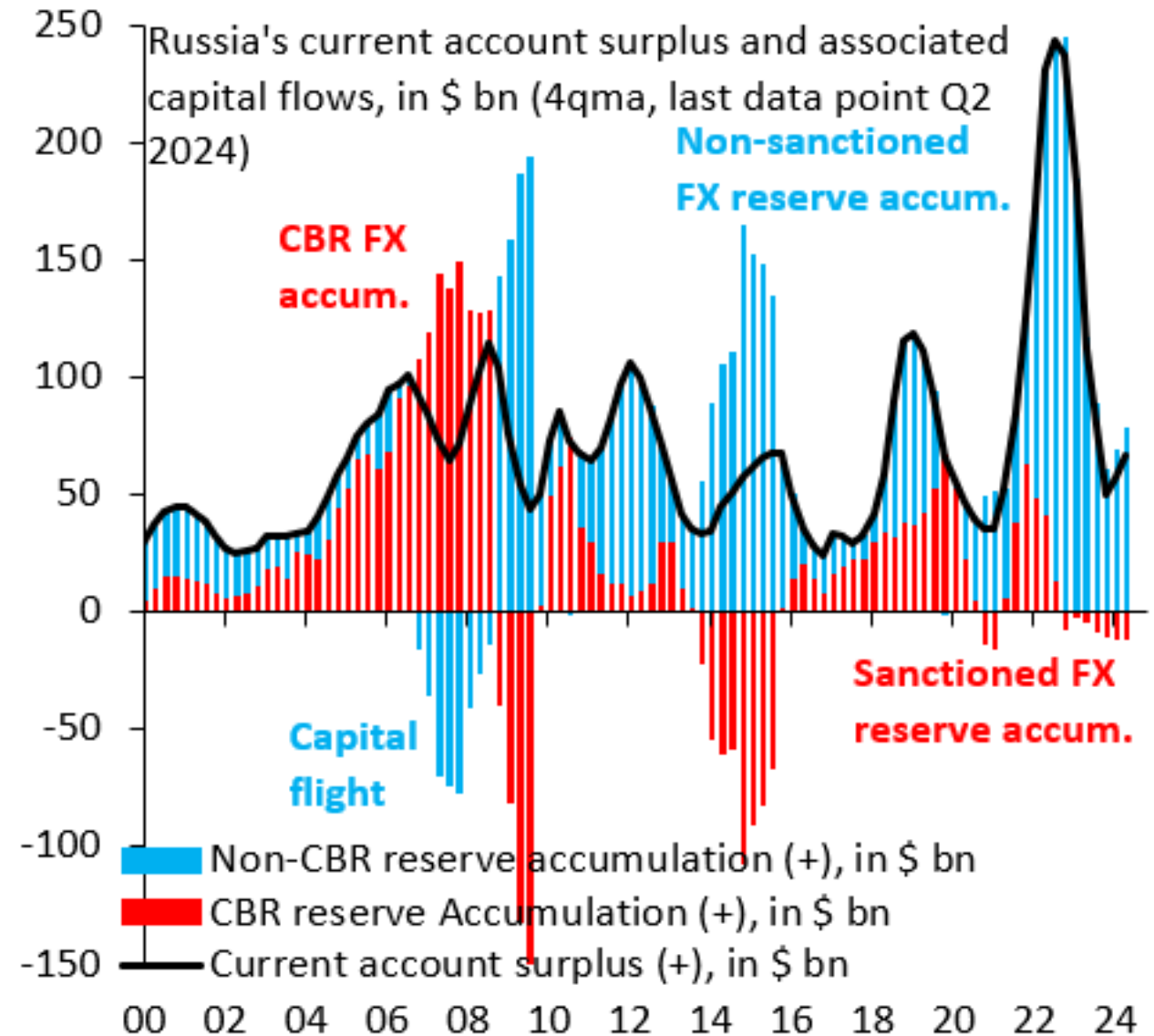


Discussion of “The Economics of Sanctions”

- Objectives of Sanctions
 - Get Russia out of Ukraine
 - Deterrence vs other bad actors
 - The West has failed on both fronts
- Theory of Sanctions
 - Target country
 - Current account surplus / capital exporter => trade measures
 - Current account deficit / capital importer => financial measures
 - Sanctioning country
 - Go slow or go hard (intertemporal trade-off, signal weakness or strength)
- Sanctions in Practice
 - Ex ante (design)
 - Ex post (enforcement)
- What’s wrong with the West?
 - Political economy of sanctions
 - Big issues around EU governance

Theory of Sanctions: Target Country

- What's the objective?
 - Tighten financial conditions
 - This worked for Turkey in 2018
 - Turkey had a big current account deficit
 - Russia runs a big current account surplus
- What did financial sanctions do?
 - We sanctioned some – not all – banks
 - That turned out to be completely ineffective
 - This just rejiggered foreign asset accumulation
 - To hit Russia, we needed to sanction ALL banks
 - **That is the same thing as a full trade embargo**
- G7 oil price cap is conceptually the right tool
 - Hit current account surplus countries on trade
 - A cap of zero is equivalent to a full trade embargo
 - As the cap rises above zero, it becomes less onerous
 - The G7 cap had the potential to hurt Russia severely
 - It was undercut by *ex ante* and *ex post* implementation



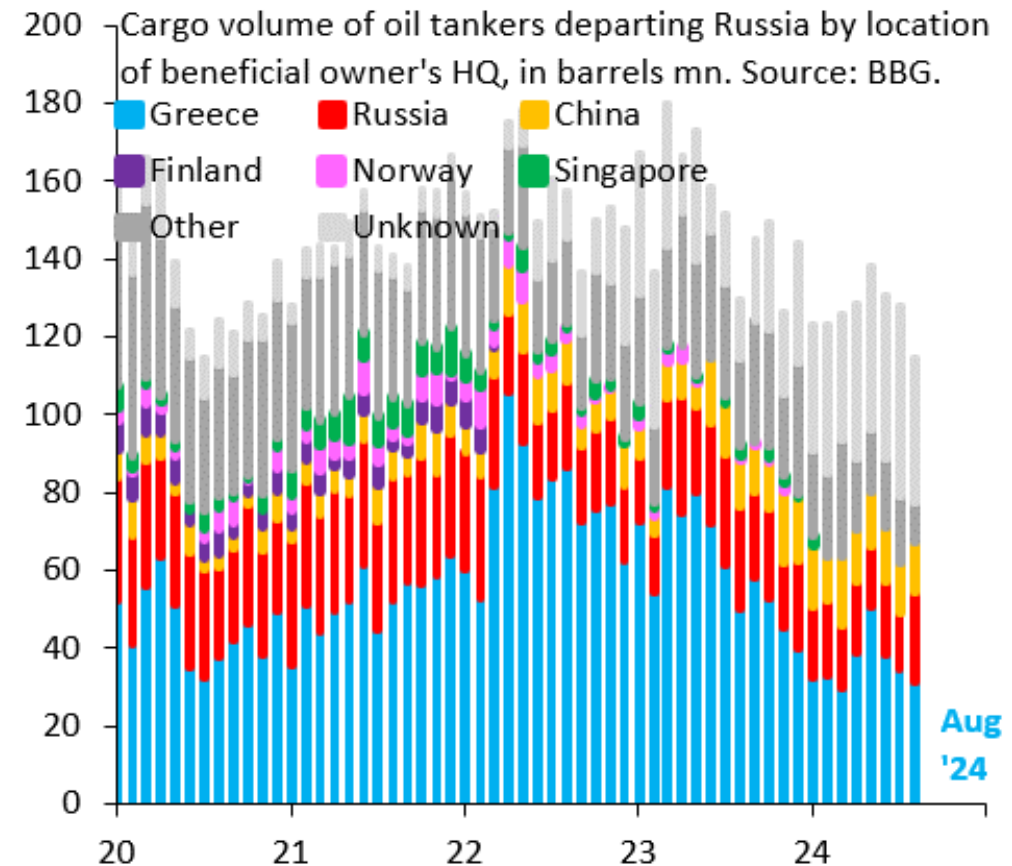
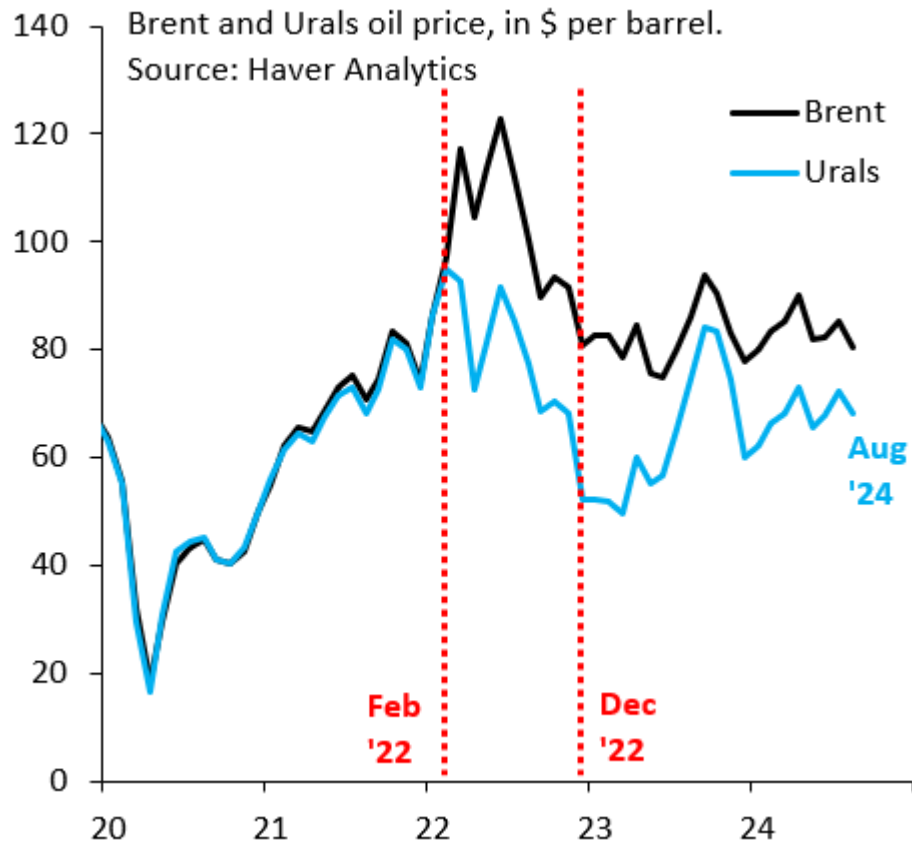
Theory of Sanctions: Sanctioning Country

- What's the objective?
 - Hit Russia's economy as hard as possible
 - With minimum damage to home economy
 - Intertemporal trade-off: go hard or go slow
- Intertemporal trade-off
 - Go slow (status quo)
 - Stabilize near-term growth
 - Signal weakness (poor compliance)
 - May weigh on medium-term growth
 - Go hard (full embargo)
 - Big output drop in short term
 - Signal strength (better compliance)
 - Medium-term growth may be better
- Underlying question
 - What would going hard have done?
 - Would Russia have gone into crisis?



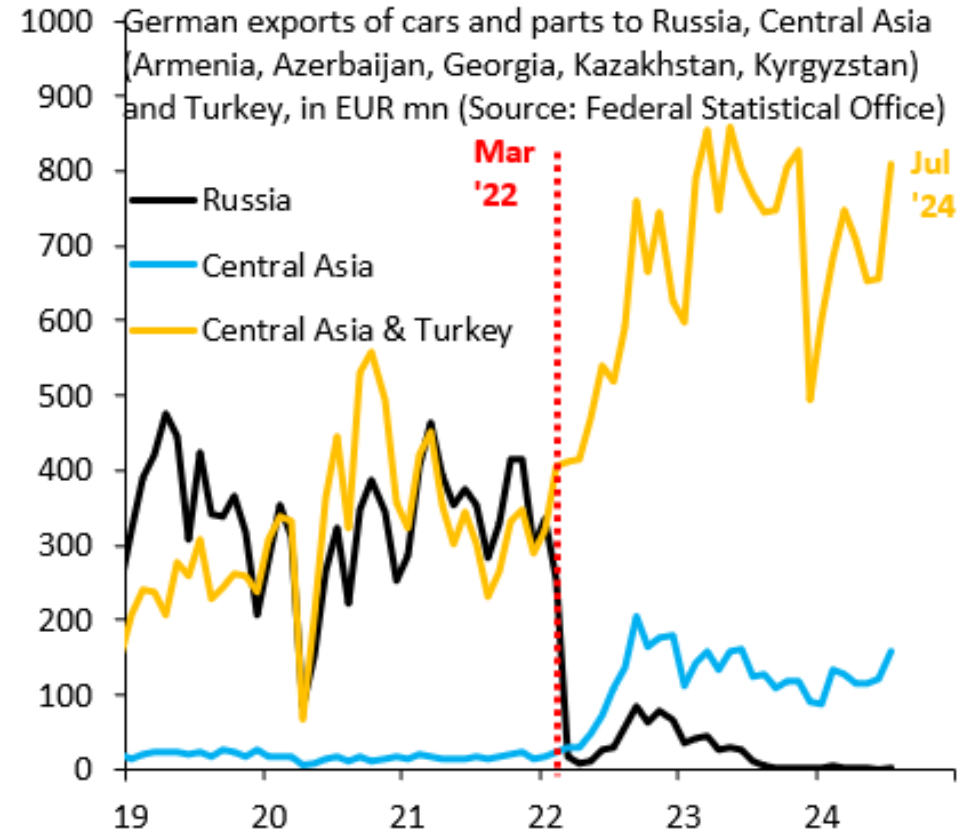
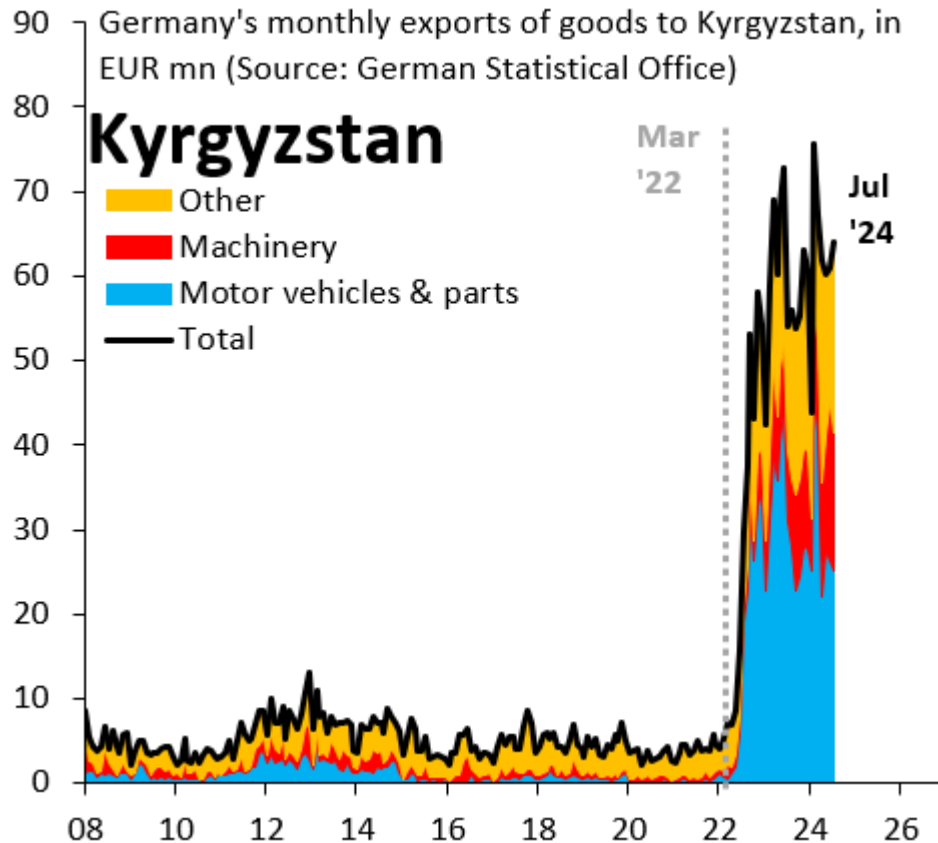
Sanctions in Practice

- Lots of focus on enforcement – that's an **ex post** issue
- **Ex ante** lobbying to water down the G7 cap was more insidious
- That resulted in a high \$60 level of the G7 cap on its introduction
- There was also no prohibition of oil tanker sales to the shadow fleet
- This **ex ante** lobbying fatally undercut the G7 price cap before it started



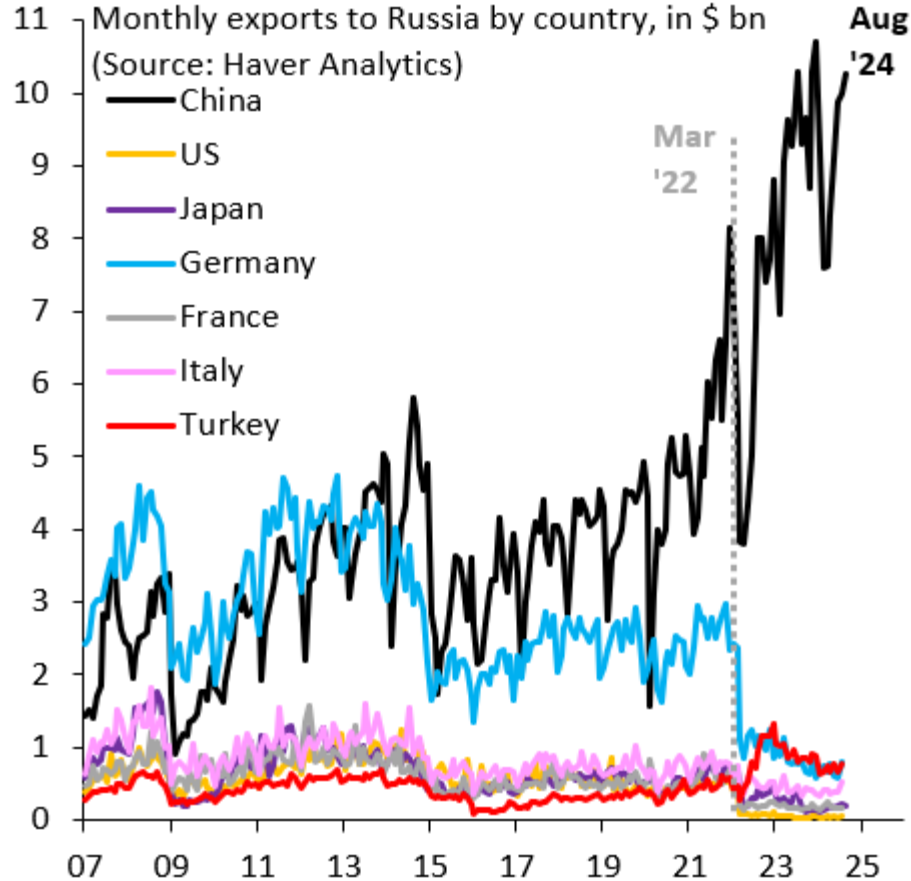
Sanctions in Practice

- **Ex post** enforcement is obviously a big issue too
- Transshipments to Russia via Central Asia are an example
- German exports to Kyrgyzstan boomed right after the invasion
- Re-exports offset at least half the drop in direct exports to Russia
- This has been going on – mostly from EU countries – for two years



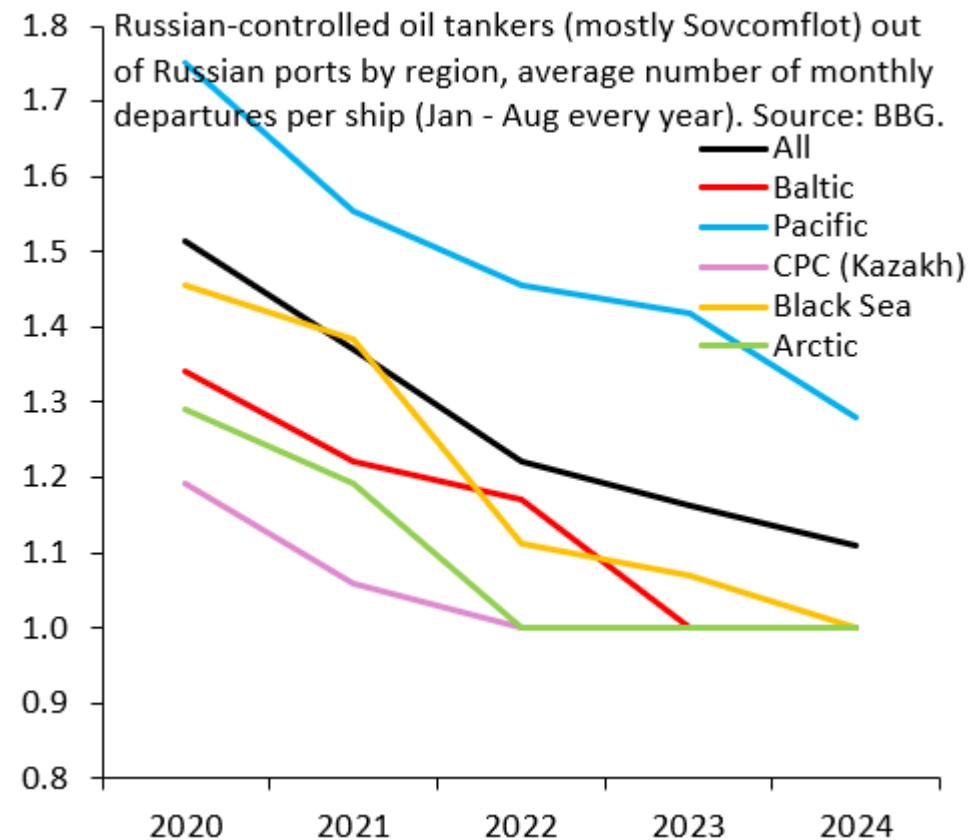
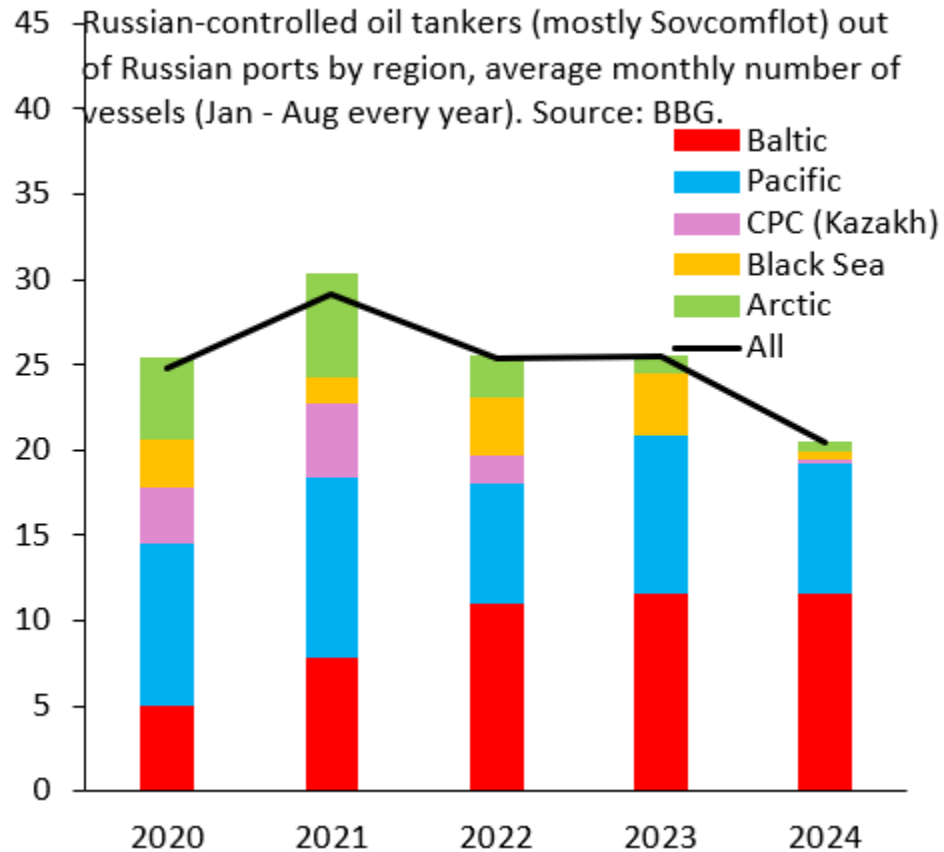
Sanctions in Practice

- China has more than offset the fall in Western exports
- Going hard and early on sanctions might have prevented this
- **But – ultimately – this shows that the G7 oil price cap is the right tool**
- If Russia makes money on energy exports, it will find ways to import
- Trade in goods is just too dispersed globally to police exhaustively



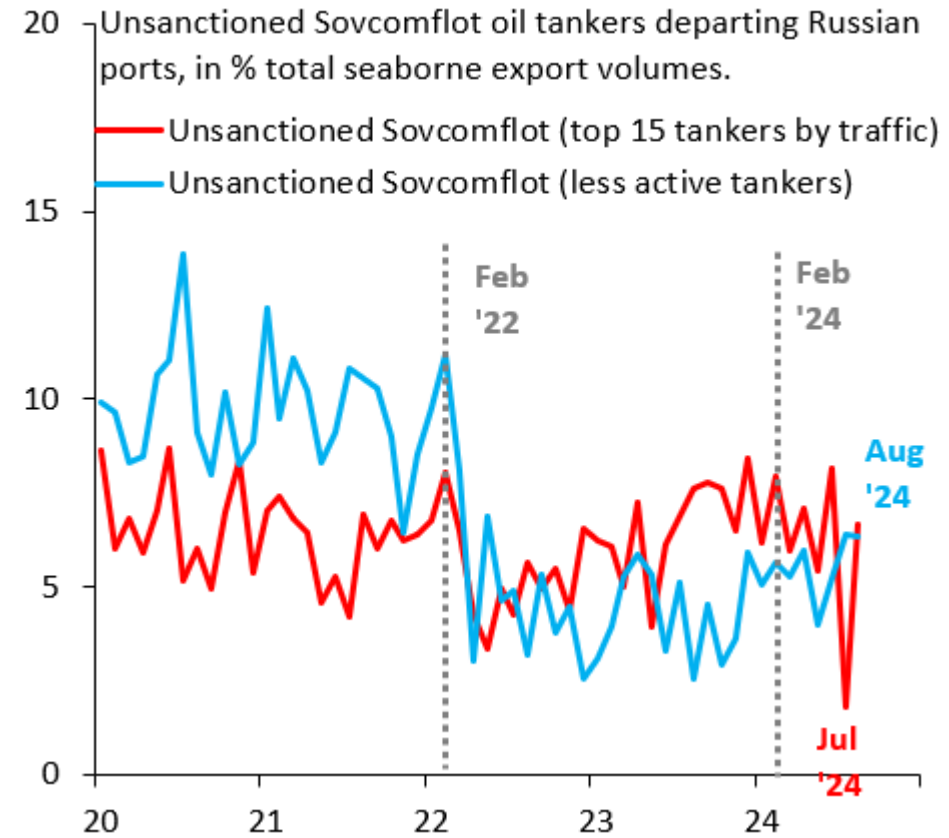
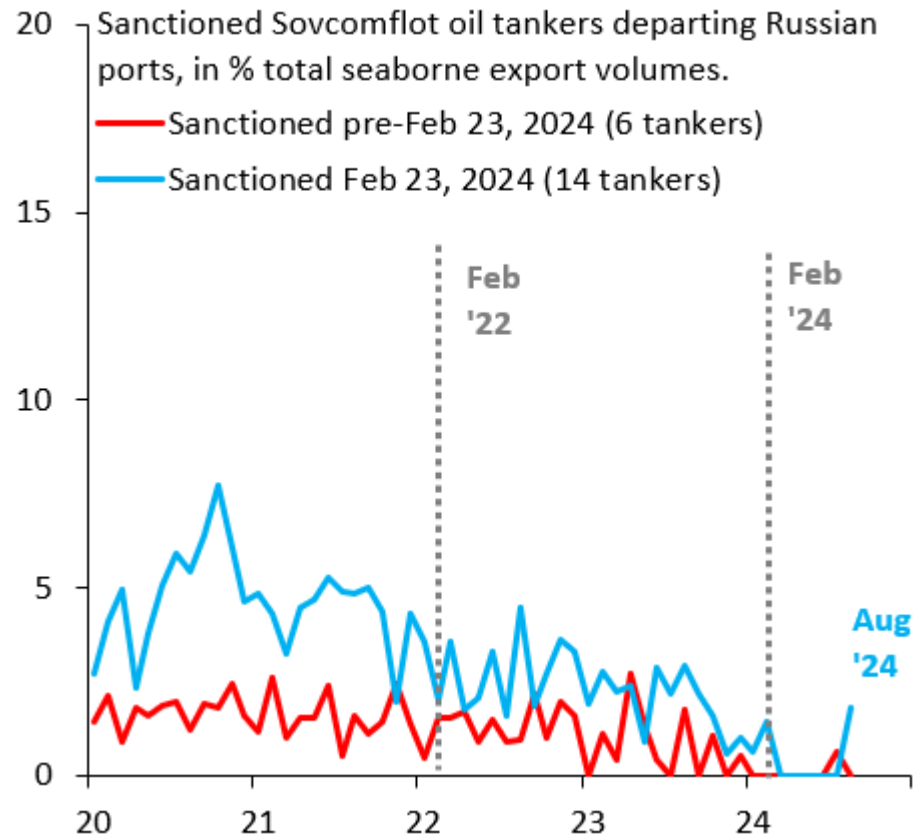
Sanctioning Sovcomflot

- It all comes back to the G7 price cap
- Oil tankers remain Russia's Achilles heel
- Signs of growing strain on Sovcomflot fleet
- EU embargo means longer trips around Europe
- Exploit this by sanctioning more Sovcomflot ships



Sanctioning Sovcomflot

- Joint work with Ben Harris from Brookings
- Sovcomflot fleet movements are more erratic
- Sanctioned ships are getting put back into service
- Most active ships suddenly went offline in July 2024



Conclusions

- There are two papers here
 - How has Russia done since the invasion?
 - Why have sanctions not done more damage?
- Why have sanctions not done more damage?
 - This is mostly a paper about the West
 - Political economy of sanctions
 - Dysfunctional EU decision making
 - Theoretical contribution
 - What is the counterfactual of going hard?
- Vested interests pushing the “*sanctions don’t work*” narrative
 - These include Russia, China, OPEC and many Western commodity firms
 - Be careful not to fall into the trap of saying: “Russia shows sanctions don’t work”
- Absolutely critical if we have to confront China
 - Political economy of sanctions
 - Big issues around EU governance