

Publication Date: 30.05.2025

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Internationalization under Geopolitical Risk: Market Selection and Exit

Abstract



Background: Geopolitical risk has become a first-order determinant of internationalization decisions, shaping both where firms expand and how quickly they retreat. This review synthesizes research on geopolitical risk, sanctions exposure, and macro-financial tightening and connects it to market selection and exit choices.

Methods: We develop a structured review anchored in decision theory, real options logic, and international business research. Prior findings are organized into a process model spanning scanning and entry, escalation management, and exit governance.

Results: The synthesis identifies three recurrent mechanisms: (i) risk repricing through capital flows, currency volatility, and financing conditions; (ii) operational disruption via trade controls, cross-border payments friction, and compliance costs; and (iii) strategic lock-in created by asset specificity, network dependence, and institutional embeddedness. We propose a market selection and exit matrix and a set of testable propositions linking risk signals to entry mode, pacing, and exit timing.

Conclusions: Internationalization under geopolitical risk is best understood as a dynamic portfolio problem. Resilience depends on optionality, diversified financial and operational channels, and disciplined exit governance that preserves re-entry pathways while limiting non-linear exposure.

Keywords: geopolitical risk; internationalization; market selection; market exit; sanctions; capital flows; real options; compliance

1. Introduction

Geopolitical risk has moved from a background condition to an explicit strategic constraint. Shifts in sanctions regimes, export controls, financial de-risking, and security realignments can reprice the expected returns of foreign market participation within short time horizons. The practical challenge for firms is no longer limited to “which markets to enter,” but extends to “how to remain governable under unstable rules of cross-border exchange.” This review connects two decisions that are often treated separately in international business research: **market selection** and **market exit**. The central argument is that selection and exit form a **coupled system**. Entry without an exit design creates fragility, while exit without prior option-building destroys value. A portfolio approach is therefore necessary: firms need to treat each country position as a bundle of expected return, downside tail exposure, and reversibility. We develop an integrative framework that explains how geopolitical risk affects internationalization through three mechanisms. First, geopolitical risk is frequently transmitted through **macro-financial repricing**, tightening liquidity and amplifying currency and refinancing risk. Second, it creates **operational disruption** through trade controls, payment frictions, and compliance burdens. Third, it produces **strategic lock-in** when firms become embedded via sunk assets, specialized supplier relationships, and relational capital. These mechanisms jointly shape the timing and form of entry, as well as the speed and governance of exit.

2. Materials and Methods

This study adopts a structured review design, informed by systematic reporting principles (PRISMA 2020) to improve transparency of synthesis. We review peer-reviewed research in international business, strategy, political economy, and international finance, complemented by institutional sources relevant to sanctions and payments frictions where appropriate.

2.1 Search strategy and scope

The search strategy combined terms related to: geopolitical risk, economic policy uncertainty, sanctions, export controls, cross-border payments, foreign divestment, de-internationalization, real options, capital flows, and global financial cycles. We prioritized:

1. studies defining and measuring geopolitical risk and policy uncertainty,
2. research on entry mode, pacing, and market selection under uncertainty,
3. literature on divestment, de-internationalization, and exit processes, and
4. work on macro-financial tightening and emerging-market vulnerability.

2.2 Coding and synthesis

Included studies were coded along four dimensions:

- **Risk source:** interstate conflict, sanctions, domestic instability, institutional deterioration.
- **Exposure channel:** capital flows and funding conditions; trade disruption; legal/compliance burdens; reputational spillovers; payments frictions.
- **Managerial response:** market selection, entry mode and governance, buffering strategies, exit governance.
- **Outcomes:** performance volatility, survival, value preservation, re-entry capability.

3. Results: Three mechanisms linking geopolitical risk to selection and exit

3.1 Mechanism 1: Risk repricing through capital flows, currency volatility, and tightening conditions

A consistent finding across international finance and international business is that uncertainty shocks and tightening conditions reshape capital availability and pricing. When global liquidity tightens, emerging markets face heightened outflow risk, currency depreciation, and refinancing challenges. For firms, this increases the cost of local capital, raises counterparty risk in domestic financial systems, and destabilizes repatriation and working-capital planning.

Managerial implication: market selection must include not only expected demand and institutional quality but also **liquidity fragility** and the capacity to operate under sudden funding constraints. Firms that treat local cash conversion and repatriation routes as core design parameters reduce forced exits triggered by financial stress rather than operating performance.

3.2 Mechanism 2: Operational disruption through controls, payments frictions, and compliance costs

Sanctions exposure and trade controls can interrupt access to inputs, technology, shipping, insurance, and financing, while payment systems may become slower, restricted, or reputationally risky. Even when trade remains legal, compliance requirements can reduce execution speed and increase operational overhead. A key practical issue is that compliance becomes both a cost center and a pacing constraint: it shapes whether a firm can pivot quickly when conditions deteriorate.

Managerial implication: firms need a scalable compliance architecture and operational contingency planning (alternative suppliers, logistics routes, and payment channels) to avoid exit becoming the only feasible risk response.

3.3 Mechanism 3: Strategic lock-in through asset specificity and network dependence

Internationalization often involves irreversible investments (specialized facilities, long-term contracts, relational capital, and local ecosystems). These create **strategic stickiness**: managers may delay exit to protect option value, but such delays increase exposure when geopolitical conditions deteriorate non-linearly. Lock-in is amplified when the firm is deeply embedded in local networks or when supplier and customer relationships are not easily replicated elsewhere.

Managerial implication: the right question is not “exit or stay,” but “how reversible is this position, and what triggers should govern escalation and exit?”

4. Discussion: A process model from scanning to exit governance

The evidence supports a process view of internationalization under geopolitical risk, with four stages:

Scanning and early warning: Firms monitor geopolitical risk indicators, policy uncertainty signals, and sanctions trajectories. Measuring tools such as the Caldara–Iacoviello Geopolitical Risk index and policy uncertainty measures are useful as baseline signals, but managerial interpretation must be sector- and channel-specific. American Economic Association+1

Entry design: Entry is structured to preserve optionality (staging, modular commitments, contract flexibility).

Escalation management: Firms activate buffers (alternate suppliers, redundancy, financial hedges) and scale compliance as exposure grows.

Exit governance: Exit is executed through pre-committed triggers, clear authority and decision rights, and mechanisms to preserve re-entry pathways when feasible.

This process model implies that market selection and exit must be analyzed jointly. Exit readiness is not a failure mode; it is a governance capability that protects value under tail risk.

5. Market Selection and Exit Matrix (decision aid)

Table 1. Market selection and exit matrix under geopolitical risk

Risk level	Strategic importance	Recommended posture	Typical governance tools
Low	High	Commit and scale	Local reinvestment; long-term contracts; localized compliance; redundancy planning
Low	Low	Opportunistic	Lightweight entry; distributor/agent mode; frequent reviews; limited fixed assets
High	High	Option-preserving commitment	Staged investment; dual sourcing; ring-fenced capital; compliance scaling; explicit exit triggers
High	Low	Avoid or exit early	No sunk assets; strict exposure limits; rapid unwinding plan; pre-approved exit playbook

Note: Thresholds should be calibrated by sector, sanctions exposure, reliance on controlled technology, and payments/settlement constraints.

6. Testable Propositions (for empirical research)

P1 (Repricing and pacing): Increases in geopolitical risk and policy uncertainty are associated with slower internationalization pacing and a shift toward staged commitments, controlling for market size and institutional quality. American Economic Association+1

P2 (Liquidity tightening and exit timing): In host countries with higher external financing dependence, global liquidity tightening increases the hazard rate of market exit, particularly for subsidiaries with high local working-capital needs.

P3 (Compliance burden and entry mode): Greater sanctions/compliance exposure predicts entry modes with higher controllability and auditability (e.g., wholly owned or tightly governed structures) compared to modes relying on broad network exchange.

P4 (Asset specificity and delayed exit): Higher asset specificity and deeper network embeddedness increase exit delay, but also increase loss severity when deterioration is non-linear.

P5 (Optionality and resilience): Firms with explicit exit triggers, ring-fenced capital, and diversified payment channels exhibit lower value destruction during exits and higher likelihood of subsequent re-entry.

P6 (Coupled design effect): Market selection decisions that include ex ante exit design (triggers, authority, asset reversibility) yield higher risk-adjusted performance than selection decisions optimized only for expected returns.

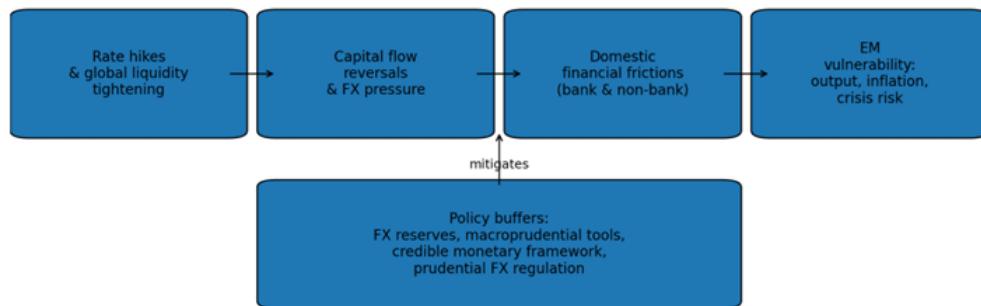
7. Conclusions

Internationalization under geopolitical risk is a moving-target problem. The strongest market portfolios are not those with the highest *ex ante* returns, but those that preserve strategic freedom under adverse scenarios. This review shows that geopolitical risk affects internationalization through three mechanisms: macro-financial repricing, operational disruption via controls and compliance, and strategic lock-in driven by asset specificity and embeddedness. The practical implication is clear: firms need **optionality by design, diversified financial and operational channels, and disciplined exit governance**. For research, the priority is to connect firm-level entry/exit timing more precisely to macro-financial conditions and to model compliance capability as a dynamic capability that shapes survival, value preservation, and re-entry.

Figure 1 (Conceptual)

Conceptual pathway from liquidity tightening to emerging-market vulnerability and firm exposure.

The figure traces how global tightening raises funding costs and currency volatility, which increases counterparty risk and operational stress. The pathway links macro shocks to firm-level governance responses: staging, buffering, compliance scaling, and exit triggers.



Declarations (Journal-ready)

Author Contributions (CRediT)

Conceptualization: O.B.

Methodology: O.B.

Literature search and screening: O.B.

Coding and synthesis: O.B.

Writing – original draft: O.B.

Writing – review & editing: O.B.

Funding

No external funding.

Institutional Review Board Statement

Not applicable.

Informed Consent Statement

Not applicable.

Data Availability Statement

No new dataset was generated. The review is based on publicly available literature and institutional sources cited below.

Conflicts of Interest

The author declares no conflict of interest.

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