

# **Geopolitical Risk and Corporate Innovation Intensity: a Global Perspective**

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## **Abstract**

This paper provides the first large-scale analysis of the relationship between geopolitical risk and firms' innovation intensity, measured as research and development expenditures (R&D). The study relies on an international panel of 33,615 firms from 41 countries covering the period 2005–2024. We first examine the causal direction between geopolitical risk and innovation activity, and then apply population-averaged Generalized Estimating Equations (GEE) to assess the robustness and persistence of the relationship across firms and countries. The results show that geopolitical risk is generally associated with higher research and development intensity, suggesting that firms tend to use innovation as a strategic response to external military uncertainty. However, this positive association does not hold for firms located in NATO member countries, where the stabilizing effects of collective security and institutional protection appear to mitigate the innovation response to geopolitical shocks. These findings reveal that geopolitical conditions represent an important external determinant of firms' strategic financial behavior. In environments with limited macro-political protection, innovation serves as a self-insurance mechanism, supporting long-term value creation and resilience. In contrast, in countries embedded in stronger institutional frameworks, firms rely more on macro-level stability than on internal financial flexibility to absorb uncertainty. The study adds new evidence to the corporate finance literature by linking geopolitical risk, innovation policy, and financial decision-making within a global setting.

**Keywords:** Geopolitical Risk, Corporate Innovation, Research and Development Intensity, Institutional Stability, Global Firms