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SAFER TRADE AMONG DEMOCRACIES? DOWNWARD TRADE VOLATILITY AND POLITICAL REGIMES (1962-2018)

by Dario Pellegrino*

Abstract

This paper examines the trade relations of the G7 countries from 1962 to 2018, categorising trade partners based on their political systems. First, it analyses trade openness depending on whether partners are democracies. Second, the paper introduces a trade risk measure related to a partner's political system, defined as the downward volatility of trade flows. This measure accounts for both the likelihood and severity of potential trade disruptions.

The study finds that trade among democracies has shown less downward volatility than trade with non-democratic regimes. This finding continues to hold even after accounting for important characteristics of the trading partners, such as their level of development and the types of goods traded (primary products, manufactured goods, or exports). The lower volatility associated with democratic regimes is likely due to stronger institutional limits on executive power, which may lead to more stable policies and business environments.

JEL Classification: F14, F50, N70.

Keywords: trade volatility, international trade history, friendshoring, political regimes, executive constraints.

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* Economic History Division, Directorate General for Economics, Statistics, and Research, Bank of Italy, Rome, Italy. Email: dario.pellegrino@bancaditalia.it.

1 Introduction [1]

Concerns about the ongoing trade fragmentation and risks to global supply chains stemming from geopolitical tensions—particularly in relation to less democratic partners—have intensified in recent years (Baldwin and Ruta, 2025). The war in Ukraine abruptly severed trade ties between the EU and Russia, with abrupt consequences for the EU's energy supply, while rising rivalries between China and Western countries might pose significant risks to both political and commercial relations. Overall, awareness of the vulnerabilities associated with trade with undemocratic, unfriendly and/or politically unstable regimes has been rising.

In such an evolving international context, the concept of "friendshoring", prioritising economic ties with countries that share democratic values and maintain friendly relations, has been suggested as an alternative trade strategy. Critics increasingly challenge the earlier globalisation-era approach of prioritising trade gains while overlooking long-term risks, which rested on the belief that commerce would secure peace and thus justified deeper integration with politically different partners (Wolff, 2023).[2] Yet, while friendshoring might mitigate such vulnerabilities, it may also prove costly, entailing substantial losses in economic welfare.

This paper provides background historical evidence on trade risks by political regime. It assesses trade patterns and their downward volatility for Italy and other G7 countries, according to the political regime of the trading partners, during the 1962-2018 period. The analysis is mostly based on bilateral trade flows from the UN Comtrade and the country-democracy scores panel of the Polity data series (Polity5).

The first part is devoted to a descriptive reconstruction of trade openness according to the partner political regime. The second part links partner political regimes to a measure of trade risk, proxied by the yearly downward volatility of trade flows. The rationale of this measure is to assess how frequently and intensely trade flows may decrease.

The analysis conditions the correlation between political regime and trade volatility to other economic and political characteristics of the trade partners which could drive this association, namely the level of development, regime stability, presence of internal/external conflicts, macroeconomic instability, trade facilitation agreements, exchange regime policies, and diplomatic alignment. These variables could be both confounders and mediators of the political regime-trade volatility nexus. It emerges that this link is not exclusively driven by the advanced economies' status, i.e. trade is less volatile for democracies even re-

[1] I wish to thank Federico Barbiellini Amidei, Alessandro Borin, Federico Cingano, Claire Giordano, Stefano Federico, Matteo Gomellini, Maura Francese, Michele Mancini, Anna Marra, Andrea Presbitero, Roberto Torrini and the participants to the internal seminars of the Structural Economic Analysis Directorate and the International Relations and Economics Directorate. The views expressed herein are those of the author and not necessarily those of the Bank of Italy.

[2] Key examples include China's accession to the WTO in 2001 and the EU's dependence on Russian energy imports.

stricting the analysis to emerging economies. Also, such association holds both for primary products and manufacturing. Interestingly, this finding can be explained mainly by the component of the democracy score which tracks the constraints to the chief executive power of the trading partner.

To the best of my knowledge, no study has yet examined how partner countries' political regimes influence trade volatility. As discussed in Section 2, the recent wave of trade fragmentation has generated a substantial body of research aimed at measuring geopolitical risk and assessing its economic consequences. However, this literature typically concentrates on specific events or scenarios, rather than on the institutional characteristics that shape the latent risks embedded in trade relationships. By contrast, the literature on political institutions and international trade is extensive and has evolved over several decades, examining both directions of causality—how political institutions affect trade, and how trade influences institutions. Yet, this line of research has usually focused on average trade flows, rather than on their volatility or the risk of disruption.

The paper is organized as follows. Section 2 assesses the related literature. Section 3 describes the data sources. Section 4 provides descriptive evidence of trade openness according to the political regime of the trade partner. Section 5 defines a measure of downward volatility and provides unconditional and conditional associations between this indicator and the political regime of the trade partner. The last section concludes.

2 Background Literature

This section reviews several strands of literature relevant to this project. It is organised in three parts: first, recent work on trade fragmentation and geopolitical risk; second, research on the relationship between political institutions and international trade; and third, contributions linking political institutions to macroeconomic volatility.

Although a broad retreat from globalisation has not yet materialised, selective decoupling motivated by geopolitical tensions has been evident since at least 2018 (see, for instance, Conteduca et al. (2025) for a broader discussion). A growing body of research has sought to evaluate the counterfactual costs of such fragmentation, typically by modelling scenarios of reorientation into a US-centric and a China-centric trade bloc (Felbermayr et al., 2023; Javorcik et al., 2024; Attinasi et al., 2025; Conteduca et al., 2025). While fragmentation may increase resilience in some respects, these studies consistently highlight substantial welfare losses. A complementary line of work has focused on measuring geopolitical risk itself. The seminal contribution of Caldara and Iacoviello (2022) introduced a news-based Geopolitical Risk Index, which quickly became the benchmark for quantifying tensions and their effects on investment, employment, and trade. More recently, Alonso-Alvarez et al. (2025) have advanced the debate by disaggregating risks into a bilateral dimension, allowing for a more granular understanding of how specific bilateral tensions shape economic outcomes.

The debate on fragmentation is closely connected to the erosion of expectations that trade integration would automatically generate political benefits. Empirical evidence supports the view that trade openness can foster democratization (Eichengreen and Leblang, 2008; Lopez-Cordova and Meissner, 2005; Liu and Ornelas, 2014; Tabellini and Magistretti, 2023), reduce conflict (Lee and Pyun, 2016), and promote more cooperative international relations (Kleinman et al., 2020). These effects operate through channels such as external institutional pressure, domestic demands for reform, and reduced incentives for conflict through economic interdependence. Yet, as the abrupt collapse of the first wave of globalisation with World War I starkly demonstrated, trade integration is not a sufficient condition for stable and peaceful international relations (Frieden, 2006).

Turning to the reverse causal link, democracies appear more likely to sustain open trade. Mansfield et al. (2000) show that democratic dyads between 1960 and 1990 enjoyed more open trade relations, a result explained by the veto power of legislatures, which constrains arbitrary protectionist shifts. Aidt and Gassebner (2010) further finds that democracies trade more even when controlling for official trade policies, suggesting the presence of latent institutional channels operating beyond tariffs. Similarly, Milner and Kubota (2005), commenting on the trend of trade liberalisation in democratising developing countries, argue that democratization makes liberalisation particularly attractive in labour-abundant economies, as it benefits larger voting constituencies.

A third strand of literature examines the link between political regimes and macroeconomic volatility. A consistent finding is that democracies experience lower volatility (Rodrik, 2000; Quinn and Woolley, 2001; Yang, 2008; Mobarak, 2005), with policy stability—connected to institutional constraints on executive power—emerging as the main explanatory factor (Dutt and Mobarak, 2016). Interestingly, while democracy is robustly associated with lower volatility, its effect on average growth is less clear, suggesting that its primary benefit lies in reducing downside risk. Tsebelis (2002) models this stability as the result of multiple veto players blocking abrupt policy shifts. Along similar lines, Acemoglu et al. (2003) link higher volatility to extractive institutions. Higher risks specific to non-democratic regimes also seem to affect foreign direct investment (FDI): Jensen (2008) show that autocratic regimes face higher insurance risks due to unchecked executive power, which discourages investors.[3]

3 Data

To evaluate the political regimes of trade partners, we rely on the democracy scores from the Polity5 database, developed by the Center for Systemic Peace (Marshall et al., 2020). Polity5 is widely recognized as the most extensively used panel dataset on country-level political regimes, owing to its broad country and time coverage (1800–2018), and detailed assessment of institutional character-

[3]Relatedly, Aiyar et al. (2024) recently documented that since 2018, FDI increasingly aligns with diplomatic proximity, reflecting heightened investor sensitivity to geopolitical risks.

istics.[4]

The Polity5 database computes a synthetic score of the autocracy/democracy spectrum, spanning from a minimum level of -10 to a maximum of 10. The source computes a democracy dummy for all the countries whose score is at least 6, and this analysis adopts this suggested definition.

The overall score is computed as the sum of the scores in three areas. The first relates to the *Executive Recruitment*, measuring the extent of opportunities for individuals in subordinate positions to ascend to positions of authority (competition) and of a regularized process of advancement open for all politically active individuals (openness). The second area looks at the *Executive Constraints*, i.e. the institutionalized limitations placed on the powers of chief executives, ensuring checks and balances on their authority.[5] The third area refers to *Political Competition and Opposition*, i.e. the presence of binding rules that determine when, whether, and how political preferences are expressed (regulation of participation) and the extent of avenues available for alternative policy and leadership preferences to be pursued (competitiveness of participation).

The weight of democratic countries in the *Polity5* sample, both in number and economic size, is reported in Figure 1. Overall, a significant democratization pattern emerges from the late 1970s until the early 2000s, with the percentage of democratic countries rising from less than a third to almost 60 percent, yet democracies always representing the major part of world GDP. From 2005 onward, the number of democratic countries stabilised while their economic size decreased. Countries display a strong persistence in their form of government: across the entire panel, the annual probability of a transition from non-democracy to democracy is 1.9 percent, while the probability of shifting from democracy to non-democracy is 1.5 percent.

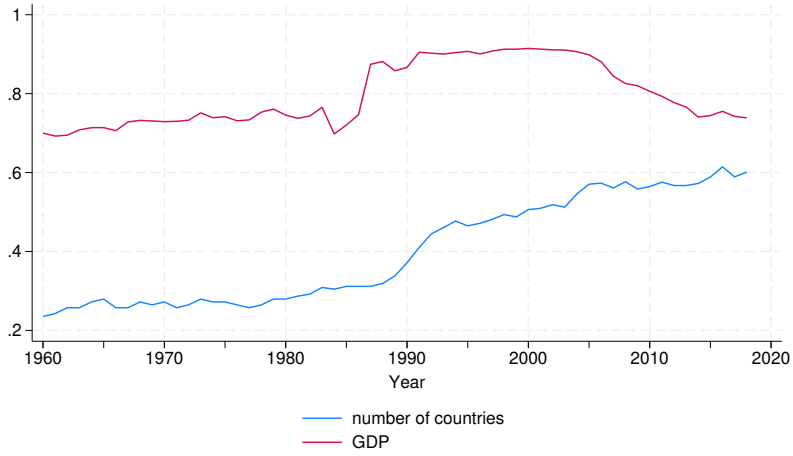
I also account for "State failure" indicators, measuring regime changes and internal conflicts, from the State Fragility Index and Matrix provided by the same Center for Systemic Peace (Marshall and Cole, 2014).

International trade data are from the UN Comtrade. The data source allows tracking flows from 1962 on, with product detail by 4 digits SITC Rev.1 classification, and data on both monetary values and quantities. Bilateral data are from the gravity database assembled in Conte et al. (2022). Indexes of diplomatic disagreement scores, as from the UN Assembly votes, are from Bailey et al. (2017). Data on partner exchange regimes policies are from Reinhardt and Rogoff (2004).

[4]For a review of the literature examining the links between political regimes and international trade using Polity5, see Tabellini and Magistretti (2023).

[5]This role is usually undertaken in liberal democracies by the judiciary and the legislative authorities. Still, the index also tracks other forms of constraints in different regimes, for instance, within a single-party regime, the powers of party bodies to constrain the chief executive.

Figure 1: Share of democratic countries



Source: Marshall et al. (2020)

4 Trade openness and partner regime in the long run

4.1 Overall trade openness

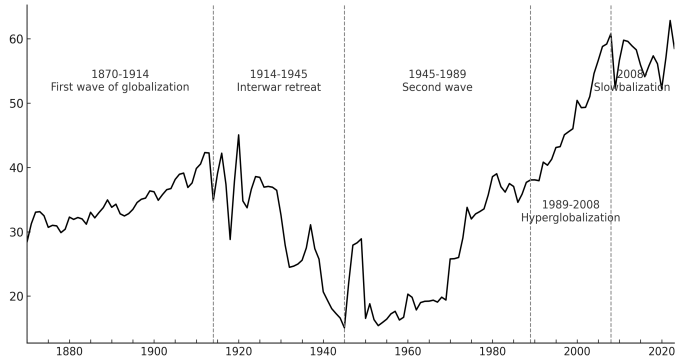
This section examines the evolution of trade openness—measured as the ratio of imports and exports to GDP— of the G7 countries since the 1960s, with a particular focus on Italy, relating it to the political regimes of its trading partners.

A preliminary overview of the global trade trends over the past 150 years can be found in the world trade openness reconstruction in Baldwin and Ruta (2025), as shown in Figure 2. The period from 1870 to 1914, known as the era of the first Globalization, was characterised by a significant expansion of world trade. Yet, the optimistic expectations of an increasingly integrated and peaceful world economy were shattered by World War I and the subsequent rise of protectionism during the interwar period (Eichengreen and Irwin, 1995).

The end of World War II ushered in a new era of progressive trade liberalization, the first stage involving Western countries adhering to the Bretton Woods agreements. Trade integration supported the exceptionally high post-war growth rates in Europe and Japan. A framework for multilateral trade cooperation was established under the General Agreement on Tariffs and Trade (GATT, established in 1947), which evolved into the World Trade Organization (WTO) in 1995.

The last two decades of the 20th century saw an intensification of trade opening, increasingly involving emerging economies and the former Socialist

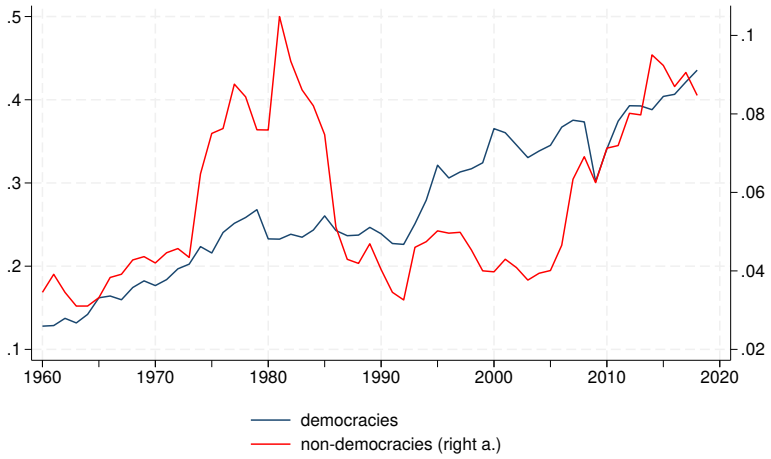
Figure 2: World trade openness (sum of imports and exports as a ratio to GDP)



Source: Baldwin and Ruta (2025)

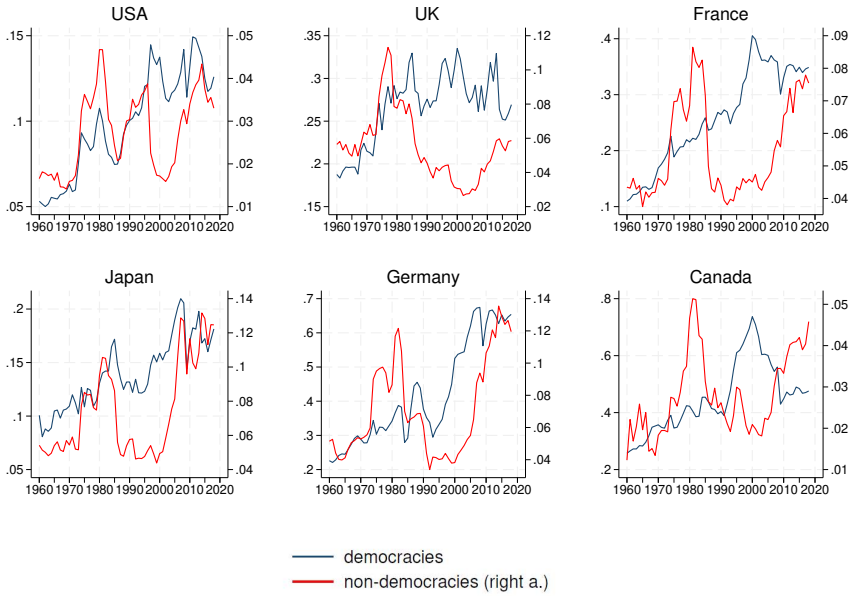
bloc countries. In contrast to the first Globalization, the second one had a more institutional than technological origin: trade cost reduction that spurred it was achieved more through the lowering of policy trade barriers than through decreases in physical transport costs, which had been the primary driver during the first Globalization (Findlay and O'Rourke, 2007; Baier and Bergstrand, 2001). This phase was significantly marked by a surge in cross-border capital flows and the fragmentation of production within global value chains. World trade, although not dramatically declining, plateaued after the global financial crisis (2007-2019), leading to what has been referred to as "Slowbalization".

Figure 3: Italian trade exposure (sum of imports and exports as a ratio to GDP), by partner regime



Source: elaboration on UN Comtrade, Cepii gravity database, and Marshall et al. (2020)

Figure 4: G7 trade exposure, by partner regime



Source: elaboration on UN Comtrade, Cepii gravity database, and Marshall et al. (2020).
Note. Trade exposure is computed as the sum of imports and exports as a ratio to GDP.

Figures 3 and 4 illustrate the evolution of trade openness in Italy and other G7 countries, as the sum of imports and exports as a ratio to GDP, distinguishing these trade flows based on whether the partner country is classified as a democracy.

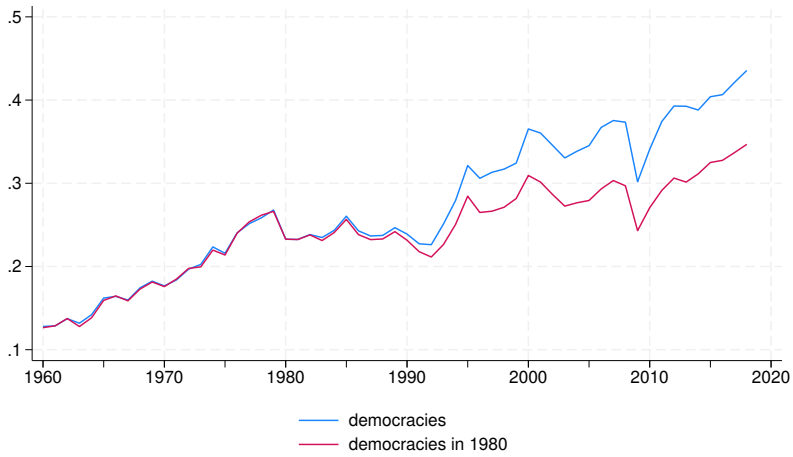
In the 1960s, trade grew largely between democratic countries. Indeed, the progressive trade opening in the Bretton-Woods era (1948-1973) mostly involved democratic and market-based economies in the Western sphere. In contrast, the creation of the Socialist geopolitical bloc, the progressive decolonization and the widespread adoption of import substitution policies in less developed economies hindered trade with those partners (Findlay and O'Rourke, 2007).

During the 1970s, the 1973 and 1979 oil crises, respectively triggered by the Arab oil producers' embargo after the Yom Kippur War and the Iranian Revolution, led to a spike in energy prices and to the value of trade flows with oil-exporting countries (Corsello et al., 2023), entailing a temporary spike in trade exposure with non-democracies, which lasted until the 1980s drop in energy prices.

In the 1980s and the 1990s, while trade openness increased significantly, the trade exposure with less democratic countries remained limited. The growth in trade with emerging economies and former communist countries was indeed associated with democratization in those same countries. To isolate the impact

of this democratization process (see Figure 5), we hold each country's political regime fixed at its 1980 status—just before the major democratization wave that took place over the following two decades (as shown in Figure 1). Our findings indicate that approximately half of the overall increase in trade is explained by the "extensive" margin of democratization, meaning the rise in the number of democratic states among emerging economies and former Soviet-bloc countries. The other half stems from an intensification of trade with countries that were already democratic.[6]

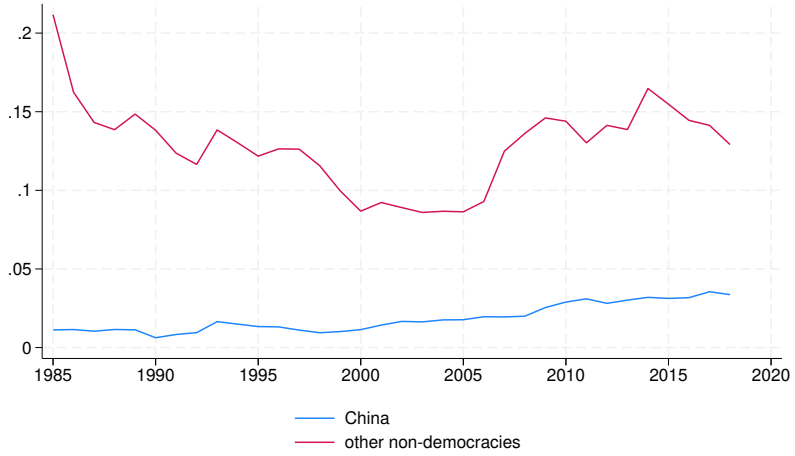
Figure 5: Italian trade exposure with democracies, time-varying regime and fixed at 1980



Source: elaboration on UN Comtrade, Cepii gravity database, and Marshall et al. (2020).
Notes: Trade exposure is computed as the sum of imports and exports as a ratio to GDP. Figures do not include trade flows through Hong Kong and Macau.

[6]It might be worth noticing that in this period, according to Feenstra (1998), the decreasing share of merchandise on overall output led to an underestimation of trade opening computed as a ratio with GDP.

Figure 6: Share of Italian trade with non-democracies on overall trade



Source: elaboration on UN Comtrade, Cepii gravity database, and Marshall et al. (2020).
Notes: The share of trade is computed as the sum of imports and exports, for both China and for the set of other non-democratic countries, on the sum of imports and exports for all the partners. Figures do not include trade flows through Hong Kong and Macau.

From the mid 2000s, trade exposure with non-democratic countries started to grow significantly, reaching levels similar to the oil shock peaks (although not being driven by a price effect, like the spikes during the 1970s). The increasing trade integration with China, magnified by its accession to the WTO in 2001 and entailing strong asymmetric economic effects in Western economies (Caliendo and Parro, 2023), played a significant role in this process. Nevertheless, the growing exposure to non-democracies cannot be solely attributed to China: in Figure 6, I compute the share of Italian imports deriving from (mainland) China and the same share from other non-democratic countries. Only part of the growth in trade with non-democratic partners can be attributed to China.[7]

4.2 Product specific trends

Assessing overall trade openness, while providing useful insights, may be insufficient without considering the specific products involved in the trade flows. In the following, I present evidence on the relative weight of democratic and non-democratic trade partners by product categories. This can shed light on the distinct long-term foreign dependencies associated with those regimes.[8] Figure

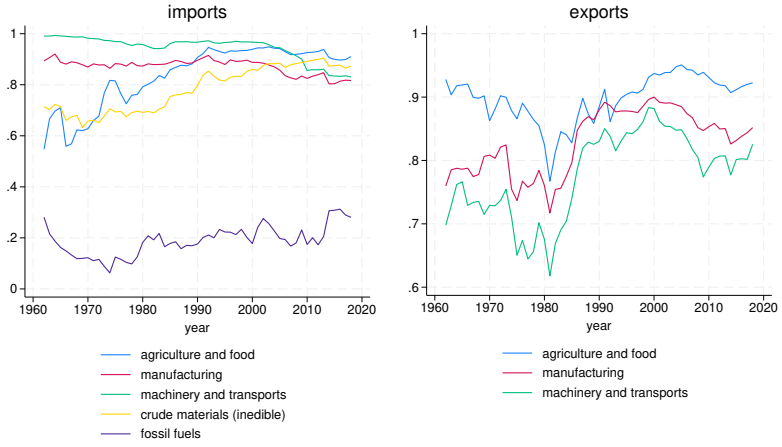
[7]The time-span of the figure is shorter than in previous graphs, beginning in 1985, as it corresponds to the period when China initiated economic reforms and progressively opened up to international trade.

[8]It is noteworthy that, in the current policy context, trade risks are often evaluated based on 'critical inputs'— key components in strategic sectors such as high-tech and clean en-

7 reports the share of Italian trade with democratic partners for the main broad product classifications. Fossil fuel imports stand out as the source of the highest exposure with non-democracies since the 1960s, with a share of trade fluctuating around 20 percent. Imports of agricultural products and food have become more concentrated to democratic countries since the 1960s, growing from around 60 percent to over 90 percent, the European agricultural policies arguably playing a role in this process. Securing a stable food supply, in an international scenario characterized by the uncertainties of the Cold War, was indeed one of the main objectives of the Common Agricultural Policy (Fennell, 1997). A similar trend is observed also for non-energy raw materials.

The overall dependence on non-democratic countries for non-energy raw material imports decreased significantly, even when measured by the number of products (SITC1 4-digit) with at least 50 percent of imports sourced from these countries. For food and agriculture, the share dropped from 21.6 percent to 2.3 percent, while for other crude materials, it fell from 25.5 percent to 9.6 percent.

Figure 7: Share of Italian trade flows with democracies, broad product classifications



Source: elaboration on UN Comtrade, Cepii gravity database, and Marshall et al. (2020)

In the manufacturing sector (particularly in machinery and transports, whose details are shown in the graph), it is noteworthy that, over the whole period, trade has predominantly involved democratic partners. These sectors were typically areas where advanced economies held a comparative advantage. This pattern of specialization in manufacturing, which was mirrored by the relative specialization of lower-income economies in agriculture and raw materials, has

ergy—where foreign dependence is high and substitutability is low (Borin et al., 2023). While conducting a comprehensive historical classification of these critical inputs across past technological regimes would be valuable, it goes beyond the scope of this paper.

partially reversed over the past few decades (Findlay and O'Rourke, 2007). As a result, trade with non-democratic countries in manufacturing has grown from negligible levels to approximately 20 percent over the last two decades

In Table 1, we delve into import product categories with a higher level of disaggregation (2-digit SITC). We report categories where the import share from democratic countries was below 50 percent (i.e. trade occurring mostly with non democracies), in 1970, 1990 and 2015. In 1970, these categories included several agricultural products such as cereals, coffee, tea, and cocoa. The largest share, however, was petroleum, which accounted for over 12 percent of total imports. By 2015, the relevant product categories had narrowed to fossil fuels, with natural gas growing to around one-third of overall fossil fuels imports.

Excluding energy, trade patterns with non-democracies have been progressively showing a less specialized nature even looking to further product detail. The share of products (4 digits) with at least 50 percent of trade with non-democratic countries was overall stable from 1970 to 2015, being slightly below 10 percent.[9] On the other hand, products with a non-negligible share of non-democratic origin (at least 10 percent) rose during the same period, from 28.3 to 53.9 percent.

Overall, the pattern of trade specialization according to the partner regimes reveals a persistent energy dependence over time with non-democratic regimes, an overall decreasing dependence on raw materials, counterbalanced by an increasing dependence on manufacturing. Unsurprisingly, energy imports stand out as the critical point of foreign dependence on Italian trade, both historically and at the present. Long-lasting energy dependence towards a limited set of countries, characterized by a relatively high level of geopolitical risk, yielding a persistent price-shocks sensitive energy-trade deficit, emerges from the Italian foreign energy-trade balance reconstruction in Giordano and Tosti (2022), for which we refer for further detail and analysis on the topic.

5 Trade volatility and partner regime, stylized facts

5.1 Variable description

This section assesses the degree of downward volatility (hereafter DV), according to the political regime of the trade partner. The rationale is to proxy the riskiness of the trade links by looking at the intensity and frequency of the reductions in trade flows. Conversely, upward volatility may reflect an increase in trade openness rather than genuine volatility. The approach builds on Mansfield and Reinhardt (2008), which uses a threshold-based dummy for trade disruptions. This paper extends their method by proposing a continuous measure of downward trade volatility, rather than relying on an arbitrary choice of thresh-

[9] Respectively 9.6 and 9.7 percent.

old.[10]

I measure downward volatility as the square of the percentage yearly variation of the reported trade flows, taking into account only the negative variation of trade flows. Partners are defined as democratic by the Polity5 database. The trade flow is either an import or an export flow. By labelling with i G7 countries and with j their trade partners, we can thus compute the bilateral indicator as

$$DV_{ijt} = \Big(\min\big(0, \frac{trade_{ijt} - trade_{ijt-1}}{trade_{ijt-1}}\big)\Big)^2 \tag{1}$$

An aggregate index for all the J partners trading with i can be computed as

$$DV_{it} = \sqrt{\sum_{j=1}^{J} w_{jit} * DV_{ijt}} \tag{2}$$

given the weight

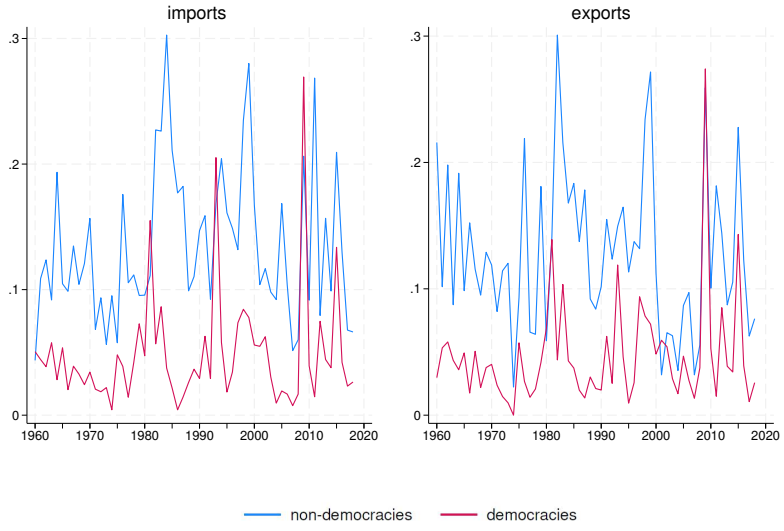
$$w_{jit} = {}^{trade_{jit-1}}\Big/_{\sum_{k=1}^{J} trade_{kit-1}}$$

Figure 8 shows the DV index over time for Italy, while Figures 9 and 10 present the corresponding trends for the other G7 countries, distinguishing between democratic and non-democratic partners for imports and exports, respectively.[11]. Each trade partner is weighted by the size of its trade flow at $t-1$. Except for particular instances (notably in 2008), DV is systematically smaller for trade with democratic partners, compared to non-democratic partners, a finding that holds across all the decades, for both types of trade flows. In section 6, we condition the association on various partners' characteristics that could account for this correlation.

[10] For a robustness check using a two-sided measure of volatility (also drawn from Mansfield and Reinhardt (2008)), see subsection 6.5

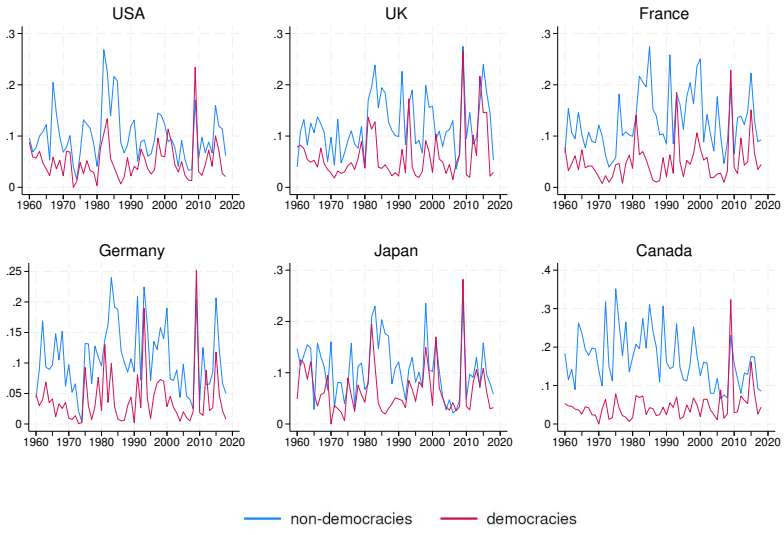
[11] In these graphs, the trade flow variation is assessed in nominal terms. Nevertheless, as will be shown in the next subsection, differences in trade volatility across political regimes hold even when computing the trade flow variation at constant prices.

Figure 8: Trade downward volatility, Italy



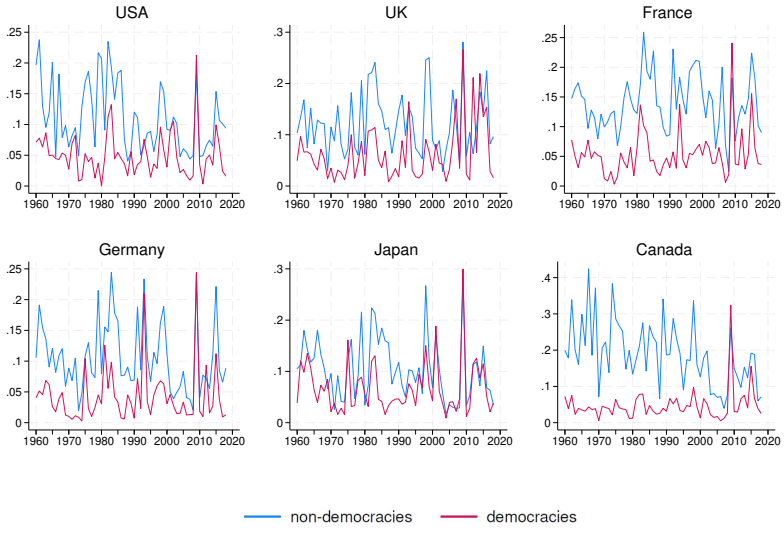
Source: elaboration on UN Comtrade, Cepii gravity database, and Marshall et al. (2020)

Figure 9: Imports downward volatility, other countries



Source: elaboration on UN Comtrade, Cepii gravity database, and Marshall et al. (2020)

Figure 10: Exports downward volatility, other countries



Source: elaboration on UN Comtrade, Cepii gravity database, and Marshall et al. (2020)

5.2 Anecdotal cases of Italian trade disruptions with non-democratic regimes

Before turning to a statistical assessment of the relationship between trade volatility and regime type, it may be useful to examine a few notable instances where Italian bilateral trade flows with non-democratic countries faced significant disruptions. A list of these cases is reported in Table 2, where a trade disruption might be linked with well-known political events. For each country-year pair, the (real terms) percentage reduction in imports and exports is provided. As a preliminary caveat, it should be stressed that this account is purely anecdotal, aiming at providing some hints about some potential drivers of downward volatility, without making exhaustive or systematic claims.[12]

First, political instability and regime changes are linked with a few cases of trade disruptions. As mentioned in section 4.1, the Islamic Revolution in Iran (1979) was the trigger of the second major oil supply shock of the 1970s, and is associated with a drop in the trade relationships with Italy. Similarly, trade contractions occurred during military coups in Brazil (1964) and Nigeria (1975), and later with the fall of Libya's military regime in 2011.

Second, internal and external conflicts are temporarily associated with trade

[12]The cases were selected among the largest trade reductions for Italy in absolute terms, linked to specific country-level events. This non-systematic approach may bias the selection toward major political events or conflicts widely recognized internationally, potentially overlooking less prominent local policies or business environment changes.

disruptions. In the Italian case, notable disruptions happened during the civil wars in Lebanon (1976) and Algeria (1992), with Argentina during the Falkland War (1982) and Iraq (1983) during its conflict with Iran.

Third, major economic policy changes, particularly shifts in trade policy and political tensions, have also driven trade disruptions. In the 1970s, the Libyan government pursued policies of self-sufficiency, nationalization, and tighter economic control under the Gaddafi regime (Vandewalle, 2006). These policies, coupled with an anti-Western stance, culminated in a USA embargo in 1982, with significantly declining Italian trade flows that same year.

Fourth, some disruptions emerged from the relationships with fossil fuel exporters. During the 1980s, imports from Saudi Arabia, Italy's main supplier, significantly declined. This reduction can be attributed to several factors that contributed globally to the so-called "1980s oil glut" that followed the 1970s oil shocks: a gradual diversification of oil supply sources and electricity production (e.g., increased extraction in the North Sea), and measures taken within OPEC to mitigate the oversupply of oil (Gately, 1986). More recently, the trade flow disruption with Russia in 2015 can be attributed to a combination of both Western sanctions following the invasion of Crimea and falling oil prices, limiting the balance of payments resources of the country (Federico et al., 2023).

6 Trade volatility and partner regime, regression evidence

6.1 Empirical strategy

In this section, we estimate multivariate regressions to test the robustness of the regime-volatility association, conditional on key partner country characteristics. The variables included in the regression as controls might be both confounders and mediators for this association. For instance, economic development could favour democratisation, while at the same time, democratic institutions could boost development.[13] Although this does not fully resolve endogeneity concerns, including key country characteristics, it mitigates the risk that the democracy–volatility association is driven by specific omitted variables or overly narrow causality channels. The estimation equation is as follows:

$$DV_{ijt} = \alpha_{it} + \beta_d \cdot \text{demo}_{jt-1} + \beta_x \cdot X_{it} + \epsilon_{ijt} \tag{3}$$

Where DV_{ijt} is the bilateral downward deviation in the trade between i and j (as defined in section 5.1). The index is computed at constant prices, with prices being computed as unit values for each traded product at t-1.[14] $demo_{jt-1}$ is a time-varying dummy for the country partner being democratic (i.e. its polity score is at least 6). α_{it} captures country-specific time-fixed effects (for instance,

[13] Assuming that economic development favours economic stability, in the first case, development would be a confounder of the democracy-volatility association, in the second case a mediator, i.e. a channel through which democracy brings about lower volatility.

[14] Products are defined at SITC-Rev. 1-4digits level.

macroeconomic trends affecting trade patterns with all the partners). $\mathbf{X_{it}}$ is a set of controls.

Of this set of controls, we use a few as baseline ones that are likely to account for key institutional and economic characteristics. First, I check for the partner level of development, proxied by a dummy for partners belonging to the OECD,[15] as I expect most high-income countries to be more likely democracies. As underlined in the related literature, the link between democracy and development may actually run in both directions of causality (Przeworski and Limongi, 1993; Acemoglu et al., 2019; Rodrik, 1999; Barro, 1996; Persson and Tabellini, 2006). Second, I introduce the baseline variables of the gravity framework, i.e. the distance between countries and the partner economic size.[16] Third, I control for the level of stability of the partner regime, with a binary "stable regime" variable, taking value one if there has been no regime change in a minimum threshold number of years, as reported by the polity data series.[17]

6.2 Baseline analysis

In Table 3, the first column shows the association between Italian imports' downward volatility and democracy. In the following columns, I add the aforementioned controls, one by one and jointly in the fifth column. The OECD dummy, the size of the partner economy and distance are statistically significantly associated with downward volatility and democracy, and explain a part of the association between democracy and the outcome variables. Still, the role of democracy confirms its significance. Regime stability, while being associated with lower volatility, does not bring down the democracy coefficient, suggesting that it provides an additive source of variation to the outcome variable.

In Table 4, we replicate the previous exercise, using the downward deviation of Italian export flows as the outcome variable. In Table 5, we replicate the previous estimates taking into account not only Italian imports and exports but also the ones of each of the main advanced economies, i.e. the countries belonging to the G7. In both cases, the results are qualitatively consistent.

The anecdotal cases of trade disruptions in subsection 5.2 suggest a role for events like internal conflicts or regime changes. Therefore, in addition to the regime stability dummy, it is worth examining a broader set of internal stability issues. We refer to the State failure database, which accounts for adverse regime changes, and the presence of revolutionary or ethnic wars (Marshall and Cole, 2014). In Table 6 we replicate Table 5 adding a dummy for the country incurring a State failure. While State failures are associated with a higher downward volatility in exports, overall the democratic regime-trade volatility association is confirmed.

[15] Results are robust to using GDP per capita as an alternative measure of the level of development.

[16] While these are the standard controls of a gravity equation, it should be noted that the presented equation is not a gravity equation, as it is an index of volatility, and not of trade flows levels.

[17] I set the benchmark threshold to 15 years, but results are consistent to alternative thresholds, namely 10 or 20 years.

To gain an intuition of the magnitude of the presented estimates, some back-of-the-envelope calculations can be informative. For the G7-countries sample, the estimated downward volatility coefficient of interest, β_{demo}, ranges from -0.026 to -0.017 for imports and from -0.015 to -0.007 for exports, depending on whether baseline controls are included. The coefficient computes the expected difference in the downward trade volatility index between democratic and non-democratic states, as defined in Equation 1. For a given percent reduction in trade with non-democratic regimes, we can then assess how much smaller the implied reduction is with democratic ones. We take the sample average import flows percent reduction with non-democratic countries, equal to 19.7, as a reference point. The reported β_{demo} range implies a corresponding trade shock with democratic regimes between 11.3 and 14.7 percent. Similarly, for exports, the average democratic trade shock is 14.3, which implies a range of 7.3 to 11.6 for democratic countries.

6.3 The role of constraints on executive power

Next, it is worth investigating whether there is a particular institutional aspect of democratic regimes that explains the regime-volatility link. As discussed in Section 3, the overall democracy score for each country is constructed by summing three components, namely, the competition and openness of executive recruitment, the presence of effective constraints on executive power, and the presence and regulation of political competition. I normalise these three measures to a common scale, from zero to one. Then I regress trade flow downward deviation of the G7 countries jointly on all three jointly, both with and without the baseline controls. The results, presented in Table 7, indicate that it is primarily the executive constraints component that drives the observed association. In other words, the lower expected volatility of trade with democratic regimes is mainly explained by the institutional checks and balances that limit executive action. This finding aligns with existing empirical literature, which suggests that such constraints reduce the likelihood of arbitrary and abrupt policy changes, in both fiscal and trade policies (Dutt and Mobarak, 2016), leading to lower risks in international economic ties (Jensen, 2008).

6.4 Product specialization

In this subsection, we examine whether the observed differences in trade volatility across political regimes can be attributed to the product specialization of the trade relationship in commodities, in particular fossil fuels, or its concentration.

First, I analyze trade flows separately for primary products/commodities and manufacturing products. A potential source of concern is that the higher volatility of trade with non-democratic countries may stem from their specialization in primary products. As discussed previously, supply shocks in commodities and raw materials—such as oil—are significant factors in trade with non-democratic economies. Table 8 presents the analysis of imports into G7 countries, disaggre-

gated into primary products and manufacturing goods.[18] The results reveal that the lower trade volatility observed with democratic countries holds consistently across both product categories, with differences of similar magnitude.

Second, I consider whether the higher volatility of trade with non-democracies is driven by a concentration in fewer product categories, which could increase sensitivity to supply or demand shocks specific to those products. To address this, Table 9 reports the baseline regression while controlling for product concentration in the bilateral flow, measured by the Herfindahl-Hirschman Index (HHI). Including this control mildly reduces the size of the democracy coefficient, but it remains statistically significant. This indicates that while trade with non-democratic regimes tends to be more concentrated, this factor only partially explains the observed relationship between trade volatility and political regimes.

Third, I check the role of trade relationships largely involving energy imports, relying on the membership in the Organization of the Petroleum Exporting Countries (OPEC).[19] Fossil fuel imports are particularly prone to supply shocks, as discussed in section 4. While these shocks primarily manifest as price fluctuations due to the inelastic nature of demand they can also significantly influence the trade quantities, that such analysis accounts for. Table 10 presents the baseline regression results for G7 trade, incorporating a dummy variable for OPEC membership. The results indicate that trade with OPEC countries is, on average, more volatile on both the import and export sides.[20] Nonetheless, even accounting for OPEC membership, the association between democracy and lower trade volatility remains robust.

6.5 Volatility asymmetry

The benchmark volatility measure of this paper, as described in section 5.1, accounts only for downward variations, excluding upward deviations. The rationale is to capture disruptions in trade relationships while disregarding upward variations, that are likely to reflect increasing trade integration. However, it is worth examining whether the assumption of modelling this volatility is appropriate by analyzing both upward and downward volatility components.

To this end, I adopt a benchmark measure of trade flow volatility from Mansfield and Reinhardt (2008):

$$\text{Overall Volatility}_{ijt} = \quad |\ln(X_{ij,t}) - \ln(X_{ij,t-1})| \tag{4}$$

The variable can be decomposed into two additive downward and upward components, respectively:[21]

[18] Primary products are classified according to SITC1 codes 0 to 4.

[19] In 2018, around 97 percent of Italian trade with OPEC was with non-democratic regimes.

[20] On the producer side, oil price volatility can affect the proceeds available for imports, as observed in the case of Russia in 2015 (Federico et al., 2023).

[21] Notice that the variable is bounded from minus to plus infinity, while the benchmark is bounded in a zero to one range.

$$\text{Upward Volatility}_{ijt} = \begin{cases} |\ln(X_{ij,t}) - \ln(X_{ij,t-1})| & \text{if } X_{ij,t} > X_{ij,t-1} \\ 0 & \text{otherwise} \end{cases} \tag{5}$$

(6)

$$\text{Downward Volatility}_{ijt} = \begin{cases} |\ln(X_{ij,t}) - \ln(X_{ij,t-1})| & \text{if } X_{ij,t} < X_{ij,t-1} \\ 0 & \text{otherwise} \end{cases} \tag{7}$$

Table 11 presents the results using the overall volatility index in the benchmark specification, decomposed into these two volatility components.[22]By definition, the sum of the coefficients for downward and upward volatility equals the coefficient for overall volatility. Overall, the symmetric volatility measure is consistent with the findings of the benchmark specification, showing higher volatility for trade with non-democratic countries. However, this relationship is almost entirely driven by the downward volatility component, while the upward component is smaller in magnitude and mostly statistically insignificant. This suggests that the higher downward volatility is not merely the outcome of short-term fluctuations, as might be expected in the case of symmetric volatility, but rather reflects a greater likelihood of significant downward trade disruptions. All in all, these findings support the choice of the baseline index of downward volatility.

6.6 Diplomatic alignment and policies

In this section, I control for some key partners policy choices, both in terms of international relationship alignment and economic policies.

First, I consider the role of diplomatic alignment between trading partners. To represent this dimension, I use the benchmark diplomatic disagreement index developed by Bailey et al. (2017), which measures how similarly two countries vote in the UN General Assembly and is normalized between 0 and 1. This index offers a measure of geopolitical proximity, potentially suggesting a different interpretation of the 'common values' underlying friendshoring.

In Table 12, in col. 1 and 4, we assess how this index correlates to trade downward volatility. Then, we jointly control for the democracy indicator and the diplomatic disagreement measure, both with and without the baseline controls. Trade between diplomatically closer countries is less volatile, and this holds even when democracy and diplomatic affinity indicators are jointly included in the same regression. At the same time, trade between democracies is more stable, even accounting for their diplomatic proximity.

Second, I assess the role of multilateral agreements. Multilateral cooperation and agreements have been a large driver of trade integration, as discussed in

[22].

section 4. Their alleged rationale is not only to promote trade openness but also the stability of the underlying trade linkages (Mansfield and Reinhardt, 2008). As Martin and Simmons (1998) notes, multilateral agreements can "lock in a particular equilibrium, providing stability." In Table 13, I add dummies characterizing such agreements. First, I check whether the partner belongs to the WTO or its precursor, the General Agreement on Tariffs and Trade (GATT). Second, I check for the existence of Free Trade agreements between the G7 reporter and the partner country. When variables are jointly added to the regression, only the first is statistically significant.[23] The democracy dummy is still significant in the case of imports, while it weakens for exports. Overall, these findings support the notion that the GATT/WTO process, which democracies were more likely to adhere to, was associated with a lower degree of trade disruptions, the arguable mechanisms being the capacity to promote stability, transparency and convergence of trade policies and, more generally, of policies affecting the business conditions. For instance, as shown by Groppo and Piermartini (2014), WTO commitments and monitoring effects can significantly reduce the probability of protectionist measures.[24]

Third, the choice of exchange rate regime is another key economic policy decision that may influence trade volatility. For example, one of the main arguments for adopting fixed exchange rates is that they can reduce the price uncertainty associated with foreign currencies.

In Table 14, I include dummy variables reflecting different exchange rate policies, based on the long-run reconstruction by Reinhardt and Rogoff (2004). The omitted dummy —the benchmark for comparison—is the presence of fixed exchange rates. The results show that whether the currency is floating, pegged, or partially pegged has no significant effect on explaining downward deviations in trade.

By contrast, dual exchange rate markets—where multiple official rates apply to different types of international transactions—emerge as a significant predictor of increased downward export deviations. Dual rate systems, while providing a higher degree of flexibility in macroeconomic governance,[25] may allow policymakers more discretion in resource allocation, potentially leading to economic distortions. As discussed by Adams and Greenwood (1985) and Kiguel and Lizondo (1986), these arrangements can be seen as a form of commercial policy that effectively taxes or subsidizes certain transactions.

Finally, a "freely falling" currency — i.e. one experiencing significant de-

[23]The results are confirmed even controlling for EU and FTA independently. A reason for the lack of significance of free trade agreements is that they are relatively rare between democratic and non-democratic regimes. At the same time, it should be noticed that EU membership is highly collinear with distance among its member states.

[24]In contrast, Rose (2005) finds no significant effect of WTO membership on trade volatility. However, the outcome variable in the analysis is the standard deviation of trade flows, which, as previously noted, also captures upward trade dynamics. Trade growth is an explicit objective of the WTO, potentially confounding the interpretation of the results.

[25]For instance, it could shield commercial transactions from exchange rate fluctuations while still maintaining some flexibility in monetary policy, thus combining some benefits of both floating and fixed exchange regimes.

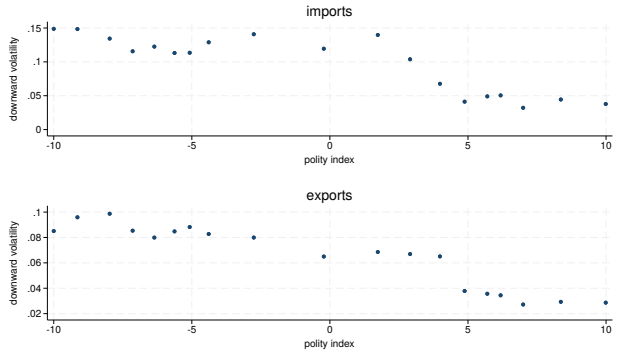
valuation—is also associated with increased export volatility, highlighting the impact of severe macroeconomic instability on trade disruptions.

6.7 Additional robustness

In this section, I discuss additional robustness checks that confirm the qualitative findings presented so far.

A key concern is whether it is appropriate to assess democracy as a binary variable, rather than in a spectrum: as outlined in Section 3, the democracy dummy is assigned to countries with a Polity2 score of at least 6 on a scale ranging from -10 to 10. For instance, a binary dummy may disregard differences between outright autocracies and hybrid regimes (anocracies). To address this, Figure 11 displays the association between the polity score and downward trade volatility for G7 countries, controlling for reporter-year fixed effects. The results do not show a consistent downward trend in volatility across the whole democracy score distribution, but rather a noticeable discontinuity for regimes that are close to the democracy threshold. No significant discontinuity appears between import volatility between autocratic regimes (having a score of -5 or lower) and hybrid regimes, and, for both imports and exports, for countries above the democracy threshold. Overall, this evidence supports the choice of using the benchmark binary democracy variable.

Figure 11: Downward volatility and democracy score (-10,10)



Source: elaboration on UN Comtrade, Cepii gravity database, and Marshall et al. (2020).
Notes: The binscatter is computed controlling for partner-year dummies. The Polity5 democracy score ranges from -10 to 10. The baseline democracy dummy is assigned to countries with a score of 6 or higher.

I conducted additional robustness checks, with results available upon request. I added control for variables that capture cultural distances, such as former colonial ties, shared languages, and religions, as well as testing alternative proxies for economic development, including GDP per capita. Moreover,

I evaluated whether the relationship between democracy and volatility holds consistently across different decades and the entire time period under consideration. I also examined whether GDP growth volatility could account for the observed association. Finally, I performed the baseline analysis after excluding two major trade partners, Russia and China, to ensure that the results are not unduly influenced by these countries. Overall, these additional checks confirm that the main results are robust and not sensitive to specific modelling choices or sample characteristics.

7 Conclusion

Politically motivated trade fragmentation is an increasing concern in the current policy debate. This paper provides background historical descriptive evidence, by examining trade patterns by political regimes from the 1960s onwards. It reconstructs trade openness and computes downward volatility of trade flows for the G7 countries, with a particular focus on Italy, according to the democratic status of their trading partner.

Foreign trade with countries that are defined as non-democratic temporarily spiked due to a price effect during the oil shocks in the 1970s. It has been remarkably growing since the 2000s, due to new patterns of international specialization emerging during the second Globalization, accounting, in the Italian case, for almost 20 percent of overall import and export flows.

Overall, foreign trade with non-democratic countries tends to be more prone to frequent and significant reductions, even when trade flows are measured in real terms. This pattern holds consistently across imports and exports, as well as for both primary and manufactured products, while also accounting for the product concentration of trade flows. While these findings are associations that do not imply causality, it is interesting to notice that trade with democratic partners exhibits lower volatility even after considering factors such as development levels, internal stability, and key economic and international policy orientations.

Notably, the strength of institutional constraints on executive powers is, among the features defining the democratic regime status, the one that explains the observed relationship between democracy and reduced trade volatility. This aligns with a substantial body of empirical literature documenting lower domestic economic volatility in democratic regimes, with the heightened policy stability enabled by such constraints cited as the primary rationale for this finding (Dutt and Mobarak, 2016). In this work, part of the observed association between democracy and lower trade risk can indeed be explained by specific institutional characteristics that may reduce policy arbitrariness and instability. These include adherence to GATT/WTO multilateral agreements and the adoption of a non-dual exchange rate regime.

Overall, this descriptive evidence points to potential risks that are associated with the political institutions of the trading partners. A potential trade-off between gains from trade integration with partners that have a lower degree of democratic affinity and the resilience of these economic links might arise. A

proper quantification of such a trade-off is beyond the scope of this project, but we expect trade disruptions to be particularly harmful to output in the case of critical inputs that exhibit low substitutability (Borin et al., 2023). Also, the political benefits of trade integration should not be completely disregarded: international trade should still be expected to support, although not guarantee, more cooperative and peaceful international relationships.

This study suggests that, all else being equal, trade integration with democratic countries with effective constraints on executive power might offer long-run benefits in terms of risk mitigation. This calls for further investigation into the complex balance between the benefits of trade integration and the potential political risks involved in the relationships with trade partners.

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Tables

Table 1: Product categories with Italian imports share from democratic countries below 50 percent

year	**product category** (2 digit SITC rev.1)	**share of imports from democracies** (perc.)	**weight on imports** (perc.)
1970	Cereals and cereal preparations	37.5	3
	Coffee, tea, cocoa, spices	12	1.3
	Crude rubber	48.4	0.8
	Petroleum and petroleum products	5.4	12.5
1990	Petroleum and petroleum products	13.3	9.7
	Gas, natural and manufactured	20.2	1.8
2015	Petroleum and petroleum products	29.1	7.7
	Gas, natural and manufactured	19.6	4.1

Source: elaboration on Comtrade and Polity5. Note: Product categories are at Sitc2 2 digits Revision. Reporter-year fixed effects are included.

Table 2: Key cases of Italian trade disruptions with non-democracies

Year	**Country**	**Event**	**Import** Reduction	**Export** Reduction
1964	Brazil	Coup d'état		48.7
1975	Nigeria	Coup d'état	80.9	
1975	Libya	Restrictive measures on foreign trade	46.7	
1976	Lebanon	First Civil War	65.9	80.6
1979	Iran	Islamic Revolution	82	63.1
1982	Argentina	Falklands War	3.4	59.3
1982	Libya	Tensions between the West and Gaddafi's regime, US embargo	5.2	49.2
1982	Saudi Arabia	1980s oil glut	37.3	
1983			36.2	
1984			31.6	18.1
1983	Iraq	Iran-Iraq conflict	19.7	50.8
1993	Algeria	Civil War Outbreak	38.1	
1998	Indonesia	Repercussions of the 1997 Asian financial crisis		69.7
2011	Libya	Fall of Gaddafi's regime	73.2	78.5
2015	Russia	Oil price drop and post-Crimea invasion sanctions		32.3

Table 3: Baseline - Italian imports downward volatility

	(1)	(2)	(3)	(4)	(5)
democracy	-0.026***	-0.019***	-0.014***	-0.024***	-0.018***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.003)
OECD		-0.008***			0.007***
		(0.002)			(0.002)
l.distance			0.005***		0.005***
			(0.001)		(0.001)
l.GDP			-0.004***		-0.005***
			(0.000)		(0.000)
stable regime				-0.007***	-0.006***
				(0.002)	(0.002)
Observations	7,546	7,546	7,299	7,546	7,299
R-squared	0.063	0.066	0.084	0.067	0.087

Dependent variable: downward deviation in trade flows. Robust SE in parentheses. Reporter-year fixed effects are included.

Table 4: Baseline - Italian exports downward volatility

	(1)	(2)	(3)	(4)	(5)
democracy	-0.014***	-0.009***	-0.007***	-0.013***	-0.008***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
OECD		-0.006***			0.003
		(0.002)			(0.002)
l.distance			0.003***		0.004***
			(0.001)		(0.001)
l.GDP			-0.003***		-0.003***
			(0.000)		(0.000)
stable regime				-0.005***	-0.004***
				(0.001)	(0.001)
Year FE	Y	Y	Y	Y	Y
Observations	7,546	7,546	7,299	7,546	7,299
R-squared	0.064	0.068	0.083	0.069	0.086

Dependent variable: downward deviation in trade flows. Robust SE in parentheses. Reporter-year fixed effects are included.

Table 5: Baseline - G7 countries downward volatility

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
			imports					exports		
democracy	-0.026***	-0.017***	-0.015***	-0.024***	-0.017***	-0.015***	-0.007***	-0.007***	-0.014***	-0.007***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
l. GDP			-0.004***		-0.005***			-0.003***		-0.003***
			(0.000)		(0.000)			(0.000)		(0.000)
l. distance			0.003***		0.003***			0.003***		0.003***
			(0.000)		(0.000)			(0.000)		(0.000)
OECD		-0.010***			0.004***		-0.010***			-0.000
		(0.001)			(0.001)		(0.001)			(0.001)
stable regime				-0.007***	-0.002**				-0.007***	-0.004***
				(0.001)	(0.001)				(0.001)	(0.001)
Observations	52,120	52,120	50,459	52,120	50,459	53,386	53,386	51,619	53,386	51,619
R-squared	0.545	0.547	0.563	0.546	0.563	0.672	0.674	0.686	0.674	0.687

Dependent variable: downward deviation in trade flows. Robust SE in parentheses. Reporter-year fixed effects are included.

Table 6: Controls: State failures

	(1) imports	(2) imports	(3) exports	(4) exports
democracy	-0.025***	-0.017***	-0.013***	-0.007***
	(0.001)	(0.001)	(0.001)	(0.001)
State failure	0.002	0.001	0.011***	0.008***
	(0.002)	(0.002)	(0.002)	(0.002)
Controls	N	Y	N	Y
Observations	52,120	50,459	53,386	51,619
R-squared	0.545	0.563	0.674	0.687

Dependent variable: downward deviation in trade flows. Robust SE in parentheses. State failure is a dummy for countries in which a revolutionary war, an ethnic war or an adverse regime change is taking place. Controls include a OECD dummy, the log. of distance, the log. of partner GDP and a dummy for a stable regime. Reporter-year fixed effects are included.

Table 7: Democracy score components

	(1)	(2)	(3)	(4)
	imports		exports	
executive recruitment	-0.007*	0.001	0.003	0.007**
	(0.004)	(0.004)	(0.003)	(0.003)
executive constraints	-0.032***	-0.027***	-0.023***	-0.017***
	(0.003)	(0.004)	(0.003)	(0.003)
political competition and opposition	-0.005***	0.000	-0.006***	0.002
	(0.002)	(0.002)	(0.002)	(0.002)
Controls	N	Y	N	Y
Observations	52,120	50,459	53,386	51,619
R-squared	0.548	0.564	0.674	0.687

Dependent variable: downward deviation in trade flows. Robust SE in parentheses. Controls include a OECD dummy, the log. of distance, the log. of partner GDP and a dummy for a stable regime. Reporter-year fixed effects are included.

Table 8: Primary and manufacturing imports - G7 downward volatility

	(1)	(2)	(3)	(4)
	manufacturing		primary products	
democracy	-0.038***	-0.027***	-0.053***	-0.025***
	(0.002)	(0.002)	(0.002)	(0.002)
Controls	N	Y	N	Y
Observations	51,731	50,117	52,651	50,309
R-squared	0.469	0.489	0.281	0.316

Dependent variable: downward deviation in trade flows. Robust SE in parentheses. Controls include a OECD dummy, the log. of distance, the log. of partner GDP and a dummy for a stable regime. Reporter-year fixed effects are included.

Table 9: Controls: bilateral product concentration

	(1)	(2)	(3)	(4)
	imports	imports	exports	exports
democracy	-0.009***	-0.009***	-0.011***	-0.006***
	(0.001)	(0.001)	(0.001)	(0.001)
HHI	0.074***	0.064***	0.168***	0.155***
	(0.004)	(0.004)	(0.015)	(0.016)
Controls	N	Y	N	Y
Observations	51,392	49,818	53,320	51,562
R-squared	0.566	0.577	0.693	0.703

Dependent variable: downward deviation in trade flows. Robust SE in parentheses. Controls include a OECD dummy, the log. of distance, the log. of partner GDP and a dummy for a stable regime. Reporter-year fixed effects are included.

Table 10: Controls: OPEC dummy

	(1) imports	(2) imports	(3) exports	(4) exports
democracy	-0.019***	-0.013***	-0.014***	-0.006***
	(0.001)	(0.001)	(0.001)	(0.001)
OPEC	0.032***	0.030***	0.008***	0.006***
	(0.003)	(0.003)	(0.002)	(0.002)
Controls	N	Y	N	Y
Year FE	Y	Y	Y	Y
Observations	52,120	50,459	53,386	51,619
R-squared	0.552	0.568	0.673	0.687

Dependent variable: downward deviation in trade flows. Robust SE in parentheses. Controls include a OECD dummy, the log. of distance, the log. of partner GDP and a dummy for a stable regime. Reporter-year fixed effects are included.

Table 11: Upward and downward trade volatility

	(1)	(2)	(3)	(4)
	Imports		Exports	
Democracy coefficient regressing on:				
Overall Volatility (a+b)	-0.079***	-0.078***	-0.049	0.020
	(0.016)	(0.011)	(0.031)	(0.022)
Downward Volatility (a)	-0.091***	-0.060***	-0.052***	-0.025***
	(0.004)	(0.005)	(0.004)	(0.004)
Upward Volatility (b)	0.013	-0.018*	0.003	0.045**
	(0.016)	(0.010)	(0.031)	(0.022)
Observations	52,120	50,459	53,386	51,619
Controls	N	Y	N	Y

Dep. variable: the absolute value of the log. difference of trade flows in t+1 with respect to t. Robust SE in parentheses. Reporter-year fixed effects are included.

Table 12: Controls: Diplomatic disagreement score

	(1)	(2)	(3)	(4)	(5)	(6)
		imports			exports	
democracy		-0.013***	-0.010***		-0.007***	-0.002*
		(0.001)	(0.001)		(0.001)	(0.001)
UN diplomatic disagr.	0.049***	0.024***	0.026***	0.032***	0.018***	0.013***
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.004)
Controls	N	N	Y	N	N	Y
Observations	49,496	49,496	48,051	50,394	50,394	48,872
R-squared	0.684	0.686	0.695	0.733	0.734	0.742

Dependent variable: downward deviation in trade flows. Robust SE in parentheses. Controls include a OECD dummy, the log. of distance, the log. of partner GDP and a dummy for a stable regime. Reporter-year fixed effects are included.

Table 13: Controls: Trade facilitation measures

	(1)	(2)	(3)	(4)
	imports		exports	
democracy	-0.016***	-0.011***	-0.009***	-0.004***
	(0.001)	(0.001)	(0.001)	(0.001)
GATT/WTO membership	-0.024***	-0.021***	-0.013***	-0.012***
	(0.002)	(0.002)	(0.002)	(0.002)
FTA	-0.003***	-0.002	-0.003***	0.001
	(0.001)	(0.001)	(0.001)	(0.001)
Controls	N	Y	N	Y
Observations	52,120	50,459	53,386	51,619
R-squared	0.551	0.567	0.675	0.688

Dependent variable: downward deviation in trade flows. Robust SE in parentheses. Controls include a OECD dummy, the log. of distance, the log. of partner GDP and a dummy for a stable regime. Reporter-year fixed effects are included.

Table 14: Controls: Exchange rate policies

	(1)	(2)	(3)	(4)
	imports		exports	
democracy	-0.022***	-0.014***	-0.011***	-0.004***
	(0.001)	(0.001)	(0.001)	(0.001)
Crawling peg	0.001	-0.002	0.003**	0.001
	(0.001)	(0.001)	(0.001)	(0.001)
Floating	-0.002***	-0.000	0.002***	0.003***
	(0.001)	(0.001)	(0.001)	(0.001)
Freely falling	0.001	-0.003*	0.024***	0.018***
	(0.002)	(0.002)	(0.003)	(0.003)
Dual market	0.018***	0.019***	0.017***	0.022***
	(0.006)	(0.006)	(0.005)	(0.005)
Controls	N	Y	N	Y
Observations	44,718	43,510	45,607	44,348
R-squared	0.541	0.558	0.676	0.690

Dependent variable: downward deviation in trade flows. Fixed Exchange rate policy is omitted.
Robust SE in parentheses. Controls include a OECD dummy, the log. of distance, the log. of partner GDP and a dummy for a stable regime. Reporter-year fixed effects are included.