Political Distance and International Trade*

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Abstract

Rising geopolitical tensions and talk of a "New Cold War" have revived concerns about trade fragmentation. Yet, systematic evidence on how much political distance reduces trade is still scarce. I introduce political distance, based on UN General Assembly votes, as a novel trade cost in a structural gravity model. Using data on more than 50 years of bilateral and domestic trade among 166 countries, I estimate that an increase in political distance by the average within-pair standard deviation decreases trade by 3.1 percent, about half the effect of removing a regional trade agreement (RTA), controlling for tariffs and RTAs. The effects of past, current, and future political distance are consistent with a causal interpretation. The effect is stronger during periods of heightened political tensions and for simple-to-produce consumer goods and weaker among liberal democracies. Two counterfactuals illustrate that changes in political distance alone can cause sizable welfare redistribution.

Keywords: Political distance, gravity, trade fragmentation, friend-shoring, geopolitics
JEL-Codes: F12, F13, F14, F51

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1 Introduction

Geopolitical tensions have intensified in recent years, prompting concerns that trade could fragment along political lines, with some foreseeing a 'New Cold War'. Policy makers now speak of "friend-shoring" (Yellen 2022) and "strategic autonomy" (Michel 2020). At the same time, we still lack systematic, long-run evidence of how much such political realignments impact trade. In this paper, I quantify the impact of political distance on trade.

I calculate political distance based on countries' votes in the United Nations General Assembly (UNGA) on, for example, the status of Palestine or nuclear disarmament. Despite some early uses, these data have only recently found their way into the broader international economic literature and policy discussions.[1] UNGA votes are useful for measuring political distances because of near-universal membership and frequent roll calls (around 80 per year, on average) on a wide range of topics. The main measure of political distance relies on the squared difference in countries' votes (Cohen 1968). It widens during geopolitical confrontation, narrows during cooperation, and fluctuates with domestic political change.

For the empirical analysis, I use a panel of international and domestic trade for 166 countries from 1966 to 2020. I estimate a gravity equation and find that an increase in political distance by the average within-pair standard deviation decreases trade by 3.1 percent, roughly half the impact of removing an RTA (7 percent), while holding RTAs and tariffs constant. This magnitude is robust to, for example, excluding military interstate disputes or China, and to using other UNGA-based measures of political distance. Using alliance-based measures of political distance or controlling for cultural or religious distance halves the magnitude of the impact, but does not affect its statistical significance.

Only current and past (but not future) political distances reduce trade, consistent with a causal interpretation. This negative impact is stronger when geopolitical tensions are high (late Cold War, fragmentation since 2016) and weaker among liberal democracies. Sectoral heterogeneity points towards consumer preferences rather than contract enforcement concerns as the main mechanism.

Two counterfactuals for 2020 illustrate the general equilibrium welfare impact of changes in political distance alone. Under a New Cold War, political distances return to 1962 levels. For European countries, especially members of the former Warsaw Pact, welfare losses average around 1 percent, reaching up to 5 percent for some countries. Under European Strategic Autonomy, welfare gains from closer within-EU alignment would be almost fully offset by international realignment away from autocratic countries and towards democratic partners.

[1] See, for example, Wang (1999), Alesina et al. (2000), and Dreher et al. (2008) for earlier uses and Kleinman et al. (2024), Javorcik et al. (2024), and Gopinath et al. (2025) for more recent ones.

In more detail, I measure political distance based on the squared distance between countries' UNGA votes. Specifically, I use an established measure of voting similarity, a quadratically weighted κ (Cohen 1968; Häge 2011), and extend the existing data of Häge (2017) from 2015 to 2020. Political distance, then, is a simple function of the inverse of political similarity.[2] Political distance is not static: it widens during periods of geopolitical confrontation, narrows during cooperation, and fluctuates with domestic political change. For the United States and Russia, for example, political distance was particularly large during the Cold War and reached its historical low around 1995. Since then, it has slowly increased but remains below Cold War levels. For the United States and Canada, political distance dropped quickly after 2009, when there was unusually much common ground between the newly elected US administration under Barack Obama and the Canadian administrations of Stephen Harper and his successor Justin Trudeau. After Donald Trump's election in the US in 2017, however, political distance quickly returned to its historical average. More generally, I also document that the dispersion of political distances was particularly high during the Cold War, reached a historical low around the end of the Cold War, and has since increased to levels previously observed during the 1970s.

To isolate the direct effect of political distance on trade, I control for traditional trade costs, specifically, RTAs and tariffs. I use Mario Larch's Regional Trade Agreements Database from Egger et al. (2008) and compute average bilateral tariffs from the sectoral TradeProd panel.

The resulting panel covers trade flows from TradeProd (Mayer et al. 2023) at the level of nine sectors, as well as political distance, tariffs, and RTAs. It features 166 countries or more than 26,000 country pairs from 1966 to 2020 and it is well-suited for estimating gravity models from variation within country pairs over time. The average number of observations per country-pair is 39 years, and more than one quarter of country pairs are tracked over the entire sample period of 55 years. The panel covers roughly 90 percent of global annual output on average and 97 percent since 2000. Political distance is 0.82 on average, with a standard deviation of 0.3 over all observations (total) and an average within-pair standard deviation of 0.16 (within). The ratio of within to total standard deviation is 0.54, quite close to comparable ratios for the presence of trade agreements (0.3) and tariffs (0.26). Hence, for all trade costs, but particularly political distance, there is substantial variation within country pairs that identifies the parameters.

I estimate a structural gravity equation with political distance via Poisson pseudo-maximum likelihood (PPML), including the standard set of exporter-time, importer-time,

[2]The possible range of κ is from -1 (maximum disagreement) to 1 (maximum agreement). I define political distance, pd, as $-(\kappa - 1)$, such that, $pd \in [0, 2]$.

pair, and international-trade-by-year fixed effects (Silva et al. 2006; Yotov et al. 2016; Correia et al. 2020), while controlling for RTAs and tariffs.

The results are clear-cut: increased political distance predicts significantly less bilateral trade. The baseline estimate of the coefficient on political distance is $\widehat{\beta} = -0.2$, and it is significant at all conventional significance levels. It implies that an increase in political distance by the average within-pair standard deviation of 0.16 is associated with a drop in bilateral trade by 3.1 percent, holding constant tariffs and trade agreements. This effect is roughly half the size of removing an RTA between the two countries (7 percent) and equal to an increase in tariffs by 1.2 percent. This magnitude is robust to excluding military interstate disputes and China, to using other UNGA-based measures of political distance, to using interval data, to alternative fixed effects, and to using OLS for estimation. Using slower-moving alliance-based measures of political distance or controlling for cultural or religious distance (Pellegrino et al. 2025) halves the magnitude of the effect of political distance on trade, but does not affect its significance.

I extend the baseline regression with leads and lags of political distance in a Granger-style specification (Baier and Bergstrand 2007; Wooldridge 2008). The coefficients on leads of political distance are very close to zero and not significant, neither individually nor jointly. The coefficients on current and lagged political distance, however, are negative and highly significant, both individually and jointly. This result remains unchanged when replacing political distance in $t-3$ and $t+3$ by even larger lags and leads ($t \pm 5$) and when omitting international-trade-by-year fixed effects. Hence, only past values of political distance matter for trade, but not future values. This pattern is consistent with political distance causing a decrease in trade rather than the reverse. Intuitively, political distance may raise perceived risk and compliance frictions (standards enforcement, dispute resolution), acting like an iceberg cost even conditional on tariffs and RTAs.

To learn more about the economic mechanisms behind this result, I investigate the heterogeneity across time, country pairs, and sectors. The effect is stronger in periods of heightened political tensions, such as the late Cold War and since 2016, but muted during the rise and peak of globalization (1990s-2000s). It is weaker among liberal democracies as classified by Lührmann et al. (2018) and stronger for other country pairs. Sectoral trade data reveal that the effect is particularly pronounced in consumer-facing goods with low contract or R&D intensity. Overall, these patterns are consistent with (i) salience of security or values in trade decisions during tense periods, (ii) insulation from drift among liberal democracies via stronger institutions, and (iii) higher substitutability and visibility in consumer markets, where consumers may boycott products from specific countries for political reasons.

Afterwards, I quantify the general equilibrium welfare changes of two counterfactuals in

the year 2020 that impact political distance only, leaving RTAs and tariffs unchanged, and that contribute to ongoing geopolitical debates: a New Cold War and European Strategic Autonomy. I use a simple one-sector Armington model. It abstracts from sectoral heterogeneity and input-output linkages, which can substantially amplify aggregate trade and welfare effects of policy shocks (Caliendo et al. 2015; Costinot et al. 2014). Hence, my results provide a conservative lower bound on the absolute value of welfare changes. I calibrate the trade elasticity to 4, consistent with Simonovska et al. (2014).

I simulate a New Cold War with political distances reset to levels of the Cold War in 1962. The counterfactual distance among members of the Soviet Union is set to 0. When both countries in a 2020 pair were UN members in 1962, I use historically observed political distances and otherwise approximate them from legal ancestors or historical distances of their top-ten modern-day political neighbors. The counterfactual distance between the US and Russia, for example, increases by roughly one third, implying a drop in trade by 15 percent given the effect of political distance estimated for the post-2016 period. After accounting for general equilibrium effects, I find that trade reshuffling is strongest for countries of the former Warsaw Pact. Welfare effects are zero, on average. For EU countries and members of the former Warsaw Pact, however, welfare decreases by 1 percent, on average, and by up to 5.5 percent in of these countries.

The second counterfactual studies the potential welfare impact of European Strategic Autonomy (ESA), an EU initiative to increase self-sufficiency and within-EU alignment. I model ESA by setting political distances among EU members to 0, reflecting closer within-EU political alignment. For pairs of EU- and non-EU countries, I increase political distances for autocracies by 10 to 20 percent and decrease them for democracies by the same amounts, reflecting historically observed levels of political realignment. I show that welfare gains from closer internal alignment are almost fully offset by strategic realignment to non-EU countries, with overall welfare gains for EU countries averaging 0.04 percent.

Together, these results provide the first long-run, global evidence that political distance systematically reduces trade even outside episodes of open conflict. They show that geopolitics matters not only during crises but also through gradual, persistent shifts in political alignment. Quantifying these effects helps to assess the broader economic costs of rising fragmentation.

The rest of the paper is organized as follows. In the remainder of the introduction, I place the paper's contribution in the context of the literature. Section 2 introduces the gravity model as the lens for the analysis and the data used for the estimation. In Section 3, I show the empirical results. Section 4 uses these estimates and quantifies the welfare effects of a New Cold War and European Strategic Autonomy. The final section concludes.

Contribution to the literature This paper contributes to the literature on structural gravity, political distance and economic outcomes, and fragmentation and decoupling.

First, this paper builds upon the structural gravity literature. I use a generalized gravity equation that is consistent with a large class of models and enables me to quantify the general equilibrium welfare effects of a counterfactual New Cold War (Arkolakis et al. 2012; Baier, Yotov, et al. 2019). I follow best practices for the estimation (Yotov et al. 2016; Silva et al. 2006) and the inclusion of fixed effects (Bergstrand et al. 2015; Larch and Yotov 2024). My contribution here is to quantify the impact of political distance as a novel, bilateral trade cost in a theory-consistent empirical framework.

Second, this paper is related to the literature on the impact of political distance on economic outcomes. One branch of this literature shows that international capital flows decrease in political distance (IMF 2023; Kempf et al. 2023). More closely related to my paper is work on the impact of political distance on trade. Gopinath et al. (2025) use a difference-in-difference model with a binary block-membership indicator and international trade data. They document that trade across country-blocks drops significantly after the start of the Cold War and the Russian invasion of Ukraine. Hakobyan et al. (2023) show there is sectoral heterogeneity in the association of trade and alliances using cross-sectional data for 2017 to 2019. Relative to these papers, I use a continuous measure of political distance and a panel of more than 50 years of international and domestic trade, which also allows me to quantify welfare effects of shocks, as well. Kleinman et al. (2024) show that economic dependence fosters political alignment, highlighting a reverse channel. I flexibly test for both directions of causality and find support for the notion that political distance causes trade. There is also recent work (Thoenig 2024; Korovkin et al. 2023) showing that wars decrease bilateral trade. My contribution here is to show that such episodes are part of a broader, systematic pattern that also holds when dropping such military interstate disputes: political distance consistently reduces trade, not only in war years but across the entire post-1960 global history.

Third, I contribute to the literature on fragmentation and decoupling scenarios. Javorcik et al. (2024), Felbermayr et al. (2023), and Eppinger et al. (2021) consider decoupling scenarios involving, for example, changes in tariffs or nontariff barriers, which lead to welfare losses. I contribute to their work by showing that changes in political distance alone can have sizable welfare impacts.

In sum, this paper is the first to link political distance to trade in a theory-consistent framework. Treating political distance as a novel trade cost, it connects the gravity literature with geoeconomic fragmentation.

2 Gravity and political distance

In this section, I provide a brief review of the theoretical background of gravity equations and the data used for their estimation.

2.1 Many roads lead to gravity

Gravity equations are a workhorse in international trade empirics. Although they were once criticized for lacking theoretical foundations, subsequent research has shown that they arise naturally from many models. Arkolakis et al. (2012) provide a unified framework and show that gravity equations follow from a wide range of trade models, for example, the Ricardian model, Armington (1969), Anderson (1979), Krugman (1980), Eaton et al. (2002), and Melitz (2003). Consequently, gravity provides a natural framework to quantify the impact of political distance on trade. In the notation of Arkolakis et al. (2012), gravity implies that the value of goods that flow from country i to country j, $X_{ij,t}$, can be written as

$$X_{ij,t} = \exp\left(A_{i,t} + B_{j,t} + C_{ij} + \gamma\, \tau_{ij,t}\right), \tag{1}$$

where $A_{i,t}$ and $B_{j,t}$ are time-varying exporter- and importer-specific terms, and C_{ij} are time-constant, but pair-specific terms reflecting trade costs, like common languages. $\tau_{ij,t}$ is the logarithm of bilateral, time-varying trade costs that take center stage in modern estimation of gravity equations. This representation highlights how bilateral trade depends on country-specific terms and trade costs. Arkolakis et al. (2012) show that the general equilibrium welfare change of any shock can be computed from the change in the share of domestic consumption $\widehat{\lambda}_{jj} = \lambda'_{jj}/\lambda_{jj}$ and the trade elasticity ε:

$$\widehat{W}_j = \widehat{\lambda}_{jj}^{-1/\varepsilon}. \tag{2}$$

I will use this result to illustrate the welfare impact of two counterfactuals later. Best estimation practices (Yotov et al. 2016) involve using panel data on international and domestic trade flows, along with time-varying trade costs, accounting for other trade costs via rich sets of fixed effects. Following these ideas, the empirical work has traditionally considered two main time-varying trade costs: tariffs and trade agreements.

I build on this established approach and introduce political distance as a novel trade cost the empirical gravity equations. The following two sections detail the data I use for trade flows, the traditional trade cost tandem of RTAs and tariffs, and political distance.

2.2 Data

Estimating modern structural gravity models requires panel data on domestic and international trade, as well as bilateral and time-varying trade costs. In what follows, I describe the data.[3]

Trade flows For intra-national and international trade flows, I use TradeProd (Mayer et al. 2023), which reports trade for nine industrial sectors based on ISIC Rev. 3 two-digit codes and with earlier versions used by Bergstrand et al. (2015) and Larch, Monteiro, et al. (2025). Since I measure political distance only at the bilateral and not at the sectoral level, I aggregate sectoral trade flows to the bilateral level for most of this analysis and use the sectoral heterogeneity to investigate potential mechanisms later.

Political distance For political distance, I compile a novel panel that uniquely covers the period from 1945 to 2023. More specifically, I use countries' voting behavior on resolutions at the UNGA as provided by UN Digital Library (2024). Figure 1a shows the total number of resolutions each year. On average, countries vote on roughly 80 resolutions per year. They generally cover a wide range of topics. Resolutions on conflicts and security, or human rights, however, are relatively frequent and are covered in 25 percent and 15 percent of resolutions, on average. To measure political distance, I generally consider votes on resolutions of all topics and use votes on resolutions related to human rights and, more generally, other measures in robustness checks.

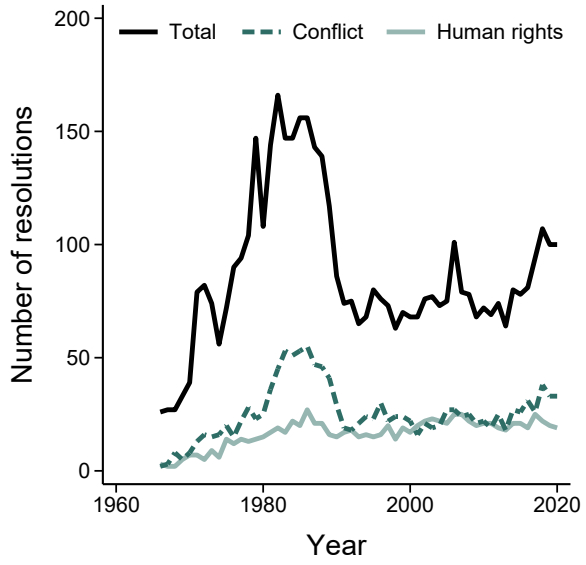
For every resolution, countries can vote yes, no, or abstain. Countries may also be absent, which, in line with the literature, I treat as equivalent to abstaining. Figure 1b shows the joint distribution of Russian and US votes in 1980 on 108 resolutions passed that year. Both countries cast the same vote on 15 percent of resolutions. On the remaining 85 percent of resolutions, they disagree, strongly so on more than half of all resolutions, where one country votes yes and the other no.

To quantify political distance based on countries' votes at the UNGA, I build upon existing measures of political similarity. I adapt them to reflect political distance, parallel to geographical distance, which is already prominently featured in gravity models. More specifically, I start with the squared-distance based κ as proposed by Cohen (1968). It measures political similarity and ranges from -1 (maximum disagreement) to $+1$ (maximum agreement), where 0 indicates no agreement beyond simple chance. To obtain a measure of political distance with 0 as a lower bound, I take κ, subtract one, and then flip the sign of the result. Starting point for political distance between countries i and j in year t are their votes v_{ir} and v_{jr} on R_t resolutions in t. Following Häge (2011), I treat abstaining and

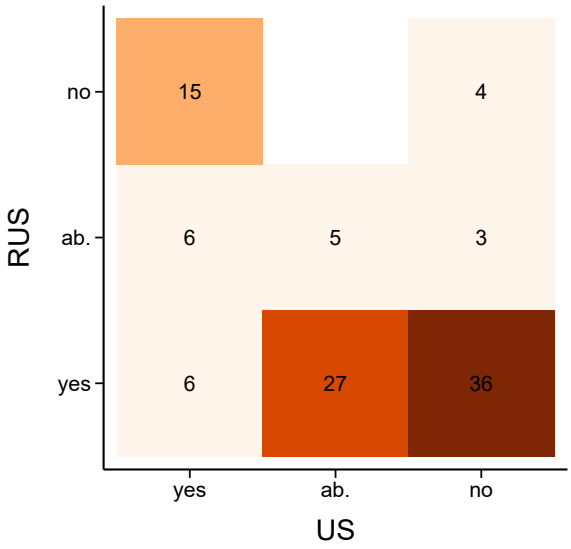
[3]Table A.1 provides the exact versions and links to all data sources.

Figure 1: Resolutions at the UNGA, votes, and political distance

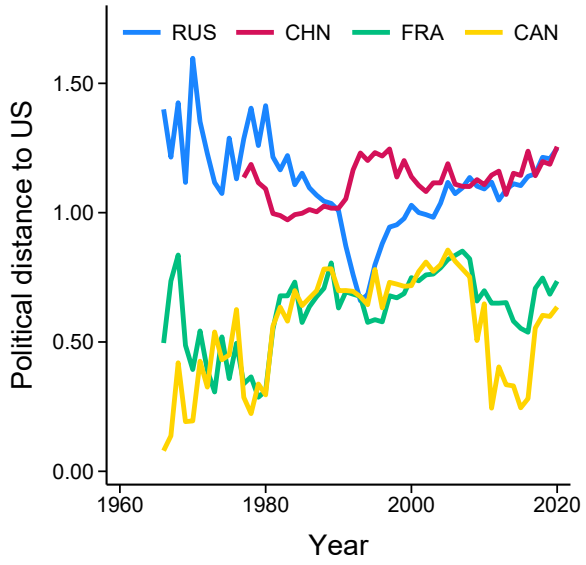
(a) Resolutions at the UNGA



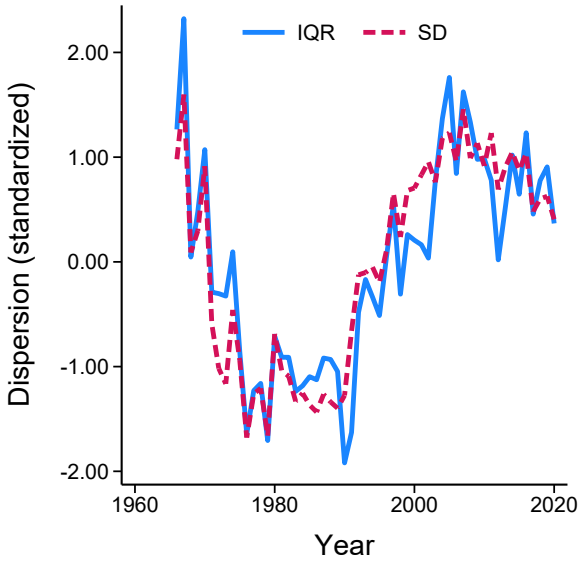
(b) Russian and US votes in 1980



(c) Political distance to the US



(d) Fragmentation across all countries



Notes: Panel (a): annual totals of the number of resolutions voted on in the UNGA and the number of resolutions on conflict (keyword in subject, title, or agenda title: conflict, ceasefire, peace, disarmament, proliferation, nuclear, chemical, biological, weapons, security) and human rights (human rights, discrimination, equality, minority, indigenous people). Panel (b): joint distribution of votes of the US and the Soviet Union (labelled as Russia) in 1980. Numbers give the frequency in percent of every possible combination of votes (yes, abstain/absent, no). Panel (c): political distances of (People's Republic of) China, Russia (or the Soviet Union), France, and Canada from the US. Panel (d): annual standard deviation and inter-quartile range of political distance between all country pairs. Both time series are standardized.

absenting as one vote category. Hence, votes are coded as 1 (yes), 2 (abstain/absent), and 3 (no). Political distance is then calculated as

$$\text{political distance}_{ij,t} = -(\kappa_{ij,t} - 1) = \frac{\sum_r (v_{i,r} - v_{j,r})^2}{\sum_r (v_{i,r} - \overline{v}_i)^2 + \sum_r (v_{j,r} - \overline{v}_j)^2 + \sum_r (\overline{v}_i - \overline{v}_j)^2}.$$

The first equality follows from my definition of political distance. The second equality substitutes the definition of κ (Häge 2011). Hence, political distance is non-negative and equal to 0 for intra-national trade and has a maximum of 2 when there is perfect disagreement.

Figure 1c illustrates the resulting time-series. It shows the political distance of China, Russia, France, and Canada towards the US from 1966 to 2020. France and Canada are politically closer to the US than China and Russia, particularly during the Cold War. While the distance between the US and China remains relatively stable during the sample period, there is variation in the US distances to Russia, France, and Canada. The US-Russia distance is highest in 1970 at 1.70. Towards the end of the Cold War, it decreased by 60 percent, reaching its historical low (0.66) in 1993. Since then, it has increased steadily, reaching 1.25 in 2020, well below its historical high.[4]

The US-France distance was relatively high until 1969, when French president Charles de Gaulle, who pursued a policy of national independence, resigned from office. Afterward, the US-France distance moved in tandem with the US-Canada distance: both increased towards the end of the Cold War, when the lack of a common enemy may have allowed pre-existing differences in interests and values to resurface. One notable period for the US-Canada distance is the period from 2011 to 2016, when political distance was particularly low and near the historical minimum in the Cold War. This might be driven by significant common ground, for example, on climate policy, between the US administration of Barack Obama and the Canadian administrations of Stephen Harper and Justin Trudeau. The political distance between countries increased rapidly after 2017, coinciding with Donald Trump's election. The dispersion of US distances to these four countries was high during the Cold War and rather low after the Cold War.

Figure 1d shows that this pattern also holds more generally when considering the dispersion of political distance (measured by its standard deviation or interquartile range in a given year) across all country pairs. Dispersion was high during the Cold War, reached its minimum at the end of the Cold War, and has since then increased again.

[4]This behavior is not shared by another frequently used measure of political distance: the ideal-point distance of Bailey et al. (2017). Figure A.2 compares that distance and my κ-based measure. It shows that for the distances between the US and Russia, as well as the US and China, only the κ- based measures have increased since 2015, in response to geopolitical tensions. In contrast, ideal-point distances have remained flat or decreased moderately.

Other trade costs For other trade costs, that is, tariffs and trade agreements, I rely on well-established sources as well. I compute unweighted average bilateral tariffs (after setting missing values to zero) from sectoral data in TradeProd. For trade agreements, I use Mario Larch's Regional Trade Agreements Database from Egger et al. (2008), which is also used by Heid et al. (2016) and Lee et al. (2023).

2.3 Descriptive statistics

The combined panel covers trade within and between UN member states and trade costs. Table 1 reports descriptive statistics for the dimensions of the panel in Panel (a) and the main variables in Panel (b).

The panel spans 55 years, from 1966 to 2020, averaging more than 18,000 observations per year, with a higher number of observations available in recent years. See Figure A.3a for details. Countries are identified by dynamic codes from TradeProd, which account for territorial changes, distinguishing, for example, the Soviet Union and Russia, as well as Germany before and after the reunification in 1990. Overall, the panel comprises 166 countries, with an average of more than 6,000 observations per country as an importer and as an exporter. The available number of country pairs (26,109) is quite close to, but below the fully-square benchmark ($27,556 = 166^2$). Hence, a very small number of country pairs are never observed trading, likely due to data availability or embargoes. On average, there are 39 observations per country pair, with a median of 40. The highest possible number of observations per country pair (given no territorial changes) is 55, which is available for more than one quarter of all country pairs. See Figure A.3b for a histogram of observations per country pair.

Overall, the panel features more than 1 million observations at the country-pair-year level, as shown in Panel 1b. The main variables are as follows. Trade flows include intra-national and international transactions, measured in millions of current US dollars (USD). The distribution is strongly right-skewed, with a mean of 920 million USD and a median of 0.18 million USD. As shown in the "Share(0)" column, around 30 percent of all observations record zero trade. Cross-sectional variation is substantial: the overall standard deviation is around 50 billion USD, far exceeding the average within-country-pair standard deviation of 627 million USD. Political distance averages 0.82. For example, this corresponds to the political distance between the US and Russia in the early 1990s, after the signing of the START II treaty limiting nuclear arsenals. Political distance is zero for domestic trade, which accounts for one percent of all observations. Variation is sizable both across and within pairs, with the within-pair standard deviations around half of the total. Regional trade agreements

Table 1: Descriptive statistics

(a) Panel dimensions

Variable	Unique values	Mean	Median	1. Quartile	3. Quartile
Year	55	18,357	20,676	14,449	23,188
Origin country	166	6,082	7,026	4,429	7,206
Destination country	166	6,082	7,183	4,482	7,666
Country pairs	26,109	39	40	28	55

(b) Panel variables

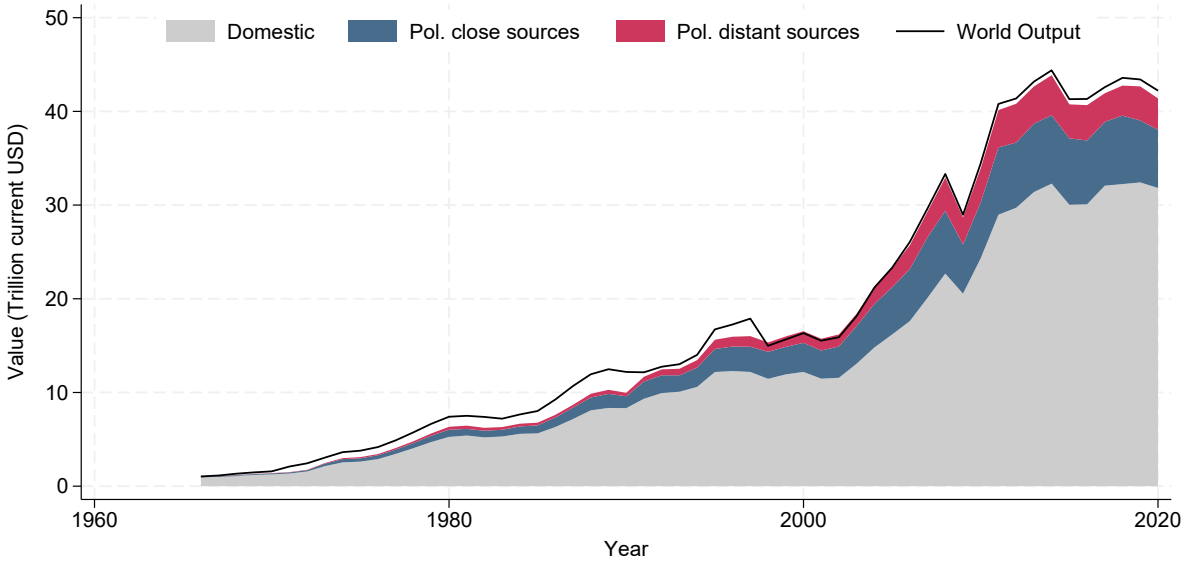
Variable	Obs.	Mean	Median	Share(0)	SD Total	SD Within	$\frac{\text{SD Within}}{\text{SD Total}}$
Trade (Million USD)	1,009,633	920.79	0.18	0.29	50,469.61	627.33	0.01
Political distance	1,009,633	0.82	0.90	0.01	0.30	0.16	0.54
Any trade agreements	1,009,633	0.15	0.00	0.85	0.36	0.11	0.30
Tariff	1,009,633	0.12	0.10	0.09	0.13	0.03	0.26

Notes: Panel (a): Countries are identified by dynamic codes from TradeProd, which account for territorial changes. Mean, median, and first and third quartiles are computed for the number of observations per unique value of the variable. See Table A.2 for a detailed list of coverage by country.
Panel (b): Trade denotes aggregate exports in millions of current USD from TradeProd. Political distance is based on κ (Cohen 1968) and combines data from Häge (2017) and own calculations based on UNGA voting data. Any trade agreements indicate whether any RTAs are in force between the countries. It is taken from Mario Larch's Regional Trade Agreements Database. Average tariff is the unweighted average bilateral tariff computed from TradeProd. Share(0) reports the share of observations where the variable is zero. SD (total) is the standard deviation computed over the entire sample. SD (within) is the average of the within-pair standard deviations. SD Within/ SD Total is the ratio of both standard deviations.

(RTAs) occur in 15 percent of observations, with most variation concentrated across pairs rather than over time, although within-pair variation remains non-negligible. Tariffs average twelve percent and are zero in about nine percent of cases. As with RTAs, most variation reflects cross-sectional differences, but there is also meaningful within-pair movement over time. The considerable within-country pair variation in all trade costs (see the last two columns of Table 1b), combined with the substantial number of country pairs, is central for identification. In particular, it enables the estimators to exploit changes within country pairs rather than solely relying on cross-sectional differences.

To illustrate the extent to which the panel tracks global production and consumption, I calculate the annual total trade within and across countries and compare it to global manufacturing output. Figure 2 shows the results. In more detail, the figure shows world manufacturing output as a solid black line and the value of aggregate trade-flow types as colored areas. Specifically, I distinguish domestic trade flows, where the origin and destination countries coincide, from goods imported from countries whose political distance to the destination is below (close) or above the median (distant).

Figure 2: World manufacturing output and world trade



Notes: The figure illustrates the coverage of the combined gravity dataset. The black line is world manufacturing output computed from data by the UN Industrial Development Organization. Solid areas represent the trade flows in the combined gravity dataset and feature only trade flows where the political distance between the origin and destination countries can be computed. When goods are consumed domestically, I label them as such. When goods are imported from other countries, I distinguish source countries based on their political distance from the destination country. Specifically, for each year and destination country, I distinguish origin countries with a political distance below the median (close) or above (distant).

Aggregating across destination types, the final sample tracks more than 90 percent of world output and more than 97 percent since 2000, with countries unobserved in the panel accounting for only 3 percent of annual global output. Overall, imports from close sources are larger than imports from distant sources, and their sum equals roughly one quarter of global consumption, with the remaining three quarters stemming from domestic production.

When comparing consumption by destination type, there is a decrease in the share of goods consumed domestically. In the 1970s, the domestic consumption share was above 90 percent. The remainder was predominantly imported from close countries, while distant countries accounted for less than two percent. Since then, however, imports, especially from distant countries, have grown faster than domestic production until the Great Financial Crisis around 2008. Since then, imports from either type of country stagnated, while (log) domestic consumption grew moderately by 3 percent per year, on average (see Figure A.1), well in line with what The Economist (2019) dubbed "Slowbalisation".

3 Results

This section introduces the estimation framework and presents baseline results, followed by robustness checks, a discussion of identification, and heterogeneity analyses.

To estimate gravity equations, such as Equation 1, several studies established a set of best practices (see, for example, Baldwin et al. 2007; Head et al. 2014; Yotov et al. 2016). Adopting these best practices and adding political distance as a novel trade cost yields the empirical gravity equation:

$$X_{ij,t} = \exp\left(\pi_{i,t} + \pi_{j,t} + \pi_{i\neq j,t} + \pi_{ij} + \beta \,\text{political distance}_{ij,t} + \boldsymbol{\theta}' \mathbf{z}_{ij,t}\right) \cdot \varepsilon_{ij,t}. \tag{3}$$

Here, $X_{ij,t}$ denotes the value of goods traded from exporter i to importer j in year t. The data cover both international and intra-national trade flows, including zero-valued flows when no trade is reported. The right-hand side of the empirical gravity equation features fixed effects and time-varying bilateral trade costs.

The fixed effects are defined as follows. Time-fixed effects for each importer and exporter, $\pi_{j,t}$ and $\pi_{i,t}$, correspond to multilateral resistance terms as shown by Fally (2015). At an empirical level, these fixed effects control for any factors that equally affect a country's imports or exports to all destinations. Pair-fixed effects, π_{ij}, absorb all time-constant bilateral trade costs, such as geographical distance, contiguity, common languages, and colonial links. International-trade-by-year fixed effects $\pi_{i\neq j,t}$ capture globalization trends, for example, technological advances and multilateral liberalisation rounds (globalization fixed effects, for short; see Bergstrand et al. 2015; Larch and Yotov 2024).

The coefficient of interest, β, measures the semi-elasticity of bilateral trade flows with respect to political distance. Since all time-constant bilateral trade costs are absorbed by π_{ij}, β is identified from within-pair changes over time, after accounting for country-time effects and all time-invariant bilateral characteristics, for example, colonial linkages or borders. To measure the direct impact of political distance, I include the log of 1+mean bilateral ad-valorem tariffs and an indicator for any trade agreement as traditional trade costs in the vector $\mathbf{z}_{ij,t}$.

The equation is estimated using the Poisson pseudo-maximum likelihood (PPML) estimator (Silva et al. 2006), implemented via the `ppmlhdfe` command in Stata (Correia et al. 2020). PPML is well-suited to gravity estimation as it (i) accommodates heteroskedasticity, (ii) uses the multiplicative functional form implied by theory, and (iii) allows for the inclusion of zero trade flows without introducing transformation bias (see also, for example, Yotov 2022; Baier, Yotov, et al. 2019).

Table 2: Main results

	(1)	(2)	(3)	(4)
Political distance				
based on κ, UNGA data	-0.20^{***}	-0.21^{***}	-0.19^{***}	-0.20^{***}
	(0.05)	(0.05)	(0.05)	(0.05)
Traditional trade costs				
Ln(1+Tariff)		-2.86^{***}		-2.73^{***}
		(0.30)		(0.31)
Any trade agreements			0.13^{***}	0.07^{**}
			(0.03)	(0.03)
Number of observations	1,009,633	1,009,633	1,009,633	1,009,633
Mean pair-SD of PD	0.16	0.16	0.16	0.16
1-SD effect of PD on trade (pc.)	-3.18^{***}	-3.20^{***}	-2.97^{***}	-3.10^{***}

Notes: Results for aggregate trade in goods from country i to country j in year t based on TradeProd. Trade includes intra-national and international flows, and flows with a value of 0 in the case of no reported trade. Political distance is based on countries' votes for all UNGA resolutions. Mean bilateral tariffs are from TradeProd. The indicator for any economic integration agreements is from Mario Larch's RTA Database (Egger et al. 2008). Mean pair-SD of PD reports the mean within-pair standard deviation of the measure of political distance used, $\bar{\sigma}_{pd}$. 1-SD effect of PD on trade reports the percent impact of an increase in political distance $\bar{\sigma}_{pd}$, $100 \cdot (\exp(\bar{\sigma}_{pd} \cdot \beta_{pd}) - 1)$, and its significance level computed via the delta-method. All specifications include fixed effects for importer-year, exporter-year, pair, and international-trade-by-year. Standard errors are clustered at the importer–exporter level and listed in brackets below the point estimate. *** p<0.01, ** p<0.05, * p<0.1.

3.1 Main results and robustness

I present the main results in Table 2. In Column (1), I report the baseline effect of political distance and include only political distance as an explanatory variable without additional controls. The coefficient for political distance is -0.2 and statistically significant. It implies that a one-standard-deviation increase in political distance reduces trade by around 3 percent, as shown in the bottom row of the table. More specifically, consider the mean within-pair standard deviation of 0.16 from Table 1b as a relatively common change in political distance. This is quite close to, for example, the increase in political distance between the US and Russia from 2021 to 2022 (0.15). The estimated coefficient implies that an increase in political distance within a country pair by 0.16 is associated with a drop in bilateral trade by 3.1 percent ($= \exp(-0.2 \cdot 0.16) - 1$). This is equivalent to an increase in bilateral tariffs by 1.2 percent. A larger increase, for instance, two standard deviations, lowers trade by around 6 percent, a magnitude similar to removing an RTA between the two countries (7 percent).

Columns (2) to (4) sequentially add traditional trade costs as controls: tariffs, RTAs, and both jointly. The coefficient on political distance remains stable across specifications, suggesting that it captures variation in trade not explained by tariffs or RTAs and that the

Table 3: Robustness

	(1)	(2)	(3)	(4)	(5)	(6)
Political distance						
based on κ, UNGA data	-0.21^{***}	-0.22^{***}				
	(0.05)	(0.06)				
based on κ_{qual}, UNGA data			-0.25^{***}			
			(0.05)			
based on π, UNGA data				-0.15^{***}		
				(0.04)		
based on κ, alliance data					-0.40^{***}	
					(0.08)	
based on π, alliance data						-0.38^{***}
						(0.08)
Traditional trade costs						
Ln(1+Tariff)	-2.75^{***}	-1.96^{***}	-2.73^{***}	-2.73^{***}	-3.32^{***}	-3.31^{***}
	(0.32)	(0.27)	(0.32)	(0.31)	(0.40)	(0.40)
Any trade agreements	0.06^{*}	0.09^{**}	0.07^{**}	0.07^{**}	0.09^{**}	0.09^{**}
	(0.03)	(0.03)	(0.03)	(0.03)	(0.04)	(0.04)
Number of observations	1,007,806	996,506	1,009,211	1,009,633	815,948	815,948
Mean pair-SD of PD	0.16	0.16	0.13	0.20	0.03	0.03
1-SD effect of PD on trade (pc.)	-3.25^{***}	-3.47^{***}	-3.23^{***}	-2.82^{***}	-1.01^{***}	-0.97^{***}

Notes: Robustness checks for the main results. Column (1) excludes observations for episodes of military interstate disputes from the estimation sample. Column (2) excludes China from the estimation sample. Columns (3) and (4) use alternative measures of political distance based on UNGA voting data, and Columns (5) and (6) use the same measures but data on alliance membership instead. Additional robustness checks are in Table A.4. All specifications include fixed effects for importer-year, exporter-year, pair, and international-trade-by-year. Standard errors are clustered at the importer–exporter level and listed in brackets below the point estimate. *** p<0.01, ** p<0.05, * p<0.1.

magnitude of the effect of political distance remains unchanged when controlling for tariffs and regional trade agreements. Conditional on globalization-fixed effects, the coefficients for tariffs (-2.8) and RTAs (0.07 to 0.13) are at the lower end of typical values in the literature. Omitting these fixed effects, as in Column (5) of Table A.4b, yields estimates for tariffs (-4.8), quite close to Head et al. (2014) and Simonovska et al. (2014), and RTAs (0.17), comparable to Larch and Yotov (2024). In what follows, I use the specification in Column (4) as the baseline specification.

Next, I show the robustness of the baseline result in Table 3. Columns (1) and (2) use the baseline specification but omit specific observations. Columns (3) to (6) show results for alternative measures of political distance.

Specifically, Column (1) shows that the result is not driven by country pairs with ongoing

military disputes. Since wars are known to depress trade (Thoenig 2024; Federle et al. 2025), I exclude these episodes from the estimation sample. To identify such episodes, I use the most recent data on militarized interstate disputes (MID, Palmer et al. 2022), which covers the sample period up until 2014. From the MID data, I identify country pairs and years characterized by any form of dispute, ranging from threats to use force to an open war. Until 2014, around 1,800 observations are characterized by such ongoing disputes, and Column (1) of Table 3 shows that the results remain unchanged when dropping these observations (flagged until 2014) from the estimation sample. Column (2) drops China from the estimation sample and shows that, if anything, China attenuates the average effect rather than driving it.

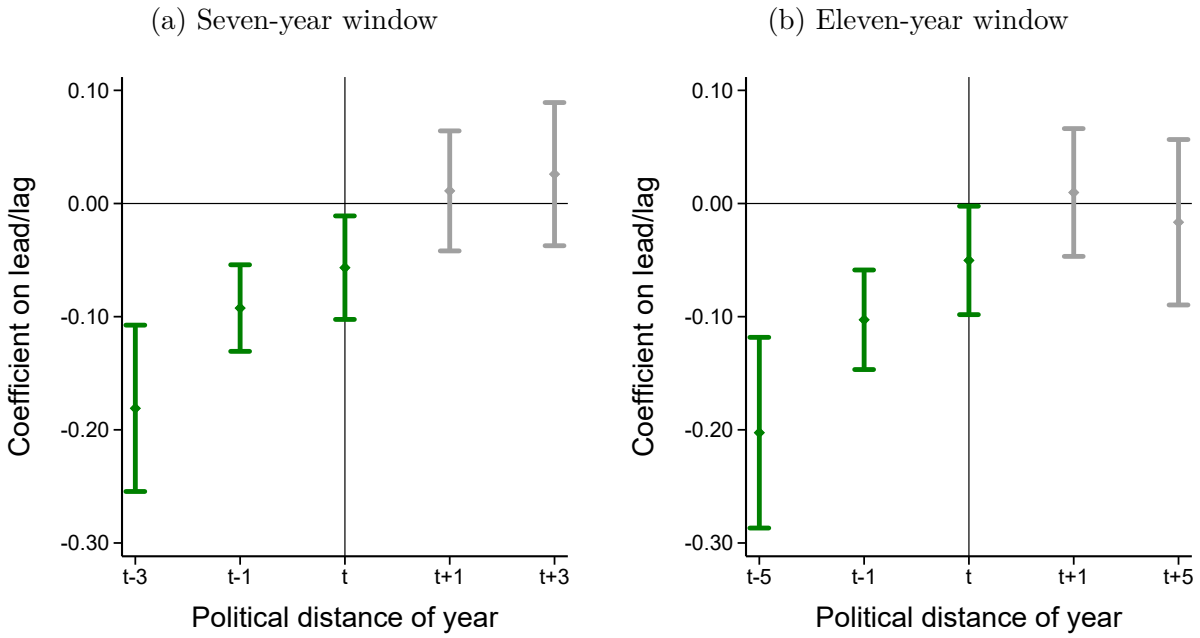
The remaining columns use alternative measures of political distance and show that political distance is associated with a decrease in trade. As coefficients and standard deviations for these measures differ, I focus on the percent impact of an increase in each measure of political distance by its average within-pair standard deviation ($100 \cdot (\exp(\bar{\sigma}_{pd} \cdot \beta_{pd}) - 1)$). For UNGA-based measures, this impact is stable across measures at around -3.2 percent. For alliance-based measures, which are available until 2014, the impact is lower (-1 percent). This is likely due to the sample period not featuring recent political tensions.

In particular, Column (3) treats the voting data as purely qualitative and measures political distance on the qualitative version of Cohen's κ. In Column (4), I measure political distance based on Scott's π Scott (1955). For details on these measures, see Häge (2011). Columns (5) and (6) measure political distance based on κ and π based on alliance membership data available until 2012 from Häge (2017).

In all cases, the main result remains unchanged: an increase in political distance significantly decreases bilateral trade, controlling for tariffs and trade agreements.

The results are robust in other dimensions as well, as Table A.4 shows. Table A.4a shows that specifications that omit political distance also yield coefficients for tariffs and RTAs that are well in line with the literature. Similarly, the results are robust to using only those observations where data on domestic trade of the importer is available. Table A.4b shows that the results also arise from interval data, omitting zero-trade observations, omitting globalization fixed effects, and using OLS and ln trade. Similarly, Table A.4c shows that the results also hold for alternative measures of political distance that focus on human rights (via UNGA resolutions and the Coppedge et al. (2011) index) and when including religious and cultural distance (Pellegrino et al. 2025) as additional controls.

Figure 3: Trade responds to political distance with some delay



Notes: Baseline specification in Equation (3) extended by leads and lags of political distance. Dots and whiskers show point estimates for coefficients and 95 percent confidence intervals. Color indicates if the estimate is significant at the 5 percent (green) or not (grey). Both panels include political distance in years $t-1$, t, and $t+1$. Panel (a) additionally features political distance in years $t+3$ and $t-3$, and Panel (b) in years $t+5$ and $t-5$ instead. The full results are in Table A.5. The specification additionally controls for tariffs and RTAs. All specifications include fixed effects for importer-year, exporter-year, pair, and international-trade-by-year. Standard errors are clustered at the pair-level.

3.2 Identification

Having shown that political distance predicts bilateral trade, I now turn to identification: do these correlations reflect a causal effect or mere association? Following Wooldridge (2008) and Baier and Bergstrand (2007), I augment the baseline specification with leads and lags of political distance. To avoid multicollinearity issues, I use a sparse lead- and lag-structure and show that alternative specifications yield the same results. This timing-based specification implements a Granger-style test. If only contemporaneous and lagged political distance are significantly associated with current trade, the evidence is consistent with a causal interpretation. By contrast, significant coefficients on leads (future political distance) would reverse causality or anticipatory behavior, undermining a causal interpretation. Accordingly, I test whether the coefficients on lagged and current distance are individually and jointly different from zero, and do the same for lead coefficients. The results are Figure 3.

I start by considering a seven-year window around year t (see Figure 3a) and include political distance in years $t-3$, $t-1$, t, $t+1$, and $t+3$ in the regression. The coefficients

for leads are not significantly different from zero, both individually and jointly ($p = 0.72$). Coefficients for year t and lags, however, are negative and highly significant, both individually and jointly ($p < 0.01$). For an eleven-year window as in Figure 3b featuring political distance in years $t-5$ and $t+5$ instead of $t-3$ and $t+3$, results are even stronger for leads ($p = 0.81$). Additional results in Table A.5 show that these results also hold when omitting international-trade-by-year fixed effects. Taken together, the absence of significant leads alongside strong contemporaneous and lagged effects supports a causal interpretation: political distance depresses trade, rather than the reverse.

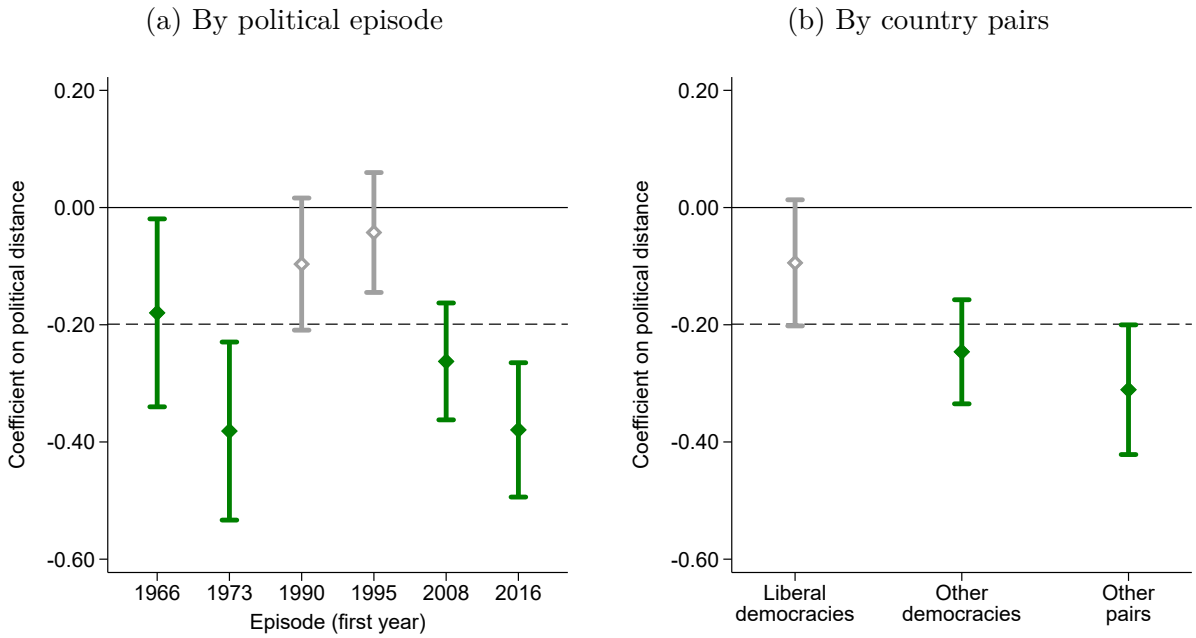
3.3 Heterogeneity and mechanisms

The previous results show robustly that an increase in political distance causes a decrease in bilateral trade. Now, I explore the heterogeneity of this overall finding. First, I continue using aggregate trade flows and allow the impact of political distance to vary over time and country pairs. Afterwards, I use sectoral trade flows and allow the impact of political distance to vary by sectoral characteristics. Taken together, the results allow me to investigate the economic mechanism driving the main result. The results for heterogeneity at the aggregate level are summarized in Figure 4.

In Figure 4a, I explore the heterogeneity across time by expanding the baseline specification (3) by interacting political distance with indicators for major political episodes. From 1966 to 1972, that is during the late Bretton-Woods period, the coefficient for political distance is -0.18 and significant at the five percent level. For the late Cold-War period (1973 to 1989), the coefficient is almost twice as large as in the previous period and significant at all conventional levels. For the early years after the Cold War (1990 to 1994), the coefficient drops to -0.1 and remains significant only at the ten percent level, before turning insignificant during the era of Globalization (1995 to 2007). During the Great Financial Crisis and the subsequent Euro Crisis (2008 to 2015), the coefficient turns negative again (-0.27) and is significant at all conventional levels. Since 2016, a period characterized by economic fracturing and the pandemic, the coefficient has become more negative (-0.38) and matches the Cold-War magnitude within sampling error. Overall, these results show that the impact of political distance on trade is particularly negative during periods of heightened political tensions and low during other periods.

Figure 4b shows the heterogeneity across types of country pairs. The starting point is the country-regime panel of Lührmann et al. (2018). It covers all countries and years in the trade panel and whether a country is a liberal or electoral democracy, or an electoral or closed autocracy in a given year. While countries do switch regime types, most of the variation is

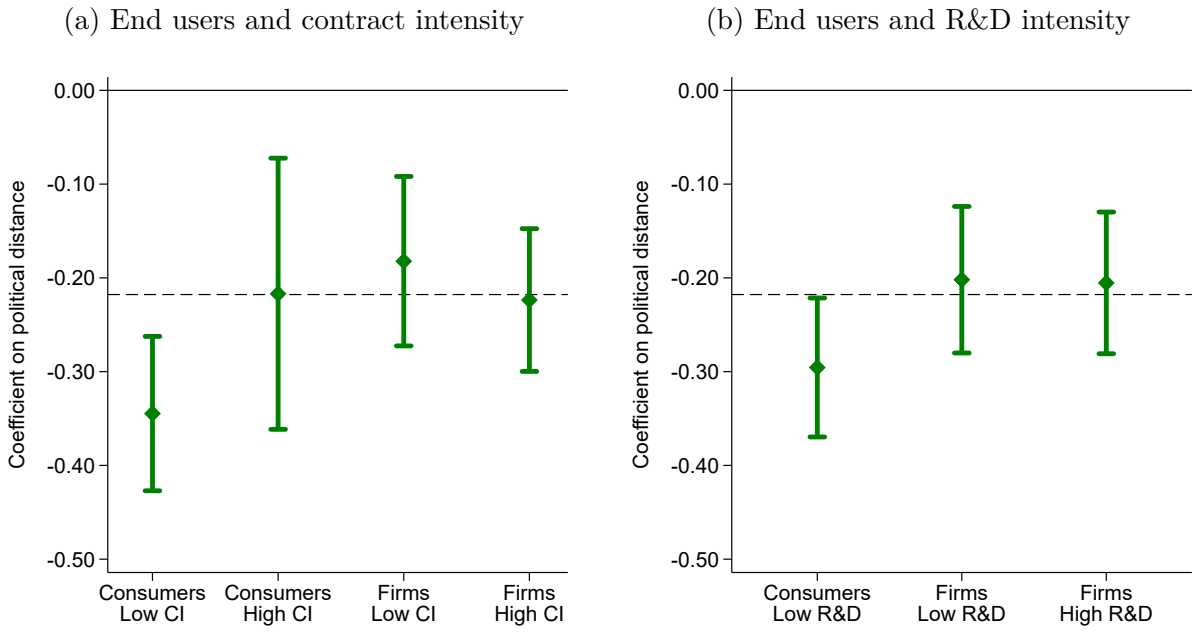
Figure 4: The impact of political distance varies



Notes: The figure shows the coefficients for political distance from more flexible specifications that allow the coefficient to vary across groups of observations. Each panel shows point estimates and 95 percent confidence intervals. Significant estimates are highlighted in green and solid diamonds, while others are in gray with hollow diamonds. The dashed horizontal line gives the coefficient from the baseline specification. Panel (a) interacts political distance with major political episodes. Panel (b) interacts political distance with country-pair characteristics. In particular, it distinguishes pairs of liberal democracies, pairs of democracies with at least one electoral democracy, and other country pairs as classified by Lührmann et al. (2018). The full results are in Table A.6. All specifications include fixed effects for importer-year, exporter-year, pair, and international-trade-by-year.

across country pairs. Based on this data, I distinguish three types of country pairs. The first type consists of pairs in which both countries are liberal democracies. The second type consists of pairs in which both countries are democracies, but at least one is electoral. The third type consists of all remaining pairs, that is, pairs with at least one autocracy. The impact of political distance on trade is only marginally significant (and negative) among liberal democracies, but a negative and significant impact for any other type of country pair. This heterogeneity gives rise to an element of trust that moderates the impact of political distance with two alternative mechanisms as explanations. First, trust could be related to consumer behavior, where consumers may boycott goods from countries that are politically distant. Secondly, trust could be related to firm behavior, where firms might expect higher contract enforcement costs when trading with countries with weaker institutions, such as courts, as opposed to liberal democracies with stronger institutions. To more closely explore the strength of these mechanisms, I investigate the sectoral heterogeneity in Figure 5.

Figure 5: Sectoral heterogeneity



Notes: Panels show the results from sectoral data. Political distance is interacted with sectoral characteristics. Each panel shows point estimates and 95 percent confidence intervals. Significant estimates are highlighted in green, while others are in gray. The dashed horizontal line gives the coefficient from the sectoral baseline specification without interaction terms. All specifications include fixed effects for importer-sector-year, exporter-sector-year, pair-sector, and international-trade-by-sector-by-year. Standard errors are clustered at the pair-industry level. Panel (a) distinguishes sectors by the dominant product-user (computed from OECD 2023) and the contract intensity (Nunn 2007). Panel (b) also distinguishes sectors by the dominant product user and the R&D-intensity (OECD 2011). The full results are in Table A.8.

For this purpose, I use the original TradeProd panel, which is at the sectoral level rather than the aggregated values I used so far. The nine sectors in TradeProd are aggregates of ISIC Rev.3 two-digit codes, and the total number of observations is around 8.4 million. Table A.7 reports the exact ISIC codes for every sector, the number of observations per sector, and details on the variables I use for heterogeneity.

To distinguish consumer-facing and firm-facing sectors, I use the world input-output tables of the OECD (2023) available for 1995 to 2020.

I focus on output from manufacturing sectors and calculate the use share for final consumption (by consumers) by aggregating HFCE- and NPISH-records and dividing by total output. For the use share of intermediate consumption (by firms), I aggregate intermediate-use records and divide by total output as well. The resulting use shares are at the level of ISIC Rev. 3 two-digit codes. After mapping these sectoral codes to their TradeProd counterparts, I compute averages for every TradeProd sector from the country-sector use-shares and create a time-invariant indicator for sectors where the consumer-use-share is larger

than the firm-use-share, allowing me to distinguish intermediate and final goods.

To distinguish goods by their contract intensity, I draw from Nunn (2007). He provides sectoral data on the fraction of inputs not sold on exchange and not reference priced (contract intensity). Based on this data, I calculate the contract intensity for every TradeProd sector and then create an indicator for sectors with an above-median contract intensity.

For the estimation, I interact these sectoral indicators with political distance and estimate a sectoral version of the baseline specification for aggregate trade flows (3) with fixed effects for exporter-sector-year, importer-sector-year, pair-sector, and international-trade-by-sector-by-year and cluster standard errors by pair-sector as well.

The results are in Figure 5. Panel (a) shows the coefficients for political distance interacted with end-user and contract intensity and Panel (b) shows coefficients for the interaction with end-user and R&D intensity.[5]

The effect is largest in absolute value for consumer-facing sectors with a low contract intensity ($\widehat{\beta} = -0.34$) or R&D intensity (-0.30) and significantly differs from the pooled estimate using sectoral data (-0.22). For the remaining sectors, the coefficients are not significantly different from the pooled estimate, but tend to be closer to zero. The null that all sectoral coefficients are equal can be rejected only for interactions of political distance with dominant end-user and contract intensity ($p = 0.05$), but not for interactions with dominant end-user and R&D intensity.

Overall, the effects of political distance on trade are strongest for consumer goods with relatively simple production (low contract or R&D intensity), where buyers can substitute suppliers more easily.

4 Counterfactuals

The previous section quantified how political distance reduces bilateral trade. This section expands the analysis by quantifying the general equilibrium impact of counterfactual changes in political distances on economic welfare, while RTAs and tariffs remain unchanged.

I consider two counterfactual scenarios that reflect ongoing geopolitical debates to assess how shifts in international alignment could affect trade and welfare: a *New Cold War*, representing global polarization, and *European Strategic Autonomy* (ESA), an initiative to strengthen intra-EU alignment and reduce external dependencies. These scenarios illustrate how shifts in political alignment could reshape global trade patterns even in the absence of explicit policy changes.

[5]There are no consumer-facing sectors with a high R&D intensity.

I evaluate these scenarios using the computable general equilibrium features of the gravity model and a version of the TradeProd panel intended for counterfactual exercises. The starting point is the 2020 cross-section of UNGA members, for which trade data are available. This cross-section features 156 countries or more than 24,000 country pairs. For each counterfactual, I first compute political distances and their change relative to 2020:

$$\Delta_{ij}^{cf} = \text{political distance}_{ij,2020}^{cf} - \text{political distance}_{ij,2020}.$$

The partial-equilibrium impact of these changes in political distance on trade is then given by

$$X_{ij,2020}^{pe} = X_{ij,2020} \cdot \exp(\beta \cdot \Delta_{ij}^{cf}).$$

As Figure 4a showed, there is sizable heterogeneity across time in the effect of political distance, β. To best reflect the effect of political distance in 2020, I use the coefficient estimated for the post-2016 period: $\beta = -0.38$.[6] Hence, the partial effect for countries that move further apart under a counterfactual ($\Delta_{ij}^{cf} > 0$) on trade is negative. To account for general equilibrium effects, I use the `ge_gravity` procedure of Baier, Yotov, et al. (2019). It solves a one-sector Armington-CES model, and I follow the authors in using a trade elasticity of 4 (see also Simonovska et al. 2014) and show that the results are robust to using a trade elasticity of 10 in the appendix. While most of the results focus on welfare effects, I also quantify the degree of trade reshuffling by the standard deviation of the relative change in exports by country. This measure captures the dispersion of bilateral trade adjustments, with higher values indicating stronger export reorientation. I first consider a scenario of renewed global polarization—a 'New Cold War'—before turning to the European Union's efforts toward greater strategic autonomy.

4.1 A New Cold War

Gopinath et al. (2025) note that recent trends in trade fragmentation resemble those of the early Cold War. To explore the potential impact of a continuation of this trend, I simulate a modern-day *New Cold War* by setting all political distances to the values observed in 1962, the year of the Cuban Missile Crisis.

To construct counterfactual distances, I apply a set of hierarchical rules. For pairs within the former Soviet Union, political distances are set to zero. Pairs with exactly one former Soviet Republic use the historical 1962 distance between the Soviet Union and the non-Soviet partner. When both modern-day countries (or their legal ancestors) were UN members

[6] Using the overall estimate of $\beta = -0.2$ reduces welfare effects roughly by half.

during the Cold War as well, I use the observed distance during the Cold War for the counterfactual. Finally, when one or both countries were not UN members during the Cold War, I impute distances based on the Cold War alignments of their ten closest modern-day political neighbors. The exact construction approaches are in Table A.9. Figure A.4a shows that for around one-third of modern-day country pairs, both countries were UN members during the Cold War. For another third of all modern-day country pairs, I impute values based on their modern-day political neighbors, and the remaining third of country pairs falls into the other cases.

Figure A.4b shows that changes in political distances are generally centered around 0 and less than 1 in absolute value for 97 percent of all bilateral pairs. On average, political distance decreases by 0.05 units. For example, the distance between the US and Russia in the counterfactual scenario increases by $\Delta^{cf} = 1.67 - 1.25 = 0.42$ units of political distance — about one third of its actual value in 2020. Conditional on the baseline estimate, bilateral trade would then be expected to drop to $\exp(-0.38 \cdot 0.42) = 0.85$ or 85 percent of its actual value in 2020 in partial equilibrium.

Figure 6a shows the general equilibrium welfare impact, and Table A.10 provides additional summary statistics.[7] On average, a New Cold War has a small, negative impact on countries' welfare (-0.02 percent), with specific areas affected differently. Welfare gains are concentrated in the Americas, averaging 1.51 percent and reaching 2.92 percent in Mexico, for example. Welfare losses, in turn, occur mostly in Europe (-1.04 percent) and countries of the former Warsaw Pact (-1.33 percent) and reach up to -5.54 in some countries. Some members of the former Warsaw pact, however, such as Belarus and former Soviet republics in central Asia, experience moderate welfare gains due to cheaper trade with other realigned former Soviet Republics. Members of the former Warsaw pact in Europe (and to a lesser extent in central Asia) are subject to the strongest trade reshuffling, consistent with their sharp international realignment (see Figure A.5). While China would experience a welfare increase of 0.10 percent, Russia would face a welfare decrease by -0.23 percent.

These patterns indicate that renewed bloc polarization would produce modest aggregate effects but significant regional redistribution of welfare from EU countries and members of the former Warsaw Pact to the Americas.

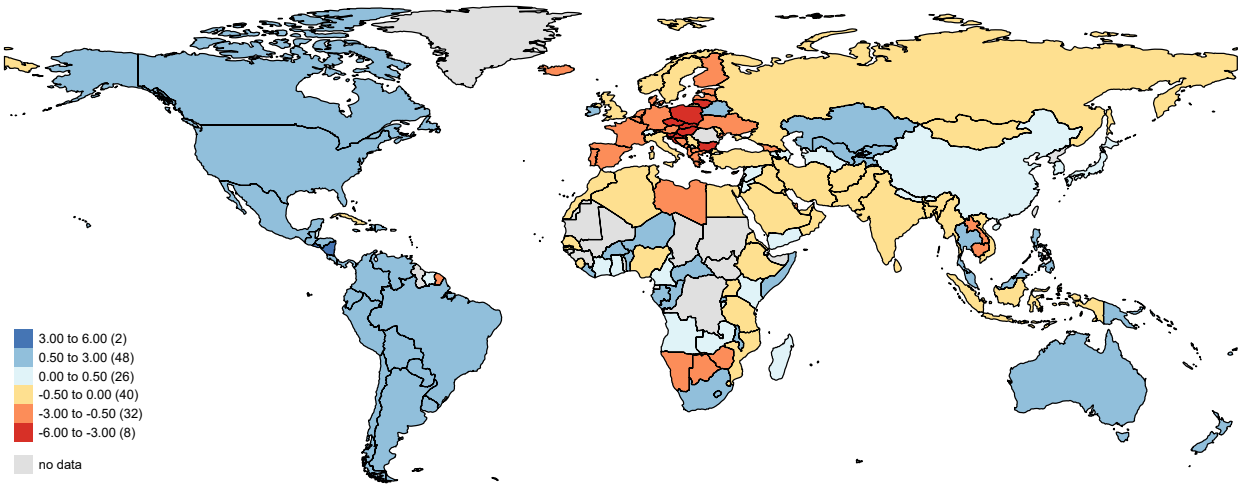
4.2 European Strategic Autonomy

The second counterfactual investigates a specific policy initiative related to friend-shoring: European Strategic Autonomy (ESA). It is an EU-wide policy initiative that was first outlined

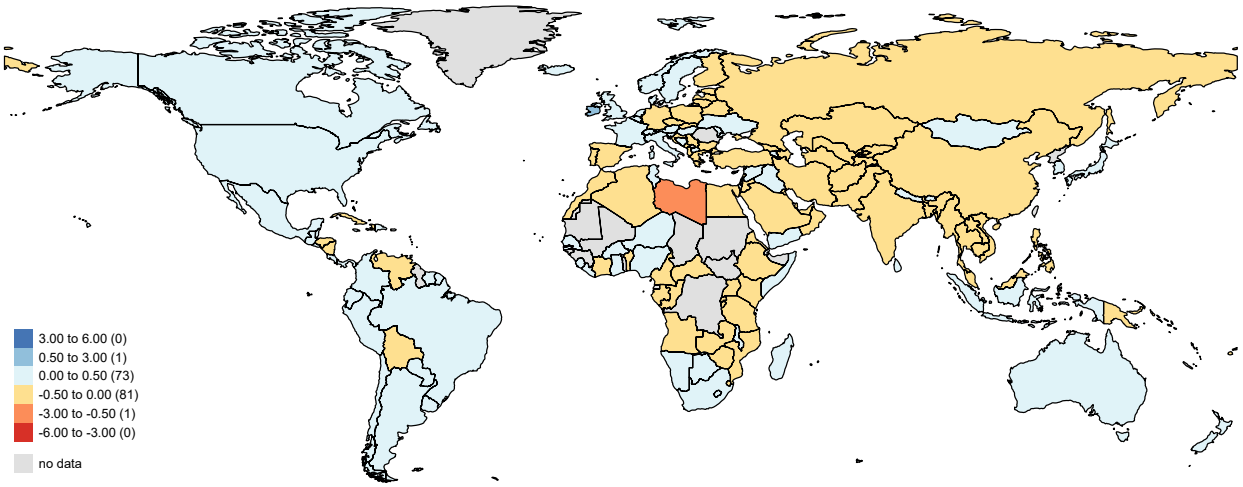
[7] Figure A.6b shows that results are similar when using a trade elasticity of 10.

Figure 6: Welfare impact of counterfactuals

(a) A New Cold War



(b) European Strategic Autonomy



Notes: Panels show maps with countries colored according to the welfare change for a counterfactual New Cold War (upper panel) and a counterfactual European Strategic Autonomy (lower panel). All values are in percent.

in European Council (2013) to increase EU self-sufficiency and reduce its dependence on individual trade partners. I model ESA by combining two aspects. First, I set political distances among EU members to zero, reflecting complete within-EU alignment. Second, I adjust distances between EU members and non-EU countries according to regime type. Political distances to autocracies increase (by 20 percent for closed autocracies, 10 percent for electoral autocracies) and distances to democracies decrease (10 percent for electoral democracies, 20 percent for liberal democracies).

The magnitudes of these adjustments reflect empirically plausible changes in alignment rather than precise forecasts. In the data, the mean within-pair standard deviation of political distance is roughly 20 percent of its average level (see Table 1b). Hence, changes in political distance by 20 percent represent historically moderate amounts of realignment.

Figure 6b shows the resulting welfare changes, with additional summary statistics in Table A.11. On average, ESA leaves global welfare virtually unchanged. Sizable welfare changes arise only for EU countries, where they average 0.04 percent and reach up to 0.78 percent. Specific countries in Asia and Africa, in turn, experience welfare losses of a similar magnitude.

Additional results in the appendix (see Section A.4.3) show that increased political alignment within the EU alone could generate average welfare gains of 0.43 percent for EU countries. International realignment towards other democracies and away from autocracies, then, almost fully offsets these welfare gains. Specifically, under ESA, welfare losses from higher trade frictions with large, low-cost autocratic suppliers, such as China, outsize welfare gains from cheaper trade with smaller democratic suppliers.

Taken together, these counterfactuals highlight that shifts in political alignment can meaningfully redistribute welfare across regions even when formal trade policies remain unchanged.

5 Conclusion

This paper quantified the impact of political distance on trade using a structural gravity framework with more than 50 years of bilateral data. I show that a one-standard-deviation increase in political distance within a country pair causally reduces trade by more than 3 percent — roughly half the effect of removing an RTA. Sectoral heterogeneity suggests that consumers prefer goods from politically close countries, especially when such goods are easily substitutable. Two counterfactuals show that political realignment alone can have a meaningful impact on welfare, even when formal trade policies remain unchanged.

Overall, these findings suggest that political distance has long been a salient determinant of trade, not merely a potential future risk. The counterfactual *New Cold War* scenario shows

that welfare losses would be highly concentrated in Europe, affecting both EU members and non-members alike. In this scenario, former Soviet Republics, such as Latvia, Estonia, and Lithuania, are politically realigned with Russia and away from their main modern-day trading partners in Europe, leading to substantial welfare losses. These results highlight the economic importance of political cohesion in Europe: sustaining the independence and stability of Eastern European democracies benefits not only their welfare but also that of the broader region.

Future research could examine consumers' and firms' responses in more detail to further disentangle the mechanisms.

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Online Appendix –
Political Distance and International Trade

Knut Niemann

A.1 Data sources

Table A.1: Data sources

Data set	Version	Link
TradeProd	V202401	https://www.cepii.fr/CEPII/en/bdd_modele/bdd_modele_item.asp?id=5
Mario Larch's RTA Database	20221214	https://www.ewf.uni-bayreuth.de/en/research/RTA-data/index.html
UN voting data	2024	https://digitallibrary.un.org/?ln=en
OECD Input-Output tables	2023	http://oe.cd/icio
MID Data	5.0	https://correlatesofwar.org/data-sets/mids/
Foreign Policy Similarity Database (Häge 2017)	2	https://dataverse.harvard.edu/dataset.xhtml?persistentId=doi:10.7910/DVN/ALVXLM
Regimes of the World (Lührmann et al. 2018)	March 17, 2025	https://ourworldindata.org/grapher/political-regime-amb-row
Cultural and religious distance	2024	https://www.geopoliticaldistance.org/

Notes: Main data sources and additional information.

A.2 Descriptive statistics

Table A.2: Country coverage

Country	Range	Country	Range
AFG	1966-2020 (2002-2019)	AGO	1976-2020 (2014-2020)
ALB	1966-2020 (1986-2020)	ARE	1971-2020 (1977-2020)
ARG	1966-2020 (1984-2020)	ARM	1992-2020 (1994-2020)
AUS	1966-2020	AUT	1966-2020
AZE	1992-2020	BDI	1966-2020 (1971-2015)
BEL	1966-2020	BEN	1966-2020 (1974-1981)
BFA	1966-2020 (1974-1983)	BGD	1974-2020
BGR	1966-2020 (1980-2020)	BHR	1971-2020 (1992-2018)
BHS	1973-2020 (1977-1998)	BIH	1992-2020 (2010-2020)
BLR	1992-2020 (2005-2020)	BLZ	1981-2020 (1989-1992)
BOL	1966-2020 (1970-2019)	BRA	1966-2020 (1990-2020)
BRB	1966-2020 (1970-1997)	BRN	1984-2020 (2010-2012)
BTN	1971-2020 (none)	BWA	2000-2020
CAF	1966-2020 (1973-1993)	CAN	1966-2020
CHE	2002-2020	CHL	1966-2020 (1966-2019)
CHN	1971-2020 (1977-2020)	CIV	1966-2020 (1966-1997)
CMR	1966-2020 (1970-2008)	COG	1966-2020 (1968-2008)
COL	1966-2020	CPV	1975-2020 (1997-2019)
CRI	1966-2020	CSK	1966-1992 (1966-1991)
CUB	1966-2020 (1975-2008)	CYP	1966-2020
CZE	1993-2020 (1995-2020)	DEU.1	1973-1989
DEU.2	1991-2020	DNK	1966-2020
DOM	1966-2020 (1966-1984)	DZA	1966-2020 (1967-2017)
ECU	1966-2020	EGY	1966-2020
ERI	1993-2020	ESP	1966-2020
EST	1992-2020	ETH.1	1966-1992
ETH.2	1993-2020 (1993-2015)	FIN	1966-2020
FJI	1970-2020	FRA	1966-2020
GAB	1966-2020 (1966-1995)	GBR	1966-2020
GEO	1992-2020 (1998-2020)	GHA	1966-2020 (1966-2015)
GMB	1966-2020 (1975-2004)	GRC	1966-2020
GTM	1966-2020 (1968-1998)	HND	1966-2020 (1966-1996)
HRV	1992-2020	HTI	1966-2020 (1988-1997)
HUN	1966-2020	IDN.1	1966-2000 (1970-2000)
IDN.2	2001-2020	IND	1966-2020
IRL	1966-2020	IRN	1966-2020
IRQ	1966-2020	ISL	1966-2020 (1968-2020)
ISR	1966-2020	ITA	1966-2020 (1967-2020)
JAM	1966-2020 (1966-1992)	JOR	1966-2020
JPN	1966-2020	KAZ	1992-2020 (1993-2020)
KEN	1966-2020	KGZ	1992-2020

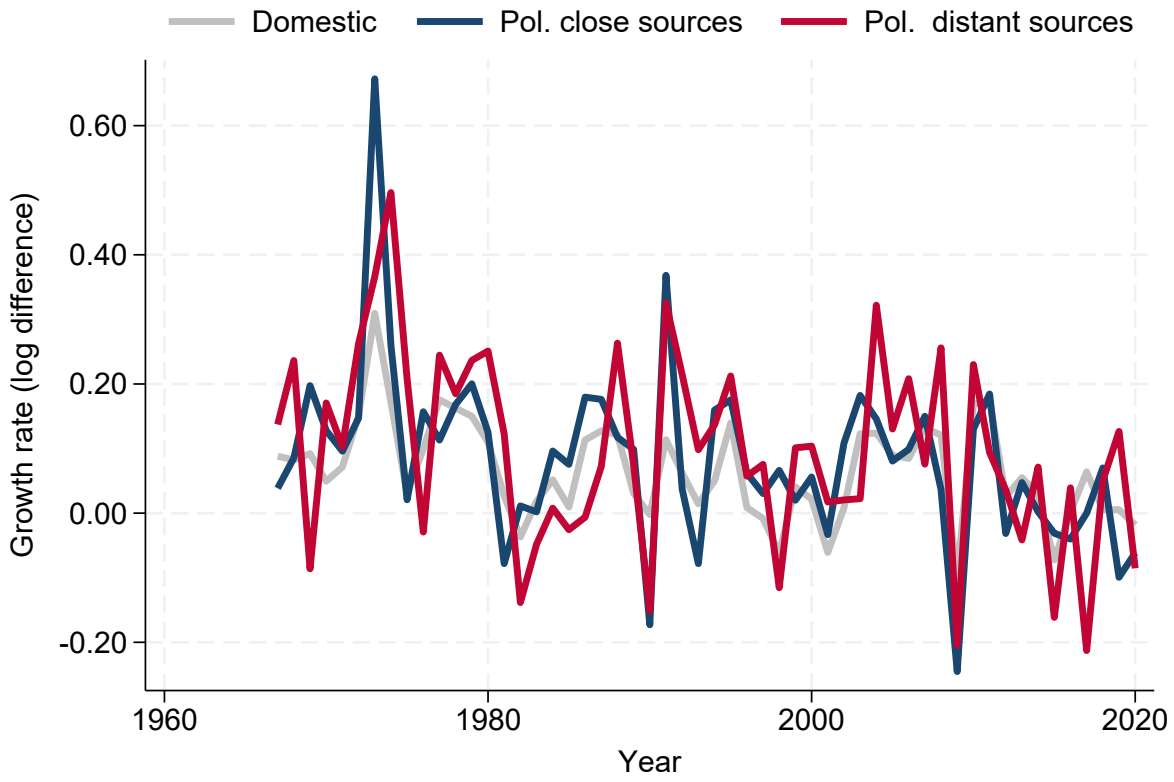
Notes: Each listed country appears in every year inside the reported range of years. Where coverage differs between international and domestic trade, the latter is shown in brackets, with 'none' indicating no domestic trade data. International trade data is for both imports and exports. Country codes have numerical suffixes in case of territorial changes. The baseline uses all available years, even when domestic trade is missing. See Column (4) in Table A.4a for specifications that only use data from periods where domestic and international trade are available. Predecessor states are listed only if they have at least one year of data in the sample.

Table A.2: Country coverage, continued

Country	Range	Country	Range
KHM	1966-2020 (1993-2000)	KOR	1991-2020
KWT	1966-2020	LAO	1966-2020 (1999-2017)
LBN	1966-2020 (1998-2014)	LBR	1966-2020 (1972-1985)
LBY	1966-2020 (1966-1980)	LCA	1979-2020 (1993-1997)
LKA	1966-2020	LTU	1992-2020
LUX	1999-2020	LVA	1992-2020
MAR	1966-2020 (1976-2020)	MDA	1992-2020
MDG	1966-2020 (1967-2006)	MDV	1969-2020 (2013-2015)
MEX	1966-2020 (1984-2020)	MHL	1992-2020 (none)
MKD	1993-2020	MLT	1966-2020
MMR	1966-2020 (1989-2020)	MNE	2006-2020 (2010-2020)
MNG	1966-2020 (1990-2020)	MOZ	1975-2020 (1975-1998)
MUS	1968-2020	MWI	1966-2020 (1966-2019)
MYS.2	1966-2020 (1968-2020)	NAM	2000-2020 (2007-2020)
NER	1966-2020 (1990-2018)	NGA	1966-2020 (1966-1996)
NIC	1966-2020	NLD	1966-2020
NOR	1966-2020	NPL	1966-2020 (1986-2020)
NZL	1966-2020	OMN	1971-2020 (1993-2020)
PAK.1	1966-1970	PAK.2	1971-2020 (1971-2018)
PAN	1966-2020	PER	1966-2020 (1982-2020)
PHL	1966-2020	PNG	1975-2020 (1975-2001)
POL	1966-2020 (1982-2020)	PRT	1966-2020
PRY	1966-2020 (1966-2014)	QAT	1971-2020 (1987-2020)
ROU	1966-2020 (1985-2020)	RUS	1992-2020
RWA	1966-2020 (1999-2020)	SAU	1966-2020 (1989-2020)
SDN.1	1966-2010 (1966-2007)	SEN	1966-2020 (1974-2020)
SGP	1966-2020	SLE	1966-2020 (1981-1986)
SLV	1966-2020 (1966-1998)	SOM	1966-2020 (1967-1986)
SRB	2016-2020	SUN	1966-1991 (none)
SUR	1975-2020 (1975-2007)	SVK	1993-2020
SVN	1992-2020	SWE	1966-2020
SWZ	2000-2020 (none)	SYR	1966-2020 (1966-2005)
THA	1966-2020 (1968-2018)	TJK	1992-2020 (1992-2019)
TKM	1992-2020 (none)	TON	1999-2020 (1999-2004)
TTO	1966-2020 (1966-2006)	TUN	1966-2020
TUR	1966-2020	TZA	1966-2020
UGA	1966-2020 (1966-1989)	UKR	1992-2020
URY	1966-2020 (1968-2020)	USA	1966-2020
UZB	1992-2020 (2013-2020)	VEN	1966-2020 (1966-1998)
VNM.2	1977-2020 (1998-2020)	YEM.2	1991-2020 (1991-2014)
YUG	1966-1991 (1970-1989)	ZAF	1966-2020
ZMB	1966-2020 (1966-2017)	ZWE	1980-2020 (2009-2018)

Notes: Each listed country appears in every year inside the reported range of years. Where coverage differs between international and domestic trade, the latter is shown in brackets, with 'none' indicating no domestic trade data. International trade data is for both imports and exports. Country codes have numerical suffixes in case of territorial changes. The baseline uses all available years, even when domestic trade is missing. See Column (4) in Table A.4a for specifications that only use data from periods where domestic and international trade are available. Predecessor states are listed only if they have at least one year of data in the sample.

Figure A.1: Growth rates of world domestic and foreign consumption



Notes: Time-series of domestic consumption and consumption of goods imported from politically close and distant sources.

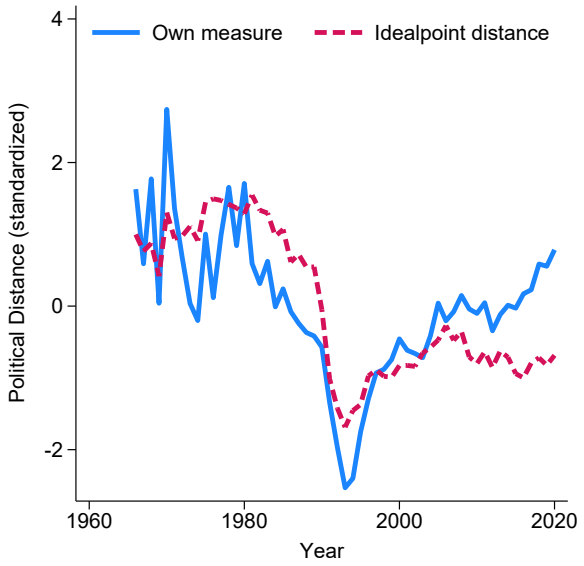
Table A.3: Descriptive statistics of main variables

Variable	Obs.	Mean	p10	p25	Median	p75	p90
Trade (Million USD)	1,009,633	920.79	0.00	0.00	0.18	9.29	123.38
Political distance	1,009,633	0.82	0.37	0.64	0.90	1.04	1.12
Any trade agreements	1,009,633	0.15	0.00	0.00	0.00	0.00	1.00
Tariff	1,009,633	0.12	0.00	0.04	0.10	0.15	0.24

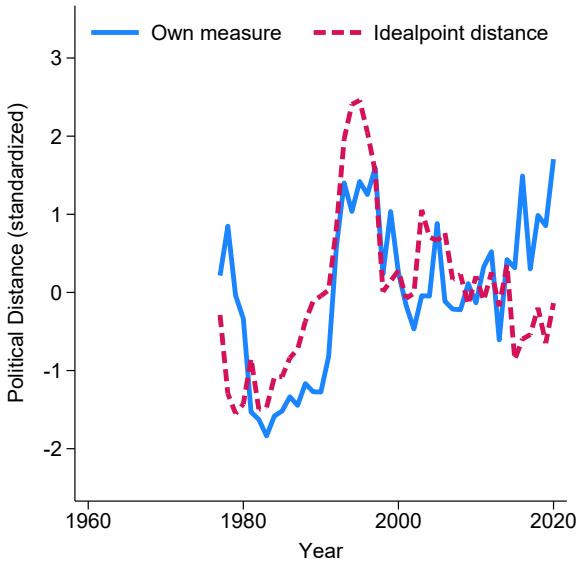
Notes: Obs. gives the total number of observations and p10, p25, p75 and p90 report quantiles for each variable. Any EIA refers to an indicator equal to 1 in the presence of any kind of bilateral economic integration agreement and 0 otherwise. Obs. per country-pair refers to the number of unique country-pairs in the data.

Figure A.2: Ideal-point distances vs. own measure

(a) USA and Russia



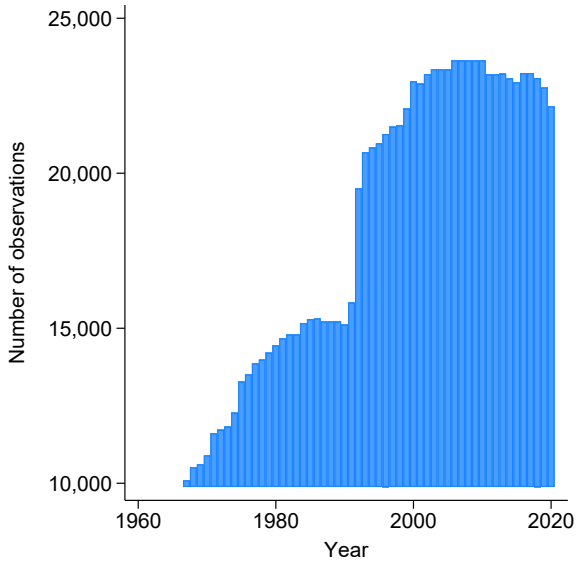
(b) USA and China



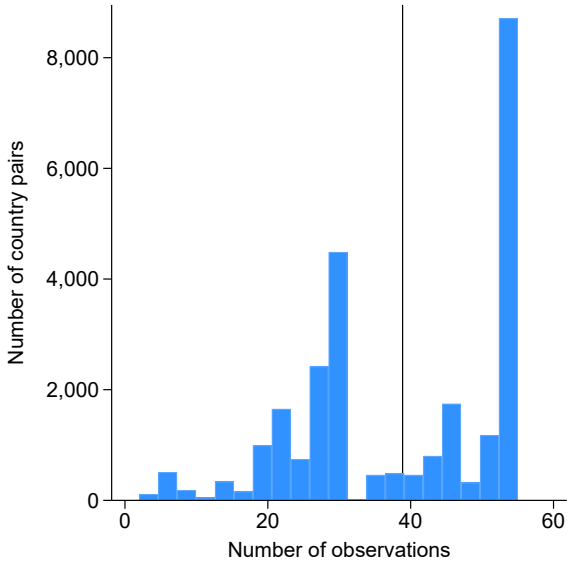
Notes: Both panels show standardized measures of political distance between the US and Russia (Panel (a)) and the US and China (Panel (b)).

Figure A.3: Panel dimensions

(a) Observations per year



(b) Observations per country-pair



Notes: Number of observations per year and a histogram with 20 bins for observations per country-pair. The average number of observations per country-pair is 39, the median is 41.

A.3 Additional results

Table A.4: Additional robustness checks

(a) Alternative specifications

	(1)	(2)	(3)	(4)
Political distance				
based on κ, UNGA data				-0.20^{***}
				(0.05)
Traditional trade costs				
Ln(1+Tariff)	-2.86^{***}		-2.72^{***}	-2.69^{***}
	(0.30)		(0.31)	(0.32)
Any trade agreements		0.14^{***}	0.07^{**}	0.07^{**}
		(0.03)	(0.03)	(0.03)
Number of observations	1,009,633	1,009,633	1,009,633	792,022
Mean pair-SD of PD				0.15
1-SD effect of PD on trade (pc.)				-2.98^{***}

(b) Interval data, fixed effects and OLS

	(1)	(2)	(3)	(4)	(5)	(6)
Political distance						
based on κ, UNGA data	-0.25^{***}	-0.23^{***}	-0.24^{***}	-0.17^{***}	-0.20^{***}	-0.18^{***}
	(0.05)	(0.05)	(0.05)	(0.05)	(0.06)	(0.02)
Traditional trade costs						
Ln(1+Tariff)	-2.84^{***}	-2.64^{***}	-2.36^{***}	-2.32^{***}	-4.83^{***}	-2.15^{***}
	(0.31)	(0.34)	(0.32)	(0.27)	(0.30)	(0.38)
Any trade agreements	0.06^{**}	0.03	0.06^{*}	0.07^{**}	0.17^{***}	0.17^{***}
	(0.03)	(0.03)	(0.03)	(0.03)	(0.05)	(0.02)
Number of observations	327,371	253,356	198,297	717,622	1,009,633	717,622
Mean pair-SD of PD	0.16	0.15	0.16	0.15	0.16	0.15
1-SD effect of PD on trade (pc.)	-3.93^{***}	-3.40^{***}	-3.78^{***}	-2.52^{***}	-3.15^{***}	-2.56^{***}

Notes: Regressions results for variations of the baseline in Equation (3). Upper panel: Columns (1) to (3) omit political distance, Column (4) uses only destinations with data on domestic trade available. Lower panel: Columns (1) to (3) use data from every third, fourth, and fifth year (Olivero et al. 2012; Yotov et al. 2016). Column (4) drops all zero-trade observations. Column (5) omits globalization-fixed effects. Column (6) uses OLS and ln bilateral trade as the dependent variable. All specifications include fixed effects for importer-year, exporter-year, pair, and international-trade-by-year. Standard errors are clustered at the importer–exporter level and listed in brackets below the point estimate. *** p<0.01, ** p<0.05, * p<0.1.

Table A.4: Additional robustness checks, continued

(c) Alternative measures of political distance and control variables

	(1)	(2)	(3)	(4)	(5)	(6)
Political distance						
based on κ, Human rights only	-0.06^{*}					
	(0.03)					
based on π, Human rights only		-0.06^{**}				
		(0.03)				
Gap in Human rights index			-0.20^{***}			
			(0.06)			
based on κ, UNGA data				-0.15^{***}	-0.13^{**}	-0.14^{**}
				(0.05)	(0.05)	(0.06)
Traditional trade costs						
Ln(1+Tariff)	-2.70^{***}	-2.72^{***}	-2.73^{***}	-2.50^{***}	-2.75^{***}	-1.99^{***}
	(0.32)	(0.32)	(0.31)	(0.31)	(0.34)	(0.31)
Any trade agreements	0.05^{*}	0.05	0.07^{**}	0.07^{**}	0.07^{**}	0.08^{**}
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.04)
Cultural distance					5.28^{***}	0.34
					(1.78)	(1.41)
Religious distance					0.82^{***}	1.49^{***}
					(0.26)	(0.32)
Number of observations	979,741	979,741	943,568	365,998	365,998	358,688
Mean pair-SD of PD	0.25	0.29	0.11	0.13	0.13	0.13
1-SD effect of PD on trade (pc.)	-1.37^{*}	-1.76^{**}	-2.12^{***}	-1.92^{***}	-1.66^{**}	-1.81^{**}

Notes: Regressions results for variations of the baseline in Equation (3). Columns (1) and (2) use only UNGA resolutions related to human rights to compute political distance. Column (3) uses the absolute value of the difference (gap) in the human rights index (Coppedge et al. 2011). Column (4) uses only observations where cultural and political distance (Pellegrino et al. 2025) are available, Column (5) includes these distances as additional control variables. Column (6) drops China from the estimation sample, turning the significant coefficient for cultural distance in Column (5) insignificant. The coefficient for religious distance remains positive and significant, potentially reflecting interactions with the fixed-effects structure or variety-seeking consumers. All specifications include fixed effects for importer-year, exporter-year, pair, and international-trade-by-year. Standard errors are clustered at the importer–exporter level and listed in brackets below the point estimate. *** p<0.01, ** p<0.05, * p<0.1.

Table A.5: Full results for Figure 3

	(1)	(2)	(3)	(4)	(5)	(6)
Political distance						
in year $t-5$			-0.20^{***}			-0.11^{**}
			(0.04)			(0.05)
in year $t-3$		-0.18^{***}			-0.11^{**}	
		(0.04)			(0.04)	
in year $t-1$	-0.18^{***}	-0.09^{***}	-0.10^{***}	-0.14^{***}	-0.09^{***}	-0.10^{***}
	(0.03)	(0.02)	(0.02)	(0.04)	(0.02)	(0.02)
in year t	-0.09^{***}	-0.06^{**}	-0.05^{**}	-0.09^{***}	-0.07^{***}	-0.06^{**}
	(0.02)	(0.02)	(0.02)	(0.03)	(0.02)	(0.02)
in year $t+1$	0.01	0.01	0.01	-0.02	-0.01	-0.01
	(0.04)	(0.03)	(0.03)	(0.03)	(0.02)	(0.02)
in year $t+3$		0.03			-0.02	
		(0.03)			(0.04)	
in year $t+5$			-0.02			-0.06
			(0.04)			(0.04)
Traditional trade costs						
Any trade agreements	0.08^{**}	0.08^{**}	0.08^{**}	0.22^{***}	0.22^{***}	0.22^{***}
	(0.03)	(0.03)	(0.03)	(0.05)	(0.05)	(0.05)
Ln(1+Tariff)	-3.18^{***}	-3.15^{***}	-3.13^{***}	-5.66^{***}	-5.64^{***}	-5.64^{***}
	(0.39)	(0.40)	(0.40)	(0.39)	(0.39)	(0.39)
Number of observations	765,209	765,209	765,209	765,209	765,209	765,209
p(Leads=0)	0.70	0.72	0.81	0.41	0.79	0.37
p(Lags=0)	0.00	0.00	0.00	0.00	0.00	0.00

Notes: Results for aggregate trade in goods based on TradeProd. The dependent variable is the trade flow from country i to country j in year t. Trade flows feature intra-national and international flows and flows with a value of 0 in the case of no reported trade. Political distance is based on countries' votes for all UNGA resolutions. The dummy for any economic integration is based on the EIA database. Mean bilateral tariffs are from Tradeprod. Columns (4) to (6) omit international-trade-by-year fixed effects, with importer-year-, exporter-year-, and pair-fixed effects remaining. p(Leads=0) and p(Lags) report the p-values for separately testing all coefficients on leads and lags (as well as the current value) for joint significance. Standard errors are clustered at the importer–exporter level and listed in brackets below the point estimate. *** p<0.01, ** p<0.05, * p<0.1.

Table A.6: Full results for Figure 4

	(1)	(2)
Political distance (by episodes)		
× 1966-72 (Late Bretton Woods)	−0.18**	
	(0.08)	
× 1973-89 (Oil shocks/stagflation)	−0.38***	
	(0.08)	
× 1990-94 (End of Cold War/Uruguay)	−0.10*	
	(0.06)	
× 1995-2007 (Hyper-globalization (WTO/China))	−0.04	
	(0.05)	
× 2008-15 (GFC/Euro crisis)	−0.26***	
	(0.05)	
× 2016-20 (Fracturing & Pandemic)	−0.38***	
	(0.06)	
Political distance (by regime pair)		
× Liberal democracies		−0.09*
		(0.05)
× Other democracies		−0.25***
		(0.05)
× Other pairs		−0.31***
		(0.06)
Traditional trade costs		
Any trade agreements	0.07**	0.06*
	(0.03)	(0.03)
Ln(1+Tariff)	−3.01***	−2.74***
	(0.34)	(0.31)
Number of observations	1,009,633	1,009,633
p(All interactions equal)	0.00	0.00

Notes: Heterogeneity at the aggregate level. Column (1) interacts political distance with major episodes in international economics. Column (2) interacts political distance with three categories of regime pairs. See main text and caption of Figure 4 for more details. p(All interactions equal) gives the p-value for the null that all interaction terms are equal. All specifications include fixed effects for importer-year, exporter-year, pair, and international-trade-by-year. Standard errors are clustered at the importer–exporter level and listed in brackets below the point estimate. *** p<0.01, ** p<0.05, * p<0.1.

Table A.7: Sectoral heterogeneity

Sector	ISIC codes	Observations	High R&D int.	High contract int.	Dominant use share
Food	15 - 16	935,516	0	0	Private consumption
Textiles	17 - 19	964,684	0	1	Private consumption
Wood-Paper	20 - 22	945,763	0	1	Intermediate good
Chemicals	23 - 25	973,640	1	0	Intermediate good
Minerals	26	865,708	1	0	Intermediate good
Metals	27 - 28	938,884	0	0	Intermediate good
Machines	29 - 33	972,194	1	1	Intermediate good
Vehicles	34 - 35	934,674	1	1	Intermediate good
Other	36	951,722	0	0	Intermediate good
Total		8,482,785			

Notes: Sector gives the name of the Tradeprod sector and ISIC codes reports the ISIC Rev. 3 codes. The remaining columns report the number of observations, sectors where the R&D and contract intensity are above the median, and the dominant use share among private consumption, intermediate use by other industries, and government purchases, which is never dominant.

Table A.8: Full results for Figure 5

	(1)	(2)	(3)
Political distance (Common coefficient)			
Based on UN GA votes	-0.22^{***}		
	(0.03)		
Political distance (User & contract int.)			
× Consumer-facing, low CI		-0.34^{***}	
		(0.04)	
× Consumer-facing, high CI		-0.22^{***}	
		(0.07)	
× Firm-facing, low CI		-0.18^{***}	
		(0.05)	
× Firm-facing, high CI		-0.22^{***}	
		(0.04)	
Political distance (User & R&D int.)			
× Consumer-facing, low R&D			-0.30^{***}
			(0.04)
× Firm-facing, low R&D			-0.20^{***}
			(0.04)
× Firm-facing, high R&D			-0.21^{***}
			(0.04)
Traditional trade costs			
Any trade agreements	0.07^{***}	0.07^{***}	0.07^{***}
	(0.02)	(0.02)	(0.02)
Ln(1+Tariff)	-2.94^{***}	-2.94^{***}	-2.94^{***}
	(0.20)	(0.20)	(0.20)
Number of observations	8,523,708	8,523,708	8,523,708
p(All interactions equal)		0.05	0.15

Notes: Heterogeneity at the sectoral level. Column (1) shows results using sectoral data and a common coefficient for political distance for all sectors. Column (2) then allows the coefficient for political distance to vary across consumer- or firm-facing sectors with above- (high) or below-median (low) contract intensity. Column (3) allows the coefficient to vary across consumer- or firm-facing sectors with high or low R&D-intensity. See main text and caption of Figure 5 for more details. p(All interactions equal) gives the p-value for the null that the coefficients for all interactions are the same. All specifications include fixed effects for importer-sector-year, exporter-sector-year, pair-sector, and international-trade-by-sector-by-year. Standard errors are clustered at the pair-sector level and listed in brackets below the point estimate. *** p<0.01, ** p<0.05, * p<0.1.

A.4 Counterfactuals

A.4.1 A New Cold War

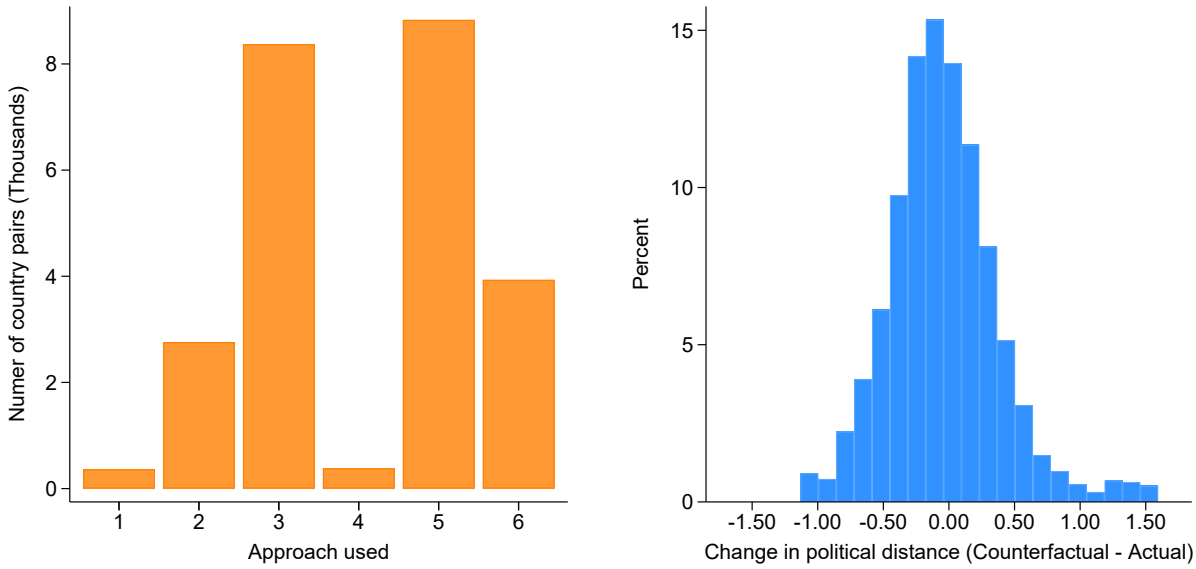
Table A.9: Approaches to compute counterfactual distances

Case	Details	$pd^{cf}_{i,j,2020}$
1. For domestic or trade within $\mathbb{S}$, pol. distance = 0		
a) $i = j$	Domestic trade	0
b) $i \in \mathbb{S} \wedge j \in \mathbb{S}$	i and j in $\mathbb{S}$	0
2. For pairs with one former $\mathbb{S}$-member, use SUN-distance		
a) $i \in \mathbb{S} \wedge j \notin \mathbb{S}$	i in $\mathbb{S}$, j not	$pd_{\text{SUN},j,1962}$
b) $i \notin \mathbb{S} \wedge j \in \mathbb{S}$	j in $\mathbb{S}$, i not	$pd_{i,\text{SUN},1962}$
3. For pairs where both were in $\mathbb{U}_{1962}$, use observed distance		
a) $i \in \mathbb{U}_{1962} \wedge j \in \mathbb{U}_{1962}$	i and j in $\mathbb{U}_{1962}$	$pd_{i,j,1962}$
4. When legal ancestors were in $\mathbb{U}_{1962}$, use them		
a) $A(i) \in \mathbb{U}_{1962} \wedge j \in \mathbb{U}_{1962}$	i's ancestor and j in $\mathbb{U}_{1962}$	$pd_{A(i),j,1962}$
b) $i \in \mathbb{U}_{1962} \wedge A(j) \in \mathbb{U}_{1962}$	j's ancestor and i in $\mathbb{U}_{1962}$	$pd_{i,A(j),1962}$
c) $A(i) \in \mathbb{U}_{1962} \wedge A(j) \in \mathbb{U}_{1962}$	i's and j's ancestors in $\mathbb{U}_{1962}$	$pd_{A(i),A(j),1962}$
5. For pairs with only one $\mathbb{U}_{1962}$-member, approximate from ten modern-day nearest neighbors		
a) $i \notin \mathbb{U}_{1962} \wedge j \in \mathbb{U}_{1962}$	i not in $\mathbb{U}_{1962}$, but j	$\frac{1}{10}\sum_{k \in \mathbb{N}^{10}_{i,2020}} pd_{k,j,1962}$
b) $i \in \mathbb{U}_{1962} \wedge j \notin \mathbb{U}_{1962}$	j not in $\mathbb{U}_{1962}$, but i	$\frac{1}{10}\sum_{l \in \mathbb{N}^{10}_{j,2020}} pd_{i,l,1962}$
6. For pairs with no $\mathbb{U}_{1962}$-member, approximate from all pairs of their ten modern-day nearest neighbors		
a) $i \notin \mathbb{U}_{1962} \wedge j \notin \mathbb{U}_{1962}$	neither i nor j in $\mathbb{U}_{1962}$	$\frac{1}{100}\sum_k \sum_l pd_{k,l,1962}$

Notes: i and j indicate (dynamic) country codes for origin and destination countries that are UN members in 2020. $\mathbb{S}$ denotes former Soviet republics, and $\mathbb{U}_{1962}$ indicates UN members in 1962. $A(i)$ and $A(j)$ are legal ancestors of i and j, which may or may not have been UN members in 1962 ($\mathbb{U}_{1962}$). $\mathbb{N}^{10}_{i,2020}$ and $\mathbb{N}^{10}_{j,2020}$ are the sets of the ten countries politically closest to i and j in 2020. Approaches are applied in order of priority, from (1) highest to (6) lowest. When multiple approaches apply, only the highest-priority one is selected.

Figure A.4: Counterfactual distances

(a) Distribution of approaches used (b) Distribution of changes in political distances



Notes: Left panel: Numerical values for approach correspond to description in Table A.9. Right panel: Histogram of the change in political distances computed as the counterfactual distance (1962) minus the observed political distance in 2020. Positive values correspond to more distance in the counterfactual scenario than in actuality.

Table A.10: Descriptive statistics for a New Cold War

(a) Trade elasticity of 4

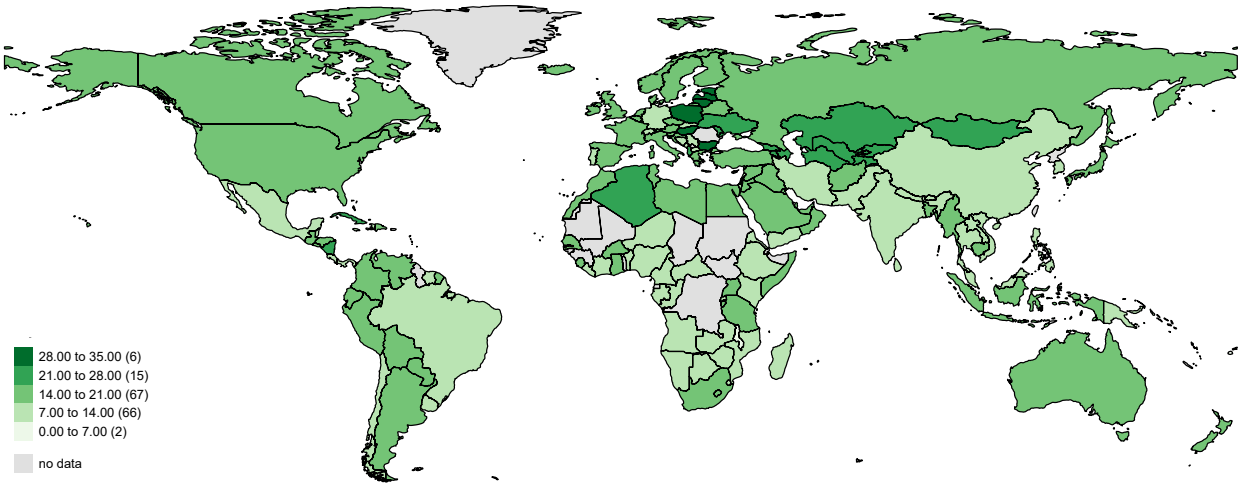
		Trade reshuffling			Welfare changes		
Region	Countries	Mean	Min	Max	Mean	Min	Max
Africa	38	12.73	6.57	22.91	0.21	−1.39	1.85
Americas	29	14.51	7.51	25.54	1.51	−0.50	4.43
Asia	36	14.28	8.11	25.26	−0.09	−1.86	0.95
Europe	25	14.87	9.76	17.59	−1.04	−5.54	2.33
Former Warsaw pact	21	24.67	13.67	31.53	−1.33	−4.63	2.22
Other	7	12.07	6.10	16.32	0.27	−1.28	1.08
World	156	15.34	6.10	31.53	−0.02	−5.54	4.43

(b) Trade elasticity of 10

		Trade reshuffling			Welfare changes		
Region	Countries	Mean	Min	Max	Mean	Min	Max
Africa	38	12.81	6.62	23.04	0.09	−0.55	0.78
Americas	29	14.48	7.39	25.68	0.61	−0.17	1.78
Asia	36	14.34	8.14	25.39	−0.04	−0.74	0.39
Europe	25	14.78	9.64	17.52	−0.42	−2.32	0.98
Former Warsaw pact	21	24.75	13.63	31.72	−0.54	−1.91	0.87
Other	7	12.06	6.05	16.23	0.11	−0.51	0.44
World	156	15.36	6.05	31.72	−0.01	−2.32	1.78

Notes: Trade reshuffling is the standard deviation of the relative change of trade flows from the observed to the counterfactual equilibrium. Countries in the former Warsaw Pact are not considered part of any other area. Welfare changes are reported as $\hat{W} - 1$. All values are in percent.

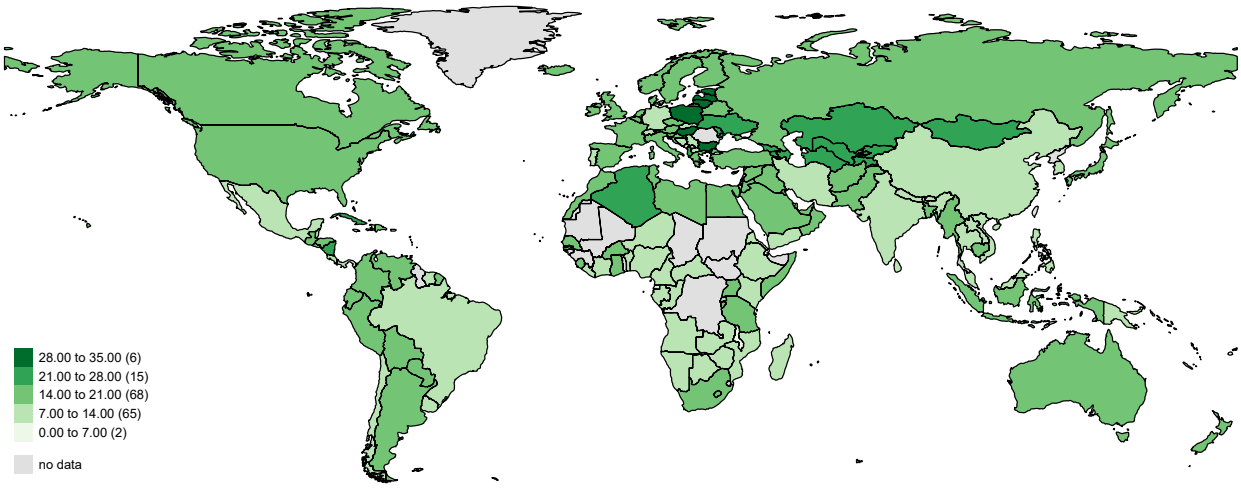
Figure A.5: Trade reshuffling under a New Cold War ($\varepsilon = 4$)



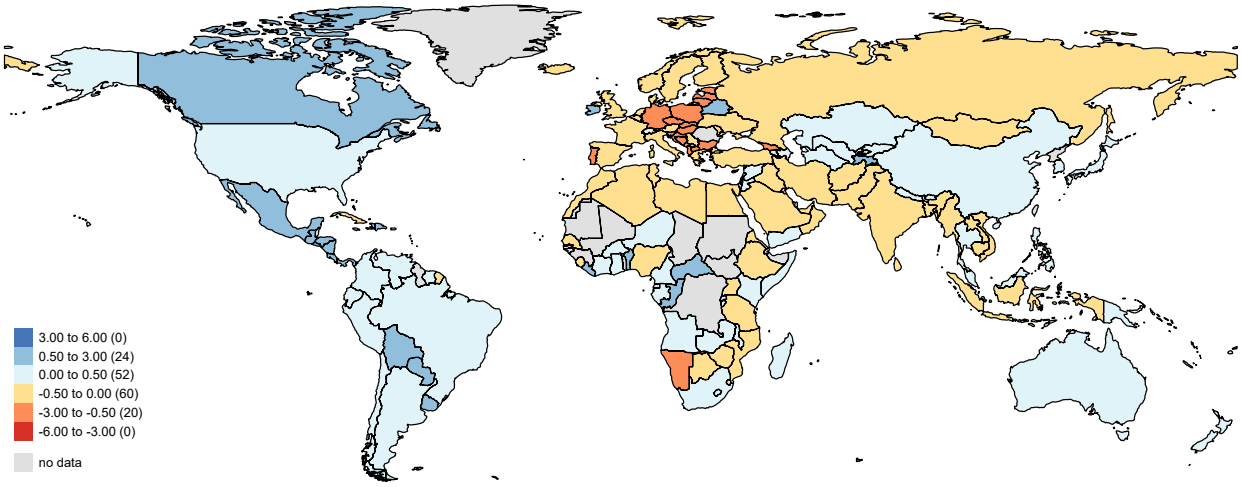
Notes: The figure shows a map with countries colored according to the standard deviation of the relative change of trade flows.

Figure A.6: Impact of a counterfactual New Cold War ($\varepsilon = 10$)

(a) Trade reshuffling



(b) Welfare changes



Notes: Panel (a) shows a map with countries colored according to the standard deviation of the relative change of trade flows. Panel (b) shows a map with countries colored according to the relative change in welfare. Countries not featured in the data are in gray.

A.4.2 European Strategic Autonomy

Table A.11: Descriptive statistics for a European Strategic Autonomy

(a) Trade elasticity of 4

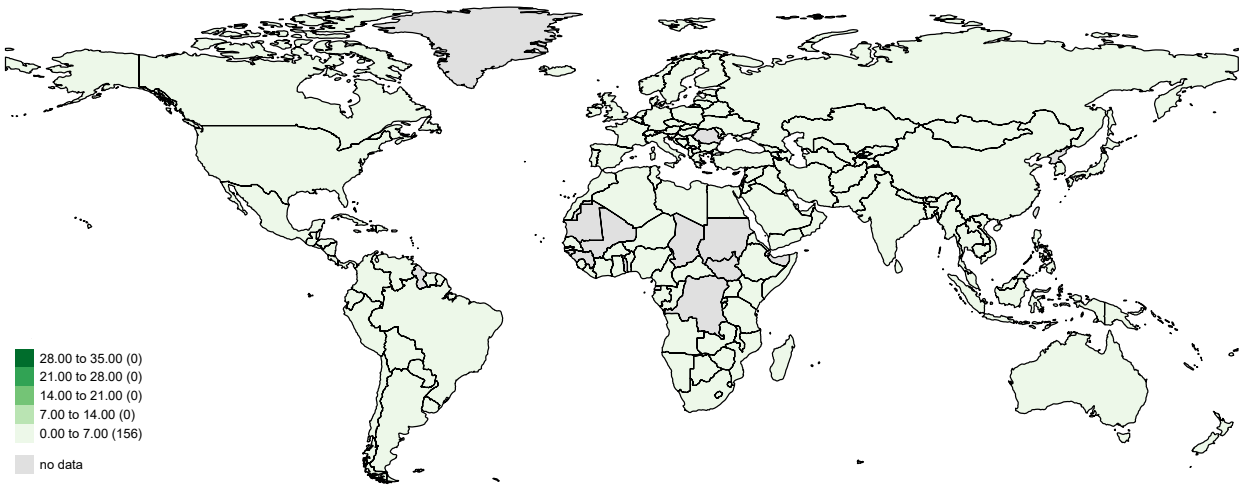
		Trade reshuffling			Welfare changes		
Region	Countries	Mean	Min	Max	Mean	Min	Max
Africa	38	2.08	1.51	3.82	−0.02	−0.75	0.43
Americas	29	1.95	0.57	3.73	0.02	−0.25	0.16
Asia	44	2.08	0.63	3.90	−0.05	−0.34	0.17
European Union	24	3.83	3.76	3.99	0.04	−0.08	0.78
Other	7	1.33	0.54	2.07	0.04	−0.03	0.20
Other European countries	14	1.13	0.61	3.93	0.01	−0.19	0.12
World	156	2.20	0.54	3.99	−0.01	−0.75	0.78

(b) Trade elasticity of 10

		Trade reshuffling			Welfare changes		
Region	Countries	Mean	Min	Max	Mean	Min	Max
Africa	38	2.08	1.53	3.81	−0.01	−0.30	0.18
Americas	29	1.94	0.55	3.74	0.01	−0.10	0.07
Asia	44	2.08	0.61	3.88	−0.02	−0.14	0.07
European Union	24	3.81	3.75	3.97	0.02	−0.03	0.33
Other	7	1.32	0.52	2.04	0.02	−0.01	0.08
Other European countries	14	1.12	0.60	3.91	0.00	−0.08	0.05
World	156	2.20	0.52	3.97	−0.00	−0.30	0.33

Notes: Trade reshuffling is the standard deviation of the relative change of trade flows from the observed to the counterfactual equilibrium. Welfare changes are reported as $\hat{W} - 1$. All values are in percent.

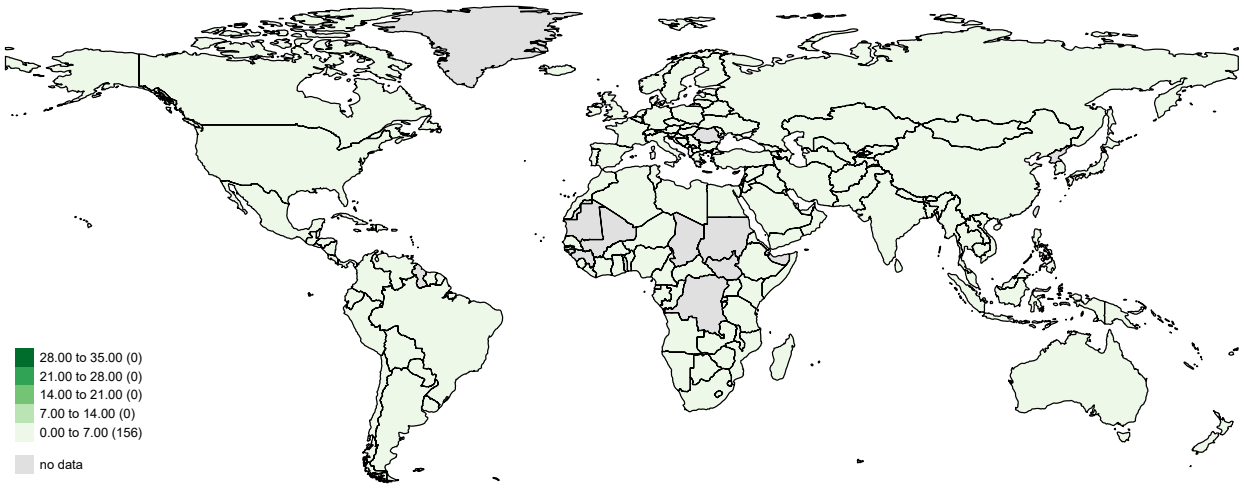
Figure A.7: Trade reshuffling under a counterfactual European Strategic Autonomy ($\varepsilon = 4$)



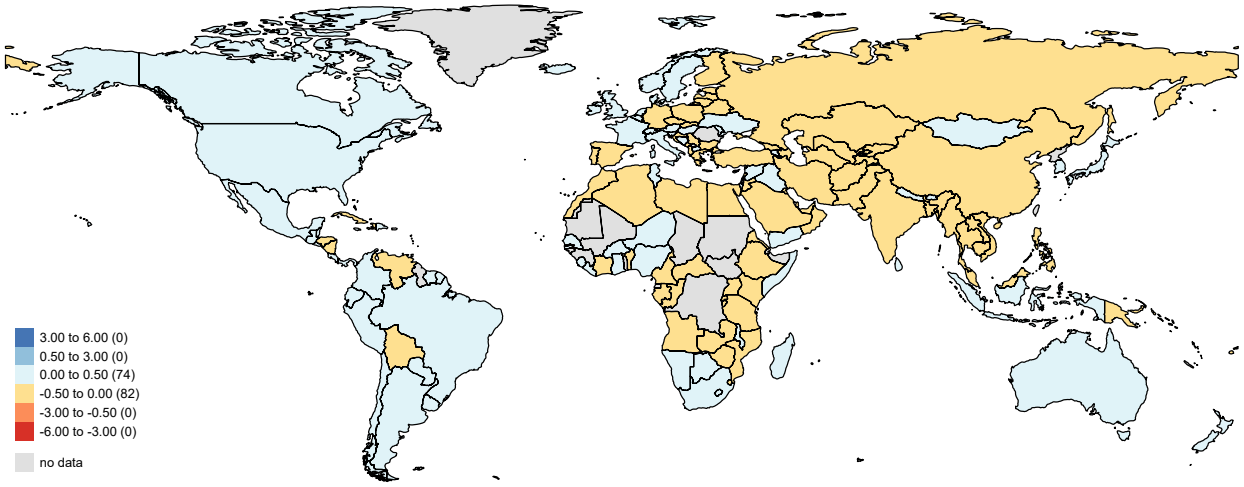
Notes: A map with countries colored according to the standard deviation of the relative change of trade flows.

Figure A.8: Impact of a counterfactual European Strategic Autonomy ($\varepsilon = 10$)

(a) Trade reshuffling



(b) Welfare changes



Notes: Panel (a) shows a map with countries colored according to the standard deviation of the relative change of trade flows. Panel (b) shows a map with countries colored according to the relative change in welfare.

A.4.3 A politically united European Union

Table A.12: Descriptive statistics for a politically united European Union

(a) Trade elasticity of 4

		Trade reshuffling			Welfare changes		
Region	Countries	Mean	Min	Max	Mean	Min	Max
Africa	38	0.57	0.40	0.75	−0.01	−0.22	0.01
Americas	29	0.57	0.42	0.66	−0.00	−0.03	0.00
Asia	44	0.65	0.43	4.26	0.02	−0.04	1.05
European Union	24	2.00	1.42	4.36	0.43	0.18	1.29
Other	7	0.61	0.57	0.71	−0.00	−0.02	0.01
Other European countries	14	0.74	0.58	2.58	−0.01	−0.06	0.33
World	156	0.83	0.40	4.36	0.07	−0.22	1.29

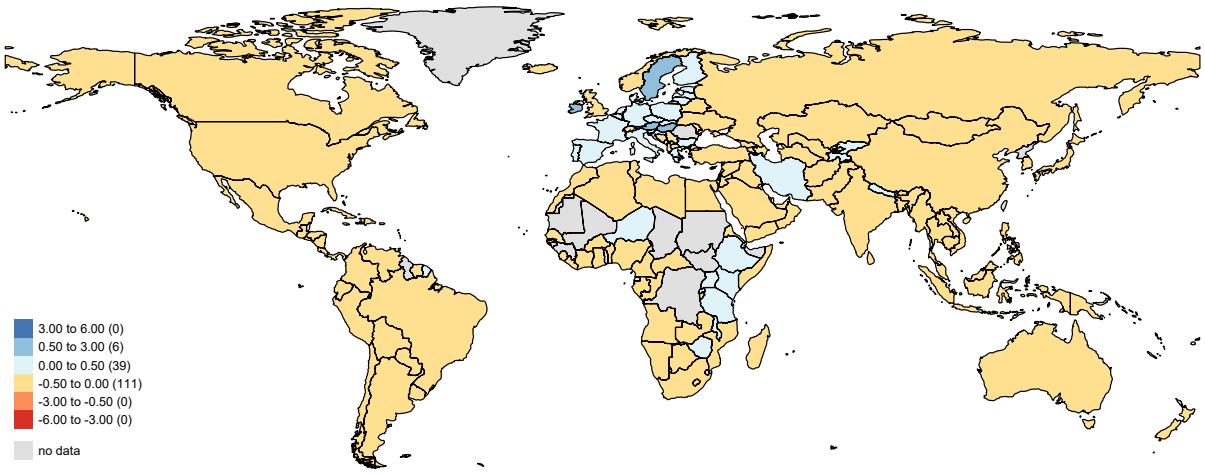
(b) Trade elasticity of 10

		Trade reshuffling			Welfare changes		
Region	Countries	Mean	Min	Max	Mean	Min	Max
Africa	38	0.59	0.43	0.77	−0.01	−0.09	0.00
Americas	29	0.59	0.45	0.69	−0.00	−0.01	0.00
Asia	44	0.67	0.45	4.25	0.01	−0.02	0.42
European Union	24	1.97	1.39	4.34	0.17	0.07	0.53
Other	7	0.63	0.59	0.73	−0.00	−0.01	0.00
Other European countries	14	0.75	0.59	2.55	−0.00	−0.03	0.13
World	156	0.84	0.43	4.34	0.03	−0.09	0.53

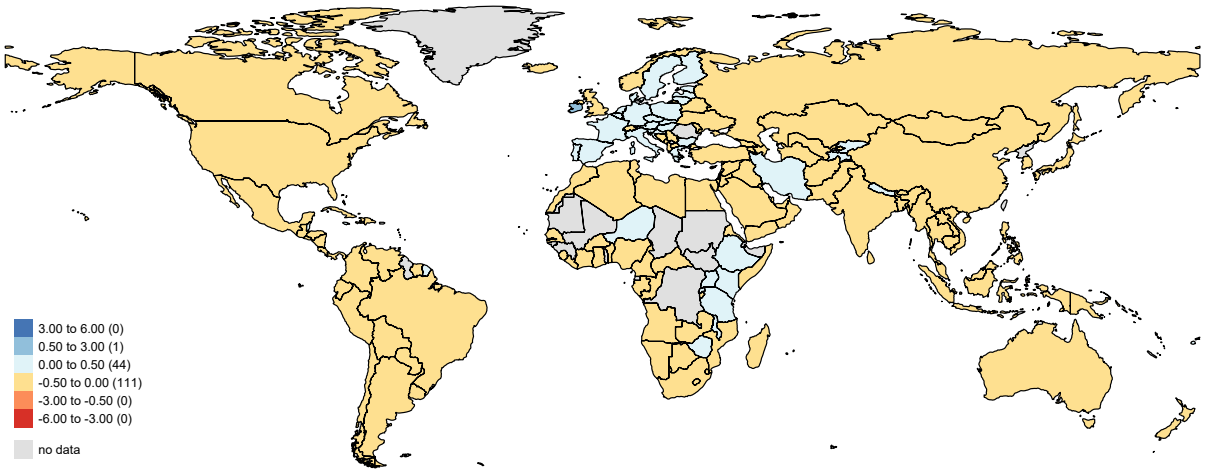
Notes: Trade reshuffling is the standard deviation of the relative change of trade flows. Welfare changes are reported as $\hat{W} - 1$. All values are in percent.

Figure A.9: Welfare impact of a politically united European Union

(a) Trade elasticity of 4



(b) Trade elasticity of 10



Notes: Welfare changes are reported as $\hat{W} - 1$. All values are in percent.