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

Discussant: Miguel Almunia (CUNEF Universidad)

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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

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Theoretical Framework

Figure 5: Schematic Overview of Economy

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Asymmetric Exposure: Russia vs EU

EU Exports by Destination

Russia's Imports by Origin

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On the Design of Effective Sanctions

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Effects of Export Bans – Different Scenarios

(a) Losses for the coalition and Russia
(b) Impact of optimal sanctions on coalition

Cost of Optimal Sanctions for Coalition Countries

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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 Baqae 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?
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