RIETI Discussion Paper Series 26-E-016

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NAOI, Megumi
University of California

ITO, Banri
RIETI

JINJI, Naoto
RIETI

RIETI
Research Institute of Economy, Trade & Industry, IAA

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RIETI Discussion Paper Series 26-E-016

February 2026

How Geopolitics Shapes Policy Preferences of Firms

Experimental Evidence from Japan[1]

Megumi Naoi [1] Banri Ito [2] Naoto Jinji [3]

Abstract

We present some of the first evidence on how geopolitics shapes policy preferences of firms from a large-scale firm-level survey and experiment in Japan fielded during the Trump's 2025 tariff negotiations. The experiment varies scenarios of supply-chain disruption of critical goods across different causes (natural disasters vs. geopolitics) and the affected domestic actors ("your firm" vs. "Japanese citizens") and elicits firms' preferred policy among diplomatic negotiations, protectionism, and subsidies aimed at promoting diversification and domestic production. We find that geopolitical causes increase support for diplomatic solutions and reduce support for de-risking subsidies relative to the control condition (natural disaster). Contrary to the democratic peace conjecture, businesses support diplomacy regardless of alliance status or the disruption originating in the U.S. vs. China. A small minority (6%) support protectionism, especially when the disruption originates in a non-ally country or China. Overall, Japanese firms are not flag followers.

Keywords: firms, geopolitics, economic national security, supply chains, policy preferences, and Japan

JEL classification: F13, F14, F51, F52

[1]This study is conducted as a part of the Project "Studies on the Current Issues for Firms' Global Activities and the Impacts of Foreign Direct Investment" conducted at the Research Institute of Economy, Trade and Industry (RIETI). The draft of this paper was presented at the RIETI DP seminar. We would like to thank the participants of the RIETI DP Seminar, especially Yasuyuki Todo, Kyoji Fukao, Seiichiro Inoue, Isao Kamata, Kiyoyasu Tanaka and Eiichi Tomiura for their helpful comments. We are also grateful for helpful comments from Philip Lipscy, Yusaku Horiuchi, Sayumi Miyano, and the participants at the seminar at the University of Toronto's Centre for the Study of Global Japan and the Winter meeting of the Japanese Society of Quantitative Political Science at Waseda University.
1 Corresponding author. Associate Professor, Department of Political Science, University of California, San Diego.
2 Professor, Department of Economics, Aoyama Gakuin University/RIETI.
3 Professor, Department of Economics, Kyoto University/RIETI.

Introduction

Rising geopolitical tensions has led advanced industrialized nations to turn to protectionism – restriction on trade and investment based on economic security justification. Firms have shouldered the disproportionate costs of protectionist policies, yet their positions on economic security policies vary (Amiti et al. 2019; Handley et al. 2025). Some firms vocally oppose restrictions, while others support it. Firms also differ in their behavioral responses to geopolitical shocks. Alfaro and Chor (2025) documents that American firms are rewiring supply chains from China to friends and allies ("friend-shoring"), while others find that American firms do not discriminate geopolitical allies and foes in their investment decisions (Mulabdic and Gaurav 2024). Li and Naoi (2025) find that rising political tensions can even fuel merger and acquisitions. Do firms follow the flag, if so, under what conditions? The question allows us to revisit the well-established capitalist peace conjecture that economic interdependence contributes to peace by raising the costs of conflicts for businesses (Gartzke 2007; Mcdonald 2009; Carnegie and Gaikwad 2022).

The field of international relations has developed two disparate approaches to how geopolitical tensions shape policy preferences of firms: *firms as profit-seekers* and *firms as compliers*. Scholars of international political economy view firms' policy positions on economic national security, such as Trump's tariffs or CIFUS reviews, as a reflection of their economic standing in the global economy – in essence, open economy politics approach meets geopolitics (Lake 2009, Li 2025). This approach predicts that global firms are more likely to oppose geopolitical restriction, while domestic firms oppose restriction less, or, even support it. By contrast, the field of international security posits that governments can use sticks and carrots –i.e., coercive policy tools such as export control as well as financial incentives such as subsidies to promote diversification– to make firms comply with the state's directive (Krasner 1978; Naoi, Shi and Zhu 2022, Li, 2024).

The two approaches, however, fail to explain conditions under which firms follow the flag and how they weigh private interests and public interests. The two theories, moreover, reduce firm policy preference on a single policy dimension such as open economy vs. protectionism and non-compliance vs. compliance to the state directive. However, commonly debated economic policy options to address geopolitical tensions, such as diplomacy for negotiated settlement and subsidies to promote diversification cannot be reduced to a single policy dimension.

Our paper is one of the first to unify these disparate views on firms and geopolitics by considering economic national security policy, defined here as an economic policy to ensure stable supply of critical goods, as a hybrid of private goods for a firm and public goods for the nation. In particular, we test the determinants of firms' expressed policy preferences to solve different scenario of supply chain disruptions by considering three distinct characteristics of economic national security policy: economic national security as **public goods** akin to national defense, as **private goods** akin to private political risk insurance, and **team-produced public goods** where the government and private firms cooperate to jointly produce stable supply chain with the presence of free-riding incentives for firms. We test the effect of two external conditions that can change firms' assessment of economic national security as private vs. public vs. team-produced public goods: origin of threat to supply chain disruption and perceived level of policy uncertainty in the origin country.

We design a survey experiment embedded in an original, large-scale firm survey, "Survey on changes in world affairs and oversea business activities," conducted by the Research Institute of Economy, Trade, and Industry in Japan. The survey was fielded during Trump administration's tariff negotiations with Japan between April and June of 2025. The experiment intends to manipulate the origin of threat and the broadness of the harm that should change how firms see economic national security policy as private vs. public goods, which in turn shapes their policy preferences. The design varies scenarios of supply-chain disruption of critical goods on two dimensions: which country causes supply-chain disruption (U.S. vs. China, Ally vs. Non-ally where a control group is natural disaster-caused disruption) and narrow vs. broad domestic constituencies that are adversely affected by the disruption that map onto private vs. public goods nature of the disruption.

Our firm survey and experiment improve the quality and representativeness of sampling commonly used in existing firm-level studies in three respects. First, we used representative sampling of Japanese manufacturing firms from the survey company's list of manufacturing firms and reached out to 15,000 firms. With several waves of labor-intensive nudging postcards and phone calls made by our collaborating survey company, we obtained 1,855 responses (12.4% response rate, which is high for firm-level survey). Finally, the survey was non-anonymous which allows us to link our survey data to detailed firm-level co-variates including supply chain data.

We find that geopolitical causes are associated with lower support for de-risking and higher support for diplomatic solutions relative to the control condition (natural disaster). Contrary to the democratic peace conjecture, businesses support diplomacy regardless of the disruption originating from an ally or non-ally and from the U.S. or China. A small fraction of firms (6%) support protectionism, especially when the disruption originates in a non-ally country or China. Overall, our paper finds that Japanese firms are not flag followers and geopolitical threats do not make them willing-to-pay more for the de-risking subsidies.

Our paper makes several contributions. First, our paper is the first to theoretically unify the two disparate views of firms and geopolitics, one that focuses on individual firm's benefits and losses (private goods) and another that focuses on their compliance and contribution to national security interests (public goods). We consider economic national security as a hybrid goods and derive hypotheses about how firms weigh private and public interests depending on the origin and nature of threat and uncertainty of supply chains. Second, our paper is also one of the first consider firm's preference across a menu of substitutive policy solutions to geopolitics-induced supply chain disruptions of critical goods. This approach allows us to consider de-risking subsidies as one of the policy options that cannot be reduced to a single policy dimension such as protectionism vs. open economy. Third, the quality of firm-level data we have collected is a substantial improvement from the conventional firm-level survey and experiments using convenient sample of firm executives in online panels.

I. The Puzzle: Firms and Geopolitical Tensions

During the past decade, governments of the most mature capitalist democracies in the world led restriction on global economy to address rising geopolitical tensions. The U.S.-China trade war (2018), Russia's invasion of Ukraine (2022), Trump's tariff negotiations 2.0 (2025) and Japan-

China diplomatic crisis (2025), to name a few, have strained the relationship between firms and governments. Firms have shouldered disproportionate share of the cost of protectionism, yet firm responses to the government-led restriction vary across countries and industries. While the U.S. Chamber of Commerce and "We Pay the Tariffs" coalition of 700 small business owners have expressed opposition to Trump tariffs, the U.S. Global Leadership Coalitions, which feature large multinational corporations such as Google, Microsoft, and Chevron, have published a report titled "Economic Security is National Security: Use it or Lose it, America's Global Economic Advantage." Businesses are also divided in other advanced industrialized economies with more constrained executive branches such as Canada and Japan. The Business Council of Canada, which boosts 170 large Canadian multinational corporations as members, has published a report titled *Economic Security is National Security: The Case of Canadian Integrated Strategy* in 2023.[2] In Japan, 14.6% of manufacturing firms we surveyed during Trump's 2025 tariff negotiations report that tightening regulation ("*kisei kyoka*") to build stable and resilient supply chains of critical goods is "very good" or "good" thing for their firms, while 8.7 % say it is "very bad" or " bad."

What accounts for the variations in policy preferences of firms to address rising geopolitical tensions? Do geopolitical threats make firms protectionist and willing to share the cost of restricting globalization relative to other types of supply chain shocks? Who follows the flag?

Existing literature is ill-equipped to answer these questions because the field of international relations has developed two disparate approaches to firms' interests in economic national security policy: *firms as a profit-seeker* and *firms as a complier*. Scholars of international political economy view economic national security restriction as *private goods* and predict firms' policy positions as their costs and benefits analysis. For example, firms that are highly integrated into supply chain with Chinese firms are less willing to decouple (Osgood 2018; Li 2024; Zhang 2023). This approach considers the world where firms have a freedom to shop for suitable partner around the globe and governments exercise less coercive tools such as investment screening and export controls – in essence, open economy politics approach meets geopolitics (Lake 2009; Davis and Meunier 2006; Li and Naoi 2025).

By contrast, the field of international security views economic national security restriction as *public goods* akin to national defense and posits that governments can use sticks and carrots –i.e., coercive policy tools such as export control and sanctions and financial incentives such as de-risking subsidies – to make firms comply with the state's directive (Farrell and Newman 2019; Li 2024). This approach views firms' position-taking on government restriction as firm's decision to comply or not comply with the state directive or firms' willingness to contribute to stable and resilient supply chains (Figure 1).

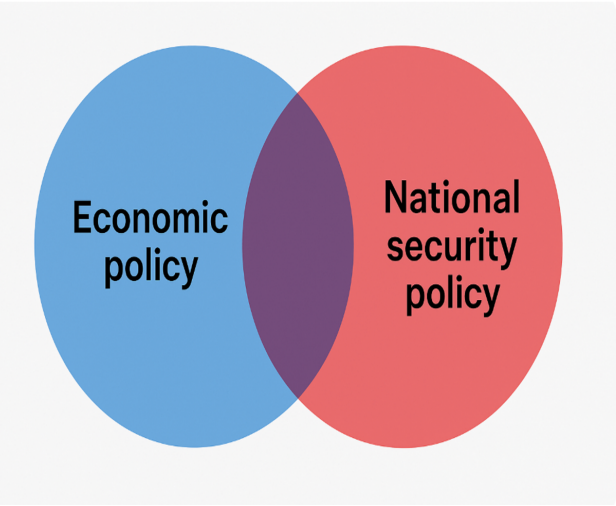
The two approaches do not allow us to probe conditions under which firms evaluate economic national security as private or public goods. Moreover, both approaches reduce firm policy preference on a single policy dimension such as open economy vs. protectionism and non-compliance vs. compliance to the state directive. In reality, however, commonly debated policy options to address supply chain disruptions, such as diplomacy for negotiated settlement and de-

[2] Business Council of Canada, 2023. *Economic Security is National Security: The Case of Canadian Integrated Strategy*, September 7, 2023. Available at https://www.thebusinesscouncil.ca/report/economic-security-is-national-security/.

risking subsidies, cannot be reduced to a single dimension. For example, de-risking subsidies is a policy to promote deglobalization or diversification of procurement partners, rather than raising barriers to entry via tariffs.

Our paper is the first develop a unified framework to study firms' position taking on economic national security policy by characterizing this policy domain as a hybrid of private and public goods where firms change the private vs. public goods evaluation of economic national security policy depending on the origin of threat and the level of policy uncertainty in the origin country.

Figure 1: Two approaches to firm preferences for economic national security policies in IR



- ***Economic Policy: Firm as a Profit-seeker***
  - Economic national security as **private goods** for firms.
  - Open economy politics meets geopolitics
- ***Security Policy: Firm as a Complier***
  - Economic national security as **public goods** for the nation
  - Firms either comply or do not comply with the state

II. Theory: Economic National Security as a Hybrid Goods

Our theory takes two parts. **The Part I** first investigates the determinants of policy preferences among the three policy options to address supply-chain disruptions: *Diplomacy, Protectionism,* and *De-risking Subsidies.* **The Part II** then focuses on one of the three policy options, de-risking subsidies and investigates the determinants of firm's willingness to contribute to financing the de-risking subsidies.

The Part I tests the effect of threat perception on policy choices to see whether firms prefer to do business with friendly countries or countries with alliance relationship with their government. We test two well-established theories of firm preferences in geopolitics: *the democratic peace conjecture* which predicts that firms prefer to do business with friendly (or alliance status) countries over unfriendly (or non-alliance status) countries and *the capitalist peace conjecture* that predicts that firms prefer peace and stability with countries they do business with regardless of a given country's alliance status or regime type (i.e., democracy vs. autocracy). We predict that firm respondents are more likely to choose **diplomacy** when the origin of supply-chain disruption is the United States or country with the alliance status compared to when the source of this disruption is "China" or "Non-ally" state.

We further predict that firm respondents are more likely to choose **protectionism** for the supply-

chain disruption originates in "China" or in a "non-ally" country compared to when a treatment describes regulatory change in "U.S." or in "ally" country.

We further test the mechanism of this democratic peace conjecture by directing measuring how firms perceive the United States and China as partners or threats. We predict that firm respondents are more likely to choose **diplomacy** when respondents perceive the country in question to be "partner" rather than "threat."

The Part II of our theory develops three distinct political economy characteristics of "economic national security" as goods: economic national security as **public goods** akin to national defense, economic national security as **private goods** akin to political risk insurance. As the third hypothesis, we consider economic national security policy is a team-produced public goods which co-produced by the government and firms with the presence of free-riding incentives (Alchian and Demsetz 1972, see Alesina et al. 1999; Habyarimana et al. 2007 which tests the effect of ethnic diversity on team-produced public goods). Each approach provides divergent predictions regarding the determinants of policy choices and firm's willingness-to-pay for de-risking to address geopolitical threats. We label these hypotheses, *Contribution hypothesis, Private Insurance hypothesis,* and *the Team Production hypothesis*.

a. Contribution Hypothesis–Economic National Security as Public Goods

This argument views economic national security as public goods and firm-level WTP as firm-level willingness to contribute to public goods akin to national defense. This argument considers the perceived level of national security threat and broadness vs. narrowness of victims to be the two primary determinants of firms' WTP.

H1: The contribution hypothesis predicts that the higher level of perceived security threat, the higher firm-level WTP will be. This means that WTP will be higher when the treatment describes **China** compared to when it describes **the U.S.** as a source of threat and WTP is similarly higher when the treatment describes **non-ally** compared to when it describes **ally**.

We further verify this conjecture by using the subjective view of the respondents that they consider the U.S. and China to be "a threat or a partner." The contribution hypothesis predicts that respondents are likely to report the higher WTP when they view the country origin of disruption to be a "threat" rather than a "partner."

H2: The contribution hypothesis also predicts that firms' WTP for the public goods is higher when the supply-chain disruption affects broader segment of society than a narrower segment of society. This means that WTP will be higher when the treatment describes the disruption to affect "citizens lives" > "Japanese manufacturing industries" > Japanese semi-conductor industry > your firm.

Note that contrary to the findings from the canonical study by Kahneman et al. (1993), we expect the control condition (supply-chain disruption induced by the natural disaster) to have the highest level of WTP than country-caused disruption due to the unique history/culture of Japan where frequent natural disasters (especially earth quakes and Tsunami) have mobilized unified and strong support for reconstruction and recovery from businesses and voters. We verified this conjecture in

the first wave of survey and experiment we conducted with the Nikkei Research. This means that coefficient estimates of each of the four country-of-origin Treatment (x=1, 2, 3 or 4) assigned to an individual firm will be negative – firms express the higher WTP for the disruption caused by the nature than those caused by the governments.

b. Insurance Hypothesis–Economic National Security as Private Goods

This argument views economic national security as private goods akin to purchasing political risk insurance. This argument considers the perceived level of policy uncertainty of a foreign country and whether the supply-chain disruption affects a respondent's firm ("your firm") or one's industry (i.e., private goods) as the two primary determinants of firms' WTP.

H3: The insurance hypothesis predicts that the higher level of perceived policy uncertainty in a foreign country, the higher firm-level WTP for economic national security will be. This means that WTP will be higher when the treatment describes **non-ally** compared to when it describes **ally**, although whether policy uncertainty is higher in non-ally state than ally-state depends on specific case and time.

More specifically, whether Japanese firms perceive the U.S. or China to have the higher policy uncertainty is ambiguous during the duration of our survey (April to June of 2025) when the Trump administration's tariff wars and the reversal of policies headlined the news.

Accordingly, we directly measure firms' perception of policy uncertainty in the U.S., China, Japan and Europe before treatments. We use respondents' level of perceived policy uncertainty in each country to conduct the analysis of heterogeneous treatment effects where we predict U.S. (China) treatment mobilizes the higher WTP than China (U.S.) among the respondents who rate the policy uncertainty in U.S. (China) to be higher than China (U.S.). Indeed, the results of our survey suggests that, on average, respondent firms rated policy uncertainty in the United States to be at 7.09/10, which is higher than China at 6.90/10. 23% of respondents rated the U.S. policy uncertainty at "10: very uncertain," while 18% rated China at "10: very uncertain." Japanese government has received the lowest score at 5.19.

H4: We predict that firms' WTP for private goods is higher when the supply-chain disruption imposes adverse shock on "your company" or "your industry." This means that WTP will be higher when the treatment describes the disruption to affect "your firm" > "Japanese manufacturing industries" > "citizens lives." Firms that use semi-conductor inputs will also likely to report the higher WTP on the order of "your firm" > "Japanese semi-conductor industry" > "Japanese manufacturing industries" > "citizens lives."

c. The Team Production Hypothesis– Economic National Security as Team Produced Public Goods

This argument views economic national security as team produced public goods co-produced by the government and firms. Both actors seek to team-produce a certain amount of goods that benefit both parties (i.e., stable supply of critical goods), but profit-seeking firms have a clear incentive to contribute minimally and efficiently especially when the government is willing to shoulder the

costs. When firms expect that the government is willing to shoulder the costs, they are more likely to report the lower WTP and free ride. By contrast, when firms expect that the government is not willing to shoulder the costs of de-risking, they are more likely to report the higher WTP. This team production hypothesis provides the opposite prediction to a typical "team production" argument, which predicts ideological alignment and coherence of a team to reduce free-rider problems. In the context of team production between a government and profit-seeking firms, we predict that the alignment of preferences or incentives between a government and firms is associated with the lower WTP by firms (stronger incentive to free-ride), while misalignment is associated with the higher WTP by firms.

H5: The team production hypothesis predicts that WTP will be lower when the treatment describes **"China"** compared to when it describes the **"U.S."** and when it describes **non-ally** compared to when it describes **ally.** This is due to the fact that the Liberal Democratic Party-led administration in Japan has been on average pro-U.S. and anti-China. Accordingly, we expect Japanese firms to demand the government to shoulder more costs for policies to decouple with/diversify from China (or non-ally country) compared to policies to decouple with/diversify from the United States (or ally country).

H6: The team production hypothesis also predicts that firms' WTP will be lower when the treatment describes the damage of supply-chain disruption to affect a broader segment of society because firms expect the government to shoulder the costs of strengthening the supply chain for a broader segment of society than narrow segment of society. In other words, firms are more likely to free ride to the government when the interests of a broader segment of society are at stake. The team production hypothesis predicts WTP to be higher in the order of "private goods" – i.e. the prediction is identical to H4 (the insurance hypothesis).

III. Research Design

To test these hypotheses, we conducted a large-scale firm-level survey between April 4 to June 17 in 2025 which serendipitously coincided with Japan's negotiations of tariffs with second Trump administration (see Table 1). The survey was funded and supported by the Research Institute of Economy, Trade, and Industry and reached out to 15,000 Japanese manufacturing firms with capital revenue over 30 million yen and employees over 50 people sampled from the Census. 1,855 firms responded, achieving 12.4% response rate. The University of California, San Diego's Institutional Review Board approved the survey and experiment (#811313). We pre-registered our theory and hypotheses at the American Economic Association's pre-registry.[3]

Our argument is that depending on what and who causes supply chain disruption and who are harmed by it, firms see economic national security policy as public vs. private goods and take policy positions accordingly. Our experimental strategy is to manipulate firms' perception of threat and policy uncertainty by randomly assigning different country origin of supply-chain disruption and narrow vs. broadness of the victim adversely affected by the disruption. The experimental design embedded in the survey of Japanese manufacturing firms is 3 x 4 factorial design for randomly assigned two groups (Group A and B). The design considers two determinants of

[3] AEA RCT Registry https://www.socialscienceregistry.org/.

whether firms evaluate economic national policy as private goods or public goods: **origin country** that causes supply-chain disruption and **narrow vs. broad** domestic constituencies that are adversely affected by the disruption.

Table 1: The Timeline of Survey vs. Timeline of Tariff 2.0

Survey Timeline	Survey	Tariff timeline	Tariff Negotiations
April 4, 2025	Survey invites to 15,000 firms	April 9, 2025 April 16, 2025	Reciprocal tariffs on 60 countries #1 US-JP bilateral mtg
May 2, 2025	Nudging postcard sent (14,209 firms)	May 2, 2025	#2 US-JP bilateral mtg
May 8, 2025	Nudging phone calls (3,000 firms)		
May 20, 2025	Nudging postcard take 2 (5,000 firms)	May 22, 2025 May 29, 2025 June 5, 2025 June 9, 2025	#3 US-JP bilateral mtg #4 US-JP bilateral mtg #5 US-JP bilateral mtg #6 US-JP bilateral mtg
June 17, 2025	Survey closed		

Source: Tariff timeline is from newspaper reporting in *Asahi* and *Yomiuri Shimbun.*

We prefaced the experiment section with explicit disclosure to the respondents that we would ask them to read three different *hypothetical* scenarios of supply-chain disruption that varies in who caused it and who were harmed by it in Japan. We also explained that we do not expect respondents' answers on policy questions to be "official" company's position as assigned scenarios are hypothetical. Instead, we asked respondents to express their opinions given their experience with and knowledge of the company.[4] Note that our survey specifically asked someone who works at business strategy or procurement section to fill out the survey. Demographic characteristics as well as respondents' work experiences are documented in the footnote 5.[5]

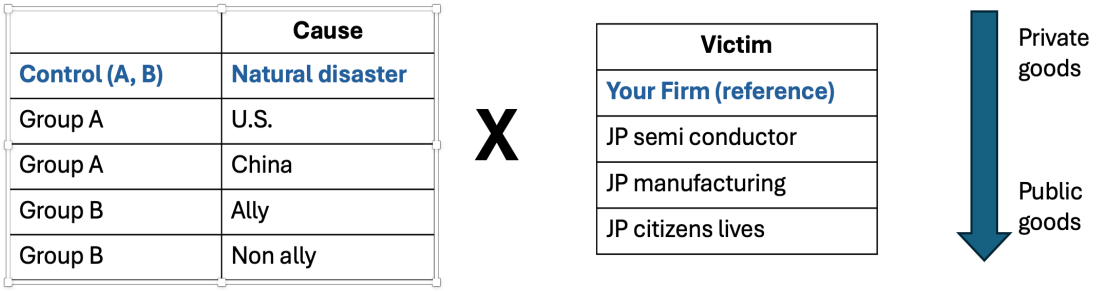
Each respondent (a representative from an individual firm) is assigned to read three different scenarios that randomly vary an origin country and narrow vs. broad dimensions as follows:

> "Due to [a cause], there is a disruption in supply-chain of critical goods for [a victim]."

[4] Our survey did not record individual respondents' name or detailed demographic background to protect their anonymity. We did ask gender and coarse decadal bands of years of work at the company and their experiences with studying, living, and working in the United States and China. We analyzed whether these individual characteristics of respondents can affect the treatment effects, but did not find any effects except for female employees preferring diplomacy than male counterparts.

[5] Our respondents are 7.5% women, 92.5% men, about one-third respondents each have worked for the firm longer than 25 years (36%), longer than 10 years and shorter than 25 years (32%), and less than 10 years (32%).

Figure 2: Experimental Design



For the origin country treatments, we randomly assigned 50% of total respondents to Group A where treatment refers to real country names, U.S. and China, as the origins of hypothetical disruptions. The other 50% was assigned to Group B, where treatments refer to "ally" and "non-ally" country as the origins of hypothetical disruption. We assign information about specific countries in one group (A) and more general alliance status of countries in the other group (B) with no cross-over assignment of the two types of treatments. This allows us to estimate whether respondent firms respond differently to specific and realistic scenarios (Group A) and to abstract but theoretically more generalizable scenarios (Group B), building on an important methodological debate in survey research in the field of international relations (Tomz and Weeks 2013; Brutger et al. 2023). In both groups, natural disaster-induced supply chain disruption serves as a control group.

The natural disaster-induced disruption is an ideal control group for three reasons. First, occurrence of natural disasters are exogenous to geopolitics and human decision-making more generally, while geopolitics are inherently human-made and the government-induced disruptions to businesses (see Baker et al. 2024, Di Tella and Rodrik 2020). This allows us to investigate what distinguishes geopolitics from other sources of disruptions and whether firms discriminate these different political risks.

Second, globally, firms consistently cite natural disasters as a top three causes of supply-chain disruptions. The World Economic Forum's firm survey on supply chain risks conducted in 2011 shows that 60% of firms ranked natural disaster as the number one source of supply chain risks, and 30% of firms cite climate change as the source (World Economic Forum, 2012, METI 2021, p.91). A survey by Gartner in 2020 continues to suggest that firms cite natural disaster and pandemic as the key sources of supply chain risks (METI 2021, Figure II-1-2-3, p.91). Japanese firms are not the exception. In the past, Japanese firms have experienced the natural disaster-origin supply chain disruptions, such as the East Kanto earthquake (2011), flood in Thailand (2011), and the Covid-19 pandemic and lockdown (2020) to name a few.[6]

Finally, Japanese government has used three policy responses to the natural disaster-caused supply chain disruptions in the past, making these options realistic for firm respondents assigned to both

[6] Japanese firms' experiences with the natural disaster-origin supply chain disruptions are in part due to their heavy investment in Asia, where the annual frequency of natural disasters doubles the incidence in United States and Latin America and quadruples those in Europe (METI 2021, Figure II-1-2-4, p 92).

the control and treatment conditions. For example, the Japanese government engaged in diplomacy and foreign aid in response to the flood in Thailand in 2011 and invoked the protectionist measure (Act on Emergency Measures for Stabilizing Living Conditions of the Public) to secure the supply of critical goods during the Covid-19 pandemic. Subsidies to promote diversification and domestic production of important goods under the Economic National Security Promotion Law specifically mention natural disaster and geopolitics as key risks of supply chain disruptions that the Law is designed to address.[7] We further conducted difference-in-means tests between treated and control groups to see whether the natural disaster condition is disproportionately associated with firms choosing de-risking subsidies or diplomacy as a policy solution. The results discussed in footnote 8 rules out this possibility and justifies our decision to use the natural disaster-origin supply chain disruption as a control group. [8]

The key innovation behind this design is that it allows us to probe what distinguishes geopolitics-induced disruption from nature-caused disruption in the minds of businesses. The design also allows us to tease out the heterogeneity in how Japanese firms perceive the U.S. vs. China as threats or partners.

> ***Group A:*** 33% each of the Group A respondents are randomly assigned to treatments that describe **U.S.** vs. **China** vs. **natural disaster** (control group) as a source of supply-chain disruption.
>
> ***Group B:*** 33% each of the Group B respondents are randomly assigned to treatments that describe **ally** country vs. **non-ally** country vs. **natural disaster** (control group) as a source of supply-chain disruption.

For the second dimension in the factorial design, we manipulate whether the disruption affects **narrow** vs. **broad** constituencies domestically to test our argument about private vs. public goods view of economic national security policy. 25% of our sample are randomly assigned to each of the four "victim" descriptions: **your firm**, **Japanese semi-conductor industry**, **Japanese manufacturing industry**, or **citizens' lives**. **Your firm** (the narrowest/private goods) serves as a control condition. We vary the description of victims along narrow vs. broad constituencies so that respondents would consider WTP for economic national security to be private (only "your firm" being affected) vs. public goods ("citizens' lives").
Respondents are then asked to answer following outcome questions.

We measure firm policy preferences in two ways. One is their preferred policy options to address supply-chain disruptions among ***diplomacy***, ***protectionism***, and ***de-risking*** subsidies. The second is the willingness to pay (WTP) for the de-risking subsidies and special tax on economic national

[7] See the Cabinet Office, "Overview of the Implementation of Ensuring the Stable Provision of Specified Critical Infrastructure Services under the Economic Security Promotion Act" (the authors translated into English), URL: www.cao.go.jp/keizai_anzen_hosho/suishinhou/infra/doc/infra_kaisetsu.pdf (last accessed; January 24, 2026).
[8] The difference-in-means tests reveal that the U.S. and China treatments and the control group do not show statistically significant differences in choosing each of the three options, while ally treatment is associated with the 6 point higher likelihood of firms choosing "diplomacy" compared to the control group. The non-ally treatment, however, does not differ systematically in their policy choices from the control group. These results rule out the possibility that the natural disaster is not an appropriate control group because "protectionism" is not a realistic policy solution to disaster-origin disruption.

security. The former is measured as how firms want to share costs of de-risking with the government, and the latter is measured as a straightforward special tax rates firms find it acceptable ("*kyoyou dekiru*" in Japanese).

Outcome #1 Policy Choices: "Which of the following policy options do you wish that Japanese government uses to address this supply chain disruption?"

1. Build a better cooperative relationship through **diplomacy** and aid
2. Tighten our regulation on trade/investment via **protectionism**
3. Promote diversification of procurement and domestic production via subsidies

Outcome #2 Cost-sharing WTP: If Japanese government decides to address this supply-chain disruption with subsidies and loans to promote the diversification of procurement and national production, what would be the appropriate division of costs between the government and private sector?"

Respondents choose from the 5-point Likert scale with varying degrees of cost-sharing arrangements:

1. Private firms should shoulder 100%
2. Private firms should shoulder 2/3
3. Private firms and government should shoulder 50%-50%
4. Government should shoulder 2/3
5. Government should shoulder 100%

Outcome 3 WTP Tax Rate: "If Japanese government address this supply-chain disruption with economic national security tax which will be added to corporate tax to finance subsidies and loans to promote the diversification of procurement and domestic production, what tax rate would be acceptable to you?

Respondents choose from 0% (Not acceptable) to more than 10%" in one percentage point increment.

IV: The Results

First, we summarize the descriptive statistics on policy choices and willingness to pay. **Figure 3** summarizes the proportion of firms that chose diplomacy (47.5%), protectionism (6%), and de-risking subsidies (46.5%), respectively. Given that our sample is medium or large-scale manufacturing firms (i.e., smaller enterprises were screened out), the high support for de-risking subsidies at 46.5% is surprising.

Figure 3: The Distribution of Preferences Across Three Policy Choices

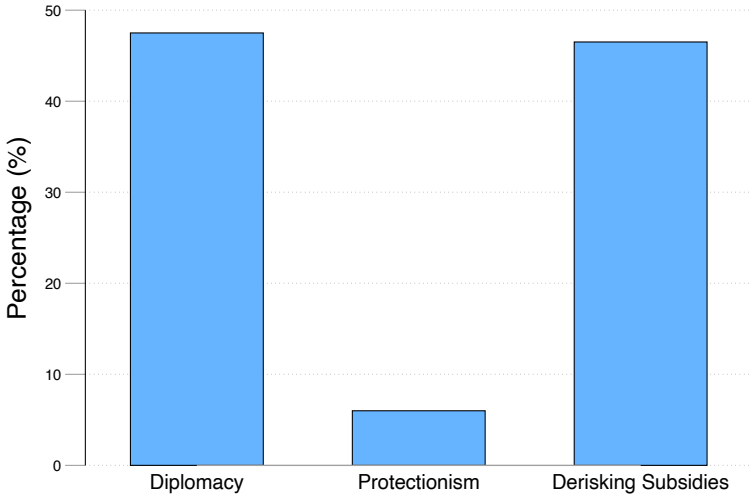
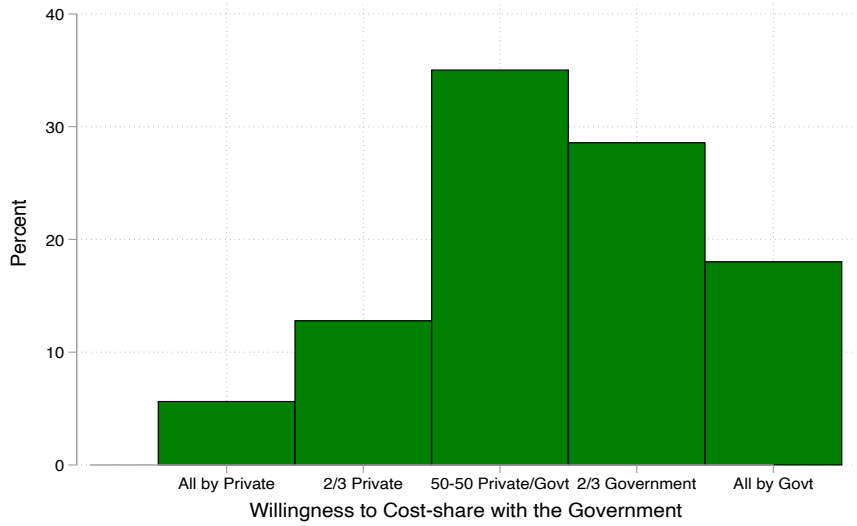


Figure 4 summarizes firms stated willingness to contribute to de-risking subsidies. The left figure summarizes what proportion of costs firms are willing to contribute to the cost-sharing with the government, and the right figure summarizes economic security tax rate, ranging from 0 to more than 10%, that firms are willing to accept to finance de-risking subsidies depending on randomly assigned scenarios of supply-chain disruptions in the 3x4 factorial experiment.

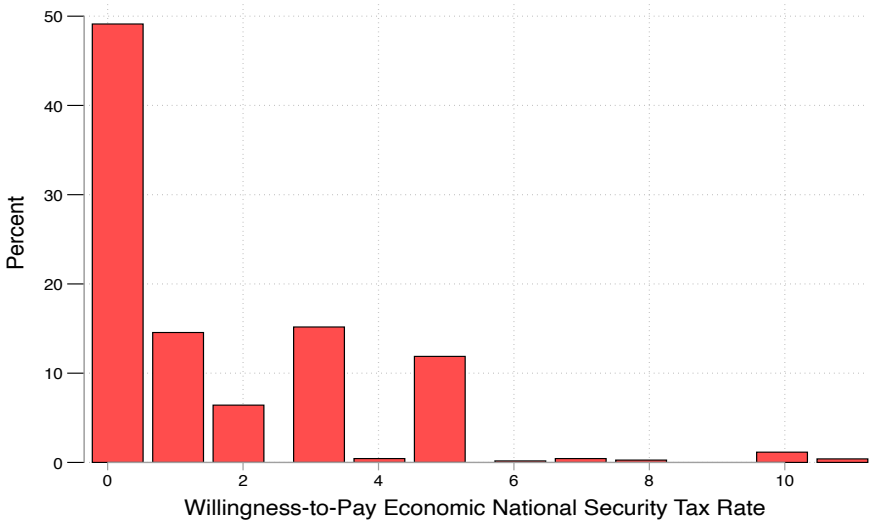
Figure 4: The Distribution of Preferences re: Willingness-to-Pay

a. Willingness to Cost-share with the Government



← Private firms pay more **Govt pays more →**

b. Willingness to Pay Economic National Security Tax Rate



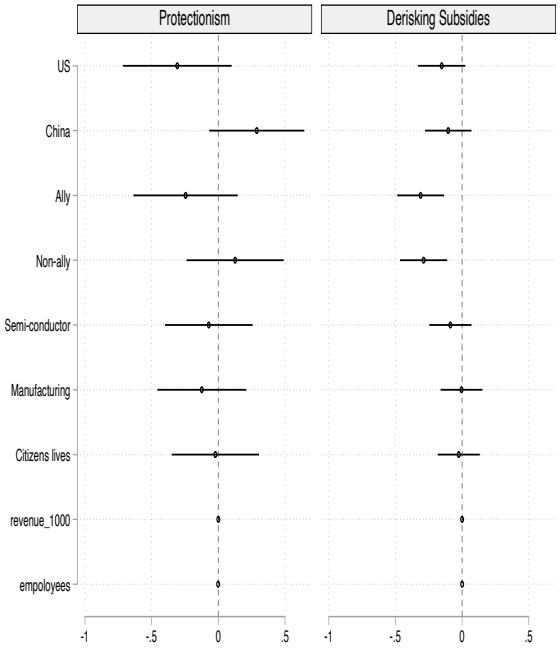
We find the substantial difference in firms expressed willingness-to-pay between the two outcome questions. The cost-sharing question prompted around 35% of respondents to be willing to split the cost of de-risking with the government at 50-50, while nearly 50% of respondents are not willing to accept any positive value of special tax on economic national security. A possible explanation for this divergence is that firms' participation in de-risking subsidy program is voluntary, and firms do so only when the benefits outweigh the costs, while economic policy tax is non-voluntary contribution regardless of whether firms benefit or lose. The stark difference between firm's willingness to pay between the two outcome questions reconfirms why de-risking subsidies is one of the popular policy choices as firms are asked to contribute only when it aligns with their interests.

Policy Choices: Diplomacy, Protectionism, and Subsidies for Diversification

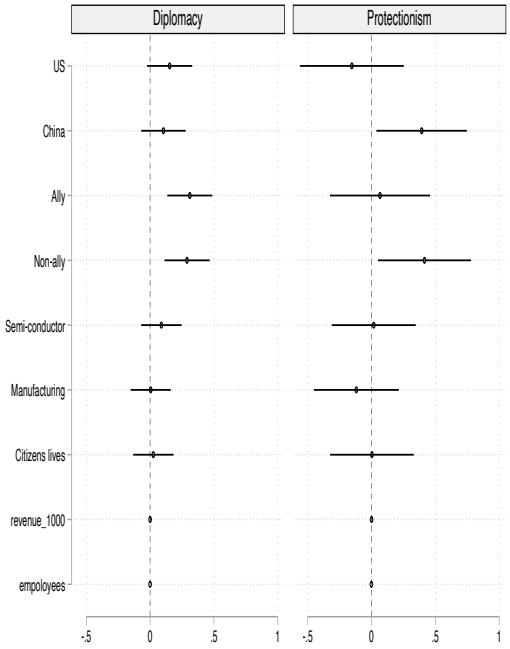
Next, we present two coefficient plots for multinomial logit estimation with different reference group being excluded.

Figure 5: The Determinants of Diplomacy, Protectionism, and De-risking Subsidies (mlogit)

a. Diplomacy as a Reference Group



b. Subsidies as a Reference Group



Note: Figures present marginal effects. **Left figure:** ***Diplomacy*** is excluded as a reference group**.** **Right Figure:** ***De-risking subsidies*** is excluded as a reference group. Natural disaster (threat) and "effects on your firm's important input for main product" serves as a control group.

The results of multinomial logit estimation suggests that threats originating from "ally" and "non-ally" increases support for diplomacy, relative to the threat originating from the natural disaster. The finding challenges emerging wisdom that geopolitical tensions increase support for friend-shoring, in particular, among the public (Carnegie and Gaikwad 2022). By contrast, geopolitical risks increase demand for diplomacy among businesses, which supports the commercial peace conjecture that profit-seeking firms lobby against escalating international disputes (Gartzke 2007; McDonald 2009; Zhang 2023). Moreover, we identify no statistically meaningful differences between threat originating from the ally versus non ally. This finding rejects an emerging observation that firms follow the flag through "friend-shoring"— firms discriminate countries based on their alliance status with their government or regime type (democracy vs. autocracy).

We find, however, threats originating from China and non-ally status country increase support for protectionism when the reference group is de-risking subsidies.

Willingness to Pay: Is Economic National Security Private or Public Goods?

Next, we examine the determinants of firms' willingness to share the cost of de-risking with the

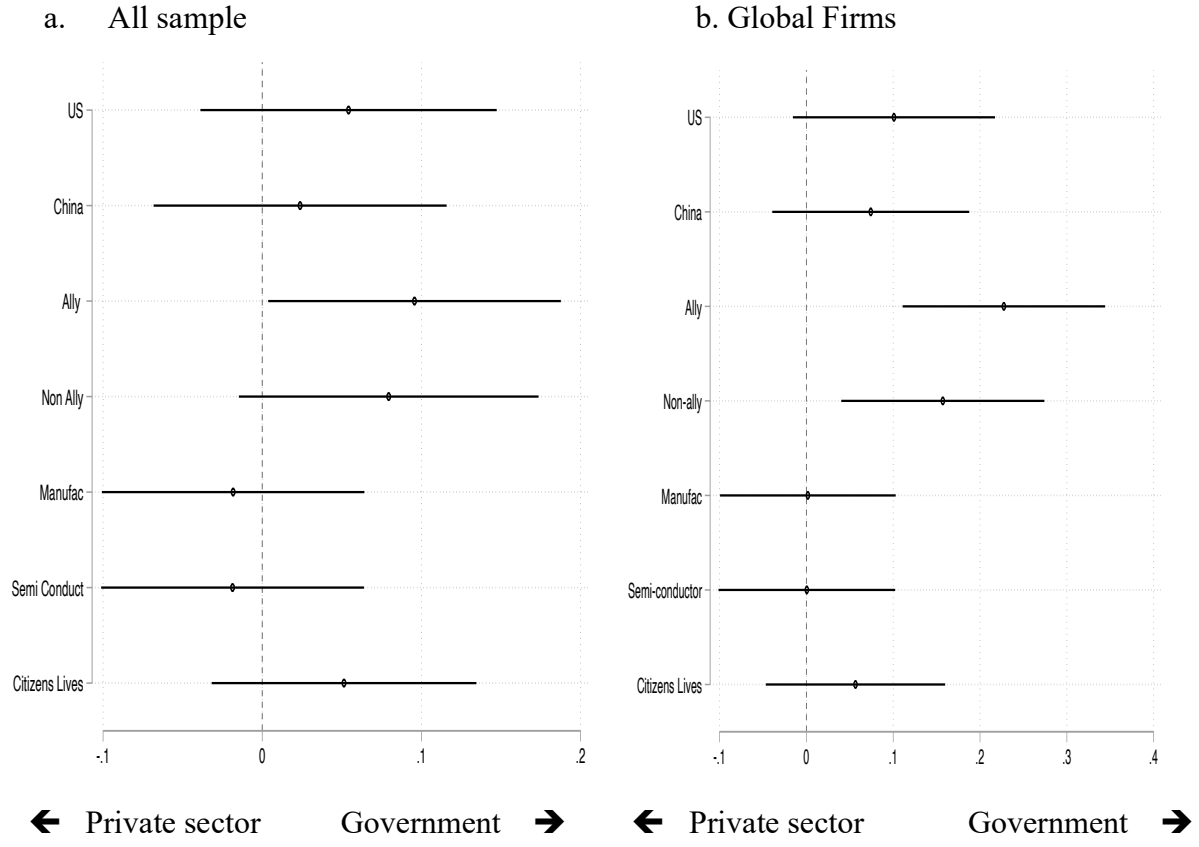
government. **Figure 6-a** summarizes the results. The results suggest that the four geopolitical causes of supply-chain disruptions all increase firm demand for the government to shoulder costs relative to the natural disaster-origin disruption. Yet only statistically significant effects is the ally-originated disruption increasing the demand for the government cost-sharing. This means that firms express *lower* willingness-to-pay for de-risking when the threat originating from the ally-status country. **Figure 6-b** further replicate this analysis with "global firms"– namely, firms that either procure inputs or service from abroad or export goods to foreign market. The results suggest that both ally and non-ally treatments increase the demand for the government to shoulder the costs of de-risking and hence lower the firms' willingness to pay for the cost. Rather than prompting firms to step up to contribute to the public goods, akin to national defense, geopolitics-induced disruption *lowers* willingness to contribute to de-risking policy, rejecting the Contribution Hypothesis.

We further verify the robustness of this finding by conducting a mechanism test. We leverage the fact that Japanese firms' threat perception toward the United States and China might vary due to firms' differential relationship with the two economies. For example, our survey measures respondents past experiences living, studying, and traveling for business in the United States and China. 27% of respondents have traveled to the U.S. for business, while 41% have done so to China. This means that country of origin cues such as the United States and China might have heterogeneous effects on the firm employee's perception of a threat. This concern is particularly warranted in the Japanese case where firms have long valued the separation of politics and economy and cultivated private-sector led relationship with China (Soeya 1999).

We thus directly test the mechanism by analyzing whether "threat" perception of a foreign country directly contributes to firms' willingness to contribute per the Contribution Hypothesis. We estimate the interaction effects between each of the treatment and a dummy variable indicating whether firms' reported perception of the U.S. as a threat rather than partner. 20.72% of firms reported that they perceive the U.S. as a threat rather than a partner, while 65.5% of firms perceived China as a threat rather than a partner. We estimate the coefficients of interaction effects between each of the treatment and a dummy variable indicating 1 for firms that reported that the U.S. is a threat, and 0 for firms that reported that the U.S. is a partner. The results summarized in the **Figure 7** below suggests that the U.S.-originated disruption increases firm's demand for the government to pay more among firms that report to view the U.S. as a threat (hence firms are willing to pay less). Although statistically significant at the 1% level, the total effects remain small at 0.060 point increase in the demand for the government over 5-point Likert scale.

Overall, these findings reject the Contribution Hypothesis which predicts that geopolitical causes, especially originating from the non-ally country, should mobilize the higher willingness to pay among firms and hence the lower demand for the government to shoulder the costs (negative coefficients of the "non-ally" treatment) by prompting firms to perceive economic national security as public goods, akin to national defense. By contrast, the ally-originated threat, which should be perceived less threatening than non-ally originated threat, prompts the higher demand for the government shouldering the costs of de-risking. Substantive size of this effect is quite large: 0.096 point increase over the 5-point Likert scale, equivalent to 9.6% of firm respondents choosing one Likert-scale higher toward the government shouldering more costs.

Figure 6: Willingness to Pay for De-risking Subsidies –The Cost-sharing with the Government

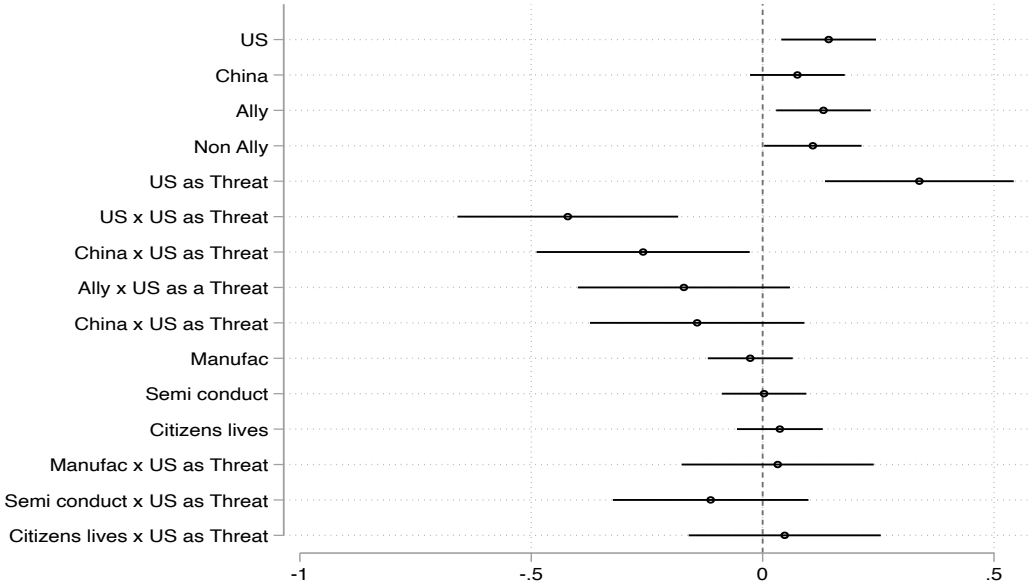


The finding also rejects the Team Production Hypothesis which predicts that firms are more likely to free ride when the government is incentivized to promote diversification. If the government is more willing to diversify from the non-ally country than with the ally-status country, then, firms should be more willing to pay for the diversification from the ally. This theory thus predicts the non-ally treatment to lower the firms' willingness to pay and increase their demand for the government to shoulder the cost (negative coefficients) relative to the ally-treatment. While the difference between the ally and non-ally treatments are statistically indistinguishable, the overall direction of the results suggests the opposite of this prediction: the ally treatment mobilizes the higher demand for the government to pay for the costs of de-risking than the non-ally treatment.

The finding instead suggests that firms might expect the government to manage the relationship with the ally-status country and hence might hold their government more accountable to the supply-chain disruption originating from the ally than non-ally. To lend further support to this accountability explanation, the ally treatment mobilizes the higher demand for the government cost-sharing among global firms who import or export (Figure 6-b). Substantively, Figure 6-b suggests that the ally-origin disruption moves 23% of firms toward more cost-sharing by the

government, such as one Likert-scale shift from the 50-50 cost sharing with the government to two-third shouldered by the government.

Figure 7: Heterogeneous Treatment Effects by US as a Threat Perception



Note: The results weakly support the contribution hypothesis, although substantive effect size is quite small at 0.060 point over 5-point Likert scale.

Finally, the public vs. private goods nature of the victim has no systematic effects on the firm's willingness to cost share with the government.

Conclusion

This paper presented some of the first evidence of policy preferences of firms and willingness to pay for the geopolitics-induced supply-chain disruption from a large-scale firm survey and experiment fielded in Japan during its negotiations over Trump tariff 2.0.

In concluding, we discuss three policy implications. First, even during the height of geopolitical tensions and rising restriction, firms prefer diplomatic solutions rather than protectionism to address supply-chain disruptions. This firm preference for diplomatic settlement is similarly strong for the supply chain disruption originating from the United States and China, highlighting the importance of continued engagement and negotiations with the two economies.

Second, de-risking subsidies is a popular policy instrument for firms because their participation into the program is voluntary and government subsidies function as a "matching grant" where firms can set how much they are willing to contribute based on their costs and benefits calculation. Indeed, geopolitics-induced supply chain disruptions increase firm demand for the government to shoulder the cost of de-risking especially when it originates in the ally-status country and among those that are integrated into global value chains. Contrary to a typical

subsidy program in Japan that target losing industries in the global economy (Beason and Weinstein 1996; Caballero, Hoshi and Kashyap 2008), de-risking subsidies thus serves as a rare policy tool for Japanese politicians to mobilize support from winners. As political discourse advocating for de-risking from China deepens, the Japanese government might shift its spending allocation from economic losers to winners. By contrast, protectionism and economic national security tax are unpopular choices because they uniformly and coercively tax firms.

Finally, Japanese firms support diplomatic solutions to national security policy and are not willing to pay for the costly restrictions. Our findings overall suggest that firms do not view economic national security as public goods akin to national defense or private insurance akin to private goods. Although the results remain inconsistent, the closest view of economic national security policy is team-produced public goods between collaboration between a government and firms.

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