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Geopolitical Coercibility and Firm Valuation

This paper studies how geopolitical fragmentation and strategic dependence are priced at the firm level. It asks whether financial markets discount firms whose international organization makes them more exposed to geopolitical coercion. A simple framework organizes the analysis around three margins central to the economics of security: exposure to externally controlled choke points, vulnerability to shock propagation, and feasible disruption severity. This perspective links firm valuation to broader questions of resilience, supply-chain dependence, and externally imposed disruption under deteriorating geopolitical conditions.

Empirically, the paper combines firm-level accounting, market-value, and geographic segment data for publicly listed G7 firms over 2000–2023 with destination-level geopolitical-risk measures. It constructs reduced-form measures of geopolitical coercibility by combining lagged international exposure with firm-specific geopolitical shocks aggregated using predetermined geographic weights. The preferred specification interacts lagged foreign-asset shares with shocks built from historically fixed asset-based destination weights and separates the estimation sample from the period used to construct those weights, yielding a deliberately conservative exposure-times-shock design.

Across specifications, higher coercibility is systematically associated with weaker market-based valuation outcomes. In the baseline, a one-standard-deviation increase in the coercibility proxy is associated with a 2.9 percentage-point decline in annual market-capitalization growth and a higher probability of entering the lower tail of the valuation distribution. These results remain broadly robust across richer fixed effects, alternative clustering schemes, and alternative exposure-risk architectures. Overall, the paper provides disciplined reduced-form evidence that geoeconomic vulnerability and strategic exposure to coercive disruption are systematically discounted by financial markets, with direct relevance for current debates on economic security, resilience, and the redesign of internationally exposed firm architectures.