

PubPol/Econ 541

Class 24

Economic Sanctions

by

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Outline

- What are sanctions?
- Who has used them, and why?
- What effects do they have?
- Do they work?
- Effects of Russia sanctions

What economic sanctions are

- From my Glossary:
 - Sanctions are “coercive measures used by a nation or group of nations against another as a penalty for violating international law or international norms”
 - Most apply to economic transactions or assets, and thus are “economic sanctions”
- From Masters:
 - “the withdrawal of customary trade and financial relations for foreign- and security-policy purposes”

What economic sanctions are

- Types of sanctions
 - Primary: When a government prohibits its own people and firms from doing business with a target country
 - Secondary: When a government prohibits people and firms of third countries from doing business with a target country
 - Also “extraterritorial”.
 - Many governments object to these
 - Smart: sanctions that “aim to minimize the suffering of innocent civilians”

What economic sanctions are

- Forms of sanctions (per Masters)
 - *Travel bans
 - *Asset freezes
 - *Arms embargoes
 - Capital restraints
 - Foreign aid reductions
 - Trade restrictions
- Other forms (per Haass)
 - Negative votes in international financial institutions
 - Withdrawal of diplomatic relations
 - Visa denials
 - Cancellation of air links

*Most common types of UN sanctions, per Masters (2019)

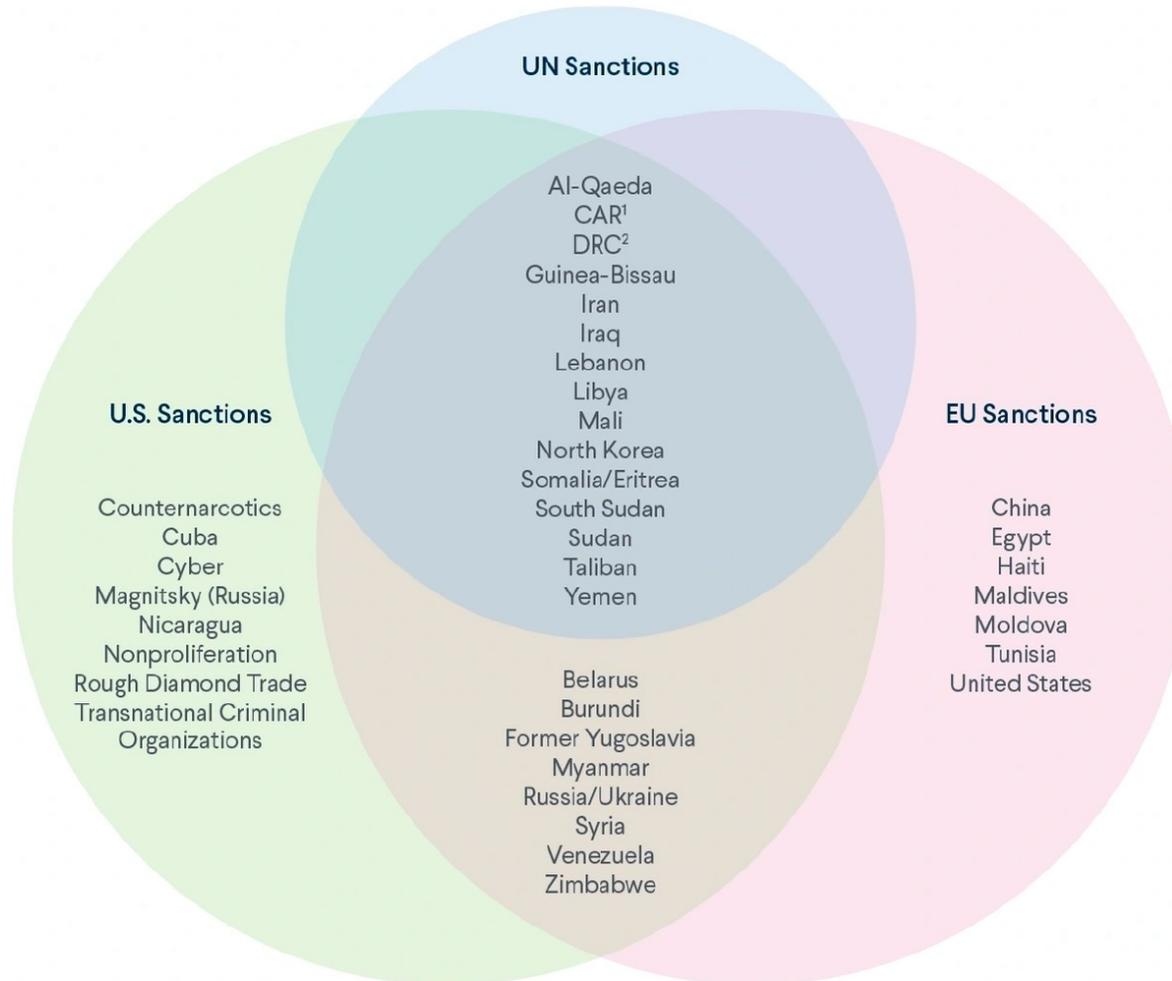
What economic sanctions are

- Purposes of sanctions (per Masters)
 - counterterrorism,
 - counternarcotics,
 - nonproliferation,
 - democracy and human rights promotion,
 - conflict resolution, and
 - cybersecurity.
- Other purposes (per Haass)
 - Discourage WMDs
 - Thwart drug trafficking
 - Discourage armed aggression
 - Promote market access
 - Protect environment
 - Replace governments

Sanctions Regimes

- Masters (2019) identifies 3 regimes of sanctions:
 - United Nations
 - Decided by Security Council
 - European Union (but called “restrictive measures”)
 - Requires unanimous consent by member states
 - Member states are free to impose harsher ones
 - United States
 - Originate in either executive or legislative branch
 - “US uses [them] more than any other country”

Global Sanctions Regimes



1. Central African Republic
2. Democratic Republic of Congo

Sources: Council of the European Union; U.S. Treasury Department.

COUNCIL*on*
FOREIGN
RELATIONS

Sanctions Regimes

- Sanctions used by others
 - China on
 - Australia 2020
 - Lithuania 2021
 - Taiwan 2022

Pause for Discussion

Questions on Masters, “What Are Economic Sanctions?”

- Are trade restrictions among the most used forms of sanctions by the UN?
- Does this say that sanctions work?
- Why is the US best positioned to use sanctions, and why might their use undermine that position?

Questions on Haass, “Too Much of a Bad Thing”

- Why are economic sanctions so popular?
- Overall, does Haass favor the use of sanctions?
- He argues for comparing costs and benefits with those of alternatives. What alternatives does he mention?

Sanctions History

- After World War I:
 - Sanctions were envisioned as alternative to war
 - League of Nations tried to oversee their use
 - Used in 1935 against Mussolini's invasion of Ethiopia by Italy
 - Sanctions implemented by 52 states, but not US and Germany
 - Failed to stop Italy's conquest of Ethiopia
 - Used against Japan 1939-41, prompting attack on
 - European colonies in Southeast Asia
 - US

Sanctions History

- After World War II:
 - UN and Western sanctions against Rhodesia (now Zimbabwe)
 - UN against apartheid-era South Africa
 - US against Cuba and Iran

Effects of Russia Sanctions

- Per Mulder, June 2022
 - Today’s sanctions have greater effects than seen before, due to
 - More integrated global economy
 - Russia’s importance as exporter of
 - Grain
 - Oil
 - “...globalization has thereby increased the economic costs of using sanctions against large, highly integrated economies.”

Pause for Discussion

Questions on Mulder, “The Sanctions Weapon”

- How many governments imposed sanctions on Russia, and from which continents?
- Why does the author view sanctions as more problematic today than previously?
- What “policy adjustments” does he suggest?

Do Sanctions Work?

- Elliott [optional reading]
 - Writing in 1997, she reports that US sanctions since 1970 have
 - Achieved foreign policy objectives only 13% of the time\
 - Cost US \$15-19 billion annually in potential exports
 - Cost >200,000 jobs in (high-wage) export sector
 - Conclusion: “unilateral economic sanctions are decreasingly useful yet increasingly costly”

Table 1: Effectiveness of Economic Sanctions as a Foreign Policy Tool

	Number of successes	Number of failures	Success ratio (successes as a percentage of total)
All cases	40	75	35%
Cases involving US as a sanctioner			
1945-90	26	52	33%
1945-70	16	14	53%
1970-90	10	38	21%
Unilateral US sanctions:			
1945-90	16	39	29%
1945-70	11	5	69%
1970-90	5	34	13%

Table 2: Estimated change in trade due to sanctions, 1995 (percent)

Scope of sanctions imposed ^a	All countries, exports plus imports ^b	OECD countries, exports only	United States, exports only
Limited	^c	-21.5	^c
Moderate	-31.2	-33.1	-68.0
Extensive	-91.9	-78.0	-96.8

Notes:

a. Limited sanctions include narrowly defined trade, financial, trade, or cultural sanctions, such as suspension of foreign aid or restrictions on exports of narrow categories of goods or technologies; moderate sanctions cover more broadly defined categories of trade or finance; extensive sanctions usually encompass most trade and financial flows between two countries.

b. There are 88 countries in the database.

c. The coefficients on these variables suggest that even limited sanctions depress trade by 15 to 20 percent but in these tests the regression coefficients were not statistically significant at normal confidence levels.

Pause for Discussion

Questions on Rodriguez, “The harm that sanctions do ...”

- What percentages of countries and the world economy are subject to sanctions now? What were those percentages in the 1990s?
- What measures of living conditions are mentioned as being made worse by sanctions?
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- How big is the hit on GDP estimated to be in one study?

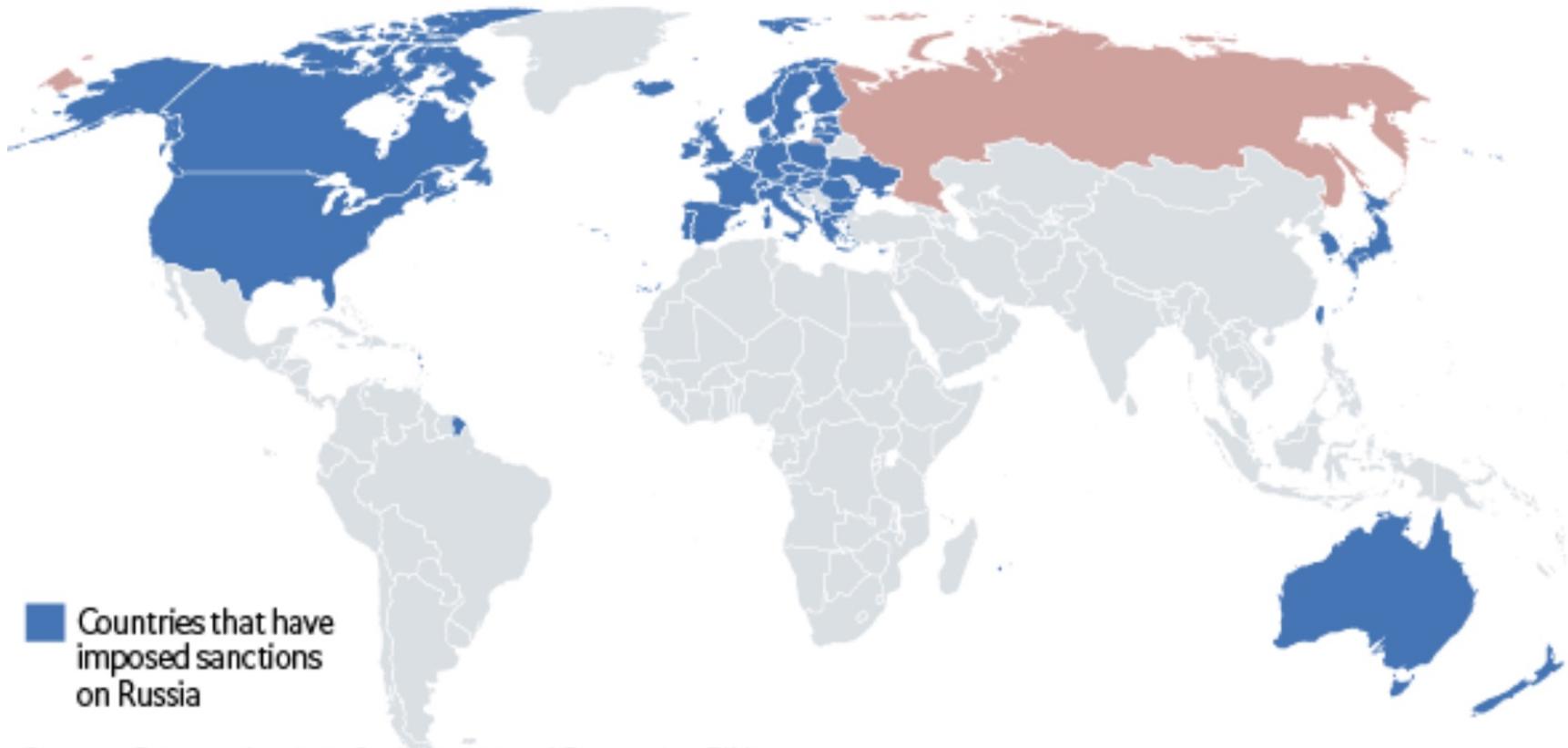
Effects of Russia sanctions

- Russia sanctions began with Russia's Feb 24, 2022, invasion of Ukraine
 - Recall what we saw Sep 6:
- Economic sanctions by governments
 - Financial linkages
 - Trade
- Private companies said they would stop dealing with Russia
 - Many have found it hard to do this.
 - Only on Aug 25 this year did I hear (on NPR) that Heineken just succeeded in selling its operations there for 1 euro



The West and its allies have joined forces to sanction Russia. Other countries have steered clear

(countries that have sanctioned Russian individuals and business entities, imposed travel restrictions, limited trade with Russia and/or targeted Russia's financial sector)



Sources: Peterson Institute for International Economics; EIU.

Source: Economist Intelligence Unit, April 13, 2022

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Pause for Discussion

Questions on Alderman, “Leave Russia? A Year Later...”

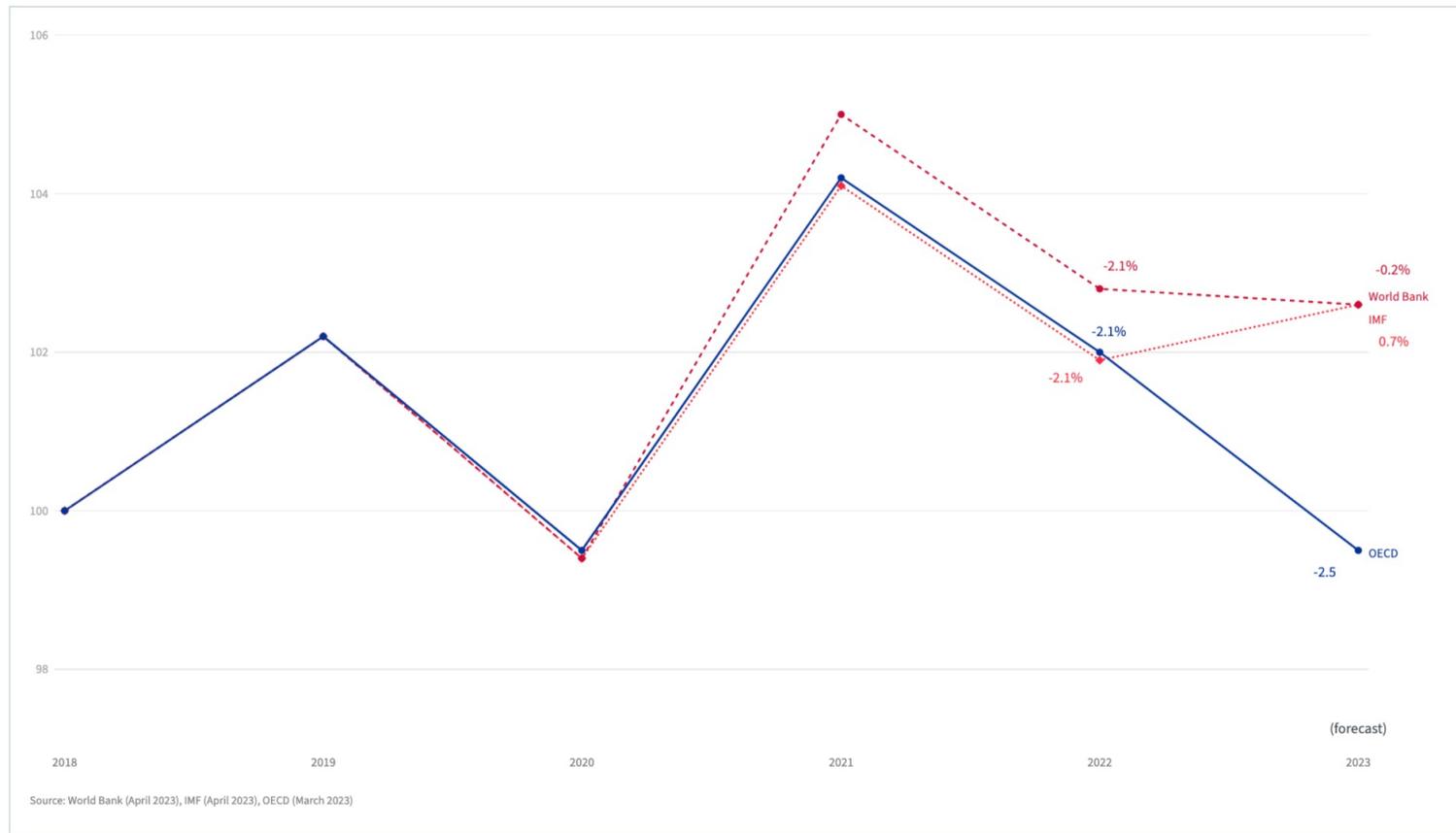
- Many companies announced last year that they were leaving Russia. Have they?
- What fraction are still there?
- What has Russia done to keep them from leaving?

Effects of Russia Sanctions

The Russian economy is shrinking

Russia's GDP – evolution from 2018 to 2023

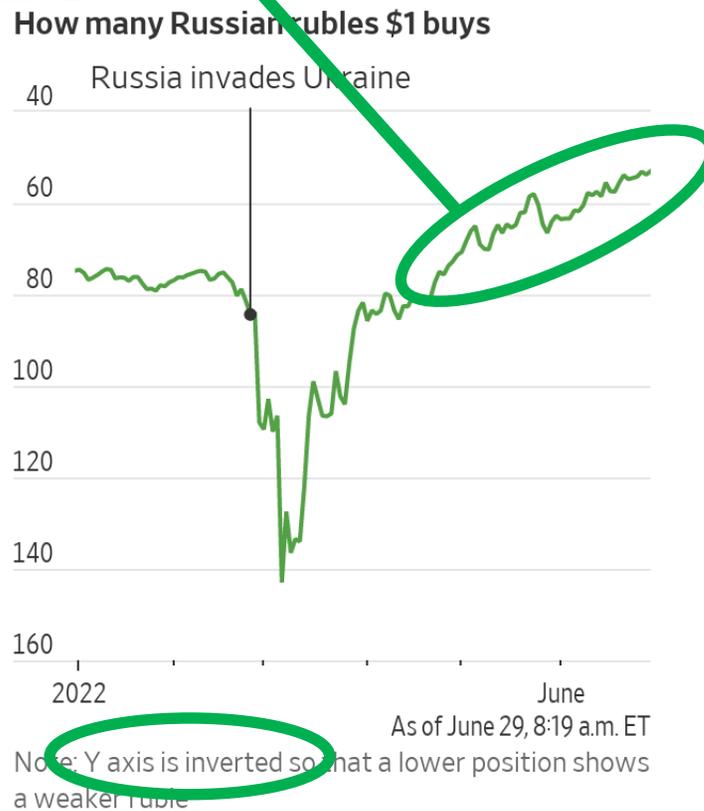
(base 100 in 2018)



Sources: IMF, WB, OECD,
via European Council

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Russia's Surprising Economic Headache: A Strong Ruble



Wall Street
Journal
June 29,
2022

Troubled

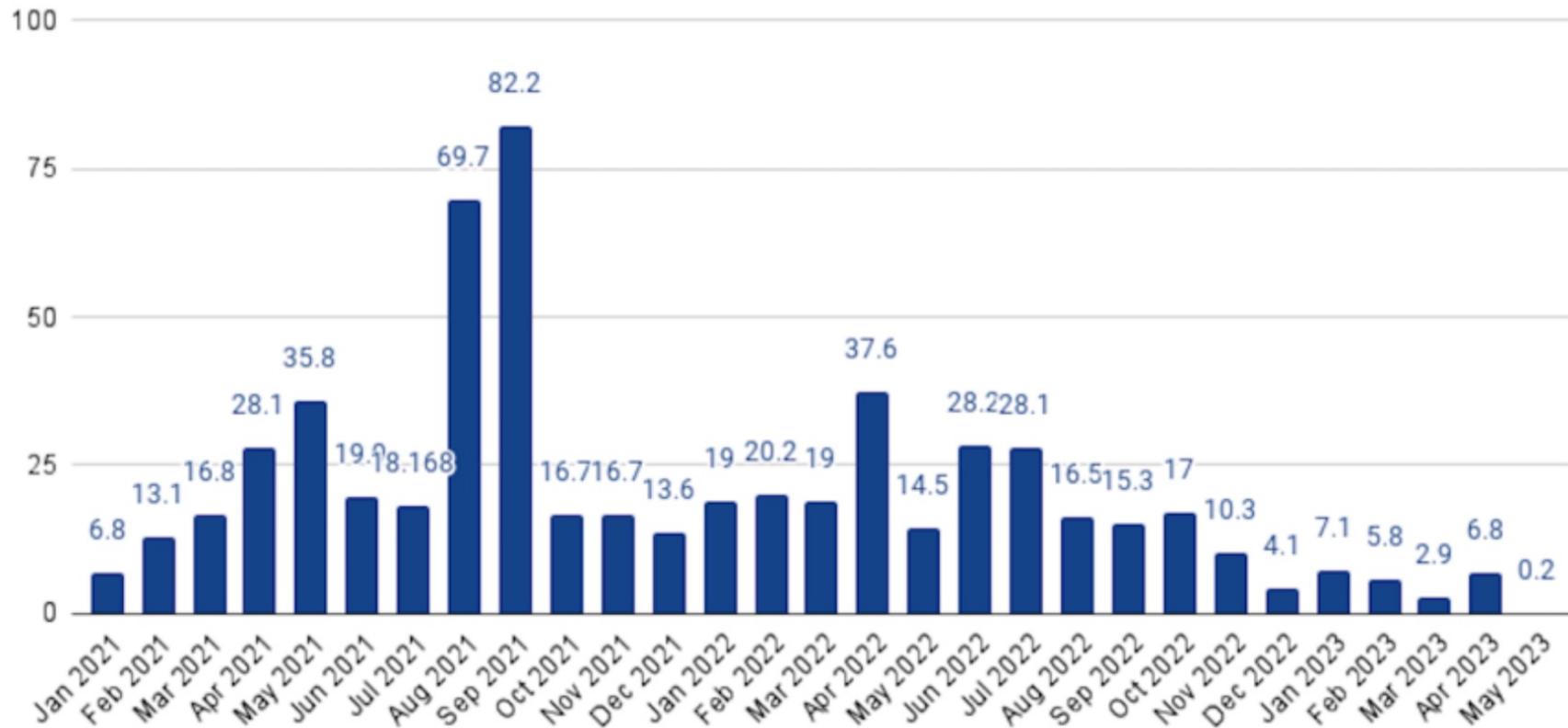
Russian roubles per \$, inverted scale



Source: Economist, August 14, 2023

Russia current account \$bn

source: CBR

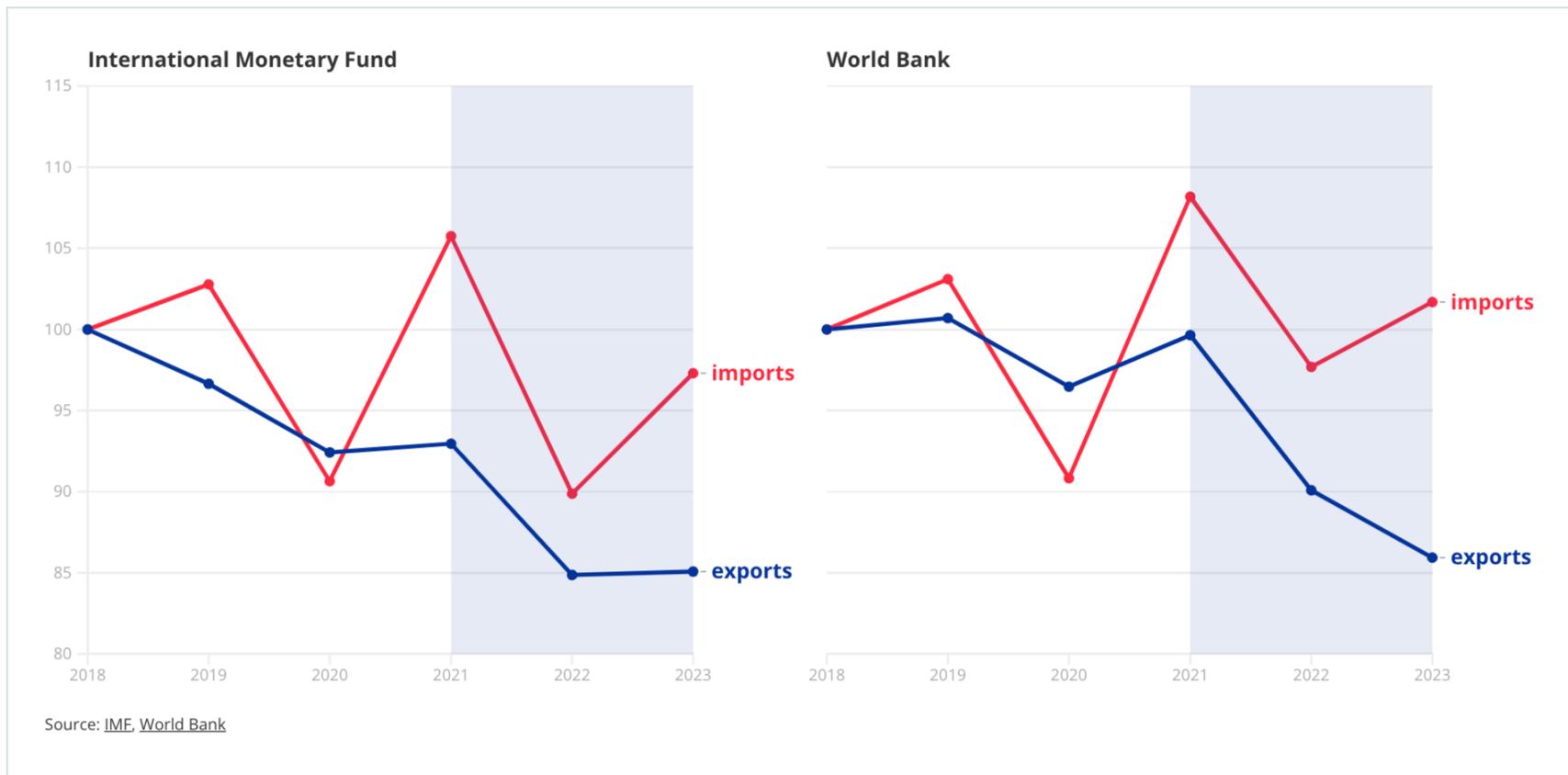


Source: BNE Intellinews, June 14, 2023

Effects of Russia Sanctions

Russia's imports and exports from 2018 to 2023

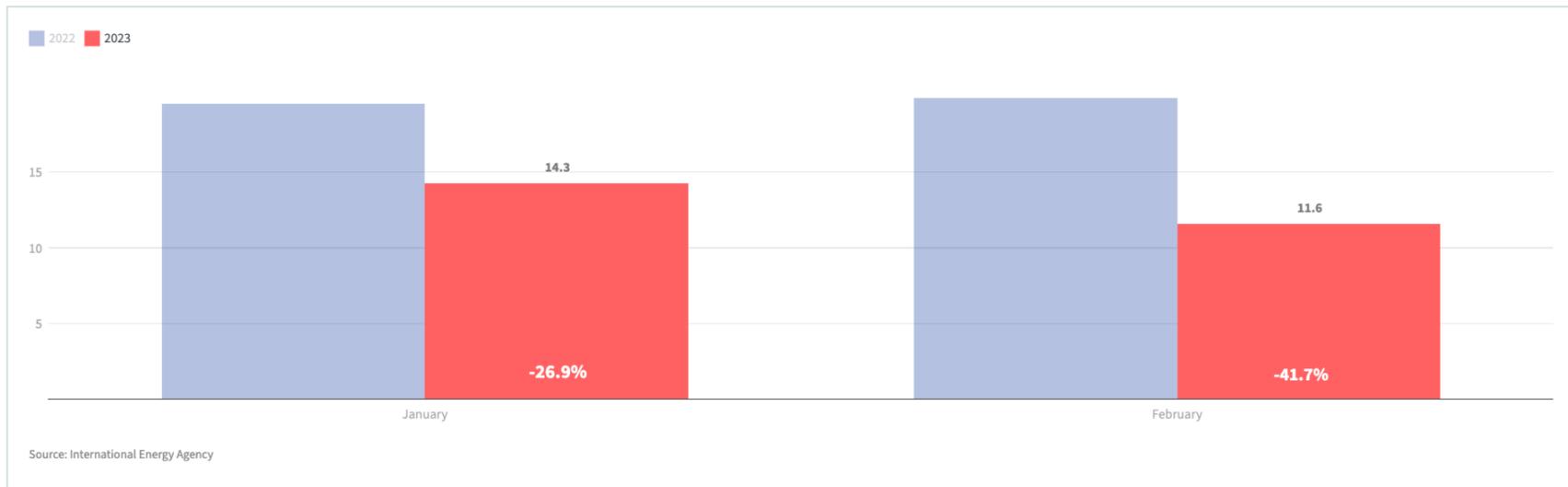
(base 100 in 2018)



Source: IMF, WB, via
European Council

Effects of Russia Sanctions

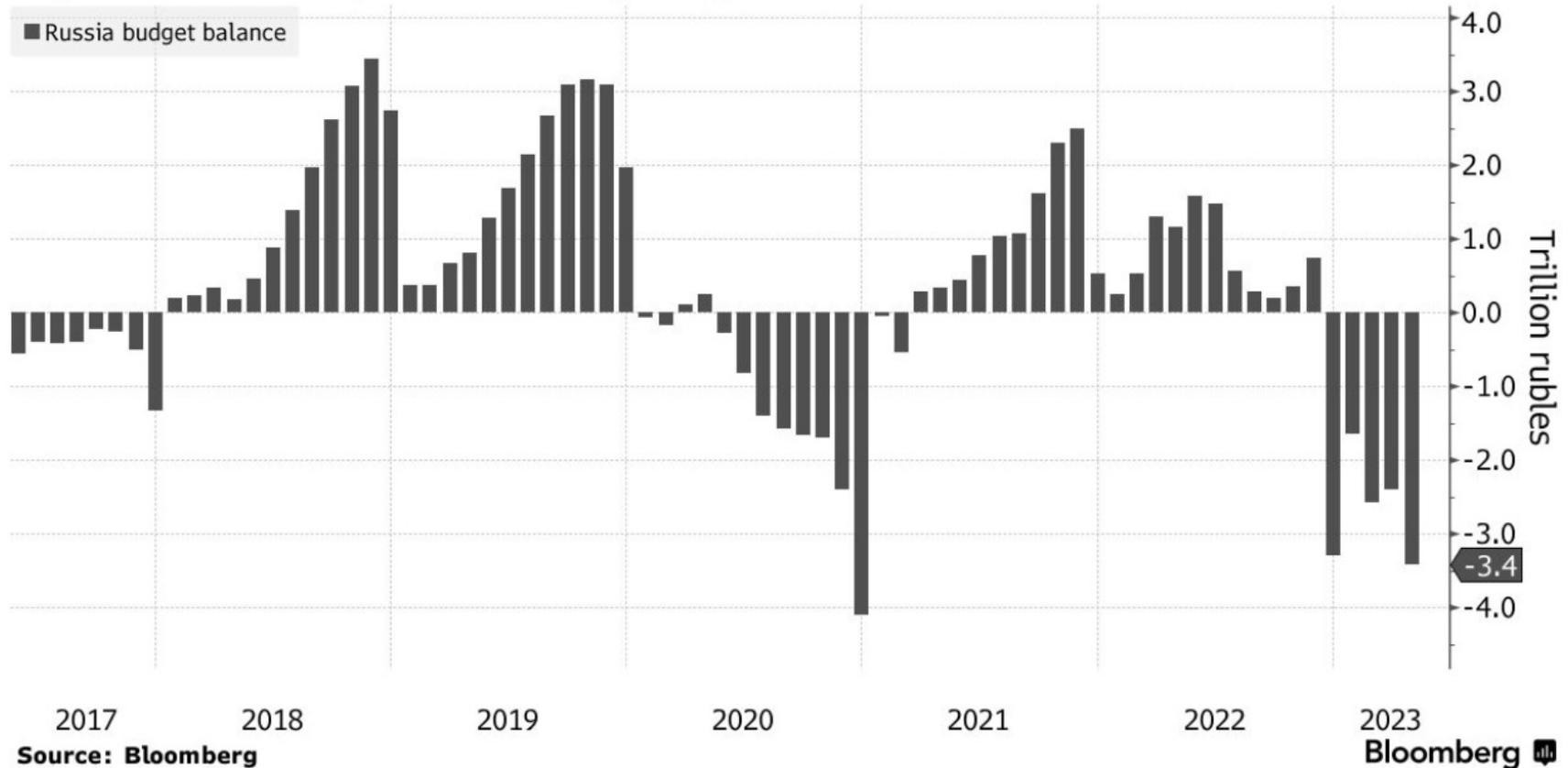
Russia's monthly revenues from oil exports (in billion \$)



Source: International Energy Agency

Effects of Russia Sanctions

Russia Budget Deficit Exceeds Full-Year Target Gap widened as expenditures surged again



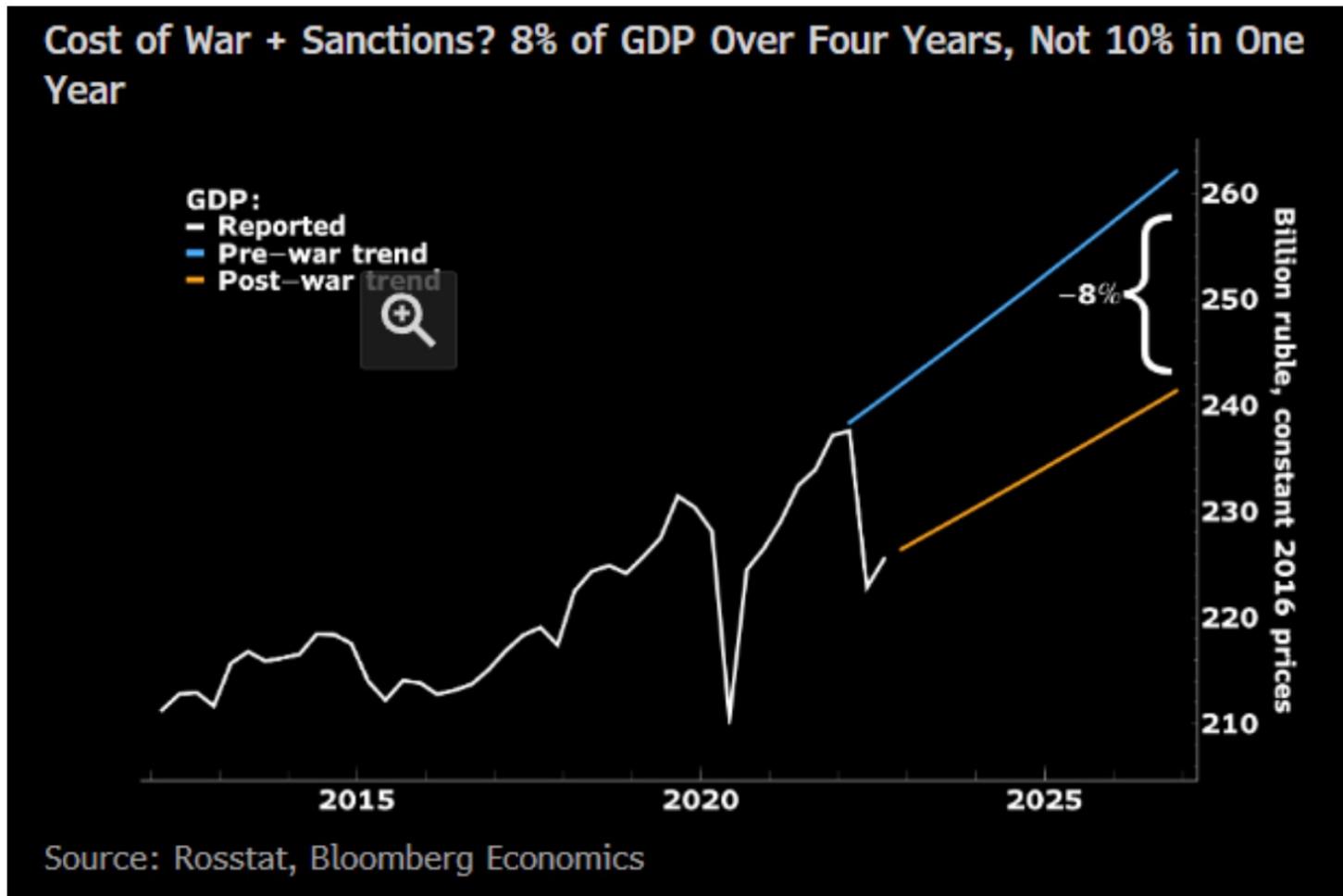
Source: Bloomberg,
July 7, 2023

Effects of Russia Sanctions

Exported Goods	Rolling Average During the War (Billions of Euros)	Average Annual Value Before the War (Billions of Euros)	Change (%)
Sanctioned Goods	0.42	1.24	-66.5%
Non-Sanctioned Goods	0.6	0.67	-10.7%
Banknotes	0	0.48	-100%

Source: Bloomberg,
July 7, 2023

Effects of Russia Sanctions



Source: Bloomberg Economics

Source: Bloomberg,
July 7, 2023

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Effects of Russia Sanctions



Source: Russian Federal State Statistics Service

Source: US Treasury,
Feb 24, 2023

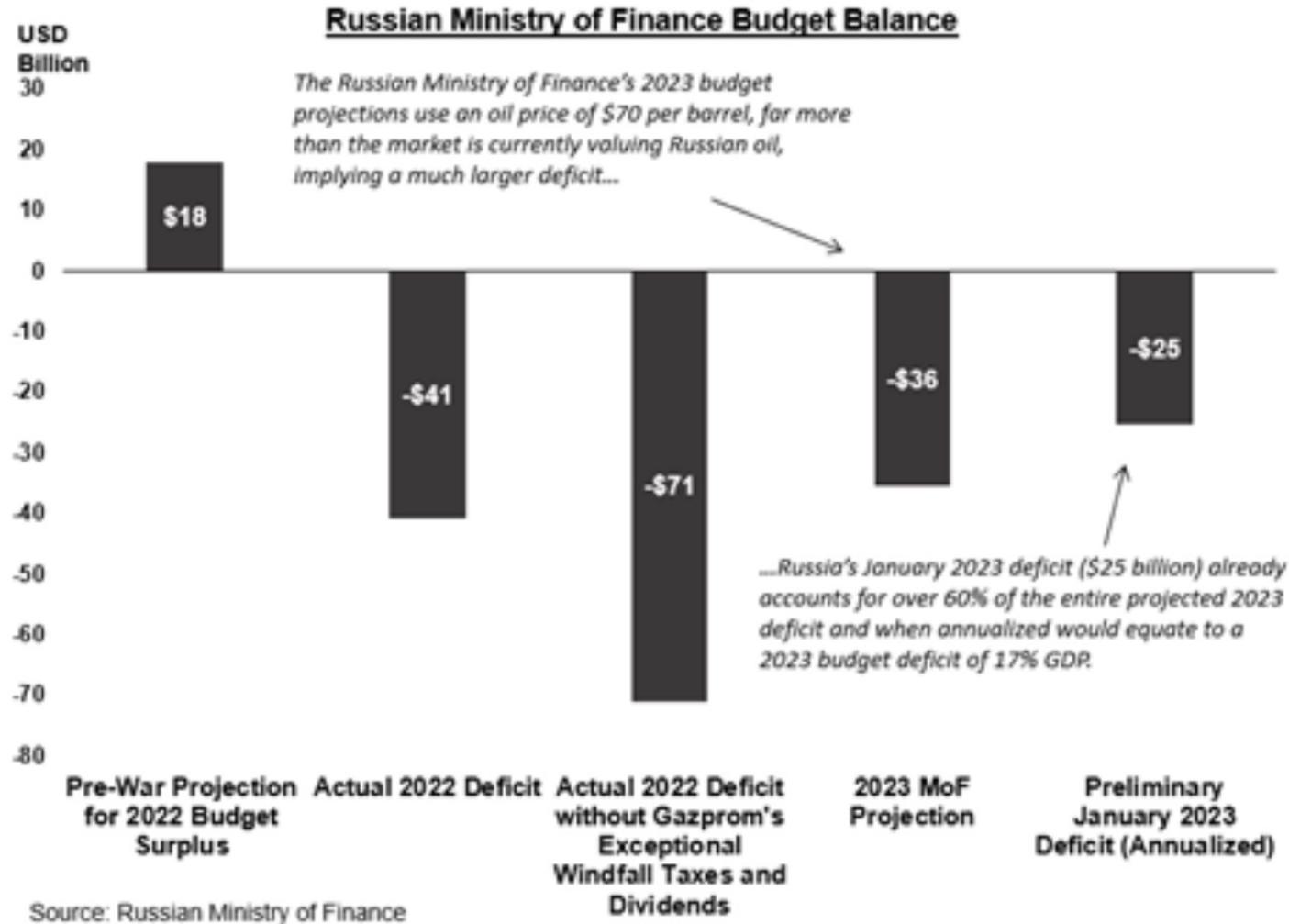
Effects of Russia Sanctions



Source: Russian Ministry of Finance; IEA

Source: US Treasury,
Feb 24, 2023

Effects of Russia Sanctions



Source: US Treasury,
Feb 24, 2023

Pause for Discussion

Questions on WP Editors, “...make the sanctions hurt...”

- What are the two purposes of sanctions against Russia?
- Have the sanctions worked?
- How is the oil price cap enforced and does it work?
- What does this article recommend?
- Should Russia's frozen central bank assets be used to rebuild Ukraine?

Questions on Kantchev, “How Sanctioned Western Goods ...”

- What is being called the “Eurasian roundabout”?
- What countries are said to be involved?
- What is the evidence that this is happening?
- What can be done about it?

