The Political Economy of Firm Networks: CEO Ideology and Global Trade *

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Abstract

We examine how the political ideology of corporate leaders shapes cross-border firm networks. Exploiting changes in ideological alignment between U.S. firm CEOs and foreign governments around close foreign elections, we show that U.S. firms are more likely to terminate trade relationships with countries led by governments whose ideology becomes more distant from that of their CEOs. The impact is concentrated among CEOs holding strong political views, and is particularly pronounced for shorter trade relationships, suggesting ideological alignment is more relevant in more flexible and substitutable connections. Our findings highlight the role of ideology in shaping the formation and persistence of international firm networks.

Keywords: global trade, firm networks, political ideology, elections, political economy

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1 Introduction

Geopolitical tensions have been on the rise, disrupting the increasingly interconnected economic relationships between nations. A large academic literature examines the effects of government-imposed trade barriers, such as tariffs, sanctions, and industrial policies, on international trade (see, e.g., Fajgelbaum and Khandelwal (2022); Irwin (2020), and Juhász, Lane, and Rodrik (2024) for excellent reviews). Much less is known about the role of "private sanctions" (e.g., Hart, Thesmar, and Zingales (2023)), which refer to decisions by private corporations to discontinue economic relationships with foreign countries for reasons unrelated to government policy compliance or profit maximization, such as the ideological preferences of corporate decision-makers. If political ideology influences firms' trade relationships, this could have significant implications for the resilience of global supply chains, the diversification of economic ties, and the broader trajectory of globalization.

In this paper, we examine how the ideological alignment between corporate leaders and foreign governments influences the formation and persistence of firms' global trade relationships. Understanding this link is particularly relevant given political polarization in many developed economies, especially in the United States (e.g., Boxell, Gentzkow, and Shapiro (2022)) and the emerging evidence that partisanship and political ideology affect not only individuals' views of the economy but also their economic decisions (see Kempf and Tsoutsoura (2024) for an overview of this literature). However, isolating the causal effect of CEOs' ideological alignment with foreign government on firms' trade networks is challenging. Political alignment often correlates with other factors, such as geographic, linguistic, and cultural similarities, and shifts in ideological distance may coincide with broader changes in trade policy, making identification difficult.

To address these challenges, we compile a novel dataset combining granular trade transaction data from S&P Global's Panjiva database with U.S. CEOs' political affiliations from voter registration records. Following Kempf, Luo, Schäfer, and Tsoutsoura (2023), we mea-

sure ideological distance between U.S. CEOs and foreign governments using party ideology scores from the Manifesto Project Database (Volkens, Lehmann, Matthieß, Merz, Regel, and Weßels (2018)). Crucially, we exploit close elections in foreign countries as a quasi-natural experiment and exogenous source of variation in ideological distance, allowing us to compare changes in trade patterns between Democratic- and Republican-led U.S. firms trading with the same country, around the same foreign election.

Our findings reveal that CEOs' political ideology significantly shapes firms' global trade networks. Specifically, firms whose CEO experiences an increase in ideological distance after a foreign election are six percentage points less likely to maintain trade ties with that country, compared to firms whose CEO experiences a decrease in ideological distance. This effect represents a 12% decline relative to the baseline trade probability and is present in both import and export relationships. Furthermore, the effect persists with similar magnitude (a 13.7% decline) when we include product $\times$ time fixed effects, thus comparing firms trading in the same product and ensuring that shifts in demand or product-specific trade policies do not drive the results.

In terms of the timing of trade adjustments, the decline in trade begins in the first six months after the election and persists for at least two years, with no evidence of pre-trends—consistent with the unexpected nature of close elections. We also find that the effect is stronger for shorter trade relationships, suggesting that firms sever ties more easily when partnerships are flexible and substitutable.

Additional tests support the interpretation that these effects are driven by CEOs' beliefs or preferences. Specifically, we posit that aligned and misaligned CEOs differ in their perception of the expected profitability of continuing trade relationships with a given country following the election. To test this channel, we conduct a within-supplier analysis comparing Democratic- and Republican-led firms trading with *the same supplier* in the *same foreign country* around the *same election*. This approach eliminates the possibility that the trade partners of Democratic- and Republican-led firms are differentially affected by

the government changes. Moreover, the effect holds for both small and large U.S. public firms, as well as for visible and less visible CEOs, making it unlikely that foreign governments are selectively targeting high-profile U.S. companies based on their CEOs' political leanings. Consistent with a CEO preference or belief channel, we find that the effect is strongest among CEOs who are highly politically engaged, as indicated by their voter turnout, and among those with more extreme political views, as reflected by the ideologies of the candidates they support financially.

Finally, we explore how firms reshape their trade networks in response to shifts in ideological alignment. Firms whose CEO experiences increased ideological distance reduce the total number of foreign trade partners and are less likely to form new relationships, rather than reallocating trade to other countries. This suggests that ideological distance does not simply redirect trade flows but instead contracts the overall size of firms' global supply chains, potentially reducing diversification and increasing exposure to country-specific shocks (e.g., Bonadio, Huo, Levchenko, and Pandalai-Nayar (2021)).

2 Related Literature

Our study contributes to several strands of the literature. First, it adds to the extensive body of work that examines the economic effects of trade frictions. Much of this literature has focused on tariffs and other government-imposed interventions, estimating the costs of protectionist policies (see, e.g., Irwin (2020) and Juhász, Lane, and Rodrik (2024) for a review). More recently, studies have analyzed the increase in protectionism, including the U.S.-China trade war (e.g., Fajgelbaum and Khandelwal (2022); Amiti, Redding, and Weinstein (2019); Canayaz, Erel, Gurun, and Wu (2024); Cen, Cohen, Wu, and Zhang (2024)). Our paper relates more closely to the emerging literature on "private sanctions" (Hart, Thesmar, and Zingales (2023)) and, more specifically, the role of stakeholders' political ideology in shaping international economic exchange. Chandler, Kim, Waddingham, and Hill (2023) show that firms with Republican CEOs are more likely to enter foreign mar-

kets via acquisitions, whereas firms with Democratic CEOs are more likely to use strategic alliances. In light of recent evidence that U.S. executive teams are becoming more politically homogeneous (Fos, Kempf, and Tsoutsoura, 2022), it is increasingly important to investigate how ideological differences among corporate leaders can act as barriers to global trade. Our study addresses this pressing question by examining the political ideology of CEOs and its impact on firms' trade relationships.

In this strand of the literature, two contemporaneous papers are closely related to ours. Ayyagari, Gao, and Ma (2025) measure bilateral relations between the U.S. and foreign governments based on voting patterns in the UN General Assembly and examine how U.S. firms adjust their import decisions in response to changes in these bilateral relations, depending on whether their CEO is politically aligned with the U.S. administration. In Ayyagari, Gao, and Ma (2025), the observed firm response likely reflects two effects: (i) ideologically driven differences in CEOs' perceptions of the profitability of foreign trade relationships, and (ii) the desire to strengthen political connections with the U.S. government by supporting its policies. In contrast, our paper focuses on identifying the ideological differences between CEOs and their effects on firms' foreign trade relationships, without conditioning on whether the CEO's ideology aligns with the U.S. administration.

The second contemporaneous paper is Charoenwong, Peng, and Wu (2024), which does not focus on CEO ideology but instead measures a firm's political leaning using its Political Action Committee (PAC) donations. They find that greater ideological distance between a firm and a foreign country leads to reduced imports from that country. A key difference between their study and ours is that Charoenwong, Peng, and Wu (2024) do not exploit close elections and find that the decline in imports begins six months before the election. In contrast, our analysis takes advantage of quasi-exogenous variation in ideological alignment induced by close elections and isolates the causal effect of CEO ideology on trade networks.

In addition to the impact on global trade, there is an emerging literature on how political ideology affects other forms of economic exchange. Duchin, Farroukh, Harford,

and Patel (2019) find that the political distance between firms affects M&A activity. Aiyar, Malacrino, and Presbitero (2024) show that geopolitical distance between countries affects FDI. Kempf, Luo, Schäfer, and Tsoutsoura (2023) show that ideological alignment with foreign governments affects the cross-border capital allocation by large U.S. institutional investors. More broadly, our paper contributes to the understanding how political ideology and polarization affect firm decisions (see Kempf and Tsoutsoura (2024) for a review of this literature).

3 Data

Our dataset combines trade transaction-level data from S&P Panjiva with information on the party affiliations of U.S. CEOs from voter registration records and party ideology scores and election data from the Manifesto Project Database. We describe each data source in more detail below.

3.1 Global Trade Relationships

We use S&P Panjiva to obtain transaction-level records of physical goods traded between U.S. firms and international trade partners via vessels between 2007 and 2021. Panjiva collects these data from U.S. Customs and Border Protection (CBP) using Bills of Lading (BOLs). The records provide the names and addresses of the U.S. buyers or sellers, product descriptions, imputed Harmonized System (HS) codes based on these descriptions, shipment dates, and the quantities imported or exported (measured in twenty-foot equivalent units, TEUs). For import records, Panjiva also provides the names and addresses of foreign sellers, while export records include only the destination country without information on the identity of the buyer. Flaaen, Haberkorn, Lewis, Monken, Pierce, Rhodes, and Yi (2023) offers a comprehensive description of Panjiva dataset.

We construct our sample following the approach in Smirnyagin and Tsyvinski (2022).

For the import data, we match U.S. buyers in the Panjiva dataset with entities covered by the Capital IQ database via a cross-reference table provided by Panjiva, and then aggregate these entities to their ultimate parent company level, as outlined in Jain and Wu (2023). This allows us to attribute import transactions executed by multiple entities to the corresponding parent company. Next, we link these parent companies in Capital IQ database to Compustat using the crosswalk file provided by WRDS to obtain their *gvkey*. We exclude shipments for which the supplier country is either unknown or the United States. For the export data, we proceed analogously by linking U.S. sellers to their parent companies in Compustat.

We classify products into product categories based on their 2-digit Harmonized System (HS) codes and we will refer to these as "products" for brevity. Internet Appendix Table IA.3 provides the product descriptions for the top 15 products by trading volume in our sample. The average firm in our sample trades 1.6 4-digit HS codes and 2 6-digit HS codes within the same 2-digit product category and trade country. This feature of the data implies that firms trade a limited set of products within each product category. In the Appendix Table IA.5, we show that our main results are similar if we use finer product categories, such as 4- or 6-digit HS codes.

We aggregate shipments at the U.S. firm $\times$ product $\times$ foreign country $\times$ half-year level and restrict the sample to the top five importing or exporting countries of each firm, defined based on the total import or export volume during the entire sample period. A detailed description of the data cleaning steps is provided in the Internet Appendix IA.A.

3.2 Ideological Distance

Measuring the ideological alignment between U.S. CEOs and foreign governments requires three ingredients: (i) data on the political party affiliation of U.S. CEOs; (ii) data on foreign elections in the countries with which U.S. firms have trade relationships, and (iii) a measure of ideological distance between the party of the U.S. CEO and the foreign party

in power.

We infer executives' political affiliations from voter registration records, obtained from the commercial data provider L2, Inc. It contains information on registered voters in all 50 states (and DC). For 34 states and DC, L2 assigns political affiliation based on party registration. For six states, it uses information on primaries. In the remaining states, it uses a combination of information on primaries, demographics, and commercial lifestyle data. We only use political affiliations inferred from party registrations or primaries. We follow Fos, Kempf, and Tsoutsoura (2022) and match CEOs to voters using information on their full names, age, and location (see Fos, Kempf, and Tsoutsoura (2022) for a detailed description).

Data on foreign elections is obtained from the Manifesto Project Database (MPD), which covers national lower-house elections in over 50 countries.[1] The information provided by the MPD includes the election date and the vote shares of each party. For each election, we consider the party with the highest vote share as the winning party. To ensure accuracy, we cross-check election dates and winning parties against the Parliaments and Governments (ParlGov) Database (`https://www.parlgov.org/`). Because the Panjiva data spans the years 2007 to 2021, we focus on elections taking place between 2009 and 2019 in order to capture at least two years of data before and after each election. After restricting to elections in countries with which U.S. firms have common trade relationships, we obtain a sample of 137 foreign elections in 49 countries. About 57 of these elections involve a change of the predominant party. The average (median) margin of victory, measured as the absolute difference between the highest and the second-highest vote shares, is 11.4 (8.4) percentage points.

In addition to data on election outcomes, the MPD also provides a standardized assessment of the ideology of each political party, by coding the electoral manifestos by more than 1,000 political parties since 1945. Using each party's election program, the MPD

[1]See Volkens, Lehmann, Matthieß, Merz, Regel, and Weßels (2018) for a detailed description of the database.

classifies each party's position across various policy dimensions—some of which are pre-assigned as right or left based on the left-right political spectrum outlined by Laver and Budge (1992). The approach uses publicly available pre-election documents and represents the most commonly used measure to gauge policy positions (Budge (2001)).

Following Lowe, Benoit, Mikhaylov, and Laver (2011), we compute a party's left-right ideology score by comparing the share of manifesto content devoted to right- versus left-learning policy categories.[2] Using these standardized ideology scores, we can then measure the ideological distance between two parties as the absolute difference between their ideology scores.

3.3 Sample Construction

To construct our final sample, we proceed as follows. Our starting point is the set of U.S. firms covered in the Panjiva trade data, which can be linked to Compustat and are led by either a Republican or a Democratic CEO. We then stack up the foreign election events covered in the MPD database in event time, and select all firm-product pairs for which the U.S. firm traded at least once with the relevant foreign country during a two-year window around the election (i.e., nine half-year periods: four pre-election, one event period, and four post-election periods). Following Akey (2015) and Heitz, Wang, and Wang (2023), our main analysis focuses on close elections, defined as those in which the vote share difference is less than 5%. In Internet Appendix Table IA.4 and IA.5, we also report results that include non-close elections and use alternative definitions of close elections, such as those with a vote share difference of less than 3% or with a vote share difference in the bottom quartile across all elections in the MPD. Our final sample covers 570 U.S. firms trading with 27 foreign countries around 40 close foreign elections.

Table 1 reports summary statistics. The average firm exchanges approximately 5.6

[2]Specifically, the ideology score for party p is calculated as $Ideology_p = Ln(\frac{R_p+0.5}{L_p+0.5})$, where L_p and R_p represent the counts of quasi-sentences in the party p's manifesto assigned to left and right policy categories, respectively.

shipments with a given foreign country in a given product category and half-year. In addition, the average firm trades with about 5.6 countries in the same product category, and imports from 7.7 suppliers.

3.4 Empirical Strategy

This section describes the empirical framework used to identify the effect of CEOs' ideological alignment with foreign governments on firms' international trade relationships. We hypothesize that firms led by CEOs who are ideologically more distant to the party in power in a foreign country are more pessimistic about the expected economic benefits of trading with that country. Alternatively, CEOs may experience greater nonpecuniary disutility from engaging with foreign countries whose government they disapprove of. Whether through a belief or a preference channel, we predict that U.S. firms are less likely to establish or maintain trade relationships with a foreign country when their CEOs are more ideologically distant from the governing party.

Isolating the effect of ideological alignment is empirically challenging for at least two reasons. First, the ideological alignment between a Democratic or Republican CEO and the elected party in the destination country may correlate with other measures of proximity, such as commonality of language, religion, or culture. For example, a Hispanic CEO might be more likely to engage in trade with Spanish-speaking countries, and he/she may also be more likely affiliated with the Democratic party.[3] Second, the profitability of trade relationships with a foreign country may be directly affected by political events, such as elections or changes in bilateral political and regulatory relationships (e.g., Silvers (2021)). For example, if a newly elected party adopts a more hostile stance toward the U.S., American firms may sever economic ties with that country to avoid obstacles like tariffs or stricter regulations.

Our empirical strategy addresses these challenges by comparing the trade relationships

[3]For example, see `https://www.pewresearch.org/politics/2024/04/09/partisanship-by-race-ethnicity-and-education/`.

of U.S. firms led by Democratic and Republican CEOs around the *same foreign close election*. Consider the following thought experiment: Two U.S. firms trade with Dutch companies—one led by a Republican CEO and the other by a Democratic CEO. Following the Dutch general election in 2010, the incumbent party Christian Democratic Appeal, led by Jan Peter Balkenende (center to center-right according to MPD), was succeeded by the People's Party for Freedom and Democracy under Mark Rutte (center-right according to MPD). As a result, the ideological distance between the Republican CEO and the governing party decreases, while the ideological distance increases for the Democratic CEO. By comparing changes in the propensity to maintain a trade relationship before and after the elections for both firms, we can effectively employ a difference-in-differences design, thereby separating ideological alignment from other dimensions of alignment that do not change around the election, such as cultural or linguistic similarities. Moreover, by focusing on close elections, we avoid potential selection issues induced by anticipation of the election outcome.

To take this thought experiment to the data, we first compute the change in firm f's CEO's ideological distance to foreign country c around election e:

$$\Delta Distance_{fec} = \left|Ideology_{fec}^{CEO} - Ideology_{ec}^{Winner}\right| - \left|Ideology_{fec}^{CEO} - Ideology_{\underline{e}c}^{Winner}\right|, \quad (1)$$

where $Ideology_{fec}^{CEO}$ denotes the left-right ideology score of firm f's CEO at the end of the half-year prior to election e in foreign country c, measured based on the most recent manifesto of the CEO's political party; $Ideology_{ec}^{Winner}$ refers to the ideology score of the party that received the highest vote share in election e. The ideology score is measured based on the party's manifesto in election e. We define $Ideology_{\underline{e}c}^{Winner}$ analogously, but with respect to election $\underline{e}$, that is the most recent election prior to election e. By fixing the CEO's ideology score at the end of the half-year prior to election e, the change in distance, $\Delta Distance_{fec}$, only reflects the outcome of the foreign election rather than any subsequent shifts in the CEO's ideological positions. In Internet Appendix Table IA.2, we provide

examples that illustrate the computation of $\Delta Distance_{fec}$ for the 2010 general election in the Netherlands and for the 2012 election in France, respectively.

We then estimate the following regression:

$$Trade_{fecpt} = \alpha_{ect} + \alpha_{fec} + \alpha_{pt} + \beta Distance\,Increase_{fec} \times Post_{ect} + \epsilon_{fpect}, \qquad (2)$$

where $Trade_{fect}$ is an indicator equal to one if firm f has an active trade relationship with foreign country c in product category p in half-year t around election e. $Distance\,Increase_{fec}$ is an indicator equal to one if $\Delta Distance_{fec}$, as defined in equation (1), is non-negative, and zero otherwise.[4] The indicator $Post_{ect}$ takes a value of one if half-year t falls in the post-election period (i.e., $\tau = 0$ to $\tau = +4$), and zero if it falls in the pre-election period (i.e., $\tau = -4$ to $\tau = -1$). We define the event window to span half-years $\tau = -4$ to $\tau = +4$ to avoid many overlapping event windows, as the average (median) time interval between parliamentary elections in a given country is 3.5 (4) years. We stack our sample by country and election date, keeping only four half-years before and after each election. This approach therefore addresses concerns regarding differential weighting of events occurring earlier versus later in the sample period, as noted by de Chaisemartin and D'Haultfœuille (2020), Callaway and Sant'Anna (2021), and Baker, Larcker, and Wang (2022). Due to some overlapping event windows, the unit of observations is a firm × election × product × half-year rather than a firm × destination country × product × half-year. We remove half-years in which a firm does not trade with any foreign country and cluster standard errors at the firm × destination country level.

By including election × time fixed effects (α_{ect}), which subsume destination country × time fixed effects, we are able to control for the direct economic impact of the election

[4]Due to the small number of observations with exact-zero distance changes, our results are not sensitive regardless of the treatment of these observations. We prefer a binary treatment variable over a continuous measure in our baseline specification, given the recent literature highlighting issues with difference-in-differences designs with non-binary treatments and high-dimensional fixed effects (de Chaisemartin and D'Haultfœuille (2020); de Chaisemartin and D'Haultfoeuille (2022)). Moreover, a binary treatment variable allows us to be agnostic about the exact functional form linking ideological distance to the propensity of maintaining trade relationships.

on expected trading profitability, capturing changes in foreign trade policies and policy uncertainty. Since our sample only consists of U.S. firms, these fixed effects also absorb potential time variation in the degree of bilateral relationship between the U.S. and foreign governing bodies. By including firm $\times$ election fixed effects (α_{fec}), which subsume firm $\times$ destination country fixed effects, we can control for any time-invariant differences in trade relationships across firm-country pairs. For example, we can rule out the possibility that firms consistently trade more with certain countries because of closer religious, ethnic or cultural ties, or because they have well-established trading networks in these countries. Finally, we include product $\times$ time fixed effects to control for time-varying, product-specific policy changes or demand shocks. For example, U.S. government may impose restrictions on certain product categories for national security reasons which may affect U.S. firms' trading decisions.

It is important to note that the variation in our *Distance Increase* variable is generated only by elections in which Republicans experience an increase in ideological distance and Democrats experience a decrease, or vice versa. For example, the 2012 French election of the Socialist Party of François Hollande would not generate such variation, as both Republicans and Democrats experienced an increase in ideological distance following the election (see the Internet Appendix Table IA.2). About 45% of the close elections in our sample provide such identifying variation, and we report the full list of these elections in Internet Appendix Table IA.1. This aspect implies that the variation is mainly driven by elections involving parties that are not radically different from the two major U.S. parties.

To better understand the precise timing of the effects, we also estimate the following dynamic specification:

$$Trade_{fpect} = \alpha_{ect} + \alpha_{fec} + \alpha_{pt} + \sum_{\tau=-4}^{\tau=+4} \beta_{\tau} Distance\,Increase_{fec} \times D_{ect}^{\tau} + \epsilon_{fpect}, \qquad (3)$$

where D_{ect}^{τ} stands for event-time dummies and all other variables are defined as above.

4 CEOs' Ideological Alignment and Foreign Trade

In this section, we examine the effects of CEOs' ideological alignment on their firms' foreign trade relationships. Section 4.1 presents the main results. Sections 4.2 and 4.3 discuss results from our robustness and heterogeneity tests, respectively.

4.1 Main Result

We begin by estimating equation (2) to examine whether firms whose CEO experiences an increase in ideological distance are less likely to have an active trade relationship with the foreign country around a close election, relative to firms whose CEO experiences a decrease in ideological distance.

Table 2 presents the results. The coefficient of interest, $Distance\,Increase \times Post$, captures the effect of an increase in the CEO's ideological distance on the likelihood of trading with a foreign country. Across the various specifications, the estimates remain stable, suggesting that firms whose CEO experiences an increase in the ideological distance reduce the probability of trade with the foreign country in a given product category by 6 to 7 percentage points, relative to firms whose CEO experiences a decrease in the ideological distance. This effect corresponds to a 11.7% to 13.9% decline relative to the average probability of trade (0.51, see Table 1). To put the economic magnitude into perspectives, we compare our effect with firms' voluntary responses to other shocks in the literature. U.S. firms are about 4.5 percentage points more likely to terminate a trade relationship when their suppliers experience environmental & social (ES) incidents (Bisetti, She, and Zaldokas (2024)) and are about 2.9 percentage points more likely to end relationships with suppliers located in areas following terrorist attacks (Tan, Wang, and Zhang (2024)). Thus, our effect is at least comparable to the documented effects.

Our strictest specification in column (3) with the full set of fixed effects ensure that our results are not driven by 1) any time-varying economic or political shocks associated with

the election outcomes that could impact firms' trade decisions, such as shifts in bilateral relationships or changes in macroeconomic conditions in foreign countries (election × time fixed effects); by 2) any firm-specific preference to trade with a certain country within an election cycle, e.g., firms with strong cultural or political ties to a certain country may engage in trade with that country (firm × election fixed effects); by 3) any time-varying, product-specific policy changes or demand shocks, such as the increased demand for minerals as a result of the rapid development of clean energy technologies during energy transitions (product × time fixed effects).

To shed light on the timing of the effect, Figure 1 plots the coefficients β_τ from equation (3) for close elections. The omitted period is $\tau = -4$, meaning that all subsequent differences are measured relative to the difference at $\tau = -4$. The figure illustrates a decline in the likelihood of trade relationships for CEOs with an increasing ideological distance, compared to those with a decreasing ideological distance, following an election. The declines starts in the half-year after the election and persists for at least 2 years. Importantly, there is no evidence of pre-trends in the period before the election. Internet Appendix Figure IA.1 repeats the plot for all foreign elections (i.e., including non-close elections) and shows a similar pattern. We report the standard estimation for all foreign elections in the Internet Appendix Table IA.4.

4.2 Alternative Specifications

In Internet Appendix Table IA.5, we report alternative specifications for our baseline regression in column (3) of Table 2. In Panel A, we show that our results are not sensitive to the definition of close elections. We consider alternative definitions based on a vote share difference of less than 3%, or a vote share difference in the bottom quartile across all elections following Julio and Yook (2016). In Panel B, we include election × product × time or (and) firm × product × election fixed effects to address the concerns that elections may lead to policy changes that affect specific products in different ways and firms may

have persistent preference for trading certain products. The inclusion of election × product × time fixed effects ensures that the differences in trade responses between ideologically distant and close firms are not driven by differential exposure to products that face different trade policies. The reduction in the number of observations reflects the difficulty of requiring variation and comparison among firms trading the same product at the same point in time during the same election cycle. Importantly, the economic magnitude of the results remains stable, implying that the inclusion of such fixed effects mainly impacts the statistical power rather than the underlying effects.

In Panel C, we use alternative definitions of "product" based on 4-digit HS code or 6-digit HS code which classify goods into finer product categories. In Panel D, we examine the effect of ideological distance on the likelihood of trade relationships, in terms of supplier relationships (importing) and customer relationships (exporting) respectively, and find a stronger effect on customer relationships. We also find that our baseline effect is mainly driven by the extensive margin: firms that experience an increase in ideological distance are more likely to terminate trade relationships after the election. Although the effect on the intensive margin, measured by trading volume, is also negative, it is not statistically significant. Finally, our results are robust to clustering the standard errors by firm × destination country and time, by product × country, by firm and time, by firm and country, and by firm (see Panel F).

In Table 4, we examine which policy positions drive our results. While CEOs may mainly focus on a party's economic policies, they may also consider social issues such as human rights when making trade decisions (Bisetti, She, and Zaldokas (2024)). To explore this, we break down the policy positions in our left-right ideology score into economic, social, and other policies. Following Girardi (2020), we classify policies into economic policies based on the party's stance on planned versus market economies using MPD variables *planeco* and *markeco*, which reflects the relative positions on support for market regulation, economic planning, and government intervention versus support for free markets

and minimal state intervention. Following Benoit and Laver (2007), we classify policies on issues such as human rights, democracy, national identity, and traditional morality as social policies. All other policies, including state-provided services (e.g., education) and protectionism, fall under "other policies." A full list of policy categories is available in Internet Appendix A of Kempf, Luo, Schäfer, and Tsoutsoura (2023). Our findings indicate that both economic and social policies of elected parties influence trade relationships, although economic policies play a more important role when examined jointly in a horse race specification.

4.3 Heterogeneity by Relationship Intensity

When a firm has established a strong relationship with its foreign trade partners, that relationship is likely to be less affected by shocks to ideological beliefs. We test this idea by examining how the intensity of a firm's relationship with foreign partners influences our results. To do so, we augment our baseline specification in equation (2) by interacting the independent variables with an indicator variable equal to one if the firm has a "short" relationship with a given foreign country in trading a product.

We measure relationship intensity by the share of active trading periods for a given product from the foreign country prior to the foreign election. The percentage of active trading periods is calculated by dividing the number of half-years in which the firm has traded with the foreign country for the product, by the total number of half-years in which the firm has traded the product globally before the foreign election. A "short relationship" is then defined as an indicator equal to one if the share of active trading periods falls below the median for each election or below 0.5, and zero otherwise.

Our results, reported in Table 3, indicate that when firms have a short relationship with a trade partner and experience an increase in ideological distance, they are more likely to terminate the trade relationship with that foreign country following the elections.

5 Economic Mechanism

So far, we have shown that the ideological alignment of CEOs with foreign political parties influences their propensity to maintain trade relationships with that country. We interpret our findings as evidence that political ideology shapes CEOs' beliefs about the expected economic benefits of trading with a foreign country. For example, politically misaligned CEOs may be more pessimistic about the expected profitability or perceive greater political or economic risks. Alternatively, ideologically misaligned CEOs may experience a greater nonpecuniary disutility from engaging with foreign countries whose government they disapprove of. In this section, we perform additional tests to sharpen our interpretation that the economic mechanism operates via CEOs' beliefs or preferences and discuss alternative explanations.

First, we provide more direct evidence on the underlying mechanism by examining the extent to which the strength of a CEO's political views influences our main results. A CEO who is more politically engaged may behave more ideologically, as reflected in her economic perceptions and the propensity to maintain or terminate trade relationships. To test this idea, we measure CEOs' political engagement based on their voter turnout. Specifically, we calculate the average number of quarters between the elections in which a CEO voted up until one year prior to the foreign election. CEOs are classified as "High Engagement" if the average number is below the median, implying that they vote frequently, and as "Low Engagement" otherwise. We augment our baseline specification in equation (2) by interacting the independent variables with the "High Engagement" indicator. The results, reported in column (1) of Table 5, suggest CEOs who are highly politically engaged indeed exhibit a stronger response to changes in ideological distance.

In columns (2) and (3) of the same table, we compute an ideology score for each CEO to measure the extent to which they possibly hold extreme political views. We use data from Stanford's Database on Ideology, Money in Politics, and Elections (DIME) (see Bonica

(2016)), which contains local, state and federal-level campaign contributions from individuals and organizations between 1979 and 2024. We proceed as follows. First, we match CEOs to their political contributions using their first, middle, and last names. Second, we construct a continuous measure of each CEO's political ideology based on the ideological positions of congressional members whom the CEO has financially supported. These ideological positions are estimated using roll call voting records as in Poole and Rosenthal (1985). We use two scores for the ideological positions. The first is the DW-NOMINATE score from Poole and Rosenthal (1985). Specifically, we use its first dimension, which is often interpreted as capturing economic liberalism versus conservatism. The second is CF score from DIME dataset of Bonica. More negative values of these scores characterize more left-leaning (liberal) ideology, while more positive values indicate a more right-leaning (conservative) ideology. To determine the ideological score of a CEO, we calculate the weighted average ideology score of the recipients that the CEO has supported, with the weights proportional to the dollar amounts given to each candidate. Finally, we take the absolute values of each ideology score and classify CEOs as having *"More Extreme Views"* if their absolute weighted average ideology score is above the median, and as *"Moderate Views"* otherwise.

We augment our baseline specification in equation (2) by interacting the independent variables with the indicator for *"More Extreme Views"* based on the DW-NOMINATE score in column (2) and based on the CF score in column (3) of Table 5, respectively. The results suggest that our effects are primarily driven by CEOs with more extreme political views. Taken together, Table 5 provides more direct evidence to support our interpretation that the effect of a CEO's ideological alignment with foreign governments indeed reflects ideologically driven differences in the economic perceptions of CEOs.

Second, one potential concern is that foreign trade partners may avoid firms led by ideologically misaligned CEOs whose political affiliation is highly visible. To address this concern, we use two proxies of a CEO's visibility. The first proxy is an indicator equal

to one if the CEO's political affiliation is highly visible, and zero otherwise. Following Wintoki and Xi (2020), we determine a CEO's political visibility using the website `http://www.nndb.com`, which complies biographical information (including partisan affiliation) from publicly available and easily accessible online sources. It is reasonable to assume that CEOs included in the database are prominent and have a highly visible political ideology in the eyes of the public.

The second proxy is based on firm size one year prior to the election, under the assumption that the public pays more attention to larger firms, making their CEOs' information—including political affiliation—more salient. We define an indicator that is equal to one if the firm's pre-election size is above the median and zero otherwise. AS before, we then augment our baseline specification in equation (2) by interacting the independent variables with these two indicators and report the results in Table 6. Across both columns, we find no evidence that our effects differ significantly between highly visible and less visible CEOs, suggesting that foreign trade partners are unlikely to selectively target high-profile CEOs based on their political ideology.

Third, it is important to highlight that our main identification strategy already accounts for several alternative explanations. For example, our results cannot be explained by the direct impacts of elections on macroeconomic conditions in the foreign country that might influence the trade environment and make it more challenging for U.S. firms to conduct business. Likewise, our results are not driven by changes in the bilateral relations between the U.S. and foreign governments, such as the U.S. government imposing tighter trade regulations on adversaries than on allies. Furthermore, our findings cannot be explained by product-specific demand or supply shocks, such as trade restrictions on certain goods.

A potential remaining explanation is that differences in the maintenance of trade relationships arise from how elections affect the trade partners of U.S. firms. For instance, U.S. firms with Democrat-leaning CEOs may be more likely to form relationships with left-leaning foreign firms. If a right-leaning party comes to power in the foreign country, it may

implement trade policies that adversely affect left-leaning foreign firms. This could lead to more terminations of relationships by Democrat-led U.S. firms compared to Republican-led U.S. firms. To address this concern, we exploit the granularity of our data to analyze trade relationships with *the same foreign trade partner*. To do so, we expand our data from the firm × foreign election × product × half-year level to the firm × foreign election × product × supplier × half-year level. This more disaggregated dataset allows us to compare how U.S. firms whose CEO experiences an increase versus a decrease in ideological distance adjust their trade relationships with *the same supplier* following the same election. Due to data availability, we focus on supplier relationships (i.e., imports). The results, reported in Table 7, reveal an effect that is very similar to our baseline specification.

6 Reallocation

Finally, we examine how firms reshape their trade networks in response to shifts in political alignment with foreign countries. One possible response is that CEOs experiencing increased ideological distance may reallocate their production and sales networks to other countries in order to minimize disruptions. However, trade reallocation is often costly and constrained by various frictions, such as the availability of suitable alternative partners. Finding reliable substitutes for existing trade relationships also takes time, and as a result, firms may instead reduce their foreign trade exposure altogether by shifting their networks back home. To assess which response dominates in our setting, we use the same difference-in-differences approach around close foreign elections as before, but we now change the dependent variable to measure the total size of the firm's foreign trade network, or its propensity to form new relationships.

More specifically, we construct four measures of the size and concentration of a firm's trade network in a given product category. The results, reported in Table 8, indicate that an increase in ideological distance leads firms to contract their global trade networks, as indicated by the fact that they reduce the number of foreign countries and the number of

foreign suppliers with which they trade (see columns (1) and (2)). Moreover, they are also less establish new foreign trade relationships (columns (3) and (4)).

In Internet Appendix Table IA.6, we provide additional evidence on the concentration of the firm's foreign trade network, by computing a Herfindahl-Hirschman Index (HHI) based on shipment volume, weight, or estimated value. We observe an increased HHI for ideologically more distant firms, suggesting that they consolidate their trade relationships and rely on fewer trade partners, consistent with the findings in Table 8. The fact that firms with increased ideological distance tend to concentrate their trade networks raises important implications. For example, these firms could be at higher risk of vulnerability to country-specific shocks and supply-chain disruptions going forward.

7 Conclusion

We examine how the political ideology of corporate leaders shapes cross-border firm networks. Exploiting changes in ideological alignment between U.S. firm CEOs and foreign governments around close foreign elections, we show that U.S. firms are more likely to sever trade relationships with countries led by governments whose ideology grows more distant from that of their CEOs. The impact is particularly pronounced for shorter trade relationships, suggesting ideological alignment is more relevant in more flexible and substitutable connections. Our findings highlight the role of ideology in shaping the formation and persistence of international firm networks.

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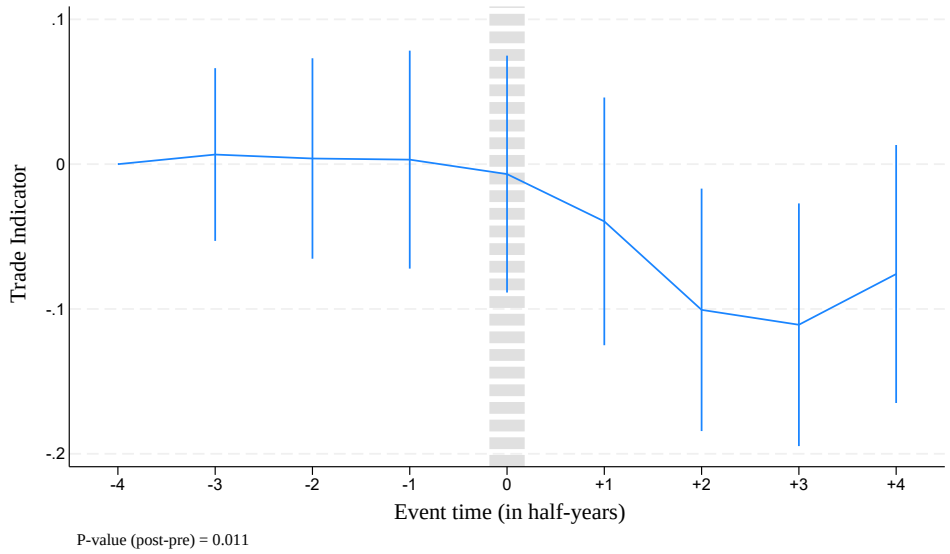


Figure 1: **Cross-Border Trade around Foreign Close Elections**

The figure plots the difference in the likelihood of trading with the foreign country between U.S. firms that experience an increase versus a decrease in ideological distance around a foreign close election. We plot the coefficients β_τ from equation (3) for nine half-years around elections. The dependent variable is an indicator that is equal to one if the firm has either imports from or exports to the foreign country for the product and zero otherwise. We include election $\times$ time, firm $\times$ election and product $\times$ time fixed effects. The corresponding 95% confidence intervals are based on standard errors that are clustered at the firm $\times$ destination country level.

Table 1: **Summary Statistics**

The table reports summary statistics for our main dataset. The unit of observation is a U.S. firms × foreign election × product category × half-year. All variables are defined in Appendix A.1.

	Count	Mean	SD	P25	Median	P75
	(1)	(2)	(3)	(4)	(5)	(6)
No. of Shipments	29,467	5.63	32.75	0.00	1.00	2.00
Volume (TEU)	29,019	15.64	200.42	0.00	0.01	3.00
No. of New Trading Countries	29,467	2.14	2.58	1.00	1.00	3.00
No. of New Suppliers	22,148	3.98	8.76	1.00	1.00	4.00
No. of Trading Countries	29,467	5.58	8.12	1.00	3.00	6.00
No. of Suppliers	22,148	7.65	17.75	1.00	3.00	6.00
Trade Indicator	29,467	0.51	0.50	0.00	1.00	1.00
Import Indicator	22,148	0.47	0.50	0.00	0.00	1.00
Export Indicator	9,436	0.55	0.50	0.00	1.00	1.00
Distance Increase	29,467	0.60	0.49	0.00	1.00	1.00

Table 2: **CEOs' Ideological Distance and Foreign Trade**

The table reports differences in the likelihood of trading by U.S. firms whose CEO experiences an increase versus decrease in ideological distance around a close foreign election. The unit of observation is a U.S. firms × foreign election × product × half-year. *Distance Increase* is an indicator equal to one if the ideological distance between the CEO of the U.S. firm and the party in power in a foreign country increases after the election, and zero otherwise. *Post* is an indicator equal to one if half-year t falls in the post-election period ($\tau = 0$ to $\tau = +4$), and zero if half-year t falls in the pre-election period ($\tau = -4$ to $\tau = -1$). t-statistics, reported in parentheses, are based on standard errors that are clustered at the firm × country level. *, **, and *** denote statistical significance at 10%, 5%, and 1% level, respectively.

Dependent Variable:	Trade Indicator		
	(1)	(2)	(3)
Distance Increase × Post	-0.061**	-0.071***	-0.069***
	(-2.34)	(-2.95)	(-2.67)
Controls	No	No	No
Election × Time FE	Yes	Yes	Yes
Firm × Election FE	No	Yes	Yes
Product × Time FE	No	No	Yes
R^2	0.034	0.193	0.261
N	29,445	29,222	28,864

Table 3: **Heterogeneity by Relationship Intensity**

The table augments our baseline specification in equation (2) by interacting the independent variables with an indicator that is equal to one if the firm has a less intense relationship with the given foreign country in trading a product, and zero otherwise. Relationship intensity is measured as the share of active trading periods for a given product with the foreign country prior to the election. For a given product, we divide the number of half-years in which the firm has traded with the foreign country by the total number of half-years in which the firm has traded with any foreign countries prior to the election. The indicator "Short relationship" is then equal to one if the share of active trading periods is below the sample median for each election (in column (1)), or below 0.5 (in column (2)), and zero otherwise. t-statistics, reported in parentheses, are based on standard errors that are clustered at the firm × destination country level. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

	Share of Active Trading Periods	
	Below Median	Below 0.5
	(1)	(2)
Distance Increase × Post × Short Relationship	-0.090***	-0.130***
	(-2.86)	(-3.64)
Distance Increase × Post	-0.022	0.022
	(-0.55)	(0.52)
Post × Short Relationship	0.389***	0.335***
	(14.87)	(11.38)
Distance Increase × Short Relationship	0.042	0.053
	(1.57)	(1.57)
Short Relationship	-0.552***	-0.553***
	(-25.48)	(-19.23)
Controls	No	No
Election × Time FE	Yes	Yes
Firm × Election FE	Yes	Yes
Product × Time FE	Yes	Yes
R^2	0.338	0.330
N	28,167	28,167

Table 4: **Policy Dimensions**

The table repeats our main analysis in Table 2, after defining *Distance Increase* separately for positions on economic, social, and other policies. We use ideological distance based on economic policies in column (1), based on social policies in column (2), and based on other policies in column (3). The list of policy positions used to define ideology on economic, social, and other issues is presented in the Internet Appendix. In column (4), all measures are included simultaneously. t-statistics, reported in parentheses, are based on standard errors that are clustered at the firm $\times$ destination country level. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

Dependent Variable:	Trade Indicator			
	(1)	(2)	(3)	(4)
Distance Increase Econ. Policy × Post	-0.078***			-0.059*
	(-2.79)			(-1.66)
Distance Increase Social Policy × Post		-0.080**		-0.036
		(-2.41)		(-0.83)
Distance Increase Other Policy × Post			0.016	-0.009
			(0.44)	(-0.28)
Controls	No	No	No	No
Election × Time FE	Yes	Yes	Yes	Yes
Firm × Election FE	Yes	Yes	Yes	Yes
Product × Time FE	Yes	Yes	Yes	Yes
R^2	0.261	0.261	0.260	0.261
N	28,864	28,864	28,864	28,864

Table 5: **Heterogeneity by CEOs' Political Engagement**

The table augments our baseline specification in equation (2) by interacting the independent variables with indicators for highly politically engaged CEOs and CEOs with more extreme political views. In column (1), we measure the degree of CEOs' political engagement by examining their voting frequency based on the voting data from L2. We compute the average number of quarters between elections in which a CEO has voted up until a year prior to the election, and classify CEOs as "High Engagement" if their average is below the median (i.e., they vote frequently), and "Low Engagement" otherwise. In columns (2) and (3), we compute an ideology score for each CEO using data from Stanford's Database on Ideology, Money in Politics, and Elections (DIME) (see Bonica (2016)), which contains local, state and federal level campaign contributions from individuals and organizations between 1979 and 2024. For each CEO, we compute a weighted average of the DW-NOMINATE score and the CF score of the recipients based on their past contributions, with weights proportional to the dollar amounts donated to each candidate. We then take the absolute value of the two scores and classify CEOs as having "More Extreme Views" if their absolute ideology score is above the median, and as having "Moderate Views" otherwise. We present results using the indicator based on the DW-NOMINATE score in column (2) and based on the CF score in column (3). t-statistics, reported in parentheses, are based on standard errors that are clustered at the firm × destination country level. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

	Voting Frequency	Ideology	
		DW-Nominate	CF Score
	(1)	(2)	(3)
Distance Increase × Post × High Engagement	-0.058*		
	(-1.69)		
Distance Increase × Post × More Extreme Views		-0.119***	-0.081**
		(-2.86)	(-1.96)
Distance Increase × Post	-0.029	0.022	-0.018
	(-0.92)	(0.54)	(-0.49)
Post × High Engagement	0.066**		
	(2.56)		
Post × More Extreme Views		0.101***	0.070**
		(3.43)	(2.28)
Controls	No	No	No
Election × Time FE	Yes	Yes	Yes
Firm × Election FE	Yes	Yes	Yes
Product × Time FE	Yes	Yes	Yes
R^2	0.262	0.279	0.270
N	28,342	19,147	21,937

Table 6: **Heterogeneity by CEOs' Political Visibility**

The table augments our baseline specification in equation (2) by interacting the independent variables with indicators for highly visible CEOs. To measure CEOs' political visibility, we use two proxies: one based on the CEO's prominence and the other based on firm size. In column (1), the indicator "High Visibility" is equal to one if the CEO is included in `http://www.nndb.com` (i.e., a prominent CEO), and zero otherwise. In column (2), it is equal to one if the firm size at one year prior to the election is above the sample median, and zero otherwise. *t*-statistics, reported in parentheses, are based on standard errors that are clustered at the firm × destination country level. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

	CEO Political Visibility	
	CEO Prominence	Firm Size
	(1)	(2)
Distance Increase × Post × High Visibility	0.002	-0.010
	(0.06)	(-0.29)
Distance Increase × Post	-0.070**	-0.064**
	(-2.32)	(-2.00)
Post × High Visibility	-0.003	0.007
	(-0.12)	(0.26)
Controls	No	No
Election × Time FE	Yes	Yes
Firm × Election FE	Yes	Yes
Product × Time FE	Yes	Yes
R^2	0.261	0.261
N	28,864	28,851

Table 7: **Supplier-Level Analysis**

The table repeats the analysis from Table 2 using a more disaggregated dataset, with the unit of observation being a firm × foreign election × product × supplier × half-year. The independent variable is an indicator equal to one if the firm imports a shipment from a given supplier in a given product category and half-year, and zero otherwise. t-statistics, reported in parentheses, are based on standard errors that are clustered at the firm × destination country level. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

Dependent Variable:	Import Indicator		
	(1)	(2)	(3)
Distance Increase × Post	-0.069***	-0.069***	-0.072***
	(-3.56)	(-3.56)	(-3.62)
Controls	No	No	No
Election × Supplier × Time FE	Yes	Yes	Yes
Firm × Supplier × Election FE	No	Yes	Yes
Product × Time FE	No	No	Yes
R^2	0.486	0.515	0.549
N	66,860	66,858	66,468

Table 8: **Reallocation of Trade Relationships**

The table examines changes in the size of firms' foreign trade networks as a function of whether their CEO experiences an increase versus decrease in ideological distance around a close foreign election. In columns (1) and (2), the dependent variables are the number of trading partners that a firm trades with for a given product, measured as the number of countries in column (1) and the number of suppliers in column (2). In columns (3) and (4), we examine the number of newly added trading partners, measured as the number of new trading countries in column (3) and the number of new suppliers in column (4). We use Poisson regressions as suggested by Cohn, Liu, and Wardlaw (2022). All other specifications remain the same as in Table 2. t-statistics, reported in parentheses, are based on standard errors that are clustered at the firm × destination country level. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

Dependent Variable: No. of	Countries	Suppliers	New Countries	New Suppliers
	(1)	(2)	(3)	(4)
Distance Increase × Post	-0.082***	-0.189***	-0.068**	-0.167***
	(-2.98)	(-3.11)	(-2.32)	(-2.80)
Controls	No	No	No	No
Election × Time FE	Yes	Yes	Yes	Yes
Firm × Election FE	Yes	Yes	Yes	Yes
Product × Time FE	Yes	Yes	Yes	Yes
Pseudo R^2	0.508	0.662	0.295	0.568
N	28,864	21,443	28,748	21,350

A Appendix

A.1 Variable Definitions

Variable	Description
Dependent variables	
Trade Indicator	Equal to one if the U.S. firm has either importing or exporting activities from the foreign country for a given product during the given half year, and zero otherwise.
Import Indicator	Equal to one if the U.S. firm has importing activities from the foreign supplier for a given product at the half year, and zero otherwise.
No. of Countries	The total number of countries that a firm trades with for a given product.
No. of Suppliers	The total number of suppliers that a firm trades with for a given product.
No. of New Countries	For a given product, the number of new countries that a firm adds relative to the previous half-year.
No. of New Suppliers	For a given product, the number of new suppliers that a firm adds relative to the previous half-year.
Main independent variables	
Distance increase	Indicator equal to one if the change in the ideological distance between the firm's CEO and the foreign country, as defined in equation (1), is non-negative, and zero otherwise.
Post	Indicator equal to one if the time period falls after a given election ($\tau = 0$ to $\tau = +4$), and zero otherwise.
Other variables	
Short Relationship	Equal to one if the U.S. firm has a short relationship with the foreign country in terms of trading a given product. Relationship intensity is measured as the share of active trading periods for a given product with the foreign country prior to the election. For a given product, we divide the number of half-years in which the firm has traded with the foreign country by the total number of half-years in which the firm has traded with any foreign countries prior to the election. The indicator "Short relationship" is then equal to one if the share of active trading periods is below the median for each election or below 0.5, and zero otherwise.

Continued on next page

Table A.1 – continued

Variable	Description
High Engagement	Equal to one if the CEO is highly politically engaged and zero otherwise. Political engagement is measured based on the CEO's voting frequency. Up to one year prior to each foreign election, we compute the average number of quarters between U.S. elections in which a CEO has voted up until one year prior to the election, and classify CEOs as "High Engagement" if their average is below the median (i.e., they vote frequently), and "Low Engagement" otherwise.
More Extreme Views	Equal to one if the CEO is likely to hold more extreme political views. We compute the ideology score of each CEO using data from Stanford's Database on Ideology, Money in Politics, and Elections (DIME) (see Bonica (2016)), which contains local, state and federal level campaign contributions from individuals and organizations between 1979 and 2024. For each CEO, we compute a weighted average of the DW-NOMINATE score and the CF score of the recipients based on their contributions, with weights proportional to the dollar amounts donated to each candidate. We then take the absolute value of the two scores and classify CEOs as having "More Extreme Views" if their respective weighted score is above the median, and as having "Moderate Views" otherwise.
High Visibility	Equal to one if the CEO is highly politically visible and zero otherwise. We use two proxies for CEOs' political visibility: one based on the CEO's prominence and the other on firm size. The indicator "High Visibility" is equal to one if the CEO is included in `http://www.nndb.com` (i.e., a prominent CEO) and zero otherwise, or is equal to one if the firm size at one year prior to the election is above the sample median and zero otherwise.

Internet Appendix to
"The Political Economy of Firm Networks: CEO Ideology and Global Trade"

This internet appendix presents additional results to accompany the paper "The Political Economy of Firm Networks: CEO Ideology and Global Trade." The contents are as follows:

Internet Appendix IA.A describes in more detail S&P Panjiva and the approach used to clean the data.

Internet Appendix IA.B provides additional descriptive information.

Internet Appendix IA.C provides additional analyses.

IA.A Details on Cleaning Panjiva Data

We clean the import and export data files from S&P Panjiva separately. For cleaning the import data, we follow Smirnyagin and Tsyvinski (2022) with the following steps:

1. We start with the universe of shipments imported by U.S. firms (i.e., consignees) during the sample period between 2007 and 2021. We remove observations with a missing firm identifier (*conpanjivaid*).

2. We then use the cross-reference table, provided by Panjiva, to match each *conpanjivaid* with its corresponding firm identifier in S&P Capital (*companyid*). We drop observations where *companyid* is missing.

3. We use the concordance file, provided by Panjiva, to match each firm (*companyid*) with its ultimate parent company (*ultimateparentcompanyid*), and drop observations where the *ultimateparentcompanyid* is missing.

4. We obtain the *gvkey* for parent firms by referencing the crosswalk file from WRDS, which provides the staring and ending dates for every *companyid-gvkey* pair. We attach the corresponding *gvkey* only if the observation falls within the specified time frame; otherwise, we remove the observations. All shipments associated with the same *gvkey* are considered to have been executed by the same firm.

5. We exclude observations with missing shipper information (*shppanjivaid*) or shipper country (*shpcountry*), and those where the shipper country is the United States.

6. Panjiva provides a series of HS code (*hscode*) based on the product descriptions for each shipment. We then extract the first two digits of each HS code to designate the product category, referred to as "product" for brevity. If a shipment contains multiple product categories, we allocate the volume, weight, and the value of goods of the shipment equally across these categories.

7. We then aggregate the cleaned importing data at the firm $\times$ product $\times$ foreign country $\times$ half-year level and firm $\times$ product $\times$ foreign supplier $\times$ half-year level .

For export data, we perform analogous steps:

1. We begin with the universe of shipments exported by U.S. shippers and remove observations with a missing shipper identifier (*shppanjivaid*).

2. We then apply the procedure described in steps 2 to 4 above to match each *shppanjivaid* to a *gvkey* to identify the ultimate parent company of a U.S. shipper. Observations that cannot be linked to a *gvkey* are dropped.

3. We exclude observations with missing buyer country information (*shpmtdestination*) or where the buyer country is the United States.

4. We repeat the above step 6 and aggregate the exporting data at the firm × product × foreign country × half-year level.

IA.B Additional Descriptive Information

Table IA.1: **List of Close Elections**

The table reports the foreign close elections in our sample in which the change in the ideological distance has the opposite sign for the Democratic and the Republican Party. Columns (1) and (2) list the countries with the corresponding election date. Column (3) and (4) indicates whether the Republican (Rep) or the Democratic (Dem) Party experience an increase and a decrease in the distance after the election.

Country Name	Election Date	Distance Increase	Distance Decrease
	(1)	(2)	(3)
Austria	15-OCT-2017	Dem	Rep
Bosnia and Herzegovina	07-OCT-2018	Dem	Rep
Belgium	13-JUN-2010	Dem	Rep
Belgium	26-MAY-2019	Rep	Dem
Bulgaria	12-MAY-2013	Rep	Dem
Denmark	05-JUN-2019	Rep	Dem
Estonia	01-MAR-2015	Rep	Dem
Finland	14-APR-2019	Rep	Dem
Finland	19-APR-2015	Rep	Dem
Croatia	11-SEP-2016	Rep	Dem
Iceland	27-APR-2013	Dem	Rep
Italy	24-FEB-2013	Rep	Dem
Latvia	04-OCT-2014	Dem	Rep
Moldova	30-NOV-2014	Rep	Dem
Netherlands	09-JUN-2010	Dem	Rep
Netherlands	12-SEP-2012	Dem	Rep
Ukraine	26-OCT-2014	Dem	Rep
United Kingdom	08-JUN-2017	Rep	Dem

Table IA.2: **Example: Change in Ideological Distance**

The table reports the ideology scores of the winning party ("Winner") and the winning party in the previous election ("Previous Winner") for the 2010 Dutch election (Panel A) and the 2012 French election (Panel B). Both elections are close elections with the vote share difference below 5%. It also reports the ideology score and the change in ideological distance (ΔDist.) for the U.S. Republican Party and the U.S. Democratic Party around the respective election. ΔDist. is computed according to equation (1) in the main paper.

Panel A: Dutch Election in 2010

Winner		Previous Winner		Democrats		Republicans	
Party	Ideology	Party	Ideology	Ideology	ΔDist.	Ideology	ΔDist.
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
People's Party for Freedom and Democracy	0.69	Christian Democratic Appeal	0.14	0.35	0.13	0.93	-0.55

Panel B: French Election in 2012

Winner		Previous Winner		Democrats		Republicans	
Party	Ideology	Party	Ideology	Ideology	ΔDist.	Ideology	ΔDist.
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Socialist Party	-1.11	Union for a Popular Movement	-0.47	0.35	0.64	0.93	0.64

Table IA.3: **List of Top 15 Product Categories**

The table reports the top 15 product categories in our sample by 2-digit HS code (Panel A), 4-digit HS code (Panel B), and 6-digit HS code (Panel C), respectively. Product codes are ranked by their average aggregate trading volume during the two-year period around foreign close elections. For each election and product, we compute the total trading volume of all firms during the event window, and then average across all close elections.

Panel A: 2-Digit HS Code Product Category

2-Digit HS Code	Product Category Description
(1)	(2)
39	Plastics and articles thereof
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof
47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard
40	Rubber and articles thereof
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard
26	Ores, slag and ash
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof
96	Miscellaneous manufactured articles
19	Preparations of cereals, flour, starch or milk; pastrycooks' products
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof
76	Aluminium and articles thereof
64	Footwear, gaiters and the like; parts of such articles

Panel B: 4-Digit HS Code Product Category

4-Digit HS Code	Product Category Description
(1)	(2)
2613	Molybdenum ores and concentrates
2711	Petroleum gases and other gaseous hydrocarbons
3901	Polymers of ethylene, in primary forms
3912	Cellulose and its chemical derivatives, n.e.c. or included, in primary forms
3918	Floor coverings of plastics, self-adhesive or not, in rolls or tiles; wall or ceiling coverings of plastics, in rolls of a width not less than 45cm
4002	Synthetic rubber and factice derived from oils, in primary forms or in plates, sheets or strip; mixtures of heading no. 4001 and 4002, in primary forms or in plates, sheets or strip
4703	Chemical wood pulp, soda or sulphate, other than dissolving grades
5502	Artificial filament tow
6908	Ceramic flags and paving, hearth or wall tiles, glazed; glazed ceramic mosaic cubes and the like, whether or not on a backing
8408	Compression-ignition internal combustion piston engines (diesel or semi-diesel engines)
8429	Bulldozers, graders, levellers, scrapers, angledozers, mechanical shovels, excavators, shovel loaders, tamping machines and road rollers, self-propelled
8457	Machining centres, unit construction machines (single station) and multi-station transfer machines for working metal
8711	Motorcycles (including mopeds) and cycles; fitted with an auxiliary motor, with or without side-cars; side-cars
9018	Instruments and appliances used in medical, surgical, dental or veterinary sciences, including scintigraphic apparatus, other electro-medical apparatus and sight testing instruments
9619	Sanitary towels (pads) and tampons, napkins (diapers), napkin liners and similar articles, of any material

Panel C: 6-Digit HS Code Product Category

6-Digit HS Code (1)	Product Category Description (2)
261310	Molybdenum ores and concentrates; roasted
261390	Molybdenum ores and concentrates; other than roasted
271119	Petroleum gases and other gaseous hydrocarbons; liquefied, n.e.c. in heading no. 2711
390110	Ethylene polymers; in primary forms, polyethylene having a specific gravity of less than 0.94
390140	Ethylene polymers; in primary forms, ethylene-alpha-olefin copolymers, having a specific gravity of less than 0.94
391211	Cellulose acetates; non-plasticised, in primary forms
400270	Rubber; synthetic, ethylene-propylene-non-conjugated diene rubber (EPDM), in primary forms or in plates, sheets or strip
470321	Wood pulp; chemical wood pulp, soda or sulphate, (other than dissolving grades), semi-bleached or bleached, of coniferous wood
481029	Paper and paperboard; coated with kaolin or other inorganic substances only, having more than 10% of mechanically processed fibres, (excluding light-weight paper), for writing, printing or other graphic purposes, in rolls or sheets
550200	Fibres; artificial filament tow
640411	Sports footwear; tennis shoes, basketball shoes, gym shoes, training shoes and the like, with outer soles of rubber or plastics and uppers of textile materials
842959	Mechanical shovels, excavators and shovel loaders; n.e.c. in item no. 8429.50
847050	Cash registers
871150	Motorcycles (including mopeds) and cycles; fitted with auxiliary motor, with internal combustion piston engine of a cylinder capacity exceeding 800cc, with or without side-cars; side-cars
961900	Sanitary towels (pads) and tampons, napkins (diapers), napkin liners and similar articles, of any material

IA.C Additional Figures and Tables

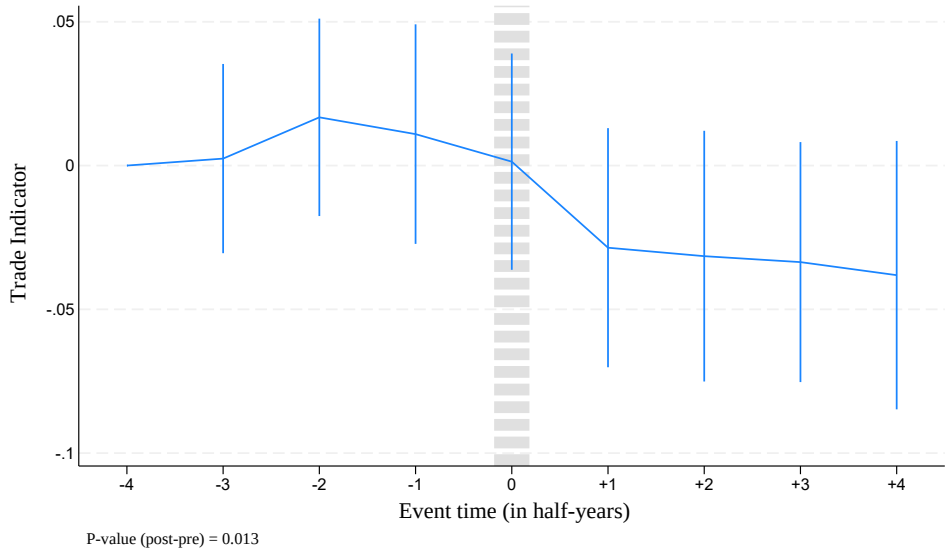


Figure IA.1: **Cross-Border Trade Around Foreign Elections: Including Non-Close Elections**

The figure repeats Figure 1 by examining all foreign elections instead of only focusing on foreign close elections. Other specifications remain the same. The corresponding 95% confidence intervals are based on standard errors that are clustered at the firm $\times$ destination country level.

Table IA.4: **Cross-Border Trade Around All Foreign Elections (Including Non-Close)**

The table repeats Table 2 in the main paper, after expanding the sample from close foreign elections to all foreign elections.

Dependent Variable:	Trade Indicator		
	(1)	(2)	(3)
Distance Increase × Post	-0.033***	-0.035***	-0.034***
	(-2.60)	(-2.77)	(-2.73)
Controls	No	No	No
Election × Time FE	Yes	Yes	Yes
Firm × Election FE	No	Yes	Yes
Product × Time FE	No	No	Yes
R^2	0.027	0.190	0.214
N	141,722	140,769	140,640

Table IA.5: **Cross-Border Trade Around Foreign Close Elections: Alternative Specifications**

The table reports alternative specifications for our baseline regression in column (3) of Table 2 in the main paper. In Panel A, we define close elections as the ones with vote share difference below 3% instead of 5%, or below the bottom quartile over all elections in Manifesto database. Panel B uses more stringent fixed effects. Panel C defines product category based on 4-digit HS code or 6-digit HS code. Panel D uses alternative dependent variables. Panel E uses alternative clustering of the standard errors.

	Coefficient	t-stat	N
	(1)	(2)	(3)
Baseline	–0.069	–2.67	28,864
Panel A: Alternative definition of close elections			
Vote share difference below 3%	–0.066	–2.39	23,808
Vote share difference below bottom quartile	–0.074	–2.69	22,847
Panel B: Alternative use of fixed effects			
Election × Product × Time FE and Firm × Election FE	–0.065	–2.30	24,999
Election × Time FE and Firm × Product × Election FE	–0.070	–2.94	28,531
Election × Product × Time FE and Firm × Product × Election FE	–0.066	–2.49	24,340
Panel C: Alternative definition of product categories			
4-Digit HS Code Product Category	–0.075	–2.36	61,567
6-Digit HS Code Product Category	–0.090	–2.81	74,674
Panel D: Alternative use of dependent variables			
Import Indicator	–0.053	–1.84	21,443
Export Indicator	–0.101	–2.32	8,964
Intensive Margin: Volume (TEU)	–3.279	–0.41	13,342
Panel E: Alternative standard error clustering			
By Firm × Country and Time	–0.069	–3.11	28,864
By Product × Country	–0.069	–3.50	28,864
By Firm and Time	–0.069	–2.91	28,864
By Firm and Country	–0.069	–2.71	28,864
By Firm	–0.069	–2.56	28,864

Table IA.6: **Reallocation Across Countries: Herfindahl-Hirschman Index**

The table examines the Herfindahl-Hirschman Index (HHI) of U.S. firms experiencing an increase versus decrease in ideological distance around a foreign close election. The HHI is calculated as the sum of squared shares of a firm's trading activities in each product and trading country. Trading activities are measured based on the trading volume, weight, or the value of goods in each product and country. All other specifications remain the same as in Table 2. t-statistics, reported in parentheses, are based on standard errors that are clustered at the firm × destination country level. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

Dependent Variable: HHI based on	Volume	Weight	Value
	(1)	(2)	(3)
Distance Increase × Post	0.018	0.018	0.021**
	(1.62)	(1.63)	(2.00)
Controls	No	No	No
Election × Time FE	Yes	Yes	Yes
Firm × Election FE	Yes	Yes	Yes
Product × Time FE	Yes	Yes	Yes
R^2	0.523	0.518	0.511
N	28,864	28,804	28,799