”On the Design of Effective Sanctions: The Case of Bans on Exports to Russia” by R. Hausmann, U. Schetter and M. Yıldırım

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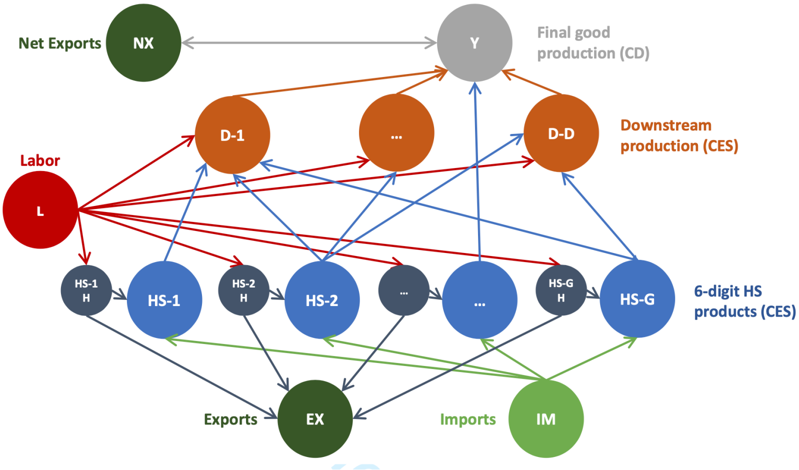
Summary of the Paper

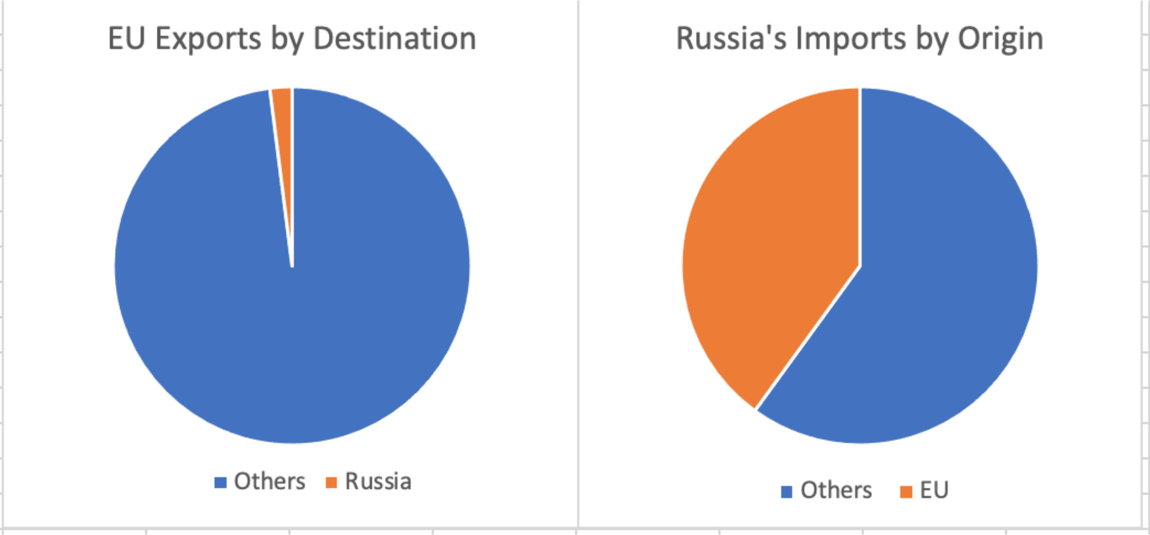
- **Premise**: Goal of export bans is to max *economic* damage to Russia while min damage to "coalition" (US+EU+allies)
- **Main theoretical results**: Costs to Russia increase with
  - Market share of the sanctioning countries in Russia (convex)
  - Lower trade elasticity (i.e., substitutability)
  - Product share in total consumption in Russia
- **Main empirical results**:
  - Current sanctions don't maximize economic harm to Russia
  - Improving targeting would increase harm by 60% at little cost for coalition countries

Theoretical Framework

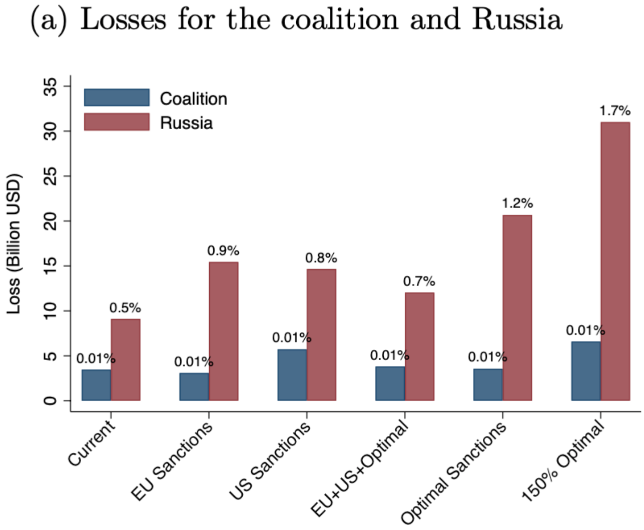
Figure 5: Schematic Overview of Economy



Asymmetric Exposure: Russia vs EU

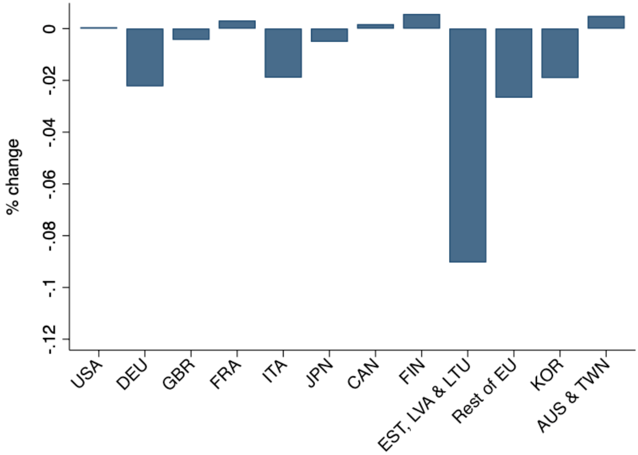


Effects of Export Bans – Different Scenarios



Cost of Optimal Sanctions for Coalition Countries

(b) Impact of optimal sanctions on coalition



Contribution

- Very topical issue for current policy debate!
- Provides a useful framework to think about sanctions design
  - In their words: *"not a blueprint for policy, but a valuable [...] input into a more comprehensive analytical process"*.
- Creative approach
  - Build on models by Armington (1969) and Baqaee and Farhi (2019, 2021)
  - Quantitative estimation using 6-digit HS product trade data and I-O linkages at industry level

Comments: What is the goal of export bans?

- The authors focus on the *economic* costs for Russia in terms of lost GDP
- However, the key guiding principle when designing sanctions was to “cripple Russia’s war machine” (UK govt official)
- Hard to incorporate into the model and empirical exercise, but very important in practice
- Political economy: economic sanctions could harm average citizens and actually increase support for Putin’s regime

Comments: What about retaliation from Russia?

- Europe was heavily dependent on Russia's oil and gas in early 2022
- Russia's threat of cutting off supply in response to sanctions has been a big part of the policy discussion
- Including retaliation is the model is complicated and this retaliation may not depend on specific products sanctioned...
- ...but referring to the costs of retaliation in comparison with harm inflicted by export bans would be illustrative
  - E.g., Bachmann et al. (2022) estimate that cost of cutting off Russian oil and gas would be 0.5% - 3% of Germany's GDP

Comments: Bias toward capital goods

- Authors show that sanctions are biased toward capital goods
- This makes them less effective in the short term, because Russia can use equipment until it depreciates fully
- Important point, but not analyzed very deeply in the paper
- Probably related to the main goal of sanctions being to hurt the war-related Russian industry. Can this be quantified?

Comments: Parallel imports

- What if Russia manages to import the same products through third countries (eg, Kazakhstan, Armenia)?
- This would weaken the effectiveness of export bans
- Hard to find hard evidence to quantify the relevance of this channel
  - About 4% of 2021 overall imports (Reuters, 2022)
- As long as parallel imports affect all products equally, results remain relevant qualitatively

Conclusion

- Useful tool to improve the design of economic sanctions
- Results indicate that there's room for improvement in sanctions to Russia
- Multiple open avenues for future research