PubPol/Econ 541

Class 24

Economic Sanctions

by
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Pause for News

Announcements

- Quiz 12
  – Due Friday midnight, Dec 6 as always
  – Covers Dumping only
- Quiz 13
  – Due a week from this Friday, Dec 13
  – Will cover today (Sanctions) and Wednesday (Subsidies)
- Note that I'll only count your best 10 quizzes

Announcements

- Last class: Monday Dec 9
  - No assignments
  - I’ll present my recent talk on Trump and Tariffs
  - Plus any Q&A from you
- Paper 3
  - Your assigned group picks (already picked, I hope) topic
  - Due next Wednesday, December11, 8:30 AM

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 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 called “extraterritorial”.
    - US uses these, but 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)

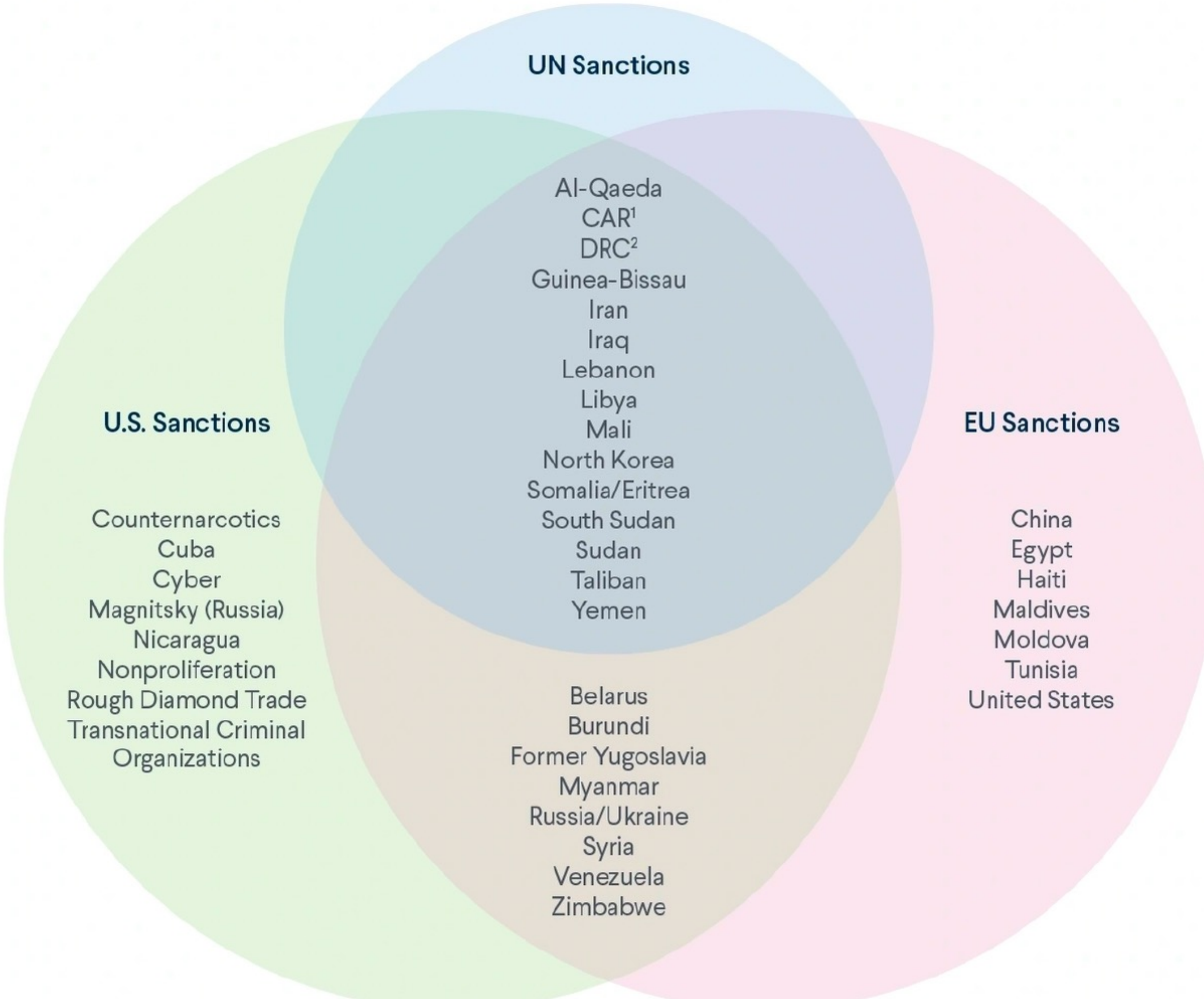
What economic sanctions are

- 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



Source: Masters (2019)

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 <u>not</u> by 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 (Pearl Harbor)

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

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%

Source: Elliott (1997)

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

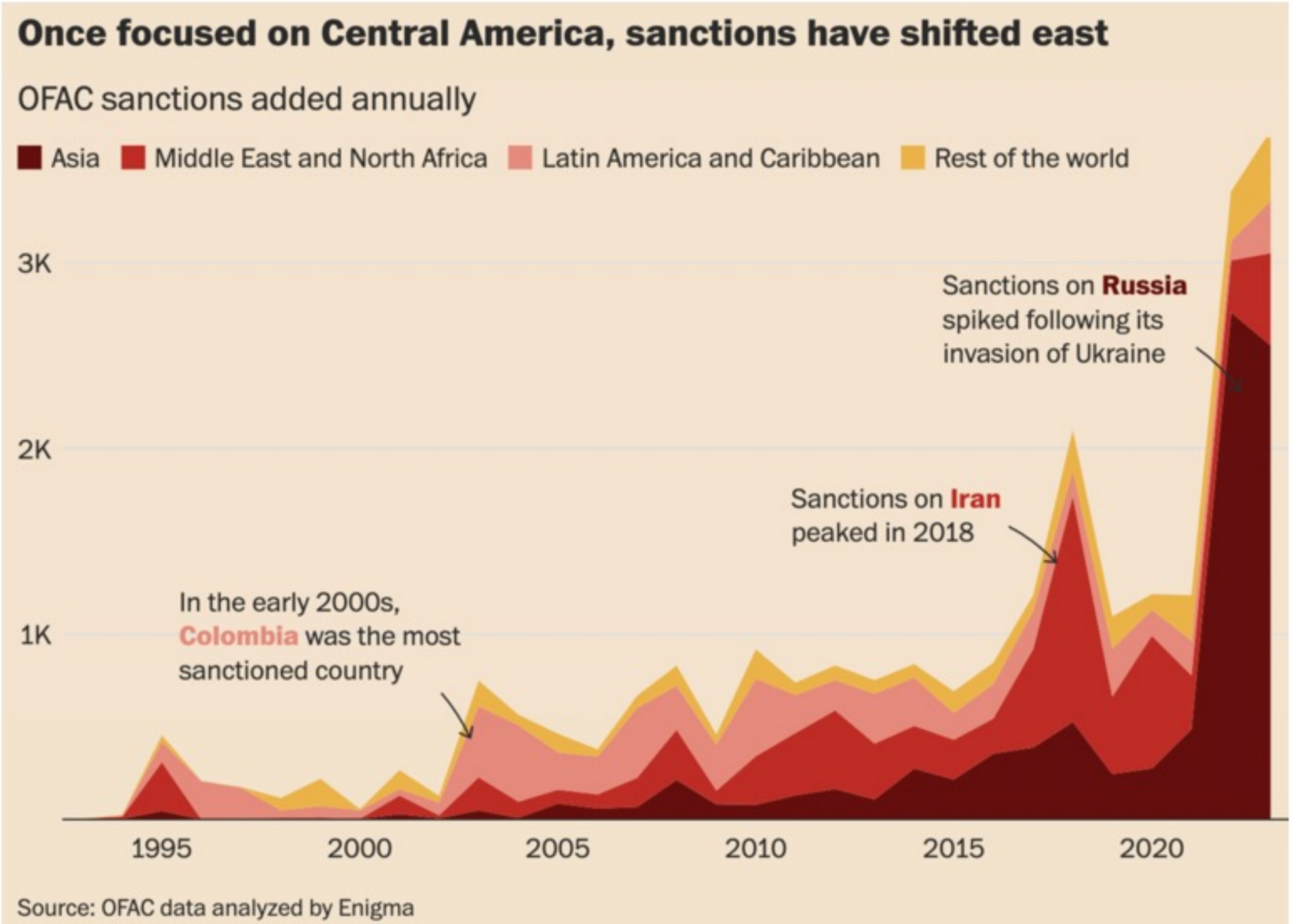
Scope of sanctions imposed[a]	All countries, exports plus imports[b]	OECD countries, exports only	United States, exports only
Limited	c	-21.5	c
Moderate	-31.2	-33.1	-68.0
Extensive	-91.9	-78.0	-96.8

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.

Source: Elliott (1997)


Sanctions have proliferated in recent years
Number of entities sanctioned and unsanctioned by the Office of Foreign Assets Control
Clinton
Bush
Obama
Trump
Biden
3K
2K
1K
−1K
1995
2000
2005
2010
2015
2020
Source: OFAC data analyzed by Enigma


The United States is by far the most prolific sanctioning authority
Active sanctions
United States
15,373
Switzerland
5,062
European Union
4,808
United Kingdom
4,360
Canada
4,292
Australia
3,023
United Nations
875
Data as of April 19, 2024
Source: Castellum.ai


Once focused on Central America, sanctions have shifted east
OFAC sanctions added annually
Asia
Middle East and North Africa
Latin America and Caribbean
Rest of the world
3K
2K
1K
Sanctions on Russia spiked following its invasion of Ukraine
Sanctions on Iran peaked in 2018
In the early 2000s, Colombia was the most sanctioned country
1995
2000
2005
2010
2015
2020
Source: OFAC data analyzed by Enigma

U.S. global sanctions by impact

Severity of sanctions by country and year sanctions began

HIGH SEVERITY			
Iran	1979	Syria	1979
North Korea	1950	Cuba	1962
Venezuela	2005		
MEDIUM SEVERITY			
Yemen	2012	Russia	2014
Afghanistan	1999		
MEDIUM-LOW SEVERITY			
China	2014	Sudan	1997
Burma	2003	Belarus	2006
Libya	1986		
LOW SEVERITY			
Lebanon	2007	Nicaragua	2018
Mali	2019	Somalia	2010
Ethiopia	2021	Democratic Republic of Congo	2006
Zimbabwe	2002		

Source: Based on a Washington Post review of 10 factors, including the type of commerce affected. List does not include every country facing U.S. sanctions. Michael Paarlberg, political scientist at Virginia Commonwealth University, assisted in the review.

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?
- What is the "main channel" through which sanctions have their effects, and how does this matter?
- 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

Russia Sanctions

- Russia's invasion of Ukraine on Feb 24, 2022 prompted economic responses
  - Economic sanctions by governments
    - On financial linkages
    - On trade
  - Private companies said they would stop dealing with Russia

Russia Sanctions, Gov't

- Sample financial sanctions
  - Several Russian banks removed from the Swift international payments system
  - Cut off many Russian banks from transactions and operations
- Sample trade sanctions
  - Banned or reduced imports of oil and other energy
  - Imposed price cap on permitted oil exports
  - Revoked Russia's most favored nation status for tariffs

Russia Sanctions, Gov't

Countries		
Australia	Iceland	Singapore
Bahamas	Italy	Switzerland
Canada	Japan	Taiwan
EU	New Zealand	UK
Finland	Norway	US
France	Poland	
Germany	S Korea	

Source: Funakoshi et al, "Updated July 7, 2022" but includes from July 29

Russia Sanctions, Gov't

- Countries announcing they would *<u>not</u>* use sanctions against Russia:

NOT using sanctions	
India	Feb 24
Mexico	Mar 1
Brazil	Mar 1
China	Mar 2
Argentina	Mar 4
Indonesia	Mar 9
Turkey	Mar 13
S Africa	Mar 17
Serbia	Apr 21

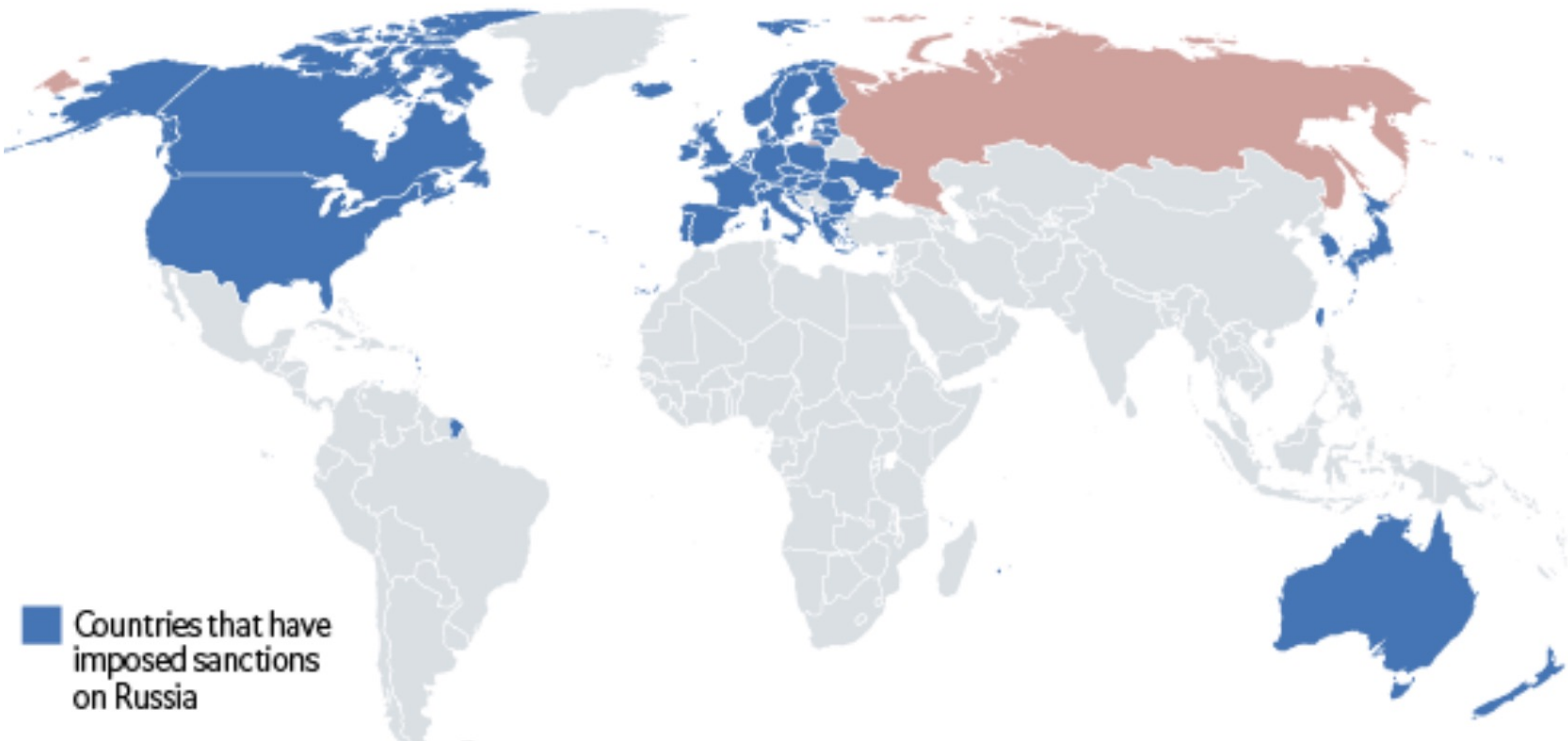
Source: Bown

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, 2023 did I hear (on NPR) that Heineken had just succeeded in selling its Russia operations 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

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

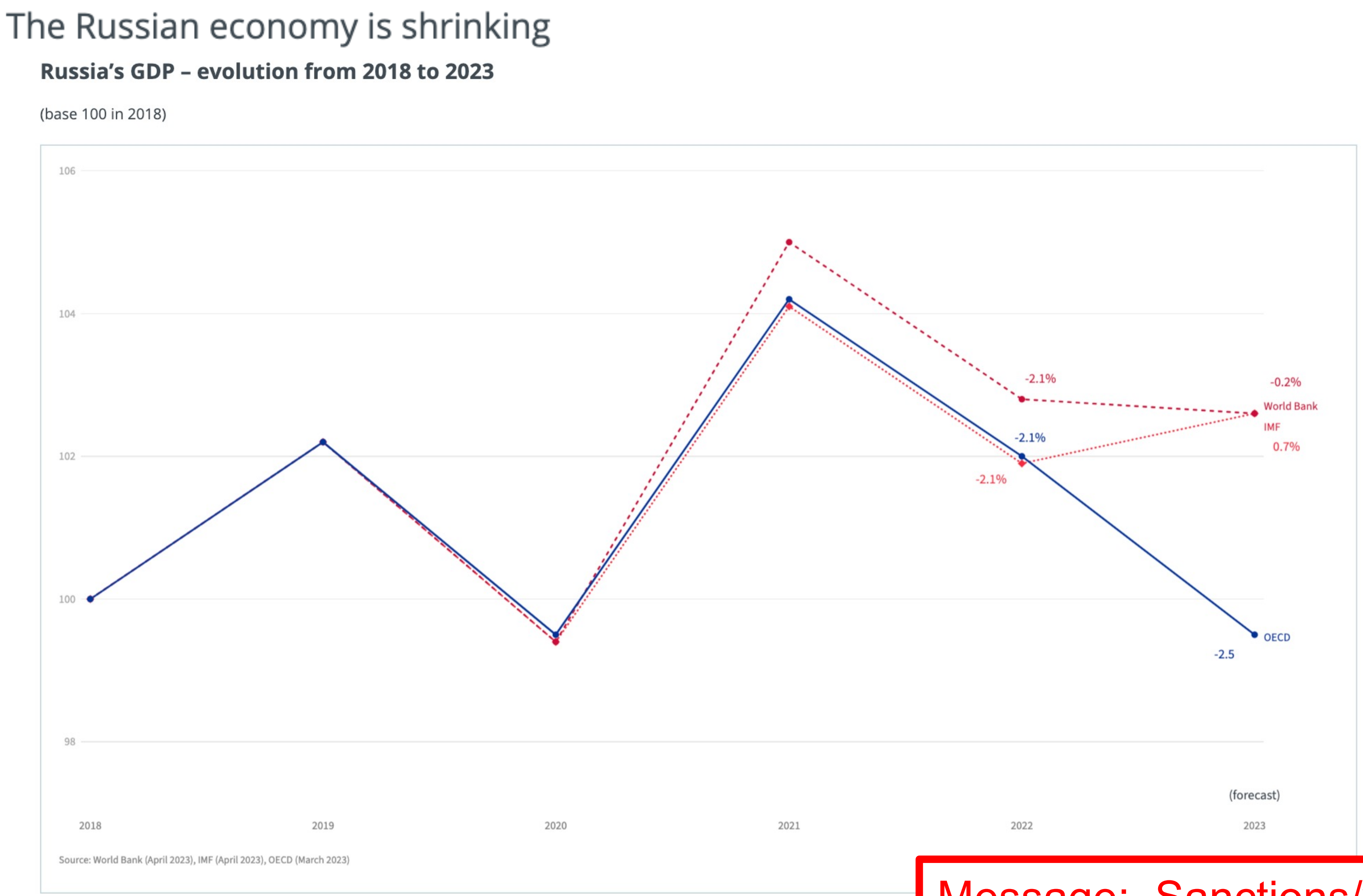
Questions on Mulder, "The Sanctions Weapon"

- 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?

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



Sources: IMF, WB, OECD, via European Council

Message: Sanctions/war have hurt Russia's GDP

Russia's Surprising Economic Headache: A Strong Ruble

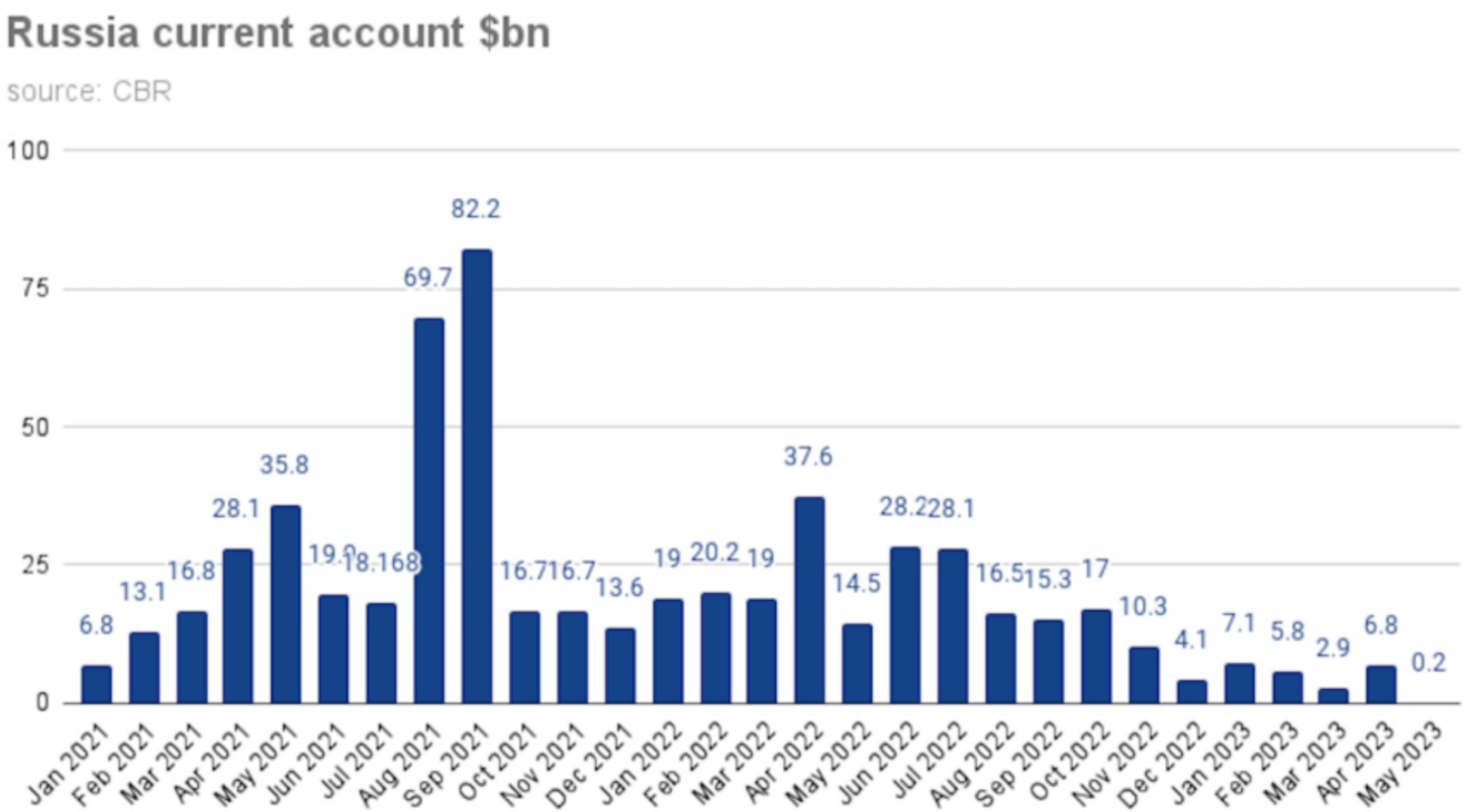
Messages:
- Ruble first fell, then rose
- Rise was a "headache"

Why "headache"?
- Ruble rose 42% against $.
- This reduces ruble value of oil exports, denominated in $.

Wall Street Journal June 29, 2022

Source: Economist, August 14, 2023

Messages:
- Ruble then fell again, but not as much



Source: BNE Intellinews, June 14, 2023

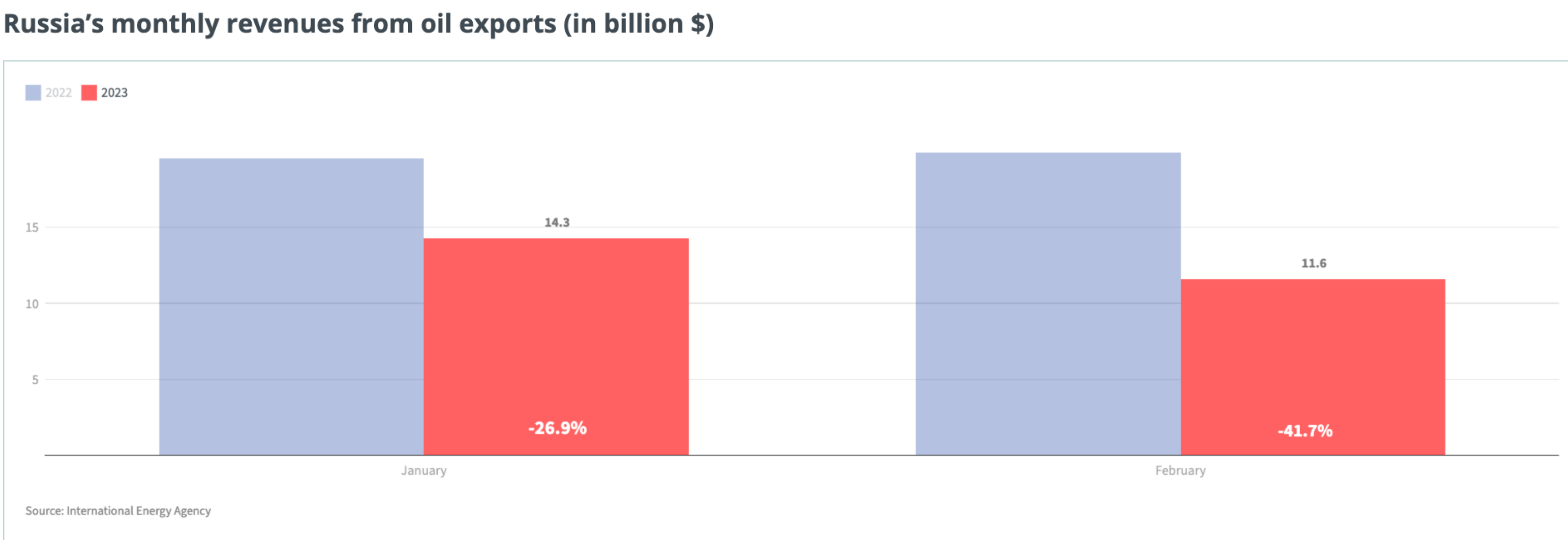
Message: Current account surplus first rose, then fell

Effects of Russia Sanctions

Messages:
- Data disagree, but
- Exports fell while imprts did not

Source: IMF, WB, via European Council

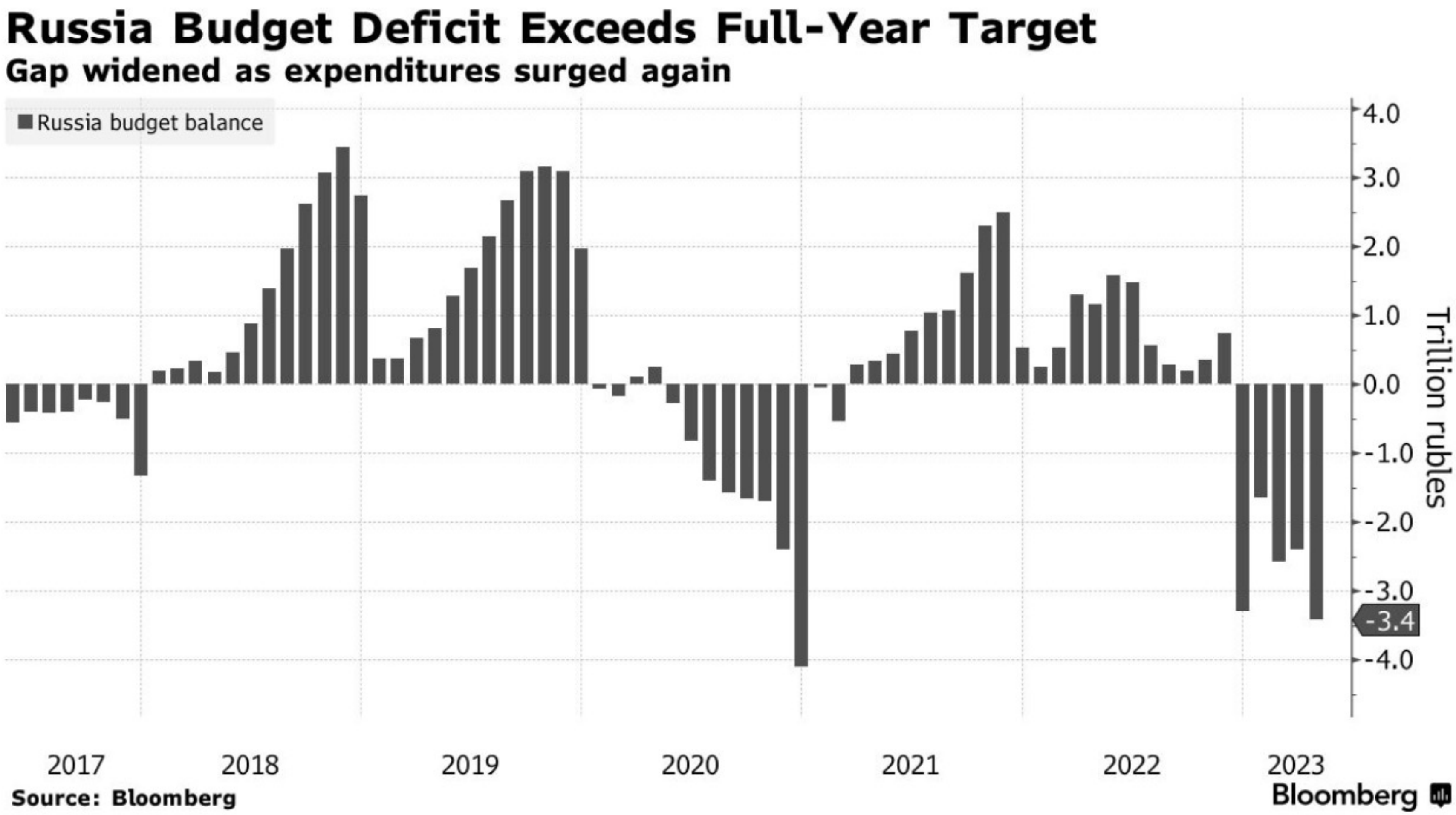
Effects of Russia Sanctions



Message: Oil revenue fell

Source: International Energy Agency

Effects of Russia Sanctions



Message: Budget moved up and down. Message unclear.

Source: Bloomberg, July 7, 2023

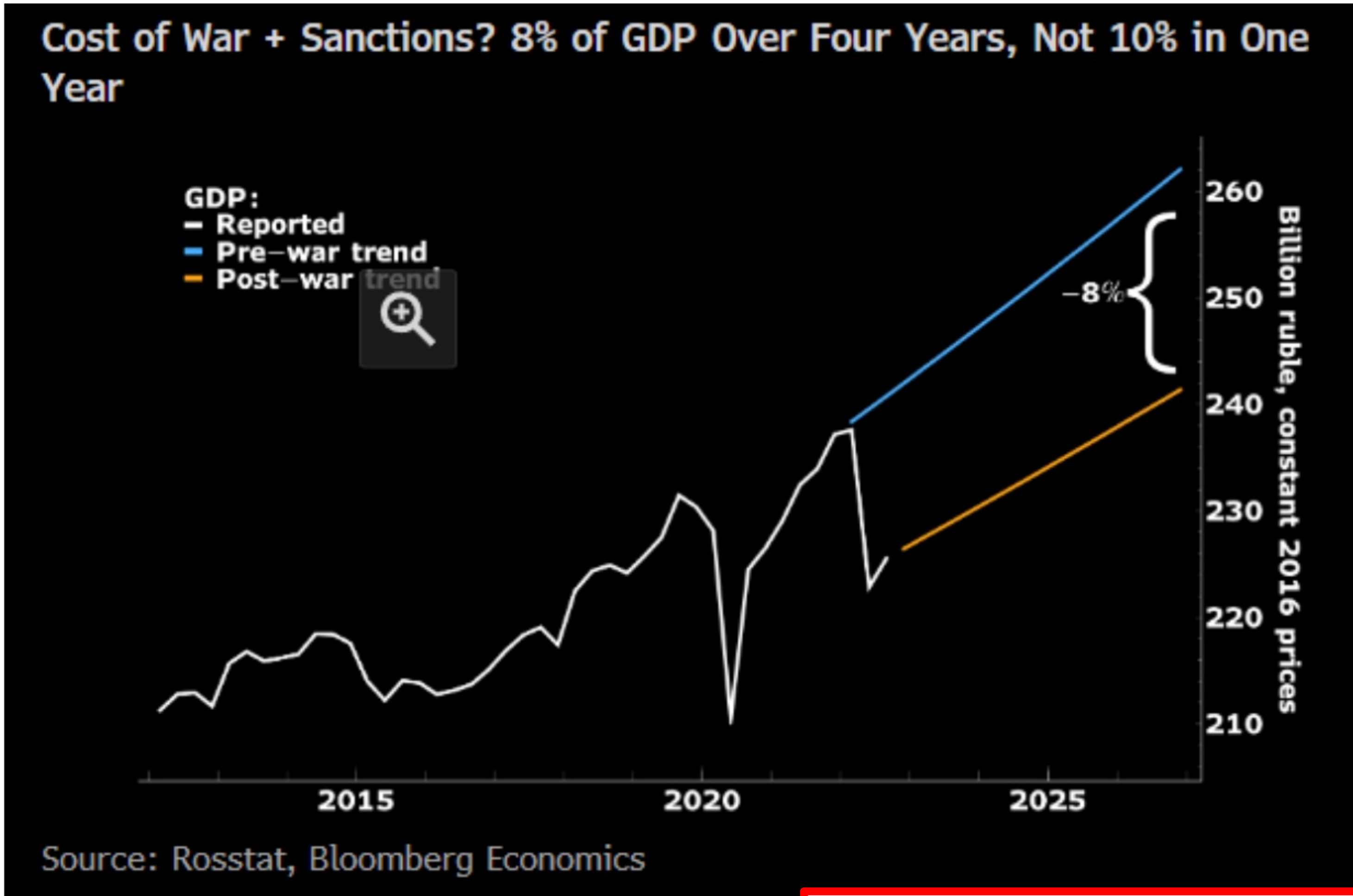
Effects of Russia Sanctions

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%

Message: Exports of sanctioned goods fells much more than non-sanctioned

Source: Bloomberg, July 7, 2023

Effects of Russia Sanctions



Source: Bloomberg Economics

Source: Bloomberg, July 7, 2023

Message: War & sanctions reduced GDP by 8%

Effects of Russia Sanctions

Message: Industrial production, which had been growing, has now been falling

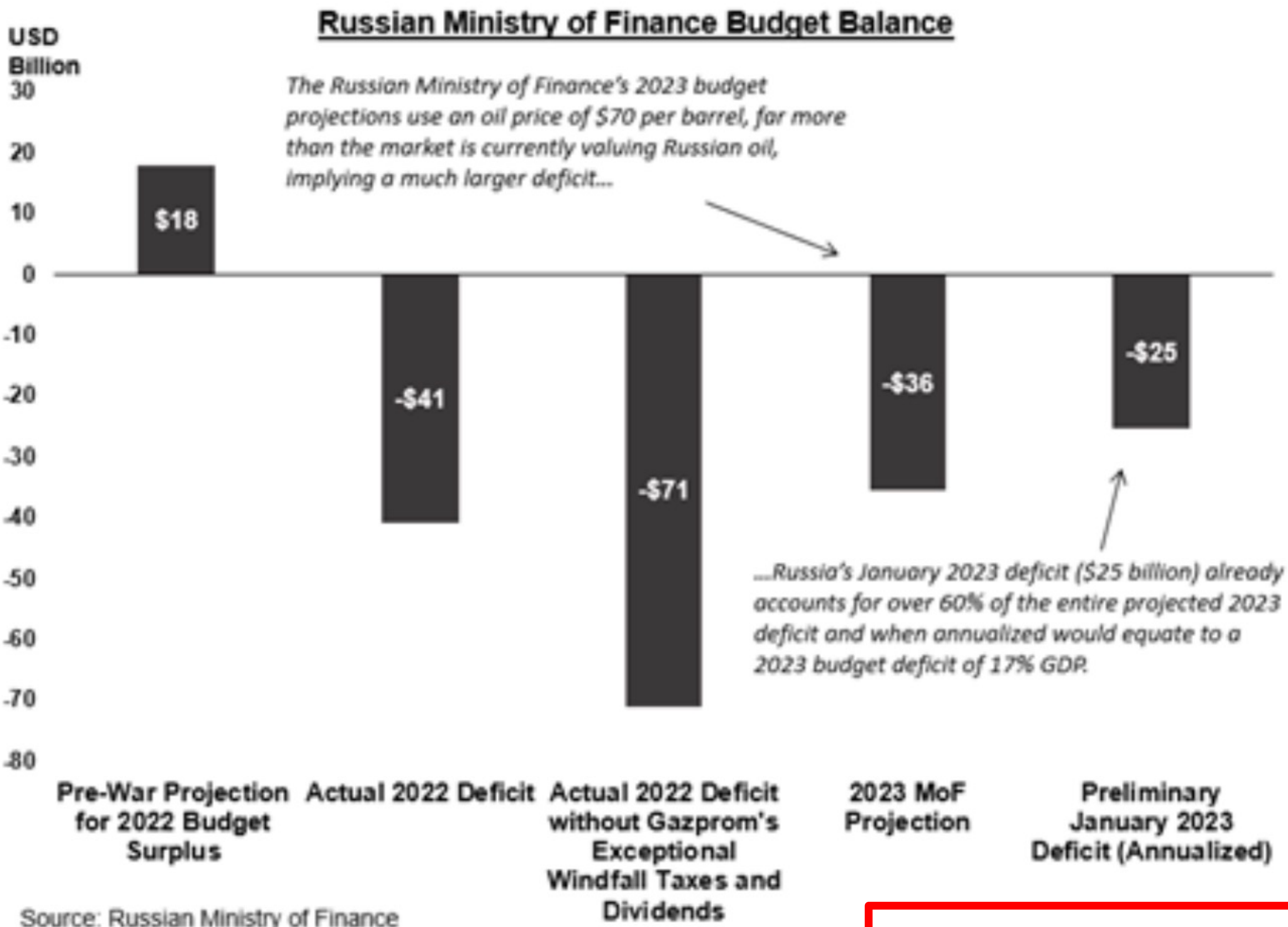
Source: US Treasury, Feb 24, 2023

Effects of Russia Sanctions

Message: Oil revenue first rose, but fell after price cap.

Source: US Treasury, Feb 24, 2023

Effects of Russia Sanctions



Source: US Treasury, Feb 24, 2023

Message: Pre-war surplus turned to deficit

Pause for Discussion

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?

Questions on Bounds, "EU prepares tariffs on Russian …"

- What are some of the products that the EU may levy new tariffs on from Russia?
- Why were some products not previously covered by the EU sanctions?
- Have other countries imposed tariffs on imports from Russia?
- Can the European Commission by itself decide to levy these tariffs?

Questions on Belton & Stein, “Russia financial system shaken …”

- What “new sanctions” are mentioned?
- What signs are mentioned here that Russia’s “financial system is shaken”?
- What are “secondary sanctions”?
- How do sanctions on Russia compare to economic sanctions that have been used oon others previously?
- Have sanctions stopped Russia from building up its war capabilities?