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Geopolitics, Supply Chains, and Firms' Demand for Economic Security Policies
Evidence from Japanese manufacturing firms*

Megumi Naoi ¹ Banri Ito ² Naoto Jinji ³

Abstract

Rising geopolitical tensions have led governments to restrict trade and investment under economic security justifications. While these restrictions are costly for firms, opposition to protectionism is not universal among them. Why? We demonstrate a demand-side mechanism in which geopolitical tensions increase global firms' demand for government restrictions to coordinate and facilitate collective adjustment of supply chains. We predict that firms facing higher supply chain coordination costs are more likely to support restrictive economic security policies and test this prediction using an original survey of Japanese manufacturing firms merged with confidential microdata documenting supply chains. The results suggest that firms with deeper integration into global supply chains are more likely to support government restrictions, especially among firms with overseas contract manufacturing and a high number of affiliates in China. Global firms may demand government intervention due to the social costs of supply chain adjustments.

Keywords: firms, geopolitics, economic security, global supply chains, policy preferences, and Japan, U.S., and China

JEL classification: F13, F14, F51, and F52

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Introduction

Rising geopolitical tensions have led governments to restrict trade and investment based on economic security justifications and to subsidize firms' reallocation of supply chains. While these restrictions are costly for firms, their opposition to protectionism is not as widespread as conventionally thought. This absence of widespread opposition is puzzling; the established literature suggests that global firms connected through supply chains should oppose restrictions and lobby for openness (Kim 2017; Osgood 2018; Zhang 2023). What accounts for firm preferences for economic security restrictions and subsidies to promote diversification and domestic production?

The literature on economic security-based restrictions has been bifurcated. The majority of work in political science examines why governments deglobalize amid geopolitical tensions, with scant attention to firms' policy preferences and behavioral responses.¹ These studies assume a top-down, supply-side mechanism in which national interests drive government policy decisions, even though global firms (silently or vocally) oppose them. By contrast, economists have investigated firms' *economic* responses to geopolitical shocks to their supply chains, such as the 2018 US–China trade war and 2025 Trump 2.0. tariff shock. Handley, Kamal, and Monarch (2024) and Alfaro and Chor (2023, 2025) document that American firms are reallocating supply chains from China to friends and allies (“friend-shoring”). Zeng and Kim (2025) show that Chinese firms are also decoupling from the US. However, we cannot infer from these findings that geopolitical shocks make firms retreat from globalization because supply chain reallocation reflects firms' *capabilities* to adjust to shocks but not necessarily their *policy preferences* to address shocks (Naoui, Ito, and Jinji 2026b).

We address these problems in the literature by developing a demand-side argument: geopolitical shocks increase global firms' demand for strengthened government restrictions to coordinate and facilitate collective supply chain adjustment. We consider the social costs of global value chain adjustment in the presence of geopolitical shocks, where supply chain adjustments are collective goods that require coordination among firms and entail short-term costs for individual firms. The collective goods problem increases global firms' demand for government coordination and facilitation of adjustments. Our theory predicts that firms facing higher costs of supply chain coordination are more likely to support restrictive economic security policies for resilient supply chains.

We test this “show me the flag” prediction using an original large-scale survey of Japanese manufacturing firms, “Survey on changes in world affairs and oversea business activities,” fielded between April and June 2025, coinciding with Trump 2.0 tariff negotiations with Japan (RIETI 2025). The survey measures firms' policy preferences in two ways. One concerns firms' evaluations of government economic security restrictions intended to ensure a stable supply of important goods, balancing their own interests with national interests. In addition to these measures

¹ Exceptions are Li (2025), Li and Naoui (2026), and Naoui, Ito, and Jinji (2026). Li (2025) demonstrated through a survey experiment with Chinese firm managers that assigning information about the government's economic security justification for restrictive economic policy increases firm managers' support for protectionism and makes them think like “realists” rather than “economists.” Li and Naoui (2026) show that Chinese and Japanese firms responded to rising consumer animosity in the United States by increasing mergers and acquisitions with American firms to conceal their national identities during the height of geopolitical tensions.

of economic security policy preferences, our survey documents firms' past exposure to supply chain disruptions, past experiences and reasons for supply chain reallocation, contacts with government officials on economic security issues, and participation in existing supply chain diversification subsidy programs. We merge this survey data with confidential microdata documenting supply chains as of 2023, the "Basic Survey of Japanese Business Structure and Activities" (METI, 2024).

The results lend support to our argument: firms with deeper integration into global supply chains are more likely to support government restrictions, especially those with overseas contract manufacturing and a high number of upstream affiliates abroad. Furthermore, controlling for upstreamness, firms with greater global value chain (GVC) embeddedness with Chinese firms are more likely to support restrictions, suggesting that economic coordination costs alone do not explain firms' demand for economic security restrictions and diversification subsidies.

Our paper makes three contributions. First, theoretically, our paper develops a demand-side theory and mechanism where geopolitical shocks increase global firms' demand for economic security-based restrictions. The theory and prediction differ from the established wisdom that global firms (especially those heavily embedded in global supply chains) support an open economy and oppose restrictions (Kim, 2017; Osgood, 2018; Zhang, 2023; Li, 2025). Our demand-side theory and prediction also differ from conventional supply-side arguments that claim governments impose economic security restrictions to maximize their national interests.

The closest to our theory are Grossman et al. (2023) on the social cost of supply chain resilience, which highlights the role of government in addressing externalities of supply chain reallocation, and Mayer (1978), which formally demonstrates that tariffs and subsidies to address sudden trade disruption can be economically optimal. Our theory echoes this social cost approach to economic security restrictions, which posits that supply chain adjustments yield collective benefits, with externalities that firms do not fully internalize. Our theory differs from them in two key respects. First, we focus on coordination costs that vary across firms as a key contributor to externalities, while Grossman et al. (2023) formalize consumer surplus and business competition as two mechanisms of externalities. Our theory suggests that, in supply chain adjustments, individual firms fully internalize the costs in the short run, while collective benefits are borne later. Second, we demonstrate that this misalignment between individual costs and collective benefits leads firms to demand government intervention to facilitate collective adjustment of supply chains through restrictions and diversification subsidies.

Our empirical contribution is threefold. First, our data improve both internal and external validity by linking two high-quality, representative datasets with high response rates through an embedded experiment. We contacted 15,000 Japanese manufacturing firms and, through several waves of labor-intensive nudging, postcards, and phone calls from our collaborating survey company, obtained 1,855 responses (12.4% response rate). We asked employees in business strategy or procurement sections with expert knowledge of supply chains and international operations to complete the survey. Second, the survey was non-anonymous regarding firm names, allowing us to link our survey data to confidential microdata from the Ministry of Economy, Trade and Industry of Japan on firm-level covariates and supply chains. Finally, the survey embedded an experiment that varied the sources of supply chain disruptions and the

breadth of victims, from supply chain disruptions of important goods to broader effects, to disentangle our theoretical mechanism.

Finally, our research contributes to emerging studies on the political consequences of GVC. In the field of international political economy, firms embedded in global value chains are believed to form coalitions that lobby together for an open economy (Zhang 2023). Our paper demonstrates that deep integration through global value chains can be a double-edged sword during heightened geopolitical tensions. Geopolitical shocks might prompt global firms to demand a larger role for government in restricting globalization, not necessarily out of fear of political risks or economic competition, but rather due to the cost of reallocating supply chains. Restrictive economic security policies might prevail not despite, but because of, the globalization of production.

I. The Puzzle

What accounts for firm preferences for economic security restrictions and subsidies to promote diversification and domestic production? Over the past decade, governments of the world's most mature capitalist democracies have sought to restrict the global economy to address rising geopolitical tensions. The US–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 a disproportionate share of the cost of protectionism; however, their opposition to protectionism is not as ubiquitous as conventionally thought.

The US Chamber of Commerce and “We Pay the Tariffs” coalition of 700 small business owners have expressed opposition to Trump tariffs; however, the US 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 boasts 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 important goods is a “very good” or “good” thing for their firms, whereas 8.7 % say it is “very bad” or “bad.”

The absence of widespread opposition is puzzling; the established literature suggests that global firms connected through supply chains should oppose restrictions and lobby for openness (Kim 2017; Osgood 2018; Zhang 2023). Our paper aims to solve this puzzle.

II. Theory and Hypotheses: Coordination Costs of Supply Chain Adjustments

We consider a scenario in which geopolitical tensions impose additional costs on firms' production and sales by disrupting supply chains (e.g., tariffs, taxes, labor regulations, environmental regulations, and consumer boycotts). Firms face three possible choices: the status

quo, supply chain adjustments as an individual firm, and collective supply chain adjustments with other firms embedded in the same GVC. We assume that when an individual firm unilaterally and independently makes adjustment decisions, it fully bears the cost of supply chain adjustment, c . Examples of these individual costs c include: search costs associated with finding new procurement and distribution partners, contractual costs to enter into a new contract, and physical costs of moving facilities and countries. However, when some of the firms connected through GVCs make collective adjustment decisions, the total costs of supply chain adjustments are *higher* than the sum of individual costs c multiplied by the number of total firms connected through GVCs (collective costs of adjustment $g-c > c \times$ the number of actors involved) due to the externalities stemming from well-known coordination costs among firms, such as the search costs associated with finding new procurement partners, contractual costs to draw new contracts, and negotiation costs to allocate collective benefits.

By contrast, collective benefits of supply chain rewiring, $g-b$, are larger than the sum of individual benefits b ($g-b > b$) because collective adjustments partially preserve existing supply chains. Firms do not have to search for new supply chain partners from scratch. Geographically relocating together also generates agglomeration benefits (Nakajima 2015).

In sum, geopolitical shocks prompt firms to reevaluate and adjust their supply chains. The structure of cost-benefit calculation for firms connected through GVCs is such that individual firms incur a short-term cost c , with the potential for coordination problems, to generate collective benefits $g-b$ in the long run. These externalities of supply chain adjustments generate demand among GVC firms for economic security-based restrictions, which we call “show me the flag” demand.

The above discussion leads to the following hypothesis:

H1: The higher the cost of GVC coordination for a firm, the higher its demand for government restriction will be.

We predict that firms with greater engagement in GVCs and an upstream position in supply chains are associated with higher demand for government restrictions.

III. Research Design and Data

To test our hypothesis, we need firm-level data that directly measure firms’ demands or needs for government intervention (*policy preferences*) and the amount they are willing to pay for supply chain resilience. Moreover, these preference data must be linked with firm-level data that measures the costs of supply chain coordination and adjustments.

Accordingly, we link two firm-level data sets to test our hypotheses. The first data are from our original 2025 firm-level survey, “Survey on changes in world affairs and oversea business activities” (RIETI 2025) conducted between April 4 and June 17 in 2025 during Trump’s 2.0 tariff negotiations with Japan (on the detailed timeline of our survey relative to the timeline of negotiations, see Table 1 on page 9 in Naoi, Ito, and Jinji, 2026). We reached out to 15,000 Japanese manufacturing firms with capital revenue over 30 million JPY and employees over 50

people, sampled from the list owned and managed by the Tokyo Shoko Research Inc.; 1,855 firms responded, achieving a 12.4% response rate. The University of California, San Diego’s Institutional Review Board approved the survey (#811313). The survey asked how firms evaluate various restrictive policies based on economic security justifications, and established their past exposure and decisions to adjust supply chains.

The second are from Japan’s Ministry of Economy, Trade and Industry’s Basic Survey of Japanese Business Structure and Activities, which documents detailed supply chain and affiliate information for Japanese firms. This micro-level governmental data is representative and high-quality because it covers all existing firms with capital revenue over 30 million JPY and employing over 50 people annually in eleven designated sectors including manufacturing.² Japan’s Statistics Law mandates that all firms that meet these criteria participate in this non-anonymous survey, achieving an annual response rate of around 90%. We use data from the 2024 wave, which asked firms to report activities in 2023. We merge these microdata with our original survey to estimate the effect of the firm-level cost of supply chain adjustments on demand for government intervention.

Dependent Variable: Support for Restriction

Our dependent variable is a firm’s support for strengthening government regulation, measured on a five-point Likert scale.

“Please tell us how you evaluate the tightening of regulation on the following policies by the Japanese government: tightening regulation (*kisei kyoka*) to strengthen supply chain resilience for a stable supply of important goods (*juuyou busshi*).”

Each firm reports its evaluation on “your firm” and for “national interests” as follows.

| | |
|-----------------------|---|
| On your firm | 1. Very bad; 2. Bad; 3. Can’t say one or the other; 4. Good; 5. Very good |
| On national interests | 1. Very bad; 2. Bad; 3. Can’t say one or the other; 4. Good; 5. Very good |

We use two dependent variables constructed from the above questions. The first concerns whether this tightening of restrictions is good for a respondent’s firm (*good for the firm*), and the second concerns whether this restriction is good for the nation (*good for the nation*). The two questions allow us to measure how firms evaluate government intervention to strengthen supply chain resilience as a private good rather than a public good (Grossman et al. 2023).

Independent Variables: Coordination Costs and Exposure to Supply Chain Disruptions

We measure the coordination costs of GVC adjustments along four dimensions, building on the well-established literature on transaction costs of firms and supply chain adjustments. We determine whether they participate in GVCs (extensive margins) and their depth (intensive margins), the number of actors involved, concentration vs. diffusion of GVC across countries,

² See this document for the list of eleven sectors:
<https://www.meti.go.jp/statistics/tyo/kikatu/gaiyo.html#menu04>. (Last accessed, June 8, 2026)

and the firm's extent of transaction (trade, procurement, and affiliates) within and outside of the boundaries of firms (Coase 1937; Alfaro et al. 2019; Boehm et al. 2022).

Depth of GVC Involvement

We measure a firm's GVC involvement in three ways. The first is an extensive margin—using our original survey (*Export and/or Import*), we assign a dummy variable equal to 1 if a firm exports and/or imports, and 0 otherwise. For intensive margins of GVC involvement, we calculate the percentage of a firm's imports from various countries and regions documented in the 2024 Basic Survey of Japanese Business Structure and Activities conducted by METI. We construct percentage variables for North America, China, and other Asian economies excluding China (*% Import from N. America, % Export to N. America*, as well as the same variables for *China and Non-China Asia*). We also use the number of affiliates each firm has in the same sets of countries and regions: North America, China, and other Asian economies without China. We expect the coefficients for these variables measuring GVC involvement and depth to be positive and significant, with firms evaluate the restriction to contribute to national interests.

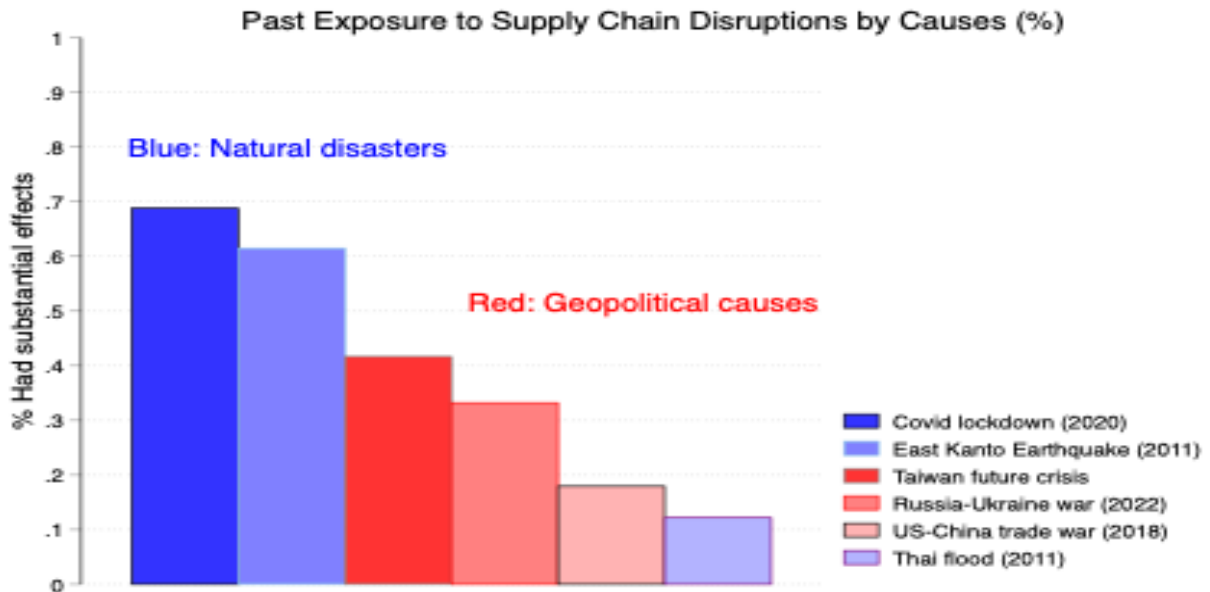
The GVC Upstreamness

We also use firm-level upstreamness of supply chain positions; Ito et al. (2026b, Appendix) constructed this variable, following Antràs et al. (2012), as a weighted sum of the upstreamness of the primary products a firm produces recorded in the Basic Survey of Japanese Business Structure and Activities (METI 2024). We predict that the cost of supply chain adjustment is higher for upstream firms (which produce and procure primary and intermediate goods) than for downstream firms (which produce and procure final consumer-facing goods).

Past Exposure to Supply Chain Disruptions

Finally, we expect firms to form expectations about supply chain disruptions based on their past exposure to various incidents. We ask firms to report incidents among the six major events that substantially influenced their supply chains, including the 2011 flood in Thailand, the 2011 East Japan Earthquake and Tsunami, the 2018 US–China trade war, the 2020 COVID-19 lockdown, the 2022 Russia–Ukraine war, and future incidents involving Taiwan (“*Taiwan yuji*”). **Figure 1** summarizes the proportion of firms that indicate that each incident has significantly affected their supply chains.

Figure 1: Supply Chain Disruption Incidents during the Past Three Years (% of firms affected)



Source: Survey on changes in world affairs and overseas business activities (RIETI 2025)

Firm Boundaries

We further test the effect of intra vs. interfirm transactions on firms’ demand for government restriction. Coase’s (1937) theory of the firm and “property rights” studies on supply chain adjustments, such as Alfaro and Chor (2013, 2019; 2025), Nann (2007), and Boehm, suggested that GVC adjustment costs are lower if procurement and trade are conducted within a firm than between firms. We test this conjecture in three ways. First, we assign a dummy variable of one if a firm contracts manufacturing process abroad and zero otherwise (*contract abroad*). Second, we calculate the proportion of intrafirm import and export for each firm per total export and import for the following countries and regions: North America, China, and non-China Asia (*% Intra Imp, Exp*).

We predict that firms that contract manufacturing to foreign companies will likely report higher support for government regulation. In comparison, firms that procure a higher proportion of their exports and imports within their own boundaries will likely report lower support for the restriction than those that procure mostly between firms.

Agglomeration

Finally, agglomeration of supply chains can lower the cost of collective adjustments (Nakajima 2015). Ideally, we want to include the geographic concentration of firms connected through global supply chains, but such data are not available globally. As a second-best option, we include three-digit industry-level geographic concentration data in Japan from Kikuchi (2026, Table A.2). We make a strong assumption that the manufacturing industry’s tendency to agglomerate at home should be correlated with its tendency to agglomerate abroad.

Estimated Model

We estimate the effect of coordination costs on firms' policy preferences using the following linear specification.

$$Y_i (\text{restriction is good}) = \beta_{0i} + \beta_{1i} (\text{coordination costs}) + \text{control variables} + \text{industry FE}_I + \epsilon_i,$$

where i indexes a firm respondent, and I indexes industry fixed effects at two-digit industry classification used in the Census of Manufacture (*Kougyo Toukei*).

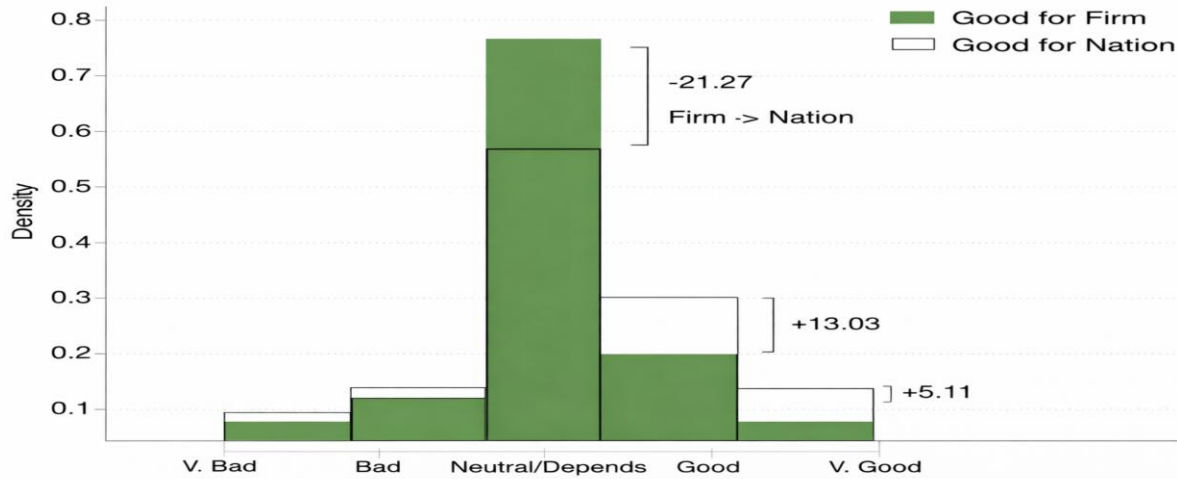
Addressing Potential Censoring Issues and Desirability Bias in Survey Data

Section 2 of the Results and the Appendix below further address three issues that might plague inference from our survey data. The first is a censoring issue where only global firms find the policy issue (stable supply of important goods) relevant. The second is desirability bias, where firms feel the need to conform to the nationalistic position, especially given that our survey was non-anonymous. The third is whether the views expressed in our survey reflect firms' positions or those of individual respondents.

IV. Results

Figure 2 presents the distribution of our dependent variables, namely, firms' evaluation on a five-point Likert scale regarding whether "tightening regulation to ensure stable supply of important goods" is good for the respondent's firm and for the nation. In contrast to the conventional wisdom that firms, especially global firms, oppose economic security-based restrictions, 14.63% of firms report that the restriction is good or very good for their firms, whereas 8.71% say it is bad or very bad for their firms. Moreover, 76.66% of the manufacturing firms we surveyed took a neutral position. Firms' support for the restriction is much higher at 32.77% when asked whether the restriction is good for national interests. Firms are 21.27 points less likely to take a neutral position ("can't say one or the other") on how the restriction affects national interests relative to its effects on their firms. They are also 18.14 points more likely to say that the restriction is good or very good for national interests relative to its influence on their firms.

Figure 2: Distribution of Responses on the Restriction is “Good for Firm” vs. “Good for Nation”



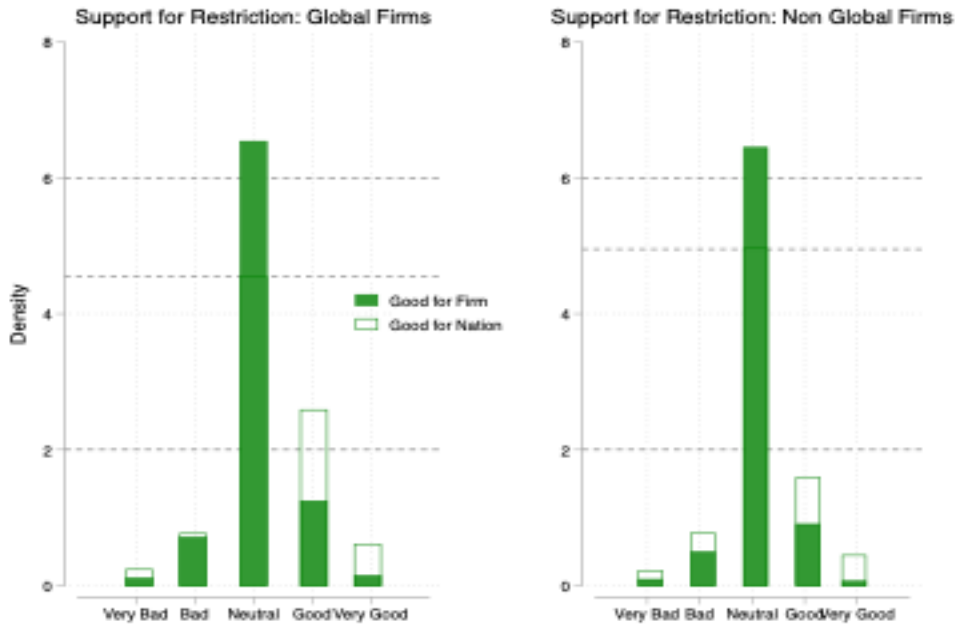
Source: Survey on changes in world affairs and overseas business activities (RIETI 2025)

Note: The figures above show the distribution of responses to the question, “Please tell us how you evaluate the tightening of regulation (*kisei kyoka*) to strengthen supply chain resilience for stable supply of important goods (*juuyou busshi*)” for a respondent’s firm (shown in green bars “good for firm”) and for national interests (shown in white bars) by global vs. domestic firms in our sample.

Figure 3 reports the distribution of responses by global against domestic firms. Global firms are firms that report exporting or importing their inputs or products. Of global firms, 15.9% report that strengthening supply chain resilience is “very good” or “good” for their firms, which is 3.8 points higher than for domestic firms (green bar). Moreover, 38.5% of global firms rate the restriction as having “very good” and “good” effects on national interests, which is 9.4 points higher than domestic firms (white bar).

Overall, the distribution of responses suggests that support for economic security restrictions exceeds opposition, and that global firms are more supportive than domestic firms. These descriptive patterns defy the conventional wisdom that global firms oppose economic security restrictions.

Figure 3: Distribution of Responses by Global vs. Domestic firms



Source: Survey on changes in world affairs and overseas business activities (RIETI 2025)

Note: The figures above show the distribution of responses to the question, “Please tell us how you evaluate the tightening of regulation (*kisei kyoka*) to strengthen supply chain resilience for stable supply of important goods (*juuyou bussshi*)” for a respondent’s firm (shown in green bars “good for firm”) and for national interests (shown in white bars) by global vs. domestic firms in our sample.

We next examine how the coordination costs of global value chains shape firms’ demand for economic security restrictions. **Table 1** presents the results of our linear regression estimation of the effect of GVC coordination costs on a firm’s evaluation of economic security-based restrictions.

Table 1: Restriction is Good for *Your Firm*

| Variables | Model 1 | Model 2 | Model 3 | Model 4 |
|-------------------------|-------------------|------------------|------------------|-------------------|
| Ln Sales | 0.0336** | 0.0300* | 0.0299* | 0.0281* |
| | (0.0157) | (0.0152) | (0.015) | (0.0156) |
| Export &/or Import | -0.00763 | -2.23E-06 | -0.000402 | -0.00876 |
| | (0.0344) | (0.0274) | (0.0279) | (0.0324) |
| Upstreamness | -0.00144 | 0.00759 | 0.00738 | -0.000653 |
| | (0.0358) | (0.0368) | (0.0366) | (0.0348) |
| Contract | | | | |
| Manufacturing | 0.0875 | 0.105* | 0.104* | 0.0902 |
| | (0.0574) | (0.0516) | (0.0543) | (0.0578) |
| China Affiliates | 0.0205*** | 0.0204*** | 0.0204*** | 0.0214*** |
| | (0.00648) | (0.00449) | (0.00451) | (0.00661) |
| % Non-China Affi | -0.01 | -0.00518 | | |
| | (0.0549) | (0.0576) | | |
| % Exp to N. America | 4.61E-05 | -0.000597 | -0.00059 | |
| | (0.00329) | (0.00269) | (0.0027) | |
| % Export to China | 0.00152 | 0.00161 | 0.00162 | |
| | (0.00291) | (0.00296) | (0.00298) | |
| % Imp fr N. America | -0.00271 | -0.00281 | -0.00281 | |
| | (0.00282) | (0.0027) | (0.0027) | |
| % Imp from China | 3.45E-05 | -7.98E-06 | -6.93E-06 | |
| | (0.00103) | (0.000971) | (0.000973) | |
| % Intra US EXP | 0.000679 | 0.000745 | 0.000744 | 0.000852 |
| | (0.000829) | (0.000741) | (0.000739) | (0.000765) |
| % Intra-China EXP | -0.00218** | -0.00214* | -0.00214* | -0.00221** |
| | (0.000894) | (0.00104) | (0.00104) | (0.000877) |
| % Intra-China IMP | -1.71E-05 | -6.63E-05 | -7.04E-05 | 3.03E-05 |
| | (0.000885) | (0.000927) | (0.000916) | (0.000874) |
| % Intra-US IMP | 0.000974 | 0.000804 | 0.000806 | 0.000718 |
| | (0.0015) | (0.00131) | (0.00131) | (0.00146) |
| Geo Con at Home | 0.0742 | -0.0528 | -0.0549 | 0.0403 |
| | (0.537) | (0.426) | (0.432) | (0.537) |
| Constant | 2.555*** | 2.580*** | 2.583*** | 2.629*** |
| | (0.242) | (0.241) | (0.238) | (0.241) |
| Observations | 1,465 | 1,465 | 1,465 | 1,495 |
| R-squared | 0.045 | 0.024 | 0.024 | 0.042 |

Note: Robust standard errors are in parentheses. *** = $p < 0.01$, ** = $p < 0.05$, and * = $p < 0.1$.
Two-digit industry fixed effects are not shown.

The results suggest that the higher a firm's coordination costs for GVC adjustments, the stronger its support for tighter government restrictions to ensure a stable supply of important goods. In particular, firms with contract manufacturing and more affiliates in China are more likely to believe that the restriction will be good for their business, controlling for the upstreamness of the products they produce.

Furthermore, the boundaries of firms matter. Higher engagement in intrafirm trade with China reduces a firm's demand for government restrictions. The results are consistent with our argument that demand for government intervention increases when negative externalities are high. When firms can internalize the costs of supply chain rewiring, their demand for government intervention ("show me the flag" effect) is lower.

Next, we replicate our models with firms' evaluation of the effect of tighter restrictions on national interests. **Table 2** summarizes our results, which are consistent with our argument about the coordination costs among firms. Larger firms and those that engage in export and/or import are consistently more supportive of government restrictions to achieve resilient supply chains. The number of affiliates in China is also associated with the higher demand for government restrictions. It is not simply the number of affiliates abroad that is associated with protectionist responses among firms. Models 4–6 estimate the effects of the number of affiliates in North America and Asian economies other than China. The results are not statistically significant and indicate a lower demand for the restriction (i.e., negative coefficients). There are two possible interpretations of the results. One interpretation is that "China effects" persist even after controlling for economic characteristics of supply chain dependence—that firms either perceive the nature and intensity of supply chain disruptions originating from China, or the role of government in addressing the shocks, to differ from those originating from North America or other parts of Asia. The second interpretation is the incompleteness of economic controls; once these are controlled for, the China effect might disappear. For example, while we control for upstreamness of firms' key products in our survey, we do not have a measurement for the upstreamness of firms' affiliates and whether they differ qualitatively in China versus the US. It is possible that affiliates in North America are generally more downstream than those in China, and that the upstreamness of affiliates in China is associated with higher perceived costs of supply chain adjustment.

Consistent with our finding in Table 1 on firms' evaluations of the restrictive policy on "your firm," the boundaries of firms matter. In particular, the higher engagement with intrafirm export to China is associated with lower demand for government restrictions, and the results are consistent and robust across the six models. Finally, we replicate the analysis with an alternative dependent variable, residuals ϵ_i estimated from ordinary least squares (OLS), where Y_i (evaluation for national interests) = $\beta_0 + \beta_1 i$ (your firm interests) + ϵ_i . The idea is to use this residuals ϵ_i as a measure of firm's evaluation of the effect of economic security restriction on national interests, controlling for the firm's own interdependence. The results are shown in the Appendix Table A.1. The results are consistent with the results from Tables 1 and 2: global firms and firms with a high number of affiliates in China are associated with higher support for restrictions controlling for their firms' own private interests. The results overall suggest that global firms that are embedded deeper into global supply chains are more likely to support government restriction for firms' own interests as well as for national interests.

Table 2: Restriction is Good for *National Interests*

| | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 |
|--------------------|------------------|------------------|------------------|-----------------|------------------|
| Ln Sales | 0.0401* | 0.0323 | 0.0323 | 0.0377* | 0.0380* |
| | (0.0209) | (0.0215) | (0.0215) | (0.0214) | (0.0209) |
| Exp &/or Imp | 0.143*** | 0.138*** | 0.138*** | 0.139*** | 0.137*** |
| | (0.0514) | (0.0381) | (0.0381) | (0.0506) | (0.0505) |
| Upstreamness | -0.0288 | 0.0114 | 0.0114 | -0.0275 | -0.0295 |
| | (0.0536) | (0.0522) | (0.0522) | (0.0538) | (0.0537) |
| Contract Manufac | 0.0688 | 0.095 | 0.095 | 0.0562 | 0.0583 |
| | (0.0854) | (0.0807) | (0.0807) | (0.0856) | (0.0855) |
| China Affil | 0.0225*** | 0.0249*** | 0.0249*** | | 0.0226*** |
| | (0.0071) | (0.00669) | (0.00669) | | (0.00709) |
| N. Ame Affil | -0.168 | | | -0.168 | -0.167 |
| | (0.0204) | | | (0.0297) | (0.0297) |
| Asia Affil | | | | 0.00161 | |
| | | | | (0.00987) | |
| % Non-CH Affil | -0.066 | -0.0567 | -0.0567 | | |
| | (0.0811) | (0.0754) | (0.0754) | | |
| % Exp N. Am | -0.00115 | -0.00146 | -0.00146 | -0.00303 | -0.00108 |
| | (0.00413) | (0.00328) | (0.00328) | (0.00423) | (0.00414) |
| % Exp to CH | 0.00469 | 0.00501 | 0.00501 | 0.00462 | 0.00478 |
| | (0.00393) | (0.00404) | (0.00404) | (0.00396) | (0.00393) |
| % Imp N. A. | -0.0004 | -0.00046 | -0.00046 | -0.00043 | -0.00033 |
| | (0.00507) | (0.00498) | (0.00498) | (0.00507) | (0.00505) |
| % Imp China | -0.00258* | -0.00219 | -0.00219 | -0.00253 | -0.00256* |
| | (0.00154) | (0.00155) | (0.00155) | (0.00155) | (0.00154) |
| % Intra US EXP | 0.000765 | 0.000817 | 0.000817 | 0.000643 | 0.000748 |
| | (0.00105) | (0.00061) | (0.00061) | (0.00105) | (0.00105) |
| % IntraCH EXP | -0.0031*** | -0.0032** | -0.0032** | -0.0031*** | 0.0032*** |
| | (0.00101) | (0.00117) | (0.00117) | (0.00101) | (0.00101) |
| % IntraCH IMP | 0.00121 | 0.0012 | 0.0012 | 0.00143 | 0.00117 |
| | (0.00108) | (0.00117) | (0.00117) | (0.00107) | (0.00108) |
| % Intra US IMP | 4.08E-05 | -0.000304 | -0.000304 | 0.000104 | 6.35E-05 |
| | (0.00164) | (0.00124) | (0.00124) | (0.00161) | (0.00163) |
| Geo Con | -0.872 | -0.668 | -0.668 | -0.896 | -0.874 |
| | (0.860) | (0.826) | (0.826) | (0.860) | (0.856) |
| Constant | 2.552*** | 2.667*** | 2.667*** | 2.590*** | 2.587*** |
| | (0.332) | (0.353) | (0.353) | (0.339) | (0.333) |
| Observations | 1,459 | 1,459 | 1,459 | 1,459 | 1,459 |
| R-squared | 0.052 | 0.024 | 0.024 | 0.051 | 0.051 |

Note: Robust standard errors are in parentheses. *** = $p < 0.01$, ** = $p < 0.05$, and * = $p < 0.1$. Two-digit industry fixed effects are not shown.

V. Conclusion

Contrary to the conventional supply-side explanation for the rise of economic security restrictions, our paper has developed and tested one of the first demand-side explanations for the prevalence of economic security restrictions. Geopolitical shocks increase global firms' demand for economic security restrictions due to the social costs of supply chain adjustment. Empirical evidence is consistent with our argument: large firms, global firms that export and/or import products, and firms with more affiliates in China are more likely to support government restrictions. Our results challenge the conventional wisdom that governments drive economic security-based restrictions while global firms oppose them. Instead, global firms might support government economic security-based restrictions to facilitate collective adjustment of supply chains in the face of geopolitical shocks. We have argued that GVC adjustment is a collective good, in which individual firms incur short-run losses while reaping long-run collective benefits. Our findings also suggest that when firms can address geopolitical shocks internally, within their own boundaries, they demand fewer government restrictions.

In conclusion, we discuss a few policy implications. First, supply chain adjustments require coordination and collective action among firms, which is costly. Firms cannot fully internalize these costs, and accordingly, the government can provide informational and financial support to facilitate this coordination. Second, a promising line of future research is to disentangle the "China effect," i.e., why firms with a high number of affiliates in China are more likely to engage in affiliate marketing.

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Appendix Table A.1: Restriction is *Better for National Interests* Relative to Its Effect on Firms

| | Model 1 | Model 2 | Model 3 | Model 4 |
|-------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Ln Sales | 0.0105 (0.0163) | 0.00504 (0.0182) | 0.00589 (0.0165) | 0.0380* (0.0209) |
| Export &/or Import | 0.146*** (0.0408) | 0.134*** (0.0275) | 0.145*** (0.0402) | 0.137*** (0.0505) |
| Upstreamness | -0.0261 (0.0437) | 0.00575 (0.0396) | -0.0249 (0.0437) | -0.0295 (0.0537) |
| Contract Manufacturing | -0.00321 (0.0709) | 0.00969 (0.0669) | -0.0125 (0.0709) | 0.0583 (0.0855) |
| China Affiliates | 0.00465 (0.00728) | 0.00719 (0.00775) | | 0.0226*** (0.00709) |
| % Non-China Affil | -0.0577 (0.0678) | -0.0529 (0.0482) | | |
| % Exp N. America | -0.00122 (0.00432) | -0.000966 (0.00428) | -0.00325 (0.00356) | -0.00108 (0.00414) |
| % Exp to China | 0.00337 (0.00286) | 0.00358 (0.0023) | 0.00324 (0.00285) | 0.00478 (0.00393) |
| % Imp from N. America | 0.00195 (0.00351) | 0.00201 (0.00339) | 0.0019 (0.0035) | -0.000329 (0.00505) |
| % Imp China | -0.0026** (0.00105) | -0.0022* (0.00116) | -0.0026** (0.00106) | -0.00256* (0.00154) |
| % Intra US EXP | 0.000172 (0.000901) | 0.000174 (0.000826) | 5.96E-05 (0.000906) | 0.000748 (0.00105) |
| % Intra-China EXP | -0.00128* (0.000728) | 0.00127** (0.000612) | -0.00122* (0.000727) | 0.00320*** (0.00101) |
| % Intra-China IMP | 0.00122 (0.000831) | 0.00124 (0.000933) | 0.00131 (0.000829) | 0.00117 (0.00108) |
| % Intra US IMP | -0.000797 (0.00158) | -0.00101 (0.0012) | -0.00075 (0.00155) | 6.35E-05 (0.00163) |
| Geo Con at Home | -0.939 (0.650) | -0.637 (0.614) | -0.959 (0.655) | -0.874 (0.856) |
| N. America Affiliates | | | 0.0337 (0.0262) | |
| Other Asia Affiliates | | | -0.00943 (0.012) | |
| Constant | -0.251 (0.264) | -0.145 (0.294) | -0.182 (0.266) | 2.587*** (0.333) |
| Observations | 1,458 | 1,458 | 1,458 | 1,459 |
| R-squared | 0.039 | 0.015 | 0.04 | 0.051 |

Note: Robust standard errors are in parentheses. *** = $p < 0.01$, ** = $p < 0.05$, and * = $p < 0.1$.

The dependent variable is residuals ϵ_i estimated from OLS, $Y_i(\text{nation}) = \beta_0 + \beta_{1i}(\text{your firm}) + \epsilon_i$. The results suggest that global firms that export and/or import are more likely to support economic security restrictions, controlling for their firms' economic interdependence. Firms with a high number of affiliates in China are also associated with higher support for restrictions, consistent with the results from Tables 1 and 2. Our results that firm-level covariates, in particular their positions on global supply chains, are associated with their evaluation of whether government restriction is good or bad for the national interests, suggest that firms may take policy positions based on the social costs of supply chain adjustments.