

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?

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 a government prohibits its own people and firms from doing business with a target country
 - Secondary: When a 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)

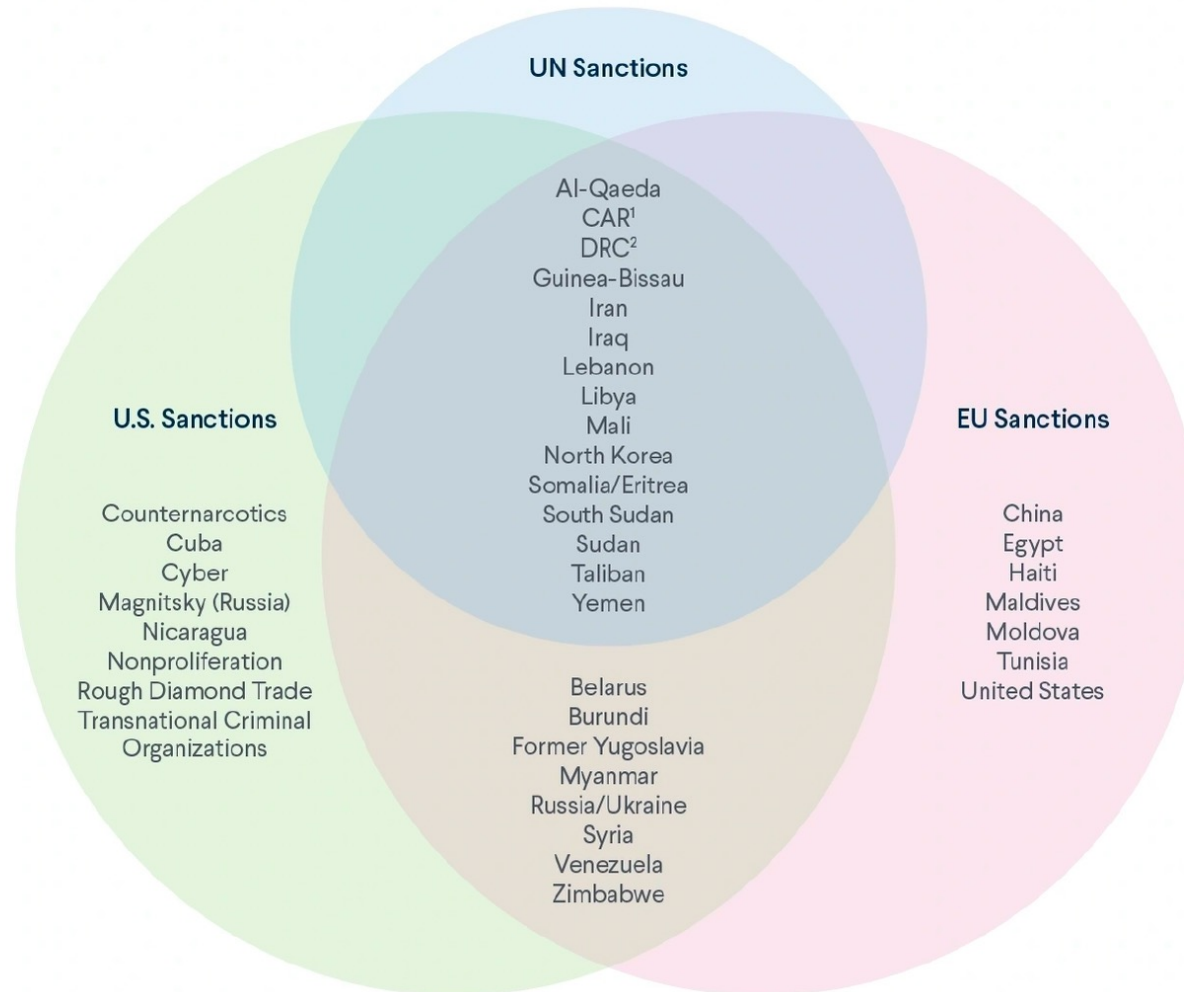
What economic sanctions are

- 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 conquest of Ethiopia
 - Used against Japan 1939-41, prompting attack on
 - European colonies in Southeast Asia
 - US

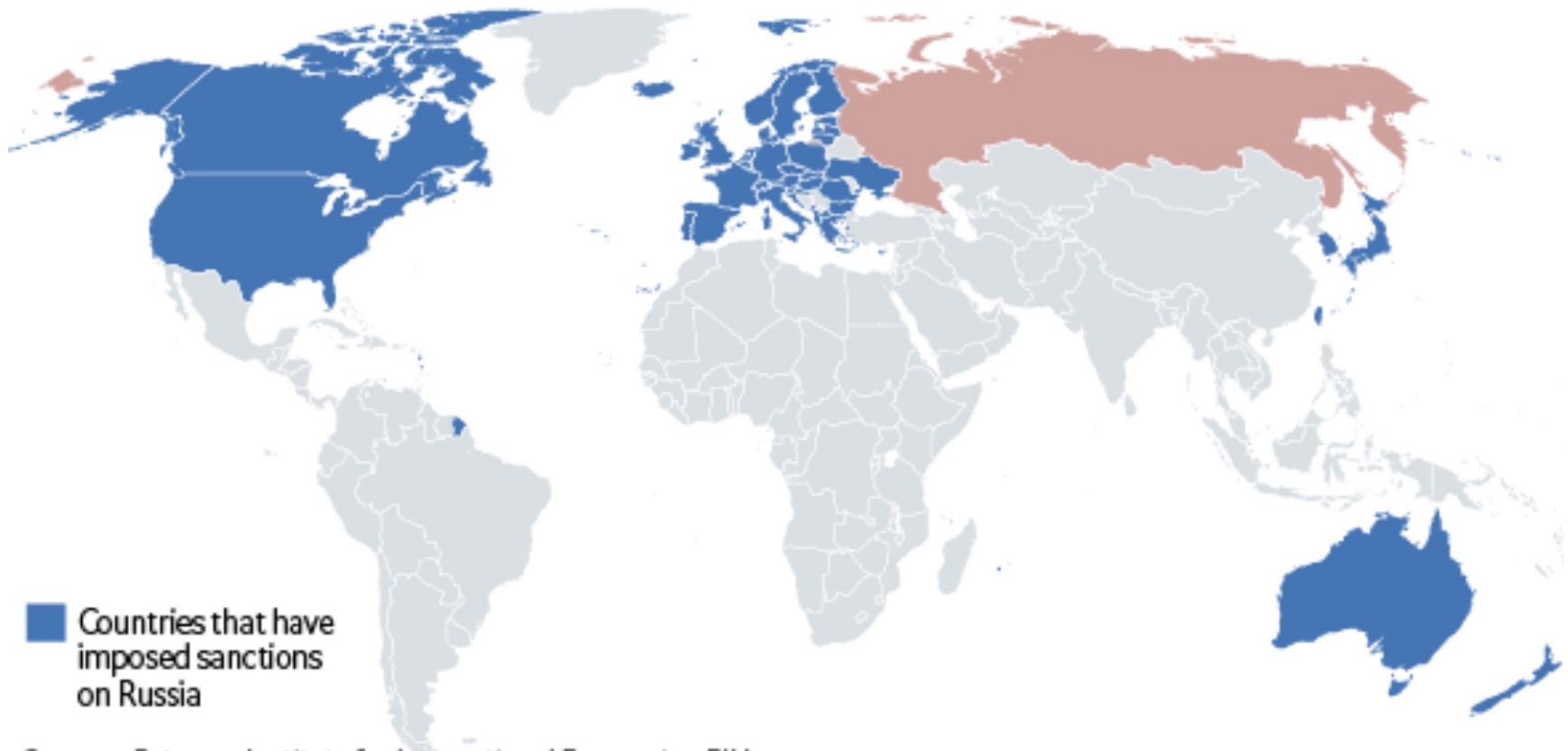
Sanctions History

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



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)

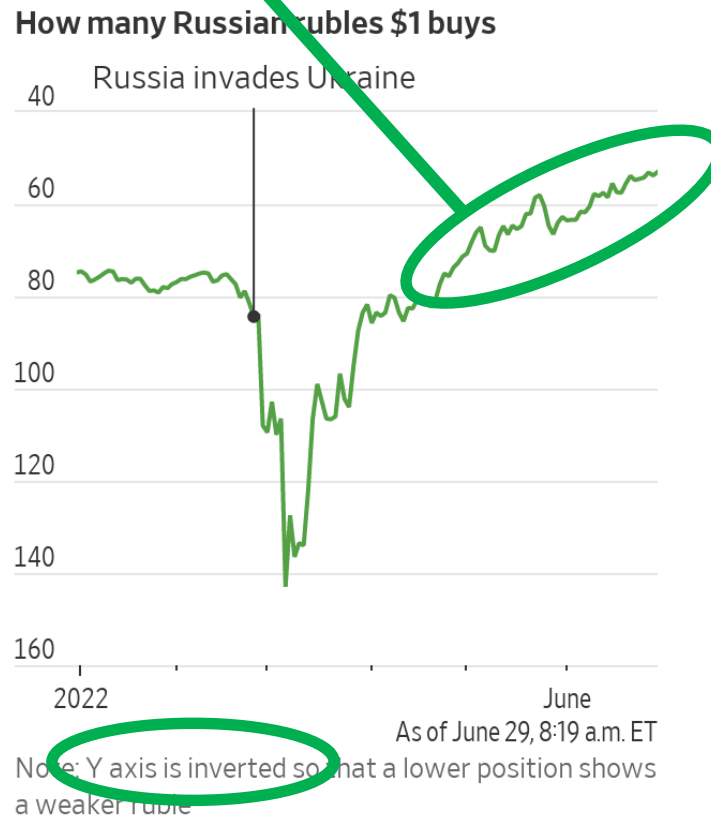


Sources: Peterson Institute for International Economics; EIU.

Source: Economist Intelligence Unit, April 13, 2022

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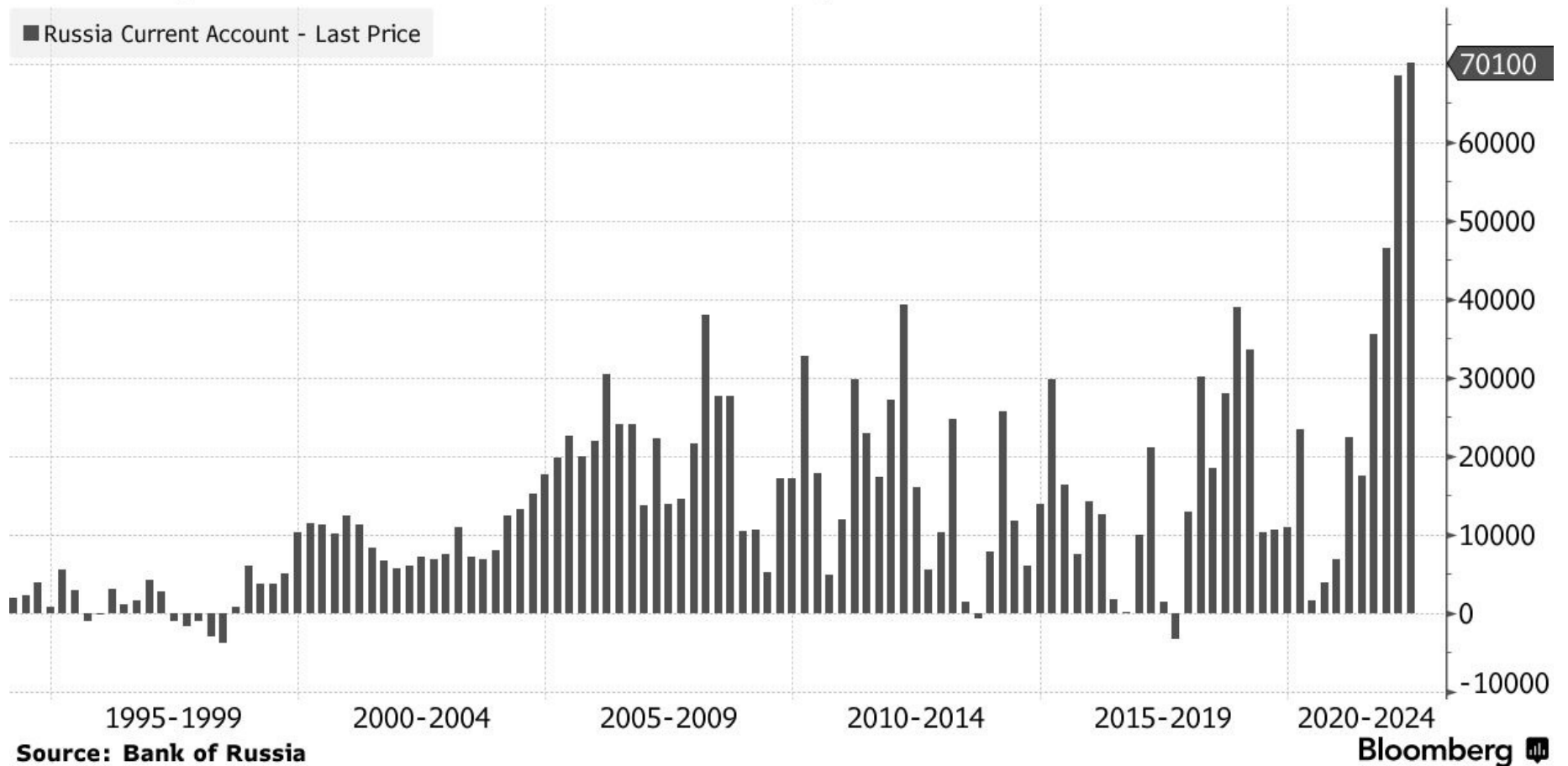
Russia's Surprising Economic Headache: A Strong Ruble



Wall Street
Journal
June 29,
2022

Surging Surplus

Russia reported a record current account surplus



Source: Bloomberg July 11, 2022

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.

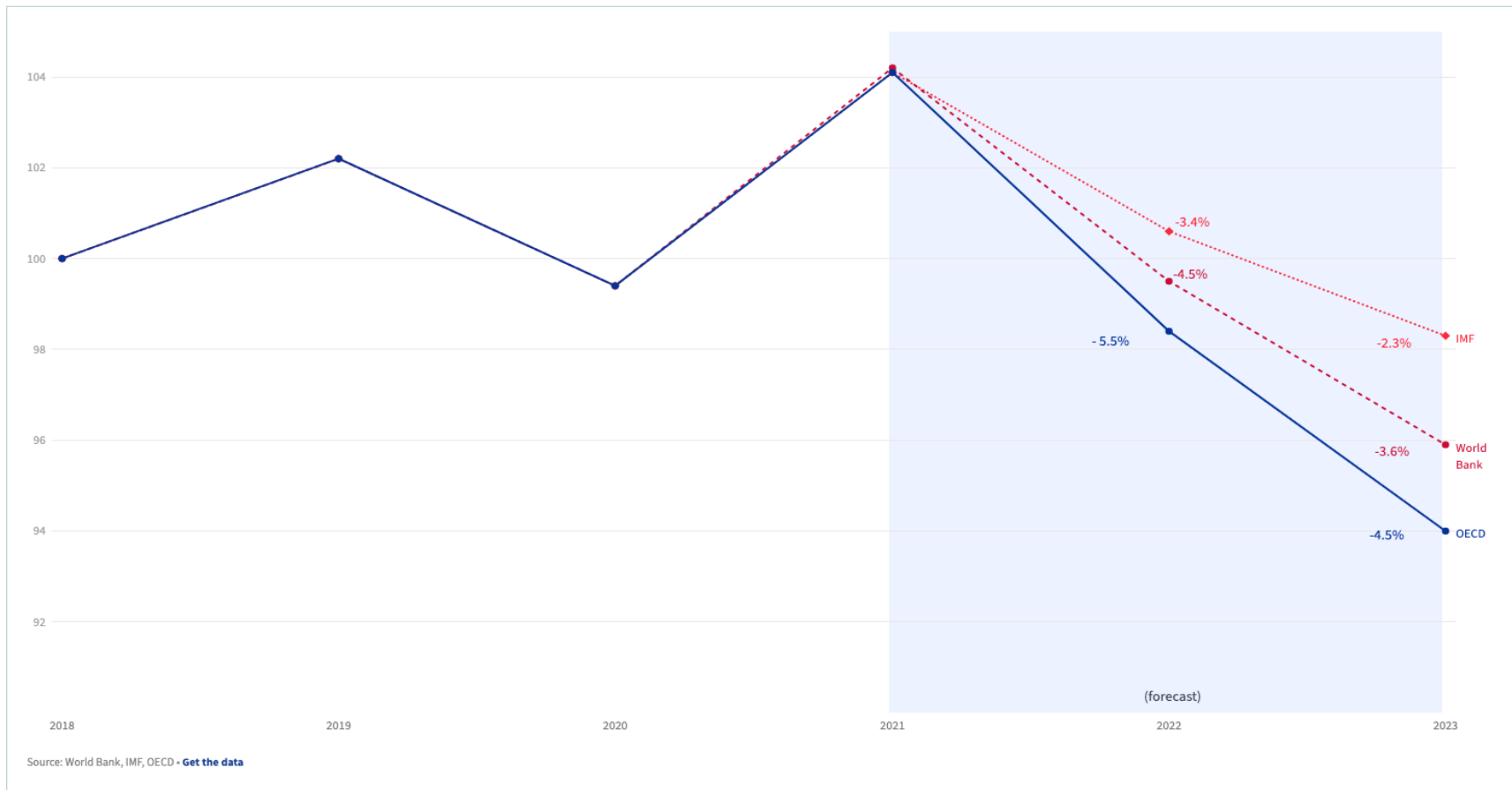
c. The coefficients on these variables suggest that even limited sanctions depress trade by 15 to 20 percent but in these tests the regression coefficients were not statistically significant at normal confidence levels.

Effects of Russia Sanctions

The Russian economy is shrinking

Russia's GDP - evolution from 2018 to 2023

(base 100 in 2018)



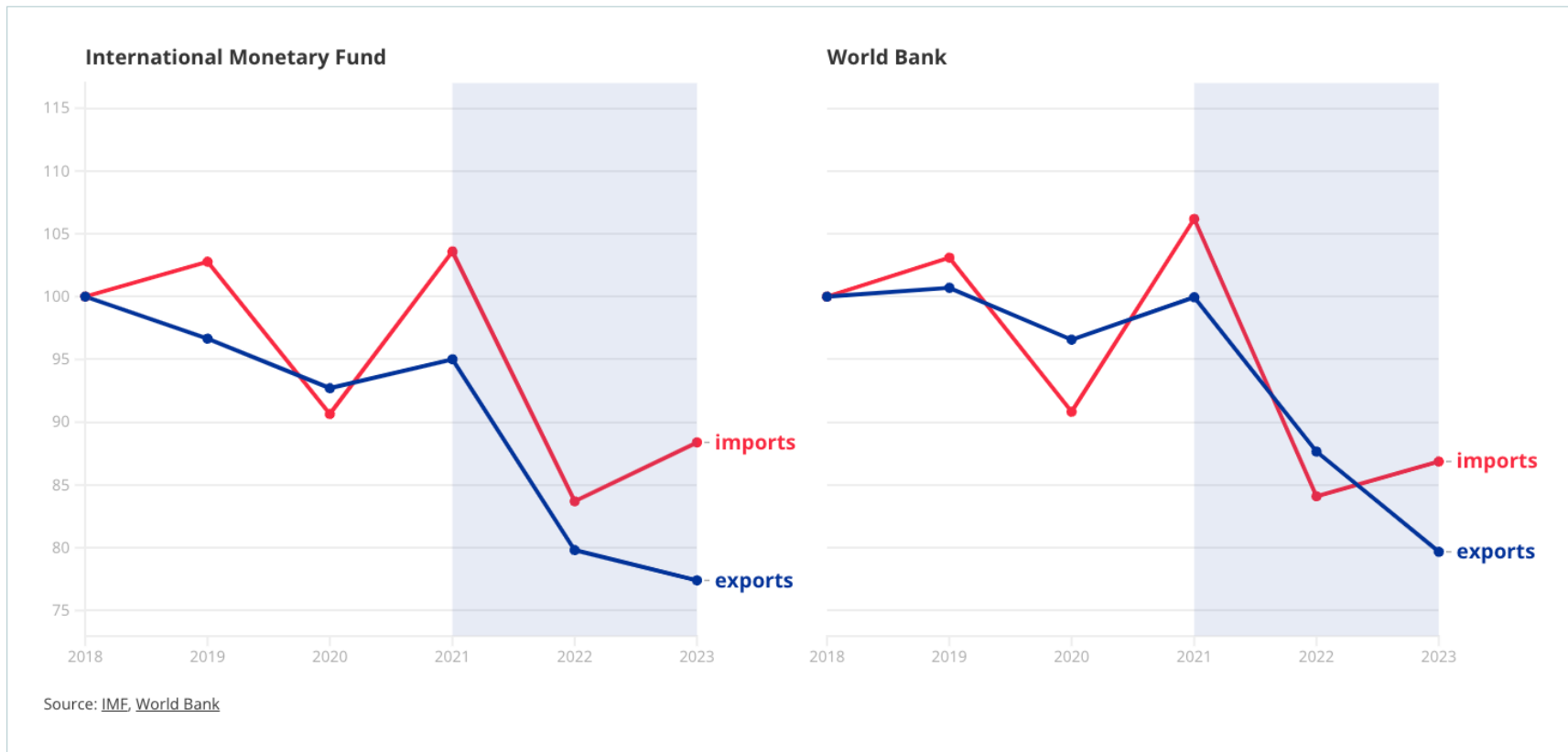
Source: IMF, WB, OECD,
via European Council

Effects of Russia Sanctions

Declining trade, soaring inflation

Russia's imports and exports from 2018 to 2023

(base 100 in 2018)



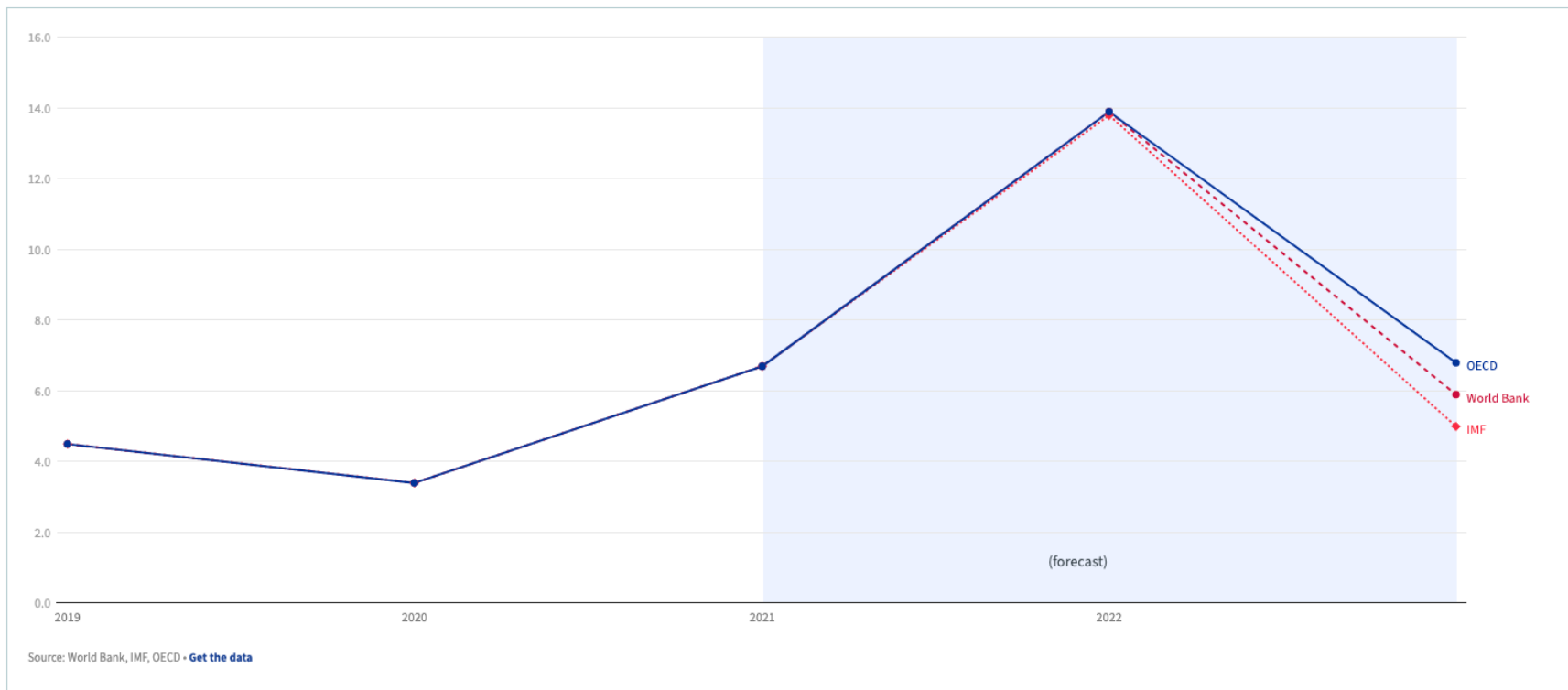
Source: IMF, WB, via
European Council

Effects of Russia Sanctions

Declining trade, soaring inflation

Russia's inflation developments from 2019 to 2023

(yearly change)



Source: IMF, WB, OECD,
via European Council

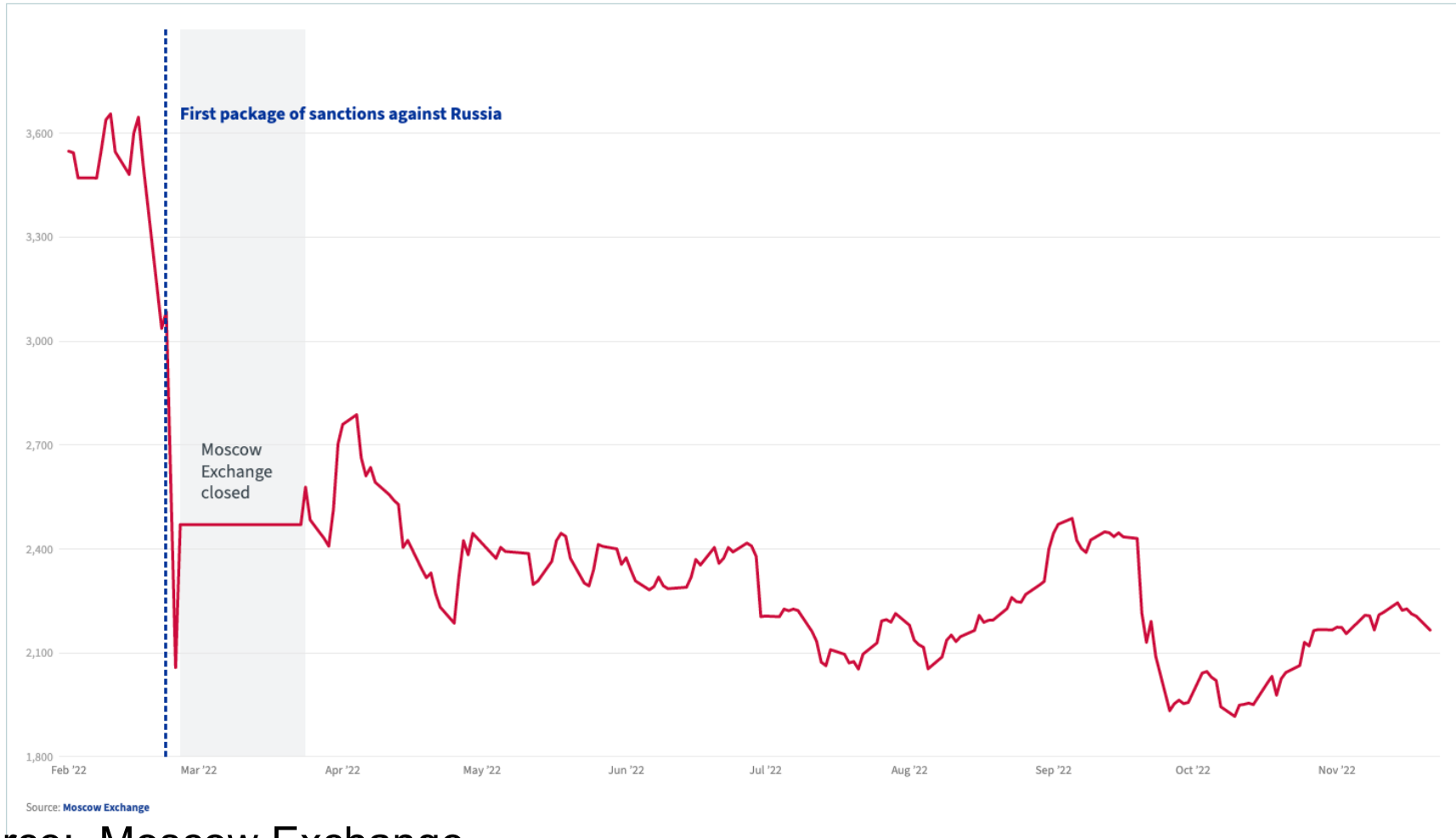
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Effects of Russia Sanctions

Consequences for the Russian capital market

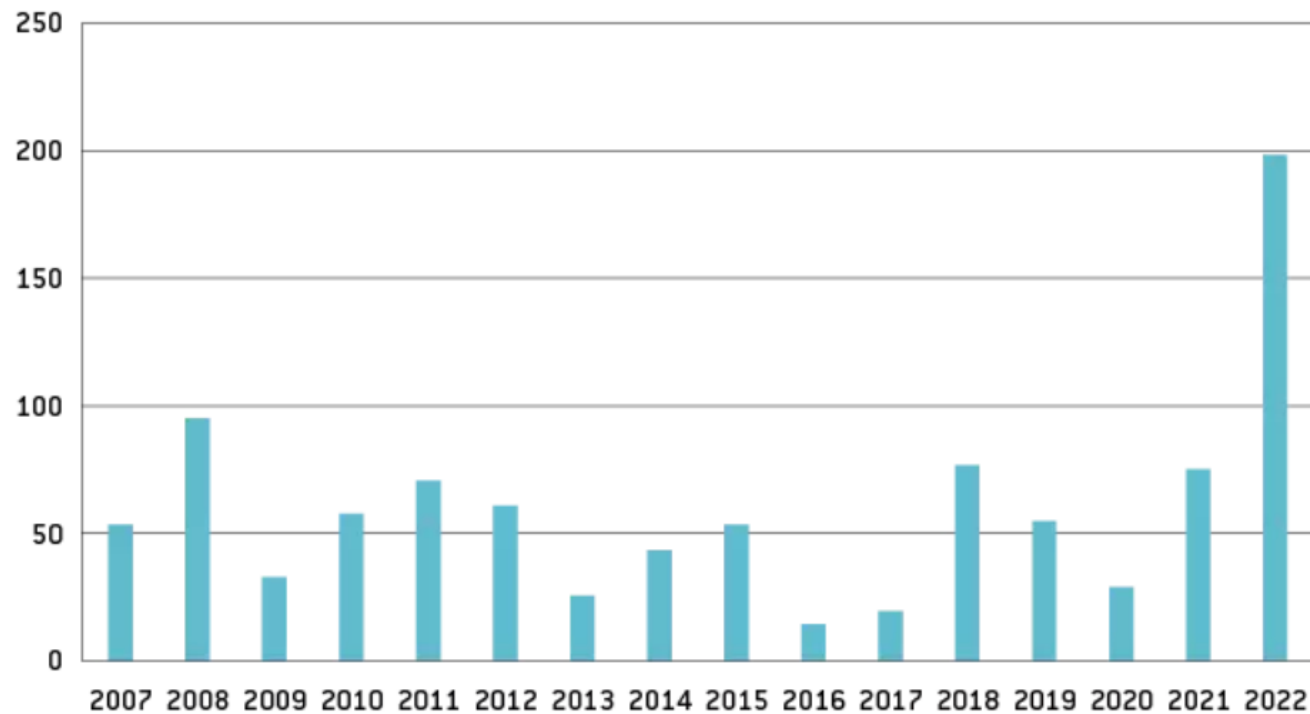
MOEX Russia Index



Source: Moscow Exchange
via European Council

Effects of Russia Sanctions

Figure 1: Russia's current account reached a record high \$198 billion during Jan-Sept 2022

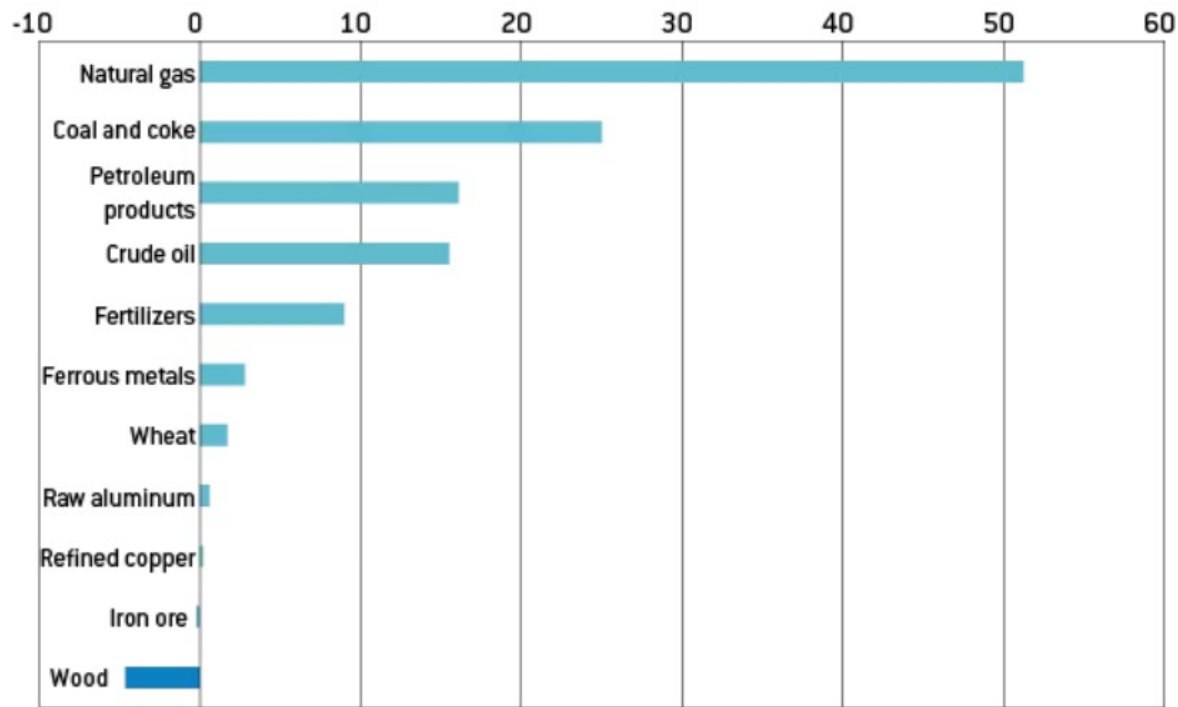


Source: Bruegel Policy Brief, October 26, 2022

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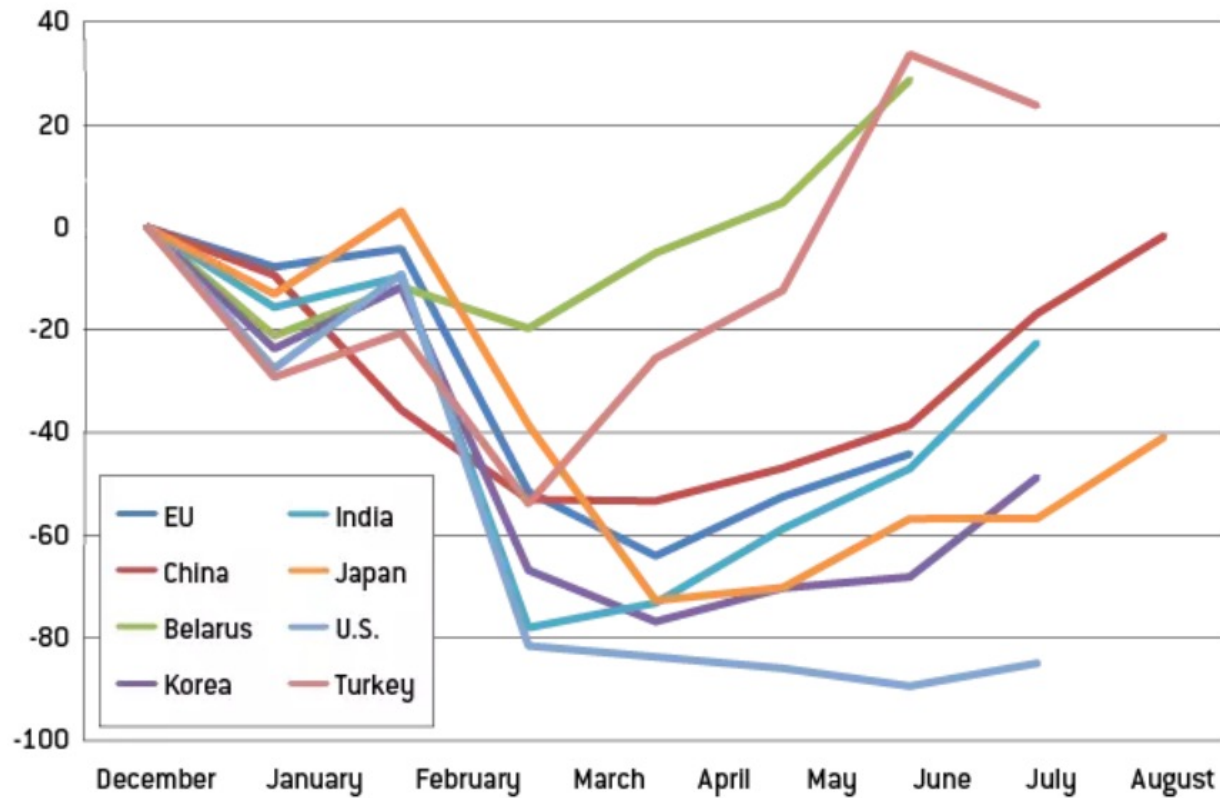
Figure 2: High energy prices contributed significantly to the increased value of Russia exports, Jan-Sept 2022



Source: Bruegel Policy Brief, October 26, 2022

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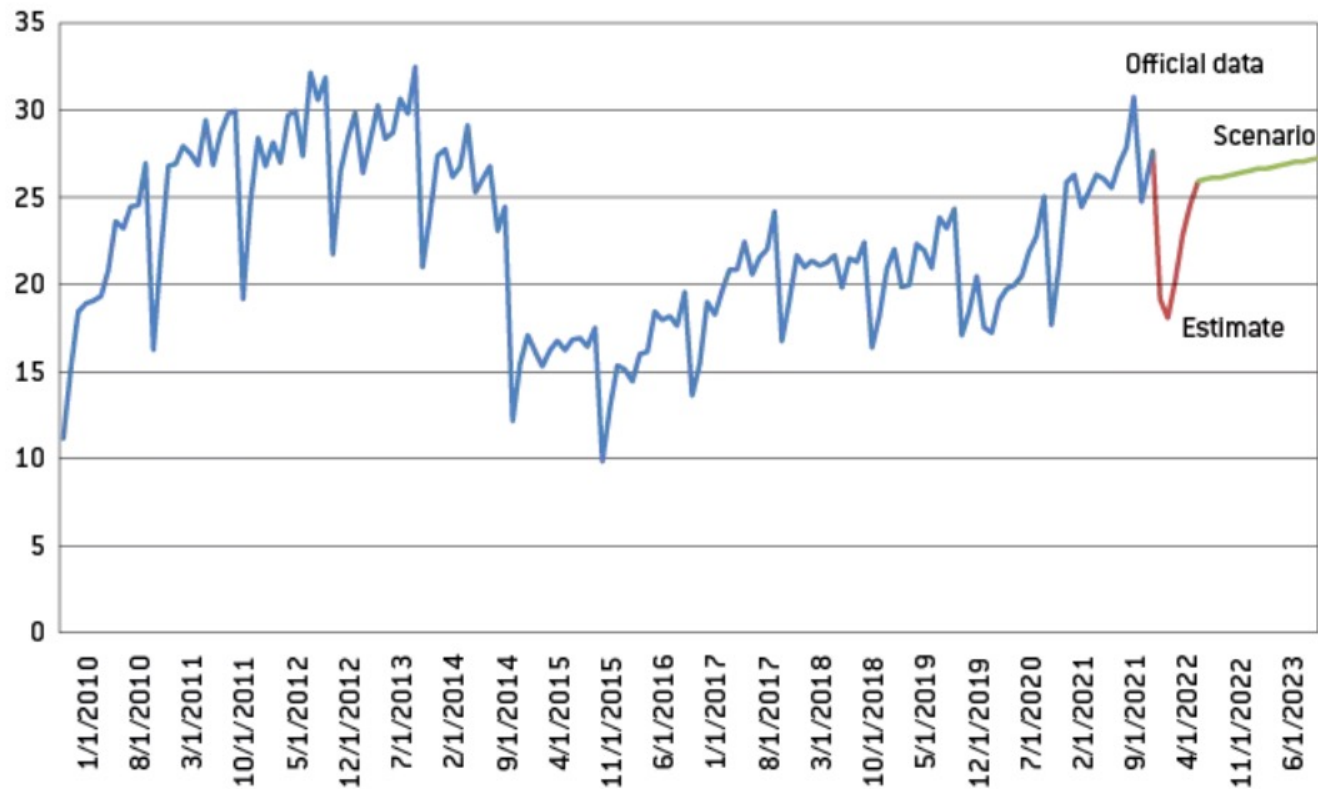
Figure 3: Russian imports 2022 by origin



Source: Bruegel Policy Brief, October 26, 2022

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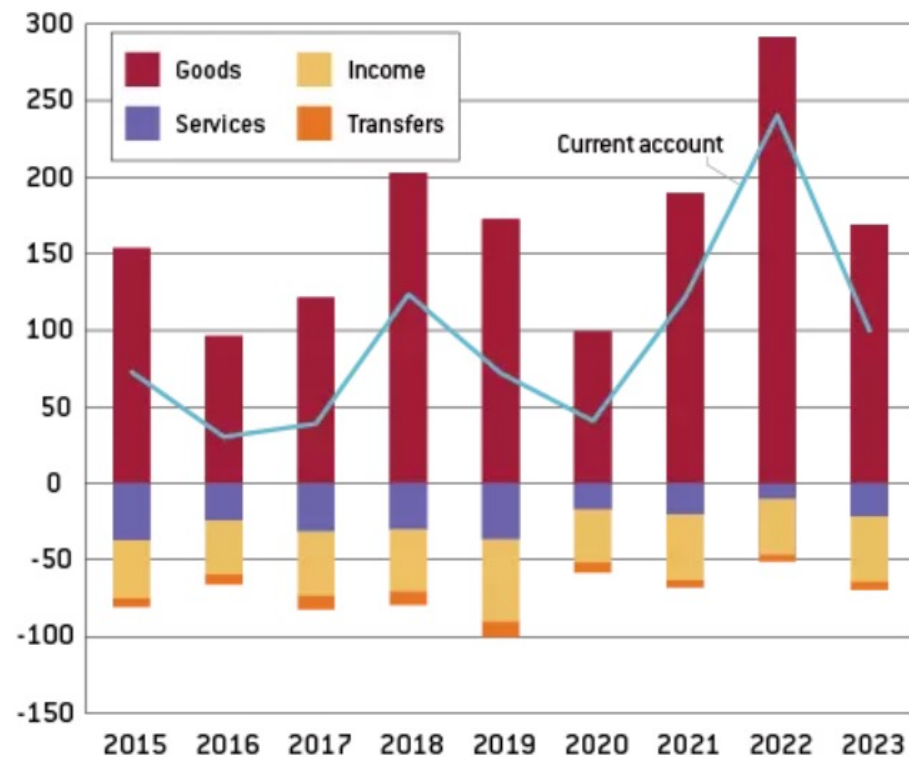
Figure 4: Recovery in Russian imports



Source: Bruegel Policy Brief, October 26, 2022

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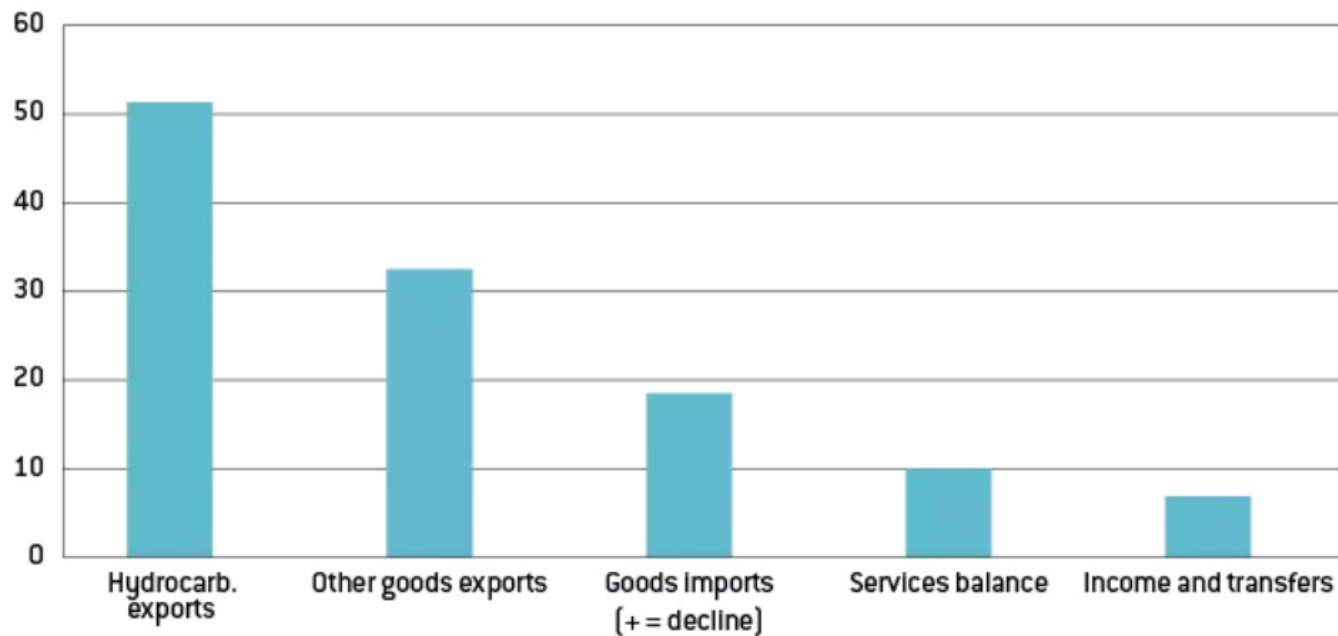
Figure 5: Current account surplus to reach \$240 billion in 2022



Source: Bruegel Policy Brief, October 26, 2022

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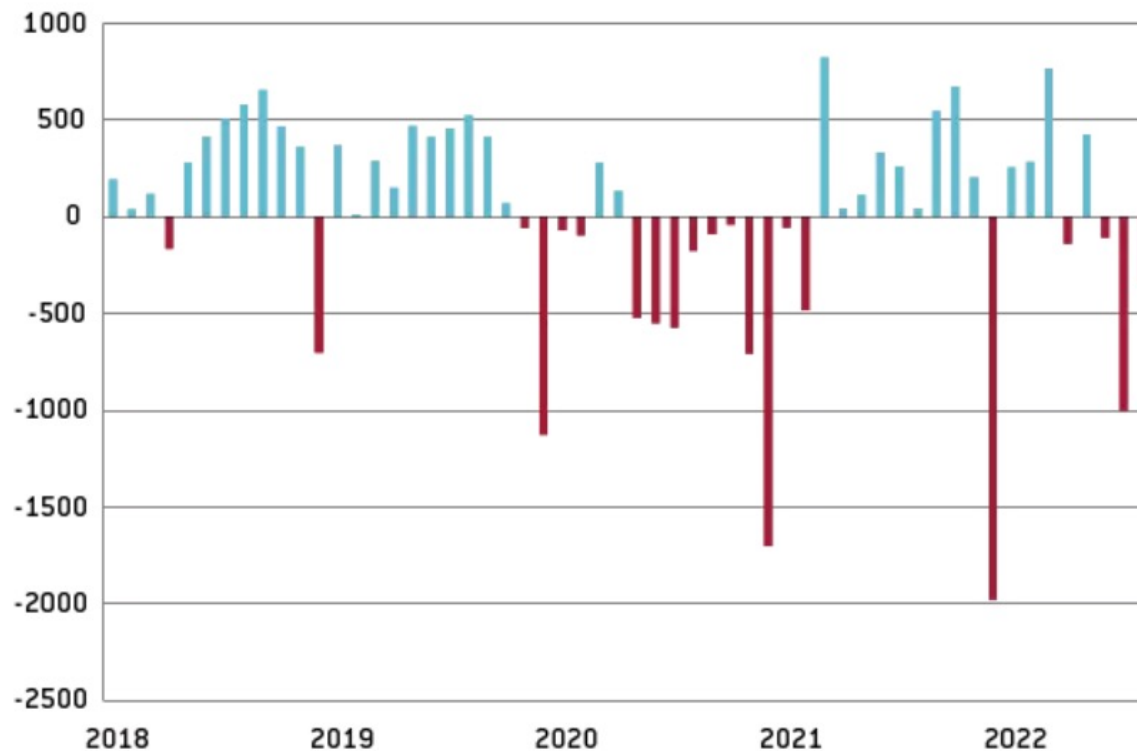
Figure 6: Higher hydrocarbon exports drive shift in current account



Source: Bruegel Policy Brief, October 26, 2022

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Figure 7: The federal government balance shifted to a deficit in June-August 2022

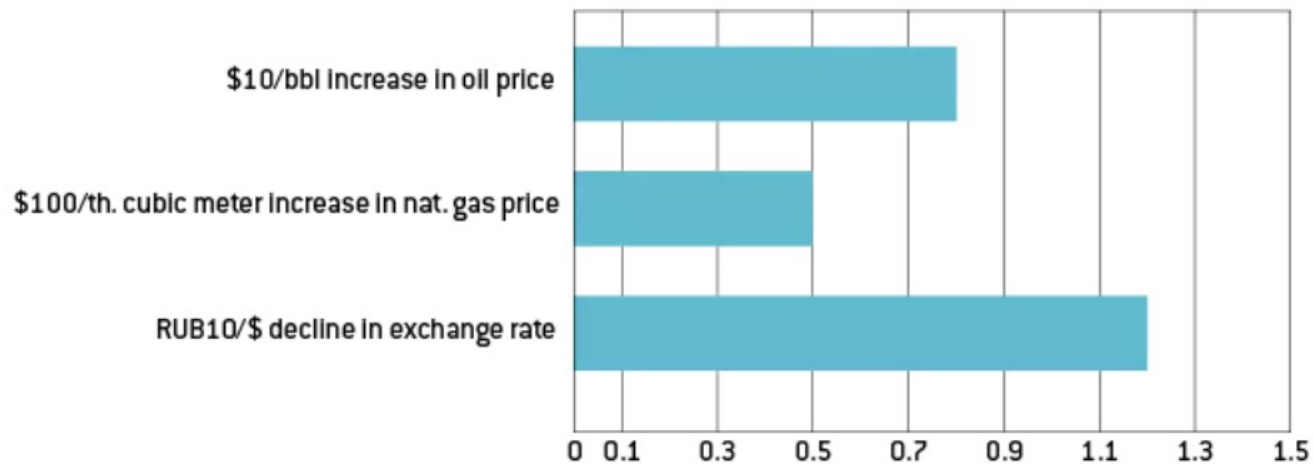


Source: Bruegel Policy Brief, October 26, 2022

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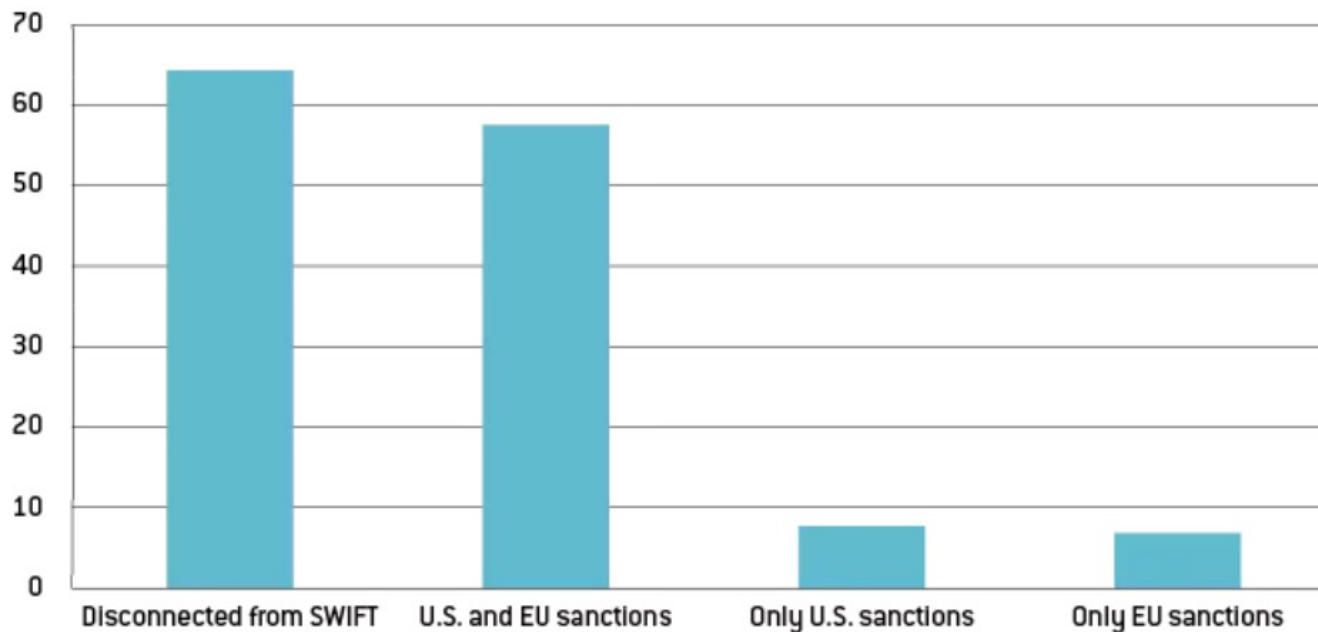
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Figure 8: Impact of energy prices and the ruble exchange rate on the fiscal balance



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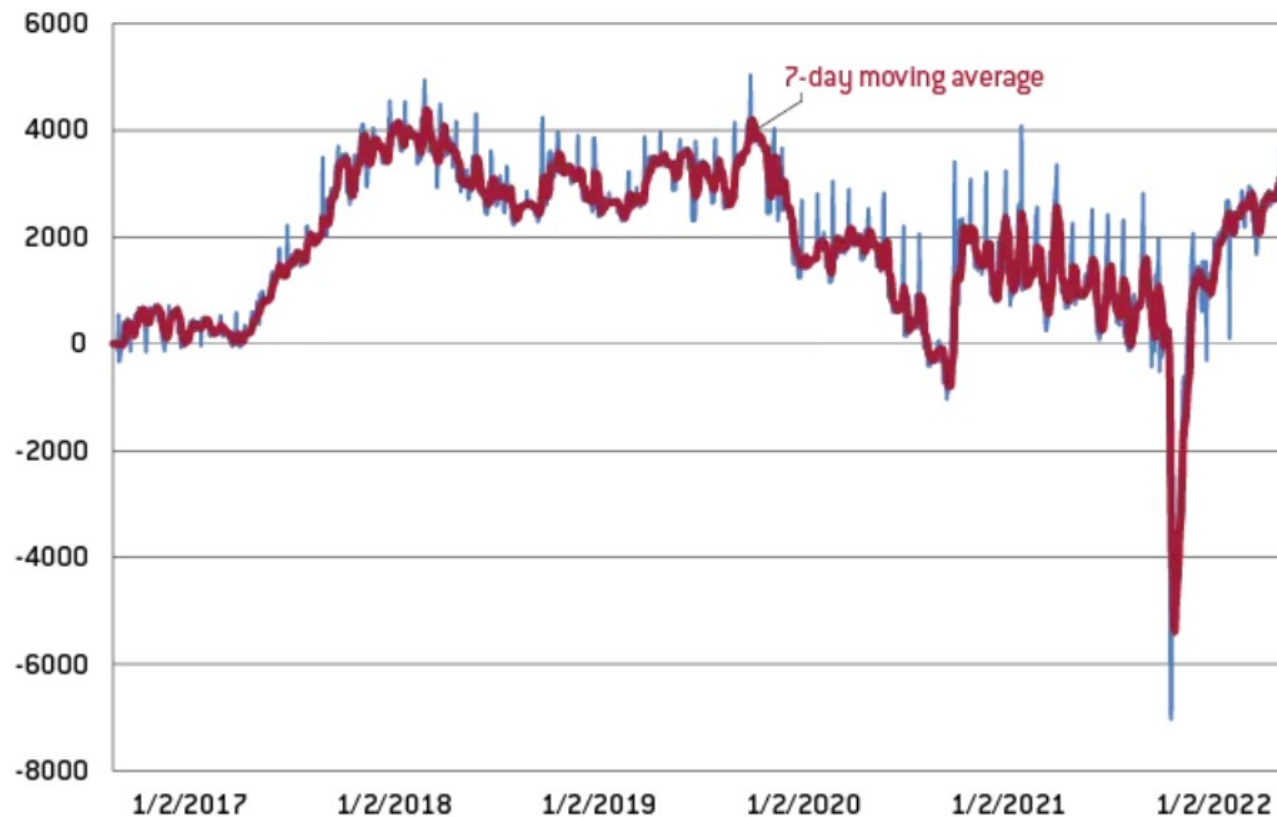
Figure 9: Share of the Russian financial system under sanctions



Source: Bruegel Policy Brief, October 26, 2022

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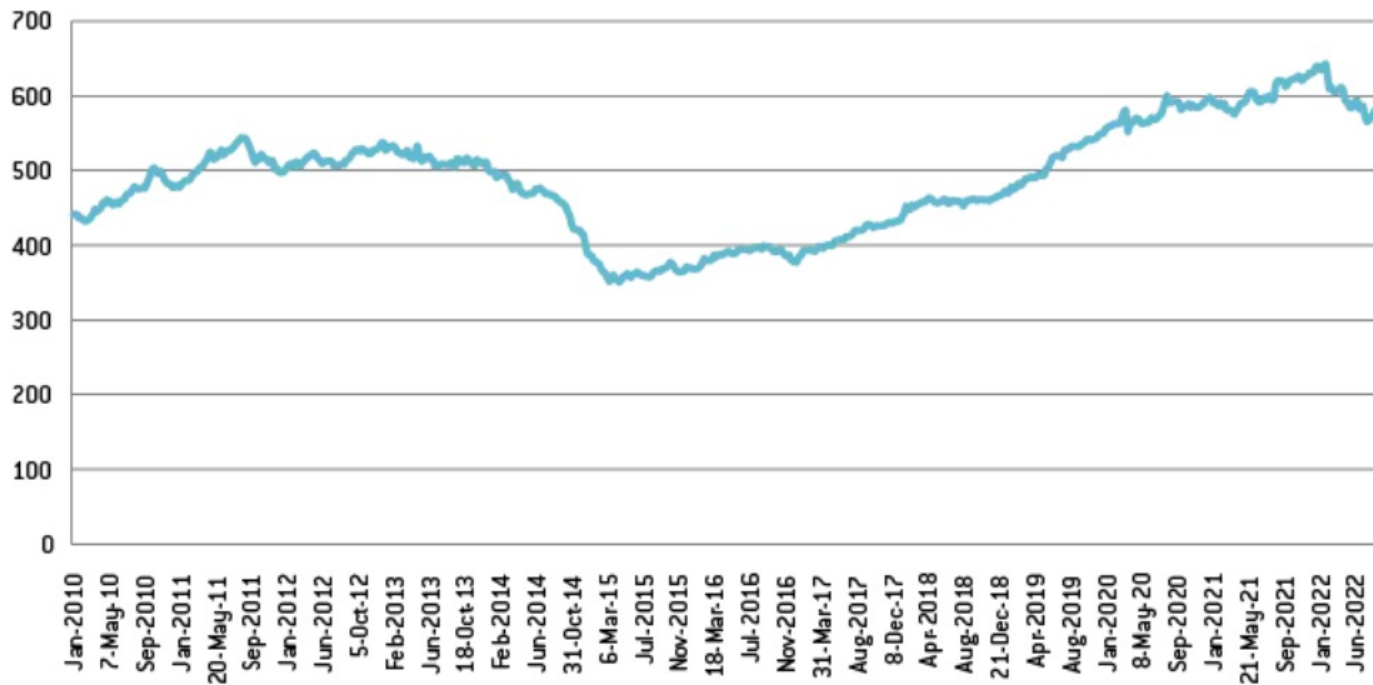
Figure 10: The banking system's structural liquidity surplus has returned to pre-war levels



Source: Bruegel Policy Brief, October 26, 2022

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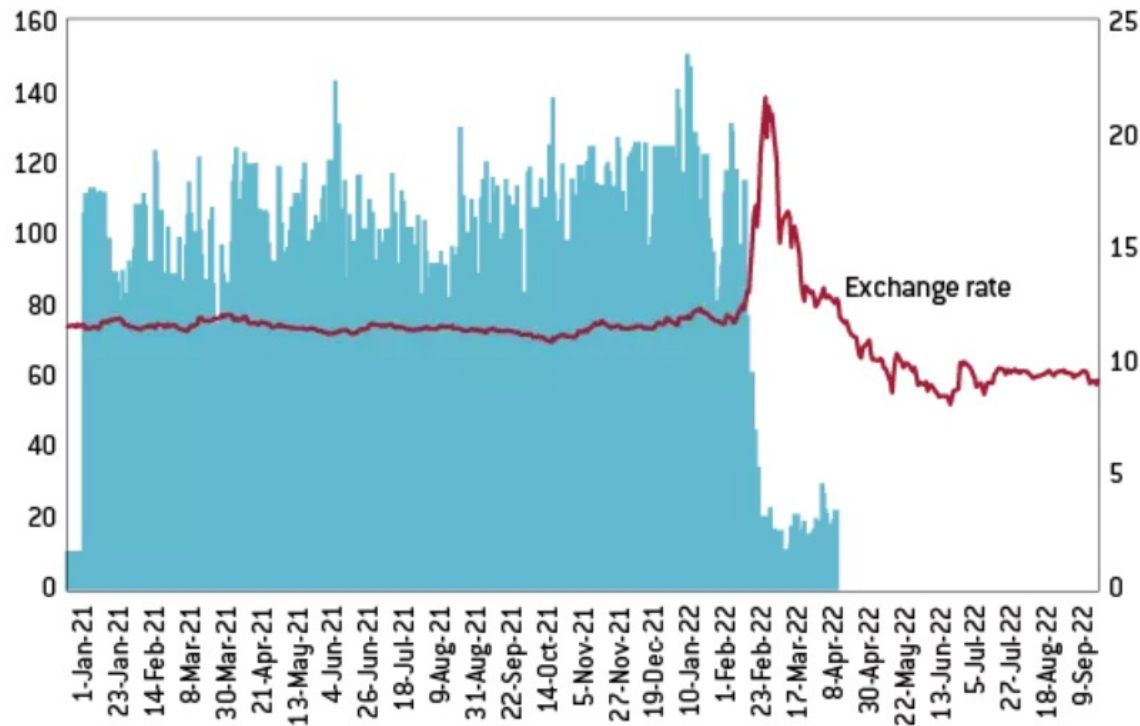
Figure 11: The Bank of Russia's reserves declined by close to \$100 billion



Source: Bruegel Policy Brief, October 26, 2022

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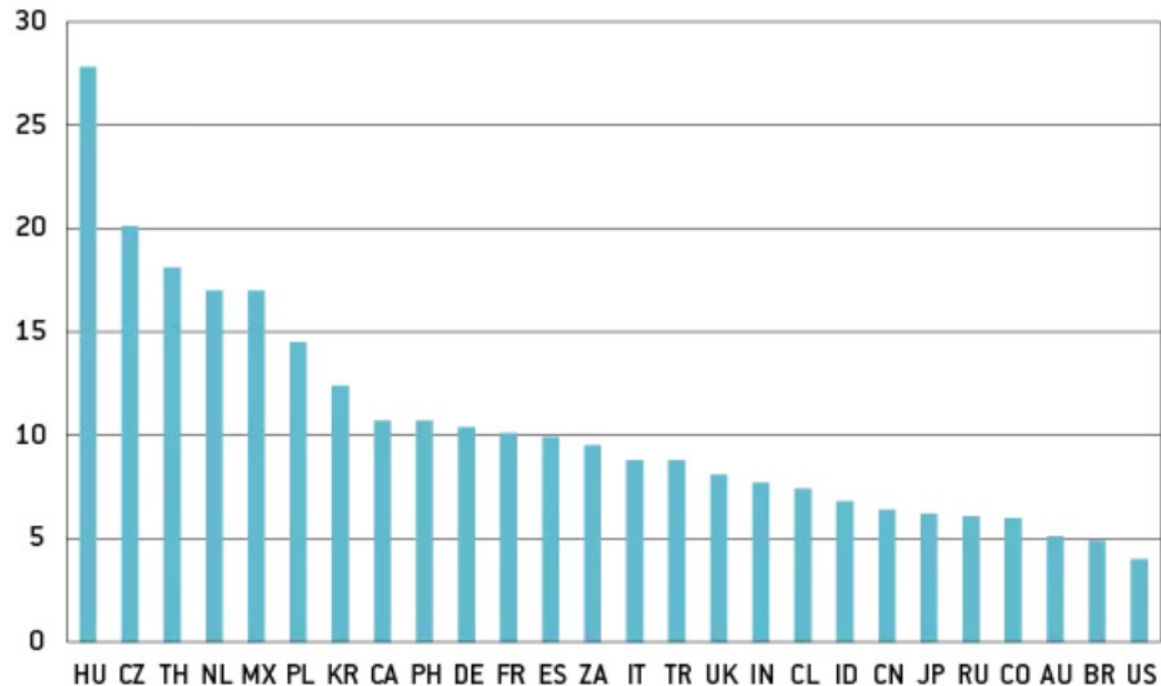
Figure 12: Ruble trading volumes fell sharply after sanctions were imposed



Source: Bruegel Policy Brief, October 26, 2022

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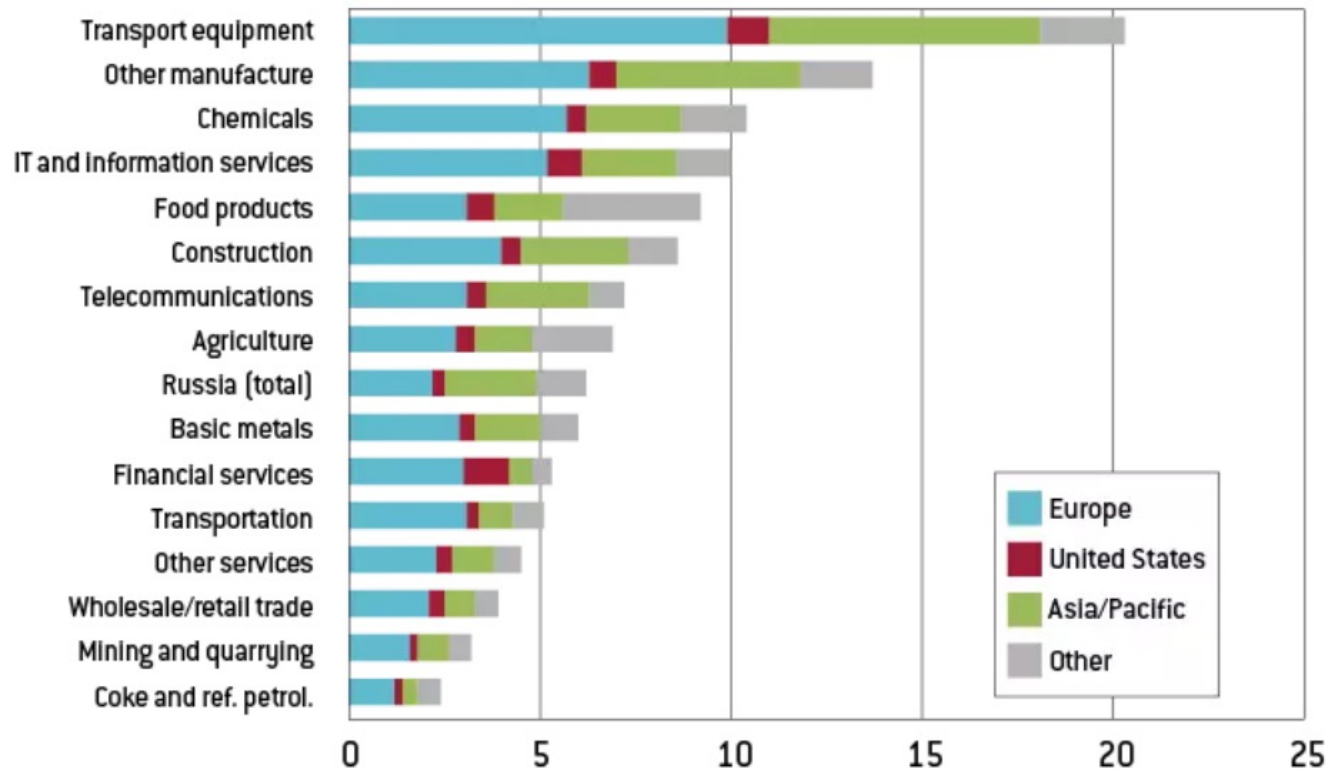
Figure 13: Russia, import content by country



Source: Bruegel Policy Brief, October 26, 2022

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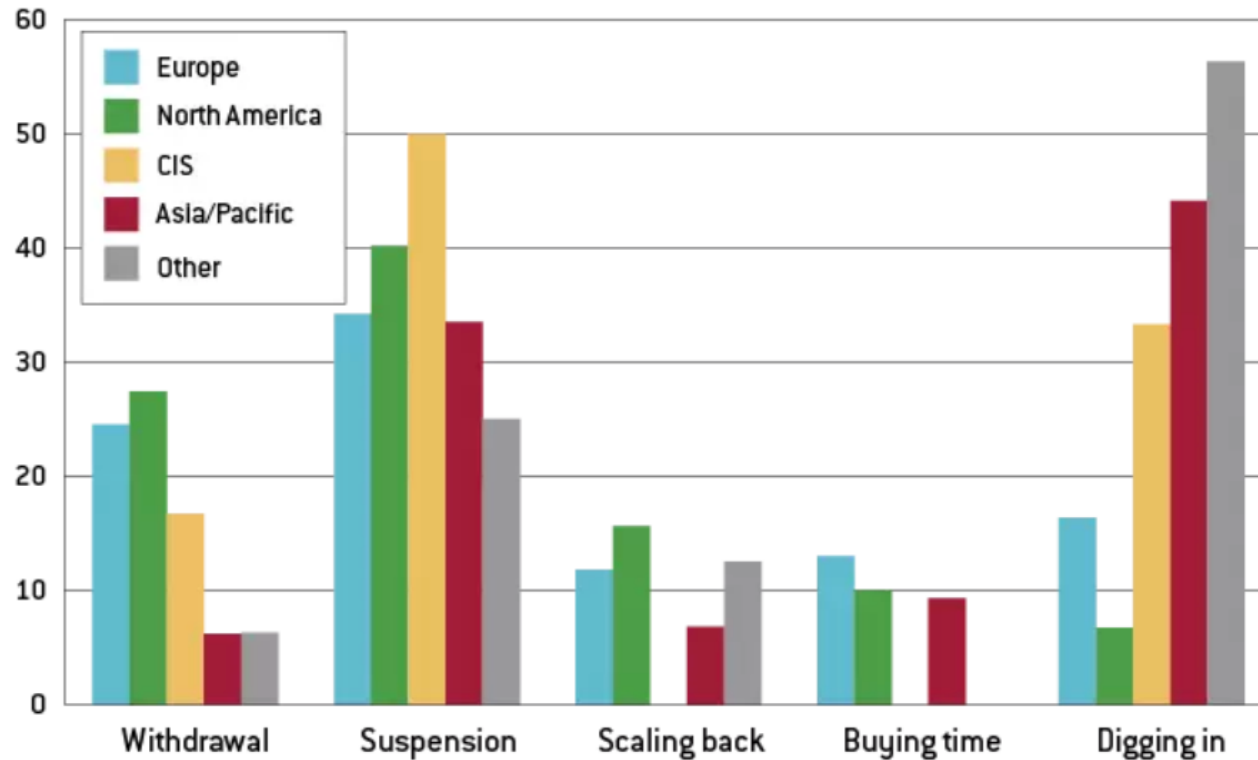
Figure 14: Russia, import content by sector



Source: Bruegel Policy Brief, October 26, 2022

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Figure 15: Status of foreign companies in Russia by origin

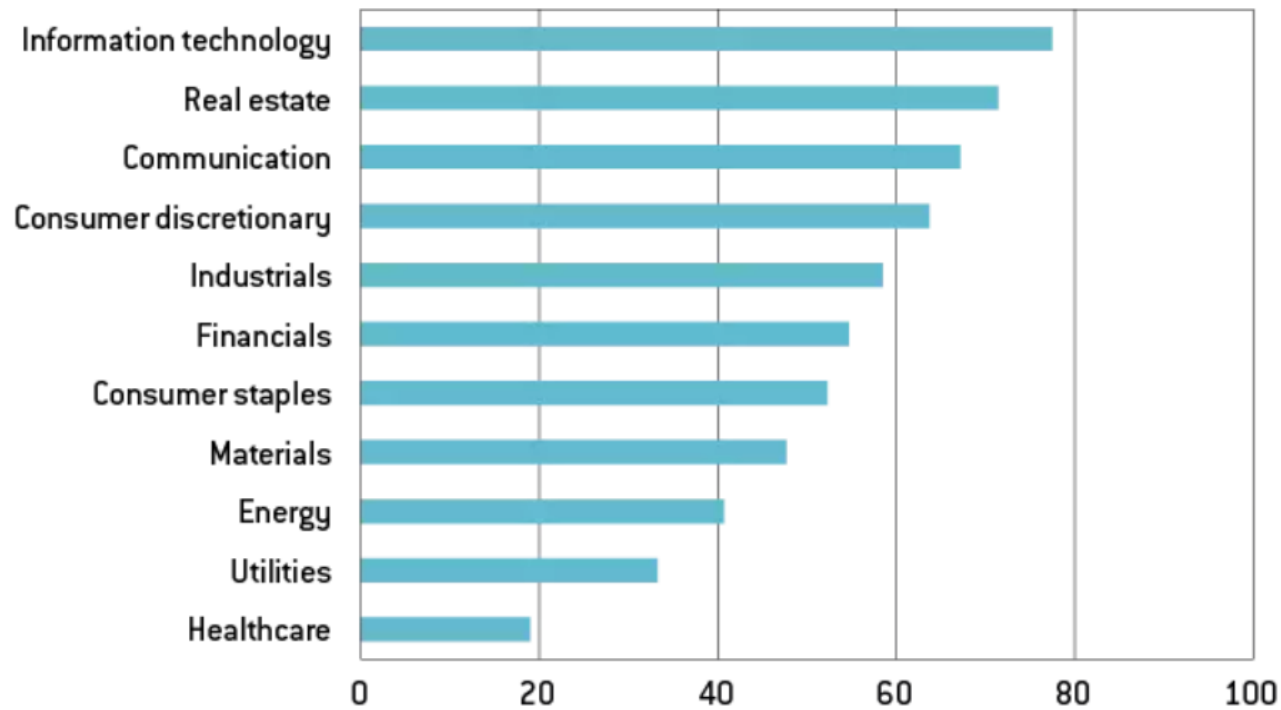


Source: Bruegel Policy Brief, October 26, 2022

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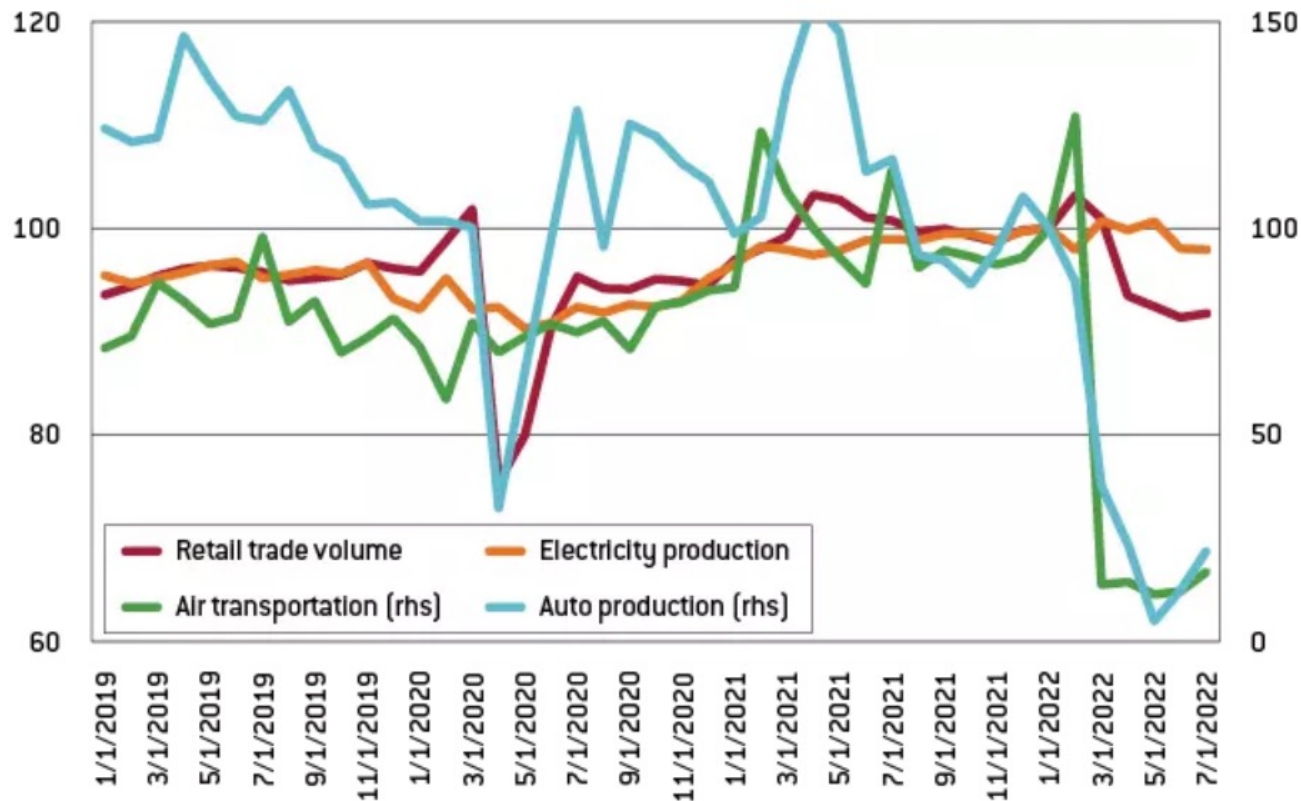
Figure 16: Extent of foreign companies' departure differs by sector



Source: Bruegel Policy Brief, October 26, 2022

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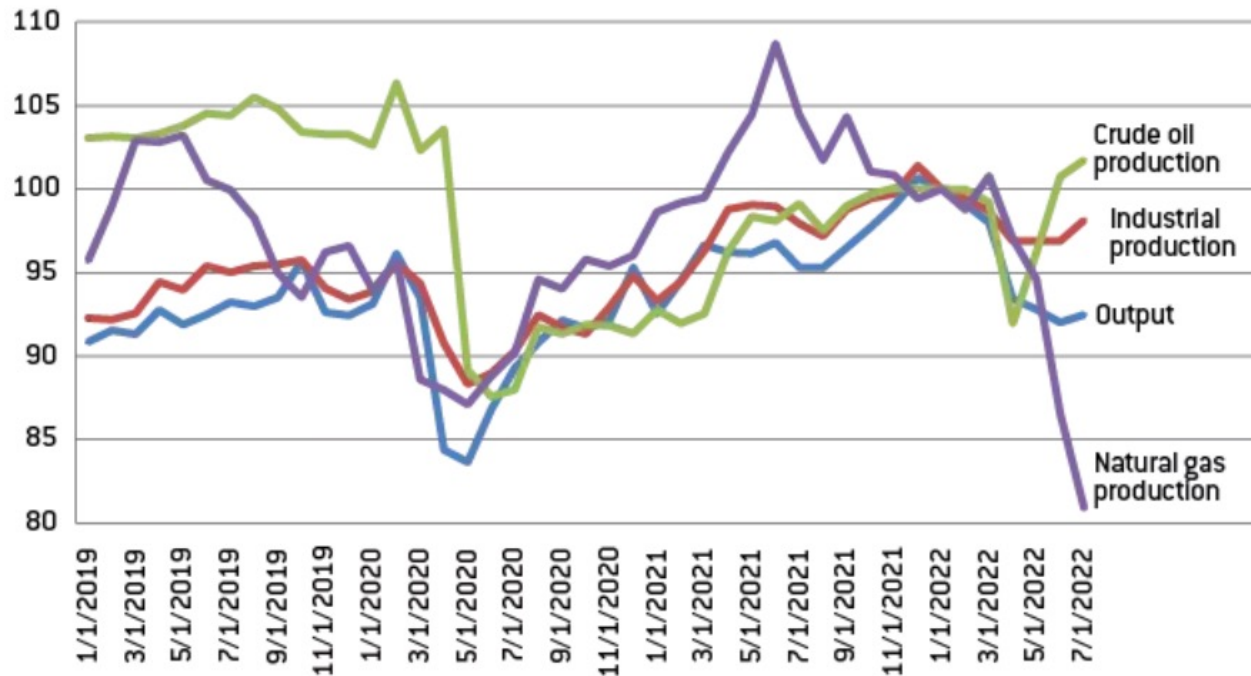
Figure 17: Export controls have had a big impact on activity



Source: Bruegel Policy Brief, October 26, 2022

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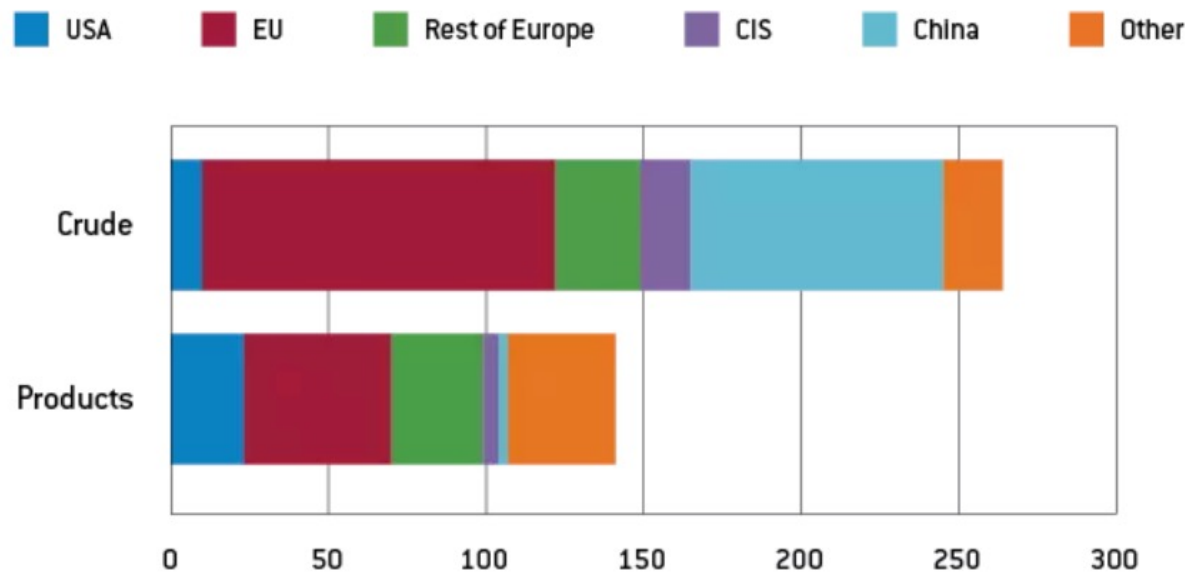
Figure 18: Natural gas production is down sharply



Source: Bruegel Policy Brief, October 26, 2022

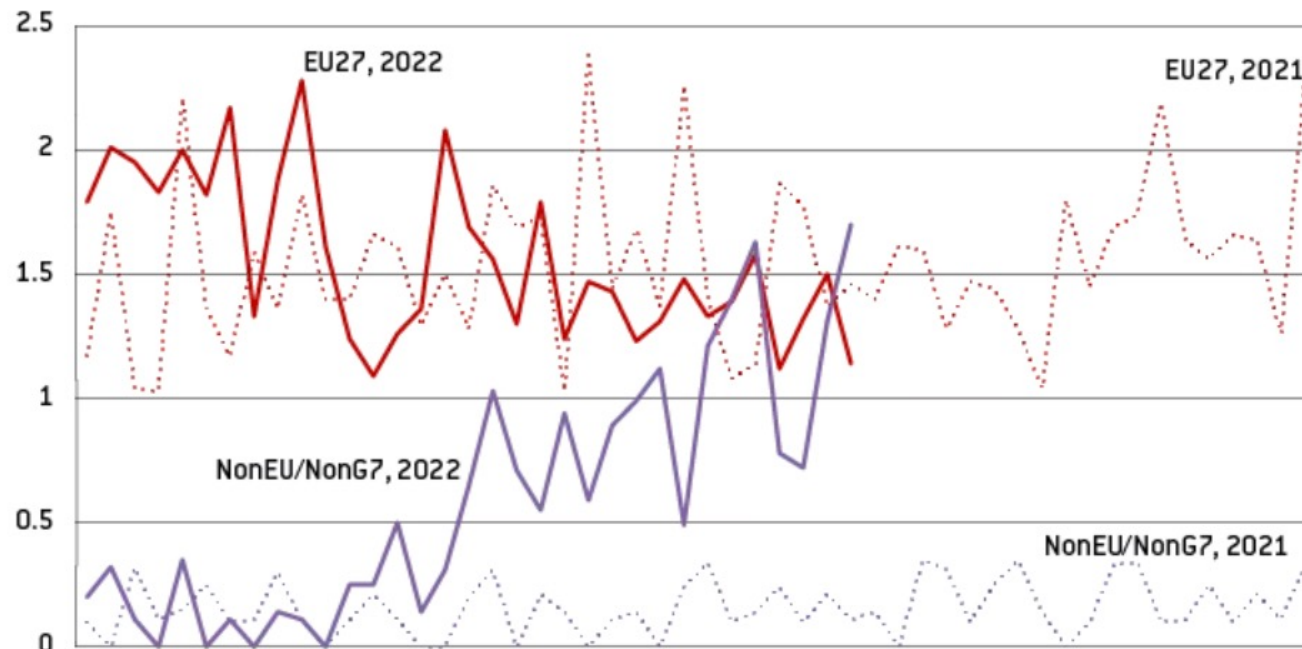
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Figure 19: Russian crude oil and oil product exports (2021, million tonnes)



Effects of Russia Sanctions

Figure 20: Weekly Russian crude oil exports from Russia's western ports (Its eastern ports are not subject to sanctions)

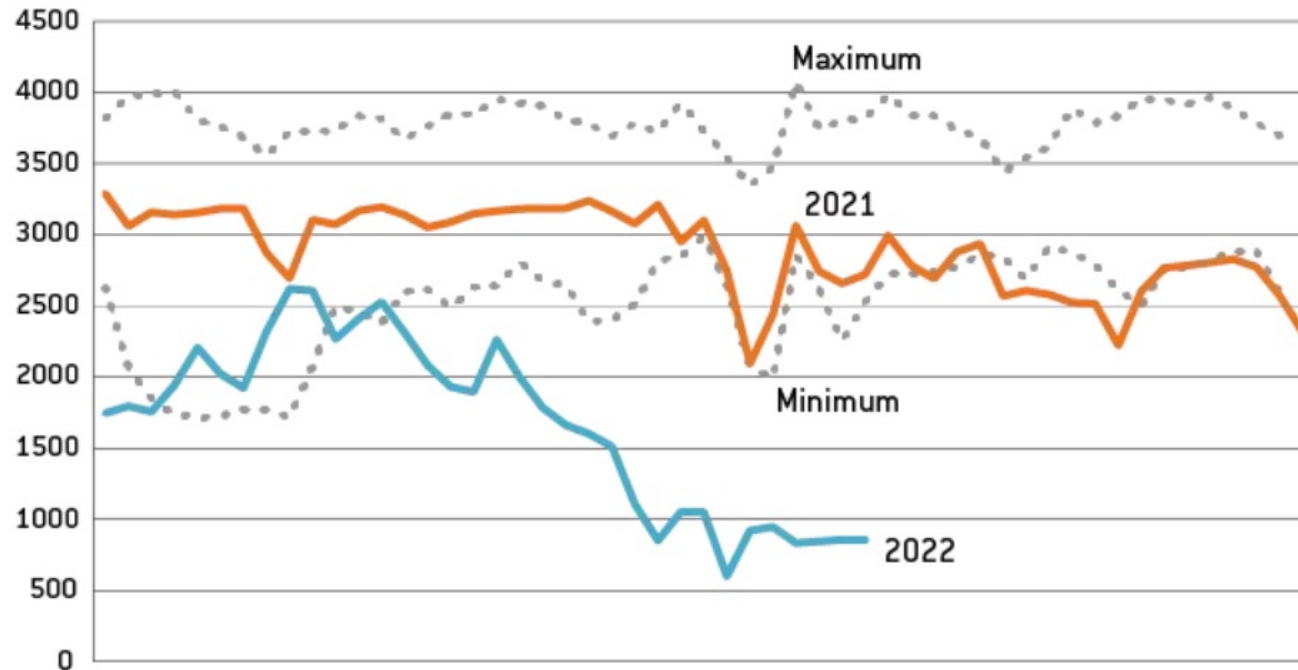


Source: Bruegel Policy Brief, October 26, 2022

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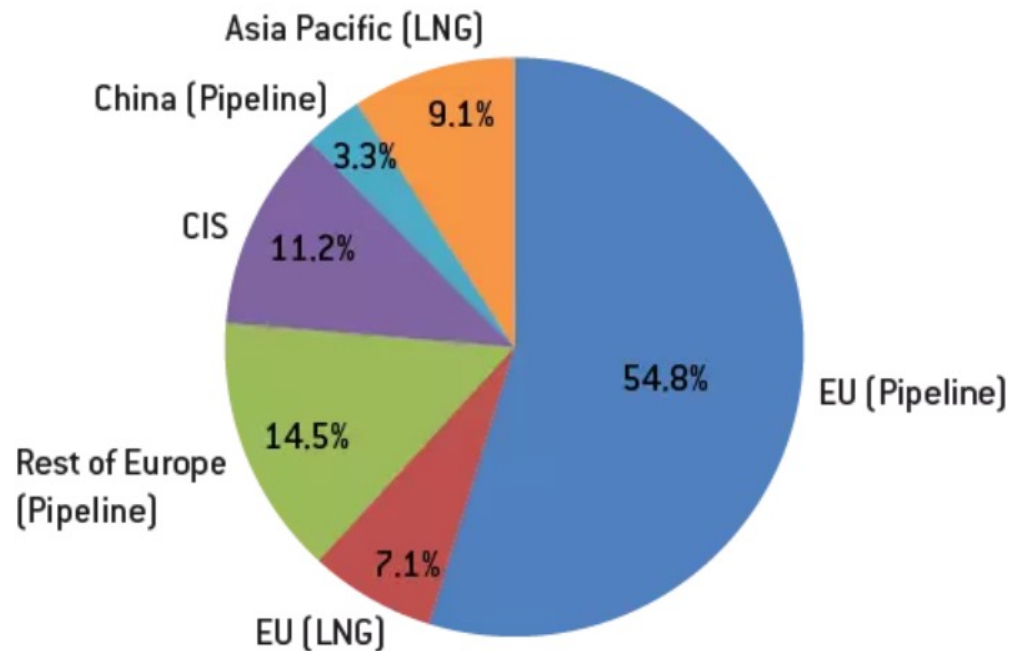
Figure 21: EU and UK natural gas imports from Russia



Source: Bruegel Policy Brief, October 26, 2022

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Figure 22: Russia natural gas exports (2021)



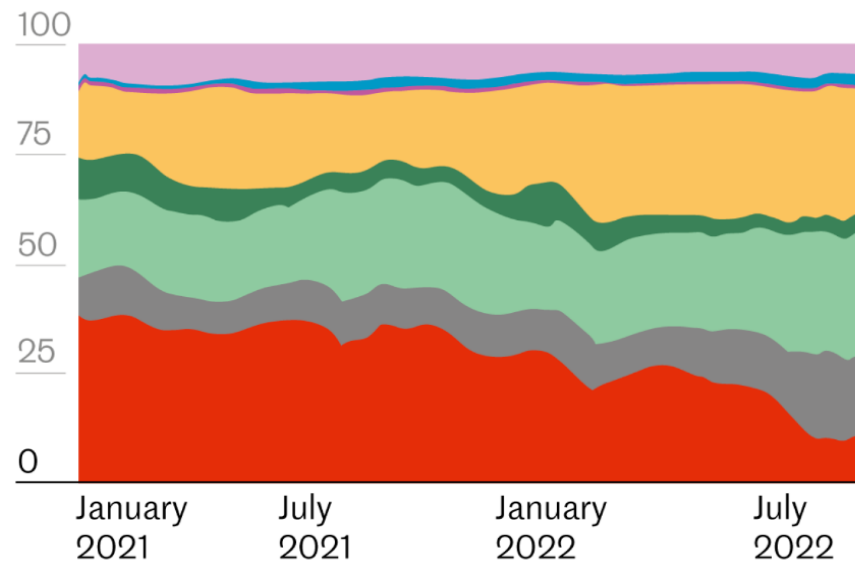
Source: Bruegel Policy Brief, October 26, 2022

Effects of Russia Sanctions

In six months, Russia became a minority gas provider for Europe

The European Union's gas imports, by %

- Algeria
- Azerbaijan
- Libya
- Liquefied natural gas*
- Netherlands
- Norway
- Others
- Russia



* arriving by ship, from multiple origins

Graph : *Le Monde*

Source : CREA

