

# Partisan Supply Chains: The Impact of Political Ideology on Global Sourcing

Ben Charoenwong<sup>1</sup>; Jie Peng<sup>2</sup>; Jing Wu<sup>3</sup>

<sup>1</sup>INSEAD, <sup>2</sup>Tongji University, <sup>3</sup>Chinese University of Hong Kong

Keywords: Global Supply Chains, Sourcing, Political Ideology, Empirical Research

JEL Classification: D72, F14, F23, F50

## Abstract

In today's polarized global economy, firms face growing risks from ideological shifts abroad. This study examines how political ideology shapes global sourcing, finding that greater ideological distance between a U.S. firm and a foreign government reduces imports from that country. R&D-intensive firms are more sensitive to such divergence, while those with established supply chains show greater resilience. Ideological distance has a stronger effect in countries with strong institutions, where policies are more enforceable. Firms sourcing from ideologically distant countries also face higher ESG risks, such as corruption and environmental violations. Managers should proactively assess political alignment in sourcing decisions—especially in R&D-heavy sectors—to mitigate operational and reputational threats.

## Research Question

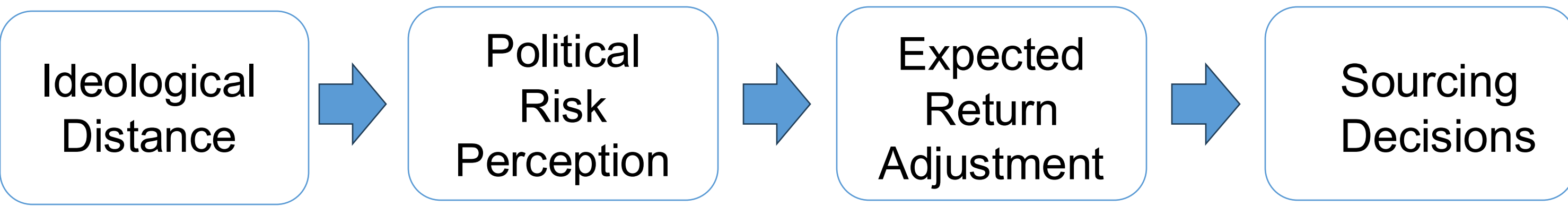
**How does political ideology affect global sourcing decisions?**

- Traditional view:** Firms respond to actual policy changes
- Our view:** Firms anticipate risks from ideological misalignment

**Key Questions:**

- Do firms reduce sourcing when ideological distance increases?
- Which firms are most sensitive to ideological shifts?
- What are the consequences of maintaining sourcing despite ideological distance?

**Impact of Ideological Distance on Sourcing Decisions**



## Empirical Specification

We adopt a three-step procedure to construct *Political Ideology*: (1) we identify the political affiliations of U.S. firms, (2) get the political leanings of the ruling parties in the countries from which these firms source goods, and finally (3) we calculate the ideological distance between the political affiliation of the firm and that of the foreign governing party, producing a measure of ideological distance.

First, we identify the political ideologies of different foreign countries, uses data from the Manifesto Project Database (MPD) that covers over 50 countries worldwide and includes the vote shares received by each political party.

$$Ideology_p = \frac{\ln((R_p + 0.5))}{L_p + 0.5}$$

where  $L_p$  and  $R_p$  denote the aggregate number of quasi-sentences in the manifesto of party  $p$  allocated to the left and right policy categories, respectively.

Finally, in the third step, assessing the ideological distance between a firm and foreign governments uses the following methodology to construct the shift in the ideological distance of a firm relative to a foreign country  $c$  surrounding an election event  $e$ :

$$\Delta Distance = |Ideology_{\{i,e,c\}}^{Firm} - Ideology_{\{e,c\}}^{Winner}| - |Ideology_{\{i,e,c\}}^{Firm} - Ideology_{\{e-1,c\}}^{Winner}|$$

where  $Ideology_{\{i,e,c\}}^{Firm}$  stands for the left-right ideology score of firm  $i$  at the end of the half-year before the election  $e$  in the foreign country  $c$ .  $Ideology_{\{e,c\}}^{Winner}$  represents the left-right ideology score of the party receiving the highest vote share in election  $e$ ,

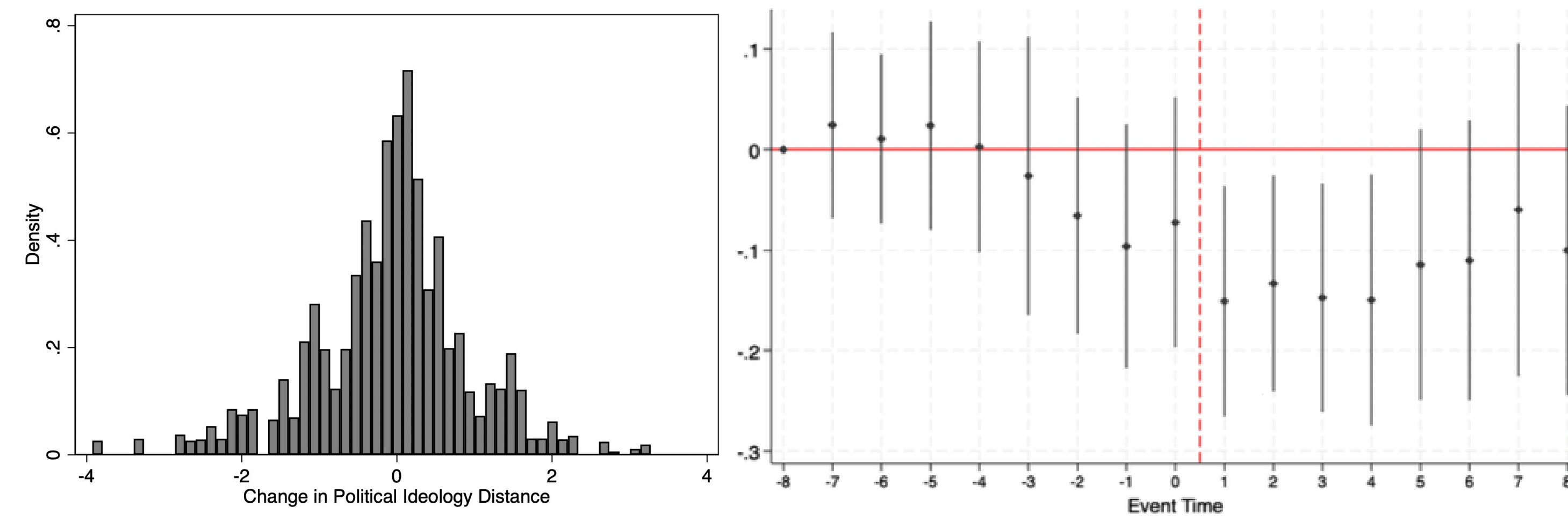
We test our hypotheses using the following regression specification:

$$Sourcing_{\{i,c,t\}} = \alpha_{\{e,c,t\}} + \alpha_{\{i,e,c\}} + \alpha_{\{i,t\}} + \beta Treated_{\{i,e,c\}} \times Post_{\{e,c,t\}} + \varepsilon_{\{i,e,c,t\}}$$

where  $i$  denotes a firm,  $e(c,t)$  denotes an election for country  $c$  in time  $t$ .  $Sourcing_{\{i,c,t\}}$  signifies the amount of merchandise brought to the U.S. by a firm  $i$  from a foreign country  $c$  over a period of time  $t$ .  $Sourcing_{\{i,c,t\}}$  is measured through three variables: Number of Deals, Volume, and Weight.

$Treated_{\{i,e,c\}}$  is a binary indicator variable that takes the value of one if a non-negative change is observed in  $\Delta Distance$  and otherwise assumes a value of zero.  $Post_{\{e,c,t\}}$  is another binary indicator variable assigned a value of one if time  $t$  belongs to the post-election period and zero if it lies within the pre-election span. We include election-by-time fixed effects  $\alpha_{\{e,c,t\}}$ , firm-by-election fixed effects  $\alpha_{\{i,e,c\}}$ , and firm-by-time fixed effects  $\alpha_{\{i,t\}}$ .

## Ideological Distance Reduces Global Sourcing



Panel A: Baseline Regression on Focal Country

VARIABLES	Deals (1)	Volume (2)	Weight (3)
<i>Treated × Post</i>	-0.098*** (0.032)	-0.116*** (0.043)	-0.077** (0.036)
Firm × Time FE	✓	✓	✓
Firm × Election FE	✓	✓	✓
Election × Time FE	✓	✓	✓
Observations	639,188	613,413	638,808

## Most Sensitive Characteristics

Table 6 The Moderating Effects on Deals

Variables	Panel A: Firm-Level Moderators		Panel B: Country-Level Moderators	
	(1) R&D	(2) SC Length	(3) <i>Rule of Law</i> <sub>T-1</sub>	(4) <i>Control of Corruption</i> <sub>T-1</sub>
<i>Treated × Post × Moderator</i>	-0.347** (0.163)	0.008** (0.003)	-0.157* (0.085)	-0.152* (0.081)
<i>Treated × Post</i>	-0.086*** (0.029)	-0.371*** (0.127)	0.043 (0.083)	0.031 (0.079)
<i>Post × Moderator</i>	0.154 (0.104)	-0.013** (0.006)	-0.357*** (0.082)	-0.055 (0.201)
<b>Fixed Effects</b>				
Firm × Time FE	✓	✓	✓	✓
Firm × Election FE	✓	✓	✓	✓
Election × Time FE	✓	✓	✓	✓
Observations	497,262	639,188	639,188	639,188

## Consequences of Maintaining Sourcing

VARIABLES	<i>RepRisk Incident</i> (1)	<i>RepRisk Reach</i> (2)	<i>Anti Corruption</i> (3)	<i>Supply Chain Issues</i> (4)
<i>Deal Increase × Post</i>	0.117* (0.062)	3.133** (1.314)	0.298** (0.130)	0.444** (0.191)
Firm × Time FE	✓	✓	✓	✓
Firm × Election FE	✓	✓	✓	✓
Election × Time FE	✓	✓	✓	✓
Observations	27,752	448	3,127	3,524
VARIABLES	<i>Violation of National Legislation</i> (5)	<i>Local Pollution</i> (6)	<i>Overuse and Wasting</i> (7)	<i>Land Ecosystems</i> (8)
<i>Deal Increase × Post</i>	0.328* (0.178)	0.381** (0.153)	0.801*** (0.257)	0.607* (0.350)
Firm × Time FE	✓	✓	✓	✓
Firm × Election FE	✓	✓	✓	✓
Election × Time FE	✓	✓	✓	✓
Observations	10,555	4,470	430	1,611

## Conclusion

**Political Ideology as a Forward-Looking Risk Indicator:**

- 10% reduction in import transactions, 12% volume reduction, some partial reallocation to other countries, but incomplete adjustment

**Firm Heterogeneity:**

- R&D intensity: High-tech firms show 3.5x larger effects due to IP concerns
- Relationship capital: Long-term partnerships reduce political risk sensitivity by 75%

**Institutional Quality Amplifies Political Effects:**

- Strong institutions make ideology more consequential

**ESG Risks from Political Misalignment:**

- Operational consequences: 12-80% increase in various ESG incident types

## References

- Beck, Thorsten, Hans Degryse, Ralph De Haas, Neeltje Van Horen. 2018. When arm's length is too far: Relationship banking over the credit cycle. *Journal of Financial Economics* 127(1) 174–196.
- Berry, Heather, Aseem Kaul. 2015. Global sourcing and foreign knowledge seeking. *Management Science* 61(5) 1052–1071.
- Gulen, Huseyin, Mihai Ion. 2016. Policy uncertainty and corporate investment. *The Review of Financial Studies* 29(3) 523–564.
- Hankins, Kristine Watson. 2011. How do financial firms manage risk? unraveling the interaction of financial and operational hedging. *Management Science* 57(12) 2197–2212.
- Hoberg, Gerard, S Katie Moon. 2017. Offshore activities and financial vs operational hedging. *Journal of Financial Economics* 125(2).
- Kempf, Elisabeth, Mancy Luo, Larissa Sch'aler, Margarita Tsoutsoura. 2023. Political ideology and international capital allocation. *Journal of Financial Economics* 148(2) 150–173.
- Portes, Richard, Helene Rey. 2005. The determinants of cross-border equity flows. *Journal of International Economics* 65(2) 269–296.
- Zhou, Nan, Heli Wang. 2020. Foreign subsidiary csr as a buffer against parent firm reputation risk. *Journal of International Business Studies* 51(8) 1256–1282.