S. (2016). Political risk and international valuation. *Journal of Corporate Finance*, 37, 1–23. <https://doi.org/10.1016/j.jcorpfin.2015.12.007>

Bentivogli, C., & Mirenda, L. (2016). Foreign ownership and performance: Evidence from a panel of Italian firms (Bank of Italy Temi di Discussione (Working Paper) No. 1085). Bank of Italy. <https://doi.org/10.2139/ssrn.2914251>

Bitar, N., Hamadeh, M., & Khoueiri, R. (2019). Impact of political instability on foreign direct investment in Lebanon. *Asian Social Science*, 16(1), 41. <https://doi.org/10.5539/ass.v16n1p4>.

Blessley, M., & Mudambi, S. M. (2022). A trade war and a pandemic: Disruption and resilience in the food bank supply chain. *Industrial Marketing Management*, 102, 58–73. <https://doi.org/10.1016/j.indmarman.2022.01.002>

Bown, C. P. (2021). The US–China trade war and Phase One agreement. *Journal of Policy Modeling*, 43(4), 805–843. <https://doi.org/10.1016/j.jpolmod.2021.02.009>

Bris, A., Koskinen, Y., & Pons, V. (2004). Corporate financial policies and performance around currency crises. *The Journal of Business*, 77(4), 749–796. <https://doi.org/10.1086/422438>

Cosar, K., & Thomas, B. (2021). The geopolitics of international trade in Southeast Asia. *Review of World Economics*, 157(1), 207–219. <https://doi.org/10.1007/s10290-020-00389-9>

Caldara, D., & Iacoviello, M. (2022). Measuring Geopolitical Risk. *American Economic Review*, 112(4), 1194–1225. <https://doi.org/10.1257/aer.20191823>

Coşkun, A. E., & Erturgut, R. (2024). How Do Uncertainties Affect Supply-Chain Resilience? The Moderating Role of Information Sharing for Sustainable Supply-Chain Management. *Sustainability*, 16(1), 131. <https://doi.org/10.3390/su16010131>

Cosar, K., & Thomas, B. (2021). The geopolitics of international trade in Southeast Asia. *Review of World Economics / Weltwirtschaftliches Archiv*, 157(1), 207–219. <https://www.jstor.org/stable/48762824>

Cui, C., & Li, L. S.-Z. (2023). Trade policy uncertainty and new firm entry: Evidence from China. *Journal of Development Economics*, 163, 103093. <https://doi.org/10.1016/j.jdeveco.2023.103093>

Dawar, A., & Bai, Y. (2024). Impact of Geopolitical Risk on the Maritime Supply Chain: A Regional Analysis of the Effects on Global Trade. *International Journal of Supply Chain Management*, 13(3), 42–53. <https://doi.org/10.59160/ijscm.v13i3.6245>

Dixit, A. K., & Pindyck, R. S. (2012). *Investment under Uncertainty*. Princeton University Press. <https://doi.org/10.2307/j.ctt7sncv>

Dong, L., Hidthiir, M. H. B., & Mansur, M. B. (2025). Economic Policy Uncertainty and China's FDI Inflows: Moderating Effects of Financial Development and Political Stability. *Journal of Risk and Financial Management*, 18(7), 354. <https://doi.org/10.3390/jrfm18070354>

Eichengreen, B. (2020). Why hasn't the impact of the trade war been greater? *Journal of Policy Modeling*, 42(4), 820–828. <https://doi.org/10.1016/j.jpolmod.2020.03.007>

Evenett, S. J. (2019). Protectionism, state discrimination, and international business since the onset of the Global Financial Crisis. *Journal of International Business Policy*, 2(1), 9–36. <https://doi.org/10.1057/s42214-019-00021-0>

Fajgelbaum, P. D., & Khandelwal, A. K. (2022). The Economic Impacts of the US–China Trade War. *Annual Review of Economics*, 14(1), 205–228. <https://doi.org/10.1146/annurev-economics-051420-110410>

Feng, C., Han, L., Vigne, S., & Xu, Y. (2023). Geopolitical risk and the dynamics of international capital flows. *Journal of International Financial Markets, Institutions and Money*, 82, 101693. <https://doi.org/10.1016/j.intfin.2022.101693>

Feng, J., Tang, J., Qi, Z., & Liu, J. (2024). Supply Chain Finance and Innovation Investment: Based on financing constraints. *Finance Research Letters*, 63, 105349. <https://doi.org/10.1016/j.frl.2024.105349>

Fernandez, M., Almaazmi, M. M., & Joseph, R. (2020). Foreign direct investment in Indonesia: An analysis from investors perspective. *International Journal of Economics and Financial Issues*, 10(5), 102–112. <https://doi.org/10.32479/ijefi.10330>

Fofanah, P. (2022). Effects of exchange rate volatility on economic growth: Evidence from West Africa. *International Journal of Business and Economics Research*, 11(1), 32. <https://doi.org/10.11648/j.ijber.20221101.15>

Gao, H., Chen, W., Li, J., & Zhou, T. (2024). Economic policy uncertainty and foreign direct investment: Evidence from China. *Structural Change and Economic Dynamics*, 70, 178–191. <https://doi.org/10.1016/j.strueco.2024.01.014>

Gereffi, G. (2020). What does the COVID-19 pandemic teach us about global value chains? The case of medical supplies. *Journal of International Business Policy*, 3(3), 287–301. <https://doi.org/10.1057/s42214-020-00062-w>

- Hafiluddin, N., & Patunru, A. A. (2022). The Impact of Foreign Investment on Firm Performance: Indonesia After the 2007 FDI Reform. *Economics and Finance in Indonesia*, 68(1), 37–50. <https://doi.org/10.47291/efi.2022.03>
- Henisz, W. J. (2000). The Institutional Environment for Multinational Investment. *Journal of Law, Economics, & Organization*, 16(2), 334–364. <http://www.jstor.org/stable/3555095>
- Huchzermeier, A., & Stehle, H. (2025). Navigating Geopolitical Risks in Global Supply Chains: A Systematic Literature Review. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.5161777>
- Hui, H. C. (2021). The long-run effects of geopolitical risk on foreign exchange markets: Evidence from some ASEAN countries. *International Journal of Emerging Markets*, 17(6), 1543–1564. <https://doi.org/10.1108/ijoem-08-2020-1001>
- Ivanov, D. (2021). Supply Chain Viability and the COVID-19 pandemic: a conceptual and formal generalisation of four major adaptation strategies. *International Journal of Production Research*, 59(12), 3535–3552. <https://doi.org/10.1080/00207543.2021.1890852>
- Juma, L., Alkharoossi, H., & Fernandez, M. (2021). Foreign direct investment in the Kingdom of Saudi Arabia: A diagnostic analysis. *International Journal of Research - GRANTHAALAYAH*, 9*(8), 355–367. <https://doi.org/10.29121/granthaalayah.v9.i8.2021.4193>
- Kim, T., & Han, J. M. (2024). The impact of exchange rate fluctuations on the performance of domestic manufacturing companies (KIET Industrial Economic Review, Vol. 29, No. 3, pp. 59-67). *SSRN*. <https://ssrn.com/abstract=4916912>
- Kiptoo, J. (2024). The influence of political stability on foreign direct investment (FDI). *International Journal of Developing Country Studies*, 6(1), 74–86. <https://doi.org/10.47941/ijdc.2165>
- Kristofano, Y. Y., & Febriani, R. E. (2024). The role of political stability and foreign direct investment in Indonesia's economic growth. *Asian Journal of Applied Business and Management*, 3(3), 261–276. <https://doi.org/10.55927/ajabm.v3i3.10680>
- Kurecic, P., & Kokotovic, F. (2017). The relevance of political stability on FDI: A VAR analysis and ARDL models for selected small, developed, and instability threatened economies. *Economies*, 5(3), 22. <https://doi.org/10.3390/economies5030022>
- Liu, P. L., Lü, Z., & Yoon, S.-M. (2025). Impact of US–China tensions on the volatility, correlation, and hedging effects of gold and crude oil prices. *Elsevier BV*. <https://doi.org/10.2139/ssrn.5213775>
- Le, A.-T., & Tran, T. P. (2021). Does geopolitical risk matter for corporate investment? Evidence from emerging countries in Asia. *Journal of Multinational Financial Management*, 62, 100703. <https://doi.org/10.1016/j.mulfin.2021.100703>
- Liu, X., & Zhang, X. (2024). Geopolitical risk and currency returns. *Journal of Banking & Finance*, 161, 107097. <https://doi.org/10.1016/j.jbankfin.2024.107097>
- Li, X., Wu, Q., Holsapple, C. W., & Goldsby, T. (2017). An empirical examination of firm financial performance along dimensions of supply chain resilience. *Management Research Review*, 40(3), 254–269. <https://doi.org/10.1108/mrr-02-2016-0030>
- Likitwongkajon, N., & Vithessonthi, C. (2021). The short- and long-run effects of foreign investments on firm performance: Evidence from Asia Pacific. *International Review of Economics & Finance*, 75, 366–385. <https://doi.org/10.1016/j.iref.2021.04.011>

- Lin, Y., & Li, S. (2025). Supply chain resilience, ESG performance, and corporate growth. *International Review of Economics & Finance*, 97, 103763. <https://doi.org/10.1016/j.iref.2024.103763>
- Mahmood, N., Shakil, M. H., Akinlaso, I. M., & Tasnia, M. (2019). Foreign direct investment and institutional stability: who drives whom? *Journal of Economics, Finance and Administrative Science*, 24(47), 145–156. <https://doi.org/10.1108/jefas-05-2018-0048>
- Mao, H., & Görg, H. (2020). Friends like this: The impact of the US–China trade war on global value chains. *The World Economy*, 43(7), 1776–1791. <https://doi.org/10.1111/twec.12967>
- Morina, F., Hysa, E., Ergün, U., Panait, M., & Voica, M. C. (2020). The effect of exchange rate volatility on economic growth: Case of the CEE countries. *Journal of Risk and Financial Management*, 13(8), 177. <https://doi.org/10.3390/jrfm13080177>
- Musyoki, D., Pokhariyal, G. P., & Pundo, M. (2012). The impact of real exchange rate volatility on economic growth: Kenyan evidence. *Business and Economic Horizons*, 7, 59–75. <https://doi.org/10.15208/beh.2012.5>
- Nguyen, T. H., Nguyen, T. G., & Nguyen, C. C. (2025). Economic policy uncertainty and foreign direct investment: The role of social connectedness in Vietnam. *Economic Journal of Emerging Markets*, 1–11. <https://doi.org/10.20885/ejem.vol17.iss1.art1>
- Nguyen, P. T. L., Huynh, N. T., & Huynh, T. T. C. (2024). Foreign investment and the firm performance in emerging securities market: Evidence from Vietnam. *Journal of Economics and Development*, 26(2), 82–102. <https://doi.org/10.1108/jed-12-2022-0244>
- North, D. C. (1990). *Institutions, Institutional Change and Economic Performance*. Cambridge University Press. <https://doi.org/10.1017/cbo9780511808678>
- Paché, G. (2024). Do Tensions in the South China Sea Herald the Collapse of Global Supply Chains? *International Journal of Managing Value and Supply Chains*, 15(3), 01–12. <https://doi.org/10.5121/ijmvsc.2024.15301>
- Pasali, S. S., & Chaudhary, A. (2020). Assessing the impact of foreign ownership on firm performance by size: Evidence from firms in developed and developing countries. *Transnational Corporations*, 27(2), 43–72. SSRN. <https://ssrn.com/abstract=3692334>
- Paul, P. (2025). The role of supply chain finance in enhancing financial performance: Evidence from personal and home care product industry. *Investment Management and Financial Innovations*, 22(2), 77–85. [https://doi.org/10.21511/imfi.22\(2\).2025.07](https://doi.org/10.21511/imfi.22(2).2025.07)
- Pástor, L., & Veronesi, P. (2013). Political uncertainty and risk premia. *Journal of Financial Economics*, 110(3), 520–545. <https://doi.org/10.1016/j.jfineco.2013.08.007>
- Pringpong, S., Maneenop, S., & Jaroenjitrkam, A. (2023). Geopolitical risk and firm value: Evidence from emerging markets. *The North American Journal of Economics and Finance*, 68, 101951. <https://doi.org/10.1016/j.najef.2023.101951>
- Qamruzzaman, M., & Karim, S. (2024). Green energy, green innovation, and political stability led to green growth in OECD nations. *Energy Strategy Reviews*, 55, 101519. <https://doi.org/10.1016/j.esr.2024.101519>

- Raja Hajarath, K. C. (2025). Geopolitical Trade Tensions and Their Strategic Impact on Global Supply Chains. *International Journal of Global Innovations and Solutions*, 2(2). <https://doi.org/10.63412/69q6b447>
- Rasshyvalov, D., Portnov, Y., Sigaieva, T., Alboshchii, O., & Rozumnyi, O. (2024). Navigating geopolitical risks: Implications for global supply chain management. *Multidisciplinary Reviews*, 7, 2024spe017. <https://doi.org/10.31893/multirev.2024spe017>
- Saha, S., Sadekin, M. N., & Saha, S. K. (2022). Effects of institutional quality on foreign direct investment inflow in lower-middle income countries. *Heliyon*, 8(10), e10828. <https://doi.org/10.1016/j.heliyon.2022.e10828>
- Song, Y., Hao, F., Hao, X., & Gozgor, G. (2021). Economic Policy Uncertainty, Outward Foreign Direct Investments, and Green Total Factor Productivity: Evidence from Firm-Level Data in China. *Sustainability*, 13(4), 2339. <https://doi.org/10.3390/su13042339>
- Su, C. W., Dong, R., & Qin, M. (2025). Do geopolitical risks impede the global supply chain? *Finance Research Letters*, 85, 107811. <https://doi.org/10.1016/j.frl.2025.107811>
- Tjandrasa, B. B. (2021). Determinants of political stability to support foreign investment in Indonesia. *Petra International Journal of Business Studies*, 4(2), 97–108. <https://doi.org/10.9744/ijbs.4.2.97-108>
- Truong, L. D., Friday, H. S., & Pham, T. D. (2024). The Effects of Geopolitical Risk on Foreign Direct Investment in a Transition Economy: Evidence from Vietnam. *Journal of Risk and Financial Management*, 17(3), 101. <https://doi.org/10.3390/jrfm17030101>
- United Nations Conference on Trade and Development. (2023). Trade and Development Report 2023: Growth, debt and climate—realigning the global financial architecture (Overview). UNCTAD. https://unctad.org/system/files/official-document/tdr2023overview_en.pdf
- Wang, R., Qamruzzaman, M., & Karim, S. (2024). Unveiling the power of education, political stability and ICT in shaping technological innovation in BRI nations. *Heliyon*, 10(9), e30142. <https://doi.org/10.1016/j.heliyon.2024.e30142>
- Warnes, I. (2022). The impact of exchange rate volatility on economic growth and international trade. *Cultura Económica*, 40(104), 49–67. <https://doi.org/10.46553/cecon.40.104.2022.p49-67>
- Wu, W., & Shao, C. (2023). How does home and host-country policy uncertainty affect outward FDI? Firm-level evidence from China. *Economia Politica*, 40(2), 495–515. <https://doi.org/10.1007/s40888-023-00298-8>
- Yan, H., Xiao, W., Deng, Q., & Xiong, S. (2022). Analysis of the Impact of U.S. Trade Policy Uncertainty on China Based on Bayesian VAR Model. *Journal of Mathematics*, 2022(1). <https://doi.org/10.1155/2022/7124997>
- Yensu, J., Nkrumah, S. K., Amankwah, S., & Ledi, K. K. (2022). The effect of exchange rate volatility on economic growth. *Risk Governance and Control: Financial Markets and Institutions*, 12(4), 33–45. <https://doi.org/10.22495/rgcv12i4p2>
- Yu, Z., Xiao, Y., & Li, J. (2021). How does geopolitical uncertainty affect Chinese overseas investment in the energy sector? Evidence from the South China Sea Dispute. *Energy Economics*, 100, 105361. <https://doi.org/10.1016/j.eneco.2021.105361>

- Zhang, Y., He, J., He, M., & Li, S. (2023). Geopolitical risk and stock market volatility: A global perspective. *Finance Research Letters*, 53, 103620. <https://doi.org/10.1016/j.frl.2022.103620>
- Zhang, B., Ma, J., Khan, M. A., Repnikova, V., Shidlovskaya, K., Barykin, S., & Ahmad, M. S. (2023). The Effect of Economic Policy Uncertainty on Foreign Direct Investment in the Era of Global Value Chain: Evidence from the Asian Countries. *Sustainability*, 15(7), 6131. <https://doi.org/10.3390/su15076131>
- Zhou, Y. (2020). The US-China trade war and global value chains. *Всемирный банк (The World Bank)*.
- Zhao, N., Hong, J., & Lau, K. H. (2023). Impact of supply chain digitalization on supply chain resilience and performance: A multi-mediation model. *International Journal of Production Economics*, 259, 108817. <https://doi.org/10.1016/j.ijpe.2023.108817>
- Zheng, M., Wang, R., Ye, J., & Li, T. (2025). How does supply chain finance enhance firms' supply chain resilience? *International Review of Economics & Finance*, 102, 104231. <https://doi.org/10.1016/j.iref.2025.104231>
- Zhu, M., Miao, S., Lam, H. K. S., Liang, C., & Yeung, A. C. L. (2024). Navigating through geopolitical risk: the role of supply chain concentration. *International Journal of Operations & Production Management*, 45(5), 1032–1065. <https://doi.org/10.1108/ijopm-03-2024-0248>
- Zhu, X., & Wu, Y. J. (2022). How Does Supply Chain Resilience Affect Supply Chain Performance? The Mediating Effect of Sustainability. *Sustainability*, 14(21), 14626. <https://doi.org/10.3390/su142114626>



**Universitas
Bhayangkara
Jakarta Raya**

Sugeng Suroso <sugeng.suroso@ubharajaya.ac.id>

[JRFM] Manuscript ID: jrfr-4370715 - Submission Received

1 pesan

Editorial Office <jrfr@mdpi.com>

26 Mei 2026 pukul 19.23

Balas Ke: jrfr@mdpi.com

Kepada: Sugeng Suroso <sugeng.suroso@ubhara.ac.id>, Sugeng Suroso <sugeng.suroso@ubharajaya.ac.id>

Cc: Sri Wulandari <sri.wulandari@dsn.ubharajaya.ac.id>, Chajar Matari Fath Mala <chajar.matari@upj.ac.id>

Dear Dr. Suroso,

Thank you very much for uploading the following manuscript to the MDPI submission system. One of our editors will be in touch with you soon.

Journal name: Journal of Risk and Financial Management

Manuscript ID: jrfr-4370715

Type of manuscript: Article

Title: Geopolitical Risk and the Financialization of Firm Vulnerability in Emerging Markets

Authors: Sugeng Suroso *, Sri Wulandari, Chajar Matari Fath Mala

Received: 26 May 2026

E-mails: sugeng.suroso@ubhara.ac.id, sri.wulandari@dsn.ubharajaya.ac.id, chajar.matari@upj.ac.id

Applied Economics and Finance

https://www.mdpi.com/journal/jrfr/sections/applied_economics_finance

Evaluating Risk and Return in Modern Financial Markets

https://www.mdpi.com/journal/jrfr/special_issues/72HU6CMDP6

We encourage you to provide an Author Biography on this publication's webpage. Please click the following link to find the corresponding instructions and decide whether to accept our invitation:

https://susy.mdpi.com/user/manuscript/author_biography/3d6ba68186f88871e32a6c8a0ca75eff

You can follow progress of your manuscript at the following link (login required):

https://susy.mdpi.com/user/manuscripts/review_info/3d6ba68186f88871e32a6c8a0ca75eff

The following points were confirmed during submission:

1. JRFM is an open access journal with publishing fees of 1600 CHF for an accepted paper (see <https://www.mdpi.com/about/apc/> for details). This manuscript, if accepted, will be published under an open access Creative Commons CC BY license (<https://creativecommons.org/licenses/by/4.0/>), and I agree to pay the Article Processing Charges as described on the journal webpage (<https://www.mdpi.com/journal/jrfr/apc>). See <https://www.mdpi.com/about/openaccess> for more information about open access publishing.

Please note that you may be entitled to a discount if you have previously received a discount code, if your institute is participating in the MDPI Institutional Open Access Program (IOAP) (<https://www.mdpi.com/about/ioap>), or if a society you are a member of is part of our affiliation program (https://www.mdpi.com/societies_partnership). If you have been granted any other special discounts for your submission, please contact the JRFM editorial office.

2. I understand that:

a. If previously published material is reproduced in my manuscript, I will provide proof that I have obtained the necessary copyright permission. (Please refer to the Rights & Permissions website: <https://www.mdpi.com/authors/rights>).

b. My manuscript is submitted on the understanding that it has not been published in or submitted to another peer-reviewed journal. Exceptions to

this rule are papers containing material disclosed at conferences. I confirm that I will inform the journal editorial office if this is the case for my manuscript. I confirm that all authors are familiar with and agree with submission of the contents of the manuscript. The journal editorial office reserves the right to contact all authors to confirm this in case of doubt. I will provide email addresses for all authors and an institutional e-mail address for at least one of the co-authors, and specify the name, address and e-mail for invoicing purposes.

If you have any questions, please do not hesitate to contact the JRFM editorial office at jrfm@mdpi.com

Kind regards,
JRFM Editorial Office
Grosspeteranlage 5, 4052 Basel, Switzerland
E-Mail: jrfm@mdpi.com
Tel. +41 61 683 77 34
Fax: +41 61 302 89 18

*** This is an automatically generated email ***

BUKTI REVISI MAJOR PERTAMA :

1. Komentari Reviewer 1
2. Komentari Reviewer 2
3. Komentari Reviewer 3



Universitas
Bhayangkara
Jakarta Raya

Sugeng Suroso <sugeng.suroso@ubharajaya.ac.id>

[JRFR] Manuscript ID: jrfr-4370715 - Major Revision

10 pesan

JRFR Editorial Office <jrfr@mdpi.com>

16 Juni 2026 pukul 14.36

Balas Ke: anja.juric@mdpi.com

Kepada: Sugeng Suroso <sugeng.suroso@ubhara.ac.id>, Sugeng Suroso <sugeng.suroso@ubharajaya.ac.id>

Cc: Sri Wulandari <sri.wulandari@dsn.ubharajaya.ac.id>, Chajar Matari Fath Mala <chajar.matari@upj.ac.id>, JRFR Editorial Office <jrfr@mdpi.com>

Dear Dr. Suroso,

Thank you again for your manuscript submission:

Manuscript ID: jrfr-4370715

Type of manuscript: Article

Title: Geopolitical Risk and the Financialization of Firm Vulnerability in Emerging Markets

Authors: Sugeng Suroso *, Sri Wulandari, Chajar Matari Fath Mala

Received: 26 May 2026

E-mails: sugeng.suroso@ubhara.ac.id, sri.wulandari@dsn.ubharajaya.ac.id, chajar.matari@upj.ac.id

Section: Applied Economics and Finance

https://www.mdpi.com/journal/jrfr/sections/applied_economics_finance

Special issue: Evaluating Risk and Return in Modern Financial Markets

https://www.mdpi.com/journal/jrfr/special_issues/72HU6CMP6

Your manuscript has now been reviewed by experts in the field and can be found with the review reports at:

<https://susy.mdpi.com/user/manuscripts/resubmit/3d6ba68186f88871e32a6c8a0ca75eff>

Please revise the manuscript found at the above link according to the reviewers' comments and upload the revised file within 10 days. Note the following check-list:

- (I) Ensure all references are relevant to the content of the manuscript.
- (II) Highlight any revisions to the manuscript, so editors and reviewers can see any changes made.
- (III) Provide a cover letter to respond to the reviewers' comments and explain, point by point, the details of the manuscript revisions.
- (IV) If the reviewer(s) recommended references, critically analyze them to ensure that their inclusion would enhance your manuscript. If you believe these references are unnecessary, you should not include them.
- (V) If you found it impossible to address certain comments in the review reports, include an explanation in your appeal.

Our expert editors offer professional Language and Figure Editing, each completed within 1 day. We ensure the high standard required to publish your work with clarity and boost its impact. You can submit here:

https://susy.mdpi.com/user/author_services/new/revision_email?hash_key=3d6ba68186f88871e32a6c8a0ca75eff

Please do not hesitate to contact us if you have any questions regarding the revision of your manuscript or if you need more time. We look forward to hearing from you soon.

Kind regards,

Ms. Anja Juric

Assistant Editor, MDPI Novi Sad

E-Mail: anja.juric@mdpi.com

KOMENTAR REVIEWER 1

Quality of English Language

Review Report Form

- () The English could be improved to more clearly express the research.
(x) The English is fine and does not require any improvement.

	Yes	Can be improved	Must be improved	Not applicable
Does the introduction provide sufficient background and include all relevant references?	()	(x)	()	()
Is the research design appropriate?	()	(x)	()	()
Are the methods adequately described?	()	(x)	()	()
Are the results clearly presented?	()	(x)	()	()
Are the conclusions supported by the results?	()	(x)	()	()
Are all figures and tables clear and well-presented?	()	(x)	()	()

Comments and Suggestions for Authors

Manuscript Title: *Geopolitical Risk and the Financialization of Firm Vulnerability in Emerging Markets*

I found this manuscript interesting because it addresses a highly relevant issue for firms operating in emerging markets. The authors attempt to explain how geopolitical instability influences corporate financial performance through multiple operational and financial channels, which is a worthwhile objective. The paper is generally clear and well-organised, and the empirical analysis produces several noteworthy findings. At the same time, there are a few conceptual, methodological, and presentation-related issues that should be addressed to strengthen the contribution and improve the overall quality of the manuscript.

1. Does the introduction provide sufficient background and include all relevant references?

The introduction provides a solid overview of geopolitical uncertainty and explains why firms in emerging Asian economies may be particularly exposed to its consequences. The motivation for the study is clear, and the discussion of trade conflicts, regional tensions, and investor sentiment helps establish the context effectively. My main suggestion is that the contribution should be defined more sharply. While the manuscript argues that previous studies have examined these mechanisms separately, it is not always clear how the proposed framework advances existing firm-level research on geopolitical risk. A more direct explanation of what is genuinely new here would strengthen the paper considerably. I would also encourage the authors to review some of the more recent literature carefully and ensure that all cited studies are fully relevant to the stated contribution.

2. Is the research design appropriate?

The overall design is suitable for the research question, and the use of PLS-SEM appears appropriate given the multiple mediating relationships being examined. The sample size is adequate, and the focus on firms operating in geopolitically exposed sectors is well justified. My reservation concerns the heavy reliance on perceptual survey measures for constructs such as geopolitical risk exposure, currency volatility, and financial performance. While subjective assessments are common in management research, additional justification would help readers understand why this approach was preferred over objective indicators. The limitations associated with the cross-sectional nature of the data should also be acknowledged more explicitly when discussing the findings.

3. Are the methods adequately described?

The methodology is generally presented in a clear and structured manner, and the statistical procedures follow accepted practice in the PLS-SEM literature. The description of reliability, validity, and bootstrapping procedures is satisfactory. However, I would like to see more information on the actual measurement items used for the main constructs. This would improve transparency and make it easier for readers to assess construct validity. In addition, because all variables were collected through the same survey instrument, the issue of common method bias deserves greater attention. A brief discussion of any procedural or statistical checks undertaken to address this concern would strengthen confidence in the results.

4. Are the results clearly presented?

The results section is generally easy to follow, and the sequence from measurement-model assessment to structural-model evaluation is logical. The reported reliability and validity statistics are satisfactory, and the structural results highlight the importance of currency volatility and foreign investment confidence as transmission mechanisms linking geopolitical instability to firm performance. At the same time, I felt that some interpretations could be developed further. In particular, the discussion of significant and non-significant pathways would benefit from deeper theoretical reflection. A few conclusions appear to move quickly from statistical significance to broader managerial implications, and a more balanced interpretation would improve the overall discussion.

5. Are the conclusions supported by the results?

The conclusions are broadly consistent with the empirical findings and capture the main messages emerging from the analysis. The evidence presented suggests that financial channels may play a more prominent role than operational resilience mechanisms in explaining firm-level outcomes under geopolitical uncertainty. However, I recommend adopting a slightly more cautious tone when discussing practical and policy implications. Given the survey-based and cross-sectional nature of the study, the findings should be interpreted primarily as associations rather than definitive causal relationships. Including a more explicit discussion of study limitations would strengthen the credibility of the conclusions.

6. Are all figures and tables clear and well presented?

The tables are generally well organised and provide the information necessary to evaluate the empirical results. The conceptual framework is helpful and effectively illustrates the proposed relationships among the variables. The SmartPLS diagrams are informative, although some graphical elements appear crowded and may be difficult to read in their current form. Improving figure quality, increasing font sizes, and simplifying certain visual elements would enhance readability. More informative captions would also help readers understand the figures without constantly referring back to the text.

26 May 2026

08 Jun 2026 05:06:14

Submission Date

Date of this review

KOMENTAR REVIEWER 2

Quality of English Language

Review Report Form

() The English could be improved to more clearly express the research.

(x) The English is fine and does not require any improvement.

	Yes	Can be improved	Must be improved	Not applicable
Does the introduction provide sufficient background and include all relevant references?	()	(x)	()	()
Is the research design appropriate?	()	()	(x)	()
Are the methods adequately described?	()	()	(x)	()
Are the results clearly presented?	()	()	(x)	()
Are the conclusions supported by the results?	()	(x)	()	()
Are all figures and tables clear and well-presented?	()	()	(x)	()

Comments and Suggestions for Authors

1. The study examines inherently objective macroeconomic and geopolitical constructs such as US–China trade war effects, South China Sea geopolitical tensions, regional political instability, and currency volatility, yet all these variables appear to be measured using a firm-level Likert-scale questionnaire administered to managers.

This raises a fundamental methodological concern because these variables are externally observable macroeconomic phenomena rather than latent psychological or behavioral constructs. The authors should strongly justify why perceptual measures were preferred over objective secondary indicators. In its current form, the model captures managerial perceptions rather than actual geopolitical-financial transmission mechanisms.

2. The entire study relies on single-source self-reported questionnaire data, where independent variables, mediators, and dependent variables are all collected from the same respondents at the same time. But, I could not identify any formal assessment of common method bias such as: Harman's single factor test, Full collinearity VIF assessment, Marker variable technique or Procedural remedies for reducing response bias. Given the methodological design, omission of CMB assessment represents a major weakness.
3. I wondered that Statistical results appear unusually perfect, and it requires additional scrutiny. Considering the respondent from different fields, it seems very hard to get that perfect data, please see it yourself. The measurement model results appear unusually strong: Outer loadings mostly above 0.85, Cronbach Alpha values above 0.90 for all constructs, Composite reliability extremely high, AVE consistently very strong, HTMT values uniformly acceptable

While strong psychometric results are desirable, obtaining near-perfect consistency across seven constructs in multi-country firm-level survey data is statistically unusual. Authors should provide additional transparency regarding questionnaire development, item purification, and data cleaning procedures and should provide the excel file compiling all the responses.

4. The sampling procedure requires greater transparency. Although the authors report that 420 questionnaires were distributed, 308 valid responses were retained, and a purposive sampling strategy was employed, several important details regarding sample construction remain unclear. For example, the manuscript does not clearly specify which Southeast Asian countries were included in the study, how firms were selected within each country, how many responses were obtained from each country, which specific managerial positions participated in the survey, and whether country-level heterogeneity was considered during the analysis. Without providing these important sampling details, it becomes difficult to assess the representativeness of the sample and the generalizability of the study's findings.
5. The structural model examines corporate financial performance under geopolitical instability, yet no control variables appear to be included in the analysis. Since firm performance is influenced by multiple firm-specific and institutional factors such as firm size, industry sector, export dependence, ownership structure, leverage, and country-level differences, the omission of relevant controls weakens the model specification and limits the strength of causal interpretation.

Submission Date

26 May 2026

Date of this review

16 Jun 2026 07:23:20

KOMENTAR REVIEWER 3

Quality of English Language

Review Report Form

- () The English could be improved to more clearly express the research.
(x) The English is fine and does not require any improvement.

	Yes	Can be improved	Must be improved	Not applicable
Does the introduction provide sufficient background and include all relevant references?	()	()	(x)	()
Is the research design appropriate?	(x)	()	()	()
Are the methods adequately described?	()	(x)	()	()
Are the results clearly presented?	()	(x)	()	()
Are the conclusions supported by the results?	()	(x)	()	()
Are all figures and tables clear and well-presented?	(x)	()	()	()

Comments and Suggestions for Authors

I have read the article "Geopolitical Risk and the Financialization of Firm Vulnerability in Emerging Markets" and my main advice is to significantly improve the interest to the reader by:

- providing some data on the typology of firms involved (e.g., sectors, countries, etc.);
- give more insights into these firms so that readers can grasp the potential replicability of the results within other economic contexts but also in terms of the time ranges involved.

I certainly think that the article is promising, but verbosity in some statements should in my opinion be reduced by improving the visual aspects (e.g., by adding some tables on the firms involved) but also by providing some descriptive statistical evidence on some of the key macroeconomic variables mentioned.

Submission Date

26 May 2026

Date of this review

19 Jun 2026 16:33:54

BUKTI RESPONS DAN LAMPIRAN PERTAMA:

1. Cover Letter untuk Lead Editor
2. Respons untuk Reviewer 1
3. Respons untuk Reviewer 2
4. Respons untuk Reviewer 3



Universitas
Bhayangkara
Jakarta Raya

Sugeng Suroso <sugeng.suroso@ubharajaya.ac.id>

[JRFM] Manuscript ID: jrjm-4370715 - Manuscript Resubmitted

2 pesan

JRFM Editorial Office <jrfm@mdpi.com>

27 Juni 2026 pukul 22.02

Balas Ke: Anja Juric <anja.juric@mdpi.com>, JRFM Editorial Office <jrfm@mdpi.com>

Kepada: Sugeng Suroso <sugeng.suroso@ubhara.ac.id>, Sugeng Suroso <sugeng.suroso@ubharajaya.ac.id>

Cc: Sri Wulandari <sri.wulandari@dsn.ubharajaya.ac.id>, Chajar Matari Fath Mala <chajar.matari@upj.ac.id>

Dear Dr. Suroso,

Thank you very much for resubmitting the modified version of the following manuscript:

Manuscript ID: jrjm-4370715

Type of manuscript: Article

Title: Geopolitical Risk and the Financialization of Firm Vulnerability in Emerging Markets

Authors: Sugeng Suroso *, Sri Wulandari, Chajar Matari Fath Mala

Received: 26 May 2026

E-mails: sugeng.suroso@ubhara.ac.id, sri.wulandari@dsn.ubharajaya.ac.id, chajar.matari@upj.ac.id

Applied Economics and Finance

https://www.mdpi.com/journal/jrfm/sections/applied_economics_finance

https://susy.mdpi.com/user/manuscripts/review_info/3d6ba68186f88871e32a6c8a0ca75eff

A member of the editorial office will be in touch with you soon regarding progress of the manuscript.

Kind regards,

JRFM Editorial Office

Postfach, CH-4020 Basel, Switzerland

Office: Grosspeteranlage 5, CH-4052 Basel

Tel. +41 61 683 77 34 (office)

E-mail: jrfm@mdpi.com

<https://www.mdpi.com/journal/jrfm/>

*** This is an automatically generated email ***

Sugeng Suroso <sugeng.suroso@ubharajaya.ac.id>

27 Juni 2026 pukul 22.31

Kepada: Anja Juric <anja.juric@mdpi.com>, JRFM Editorial Office <jrfm@mdpi.com>

Dear Ms. Juric,

I hope this message finds you well.

We would like to inform you that our manuscript entitled **“Geopolitical Risk and the Financialization of Firm Vulnerability in Emerging Markets”** with Manuscript ID **jrjm-4370715** has been revised and resubmitted through the journal's online submission system.

We sincerely apologize for the delay in resubmitting the revised manuscript due to technical difficulties encountered during the upload process. We have now completed the resubmission and uploaded the required revised documents as requested.

Thank you very much for your kind understanding, assistance, and consideration.

Sincerely,

Sugeng Suroso

[Kutipan teks disembunyikan]

Dear JRFM Editorial Office,

I hope this message finds you well.

We would like to inform you that the revised version of our manuscript has been successfully submitted through the journal's online submission system.

The manuscript details are as follows:

Manuscript ID: jrjm-4370715

Type of Manuscript: Article

Title: Geopolitical Risk and the Financialization of Firm Vulnerability in Emerging Markets

In accordance with the editorial request, we have also uploaded the revised manuscript along with the required response documents. We sincerely appreciate the assistance of the Editorial Office and the valuable comments provided by the reviewers, which have greatly helped us improve the quality and clarity of our manuscript.

Thank you very much for your kind attention and consideration. We look forward to your further response.

Sincerely,

Sugeng Suroso

Reviewer 1

No.	Reviewer's Comments	Authors' Responses
1	The study examines inherently objective macroeconomic and geopolitical constructs such as US–China trade war effects, South China Sea geopolitical tensions, regional political instability, and currency volatility, yet all these variables appear to be measured using a firm-level Likert-scale questionnaire administered to managers. This raises a fundamental methodological concern because these variables are externally observable macroeconomic phenomena rather than latent psychological or behavioral constructs. The authors should strongly justify why perceptual measures were preferred over objective secondary indicators. In its current form, the model captures managerial perceptions rather than actual geopolitical-financial transmission mechanisms.	Thank you for this valuable comment. We agree that the distinction between objective geopolitical events and firm-level perceived exposure needed clearer explanation. The methodology now explains that the study does not treat macro events as psychological constructs. Instead, perceptual measures are used to capture the firm-specific consequences of those events, such as exposure through trade routes, supplier dependence, currency invoicing, hedging capacity, and reliance on foreign investors. This clarification explains why managerial assessments are appropriate for measuring heterogeneous firm vulnerability.
2	The entire study relies on single-source self-reported questionnaire data, where independent variables, mediators, and dependent variables are all collected from the same respondents at the same time. But, I could not identify any formal assessment of common method bias such as: Harman's single factor test, Full collinearity VIF assessment, Marker variable technique or Procedural remedies for reducing response bias. Given the methodological design, omission of CMB assessment represents a major weakness.	Thank you for this valuable comment. This concern has been addressed directly. The revised methodology now reports procedural remedies, including anonymity assurance, neutral item wording, separation of predictors, mediators, and outcomes, and clear survey instructions. The revised manuscript also reports statistical diagnostics, including Harman's single-factor test and the full collinearity VIF assessment. These results are discussed in the measurement-model section.
3	I wondered that Statistical results appear unusually perfect, and it requires additional scrutiny. Considering the respondent from different fields, it seems very hard to get that perfect data, please see it yourself. The measurement model results appear unusually strong: Outer loadings mostly above 0.85, Cronbach Alpha values above 0.90 for all constructs, Composite reliability extremely high, AVE consistently very strong, HTMT values uniformly acceptable. While strong psychometric results are desirable, obtaining near-perfect consistency across seven constructs in multi-country firm-level survey data is statistically unusual. Authors should provide additional transparency regarding questionnaire development, item purification, and data cleaning procedures and should provide the excel file compiling all the responses.	Agree. We have added further transparency on questionnaire development, expert review, pretesting, item refinement, and data screening. The revised text clarifies that items were not removed simply to improve statistical fit and that incomplete, straight-line, failed attention-check, and internally inconsistent responses were excluded. The Data Availability Statement: The data and research materials supporting this study are available from the corresponding author upon reasonable request.
4	The sampling procedure requires greater	Thank you for this valuable comment. We have

	transparency. Although the authors report that 420 questionnaires were distributed, 308 valid responses were retained, and a purposive sampling strategy was employed, several important details regarding sample construction remain unclear. For example, the manuscript does not clearly specify which Southeast Asian countries were included in the study, how firms were selected within each country, how many responses were obtained from each country, which specific managerial positions participated in the survey, and whether country-level heterogeneity was considered during the analysis. Without providing these important sampling details, it becomes difficult to assess the representativeness of the sample and the generalizability of the study's findings.	expanded the sampling description. The manuscript now identifies the six Southeast Asian economies included in the study, explains the purposive sampling criteria, describes the cross-border exposure requirements for firm inclusion, and reports country, industry, firm-size, and respondent-role distributions. This makes the scope and limits of generalisability clearer.
5	The structural model examines corporate financial performance under geopolitical instability, yet no control variables appear to be included in the analysis. Since firm performance is influenced by multiple firm-specific and institutional factors such as firm size, industry sector, export dependence, ownership structure, leverage, and country-level differences, the omission of relevant controls weakens the model specification and limits the strength of causal interpretation.	We agree for this comments, therefore the revised manuscript now explicitly identifies the control variables considered in the analysis: firm size, industry sector, export dependence, foreign ownership exposure, leverage category, and country location. The wording has also been adjusted to avoid overstating causal claims.

Geopolitical Risk and the Financialization of Firm Vulnerability in Emerging Markets.

Sugeng Suroso ¹, Sri Wulandari ² and Chajar Matari Fath Mala ³

^{1,2} Faculty of Economics and Business, Universitas Bhayangkara Jakarta Raya, Jakarta, Indonesia

³ Management Department, Universitas Pembangunan Jaya, South Tangerang, Indonesia

Abstract.

Geopolitical uncertainty represents a growing source of systemic risk that reshapes international markets, disrupts cross-border operations, and challenges firms' ability to sustain financial performance. This research examines the mechanisms through which geopolitical instability affects firm financial outcomes in Southeast Asian economies by assessing the mediating roles of supply chain resilience, currency volatility, and foreign investment confidence. Based on a quantitative cross-sectional design, data were collected from 308 firms across Southeast Asian Economies and analyzed using partial least squares structural equation modeling (PLS-SEM). The findings indicate that geopolitical risks significantly influence financial performance, with the strongest effects transmitted through financial channels. Currency volatility and foreign investment confidence emerge as critical mediators, demonstrating that exchange rate instability and investor risk perceptions substantially shape firm performance under geopolitical pressure. While supply chain resilience enhances firms' capacity to adapt to external disruptions, its direct contribution to financial performance remains insignificant. The model explains 66.7% of the variance in financial performance, reflecting strong explanatory capability. These findings extend existing knowledge by integrating financial, operational, and institutional mechanisms to clarify how geopolitical disruptions propagate into firm-level outcomes. The results underscore the importance of financial preparedness, institutional effectiveness, governance quality, and adaptive capabilities in managing geopolitical uncertainty.

Keywords: Geopolitical Risk; Corporate Financial Performance; Supply Chain Resilience; Currency Volatility; Foreign Investment Confidence;

JEL Classifications: F51, F23, G32, L25, M16, O53

1. Introduction

Geopolitical shocks are no longer an external event separate from the business world but rather inherent to global operations. Increasing volumes of trade disputes, conflicts in sea lanes, sanctions and political uncertainty are impacting businesses at all levels, affecting their production costs, access to capital, investor attitudes and expectations of future exchange rate developments (Caldara & Iacoviello, 2022; Bajaj et al., 2023). Although there is already literature on the impacts of geopolitical risks on growth, trade, market prices and overall investments, the factors contributing to heterogeneity in firms' responses to such risks remain understudied. In spite of exposure to identical events, firms typically vary significantly in their outcomes due to differing levels of dependence on the supply chain, foreign currency risk exposure, capacity to access external financing, ability to discern and appropriately react to the relevant event (Durnev & Mangen, 2020; Eser & Wu, 2021; Ghassemi & Sadr, 2022). However, existing geopolitical risk literature has largely treated firms as homogeneous entities, providing limited explanation of how internal organizational capabilities and financial exposure determine the magnitude of geopolitical shocks on corporate outcomes. Understanding these firm-level transmission mechanisms

is essential because the same geopolitical event may create different consequences depending on firms' strategic resources and vulnerability profiles.

This research extends the literature by analyzing geopolitical risk as a micro level transmission mechanism rather than solely as a macroeconomic phenomenon. The sample selection of emerging southeast Asian economies is both empirically and theoretically relevant since Asian firms are the most vulnerable to geopolitical shock as they are strongly dependent on export-oriented value chains, capital flow and have an operating environment shaped by credibility concerns and stability issues surrounding the local currency (Athukorala & Wei, 2017). In the analysis three types of geopolitical risk are included, namely the US-China trade war, conflict in the South China Sea and regional political uncertainty, all affecting firms' performance through different channels which may be offsetting or complementary. These channels suggest that geopolitical risks do not directly influence firm performance alone but operate through intermediate mechanisms that shape firms' ability to absorb, transfer, and respond to external uncertainty

The inclusion of three specific types of geopolitical risks and their various transmission channels contributes to the literature on the economy-wide impacts of geopolitical risks. While most studies focused on evaluating the impact of geopolitical risks on corporate investment, exchange rate volatility, supply chain disruptions or market turbulence separately (Zhang et al., 2023; Liu & Zhang, 2024), limited attempts have been made to provide a theoretically comprehensive explanation of the relationship between geopolitical risk and corporate financial performance in emerging economies and pinpoint the relative importance of these channels. Our research has attempted to bridge this gap with analysis of a multi-mediator framework where the relative importance of supply chain resilience, currency volatility and foreign investment confidence contribute to the financialization of risk exposures. Accordingly, this research contributes to the literature in three ways. First, it shifts the discussion of geopolitical risk from a macroeconomic perspective toward a firm-level risk transmission framework. Second, it integrates supply chain resilience, currency volatility, and foreign investment confidence as interconnected mechanisms explaining corporate responses to geopolitical uncertainty. Third, by focusing on emerging Southeast Asian economies, this study provides evidence from a region where geopolitical exposure and global economic integration are particularly pronounced.

2. Literature Review, Theoretical Foundation, and Hypothesis Development

The theoretical background for this research encompasses the following theories: institutional uncertainty theory, transaction cost economics, real options theory, behavioral finance, dynamic capabilities theory and international finance theory. The institutional uncertainty theory demonstrates how instabilities, reversals and lack of institutional credibility contribute to the escalation of coordination costs across borders (North, 1990; Henisz, 2000). Transaction cost economics builds on this idea by considering geopolitical stability in relation to higher monitoring, contracting, routing and enforcement costs within supply chains. The real options theory suggests that foreign investments are delayed or pulled back due to increased levels of uncertainty, whereas behavioral finance offers a deeper understanding of the connection between political and security risks and investor confidence (Pástor & Veronesi, 2013). Dynamic capabilities theory provides the theoretical basis for the idea of resilience as an organizational capability used to cope with disruptions, and international finance theory emphasizes the importance of currency fluctuations as financial mechanisms in response to geopolitical shocks.

2.1. Geopolitical Trade Conflicts and Supply Chain Resilience

One involved framework is that of Institutional Uncertainty Theory, which serves as an excellent point of departure in examining how geopolitical instability alters organizational operations. [North \(1990\)](#) made one of the most widely-cited arguments in the literature when he argued that the institutions or, in other words, the rules and conventions of economic exchange govern transaction costs of coordination. If institutions remain stable, then organizations can make decisions, investments and conduct coordination activities around the world without worrying about unexpected changes to the costs involved. On the other hand, when institutions become unstable, transaction costs explode, contract enforcement becomes difficult and predictability necessary for the operation of production chains becomes impossible ([Henisz, 2000](#)). Geopolitical trade disputes constitute exogenous disturbances of such a nature, which cause the collapse of the governance regime in which these supply chains function. By means of imposing tariffs, sanctions and retaliatory policies, the trade conflicts generate uncertainty within the supply chain and, hence, the cost structure that cannot be anticipated by the firms involved. These firms are no longer able to rely on their previously predictable supply partners who suddenly become unreliable. It is precisely this increased cost of coordination, which was made possible by institutional stability, that becomes evident again.

Indeed, there is ample evidence that high tariffs and threats thereof not only increased costs but had a disruptive effect on international supply chains, forcing companies to adapt and change their procurement and production strategies ([Zhou, 2020](#); [Mao & Görg, 2020](#)). However, even the uncertainty itself—the lack of knowledge about future trade policy, which would affect planning and long-term decision making—was just as disruptive as tariff measures. In the face of geopolitical uncertainty, it was impossible to plan ahead or develop sustainable strategies. On the one hand, some researchers contend that trade conflict could potentially increase resilience through incentives for diversification, reshoring, and regionalization ([Gereffi, 2020](#); [Bown, 2021](#)). Forced to reduce reliance on any single supplier, firms could create more diversified supply networks. While the idea may seem plausible, institutional uncertainty theory suggests a far less optimistic conclusion. Geopolitical pressure forces companies to make adjustments that are qualitatively different from strategic investments in building resilience that are made under normal circumstances. These adjustments are reactive, rushed, and rarely optimal under pressure. As [Evenett \(2019\)](#) shows, diversification induced by trade conflict tends to lead to fragmented and inefficient supply networks, rather than resilient ones. Adjustment costs pile up and the risks and vulnerabilities caused by geopolitically fragmented system become difficult to counterbalance. Companies involved in China-centric supply chains are trapped by their very structure and cannot change course without significant costs. Their redundancies are minimal and their leverage vis-à-vis more powerful trading partners is low. When geopolitical shocks come, they suffer disproportionately not because of any particular weaknesses but due to their position in the global economy.

Hence, while there could be rare cases of resilience-promoting adaptations made during trade conflicts, it appears that the predominant outcome is detrimental. Indeed, institutional uncertainty disrupts the crucial component of resilience—the predictability of events. As a result, supply chains cease to become coordinated systems and transform into a series of ad-hoc transactions. Therefore, we hypothesize:

Hypothesis 1. *Geopolitical trade conflicts negatively affect firms' supply chain resilience.*

2.2. Geopolitical Turbulence and Foreign Investment Confidence

From the point of view of real option and behavioral financial theories, increased policy and geopolitical uncertainty makes the value of waiting higher, causing investors to defer, shrink, or switch investment projects in light of increasingly unpredictable future

payoffs ([Dixit & Pindyck, 1994](#); [Pástor & Veronesi, 2013](#)). Geopolitical instability heightens uncertainty over regulatory regime, market access, and political stability, thus dampening confidence among foreign investors in the host economy. Rising uncertainty results in falling expected return levels relative to risk, reducing incentives for foreign direct investments (FDIs). Empirically, the relationship between trade policy uncertainty and lower entry rates, investment commitments, and FDI inflows is well-established by a number of studies, which find that policy uncertainties are particularly detrimental in economies that are closely linked with the international division of labor ([Cui & Li, 2023](#); [Yan et al., 2022](#); [Gao et al., 2024](#)). Although some research demonstrates temporary investment flows towards different countries in response to uncertainty, this is an ad hoc process rather than a sign of improved investor confidence ([Dong et al., 2025](#)). The impact of policy uncertainty on firms' decisions has also been observed as a reduction in outbound FDIs, as firms try to minimize the risks associated with both domestic and international market volatility ([Wu & Shao, 2023](#); [Song et al., 2021](#)). Crucially, emerging Asian economies are particularly vulnerable to shifts in foreign investment confidence due to reliance on foreign investments, export-oriented development models, and nascent institutional settings. Therefore, geopolitical trade disputes may be expected to negatively affect foreign investment confidence in Asia. Therefore

Hypothesis ². *Geopolitical trade conflicts negatively affect foreign investment confidence.*

2.3. Maritime Geopolitical Risk and Supply Chain Resilience

The notion of geopolitical risk pertaining to contested areas at sea represents a different type of supply chain vulnerability, as it poses a danger to the actual physical integrity of logistics channels. In accordance with transaction cost economics, an increase in the risk of expropriation, transportation disruption, and security challenges implies an increase in the cost of coordination and lower efficiency of international transactions ([Williamson, 1985](#)). The South China Sea (SCS), being a strategic maritime chokepoint, provides an example, where heightened tensions lead to increased transit risks, higher insurance rates, and greater route uncertainty for firms dependent on ocean-based logistics. Indeed, recent empirical studies demonstrate how geopolitical risk remains a significant determinant of overall supply chain vulnerability, implying that geopolitical tensions have adverse effects on network flexibility and disruptiveness ([Blessley & Mudambi, 2022](#); [Huchzermeier & Stehle, 2025](#)). The empirical data shows that companies heavily reliant on maritime trade and operating in risky geopolitical locations tend to experience higher levels of supply chain disruptions, while diversification cannot completely solve the problem ([Khan, 2025](#); [Zhu et al., 2024](#)). While certain organizational practices can mitigate uncertainty, they remain incapable of resolving long-term geopolitical tensions in key regions ([Coşkun & Erturgut, 2024](#)). In relation to the South China Sea region, political tensions imply high costs of adjustments in regard to sourcing and routing, yet do not eliminate risk in any meaningful way. As a result, geopolitical risks in the SCS are likely to negatively impact supply chain resilience. Therefore

Hypothesis ³. *Geopolitical tensions in contested maritime regions negatively affect supply chain resilience.*

2.4. Maritime Geopolitical Risk and Foreign Investment Confidence

The behavioral and institutional theories indicate that geopolitical risk intensifies investors' perceptions about risk, as it increases uncertainties associated with political stability, security, and policy consistency. Thus, it decreases the confidence of investors in investing abroad. According to [Caldara and Iacoviello \(2022\)](#), geopolitical risk shocks strongly inhibit investments due to increased uncertainty and higher risk premium in the financial market. The mentioned effect is especially significant in the case of strategic

rivalry and conflict in a given area. Research findings indicate that geopolitical risks affect foreign investments, leading to redirection of foreign direct investments to other destinations (Agoraki et al., 2024; Feng et al., 2023). Empirical evidence on the impact of geopolitical risk on foreign investments at the country level shows that an increase in geopolitical risk leads to a reduction in investment confidence (Truong et al., 2024; Altiner & Bozkurt, 2023). In relation to the South China Sea, it can be claimed that rising geopolitical tensions encourage investors to look for safer places with less volatility (Feng et al., 2023). Due to the importance of the SCS in international trade, geopolitical risks may produce negative spillovers that will reduce foreign investment confidence in emerging Asia. Therefore

Hypothesis 4. *Geopolitical tensions in contested maritime regions negatively affect foreign investment confidence.*

2.5. Maritime Geopolitical Risk and Currency Volatility

International finance theory suggests that exchange rates are highly sensitive to external shocks, particularly geopolitical events that reshape investor expectations, risk assessments, and cross-border capital allocation decisions. Under conditions of heightened uncertainty, investors reassess asset risks, leading to changes in portfolio preferences, capital movements, and currency valuations (Akram, 2020; Caldara & Iacoviello, 2022). Specifically, geopolitical conflicts lead to increased risk pre-mia, accelerated reversals of capital flows, and increased speculative activities which significantly increase exchange rate volatility (Akram, 2020; Caldara & Iacoviello, 2022). These impacts are even stronger on emerging markets where financial markets are shallow, policy credibility is still in formation, and currencies are vulnerable to changes in global risk sentiments. Geopolitical disputes in important maritime areas such as the South China Sea (SCS) represent an important external threat to exchange rate volatility. Since the SCS is a critical corridor for the movement of global trade and energy flows, any disruptions in this area affect expectations regarding trade, commodity flows, and investments, all factors that influence currency valuations. Geopolitical risk increases exchange rate volatility in ASEAN economies significantly as demonstrated by empirical findings implying increased vulnerability of these regional currencies to geopolitical tensions and risks (Hui, 2021). Likewise, Adeosun et al. (2024) find that geopolitical shocks generate volatility spillovers across financial markets where currency markets exhibit higher sensitivities as they depend on capital flows and policy uncertainties. Evidence from past geopolitical shocks reinforces this finding. Studies confirm that largescale geopolitical shocks including the recent Russia-Ukraine conflict led to foreign exchange volatility due to sudden portfolio adjustments and investors seeking safer havens in response (Aliu et al., 2022; Akarsu & Gharehgozli, 2023). Similar effects can be expected in relation to the South China Sea where geopolitical tensions would lead to disruption of energy trade routes, changes in commodity prices, and speculation of currencies. Other studies have emphasized the impact of investor sentiment and contagion effect with regard to spillover of volatility via exchange rate mechanisms following geopolitical shocks (Asad et al., 2020; Abdulsalam & Onipede, 2023). Based on these theoretical and empirical insights, it appears likely that geopolitical tensions in the South China Sea would increase uncertainties about trade continuities, energy supplies, and capital flows resulting in increased exchange rate volatility. thus

Hypothesis 5. *Geopolitical tensions in the South China Sea are positively associated with currency volatility.*

2.6. Political Instability and Foreign Investment Confidence

The level of foreign investment confidence can be viewed as a function of political stability, institutional strength, and policy continuity in host nations. According to

institutional theory, political stability decreases uncertainty, facilitates contract enforcement, and improves the predictability of regulations, thus reducing transaction costs and encouraging foreign investments (North, 1990; Henisz, 2000). Political instability negatively impacts this set of institutions, which leads to decreased investor confidence owing to uncertainty associated with potential policy changes, poor governance, and increased risks associated with investing (Dixit & Pindyck, 1994). Real options theory suggests that political instability increases the value of waiting for better investment opportunities as the level of uncertainty concerning potential future profits increases (Dixit & Pindyck, 1994). As a result, foreign investors demand higher premiums or avoid investing in politically unstable countries altogether. This perspective is complemented by behavioral finance, which highlights the importance of investor perceptions and confidence and indicates that political instability makes investors hesitant about investing or even withdrawing capital (Pástor & Veronesi, 2013).

These theoretical assumptions are consistently corroborated in the empirical literature. Kiptoo (2024) demonstrates that political stability facilitates the development of FDI, whereas political instability hinders the process by creating uncertainties and deterring investors. Similar trends are found in country-specific studies. Tjandrasa (2021), for example, shows that political stability and institutional reforms increase foreign investment attractiveness in Indonesia as a result of improved perception. Fragile and vulnerability prone countries experience stronger discouraging effects of political instability on foreign investment confidence. Bitar, Hamadeh, and Khoueiri (2019) found that insecurity and lack of policy predictability in Lebanon led to significant reductions in FDI. Kurecic and Kokotovic (2017) observed both short-term and lasting reductions in the amount of foreign investments resulting from political instability in their analysis.

The institutional quality has a critical moderating impact on the relationship between political instability and foreign investment confidence. The weaker the institutional environment, the greater negative influence political instability has on foreign investment confidence due to high uncertainty and weak enforcement mechanisms (Saha et al., 2022). Recent research further emphasizes the critical importance of political stability not just for attracting FDI, but also for sustaining innovations, green growth, and economic development in general (Qamruzzaman & Karim, 2024; Wang et al., 2024). The evidence from Indonesia supports this finding, showing that political stability positively affects the level of foreign investments and economic growth through increased investor confidence (Pástor & Veronesi, 2013).

Taken together, this literature suggests that regional political instability undermines foreign investment confidence by increasing uncertainty, weakening institutional trust, and raising perceived business risk, thereby discouraging long-term capital commitments. Therefore

Hypothesis 6. *Regional political instability negatively affects foreign investment confidence.*

2.7. Political Instability, Investor Behavior, and Exchange Rate Volatility

In terms of behavioral finance, political instability impacts exchange rates through changes in expectations and risks perceptions. The rise in geopolitical uncertainty reduces investor confidence, which results in capital flight, depreciating pressures on currencies, and exchange rate volatility in response to heterogeneous reactions to new information (Pastor & Veronesi, 2013). This effect is particularly pronounced in emerging markets, characterized by weaker institutions and lack of credibility in their monetary policies, making currencies more sensitive to shocks. Indeed, multiple empirical analyses find that shocks related to politics and security increase the volatility of exchange rates due to increased currency risks exposure for firms and investors (Abbassi et al., 2022; Aliu et al., 2022). Moreover, Hui (2021) reveals that ASEAN foreign exchange markets display

persistent exchange rate volatility under conditions of geopolitical risks, indicating that the region experiences political uncertainty and capital flows changes. [Adeosun et al. \(2024\)](#) add that the combination of geopolitical uncertainty and economic policy uncertainty leads to increased financial instability and currency volatility.

Furthermore, commodity-based transmission mechanisms can play an important role in this case. Political uncertainty may negatively impact energy and commodity markets, thereby influencing exchange rates in oil exporters and importers. As noted by [Akram \(2020\)](#), there is greater exchange rate volatility for oil-exporting countries in periods of geopolitical uncertainty, while [Liu et al. \(2025\)](#) observe that shocks due to geopolitical tensions between the US and China are transmitted via commodity markets. These findings fit well into contagion models of international finance that emphasize the exchange rate channel as one of the ways shocks spread throughout the global financial system ([Asad et al., 2020](#)).

Thus, political uncertainty related to geopolitical tension will lead to increased exchange rate volatility. Therefore

H⁷. Geopolitical instability is positively associated with exchange rate volatility.

2.8. Supply Chain Resilience and Corporate Financial Performance

Supply chain resilience (SCR) refers to a firm's capacity to anticipate, absorb, adapt to, and recover from disruptions while maintaining operational continuity and performance. Drawing on dynamic capability's theory, resilient supply chains enable firms to reconfigure resources, sustain strategic flexibility, and mitigate performance losses under uncertainty, thereby contributing to superior financial outcomes. In volatile environments, SCR functions not merely as an operational attribute but as a strategic capability that enhances firms' long-term competitiveness and profitability. Empirical evidence consistently supports the positive association between SCR and corporate financial performance. Firms with higher resilience demonstrate superior returns on assets, profit margins, and growth during periods of market turbulence ([Li et al., 2017](#)). Recent studies further show that resilience embedded within sustainable supply chain practices strengthens stakeholder trust and improves financial performance by aligning operational stability with long-term value creation ([Zhu & Wu, 2022](#)). Digital capabilities reinforce this relationship by enhancing supply chain visibility, coordination, and recovery speed, allowing firms to translate resilience into tangible financial gains ([Zhao et al., 2023](#)).

Supply chain finance (SCF) has emerged as an important complementary mechanism through which resilience enhances financial performance. By easing working capital constraints and improving liquidity across supply networks, SCF strengthens firms' ability to absorb shocks and sustain investment in innovation and operations ([Zheng et al., 2025](#); [Feng et al., 2024](#)). Empirical evidence confirms that firms adopting SCF mechanisms exhibit improved financial outcomes across industries, particularly in environments characterized by financing frictions ([Paul, 2025](#)). While prior studies highlight sustainability, digitalization, and financial integration as key enablers of resilience, most examine these mechanisms in isolation, leaving limited understanding of their combined effects—especially in emerging economies.

Taken together, the literature indicates that SCR operates as a strategic capability that positively influences corporate financial performance by enhancing adaptability, reducing disruption-related losses, and supporting sustained value creation. Therefore

H⁸. Supply chain resilience positively affects corporate financial performance.

2.9. Currency Volatility and Corporate Financial Performance

Currency volatility represents a critical external financial risk that affects firms' cost structures, pricing strategies, investment decisions, and international competitiveness.

International finance theory suggests that heightened exchange rate fluctuations increase uncertainty, raise transaction and hedging costs, and distort investment planning, thereby undermining firm-level financial performance—particularly in economies with limited risk-management capabilities.

Empirical research provides robust evidence of this negative relationship. Exchange rate volatility has been shown to weaken corporate profitability and financial stability across both developed and emerging markets (Bris et al., 2004; Morina et al., 2020). Recent firm-level studies confirm that exchange rate instability adversely affects performance by eroding margins, increasing financing costs, and discouraging long-term investment (Kim & Han, 2024; Aminaho, 2025). Macroeconomic evidence further indicates that volatile exchange rates impede productivity, trade competitiveness, and investment, reinforcing their detrimental effects on firm performance (Musyoki et al., 2012; Yensu et al., 2022; Fofanah, 2022). Importantly, the magnitude of these effects varies across institutional contexts. Firms in advanced economies often possess more sophisticated hedging instruments and financial depth, enabling them to partially buffer currency risk, whereas firms in emerging markets remain more exposed due to weaker financial infrastructure and limited access to risk management tools (Aminaho, 2025). This vulnerability underscores the importance of currency stability for sustaining corporate financial performance in emerging economies. Accordingly, the literature converges on the view that currency volatility undermines firm performance by increasing uncertainty, costs, and financial risk exposure. Therefore

H⁹. *Currency volatility negatively affects corporate financial performance.*

2.10. Foreign Investment Confidence and Corporate Financial Performance

Foreign investment confidence reflects investors' expectations regarding institutional credibility, governance quality, and long-term economic prospects in host economies. From an institutional and resource-based perspective, foreign investment enhances firm-level financial performance by providing access to capital, managerial expertise, advanced technologies, and global networks, thereby improving efficiency, governance, and competitive positioning. Empirical studies consistently demonstrate that firms with higher foreign ownership or stronger exposure to international investors exhibit superior financial performance, particularly in emerging and transitional economies (Pasali & Chaudhary, 2020). Foreign investors often impose more stringent governance practices and performance monitoring, contributing to enhanced profitability and productivity. Evidence from both developed and developing contexts supports this mechanism, showing that firms with foreign participation outperform domestic counterparts in financial outcomes (Bentivogli & Mirenda, 2016).

However, the strength of this relationship depends on firm-level and institutional conditions. Large firms are generally better positioned to leverage international networks and economies of scale, while smaller firms may face constraints related to absorptive capacity (Bentivogli & Mirenda, 2016). Moreover, weak institutional environments may dampen the positive effects of foreign investment by increasing risk and limiting effective governance transmission. Despite these contingencies, the literature broadly confirms that foreign investment confidence plays a critical role in enhancing firm-level financial performance through improved governance, innovation adoption, and global integration. Therefore

H¹⁰. *Foreign investment confidence positively affects corporate financial performance.*

Development of Conceptual Model

Expanding upon the aforementioned theoretical arguments, this paper attempts to develop a conceptual model where geopolitical instability impacts corporate financial

performance indirectly via firm-specific factors. In this context, geopolitical risks arise due to three reasons. First, there is an ongoing trade dispute between the US and China. Second, there are geopolitical risks in the South China Sea. Third, there is political instability in the region. Hence, this paper extends existing literature because geopolitical risks have been examined as being transmitted to financial performance through multiple channels instead of being exogenous variables that do not influence firms differently. Furthermore, in terms of corporate financial performance, this paper shows that geopolitical instability impacts firms, not just through the existence of risk itself, but also the level of exposure to risk by individual firms and its interpretation.

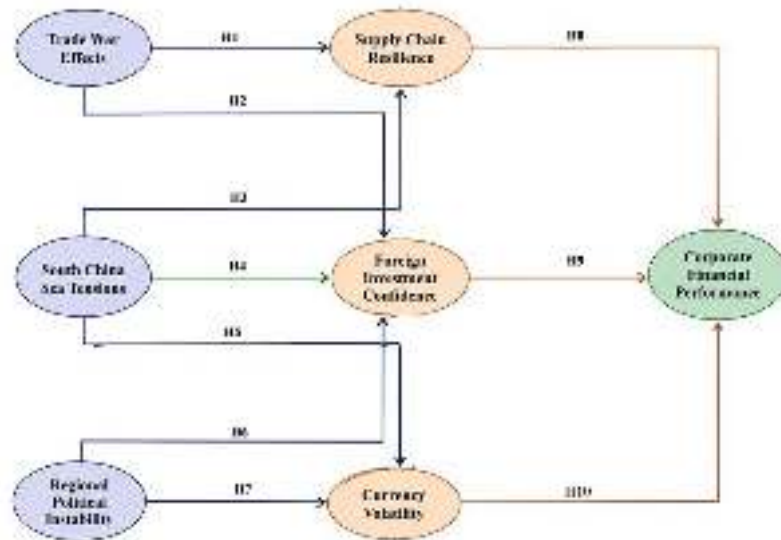


Figure 1. Conceptual Framework

3. Methodology and Design

3.1. Research Design

A quantitative cross-sectional research design was used to investigate how geopolitical uncertainty affects the performance of firms through multiple mediating variables. The research question suggested the use of a cross-sectional research design since the goal of the research was to understand how managers evaluated their companies' geopolitically driven exposure, operational resilience, investor confidence, currency volatility, and performance within a time of uncertainty. It is worth noting that the cross-sectional design did not suggest causal relationships but rather tested statistical links between the concepts measured at one point in time. Partial Least Squares Structural Equation Modelling (PLS-SEM), a method implemented in SmartPLS 4.0, was selected due to the complexity of the model proposed and the presence of latent constructs and mediating mechanisms. According to previous studies, PLS-SEM is suitable for use in theories-based modeling and variance-explanation models where the data might violate the assumptions of multivariate normal distribution. The use of PLS-SEM was appropriate for this study since it is commonly applied in survey research, especially for emerging markets, as it performs well with relatively small sample sizes, while allowing to estimate the structural model together with construct reliability and validity.

The study makes use of perceptual measures of geopolitical risk exposure, currency volatility, and firm financial performance, which was intentional. Even though US-China trade war risks, South China Sea issues, regional political instability, and currency volatility are all observable factors in themselves, their implications differ from company to company. While macro measures are able to objectively quantify the geopolitical risks, the extent of exposure of individual companies to any of those threats is beyond their scope.

In other words, objective measures cannot account for the firm's vulnerability with respect to a particular trade route, extent of import-export exposure, foreign currency invoicing, hedges, concentration of suppliers, and foreign investors. Therefore, perceptual measures were adopted to capture heterogeneous firm-level exposure and managerial assessments of how geopolitical events translate into operational, financial, and strategic vulnerabilities.

All constructs were operationalised as reflective latent variables and measured through multi-item scales on a 5-point Likert scale varying from 1 (Strongly disagree) to 5 (Strongly agree). The items related to the US-China trade war tapped into perceived pressure to pay tariffs, sourcing disruption, cost uncertainty, and trade policy uncertainty. South China Sea tensions were measured in terms of perceived maritime routing risks, logistics disruptions, insurance and transport costs, and security risks. Political instability items reflected perceptions of policy continuity, regulatory predictability, institutions' trustworthiness, and security conditions. Resilience items included supplier diversification, capacity for re-routing, fast recovery capability, and visibility of relevant information. Items measuring currency volatilities related to foreign currency exposures, pricing uncertainty, burdens of hedging, and margin sensitivity. Perceived foreign investors' willingness, external financing availability, valuation confidence, and long-term capital commitments were used to measure investment confidence. Firm performance was measured in terms of profitability, sales growth, financial stability, return on assets, competitive position, and financial strength in line with the perceptual performance approach (Dess & Robinson, 1984), since secondary firm financial data is often unreliable in these settings.

The survey instrument was developed based on well-established political risk, supply chain resilience, international finance, and firm performance literature while being tailored to the Southeast Asia context. Its content validity was examined by three international business academics and two seasoned practitioners. A pretest with 35 managers was administered to assess the clarity and construct relevance of the items along with their suitability as perceived performance measures. Minor changes were made to the wording of the items during the test based on participants' feedback; however, the meanings of the constructs themselves were preserved. No items were deleted solely in order to enhance statistical fit; rather, they were retained based on the PLS-SEM loading criteria.

The sample comprises mid- to large-sized firms operating in geopolitically vulnerable industries across Southeast Asian countries, including Indonesia, Malaysia, Singapore, Thailand, Vietnam and the Philippines. These firms were purposively selected based on their exposure to international trade, supply chain disruptions, and geopolitical uncertainties. Respondents were identified through professional networks and business directories to ensure alignment with the research context. The criteria for inclusion required that firms engage in some form of cross-border activity involving importing and exporting, partake in international supply chain activities, use imported inputs, utilize exports markets, or be otherwise exposed to foreign investment or foreign-currency transactions. The individual chosen as the respondent needed to hold a managerial position where he or she would have sufficient insight into their firm's international operations, including supply chain activities, financing, and/or strategic planning.

In total, 420 surveys were disseminated between March and June 2025. A total of 312 responses were returned, after which incomplete responses, straight-line answers, failed attention checks, and internally inconsistent responses were removed. Following the data screening process, 308 valid responses remained. Hence, the final valid response rate was 73.10% of the distributed surveys. The final dataset consisted of 308 firms representing Southeast Asian countries, including Indonesia (85 firms), Malaysia (55 firms), Singapore (48 firms), Thailand (44 firms), Vietnam (38 firms), the Philippines (38 firms). Regarding

industry representation, the sample included Manufacturing (41,23%), Services (18,18%), Trading/Import-Export (15,26%), Technology/IT (14,94%), Finance/Banking (10,39%). In terms of organizational size, 1–50 employees (26,30%), 51–200 employees (50,65%), 201–500 employees (20,45%). More than 500 employees (2,60%). Position in organisation: Senior Manager (30,84%), Middle Manager (21,10%), Analyst / Specialist (18,18%), CEO / Director (16,88%), Owner / Founder (12,99%). Years of work experience: More than 20 years (47,73%), 11–20 years (34,09%), 5–10 years (17,86%), Less than 5 years (0,65%).

Some measures taken to avoid common method variance include: (1) assuring respondents of anonymity, (2) assuring that there are no wrong answers in the survey; (3) writing items in a neutral fashion; (4) separating the predictor variables from the outcome variables to decrease evaluation apprehension and consistency motivation (Podsakoff et al., 2003). Statistically, Harman's test indicated that no one component explained a dominant share of variation. Also, a full collinearity variance inflation factor assessment showed no latent variable VIF greater than 3.3, a level considered safe when identifying common method variance in PLS-SEM (Kock, 2015).

Finally, to minimize omitted variable concerns, a number of firm characteristics were controlled as potential factors affecting the financial performance of the corporations. Specifically, the control variables included: firm size; industry sector; export dependency; foreign ownership exposure; leverage category; and country location. These controls are justifiable since firm performance may vary significantly between different sectors; capital structures; countries; and levels of international business exposure. Since inclusion of controls does not affect the structural relations, theory-driven controls will be shown in the main model.

To analyze the survey data, a two-stage partial least squares structural equation modeling approach was employed. Specifically, measurement model analysis involved the assessment of outer loadings, Cronbach's Alpha, Composite Reliability, Average Variance Extracted (AVE), Fornell-Larcker Criterion, and Heterotrait-Monotrait Ratio. On the other hand, the structural model was analyzed using path coefficients, t-statistics, p-values, Coefficients of Determination (R^2), Effect Sizes (f^2), Predictive Relevance (Q^2), and Specific Indirect Effects. Bootstrapping with 5,000 replications was employed to determine the significance of relationships and mediation effects.

4. Results and Discussion

4.1 Measurement Model Evaluation

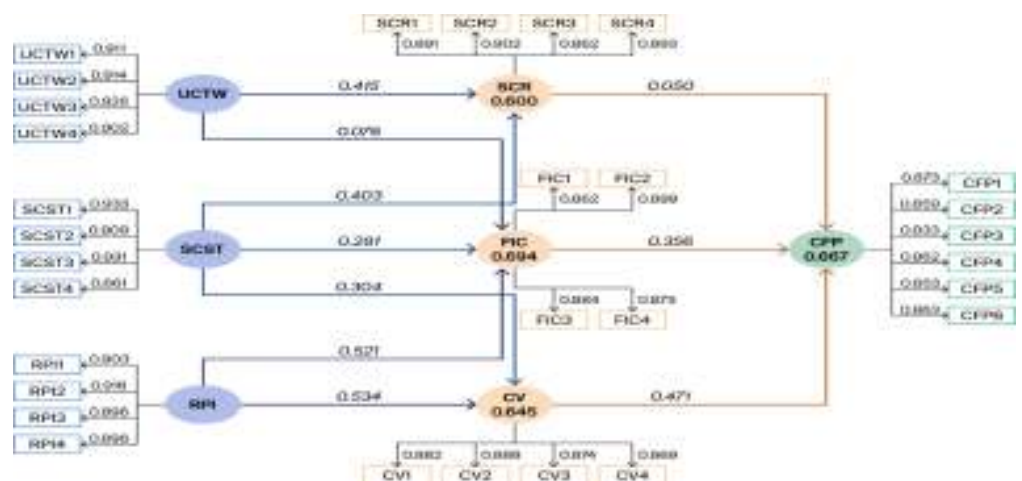


Figure 2. Measurement Model Results Showing Outer Loadings, Reliability, and Validity Indicators.

Table 1. Measurement Model Results: Outer Loadings.

Construct	Outer loadings
CFP1 <- CFP	0,873
CFP2 <- CFP	0,859
CFP3 <- CFP	0,833
CFP4 <- CFP	0,862
CFP5 <- CFP	0,853
CFP6 <- CFP	0,863
CV1 <- CV	0,882
CV2 <- CV	0,888
CV3 <- CV	0,874
CV4 <- CV	0,869
FIC1 <- FIC	0,862
FIC2 <- FIC	0,899
FIC3 <- FIC	0,884
FIC4 <- FIC	0,875
RPI1 <- RPI	0,903
RPI2 <- RPI	0,916
RPI3 <- RPI	0,896
RPI4 <- RPI	0,896
SCR1 <- SCR	0,891
SCR2 <- SCR	0,902
SCR3 <- SCR	0,862
SCR4 <- SCR	0,893
SCST1 <- SCST	0,933
SCST2 <- SCST	0,909
SCST3 <- SCST	0,931
SCST4 <- SCST	0,861
UCTW1 <- UCTW	0,911
UCTW2 <- UCTW	0,914
UCTW3 <- UCTW	0,926
UCTW4 <- UCTW	0,902

4.3 Construct Reliability and Validity

Table 2. Construct Reliability and Convergent Validity Results.

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
CFP	0,928	0,928	0,943	0,735
CV	0,901	0,901	0,931	0,771
FIC	0,903	0,903	0,932	0,775
RPI	0,924	0,924	0,946	0,815
SCR	0,909	0,910	0,936	0,787
SCST	0,929	0,930	0,950	0,826
UCTW	0,934	0,934	0,953	0,834

4.4 Discriminant validity

4.4.1 Fornell-Larcker Criterion

	CFP	CV	FIC	RPI	SCR	SCST	UCTW
CFP	0,857						
CV	0,783	0,878					
FIC	0,760	0,791	0,880				
RPI	0,732	0,784	0,813	0,903			
SCR	0,566	0,607	0,646	0,755	0,887		
SCST	0,716	0,744	0,770	0,823	0,732	0,909	
UCTW	0,594	0,683	0,718	0,806	0,735	0,793	0,913

4.4.2 Heterotrait-Monotrait Ratio (HTMT)

Table 4. Discriminant Validity Results: Heterotrait-Monotrait Ratio (HTMT).

Construct	Ratio HTMT
CV <-> CFP	0,855
FIC <-> CFP	0,830
FIC <-> CV	0,877
RPI <-> CFP	0,791
RPI <-> CV	0,859
RPI <-> FIC	0,890
SCR <-> CFP	0,615
SCR <-> CV	0,670
SCR <-> FIC	0,712
SCR <-> RPI	0,822
SCST <-> CFP	0,771
SCST <-> CV	0,812
SCST <-> FIC	0,840
SCST <-> RPI	0,887
SCST <-> SCR	0,796
UCTW <-> CFP	0,638
UCTW <-> CV	0,744
UCTW <-> FIC	0,782
UCTW <-> RPI	0,867
UCTW <-> SCR	0,797
UCTW <-> SCST	0,851

4.5 Measurement Model Evaluation and Method Bias Diagnostics

The analysis of the measurement model was performed through SmartPLS outputs concerning the indicators' reliability, construct reliability, convergent validity, discriminant validity, and method bias diagnostics. As can be seen in Table 1, all outer loadings are above the required minimum level of 0.70. Values vary between 0.833 (CFP3) and 0.933 (SCST1). This indicates a strong association between the indicators and the constructs they are expected to measure. It is worth noting that such high values do not suggest the absence of all measurement problems in this model. They, however, can be considered proof of item coherence within reflective constructs.

Table 2 illustrates the presence of internal consistency in the model. Cronbach's alpha values vary from 0.901 (CV) to 0.934 (UCTW). Composite reliability is above the 0.70 threshold. Similarly, AVE varies between 0.735 (CFP) and 0.834 (UCTW). All these indices provide evidence of convergent validity as each of the constructs explains more than half

of the variance in the indicators' scores. The robustness of these indices is explained by the fact that the items have been adapted to a narrow context of geopolitical risk and responses inconsistent or incomplete responses have been removed.

It has been possible to prove discriminant validity according to two criteria. First, the square roots of AVE values of the constructs are higher than their correlation with other constructs. This means that each construct shares more variance with its own indicators than with other constructs. Second, HTMT values vary between 0.615 and 0.890 and remain below the 0.90 conservative cut-off point. The RPI-FIC value approaches this point. While being theoretically explainable in a sample of emerging markets, political instability and investors' confidence are empirically distinct.

To ensure the adequacy of the structural model, additional tests to detect common method bias in single-source survey data were conducted. The first step is to perform Harman's single-factor test, which failed to show dominance of a single factor. Next, the full-collinearity VIF test showed that no variable has VIF levels above the 3.3 limit. All these facts along with the steps taken in the methodology allow reducing worries about common method bias. Therefore, the measurement model can be considered acceptable for the purpose of structural model evaluation.

4.5.1 Structural Model Evaluation

R² Values

Table 5. Coefficient of Determination (R² and Adjusted R²) for Endogenous Constructs.

	R-square	R-square adjusted
CFP	0,667	0,664
CV	0,645	0,643
FIC	0,694	0,691
SCR	0,600	0,598

Effect Size (f²)

Table 6. Effect Size (f²) of Exogenous Variables on Endogenous Constructs.

	f-square
CV -> CFP	0,239
FIC -> CFP	0,126
RPI -> CV	0,259
RPI -> FIC	0,230
SCR -> CFP	0,004
SCST -> CV	0,084
SCST -> FIC	0,071
SCST -> SCR	0,151
UCTW -> FIC	0,006
UCTW -> SCR	0,160

Q² Prediction Metrics

Table 7. Predictive Relevance (Q²) and Prediction Metrics (RMSE and MAE).

	Q ² predict	RMSE	MAE
CFP	0,567	0,665	0,540
CV	0,644	0,607	0,470
FIC	0,690	0,565	0,452

SCR

0,592

0,648

0,473

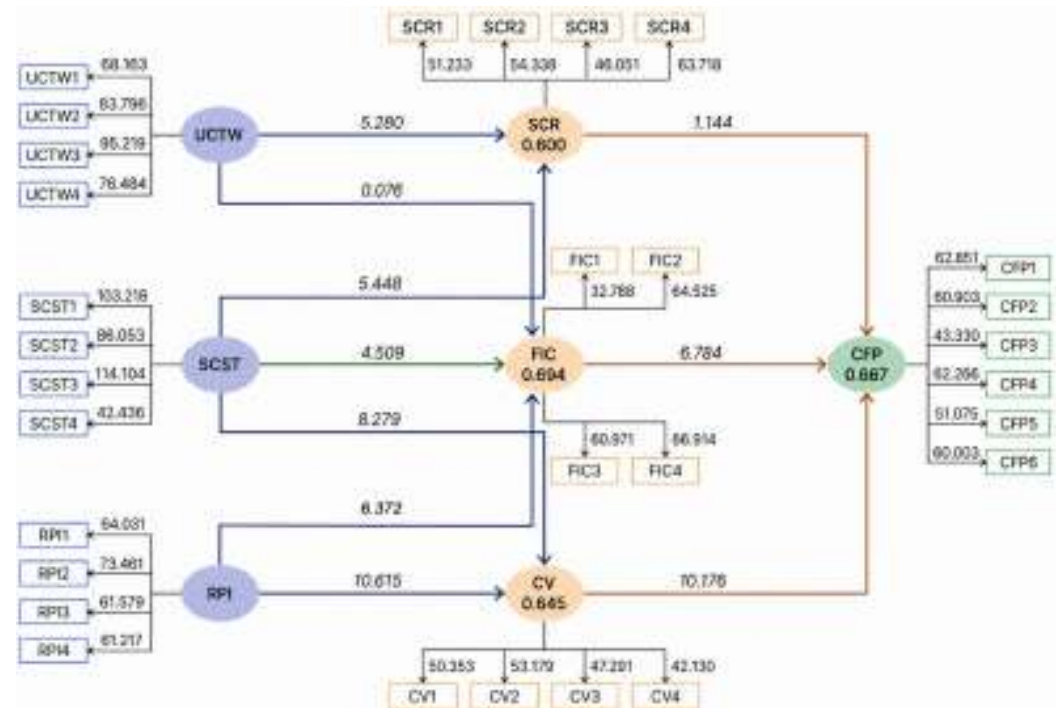


Figure 3. Structural Model Results Showing Path Coefficients, R^2 , and Effect Sizes.

4.5.2 Path Coefficients

Table 8. Structural Model Path Coefficients.

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
CV → CFP	0,471	0,471	0,046	10,176	0,000
FIC → CFP	0,356	0,358	0,052	6,784	0,000
RPI → CV	0,534	0,532	0,050	10,615	0,000
RPI → FIC	0,521	0,519	0,063	8,279	0,000
SCR → CFP	0,050	0,047	0,044	1,144	0,253
SCST → CV	0,304	0,305	0,048	6,372	0,000
SCST → FIC	0,281	0,278	0,062	4,509	0,000
SCST → SCR	0,403	0,408	0,074	5,448	0,000
UCTW → FIC	0,076	0,079	0,058	1,302	0,193
UCTW → SCR	0,415	0,409	0,079	5,280	0,000

4.5.3 Specific Indirect Effects

Table 9. Specific Indirect Effects in the Structural Model.

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
RPI → FIC → CFP	0,185	0,186	0,036	5,160	0,000

SCST -> SCR -> CFP	0,020	0,019	0,019	1,067	0,286
RPI -> CV - > CFP	0,251	0,251	0,036	6,899	0,000
UCTW -> SCR -> CFP	0,021	0,019	0,018	1,144	0,253
SCST -> FIC -> CFP	0,100	0,100	0,028	3,614	0,000
SCST -> CV -> CFP	0,143	0,143	0,026	5,478	0,000
UCTW -> FIC -> CFP	0,027	0,028	0,021	1,269	0,204

4.6 Structural Model Evaluation: An Advanced Analysis

It emerges that the structural model has quite a high level of explanatory power regarding firm-level outcomes in the context of geopolitical instability. The value of the coefficient of determination regarding corporate financial performance is 0.667 (adjusted $R^2=0.664$), showing that the proposed mediating variables account for roughly two thirds of the variation in perceived financial performance. The model additionally shows an ability to explain a large portion of variance in foreign investment confidence ($R^2=0.694$) and currency volatility ($R^2=0.645$), and a moderate one in supply chain resilience ($R^2=0.600$).

The path coefficients indicate that financial factors are more relevant compared to the direct operational resilience factor. Corporate financial performance is positively associated with currency volatility ($\beta = 0.471$, $t = 10.176$, $p < 0.001$), and negatively with foreign investment confidence ($\beta = 0.356$, $t = 6.784$, $p < 0.001$). In other words, this analysis indicates that the theoretical argument of the project, according to which geopolitical instability is being transmitted into corporate financial performance via financial channels such as exchange rate vulnerability, funding difficulties, and others, is valid.

However, caution must be exercised when interpreting the results regarding currency volatility. According to conventional international finance theory, currency volatility is typically associated with poor financial performance as it creates additional transaction costs, uncertainty, and the need for hedging. Therefore, the positive correlation between the two variables in this case does not imply that currency volatility has a beneficial impact on firm-performance. A possible explanation may be the fact that corporations experiencing high currency volatility levels usually tend to operate in international markets and conduct foreign trade operations, implying greater sensitivity to currency movements as well as the ability to collect foreign currency income and hedge.

Regional political instability emerged as the most important antecedent of both currency volatility ($\beta = 0.534$, $t = 10.615$, $p < 0.001$) and foreign investment confidence ($\beta = 0.521$, $t = 8.279$, $p < 0.001$). These results confirm that political instability is fast internalised through capital market expectations and foreign exchange dynamics. This result supports institutional theory since the latter assumes that investors and foreign exchanges would quickly sense the implications of uncertainties in governance, security, and policy continuation. Additionally, South China Sea tensions emerged as another factor that significantly influences all three dependent variables (supply chain resilience, currency volatility, and foreign investment confidence), proving that geopolitical risks in maritime zones cannot be confined to logistics problems.

The lack of significant association between supply chain resilience and corporate financial performance ($\beta = 0.050$, $p = 0.253$) presents an interesting theory implication. While operational resilience can indeed provide protection against disruptions in production processes, its immediate financial benefit may not materialise immediately in a cross-sectional setting. For example, resilience measures that include supplier diversification,

inventory stockpiling, alternative routes, and digital tracking systems will likely lead to higher immediate costs. As a consequence, supply chain resilience seems to work as an adaptation strategy rather than an immediate financial risk indicator.

While the trade war between the United States and China showed a significant relationship with supply chain resilience but not foreign investment confidence, regional political instability and South China Sea tensions were positively related to financial risk. Specifically, geopolitical risk is interpreted as having a greater impact on foreign investment confidence and currency volatility than being directly related to supply chain issues. Investors seem to incorporate these factors in the assessment of risk when making investment decisions and thus show a quick response to regional geopolitics.

Mediation analysis results support the interpretation of the results. There is statistical evidence for indirect associations for both regional political instability and South China Sea tensions through currency volatility and foreign investment confidence. On the other hand, mediation via supply chain resilience was not found to be statistically significant. Such a pattern implies that geopolitical risks influence firms' perceptions of financial performance via financial market dynamics and foreign investment decisions for the selected companies. Thus, the results of the study provide additional support for the hypothesis of the model.

4.7 Theoretical Contributions and Practical Implications

There are several theoretical contributions as well. First, this research contributes to the literature on geopolitical risks and political uncertainty by extending research beyond macroeconomic effects of geopolitics and considering the mechanisms through which geopolitical risks translate into firm-level effects. Specifically, results suggest that besides being directly disruptive, geopolitics impacts firms through financialization of vulnerability, where currency risks and investor confidence emerge as key channels connecting geopolitical risks to firm performance. Second, this research brings together institutional uncertainty, transaction costs, real options, behavioural finance, dynamic capabilities and international finance into one theoretical explanation. The combination explains the necessity to consider operational, financial and institutional channels simultaneously, and not separately.

Third, with respect to emerging markets, the study reveals boundary conditions under which financial channels dominate operational resilience channels in terms of firm performance. Indeed, in emerging Asian countries, firms are financially dependent on foreign investors, use inputs from abroad, sell products internationally, and do not have adequate infrastructure for hedges against risks. Hence, exchange rate fluctuations and confidence become particularly important. Moreover, a non-significant direct impact of supply chain resilience extends resilience literature suggesting that resilience could be treated as a protective capability that pays off only through financial measures in the long run rather than at a cross-sectional point in time. The non-significant relationship between supply chain resilience and firm performance also provides an important theoretical insight. Contrary to the assumption that resilience immediately improves performance outcomes, the findings suggest that resilience may function as a protective organizational capability that reduces vulnerability rather than directly generating short-term financial gains. From a dynamic capabilities perspective, resilience investments may require time to transform into measurable performance improvements, particularly under conditions of ongoing geopolitical uncertainty.

Practically, there are several lessons from the analysis. Specifically, firms should address geopolitical risk not as solely an operational issue. Instead, they require integrated risk management, including supplier diversity, managing currency risk, ensuring financial liquidity, managing investor expectations and scenario-based strategic management.

From the finance department perspective, it would be critical to keep track of exposure to foreign currencies, manage hedging where possible, and analyse cash flows, margins and funding conditions based on geopolitical events. Supply chain departments need to pursue resilience management as well, however, it would be beneficial to measure its financial consequences, so that resilience does not remain a burden for the company.

With respect to policymakers, the results imply that creating favourable institutional environment, ensuring regulation consistency, fostering diplomatic cooperation among countries in the region and making financial risk management tools available are essential. Specifically, lowering risk premium could be achieved through reduction of uncertainties in customs clearance, investment conditions, maritime security and foreign currency markets. Finally, regional cooperation is critical in Southeast Asia, as firms tend to operate across the border and, thus, are equally exposed to trade wars, maritime risks, and political instability in their own country.

5. Limitations and Future Research

Several limitations offer potential avenues for future research. First, the cross-sectional nature of the research reduces the possibility of making any claims related to causality. The presented results can be considered only as evidence for theoretically grounded associations, not as evidence of temporally-causal relationships. In future, there is an opportunity to investigate the effects of prolonged geopolitical shocks on firms' adaptation process and delayed financial gains resulting from resilience investments using longitudinal datasets.

Second, perceptual measures based on the management surveys used in the study do not eliminate the need for objective measures of geopolitical risks, exchange rate fluctuations, and firms' financial performance. Further research should complement the perception data with secondary data such as indices of exchange rate volatility, information about disruptions of trade flows and foreign direct investments inflow, firm-level financial statements, and political risk measures at the country level.

Third, the procedures to address common method bias along with statistical analysis did not eliminate its potential impact. Future researchers have the option to collect data from different respondents per firm, measure predictors and outcomes at different time points, or conduct managerial surveys combined with secondary analysis.

Fourth, in addition to controlling for macroeconomic variables, future research could consider more extensive modelling of the effects of firm size, firm's industry, ownership type, leverage, foreign sales intensity, and institutional environment at the country level. Multi-group analysis across countries is another area for future investigation.

Finally, the present research is restricted to a sample of six Southeast Asian economies and industries that have high exposure to geopolitical risks. Results may not apply to small firms, purely domestic companies, or countries having more developed financial system and institutions. Future research would benefit from investigating the role of financial transmission mechanisms among firms operating in emerging and advanced economies.

6. Conclusion

The study aimed at establishing the connection between geopolitical instabilities and the financial performance of corporations in emerging Asia through supply chain resilience, foreign investment confidence, and currency volatility. From the findings obtained, financial market channels seem to significantly explain firm vulnerability due to geopolitical risks. Currency volatility and investor confidence were found to be significant correlates with financial performance compared to supply chain resilience, implying that

geopolitical risk influences firm performance indirectly through currency risk, financial-market expectations, and investor confidence channels.

The study has shown that geopolitical risks influence firms differently. Regional instabilities and South China Sea geopolitical risk appear to influence financial and investor confidence channels while the US-China trade war risk is correlated to supply chain resilience responses. Supply chain resilience does not significantly impact the financial performance of firms indicating that resilience may protect firm continuity without increasing financial performance. This shows the significance of resilience in terms of its long-term nature and not necessarily financial benefits in the short run.

In conclusion, the study develops a multi-channel risk model that enables firms to establish ways to counter risks through financial and investment confidence and operational resilience. The results offer strategic implications to managers who need to coordinate operational resilience with currency risk management and investor communication strategies. Furthermore, there are policy recommendations indicating that geopolitical risk impacts corporate sustainability positively in a country with predictable regulations and institutional stability, and regional economic cooperation. Due to its cross-sectional nature, the results may not be conclusive and need to be tested further using longitudinal archival data.

Authors' Contributions: Sugeng Suroso : Conceptualization, Formal analysis, Methodology, Supervision, Validation, Writing – review & editing; Sri Wulandari : Methodology, Data curation, Writing – review & editing. Chajar Matari Fath Mala: Conceptualization, Data curation, Investigation, Validation, Visualization, Writing – review & editing. .

Funding: This research received no external funding.

Institutional Review Board Statement: Not applicable.

Informed Consent Statement: Not applicable.

Data Availability Statement: The data and research materials supporting this study are available from the corresponding author upon reasonable request.

Conflicts of Interest: The author declares no conflicts of interest, and there has been no significant financial support for this work that could have influenced its outcome.

References

- Abbassi, W., Kumari, V., & Pandey, D. K. (2022). What makes firms vulnerable to the Russia–Ukraine crisis? *The Journal of Risk Finance*, 24(1), 24–39. <https://doi.org/10.1108/jrf-05-2022-0108>
- Abdulsalam, S. A., & Onipede, S. F. (2023). Economic policy uncertainty and the ECOWAS exchange rate mechanism. *Scientific African*, 21, e01844. <https://doi.org/10.1016/j.sciaf.2023.e01844>
- Adeosun, O. A., Anagreh, S., Tabash, M. I., & Vo, X. V. (2024). Return and volatility transmission among economic policy uncertainty, geopolitical risk and precious metals. *Studies in Economics and Finance*, 41(5), 1057–1084. <https://doi.org/10.1108/sef-10-2023-0586>
- Agoraki, M.-E. K., Wu, H., Xu, T., & Yang, M. (2024). Money never sleeps: Capital flows under global risk and uncertainty. *Journal of International Money and Finance*, 141, 103013. <https://doi.org/10.1016/j.jimonfin.2023.103013>
- Aliu, F., Hašková, S., & Bajra, U. Q. (2022). Consequences of Russian invasion on Ukraine: evidence from foreign exchange rates. *The Journal of Risk Finance*, 24(1), 40–58. <https://doi.org/10.1108/jrf-05-2022-0127>
- Akram, Q. F. (2020). Oil price drivers, geopolitical uncertainty and oil exporters' currencies. *Energy Economics*, 89, 104801. <https://doi.org/10.1016/j.eneco.2020.104801>
- Akarsu, M. Z., & Gharehgozli, O. (2023). The impact of the Russia-Ukraine War on European Union currencies: a high-frequency analysis. *Policy Studies*, 45(3–4), 353–376. <https://doi.org/10.1080/01442872.2023.2268543>
- Altiner, a., & Bozkurt, e. (2023). Reflections of Geopolitical Risk on Foreign Direct Investments: The Case of Türkiye. *İnsan ve Toplum Bilimleri Araştırmaları Dergisi*, 12(3), 1292–1309. <https://doi.org/10.15869/itobiad.1271884>

- Athukorala, P., & Menon, J. (2015). Global production sharing, trade patterns and determinants of trade flows: the role of East Asia. In Handbook on Trade and Development. Edward Elgar Publishing. <https://doi.org/10.4337/9781781005316.00027>
- Aminaho, F. (2025). The impact of exchange rate volatility on firm performance: Evidence from Nigerian Exchange (NGX) Group and London Stock Exchange (LSE) Group. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.5364657>
- Asad, M., Tabash, M. I., Sheikh, U. A., Al-Muhanadi, M. M., & Ahmad, Z. (2020). Gold-oil-exchange rate volatility, Bombay stock exchange and global financial contagion 2008: Application of NARDL model with dynamic multipliers for evidences beyond symmetry. *Cogent Business & Management*, 7(1), 1849889. <https://doi.org/10.1080/23311975.2020.1849889>
- Athukorala, P., & Wei, Z. (2017). Economic Transition and Labour Market Dynamics In China: An Interpretative Survey Of The 'Turning Point' Debate. *Journal of Economic Surveys*, 32(2), 420–439. <https://doi.org/10.1111/joes.12206>
- Bajaj, n. K., Aziz, t., Kumari, s., Alenezi, m., & Mathkur, n. M. (2023). The Impact of Geopolitical Risk on Financial Conditions of Emerging Economies. *The Journal of Asian Finance, Economics and Business*, 10(1), 133–143. <https://doi.org/10.13106/JAFEB.2023.VOL10.NO1.0133>
- Bentivogli, C., & Mirenda, L. (2016). *Foreign ownership and performance: Evidence from a panel of Italian firms* (Bank of Italy Temi di Discussione (Working Paper) No. 1085). Bank of Italy. <https://doi.org/10.2139/ssrn.2914251>
- Bitar, N., Hamadeh, M., & Khoueiri, R. (2019). Impact of political instability on foreign direct investment in Lebanon. *Asian Social Science*, 16(1), 41. <https://doi.org/10.5539/ass.v16n1p4>
- Blessley, M., & Mudambi, S. M. (2022). A trade war and a pandemic: Disruption and resilience in the food bank supply chain. *Industrial Marketing Management*, 102, 58–73. <https://doi.org/10.1016/j.indmarman.2022.01.002>
- Bown, C. P. (2021). The US–China trade war and Phase One agreement. *Journal of Policy Modeling*, 43(4), 805–843. <https://doi.org/10.1016/j.jpolmod.2021.02.009>
- Bris, A., Koskinen, Y., & Pons, V. (2004). Corporate financial policies and performance around currency crises. *The Journal of Business*, 77(4), 749–796. <https://doi.org/10.1086/422438>
- Caldara, D., & Iacoviello, M. (2022). Measuring Geopolitical Risk. *American Economic Review*, 112(4), 1194–1225. <https://doi.org/10.1257/aer.20191823>
- Coşkun, A. E., & Erturgut, R. (2024). How Do Uncertainties Affect Supply-Chain Resilience? The Moderating Role of Information Sharing for Sustainable Supply-Chain Management. *Sustainability*, 16(1), 131. <https://doi.org/10.3390/su16010131>
- Cui, C., & Li, L. S.-Z. (2023). Trade policy uncertainty and new firm entry: Evidence from China. *Journal of Development Economics*, 163, 103093. <https://doi.org/10.1016/j.jdevco.2023.103093>
- Dixit, A. K., & Pindyck, R. S. (1994). *Investment under Uncertainty*. Princeton University Press. <https://doi.org/10.2307/j.ctt7sncv>
- Dong, L., Hidhiir, M. H. B., & Mansur, M. B. (2025). Economic Policy Uncertainty and China's FDI Inflows: Moderating Effects of Financial Development and Political Stability. *Journal of Risk and Financial Management*, 18(7), 354. <https://doi.org/10.3390/jrfm18070354>
- Dess, G. G., & Robinson, R. B., Jr. (1984). Measuring organisational performance in the absence of objective measures: The case of the privately held firm and conglomerate business unit. *Strategic Management Journal*, 5(3), 265–273. <https://doi.org/10.1002/smj.4250050306>
- Durnev, A., Mangan, C. (2020). The spillover effects of MD&A disclosures for real investments: The role of industry competition. *Journal of Accounting and Economics*, 70(2–3), 201–219. <https://doi.org/10.1016/j.jacceco.2015.02.002>
- Eser, F., & Wu, X. (2021). Geopolitical risk and firm investment decisions: Evidence from global firms. *Journal of International Financial Markets, Institutions and Money*, 72, 101347. <https://doi.org/10.1016/j.intfin.2021.101347>
- Evenett, S. J. (2019). Protectionism, state discrimination, and international business since the onset of the Global Financial Crisis. *Journal of International Business Policy*, 2(1), 9–36. <https://doi.org/10.1057/s42214-019-00021-0>
- Feng, C., Han, L., Vigne, S., & Xu, Y. (2023). Geopolitical risk and the dynamics of international capital flows. *Journal of International Financial Markets, Institutions and Money*, 82, 101693. <https://doi.org/10.1016/j.intfin.2022.101693>
- Feng, J., Tang, J., Qi, Z., & Liu, J. (2024). Supply Chain Finance and Innovation Investment: Based on financing constraints. *Finance Research Letters*, 63, 105349. <https://doi.org/10.1016/j.frl.2024.105349>
- Fofanah, P. (2022). Effects of exchange rate volatility on economic growth: Evidence from West Africa. *International Journal of Business and Economics Research*, 11(1), 32. <https://doi.org/10.11648/j.ijber.20221101.15>
- Gao, H., Chen, W., Li, J., & Zhou, T. (2024). Economic policy uncertainty and foreign direct investment: Evidence from China. *Structural Change and Economic Dynamics*, 70, 178–191. <https://doi.org/10.1016/j.strueco.2024.01.014>
- Gereffi, G. (2020). What does the COVID-19 pandemic teach us about global value chains? The case of medical supplies. *Journal of International Business Policy*, 3(3), 287–301. <https://doi.org/10.1057/s42214-020-00062-w>
- Ghassemi, H., & Sadr, S. M. (2022). Firm heterogeneity and responses to global uncertainty shocks. *Economic Modelling*, 116, 105995. <https://doi.org/10.1016/j.econmod.2022.105995>
- Fornell, C., & Larcker, D. F. (1981). Evaluating structural equation models with unobservable variables and measurement error. *Journal of Marketing Research*, 18(1), 39–50. <https://doi.org/10.1177/002224378101800104>
- Henisz, W. J. (2000). The Institutional Environment for Multinational Investment. *Journal of Law, Economics, & Organization*, 16(2), 334–364. <http://www.jstor.org/stable/3555095>
- Huchzermeier, A., & Stehle, H. (2025). Navigating Geopolitical Risks in Global Supply Chains: A Systematic Literature Review. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.5161777>

- Hui, H. C. (2021). The long-run effects of geopolitical risk on foreign exchange markets: Evidence from some ASEAN countries. *International Journal of Emerging Markets*, 17(6), 1543–1564. <https://doi.org/10.1108/ijoem-08-2020-1001>.
- Khan, M. A. (2025). Investigating the intersection of organizational behavior, supply chain practices, economic outcomes, financial excellence and CSR for corporate identity improvement. *Measuring Business Excellence*, 29(3), 551–572. <https://doi.org/10.1108/mbe-06-2024-0083>
- Kim, T., & Han, J. M. (2024). *The impact of exchange rate fluctuations on the performance of domestic manufacturing companies* (KIET Industrial Economic Review, Vol. 29, No. 3, pp. 59-67). SSRN. <https://ssrn.com/abstract=4916912>
- Kiptoo, J. (2024). The influence of political stability on foreign direct investment (FDI). *International Journal of Developing Country Studies*, 6(1), 74–86. <https://doi.org/10.47941/ijdc.2165>
- Kock, N. (2015). Common method bias in PLS-SEM: A full collinearity assessment approach. *International Journal of e-Collaboration*, 11(4), 1–10. <https://doi.org/10.4018/ijec.2015100101>.
- Kurecic, P., & Kokotovic, F. (2017). The relevance of political stability on FDI: A VAR analysis and ARDL models for selected small, developed, and instability threatened economies. *Economies*, 5(3), 22. <https://doi.org/10.3390/economies5030022>
- Liu, P. L., Lü, Z., & Yoon, S.-M. (2025). Impact of US–China tensions on the volatility, correlation, and hedging effects of gold and crude oil prices. Elsevier BV. <https://doi.org/10.2139/ssrn.5213775>
- Liu, X., & Zhang, X. (2024). Geopolitical risk and currency returns. *Journal of Banking & Finance*, 161, 107097. <https://doi.org/10.1016/j.jbankfin.2024.107097>
- Li, X., Wu, Q., Holsapple, C. W., & Goldsby, T. (2017). An empirical examination of firm financial performance along dimensions of supply chain resilience. *Management Research Review*, 40(3), 254–269. <https://doi.org/10.1108/mrr-02-2016-0030>
- Mao, H., & Görg, H. (2020). Friends like this: The impact of the US–China trade war on global value chains. *The World Economy*, 43(7), 1776–1791. <https://doi.org/10.1111/twec.12967>
- Morina, F., Hysa, E., Ergün, U., Panait, M., & Voica, M. C. (2020). The effect of exchange rate volatility on economic growth: Case of the CEE countries. *Journal of Risk and Financial Management*, 13(8), 177. <https://doi.org/10.3390/jrfm13080177>
- Musyoki, D., Pokhariyal, G. P., & Pundo, M. (2012). The impact of real exchange rate volatility on economic growth: Kenyan evidence. *Business and Economic Horizons*, 7, 59–75. <https://doi.org/10.15208/beh.2012.5>.
- North, D. C. (1990). *Institutions, Institutional Change and Economic Performance*. Cambridge University Press. <https://doi.org/10.1017/cbo9780511808678>.
- Pasali, S. S., & Chaudhary, A. (2020). *Assessing the impact of foreign ownership on firm performance by size: Evidence from firms in developed and developing countries*. *Transnational Corporations*, 27(2), 43–72. SSRN. <https://ssrn.com/abstract=3692334>
- Paul, P. (2025). The role of supply chain finance in enhancing financial performance: Evidence from personal and home care product industry. *Investment Management and Financial Innovations*, 22(2), 77–85. [https://doi.org/10.21511/imfi.22\(2\).2025.07](https://doi.org/10.21511/imfi.22(2).2025.07)
- Pástor, L., & Veronesi, P. (2013). Political uncertainty and risk premia. *Journal of Financial Economics*, 110(3), 520–545. <https://doi.org/10.1016/j.jfineco.2013.08.007>.
- Podsakoff, P. M., MacKenzie, S. B., Lee, J.-Y., & Podsakoff, N. P. (2003). Common method biases in behavioural research: A critical review of the literature and recommended remedies. *Journal of Applied Psychology*, 88(5), 879–903. <https://doi.org/10.1037/0021-9010.88.5.879>.
- Qamruzzaman, M., & Karim, S. (2024). Green energy, green innovation, and political stability led to green growth in OECD nations. *Energy Strategy Reviews*, 55, 101519. <https://doi.org/10.1016/j.esr.2024.101519>.
- Saha, S., Sadekin, M. N., & Saha, S. K. (2022). Effects of institutional quality on foreign direct investment inflow in lower-middle income countries. *Heliyon*, 8(10), e10828. <https://doi.org/10.1016/j.heliyon.2022.e10828>
- Song, Y., Hao, F., Hao, X., & Gozgor, G. (2021). Economic Policy Uncertainty, Outward Foreign Direct Investments, and Green Total Factor Productivity: Evidence from Firm-Level Data in China. *Sustainability*, 13(4), 2339. <https://doi.org/10.3390/su13042339>
- Tjandrasa, B. B. (2021). Determinants of political stability to support foreign investment in Indonesia. *Petra International Journal of Business Studies*, 4(2), 97–108. <https://doi.org/10.9744/ijbs.4.2.97-108>
- Truong, L. D., Friday, H. S., & Pham, T. D. (2024). The Effects of Geopolitical Risk on Foreign Direct Investment in a Transition Economy: Evidence from Vietnam. *Journal of Risk and Financial Management*, 17(3), 101. <https://doi.org/10.3390/jrfm17030101>.
- Wang, R., Qamruzzaman, M., & Karim, S. (2024). Unveiling the power of education, political stability and ICT in shaping technological innovation in BRI nations. *Heliyon*, 10(9), e30142. <https://doi.org/10.1016/j.heliyon.2024.e30142>.
- Williamson, O. E. (1985). *The economic institutions of capitalism: Firms, markets, relational contracting*. New York, NY: Free Press.
- Wu, W., & Shao, C. (2023). How does home and host-country policy uncertainty affect outward FDI? Firm-level evidence from China. *Economia Politica*, 40(2), 495–515. <https://doi.org/10.1007/s40888-023-00298-8>
- Yan, H., Xiao, W., Deng, Q., & Xiong, S. (2022). Analysis of the Impact of U.S. Trade Policy Uncertainty on China Based on Bayesian VAR Model. *Journal of Mathematics*, 2022(1). <https://doi.org/10.1155/2022/7124997>
- Yensu, J., Nkrumah, S. K., Amankwah, S., & Ledi, K. K. (2022). The effect of exchange rate volatility on economic growth. *Risk Governance and Control: Financial Markets and Institutions*, 12(4), 33–45. <https://doi.org/10.22495/rgcv12i4p2>
- Zhang, Y., He, J., He, M., & Li, S. (2023). Geopolitical risk and stock market volatility: A global perspective. *Finance Research Letters*, 53, 103620. <https://doi.org/10.1016/j.frl.2022.103620>

- Zhang, B., Ma, J., Khan, M. A., Repnikova, V., Shidlovskaya, K., Barykin, S., & Ahmad, M. S. (2023). The Effect of Economic Policy Uncertainty on Foreign Direct Investment in the Era of Global Value Chain: Evidence from the Asian Countries. *Sustainability*, 15(7), 6131. <https://doi.org/10.3390/su15076131>
- Zhou, Y. (2020). The US-China trade war and global value chains. *Всемирный банк (The World Bank)*.
- Zhao, N., Hong, J., & Lau, K. H. (2023). Impact of supply chain digitalization on supply chain resilience and performance: A multi-mediation model. *International Journal of Production Economics*, 259, 108817. <https://doi.org/10.1016/j.ijpe.2023.108817>
- Zheng, M., Wang, R., Ye, J., & Li, T. (2025). How does supply chain finance enhance firms' supply chain resilience? *International Review of Economics & Finance*, 102, 104231. <https://doi.org/10.1016/j.iref.2025.104231>
- Zhu, M., Miao, S., Lam, H. K. S., Liang, C., & Yeung, A. C. L. (2024). Navigating through geopolitical risk: the role of supply chain concentration. *International Journal of Operations & Production Management*, 45(5), 1032–1065. <https://doi.org/10.1108/ijopm-03-2024-0248>
- Zhu, X., & Wu, Y. J. (2022). How Does Supply Chain Resilience Affect Supply Chain Performance? The Mediating Effect of Sustainability. *Sustainability*, 14(21), 14626. <https://doi.org/10.3390/su142114626>

Reviewer 2

No.	Reviewer's Comments	Authors' Responses
1	The introduction provides a solid overview of geopolitical uncertainty and explains why firms in emerging Asian economies may be particularly exposed to its consequences. The motivation for the study is clear, and the discussion of trade conflicts, regional tensions, and investor sentiment helps establish the context effectively. My main suggestion is that the contribution should be defined more sharply. While the manuscript argues that previous studies have examined these mechanisms separately, it is not always clear how the proposed framework advances existing firm-level research on geopolitical risk. A more direct explanation of what is genuinely new here would strengthen the paper considerably. I would also encourage the authors to review some of the more recent literature carefully and ensure that all cited studies are fully relevant to the stated contribution.	Thank you for this valuable comment. We revised the introduction to state the research gap more directly. The manuscript now explains that prior studies often examine supply chains, exchange rates, investment confidence, and market volatility separately, while this study integrates these mechanisms in a multi-mediator framework. The novelty is framed around firm-level transmission and the financialization of firm vulnerability in emerging Asian markets.
2	The overall design is suitable for the research question, and the use of PLS-SEM appears appropriate given the multiple mediating relationships being examined. The sample size is adequate, and the focus on firms operating in geopolitically exposed sectors is well justified. My reservation concerns the heavy reliance on perceptual survey measures for constructs such as geopolitical risk exposure, currency volatility, and financial performance. While subjective assessments are common in management research, additional justification would help readers understand why this approach was preferred over objective indicators. The limitations associated with the cross-sectional nature of the data should also be acknowledged more explicitly when discussing the findings.	Thank you for this valuable comment. We expanded the research-design section to justify the use of SmartPLS, the cross-sectional design, and the use of perceptual measures. The revised manuscript explicitly states that the design tests theoretically grounded associations rather than temporal causality. The limitations and conclusion now adopt a more cautious tone.
3	The methodology is generally presented in a clear and structured manner, and the statistical procedures follow accepted practice in the PLS-SEM literature. The description of reliability, validity, and bootstrapping procedures is satisfactory. However, I would like to see more information on the actual measurement items used for the main constructs. This would improve transparency and make it easier for readers to assess construct validity. In addition, because all variables were collected through the same survey instrument, the issue of common method bias deserves greater attention. A brief discussion of any procedural or statistical checks	We Agree. The measurement description has been expanded to summarise the content of items for each construct, including geopolitical risk exposure, supply chain resilience, currency volatility, foreign investment confidence, and corporate financial performance. The revised manuscript also provides procedural and statistical common method bias checks.

	undertaken to address this concern would strengthen confidence in the results.	
4	The results section is generally easy to follow, and the sequence from measurement-model assessment to structural-model evaluation is logical. The reported reliability and validity statistics are satisfactory, and the structural results highlight the importance of currency volatility and foreign investment confidence as transmission mechanisms linking geopolitical instability to firm performance. At the same time, I felt that some interpretations could be developed further. In particular, the discussion of significant and non-significant pathways would benefit from deeper theoretical reflection. A few conclusions appear to move quickly from statistical significance to broader managerial implications, and a more balanced interpretation would improve the overall discussion.	Thank you for this valuable comment. We substantially expanded the results discussion. The revised text now interprets the stronger role of financial channels, carefully explains the positive currency-volatility coefficient, discusses the non-significant supply chain resilience pathway, and clarifies that different geopolitical risks transmit through different channels. The discussion now links the findings more explicitly to institutional uncertainty, international finance, behavioural finance, and dynamic capabilities perspectives.
5	The conclusions are broadly consistent with the empirical findings and capture the main messages emerging from the analysis. The evidence presented suggests that financial channels may play a more prominent role than operational resilience mechanisms in explaining firm-level outcomes under geopolitical uncertainty. However, I recommend adopting a slightly more cautious tone when discussing practical and policy implications. Given the survey-based and cross-sectional nature of the study, the findings should be interpreted primarily as associations rather than definitive causal relationships. Including a more explicit discussion of study limitations would strengthen the credibility of the conclusions.	Thank you for this valuable comment. We revised the limitations and conclusion to emphasise that the results should be read as evidence of associations rather than definitive causal effects. The revised conclusion also notes the need for longitudinal and archival data to test delayed effects and causal mechanisms.
6	The tables are generally well organised and provide the information necessary to evaluate the empirical results. The conceptual framework is helpful and effectively illustrates the proposed relationships among the variables. The SmartPLS diagrams are informative, although some graphical elements appear crowded and may be difficult to read in their current form. Improving figure quality, increasing font sizes, and simplifying certain visual elements would enhance readability. More informative captions would also help readers understand the figures without constantly referring back to the text.	We Agree. The figure captions have been revised to be more informative and to describe what each figure shows. The figures themselves were retained to preserve the original model outputs and manuscript layout, but the revised captions now make the purpose and content of each figure clearer for readers.

Geopolitical Risk and the Financialization of Firm Vulnerability in Emerging Markets.

Sugeng Suroso ¹, Sri Wulandari ² and Chajar Matari Fath Mala ³

^{1,2} Faculty of Economics and Business, Universitas Bhayangkara Jakarta Raya, Jakarta, Indonesia

³ Management Department, Universitas Pembangunan Jaya, South Tangerang, Indonesia

¹ Correspondence : sugeng.suroso@ubharajaya.ac.id

Abstract.

Geopolitical uncertainty represents a growing source of systemic risk that reshapes international markets, disrupts cross-border operations, and challenges firms’ ability to sustain financial performance. This research examines the mechanisms through which geopolitical instability related to firm financial outcomes in Southeast Asian economies by assessing the mediating roles of supply chain resilience, currency volatility, and foreign investment confidence. Based on a quantitative cross-sectional design, data were collected from 308 firms across Southeast Asian Economies and analyzed using partial least squares structural equation modeling (PLS-SEM). The findings indicate that geopolitical risks significantly influence financial performance, with the strongest effects transmitted through financial channels. Currency volatility and foreign investment confidence emerge as critical mediators, demonstrating that exchange rate instability and investor risk perceptions substantially shape firm performance under geopolitical pressure. While supply chain resilience enhances firms’ capacity to adapt to external disruptions, its direct contribution to financial performance remains insignificant. The model explains 66.7% of the variance in financial performance, reflecting strong explanatory capability. These findings extend existing knowledge by integrating financial, operational, and institutional mechanisms to clarify how geopolitical disruptions propagate into firm-level outcomes. The results underscore the importance of financial preparedness, institutional effectiveness, governance quality, and adaptive capabilities in managing geopolitical uncertainty.

Keywords: Geopolitical Risk; Corporate Financial Performance; Supply Chain Resilience; Currency Volatility; Foreign Investment Confidence;

JEL Classifications: F51, F23, G32, L25, M16, O53

1. Introduction

Geopolitical shocks are no longer an external event separate from the business world but rather inherent to global operations. Increasing volumes of trade disputes, conflicts in sea lanes, sanctions and political uncertainty are impacting businesses at all levels, affecting their production costs, access to capital, investor attitudes and expectations of future exchange rate developments (Caldara & Iacoviello, 2022; Bajaj et al., 2023). Although there is already literature on the impacts of geopolitical risks on growth, trade, market prices and overall investments, the factors contributing to heterogeneity in firms’ responses to such risks remain understudied. In spite of exposure to identical events, firms typically vary significantly in their outcomes due to differing levels of dependence on the supply chain, foreign currency risk exposure, capacity to access external financing, ability to discern and appropriately react to the relevant event (Durnev & Mangan, 2020; Eser & Wu, 2021; Ghassemi & Sadr, 2022). However, existing geopolitical risk literature has largely treated firms as homogeneous entities, providing limited explanation of how internal

organizational capabilities and financial exposure determine the magnitude of geopolitical shocks on corporate outcomes. Understanding these firm-level transmission mechanisms is essential because the same geopolitical event may create different consequences depending on firms' strategic resources and vulnerability profiles.

This research extends the literature by analyzing geopolitical risk as a micro level transmission mechanism rather than solely as a macroeconomic phenomenon. The sample selection of emerging southeast Asian economies is both empirically and theoretically relevant since Asian firms are the most vulnerable to geopolitical shock as they are strongly dependent on export-oriented value chains, capital flow and have an operating environment shaped by credibility concerns and stability issues surrounding the local currency ([Athukorala & Wei, 2017](#)). In the analysis three types of geopolitical risk are included, namely the US-China trade war, conflict in the South China Sea and regional political uncertainty, all affecting firms' performance through different channels which may be offsetting or complementary. These channels suggest that geopolitical risks do not directly influence firm performance alone but operate through intermediate mechanisms that shape firms' ability to absorb, transfer, and respond to external uncertainty

The inclusion of three specific types of geopolitical risks and their various transmission channels contributes to the literature on the economy-wide impacts of geopolitical risks. While most studies focused on evaluating the impact of geopolitical risks on corporate investment, exchange rate volatility, supply chain disruptions or market turbulence separately ([Zhang et al., 2023](#); [Liu & Zhang, 2024](#)), limited attempts have been made to provide a theoretically comprehensive explanation of the relationship between geopolitical risk and corporate financial performance in emerging economies and pinpoint the relative importance of these channels. Our research has attempted to bridge this gap with analysis of a multi-mediator framework where the relative importance of supply chain resilience, currency volatility and foreign investment confidence contribute to the financialization of risk exposures. Accordingly, this research contributes to the literature in three ways. First, it shifts the discussion of geopolitical risk from a macroeconomic perspective toward a firm-level risk transmission framework. Second, it integrates supply chain resilience, currency volatility, and foreign investment confidence as interconnected mechanisms explaining corporate responses to geopolitical uncertainty. Third, by focusing on emerging Southeast Asian economies, this study provides evidence from a region where geopolitical exposure and global economic integration are particularly pronounced.

2. Literature Review, Theoretical Foundation, and Hypothesis Development

The theoretical background for this research encompasses the following theories: institutional uncertainty theory, transaction cost economics, real options theory, behavioral finance, dynamic capabilities theory and international finance theory. The institutional uncertainty theory demonstrates how instabilities, reversals and lack of institutional credibility contribute to the escalation of coordination costs across borders ([North, 1990](#); [Henisz, 2000](#)). Transaction cost economics builds on this idea by considering geopolitical stability in relation to higher monitoring, contracting, routing and enforcement costs within supply chains. The real options theory suggests that foreign investments are delayed or pulled back due to increased levels of uncertainty, whereas behavioral finance offers a deeper understanding of the connection between political and security risks and investor confidence ([Pástor & Veronesi, 2013](#)). Dynamic capabilities theory provides the theoretical basis for the idea of resilience as an organizational capability used to cope with disruptions, and international finance theory emphasizes the importance of currency fluctuations as financial mechanisms in response to geopolitical shocks.

2.1. Geopolitical Trade Conflicts and Supply Chain Resilience

One involved framework is that of Institutional Uncertainty Theory, which serves as an excellent point of departure in examining how geopolitical instability alters organizational operations. [North \(1990\)](#) made one of the most widely-cited arguments in the literature when he argued that the institutions or, in other words, the rules and conventions of economic exchange govern transaction costs of coordination. If institutions remain stable, then organizations can make decisions, investments and conduct coordination activities around the world without worrying about unexpected changes to the costs involved. On the other hand, when institutions become unstable, transaction costs explode, contract enforcement becomes difficult and predictability necessary for the operation of production chains becomes impossible ([Henisz, 2000](#)). Geopolitical trade disputes constitute exogenous disturbances of such a nature, which cause the collapse of the governance regime in which these supply chains function. By means of imposing tariffs, sanctions and retaliatory policies, the trade conflicts generate uncertainty within the supply chain and, hence, the cost structure that cannot be anticipated by the firms involved. These firms are no longer able to rely on their previously predictable supply partners who suddenly become unreliable. It is precisely this increased cost of coordination, which was made possible by institutional stability, that becomes evident again.

Indeed, there is ample evidence that high tariffs and threats thereof not only increased costs but had a disruptive effect on international supply chains, forcing companies to adapt and change their procurement and production strategies ([Zhou, 2020](#); [Mao & Görg, 2020](#)). However, even the uncertainty itself—the lack of knowledge about future trade policy, which would affect planning and long-term decision making—was just as disruptive as tariff measures. In the face of geopolitical uncertainty, it was impossible to plan ahead or develop sustainable strategies. On the one hand, some researchers contend that trade conflict could potentially increase resilience through incentives for diversification, reshoring, and regionalization ([Gereffi, 2020](#); [Bown, 2021](#)). Forced to reduce reliance on any single supplier, firms could create more diversified supply networks. While the idea may seem plausible, institutional uncertainty theory suggests a far less optimistic conclusion. Geopolitical pressure forces companies to make adjustments that are qualitatively different from strategic investments in building resilience that are made under normal circumstances. These adjustments are reactive, rushed, and rarely optimal under pressure. As [Evenett \(2019\)](#) shows, diversification induced by trade conflict tends to lead to fragmented and inefficient supply networks, rather than resilient ones. Adjustment costs pile up and the risks and vulnerabilities caused by geopolitically fragmented system become difficult to counterbalance. Companies involved in China-centric supply chains are trapped by their very structure and cannot change course without significant costs. Their redundancies are minimal and their leverage vis-à-vis more powerful trading partners is low. When geopolitical shocks come, they suffer disproportionately not because of any particular weaknesses but due to their position in the global economy.

Hence, while there could be rare cases of resilience-promoting adaptations made during trade conflicts, it appears that the predominant outcome is detrimental. Indeed, institutional uncertainty disrupts the crucial component of resilience—the predictability of events. As a result, supply chains cease to become coordinated systems and transform into a series of ad-hoc transactions. Therefore, we hypothesize:

H¹. *Geopolitical trade conflicts influence firms' supply chain resilience.*

2.2. Geopolitical Turbulence and Foreign Investment Confidence

From the point of view of real option and behavioral financial theories, increased policy and geopolitical uncertainty makes the value of waiting higher, causing investors to defer, shrink, or switch investment projects in light of increasingly unpredictable future payoffs (Dixit & Pindyck, 1994; Pástor & Veronesi, 2013). Geopolitical instability heightens uncertainty over regulatory regime, market access, and political stability, thus dampening confidence among foreign investors in the host economy. Rising uncertainty results in falling expected return levels relative to risk, reducing incentives for foreign direct investments (FDIs). Empirically, the relationship between trade policy uncertainty and lower entry rates, investment commitments, and FDI inflows is well-established by a number of studies, which find that policy uncertainties are particularly detrimental in economies that are closely linked with the international division of labor (Cui & Li, 2023; Yan et al., 2022; Gao et al., 2024). Although some research demonstrates temporary investment flows towards different countries in response to uncertainty, this is an ad hoc process rather than a sign of improved investor confidence (Dong et al., 2025). The impact of policy uncertainty on firms' decisions has also been observed as a reduction in outbound FDIs, as firms try to minimize the risks associated with both domestic and international market volatility (Wu & Shao, 2023; Song et al., 2021). Crucially, emerging Asian economies are particularly vulnerable to shifts in foreign investment confidence due to reliance on foreign investments, export-oriented development models, and nascent institutional settings. Therefore, geopolitical trade disputes may be expected to negatively affect foreign investment confidence in Asia. Therefore

H². Geopolitical trade conflicts significantly influence foreign investment confidence.

2.3. Maritime Geopolitical Risk and Supply Chain Resilience

The notion of geopolitical risk pertaining to contested areas at sea represents a different type of supply chain vulnerability, as it poses a danger to the actual physical integrity of logistics channels. In accordance with transaction cost economics, an increase in the risk of expropriation, transportation disruption, and security challenges implies an increase in the cost of coordination and lower efficiency of international transactions (Williamson, 1985). The South China Sea (SCS), being a strategic maritime chokepoint, provides an example, where heightened tensions lead to increased transit risks, higher insurance rates, and greater route uncertainty for firms dependent on ocean-based logistics. Indeed, recent empirical studies demonstrate how geopolitical risk remains a significant determinant of overall supply chain vulnerability, implying that geopolitical tensions have adverse effects on network flexibility and disruptiveness (Blessley & Mudambi, 2022; Huchzermeier & Stehle, 2025). The empirical data shows that companies heavily reliant on maritime trade and operating in risky geopolitical locations tend to experience higher levels of supply chain disruptions, while diversification cannot completely solve the problem (Khan, 2025; Zhu et al., 2024). While certain organizational practices can mitigate uncertainty, they remain incapable of resolving long-term geopolitical tensions in key regions (Coşkun & Erturgut, 2024). In relation to the South China Sea region, political tensions imply high costs of adjustments in regard to sourcing and routing, yet do not eliminate risk in any meaningful way. As a result, geopolitical risks in the SCS are likely to negatively impact supply chain resilience. Therefore

H³. Geopolitical tensions in contested maritime regions are significantly associated with supply chain resilience.

2.4. Maritime Geopolitical Risk and Foreign Investment Confidence

The behavioral and institutional theories indicate that geopolitical risk intensifies investors' perceptions about risk, as it increases uncertainties associated with political

stability, security, and policy consistency. Thus, it decreases the confidence of investors in investing abroad. According to [Caldara and Iacoviello \(2022\)](#), geopolitical risk shocks strongly inhibit investments due to increased uncertainty and higher risk premium in the financial market. The mentioned effect is especially significant in the case of strategic rivalry and conflict in a given area. Research findings indicate that geopolitical risks affect foreign investments, leading to redirection of foreign direct investments to other destinations ([Agoraki et al., 2024](#); [Feng et al., 2023](#)). Empirical evidence on the impact of geopolitical risk on foreign investments at the country level shows that an increase in geopolitical risk leads to a reduction in investment confidence ([Truong et al., 2024](#); [Altiner & Bozkurt, 2023](#)). In relation to the South China Sea, it can be claimed that rising geopolitical tensions encourage investors to look for safer places with less volatility ([Feng et al., 2023](#)). Due to the importance of the SCS in international trade, geopolitical risks may produce negative spillovers that will reduce foreign investment confidence in emerging Asia. Therefore

H⁴. *Geopolitical tensions in contested maritime regions significantly influence foreign investment confidence.*

2.5. Maritime Geopolitical Risk and Currency Volatility

International finance theory suggests that exchange rates are highly sensitive to external shocks, particularly geopolitical events that reshape investor expectations, risk assessments, and cross-border capital allocation decisions. Under conditions of heightened uncertainty, investors reassess asset risks, leading to changes in portfolio preferences, capital movements, and currency valuations ([Akram, 2020](#); [Caldara & Iacoviello, 2022](#)). Specifically, geopolitical conflicts lead to increased risk premia, accelerated reversals of capital flows, and increased speculative activities which significantly increase exchange rate volatility ([Akram, 2020](#); [Caldara & Iacoviello, 2022](#)). These impacts are even stronger on emerging markets where financial markets are shallow, policy credibility is still in formation, and currencies are vulnerable to changes in global risk sentiments. Geopolitical disputes in important maritime areas such as the South China Sea (SCS) represent an important external threat to exchange rate volatility. Since the SCS is a critical corridor for the movement of global trade and energy flows, any disruptions in this area affect expectations regarding trade, commodity flows, and investments, all factors that influence currency valuations. Geopolitical risk increases exchange rate volatility in ASEAN economies significantly as demonstrated by empirical findings implying increased vulnerability of these regional currencies to geopolitical tensions and risks ([Hui, 2021](#)). Likewise, [Adeosun et al. \(2024\)](#) find that geopolitical shocks generate volatility spillovers across financial markets where currency markets exhibit higher sensitivities as they depend on capital flows and policy uncertainties. Evidence from past geopolitical shocks reinforces this finding. Studies confirm that largescale geopolitical shocks including the recent Russia-Ukraine conflict led to foreign exchange volatility due to sudden portfolio adjustments and investors seeking safer havens in response ([Aliu et al., 2022](#); [Akarsu & Gharehgozli, 2023](#)). Similar effects can be expected in relation to the South China Sea where geopolitical tensions would lead to disruption of energy trade routes, changes in commodity prices, and speculation of currencies. Other studies have emphasized the impact of investor sentiment and contagion effect with regard to spillover of volatility via exchange rate mechanisms following geopolitical shocks ([Asad et al., 2020](#); [Abdulsalam & Onipede, 2023](#)). Based on these theoretical and empirical insights, it appears likely that geopolitical tensions in the South China Sea would increase uncertainties about trade continuities, energy supplies, and capital flows resulting in increased exchange rate volatility. thus

H⁵. *Geopolitical tensions in contested maritime region have a significant influence on currency volatility.*

2.6. Political Instability and Foreign Investment Confidence

The level of foreign investment confidence can be viewed as a function of political stability, institutional strength, and policy continuity in host nations. According to institutional theory, political stability decreases uncertainty, facilitates contract enforcement, and improves the predictability of regulations, thus reducing transaction costs and encouraging foreign investments (North, 1990; Henisz, 2000). Political instability negatively impacts this set of institutions, which leads to decreased investor confidence owing to uncertainty associated with potential policy changes, poor governance, and increased risks associated with investing (Dixit & Pindyck, 1994). Real options theory suggests that political instability increases the value of waiting for better investment opportunities as the level of uncertainty concerning potential future profits increases (Dixit & Pindyck, 1994). As a result, foreign investors demand higher premiums or avoid investing in politically unstable countries altogether. This perspective is complemented by behavioral finance, which highlights the importance of investor perceptions and confidence and indicates that political instability makes investors hesitant about investing or even withdrawing capital (Pástor & Veronesi, 2013).

These theoretical assumptions are consistently corroborated in the empirical literature. Kiptoo (2024) demonstrates that political stability facilitates the development of FDI, whereas political instability hinders the process by creating uncertainties and deterring investors. Similar trends are found in country-specific studies. Tjandrasa (2021), for example, shows that political stability and institutional reforms increase foreign investment attractiveness in Indonesia as a result of improved perception. Fragile and vulnerability prone countries experience stronger discouraging effects of political instability on foreign investment confidence. Bitar, Hamadeh, and Khoueiri (2019) found that insecurity and lack of policy predictability in Lebanon led to significant reductions in FDI. Kurecic and Kokotovic (2017) observed both short-term and lasting reductions in the amount of foreign investments resulting from political instability in their analysis.

The institutional quality has a critical moderating impact on the relationship between political instability and foreign investment confidence. The weaker the institutional environment, the greater negative influence political instability has on foreign investment confidence due to high uncertainty and weak enforcement mechanisms (Saha et al., 2022). Recent research further emphasizes the critical importance of political stability not just for attracting FDI, but also for sustaining innovations, green growth, and economic development in general (Oamruzzaman & Karim, 2024; Wang et al., 2024). The evidence from Indonesia supports this finding, showing that political stability positively related to the level of foreign investments and economic growth through increased investor confidence (Pástor & Veronesi, 2013).

Taken together, this literature suggests that regional political instability undermines foreign investment confidence by increasing uncertainty, weakening institutional trust, and raising perceived business risk, thereby discouraging long-term capital commitments. Therefore

H 6. *Regional political instability significantly influence foreign investment confidence.*

2.7. Political Instability, Investor Behavior, and Exchange Rate Volatility

In terms of behavioral finance, political instability impacts exchange rates through changes in expectations and risks perceptions. The rise in geopolitical uncertainty reduces investor confidence, which results in capital flight, depreciating pressures on currencies, and exchange rate volatility in response to heterogeneous reactions to new information (Pastor & Veronesi, 2013). This effect is particularly pronounced in emerging markets, characterized by weaker institutions and lack of credibility in their monetary policies, making currencies more sensitive to shocks. Indeed, multiple empirical analyses find that

shocks related to politics and security increase the volatility of exchange rates due to increased currency risks exposure for firms and investors (Abbassi et al., 2022; Aliu et al., 2022). Moreover, Hui (2021) reveals that ASEAN foreign exchange markets display persistent exchange rate volatility under conditions of geopolitical risks, indicating that the region experiences political uncertainty and capital flows changes. Adeosun et al. (2024) add that the combination of geopolitical uncertainty and economic policy uncertainty leads to increased financial instability and currency volatility.

Furthermore, commodity-based transmission mechanisms can play an important role in this case. Political uncertainty may negatively impact energy and commodity markets, thereby influencing exchange rates in oil exporters and importers. As noted by Akram (2020), there is greater exchange rate volatility for oil-exporting countries in periods of geopolitical uncertainty, while Liu et al. (2025) observe that shocks due to geopolitical tensions between the US and China are transmitted via commodity markets. These findings fit well into contagion models of international finance that emphasize the exchange rate channel as one of the ways shocks spread throughout the global financial system (Asad et al., 2020).

Thus, political uncertainty related to geopolitical tension will lead to increased exchange rate volatility. Therefore

H7. Regional Political instability has a significant influence on exchange rate volatility.

2.8. Supply Chain Resilience and Corporate Financial Performance

Supply chain resilience (SCR) refers to a firm's capacity to anticipate, absorb, adapt to, and recover from disruptions while maintaining operational continuity and performance. Drawing on dynamic capability's theory, resilient supply chains enable firms to reconfigure resources, sustain strategic flexibility, and mitigate performance losses under uncertainty, thereby contributing to superior financial outcomes. In volatile environments, SCR functions not merely as an operational attribute but as a strategic capability that enhances firms' long-term competitiveness and profitability. Empirical evidence consistently supports the positive association between SCR and corporate financial performance. Firms with higher resilience demonstrate superior returns on assets, profit margins, and growth during periods of market turbulence (Li et al., 2017). Recent studies further show that resilience embedded within sustainable supply chain practices strengthens stakeholder trust and improves financial performance by aligning operational stability with long-term value creation (Zhu & Wu, 2022). Digital capabilities reinforce this relationship by enhancing supply chain visibility, coordination, and recovery speed, allowing firms to translate resilience into tangible financial gains (Zhao et al., 2023).

Supply chain finance (SCF) has emerged as an important complementary mechanism through which resilience enhances financial performance. By easing working capital constraints and improving liquidity across supply networks, SCF strengthens firms' ability to absorb shocks and sustain investment in innovation and operations (Zheng et al., 2025; Feng et al., 2024). Empirical evidence confirms that firms adopting SCF mechanisms exhibit improved financial outcomes across industries, particularly in environments characterized by financing frictions (Paul, 2025). While prior studies highlight sustainability, digitalization, and financial integration as key enablers of resilience, most examine these mechanisms in isolation, leaving limited understanding of their combined effects—especially in emerging economies.

Taken together, the literature indicates that SCR operates as a strategic capability that positively influences corporate financial performance by enhancing adaptability, reducing disruption-related losses, and supporting sustained value creation. Therefore

H8. Supply chain resilience positively influence corporate financial performance.

2.9. Currency Volatility and Corporate Financial Performance

Currency volatility represents a critical external financial risk that affects firms' cost structures, pricing strategies, investment decisions, and international competitiveness. International finance theory suggests that heightened exchange rate fluctuations increase uncertainty, raise transaction and hedging costs, and distort investment planning, thereby undermining firm-level financial performance—particularly in economies with limited risk-management capabilities.

Empirical research provides robust evidence of this negative relationship. Exchange rate volatility has been shown to weaken corporate profitability and financial stability across both developed and emerging markets (Bris et al., 2004; Morina et al., 2020). Recent firm-level studies confirm that exchange rate instability adversely affects performance by eroding margins, increasing financing costs, and discouraging long-term investment (Kim & Han, 2024; Aminaho, 2025). Macroeconomic evidence further indicates that volatile exchange rates impede productivity, trade competitiveness, and investment, reinforcing their detrimental effects on firm performance (Musyoki et al., 2012; Yensu et al., 2022; Fofanah, 2022). Importantly, the magnitude of these effects varies across institutional contexts. Firms in advanced economies often possess more sophisticated hedging instruments and financial depth, enabling them to partially buffer currency risk, whereas firms in emerging markets remain more exposed due to weaker financial infrastructure and limited access to risk management tools (Aminaho, 2025). This vulnerability underscores the importance of currency stability for sustaining corporate financial performance in emerging economies. Accordingly, the literature converges on the view that currency volatility undermines firm performance by increasing uncertainty, costs, and financial risk exposure. Therefore

H⁹. *Currency volatility has a significant influence on corporate financial performance.*

2.10. Foreign Investment Confidence and Corporate Financial Performance

Foreign investment confidence reflects investors' expectations regarding institutional credibility, governance quality, and long-term economic prospects in host economies. From an institutional and resource-based perspective, foreign investment enhances firm-level financial performance by providing access to capital, managerial expertise, advanced technologies, and global networks, thereby improving efficiency, governance, and competitive positioning. Empirical studies consistently demonstrate that firms with higher foreign ownership or stronger exposure to international investors exhibit superior financial performance, particularly in emerging and transitional economies (Pasali & Chaudhary, 2020). Foreign investors often impose more stringent governance practices and performance monitoring, contributing to enhanced profitability and productivity. Evidence from both developed and developing contexts supports this mechanism, showing that firms with foreign participation outperform domestic counterparts in financial outcomes (Bentivogli & Mirenda, 2016).

However, the strength of this relationship depends on firm-level and institutional conditions. Large firms are generally better positioned to leverage international networks and economies of scale, while smaller firms may face constraints related to absorptive capacity (Bentivogli & Mirenda, 2016). Moreover, weak institutional environments may dampen the positive effects of foreign investment by increasing risk and limiting effective governance transmission. Despite these contingencies, the literature broadly confirms that foreign investment confidence plays a critical role in enhancing firm-level financial performance through improved governance, innovation adoption, and global integration. Therefore

H¹⁰. *Foreign investment confidence has a significant influence on corporate financial performance.*

Development of Conceptual Model

Expanding upon the aforementioned theoretical arguments, this paper attempts to develop a conceptual model where geopolitical instability impacts corporate financial performance indirectly via firm-specific factors. In this context, geopolitical risks arise due to three reasons. First, there is an ongoing trade dispute between the US and China. Second, there are geopolitical risks in the South China Sea. Third, there is political instability in the region. Hence, this paper extends existing literature because geopolitical risks have been examined as being transmitted to financial performance through multiple channels instead of being exogenous variables that do not influence firms differently. Furthermore, in terms of corporate financial performance, this paper shows that geopolitical instability impacts firms, not just through the existence of risk itself, but also the level of exposure to risk by individual firms and its interpretation.

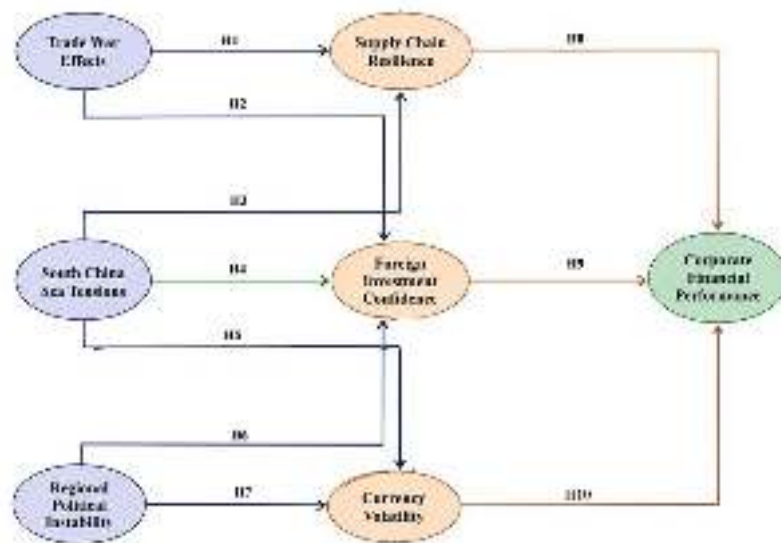


Figure 1. Conceptual Framework

3. Methodology and Design

3.1. Research Design

A quantitative cross-sectional research design was used to investigate how geopolitical uncertainty affects the performance of firms through multiple mediating variables. The research question suggested the use of a cross-sectional research design since the goal of the research was to understand how managers evaluated their companies' geopolitically driven exposure, operational resilience, investor confidence, currency volatility, and performance within a time of uncertainty. It is worth noting that the cross-sectional design did not suggest causal relationships but rather tested statistical links between the concepts measured at one point in time. Partial Least Squares Structural Equation Modelling (PLS-SEM), a method implemented in SmartPLS 4.0, was selected due to the complexity of the model proposed and the presence of latent constructs and mediating mechanisms. According to previous studies, PLS-SEM is suitable for use in theories-based modeling and variance-explanation models where the data might violate the assumptions of multivariate normal distribution. The use of PLS-SEM was appropriate for this study since it is commonly applied in survey research, especially for emerging markets, as it performs well with relatively small sample sizes, while allowing to estimate the structural model together with construct reliability and validity.

The study makes use of perceptual measures of geopolitical risk exposure, currency volatility, and firm financial performance, which was intentional. Even though US-China

trade war risks, South China Sea issues, regional political instability, and currency volatility are all observable factors in themselves, their implications differ from company to company. While macro measures are able to objectively quantify the geopolitical risks, the extent of exposure of individual companies to any of those threats is beyond their scope. In other words, objective measures cannot account for the firm's vulnerability with respect to a particular trade route, extent of import-export exposure, foreign currency invoicing, hedges, concentration of suppliers, and foreign investors. Therefore, perceptual measures were adopted to capture heterogeneous firm-level exposure and managerial assessments of how geopolitical events translate into operational, financial, and strategic vulnerabilities.

All constructs were operationalised as reflective latent variables and measured through multi-item scales on a 5-point Likert scale varying from 1 (Strongly disagree) to 5 (Strongly agree). The items related to the US-China trade war tapped into perceived pressure to pay tariffs, sourcing disruption, cost uncertainty, and trade policy uncertainty. South China Sea tensions were measured in terms of perceived maritime routing risks, logistics disruptions, insurance and transport costs, and security risks. Political instability items reflected perceptions of policy continuity, regulatory predictability, institutions' trustworthiness, and security conditions. Resilience items included supplier diversification, capacity for re-routing, fast recovery capability, and visibility of relevant information. Items measuring currency volatilities related to foreign currency exposures, pricing uncertainty, burdens of hedging, and margin sensitivity. Perceived foreign investors' willingness, external financing availability, valuation confidence, and long-term capital commitments were used to measure investment confidence. Firm performance was measured in terms of profitability, sales growth, financial stability, return on assets, competitive position, and financial strength in line with the perceptual performance approach (Dess & Robinson, 1984), since secondary firm financial data is often unreliable in these settings.

To better explain why we leaned on perceptual financial performance measures, we didn't include objective firm-level financial data. This was mainly because our sample spanned various Southeast Asian economies, many of which are home to privately owned or non-listed firms, and often lack consistent access to audited and comparable financial statements. Differences in accounting practices, disclosure requirements, currency denominations, fiscal-year reporting, and inflation also make it tough to compare secondary financial indicators across countries. Further, the primary goal of this study was to understand how managers perceive the firm-specific impacts of geopolitical risk exposure, such as pressures on profitability, financial stability, return expectations, and competitive financial strength. This exposure can differ widely among firms based on factors like import-export intensity, foreign-currency invoicing, hedging strategies, supplier concentration, reliance on foreign investors, and access to external financing. For these reasons, we found perceptual measures to be a fitting choice for gauging firm-level vulnerability and how managers interpret financial performance amid geopolitical uncertainty. That said, we recognize this approach has its limitations, and we encourage future research to validate these insights using objective accounting data, archival financial indicators, or matched survey-financial datasets.

The survey tool was crafted using insights from established research on political risk, supply chain resilience, international finance, and firm performance, all while keeping the unique context of Southeast Asia in mind. To ensure its content validity, we had three international business scholars, and two experienced practitioners review it. We also conducted a pretest with 35 managers to evaluate how clear and relevant the items were, as well as their effectiveness as performance measures. Based on the feedback from participants, we made some minor tweaks to the wording of the items, but we made sure to keep

the core meanings of the constructs intact. Importantly, we didn't remove any items just to improve statistical fit; instead, we kept them based on the PLS-SEM loading criteria..

The sample comprises mid- to large-sized firms operating in geopolitically vulnerable industries across Southeast Asian countries, including Indonesia, Malaysia, Singapore, Thailand, Vietnam and the Philippines. These firms were purposively selected based on their exposure to international trade, supply chain disruptions, and geopolitical uncertainties. Respondents were identified through professional networks and business directories to ensure alignment with the research context. The criteria for inclusion required that firms engage in some form of cross-border activity involving importing and exporting, partake in international supply chain activities, use imported inputs, utilize exports markets, or be otherwise exposed to foreign investment or foreign-currency transactions. The individual chosen as the respondent needed to hold a managerial position where he or she would have sufficient insight into their firm's international operations, including supply chain activities, financing, and/or strategic planning.

A total of 420 surveys were distributed between March and June 2025. We received 312 responses in total. Incomplete responses, straight-line answers, failed attention checks, and internally inconsistent responses were excluded from the received data. Following the data screening process, 308 valid responses remained, resulting in a final valid response rate of 73.10% of the distributed surveys. The final dataset comprised 308 firms from Southeast Asian countries, including Indonesia (85 firms), Malaysia (55 firms), Singapore (48 firms), Thailand (44 firms), Vietnam (38 firms), and the Philippines (38 firms). Regarding industry representation, the sample included manufacturing (41.23%), services (18.18%), trading/import-export (15.26%), technology/IT (14.94%), and finance/banking (10.39%). In terms of organizational size, the distribution was as follows: 1–50 employees (26.30%), 51–200 employees (50.65%), 201–500 employees (20.45%), and more than 500 employees (2.60%). The positions within the organizations were Senior Manager (30.84%), Middle Manager (21.10%), Analyst/Specialist (18.18%), CEO/Director (16.88%), and Owner/Founder (12.99%). Regarding years of work experience, the distribution was > 20 years (47.73%), 11–20 years (34.09%), 5–10 years (17.86%), and less than 5 years (0.65%).

To mitigate potential common method bias, several procedural steps were implemented. These included ensuring respondent anonymity, clarifying that there were no right or wrong answers, using neutral language in the questionnaire items, and separating predictor and outcome variables. Despite these precautions, Harman's single-factor test showed that the first unrotated factor explained 58.296% of the total variance, surpassing the commonly accepted 50% threshold. This suggests the possible presence of common method bias. Consequently, even with these procedural measures, the results should be interpreted with caution..

Although firm-specific and country-level characteristics may influence corporate financial performance, these variables were not statistically incorporated as control variables in the PLS-SEM structural model. Firm size, industry sector, export dependence, foreign ownership exposure, leverage, and country location were considered important contextual characteristics of the sample, but the primary analytical focus of this study was the theoretically specified mediation mechanism linking geopolitical instability, supply chain resilience, currency volatility, foreign investment confidence, and corporate financial performance. Therefore, the findings should be interpreted as theoretically grounded associations rather than definitive causal effects. The absence of a full control-variable specification is acknowledged as a limitation and provides an important direction for future research.

In the research design, both firm- and country-level characteristics were initially considered but were ultimately excluded as control variables from the final structural model. This choice was made to prioritize theoretical simplicity and concentrate on the proposed

mediation framework that connects geopolitical risk with corporate financial performance. Although this decision enhances the model's clarity and ease of interpretation, omitting control variables might affect the model's robustness. Future research should include these variables for further validation.

To analyze the survey data, a two-stage partial least squares structural equation modeling approach was employed. Specifically, measurement model analysis involved the assessment of outer loadings, Cronbach's Alpha, Composite Reliability, Average Variance Extracted (AVE), Fornell–Larcker Criterion, and Heterotrait-Monotrait Ratio. On the other hand, the structural model was analyzed using path coefficients, t-statistics, p-values, Coefficients of Determination (R^2), Effect Sizes (f^2), Predictive Relevance (Q^2), and Specific Indirect Effects. Bootstrapping with 5,000 replications was employed to determine the significance of relationships and mediation effects.

4. Results and Discussion

4.1 Measurement Model Evaluation

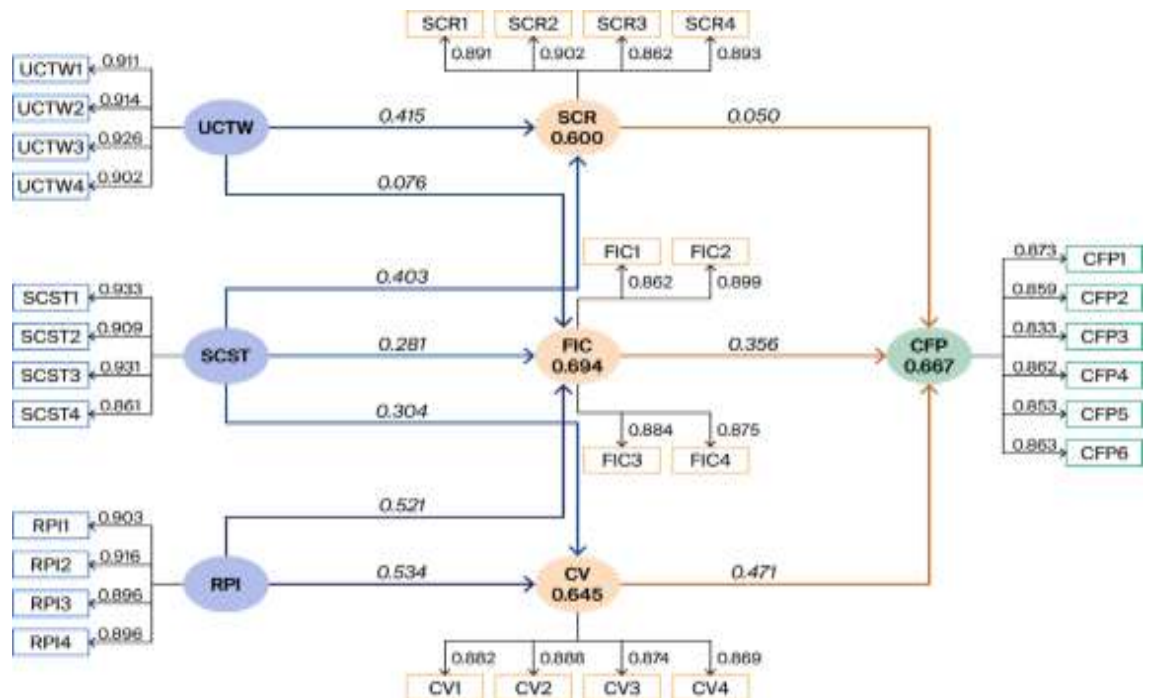


Figure 2. Measurement Model Results Showing Outer Loadings, Reliability, and Validity Indicators.

4.2 Measurement Model Outer loadings

Table 1. Measurement Model Results: Outer Loadings.

Construct	Outer loadings
CFP1 <- CFP	0,873
CFP2 <- CFP	0,859
CFP3 <- CFP	0,833
CFP4 <- CFP	0,862
CFP5 <- CFP	0,853
CFP6 <- CFP	0,863
CV1 <- CV	0,882
CV2 <- CV	0,888
CV3 <- CV	0,874

CV4 <- CV	0,869
FIC1 <- FIC	0,862
FIC2 <- FIC	0,899
FIC3 <- FIC	0,884
FIC4 <- FIC	0,875
RPI1 <- RPI	0,903
RPI2 <- RPI	0,916
RPI3 <- RPI	0,896
RPI4 <- RPI	0,896
SCR1 <- SCR	0,891
SCR2 <- SCR	0,902
SCR3 <- SCR	0,862
SCR4 <- SCR	0,893
SCST1 <- SCST	0,933
SCST2 <- SCST	0,909
SCST3 <- SCST	0,931
SCST4 <- SCST	0,861
UCTW1 <- UCTW	0,911
UCTW2 <- UCTW	0,914
UCTW3 <- UCTW	0,926
UCTW4 <- UCTW	0,902

4.3 Construct Reliability and Validity

Table 2. Construct Reliability and Convergent Validity Results.

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
CFP	0,928	0,928	0,943	0,735
CV	0,901	0,901	0,931	0,771
FIC	0,903	0,903	0,932	0,775
RPI	0,924	0,924	0,946	0,815
SCR	0,909	0,910	0,936	0,787
SCST	0,929	0,930	0,950	0,826
UCTW	0,934	0,934	0,953	0,834

4.4 Discriminant validity

4.4.1 Fornell-Larcker Criterion

	CFP	CV	FIC	RPI	SCR	SCST	UCTW
CFP	0,857						
CV	0,783	0,878					
FIC	0,760	0,791	0,880				
RPI	0,732	0,784	0,813	0,903			
SCR	0,566	0,607	0,646	0,755	0,887		
SCST	0,716	0,744	0,770	0,823	0,732	0,909	
UCTW	0,594	0,683	0,718	0,806	0,735	0,793	0,913

4.4.2 Heterotrait-Monotrait Ratio (HTMT)

Table 4. Discriminant Validity Results: Heterotrait-Monotrait Ratio (HTMT).

Construct	Ratio HTMT
CV <-> CFP	0,855
FIC <-> CFP	0,830
FIC <-> CV	0,877
RPI <-> CFP	0,791
RPI <-> CV	0,859
RPI <-> FIC	0,890
SCR <-> CFP	0,615
SCR <-> CV	0,670
SCR <-> FIC	0,712
SCR <-> RPI	0,822
SCST <-> CFP	0,771
SCST <-> CV	0,812
SCST <-> FIC	0,840
SCST <-> RPI	0,887
SCST <-> SCR	0,796
UCTW <-> CFP	0,638
UCTW <-> CV	0,744
UCTW <-> FIC	0,782
UCTW <-> RPI	0,867
UCTW <-> SCR	0,797
UCTW <-> SCST	0,851

4.5 Measurement Model Evaluation and Method Bias Diagnostics

The analysis of the measurement model was performed through SmartPLS outputs concerning the indicators' reliability, construct reliability, convergent validity, discriminant validity, and method bias diagnostics. As can be seen in Table 1, all outer loadings are above the required minimum level of 0.70. Values vary between 0.833 (CFP3) and 0.933 (SCST1). This indicates a strong association between the indicators and the constructs they are expected to measure. It is worth noting that such high values do not suggest the absence of all measurement problems in this model. They, however, can be considered proof of item coherence within reflective constructs.

Table 2 illustrates the presence of internal consistency in the model. Cronbach's alpha values vary from 0.901 (CV) to 0.934 (UCTW). Composite reliability is above the 0.70 threshold. Similarly, AVE varies between 0.735 (CFP) and 0.834 (UCTW). All these indices provide evidence of convergent validity as each of the constructs explains more than half of the variance in the indicators' scores. The robustness of these indices is explained by the fact that the items have been adapted to a narrow context of geopolitical risk and responses inconsistent or incomplete responses have been removed.

It has been possible to prove discriminant validity according to two criteria. First, the square roots of AVE values of the constructs are higher than their correlation with other constructs. This means that each construct shares more variance with its own indicators than with other constructs. Second, HTMT values vary between 0.615 and 0.890 and remain below the 0.90 conservative cut-off point. The RPI-FIC value approaches this point. While being theoretically explainable in a sample of emerging markets, political instability and investors' confidence are empirically distinct.

To assess common method bias, Harman's single-factor test was performed. The first unrotated factor explained 58.296% of the total variance, slightly exceeding the conventional 50% threshold (see Table EC1). However, because Harman's test is only a preliminary assessment, the results were complemented by an examination of the inner-model

VIF values. As all VIF values were below the recommended threshold of 3.3 (see Table EC2), common method bias is unlikely to have materially affected the study's findings.

4.5.1 Structural Model Evaluation

R² Values

Table 5. Coefficient of Determination (R² and Adjusted R²) for Endogenous Constructs.

	R-square	R-square adjusted
CFP	0,667	0,664
CV	0,645	0,643
FIC	0,694	0,691
SCR	0,600	0,598

Effect Size (f²)

Table 6. Effect Size (f²) of Exogenous Variables on Endogenous Constructs.

	f-square
CV -> CFP	0,239
FIC -> CFP	0,126
RPI -> CV	0,259
RPI -> FIC	0,230
SCR -> CFP	0,004
SCST -> CV	0,084
SCST -> FIC	0,071
SCST -> SCR	0,151
UCTW -> FIC	0,006
UCTW -> SCR	0,160

Q² Prediction Metrics

Table 7. Predictive Relevance (Q²) and Prediction Metrics (RMSE and MAE).

	Q²predict	RMSE	MAE
CFP	0,567	0,665	0,540
CV	0,644	0,607	0,470
FIC	0,690	0,565	0,452
SCR	0,592	0,648	0,473

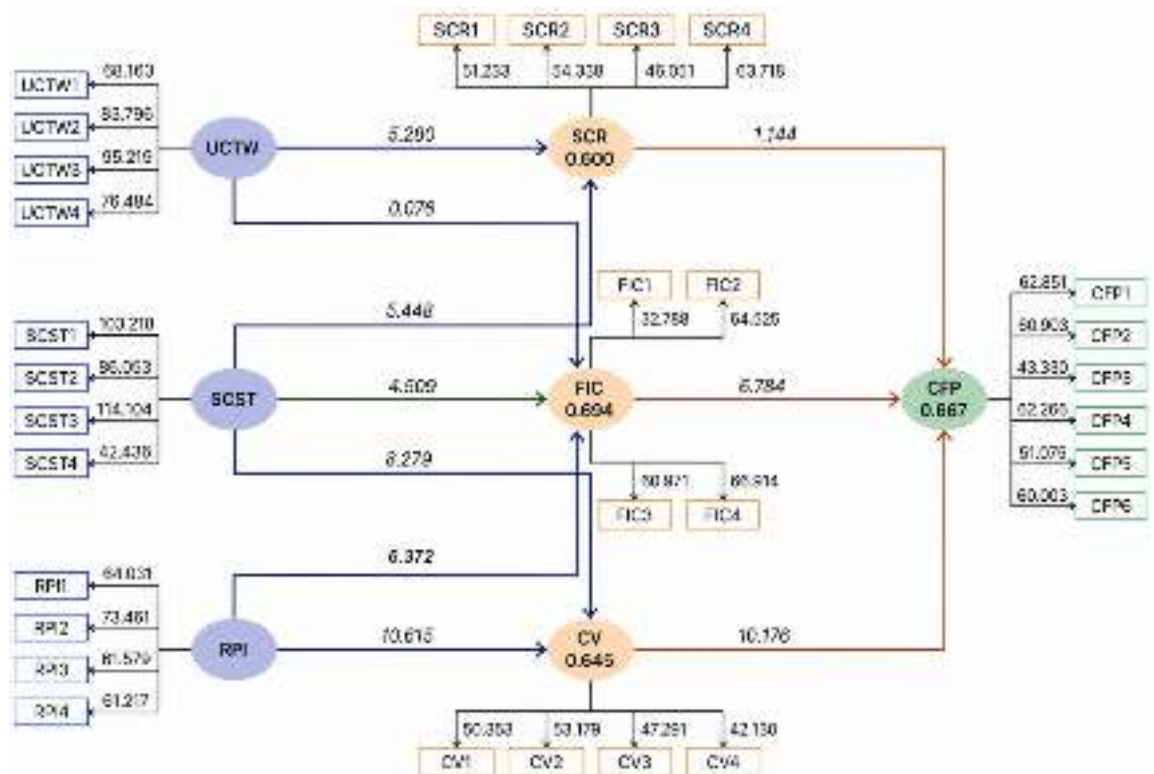


Figure 3. Structural Model Results Showing Path Coefficients, R^2 , and Effect Sizes.

4.5.2 Path Coefficient

Table 8. Structural Model Path Coefficients and Hypothesis Testing

Hypothesis	Path Relationship	Original Sample (β)	T Statistics	P Values	Decision
H1	UCTW $\rightarrow$ SCR	0.415	5.280	0.000	Supported
H2	UCTW $\rightarrow$ FIC	0.076	1.302	0.193	Not Supported
H3	SCST $\rightarrow$ SCR	0.403	5.448	0.000	Supported
H4	SCST $\rightarrow$ FIC	0.281	4.509	0.000	Supported
H5	SCST $\rightarrow$ CV	0.304	6.372	0.000	Supported
H6	RPI $\rightarrow$ FIC	0.521	8.279	0.000	Supported
H7	RPI $\rightarrow$ CV	0.534	10.615	0.000	Supported
H8	SCR $\rightarrow$ CFP	0.050	1.144	0.253	Not Supported
H9	CV $\rightarrow$ CFP	0.471	10.176	0.000	Supported
H10	FIC $\rightarrow$ CFP	0.356	6.784	0.000	Supported

4.5.3 Specific Indirect Effects

Table 9. Specific Indirect Effects in the Structural Model.

Hypothesized Indirect Path	Original Sample (β)	T Statistics	P Value	Decision
RPI $\rightarrow$ FIC $\rightarrow$ CFP	0.185	5.160	0.000	Supported
SCST $\rightarrow$ SCR $\rightarrow$ CFP	0.020	1.067	0.286	Not Supported
RPI $\rightarrow$ CV $\rightarrow$ CFP	0.251	6.899	0.000	Supported
UCTW $\rightarrow$ SCR $\rightarrow$ CFP	0.021	1.144	0.253	Not Supported

Hypothesized Indirect Path	Original Sample (β)	T Statistics	P Value	Decision
SCST $\rightarrow$ FIC $\rightarrow$ CFP	0.100	3.614	0.000	Supported
SCST $\rightarrow$ CV $\rightarrow$ CFP	0.143	5.478	0.000	Supported
UCTW $\rightarrow$ FIC $\rightarrow$ CFP	0.027	1.269	0.204	Not Supported

The mediation analysis provides partial support for the proposed indirect relationships. Significant indirect effects were observed through foreign investment confidence and currency volatility, indicating that these financial mechanisms play a central role in transmitting the effects of regional political instability and South China Sea tensions to corporate financial performance. In contrast, the indirect effects through supply chain resilience were not statistically significant, and foreign investment confidence did not mediate the relationship between the US–China trade war and corporate financial performance. Overall, the findings suggest that geopolitical risks influence corporate financial performance primarily through financial channels rather than operational resilience, providing evidence of partial mediation.

4.6 Structural Model Evaluation: An Advanced Analysis

It emerges that the structural model has quite a high level of explanatory power regarding firm-level outcomes in the context of geopolitical instability. The value of the coefficient of determination regarding corporate financial performance is 0.667 (adjusted $R^2=0.664$), showing that the proposed mediating variables account for roughly two thirds of the variation in perceived financial performance. The model additionally shows an ability to explain a large portion of variance in foreign investment confidence ($R^2=0.694$) and currency volatility ($R^2=0.645$), and a moderate one in supply chain resilience ($R^2=0.600$).

The path coefficients indicate that financial factors are more relevant compared to the direct operational resilience factor. Corporate financial performance is positively associated with currency volatility ($\beta = 0.471$, $t = 10.176$, $p < 0.001$), and negatively with foreign investment confidence ($\beta = 0.356$, $t = 6.784$, $p < 0.001$). In other words, this analysis indicates that the theoretical argument of the project, according to which geopolitical instability is being transmitted into corporate financial performance via financial channels such as exchange rate vulnerability, funding difficulties, and others, is valid.

However, caution must be exercised when interpreting the results regarding currency volatility. According to conventional international finance theory, currency volatility is typically associated with poor financial performance as it creates additional transaction costs, uncertainty, and the need for hedging. Therefore, the positive correlation between the two variables in this case does not imply that currency volatility has a beneficial impact on firm-performance. A possible explanation may be the fact that corporations experiencing high currency volatility levels usually tend to operate in international markets and conduct foreign trade operations, implying greater sensitivity to currency movements as well as the ability to collect foreign currency income and hedge.

Regional political instability emerged as the most important antecedent of both currency volatility ($\beta = 0.534$, $t = 10.615$, $p < 0.001$) and foreign investment confidence ($\beta = 0.521$, $t = 8.279$, $p < 0.001$). These results confirm that political instability is fast internalised through capital market expectations and foreign exchange dynamics. This result supports institutional theory since the latter assumes that investors and foreign exchanges would quickly sense the implications of uncertainties in governance, security, and policy continuation. Additionally, South China Sea tensions emerged as another factor that significantly influences all three dependent variables (supply chain resilience, currency volatility, and foreign investment confidence), proving that geopolitical risks in maritime zones cannot be confined to logistics problems.

The lack of significant association between supply chain resilience and corporate financial performance ($\beta = 0.050$, $p = 0.253$) presents an interesting theory implication. While operational resilience can indeed provide protection against disruptions in production processes, its immediate financial benefit may not materialise immediately in a cross-sectional setting. For example, resilience measures that include supplier diversification, inventory stockpiling, alternative routes, and digital tracking systems will likely lead to higher immediate costs. As a consequence, supply chain resilience seems to work as an adaptation strategy rather than an immediate financial risk indicator.

While the trade war between the United States and China showed a significant relationship with supply chain resilience but not foreign investment confidence, regional political instability and South China Sea tensions were positively related to financial risk. Specifically, geopolitical risk is interpreted as having a greater impact on foreign investment confidence and currency volatility than being directly related to supply chain issues. Investors seem to incorporate these factors in the assessment of risk when making investment decisions and thus show a quick response to regional geopolitics.

Mediation analysis results support the interpretation of the results. There is statistical evidence for indirect associations for both regional political instability and South China Sea tensions through currency volatility and foreign investment confidence. On the other hand, mediation via supply chain resilience was not found to be statistically significant. Such a pattern implies that geopolitical risks influence firms' perceptions of financial performance via financial market dynamics and foreign investment decisions for the selected companies. Thus, the results of the study provide additional support for the hypothesis of the model.

4.7 Theoretical Contributions and Practical Implications

There are several theoretical contributions as well. First, this research contributes to the literature on geopolitical risks and political uncertainty by extending research beyond macroeconomic effects of geopolitics and considering the mechanisms through which geopolitical risks translate into firm-level effects. Specifically, results suggest that besides being directly disruptive, geopolitics impacts firms through financialization of vulnerability, where currency risks and investor confidence emerge as key channels connecting geopolitical risks to firm performance. Second, this research brings together institutional uncertainty, transaction costs, real options, behavioural finance, dynamic capabilities and international finance into one theoretical explanation. The combination explains the necessity to consider operational, financial and institutional channels simultaneously, and not separately.

Third, with respect to emerging markets, the study reveals boundary conditions under which financial channels dominate operational resilience channels in terms of firm performance. Indeed, in emerging Asian countries, firms are financially dependent on foreign investors, use inputs from abroad, sell products internationally, and do not have adequate infrastructure for hedges against risks. Hence, exchange rate fluctuations and confidence become particularly important. Moreover, a non-significant direct impact of supply chain resilience extends resilience literature suggesting that resilience could be treated as a protective capability that pays off only through financial measures in the long run rather than at a cross-sectional point in time. The non-significant relationship between supply chain resilience and firm performance also provides an important theoretical insight. Contrary to the assumption that resilience immediately improves performance outcomes, the findings suggest that resilience may function as a protective organizational capability that reduces vulnerability rather than directly generating short-term financial gains. From a dynamic capabilities perspective, resilience investments may require time to transform

into measurable performance improvements, particularly under conditions of ongoing
geopo-litical uncertainty.

Practically, there are several lessons from the analysis. Specifically, firms should ad-
dress geopolitical risk not as solely an operational issue. Instead, they require integrated
risk management, including supplier diversity, managing currency risk, ensuring finan-
cial liquidity, managing investor expectations and scenario-based strategic management.
From the finance department perspective, it would be critical to keep track of exposure to
foreign currencies, manage hedging where possible, and analyse cash flows, margins and
funding conditions based on geopolitical events. Supply chain departments need to pur-
sue resilience management as well, however, it would be beneficial to measure its financial
consequences, so that resilience does not remain a burden for the company.

With respect to policymakers, the results imply that creating favourable institutional
environment, ensuring regulation consistency, fostering diplomatic cooperation among
countries in the region and making financial risk management tools available are essential.
Specifically, lowering risk premium could be achieved through reduction of uncertainties
in customs clearance, investment conditions, maritime security and foreign currency mar-
kets. Finally, regional cooperation is critical in Southeast Asia, as firms tend to operate
across the border and, thus, are equally exposed to trade wars, maritime risks, and politi-
cal instability in their own country.

5. Limitations and Future Research

Several limitations offer potential avenues for future research. First, the cross-sec-
tional nature of the research reduces the possibility of making any claims related to cau-
sality. The presented results can be considered only as evidence for theoretically
grounded associations, not as evidence of temporally-causal relationships. In future, there
is an opportunity to investigate the effects of prolonged geopolitical shocks on firms' ad-
aptation process and delayed financial gains resulting from resilience investments using
longitudinal datasets.

Second, this study relies on managers' perceptual assessments, which may not fully
capture objective conditions. Future research should complement survey data with objec-
tive indicators, such as exchange rate volatility, trade disruptions, foreign direct invest-
ment inflows, firm-level financial statements, and country-level political risk measures, to
enhance the robustness of the findings.

Third, the use of single-source, cross-sectional survey data may introduce common
method bias. Although Harman's single-factor test suggested a potential concern, future
studies should employ more rigorous procedural and statistical remedies, including
multi-source data, temporal separation, marker variables, or longitudinal research de-
signs.

Fourth, this study did not incorporate a comprehensive set of firm- and country-level
control variables. Future research should include factors such as firm size, industry, own-
ership structure, leverage, export intensity, and institutional environment, while adopting
multi-group or longitudinal designs to examine the generalizability of the proposed rela-
tionships across different contexts.

Finally, the present research is restricted to a sample of Southeast Asian economies
and industries that have high exposure to geopolitical risks. Results may not apply to
small firms, purely domestic companies, or countries having more developed financial
system and institutions. Future research would benefit from investigating the role of fi-
nancial transmission mechanisms among firms operating in emerging and advanced
economies.

6. Conclusion

The study aimed at establishing the connection between geopolitical instabilities and the financial performance of corporations in emerging Asia through supply chain resilience, foreign investment confidence, and currency volatility. From the findings obtained, financial market channels seem to significantly explain firm vulnerability due to geopolitical risks. Currency volatility and investor confidence were found to be significant correlates with financial performance compared to supply chain resilience, implying that geopolitical risk influences firm performance indirectly through currency risk, financial-market expectations, and investor confidence channels.

The study has shown that geopolitical risks influence firms differently. Regional instabilities and South China Sea geopolitical risk appear to influence financial and investor confidence channels while the US-China trade war risk is correlated to supply chain resilience responses. Supply chain resilience does not significantly impact the financial performance of firms indicating that resilience may protect firm continuity without increasing financial performance. This shows the significance of resilience in terms of its long-term nature and not necessarily financial benefits in the short run.

In conclusion, the study develops a multi-channel risk model that enables firms to establish ways to counter risks through financial and investment confidence and operational resilience. The results offer strategic implications to managers who need to coordinate operational resilience with currency risk management and investor communication strategies. Furthermore, there are policy recommendations indicating that geopolitical risk impacts corporate sustainability positively in a country with predictable regulations and institutional stability, and regional economic cooperation. Due to its cross-sectional nature, the results may not be conclusive and need to be tested further using longitudinal archival data.

Authors' Contributions: Sugeng Suroso : Conceptualization, Formal analysis, Methodology, Supervision, Validation, Writing – review & editing; Sri Wulandari : Methodology, Data curation, Writing – review & editing. Chajar Matari Fath Mala: Conceptualization, Data curation, Investigation, Validation, Visualization, Writing – review & editing. .

Funding: This research received no external funding.

Institutional Review Board Statement: Not applicable.

Informed Consent Statement: Not applicable.

Data Availability Statement: The data and research materials supporting this study are available from the corresponding author upon reasonable request.

Conflicts of Interest: The author declares no conflicts of interest, and there has been no significant financial support for this work that could have influenced its outcome.

AI declaration: Paperpal was used solely to improve the language, grammar, readability, and paraphrasing of the manuscript, and the authors take full responsibility for its content.

References

- Abbassi, W., Kumari, V., & Pandey, D. K. (2022). What makes firms vulnerable to the Russia–Ukraine crisis? *The Journal of Risk Finance*, 24(1), 24–39. <https://doi.org/10.1108/jrf-05-2022-0108>
- Abdulsalam, S. A., & Onipede, S. F. (2023). Economic policy uncertainty and the ECOWAS exchange rate mechanism. *Scientific African*, 21, e01844. <https://doi.org/10.1016/j.sciaf.2023.e01844>
- Adeosun, O. A., Anagreh, S., Tabash, M. I., & Vo, X. V. (2024). Return and volatility transmission among economic policy uncertainty, geopolitical risk and precious metals. *Studies in Economics and Finance*, 41(5), 1057–1084. <https://doi.org/10.1108/sef-10-2023-0586>
- Agoraki, M.-E. K., Wu, H., Xu, T., & Yang, M. (2024). Money never sleeps: Capital flows under global risk and uncertainty. *Journal of International Money and Finance*, 141, 103013. <https://doi.org/10.1016/j.jimonfin.2023.103013>
- Aliu, F., Hašková, S., & Bajra, U. Q. (2022). Consequences of Russian invasion on Ukraine: evidence from foreign exchange rates. *The Journal of Risk Finance*, 24(1), 40–58. <https://doi.org/10.1108/jrf-05-2022-0127>
- Akram, Q. F. (2020). Oil price drivers, geopolitical uncertainty and oil exporters' currencies. *Energy Economics*, 89, 104801. <https://doi.org/10.1016/j.eneco.2020.104801>
- Akarsu, M. Z., & Gharehgozli, O. (2023). The impact of the Russia-Ukraine War on European Union currencies: a high-frequency analysis. *Policy Studies*, 45(3–4), 353–376. <https://doi.org/10.1080/01442872.2023.2268543>
- Altiner, a., & Bozkurt, e. (2023). Reflections of Geopolitical Risk on Foreign Direct Investments: The Case of Türkiye. *İnsan ve Toplum Bilimleri Araştırmaları Dergisi*, 12(3), 1292–1309. <https://doi.org/10.15869/itobiad.1271884>
- Athukorala, P., & Menon, J. (2015). Global production sharing, trade patterns and determinants of trade flows: the role of East Asia. In *Handbook on Trade and Development*. Edward Elgar Publishing. <https://doi.org/10.4337/9781781005316.00027>
- Aminaho, F. (2025). The impact of exchange rate volatility on firm performance: Evidence from Nigerian Exchange (NGX) Group and London Stock Exchange (LSE) Group. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.5364657>
- Asad, M., Tabash, M. I., Sheikh, U. A., Al-Muhanadi, M. M., & Ahmad, Z. (2020). Gold-oil-exchange rate volatility, Bombay stock exchange and global financial contagion 2008: Application of NARDL model with dynamic multipliers for evidences beyond symmetry. *Cogent Business & Management*, 7(1), 1849889. <https://doi.org/10.1080/23311975.2020.1849889>
- Athukorala, P., & Wei, Z. (2017). Economic Transition and Labour Market Dynamics In China: An Interpretative Survey Of The 'Turning Point' Debate. *Journal of Economic Surveys*, 32(2), 420–439. <https://doi.org/10.1111/joes.12206>
- Bajaj, n. K., Aziz, t., Kumari, s., Alenezi, m., & Mathkur, n. M. (2023). The Impact of Geopolitical Risk on Financial Conditions of Emerging Economies. *The Journal of Asian Finance, Economics and Business*, 10(1), 133–143. <https://doi.org/10.13106/JAFEB.2023.VOL10.NO1.0133>
- Bentivogli, C., & Mirenda, L. (2016). *Foreign ownership and performance: Evidence from a panel of Italian firms* (Bank of Italy Temi di Discussione (Working Paper) No. 1085). Bank of Italy. <https://doi.org/10.2139/ssrn.2914251>
- Bitar, N., Hamadeh, M., & Khoueiri, R. (2019). Impact of political instability on foreign direct investment in Lebanon. *Asian Social Science*, 16(1), 41. <https://doi.org/10.5539/ass.v16n1p4>
- Blessley, M., & Mudambi, S. M. (2022). A trade war and a pandemic: Disruption and resilience in the food bank supply chain. *Industrial Marketing Management*, 102, 58–73. <https://doi.org/10.1016/j.indmarman.2022.01.002>
- Bown, C. P. (2021). The US–China trade war and Phase One agreement. *Journal of Policy Modeling*, 43(4), 805–843. <https://doi.org/10.1016/j.jpolmod.2021.02.009>
- Bris, A., Koskinen, Y., & Pons, V. (2004). Corporate financial policies and performance around currency crises. *The Journal of Business*, 77(4), 749–796. <https://doi.org/10.1086/422438>
- Caldara, D., & Iacoviello, M. (2022). Measuring Geopolitical Risk. *American Economic Review*, 112(4), 1194–1225. <https://doi.org/10.1257/aer.20191823>
- Coşkun, A. E., & Erturgut, R. (2024). How Do Uncertainties Affect Supply-Chain Resilience? The Moderating Role of Information Sharing for Sustainable Supply-Chain Management. *Sustainability*, 16(1), 131. <https://doi.org/10.3390/su16010131>
- Cui, C., & Li, L. S.-Z. (2023). Trade policy uncertainty and new firm entry: Evidence from China. *Journal of Development Economics*, 163, 103093. <https://doi.org/10.1016/j.jdevco.2023.103093>
- Dixit, A. K., & Pindyck, R. S. (1994). *Investment under Uncertainty*. Princeton University Press. <https://doi.org/10.2307/j.ctt7sncv>
- Dong, L., Hidhiir, M. H. B., & Mansur, M. B. (2025). Economic Policy Uncertainty and China's FDI Inflows: Moderating Effects of Financial Development and Political Stability. *Journal of Risk and Financial Management*, 18(7), 354. <https://doi.org/10.3390/jrfm18070354>
- Dess, G. G., & Robinson, R. B., Jr. (1984). Measuring organisational performance in the absence of objective measures: The case of the privately held firm and conglomerate business unit. *Strategic Management Journal*, 5(3), 265–273. <https://doi.org/10.1002/smj.4250050306>
- Durnev, A., Mangen, C. (2020). The spillover effects of MD&A disclosures for real investments: The role of industry competition. *Journal of Accounting and Economics*, 70(2–3), 201–219. <https://doi.org/10.1016/j.jacceco.2015.02.002>
- Eser, F., & Wu, X. (2021). Geopolitical risk and firm investment decisions: Evidence from global firms. *Journal of International Financial Markets, Institutions and Money*, 72, 101347. <https://doi.org/10.1016/j.intfin.2021.101347>
- Evenett, S. J. (2019). Protectionism, state discrimination, and international business since the onset of the Global Financial Crisis. *Journal of International Business Policy*, 2(1), 9–36. <https://doi.org/10.1057/s42214-019-00021-0>

- Feng, C., Han, L., Vigne, S., & Xu, Y. (2023). Geopolitical risk and the dynamics of international capital flows. *Journal of International Financial Markets, Institutions and Money*, 82, 101693. <https://doi.org/10.1016/j.intfin.2022.101693>
- Feng, J., Tang, J., Qi, Z., & Liu, J. (2024). Supply Chain Finance and Innovation Investment: Based on financing constraints. *Finance Research Letters*, 63, 105349. <https://doi.org/10.1016/j.frl.2024.105349>
- Fofanah, P. (2022). Effects of exchange rate volatility on economic growth: Evidence from West Africa. *International Journal of Business and Economics Research*, 11(1), 32. <https://doi.org/10.11648/j.ijber.20221101.15>
- Gao, H., Chen, W., Li, J., & Zhou, T. (2024). Economic policy uncertainty and foreign direct investment: Evidence from China. *Structural Change and Economic Dynamics*, 70, 178–191. <https://doi.org/10.1016/j.strueco.2024.01.014>
- Gereffi, G. (2020). What does the COVID-19 pandemic teach us about global value chains? The case of medical supplies. *Journal of International Business Policy*, 3(3), 287–301. <https://doi.org/10.1057/s42214-020-00062-w>
- Ghassemi, H., & Sadr, S. M. (2022). Firm heterogeneity and responses to global uncertainty shocks. *Economic Modelling*, 116, 105995. <https://doi.org/10.1016/j.econmod.2022.105995>
- Fornell, C., & Larcker, D. F. (1981). Evaluating structural equation models with unobservable variables and measurement error. *Journal of Marketing Research*, 18(1), 39–50. <https://doi.org/10.1177/002224378101800104>
- Henisz, W. J. (2000). The Institutional Environment for Multinational Investment. *Journal of Law, Economics, & Organization*, 16(2), 334–364. <http://www.jstor.org/stable/3555095>
- Huchzermeier, A., & Stehle, H. (2025). Navigating Geopolitical Risks in Global Supply Chains: A Systematic Literature Review. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.5161777>
- Hui, H. C. (2021). The long-run effects of geopolitical risk on foreign exchange markets: Evidence from some ASEAN countries. *International Journal of Emerging Markets*, 17(6), 1543–1564. <https://doi.org/10.1108/ijoem-08-2020-1001>
- Khan, M. A. (2025). Investigating the intersection of organizational behavior, supply chain practices, economic outcomes, financial excellence and CSR for corporate identity improvement. *Measuring Business Excellence*, 29(3), 551–572. <https://doi.org/10.1108/mbe-06-2024-0083>
- Kim, T., & Han, J. M. (2024). *The impact of exchange rate fluctuations on the performance of domestic manufacturing companies* (KIET Industrial Economic Review, Vol. 29, No. 3, pp. 59-67). SSRN. <https://ssrn.com/abstract=4916912>
- Kiptoo, J. (2024). The influence of political stability on foreign direct investment (FDI). *International Journal of Developing Country Studies*, 6(1), 74–86. <https://doi.org/10.47941/ijdc.2165>
- Kock, N. (2015). Common method bias in PLS-SEM: A full collinearity assessment approach. *International Journal of e-Collaboration*, 11(4), 1–10. <https://doi.org/10.4018/ijec.2015100101>
- Kurecic, P., & Kokotovic, F. (2017). The relevance of political stability on FDI: A VAR analysis and ARDL models for selected small, developed, and instability threatened economies. *Economies*, 5(3), 22. <https://doi.org/10.3390/economies5030022>
- Liu, P. L., Lü, Z., & Yoon, S.-M. (2025). Impact of US–China tensions on the volatility, correlation, and hedging effects of gold and crude oil prices. Elsevier BV. <https://doi.org/10.2139/ssrn.5213775>
- Liu, X., & Zhang, X. (2024). Geopolitical risk and currency returns. *Journal of Banking & Finance*, 161, 107097. <https://doi.org/10.1016/j.jbankfin.2024.107097>
- Li, X., Wu, Q., Holsapple, C. W., & Goldsby, T. (2017). An empirical examination of firm financial performance along dimensions of supply chain resilience. *Management Research Review*, 40(3), 254–269. <https://doi.org/10.1108/mrr-02-2016-0030>
- Mao, H., & Görg, H. (2020). Friends like this: The impact of the US–China trade war on global value chains. *The World Economy*, 43(7), 1776–1791. <https://doi.org/10.1111/twec.12967>
- Morina, F., Hysa, E., Ergün, U., Panait, M., & Voica, M. C. (2020). The effect of exchange rate volatility on economic growth: Case of the CEE countries. *Journal of Risk and Financial Management*, 13(8), 177. <https://doi.org/10.3390/jrfm13080177>
- Musyoki, D., Pokhariyal, G. P., & Pundo, M. (2012). The impact of real exchange rate volatility on economic growth: Kenyan evidence. *Business and Economic Horizons*, 7, 59–75. <https://doi.org/10.15208/beh.2012.5>
- North, D. C. (1990). *Institutions, Institutional Change and Economic Performance*. Cambridge University Press. <https://doi.org/10.1017/cbo9780511808678>
- Pasali, S. S., & Chaudhary, A. (2020). *Assessing the impact of foreign ownership on firm performance by size: Evidence from firms in developed and developing countries*. *Transnational Corporations*, 27(2), 43–72. SSRN. <https://ssrn.com/abstract=3692334>
- Paul, P. (2025). The role of supply chain finance in enhancing financial performance: Evidence from personal and home care product industry. *Investment Management and Financial Innovations*, 22(2), 77–85. [https://doi.org/10.21511/imfi.22\(2\).2025.07](https://doi.org/10.21511/imfi.22(2).2025.07)
- Pástor, L., & Veronesi, P. (2013). Political uncertainty and risk premia. *Journal of Financial Economics*, 110(3), 520–545. <https://doi.org/10.1016/j.jfineco.2013.08.007>
- Podsakoff, P. M., MacKenzie, S. B., Lee, J.-Y., & Podsakoff, N. P. (2003). Common method biases in behavioural research: A critical review of the literature and recommended remedies. *Journal of Applied Psychology*, 88(5), 879–903. <https://doi.org/10.1037/0021-9010.88.5.879>
- Qamruzzaman, M., & Karim, S. (2024). Green energy, green innovation, and political stability led to green growth in OECD nations. *Energy Strategy Reviews*, 55, 101519. <https://doi.org/10.1016/j.esr.2024.101519>
- Saha, S., Sadeikin, M. N., & Saha, S. K. (2022). Effects of institutional quality on foreign direct investment inflow in lower-middle income countries. *Heliyon*, 8(10), e10828. <https://doi.org/10.1016/j.heliyon.2022.e10828>

- Song, Y., Hao, F., Hao, X., & Gozgor, G. (2021). Economic Policy Uncertainty, Outward Foreign Direct Investments, and Green Total Factor Productivity: Evidence from Firm-Level Data in China. *Sustainability*, 13(4), 2339. <https://doi.org/10.3390/su13042339>
- Tjandrasa, B. B. (2021). Determinants of political stability to support foreign investment in Indonesia. *Petra International Journal of Business Studies*, 4(2), 97–108. <https://doi.org/10.9744/ijbs.4.2.97-108>
- Truong, L. D., Friday, H. S., & Pham, T. D. (2024). The Effects of Geopolitical Risk on Foreign Direct Investment in a Transition Economy: Evidence from Vietnam. *Journal of Risk and Financial Management*, 17(3), 101. <https://doi.org/10.3390/jrfm17030101>.
- Wang, R., Qamruzzaman, M., & Karim, S. (2024). Unveiling the power of education, political stability and ICT in shaping technological innovation in BRI nations. *Heliyon*, 10(9), e30142. <https://doi.org/10.1016/j.heliyon.2024.e30142>.
- Williamson, O. E. (1985). *The economic institutions of capitalism: Firms, markets, relational contracting*. New York, NY: Free Press.
- Wu, W., & Shao, C. (2023). How does home and host-country policy uncertainty affect outward FDI? Firm-level evidence from China. *Economia Politica*, 40(2), 495–515. <https://doi.org/10.1007/s40888-023-00298-8>
- Yan, H., Xiao, W., Deng, Q., & Xiong, S. (2022). Analysis of the Impact of U.S. Trade Policy Uncertainty on China Based on Bayesian VAR Model. *Journal of Mathematics*, 2022(1). <https://doi.org/10.1155/2022/7124997>
- Yensu, J., Nkrumah, S. K., Amankwah, S., & Ledi, K. K. (2022). The effect of exchange rate volatility on economic growth. *Risk Governance and Control: Financial Markets and Institutions*, 12(4), 33–45. <https://doi.org/10.22495/rgcv12i4p2>
- Zhang, Y., He, J., He, M., & Li, S. (2023). Geopolitical risk and stock market volatility: A global perspective. *Finance Research Letters*, 53, 103620. <https://doi.org/10.1016/j.frl.2022.103620>
- Zhang, B., Ma, J., Khan, M. A., Repnikova, V., Shidlovskaya, K., Barykin, S., & Ahmad, M. S. (2023). The Effect of Economic Policy Uncertainty on Foreign Direct Investment in the Era of Global Value Chain: Evidence from the Asian Countries. *Sustainability*, 15(7), 6131. <https://doi.org/10.3390/su15076131>
- Zhou, Y. (2020). The US-China trade war and global value chains. *Всемирный банк (The World Bank)*.
- Zhao, N., Hong, J., & Lau, K. H. (2023). Impact of supply chain digitalization on supply chain resilience and performance: A multi-mediation model. *International Journal of Production Economics*, 259, 108817. <https://doi.org/10.1016/j.ijpe.2023.108817>
- Zheng, M., Wang, R., Ye, J., & Li, T. (2025). How does supply chain finance enhance firms' supply chain resilience? *International Review of Economics & Finance*, 102, 104231. <https://doi.org/10.1016/j.iref.2025.104231>
- Zhu, M., Miao, S., Lam, H. K. S., Liang, C., & Yeung, A. C. L. (2024). Navigating through geopolitical risk: the role of supply chain concentration. *International Journal of Operations & Production Management*, 45(5), 1032–1065. <https://doi.org/10.1108/ijopm-03-2024-0248>
- Zhu, X., & Wu, Y. J. (2022). How Does Supply Chain Resilience Affect Supply Chain Performance? The Mediating Effect of Sustainability. *Sustainability*, 14(21), 14626. <https://doi.org/10.3390/su142114626>

Reviewer 3

No.	Reviewer's Comments	Authors' Responses
1	I have read the article "Geopolitical Risk and the Financialization of Firm Vulnerability in Emerging Markets" and my main advice is to significantly improve the interest to the reader by: • providing some data on the typology of firms involved (e.g., sectors, countries, etc.); • give more insights into these firms so that readers can grasp the potential replicability of the results within other economic contexts but also in terms of the time ranges involved. I certainly think that the article is promising, but verbosity in some statements should in my opinion be reduced by improving the visual aspects (e.g., by adding some tables on the firms involved) but also by providing some descriptive statistical evidence on some of the key macroeconomic variables mentioned.	Thank you for this valuable comment. We have added comprehensive sample composition details to the Methodology section, including: The final dataset consisted of 308 firms representing Southeast Asian countries, including Indonesia (85 firms), Malaysia (55 firms), Singapore (48 firms), Thailand (44 firms), Vietnam (38 firms), and the Philippines (38 firms). Regarding industry representation, the sample included Manufacturing (41.23%), Services (18.18%), Trading/Import-Export (15.26%), Technology/IT (14.94%), and Finance/Banking (10.39%). In terms of organizational size, 1–50 employees (26.30%), 51–200 employees (50.65%), 201–500 employees (20.45%), and more than 500 employees (2.60%). Position in organisation: Senior Manager (30.84%), Middle Manager (21.10%), Analyst / Specialist (18.18%), CEO / Director (16.88%), and Owner / Founder (12.99%).

Geopolitical Risk and the Financialization of Firm Vulnerability in Emerging Markets.

Sugeng Suroso ¹, Sri Wulandari ² and Chajar Matari Fath Mala ³

^{1,2} Faculty of Economics and Business, Universitas Bhayangkara Jakarta Raya, Jakarta, Indonesia

³ Management Department, Universitas Pembangunan Jaya, South Tangerang, Indonesia

Abstract.

Geopolitical uncertainty represents a growing source of systemic risk that reshapes international markets, disrupts cross-border operations, and challenges firms' ability to sustain financial performance. This research examines the mechanisms through which geopolitical instability affects firm financial outcomes in Southeast Asian economies by assessing the mediating roles of supply chain resilience, currency volatility, and foreign investment confidence. Based on a quantitative cross-sectional design, data were collected from 308 firms across Southeast Asian Economies and analyzed using partial least squares structural equation modeling (PLS-SEM). The findings indicate that geopolitical risks significantly influence financial performance, with the strongest effects transmitted through financial channels. Currency volatility and foreign investment confidence emerge as critical mediators, demonstrating that exchange rate instability and investor risk perceptions substantially shape firm performance under geopolitical pressure. While supply chain resilience enhances firms' capacity to adapt to external disruptions, its direct contribution to financial performance remains insignificant. The model explains 66.7% of the variance in financial performance, reflecting strong explanatory capability. These findings extend existing knowledge by integrating financial, operational, and institutional mechanisms to clarify how geopolitical disruptions propagate into firm-level outcomes. The results underscore the importance of financial preparedness, institutional effectiveness, governance quality, and adaptive capabilities in managing geopolitical uncertainty.

Keywords: Geopolitical Risk; Corporate Financial Performance; Supply Chain Resilience; Currency Volatility; Foreign Investment Confidence;

JEL Classifications: F51, F23, G32, L25, M16, O53

1. Introduction

Geopolitical shocks are no longer an external event separate from the business world but rather inherent to global operations. Increasing volumes of trade disputes, conflicts in sea lanes, sanctions and political uncertainty are impacting businesses at all levels, affecting their production costs, access to capital, investor attitudes and expectations of future exchange rate developments (Caldara & Iacoviello, 2022; Bajaj et al., 2023). Although there is already literature on the impacts of geopolitical risks on growth, trade, market prices and overall investments, the factors contributing to heterogeneity in firms' responses to such risks remain understudied. In spite of exposure to identical events, firms typically vary significantly in their outcomes due to differing levels of dependence on the supply chain, foreign currency risk exposure, capacity to access external financing, ability to discern and appropriately react to the relevant event (Durnev & Mangen, 2020; Eser & Wu, 2021; Ghassemi & Sadr, 2022). However, existing geopolitical risk literature has largely treated firms as homogeneous entities, providing limited explanation of how internal organizational capabilities and financial exposure determine the magnitude of geopolitical shocks on corporate outcomes. Understanding these firm-level transmission mechanisms

is essential because the same geopolitical event may create different consequences depending on firms' strategic resources and vulnerability profiles.

This research extends the literature by analyzing geopolitical risk as a micro level transmission mechanism rather than solely as a macroeconomic phenomenon. The sample selection of emerging southeast Asian economies is both empirically and theoretically relevant since Asian firms are the most vulnerable to geopolitical shock as they are strongly dependent on export-oriented value chains, capital flow and have an operating environment shaped by credibility concerns and stability issues surrounding the local currency (Athukorala & Wei, 2017)). In the analysis three types of geopolitical risk are included, namely the US-China trade war, conflict in the South China Sea and regional political uncertainty, all affecting firms' performance through different channels which may be offsetting or complementary. These channels suggest that geopolitical risks do not directly influence firm performance alone but operate through intermediate mechanisms that shape firms' ability to absorb, transfer, and respond to external uncertainty

The inclusion of three specific types of geopolitical risks and their various transmission channels contributes to the literature on the economy-wide impacts of geopolitical risks. While most studies focused on evaluating the impact of geopolitical risks on corporate investment, exchange rate volatility, supply chain disruptions or market turbulence separately (Zhang et al., 2023; Liu & Zhang, 2024), limited attempts have been made to provide a theoretically comprehensive explanation of the relationship between geopolitical risk and corporate financial performance in emerging economies and pinpoint the relative importance of these channels. Our research has attempted to bridge this gap with analysis of a multi-mediator framework where the relative importance of supply chain resilience, currency volatility and foreign investment confidence contribute to the financialization of risk exposures. Accordingly, this research contributes to the literature in three ways. First, it shifts the discussion of geopolitical risk from a macroeconomic perspective toward a firm-level risk transmission framework. Second, it integrates supply chain resilience, currency volatility, and foreign investment confidence as interconnected mechanisms explaining corporate responses to geopolitical uncertainty. Third, by focusing on emerging Southeast Asian economies, this study provides evidence from a region where geopolitical exposure and global economic integration are particularly pronounced.

2. Literature Review, Theoretical Foundation, and Hypothesis Development

The theoretical background for this research encompasses the following theories: institutional uncertainty theory, transaction cost economics, real options theory, behavioral finance, dynamic capabilities theory and international finance theory. The institutional uncertainty theory demonstrates how instabilities, reversals and lack of institutional credibility contribute to the escalation of coordination costs across borders (North, 1990; Henisz, 2000). Transaction cost economics builds on this idea by considering geopolitical stability in relation to higher monitoring, contracting, routing and enforcement costs within supply chains. The real options theory suggests that foreign investments are delayed or pulled back due to increased levels of uncertainty, whereas behavioral finance offers a deeper understanding of the connection between political and security risks and investor confidence (Pástor & Veronesi, 2013). Dynamic capabilities theory provides the theoretical basis for the idea of resilience as an organizational capability used to cope with disruptions, and international finance theory emphasizes the importance of currency fluctuations as financial mechanisms in response to geopolitical shocks.

2.1. Geopolitical Trade Conflicts and Supply Chain Resilience

One involved framework is that of Institutional Uncertainty Theory, which serves as an excellent point of departure in examining how geopolitical instability alters organizational operations. [North \(1990\)](#) made one of the most widely-cited arguments in the literature when he argued that the institutions or, in other words, the rules and conventions of economic exchange govern transaction costs of coordination. If institutions remain stable, then organizations can make decisions, investments and conduct coordination activities around the world without worrying about unexpected changes to the costs involved. On the other hand, when institutions become unstable, transaction costs explode, contract enforcement becomes difficult and predictability necessary for the operation of production chains becomes impossible ([Henisz, 2000](#)). Geopolitical trade disputes constitute exogenous disturbances of such a nature, which cause the collapse of the governance regime in which these supply chains function. By means of imposing tariffs, sanctions and retaliatory policies, the trade conflicts generate uncertainty within the supply chain and, hence, the cost structure that cannot be anticipated by the firms involved. These firms are no longer able to rely on their previously predictable supply partners who suddenly become unreliable. It is precisely this increased cost of coordination, which was made possible by institutional stability, that becomes evident again.

Indeed, there is ample evidence that high tariffs and threats thereof not only increased costs but had a disruptive effect on international supply chains, forcing companies to adapt and change their procurement and production strategies ([Zhou, 2020](#); [Mao & Görg, 2020](#)). However, even the uncertainty itself—the lack of knowledge about future trade policy, which would affect planning and long-term decision making—was just as disruptive as tariff measures. In the face of geopolitical uncertainty, it was impossible to plan ahead or develop sustainable strategies. On the one hand, some researchers contend that trade conflict could potentially increase resilience through incentives for diversification, reshoring, and regionalization ([Gereffi, 2020](#); [Bown, 2021](#)). Forced to reduce reliance on any single supplier, firms could create more diversified supply networks. While the idea may seem plausible, institutional uncertainty theory suggests a far less optimistic conclusion. Geopolitical pressure forces companies to make adjustments that are qualitatively different from strategic investments in building resilience that are made under normal circumstances. These adjustments are reactive, rushed, and rarely optimal under pressure. As [Evenett \(2019\)](#) shows, diversification induced by trade conflict tends to lead to fragmented and inefficient supply networks, rather than resilient ones. Adjustment costs pile up and the risks and vulnerabilities caused by geopolitically fragmented system become difficult to counterbalance. Companies involved in China-centric supply chains are trapped by their very structure and cannot change course without significant costs. Their redundancies are minimal and their leverage vis-à-vis more powerful trading partners is low. When geopolitical shocks come, they suffer disproportionately not because of any particular weaknesses but due to their position in the global economy.

Hence, while there could be rare cases of resilience-promoting adaptations made during trade conflicts, it appears that the predominant outcome is detrimental. Indeed, institutional uncertainty disrupts the crucial component of resilience—the predictability of events. As a result, supply chains cease to become coordinated systems and transform into a series of ad-hoc transactions. Therefore, we hypothesize:

Hypothesis 1. *Geopolitical trade conflicts negatively affect firms' supply chain resilience.*

2.2. Geopolitical Turbulence and Foreign Investment Confidence

From the point of view of real option and behavioral financial theories, increased policy and geopolitical uncertainty makes the value of waiting higher, causing investors to defer, shrink, or switch investment projects in light of increasingly unpredictable future

payoffs ([Dixit & Pindyck, 1994](#); [Pástor & Veronesi, 2013](#)). Geopolitical instability heightens uncertainty over regulatory regime, market access, and political stability, thus dampening confidence among foreign investors in the host economy. Rising uncertainty results in falling expected return levels relative to risk, reducing incentives for foreign direct investments (FDIs). Empirically, the relationship between trade policy uncertainty and lower entry rates, investment commitments, and FDI inflows is well-established by a number of studies, which find that policy uncertainties are particularly detrimental in economies that are closely linked with the international division of labor ([Cui & Li, 2023](#); [Yan et al., 2022](#); [Gao et al., 2024](#)). Although some research demonstrates temporary investment flows towards different countries in response to uncertainty, this is an ad hoc process rather than a sign of improved investor confidence ([Dong et al., 2025](#)). The impact of policy uncertainty on firms' decisions has also been observed as a reduction in outbound FDIs, as firms try to minimize the risks associated with both domestic and international market volatility ([Wu & Shao, 2023](#); [Song et al., 2021](#)). Crucially, emerging Asian economies are particularly vulnerable to shifts in foreign investment confidence due to reliance on foreign investments, export-oriented development models, and nascent institutional settings. Therefore, geopolitical trade disputes may be expected to negatively affect foreign investment confidence in Asia. Therefore

Hypothesis ². *Geopolitical trade conflicts negatively affect foreign investment confidence.*

2.3. Maritime Geopolitical Risk and Supply Chain Resilience

The notion of geopolitical risk pertaining to contested areas at sea represents a different type of supply chain vulnerability, as it poses a danger to the actual physical integrity of logistics channels. In accordance with transaction cost economics, an increase in the risk of expropriation, transportation disruption, and security challenges implies an increase in the cost of coordination and lower efficiency of international transactions ([Williamson, 1985](#)). The South China Sea (SCS), being a strategic maritime chokepoint, provides an example, where heightened tensions lead to increased transit risks, higher insurance rates, and greater route uncertainty for firms dependent on ocean-based logistics. Indeed, recent empirical studies demonstrate how geopolitical risk remains a significant determinant of overall supply chain vulnerability, implying that geopolitical tensions have adverse effects on network flexibility and disruptiveness ([Blessley & Mudambi, 2022](#); [Huchzermeier & Stehle, 2025](#)). The empirical data shows that companies heavily reliant on maritime trade and operating in risky geopolitical locations tend to experience higher levels of supply chain disruptions, while diversification cannot completely solve the problem ([Khan, 2025](#); [Zhu et al., 2024](#)). While certain organizational practices can mitigate uncertainty, they remain incapable of resolving long-term geopolitical tensions in key regions ([Coşkun & Erturgut, 2024](#)). In relation to the South China Sea region, political tensions imply high costs of adjustments in regard to sourcing and routing, yet do not eliminate risk in any meaningful way. As a result, geopolitical risks in the SCS are likely to negatively impact supply chain resilience. Therefore

Hypothesis ³. *Geopolitical tensions in contested maritime regions negatively affect supply chain resilience.*

2.4. Maritime Geopolitical Risk and Foreign Investment Confidence

The behavioral and institutional theories indicate that geopolitical risk intensifies investors' perceptions about risk, as it increases uncertainties associated with political stability, security, and policy consistency. Thus, it decreases the confidence of investors in investing abroad. According to [Caldara and Iacoviello \(2022\)](#), geopolitical risk shocks strongly inhibit investments due to increased uncertainty and higher risk premium in the financial market. The mentioned effect is especially significant in the case of strategic

rivalry and conflict in a given area. Research findings indicate that geopolitical risks affect foreign investments, leading to redirection of foreign direct investments to other destinations (Agoraki et al., 2024; Feng et al., 2023). Empirical evidence on the impact of geopolitical risk on foreign investments at the country level shows that an increase in geopolitical risk leads to a reduction in investment confidence (Truong et al., 2024; Altiner & Bozkurt, 2023). In relation to the South China Sea, it can be claimed that rising geopolitical tensions encourage investors to look for safer places with less volatility (Feng et al., 2023). Due to the importance of the SCS in international trade, geopolitical risks may produce negative spillovers that will reduce foreign investment confidence in emerging Asia. Therefore

Hypothesis 4. *Geopolitical tensions in contested maritime regions negatively affect foreign investment confidence.*

2.5. Maritime Geopolitical Risk and Currency Volatility

International finance theory suggests that exchange rates are highly sensitive to external shocks, particularly geopolitical events that reshape investor expectations, risk assessments, and cross-border capital allocation decisions. Under conditions of heightened uncertainty, investors reassess asset risks, leading to changes in portfolio preferences, capital movements, and currency valuations (Akram, 2020; Caldara & Iacoviello, 2022). Specifically, geopolitical conflicts lead to increased risk pre-mia, accelerated reversals of capital flows, and increased speculative activities which significantly increase exchange rate volatility (Akram, 2020; Caldara & Iacoviello, 2022). These impacts are even stronger on emerging markets where financial markets are shallow, policy credibility is still in formation, and currencies are vulnerable to changes in global risk sentiments. Geopolitical disputes in important maritime areas such as the South China Sea (SCS) represent an important external threat to exchange rate volatility. Since the SCS is a critical corridor for the movement of global trade and energy flows, any disruptions in this area affect expectations regarding trade, commodity flows, and investments, all factors that influence currency valuations. Geopolitical risk increases exchange rate volatility in ASEAN economies significantly as demonstrated by empirical findings implying increased vulnerability of these regional currencies to geopolitical tensions and risks (Hui, 2021). Likewise, Adeosun et al. (2024) find that geopolitical shocks generate volatility spillovers across financial markets where currency markets exhibit higher sensitivities as they depend on capital flows and policy uncertainties. Evidence from past geopolitical shocks reinforces this finding. Studies confirm that largescale geopolitical shocks including the recent Russia-Ukraine conflict led to foreign exchange volatility due to sudden portfolio adjustments and investors seeking safer havens in response (Aliu et al., 2022; Akarsu & Gharehgozli, 2023). Similar effects can be expected in relation to the South China Sea where geopolitical tensions would lead to disruption of energy trade routes, changes in commodity prices, and speculation of currencies. Other studies have emphasized the impact of investor sentiment and contagion effect with regard to spillover of volatility via exchange rate mechanisms following geopolitical shocks (Asad et al., 2020; Abdulsalam & Onipede, 2023). Based on these theoretical and empirical insights, it appears likely that geopolitical tensions in the South China Sea would increase uncertainties about trade continuities, energy supplies, and capital flows resulting in increased exchange rate volatility. thus

Hypothesis 5. *Geopolitical tensions in the South China Sea are positively associated with currency volatility.*

2.6. Political Instability and Foreign Investment Confidence

The level of foreign investment confidence can be viewed as a function of political stability, institutional strength, and policy continuity in host nations. According to

institutional theory, political stability decreases uncertainty, facilitates contract enforcement, and improves the predictability of regulations, thus reducing transaction costs and encouraging foreign investments (North, 1990; Henisz, 2000). Political instability negatively impacts this set of institutions, which leads to decreased investor confidence owing to uncertainty associated with potential policy changes, poor governance, and increased risks associated with investing (Dixit & Pindyck, 1994). Real options theory suggests that political instability increases the value of waiting for better investment opportunities as the level of uncertainty concerning potential future profits increases (Dixit & Pindyck, 1994). As a result, foreign investors demand higher premiums or avoid investing in politically unstable countries altogether. This perspective is complemented by behavioral finance, which highlights the importance of investor perceptions and confidence and indicates that political instability makes investors hesitant about investing or even withdrawing capital (Pástor & Veronesi, 2013).

These theoretical assumptions are consistently corroborated in the empirical literature. Kiptoo (2024) demonstrates that political stability facilitates the development of FDI, whereas political instability hinders the process by creating uncertainties and deterring investors. Similar trends are found in country-specific studies. Tjandrasa (2021), for example, shows that political stability and institutional reforms increase foreign investment attractiveness in Indonesia as a result of improved perception. Fragile and vulnerability prone countries experience stronger discouraging effects of political instability on foreign investment confidence. Bitar, Hamadeh, and Khoueiri (2019) found that insecurity and lack of policy predictability in Lebanon led to significant reductions in FDI. Kurecic and Kokotovic (2017) observed both short-term and lasting reductions in the amount of foreign investments resulting from political instability in their analysis.

The institutional quality has a critical moderating impact on the relationship between political instability and foreign investment confidence. The weaker the institutional environment, the greater negative influence political instability has on foreign investment confidence due to high uncertainty and weak enforcement mechanisms (Saha et al., 2022). Recent research further emphasizes the critical importance of political stability not just for attracting FDI, but also for sustaining innovations, green growth, and economic development in general (Qamruzzaman & Karim, 2024; Wang et al., 2024). The evidence from Indonesia supports this finding, showing that political stability positively affects the level of foreign investments and economic growth through increased investor confidence (Pástor & Veronesi, 2013).

Taken together, this literature suggests that regional political instability undermines foreign investment confidence by increasing uncertainty, weakening institutional trust, and raising perceived business risk, thereby discouraging long-term capital commitments. Therefore

Hypothesis 6. *Regional political instability negatively affects foreign investment confidence.*

2.7. Political Instability, Investor Behavior, and Exchange Rate Volatility

In terms of behavioral finance, political instability impacts exchange rates through changes in expectations and risks perceptions. The rise in geopolitical uncertainty reduces investor confidence, which results in capital flight, depreciating pressures on currencies, and exchange rate volatility in response to heterogeneous reactions to new information (Pastor & Veronesi, 2013). This effect is particularly pronounced in emerging markets, characterized by weaker institutions and lack of credibility in their monetary policies, making currencies more sensitive to shocks. Indeed, multiple empirical analyses find that shocks related to politics and security increase the volatility of exchange rates due to increased currency risks exposure for firms and investors (Abbassi et al., 2022; Aliu et al., 2022). Moreover, Hui (2021) reveals that ASEAN foreign exchange markets display

persistent exchange rate volatility under conditions of geopolitical risks, indicating that the region experiences political uncertainty and capital flows changes. [Adeosun et al. \(2024\)](#) add that the combination of geopolitical uncertainty and economic policy uncertainty leads to increased financial instability and currency volatility.

Furthermore, commodity-based transmission mechanisms can play an important role in this case. Political uncertainty may negatively impact energy and commodity markets, thereby influencing exchange rates in oil exporters and importers. As noted by [Akram \(2020\)](#), there is greater exchange rate volatility for oil-exporting countries in periods of geopolitical uncertainty, while [Liu et al. \(2025\)](#) observe that shocks due to geopolitical tensions between the US and China are transmitted via commodity markets. These findings fit well into contagion models of international finance that emphasize the exchange rate channel as one of the ways shocks spread throughout the global financial system ([Asad et al., 2020](#)).

Thus, political uncertainty related to geopolitical tension will lead to increased exchange rate volatility. Therefore

H⁷. Geopolitical instability is positively associated with exchange rate volatility.

2.8. Supply Chain Resilience and Corporate Financial Performance

Supply chain resilience (SCR) refers to a firm's capacity to anticipate, absorb, adapt to, and recover from disruptions while maintaining operational continuity and performance. Drawing on dynamic capability's theory, resilient supply chains enable firms to reconfigure resources, sustain strategic flexibility, and mitigate performance losses under uncertainty, thereby contributing to superior financial outcomes. In volatile environments, SCR functions not merely as an operational attribute but as a strategic capability that enhances firms' long-term competitiveness and profitability. Empirical evidence consistently supports the positive association between SCR and corporate financial performance. Firms with higher resilience demonstrate superior returns on assets, profit margins, and growth during periods of market turbulence ([Li et al., 2017](#)). Recent studies further show that resilience embedded within sustainable supply chain practices strengthens stakeholder trust and improves financial performance by aligning operational stability with long-term value creation ([Zhu & Wu, 2022](#)). Digital capabilities reinforce this relationship by enhancing supply chain visibility, coordination, and recovery speed, allowing firms to translate resilience into tangible financial gains ([Zhao et al., 2023](#)).

Supply chain finance (SCF) has emerged as an important complementary mechanism through which resilience enhances financial performance. By easing working capital constraints and improving liquidity across supply networks, SCF strengthens firms' ability to absorb shocks and sustain investment in innovation and operations ([Zheng et al., 2025](#); [Feng et al., 2024](#)). Empirical evidence confirms that firms adopting SCF mechanisms exhibit improved financial outcomes across industries, particularly in environments characterized by financing frictions ([Paul, 2025](#)). While prior studies highlight sustainability, digitalization, and financial integration as key enablers of resilience, most examine these mechanisms in isolation, leaving limited understanding of their combined effects—especially in emerging economies.

Taken together, the literature indicates that SCR operates as a strategic capability that positively influences corporate financial performance by enhancing adaptability, reducing disruption-related losses, and supporting sustained value creation. Therefore

H⁸. Supply chain resilience positively affects corporate financial performance.

2.9. Currency Volatility and Corporate Financial Performance

Currency volatility represents a critical external financial risk that affects firms' cost structures, pricing strategies, investment decisions, and international competitiveness.

International finance theory suggests that heightened exchange rate fluctuations increase uncertainty, raise transaction and hedging costs, and distort investment planning, thereby undermining firm-level financial performance—particularly in economies with limited risk-management capabilities.

Empirical research provides robust evidence of this negative relationship. Exchange rate volatility has been shown to weaken corporate profitability and financial stability across both developed and emerging markets (Bris et al., 2004; Morina et al., 2020). Recent firm-level studies confirm that exchange rate instability adversely affects performance by eroding margins, increasing financing costs, and discouraging long-term investment (Kim & Han, 2024; Aminaho, 2025). Macroeconomic evidence further indicates that volatile exchange rates impede productivity, trade competitiveness, and investment, reinforcing their detrimental effects on firm performance (Musyoki et al., 2012; Yensu et al., 2022; Fofanah, 2022). Importantly, the magnitude of these effects varies across institutional contexts. Firms in advanced economies often possess more sophisticated hedging instruments and financial depth, enabling them to partially buffer currency risk, whereas firms in emerging markets remain more exposed due to weaker financial infrastructure and limited access to risk management tools (Aminaho, 2025). This vulnerability underscores the importance of currency stability for sustaining corporate financial performance in emerging economies. Accordingly, the literature converges on the view that currency volatility undermines firm performance by increasing uncertainty, costs, and financial risk exposure. Therefore

H⁹. *Currency volatility negatively affects corporate financial performance.*

2.10. Foreign Investment Confidence and Corporate Financial Performance

Foreign investment confidence reflects investors' expectations regarding institutional credibility, governance quality, and long-term economic prospects in host economies. From an institutional and resource-based perspective, foreign investment enhances firm-level financial performance by providing access to capital, managerial expertise, advanced technologies, and global networks, thereby improving efficiency, governance, and competitive positioning. Empirical studies consistently demonstrate that firms with higher foreign ownership or stronger exposure to international investors exhibit superior financial performance, particularly in emerging and transitional economies (Pasali & Chaudhary, 2020). Foreign investors often impose more stringent governance practices and performance monitoring, contributing to enhanced profitability and productivity. Evidence from both developed and developing contexts supports this mechanism, showing that firms with foreign participation outperform domestic counterparts in financial outcomes (Bentivogli & Mirenda, 2016).

However, the strength of this relationship depends on firm-level and institutional conditions. Large firms are generally better positioned to leverage international networks and economies of scale, while smaller firms may face constraints related to absorptive capacity (Bentivogli & Mirenda, 2016). Moreover, weak institutional environments may dampen the positive effects of foreign investment by increasing risk and limiting effective governance transmission. Despite these contingencies, the literature broadly confirms that foreign investment confidence plays a critical role in enhancing firm-level financial performance through improved governance, innovation adoption, and global integration. Therefore

H¹⁰. *Foreign investment confidence positively affects corporate financial performance.*

Development of Conceptual Model

Expanding upon the aforementioned theoretical arguments, this paper attempts to develop a conceptual model where geopolitical instability impacts corporate financial

performance indirectly via firm-specific factors. In this context, geopolitical risks arise due to three reasons. First, there is an ongoing trade dispute between the US and China. Second, there are geopolitical risks in the South China Sea. Third, there is political instability in the region. Hence, this paper extends existing literature because geopolitical risks have been examined as being transmitted to financial performance through multiple channels instead of being exogenous variables that do not influence firms differently. Furthermore, in terms of corporate financial performance, this paper shows that geopolitical instability impacts firms, not just through the existence of risk itself, but also the level of exposure to risk by individual firms and its interpretation.

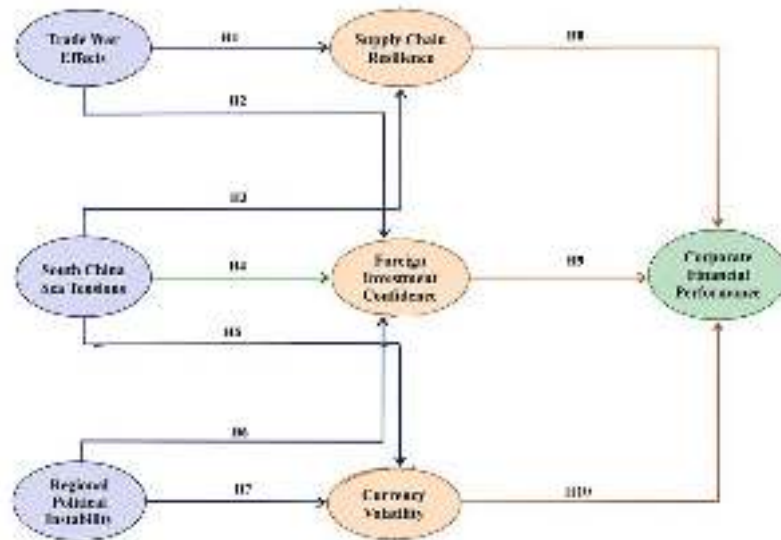


Figure 1. Conceptual Framework

3. Methodology and Design

3.1. Research Design

A quantitative cross-sectional research design was used to investigate how geopolitical uncertainty affects the performance of firms through multiple mediating variables. The research question suggested the use of a cross-sectional research design since the goal of the research was to understand how managers evaluated their companies' geopolitically driven exposure, operational resilience, investor confidence, currency volatility, and performance within a time of uncertainty. It is worth noting that the cross-sectional design did not suggest causal relationships but rather tested statistical links between the concepts measured at one point in time. Partial Least Squares Structural Equation Modelling (PLS-SEM), a method implemented in SmartPLS 4.0, was selected due to the complexity of the model proposed and the presence of latent constructs and mediating mechanisms. According to previous studies, PLS-SEM is suitable for use in theories-based modeling and variance-explanation models where the data might violate the assumptions of multivariate normal distribution. The use of PLS-SEM was appropriate for this study since it is commonly applied in survey research, especially for emerging markets, as it performs well with relatively small sample sizes, while allowing to estimate the structural model together with construct reliability and validity.

The study makes use of perceptual measures of geopolitical risk exposure, currency volatility, and firm financial performance, which was intentional. Even though US-China trade war risks, South China Sea issues, regional political instability, and currency volatility are all observable factors in themselves, their implications differ from company to company. While macro measures are able to objectively quantify the geopolitical risks, the extent of exposure of individual companies to any of those threats is beyond their scope.

In other words, objective measures cannot account for the firm's vulnerability with respect to a particular trade route, extent of import-export exposure, foreign currency invoicing, hedges, concentration of suppliers, and foreign investors. Therefore, perceptual measures were adopted to capture heterogeneous firm-level exposure and managerial assessments of how geopolitical events translate into operational, financial, and strategic vulnerabilities.

All constructs were operationalised as reflective latent variables and measured through multi-item scales on a 5-point Likert scale varying from 1 (Strongly disagree) to 5 (Strongly agree). The items related to the US-China trade war tapped into perceived pressure to pay tariffs, sourcing disruption, cost uncertainty, and trade policy uncertainty. South China Sea tensions were measured in terms of perceived maritime routing risks, logistics disruptions, insurance and transport costs, and security risks. Political instability items reflected perceptions of policy continuity, regulatory predictability, institutions' trustworthiness, and security conditions. Resilience items included supplier diversification, capacity for re-routing, fast recovery capability, and visibility of relevant information. Items measuring currency volatilities related to foreign currency exposures, pricing uncertainty, burdens of hedging, and margin sensitivity. Perceived foreign investors' willingness, external financing availability, valuation confidence, and long-term capital commitments were used to measure investment confidence. Firm performance was measured in terms of profitability, sales growth, financial stability, return on assets, competitive position, and financial strength in line with the perceptual performance approach (Dess & Robinson, 1984), since secondary firm financial data is often unreliable in these settings.

The survey instrument was developed based on well-established political risk, supply chain resilience, international finance, and firm performance literature while being tailored to the Southeast Asia context. Its content validity was examined by three international business academics and two seasoned practitioners. A pretest with 35 managers was administered to assess the clarity and construct relevance of the items along with their suitability as perceived performance measures. Minor changes were made to the wording of the items during the test based on participants' feedback; however, the meanings of the constructs themselves were preserved. No items were deleted solely in order to enhance statistical fit; rather, they were retained based on the PLS-SEM loading criteria.

The sample comprises mid- to large-sized firms operating in geopolitically vulnerable industries across Southeast Asian countries, including Indonesia, Malaysia, Singapore, Thailand, Vietnam and the Philippines. These firms were purposively selected based on their exposure to international trade, supply chain disruptions, and geopolitical uncertainties. Respondents were identified through professional networks and business directories to ensure alignment with the research context. The criteria for inclusion required that firms engage in some form of cross-border activity involving importing and exporting, partake in international supply chain activities, use imported inputs, utilize exports markets, or be otherwise exposed to foreign investment or foreign-currency transactions. The individual chosen as the respondent needed to hold a managerial position where he or she would have sufficient insight into their firm's international operations, including supply chain activities, financing, and/or strategic planning.

In total, 420 surveys were disseminated between March and June 2025. A total of 312 responses were returned, after which incomplete responses, straight-line answers, failed attention checks, and internally inconsistent responses were removed. Following the data screening process, 308 valid responses remained. Hence, the final valid response rate was 73.10% of the distributed surveys. The final dataset consisted of 308 firms representing Southeast Asian countries, including Indonesia (85 firms), Malaysia (55 firms), Singapore (48 firms), Thailand (44 firms), Vietnam (38 firms), the Philippines (38 firms). Regarding

industry representation, the sample included Manufacturing (41,23%), Services (18,18%), Trading/Import-Export (15,26%), Technology/IT (14,94%), Finance/Banking (10,39%). In terms of organizational size, 1–50 employees (26,30%), 51–200 employees (50,65%), 201–500 employees (20,45%). More than 500 employees (2,60%). Position in organisation: Senior Manager (30,84%), Middle Manager (21,10%), Analyst / Specialist (18,18%), CEO / Director (16,88%), Owner / Founder (12,99%). Years of work experience: More than 20 years (47,73%), 11–20 years (34,09%), 5–10 years (17,86%), Less than 5 years (0,65%).

Some measures taken to avoid common method variance include: (1) assuring respondents of anonymity, (2) assuring that there are no wrong answers in the survey; (3) writing items in a neutral fashion; (4) separating the predictor variables from the outcome variables to decrease evaluation apprehension and consistency motivation (Podsakoff et al., 2003). Statistically, Harman's test indicated that no one component explained a dominant share of variation. Also, a full collinearity variance inflation factor assessment showed no latent variable VIF greater than 3.3, a level considered safe when identifying common method variance in PLS-SEM (Kock, 2015).

Finally, to minimize omitted variable concerns, a number of firm characteristics were controlled as potential factors affecting the financial performance of the corporations. Specifically, the control variables included: firm size; industry sector; export dependency; foreign ownership exposure; leverage category; and country location. These controls are justifiable since firm performance may vary significantly between different sectors; capital structures; countries; and levels of international business exposure. Since inclusion of controls does not affect the structural relations, theory-driven controls will be shown in the main model.

To analyze the survey data, a two-stage partial least squares structural equation modeling approach was employed. Specifically, measurement model analysis involved the assessment of outer loadings, Cronbach's Alpha, Composite Reliability, Average Variance Extracted (AVE), Fornell-Larcker Criterion, and Heterotrait-Monotrait Ratio. On the other hand, the structural model was analyzed using path coefficients, t-statistics, p-values, Coefficients of Determination (R^2), Effect Sizes (f^2), Predictive Relevance (Q^2), and Specific Indirect Effects. Bootstrapping with 5,000 replications was employed to determine the significance of relationships and mediation effects.

4. Results and Discussion

4.1 Measurement Model Evaluation

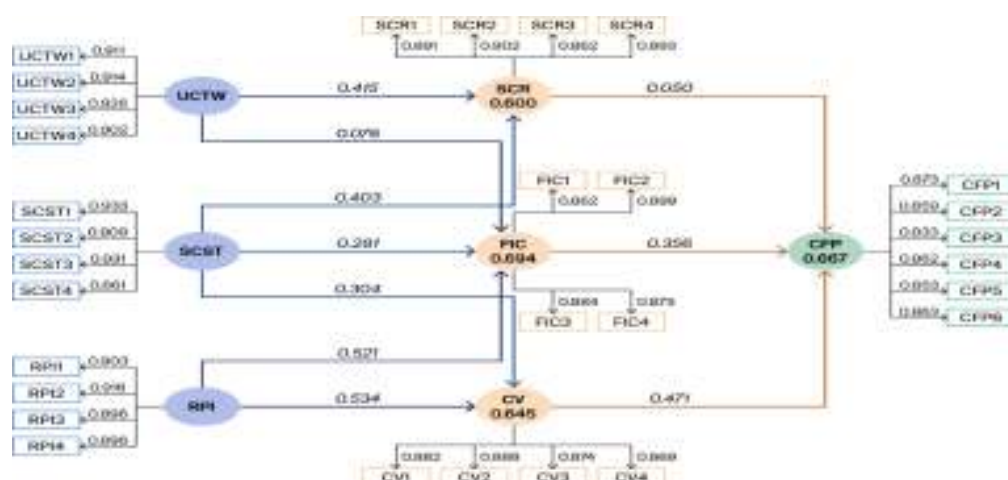


Figure 2. Measurement Model Results Showing Outer Loadings, Reliability, and Validity Indicators.

Table 1. Measurement Model Results: Outer Loadings.

Construct	Outer loadings
CFP1 <- CFP	0,873
CFP2 <- CFP	0,859
CFP3 <- CFP	0,833
CFP4 <- CFP	0,862
CFP5 <- CFP	0,853
CFP6 <- CFP	0,863
CV1 <- CV	0,882
CV2 <- CV	0,888
CV3 <- CV	0,874
CV4 <- CV	0,869
FIC1 <- FIC	0,862
FIC2 <- FIC	0,899
FIC3 <- FIC	0,884
FIC4 <- FIC	0,875
RPI1 <- RPI	0,903
RPI2 <- RPI	0,916
RPI3 <- RPI	0,896
RPI4 <- RPI	0,896
SCR1 <- SCR	0,891
SCR2 <- SCR	0,902
SCR3 <- SCR	0,862
SCR4 <- SCR	0,893
SCST1 <- SCST	0,933
SCST2 <- SCST	0,909
SCST3 <- SCST	0,931
SCST4 <- SCST	0,861
UCTW1 <- UCTW	0,911
UCTW2 <- UCTW	0,914
UCTW3 <- UCTW	0,926
UCTW4 <- UCTW	0,902

4.3 Construct Reliability and Validity

Table 2. Construct Reliability and Convergent Validity Results.

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
CFP	0,928	0,928	0,943	0,735
CV	0,901	0,901	0,931	0,771
FIC	0,903	0,903	0,932	0,775
RPI	0,924	0,924	0,946	0,815
SCR	0,909	0,910	0,936	0,787
SCST	0,929	0,930	0,950	0,826
UCTW	0,934	0,934	0,953	0,834

4.4 Discriminant validity

4.4.1 Fornell-Larcker Criterion

	CFP	CV	FIC	RPI	SCR	SCST	UCTW
CFP	0,857						
CV	0,783	0,878					
FIC	0,760	0,791	0,880				
RPI	0,732	0,784	0,813	0,903			
SCR	0,566	0,607	0,646	0,755	0,887		
SCST	0,716	0,744	0,770	0,823	0,732	0,909	
UCTW	0,594	0,683	0,718	0,806	0,735	0,793	0,913

4.4.2 Heterotrait-Monotrait Ratio (HTMT)

Table 4. Discriminant Validity Results: Heterotrait-Monotrait Ratio (HTMT).

Construct	Ratio HTMT
CV <-> CFP	0,855
FIC <-> CFP	0,830
FIC <-> CV	0,877
RPI <-> CFP	0,791
RPI <-> CV	0,859
RPI <-> FIC	0,890
SCR <-> CFP	0,615
SCR <-> CV	0,670
SCR <-> FIC	0,712
SCR <-> RPI	0,822
SCST <-> CFP	0,771
SCST <-> CV	0,812
SCST <-> FIC	0,840
SCST <-> RPI	0,887
SCST <-> SCR	0,796
UCTW <-> CFP	0,638
UCTW <-> CV	0,744
UCTW <-> FIC	0,782
UCTW <-> RPI	0,867
UCTW <-> SCR	0,797
UCTW <-> SCST	0,851

4.5 Measurement Model Evaluation and Method Bias Diagnostics

The analysis of the measurement model was performed through SmartPLS outputs concerning the indicators' reliability, construct reliability, convergent validity, discriminant validity, and method bias diagnostics. As can be seen in Table 1, all outer loadings are above the required minimum level of 0.70. Values vary between 0.833 (CFP3) and 0.933 (SCST1). This indicates a strong association between the indicators and the constructs they are expected to measure. It is worth noting that such high values do not suggest the absence of all measurement problems in this model. They, however, can be considered proof of item coherence within reflective constructs.

Table 2 illustrates the presence of internal consistency in the model. Cronbach's alpha values vary from 0.901 (CV) to 0.934 (UCTW). Composite reliability is above the 0.70 threshold. Similarly, AVE varies between 0.735 (CFP) and 0.834 (UCTW). All these indices provide evidence of convergent validity as each of the constructs explains more than half

of the variance in the indicators' scores. The robustness of these indices is explained by the fact that the items have been adapted to a narrow context of geopolitical risk and responses inconsistent or incomplete responses have been removed.

It has been possible to prove discriminant validity according to two criteria. First, the square roots of AVE values of the constructs are higher than their correlation with other constructs. This means that each construct shares more variance with its own indicators than with other constructs. Second, HTMT values vary between 0.615 and 0.890 and remain below the 0.90 conservative cut-off point. The RPI-FIC value approaches this point. While being theoretically explainable in a sample of emerging markets, political instability and investors' confidence are empirically distinct.

To ensure the adequacy of the structural model, additional tests to detect common method bias in single-source survey data were conducted. The first step is to perform Harman's single-factor test, which failed to show dominance of a single factor. Next, the full-collinearity VIF test showed that no variable has VIF levels above the 3.3 limit. All these facts along with the steps taken in the methodology allow reducing worries about common method bias. Therefore, the measurement model can be considered acceptable for the purpose of structural model evaluation.

4.5.1 Structural Model Evaluation

R² Values

Table 5. Coefficient of Determination (R² and Adjusted R²) for Endogenous Constructs.

	R-square	R-square adjusted
CFP	0,667	0,664
CV	0,645	0,643
FIC	0,694	0,691
SCR	0,600	0,598

Effect Size (f²)

Table 6. Effect Size (f²) of Exogenous Variables on Endogenous Constructs.

	f-square
CV -> CFP	0,239
FIC -> CFP	0,126
RPI -> CV	0,259
RPI -> FIC	0,230
SCR -> CFP	0,004
SCST -> CV	0,084
SCST -> FIC	0,071
SCST -> SCR	0,151
UCTW -> FIC	0,006
UCTW -> SCR	0,160

Q² Prediction Metrics

Table 7. Predictive Relevance (Q²) and Prediction Metrics (RMSE and MAE).

	Q ² predict	RMSE	MAE
CFP	0,567	0,665	0,540
CV	0,644	0,607	0,470
FIC	0,690	0,565	0,452

SCR

0,592

0,648

0,473

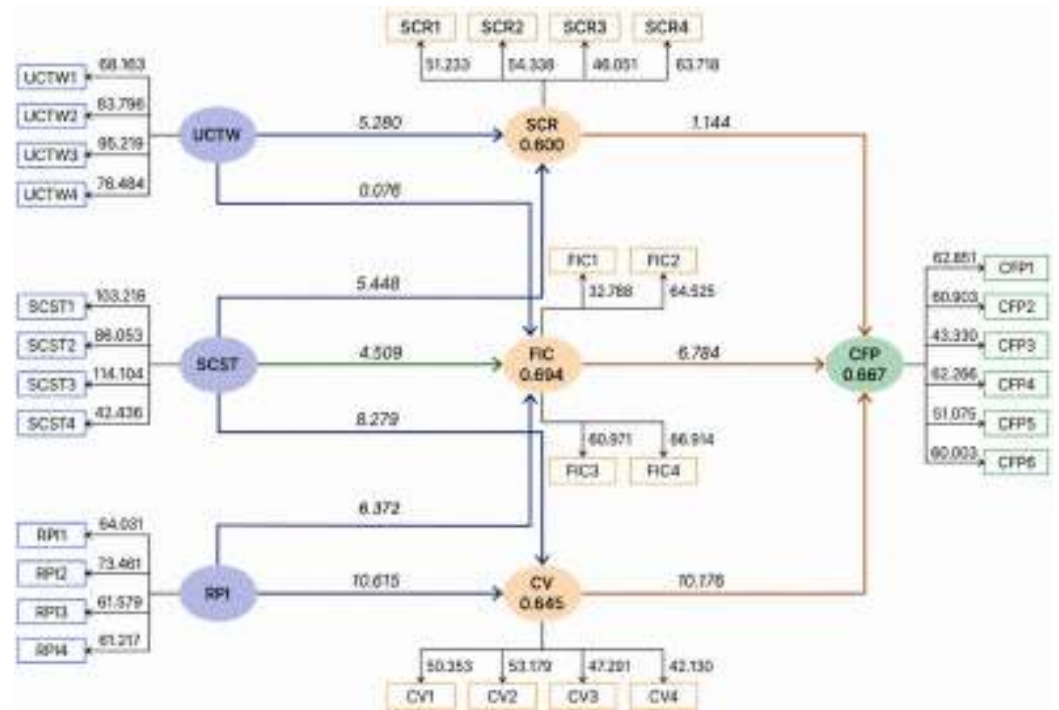


Figure 3. Structural Model Results Showing Path Coefficients, R^2 , and Effect Sizes.

4.5.2 Path Coefficients

Table 8. Structural Model Path Coefficients.

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
CV → CFP	0,471	0,471	0,046	10,176	0,000
FIC → CFP	0,356	0,358	0,052	6,784	0,000
RPI → CV	0,534	0,532	0,050	10,615	0,000
RPI → FIC	0,521	0,519	0,063	8,279	0,000
SCR → CFP	0,050	0,047	0,044	1,144	0,253
SCST → CV	0,304	0,305	0,048	6,372	0,000
SCST → FIC	0,281	0,278	0,062	4,509	0,000
SCST → SCR	0,403	0,408	0,074	5,448	0,000
UCTW → FIC	0,076	0,079	0,058	1,302	0,193
UCTW → SCR	0,415	0,409	0,079	5,280	0,000

4.5.3 Specific Indirect Effects

Table 9. Specific Indirect Effects in the Structural Model.

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
RPI → FIC → CFP	0,185	0,186	0,036	5,160	0,000

SCST -> SCR -> CFP	0,020	0,019	0,019	1,067	0,286
RPI -> CV - > CFP	0,251	0,251	0,036	6,899	0,000
UCTW -> SCR -> CFP	0,021	0,019	0,018	1,144	0,253
SCST -> FIC -> CFP	0,100	0,100	0,028	3,614	0,000
SCST -> CV -> CFP	0,143	0,143	0,026	5,478	0,000
UCTW -> FIC -> CFP	0,027	0,028	0,021	1,269	0,204

4.6 Structural Model Evaluation: An Advanced Analysis

It emerges that the structural model has quite a high level of explanatory power regarding firm-level outcomes in the context of geopolitical instability. The value of the coefficient of determination regarding corporate financial performance is 0.667 (adjusted $R^2=0.664$), showing that the proposed mediating variables account for roughly two thirds of the variation in perceived financial performance. The model additionally shows an ability to explain a large portion of variance in foreign investment confidence ($R^2=0.694$) and currency volatility ($R^2=0.645$), and a moderate one in supply chain resilience ($R^2=0.600$).

The path coefficients indicate that financial factors are more relevant compared to the direct operational resilience factor. Corporate financial performance is positively associated with currency volatility ($\beta = 0.471$, $t = 10.176$, $p < 0.001$), and negatively with foreign investment confidence ($\beta = 0.356$, $t = 6.784$, $p < 0.001$). In other words, this analysis indicates that the theoretical argument of the project, according to which geopolitical instability is being transmitted into corporate financial performance via financial channels such as exchange rate vulnerability, funding difficulties, and others, is valid.

However, caution must be exercised when interpreting the results regarding currency volatility. According to conventional international finance theory, currency volatility is typically associated with poor financial performance as it creates additional transaction costs, uncertainty, and the need for hedging. Therefore, the positive correlation between the two variables in this case does not imply that currency volatility has a beneficial impact on firm-performance. A possible explanation may be the fact that corporations experiencing high currency volatility levels usually tend to operate in international markets and conduct foreign trade operations, implying greater sensitivity to currency movements as well as the ability to collect foreign currency income and hedge.

Regional political instability emerged as the most important antecedent of both currency volatility ($\beta = 0.534$, $t = 10.615$, $p < 0.001$) and foreign investment confidence ($\beta = 0.521$, $t = 8.279$, $p < 0.001$). These results confirm that political instability is fast internalised through capital market expectations and foreign exchange dynamics. This result supports institutional theory since the latter assumes that investors and foreign exchanges would quickly sense the implications of uncertainties in governance, security, and policy continuation. Additionally, South China Sea tensions emerged as another factor that significantly influences all three dependent variables (supply chain resilience, currency volatility, and foreign investment confidence), proving that geopolitical risks in maritime zones cannot be confined to logistics problems.

The lack of significant association between supply chain resilience and corporate financial performance ($\beta = 0.050$, $p = 0.253$) presents an interesting theory implication. While operational resilience can indeed provide protection against disruptions in production processes, its immediate financial benefit may not materialise immediately in a cross-sectional setting. For example, resilience measures that include supplier diversification,

inventory stockpiling, alternative routes, and digital tracking systems will likely lead to higher immediate costs. As a consequence, supply chain resilience seems to work as an adaptation strategy rather than an immediate financial risk indicator.

While the trade war between the United States and China showed a significant relationship with supply chain resilience but not foreign investment confidence, regional political instability and South China Sea tensions were positively related to financial risk. Specifically, geopolitical risk is interpreted as having a greater impact on foreign investment confidence and currency volatility than being directly related to supply chain issues. Investors seem to incorporate these factors in the assessment of risk when making investment decisions and thus show a quick response to regional geopolitics.

Mediation analysis results support the interpretation of the results. There is statistical evidence for indirect associations for both regional political instability and South China Sea tensions through currency volatility and foreign investment confidence. On the other hand, mediation via supply chain resilience was not found to be statistically significant. Such a pattern implies that geopolitical risks influence firms' perceptions of financial performance via financial market dynamics and foreign investment decisions for the selected companies. Thus, the results of the study provide additional support for the hypothesis of the model.

4.7 Theoretical Contributions and Practical Implications

There are several theoretical contributions as well. First, this research contributes to the literature on geopolitical risks and political uncertainty by extending research beyond macroeconomic effects of geopolitics and considering the mechanisms through which geopolitical risks translate into firm-level effects. Specifically, results suggest that besides being directly disruptive, geopolitics impacts firms through financialization of vulnerability, where currency risks and investor confidence emerge as key channels connecting geopolitical risks to firm performance. Second, this research brings together institutional uncertainty, transaction costs, real options, behavioural finance, dynamic capabilities and international finance into one theoretical explanation. The combination explains the necessity to consider operational, financial and institutional channels simultaneously, and not separately.

Third, with respect to emerging markets, the study reveals boundary conditions under which financial channels dominate operational resilience channels in terms of firm performance. Indeed, in emerging Asian countries, firms are financially dependent on foreign investors, use inputs from abroad, sell products internationally, and do not have adequate infrastructure for hedges against risks. Hence, exchange rate fluctuations and confidence become particularly important. Moreover, a non-significant direct impact of supply chain resilience extends resilience literature suggesting that resilience could be treated as a protective capability that pays off only through financial measures in the long run rather than at a cross-sectional point in time. The non-significant relationship between supply chain resilience and firm performance also provides an important theoretical insight. Contrary to the assumption that resilience immediately improves performance outcomes, the findings suggest that resilience may function as a protective organizational capability that reduces vulnerability rather than directly generating short-term financial gains. From a dynamic capabilities perspective, resilience investments may require time to transform into measurable performance improvements, particularly under conditions of ongoing geopolitical uncertainty.

Practically, there are several lessons from the analysis. Specifically, firms should address geopolitical risk not as solely an operational issue. Instead, they require integrated risk management, including supplier diversity, managing currency risk, ensuring financial liquidity, managing investor expectations and scenario-based strategic management.

From the finance department perspective, it would be critical to keep track of exposure to foreign currencies, manage hedging where possible, and analyse cash flows, margins and funding conditions based on geopolitical events. Supply chain departments need to pursue resilience management as well, however, it would be beneficial to measure its financial consequences, so that resilience does not remain a burden for the company.

With respect to policymakers, the results imply that creating favourable institutional environment, ensuring regulation consistency, fostering diplomatic cooperation among countries in the region and making financial risk management tools available are essential. Specifically, lowering risk premium could be achieved through reduction of uncertainties in customs clearance, investment conditions, maritime security and foreign currency markets. Finally, regional cooperation is critical in Southeast Asia, as firms tend to operate across the border and, thus, are equally exposed to trade wars, maritime risks, and political instability in their own country.

5. Limitations and Future Research

Several limitations offer potential avenues for future research. First, the cross-sectional nature of the research reduces the possibility of making any claims related to causality. The presented results can be considered only as evidence for theoretically grounded associations, not as evidence of temporally-causal relationships. In future, there is an opportunity to investigate the effects of prolonged geopolitical shocks on firms' adaptation process and delayed financial gains resulting from resilience investments using longitudinal datasets.

Second, perceptual measures based on the management surveys used in the study do not eliminate the need for objective measures of geopolitical risks, exchange rate fluctuations, and firms' financial performance. Further research should complement the perception data with secondary data such as indices of exchange rate volatility, information about disruptions of trade flows and foreign direct investments inflow, firm-level financial statements, and political risk measures at the country level.

Third, the procedures to address common method bias along with statistical analysis did not eliminate its potential impact. Future researchers have the option to collect data from different respondents per firm, measure predictors and outcomes at different time points, or conduct managerial surveys combined with secondary analysis.

Fourth, in addition to controlling for macroeconomic variables, future research could consider more extensive modelling of the effects of firm size, firm's industry, ownership type, leverage, foreign sales intensity, and institutional environment at the country level. Multi-group analysis across countries is another area for future investigation.

Finally, the present research is restricted to a sample of six Southeast Asian economies and industries that have high exposure to geopolitical risks. Results may not apply to small firms, purely domestic companies, or countries having more developed financial system and institutions. Future research would benefit from investigating the role of financial transmission mechanisms among firms operating in emerging and advanced economies.

6. Conclusion

The study aimed at establishing the connection between geopolitical instabilities and the financial performance of corporations in emerging Asia through supply chain resilience, foreign investment confidence, and currency volatility. From the findings obtained, financial market channels seem to significantly explain firm vulnerability due to geopolitical risks. Currency volatility and investor confidence were found to be significant correlates with financial performance compared to supply chain resilience, implying that

geopolitical risk influences firm performance indirectly through currency risk, financial-market expectations, and investor confidence channels.

The study has shown that geopolitical risks influence firms differently. Regional instabilities and South China Sea geopolitical risk appear to influence financial and investor confidence channels while the US-China trade war risk is correlated to supply chain resilience responses. Supply chain resilience does not significantly impact the financial performance of firms indicating that resilience may protect firm continuity without increasing financial performance. This shows the significance of resilience in terms of its long-term nature and not necessarily financial benefits in the short run.

In conclusion, the study develops a multi-channel risk model that enables firms to establish ways to counter risks through financial and investment confidence and operational resilience. The results offer strategic implications to managers who need to coordinate operational resilience with currency risk management and investor communication strategies. Furthermore, there are policy recommendations indicating that geopolitical risk impacts corporate sustainability positively in a country with predictable regulations and institutional stability, and regional economic cooperation. Due to its cross-sectional nature, the results may not be conclusive and need to be tested further using longitudinal archival data.

Authors' Contributions: **Sugeng Suroso** : Conceptualization, Formal analysis, Methodology, Supervision, Validation, Writing – review & editing; **Sri Wulandari** : Methodology, Data curation, Writing – review & editing. **Chajar Matari Fath Mala**: Conceptualization, Data curation, Investigation, Validation, Visualization, Writing – review & editing. .

Funding: This research received no external funding.

Institutional Review Board Statement: Not applicable.

Informed Consent Statement: Not applicable.

Data Availability Statement: The data and research materials supporting this study are available from the corresponding author upon reasonable request.

Conflicts of Interest: The author declares no conflicts of interest, and there has been no significant financial support for this work that could have influenced its outcome.

References

- Abbassi, W., Kumari, V., & Pandey, D. K. (2022). What makes firms vulnerable to the Russia–Ukraine crisis? *The Journal of Risk Finance*, 24(1), 24–39. <https://doi.org/10.1108/jrf-05-2022-0108>
- Abdulsalam, S. A., & Onipede, S. F. (2023). Economic policy uncertainty and the ECOWAS exchange rate mechanism. *Scientific African*, 21, e01844. <https://doi.org/10.1016/j.sciaf.2023.e01844>
- Adeosun, O. A., Anagreh, S., Tabash, M. I., & Vo, X. V. (2024). Return and volatility transmission among economic policy uncertainty, geopolitical risk and precious metals. *Studies in Economics and Finance*, 41(5), 1057–1084. <https://doi.org/10.1108/sef-10-2023-0586>
- Agoraki, M.-E. K., Wu, H., Xu, T., & Yang, M. (2024). Money never sleeps: Capital flows under global risk and uncertainty. *Journal of International Money and Finance*, 141, 103013. <https://doi.org/10.1016/j.jimonfin.2023.103013>
- Aliu, F., Hašková, S., & Bajra, U. Q. (2022). Consequences of Russian invasion on Ukraine: evidence from foreign exchange rates. *The Journal of Risk Finance*, 24(1), 40–58. <https://doi.org/10.1108/jrf-05-2022-0127>
- Akram, Q. F. (2020). Oil price drivers, geopolitical uncertainty and oil exporters' currencies. *Energy Economics*, 89, 104801. <https://doi.org/10.1016/j.eneco.2020.104801>
- Akarsu, M. Z., & Gharehgozli, O. (2023). The impact of the Russia-Ukraine War on European Union currencies: a high-frequency analysis. *Policy Studies*, 45(3–4), 353–376. <https://doi.org/10.1080/01442872.2023.2268543>
- Altiner, a., & Bozkurt, e. (2023). Reflections of Geopolitical Risk on Foreign Direct Investments: The Case of Türkiye. *İnsan ve Toplum Bilimleri Araştırmaları Dergisi*, 12(3), 1292–1309. <https://doi.org/10.15869/itobiad.1271884>

- Athukorala, P., & Menon, J. (2015). Global production sharing, trade patterns and determinants of trade flows: the role of East Asia. In *Handbook on Trade and Development*. Edward Elgar Publishing. <https://doi.org/10.4337/9781781005316.00027>
- Aminaho, F. (2025). The impact of exchange rate volatility on firm performance: Evidence from Nigerian Exchange (NGX) Group and London Stock Exchange (LSE) Group. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.5364657>
- Asad, M., Tabash, M. I., Sheikh, U. A., Al-Muhanadi, M. M., & Ahmad, Z. (2020). Gold-oil-exchange rate volatility, Bombay stock exchange and global financial contagion 2008: Application of NARDL model with dynamic multipliers for evidences beyond symmetry. *Cogent Business & Management*, 7(1), 1849889. <https://doi.org/10.1080/23311975.2020.1849889>
- Athukorala, P., & Wei, Z. (2017). Economic Transition and Labour Market Dynamics In China: An Interpretative Survey Of The 'Turning Point' Debate. *Journal of Economic Surveys*, 32(2), 420–439. <https://doi.org/10.1111/joes.12206>
- Bajaj, n. K., Aziz, t., Kumari, s., Alenezi, m., & Mathkur, n. M. (2023). The Impact of Geopolitical Risk on Financial Conditions of Emerging Economies. *The Journal of Asian Finance, Economics and Business*, 10(1), 133–143. <https://doi.org/10.13106/JAFEB.2023.VOL10.NO1.0133>
- Bentivogli, C., & Mirenda, L. (2016). *Foreign ownership and performance: Evidence from a panel of Italian firms* (Bank of Italy Temi di Discussione (Working Paper) No. 1085). Bank of Italy. <https://doi.org/10.2139/ssrn.2914251>
- Bitar, N., Hamadeh, M., & Khoueiri, R. (2019). Impact of political instability on foreign direct investment in Lebanon. *Asian Social Science*, 16(1), 41. <https://doi.org/10.5539/ass.v16n1p4>
- Blessley, M., & Mudambi, S. M. (2022). A trade war and a pandemic: Disruption and resilience in the food bank supply chain. *Industrial Marketing Management*, 102, 58–73. <https://doi.org/10.1016/j.indmarman.2022.01.002>
- Bown, C. P. (2021). The US–China trade war and Phase One agreement. *Journal of Policy Modeling*, 43(4), 805–843. <https://doi.org/10.1016/j.jpolmod.2021.02.009>
- Bris, A., Koskinen, Y., & Pons, V. (2004). Corporate financial policies and performance around currency crises. *The Journal of Business*, 77(4), 749–796. <https://doi.org/10.1086/422438>
- Caldara, D., & Iacoviello, M. (2022). Measuring Geopolitical Risk. *American Economic Review*, 112(4), 1194–1225. <https://doi.org/10.1257/aer.20191823>
- Coşkun, A. E., & Ertugut, R. (2024). How Do Uncertainties Affect Supply-Chain Resilience? The Moderating Role of Information Sharing for Sustainable Supply-Chain Management. *Sustainability*, 16(1), 131. <https://doi.org/10.3390/su16010131>
- Cui, C., & Li, L. S.-Z. (2023). Trade policy uncertainty and new firm entry: Evidence from China. *Journal of Development Economics*, 163, 103093. <https://doi.org/10.1016/j.jdevco.2023.103093>
- Dixit, A. K., & Pindyck, R. S. (1994). *Investment under Uncertainty*. Princeton University Press. <https://doi.org/10.2307/j.ctt7sncv>
- Dong, L., Hidhiir, M. H. B., & Mansur, M. B. (2025). Economic Policy Uncertainty and China's FDI Inflows: Moderating Effects of Financial Development and Political Stability. *Journal of Risk and Financial Management*, 18(7), 354. <https://doi.org/10.3390/jrfm18070354>
- Dess, G. G., & Robinson, R. B., Jr. (1984). Measuring organisational performance in the absence of objective measures: The case of the privately held firm and conglomerate business unit. *Strategic Management Journal*, 5(3), 265–273. <https://doi.org/10.1002/smj.4250050306>
- Durnev, A., Mangan, C. (2020). The spillover effects of MD&A disclosures for real investments: The role of industry competition. *Journal of Accounting and Economics*, 70(2–3), 201–219. <https://doi.org/10.1016/j.jacceco.2015.02.002>
- Eser, F., & Wu, X. (2021). Geopolitical risk and firm investment decisions: Evidence from global firms. *Journal of International Financial Markets, Institutions and Money*, 72, 101347. <https://doi.org/10.1016/j.intfin.2021.101347>
- Evenett, S. J. (2019). Protectionism, state discrimination, and international business since the onset of the Global Financial Crisis. *Journal of International Business Policy*, 2(1), 9–36. <https://doi.org/10.1057/s42214-019-00021-0>
- Feng, C., Han, L., Vigne, S., & Xu, Y. (2023). Geopolitical risk and the dynamics of international capital flows. *Journal of International Financial Markets, Institutions and Money*, 82, 101693. <https://doi.org/10.1016/j.intfin.2022.101693>
- Feng, J., Tang, J., Qi, Z., & Liu, J. (2024). Supply Chain Finance and Innovation Investment: Based on financing constraints. *Finance Research Letters*, 63, 105349. <https://doi.org/10.1016/j.frl.2024.105349>
- Fofanah, P. (2022). Effects of exchange rate volatility on economic growth: Evidence from West Africa. *International Journal of Business and Economics Research*, 11(1), 32. <https://doi.org/10.11648/j.ijber.20221101.15>
- Gao, H., Chen, W., Li, J., & Zhou, T. (2024). Economic policy uncertainty and foreign direct investment: Evidence from China. *Structural Change and Economic Dynamics*, 70, 178–191. <https://doi.org/10.1016/j.strueco.2024.01.014>
- Gereffi, G. (2020). What does the COVID-19 pandemic teach us about global value chains? The case of medical supplies. *Journal of International Business Policy*, 3(3), 287–301. <https://doi.org/10.1057/s42214-020-00062-w>
- Ghassemi, H., & Sadr, S. M. (2022). Firm heterogeneity and responses to global uncertainty shocks. *Economic Modelling*, 116, 105995. <https://doi.org/10.1016/j.econmod.2022.105995>
- Fornell, C., & Larcker, D. F. (1981). Evaluating structural equation models with unobservable variables and measurement error. *Journal of Marketing Research*, 18(1), 39–50. <https://doi.org/10.1177/002224378101800104>
- Henisz, W. J. (2000). The Institutional Environment for Multinational Investment. *Journal of Law, Economics, & Organization*, 16(2), 334–364. <http://www.jstor.org/stable/3555095>
- Huchzermeier, A., & Stehle, H. (2025). Navigating Geopolitical Risks in Global Supply Chains: A Systematic Literature Review. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.5161777>

- Hui, H. C. (2021). The long-run effects of geopolitical risk on foreign exchange markets: Evidence from some ASEAN countries. *International Journal of Emerging Markets*, 17(6), 1543–1564. <https://doi.org/10.1108/ijoem-08-2020-1001>.
- Khan, M. A. (2025). Investigating the intersection of organizational behavior, supply chain practices, economic outcomes, financial excellence and CSR for corporate identity improvement. *Measuring Business Excellence*, 29(3), 551–572. <https://doi.org/10.1108/mbe-06-2024-0083>
- Kim, T., & Han, J. M. (2024). *The impact of exchange rate fluctuations on the performance of domestic manufacturing companies* (KIET Industrial Economic Review, Vol. 29, No. 3, pp. 59-67). SSRN. <https://ssrn.com/abstract=4916912>
- Kiptoo, J. (2024). The influence of political stability on foreign direct investment (FDI). *International Journal of Developing Country Studies*, 6(1), 74–86. <https://doi.org/10.47941/ijdc.2165>
- Kock, N. (2015). Common method bias in PLS-SEM: A full collinearity assessment approach. *International Journal of e-Collaboration*, 11(4), 1–10. <https://doi.org/10.4018/ijec.2015100101>.
- Kurecic, P., & Kokotovic, F. (2017). The relevance of political stability on FDI: A VAR analysis and ARDL models for selected small, developed, and instability threatened economies. *Economies*, 5(3), 22. <https://doi.org/10.3390/economies5030022>
- Liu, P. L., Lü, Z., & Yoon, S.-M. (2025). Impact of US–China tensions on the volatility, correlation, and hedging effects of gold and crude oil prices. Elsevier BV. <https://doi.org/10.2139/ssrn.5213775>
- Liu, X., & Zhang, X. (2024). Geopolitical risk and currency returns. *Journal of Banking & Finance*, 161, 107097. <https://doi.org/10.1016/j.jbankfin.2024.107097>
- Li, X., Wu, Q., Holsapple, C. W., & Goldsby, T. (2017). An empirical examination of firm financial performance along dimensions of supply chain resilience. *Management Research Review*, 40(3), 254–269. <https://doi.org/10.1108/mrr-02-2016-0030>
- Mao, H., & Görg, H. (2020). Friends like this: The impact of the US–China trade war on global value chains. *The World Economy*, 43(7), 1776–1791. <https://doi.org/10.1111/twec.12967>
- Morina, F., Hysa, E., Ergün, U., Panait, M., & Voica, M. C. (2020). The effect of exchange rate volatility on economic growth: Case of the CEE countries. *Journal of Risk and Financial Management*, 13(8), 177. <https://doi.org/10.3390/jrfm13080177>
- Musyoki, D., Pokhariyal, G. P., & Pundo, M. (2012). The impact of real exchange rate volatility on economic growth: Kenyan evidence. *Business and Economic Horizons*, 7, 59–75. <https://doi.org/10.15208/beh.2012.5>.
- North, D. C. (1990). *Institutions, Institutional Change and Economic Performance*. Cambridge University Press. <https://doi.org/10.1017/cbo9780511808678>.
- Pasali, S. S., & Chaudhary, A. (2020). *Assessing the impact of foreign ownership on firm performance by size: Evidence from firms in developed and developing countries*. *Transnational Corporations*, 27(2), 43–72. SSRN. <https://ssrn.com/abstract=3692334>
- Paul, P. (2025). The role of supply chain finance in enhancing financial performance: Evidence from personal and home care product industry. *Investment Management and Financial Innovations*, 22(2), 77–85. [https://doi.org/10.21511/imfi.22\(2\).2025.07](https://doi.org/10.21511/imfi.22(2).2025.07)
- Pástor, L., & Veronesi, P. (2013). Political uncertainty and risk premia. *Journal of Financial Economics*, 110(3), 520–545. <https://doi.org/10.1016/j.jfineco.2013.08.007>.
- Podsakoff, P. M., MacKenzie, S. B., Lee, J.-Y., & Podsakoff, N. P. (2003). Common method biases in behavioural research: A critical review of the literature and recommended remedies. *Journal of Applied Psychology*, 88(5), 879–903. <https://doi.org/10.1037/0021-9010.88.5.879>.
- Qamruzzaman, M., & Karim, S. (2024). Green energy, green innovation, and political stability led to green growth in OECD nations. *Energy Strategy Reviews*, 55, 101519. <https://doi.org/10.1016/j.esr.2024.101519>.
- Saha, S., Sadekin, M. N., & Saha, S. K. (2022). Effects of institutional quality on foreign direct investment inflow in lower-middle income countries. *Heliyon*, 8(10), e10828. <https://doi.org/10.1016/j.heliyon.2022.e10828>
- Song, Y., Hao, F., Hao, X., & Gozgor, G. (2021). Economic Policy Uncertainty, Outward Foreign Direct Investments, and Green Total Factor Productivity: Evidence from Firm-Level Data in China. *Sustainability*, 13(4), 2339. <https://doi.org/10.3390/su13042339>
- Tjandrasa, B. B. (2021). Determinants of political stability to support foreign investment in Indonesia. *Petra International Journal of Business Studies*, 4(2), 97–108. <https://doi.org/10.9744/ijbs.4.2.97-108>
- Truong, L. D., Friday, H. S., & Pham, T. D. (2024). The Effects of Geopolitical Risk on Foreign Direct Investment in a Transition Economy: Evidence from Vietnam. *Journal of Risk and Financial Management*, 17(3), 101. <https://doi.org/10.3390/jrfm17030101>.
- Wang, R., Qamruzzaman, M., & Karim, S. (2024). Unveiling the power of education, political stability and ICT in shaping technological innovation in BRI nations. *Heliyon*, 10(9), e30142. <https://doi.org/10.1016/j.heliyon.2024.e30142>.
- Williamson, O. E. (1985). *The economic institutions of capitalism: Firms, markets, relational contracting*. New York, NY: Free Press.
- Wu, W., & Shao, C. (2023). How does home and host-country policy uncertainty affect outward FDI? Firm-level evidence from China. *Economia Politica*, 40(2), 495–515. <https://doi.org/10.1007/s40888-023-00298-8>
- Yan, H., Xiao, W., Deng, Q., & Xiong, S. (2022). Analysis of the Impact of U.S. Trade Policy Uncertainty on China Based on Bayesian VAR Model. *Journal of Mathematics*, 2022(1). <https://doi.org/10.1155/2022/7124997>
- Yensu, J., Nkrumah, S. K., Amankwah, S., & Ledi, K. K. (2022). The effect of exchange rate volatility on economic growth. *Risk Governance and Control: Financial Markets and Institutions*, 12(4), 33–45. <https://doi.org/10.22495/rgcv12i4p2>
- Zhang, Y., He, J., He, M., & Li, S. (2023). Geopolitical risk and stock market volatility: A global perspective. *Finance Research Letters*, 53, 103620. <https://doi.org/10.1016/j.frl.2022.103620>

Zhang, B., Ma, J., Khan, M. A., Repnikova, V., Shidlovskaya, K., Barykin, S., & Ahmad, M. S. (2023). The Effect of Economic Policy Uncertainty on Foreign Direct Investment in the Era of Global Value Chain: Evidence from the Asian Countries. *Sustainability*, 15(7), 6131. <https://doi.org/10.3390/su15076131>

Zhou, Y. (2020). The US-China trade war and global value chains. *Всемирный банк (The World Bank)*.

Zhao, N., Hong, J., & Lau, K. H. (2023). Impact of supply chain digitalization on supply chain resilience and performance: A multi-mediation model. *International Journal of Production Economics*, 259, 108817. <https://doi.org/10.1016/j.ijpe.2023.108817>

Zheng, M., Wang, R., Ye, J., & Li, T. (2025). How does supply chain finance enhance firms' supply chain resilience? *International Review of Economics & Finance*, 102, 104231. <https://doi.org/10.1016/j.iref.2025.104231>

Zhu, M., Miao, S., Lam, H. K. S., Liang, C., & Yeung, A. C. L. (2024). Navigating through geopolitical risk: the role of supply chain concentration. *International Journal of Operations & Production Management*, 45(5), 1032–1065. <https://doi.org/10.1108/ijopm-03-2024-0248>

Zhu, X., & Wu, Y. J. (2022). How Does Supply Chain Resilience Affect Supply Chain Performance? The Mediating Effect of Sustainability. *Sustainability*, 14(21), 14626. <https://doi.org/10.3390/su142114626>

E- Companions

E-1 Descriptive Statistic

Name	Mean	Me- dian	Scale min	Scale max	Observed min	Observed max	Standard deviation	Excess kurtosis	Skewness
UCTW1	3.893	4.000	1.000	5.000	1.000	5.000	0.861	1.314	-0.992
UCTW2	3.928	4.000	1.000	5.000	1.000	5.000	0.878	0.849	-0.877
UCTW3	3.997	4.000	1.000	5.000	1.000	5.000	0.882	1.603	-1.109
UCTW4	3.980	4.000	1.000	5.000	1.000	5.000	0.865	1.625	-1.114
SCST1	3.899	4.000	1.000	5.000	1.000	5.000	0.962	0.829	-0.923
SCST2	3.879	4.000	1.000	5.000	1.000	5.000	0.914	0.197	-0.659
SCST3	3.948	4.000	1.000	5.000	1.000	5.000	0.947	0.754	-0.914
SCST4	4.062	4.000	1.000	5.000	1.000	5.000	0.906	2.469	-1.392
RPI1	4.153	4.000	1.000	5.000	1.000	5.000	0.909	2.274	-1.405
RPI2	4.072	4.000	1.000	5.000	1.000	5.000	0.935	1.788	-1.321
RPI3	4.088	4.000	1.000	5.000	1.000	5.000	0.882	1.842	-1.291
RPI4	4.124	4.000	1.000	5.000	1.000	5.000	0.887	2.129	-1.316
SCR1	4.166	4.000	1.000	5.000	1.000	5.000	0.741	4.303	-1.484
SCR2	4.111	4.000	1.000	5.000	1.000	5.000	0.766	4.611	-1.589
SCR3	4.020	4.000	1.000	5.000	1.000	5.000	0.819	1.496	-1.002
SCR4	4.023	4.000	1.000	5.000	1.000	5.000	0.797	1.443	-0.973
CV1	4.124	4.000	1.000	5.000	1.000	5.000	0.822	2.472	-1.295
CV2	4.130	4.000	1.000	5.000	1.000	5.000	0.792	2.987	-1.342
CV3	4.107	4.000	1.000	5.000	1.000	5.000	0.834	3.307	-1.458
CV4	4.117	4.000	1.000	5.000	1.000	5.000	0.827	3.951	-1.578
FIC1	4.117	4.000	1.000	5.000	1.000	5.000	0.930	3.965	-1.796
FIC2	3.919	4.000	1.000	5.000	1.000	5.000	0.860	2.204	-1.202
FIC3	3.912	4.000	1.000	5.000	1.000	5.000	0.859	1.793	-1.068
FIC4	3.853	4.000	2.000	5.000	2.000	5.000	0.779	0.286	-0.609
CFP1	4.010	4.000	1.000	5.000	1.000	5.000	0.879	0.591	-0.830
CFP2	3.980	4.000	1.000	5.000	1.000	5.000	0.888	0.429	-0.776
CFP3	4.023	4.000	1.000	5.000	1.000	5.000	0.848	0.772	-0.816
CFP4	4.065	4.000	1.000	5.000	1.000	5.000	0.918	0.296	-0.841
CFP5	4.046	4.000	1.000	5.000	1.000	5.000	0.838	0.935	-0.855
CFP6	4.085	4.000	1.000	5.000	1.000	5.000	0.850	0.481	-0.802

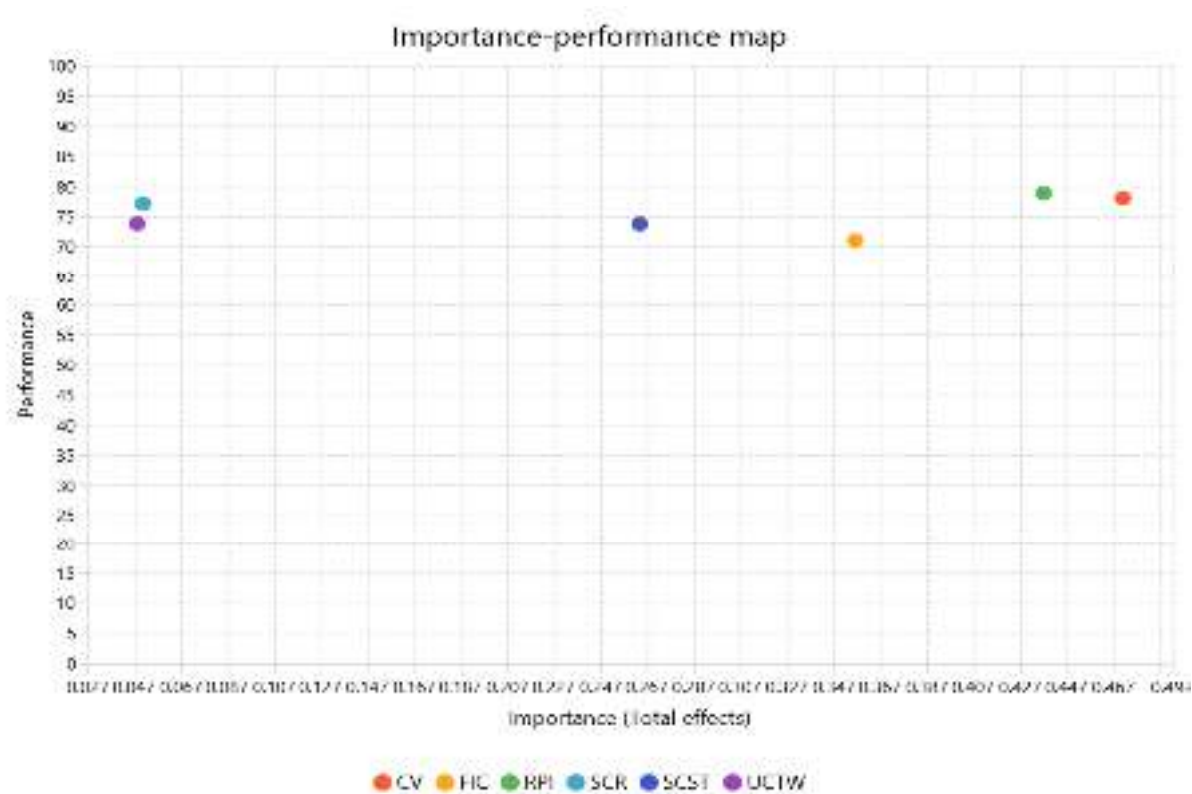
E-2. Structural Model Evaluation: Explanatory Power, Effect Size, and Predictive Accuracy

Endogenous Construct	Explained Variance (R ² / Adj. R ²)	Predictive Relevance (Q ² predict)	Prediction Accuracy (RMSE / MAE)	Significant Effect Contributions (f ²)	Model Assessment
Corporate Financial Performance (CFP)	0.667 / 0.664	0.567	0.665 / 0.540	CV → CFP (0.239); FIC → CFP (0.126)	Substantial explanatory power with strong predictive relevance
Currency Volatility (CV)	0.645 / 0.643	0.644	0.607 / 0.470	RPI → CV (0.259); SCST → CV (0.084)	Strong prediction with dominant geopolitical risk effect
Financial Investment Capacity (FIC)	0.694 / 0.691	0.690	0.565 / 0.452	RPI → FIC (0.230); SCST → FIC (0.071)	Highest explained variance and excellent predictive capability
Strategic Corporate Resilience (SCR)	0.600 / 0.598	0.592	0.648 / 0.473	UCTW → SCR (0.160); SCST → SCR (0.151)	Moderate-to-high explanatory and predictive strength

Note: R² values above 0.50 indicate substantial explanatory power. Q²predict values greater than zero confirm predictive relevance, while RMSE and MAE values indicate acceptable out-of-sample prediction accuracy. Effect sizes (f²) follow conventional thresholds of small (0.02), medium (0.15), and large (0.35).

E-3. Collinearity statistics (VIF)

Indicators	VIF
CFP1	3,293
CFP2	3,244
CFP3	3,045
CFP4	3,174
CFP5	2,859
CFP6	2,996
CV1	3,081
CV2	3,176
CV3	2,665
CV4	2,663
FIC1	2,403
FIC2	2,963
FIC3	2,633
FIC4	2,557
RPI1	3,287
RPI2	3,276
RPI3	3,018
RPI4	2,933
SCR1	2,882
SCR2	3,249
SCR3	2,375
SCR4	2,952
SCST1	2,631
SCST2	2,619
SCST3	2,447
SCST4	2,309
UCTW1	2,895
UCTW2	2,984
UCTW3	2,232
UCTW4	3,235



BUKTI REVISI MAJOR KEDUA:

1. Komentar Reviewer 1
2. Komentar Reviewer 2
3. Komentar Reviewer 3



Universitas
Bhayangkara
Jakarta Raya

Sugeng Suroso <sugeng.suroso@ubharajaya.ac.id>

[JRFM] Manuscript ID: jrfr-4370715 - Major Revision

1 pesan

JRFM Editorial Office <jrfr@mdpi.com>

1 Juli 2026 pukul 17.00

Balas Ke: Anja Juric <anja.juric@mdpi.com>, JRFM Editorial Office <jrfr@mdpi.com>

Kepada: Sugeng Suroso <sugeng.suroso@ubhara.ac.id>, Sugeng Suroso <sugeng.suroso@ubharajaya.ac.id>

Cc: Sri Wulandari <sri.wulandari@dsn.ubharajaya.ac.id>, Chajar Matari Fath Mala <chajar.matari@upj.ac.id>, JRFM Editorial Office <jrfr@mdpi.com>, Anja Juric <anja.juric@mdpi.com>

Dear Dr. Suroso,

Thank you for providing the revised version of your manuscript:

Manuscript ID: jrfr-4370715

Type of manuscript: Article

Title: Geopolitical Risk and the Financialization of Firm Vulnerability in Emerging Markets

Authors: Sugeng Suroso *, Sri Wulandari, Chajar Matari Fath Mala

Received: 26 May 2026

E-mails: sugeng.suroso@ubhara.ac.id, sri.wulandari@dsn.ubharajaya.ac.id, chajar.matari@upj.ac.id

Section: Applied Economics and Finance

https://www.mdpi.com/journal/jrfr/sections/applied_economics_finance

The revised version of your manuscript has now been reviewed by experts in the field and can be found with the review reports at:

<https://susy.mdpi.com/user/manuscripts/resubmit/3d6ba68186f88871e32a6c8a0ca75eff>

Please revise the manuscript found at the above link according to the reviewer 1 comments and upload the revised file within 7 days. Note the following check-list:

- (I) Ensure all references are relevant to the content of the manuscript.
- (II) Highlight any revisions to the manuscript, so editors and reviewers can see any changes made.
- (III) Provide a cover letter to respond to the reviewers' comments and explain, point by point, the details of the manuscript revisions.
- (IV) If the reviewer(s) recommended references, critically analyze them to ensure that their inclusion would enhance your manuscript. If you believe these references are unnecessary, you should not include them.
- (V) If you found it impossible to address certain comments in the review reports, include an explanation in your appeal.

Our expert editors offer professional Language and Figure Editing, each completed within 1 day. These optional services ensure the high standard required to publish your work with clarity and boost its impact. You can submit here:

https://susy.mdpi.com/user/author_services/new/revision_email?hash_key=3d6ba68186f88871e32a6c8a0ca75eff

Please do not hesitate to contact us if you have any questions regarding the revision of your manuscript or if you need more time. We look forward to hearing from you soon.

Kind regards,

Ms. Ana Manojlovic

E-Mail: manojlovic@mdpi.com

Section Managing Editor

MDPI Novi Sad Branch Office Bulevar Oslobođenja 83 21000 Novi Sad

Serbia Tel. 021/300-14-49

www.mdpi.com

Disclaimer: MDPI recognizes the importance of data privacy and protection. We

treat personal data in line with the General Data Protection Regulation (GDPR) and with what the community expects of us. The information contained in this message is confidential and intended solely for the use of the individual or entity to whom they are addressed. If you have received this message in error, please notify me and delete this message from your system. You may not copy this message in its entirety or in part, or disclose its contents to anyone.

KOMENTAR REVIEWER 1

Review Report Form

Quality of English Language

() The English could be improved to more clearly express the research.

(x) The English is fine and does not require any improvement.

	Yes	Can be improved	Must be improved	Not applicable
Does the introduction provide sufficient background and include all relevant references?	(x)	()	()	()
Is the research design appropriate?	(x)	()	()	()
Are the methods adequately described?	(x)	()	()	()
Are the results clearly presented?	(x)	()	()	()
Are the conclusions supported by the results?	(x)	()	()	()
Are all figures and tables clear and well-presented?	()	(x)	()	()

Comments and Suggestions for Authors

Overall, I believe the manuscript has been revised thoughtfully and is now substantially stronger. The only notable remaining weakness is the partial response regarding figure readability. If the figures can be regenerated with larger fonts and cleaner layouts before resubmission, the revision will be even more convincing.

26 May 2026

29 Jun 2026 18:00:46

Submission Date

Date of this review

KOMENTAR REVIEWER 2

Review Report Form

Quality of English Language

() The English could be improved to more clearly express the research.

(x) The English is fine and does not require any improvement.

	Yes	Can improved	be Must improved	be Not applicable
Does the introduction provide sufficient background and include all relevant references?	()	(x)	()	()
Is the research design appropriate?	()	()	(x)	()
Are the methods adequately described?	()	()	(x)	()
Are the results clearly presented?	()	()	(x)	()
Are the conclusions supported by the results?	()	(x)	()	()
Are all figures and tables clear and well-presented?	()	()	(x)	()

Comments and Suggestions for Authors

Comments 1: (Please mention the place (line no) of correction)

The study examines inherently objective macroeconomic and geopolitical constructs such as US–China trade war effects, South China Sea geopolitical tensions, regional political instability, and currency volatility, yet all these variables appear to be measured using a firm-level Likert-scale questionnaire administered to managers.

This raises a fundamental methodological concern because these variables are externally observable macroeconomic phenomena rather than latent psychological or behavioral constructs. The authors should strongly justify why perceptual measures were preferred over objective secondary indicators. In its current form, the model captures managerial perceptions rather than actual geopolitical-financial transmission mechanisms.

Comments 2: (I could see only HTMT and VIF) (Please mention the place (line no) of correction of other claims)

The entire study relies on single-source self-reported questionnaire data, where independent variables, mediators, and dependent variables are all collected from the same respondents at the same time. But, I could not identify any formal assessment of common method bias such as: Harman's single factor test, Full collinearity VIF assessment, Marker variable technique or Procedural remedies for reducing response bias. Given the methodological design, omission of CMB assessment represents a major weakness.

Comments 3: (Please provide Excel file, Raw and refined both and Questionnaire also. If possible, It would also good if you may provide the link of google form where you originally collect the data.)

I wondered that Statistical results appear unusually perfect, and it requires additional scrutiny. Considering the respondent from different fields, it seems very hard to get that perfect data, please see it yourself. The measurement model results appear unusually strong: Outer loadings mostly above 0.85, Cronbach Alpha values above 0.90 for all constructs, Composite reliability extremely high, AVE consistently very strong, HTMT values uniformly acceptable

While strong psychometric results are desirable, obtaining near-perfect consistency across seven constructs in multi-country firm-level survey data is statistically unusual. Authors should provide additional transparency regarding questionnaire development, item purification, and data cleaning procedures and should provide the excel file compiling all the responses.

Comments 4: (Please mention the place (line no) of correction)

The sampling procedure requires greater transparency. Although the authors report that 420 questionnaires were distributed, 308 valid responses were retained, and a purposive sampling strategy was employed, several important details regarding sample construction remain unclear. For example, the manuscript does not clearly specify which Southeast Asian countries were included in the study, how firms were selected within each country, how many responses were obtained from each country, which specific managerial positions participated in the survey, and whether country-level heterogeneity was considered during the analysis. Without providing these important sampling details, it becomes difficult to assess the representativeness of the sample and the generalizability of the study's findings.

Comments 5: : (Please mention the place (line no) of correction)

The structural model examines corporate financial performance under geopolitical instability, yet no control variables appear to be included in the analysis. Since firm performance is influenced by multiple firm-specific and institutional factors such as firm size, industry sector, export dependence, ownership structure, leverage, and country-level differences, the omission of relevant controls weakens the model specification and limits the strength of causal interpretation.

Comment 6: (Second review- Comment-1).

Provide the hypothesis testing in table 8 in the same sequence as mentioned in the conceptual model. you are advised to present a hypothesis summary table (Hypothesis no – Path – Expected Sign – β – p-value – Supported/Not Supported) to avoid ambiguity and improve transparency.

Comment 7: (Second review Comment-2).

Please provide the data file in the supplementary section. I still can't believe the results.

Comment 8: (Second review Comment-3).

Corporate financial performance is measured through managerial perceptions instead of objective financial data, but the manuscript does not sufficiently justify why secondary or objective firm-level financial data could not be incorporated. This weakens the robustness of the findings.

Comment 9: (Second review Comment-4).

The manuscript strongly emphasizes mediation effects, yet several indirect paths reported in Table 9 are statistically insignificant. Therefore, the mediation framework is only partially supported and current conclusions appear overstated.

Comment 10: (Second review Comment-5).

The authors mention several control variables (firm size, industry, leverage, export dependency, country location), but the manuscript does not clearly report how these controls were incorporated into the structural model or their empirical effects.

Submission Date

26 May 2026
Date of this review
30 Jun 2026 12:15:47

KOMENTAR REVIEWER 3

Review Report Form

Quality of English Language

- () The English could be improved to more clearly express the research.
(x) The English is fine and does not require any improvement.

	Yes	Can be improved	Must be improved	Not applicable
Does the introduction provide sufficient background and include all relevant references?	(x)	()	()	()
Is the research design appropriate?	(x)	()	()	()
Are the methods adequately described?	(x)	()	()	()
Are the results clearly presented?	(x)	()	()	()
Are the conclusions supported by the results?	(x)	()	()	()
Are all figures and tables clear and well-presented?	(x)	()	()	()

Comments and Suggestions for Authors

I have re-read the article "Geopolitical Risk and the Financialization of Firm Vulnerability in Emerging Markets" (jrjm-4370715) and the authors have (despite they could have perhaps done so in greater detail) responded to all my queries and adapted the manuscript accordingly.

I therefore do not have more comments to add.<!--

/data/user/0/com.samsung.android.app.notes/files/clipdata/clipdata_bodytext_260629_184657_543.sdocx-->

26 May 2026

Submission Date

29 Jun 2026 18:47:30

Date of this review

BUKTI RESPONS DAN LAMPIRAN KEDUA:

1. Cover Letter untuk Lead Editor
2. Respons untuk Reviewer 1
3. Respons untuk Reviewer 2
4. Respons untuk Reviewer 3



Universitas
Bhayangkara
Jakarta Raya

Sugeng Suroso <sugeng.suroso@ubharajaya.ac.id>

[JRFR] Manuscript ID: jrfr-4370715 - Manuscript Resubmitted

JRFR Editorial Office <jrfr@mdpi.com>

7 Juli 2026 pukul 03.54

Balas Ke: Anja Juric <anja.juric@mdpi.com>, JRFR Editorial Office <jrfr@mdpi.com>

Kepada: Sugeng Suroso <sugeng.suroso@ubhara.ac.id>, Sugeng Suroso <sugeng.suroso@ubharajaya.ac.id>

Cc: Sri Wulandari <sri.wulandari@dsn.ubharajaya.ac.id>, Chajar Matari Fath Mala <chajar.matari@upj.ac.id>

Dear Dr. Suroso,

Thank you very much for resubmitting the modified version of the following manuscript:

Manuscript ID: jrfr-4370715

Type of manuscript: Article

Title: Geopolitical Risk and the Financialization of Firm Vulnerability in Emerging Markets

Authors: Sugeng Suroso *, Sri Wulandari, Chajar Matari Fath Mala

Received: 26 May 2026

E-mails: sugeng.suroso@ubhara.ac.id, sri.wulandari@dsn.ubharajaya.ac.id, chajar.matari@upj.ac.id

Applied Economics and Finance

https://www.mdpi.com/journal/jrfr/sections/applied_economics_finance

https://susy.mdpi.com/user/manuscripts/review_info/3d6ba68186f88871e32a6c8a0ca75eff

A member of the editorial office will be in touch with you soon regarding progress of the manuscript.

Kind regards,

JRFR Editorial Office

Postfach, CH-4020 Basel, Switzerland

Office: Grosspeteranlage 5, CH-4052 Basel

Tel. +41 61 683 77 34 (office)

E-mail: jrfr@mdpi.com

<https://www.mdpi.com/journal/jrfr/>

*** This is an automatically generated email ***

Dear JRFM Editorial Office,

I hope this message finds you well.

We would like to inform you that the revised version of our manuscript has been successfully submitted through the journal's online submission system.

The manuscript details are as follows:

Manuscript ID: jrfm-4370715

Type of Manuscript: Article

Title: Geopolitical Risk and the Financialization of Firm Vulnerability in Emerging Markets

In accordance with the editorial request, we have also uploaded the revised manuscript along with the required response documents. We sincerely appreciate the assistance of the Editorial Office and the valuable comments provided by the reviewers, which have greatly helped us improve the quality and clarity of our manuscript.

Thank you very much for your kind attention and consideration. We look forward to your further response.

Sincerely,

Sugeng Suroso

Reviewer 1 – Round 2

No.	Reviewer's Comments	Authors' Responses
1	Overall, I believe the manuscript has been revised thoughtfully and is now substantially stronger. The only notable remaining weakness is the partial response regarding figure readability. If the figures can be regenerated with larger fonts and cleaner layouts before resubmission, the revision will be even more convincing.	Thank you very much for your positive and encouraging assessment of the revised manuscript. We sincerely appreciate your recognition that the manuscript has been strengthened substantially through the revision process. We also appreciate your remaining suggestion regarding figure readability. In response, we have regenerated the figures with larger font sizes and cleaner layouts to improve readability and overall visual clarity. We believe these improvements make the presentation of the measurement and structural model results clearer and more accessible to readers. Thank you again for your constructive feedback, which has helped us further improve the quality of the manuscript.

Reviewer 2 – Round 2

No .	Reviewer's Comments	Authors' Responses
1	The study examines inherently objective macroeconomic and geopolitical constructs such as US–China trade war effects, South China Sea geopolitical tensions, regional political instability, and currency volatility, yet all these variables appear to be measured using a firm-level Likert-scale questionnaire administered to managers. This raises a fundamental methodological concern because these variables are externally observable macroeconomic phenomena rather than latent psychological or behavioral constructs. The authors should strongly justify why perceptual measures were preferred over objective secondary indicators. In its current form, the model captures managerial perceptions rather than actual geopolitical-financial transmission mechanisms.	Thank you for this valuable comment. We agree that the distinction between objective geopolitical events and firm-level perceived exposure needed clearer explanation. The methodology now explains that the study does not treat macro events as psychological constructs. Instead, perceptual measures are used to capture the firm-specific consequences of those events, such as exposure through trade routes, supplier dependence, currency invoicing, hedging capacity, and reliance on foreign investors. This clarification explains why managerial assessments are appropriate for measuring heterogeneous firm vulnerability. (Methodology and Design, Research Design section, Line 422–432; Limitation, Line 689–694).
2	The entire study relies on single-source self-reported questionnaire data, where independent variables, mediators, and dependent variables are all collected from the same respondents at the same time. But, I could not identify any formal assessment of common method bias such as: Harman's single factor test, Full collinearity VIF assessment, Marker variable technique or Procedural remedies for reducing response bias. Given the methodological design, omission of CMB assessment represents a major weakness.	Thank you for this valuable comment. We agree that common method bias is an important concern in this study because all variables were collected from the same respondents using a single questionnaire at one point in time. In response, we revised the methodology section to report the procedural remedies applied during questionnaire design and administration, including anonymity assurance, neutral item wording, separation of predictors, mediators, and outcomes, and clear survey instructions to reduce response bias. We also conducted Harman's single-factor test as a formal diagnostic assessment. The result showed that the first unrotated factor explained 58.296% of the total variance, exceeding the commonly used 50% threshold. This indicates that common method bias may be present and should be considered when interpreting the findings. Therefore, the revised manuscript no longer claims that common method bias was absent. Accordingly, we revised the research design, measurement-model and limitations section to report this result transparently, interpret the findings more cautiously, and acknowledge common method bias as a potential methodological limitation. We also recommend that future studies employ multi-source data, temporal separation, marker variables, longitudinal designs, and objective secondary indicators to reduce common method bias more rigorously. (Research Design, Line 508–515;

		Measurement Model, Line 582–588; Limitation, Line 698–703).
3	I wondered that Statistical results appear unusually perfect, and it requires additional scrutiny. Considering the respondent from different fields, it seems very hard to get that perfect data, please see it yourself. The measurement model results appear unusually strong: Outer loadings mostly above 0.85, Cronbach Alpha values above 0.90 for all constructs, Composite reliability extremely high, AVE consistently very strong, HTMT values uniformly acceptable. While strong psychometric results are desirable, obtaining near-perfect consistency across seven constructs in multi-country firm-level survey data is statistically unusual. Authors should provide additional transparency regarding questionnaire development, item purification, and data cleaning procedures and should provide the excel file compiling all the responses.	Thank you for the constructive comment. We agree that the very strong measurement model results require additional transparency, especially given the multi-country and multi-industry survey context. In response, we have revised the methodology and measurement model sections to clarify the questionnaire development, pretesting, item refinement, and data cleaning procedures. The instrument was developed from prior literature, reviewed by three scholars and two practitioners, and pretested with 35 managers. Only minor wording revisions were made, and no item was removed solely to improve statistical fit. We also clarified that from 312 returned questionnaires, incomplete, straight-line, failed attention-check, and internally inconsistent responses were excluded, leaving 308 valid responses for analysis. We acknowledge that this screening may contribute to high reliability values, but it was conducted to ensure data quality. Furthermore, we now interpret the strong outer loadings, Cronbach's alpha, composite reliability, AVE, and HTMT results more cautiously as evidence of item coherence, not as proof that the model is free from measurement limitations. We also strengthened the discussion of common method bias and added this issue to the limitations section. Finally, an anonymized Excel file containing the compiled item-level responses has been prepared for editorial and reviewer inspection, with all respondent and firm identifiers removed to protect confidentiality. (Research Design, Line 472–514).
4	The sampling procedure requires greater transparency. Although the authors report that 420 questionnaires were distributed, 308 valid responses were retained, and a purposive sampling strategy was employed, several important details regarding sample construction remain unclear. For example, the manuscript does not clearly specify which Southeast Asian countries were included in the study, how firms were selected within each country, how many responses were obtained from each country, which specific managerial positions participated in the survey, and whether country-level heterogeneity was considered during the analysis. Without providing these important sampling details, it becomes difficult to assess	We have expanded the sampling description. The manuscript now identifies the six Southeast Asian economies included in the study, explains the purposive sampling criteria, describes the cross-border exposure requirements for firm inclusion, and reports country, industry, firm-size, and respondent-role distributions. This makes the scope and limits of generalisability clearer. (Research Design, Line 460–485).

	the representativeness of the sample and the generalizability of the study's findings.	
5	The structural model examines corporate financial performance under geopolitical instability, yet no control variables appear to be included in the analysis. Since firm performance is influenced by multiple firm-specific and institutional factors such as firm size, industry sector, export dependence, ownership structure, leverage, and country-level differences, the omission of relevant controls weakens the model specification and limits the strength of causal interpretation.	Thank you for this valuable comment. We acknowledge that our previous response was not sufficiently precise. We have now revised the wording to avoid implying that the control variables were statistically included in the PLS-SEM structural model. The present study focuses on the theoretically specified mediation mechanisms between geopolitical instability, supply chain resilience, currency volatility, foreign investment confidence, and corporate financial performance. However, we agree that firm size, industry sector, export dependence, ownership structure, leverage, and country-level differences may also influence firm performance. Accordingly, the revised manuscript now treats the absence of these controls as a limitation rather than overstating the model specification. We have also clarified that, because the study uses a cross-sectional design, the findings should be interpreted as theoretically grounded associations rather than definitive causal effects. In addition, the future research section now recommends that subsequent studies incorporate firm-level and country-level controls such as firm size, industry, ownership type, leverage, foreign sales intensity, and institutional environment. (Research Design, Line 459–470; Limitation, Line 702–708).
6	Provide the hypothesis testing in table 8 in the same sequence as mentioned in the conceptual model. you are advised to present a hypothesis summary table (Hypothesis no – Path – Expected Sign – β – p-value – Supported/Not Supported) to avoid ambiguity and improve transparency.	Thank you for the constructive suggestion. We have revised Table 8 and Table 9, by presenting the hypothesis testing results in the same sequence as the conceptual model. To improve clarity and transparency, we added a hypothesis summary table containing the hypothesis number, structural path, expected sign, β coefficient, p-value, and the decision on whether each hypothesis is supported or not supported. This revision helps avoid ambiguity between the hypothesized direction and the empirical results. (4.5.2. Path Coefficient, Line 608–612).
7	Please provide the data file in the supplementary section. I still can't believe the results.	Thank you for your comments. We understand the reviewer's concerns about the unusually strong statistical results. To increase transparency, we have submitted the survey dataset to the editors through the MDPI system under Non-published Material. The file includes valid responses used in the analysis, Likert scale coding, and relevant company-level demographic information. We have also clarified the questionnaire development, expert review, pre-testing with 35 managers, item retention process, and data

		cleaning procedures. The revised manuscript clarifies that incomplete responses, straight-line responses, failed attention checks, and internally inconsistent responses were removed before retaining the 308 valid responses. No items were removed solely to improve statistical fit. (Research Design, Lines 467–476).
8	Corporate financial performance is measured through managerial perceptions instead of objective financial data, but the manuscript does not sufficiently justify why secondary or objective firm-level financial data could not be incorporated. This weakens the robustness of the findings.	Thank you for this valuable comment. We agree that the use of perceptual measures for corporate financial performance requires stronger methodological justification. In the revised manuscript, we have clarified that the decision to use managerial perceptions was not intended to replace objective financial data where such data are available, but was made due to the specific empirical context of this study. The sample includes firms from several Southeast Asian economies, including privately held and non-listed firms, for which audited and comparable firm-level financial indicators are often unavailable, incomplete, inconsistent across jurisdictions, or not publicly disclosed. In addition, the study focuses on firm-level exposure to geopolitical risk, currency volatility, supply-chain vulnerability, and foreign investment confidence. These effects may not be fully captured by standardized secondary financial indicators because firms differ in their exposure to trade routes, import-export activities, foreign-currency invoicing, hedging practices, supplier concentration, and dependence on foreign investors. The manuscript already explains that perceptual measures were adopted to capture heterogeneous firm-level exposure and managerial assessments of operational, financial, and strategic vulnerability. We have therefore expanded this explanation in the methodology section and acknowledged more explicitly that the absence of objective secondary financial data is a limitation that future research should address through matched survey–financial datasets or longitudinal designs. (Research Design, Line 451–467).
9	The manuscript strongly emphasizes mediation effects, yet several indirect paths reported in Table 9 are statistically insignificant. Therefore, the mediation framework is only partially supported and current conclusions appear overstated.	Thank you for this insightful comment. We acknowledge that the mediation framework is only partially supported, as several indirect effects in Table 9 are not statistically significant. In the revised manuscript, we have clarified this more explicitly and revised the discussion to avoid overstating mediation effects. The findings are now interpreted as evidence of selective/partial mediation, where only specific pathways (particularly through currency volatility and foreign investment confidence) are

		supported, while others via supply chain resilience are not significant. Accordingly, we have moderated the conclusions to reflect that geopolitical risk transmission operates primarily through financial channels rather than uniformly across all proposed mediators. (4.5.3 Specific Indirect Effects, Line 598–606).
10	The authors mention several control variables (firm size, industry, leverage, export dependency, country location), but the manuscript does not clearly report how these controls were incorporated into the structural model or their empirical effects.	Thank you for this important observation. We acknowledge that the manuscript did not clearly report the treatment of the proposed control variables in the structural model. In the revised version, we have clarified that although firm size, industry, leverage, export dependency, and country location were considered as relevant contextual factors, they were not included as control variables in the final PLS-SEM structural model. The primary focus of the study was on the hypothesized mediation framework linking geopolitical risks to corporate financial performance through supply chain resilience, currency volatility, and foreign investment confidence. Therefore, the model estimation was conducted without additional control paths to maintain theoretical parsimony and focus on the proposed mechanisms. This clarification has now been explicitly added in the Methodology section, and the omission is acknowledged as a limitation. Future research is encouraged to incorporate these variables as formal controls to further test the robustness of the structural relationships. (Research Design, Line 522–528).

Geopolitical Risk and the Financialization of Firm Vulnerability in Emerging Markets.

Sugeng Suroso ¹, Sri Wulandari ² and Chajar Matari Fath Mala ³

^{1,2} Faculty of Economics and Business, Universitas Bhayangkara Jakarta Raya, Jakarta, Indonesia

³ Management Department, Universitas Pembangunan Jaya, South Tangerang, Indonesia

¹ Correspondence : sugeng.suroso@ubharajaya.ac.id

Abstract.

Geopolitical uncertainty represents a growing source of systemic risk that reshapes international markets, disrupts cross-border operations, and challenges firms' ability to sustain financial performance. This research examines the mechanisms through which geopolitical instability related to firm financial outcomes in Southeast Asian economies by assessing the mediating roles of supply chain resilience, currency volatility, and foreign investment confidence. Based on a quantitative cross-sectional design, data were collected from 308 firms across Southeast Asian Economies and analyzed using partial least squares structural equation modeling (PLS-SEM). The findings indicate that geopolitical risks significantly influence financial performance, with the strongest effects transmitted through financial channels. Currency volatility and foreign investment confidence emerge as critical mediators, demonstrating that exchange rate instability and investor risk perceptions substantially shape firm performance under geopolitical pressure. While supply chain resilience enhances firms' capacity to adapt to external disruptions, its direct contribution to financial performance remains insignificant. The model explains 66.7% of the variance in financial performance, reflecting strong explanatory capability. These findings extend existing knowledge by integrating financial, operational, and institutional mechanisms to clarify how geopolitical disruptions propagate into firm-level outcomes. The results underscore the importance of financial preparedness, institutional effectiveness, governance quality, and adaptive capabilities in managing geopolitical uncertainty.

Keywords: Geopolitical Risk; Corporate Financial Performance; Supply Chain Resilience; Currency Volatility; Foreign Investment Confidence;

JEL Classifications: F51, F23, G32, L25, M16, O53

1. Introduction

Geopolitical shocks are no longer an external event separate from the business world but rather inherent to global operations. Increasing volumes of trade disputes, conflicts in sea lanes, sanctions and political uncertainty are impacting businesses at all levels, affecting their production costs, access to capital, investor attitudes and expectations of future exchange rate developments (Caldara & Iacoviello, 2022; Bajaj et al., 2023). Although there is already literature on the impacts of geopolitical risks on growth, trade, market prices and overall investments, the factors contributing to heterogeneity in firms' responses to such risks remain understudied. In spite of exposure to identical events, firms typically vary significantly in their outcomes due to differing levels of dependence on the supply chain, foreign currency risk exposure, capacity to access external financing, ability to discern and appropriately react to the relevant event (Durnev & Mangan, 2020; Eser & Wu, 2021; Ghassemi & Sadr, 2022). However, existing geopolitical risk literature has largely treated firms as homogeneous entities, providing limited explanation of how internal

organizational capabilities and financial exposure determine the magnitude of geopolitical shocks on corporate outcomes. Understanding these firm-level transmission mechanisms is essential because the same geopolitical event may create different consequences depending on firms' strategic resources and vulnerability profiles.

This research extends the literature by analyzing geopolitical risk as a micro level transmission mechanism rather than solely as a macroeconomic phenomenon. The sample selection of emerging southeast Asian economies is both empirically and theoretically relevant since Asian firms are the most vulnerable to geopolitical shock as they are strongly dependent on export-oriented value chains, capital flow and have an operating environment shaped by credibility concerns and stability issues surrounding the local currency ([Athukorala & Wei, 2017](#)). In the analysis three types of geopolitical risk are included, namely the US-China trade war, conflict in the South China Sea and regional political uncertainty, all affecting firms' performance through different channels which may be offsetting or complementary. These channels suggest that geopolitical risks do not directly influence firm performance alone but operate through intermediate mechanisms that shape firms' ability to absorb, transfer, and respond to external uncertainty

The inclusion of three specific types of geopolitical risks and their various transmission channels contributes to the literature on the economy-wide impacts of geopolitical risks. While most studies focused on evaluating the impact of geopolitical risks on corporate investment, exchange rate volatility, supply chain disruptions or market turbulence separately ([Zhang et al., 2023](#); [Liu & Zhang, 2024](#)), limited attempts have been made to provide a theoretically comprehensive explanation of the relationship between geopolitical risk and corporate financial performance in emerging economies and pinpoint the relative importance of these channels. Our research has attempted to bridge this gap with analysis of a multi-mediator framework where the relative importance of supply chain resilience, currency volatility and foreign investment confidence contribute to the financialization of risk exposures. Accordingly, this research contributes to the literature in three ways. First, it shifts the discussion of geopolitical risk from a macroeconomic perspective toward a firm-level risk transmission framework. Second, it integrates supply chain resilience, currency volatility, and foreign investment confidence as interconnected mechanisms explaining corporate responses to geopolitical uncertainty. Third, by focusing on emerging Southeast Asian economies, this study provides evidence from a region where geopolitical exposure and global economic integration are particularly pronounced.

2. Literature Review, Theoretical Foundation, and Hypothesis Development

The theoretical background for this research encompasses the following theories: institutional uncertainty theory, transaction cost economics, real options theory, behavioral finance, dynamic capabilities theory and international finance theory. The institutional uncertainty theory demonstrates how instabilities, reversals and lack of institutional credibility contribute to the escalation of coordination costs across borders ([North, 1990](#); [Henisz, 2000](#)). Transaction cost economics builds on this idea by considering geopolitical stability in relation to higher monitoring, contracting, routing and enforcement costs within supply chains. The real options theory suggests that foreign investments are delayed or pulled back due to increased levels of uncertainty, whereas behavioral finance offers a deeper understanding of the connection between political and security risks and investor confidence ([Pástor & Veronesi, 2013](#)). Dynamic capabilities theory provides the theoretical basis for the idea of resilience as an organizational capability used to cope with disruptions, and international finance theory emphasizes the importance of currency fluctuations as financial mechanisms in response to geopolitical shocks.

2.1. Geopolitical Trade Conflicts and Supply Chain Resilience

One involved framework is that of Institutional Uncertainty Theory, which serves as an excellent point of departure in examining how geopolitical instability alters organizational operations. [North \(1990\)](#) made one of the most widely-cited arguments in the literature when he argued that the institutions or, in other words, the rules and conventions of economic exchange govern transaction costs of coordination. If institutions remain stable, then organizations can make decisions, investments and conduct coordination activities around the world without worrying about unexpected changes to the costs involved. On the other hand, when institutions become unstable, transaction costs explode, contract enforcement becomes difficult and predictability necessary for the operation of production chains becomes impossible ([Henisz, 2000](#)). Geopolitical trade disputes constitute exogenous disturbances of such a nature, which cause the collapse of the governance regime in which these supply chains function. By means of imposing tariffs, sanctions and retaliatory policies, the trade conflicts generate uncertainty within the supply chain and, hence, the cost structure that cannot be anticipated by the firms involved. These firms are no longer able to rely on their previously predictable supply partners who suddenly become unreliable. It is precisely this increased cost of coordination, which was made possible by institutional stability, that becomes evident again.

Indeed, there is ample evidence that high tariffs and threats thereof not only increased costs but had a disruptive effect on international supply chains, forcing companies to adapt and change their procurement and production strategies ([Zhou, 2020](#); [Mao & Görg, 2020](#)). However, even the uncertainty itself—the lack of knowledge about future trade policy, which would affect planning and long-term decision making—was just as disruptive as tariff measures. In the face of geopolitical uncertainty, it was impossible to plan ahead or develop sustainable strategies. On the one hand, some researchers contend that trade conflict could potentially increase resilience through incentives for diversification, reshoring, and regionalization ([Gereffi, 2020](#); [Bown, 2021](#)). Forced to reduce reliance on any single supplier, firms could create more diversified supply networks. While the idea may seem plausible, institutional uncertainty theory suggests a far less optimistic conclusion. Geopolitical pressure forces companies to make adjustments that are qualitatively different from strategic investments in building resilience that are made under normal circumstances. These adjustments are reactive, rushed, and rarely optimal under pressure. As [Evenett \(2019\)](#) shows, diversification induced by trade conflict tends to lead to fragmented and inefficient supply networks, rather than resilient ones. Adjustment costs pile up and the risks and vulnerabilities caused by geopolitically fragmented system become difficult to counterbalance. Companies involved in China-centric supply chains are trapped by their very structure and cannot change course without significant costs. Their redundancies are minimal and their leverage vis-à-vis more powerful trading partners is low. When geopolitical shocks come, they suffer disproportionately not because of any particular weaknesses but due to their position in the global economy.

Hence, while there could be rare cases of resilience-promoting adaptations made during trade conflicts, it appears that the predominant outcome is detrimental. Indeed, institutional uncertainty disrupts the crucial component of resilience—the predictability of events. As a result, supply chains cease to become coordinated systems and transform into a series of ad-hoc transactions. Therefore, we hypothesize:

H¹. *Geopolitical trade conflicts influence firms' supply chain resilience.*

2.2. Geopolitical Turbulence and Foreign Investment Confidence

From the point of view of real option and behavioral financial theories, increased policy and geopolitical uncertainty makes the value of waiting higher, causing investors to defer, shrink, or switch investment projects in light of increasingly unpredictable future payoffs (Dixit & Pindyck, 1994; Pástor & Veronesi, 2013). Geopolitical instability heightens uncertainty over regulatory regime, market access, and political stability, thus dampening confidence among foreign investors in the host economy. Rising uncertainty results in falling expected return levels relative to risk, reducing incentives for foreign direct investments (FDIs). Empirically, the relationship between trade policy uncertainty and lower entry rates, investment commitments, and FDI inflows is well-established by a number of studies, which find that policy uncertainties are particularly detrimental in economies that are closely linked with the international division of labor (Cui & Li, 2023; Yan et al., 2022; Gao et al., 2024). Although some research demonstrates temporary investment flows towards different countries in response to uncertainty, this is an ad hoc process rather than a sign of improved investor confidence (Dong et al., 2025). The impact of policy uncertainty on firms' decisions has also been observed as a reduction in outbound FDIs, as firms try to minimize the risks associated with both domestic and international market volatility (Wu & Shao, 2023; Song et al., 2021). Crucially, emerging Asian economies are particularly vulnerable to shifts in foreign investment confidence due to reliance on foreign investments, export-oriented development models, and nascent institutional settings. Therefore, geopolitical trade disputes may be expected to negatively affect foreign investment confidence in Asia. Therefore

H². Geopolitical trade conflicts significantly influence foreign investment confidence.

2.3. Maritime Geopolitical Risk and Supply Chain Resilience

The notion of geopolitical risk pertaining to contested areas at sea represents a different type of supply chain vulnerability, as it poses a danger to the actual physical integrity of logistics channels. In accordance with transaction cost economics, an increase in the risk of expropriation, transportation disruption, and security challenges implies an increase in the cost of coordination and lower efficiency of international transactions (Williamson, 1985). The South China Sea (SCS), being a strategic maritime chokepoint, provides an example, where heightened tensions lead to increased transit risks, higher insurance rates, and greater route uncertainty for firms dependent on ocean-based logistics. Indeed, recent empirical studies demonstrate how geopolitical risk remains a significant determinant of overall supply chain vulnerability, implying that geopolitical tensions have adverse effects on network flexibility and disruptiveness (Blessley & Mudambi, 2022; Huchzermeier & Stehle, 2025). The empirical data shows that companies heavily reliant on maritime trade and operating in risky geopolitical locations tend to experience higher levels of supply chain disruptions, while diversification cannot completely solve the problem (Khan, 2025; Zhu et al., 2024). While certain organizational practices can mitigate uncertainty, they remain incapable of resolving long-term geopolitical tensions in key regions (Coşkun & Erturgut, 2024). In relation to the South China Sea region, political tensions imply high costs of adjustments in regard to sourcing and routing, yet do not eliminate risk in any meaningful way. As a result, geopolitical risks in the SCS are likely to negatively impact supply chain resilience. Therefore

H³. Geopolitical tensions in contested maritime regions are significantly associated with supply chain resilience.

2.4. Maritime Geopolitical Risk and Foreign Investment Confidence

The behavioral and institutional theories indicate that geopolitical risk intensifies investors' perceptions about risk, as it increases uncertainties associated with political

stability, security, and policy consistency. Thus, it decreases the confidence of investors in investing abroad. According to [Caldara and Iacoviello \(2022\)](#), geopolitical risk shocks strongly inhibit investments due to increased uncertainty and higher risk premium in the financial market. The mentioned effect is especially significant in the case of strategic rivalry and conflict in a given area. Research findings indicate that geopolitical risks affect foreign investments, leading to redirection of foreign direct investments to other destinations ([Agoraki et al., 2024](#); [Feng et al., 2023](#)). Empirical evidence on the impact of geopolitical risk on foreign investments at the country level shows that an increase in geopolitical risk leads to a reduction in investment confidence ([Truong et al., 2024](#); [Altiner & Bozkurt, 2023](#)). In relation to the South China Sea, it can be claimed that rising geopolitical tensions encourage investors to look for safer places with less volatility ([Feng et al., 2023](#)). Due to the importance of the SCS in international trade, geopolitical risks may produce negative spillovers that will reduce foreign investment confidence in emerging Asia. Therefore

H⁴. *Geopolitical tensions in contested maritime regions significantly influence foreign investment confidence.*

2.5. Maritime Geopolitical Risk and Currency Volatility

International finance theory suggests that exchange rates are highly sensitive to external shocks, particularly geopolitical events that reshape investor expectations, risk assessments, and cross-border capital allocation decisions. Under conditions of heightened uncertainty, investors reassess asset risks, leading to changes in portfolio preferences, capital movements, and currency valuations ([Akram, 2020](#); [Caldara & Iacoviello, 2022](#)). Specifically, geopolitical conflicts lead to increased risk premia, accelerated reversals of capital flows, and increased speculative activities which significantly increase exchange rate volatility ([Akram, 2020](#); [Caldara & Iacoviello, 2022](#)). These impacts are even stronger on emerging markets where financial markets are shallow, policy credibility is still in formation, and currencies are vulnerable to changes in global risk sentiments. Geopolitical disputes in important maritime areas such as the South China Sea (SCS) represent an important external threat to exchange rate volatility. Since the SCS is a critical corridor for the movement of global trade and energy flows, any disruptions in this area affect expectations regarding trade, commodity flows, and investments, all factors that influence currency valuations. Geopolitical risk increases exchange rate volatility in ASEAN economies significantly as demonstrated by empirical findings implying increased vulnerability of these regional currencies to geopolitical tensions and risks ([Hui, 2021](#)). Likewise, [Adeosun et al. \(2024\)](#) find that geopolitical shocks generate volatility spillovers across financial markets where currency markets exhibit higher sensitivities as they depend on capital flows and policy uncertainties. Evidence from past geopolitical shocks reinforces this finding. Studies confirm that largescale geopolitical shocks including the recent Russia-Ukraine conflict led to foreign exchange volatility due to sudden portfolio adjustments and investors seeking safer havens in response ([Aliu et al., 2022](#); [Akarsu & Gharehgozli, 2023](#)). Similar effects can be expected in relation to the South China Sea where geopolitical tensions would lead to disruption of energy trade routes, changes in commodity prices, and speculation of currencies. Other studies have emphasized the impact of investor sentiment and contagion effect with regard to spillover of volatility via exchange rate mechanisms following geopolitical shocks ([Asad et al., 2020](#); [Abdulsalam & Onipede, 2023](#)). Based on these theoretical and empirical insights, it appears likely that geopolitical tensions in the South China Sea would increase uncertainties about trade continuities, energy supplies, and capital flows resulting in increased exchange rate volatility. thus

H⁵. *Geopolitical tensions in contested maritime region have a significant influence on currency volatility.*

2.6. Political Instability and Foreign Investment Confidence

The level of foreign investment confidence can be viewed as a function of political stability, institutional strength, and policy continuity in host nations. According to institutional theory, political stability decreases uncertainty, facilitates contract enforcement, and improves the predictability of regulations, thus reducing transaction costs and encouraging foreign investments (North, 1990; Henisz, 2000). Political instability negatively impacts this set of institutions, which leads to decreased investor confidence owing to uncertainty associated with potential policy changes, poor governance, and increased risks associated with investing (Dixit & Pindyck, 1994). Real options theory suggests that political instability increases the value of waiting for better investment opportunities as the level of uncertainty concerning potential future profits increases (Dixit & Pindyck, 1994). As a result, foreign investors demand higher premiums or avoid investing in politically unstable countries altogether. This perspective is complemented by behavioral finance, which highlights the importance of investor perceptions and confidence and indicates that political instability makes investors hesitant about investing or even withdrawing capital (Pástor & Veronesi, 2013).

These theoretical assumptions are consistently corroborated in the empirical literature. Kiptoo (2024) demonstrates that political stability facilitates the development of FDI, whereas political instability hinders the process by creating uncertainties and deterring investors. Similar trends are found in country-specific studies. Tjandrasa (2021), for example, shows that political stability and institutional reforms increase foreign investment attractiveness in Indonesia as a result of improved perception. Fragile and vulnerability prone countries experience stronger discouraging effects of political instability on foreign investment confidence. Bitar, Hamadeh, and Khoueiri (2019) found that insecurity and lack of policy predictability in Lebanon led to significant reductions in FDI. Kurecic and Kokotovic (2017) observed both short-term and lasting reductions in the amount of foreign investments resulting from political instability in their analysis.

The institutional quality has a critical moderating impact on the relationship between political instability and foreign investment confidence. The weaker the institutional environment, the greater negative influence political instability has on foreign investment confidence due to high uncertainty and weak enforcement mechanisms (Saha et al., 2022). Recent research further emphasizes the critical importance of political stability not just for attracting FDI, but also for sustaining innovations, green growth, and economic development in general (Oamruzzaman & Karim, 2024; Wang et al., 2024). The evidence from Indonesia supports this finding, showing that political stability positively related to the level of foreign investments and economic growth through increased investor confidence (Pástor & Veronesi, 2013).

Taken together, this literature suggests that regional political instability undermines foreign investment confidence by increasing uncertainty, weakening institutional trust, and raising perceived business risk, thereby discouraging long-term capital commitments. Therefore

H 6. *Regional political instability significantly influence foreign investment confidence.*

2.7. Political Instability, Investor Behavior, and Exchange Rate Volatility

In terms of behavioral finance, political instability impacts exchange rates through changes in expectations and risks perceptions. The rise in geopolitical uncertainty reduces investor confidence, which results in capital flight, depreciating pressures on currencies, and exchange rate volatility in response to heterogeneous reactions to new information (Pastor & Veronesi, 2013). This effect is particularly pronounced in emerging markets, characterized by weaker institutions and lack of credibility in their monetary policies, making currencies more sensitive to shocks. Indeed, multiple empirical analyses find that

shocks related to politics and security increase the volatility of exchange rates due to increased currency risks exposure for firms and investors (Abbassi et al., 2022; Aliu et al., 2022). Moreover, Hui (2021) reveals that ASEAN foreign exchange markets display persistent exchange rate volatility under conditions of geopolitical risks, indicating that the region experiences political uncertainty and capital flows changes. Adeosun et al. (2024) add that the combination of geopolitical uncertainty and economic policy uncertainty leads to increased financial instability and currency volatility.

Furthermore, commodity-based transmission mechanisms can play an important role in this case. Political uncertainty may negatively impact energy and commodity markets, thereby influencing exchange rates in oil exporters and importers. As noted by Akram (2020), there is greater exchange rate volatility for oil-exporting countries in periods of geopolitical uncertainty, while Liu et al. (2025) observe that shocks due to geopolitical tensions between the US and China are transmitted via commodity markets. These findings fit well into contagion models of international finance that emphasize the exchange rate channel as one of the ways shocks spread throughout the global financial system (Asad et al., 2020).

Thus, political uncertainty related to geopolitical tension will lead to increased exchange rate volatility. Therefore

H7. Regional Political instability has a significant influence on exchange rate volatility.

2.8. Supply Chain Resilience and Corporate Financial Performance

Supply chain resilience (SCR) refers to a firm's capacity to anticipate, absorb, adapt to, and recover from disruptions while maintaining operational continuity and performance. Drawing on dynamic capability's theory, resilient supply chains enable firms to reconfigure resources, sustain strategic flexibility, and mitigate performance losses under uncertainty, thereby contributing to superior financial outcomes. In volatile environments, SCR functions not merely as an operational attribute but as a strategic capability that enhances firms' long-term competitiveness and profitability. Empirical evidence consistently supports the positive association between SCR and corporate financial performance. Firms with higher resilience demonstrate superior returns on assets, profit margins, and growth during periods of market turbulence (Li et al., 2017). Recent studies further show that resilience embedded within sustainable supply chain practices strengthens stakeholder trust and improves financial performance by aligning operational stability with long-term value creation (Zhu & Wu, 2022). Digital capabilities reinforce this relationship by enhancing supply chain visibility, coordination, and recovery speed, allowing firms to translate resilience into tangible financial gains (Zhao et al., 2023).

Supply chain finance (SCF) has emerged as an important complementary mechanism through which resilience enhances financial performance. By easing working capital constraints and improving liquidity across supply networks, SCF strengthens firms' ability to absorb shocks and sustain investment in innovation and operations (Zheng et al., 2025; Feng et al., 2024). Empirical evidence confirms that firms adopting SCF mechanisms exhibit improved financial outcomes across industries, particularly in environments characterized by financing frictions (Paul, 2025). While prior studies highlight sustainability, digitalization, and financial integration as key enablers of resilience, most examine these mechanisms in isolation, leaving limited understanding of their combined effects—especially in emerging economies.

Taken together, the literature indicates that SCR operates as a strategic capability that positively influences corporate financial performance by enhancing adaptability, reducing disruption-related losses, and supporting sustained value creation. Therefore

H8. Supply chain resilience positively influence corporate financial performance.

2.9. Currency Volatility and Corporate Financial Performance

Currency volatility represents a critical external financial risk that affects firms' cost structures, pricing strategies, investment decisions, and international competitiveness. International finance theory suggests that heightened exchange rate fluctuations increase uncertainty, raise transaction and hedging costs, and distort investment planning, thereby undermining firm-level financial performance—particularly in economies with limited risk-management capabilities.

Empirical research provides robust evidence of this negative relationship. Exchange rate volatility has been shown to weaken corporate profitability and financial stability across both developed and emerging markets (Bris et al., 2004; Morina et al., 2020). Recent firm-level studies confirm that exchange rate instability adversely affects performance by eroding margins, increasing financing costs, and discouraging long-term investment (Kim & Han, 2024; Aminaho, 2025). Macroeconomic evidence further indicates that volatile exchange rates impede productivity, trade competitiveness, and investment, reinforcing their detrimental effects on firm performance (Musyoki et al., 2012; Yensu et al., 2022; Fofanah, 2022). Importantly, the magnitude of these effects varies across institutional contexts. Firms in advanced economies often possess more sophisticated hedging instruments and financial depth, enabling them to partially buffer currency risk, whereas firms in emerging markets remain more exposed due to weaker financial infrastructure and limited access to risk management tools (Aminaho, 2025). This vulnerability underscores the importance of currency stability for sustaining corporate financial performance in emerging economies. Accordingly, the literature converges on the view that currency volatility undermines firm performance by increasing uncertainty, costs, and financial risk exposure. Therefore

H⁹. *Currency volatility has a significant influence on corporate financial performance.*

2.10. Foreign Investment Confidence and Corporate Financial Performance

Foreign investment confidence reflects investors' expectations regarding institutional credibility, governance quality, and long-term economic prospects in host economies. From an institutional and resource-based perspective, foreign investment enhances firm-level financial performance by providing access to capital, managerial expertise, advanced technologies, and global networks, thereby improving efficiency, governance, and competitive positioning. Empirical studies consistently demonstrate that firms with higher foreign ownership or stronger exposure to international investors exhibit superior financial performance, particularly in emerging and transitional economies (Pasali & Chaudhary, 2020). Foreign investors often impose more stringent governance practices and performance monitoring, contributing to enhanced profitability and productivity. Evidence from both developed and developing contexts supports this mechanism, showing that firms with foreign participation outperform domestic counterparts in financial outcomes (Bentivogli & Mirenda, 2016).

However, the strength of this relationship depends on firm-level and institutional conditions. Large firms are generally better positioned to leverage international networks and economies of scale, while smaller firms may face constraints related to absorptive capacity (Bentivogli & Mirenda, 2016). Moreover, weak institutional environments may dampen the positive effects of foreign investment by increasing risk and limiting effective governance transmission. Despite these contingencies, the literature broadly confirms that foreign investment confidence plays a critical role in enhancing firm-level financial performance through improved governance, innovation adoption, and global integration. Therefore

H¹⁰. *Foreign investment confidence has a significant influence on corporate financial performance.*

Development of Conceptual Model

Expanding upon the aforementioned theoretical arguments, this paper attempts to develop a conceptual model where geopolitical instability impacts corporate financial performance indirectly via firm-specific factors. In this context, geopolitical risks arise due to three reasons. First, there is an ongoing trade dispute between the US and China. Second, there are geopolitical risks in the South China Sea. Third, there is political instability in the region. Hence, this paper extends existing literature because geopolitical risks have been examined as being transmitted to financial performance through multiple channels instead of being exogenous variables that do not influence firms differently. Furthermore, in terms of corporate financial performance, this paper shows that geopolitical instability impacts firms, not just through the existence of risk itself, but also the level of exposure to risk by individual firms and its interpretation.

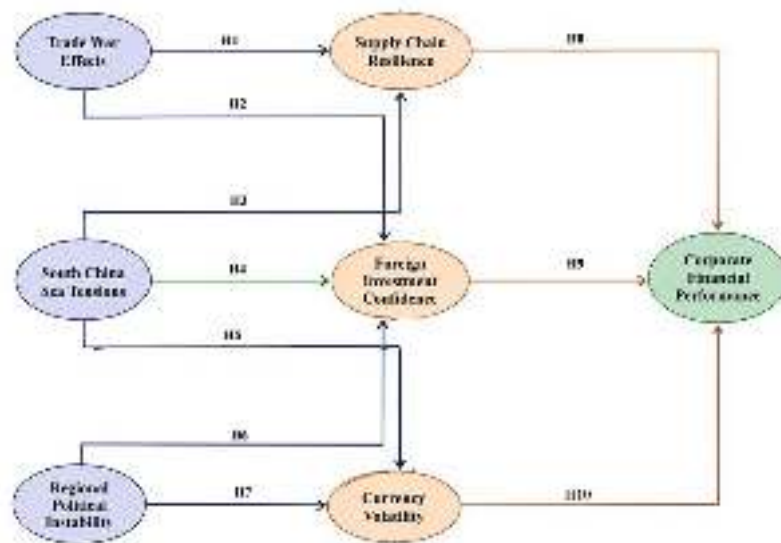


Figure 1. Conceptual Framework

3. Methodology and Design

3.1. Research Design

A quantitative cross-sectional research design was used to investigate how geopolitical uncertainty affects the performance of firms through multiple mediating variables. The research question suggested the use of a cross-sectional research design since the goal of the research was to understand how managers evaluated their companies' geopolitically driven exposure, operational resilience, investor confidence, currency volatility, and performance within a time of uncertainty. It is worth noting that the cross-sectional design did not suggest causal relationships but rather tested statistical links between the concepts measured at one point in time. Partial Least Squares Structural Equation Modelling (PLS-SEM), a method implemented in SmartPLS 4.0, was selected due to the complexity of the model proposed and the presence of latent constructs and mediating mechanisms. According to previous studies, PLS-SEM is suitable for use in theories-based modeling and variance-explanation models where the data might violate the assumptions of multivariate normal distribution. The use of PLS-SEM was appropriate for this study since it is commonly applied in survey research, especially for emerging markets, as it performs well with relatively small sample sizes, while allowing to estimate the structural model together with construct reliability and validity.

The study makes use of perceptual measures of geopolitical risk exposure, currency volatility, and firm financial performance, which was intentional. Even though US-China

trade war risks, South China Sea issues, regional political instability, and currency volatility are all observable factors in themselves, their implications differ from company to company. While macro measures are able to objectively quantify the geopolitical risks, the extent of exposure of individual companies to any of those threats is beyond their scope. In other words, objective measures cannot account for the firm's vulnerability with respect to a particular trade route, extent of import-export exposure, foreign currency invoicing, hedges, concentration of suppliers, and foreign investors. Therefore, perceptual measures were adopted to capture heterogeneous firm-level exposure and managerial assessments of how geopolitical events translate into operational, financial, and strategic vulnerabilities.

All constructs were operationalised as reflective latent variables and measured through multi-item scales on a 5-point Likert scale varying from 1 (Strongly disagree) to 5 (Strongly agree). The items related to the US-China trade war tapped into perceived pressure to pay tariffs, sourcing disruption, cost uncertainty, and trade policy uncertainty. South China Sea tensions were measured in terms of perceived maritime routing risks, logistics disruptions, insurance and transport costs, and security risks. Political instability items reflected perceptions of policy continuity, regulatory predictability, institutions' trustworthiness, and security conditions. Resilience items included supplier diversification, capacity for re-routing, fast recovery capability, and visibility of relevant information. Items measuring currency volatilities related to foreign currency exposures, pricing uncertainty, burdens of hedging, and margin sensitivity. Perceived foreign investors' willingness, external financing availability, valuation confidence, and long-term capital commitments were used to measure investment confidence. Firm performance was measured in terms of profitability, sales growth, financial stability, return on assets, competitive position, and financial strength in line with the perceptual performance approach (Dess & Robinson, 1984), since secondary firm financial data is often unreliable in these settings.

To better explain why we leaned on perceptual financial performance measures, we didn't include objective firm-level financial data. This was mainly because our sample spanned various Southeast Asian economies, many of which are home to privately owned or non-listed firms, and often lack consistent access to audited and comparable financial statements. Differences in accounting practices, disclosure requirements, currency denominations, fiscal-year reporting, and inflation also make it tough to compare secondary financial indicators across countries. Further, the primary goal of this study was to understand how managers perceive the firm-specific impacts of geopolitical risk exposure, such as pressures on profitability, financial stability, return expectations, and competitive financial strength. This exposure can differ widely among firms based on factors like import-export intensity, foreign-currency invoicing, hedging strategies, supplier concentration, reliance on foreign investors, and access to external financing. For these reasons, we found perceptual measures to be a fitting choice for gauging firm-level vulnerability and how managers interpret financial performance amid geopolitical uncertainty. That said, we recognize this approach has its limitations, and we encourage future research to validate these insights using objective accounting data, archival financial indicators, or matched survey-financial datasets.

The survey tool was crafted using insights from established research on political risk, supply chain resilience, international finance, and firm performance, all while keeping the unique context of Southeast Asia in mind. To ensure its content validity, we had three international business scholars, and two experienced practitioners review it. We also conducted a pretest with 35 managers to evaluate how clear and relevant the items were, as well as their effectiveness as performance measures. Based on the feedback from participants, we made some minor tweaks to the wording of the items, but we made sure to keep

the core meanings of the constructs intact. Importantly, we didn't remove any items just to improve statistical fit; instead, we kept them based on the PLS-SEM loading criteria..

The sample comprises mid- to large-sized firms operating in geopolitically vulnerable industries across Southeast Asian countries, including Indonesia, Malaysia, Singapore, Thailand, Vietnam and the Philippines. These firms were purposively selected based on their exposure to international trade, supply chain disruptions, and geopolitical uncertainties. Respondents were identified through professional networks and business directories to ensure alignment with the research context. The criteria for inclusion required that firms engage in some form of cross-border activity involving importing and exporting, partake in international supply chain activities, use imported inputs, utilize exports markets, or be otherwise exposed to foreign investment or foreign-currency transactions. The individual chosen as the respondent needed to hold a managerial position where he or she would have sufficient insight into their firm's international operations, including supply chain activities, financing, and/or strategic planning.

A total of 420 surveys were distributed between March and June 2025. We received 312 responses in total. Incomplete responses, straight-line answers, failed attention checks, and internally inconsistent responses were excluded from the received data. Following the data screening process, 308 valid responses remained, resulting in a final valid response rate of 73.10% of the distributed surveys. The final dataset comprised 308 firms from Southeast Asian countries, including Indonesia (85 firms), Malaysia (55 firms), Singapore (48 firms), Thailand (44 firms), Vietnam (38 firms), and the Philippines (38 firms). Regarding industry representation, the sample included manufacturing (41.23%), services (18.18%), trading/import-export (15.26%), technology/IT (14.94%), and finance/banking (10.39%). In terms of organizational size, the distribution was as follows: 1–50 employees (26.30%), 51–200 employees (50.65%), 201–500 employees (20.45%), and more than 500 employees (2.60%). The positions within the organizations were Senior Manager (30.84%), Middle Manager (21.10%), Analyst/Specialist (18.18%), CEO/Director (16.88%), and Owner/Founder (12.99%). Regarding years of work experience, the distribution was > 20 years (47.73%), 11–20 years (34.09%), 5–10 years (17.86%), and less than 5 years (0.65%).

To mitigate potential common method bias, several procedural steps were implemented. These included ensuring respondent anonymity, clarifying that there were no right or wrong answers, using neutral language in the questionnaire items, and separating predictor and outcome variables. Despite these precautions, Harman's single-factor test showed that the first unrotated factor explained 58.296% of the total variance, surpassing the commonly accepted 50% threshold. This suggests the possible presence of common method bias. Consequently, even with these procedural measures, the results should be interpreted with caution..

Although firm-specific and country-level characteristics may influence corporate financial performance, these variables were not statistically incorporated as control variables in the PLS-SEM structural model. Firm size, industry sector, export dependence, foreign ownership exposure, leverage, and country location were considered important contextual characteristics of the sample, but the primary analytical focus of this study was the theoretically specified mediation mechanism linking geopolitical instability, supply chain resilience, currency volatility, foreign investment confidence, and corporate financial performance. Therefore, the findings should be interpreted as theoretically grounded associations rather than definitive causal effects. The absence of a full control-variable specification is acknowledged as a limitation and provides an important direction for future research.

In the research design, both firm- and country-level characteristics were initially considered but were ultimately excluded as control variables from the final structural model. This choice was made to prioritize theoretical simplicity and concentrate on the proposed

mediation framework that connects geopolitical risk with corporate financial performance. Although this decision enhances the model's clarity and ease of interpretation, omitting control variables might affect the model's robustness. Future research should include these variables for further validation.

To analyze the survey data, a two-stage partial least squares structural equation modeling approach was employed. Specifically, measurement model analysis involved the assessment of outer loadings, Cronbach's Alpha, Composite Reliability, Average Variance Extracted (AVE), Fornell–Larcker Criterion, and Heterotrait-Monotrait Ratio. On the other hand, the structural model was analyzed using path coefficients, t-statistics, p-values, Coefficients of Determination (R^2), Effect Sizes (f^2), Predictive Relevance (Q^2), and Specific Indirect Effects. Bootstrapping with 5,000 replications was employed to determine the significance of relationships and mediation effects.

4. Results and Discussion

4.1 Measurement Model Evaluation

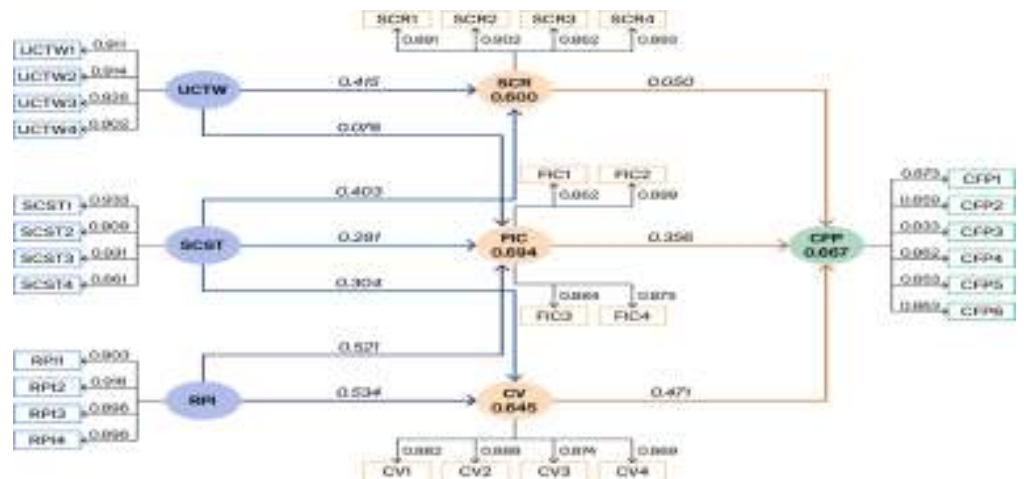


Figure 2. Measurement Model Results Showing Outer Loadings, Reliability, and Validity Indicators.

4.2 Measurement Model Outer loadings

Table 1. Measurement Model Results: Outer Loadings.

Construct	Outer loadings
CFP1 <- CFP	0,873
CFP2 <- CFP	0,859
CFP3 <- CFP	0,833
CFP4 <- CFP	0,862
CFP5 <- CFP	0,853
CFP6 <- CFP	0,863
CV1 <- CV	0,882
CV2 <- CV	0,888
CV3 <- CV	0,874
CV4 <- CV	0,869
FIC1 <- FIC	0,862
FIC2 <- FIC	0,899
FIC3 <- FIC	0,884
FIC4 <- FIC	0,875
RPI1 <- RPI	0,903
RPI2 <- RPI	0,916

RPI3 <- RPI	0,896
RPI4 <- RPI	0,896
SCR1 <- SCR	0,891
SCR2 <- SCR	0,902
SCR3 <- SCR	0,862
SCR4 <- SCR	0,893
SCST1 <- SCST	0,933
SCST2 <- SCST	0,909
SCST3 <- SCST	0,931
SCST4 <- SCST	0,861
UCTW1 <- UCTW	0,911
UCTW2 <- UCTW	0,914
UCTW3 <- UCTW	0,926
UCTW4 <- UCTW	0,902

4.3 Construct Reliability and Validity

Table 2. Construct Reliability and Convergent Validity Results.

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
CFP	0,928	0,928	0,943	0,735
CV	0,901	0,901	0,931	0,771
FIC	0,903	0,903	0,932	0,775
RPI	0,924	0,924	0,946	0,815
SCR	0,909	0,910	0,936	0,787
SCST	0,929	0,930	0,950	0,826
UCTW	0,934	0,934	0,953	0,834

4.4 Discriminant validity

4.4.1 Fornell-Larcker Criterion

	CFP	CV	FIC	RPI	SCR	SCST	UCTW
CFP	0,857						
CV	0,783	0,878					
FIC	0,760	0,791	0,880				
RPI	0,732	0,784	0,813	0,903			
SCR	0,566	0,607	0,646	0,755	0,887		
SCST	0,716	0,744	0,770	0,823	0,732	0,909	
UCTW	0,594	0,683	0,718	0,806	0,735	0,793	0,913

4.4.2 Heterotrait-Monotrait Ratio (HTMT)

Table 4. Discriminant Validity Results: Heterotrait-Monotrait Ratio (HTMT).

Construct	Ratio HTMT
CV <-> CFP	0,855
FIC <-> CFP	0,830
FIC <-> CV	0,877
RPI <-> CFP	0,791
RPI <-> CV	0,859
RPI <-> FIC	0,890

SCR <-> CFP	0,615
SCR <-> CV	0,670
SCR <-> FIC	0,712
SCR <-> RPI	0,822
SCST <-> CFP	0,771
SCST <-> CV	0,812
SCST <-> FIC	0,840
SCST <-> RPI	0,887
SCST <-> SCR	0,796
UCTW <-> CFP	0,638
UCTW <-> CV	0,744
UCTW <-> FIC	0,782
UCTW <-> RPI	0,867
UCTW <-> SCR	0,797
UCTW <-> SCST	0,851

4.5 Measurement Model Evaluation and Method Bias Diagnostics

The analysis of the measurement model was performed through SmartPLS outputs concerning the indicators' reliability, construct reliability, convergent validity, discriminant validity, and method bias diagnostics. As can be seen in Table 1, all outer loadings are above the required minimum level of 0.70. Values vary between 0.833 (CFP3) and 0.933 (SCST1). This indicates a strong association between the indicators and the constructs they are expected to measure. It is worth noting that such high values do not suggest the absence of all measurement problems in this model. They, however, can be considered proof of item coherence within reflective constructs.

Table 2 illustrates the presence of internal consistency in the model. Cronbach's alpha values vary from 0.901 (CV) to 0.934 (UCTW). Composite reliability is above the 0.70 threshold. Similarly, AVE varies between 0.735 (CFP) and 0.834 (UCTW). All these indices provide evidence of convergent validity as each of the constructs explains more than half of the variance in the indicators' scores. The strength of these indices is explained by the fact that the items have been adapted to a narrow context of geopolitical risk and responses inconsistent or incomplete responses have been removed.

It has been possible to provide evidence of discriminant validity according to two criteria. First, the square roots of AVE values of the constructs are higher than their correlation with other constructs. This means that each construct shares more variance with its own indicators than with other constructs. Second, HTMT values vary between 0.615 and 0.890 and remain below the 0.90 conservative cut-off point. The RPI-FIC value approaches this point. While being theoretically explainable in a sample of emerging markets, political instability and investors' confidence are empirically distinct.

To assess common method bias, Harman's single-factor test was performed. The first unrotated factor explained 58.296% of the total variance, slightly exceeding the conventional 50% threshold (see Table EC1). However, because Harman's test is only a preliminary assessment, the results were complemented by an examination of the inner-model VIF values. As all VIF values were below the recommended threshold of 3.3 (see Table EC2), common method bias may not fully account for the results, although caution remains necessary the study's findings.

4.5.1 Structural Model Evaluation

R² Values

Table 5. Coefficient of Determination (R² and Adjusted R²) for Endogenous Constructs.

	R-square	R-square adjusted
CFP	0,667	0,664
CV	0,645	0,643
FIC	0,694	0,691
SCR	0,600	0,598

Effect Size (f²)

Table 6. Effect Size (f²) of Exogenous Variables on Endogenous Constructs.

	f-square
CV -> CFP	0,239
FIC -> CFP	0,126
RPI -> CV	0,259
RPI -> FIC	0,230
SCR -> CFP	0,004
SCST -> CV	0,084
SCST -> FIC	0,071
SCST -> SCR	0,151
UCTW -> FIC	0,006
UCTW -> SCR	0,160

Q² Prediction Metrics

Table 7. Predictive Relevance (Q²) and Prediction Metrics (RMSE and MAE).

	Q²predict	RMSE	MAE
CFP	0,567	0,665	0,540
CV	0,644	0,607	0,470
FIC	0,690	0,565	0,452
SCR	0,592	0,648	0,473

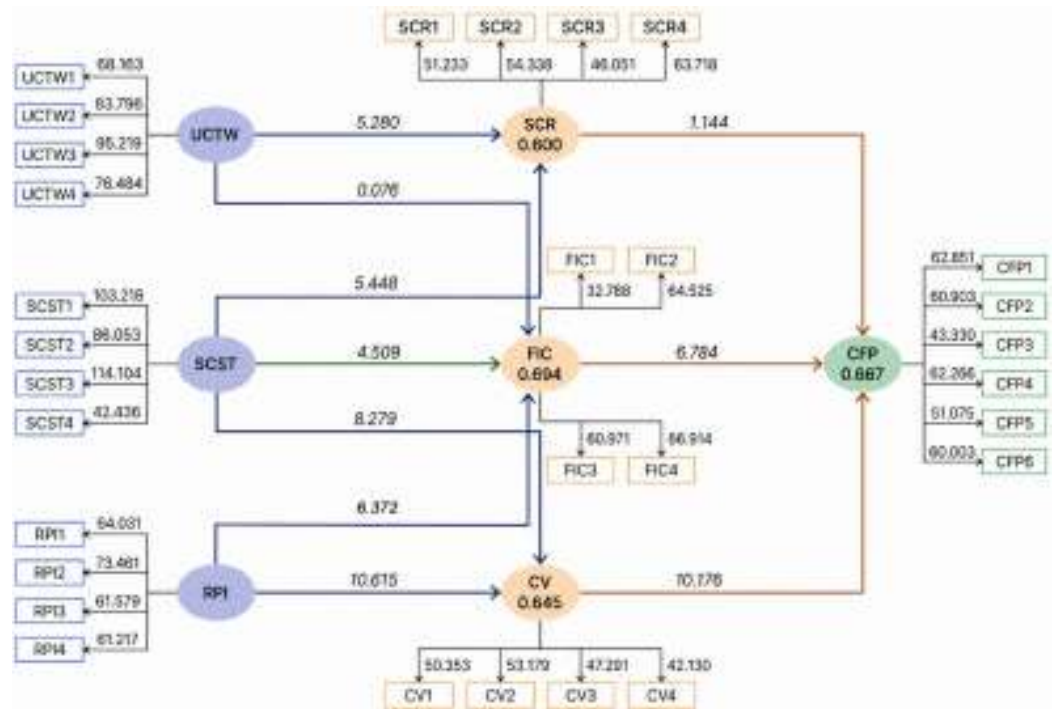


Figure 3. Structural Model Results Showing Path Coefficients, R^2 , and Effect Sizes.

4.5.2 Path Coefficient

Table 8. Structural Model Path Coefficients and Hypothesis Testing

Hypothesis	Path Relationship	Original Sample (β)	T Statistics	P Values	Decision
H1	UCTW → SCR	0.415	5.280	0.000	Supported
H2	UCTW → FIC	0.076	1.302	0.193	Not Supported
H3	SCST → SCR	0.403	5.448	0.000	Supported
H4	SCST → FIC	0.281	4.509	0.000	Supported
H5	SCST → CV	0.304	6.372	0.000	Supported
H6	RPI → FIC	0.521	8.279	0.000	Supported
H7	RPI → CV	0.534	10.615	0.000	Supported
H8	SCR → CFP	0.050	1.144	0.253	Not Supported
H9	CV → CFP	0.471	10.176	0.000	Supported
H10	FIC → CFP	0.356	6.784	0.000	Supported

4.5.3 Specific Indirect Effects

Table 9. Specific Indirect Effects in the Structural Model.

Hypothesized Indirect Path	Original Sample (β)	T Statistics	P Value	Decision
RPI → FIC → CFP	0.185	5.160	0.000	Supported
SCST → SCR → CFP	0.020	1.067	0.286	Not Supported
RPI → CV → CFP	0.251	6.899	0.000	Supported
UCTW → SCR → CFP	0.021	1.144	0.253	Not Supported
SCST → FIC → CFP	0.100	3.614	0.000	Supported

Hypothesized Indirect Path	Original Sample (β)	T Statistics	P Value	Decision
SCST $\rightarrow$ CV $\rightarrow$ CFP	0.143	5.478	0.000	Supported
UCTW $\rightarrow$ FIC $\rightarrow$ CFP	0.027	1.269	0.204	Not Supported

The mediation analysis provides partial support for the proposed indirect relationships. Significant indirect effects were observed through foreign investment confidence and currency volatility, indicating that these financial mechanisms play a central role in transmitting the effects of regional political instability and South China Sea tensions to corporate financial performance. In contrast, the indirect effects through supply chain resilience were not statistically significant, and foreign investment confidence did not mediate the relationship between the US–China trade war and corporate financial performance. Overall, the findings suggest that geopolitical risks influence corporate financial performance primarily through financial channels rather than operational resilience, providing evidence of partial mediation.

4.6 Structural Model Evaluation: An Advanced Analysis

It emerges that the structural model has quite a high level of explanatory power regarding firm-level outcomes in the context of geopolitical instability. The value of the coefficient of determination regarding corporate financial performance is 0.667 (adjusted $R^2=0.664$), showing that the proposed mediating variables account for roughly two thirds of the variation in perceived financial performance. The model additionally shows an ability to explain a large portion of variance in foreign investment confidence ($R^2=0.694$) and currency volatility ($R^2=0.645$), and a moderate one in supply chain resilience ($R^2=0.600$).

The path coefficients indicate that financial factors are more relevant compared to the direct operational resilience factor. Corporate financial performance is positively associated with currency volatility ($\beta = 0.471$, $t = 10.176$, $p < 0.001$), and negatively with foreign investment confidence ($\beta = 0.356$, $t = 6.784$, $p < 0.001$). In other words, this analysis indicates that the theoretical argument of the project, according to which geopolitical instability is being transmitted into corporate financial performance via financial channels such as exchange rate vulnerability, funding difficulties, and others, is valid.

However, caution must be exercised when interpreting the results regarding currency volatility. According to conventional international finance theory, currency volatility is typically associated with poor financial performance as it creates additional transaction costs, uncertainty, and the need for hedging. Therefore, the positive correlation between the two variables in this case does not imply that currency volatility has a beneficial impact on firm-performance. A possible explanation may be the fact that corporations experiencing high currency volatility levels usually tend to operate in international markets and conduct foreign trade operations, implying greater sensitivity to currency movements as well as the ability to collect foreign currency income and hedge.

Regional political instability emerged as the most important antecedent of both currency volatility ($\beta = 0.534$, $t = 10.615$, $p < 0.001$) and foreign investment confidence ($\beta = 0.521$, $t = 8.279$, $p < 0.001$). These results confirm that political instability is fast internalised through capital market expectations and foreign exchange dynamics. This result supports institutional theory since the latter assumes that investors and foreign exchanges would quickly sense the implications of uncertainties in governance, security, and policy continuation. Additionally, South China Sea tensions emerged as another factor that significantly influences all three dependent variables (supply chain resilience, currency volatility, and foreign investment confidence), proving that geopolitical risks in maritime zones cannot be confined to logistics problems.

The lack of significant association between supply chain resilience and corporate financial performance ($\beta = 0.050$, $p = 0.253$) presents an interesting theory implication. While operational resilience can indeed provide protection against disruptions in production processes, its immediate financial benefit may not materialise immediately in a cross-sectional setting. For example, resilience measures that include supplier diversification, inventory stockpiling, alternative routes, and digital tracking systems will likely lead to higher immediate costs. As a consequence, supply chain resilience seems to work as an adaptation strategy rather than an immediate financial risk indicator.

While the trade war between the United States and China showed a significant relationship with supply chain resilience but not foreign investment confidence, regional political instability and South China Sea tensions were positively related to financial risk. Specifically, geopolitical risk is interpreted as having a greater impact on foreign investment confidence and currency volatility than being directly related to supply chain issues. Investors seem to incorporate these factors in the assessment of risk when making investment decisions and thus show a quick response to regional geopolitics.

Mediation analysis results support the interpretation of the results. There is statistical evidence for indirect associations for both regional political instability and South China Sea tensions through currency volatility and foreign investment confidence. On the other hand, mediation via supply chain resilience was not found to be statistically significant. Such a pattern implies that geopolitical risks influence firms' perceptions of financial performance via financial market dynamics and foreign investment decisions for the selected companies. Thus, the results of the study provide additional support for the hypothesis of the model.

4.7 Theoretical Contributions and Practical Implications

There are several theoretical contributions as well. First, this research contributes to the literature on geopolitical risks and political uncertainty by extending research beyond macroeconomic effects of geopolitics and considering the mechanisms through which geopolitical risks translate into firm-level effects. Specifically, results suggest that besides being directly disruptive, geopolitics impacts firms through financialization of vulnerability, where currency risks and investor confidence emerge as key channels connecting geopolitical risks to firm performance. Second, this research brings together institutional uncertainty, transaction costs, real options, behavioural finance, dynamic capabilities and international finance into one theoretical explanation. The combination explains the necessity to consider operational, financial and institutional channels simultaneously, and not separately.

Third, with respect to emerging markets, the study reveals boundary conditions under which financial channels dominate operational resilience channels in terms of firm performance. Indeed, in emerging Asian countries, firms are financially dependent on foreign investors, use inputs from abroad, sell products internationally, and do not have adequate infrastructure for hedges against risks. Hence, exchange rate fluctuations and confidence become particularly important. Moreover, a non-significant direct impact of supply chain resilience extends resilience literature suggesting that resilience could be treated as a protective capability that pays off only through financial measures in the long run rather than at a cross-sectional point in time. The non-significant relationship between supply chain resilience and firm performance also provides an important theoretical insight. Contrary to the assumption that resilience immediately improves performance outcomes, the findings suggest that resilience may function as a protective organizational capability that reduces vulnerability rather than directly generating short-term financial gains. From a dynamic capabilities perspective, resilience investments may require time to transform

into measurable performance improvements, particularly under conditions of ongoing
geopo-litical uncertainty.

Practically, there are several lessons from the analysis. Specifically, firms should ad-
dress geopolitical risk not as solely an operational issue. Instead, they require integrated
risk management, including supplier diversity, managing currency risk, ensuring finan-
cial liquidity, managing investor expectations and scenario-based strategic management.
From the finance department perspective, it would be critical to keep track of exposure to
foreign currencies, manage hedging where possible, and analyse cash flows, margins and
funding conditions based on geopolitical events. Supply chain departments need to pur-
sue resilience management as well, however, it would be beneficial to measure its financial
consequences, so that resilience does not remain a burden for the company.

With respect to policymakers, the results imply that creating favourable institutional
environment, ensuring regulation consistency, fostering diplomatic cooperation among
countries in the region and making financial risk management tools available are essential.
Specifically, lowering risk premium could be achieved through reduction of uncertainties
in customs clearance, investment conditions, maritime security and foreign currency mar-
kets. Finally, regional cooperation is critical in Southeast Asia, as firms tend to operate
across the border and, thus, are equally exposed to trade wars, maritime risks, and politi-
cal instability in their own country.

5. Limitations and Future Research

Several limitations offer potential avenues for future research. First, the cross-sec-
tional nature of the research reduces the possibility of making any claims related to cau-
sality. The presented results can be considered only as evidence for theoretically
grounded associations, not as evidence of temporally-causal relationships. In future, there
is an opportunity to investigate the effects of prolonged geopolitical shocks on firms' ad-
aptation process and delayed financial gains resulting from resilience investments using
longitudinal datasets.

Second, this study relies on managers' perceptual assessments, which may not fully
capture objective conditions. Future research should complement survey data with objec-
tive indicators, such as exchange rate volatility, trade disruptions, foreign direct invest-
ment inflows, firm-level financial statements, and country-level political risk measures, to
enhance the robustness of the findings.

Third, the use of single-source, cross-sectional survey data may introduce common
method bias. Although Harman's single-factor test suggested a potential concern, future
studies should employ more rigorous procedural and statistical remedies, including
multi-source data, temporal separation, marker variables, or longitudinal research de-
signs.

Fourth, this study did not incorporate a comprehensive set of firm- and country-level
control variables. Future research should include factors such as firm size, industry, own-
ership structure, leverage, export intensity, and institutional environment, while adopting
multi-group or longitudinal designs to examine the generalizability of the proposed rela-
tionships across different contexts.

Finally, the present research is restricted to a sample of Southeast Asian economies
and industries that have high exposure to geopolitical risks. Results may not apply to
small firms, purely domestic companies, or countries having more developed financial
system and institutions. Future research would benefit from investigating the role of fi-
nancial transmission mechanisms among firms operating in emerging and advanced
economies.

6. Conclusion

The study aimed at establishing the connection between geopolitical instabilities and the financial performance of corporations in emerging Asia through supply chain resilience, foreign investment confidence, and currency volatility. From the findings obtained, financial market channels seem to significantly explain firm vulnerability due to geopolitical risks. Currency volatility and investor confidence were found to be significant correlates with financial performance compared to supply chain resilience, implying that geopolitical risk influences firm performance indirectly through currency risk, financial-market expectations, and investor confidence channels.

The study has shown that geopolitical risks influence firms differently. Regional instabilities and South China Sea geopolitical risk appear to influence financial and investor confidence channels while the US-China trade war risk is correlated to supply chain resilience responses. Supply chain resilience does not significantly impact the financial performance of firms indicating that resilience may protect firm continuity without increasing financial performance. This shows the significance of resilience in terms of its long-term nature and not necessarily financial benefits in the short run.

In conclusion, the study develops a multi-channel risk model that enables firms to establish ways to counter risks through financial and investment confidence and operational resilience. The results offer strategic implications to managers who need to coordinate operational resilience with currency risk management and investor communication strategies. Furthermore, there are policy recommendations indicating that geopolitical risk impacts corporate sustainability positively in a country with predictable regulations and institutional stability, and regional economic cooperation. Due to its cross-sectional nature, the results may not be conclusive and need to be tested further using longitudinal archival data.

Authors' Contributions: Sugeng Suroso : Conceptualization, Formal analysis, Methodology, Supervision, Validation, Writing – review & editing; Sri Wulandari : Methodology, Data curation, Writing – review & editing. Chajar Matari Fath Mala: Conceptualization, Data curation, Investigation, Validation, Visualization, Writing – review & editing. .

Funding: This research received no external funding.

Institutional Review Board Statement: Not applicable.

Informed Consent Statement: Not applicable.

Data Availability Statement: The data and research materials supporting this study are available from the corresponding author upon reasonable request.

Conflicts of Interest: The author declares no conflicts of interest, and there has been no significant financial support for this work that could have influenced its outcome.

AI declaration: Paperpal was used solely to improve the language, grammar, readability, and paraphrasing of the manuscript, and the authors take full responsibility for its content.

References

- Abbassi, W., Kumari, V., & Pandey, D. K. (2022). What makes firms vulnerable to the Russia–Ukraine crisis? *The Journal of Risk Finance*, 24(1), 24–39. <https://doi.org/10.1108/jrf-05-2022-0108>
- Abdulsalam, S. A., & Onipede, S. F. (2023). Economic policy uncertainty and the ECOWAS exchange rate mechanism. *Scientific African*, 21, e01844. <https://doi.org/10.1016/j.sciaf.2023.e01844>
- Adeosun, O. A., Anagreh, S., Tabash, M. I., & Vo, X. V. (2024). Return and volatility transmission among economic policy uncertainty, geopolitical risk and precious metals. *Studies in Economics and Finance*, 41(5), 1057–1084. <https://doi.org/10.1108/sef-10-2023-0586>
- Agoraki, M.-E. K., Wu, H., Xu, T., & Yang, M. (2024). Money never sleeps: Capital flows under global risk and uncertainty. *Journal of International Money and Finance*, 141, 103013. <https://doi.org/10.1016/j.jimonfin.2023.103013>
- Aliu, F., Hašková, S., & Bajra, U. Q. (2022). Consequences of Russian invasion on Ukraine: evidence from foreign exchange rates. *The Journal of Risk Finance*, 24(1), 40–58. <https://doi.org/10.1108/jrf-05-2022-0127>
- Akram, Q. F. (2020). Oil price drivers, geopolitical uncertainty and oil exporters' currencies. *Energy Economics*, 89, 104801. <https://doi.org/10.1016/j.eneco.2020.104801>
- Akarsu, M. Z., & Gharehgozli, O. (2023). The impact of the Russia-Ukraine War on European Union currencies: a high-frequency analysis. *Policy Studies*, 45(3–4), 353–376. <https://doi.org/10.1080/01442872.2023.2268543>
- Altiner, a., & Bozkurt, e. (2023). Reflections of Geopolitical Risk on Foreign Direct Investments: The Case of Türkiye. *İnsan ve Toplum Bilimleri Araştırmaları Dergisi*, 12(3), 1292–1309. <https://doi.org/10.15869/itobiad.1271884>
- Athukorala, P., & Menon, J. (2015). Global production sharing, trade patterns and determinants of trade flows: the role of East Asia. In *Handbook on Trade and Development*. Edward Elgar Publishing. <https://doi.org/10.4337/9781781005316.00027>
- Aminaho, F. (2025). The impact of exchange rate volatility on firm performance: Evidence from Nigerian Exchange (NGX) Group and London Stock Exchange (LSE) Group. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.5364657>
- Asad, M., Tabash, M. I., Sheikh, U. A., Al-Muhanadi, M. M., & Ahmad, Z. (2020). Gold-oil-exchange rate volatility, Bombay stock exchange and global financial contagion 2008: Application of NARDL model with dynamic multipliers for evidences beyond symmetry. *Cogent Business & Management*, 7(1), 1849889. <https://doi.org/10.1080/23311975.2020.1849889>
- Athukorala, P., & Wei, Z. (2017). Economic Transition and Labour Market Dynamics In China: An Interpretative Survey Of The 'Turning Point' Debate. *Journal of Economic Surveys*, 32(2), 420–439. <https://doi.org/10.1111/joes.12206>
- Bajaj, n. K., Aziz, t., Kumari, s., Alenezi, m., & Mathkur, n. M. (2023). The Impact of Geopolitical Risk on Financial Conditions of Emerging Economies. *The Journal of Asian Finance, Economics and Business*, 10(1), 133–143. <https://doi.org/10.13106/JAFEB.2023.VOL10.NO1.0133>
- Bentivogli, C., & Mirenda, L. (2016). *Foreign ownership and performance: Evidence from a panel of Italian firms* (Bank of Italy Temi di Discussione (Working Paper) No. 1085). Bank of Italy. <https://doi.org/10.2139/ssrn.2914251>
- Bitar, N., Hamadeh, M., & Khoueiri, R. (2019). Impact of political instability on foreign direct investment in Lebanon. *Asian Social Science*, 16(1), 41. <https://doi.org/10.5539/ass.v16n1p4>
- Blessley, M., & Mudambi, S. M. (2022). A trade war and a pandemic: Disruption and resilience in the food bank supply chain. *Industrial Marketing Management*, 102, 58–73. <https://doi.org/10.1016/j.indmarman.2022.01.002>
- Bown, C. P. (2021). The US–China trade war and Phase One agreement. *Journal of Policy Modeling*, 43(4), 805–843. <https://doi.org/10.1016/j.jpolmod.2021.02.009>
- Bris, A., Koskinen, Y., & Pons, V. (2004). Corporate financial policies and performance around currency crises. *The Journal of Business*, 77(4), 749–796. <https://doi.org/10.1086/422438>
- Caldara, D., & Iacoviello, M. (2022). Measuring Geopolitical Risk. *American Economic Review*, 112(4), 1194–1225. <https://doi.org/10.1257/aer.20191823>
- Coşkun, A. E., & Erturgut, R. (2024). How Do Uncertainties Affect Supply-Chain Resilience? The Moderating Role of Information Sharing for Sustainable Supply-Chain Management. *Sustainability*, 16(1), 131. <https://doi.org/10.3390/su16010131>
- Cui, C., & Li, L. S.-Z. (2023). Trade policy uncertainty and new firm entry: Evidence from China. *Journal of Development Economics*, 163, 103093. <https://doi.org/10.1016/j.jdevco.2023.103093>
- Dixit, A. K., & Pindyck, R. S. (1994). *Investment under Uncertainty*. Princeton University Press. <https://doi.org/10.2307/j.ctt7sncv>
- Dong, L., Hidhiir, M. H. B., & Mansur, M. B. (2025). Economic Policy Uncertainty and China's FDI Inflows: Moderating Effects of Financial Development and Political Stability. *Journal of Risk and Financial Management*, 18(7), 354. <https://doi.org/10.3390/jrfm18070354>
- Dess, G. G., & Robinson, R. B., Jr. (1984). Measuring organisational performance in the absence of objective measures: The case of the privately held firm and conglomerate business unit. *Strategic Management Journal*, 5(3), 265–273. <https://doi.org/10.1002/smj.4250050306>
- Durnev, A., Mangen, C. (2020). The spillover effects of MD&A disclosures for real investments: The role of industry competition. *Journal of Accounting and Economics*, 70(2–3), 201–219. <https://doi.org/10.1016/j.jacceco.2015.02.002>
- Eser, F., & Wu, X. (2021). Geopolitical risk and firm investment decisions: Evidence from global firms. *Journal of International Financial Markets, Institutions and Money*, 72, 101347. <https://doi.org/10.1016/j.intfin.2021.101347>
- Evenett, S. J. (2019). Protectionism, state discrimination, and international business since the onset of the Global Financial Crisis. *Journal of International Business Policy*, 2(1), 9–36. <https://doi.org/10.1057/s42214-019-00021-0>

- Feng, C., Han, L., Vigne, S., & Xu, Y. (2023). Geopolitical risk and the dynamics of international capital flows. *Journal of International Financial Markets, Institutions and Money*, 82, 101693. <https://doi.org/10.1016/j.intfin.2022.101693>
- Feng, J., Tang, J., Qi, Z., & Liu, J. (2024). Supply Chain Finance and Innovation Investment: Based on financing constraints. *Finance Research Letters*, 63, 105349. <https://doi.org/10.1016/j.frl.2024.105349>
- Fofanah, P. (2022). Effects of exchange rate volatility on economic growth: Evidence from West Africa. *International Journal of Business and Economics Research*, 11(1), 32. <https://doi.org/10.11648/j.ijber.20221101.15>
- Gao, H., Chen, W., Li, J., & Zhou, T. (2024). Economic policy uncertainty and foreign direct investment: Evidence from China. *Structural Change and Economic Dynamics*, 70, 178–191. <https://doi.org/10.1016/j.strueco.2024.01.014>
- Gereffi, G. (2020). What does the COVID-19 pandemic teach us about global value chains? The case of medical supplies. *Journal of International Business Policy*, 3(3), 287–301. <https://doi.org/10.1057/s42214-020-00062-w>
- Ghassemi, H., & Sadr, S. M. (2022). Firm heterogeneity and responses to global uncertainty shocks. *Economic Modelling*, 116, 105995. <https://doi.org/10.1016/j.econmod.2022.105995>
- Fornell, C., & Larcker, D. F. (1981). Evaluating structural equation models with unobservable variables and measurement error. *Journal of Marketing Research*, 18(1), 39–50. <https://doi.org/10.1177/002224378101800104>
- Henisz, W. J. (2000). The Institutional Environment for Multinational Investment. *Journal of Law, Economics, & Organization*, 16(2), 334–364. <http://www.jstor.org/stable/3555095>
- Huchzermeier, A., & Stehle, H. (2025). Navigating Geopolitical Risks in Global Supply Chains: A Systematic Literature Review. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.5161777>
- Hui, H. C. (2021). The long-run effects of geopolitical risk on foreign exchange markets: Evidence from some ASEAN countries. *International Journal of Emerging Markets*, 17(6), 1543–1564. <https://doi.org/10.1108/ijoem-08-2020-1001>
- Khan, M. A. (2025). Investigating the intersection of organizational behavior, supply chain practices, economic outcomes, financial excellence and CSR for corporate identity improvement. *Measuring Business Excellence*, 29(3), 551–572. <https://doi.org/10.1108/mbe-06-2024-0083>
- Kim, T., & Han, J. M. (2024). *The impact of exchange rate fluctuations on the performance of domestic manufacturing companies* (KIET Industrial Economic Review, Vol. 29, No. 3, pp. 59-67). SSRN. <https://ssrn.com/abstract=4916912>
- Kiptoo, J. (2024). The influence of political stability on foreign direct investment (FDI). *International Journal of Developing Country Studies*, 6(1), 74–86. <https://doi.org/10.47941/ijdc.2165>
- Kock, N. (2015). Common method bias in PLS-SEM: A full collinearity assessment approach. *International Journal of e-Collaboration*, 11(4), 1–10. <https://doi.org/10.4018/ijec.2015100101>
- Kurecic, P., & Kokotovic, F. (2017). The relevance of political stability on FDI: A VAR analysis and ARDL models for selected small, developed, and instability threatened economies. *Economies*, 5(3), 22. <https://doi.org/10.3390/economies5030022>
- Liu, P. L., Lü, Z., & Yoon, S.-M. (2025). Impact of US–China tensions on the volatility, correlation, and hedging effects of gold and crude oil prices. Elsevier BV. <https://doi.org/10.2139/ssrn.5213775>
- Liu, X., & Zhang, X. (2024). Geopolitical risk and currency returns. *Journal of Banking & Finance*, 161, 107097. <https://doi.org/10.1016/j.jbankfin.2024.107097>
- Li, X., Wu, Q., Holsapple, C. W., & Goldsby, T. (2017). An empirical examination of firm financial performance along dimensions of supply chain resilience. *Management Research Review*, 40(3), 254–269. <https://doi.org/10.1108/mrr-02-2016-0030>
- Mao, H., & Görg, H. (2020). Friends like this: The impact of the US–China trade war on global value chains. *The World Economy*, 43(7), 1776–1791. <https://doi.org/10.1111/twec.12967>
- Morina, F., Hysa, E., Ergün, U., Panait, M., & Voica, M. C. (2020). The effect of exchange rate volatility on economic growth: Case of the CEE countries. *Journal of Risk and Financial Management*, 13(8), 177. <https://doi.org/10.3390/jrfm13080177>
- Musyoki, D., Pokhariyal, G. P., & Pundo, M. (2012). The impact of real exchange rate volatility on economic growth: Kenyan evidence. *Business and Economic Horizons*, 7, 59–75. <https://doi.org/10.15208/beh.2012.5>
- North, D. C. (1990). *Institutions, Institutional Change and Economic Performance*. Cambridge University Press. <https://doi.org/10.1017/cbo9780511808678>
- Pasali, S. S., & Chaudhary, A. (2020). *Assessing the impact of foreign ownership on firm performance by size: Evidence from firms in developed and developing countries*. *Transnational Corporations*, 27(2), 43–72. SSRN. <https://ssrn.com/abstract=3692334>
- Paul, P. (2025). The role of supply chain finance in enhancing financial performance: Evidence from personal and home care product industry. *Investment Management and Financial Innovations*, 22(2), 77–85. [https://doi.org/10.21511/imfi.22\(2\).2025.07](https://doi.org/10.21511/imfi.22(2).2025.07)
- Pástor, L., & Veronesi, P. (2013). Political uncertainty and risk premia. *Journal of Financial Economics*, 110(3), 520–545. <https://doi.org/10.1016/j.jfineco.2013.08.007>
- Podsakoff, P. M., MacKenzie, S. B., Lee, J.-Y., & Podsakoff, N. P. (2003). Common method biases in behavioural research: A critical review of the literature and recommended remedies. *Journal of Applied Psychology*, 88(5), 879–903. <https://doi.org/10.1037/0021-9010.88.5.879>
- Qamruzzaman, M., & Karim, S. (2024). Green energy, green innovation, and political stability led to green growth in OECD nations. *Energy Strategy Reviews*, 55, 101519. <https://doi.org/10.1016/j.esr.2024.101519>
- Saha, S., Sadekin, M. N., & Saha, S. K. (2022). Effects of institutional quality on foreign direct investment inflow in lower-middle income countries. *Heliyon*, 8(10), e10828. <https://doi.org/10.1016/j.heliyon.2022.e10828>

Song, Y., Hao, F., Hao, X., & Gozgor, G. (2021). Economic Policy Uncertainty, Outward Foreign Direct Investments, and Green Total Factor Productivity: Evidence from Firm-Level Data in China. *Sustainability*, 13(4), 2339. <https://doi.org/10.3390/su13042339>

Tjandrasa, B. B. (2021). Determinants of political stability to support foreign investment in Indonesia. *Petra International Journal of Business Studies*, 4(2), 97–108. <https://doi.org/10.9744/ijbs.4.2.97-108>

Truong, L. D., Friday, H. S., & Pham, T. D. (2024). The Effects of Geopolitical Risk on Foreign Direct Investment in a Transition Economy: Evidence from Vietnam. *Journal of Risk and Financial Management*, 17(3), 101. <https://doi.org/10.3390/jrfm17030101>.

Wang, R., Qamruzzaman, M., & Karim, S. (2024). Unveiling the power of education, political stability and ICT in shaping technological innovation in BRI nations. *Heliyon*, 10(9), e30142. <https://doi.org/10.1016/j.heliyon.2024.e30142>.

Williamson, O. E. (1985). *The economic institutions of capitalism: Firms, markets, relational contracting*. New York, NY: Free Press.

Wu, W., & Shao, C. (2023). How does home and host-country policy uncertainty affect outward FDI? Firm-level evidence from China. *Economia Politica*, 40(2), 495–515. <https://doi.org/10.1007/s40888-023-00298-8>

Yan, H., Xiao, W., Deng, Q., & Xiong, S. (2022). Analysis of the Impact of U.S. Trade Policy Uncertainty on China Based on Bayesian VAR Model. *Journal of Mathematics*, 2022(1). <https://doi.org/10.1155/2022/7124997>

Yensu, J., Nkrumah, S. K., Amankwah, S., & Ledi, K. K. (2022). The effect of exchange rate volatility on economic growth. *Risk Governance and Control: Financial Markets and Institutions*, 12(4), 33–45. <https://doi.org/10.22495/rgcv12i4p2>

Zhang, Y., He, J., He, M., & Li, S. (2023). Geopolitical risk and stock market volatility: A global perspective. *Finance Research Letters*, 53, 103620. <https://doi.org/10.1016/j.frl.2022.103620>

Zhang, B., Ma, J., Khan, M. A., Repnikova, V., Shidlovskaya, K., Barykin, S., & Ahmad, M. S. (2023). The Effect of Economic Policy Uncertainty on Foreign Direct Investment in the Era of Global Value Chain: Evidence from the Asian Countries. *Sustainability*, 15(7), 6131. <https://doi.org/10.3390/su15076131>

Zhou, Y. (2020). The US-China trade war and global value chains. *Всемирный банк (The World Bank)*.

Zhao, N., Hong, J., & Lau, K. H. (2023). Impact of supply chain digitalization on supply chain resilience and performance: A multi-mediation model. *International Journal of Production Economics*, 259, 108817. <https://doi.org/10.1016/j.ijpe.2023.108817>

Zheng, M., Wang, R., Ye, J., & Li, T. (2025). How does supply chain finance enhance firms’ supply chain resilience? *International Review of Economics & Finance*, 102, 104231. <https://doi.org/10.1016/j.iref.2025.104231>

Zhu, M., Miao, S., Lam, H. K. S., Liang, C., & Yeung, A. C. L. (2024). Navigating through geopolitical risk: the role of supply chain concentration. *International Journal of Operations & Production Management*, 45(5), 1032–1065. <https://doi.org/10.1108/ijopm-03-2024-0248>

Zhu, X., & Wu, Y. J. (2022). How Does Supply Chain Resilience Affect Supply Chain Performance? The Mediating Effect of Sustainability. *Sustainability*, 14(21), 14626. <https://doi.org/10.3390/su142114626>

E-Companions

EC-1 Harman's Single Factor Test

Komponen	Eigenvalue	Variance Explained (%)	Cumulative (%)
Faktor 1	17,489	58,296	58,296

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.961
Bartlett's Test of Sphericity	Approx. Chi-Square	8779.453
	df	435
	Sig.	.000

EC-2 VIF latent Variables

Inner model – VIF

Construct	VIF
CV -> CFP	2.786
FIC -> CFP	3.016
RPI -> CV	2.383
RPI -> FIC	2.742

SCR -> CFP	1.791
SCST -> CV	2.383
SCST -> FIC	3.271
SCST -> SCR	2.700
UCTW -> FIC	3.106
UCTW -> SCR	2.700

Reviewer 3 – Round 2

No.	Reviewer's Comments	Authors' Responses
1	I have re-read the article "Geopolitical Risk and the Financialization of Firm Vulnerability in Emerging Markets" (jrfm-4370715) and the authors have (despite they could have perhaps done so in greater detail) responded to all my queries and adapted the manuscript accordingly. I therefore do not have more comments to add.	Thank you very much for re-reading our manuscript and for your positive assessment of the revised version. We sincerely appreciate your acknowledgment that we have responded to your queries and adapted the manuscript accordingly. We are grateful for your constructive comments throughout the review process, as they have helped us improve the clarity, methodological transparency, and overall quality of the manuscript. Thank you again for your time and valuable feedback.

BUKTI REVISI MINOR:

1. Komentar Reviewer 2



Universitas
Bhayangkara
Jakarta Raya

Sugeng Suroso <sugeng.suroso@ubharajaya.ac.id>

[JRFM] Manuscript ID: jrfr-4370715 - Major Revision

1 pesan

JRFM Editorial Office <jrfr@mdpi.com>

12 Juli 2026 pukul 21.14

Balas Ke: Anja Juric <anja.juric@mdpi.com>, JRFM Editorial Office <jrfr@mdpi.com>

Kepada: Sugeng Suroso <sugeng.suroso@ubhara.ac.id>, Sugeng Suroso <sugeng.suroso@ubharajaya.ac.id>

Cc: Sri Wulandari <sri.wulandari@dsn.ubharajaya.ac.id>, Chajar Matari Fath Mala <chajar.matari@upj.ac.id>, JRFM Editorial Office <jrfr@mdpi.com>, Anja Juric <anja.juric@mdpi.com>

Dear Dr. Suroso,

Thank you for providing the revised version of your manuscript:

Manuscript ID: jrfr-4370715

Type of manuscript: Article

Title: Geopolitical Risk and the Financialization of Firm Vulnerability in Emerging Markets

Authors: Sugeng Suroso *, Sri Wulandari, Chajar Matari Fath Mala

Received: 26 May 2026

E-mails: sugeng.suroso@ubhara.ac.id, sri.wulandari@dsn.ubharajaya.ac.id, chajar.matari@upj.ac.id

Section: Applied Economics and Finance

https://www.mdpi.com/journal/jrfr/sections/applied_economics_finance

The revised version of your manuscript has now been reviewed by experts in the field and can be found with the review reports at:

<https://susy.mdpi.com/user/manuscripts/resubmit/3d6ba68186f88871e32a6c8a0ca75eff>

Please revise the manuscript found at the above link according to the reviewers' comments and upload the revised file within 10 days. Note the following check-list:

- (I) Ensure all references are relevant to the content of the manuscript.
- (II) Highlight any revisions to the manuscript, so editors and reviewers can see any changes made.
- (III) Provide a cover letter to respond to the reviewers' comments and explain, point by point, the details of the manuscript revisions.
- (IV) If the reviewer(s) recommended references, critically analyze them to ensure that their inclusion would enhance your manuscript. If you believe these references are unnecessary, you should not include them.
- (V) If you found it impossible to address certain comments in the review reports, include an explanation in your appeal.

Our expert editors offer professional Language and Figure Editing, each completed within 1 day. These optional services ensure the high standard required to publish your work with clarity and boost its impact. You can submit here:

https://susy.mdpi.com/user/author_services/new/revision_email?hash_key=3d6ba68186f88871e32a6c8a0ca75eff

Please do not hesitate to contact us if you have any questions regarding the revision of your manuscript or if you need more time. We look forward to hearing from you soon.

Kind regards,

Ms. Niki Ke

Section Managing Editor

E-Mail: niki.ke@mdpi.com

JRFM CiteScore 2025: 5.5 (up from 5.0 in 2024)

First JRFM Webinar on Quantitative Finance – 26 June 2026. Learn more:

<https://sciforum.net/event/JRFM-2>

MDPI (Wuhan)

Floor 54, Wuhan Hang Lung Plaza Office Tower, Hubei Province, 430030 Wuhan,
China

Tel.: +86 27 8780 8658

www.mdpi.com

Data Protection Notes: <https://www.mdpi.com/about/data-protection>

Disclaimer: The information and files contained in this message are confidential and intended solely for the use of the individual or entity to whom they are addressed. If you have received this message in error, please notify me and delete this message from your system. You may not copy this message in its entirety or in part, or disclose its contents to anyone.

--

MDPI Office

MDPI JRFM Editorial Office

Grosspeteranlage 5, 4052 Basel, Switzerland

E-Mail: jrfm@mdpi.com

<http://www.mdpi.com/journal/jrfm>

KOMENTAR REVIEWER 2

Review Report Form

Quality of English Language

() The English could be improved to more clearly express the research.

(x) The English is fine and does not require any improvement.

	Yes	Can be improved	Must be improved	Not applicable
Does the introduction provide sufficient background and include all relevant references?	()	(x)	()	()
Is the research design appropriate?	()	(x)	()	()
Are the methods adequately described?	()	(x)	()	()
Are the results clearly presented?	()	(x)	()	()
Are the conclusions supported by the results?	()	(x)	()	()
Are all figures and tables clear and well-presented?	()	()	(x)	()

Comments and Suggestions for Authors

The manuscript states that the analyses were conducted using SmartPLS 4. However, the figures presented do not clearly correspond to standard SmartPLS outputs, making it difficult to verify the reported analyses. Please clarify whether Figures 2 and 3 are direct exports from SmartPLS or manually reconstructed illustrations. If they were reconstructed, please confirm that all reported statistics were generated directly from SmartPLS. To facilitate verification, please provide the SmartPLS project file (.splsm/.splsp or equivalent), the exported SmartPLS output, or screenshots of the relevant measurement and structural model results in the supplementary material or for reviewer inspection.

Submission Date

26 May 2026

Date of this review

12 Jul 2026 12:29:16



Universitas
Bhayangkara
Jakarta Raya

Sugeng Suroso <sugeng.suroso@ubharajaya.ac.id>

[JRFR] Manuscript ID: jrfr-4370715 - Manuscript Resubmitted

JRFR Editorial Office <jrfr@mdpi.com>

23 Juli 2026 pukul 15.05

Balas Ke: Anja Juric <anja.juric@mdpi.com>, JRFR Editorial Office <jrfr@mdpi.com>

Kepada: Sugeng Suroso <sugeng.suroso@ubhara.ac.id>, Sugeng Suroso <sugeng.suroso@ubharajaya.ac.id>

Cc: Sri Wulandari <sri.wulandari@dsn.ubharajaya.ac.id>, Chajar Matari Fath Mala <chajar.matari@upj.ac.id>

Dear Dr. Suroso,

Thank you very much for resubmitting the modified version of the following manuscript:

Manuscript ID: jrfr-4370715

Type of manuscript: Article

Title: Geopolitical Risk and the Financialization of Firm Vulnerability in Emerging Markets

Authors: Sugeng Suroso *, Sri Wulandari, Chajar Matari Fath Mala

Received: 26 May 2026

E-mails: sugeng.suroso@ubhara.ac.id, sri.wulandari@dsn.ubharajaya.ac.id, chajar.matari@upj.ac.id

Applied Economics and Finance

https://www.mdpi.com/journal/jrfr/sections/applied_economics_finance

https://susy.mdpi.com/user/manuscripts/review_info/3d6ba68186f88871e32a6c8a0ca75eff

A member of the editorial office will be in touch with you soon regarding progress of the manuscript.

Kind regards,

JRFR Editorial Office

Postfach, CH-4020 Basel, Switzerland

Office: Grosspeteranlage 5, CH-4052 Basel

Tel. +41 61 683 77 34 (office)

E-mail: jrfr@mdpi.com

<https://www.mdpi.com/journal/jrfr/>

*** This is an automatically generated email ***

Reviewer 2 – Round 3

No.	Reviewer's Comments	Authors' Responses
1	The manuscript states that the analyses were conducted using SmartPLS 4. However, the figures presented do not clearly correspond to standard SmartPLS outputs, making it difficult to verify the reported analyses. Please clarify whether Figures 2 and 3 are direct exports from SmartPLS or manually reconstructed illustrations. If they were reconstructed, please confirm that all reported statistics were generated directly from SmartPLS. To facilitate verification, please provide the SmartPLS project file (.splsm/.splsp or equivalent), the exported SmartPLS output, or screenshots of the relevant measurement and structural model results in the supplementary material or for reviewer inspection.	Thank you for this valuable comment. We appreciate the reviewer's concern regarding the transparency and reproducibility of the SmartPLS analyses. We would like to clarify that all statistical analyses, including the measurement model assessment and structural model estimation, were conducted entirely using SmartPLS 4. The figures presented in the manuscript (Figures 2 and 3) are not direct screenshots or exports from SmartPLS. They were graphically edited and reformatted by The MDPI Author Services Team to improve visual clarity, consistency, and compliance with the journal's publication style. Consequently, the appearance of these figures differs from the standard SmartPLS output. We would like to emphasize that all reported numerical results—including factor loadings, reliability and validity measures, path coefficients, bootstrapping results, R^2 values, effect sizes, and significance levels—were generated directly from SmartPLS 4 without any manual modification. The graphical editing performed by The MDPI Author Services Team affected only the visual presentation of the figures and did not alter the analytical results or statistical values in any way. To further enhance transparency and facilitate verification, we have added a clarification in the revised manuscript explaining that Figures 2 and 3 are edited versions of the original SmartPLS4. In addition, the original SmartPLS outputs, including the measurement model, structural model, and bootstrapping results, as well as the SmartPLS project file, are available and can be provided to the editor and reviewers for inspection upon request. We hope this clarification adequately addresses the reviewer's concern and further strengthens the transparency and reproducibility of our study.



Universitas
Bhayangkara
Jakarta Raya

Sugeng Suroso <sugeng.suroso@ubharajaya.ac.id>

[JRFR] Manuscript ID: jrfr-4370715 - Accepted for Publication

1 pesan

JRFR Editorial Office <jrfr@mdpi.com>

21 Juli 2026 pukul 16.12

Balas Ke: Anja Juric <anja.juric@mdpi.com>, JRFR Editorial Office <jrfr@mdpi.com>

Kepada: Sugeng Suroso <sugeng.suroso@ubhara.ac.id>, Sugeng Suroso <sugeng.suroso@ubharajaya.ac.id>

Cc: Sri Wulandari <sri.wulandari@dsn.ubharajaya.ac.id>, Chajar Matari Fath Mala <chajar.matari@upj.ac.id>, JRFR Editorial Office <jrfr@mdpi.com>, Anja Juric <anja.juric@mdpi.com>, Niki Ke <niki.ke@mdpi.com>

Dear Dr. Suroso,

Congratulations on the acceptance of your manuscript, and thank you for submitting your work to JRFR. Please see the relevant manuscript details below:

Manuscript ID: jrfr-4370715

Type of manuscript: Article

Title: Geopolitical Risk and the Financialization of Firm Vulnerability in Emerging Markets

Authors: Sugeng Suroso *, Sri Wulandari, Chajar Matari Fath Mala

Received: 26 May 2026

E-mails: sugeng.suroso@ubhara.ac.id, sri.wulandari@dsn.ubharajaya.ac.id, chajar.matari@upj.ac.id Applied Economics and Finance

https://www.mdpi.com/journal/jrfr/sections/applied_economics_finance

https://susy.mdpi.com/user/manuscripts/review_info/3d6ba68186f88871e32a6c8a0ca75eff

We will now edit your paper; once complete, we will return it to you for your review and approval. Within the next few days, an invoice for the article processing charge (APC), required for publication, will be sent by email from the Editorial Office in Basel, Switzerland.

If, however, your manuscript requires extensive English language and grammar revisions, we will need to return the paper and request that such changes are made.

We encourage you to set up a profile on SciProfiles.com, MDPI's researcher network platform. Articles you publish with MDPI will be linked to your SciProfiles page, where your colleagues and peers will be able to see all of your publications, citations, and other academic contributions.

Have an idea for an open access book? Please contact us through bksubmission@mdpi.com if you are interested in publishing an open access book. MDPI Books offers quality open access book publishing to promote the exchange of ideas and knowledge across all disciplines in a modern, globalized world.

Lastly, MDPI is pleased to announce the launch of our Academic Video Service, which aims to enhance the visibility of our journals' manuscripts. This comprehensive service includes professional scriptwriting, animation design, and strategic promotion. For further information and to see examples of Academic Videos we have created, please visit https://encyclopedia.pub/video_service.

Kind regards,
Thanasis Stengos
Editor-in-Chief



Universitas
Bhayangkara
Jakarta Raya

Sugeng Suroso <sugeng.suroso@ubharajaya.ac.id>

[JRFM] Manuscript ID: jrjm-4370715 - Final Proofreading Before Publication

5 pesan

JRFM Editorial Office <jrjm@mdpi.com>

22 Juli 2026 pukul 15.05

Balas Ke: Anja Juric <anja.juric@mdpi.com>, JRFM Editorial Office <jrjm@mdpi.com>

Kepada: Sugeng Suroso <sugeng.suroso@ubhara.ac.id>, Sugeng Suroso <sugeng.suroso@ubharajaya.ac.id>

Cc: Sri Wulandari <sri.wulandari@dsn.ubharajaya.ac.id>, Chajar Matari Fath Mala <chajar.matari@upj.ac.id>, JRFM Editorial Office <jrjm@mdpi.com>, anja.juric@mdpi.com

Dear Dr. Suroso,

We invite you to proofread your manuscript to ensure that this is the final version for publication and to confirm that you require no further changes:

At MDPI, we believe in the fast dissemination of sound, valid scientific knowledge. Once accepted for publication, we aim to ensure that research is published as soon as possible.

Please upload the final proofread version of your manuscript within 24 hours, and please remember that we can be flexible with this timeframe if necessary. If you need more time, please inform the Assistant Editor of the date by which you will be able to return the proofread version.

Manuscript ID: jrjm-4370715

Type of manuscript: Article

Title: Geopolitical Risk and the Financialization of Firm Vulnerability in Emerging Markets

Authors: Sugeng Suroso *, Sri Wulandari, Chajar Matari Fath Mala

Received: 26 May 2026

E-mails: sugeng.suroso@ubhara.ac.id, sri.wulandari@dsn.ubharajaya.ac.id, chajar.matari@upj.ac.id

Applied Economics and Finance

https://www.mdpi.com/journal/jrjm/sections/applied_economics_finance

Please read the following instructions carefully before proofreading:

1) Download the manuscript from the link provided at the end of this message and upload the final proofed version via the second link. If you experience any difficulties, please contact the JRFM Editorial Office.

2) Please use Microsoft Word's built-in track changes function to highlight any changes you make, or send a comprehensive list of changes in a separate document. Note that this is the *last chance* to make textual changes to the manuscript. Some style and formatting changes may have been made by the production team. Please do not revert these changes.

3) All authors must agree to the final version. Carefully check that the authors' names and affiliations are correct, and that funding sources are correctly acknowledged. Incorrect author names or affiliations are picked up by indexing databases, such as the Web of Science or PubMed, and can be difficult to correct.

After proofreading, final production will be carried out. Note that changes to the position of figures and tables may occur during the final steps. Changes can be made to a paper published online only at the discretion of the Editorial Office.

Please download the final version of your paper for proofreading here:

<https://susy.mdpi.com/user/manuscripts/proof/file/3d6ba68186f88871e32a6c8a0ca75eff>

and upload here:

<https://susy.mdpi.com/user/manuscripts/resubmit/3d6ba68186f88871e32a6c8a0ca75eff>

This manuscript includes supplementary materials, which you can find at the second link, above. Please note that citations and references in supplementary files are permitted provided that they also appear in the reference list of the main text. Please ensure that you proofread your supplementary materials and upload them together with the manuscript.

We look forward to hearing from you soon.

Kind regards,
Ms. Anja Juric
Assistant Editor, MDPI Novi Sad
E-Mail: anja.juric@mdpi.com

MDPI Branch Office, Novi Sad
Bulevar oslobođenja 83, 21000 Novi Sad, Serbia
Tel. +381 21 300 14 49

Disclaimer: MDPI recognizes the importance of data privacy and protection. We treat personal data in line with the General Data Protection Regulation (GDPR) and with what the community expects of us.
The information contained in this message is confidential and intended solely for the use of the individual or entity to whom they are addressed. If you have received this message in error, please notify me and delete this message from your system. You may not copy this message in its entirety or in part, or disclose its contents to anyone.

Anja Juric <anja.juric@mdpi.com>

23 Juli 2026 pukul 18.14

Kepada: Sugeng Suroso <sugeng.suroso@ubhara.ac.id>, Sugeng Suroso <sugeng.suroso@ubharajaya.ac.id>

Cc: Sri Wulandari <sri.wulandari@dsn.ubharajaya.ac.id>, Chajar Matari Fath Mala <chajar.matari@upj.ac.id>, JRFM Editorial Office <jrfm@mdpi.com>

Dear Authors,

I hope this email finds you well.

I confirm that we received your proofread manuscript. Before we proceed, we noticed that you omitted to cite Table 8 within the main text. Please cite this table in the text and ensure that the first citation of each table appears in numerical order. Once you do, please send the document back to me via email.

I am attaching the document here for your convenience.

We look forward to hearing from you.

Kind regards,

--

Ms. Anja Juric
Deputy Managing Editor, MDPI Novi Sad
E-Mail: anja.juric@mdpi.com

MDPI Branch Office, Novi Sad
Bulevar oslobođenja 83, 21000 Novi Sad, Serbia
Tel. +381 21 300 14 49

--

Data Protection Notes: <https://www.mdpi.com/about/data-protection>

MDPI's headquarters are located in Basel, Switzerland. More information is available here: <https://www.mdpi.com/about/contact>

Disclaimer: The information and files contained in this message are confidential and intended solely for the use of the individual or entity to whom they are addressed. If you have received this message in error, please notify me and delete this message from your system. You may not

copy this message in its entirety or in part, or disclose its contents to anyone.

[Kutipan teks disembunyikan]

 **jrjm-4370715-Table 8.docx**
688K

Sugeng Suroso <sugeng.suroso@ubharajaya.ac.id>
Kepada: Anja Juric <anja.juric@mdpi.com>

23 Juli 2026 pukul 19.57

Dear Ms. Juric,

Thank you for your email and for bringing this matter to our attention.

We have revised the manuscript by adding the citation to Table 8 in the main text and ensuring that the first citation of each table appears in the correct numerical order.

Please find the revised manuscript attached to this email.

Thank you for your assistance. We look forward to the next stage of the publication process.

Kind regards,

Sugeng Suroso

[Kutipan teks disembunyikan]

 **jrjm-4370715-Table 8.docx**
689K

Anja Juric <anja.juric@mdpi.com>
Kepada: Sugeng Suroso <sugeng.suroso@ubharajaya.ac.id>

24 Juli 2026 pukul 16.42

Dear Authors,

I hope this email finds you well.

We are currently in the final stages of the publication process. Before we proceed, we would greatly appreciate it if you could review and confirm a few minor comments.

For your convenience, I have attached the manuscript again. My sincerest apologies for any inconvenience this may cause, and thank you very much for your time and assistance. Once you check and confirm, please kindly send the manuscript back to me via email.

Thank you once again for your kind cooperation throughout this process.
We look forward to hearing from you.

Kind regards,

--

Ms. Anja Juric
Deputy Managing Editor, MDPI Novi Sad
E-Mail: anja.juric@mdpi.com

MDPI Branch Office, Novi Sad
Bulevar oslobođenja 83, 21000 Novi Sad, Serbia
Tel. +381 21 300 14 49

--

Data Protection Notes: <https://www.mdpi.com/about/data-protection>

MDPI's headquarters are located in Basel, Switzerland. More information is available here: <https://www.mdpi.com/about/contact>

Disclaimer: The information and files contained in this message are confidential and intended solely for the use of the individual or entity to whom they are addressed. If you have received this message in error, please notify me and delete this message from your system. You may not copy this message in its entirety or in part, or disclose its contents to anyone.

On 23/07/2026 14:57, Sugeng Suroso wrote:

> CAUTION - EXTERNAL: This email originated from outside of MDPI organisation. BE CAUTIOUS especially to click links or open attachments.

[Kutipan teks disembunyikan]



jrfm-4370715-247.docx

689K

Sugeng Suroso <sugeng.suroso@ubharajaya.ac.id>
Kepada: Anja Juric <anja.juric@mdpi.com>

24 Juli 2026 pukul 19.46

Dear Ms. Anja Juric,

I hope this email finds you well.

Thank you very much for your email and for providing the manuscript for our final review. We have carefully checked the manuscript and reviewed the minor comments as suggested.

We have confirmed and addressed the necessary revisions accordingly. The revised manuscript is attached for your further processing.

Thank you for your kind assistance and continuous support throughout the publication process. We greatly appreciate your time and effort in handling our manuscript.

Please do not hesitate to contact us if any further information or clarification is required.

Kind regards,
Sugeng Suroso

[Kutipan teks disembunyikan]



jrfm-4370715-247.docx

690K

Article

Geopolitical Risk and the Financialization of Firm Vulnerability in Emerging Markets

Sugeng Suroso ^{1,*}, Sri Wulandari ¹ and Chajar Matari Fath Mala ²

¹ Faculty of Economics and Business, Universitas Bhayangkara Jakarta Raya, Jakarta, Indonesia;

sri.wulandari@dsn.ubharajaya.ac.id

² Management Department, Universitas Pembangunan Jaya, South Tangerang, Indonesia;

chajar.matari@upj.ac.id

* Correspondence: sugeng.suroso@ubharajaya.ac.id

Abstract

Geopolitical uncertainty represents a growing source of systemic risk that reshapes international markets, disrupts cross-border operations, and challenges firms' ability to sustain financial performance. This research examines the mechanisms through which geopolitical instability ~~related~~ *relates* to firm financial outcomes in Southeast Asian economies by assessing the mediating roles of supply chain resilience, currency volatility, and foreign investment confidence. Based on a quantitative cross-sectional design, data were collected from 308 firms across Southeast Asian Economies and analyzed using partial least squares structural equation modeling (PLS-SEM). The findings indicate that geopolitical risks significantly influence financial performance, with the strongest effects transmitted through financial channels. Currency volatility and foreign investment confidence emerge as critical mediators, demonstrating that exchange rate instability and investor risk perceptions substantially shape firm performance under geopolitical pressure. While supply chain resilience enhances firms' capacity to adapt to external disruptions, its direct contribution to financial performance remains insignificant. The model explains 66.7% of the variance in financial performance, reflecting strong explanatory capability. These findings extend existing knowledge by integrating financial, operational, and institutional mechanisms to clarify how geopolitical disruptions propagate into firm-level outcomes. The results underscore the importance of financial preparedness, institutional effectiveness, governance quality, and adaptive capabilities in managing geopolitical uncertainty.

Keywords: geopolitical risk; corporate financial performance; supply chain resilience; currency volatility; foreign investment confidence

JEL Classification: F51; F23; G32; L25; M16; O53

Academic Editor(s): Name

Received: date

Revised: date

Accepted: date

Published: date

Copyright: © 2026 by the authors. Submitted for possible open access publication under the terms and conditions of the Creative Commons Attribution (CC BY) license.

1. Introduction

Geopolitical shocks are no longer an external event separate from the business world but rather inherent to global operations. Increasing volumes of trade disputes, conflicts in sea lanes, sanctions and political uncertainty are impacting businesses at all levels, affecting their production costs, access to capital, investor attitudes and expectations of future exchange rate developments (Caldara & Iacoviello, 2022; Bajaj et al., 2023).

Commented [M1]: We added the article type based on information in susy.mdpi.com. Please confirm.

Commented [ss1R2]: Yes. We agree

Commented [M2]: Please carefully check the accuracy of names and affiliations.

Commented [M3]: Since affiliation 1 and 2 are the same, we updated the affiliation numbers. Please confirm.

Commented [ss3R2]: I agree

Commented [M4]: Affiliations 1 and 2: Please add the postal code. If a postal code is not available, a Post Office Box number can be added instead.

Commented [ss4R2]: Postal code 1) 12550. 2) 15413

Commented [M5]: We added these email addresses here according to those submitted online at susy.mdpi.com. Please confirm.

Commented [ss5R2]: I agree

Commented [M6]: This email address is different from the one submitted online at susy.mdpi.com. Please confirm which is correct.

Commented [ss6R2]: this one is correct. Sugeng.suroso@ubharajaya.ac.id

Commented [M7]: Please check if it should be retained.

Commented [ss7R2]: Yes.

Although there is already literature on the impacts of geopolitical risks on growth, trade, market prices and overall investments, the factors contributing to heterogeneity in firms' responses to such risks remain understudied. In spite of exposure to identical events, firms typically vary significantly in their outcomes due to differing levels of dependence on the supply chain, foreign currency risk exposure, capacity to access external financing, ability to discern and appropriately react to the relevant event (Durnev & Mangen, 2020; Eser & Wu, 2021; ~~Ghassemi & Sadr, 2022~~). However, existing geopolitical risk literature has largely treated firms as homogeneous entities, providing limited explanation of how internal organizational capabilities and financial exposure determine the magnitude of geopolitical shocks on corporate outcomes. Understanding these firm-level transmission mechanisms is essential because the same geopolitical event may create different consequences depending on firms' strategic resources and vulnerability profiles.

This research extends the literature by analyzing geopolitical risk as a ~~micro~~ level ~~micro-level~~ transmission mechanism rather than solely as a macroeconomic phenomenon. The sample selection of emerging ~~S~~outheast Asian economies is both empirically and theoretically relevant since Asian firms are the most vulnerable to geopolitical shocks as they are strongly dependent on export-oriented value chains, capital flows and have an operating environment shaped by credibility concerns and stability issues surrounding the local currency (Athukorala & Wei, 2017). In the analysis, three types of geopolitical risk are included, namely the US–China trade war, conflict in the South China Sea, and regional political uncertainty, all affecting firms' performance through different channels which may be offsetting or complementary. These channels suggest that geopolitical risks do not directly influence firm performance alone but operate through intermediate mechanisms that shape firms' ability to absorb, transfer, and respond to external uncertainty.

The inclusion of three specific types of geopolitical risks and their various transmission channels contributes to the literature on the economy-wide impacts of geopolitical risks. While most studies focused on evaluating the impact of geopolitical risks on corporate investment, exchange rate volatility, supply chain disruptions, or market turbulence separately (Zhang et al., 2023; X. Liu & Zhang, 2024), limited attempts have been made to provide a theoretically comprehensive explanation of the relationship between geopolitical risk and corporate financial performance in emerging economies and pinpoint the relative importance of these channels. Our research has attempted to bridge this gap with an analysis of a multi-mediator framework where the relative importance of supply chain resilience, currency volatility, and foreign investment confidence contributes to the financialization of risk exposures. Accordingly, this research contributes to the literature in three ways. First, it shifts the discussion of geopolitical risk from a macroeconomic perspective toward a firm-level risk transmission framework. Second, it integrates supply chain resilience, currency volatility, and foreign investment confidence as interconnected mechanisms explaining corporate responses to geopolitical uncertainty. Third, by focusing on emerging Southeast Asian economies, this study provides evidence from a region where geopolitical exposure and global economic integration are particularly pronounced.

2. Literature Review, Theoretical Foundation, and Hypothesis Development

The theoretical background for this research encompasses the following theories: institutional uncertainty theory, transaction cost economics, real options theory, behavioral finance, dynamic capabilities theory, and international finance theory. The institutional uncertainty theory demonstrates how instabilities, reversals, and lack of institutional credibility contribute to the escalation of coordination costs across borders (North, 1990; Henisz, 2000). Transaction cost economics builds on this idea by considering

<https://doi.org/10.3390/xxxxx>

Commented [M8]: We removed extra). Please confirm. The following highlight is the same.

Commented [ss8R2]: I agree

Commented [M9]: There are two "(Zhang et al., 2023)" in refs list. Please add B. or Y. before "Zhang".

Commented [ss9R2]: add B

Commented [M10]: We added name abbr. based on our rule. Please confirm. The following highlights are the same.

Commented [ss10R2]: I agree

geopolitical stability in relation to higher monitoring, contracting, routing, and enforcement costs within supply chains. The real options theory suggests that foreign investments are delayed or pulled back due to increased levels of uncertainty, whereas behavioral finance offers a deeper understanding of the connection between political and security risks and investor confidence (Pástor & Veronesi, 2013). Dynamic capabilities theory provides the theoretical basis for the idea of resilience as an organizational capability used to cope with disruptions, and international finance theory emphasizes the importance of currency fluctuations as financial mechanisms in response to geopolitical shocks.

2.1. Geopolitical Trade Conflicts and Supply Chain Resilience

One involved framework is that of Institutional Uncertainty Theory, which serves as an excellent point of departure in examining how geopolitical instability alters organizational operations. North (1990) made one of the most ~~widely cited~~^{widely cited} arguments in the literature when he argued that the institutions, or, in other words, the rules and conventions of economic exchange, govern transaction costs of coordination. If institutions remain stable, then organizations can make decisions, investments, and conduct coordination activities around the world without worrying about unexpected changes to the costs involved. On the other hand, when institutions become unstable, transaction costs explode, contract enforcement becomes difficult, and predictability necessary for the operation of production chains becomes impossible (Henisz, 2000). Geopolitical trade disputes constitute exogenous disturbances of such a nature, which cause the collapse of the governance regime in which these supply chains function. By means of imposing tariffs, sanctions, and retaliatory policies, the trade conflicts generate uncertainty within the supply chain and, hence, the cost structure that cannot be anticipated by the firms involved. These firms are no longer able to rely on their previously predictable supply partners who suddenly become unreliable. It is precisely this increased cost of coordination, which was made possible by institutional stability, that becomes evident again.

Indeed, there is ample evidence that high tariffs and threats thereof not only increased costs but had a disruptive effect on international supply chains, forcing companies to adapt and change their procurement and production strategies (Zhou, 2020; Mao & Görg, 2020). However, even the uncertainty itself—the lack of knowledge about future trade policy, which would affect planning and long-term decision making—was just as disruptive as tariff measures. In the face of geopolitical uncertainty, it was impossible to plan ahead or develop sustainable strategies. On the one hand, some researchers contend that trade conflict could potentially increase resilience through incentives for diversification, reshoring, and regionalization (Gereffi, 2020; Bown, 2021). Forced to reduce reliance on any single supplier, firms could create more diversified supply networks. While the idea may seem plausible, institutional uncertainty theory suggests a far less optimistic conclusion. Geopolitical pressure forces companies to make adjustments that are qualitatively different from strategic investments in building resilience that are made under normal circumstances. These adjustments are reactive, rushed, and rarely optimal under pressure. As Evenett (2019) shows, diversification induced by trade conflict tends to lead to fragmented and inefficient supply networks, rather than resilient ones. Adjustment costs pile up, and the risks and vulnerabilities caused by ^a geopolitically fragmented system become difficult to counterbalance. Companies involved in China-centric supply chains are trapped by their very structure and cannot change course without ~~significant~~^{high} costs. Their redundancies are minimal, and their leverage vis-à-vis more powerful trading partners is low. When geopolitical

shocks come, they suffer disproportionately not because of any particular weaknesses but due to their position in the global economy.

Hence, while there could be rare cases of resilience-promoting adaptations made during trade conflicts, it appears that the predominant outcome is detrimental. Indeed, institutional uncertainty disrupts the crucial component of resilience—the predictability of events. As a result, supply chains cease to become coordinated systems and transform into a series of ~~ad hoc~~ transactions. Therefore, we hypothesize the following:

H1. *Geopolitical trade conflicts influence firms' supply chain resilience.*

2.2. Geopolitical Turbulence and Foreign Investment Confidence

From the point of view of real option and behavioral financial theories, increased policy and geopolitical uncertainty makes the value of waiting higher, causing investors to defer, shrink, or switch investment projects in light of increasingly unpredictable future payoffs (Dixit & Pindyck, 1994; Pástor & Veronesi, 2013). Geopolitical instability heightens uncertainty over regulatory regime, market access, and political stability, thus dampening confidence among foreign investors in the host economy. Rising uncertainty results in falling expected return levels relative to risk, reducing incentives for foreign direct investments (FDIs). Empirically, the relationship between trade policy uncertainty and lower entry rates, investment commitments, and FDI inflows is well-established by a number of studies, which find that policy uncertainties are particularly detrimental in economies that are closely linked with the international division of labor (Cui & Li, 2023; Yan et al., 2022; Gao et al., 2024). Although some research demonstrates temporary investment flows towards different countries in response to uncertainty, this is an ad hoc process rather than a sign of improved investor confidence (Dong et al., 2025). The impact of policy uncertainty on firms' decisions has also been observed ~~in~~ a reduction in outbound FDI, as firms try to minimize the risks associated with both domestic and international market volatility (Wu & Shao, 2023; Song et al., 2021). Crucially, emerging Asian economies are particularly vulnerable to shifts in foreign investment confidence due to reliance on foreign investments, export-oriented development models, and nascent institutional settings. Therefore, geopolitical trade disputes may be expected to negatively affect foreign investment confidence in Asia. Therefore,

H2. *Geopolitical trade conflicts significantly influence foreign investment confidence.*

2.3. Maritime Geopolitical Risk and Supply Chain Resilience

The notion of geopolitical risk pertaining to contested areas at sea represents a different type of supply chain vulnerability, as it poses a danger to the actual physical integrity of logistics channels. In accordance with transaction cost economics, an increase in the risk of expropriation, transportation disruption, and security challenges implies an increase in the cost of coordination and lower efficiency of international transactions (Williamson, 1985). The South China Sea (SCS), being a strategic maritime chokepoint, provides an example, where heightened tensions lead to increased transit risks, higher insurance rates, and greater route uncertainty for firms dependent on ocean-based logistics. Indeed, recent empirical studies demonstrate how geopolitical risk remains a significant determinant of overall supply chain vulnerability, implying that geopolitical tensions have adverse effects on network flexibility and disruptiveness (Blessley & Mudambi, 2022; Huchzermeier & Stehle, 2025). The empirical data ~~shows~~ that companies heavily reliant on maritime trade and operating in risky geopolitical locations tend to experience higher levels of supply chain disruptions, while diversification cannot completely solve the problem (Khan, 2025; M. Zhu et al., 2024). While certain

Commented [M11]: There is no superscript for the number after H in Table 8. Please check if we should retain superscript of the number. If revise, please revise all.

Commented [ss11R2]: Not Superscript

Formatted: Not Superscript/ Subscript

Formatted: Not Superscript/ Subscript

organizational practices can mitigate uncertainty, they remain incapable of resolving long-term geopolitical tensions in key regions (Coşkun & Erturgut, 2024). In relation to the South China Sea region, political tensions imply high costs of adjustments in regard to sourcing and routing, yet do not eliminate risk in any meaningful way. As a result, geopolitical risks in the SCS are likely to negatively impact supply chain resilience. Therefore,

H3. *Geopolitical tensions in contested maritime regions are significantly associated with supply chain resilience.*

Formatted: Not Superscript/ Subscript

2.4. Maritime Geopolitical Risk and Foreign Investment Confidence

The behavioral and institutional theories indicate that geopolitical risk intensifies investors' perceptions about risk, as it increases uncertainties associated with political stability, security, and policy consistency. Thus, it decreases the confidence of investors in investing abroad. According to Caldara and Iacoviello (2022), geopolitical risk shocks strongly inhibit investments due to increased uncertainty and higher risk premium premiums in the financial market. The mentioned effect is especially significant in the case of strategic rivalry and conflict in a given area. Research findings indicate that geopolitical risks affect foreign investments, leading to redirection of foreign direct investments to other destinations (Agoraki et al., 2024; C Feng et al., 2023). Empirical evidence on the impact of geopolitical risk on foreign investments at the country level shows that an increase in geopolitical risk leads to a reduction in investment confidence (Truong et al., 2024; Altiner & Bozkurt, 2023). In relation to the South China Sea, it can be claimed that rising geopolitical tensions encourage investors to look for safer places with less volatility (C Feng et al., 2023). Due to the importance of the SCS in international trade, geopolitical risks may produce negative spillovers that will reduce foreign investment confidence in emerging Asia. Therefore,

H4. *Geopolitical tensions in contested maritime regions significantly influence foreign investment confidence.*

Formatted: Not Superscript/ Subscript

2.5. Maritime Geopolitical Risk and Currency Volatility

International finance theory suggests that exchange rates are highly sensitive to external shocks, particularly geopolitical events that reshape investor expectations, risk assessments, and cross-border capital allocation decisions. Under conditions of heightened uncertainty, investors reassess asset risks, leading to changes in portfolio preferences, capital movements, and currency valuations (Akram, 2020; Caldara & Iacoviello, 2022). Specifically, geopolitical conflicts lead to increased risk pre-mia, accelerated reversals of capital flows, and increased speculative activities, which significantly increase exchange rate volatility (Akram, 2020; Caldara & Iacoviello, 2022). These impacts are even stronger on emerging markets where financial markets are shallow, policy credibility is still in formation, and currencies are vulnerable to changes in global risk sentiments. Geopolitical disputes in important maritime areas such as the South China Sea (SCS) rep-resentrepresent an important external threat to exchange rate volatility. Since the SCS is a critical corridor for the movement of global trade and energy flows, any disruptions in this area affect expectations regarding trade, commodity flows, and investments, all factors that influence currency valuations. Geopolitical risk increases exchange rate volatility in ASEAN economies significantly, as demonstrated by empirical findings implying increased vulnerability of these regional currencies to geopolitical tensions and risks (Hui, 2021). Likewise, Adeosun et al. (2024) find that geopolitical shocks generate volatility spillovers across financial markets, where currency markets exhibit

higher sensitivities as they depend on capital flows and policy uncertainties. Evidence from past geopolitical shocks reinforces this finding. Studies confirm that large-scale geopolitical shocks, including the recent Russia–Ukraine conflict, led to foreign exchange volatility due to sudden portfolio adjustments and investors seeking safer havens in response (Aliu et al., 2022; Akarsu & Gharehgozli, 2023). Similar effects can be expected in relation to the South China Sea, where geopolitical tensions would lead to disruption of energy trade routes, changes in commodity prices, and speculation ~~of on~~ currencies. Other studies have emphasized the impact of investor sentiment and contagion ~~effect~~ effects with regard to spillover of volatility via exchange rate mechanisms following geopolitical shocks (Asad et al., 2020; Abdulsalam & Onipede, 2023). Based on these theoretical and empirical insights, it appears likely that geopolitical tensions in the South China Sea would increase uncertainties about trade continuities, energy supplies, and capital flows, resulting in increased exchange rate volatility. ~~Thus,~~

H5. *Geopolitical tensions in contested maritime ~~region~~-regions have a significant influence on currency volatility.*

Formatted: Not Superscript/ Subscript

2.6. Political Instability and Foreign Investment Confidence

The level of foreign investment confidence can be viewed as a function of political stability, institutional strength, and policy continuity in host nations. According to institutional theory, political stability decreases uncertainty, facilitates contract enforcement, and improves the predictability of regulations, thus reducing transaction costs and encouraging foreign investments (North, 1990; Henisz, 2000). Political instability negatively impacts this set of institutions, which leads to decreased investor confidence owing to uncertainty associated with potential policy changes, poor governance, and increased risks associated with investing (Dixit & Pindyck, 1994). Real options theory suggests that political instability increases the value of waiting for better investment opportunities as the level of uncertainty concerning potential future profits increases (Dixit & Pindyck, 1994). As a result, foreign investors demand higher premiums or avoid investing in politically unstable countries altogether. This perspective is complemented by behavioral finance, which highlights the importance of investor perceptions and confidence and indicates that political instability makes investors hesitant about investing or even withdrawing capital (Pástor & Veronesi, 2013).

These theoretical assumptions are consistently corroborated in the empirical literature. Kiptoo (2024) demonstrates that political stability facilitates the development of FDI, whereas political instability hinders the process by creating uncertainties and deterring investors. Similar trends are found in country-specific studies. Tjandrasa (2021), for example, shows that political stability and institutional reforms increase foreign investment attractiveness in Indonesia as a result of improved perception. Fragile and ~~vulnerability-prone~~vulnerability-prone countries experience stronger discouraging effects of political instability on foreign investment confidence. Bitar et al. (2019) found that insecurity and lack of policy predictability in Lebanon led to significant reductions in FDI. Kurecic and Kokotovic (2017) observed both short-term and lasting reductions in the amount of foreign ~~investments~~-investment resulting from political instability in their analysis.

Commented [M12]: Please confirm updated name format.

Commented [ss12R2]: I agree

~~The institutional~~Institutional quality has a critical moderating impact on the relationship between political instability and foreign investment confidence. The weaker the institutional environment, the greater ~~the~~ negative influence political instability has on foreign investment confidence due to high uncertainty and weak enforcement mechanisms (Saha et al., 2022). Recent research further emphasizes the critical importance of political stability not just for attracting FDI, but also for sustaining innovations, green

growth, and economic development in general (Qamruzzaman & Karim, 2024; Wang et al., 2024). The evidence from Indonesia supports this finding, showing that political stability is positively related to the level of foreign investments and economic growth through increased investor confidence (Pástor & Veronesi, 2013).

Taken together, this literature suggests that regional political instability undermines foreign investment confidence by increasing uncertainty, weakening institutional trust, and raising perceived business risk, thereby discouraging long-term capital commitments. Therefore,

H6. *Regional political instability significantly ~~influence~~ influences foreign investment confidence.*

Formatted: Not Superscript/ Subscript

2.7. Political Instability, Investor Behavior, and Exchange Rate Volatility

In terms of behavioral finance, political instability impacts exchange rates through changes in expectations and ~~risks-risk~~ perceptions. The rise in geopolitical uncertainty reduces investor confidence, which results in capital flight, depreciating pressures on currencies, and exchange rate volatility in response to heterogeneous reactions to new information (Pastor & Veronesi, 2013). This effect is particularly pronounced in emerging markets, characterized by weaker institutions and a lack of credibility in their monetary policies, making currencies more sensitive to shocks. Indeed, multiple empirical analyses find that shocks related to politics and security increase the volatility of exchange rates due to increased currency risks exposure for firms and investors (Abbassi et al., 2022; Aliu et al., 2022). Moreover, Hui (2021) reveals that ASEAN foreign exchange markets display persistent exchange rate volatility under conditions of geopolitical risks, indicating that the region experiences political uncertainty and changes in capital flows changes. Adeosun et al. (2024) add that the combination of geopolitical uncertainty and economic policy uncertainty leads to increased financial instability and currency volatility.

Furthermore, commodity-based transmission mechanisms can play an important role in this case. Political uncertainty may negatively impact energy and commodity markets, thereby influencing exchange rates in oil exporters and importers. As noted by Akram (2020), there is greater exchange rate volatility for oil-exporting countries in periods of geopolitical uncertainty, while **P. L.** Liu et al. (2025) observe that shocks due to geopolitical tensions between the US and China are transmitted via commodity markets. These findings fit well into contagion models of international finance that emphasize the exchange rate channel as one of the ways shocks spread throughout the global financial system (Asad et al., 2020).

Thus, political uncertainty related to geopolitical tension will lead to increased exchange rate volatility. Therefore,

H7. *Regional Political instability has a significant influence on exchange rate volatility.*

2.8. Supply Chain Resilience and Corporate Financial Performance

Supply chain resilience (SCR) refers to a firm's capacity to anticipate, absorb, adapt to, and recover from disruptions while maintaining operational continuity and performance. Drawing on dynamic ~~capability's-capability~~ theory, resilient supply chains enable firms to reconfigure resources, sustain strategic flexibility, and mitigate performance losses under uncertainty, thereby contributing to superior financial outcomes. In volatile environments, SCR functions not merely as an operational attribute but as a strategic capability that enhances firms' long-term competitiveness and profitability. Empirical evidence consistently supports the positive association between SCR and corporate financial performance. Firms with higher resilience demonstrate superior returns on assets, profit margins, and growth during periods of market turbulence (Li et al., 2017). Recent studies further show that resilience embedded within sustainable supply chain practices strengthens stakeholder trust and improves financial performance by aligning operational stability with long-term value creation (**X** Zhu & Wu, 2022). Digital capabilities reinforce this relationship by enhancing supply chain visibility, coordination, and recovery speed, allowing firms to translate resilience into tangible financial gains (Zhao et al., 2023).

Supply chain finance (SCF) has emerged as an important complementary mechanism through which resilience enhances financial performance. By easing working capital constraints and improving liquidity across supply networks, SCF strengthens firms' ability to absorb shocks and sustain investment in innovation and operations (Zheng et al., 2025; **J** Feng et al., 2024). Empirical evidence confirms that firms adopting SCF

Commented [M13]: Is this a reference citation? if so, please add detailed information about this reference to your list of references.

Commented [ss13R2]: This citation is already in the reference list

Formatted: Not Superscript/ Subscript

mechanisms exhibit improved financial outcomes across industries, particularly in environments characterized by financing frictions (Paul, 2025). While prior studies highlight sustainability, digitalization, and financial integration as key enablers of resilience, most examine these mechanisms in isolation, leaving limited understanding of their combined effects—especially in emerging economies.

Taken together, the literature indicates that SCR operates as a strategic capability that positively influences corporate financial performance by enhancing adaptability, reducing disruption-related losses, and supporting sustained value creation. Therefore,

H8. Supply chain resilience positively ~~influence-influences~~ corporate financial performance.

Formatted: Not Superscript/ Subscript

2.9. Currency Volatility and Corporate Financial Performance

Currency volatility represents a critical external financial risk that affects firms' cost structures, pricing strategies, investment decisions, and international competitiveness. International finance theory suggests that heightened exchange rate fluctuations increase uncertainty, raise transaction and hedging costs, and distort investment planning, thereby undermining firm-level financial performance—particularly in economies with limited risk-management capabilities.

Empirical research provides robust evidence of this negative relationship. Exchange rate volatility has been shown to weaken corporate profitability and financial stability across both developed and emerging markets (Bris et al., 2004; Morina et al., 2020). Recent firm-level studies confirm that exchange rate instability adversely affects performance by eroding margins, increasing financing costs, and discouraging long-term investment (Kim & Han, 2024; Aminaho, 2025). Macroeconomic evidence further indicates that volatile exchange rates impede productivity, trade competitiveness, and investment, reinforcing their detrimental effects on firm performance (Musyoki et al., 2012; Yensu et al., 2022; Fofanah, 2022). Importantly, the magnitude of these effects varies across institutional contexts. Firms in advanced economies often possess more sophisticated hedging instruments and financial depth, enabling them to partially buffer currency risk, whereas firms in emerging markets remain more exposed due to weaker financial infrastructure and limited access to risk management tools (Aminaho, 2025). This vulnerability underscores the importance of currency stability for sustaining corporate financial performance in emerging economies. Accordingly, the literature converges on the view that currency volatility undermines firm performance by increasing uncertainty, costs, and financial risk exposure. Therefore,

H9. Currency volatility has a significant influence on corporate financial performance.

Formatted: Not Superscript/ Subscript

2.10. Foreign Investment Confidence and Corporate Financial Performance

Foreign investment confidence reflects investors' expectations regarding institutional credibility, governance quality, and long-term economic prospects in host economies. From an institutional and resource-based perspective, foreign investment enhances firm-level financial performance by providing access to capital, managerial expertise, advanced technologies, and global networks, thereby improving efficiency, governance, and competitive positioning. Empirical studies consistently demonstrate that firms with higher foreign ownership or stronger exposure to international investors exhibit superior financial performance, particularly in emerging and transitional economies (Pasali & Chaudhary, 2020). Foreign investors often impose more stringent governance practices and performance monitoring, contributing to enhanced profitability and productivity. Evidence from both developed and developing contexts supports this mechanism,

showing that firms with foreign participation outperform domestic counterparts in financial outcomes (Bentivogli & Mirenda, 2016).

However, the strength of this relationship depends on firm-level and institutional conditions. Large firms are generally better positioned to leverage international networks and economies of scale, while smaller firms may face constraints related to absorptive capacity (Bentivogli & Mirenda, 2016). Moreover, weak institutional environments may dampen the positive effects of foreign investment by increasing risk and limiting effective governance transmission. Despite these contingencies, the literature broadly confirms that foreign investment confidence plays a critical role in enhancing firm-level financial performance through improved governance, innovation adoption, and global integration. Therefore,

H10. *Foreign investment confidence has a significant influence on corporate financial performance.*

3. Methodology and Design

Development of Conceptual Model

Expanding upon the aforementioned theoretical arguments, this paper attempts to develop a conceptual model where geopolitical instability impacts corporate financial performance indirectly via firm-specific factors. In this context, geopolitical risks arise due to three reasons. First, there is an ongoing trade dispute between the US and China. Second, there are geopolitical risks in the South China Sea. Third, there is political instability in the region. Hence, this paper extends existing literature because geopolitical risks have been examined as being transmitted to financial performance through multiple channels instead of being exogenous variables that do not influence firms differently. Furthermore, in terms of corporate financial performance, this paper shows that geopolitical instability impacts firms, not just through the existence of risk itself, but also the level of exposure to risk by individual firms and its interpretation.

The proposed conceptual framework is presented in Figure 1. It illustrates the hypothesized relationships among trade war effects, South China Sea tensions, regional political instability, supply chain resilience, foreign investment confidence, currency volatility, and corporate financial performance.

Formatted: Not Superscript/ Subscript

Formatted: Level 1, Indent: Left: 0 cm

Commented [M14]: We format it as the level 3 heading. Please confirm. Or please check if it should be a level 2 heading—title of section 2.11.

Commented [ss14R2]: Yes. Level 3.

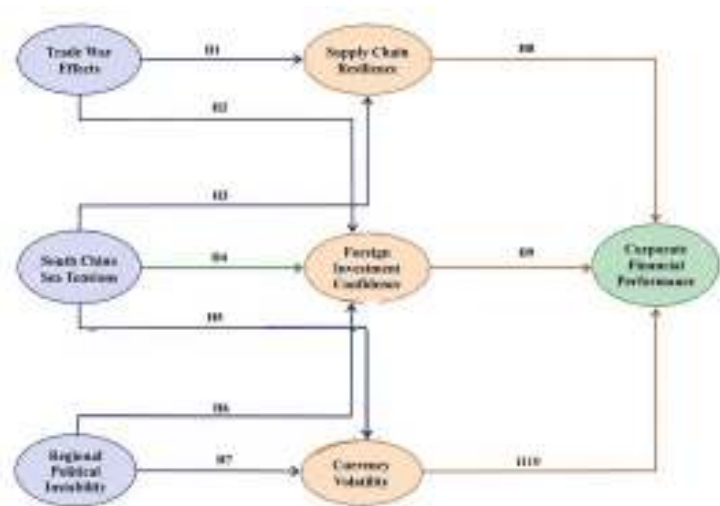


Figure 1. Conceptual Framework.

As shown in Figure 1, the study proposes ten hypotheses (H1–H10) to examine the direct relationships among the constructs. These hypotheses are developed from the theoretical framework and empirical literature and are tested using SEM.

3. Methodology and Design

Research Design

A quantitative cross-sectional research design was used to investigate how geopolitical uncertainty affects the performance of firms through multiple mediating variables. The research question suggested the use of a cross-sectional research design since the goal of the research was to understand how managers evaluated their companies’ geopolitically driven exposure, operational resilience, investor confidence, currency volatility, and performance within a time of uncertainty. It is worth noting that the cross-sectional design did not suggest causal relationships but rather tested statistical links between the concepts measured at one point in time. Partial Least Squares Structural Equation Modelling (PLS-SEM), a method implemented in SmartPLS 4.0, was selected due to the complexity of the model proposed and the presence of latent constructs and mediating mechanisms. According to previous studies, PLS-SEM is suitable for use in theory-based modeling and variance-explanation models where the data might violate the assumptions of multivariate normal distribution. The use of PLS-SEM was appropriate for this study since it is commonly applied in survey research, especially for emerging markets, as it performs well with relatively small sample sizes, while allowing to estimate the estimation of the structural model together with construct reliability and validity.

The study makes use of perceptual measures of geopolitical risk exposure, currency volatility, and firm financial performance, which was intentional. Even though US–China trade war risks, South China Sea issues, regional political instability, and currency volatility are all observable factors in themselves, their implications differ from company to company. While macro measures are able to objectively quantify the geopolitical risks, the extent of exposure of individual companies to any of those threats is beyond their scope. In other

- Commented [M15]: Note that changes to the position of figures and tables may occur during the final steps.
- Commented [ss15R2]: Yes. I agree.
- Commented [M16]: Please confirm whether the unnecessary and missing content should be revised and if it does, please revise them.
-
- Commented [ss16R2]: content does not need to be revised
- Commented [M17]: Please cite this figure in the text and ensure that the first citation of each figure appears in numerical order.
- Commented [ss17R2]: I have added text before and after the figure.
- Commented [M18]: Please check if different colors in image should be explained.
- Commented [ss18R2]: The colors in the picture do not need to be explained
- Commented [M19]: If there is only one subsection within a section, it should not be numbered. ... [1]
- Commented [ss19R2]: I agree.
- Commented [M20]: There is no content between section title and subsection title. Please check if it is correct.
- Commented [ss20R2]: Yes. It is correct

words, objective measures cannot account for the firm's vulnerability with respect to a particular trade route, extent of import-export exposure, foreign currency invoicing, hedges, concentration of suppliers, and foreign investors. Therefore, perceptual measures were adopted to capture heterogeneous firm-level exposure and managerial assessments of how geopolitical events translate into operational, financial, and strategic vulnerabilities.

All constructs were operationalized as reflective latent variables and measured through multi-item scales on a 5-point Likert scale varying from 1 (Strongly disagree) to 5 (Strongly agree). The items related to the US–China trade war tapped into perceived pressure to pay tariffs, sourcing disruption, cost uncertainty, and trade policy uncertainty. South China Sea tensions were measured in terms of perceived maritime routing risks, logistics disruptions, insurance and transport costs, and security risks. Political instability items reflected perceptions of policy continuity, regulatory predictability, institutions' trustworthiness, and security conditions. Resilience items included supplier diversification, capacity for re-routing, fast recovery capability, and visibility of relevant information. Items measuring currency volatilities related to foreign currency exposures, pricing uncertainty, burdens of hedging, and margin sensitivity. Perceived foreign investors' willingness, external financing availability, valuation confidence, and long-term capital commitments were used to measure investment confidence. Firm performance was measured in terms of profitability, sales growth, financial stability, return on assets, competitive position, and financial strength in line with the perceptual performance approach (Dess & Robinson, 1984), since secondary firm financial data is often unreliable in these settings.

To better explain why we leaned on perceptual financial performance measures, we ~~did not~~ include objective firm-level financial data. This was mainly because our sample spanned various Southeast Asian economies, many of which are home to privately owned or non-listed firms, and often lack consistent access to audited and comparable financial statements. Differences in accounting practices, disclosure requirements, currency denominations, fiscal-year reporting, and inflation also make it tough to compare secondary financial indicators across countries. Further, the primary goal of this study was to understand how managers perceive the firm-specific impacts of geopolitical risk exposure, such as pressures on profitability, financial stability, return expectations, and competitive financial strength. This exposure can differ widely among firms based on factors like import-export intensity, foreign-currency invoicing, hedging strategies, supplier concentration, reliance on foreign investors, and access to external financing. For these reasons, we found perceptual measures to be a fitting choice for gauging firm-level vulnerability and how managers interpret financial performance amid geopolitical uncertainty. That said, we recognize this approach has its limitations, and we encourage future research to validate these insights using objective accounting data, archival financial indicators, or matched survey–financial datasets.

The survey tool was crafted using insights from established research on political risk, supply chain resilience, international finance, and firm performance, all while keeping the unique context of Southeast Asia in mind. To ensure its content validity, we had three international business scholars and two experienced practitioners review it. We also conducted a pretest with 35 managers to evaluate how clear and relevant the items were, as well as their effectiveness as performance measures. Based on the feedback from participants, we made some minor tweaks to the wording of the items, but we made sure to keep the core meanings of the constructs intact. Importantly, we ~~did not~~ remove any items just to improve statistical fit; instead, we kept them based on the PLS-SEM loading criteria.

The sample comprises mid- to large-sized firms operating in geopolitically vulnerable industries across Southeast Asian countries, including Indonesia, Malaysia,

Singapore, Thailand, Vietnam and the Philippines. These firms were purposively selected based on their exposure to international trade, supply chain disruptions, and geopolitical uncertainties. Respondents were identified through professional networks and business directories to ensure alignment with the research context. The criteria for inclusion required that firms engage in some form of cross-border activity involving importing and exporting, partake in international supply chain activities, use imported inputs, utilize ~~exports~~ ~~export~~ markets, or be otherwise exposed to foreign investment or foreign-currency transactions. The individual chosen as the respondent needed to hold a managerial position where he or she would have sufficient insight into their firm's international operations, including supply chain activities, financing, and/or strategic planning.

A total of 420 surveys were distributed between March and June 2025. We received 312 responses in total. Incomplete responses, straight-line answers, failed attention checks, and internally inconsistent responses were excluded from the received data. Following the data screening process, 308 valid responses remained, resulting in a final valid response rate of 73.10% of the distributed surveys. The final dataset comprised 308 firms from Southeast Asian countries, including Indonesia (85 firms), Malaysia (55 firms), Singapore (48 firms), Thailand (44 firms), Vietnam (38 firms), and the Philippines (38 firms). Regarding industry representation, the sample included manufacturing (41.23%), services (18.18%), trading/import–export (15.26%), technology/IT (14.94%), and finance/banking (10.39%). In terms of organizational size, the distribution was as follows: 1–50 employees (26.30%), 51–200 employees (50.65%), 201–500 employees (20.45%), and more than 500 employees (2.60%). The positions within the organizations were Senior Manager (30.84%), Middle Manager (21.10%), Analyst/Specialist (18.18%), CEO/Director (16.88%), and Owner/Founder (12.99%). Regarding years of work experience, the distribution was >20 years (47.73%), 11–20 years (34.09%), 5–10 years (17.86%), and less than 5 years (0.65%).

To mitigate potential common method bias, several procedural steps were implemented. These included ensuring respondent anonymity, clarifying that there were no right or wrong answers, using neutral language in the questionnaire items, and separating predictor and outcome variables. Despite these precautions, Harman's single-factor test showed that the first unrotated factor explained 58.296% of the total variance, surpassing the commonly accepted 50% threshold. This suggests the possible presence of common method bias. Consequently, even with these procedural measures, the results should be interpreted with caution.

Although firm-specific and country-level characteristics may influence corporate financial performance, these variables were not statistically incorporated as control variables in the PLS-SEM structural model. Firm size, industry sector, export dependence, foreign ownership exposure, leverage, and country location were considered important contextual characteristics of the sample, but the primary analytical focus of this study was the theoretically specified mediation mechanism linking geopolitical instability, supply chain resilience, currency volatility, foreign investment confidence, and corporate financial performance. Therefore, the findings should be interpreted as theoretically grounded associations rather than definitive causal effects. The absence of a full control-variable specification is acknowledged as a limitation and provides an important direction for future research.

In the research design, both firm- and country-level characteristics were initially considered but were ultimately excluded as control variables from the final structural model. This choice was made to prioritize theoretical simplicity and concentrate on the proposed mediation framework that connects geopolitical risk with corporate financial performance. Although this decision enhances the model's clarity and ease of

interpretation, omitting control variables might affect the model’s robustness. Future research should include these variables for further validation.

To analyze the survey data, a two-stage partial least squares structural equation modeling approach was employed. Specifically, measurement model analysis involved the assessment of outer loadings, Cronbach’s Alpha, Composite Reliability, Average Variance Extracted (AVE), Fornell–Larcker Criterion, and Heterotrait-Monotrait Ratio. On the other hand, the structural model was analyzed using path coefficients, t-statistics, p-values, Coefficients of Determination (R^2), Effect Sizes (f^2), Predictive Relevance (Q^2), and Specific Indirect Effects. Bootstrapping with 5000 replications was employed to determine the significance of relationships and mediation effects.

4. Results and Discussion4.1. Measurement Model Evaluation

The results of the PLS-SEM estimation are illustrated in Figure 2. The figure presents the measurement model, including the standardized indicator loadings, together with the structural model showing the hypothesized relationships among the latent constructs and the corresponding R^2 values. The significance of these relationships is subsequently evaluated using the bootstrapping procedure.

Figure 2. Measurement model results showing outer loadings, reliability, and validity indicators (graphically edited from the original SmartPLS 4).

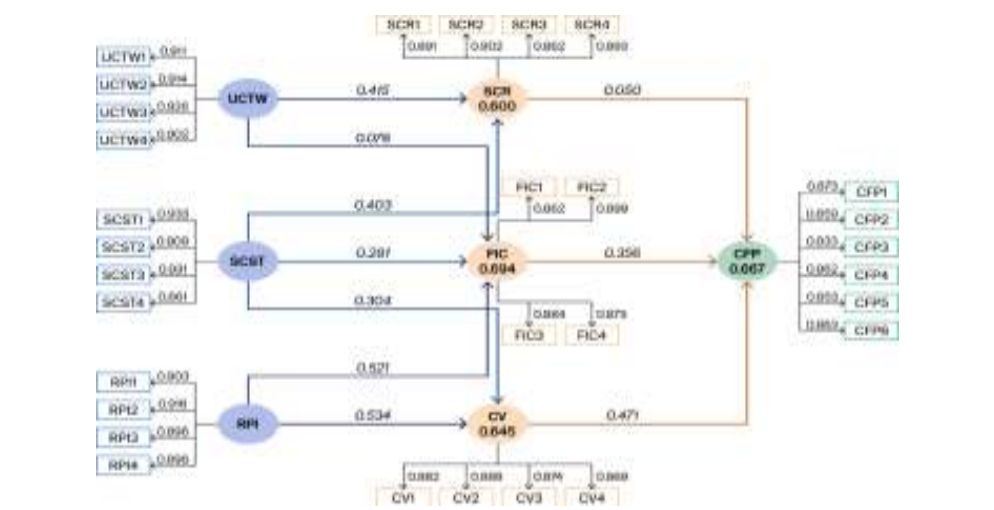


Figure 2. Measurement model results showing outer loadings, reliability, and validity indicators (graphically edited from the original SmartPLS 4).

As shown in Figure 2, the estimated PLS-SEM model presents the standardized outer loadings, path coefficients, and R^2 values for the endogenous constructs. The significance of these relationships was subsequently evaluated using the bootstrapping procedure.

4.2. Measurement Model Outer Loadings

Commented [M21]: Commas are only used for numbers with five or more digits. We have removed them in four-digit numbers. Please confirm.

Commented [ss21R2]: We agree.

Commented [M22]: 1. It's not allowed to place figures under a section title directly. Please put the figure under a paragraph. The following figures are the same.
2. Please put all figures under their first citation.

Commented [ss22R2]: We have added text before and after the figure.

Commented [M23]: We removed all color of texts in original file. Please confirm.

Commented [ss23R2]: We agree

Commented [M24]: Please cite this figure in the text and ensure that the first citation of each figure appears in numerical order.

Commented [ss24R2]: I have added text before and after the figure. The figure caption has been moved from below the figure to above the figure

Formatted: Normal, Left, Indent: Left: 0 cm, Space Before: 0 pt, After: 0 pt, Line spacing: single

Formatted: Font: Italic, Font color: Black

The measurement model was first evaluated by examining the standardized outer loadings of all measurement indicators. As presented in Table 1, all indicators exhibit outer loadings above the recommended threshold of 0.70, indicating satisfactory indicator reliability.

Formatted: Normal, None, Indent: Left: 0 cm, Space Before: 0 pt, After: 0 pt, Line spacing: single

Formatted: Font color: Black

Commented [M25]: 1. It's not allowed to place tables under a section title directly. Please put the table under a paragraph. The following tables are the same.
2. Please put all tables under their first citation. The following tables are the same.

Commented [ss25R2]: We have added text before and after the table.

Commented [M26]: Please confirm the alignment change in all tables.

Commented [ss26R2]: Yes. We agree

Commented [M27]: Please check if it should be ←. If so, please revise all in whole paper.

Commented [ss27R2]: We have revised

Commented [M28]: We changed the commas between digits into decimal dots. Please confirm these revisions.

Commented [ss28R2]: Yes. We agree

Table 1. Measurement Model Results: Outer Loadings.

Construct	Outer Loadings
CFP1 →← CFP	0.873
CFP2 →← CFP	0.859
CFP3 →← CFP	0.833
CFP4 →← CFP	0.862
CFP5 →← CFP	0.853
CFP6 →← CFP	0.863
CV1 →← CV	0.882
CV2 →← CV	0.888
CV3 →← CV	0.874
CV4 →← CV	0.869
FIC1 →← FIC	0.862
FIC2 →← FIC	0.899
FIC3 →← FIC	0.884
FIC4 →← FIC	0.875
RPI1 →← RPI	0.903
RPI2 →← RPI	0.916
RPI3 →← RPI	0.896
RPI4 →← RPI	0.896
SCR1 →← SCR	0.891
SCR2 →← SCR	0.902
SCR3 →← SCR	0.862
SCR4 →← SCR	0.893
SCST1 →← SCST	0.933
SCST2 →← SCST	0.909
SCST3 →← SCST	0.931
SCST4 →← SCST	0.861
UCTW1 →← UCTW	0.911
UCTW2 →← UCTW	0.914
UCTW3 →← UCTW	0.926
UCTW4 →← UCTW	0.902

As shown in Table 1, all indicators have outer loadings exceeding the recommended threshold of 0.70, indicating satisfactory indicator reliability. Therefore, all measurement indicators were retained for further analysis.

4.3. Construct Reliability and Validity

The construct reliability and convergent validity of the measurement model were subsequently assessed. Table 2 presents the results of Cronbach's alpha, composite reliability (rho_a and rho_c), and average variance extracted (AVE).

Table 2. Construct Reliability and Convergent Validity Results.

	Cronbach's Alpha	Composite Reliability (rho_a)	Composite Reliability (rho_c)	Average Variance Extracted (AVE)
CFP	0.928	0.928	0.943	0.735

CV	0.901	0.901	0.931	0.771
FIC	0.903	0.903	0.932	0.775
RPI	0.924	0.924	0.946	0.815
SCR	0.909	0.910	0.936	0.787
SCST	0.929	0.930	0.950	0.826
UCTW	0.934	0.934	0.953	0.834

4.4. Discriminant Validity

4.4.1. Fornell–Larcker Criterion

Discriminant validity was evaluated using the Fornell–Larcker criterion to assess whether each construct was empirically distinct from the others. The results are presented in Table 3.

Table 3. Discriminant Validity Assessment Using the Fornell–Larcker Criterion

	CFP	CV	FIC	RPI	SCR	SCST	UCTW
CFP	0.857						
CV	0.783	0.878					
FIC	0.760	0.791	0.880				
RPI	0.732	0.784	0.813	0.903			
SCR	0.566	0.607	0.646	0.755	0.887		
SCST	0.716	0.744	0.770	0.823	0.732	0.909	
UCTW	0.594	0.683	0.718	0.806	0.735	0.793	0.913

4.4.2. Heterotrait-Monotrait Ratio (HTMT)

In addition to the Fornell–Larcker criterion, discriminant validity was further assessed using the heterotrait–monotrait ratio (HTMT). The HTMT values for all construct pairs are presented in Table 4.

Table 4. Discriminant Validity Results: Heterotrait-Monotrait Ratio (HTMT).

Construct	Ratio HTMT
CV ↔ CFP	0.855
FIC ↔ CFP	0.830
FIC ↔ CV	0.877
RPI ↔ CFP	0.791
RPI ↔ CV	0.859
RPI ↔ FIC	0.890
SCR ↔ CFP	0.615
SCR ↔ CV	0.670
SCR ↔ FIC	0.712
SCR ↔ RPI	0.822
SCST ↔ CFP	0.771
SCST ↔ CV	0.812
SCST ↔ FIC	0.840
SCST ↔ RPI	0.887
SCST ↔ SCR	0.796
UCTW ↔ CFP	0.638
UCTW ↔ CV	0.744
UCTW ↔ FIC	0.782
UCTW ↔ RPI	0.867
UCTW ↔ SCR	0.797
UCTW ↔ SCST	0.851

4.5. Measurement Model Evaluation and Method Bias Diagnostics

The analysis of the measurement model was performed through SmartPLS outputs concerning the indicators’ reliability, construct reliability, convergent validity,

Commented [M29]: 1. We added “Table 3”. Please confirm.

2. Please add the table caption.

Commented [ss29R2]: 1.Yes. We Agree.

2.We have add the table caption

Commented [M30]: Please cite this table in the text and ensure that the first citation of each table appears in numerical order.

Commented [ss30R2]: Done. The table has been cited in the text, and the first citation now ap... [2]

Commented [M31]: Please cite this table in t... [3]

Commented [ss31R2]: We have revised the... [4]

Commented [M32]: Please confirm if the bol... [6]

Commented [ss32R2]: We have removed the... [5]

Commented [M33]: Please check if it should... [7]

Commented [ss33R2]: We have checked the... [8]

Formatted: Font: Not Bold

Formatted: Font: Not Bold

Formatted: Font: Not Bold

Formatted: Font: Not Bold

Formatted: Font: Not Bold

Formatted: Font: Not Bold

Formatted: Font: Not Bold

Formatted: Font: Not Bold

Formatted: Font: Not Bold

Formatted: Font: Not Bold

Formatted: Font: Not Bold

Formatted: Font: Not Bold

Formatted: Font: Not Bold

Formatted: Font: Not Bold

Formatted: Font: Not Bold

Formatted: Font: Not Bold

Formatted: Font: Not Bold

Formatted: Font: Not Bold

Formatted: Font: Not Bold

Formatted: Font: Not Bold

Formatted: Font: Not Bold

discriminant validity, and method bias diagnostics. As can be seen in Table 1, all outer loadings are above the required minimum level of 0.70. Values vary between 0.833 (CFP3) and 0.933 (SCST1). This indicates a strong association between the indicators and the constructs they are expected to measure. It is worth noting that such high values do not suggest the absence of all measurement problems in this model. They, however, can be considered proof of item coherence within reflective constructs.

Table 2 illustrates the presence of internal consistency in the model. Cronbach’s alpha values vary from 0.901 (CV) to 0.934 (UCTW). Composite reliability is above the 0.70 threshold. Similarly, AVE varies between 0.735 (CFP) and 0.834 (UCTW). All these indices provide evidence of convergent validity as each of the constructs explains more than half of the variance in the indicators’ scores. The robustness of these indices is explained by the fact that the items have been adapted to a narrow context of geopolitical risk and responses *with* inconsistent or incomplete responses have been removed.

It has been possible to prove discriminant validity according to two criteria. First, the square roots of AVE values of the constructs are higher than their correlation with other constructs. This means that each construct shares more variance with its own indicators than with other constructs. Second, HTMT values vary between 0.615 and 0.890 and remain below the 0.90 conservative cut-off point. The RPI-FIC value approaches this point. While being theoretically explainable in a sample of emerging markets, political instability and investors’ confidence are empirically distinct.

To assess common method bias, Harman’s single-factor test was performed. The first unrotated factor explained 58.296% of the total variance, slightly exceeding the conventional 50% threshold (see Table EC1). However, because Harman’s test is only a preliminary assessment, the results were complemented by an examination of the inner-model VIF values. As all VIF values were below the recommended threshold of 3.3 (see Table EC2), common method bias is unlikely to have materially affected the study’s findings.

4.5.1. Structural Model Evaluation

The explanatory power of the structural model was assessed using the coefficient of determination (R²) and adjusted R² for the endogenous constructs. The results are presented in Table 5.

Table 5. Coefficient of Determination (R² and Adjusted R²) for Endogenous Constructs.

	R-Square	R-Square Adjusted
CFP	0.667	0.664
CV	0.645	0.643
FIC	0.694	0.691
SCR	0.600	0.598

The effect size (f²) was examined to assess the contribution of each exogenous construct to the explained variance of the endogenous constructs. The results are presented in Table 6.

Table 6. Effect Size (f²) of Exogenous Variables on Endogenous Constructs.

	f-Square
CV → CFP	0.239
FIC → CFP	0.126
RPI → CV	0.259
RPI → FIC	0.230

Commented [M34]: Please check if this is the citation of Supplementary Materials. Figures and tables in the Supplementary Materials should be marked as “Figure S1, Table S1”, etc. Please revise them both in citations and Supplementary Materials file. The following highlights are the same

Commented [ss34R2]: We have revised the citations accordingly. The Supplementary Materials are now consistently referred to as EC1 and EC2 throughout the manuscript.

Commented [M35]: We format it as the level 4 heading and removed the italic. Please confirm. The following highlights are the same.

Commented [ss35R2]: We agree.

Commented [M36]: Please cite this table in the text and ensure that the first citation of each table appears in numerical order.

Commented [ss36R2]: We have revised the manuscript accordingly. The table has been cited in the text, and its first citation now appears in the correct numerical order.

Commented [M37]: Please cite this table in the text and ensure that the first citation of each table appears in numerical order.

Commented [ss37R2]: We have revised the manuscript accordingly. The table has been cited in the text, and its first citation now appears in the correct numerical order.

Commented [M38]: Please check if it should be →. If so, please revise all in whole paper.

Commented [ss38R2]: Thank you for your suggestion. We have checked and revised all occurrences to “→” throughout the paper.

SCR $\Rightarrow$ CFP	0.004
SCST $\Rightarrow$ CV	0.084
SCST $\Rightarrow$ FIC	0.071
SCST $\Rightarrow$ SCR	0.151
UCTW $\Rightarrow$ FIC	0.006
UCTW $\Rightarrow$ SCR	0.160

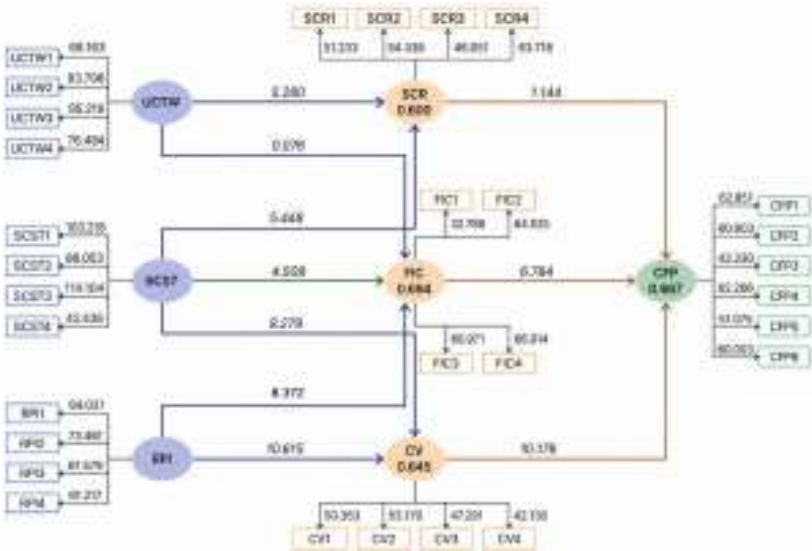
The predictive capability of the structural model was assessed using predictive relevance (Q^2) together with the prediction error metrics, namely the root mean square error (RMSE) and the mean absolute error (MAE). The results are presented in Table 7.

Table 7. Predictive Relevance (Q^2) and Prediction Metrics (RMSE and MAE).

	Q^2 Predict	RMSE	MAE
CFP	0.567	0.665	0.540
CV	0.644	0.607	0.470
FIC	0.690	0.565	0.452
SCR	0.592	0.648	0.473

The significance of the measurement and structural models was assessed using the bootstrapping procedure with 5,000 resamples. The bootstrapping results, including the t-statistics for the indicator loadings and structural path coefficients, are illustrated in Figure 3.

Figure 3. Structural Model Results Showing Path Coefficients, R^2 , and Effect Sizes (graphically edited from the original SmartPLS 4).



4.5.2. Path Coefficient

Table 8. Structural Model Path Coefficients and Hypothesis Testing.

Commented [M39]: Please cite this table in the text and ensure that the first citation of each table appears in numerical order.

Commented [ss39R2]: We have revised the manuscript by adding the table citation in the text and ensuring the first citation appears in numerical order.

Commented [M40]: We added the space. Please confirm.

Commented [ss40R2]: Yes. We agree

Formatted: Left, Tab stops: 9,23 cm, Centered

Commented [M41]: Please cite this figure in the text and ensure that the first citation of each figure appears in numerical order.

Commented [ss41R2]: We have revised the manuscript by adding the figure citations in the text and ensuring that the first citation appears in numerical order.

Formatted: Indent: Left: 1,8 cm, First line: 0,9 cm

Commented [M42]: Please cite this table in the text and ensure that the first citation of each table appears in numerical order.

Hypothesis	Path Relationship	Original Sample (β)	T Statistics	p Values	Decision
H1	UCTW $\rightarrow$ SCR	0.415	5.280	0.000	Supported
H2	UCTW $\rightarrow$ FIC	0.076	1.302	0.193	Not Supported
H3	SCST $\rightarrow$ SCR	0.403	5.448	0.000	Supported
H4	SCST $\rightarrow$ FIC	0.281	4.509	0.000	Supported
H5	SCST $\rightarrow$ CV	0.304	6.372	0.000	Supported
H6	RPI $\rightarrow$ FIC	0.521	8.279	0.000	Supported
H7	RPI $\rightarrow$ CV	0.534	10.615	0.000	Supported
H8	SCR $\rightarrow$ CFP	0.050	1.144	0.253	Not Supported
H9	CV $\rightarrow$ CFP	0.471	10.176	0.000	Supported
H10	FIC $\rightarrow$ CFP	0.356	6.784	0.000	Supported

- Commented [M43]: We removed extra horizontal lines and changed color of border black. Please confirm.
- Commented [M44]: Please confirm if the background color is necessary; if not, please remove it. The following highlights are the same.
- Commented [M45]: We changed all this kind of "P" to lowercase and italic. Please confirm.

4.5.3. Specific Indirect Effects

The mediation analysis provides partial support for the proposed indirect relationships. Significant indirect effects were observed through foreign investment confidence and currency volatility, indicating that these financial mechanisms play a central role in transmitting the effects of regional political instability and South China Sea tensions to corporate financial performance. In contrast, the indirect effects through supply chain resilience were not statistically significant, and foreign investment confidence did not mediate the relationship between the US–China trade war and corporate financial performance. Overall, the findings suggest that geopolitical risks influence corporate financial performance primarily through financial channels rather than operational resilience, providing evidence of partial mediation.

The specific indirect effect analysis was conducted to evaluate the mediating effects within the structural model. The significance of each indirect path was assessed based on the original sample (β), t-statistics, and p-values. The results of the mediation analysis are presented in Table 9

Table 9. Specific Indirect Effects in the sStructural mModel.

Hypothesized Indirect Path	Original Sample (β)	T Statistics	p Value	Decision
RPI $\rightarrow$ FIC $\rightarrow$ CFP	0.185	5.160	0.000	Supported
SCST $\rightarrow$ SCR $\rightarrow$ CFP	0.020	1.067	0.286	Not Supported
RPI $\rightarrow$ CV $\rightarrow$ CFP	0.251	6.899	0.000	Supported
UCTW $\rightarrow$ SCR $\rightarrow$ CFP	0.021	1.144	0.253	Not Supported
SCST $\rightarrow$ FIC $\rightarrow$ CFP	0.100	3.614	0.000	Supported
SCST $\rightarrow$ CV $\rightarrow$ CFP	0.143	5.478	0.000	Supported
UCTW $\rightarrow$ FIC $\rightarrow$ CFP	0.027	1.269	0.204	Not Supported

- Commented [M46]: Please cite this table in the text and ensure that the first citation of each table appears in numerical order.
- Commented [ss46R2]: We have revised the manuscript by adding the table citations in the text and ensuring that the first citation appears in numerical order

4.6. Structural Model Evaluation: An Advanced Analysis

It emerges that the structural model has quite a high level of explanatory power regarding firm-level outcomes in the context of geopolitical instability. The value of the coefficient of determination regarding corporate financial performance is 0.667 (adjusted $R^2 = 0.664$), showing that the proposed mediating variables account for roughly ~~two thirds~~^{two-thirds} of the variation in perceived financial performance. The model additionally shows an ability to explain a large portion of ~~the~~ variance in foreign investment confidence ($R^2 = 0.694$) and currency volatility ($R^2 = 0.645$), and a moderate one in supply chain resilience ($R^2 = 0.600$).

The path coefficients indicate that financial factors are more relevant compared to the direct operational resilience factor. Corporate financial performance is positively ~~associate-ed~~^{associated} with currency volatility ($\beta = 0.471$, $t = 10.176$, $p < 0.001$), and negatively with foreign investment confidence ($\beta = 0.356$, $t = 6.784$, $p < 0.001$). In other words, this analysis indicates that the theoretical argument of the project, according to

which geopolitical instability is being transmitted into corporate financial performance via financial channels such as exchange rate vulnerability, funding difficulties, and others, is valid.

However, caution must be exercised when interpreting the results regarding currency volatility. According to conventional international finance theory, currency volatility is typically associated with poor financial performance as it creates additional transaction costs, uncertainty, and the need for hedging. Therefore, the positive correlation between the two variables in this case does not imply that currency volatility has a beneficial impact on firm performance. A possible explanation may be the fact that corporations experiencing high currency volatility levels usually tend to operate in international markets and conduct foreign trade operations, implying greater sensitivity to currency movements as well as the ability to collect foreign currency income and hedge.

Regional political instability emerged as the most important antecedent of both currency volatility ($\beta = 0.534$, $t = 10.615$, $p < 0.001$) and foreign investment confidence ($\beta = 0.521$, $t = 8.279$, $p < 0.001$). These results confirm that political instability is ~~fast-quickly internalised-internalized~~ through capital market expectations and foreign exchange dynamics. This result supports institutional theory since the latter assumes that investors and foreign exchanges would quickly sense the implications of uncertainties in governance, security, and policy continuation. Additionally, South China Sea tensions emerged as another factor that significantly influences all three dependent variables (supply chain resilience, currency volatility, and foreign investment confidence), proving that geopolitical risks in maritime zones cannot be confined to logistics problems.

The lack of a significant association between supply chain resilience and corporate financial performance ($\beta = 0.050$, $p = 0.253$) presents an interesting ~~theory-theoretical~~ implication. While operational resilience can indeed provide protection against disruptions in production processes, its immediate financial benefit may not ~~materialise~~ ~~materialize~~ immediately in a cross-sectional setting. For example, resilience measures that include supplier diversification, inventory stockpiling, alternative routes, and digital tracking systems will likely lead to higher immediate costs. As a consequence, supply chain resilience seems to work as an adaptation strategy rather than an immediate financial risk indicator.

While the trade war between the United States and China showed a significant relationship with supply chain resilience but not foreign investment confidence, regional political instability and South China Sea tensions were positively related to financial risk. Specifically, geopolitical risk is interpreted as having a greater impact on foreign investment confidence and currency volatility than being directly related to supply chain issues. Investors seem to incorporate these factors in the assessment of risk when making investment decisions and thus show a quick response to regional geopolitics.

Mediation analysis results support the interpretation of the results. There is statistical evidence for indirect associations for both regional political instability and South China Sea tensions through currency volatility and foreign investment confidence. On the other hand, mediation via supply chain resilience was not found to be statistically significant. Such a pattern implies that geopolitical risks influence firms' perceptions of financial performance via financial market dynamics and foreign investment decisions for the selected companies. Thus, the results of the study provide additional support for the hypothesis of the model.

4.7. Theoretical Contributions and Practical Implications

There are several theoretical contributions as well. First, this research contributes to the literature on geopolitical risks and political uncertainty by extending research beyond macroeconomic effects of geopolitics and considering the mechanisms through which

geopolitical risks translate into firm-level effects. Specifically, ~~the~~ results suggest that besides ~~be-ing~~ being directly disruptive, geopolitics impacts firms through financialization of vulnerability, where currency risks and investor confidence emerge as key channels connecting geopolitical risks to firm performance. Second, this research brings together institutional uncertainty, transaction costs, real options, behavioural finance, dynamic capabilities, and in-ternational finance into one theoretical explanation. The combination explains the ~~neecessi-ty~~ necessity to consider operational, financial, and institutional channels simultaneously, and not separately.

Third, with respect to emerging markets, the study reveals boundary conditions ~~un-der~~ under which financial channels dominate operational resilience channels in terms of firm performance. Indeed, in emerging Asian countries, firms are financially dependent on for-~~ign~~ investors, use inputs from abroad, sell products internationally, and do not have ade-quate infrastructure for ~~hedges~~ hedging against risks. Hence, exchange rate fluctuations and confi-dence become particularly important. Moreover, a non-significant direct impact of supply chain resilience extends resilience literature, suggesting that resilience could be treated as a protective capability that pays off only through financial measures in the long run rather than at a cross-sectional point in time. The non-significant relationship between supply chain resilience and firm performance also provides an important theoretical insight. Con-trary to the assumption that resilience immediately improves performance outcomes, the findings suggest that resilience may function as a protective organizational capability that reduces vulnerability rather than directly generating short-term financial gains. From a dynamic capabilities perspective, resilience investments may require time to transform into measurable performance improvements, particularly under conditions of ongoing geopo-litical uncertainty.

Practically, there are several lessons from the analysis. Specifically, firms should address geopolitical risk not ~~as solely~~ solely as an operational issue. Instead, they require integrated risk management, including supplier diversity, managing currency risk, ensuring financial liquidity, managing investor expectations, and scenario-based strategic management. From the finance department perspective, it would be critical to keep track of exposure to foreign currencies, manage hedging where possible, and ~~analyse~~ analyze cash flows, margins, and funding conditions based on geopolitical events. Supply chain departments need to pursue resilience management as well; ~~however,~~ however, it would be beneficial to measure its financial consequences, so that resilience does not remain a burden for the company.

With respect to policymakers, the results imply that creating ~~a~~ favourable institutional environment, ensuring regulation consistency, fostering diplomatic cooperation among countries in the region, and making financial risk management tools available are essential. Specifically, lowering ~~the~~ risk premium could be achieved through ~~a reduction in uncertainties~~ reduction of uncertainties in customs clearance, investment conditions, maritime security, and foreign currency markets. Finally, regional cooperation is critical in Southeast Asia, as firms tend to operate across ~~the border~~ borders and, thus, are equally exposed to trade wars, maritime risks, and political instability in their own country.

5. Limitations and Future Research

Several limitations offer potential avenues for future research. First, the cross-sectional nature of the research reduces the possibility of making any claims related to causality. The presented results can be considered only as evidence for theoretically grounded associations, not as evidence of ~~temporally causal~~ temporally causal relationships. In ~~the~~ future, there is an opportunity to investigate the effects of prolonged

geopolitical shocks on firms' adaptation process and delayed financial gains resulting from resilience investments using longitudinal datasets.

Second, this study relies on managers' perceptual assessments, which may not fully capture objective conditions. Future research should complement survey data with objective indicators, such as exchange rate volatility, trade disruptions, foreign direct investment inflows, firm-level financial statements, and country-level political risk measures, to enhance the robustness of the findings.

Third, the use of single-source, cross-sectional survey data may introduce common method bias. Although Harman's single-factor test suggested a potential concern, future studies should employ more rigorous procedural and statistical remedies, including multi-source data, temporal separation, marker variables, or longitudinal research designs.

Fourth, this study did not incorporate a comprehensive set of firm- and country-level control variables. Future research should include factors such as firm size, industry, ownership structure, leverage, export intensity, and the institutional environment, while adopting multi-group or longitudinal designs to examine the generalizability of the proposed relationships across different contexts.

Finally, the present research is restricted to a sample of Southeast Asian economies and industries that have high exposure to geopolitical risks. Results may not apply to small firms, purely domestic companies, or countries having a more developed financial system and institutions. Future research would benefit from investigating the role of financial transmission mechanisms among firms operating in emerging and advanced economies.

6. Conclusions

The study aimed at establishing the connection between geopolitical instabilities and the financial performance of corporations in emerging Asia through supply chain resilience, foreign investment confidence, and currency volatility. From the findings obtained, financial market channels seem to significantly explain firm vulnerability due to geopolitical risks. Currency volatility and investor confidence were found to be significant correlates with financial performance compared to supply chain resilience, implying that geopolitical risk influences firm performance indirectly through currency risk, financial-market expectations, and investor confidence channels.

The study has shown that geopolitical risks influence firms differently. Regional instabilities and South China Sea geopolitical risk appear to influence financial and investor confidence channels, while the US–China trade war risk is correlated to supply chain resilience responses. Supply chain resilience does not significantly impact the financial performance of firms, indicating that resilience may protect firm continuity without increasing financial performance. This shows the significance of resilience in terms of its long-term nature and not necessarily financial benefits in the short run.

In conclusion, the study develops a multi-channel risk model that enables firms to establish ways to counter risks through financial and investment confidence and operational resilience. The results offer strategic implications to managers who need to coordinate operational resilience with currency risk management and investor communication strategies. Furthermore, there are policy recommendations indicating that geopolitical risk impacts corporate sustainability positively in a country with predictable regulations and institutional stability, and regional economic cooperation. Due to its cross-sectional nature, the results may not be conclusive and need to be tested further using longitudinal archival data.

Supplementary Materials:

<https://doi.org/10.3390/xxxxx>

Commented [M47]: The following supporting information can be downloaded at: <https://www.mdpi.com/article/doi/s1>, Figure S1: title; Table S1: title; Video S1: title.

Commented [ss47R2]: We agree

Author Contributions: S.S.: Conceptualization, Formal analysis, Methodology, Supervision, Validation, ~~Writing—review and editing~~~~Writing—review & editing~~; S.W.: Methodology, Data curation, ~~Writing—review and editing~~~~Writing—review & editing~~. C.M.F.M.: Conceptualization, Data curation, Investigation, Validation, Visualization, ~~Writing—review and editing~~~~Writing—review & editing~~. All authors have read and agreed to the published version of the manuscript.

Funding: This research received no external funding.

Institutional Review Board Statement: Not applicable.

Informed Consent Statement: Not applicable.

Data Availability Statement: The data and research materials supporting this study are available from the corresponding author upon reasonable request.

Acknowledgments: Paperpal was used solely to improve the language, grammar, readability, and paraphrasing of the manuscript, and the authors take full responsibility for its content.

Conflicts of Interest: The authors declare no conflicts of interest, and there has been no significant financial support for this work that could have influenced its outcome.

References

(Abbassi et al., 2022) Abbassi, W., Kumari, V., & Pandey, D. K. (2022). What makes firms vulnerable to the Russia–Ukraine crisis? *The Journal of Risk Finance*, 24(1), 24–39. <https://doi.org/10.1108/jrf-05-2022-0108>.

(Abdulsalam & Onipede, 2023) Abdulsalam, S. A., & Onipede, S. F. (2023). Economic policy uncertainty and the ECOWAS exchange rate mechanism. *Scientific African*, 21, e01844. <https://doi.org/10.1016/j.sciaf.2023.e01844>.

(Adeosun et al., 2024) Adeosun, O. A., Anagreh, S., Tabash, M. I., & Vo, X. V. (2024). Return and volatility transmission among economic policy uncertainty, geopolitical risk and precious metals. *Studies in Economics and Finance*, 41(5), 1057–1084. <https://doi.org/10.1108/sef-10-2023-0586>.

(Agoraki et al., 2024) Agoraki, M.-E. K., Wu, H., Xu, T., & Yang, M. (2024). Money never sleeps: Capital flows under global risk and uncertainty. *Journal of International Money and Finance*, 141, 103013. <https://doi.org/10.1016/j.jimonfin.2023.103013>.

(Akarsu & Gharehgozli, 2023) Akarsu, M. Z., & Gharehgozli, O. (2023). The impact of the Russia-Ukraine War on European Union currencies: A high-frequency analysis. *Policy Studies*, 45(3–4), 353–376. <https://doi.org/10.1080/01442872.2023.2268543>.

(Akram, 2020) Akram, Q. F. (2020). Oil price drivers, geopolitical uncertainty and oil exporters’ currencies. *Energy Economics*, 89, 104801. <https://doi.org/10.1016/j.eneco.2020.104801>.

(Aliu et al., 2022) Aliu, F., Hašková, S., & Bajra, U. Q. (2022). Consequences of Russian invasion on Ukraine: Evidence from foreign exchange rates. *The Journal of Risk Finance*, 24(1), 40–58. <https://doi.org/10.1108/jrf-05-2022-0127>.

(Altiner & Bozkurt, 2023) Altiner, A., & Bozkurt, E. (2023). Reflections of geopolitical risk on foreign direct investments: The case of Türkiye. *İnsan ve Toplum Bilimleri Araştırmaları Dergisi*, 12(3), 1292–1309. <https://doi.org/10.15869/itobiad.1271884>.

(Aminaho, 2025) Aminaho, F. (2025). The impact of exchange rate volatility on firm performance: Evidence from Nigerian Exchange (NGX) Group and London Stock Exchange (LSE) Group. *SSRN Electronic Journal*, <https://doi.org/10.2139/ssrn.5364657>.

(Asad et al., 2020) Asad, M., Tabash, M. I., Sheikh, U. A., Al-Muhanadi, M. M., & Ahmad, Z. (2020). Gold-oil-exchange rate volatility, Bombay stock exchange and global financial contagion 2008: Application of NARDL model with dynamic multipliers for evidences beyond symmetry. *Cogent Business & Management*, 7(1), 1849889. <https://doi.org/10.1080/23311975.2020.1849889>.

(Athukorala & Menon, 2015) Athukorala, P., & Menon, J. (2015). Global production sharing, trade patterns and determinants of trade flows: The role of East Asia. In *Handbook on trade and development*. Edward Elgar Publishing. <https://doi.org/10.4337/9781781005316.00027>.

(Athukorala & Wei, 2017) Athukorala, P., & Wei, Z. (2017). Economic transition and labour market dynamics in China: An interpretative survey of the ‘turning point’ debate. *Journal of Economic Surveys*, 32(2), 420–439. <https://doi.org/10.1111/joes.12206>.

(Bajaj et al., 2023) Bajaj, N. K., Aziz, T., Kumari, S., Alenezi, M., & Mathkur, N. M. (2023). The impact of geopolitical risk on financial conditions of emerging economies. *The Journal of Asian Finance, Economics and Business*, 10(1), 133–143. <https://doi.org/10.13106/JAFEB.2023.VOL10.NO1.0133>.

(Bentivogli & Mirenda, 2016) Bentivogli, C., & Mirenda, L. (2016). *Foreign ownership and performance: Evidence from a panel of Italian firms* (Bank of Italy Temi di Discussione (Working Paper) No. 1085). Bank of Italy. <https://doi.org/10.2139/ssrn.2914251>.

<https://doi.org/10.3390/xxxxx>

Commented [M48]: Please confirm added standard sentence.

Commented [ss48R2]: Yes. We agree

Commented [M49]: We changed the section title. Please confirm the revision.

Commented [ss49R2]: Yes. We agree

Commented [M50]: Please state which version of the software was used.

Commented [ss50R2]: Thank you for your comment. Paperpal is a web-based tool without a specific software version; therefore, version information is not available.

Commented [AJ51]: As the editorial office is working to limit the number of self-citations, no more than two manuscripts published in JRFM may be included in the references. We kindly ask that you revise the reference list accordingly.

Commented [ss51R2]: We have removed 1 citation from the Journal of Risk and Financial Management, Truong et al (2024), leaving only 2 citations for the JRFM journal.

Commented [M52]: Please add the volume and page range if there is. The following highlight is the same.

Commented [ss52R2]: Thank you for your comment. Since Aminaho (2025) is an SSRN publication, no volume and page range are available.

Commented [M53]: This reference is not cited in the main text. Please add a citation or delete it if it is not needed.

Commented [ss53R2]: Yes. We have deleted it

- (Bitar et al., 2019) Bitar, N., Hamadeh, M., & Khoueiri, R. (2019). Impact of political instability on foreign direct investment in Lebanon. *Asian Social Science*, 16(1), 41–48. <https://doi.org/10.5539/ass.v16n1p41>.
- (Blessley & Mudambi, 2022) Blessley, M., & Mudambi, S. M. (2022). A trade war and a pandemic: Disruption and resilience in the food bank supply chain. *Industrial Marketing Management*, 102, 58–73. <https://doi.org/10.1016/j.indmarman.2022.01.002>.
- (Bown, 2021) Bown, C. P. (2021). The US–China trade war and Phase One agreement. *Journal of Policy Modeling*, 43(4), 805–843. <https://doi.org/10.1016/j.jpolmod.2021.02.009>.
- (Bris et al., 2004) Bris, A., Koskinen, Y., & Pons, V. (2004). Corporate financial policies and performance around currency crises. *The Journal of Business*, 77(4), 749–796. <https://doi.org/10.1086/422438>.
- (Caldara & Iacoviello, 2022) Caldara, D., & Iacoviello, M. (2022). Measuring geopolitical risk. *American Economic Review*, 112(4), 1194–1225. <https://doi.org/10.1257/aer.20191823>.
- (Coşkun & Ertugut, 2024) Coşkun, A. E., & Ertugut, R. (2024). How do uncertainties affect supply-chain resilience? The moderating role of information sharing for sustainable supply-chain management. *Sustainability*, 16(1), 131. <https://doi.org/10.3390/su16010131>.
- (Cui & Li, 2023) Cui, C., & Li, L. S.-Z. (2023). Trade policy uncertainty and new firm entry: Evidence from China. *Journal of Development Economics*, 163, 103093. <https://doi.org/10.1016/j.jdeveco.2023.103093>.
- (Dess & Robinson, 1984) Dess, G. G., & Robinson, R. B., Jr. (1984). Measuring organisational performance in the absence of objective measures: The case of the privately held firm and conglomerate business unit. *Strategic Management Journal*, 5(3), 265–273. <https://doi.org/10.1002/smj.4250050306>.
- (Dixit & Pindyck, 1994) Dixit, A. K., & Pindyck, R. S. (1994). *Investment under uncertainty*. Princeton University Press. <https://doi.org/10.2307/j.ctt7snv>.
- (Dong et al., 2025) Dong, L., Hidthiir, M. H. B., & Mansur, M. B. (2025). Economic policy uncertainty and China's FDI inflows: Moderating effects of financial development and political stability. *Journal of Risk and Financial Management*, 18(7), 354. <https://doi.org/10.3390/jrfm18070354>.
- (Durnev & Mangen, 2020) Durnev, A., & Mangen, C. (2020). The spillover effects of MD&A disclosures for real investments: The role of industry competition. *Journal of Accounting and Economics*, 70(2–3), 201–219. <https://doi.org/10.1016/j.jacceco.2015.02.002>.
- (Eser & Wu, 2021) Eser, F., & Wu, X. (2021). Geopolitical risk and firm investment decisions: Evidence from global firms. *Journal of International Financial Markets, Institutions and Money*, 72, 101347. <https://doi.org/10.1016/j.intfin.2021.101347>.
- (Evenett, 2019) Evenett, S. J. (2019). Protectionism, state discrimination, and international business since the onset of the Global Financial Crisis. *Journal of International Business Policy*, 2(1), 9–36. <https://doi.org/10.1057/s42214-019-00021-0>.
- (C. Feng et al., 2023) Feng, C., Han, L., Vigne, S., & Xu, Y. (2023). Geopolitical risk and the dynamics of international capital flows. *Journal of International Financial Markets, Institutions and Money*, 82, 101693. <https://doi.org/10.1016/j.intfin.2022.101693>.
- (J. Feng et al., 2024) Feng, J., Tang, J., Qi, Z., & Liu, J. (2024). Supply chain finance and innovation investment: Based on financing constraints. *Finance Research Letters*, 63, 105349. <https://doi.org/10.1016/j.frl.2024.105349>.
- (Fofanah, 2022) Fofanah, P. (2022). Effects of exchange rate volatility on economic growth: Evidence from West Africa. *International Journal of Business and Economics Research*, 11(1), 32–48. <https://doi.org/10.11648/j.ijber.20221101.15>.
- (Fornell & Larcker, 1981) Fornell, C., & Larcker, D. F. (1981). Evaluating structural equation models with unobservable variables and measurement error. *Journal of Marketing Research*, 18(1), 39–50. <https://doi.org/10.1177/002224378101800104>.
- (Gao et al., 2024) Gao, H., Chen, W., Li, J., & Zhou, T. (2024). Economic policy uncertainty and foreign direct investment: Evidence from China. *Structural Change and Economic Dynamics*, 70, 178–191. <https://doi.org/10.1016/j.strueco.2024.01.014>.
- (Gereffi, 2020) Gereffi, G. (2020). What does the COVID-19 pandemic teach us about global value chains? The case of medical supplies. *Journal of International Business Policy*, 3(3), 287–301. <https://doi.org/10.1057/s42214-020-00062-w>.
- (Ghassemi & Sadr, 2022) Ghassemi, H., & Sadr, S. M. (2022). Firm heterogeneity and responses to global uncertainty shocks. *Economic Modelling*, 116, 105995. <https://doi.org/10.1016/j.econmod.2022.105995>.
- (Henisz, 2000) Henisz, W. J. (2000). The institutional environment for multinational investment. *Journal of Law, Economics, & Organization*, 16(2), 334–364.
- (Huchzermeier & Stehle, 2025) Huchzermeier, A., & Stehle, H. (2025). Navigating geopolitical risks in global supply chains: A systematic literature review. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.5161777>.
- (Hui, 2021) Hui, H. C. (2021). The long-run effects of geopolitical risk on foreign exchange markets: Evidence from some ASEAN countries. *International Journal of Emerging Markets*, 17(6), 1543–1564. <https://doi.org/10.1108/ijoem-08-2020-1001>.

<https://doi.org/10.3390/xxxxx>

Commented [M54]: We corrected the doi link. Please confirm.

Commented [ss54R2]: Yes. We agree.

Commented [M55]: This reference is not cited in the main text. Please add a citation or delete it if it is not needed.

Commented [ss55R2]: Yes. We have delete it.

Commented [M56]: We are sorry but we could not find the required information about this entry. And the doi link is invalid. Please check and revise.

Commented [ss56R2]: Thank you for your comment. We have checked the reference and removed the citation from the manuscript due to the unavailable information and invalid DOI link.

Commented [M57]: We removed unnecessary website for journal refs with complete information in all refs. Please confirm.

Commented [ss57R2]: Yes. We agree

- (Khan, 2025) Khan, M. A. (2025). Investigating the intersection of organizational behavior, supply chain practices, economic outcomes, financial excellence and CSR for corporate identity improvement. *Measuring Business Excellence*, 29(3), 551–572. <https://doi.org/10.1108/mbse-06-2024-0083>.
- (Kim & Han, 2024) Kim, T., & Han, J. M. (2024). The impact of exchange rate fluctuations on the performance of domestic manufacturing companies. *KIET Industrial Economic Review*, 29(3), 59–67.
- (Kiptoo, 2024) Kiptoo, J. (2024). The influence of political stability on foreign direct investment (FDI). *International Journal of Developing Country Studies*, 6(1), 74–86. <https://doi.org/10.47941/ijdc.2165>.
- (Kock, 2015) Kock, N. (2015). Common method bias in PLS-SEM: A full collinearity assessment approach. *International Journal of e-Collaboration*, 11(4), 1–10. <https://doi.org/10.4018/ijec.2015100101>.
- (Kurecic & Kokotovic, 2017) Kurecic, P., & Kokotovic, F. (2017). The relevance of political stability on FDI: A VAR analysis and ARDL models for selected small, developed, and instability threatened economies. *Economies*, 5(3), 22. <https://doi.org/10.3390/economies5030022>.
- (Li et al., 2017) Li, X., Wu, Q., Holsapple, C. W., & Goldsby, T. (2017). An empirical examination of firm financial performance along dimensions of supply chain resilience. *Management Research Review*, 40(3), 254–269. <https://doi.org/10.1108/mrr-02-2016-0030>.
- (P. L. Liu et al., 2025) Liu, P. L., Lü, Z., & Yoon, S.-M. (2025). Impact of US–China tensions on the volatility, correlation, and hedging effects of gold and crude oil prices. *SSRN*. <https://doi.org/10.2139/ssrn.5213775>.
- (X. Liu & Zhang, 2024) Liu, X., & Zhang, X. (2024). Geopolitical risk and currency returns. *Journal of Banking & Finance*, 161, 107097. <https://doi.org/10.1016/j.bankfin.2024.107097>.
- (Mao & Görg, 2020) Mao, H., & Görg, H. (2020). Friends like this: The impact of the US–China trade war on global value chains. *The World Economy*, 43(7), 1776–1791. <https://doi.org/10.1111/twec.12967>.
- (Morina et al., 2020) Morina, F., Hysa, E., Ergün, U., Panait, M., & Voica, M. C. (2020). The effect of exchange rate volatility on economic growth: Case of the CEE countries. *Journal of Risk and Financial Management*, 13(8), 177. <https://doi.org/10.3390/jrfm13080177>.
- (Musyoki et al., 2012) Musyoki, D., Pokhariyal, G. P., & Pundo, M. (2012). The impact of real exchange rate volatility on economic growth: Kenyan evidence. *Business and Economic Horizons*, 7, 59–75. <https://doi.org/10.15208/beh.2012.5>.
- (North, 1990) North, D. C. (1990). *Institutions, institutional change and economic performance*. Cambridge University Press. <https://doi.org/10.1017/cbo9780511808678>.
- (Pasali & Chaudhary, 2020) Pasali, S. S., & Chaudhary, A. (2020). Assessing the impact of foreign ownership on firm performance by size: Evidence from firms in developed and developing countries. *Transnational Corporations*, 27(2), 183–204.
- (Paul, 2025) Paul, P. (2025). The role of supply chain finance in enhancing financial performance: Evidence from personal and home care product industry. *Investment Management and Financial Innovations*, 22(2), 77–85. [https://doi.org/10.21511/imfi.22\(2\).2025.07](https://doi.org/10.21511/imfi.22(2).2025.07).
- (Pástor & Veronesi, 2013) Pástor, L., & Veronesi, P. (2013). Political uncertainty and risk premia. *Journal of Financial Economics*, 110(3), 520–545. <https://doi.org/10.1016/j.jfineco.2013.08.007>.
- (Podsakoff et al., 2003) Podsakoff, P. M., MacKenzie, S. B., Lee, J. Y., & Podsakoff, N. P. (2003). Common method biases in behavioural research: A critical review of the literature and recommended remedies. *Journal of Applied Psychology*, 88(5), 879–903. <https://doi.org/10.1037/0021-9010.88.5.879>.
- (Qamruzzaman & Karim, 2024) Qamruzzaman, M., & Karim, S. (2024). Green energy, green innovation, and political stability led to green growth in OECD nations. *Energy Strategy Reviews*, 55, 101519. <https://doi.org/10.1016/j.esr.2024.101519>.
- (Saha et al., 2022) Saha, S., Sadeikin, M. N., & Saha, S. K. (2022). Effects of institutional quality on foreign direct investment inflow in lower-middle income countries. *Heliyon*, 8(10), e10828. <https://doi.org/10.1016/j.heliyon.2022.e10828>.
- (Song et al., 2021) Song, Y., Hao, F., Hao, X., & Gozgor, G. (2021). Economic policy uncertainty, outward foreign direct investments, and green total factor productivity: Evidence from firm-level data in China. *Sustainability*, 13(4), 2339. <https://doi.org/10.3390/su13042339>.
- (Tjandrasa, 2021) Tjandrasa, B. B. (2021). Determinants of political stability to support foreign investment in Indonesia. *Petra International Journal of Business Studies*, 4(2), 97–108. <https://doi.org/10.9744/ijbs.4.2.97-108>.
- (Truong et al., 2024) Truong, L. D., Friday, H. S., & Pham, T. D. (2024). The effects of geopolitical risk on foreign direct investment in a transition economy: Evidence from Vietnam. *Journal of Risk and Financial Management*, 17(3), 101. <https://doi.org/10.3390/jrfm17030101>.
- (Wang et al., 2024) Wang, R., Qamruzzaman, M., & Karim, S. (2024). Unveiling the power of education, political stability and ICT in shaping technological innovation in BRI nations. *Heliyon*, 10(9), e30142. <https://doi.org/10.1016/j.heliyon.2024.e30142>.
- (Williamson, 1985) Williamson, O. E. (1985). *The economic institutions of capitalism: Firms, markets, relational contracting*. Free Press.

<https://doi.org/10.3390/xxxxx>

Commented [M58]: We removed “SSRN. <https://ssrn.com/abstract=4916912>.” Please confirm.

Commented [ss58R2]: Yes. We agree

Commented [M59]: This reference is not cited in the main text. Please add a citation or delete it if it is not needed.

Commented [ss59R2]: Thank you for your comment. We have removed the reference

Commented [M60]: We revised “Elsevier BV” to “SSRN”. Please confirm.

Commented [ss60R2]: We agree

Commented [M61]: Please add the volume and page range if there is.

Commented [M62]: 1. Please confirm updated page range.
2. We removed “SSRN. <https://ssrn.com/abstract=3692334>”. Please confirm.

Commented [ss62R2]: Yes We agree

Commented [M63]: This reference is not cited in the main text. Please add a citation or delete it if it is not needed.

Commented [ss63R2]: Yes. I delete it.

Commented [M64]: In principle, citing retracted papers is usually discouraged, unless a clear justification is provided. Please either remove the reference or provide a justification.

Commented [ss64R2]: Thank you for your comment. We have removed the reference from the manuscript to avoid citing a retracted paper.

(Wu & Shao, 2023) Wu, W., & Shao, C. (2023). How does home and host-country policy uncertainty affect outward FDI? Firm-level evidence from China. *Economia Politica*, 40(2), 495–515. <https://doi.org/10.1007/s40888-023-00298-8>.

(Yan et al., 2022) Yan, H., Xiao, W., Deng, Q., & Xiong, S. (2022). Analysis of the impact of U.S. trade policy uncertainty on China based on Bayesian VAR model. *Journal of Mathematics*, 2022(1), 7124997. <https://doi.org/10.1155/2022/7124997>.

(Yensu et al., 2022) Yensu, J., Nkrumah, S. K., Amankwah, S., & Ledi, K. K. (2022). The effect of exchange rate volatility on economic growth. *Risk Governance and Control: Financial Markets and Institutions*, 12(4), 33–45. <https://doi.org/10.22495/rgcv12i4p2>.

(B. Zhang et al., 2023) Zhang, B., Ma, J., Khan, M. A., Repnikova, V., Shidlovskaya, K., Barykin, S., & Ahmad, M. S. (2023). The effect of economic policy uncertainty on foreign direct investment in the era of global value chain: Evidence from the Asian countries. *Sustainability*, 15(7), 6131. <https://doi.org/10.3390/su15076131>.

(Y. Zhang et al., 2023) Zhang, Y., He, J., He, M., & Li, S. (2023). Geopolitical risk and stock market volatility: A global perspective. *Finance Research Letters*, 53, 103620. <https://doi.org/10.1016/j.frl.2022.103620>.

(Zhao et al., 2023) Zhao, N., Hong, J., & Lau, K. H. (2023). Impact of supply chain digitalization on supply chain resilience and performance: A multi-mediation model. *International Journal of Production Economics*, 259, 108817. <https://doi.org/10.1016/j.ijpe.2023.108817>.

(Zheng et al., 2025) Zheng, M., Wang, R., Ye, J., & Li, T. (2025). How does supply chain finance enhance firms' supply chain resilience? *International Review of Economics & Finance*, 102, 104231. <https://doi.org/10.1016/j.iref.2025.104231>.

(Zhou, 2020) Zhou, Y. (2020). *The US-China trade war and global value chains*. The World Bank.

(M. Zhu et al., 2024) Zhu, M., Miao, S., Lam, H. K. S., Liang, C., & Yeung, A. C. L. (2024). Navigating through geopolitical risk: The role of supply chain concentration. *International Journal of Operations & Production Management*, 45(5), 1032–1065. <https://doi.org/10.1108/ijopm-03-2024-0248>.

(X. Zhu & Wu, 2022) Zhu, X., & Wu, Y. J. (2022). How does supply chain resilience affect supply chain performance? The mediating effect of sustainability. *Sustainability*, 14(21), 14626. <https://doi.org/10.3390/su142114626>.

Disclaimer/Publisher’s Note: The statements, opinions and data contained in all publications are solely those of the individual author(s) and contributor(s) and not of MDPI and/or the editor(s). MDPI and/or the editor(s) disclaim responsibility for any injury to people or property resulting from any ideas, methods, instructions or products referred to in the content.

Commented [M65]: There is only one citation “(Zhang et al., 2023)” in main text. Please ensure this ref and the next ref are both cited in main text. Or please remove unnecessary reference.

Commented [ss65R2]: Thank you for your comment. We have reviewed the references and removed the unnecessary reference from the manuscript.

Commented [M66]: We removed “Всемирный банк”. Please confirm.

Commented [ss66R2]: Yes. We agree

Page 11: [1] Commented [M19] MDPI 21/07/2026 21:33:00

If there is only one subsection within a section, it should not be numbered. We have thus removed this section number. Please confirm.

Page 17: [2] Commented [ss30R2] sugeng suroso 23/07/2026 09:54:00

Done. The table has been cited in the text, and the first citation now appears in the correct numerical order.

Page 17: [3] Commented [M31] MDPI 21/07/2026 21:52:00

Please cite this table in the text and ensure that the first citation of each table appears in numerical order.

Page 17: [4] Commented [ss31R2] sugeng suroso 23/07/2026 10:00:00

We have revised the manuscript accordingly. The table has been cited in the text, and its first citation now appears in the correct numerical order

Page 17: [5] Commented [ss32R2] sugeng suroso 23/07/2026 10:02:00

We have removed the unnecessary bold formatting throughout the manuscript, including all similar instances.

Page 17: [6] Commented [M32] MDPI 21/07/2026 18:18:00

Please confirm if the bold formatting is necessary; if not, please remove it. The following highlights are the same.

Page 17: [7] Commented [M33] MDPI 21/07/2026 22:06:00

Please check if it should be $\leftrightarrow$. If so, please revise all in whole paper.

Page 17: [8] Commented [ss33R2] sugeng suroso 23/07/2026 10:05:00

We have checked the notation and revised it to a one-way arrow ($\rightarrow$) consistently throughout the manuscript.

Manuscript published

<https://www.mdpi.com/1911-8074/19/8/555>