

Geoeconomic History of the Cold War

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Geopolitical Tensions and Trade

- Recent work in Geoeconomics highlights the negative impact of geopolitical distance on trade
- The effort to understand this relationship has been mostly focused on contemporary events, but less on the Cold War. An exception is Campos, Heid, and Timini [2024](#)
- What does geopolitical distance encompass?
- Bloc membership vs. ideological alignment.

Research Question(s)

- During the Cold War, what was the relationship between geopolitical distance and trade?
- Did this relationship depend on the polarisation of conflict between two competing superpowers?
- What is an appropriate measure of geopolitical distance for the Cold War?

Results Preview

- Higher geopolitical distance and fragmentation are associated with lower levels of trade
- This negative effect persists throughout the Cold War, despite various periods of détente
- The magnitude of the effect depends on the measure chosen and the period of reference.

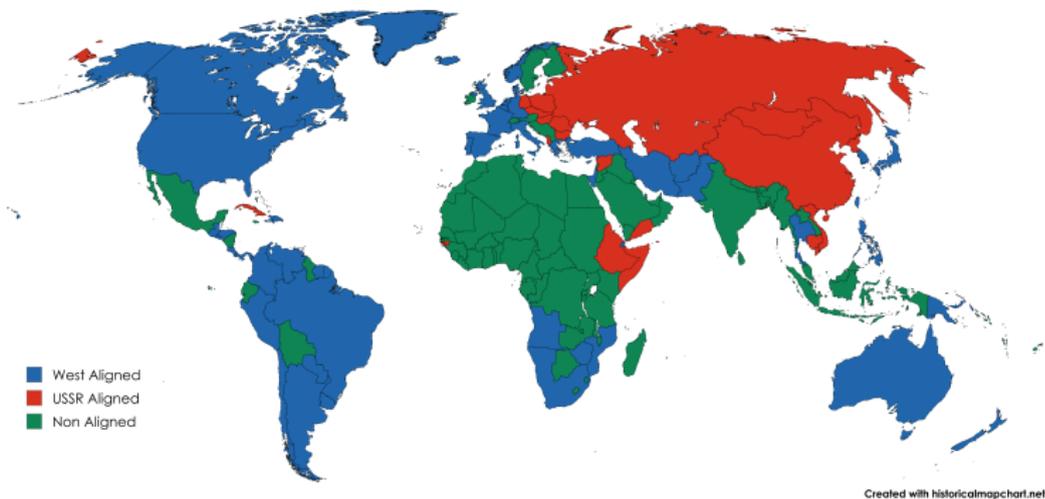
Geopolitics and Economics

- Trade and geopolitical tensions: Aiyar and Ohnsorge 2024, Thoenig 2024, Broner et al. 2025
- Geopolitical Blocs: Gopinath et al. 2025, Bonadio et al. 2024, Airaudo et al. 2025, Bailey, Strezhnev, and Voeten 2017
- Institutional change and Trade: Mèon and Sekkat 2008, Acemoglu, Johnson, and Robinson 2005, Puga and Trefler 2014

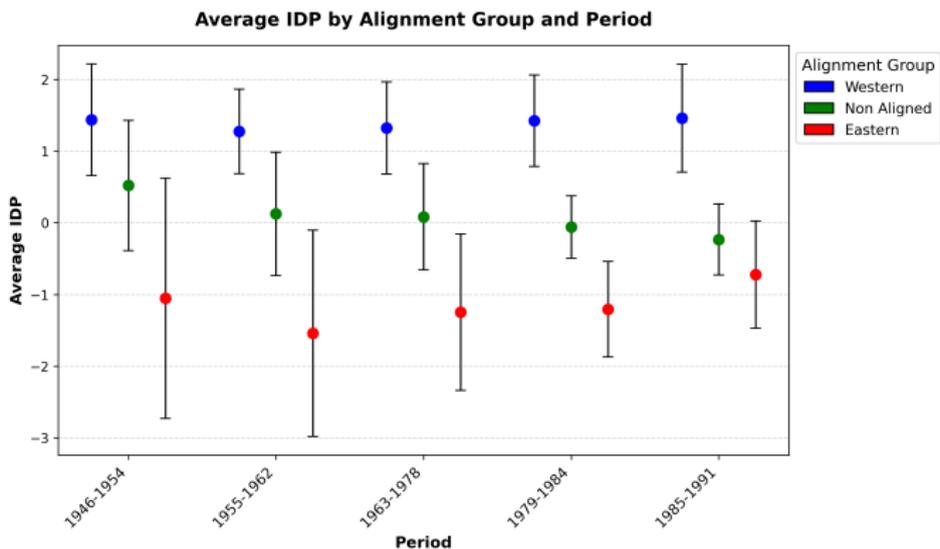
Sources

- Trade from Fouquin and Hugot [2016](#), updated by Campos, Heid, and Timini [2024](#) for Cold War years, with complementary gravity data from Conte, Cotterlaz, Mayer, et al. [2022](#)
- Geopolitical data come from Bailey, Strezhnev, and Voeten [2017](#), who estimate year-by-year ideal points for countries voting at the United Nations General Assembly, and Caldara and Iacoviello [2022](#).

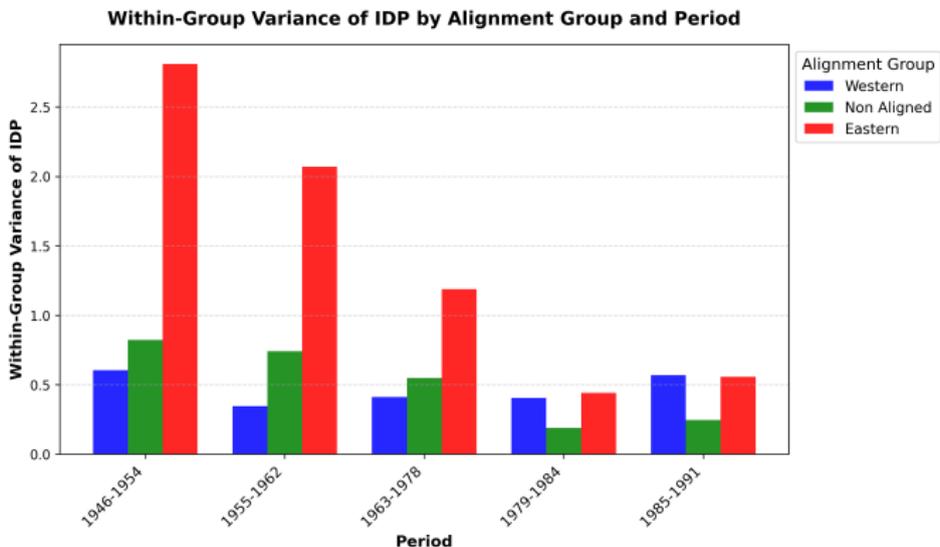
A World Divided into Blocs



Ideal Point Distribution by Blocs I



Ideal Point Distribution by Blocs II



Hegemons Polarisation

Period Averages



Estimating Equation

- Following Aiyar and Ohnsorge 2024, I estimate the following gravity specification for the full period (1946–1991):

$$y_{odt} = \exp(\beta_1 IPD_{od,t-1} + \gamma_{o,t} + \delta_{d,t} + \eta_{od}) + \varepsilon_{odt}$$

- y_{odt} : trade flow from origin o to destination d at time t
- $IPD_{od,t-1}$: Ideal Point Distance between countries o and d at time $t - 1$
- $\gamma_{o,t}$: Origin-time fixed effects
- $\delta_{d,t}$: Destination-time fixed effects
- η_{od} : Origin-destination fixed effects
- ε_{odt} : Idiosyncratic error term.

Baseline HDFE PPML Regression

	Coefficient	Std. Error	z-statistic
Lagged IDPD	-0.193***	(0.017)	-11.33

Absorbed Fixed Effects:

Origin × Year

Destination × Year

Origin × Destination

Observations	454,886
Pseudo R ²	0.9873
Clusters	17,242

Note: Standard errors clustered by origin-destination pairs.

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Baseline Results

- The estimated coefficient is negative and statistically different from zero, indicating that (lagged) Ideal point distance does predict trade flows on the aggregate period
- Three way fixed effects vs sample size
- The Cold War has been characterised by different phases of confrontation and détente: perhaps the role of geopolitical distance has varied over time
- Therefore, β_1 should be estimated period-wise.

Results II

- The estimates from 1946 to 1955 are less precise because of a low number of countries being UN Member at the time
- It was only after 1954 that a significant number of countries joined the United Nations
- The negative effect of geopolitical distance seems to be increasing in magnitude over the years
- This is surprising, given that after 1962 the risk of nuclear escalation decreased significantly
- Sample size and fixed effects estimation.

[View Historical Threats Trends](#)

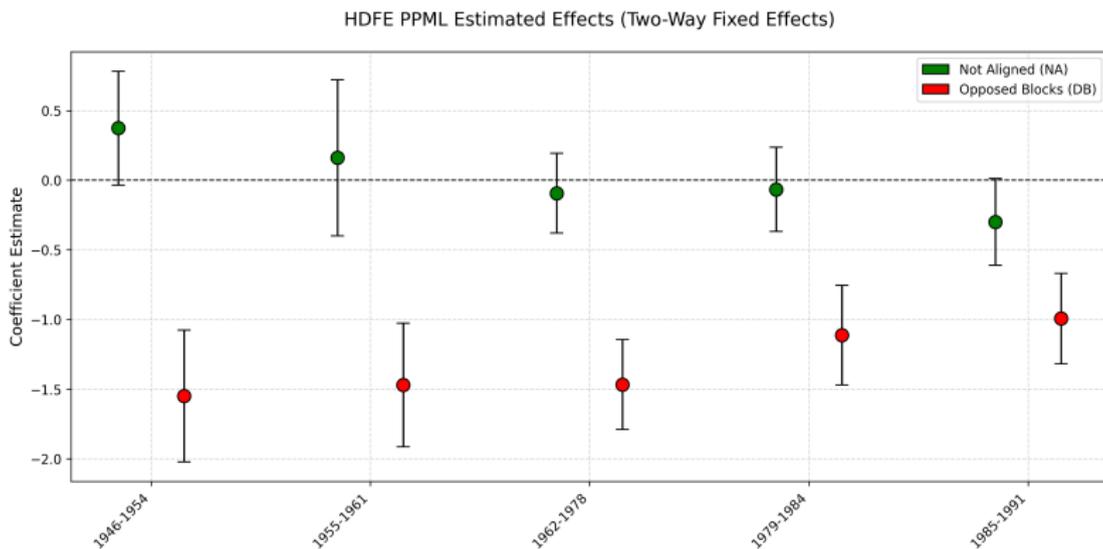
IDP Limitations

- Using the Ideal Point Distance is an interesting approach, but it does present some drawbacks
- The content of UN voting is multidimensional: conflict and human rights are not (purely) economic matters
- Some important countries joined the UN only in the 70s (DDR, DEU and PRC)
- The Koreas were not admitted until the end of the Cold War and Switzerland joined only in 2002.

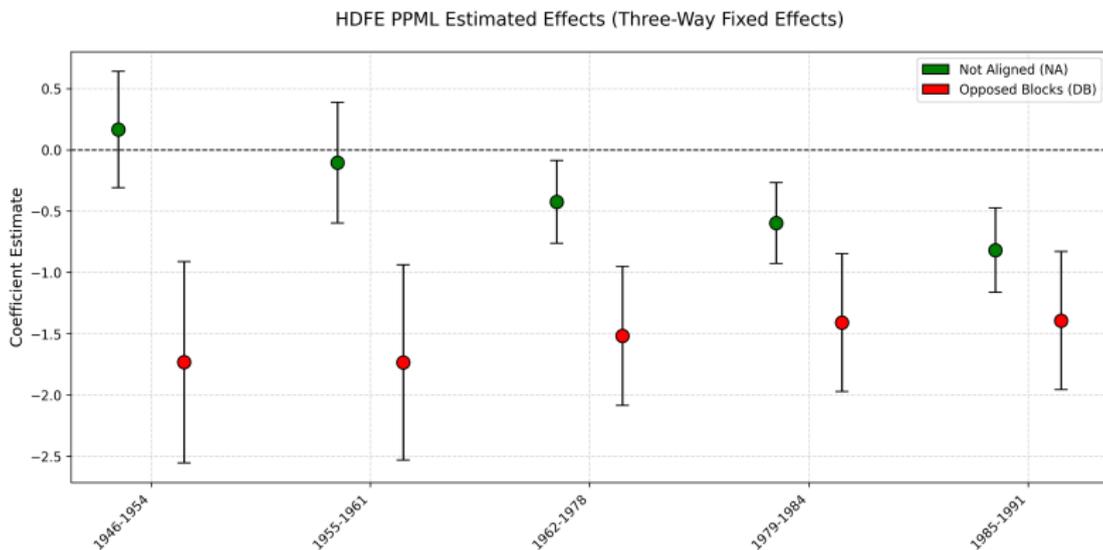
Alternative Strategy I

- I turn to using bloc membership to understand the impact of geopolitical fragmentation on trade
- Each pair of countries od is assigned to one of three groups based on the following criteria:
 - o and d belong to the same geopolitical bloc,
 - they belong to different blocs (DB),
 - at least one of them does not belong to any bloc (NA).

Bloc Regression I



Bloc Regression II



Taking Stock

- The DB coefficient is persistently negative, but highest in magnitude until 1962
- The Non Aligned movement was founded in 1961
- The NA coefficient is negative only from 1962 onwards, signaling the role of implicit vs. explicit neutrality
- Overall, the negative effect of geopolitical distance on trade is confirmed.



Discussion I

- Geopolitical distance is negatively correlated with trade.
- This result holds throughout the whole Cold War, although there are some discrepancies on the magnitude of the effect depending on the measure that is employed and the period considered
- Détente and confrontation play a smaller role than expected
- Is bloc membership the same as measuring bilateral ideal point distance?

Discussion II

- Event study approach: Cuban missile crisis, Soviet invasion of Afghanistan
- Extending the sample to post Cold War to understand if the effect of geopolitical distance persists
- Taking a more structural approach with network regressions?



Thank You!

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Personal Webpage



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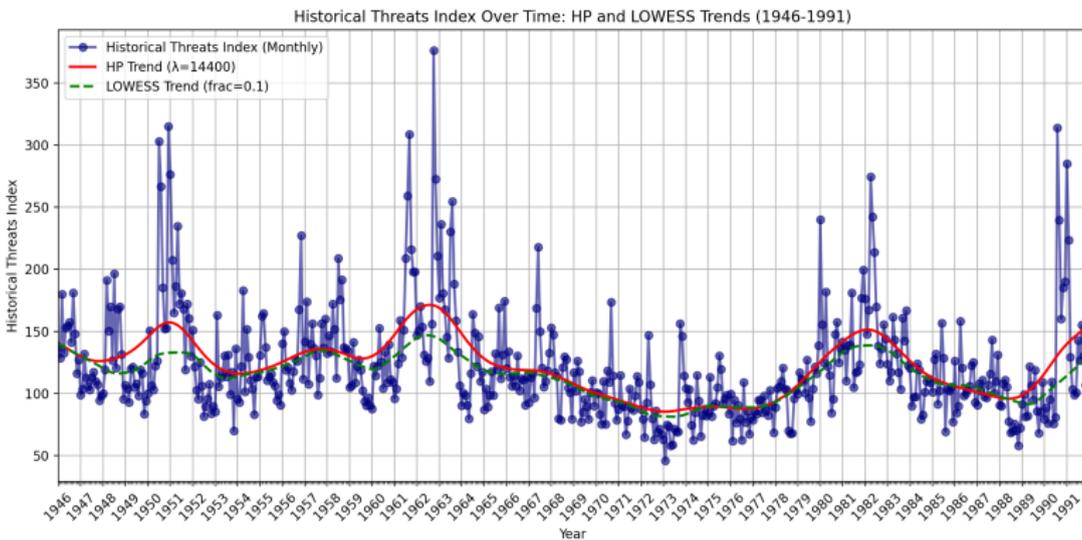


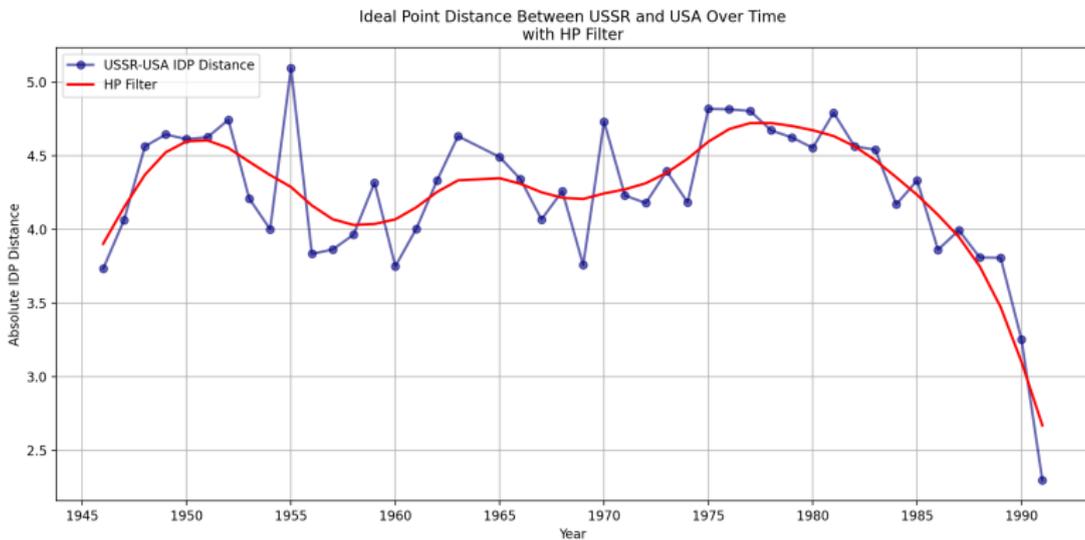
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[Back](#)

[Back](#)

IDP Distribution by Period I

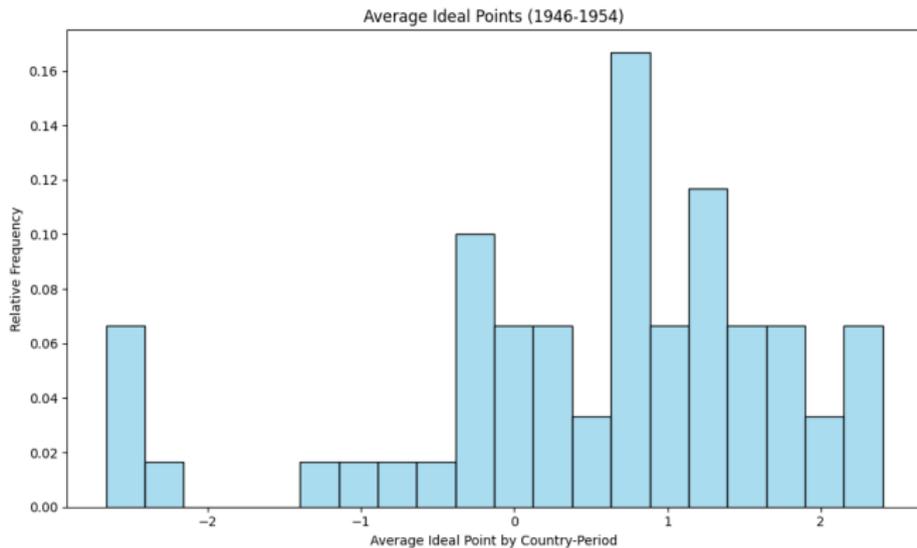


Figure: 1946-1954



IDP Distribution by Period II

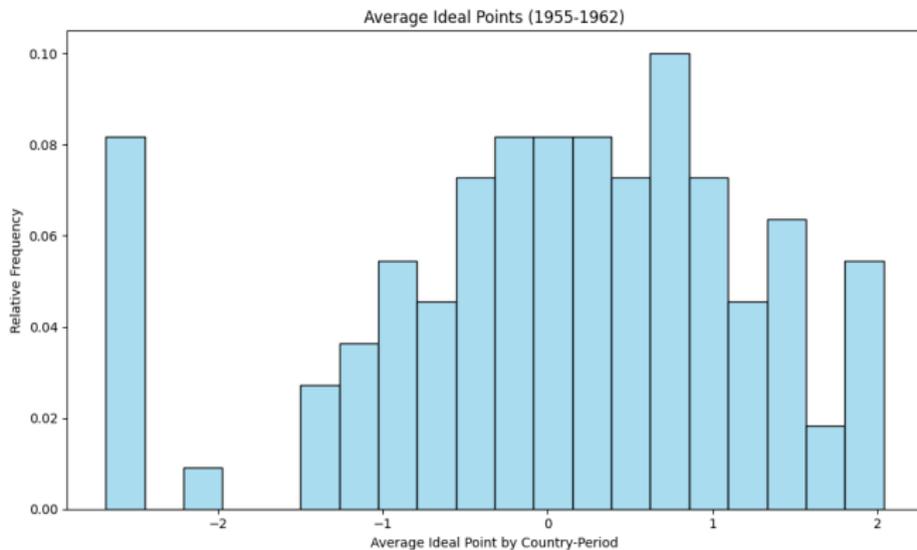


Figure: 1955-1962

IDP Distribution by Period III

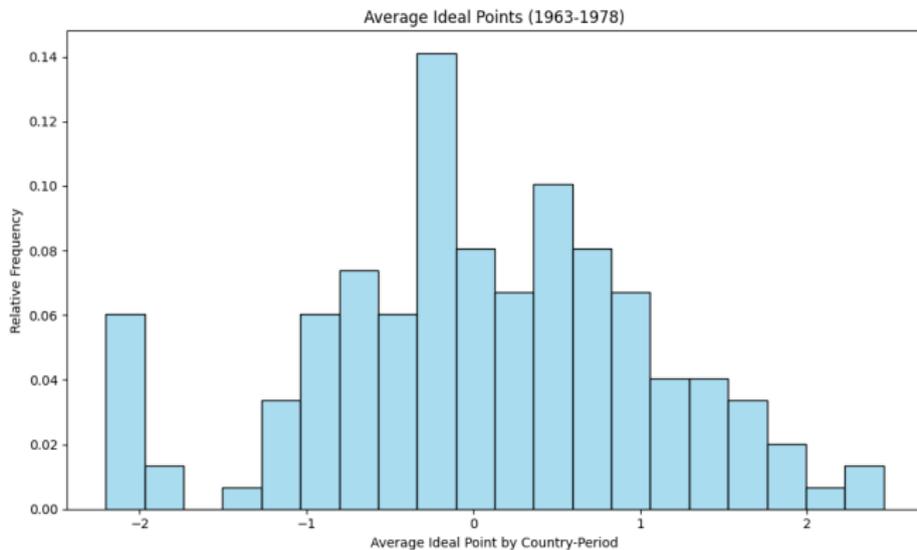


Figure: 1963-1978



IDP Distribution by Period IV

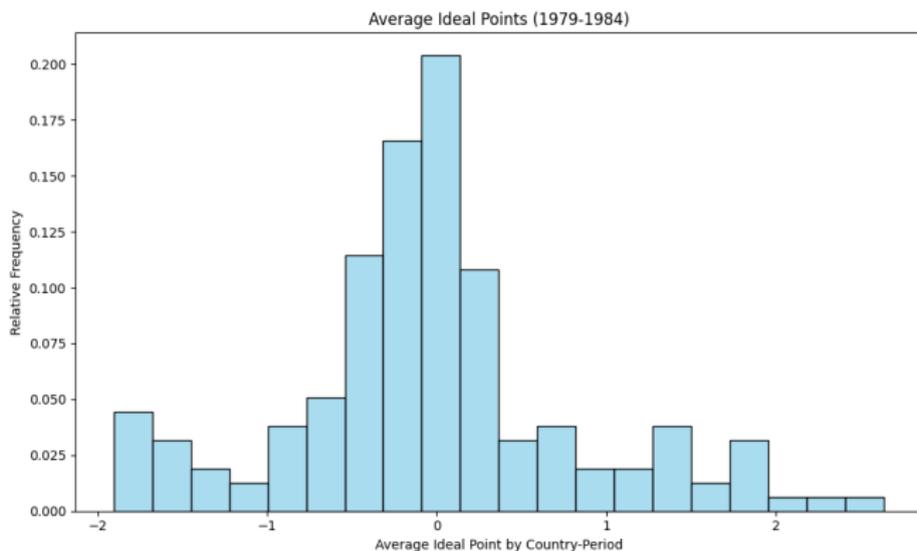


Figure: 1979-1984



IDP Distribution by Period V

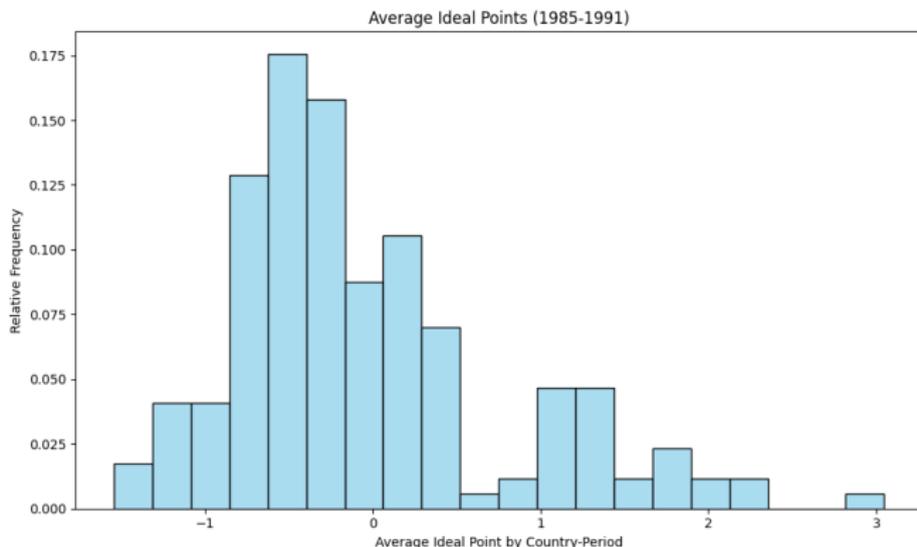


Figure: 1985-1991