

Article

Geopolitical Risk and the Financialization of Firm Vulnerability in Emerging Markets

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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 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

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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). 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 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 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 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 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 show 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 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 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 ([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.*

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 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 on currencies. Other studies have emphasized the impact of investor sentiment and contagion effects with regard to spillover of volatility via exchange rate mechanisms following geo-

litical 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 regions 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 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 investment resulting from political instability in their analysis.

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). 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 influences 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 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 (Pástor & 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 risk 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. 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 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 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 influences 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.*

3. Methodology and Design

3.1. 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.

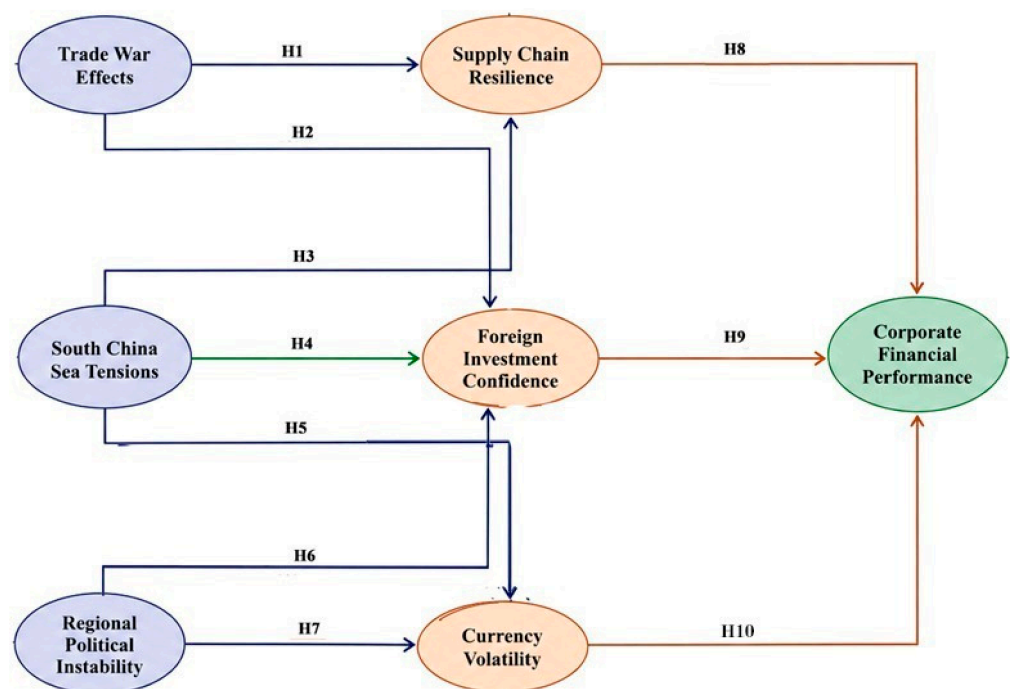


Figure 1. Conceptual framework.

As shown in Figure 1, the study proposes ten hypotheses (H1–H10) to examine the direct relationships among the con-structs. These hypotheses are developed from the theoretical framework and empirical literature and are tested using SEM.

3.2. 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 Modeling (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 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 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 were 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 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 Discussion

4.1. 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.

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.

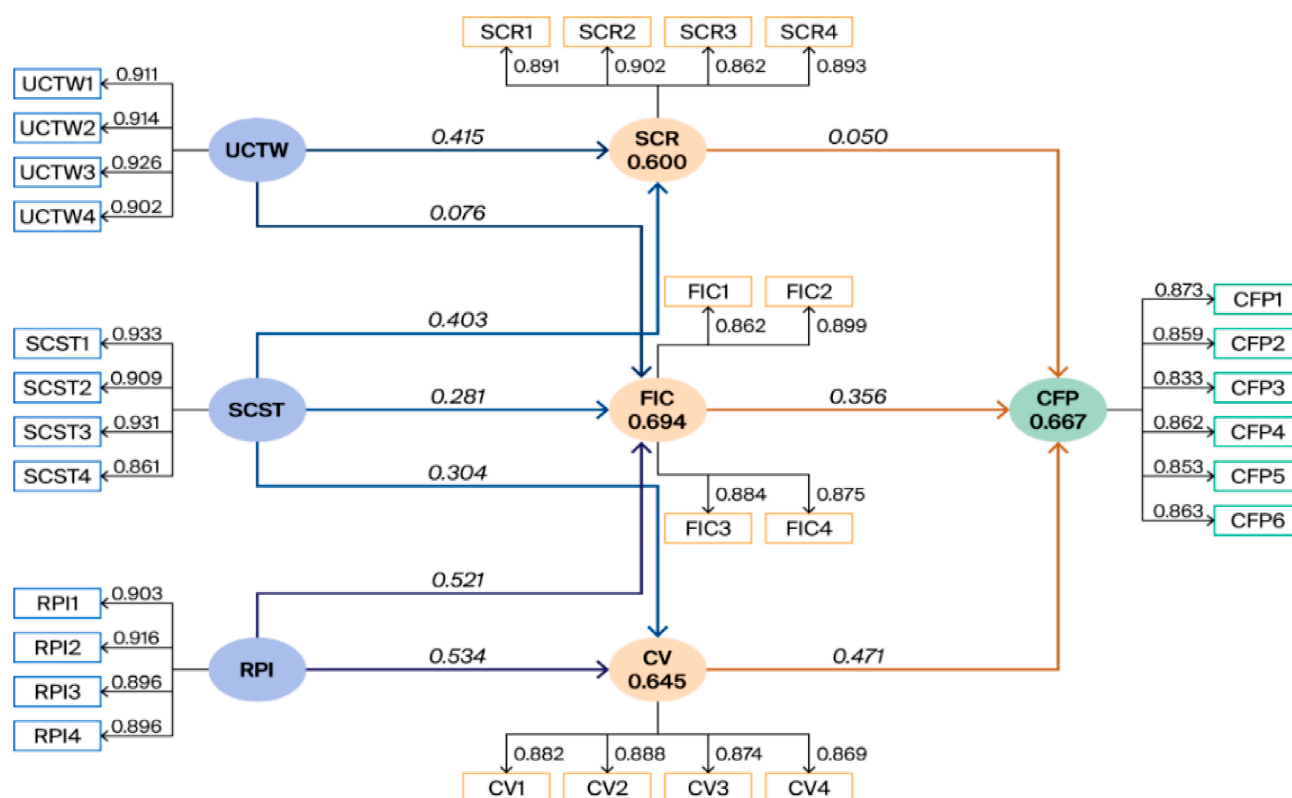


Figure 2. Measurement model results showing outer loadings, reliability, and validity indicators (graphically edited from the original SmartPLS 4).

4.2. Measurement Model Outer Loadings

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.

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

Table 1. *Cont.*

Construct	Outer Loadings
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, 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 Supplementary Materials, Table S1). 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 Supplementary Materials, Table S2), 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 (R^2) and adjusted R^2 for the endogenous constructs. The results are presented in Table 5.

Table 5. Coefficient of determination (R^2 and Adjusted R^2) 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 (f^2) 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 (f^2) 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

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 model was assessed using bootstrapping with 5000 resamples. Figure 3 presents the t-statistics for the indicator loadings and structural path coefficients.

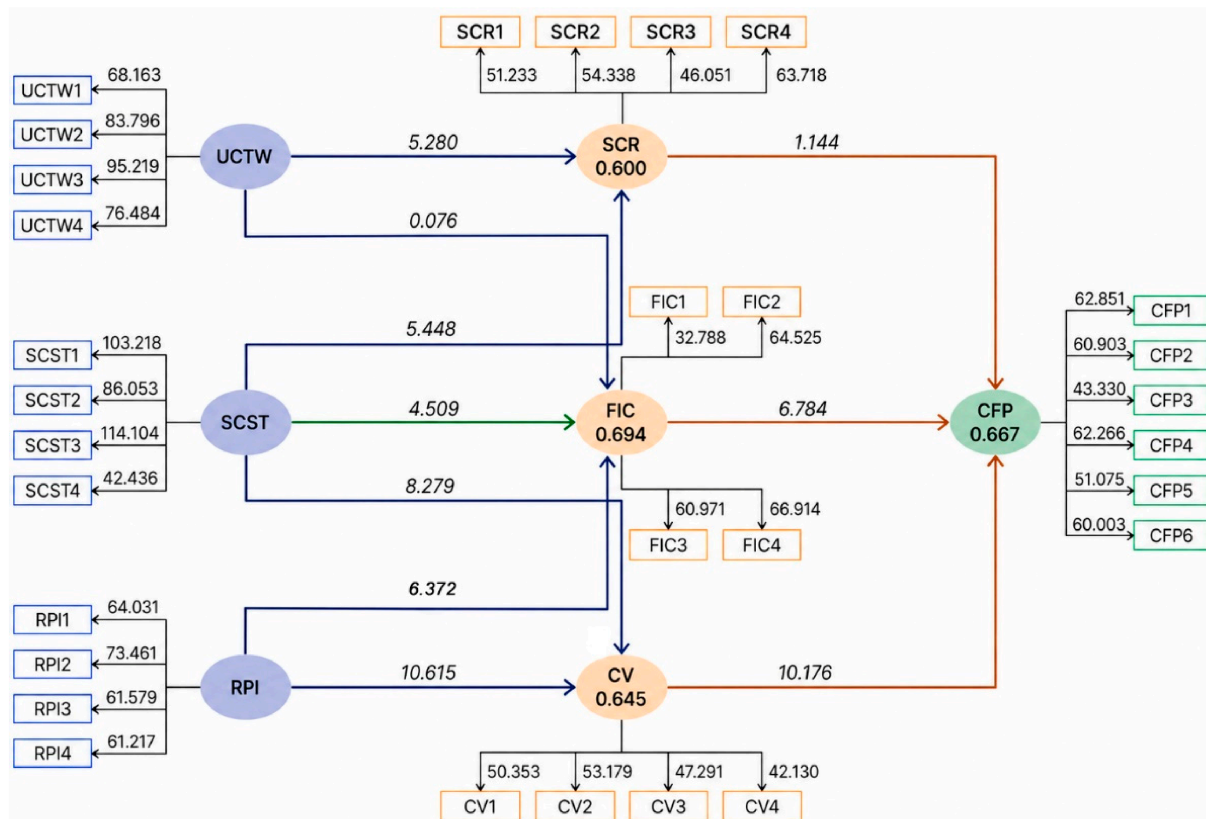


Figure 3. Structural model results showing path coefficients, R2, and effect sizes (graphically edited from the original SmartPLS 4).

4.5.2. Path Coefficient

The structural model was evaluated to examine the magnitude, direction, and statistical significance of the hypothesized relationships among the study constructs. Hypothesis testing was conducted using the bootstrapping procedure by assessing the path coefficients (β), t-statistics, and p-values. A relationship was considered statistically significant when the t-statistic exceeded 1.96 and the p-value was below 0.05. The results of the structural model path analysis and hypothesis testing are presented in Table 8.

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

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 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
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

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 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 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 quickly 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 theoretical implication. While operational resilience can indeed provide protection against disruptions in production processes, its immediate financial benefit may not 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 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, behavioral 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 hedging 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 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 analyze 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 a favorable 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 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 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 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: The following supporting information can be downloaded at: <https://www.mdpi.com/article/10.3390/jrfm19080555/s1>, Table S1: EC-1. Harman’s Single Factor Test, Table S2: EC-2. VIF latent Variables.

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