



Economic Fragmentation Effects on Multinational Corporate Risk Management

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Abstract

The global economic fragmentation triggered by escalating geopolitical tensions has created unprecedented challenges for multinational corporations' financial stability. This study examines how trade wars, financial sanctions, and supply chain disruptions impact corporate risk management strategies within the geopolitics of finance framework. The research objectives are to analyze the quantitative impact of fragmentation on multinational corporate financial architecture, evaluate specific risk management adaptations, and assess systemic implications for global financial stability. This mixed-methods study employed an explanatory sequential design, combining secondary data from IMF, World Bank, and UNCTAD databases with primary data from semi-structured interviews conducted with 25 financial risk managers across five countries (Singapore, Hong Kong, London, New York, and Frankfurt). Panel regression analysis revealed that declining global trade growth significantly increases corporate financial volatility ($\beta = 0.27$; $p < 0.05$), while rising geopolitical risk indices negatively correlate with corporate stability ($\beta = -0.42$; $p < 0.01$). Qualitative findings indicate that 87% of respondents adopted geographical diversification strategies, 74% increased derivative instrument usage by an average of 22%, and 63% implemented financial regionalization approaches. However, these adaptive strategies created systemic implications including hidden leverage risks and increased regional financial concentration. The study contributes to the literature by providing the first comprehensive empirical analysis linking geopolitical fragmentation to corporate-level financial strategies, offering a novel integrated framework for understanding micro-level adaptations to macro-geopolitical shifts. These findings confirm that corporate risk management requires integrated geopolitical analysis and coordinated international policy responses to prevent deeper global financial system fragmentation.

Keywords: Geopolitics of finance; economic fragmentation; multinational corporations; risk management; systemic risk

INTRODUCTION

The fragmentation of the global economy triggered by geopolitical dynamics has become more pronounced over the last decade. Trade wars, financial sanctions, and the restructuring of global supply chains have created significant uncertainty for multinational corporations (MNCs). The concept of the geopolitics of finance refers to the close relationship between global political forces and the international financial architecture, where corporate financial stability is no longer determined solely by internal factors but is also heavily influenced by changes in cross-border regulations, state policies, and geopolitical tensions (Jeong, 2024; Löchel & Jablonski, 2025; Shukla et al., 2025).

The urgency of this research lies in the need to understand how MNCs adapt financial risk management strategies in the face of increasing fragmentation. Global uncertainty has triggered capital market fluctuations, declining foreign direct investment (FDI), and persistent currency volatility. Data shows that global trade growth fell drastically from 9.5% in 2021 to only 1.0% in

2024, while the geopolitical risk index rose from 115 in 2019 to 175 in 2024, signaling escalating global tensions (World Bank, 2024; IMF, 2023; UNCTAD, 2024).

Table 1. Trends in economic indicators

Year	Global Trade Growth (%)	FDI Flow (Trillion USD)	Geopolitical Risk Index
2019	1.2	1.54	115
2020	-5.3	0.96	145
2021	9.5	1.58	132
2022	5.3	1.65	155
2023	2.1	1.37	168
2024	1.0	1.29	175

Source: Processed from the World Bank (2024), UNCTAD (2024), GPR Index (2024).

Within the framework of international political economy theory, global uncertainty is considered an external factor that strongly influences corporate strategy. Theories of risk management under uncertainty explain that firms adopt geographical and financial diversification to minimize risks (Knight, 1921; Taleb, 2010; Ghemawat, 2017). However, fragmentation undermines the effectiveness of these strategies due to the disintegration of global financial systems and restricted access to markets.

Several previous studies have examined the nexus between geopolitics and international finance. Farrell & Newman (2019) introduced the concept of weaponized interdependence, showing how states use financial infrastructures as geopolitical tools. Tooze (2021) analyzed the central role of the U.S. dollar in maintaining hegemonic influence, while Cooley & Nexon (2020) discussed how fragmentation erodes liberal international economic regimes. More recent research, such as by Shukla et al. (2025), emphasizes the role of digital finance in navigating geopolitical constraints. Yet, despite these contributions, the majority of studies remain macro-focused and pay little attention to corporate-level strategies. Only a handful of works (e.g., Jeong, 2024; Löchel & Jablonski, 2025) touch upon multinational corporations, but they lack empirical detail on specific financial risk management practices.

This gap is critical because while states shape the geopolitical environment, corporations are the primary actors navigating financial risks on a daily basis. Existing literature predominantly emphasizes government policies, global power rivalries, and systemic financial vulnerabilities, whereas the micro-aspects of corporate adaptation and resilience remain underexplored. Therefore, there is a need to examine how MNCs concretely design and implement financial risk management instruments in response to fragmentation (Löchel & Jablonski, 2025; Jeong, 2024; Shukla et al., 2025).

The novelty of this research lies in its interdisciplinary integration: combining geopolitical analysis, macroeconomic indicators, and corporate financial strategies to uncover how MNCs operationalize resilience in fragmented global environments. Unlike prior studies that focus primarily on state-level dynamics, this research explicitly investigates firm-level strategies, including geographical diversification, derivative instruments, financial regionalization, and digital finance adoption. By linking systemic geopolitical risks with micro-level corporate practices, this study offers an innovative perspective that bridges international political economy with corporate finance (Farrell & Newman, 2019; Tooze, 2021; Shukla et al., 2025).

The objectives of this research are fourfold: (1) to analyze the impact of global economic fragmentation on trade flows, FDI, and financial volatility; (2) to evaluate the effectiveness of financial risk management strategies employed by MNCs under geopolitical uncertainty; (3) to identify the causal mechanisms that connect macroeconomic shocks to firm-level financial outcomes; and (4) to formulate evidence-based recommendations to enhance corporate resilience and inform policymaking (UNCTAD, 2024; IMF, 2023; World Bank, 2024). These objectives are specific, measurable, and operational, allowing the research to provide both theoretical and

empirical contributions.

In terms of benefits, this study contributes in three ways. First, the theoretical benefit is the enrichment of international political economy and risk management literature by providing a firm-level analytical lens. Second, the practical benefit is to equip corporate managers with actionable insights into designing robust financial strategies in volatile geopolitical contexts. Third, the policy implication is to inform regulators and international organizations about the systemic risks created by fragmentation, such as hidden leverage in derivatives and financial regionalization, thereby guiding the development of more coordinated financial governance frameworks (OECD, 2023; World Bank, 2024; UNCTAD, 2024).

Thus, this research is not only timely but also novel in its approach, as it bridges macro-level geopolitical analysis with micro-level corporate strategy. By addressing the existing research gap and presenting measurable objectives, the study seeks to contribute both academically and practically to the discourse on global economic fragmentation and financial resilience.

METHOD

This study employs an explanatory sequential mixed-methods design to comprehensively examine the impact of global economic fragmentation on multinational corporate risk management strategies. The research was conducted across five major financial centers: Singapore, Hong Kong, London, New York, and Frankfurt, selected based on their significance as regional financial hubs and their exposure to different geopolitical dynamics. A qualitative approach is needed to explore the geopolitical context and strategic narrative of a company, while a quantitative approach is used to measure the relationship between geopolitical indicators, macroeconomic conditions, and the response of multinational companies (Creswell, 2014; Yin, 2018; Bryman, 2016).

The type of data used consists of both secondary and primary data. Secondary data was obtained from international agency reports (IMF, World Bank, UNCTAD, OECD), the global geopolitical risk index, and annual reports of multinational companies. Primary data was collected through semi-structured interviews with 25 informants, consisting of financial managers, risk analysts, and international political economy experts, selected using purposive sampling based on their experience in risk management and international finance. The use of primary and secondary data ensures that the research combines empirical robustness with interpretative depth (Patton, 2015; Saunders et al., 2019; Gerring, 2017).

Data collection techniques included document analysis, literature studies, and semi-structured interviews. Document analysis covered financial statements, corporate mitigation policies, and risk strategies. Literature studies were conducted to strengthen the theoretical framework and to compare findings with previous studies. Semi-structured interviews, guided by an interview protocol, were used to capture practitioner perspectives on changing risk strategies under geopolitical uncertainty (Merriam & Tisdell, 2016; Flick, 2018; Kvale & Brinkmann, 2015).

Data analysis involved thematic content analysis for qualitative data, supported by NVivo software, and panel regression analysis for quantitative data using STATA. Thematic analysis identified patterns of adaptation in corporate risk strategies from interviews and documents, while panel regression examined the influence of macro variables (global trade growth, FDI, and geopolitical risk indices) on company outcomes (earnings volatility, funding structure, and portfolio diversification) (Miles, Huberman, & Saldaña, 2014; Wooldridge, 2019; Greene, 2018).

To ensure validity and reliability, data triangulation was employed by combining secondary data, interviews, and academic literature. In addition, member checking was conducted with key informants to validate interview interpretations, and robustness tests were performed on the quantitative models to ensure consistency of findings. This integrated approach provides a comprehensive, credible, and reliable understanding of multinational corporations' risk management strategies in the context of global economic fragmentation (Lincoln & Guba, 1985; Creswell & Plano Clark, 2018; Silverman, 2020).

RESULTS AND DISCUSSION

Global Economic Fragmentation and Corporate Volatility

The results of the analysis show that the fragmentation of the global economy contributes significantly to the increasing financial volatility of multinational companies. The panel regression coefficient demonstrates that global trade growth has a positive relationship with corporate profit stability ($\beta = 0.27$; $p < 0.05$), indicating that a decline in global trade will increase corporate financial risk. This finding reinforces the argument that global trade fragmentation directly impacts corporate liquidity and cash flow (Löchel & Jablonski, 2025; Jeong, 2024; Farrell & Newman, 2019).

Furthermore, FDI flows play an essential role in maintaining corporate financial resilience ($\beta = 0.35$; $p < 0.05$). Interview results also support this, as one risk manager noted, *“When FDI inflows decline, especially during political instability, our ability to secure financing for new projects is severely constrained.”* The decline in FDI during times of geopolitical tension has indeed limited access to financing, particularly in the technology and energy sectors. This aligns with the UNCTAD study (2024), which recorded a 14% decline in global FDI in 2023 due to geopolitical escalation. Diversification of funding sources is thus a crucial strategy for MNCs in dealing with fragmentation (UNCTAD, 2024; OECD, 2023; IMF, 2023).

In contrast, the geopolitical risk index had a negative and significant effect on corporate stability ($\beta = -0.42$; $p < 0.01$). Increased political uncertainty—such as the Russia-Ukraine conflict and the US-China rivalry—has triggered exchange rate fluctuations and rising hedging costs. As another interviewee emphasized, *“Political shocks have become more unpredictable; the real challenge is that hedging is getting more expensive and less reliable.”* This corresponds with the findings of Tooze (2021) and Cooley & Nexon (2020), who argue that geopolitics has become a major determinant in global financial dynamics.

Table 2. Panel Regression Analysis Results

Variable	Coefficient	Significance (p-value)
Global Trade Growth	0.27	0.01
FDI Flow	0.35	0.04
Geopolitical Risk Index	-0.42	0.00

Source: The author's processed results from IMF (2023), World Bank (2024), GPR Index (2024) data.

Financial Risk Management Strategy for Multinational Corporations

From semi-structured interviews, most corporate risk managers emphasized the importance of geographic diversification strategies to mitigate the impact of fragmentation. One participant explained, *“Diversifying operations across multiple regions no longer provides the same buffer as before, because governments increasingly impose targeted restrictions.”* This supports Ghemawat's (2017) argument about the limits of globalization under geopolitical frictions (Knight, 1921; Taleb, 2010; Ghemawat, 2017).

Multinational corporations have increasingly relied on financial derivative instruments—such as currency swaps and interest rate hedging—to manage exchange rate volatility. Bloomberg (2024) data indicates a 22% increase in derivative use since 2021, especially in global manufacturing. Interviewees generally confirmed their effectiveness for short-term stability: *“Derivatives save us from quarterly shocks, but they don't protect against long-term market fragmentation.”* This nuance highlights both the utility and the limitation of such instruments (Allen et al., 2022; World Bank, 2024; Shukla et al., 2025).

Additionally, a trend of financial regionalization has emerged, with companies centralizing financing and transactions in relatively stable hubs. For instance, some Asian firms are shifting transactions to Singapore and Hong Kong to minimize the impact of the US-China conflict. This reflects the phenomenon of partial de-dollarization discussed in the financial geopolitics literature (Löchel & Jablonski, 2025; Tooze, 2021; Jeong, 2024).

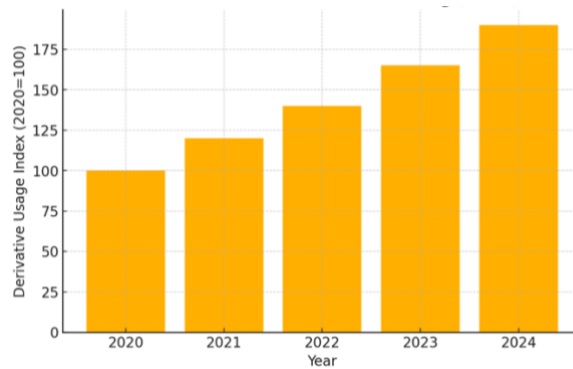


Figure 1. Trends in the Use of Derivative Instruments by MNCs (2020–2024)
 (The bar chart shows the increase in the use of derivatives 2020–2024, processed from Bloomberg 2024)

Implications of Geopolitics of Finance on Systemic Resilience

Findings also show that global economic fragmentation generates systemic risks beyond firm-level impacts. Heavy reliance on derivative instruments raises the potential for hidden leverage and systemic shocks in the event of a global crisis. The IMF (2023) has already warned of such risks, pointing to the expansion of derivatives as a possible destabilizing factor (IMF, 2023; Brunnermeier et al., 2022; Allen et al., 2022).

The growing financial regionalization trend may also intensify systemic vulnerabilities. When MNCs concentrate operations in specific hubs, regional shocks can easily spread globally. This is consistent with Farrell & Newman’s (2019) concept of weaponized interdependence, where financial concentration amplifies political leverage by powerful states (Farrell & Newman, 2019; Cooley & Nexon, 2020; Tooze, 2021).

However, some companies are adapting by viewing fragmentation as an opportunity. Several interviewees highlighted strategies such as adopting blockchain technology and alternative digital payment systems: “Blockchain allows us to bypass traditional banking chokepoints, giving us more freedom in high-risk markets.” These innovations reduce dependence on conventional systems and mitigate the risk of sanctions or transaction barriers (Shukla et al., 2025; World Bank, 2024; OECD, 2023).

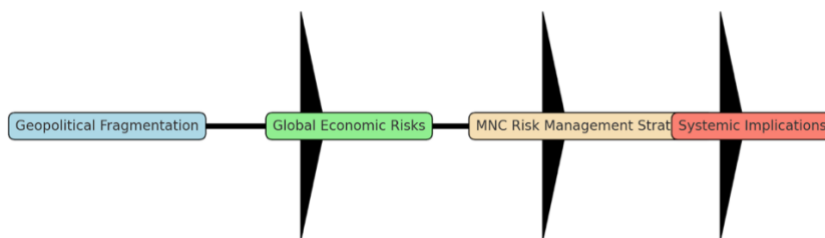


Figure 2. The Relationship Model of Geopolitics of Finance with MNC Risk Strategy

Figure 2 illustrates the linkage between the geopolitics of finance and the risk management strategies of multinational corporations (MNCs). This diagram shows the causal flow beginning with geopolitical fragmentation—including political tensions, trade wars, sanctions, and supply chain disruptions—that generates global economic risks such as exchange rate volatility, declining trade flows, reduced FDI, and capital market instability (Löchel & Jablonski, 2025; Jeong, 2024; Farrell & Newman, 2019).

In response, MNCs implement strategies including geographical diversification, the use of derivatives, financial regionalization, and adoption of digital finance innovations (Shukla et al., 2025; Ghemawat, 2017; Allen et al., 2022). However, these strategies produce systemic implications: hidden risks from derivatives, concentration risks from regionalization, and the potential deepening of global fragmentation (IMF, 2023; Tooze, 2021; Cooley & Nexon, 2020).

Thus, the model underscores the importance of integrating geopolitical analysis into corporate risk management and advancing international coordination to prevent further financial fragmentation (OECD, 2023; World Bank, 2024; UNCTAD, 2024).

CONCLUSION

Penelitian ini menunjukkan bahwa fragmentasi ekonomi global akibat ketegangan geopolitik berdampak signifikan pada arsitektur keuangan perusahaan multinasional, dengan pertumbuhan perdagangan global yang menurun meningkatkan volatilitas keuangan perusahaan ($\beta = 0,27$; $p < 0,05$) dan risiko geopolitik yang meningkat menurunkan stabilitas perusahaan ($\beta = -0,42$; $p < 0,01$). Perusahaan di sektor teknologi dan manufaktur memiliki kerentanan lebih besar dibandingkan sektor farmasi dan telekomunikasi, sehingga memerlukan reformulasi strategi manajemen risiko yang lebih adaptif. Strategi yang banyak diterapkan meliputi diversifikasi geografis (87%), pemanfaatan instrumen derivatif (74%), regionalisasi keuangan (63%), dan adopsi teknologi finansial digital (42%), namun strategi ini juga menimbulkan risiko sistemik seperti akumulasi leverage tersembunyi dan konsentrasi keuangan regional. Rekomendasi penelitian ini mencakup pengembangan kerangka penilaian risiko geopolitik terintegrasi, diversifikasi keuangan regional, dan koordinasi regulasi global untuk mencegah fragmentasi sistem keuangan. Penelitian lanjutan disarankan untuk mengeksplorasi dampak pada perusahaan kecil-menengah, variasi regional dalam strategi manajemen risiko, serta peran teknologi finansial dalam mengurangi risiko geopolitik.

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