

The international experience of economic sanctions: lessons for Russia

Alexander Knobel

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Classification of economic sanctions

Depending on the purpose:



- Sanctions targeting primary goals (changing the policy of the recipient country)
- Sanctions that pursue secondary goals (shaping public opinion)
- Sanctions that pursue tertiary goals (maintaining the world order)

Depending on the number of participants:



- Unilateral (one initiator of sanctions) and multilateral (several initiators)
- Binary (initiator → recipient) and ternary (initiator → receiver → recipient)

Depending on the object:



Trade

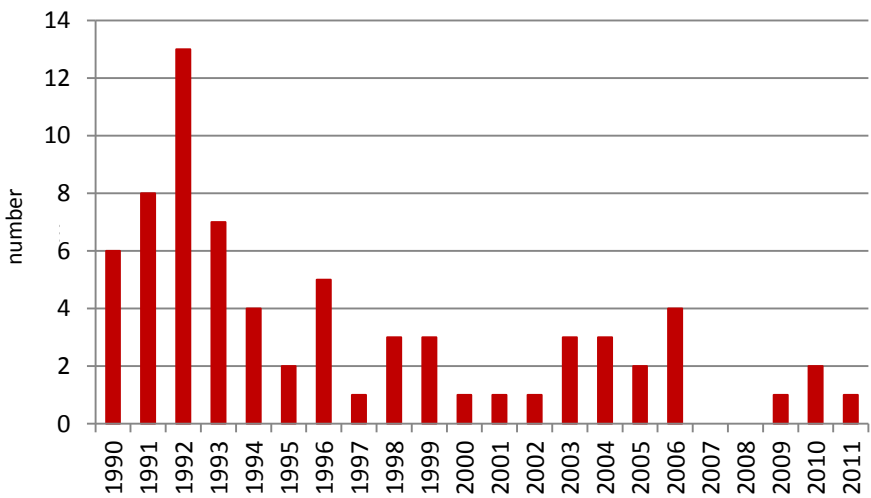
- Trade embargo and trade boycott
- Abolition of most favorable nation (MFN) regime
- Introduction of blacklists
- Introduction of quotas
- Refusal to issue licenses
- Tariff discrimination
- Dumping and others.

Finance

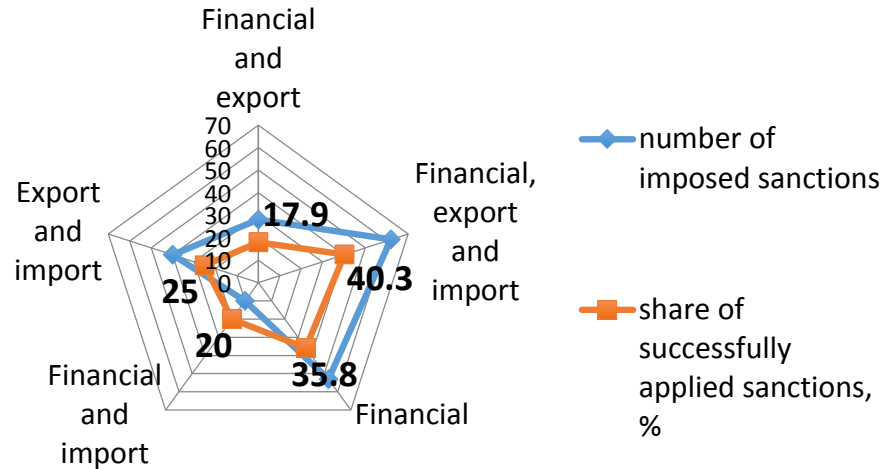
- Expropriation of assets
- Discriminatory taxation of investments
- Freezing of assets
- Import/ export control, etc.

International experience of application of trade and economic sanctions (1)

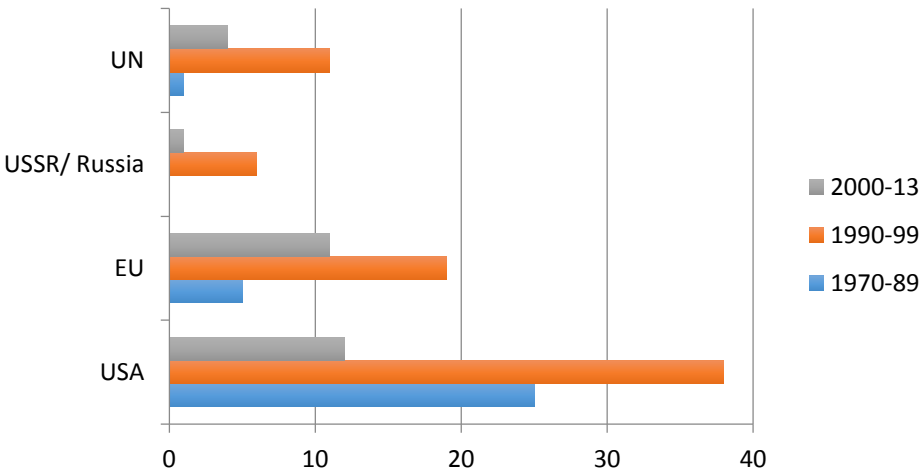
New sanctions imposition dynamics



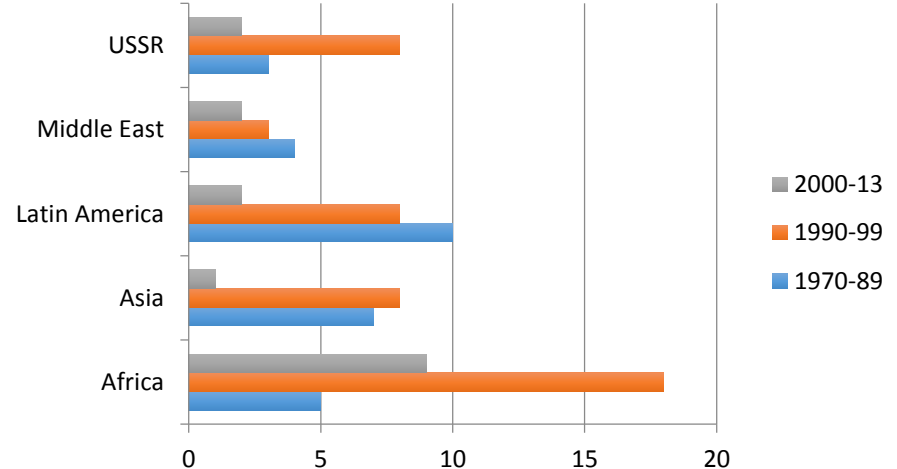
Distribution by types of sanctions



Who imposes sanctions



Who is sanctioned against



International experience of application of trade and economic sanctions (2)

Table — Comparative macroeconomic indicators of the countries-initiators and countries-recipients of sanctions

Sanctions	Ratio of the GDP of the initiating country to the GDP of the beneficiary country	Share of export to the initiating country in the total share of the export of the beneficiary country, %	Share of imports from the country of origin in the total share of imports of the beneficiary country, %
US sanctions against Cuba (since 1960)	173	58%	35%
Sanctions of OECD members against South Africa (since 1962)	103	50%	89%
US sanctions against Iran (since 1979)	28	14%	12%
US sanctions against Iraq (since 1980)	69	3%	7%
US sanctions against China (since 1989)	11	8,5%	13,3%
US sanctions against India (since 1998)	21	19,3%	9,5%
Sanctions of UN countries against Afghanistan (since 1999).	5939	100%	100%
US&EU sanctions against Russia (since 2014)	9–10	56%	48%

Source: Peterson Institute, IMF, Federal Customs Service.

International experience of application of trade and economic sanctions (3)

	Sanctions content	Outcomes for economies					
		Initiators of sanctions		Target country			
Cuba	Complex trade and financial sanctions, prohibition of foreign investments	USA ▼	~700-1200 \$ million/year	GDP ▼ 35%	Import ▼ 70%	Export ▼ 35%	Inflation 22%
Iran	Complex trade and financial sanctions, prohibition of foreign investments	USD ▼	1995-2012 ~175 \$ billion	2013 GDP ▼ 3%	2012-2013 Import ▼ 23%	Export ▼ 35%	Inflation 33%
China	Limitations of financial aid (EXIM Bank of the United States and OPIC), export restrictions			1989 GDP ▼ (% of growth) 7 p.p.	1990 Import ▼ 17%	Export ▼ 3%	Inflation 18,3%
South Africa	Complex trade and economic sanctions			GDP ▼ 8%	1981-1986 Import ▼ 30%	Export ▲ 4.5%	Inflation 15%

Sector Analysis

Cuba	Iran	China	South Africa
Tourism: losses of ~ \$2 billion.	Oil and gas industry: losses ~ 5% of GDP / year	MIC: losses from suspension of arms imports from the EU and the US ~ 0.01% of GDP / year	MIC: Costs from the ban on imports from 1963 to 1994 weapons ~ 0.1% of GDP / year
Telecom: losses of \$34 million.	Auto industry: decrease in output in 2011-2013 by 50%		

Costs of economic sanctions

- 1) The general decline in the welfare of the recipient country and the initiator of sanctions;
- 2) Reducing the static efficiency of resource allocation in the recipient country and initiator of sanctions;
- 3) Reducing the dynamic efficiency of resource allocation in the recipient country and initiator of sanctions;
- 4) Loss of competitive advantage of the country initiating the sanctions;
- 5) Adaptation costs of the recipient country and the initiator of the sanctions;
- 6) Reduction of trade between countries;
- 7) Network costs (increased uncertainty in the international trading system).

Estimates of damage to the sanctions for the recipient:

GDP



More than 1% ~ 1 of 3 cases
More than 2% ~ 1 of 4 cases

These estimates, however, do not take into account the long-term impact of sanctions

Sanctions damage assessment for initiator

Export



~ 20–80%
OECD countries

Export



up to 97%
USA

Assessments of sanctions impact on trade between the countries

Trade turnover



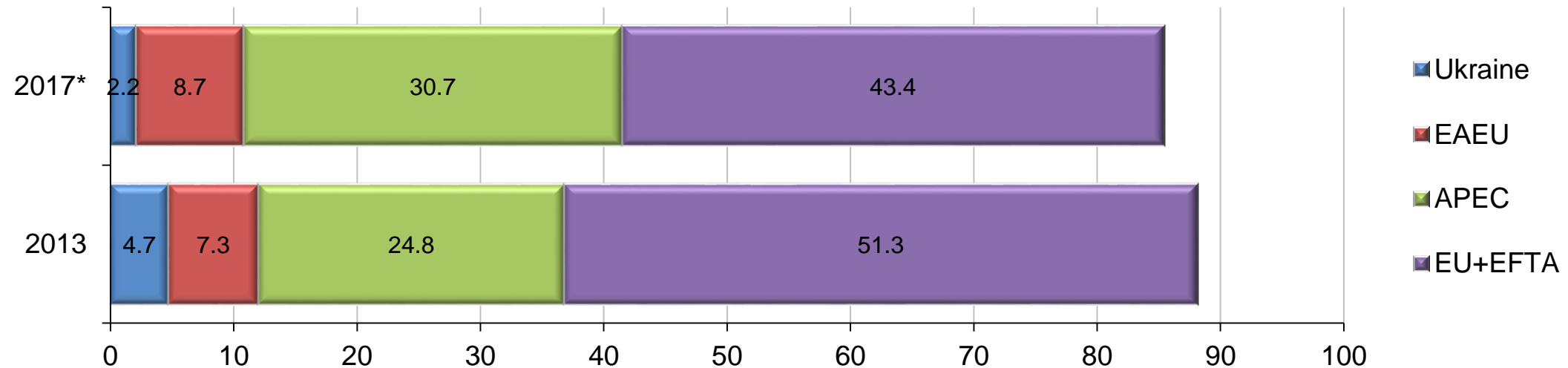
~ 25–90%

Restrictive measures against Russia

- **diplomatic measures** (i.e. cancellation of the EU-Russia Summits and other high-level meetings, etc.);
- **restrictive measures** against certain individuals and companies;
- **territorial restrictive measures** (concerning the Crimea and Sevastopol);
- **measures aimed at imposing restrictions in certain sectors** of the economy (restricting access to EU capital markets of major financial, defense and energy companies in Russia, the embargo on the export of dual-use goods for military use, etc.);
- **measures relating to economic co-operation** (financing of projects, the implementation of joint cooperation and other programs).

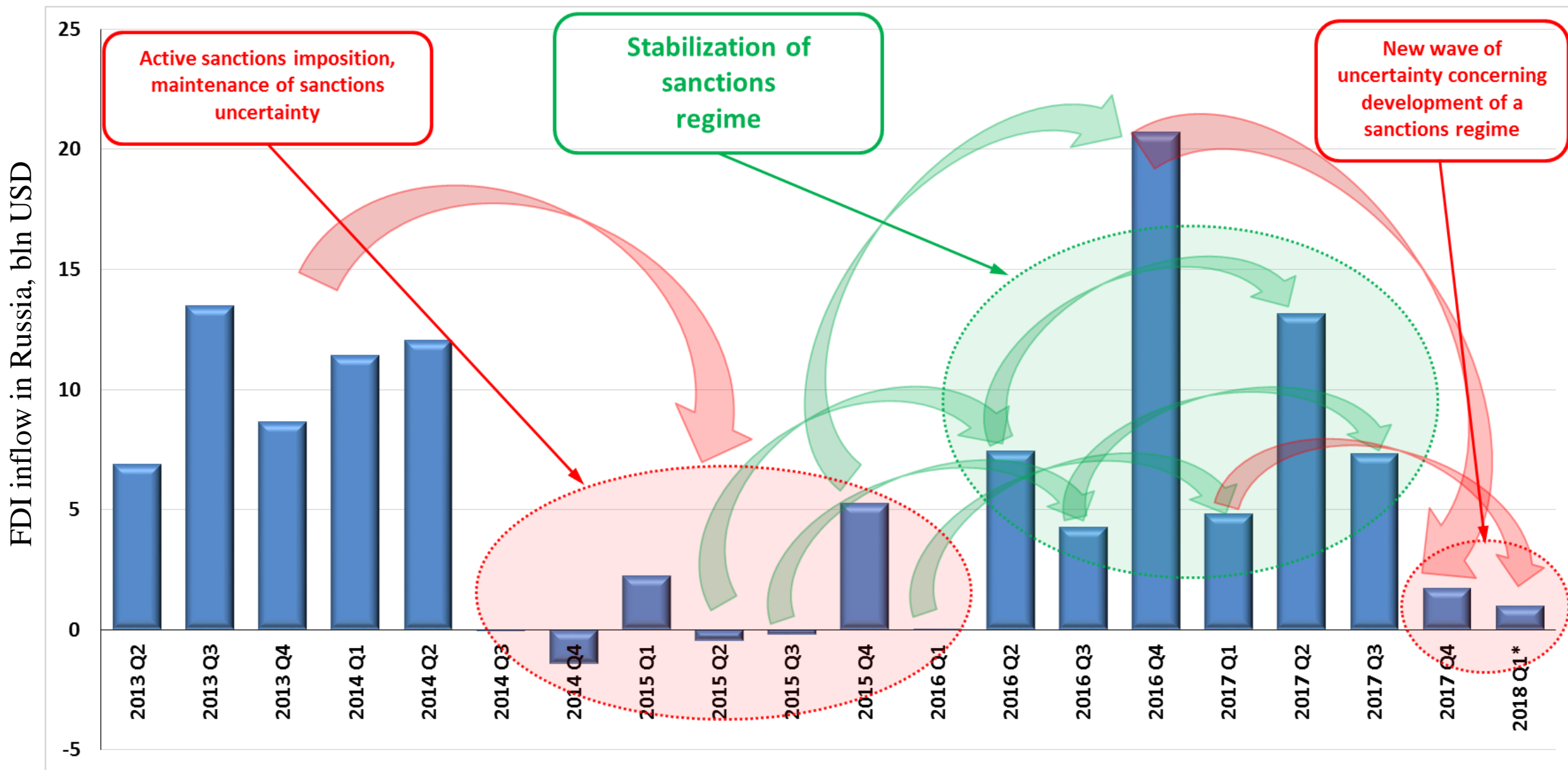
Changes in the structure of Russian goods turnover

Region/ country	Share of goods turnover, %				
	2013	2014	2015	2016	2017
EU	49,6	48,1	44,8	42,8	42,2
Ukraine	4,7	3,5	2,8	2,2	2,2
EFTA (Norway, Switzerland, Iceland, Liechtenstein)	1,73	1,19	1,16	1,37	1,20
Turkey	3,9	4,0	4,4	3,4	3,7
APEC, including:	24,8	26,9	28,1	30,0	30,7
China	10,5	11,3	12,1	14,1	14,8
USA	3,3	3,7	4,0	4,3	4,0
The Republic of Korea	3,0	3,5	3,4	3,2	3,3
EAEU	7,3	7,3	8,1	8,3	8,7



Source: Federal Customs Service, Eurostat.

FDI — good indicator for sanctions market perception



The effects of sanctions (statistics, assessments)

- The damage from sanctions can be estimated at 1–1,5 percentage points of GDP per year;
- In 2015 the Russian Federation lost its position from 3 to 4 in the of EU trading partners ranking (based on the share of the gross trade);
- In 2014, the EU exports and imports did not fall, in 2015 the decrease was significantly less than in Russia (% of total volume) — basically, because of the ruble devaluation;
- Weapons (falling turnover by USD 82 million.),
- Decrease of exports in some dual-use technologies (falling exports by USD 3,5 billion);
- A mutual trade in services was reduced;
- The cumulative effect of all types of sanctions for the period 2014 – 2016 was resulted in reduction of European exports which amounted to USD 34.7 billion;
- The loss of jobs in the EU — 1% of employment (2,2 million hours)*;
- The loss of EU GDP: 0,3% in 2014 and 0,4% (50 bln EUR) in 2015 **
- The loss of Russian GDP: up to 1,5% ***

* Assessment of WIFO

** Assessments the European Commission

*** Assessments of Gaidar Institute

The effects of sanctions (statistics, assessments)

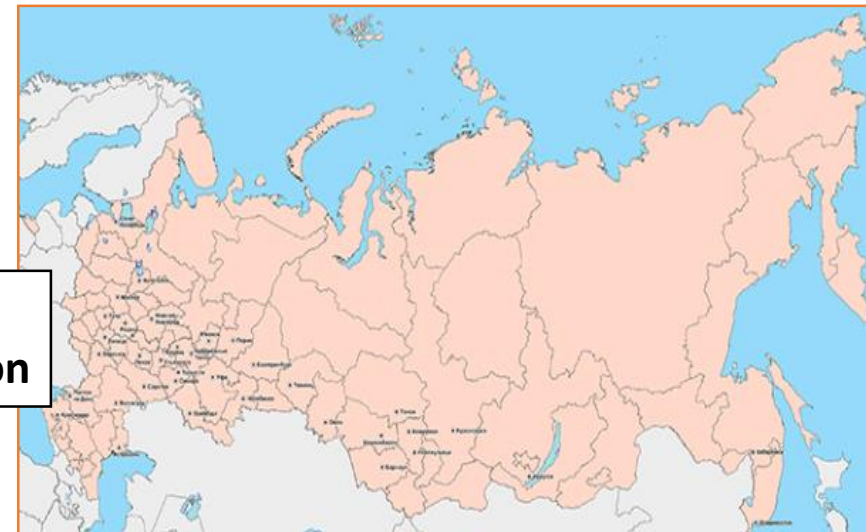
The losses of each side

Issues	The losses estimates
Sanctions against Russia	40–45 USD billion
Russia's counter-sanctions	20–30 USD billion
The absence of FTA	30–40 USD billion
Total	~100 USD billion

European Union



Russian Federation



Gap
~ 100 USD billion

The case of Ukraine

	Zero import duties between the EU and Ukraine	The implementation of the Association Agreement	Application of MFN against Ukraine	The damage caused by the current military-political tension	Full mutual trade embargo
Influence (% of GDP)					
Russia	-0.05%	-0.13%	-0.08%	-0.84%	-1.8%
Ukraine	+0.92%	+11.80%*	-0.41%	-5.00%	-17%
Influence (bln. dollars)					
Russia	-\$1 bln.	-\$2,5 bln.	-\$1,5 bln.	-\$16 bln.	-\$35 bln.
Ukraine	+\$1,3 bln.	+\$16 bln.	-\$0,6 bln.	-\$7 bln.	-\$22 bln.

* From the research: Movchan V., Giucci R. (2011)

What's next?

The basic perspective directions of cooperation in the post-sanctions period

- **It is possible to consider the conclusion of a new basic agreement between Russia and the EU, providing tasks:**
 - ✓ development of trade-economic cooperation and preferences in relation to the general regime in the WTO,
 - ✓ provisions for protection and promotion of investments,
 - ✓ development of cooperation in the energy sector, which are associated with different interpretations of the Third Energy Package by participants.
- **Restoration of FTA on CIS space including Ukraine**
- **The Agreement between the EU and the EAEU**
 - ✓ creation of a free trade area,
 - ✓ cooperation in the sphere of technical regulation,
- **Improvement of the legal framework between Russia and EU Member States**
 - ✓ bilateral investment agreements,
 - ✓ double taxation avoidance agreements,
 - ✓ contracts in the field of space,
- **Cooperation with the EU within the framework of multilateral institutions and international organizations**
 - ✓ G20, OECD,
 - ✓ Transport and logistics organizations.

THANK YOU FOR ATTENTION!