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Costs and benefits of sanctions and anti-sanctions



1. **Economic sanctions in XIX-XX centuries**
2. **Cost analysis for countries from 1980 to 2015**
3. **Economic sanctions against Russia and Russian anti-sanctions: costs and benefits**

1. Economic sanctions in XIX-XX centuries

1.1. Pacific blockades in XIX (1)

Country	Blockade year(s):	Country	Blockade year(s):	Country	Blockade year(s):
Turkey	1827	San Salvador	1842	Bolivia	1879
Portugal	1831	Nicaragua	1842	China	1884-1885
Netherlands	1832-1833	Nicaragua	1844	Greece	1886
Columbia	1834	Argentina	1845-1850	Zanzibar	1888-1889
Panama	1837	Greece	1850	Siam	1893
Mexico	1838	Sicilia	1860-1861	Greece	1897
Argentina	1838-1840	Brazil	1862-1863	Venezuela	1902-1903

Source: Davis L., Engerman S. History lessons: sanctions-neither war nor peace //The Journal of Economic Perspectives. – 2003. – T. 17. – №. 2. – P. 189

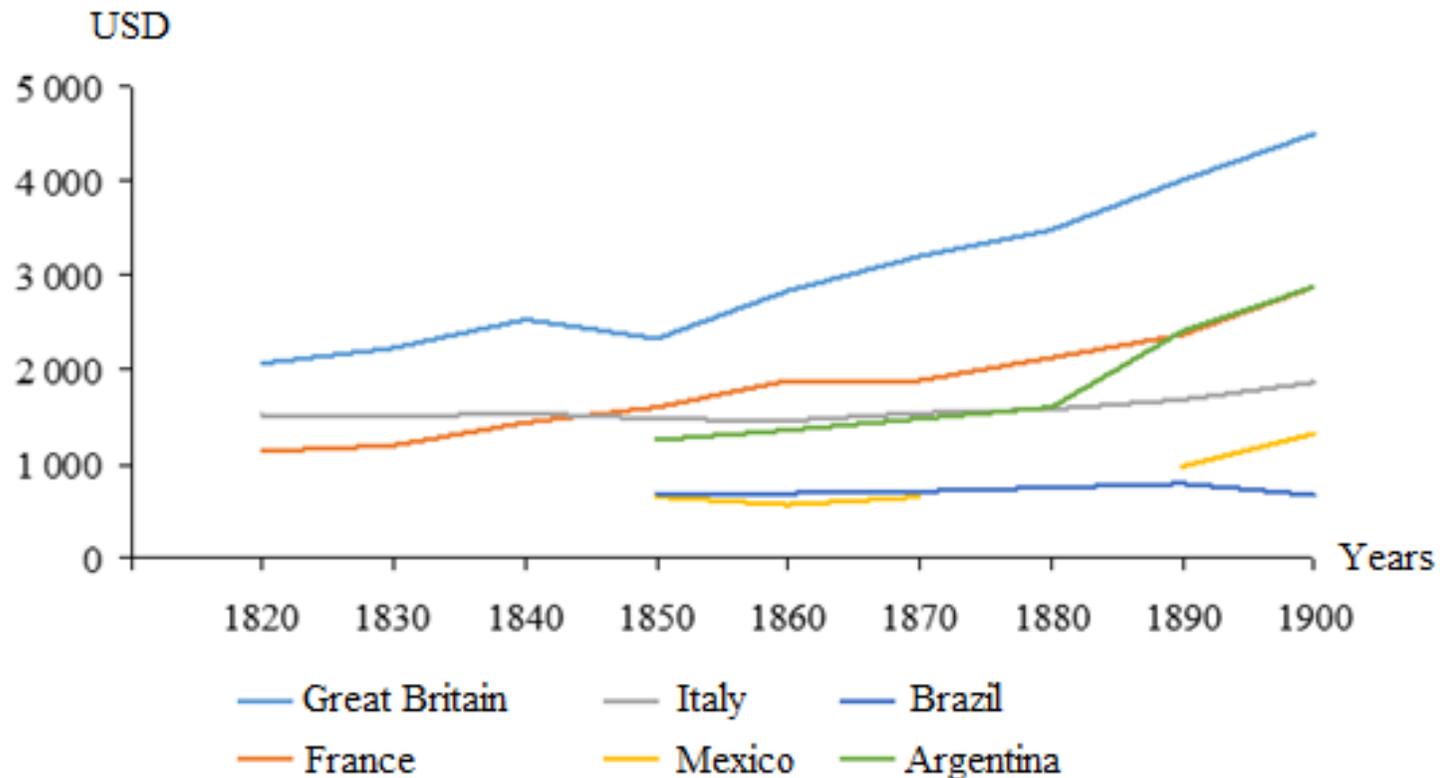
1.1. Pacific blockades in XIX (2)

- ❑ In **XIX century** the main instrument of economic sanctions was a **pacific blockade**. Its main idea was to **disrupt the sea trade routes of target countries** by cutting off the sea routes to various ports and coastal lines by a naval fleet.
- ❑ The **main difference** of a pacific blockade from a simple naval blockade was that the former instrument was used **without military action**.
- ❑ **The goal** was to make the “**unruly**” **countries pay off their debts** or reparations, along with regulating other international disputes.
- ❑ Frequently, such blockades were **organized by states whose military powers were many times bigger** than that of target countries.

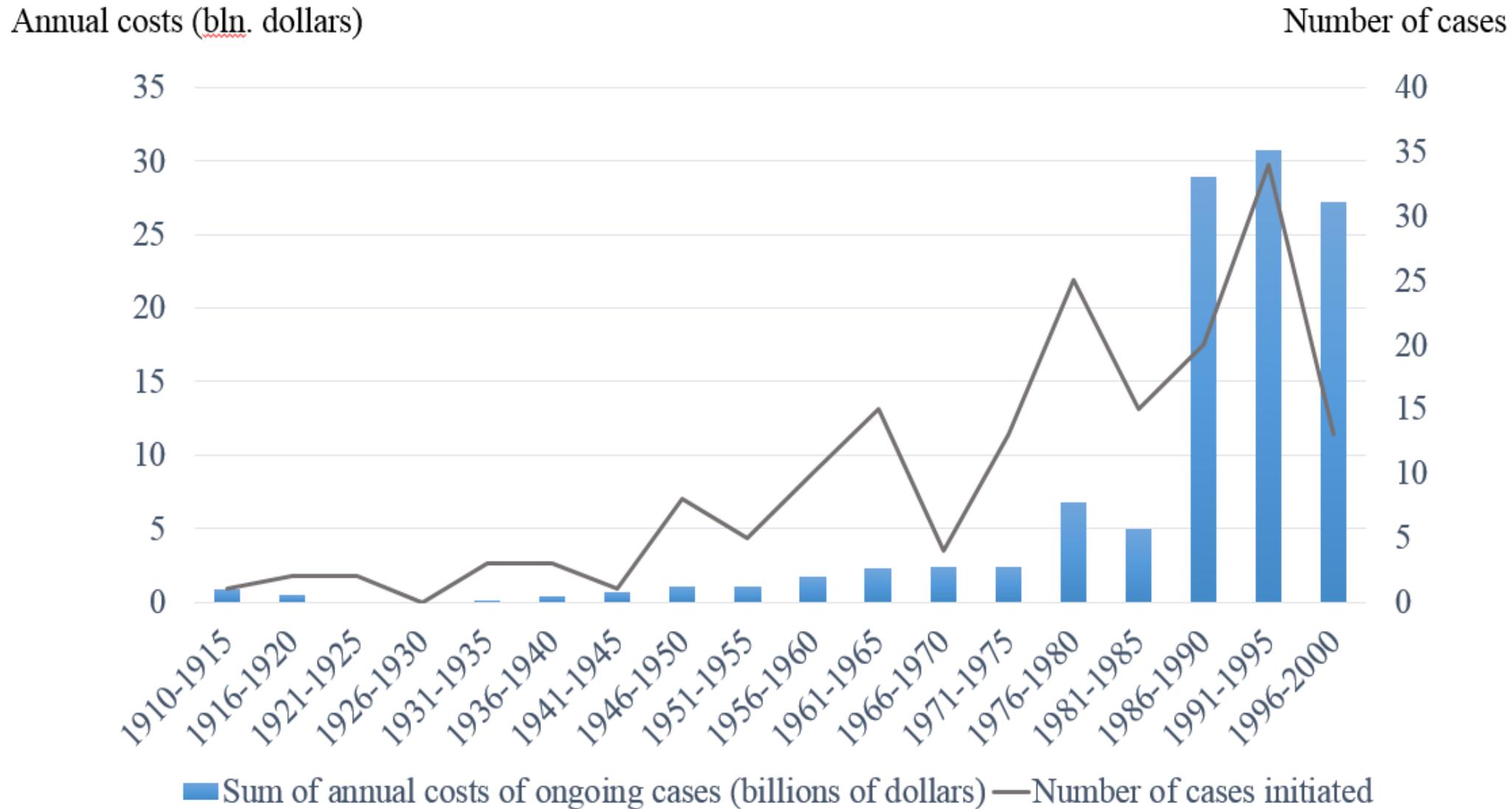
1.2. 21 pacific blockades were organized from 1827 to 1939

- **Great Britain** practiced imposing pacific blockade **12 times** during 1827 to 1903, **France** – **11 times**, **Italy and Germany** – **3 times** (per country), **Russia** – **2 times** (per country) etc.
- In **7 out of 21** times, there was **more than one country** involved in a blockade.

GDP per capital in some countries of 1820-1900 (USD., in 1990 prices PPP)



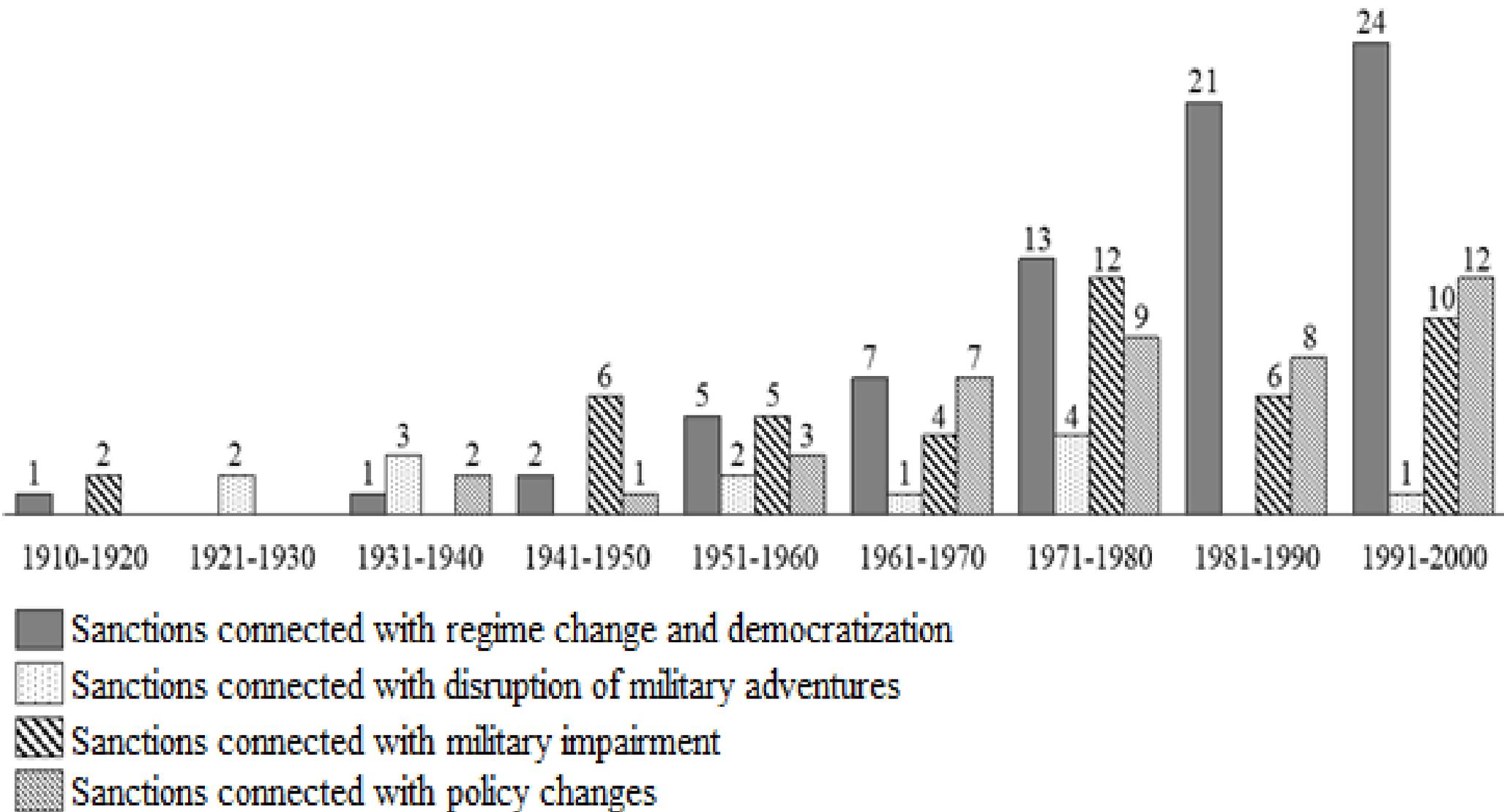
1.3. Quantity of imposed sanctions and total costs of target countries from 1910 to 2000



1.4. Costs for target countries 1910 - 2000

- ❑ Total costs **rose almost 6 times** by the end of 1990 comparing with the 1981-1985 period;
- ❑ After World War II on average in every five years almost **14 sanction cases** were initiated, while until 1945 the average quantity of imposed sanctions amounted to 2.
- ❑ The majority of imposed sanctions were used by the United States against other countries, including the USSR, and their main goal was to worsen the military potential of countries under sanctions and destabilization of national regimes of certain states (among which were USSR, North Korea, Cuba, Iran and etc)

1.5. Quantity of imposed sanctions depending on their aims from 1910 to 2000



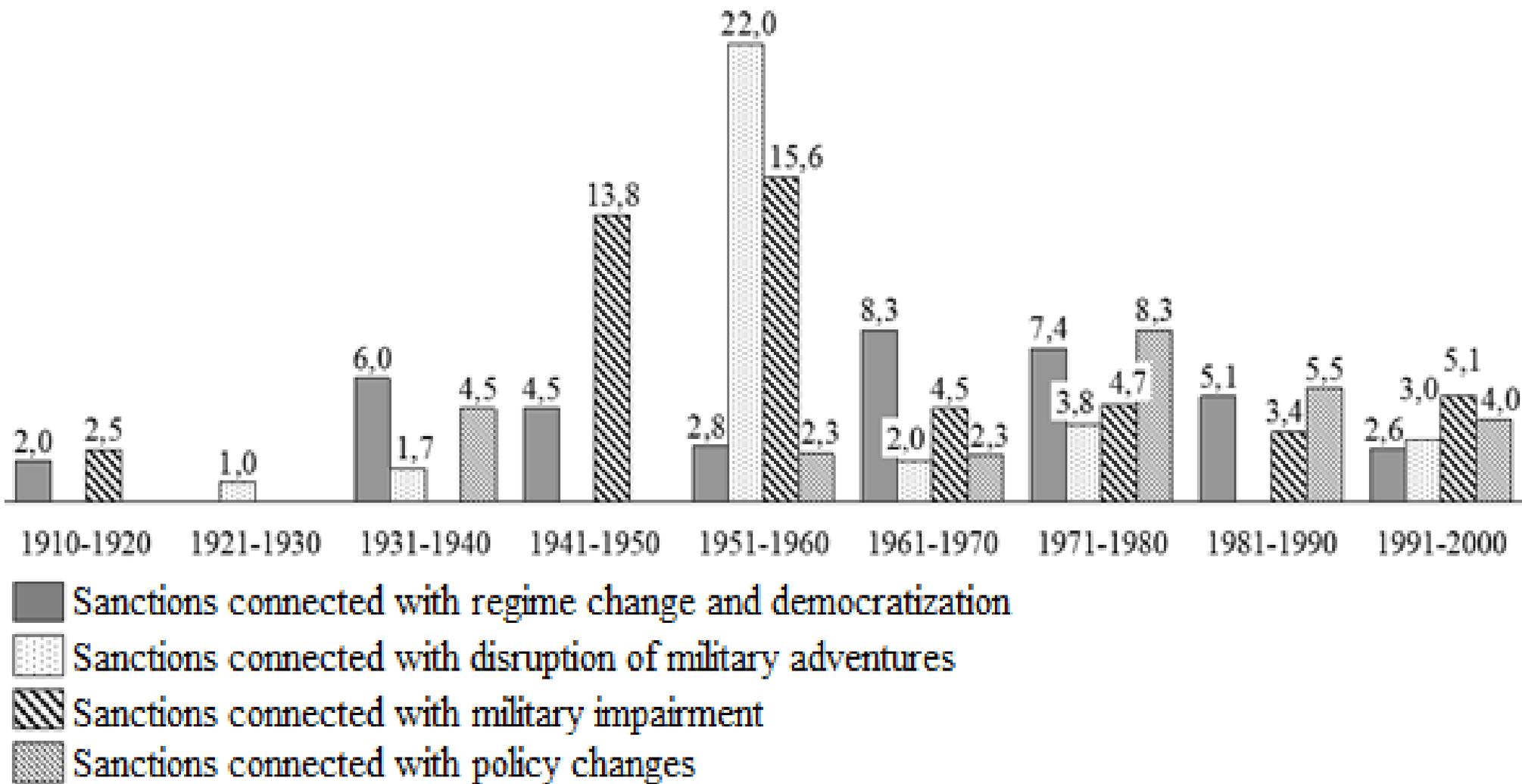
1.6. “The usage of sanctions became widespread because they allow to resolve international conflicts”

Since 1950s there has been a **sharp increase** in quantity of sanctions, that **aimed at regime change and democratization** in target country:

- for each ten years, starting from 1951 to 1960 the quantity of sanctions amounted to 5,
- while for ten years from 1991 to 2000 it reached 24.

Sanctions connected with military impairment began to be used frequently in the period of World War II and after.

1.7. Period in years, for which sanctions were imposed on average, based on their aims from 1910 to 2000

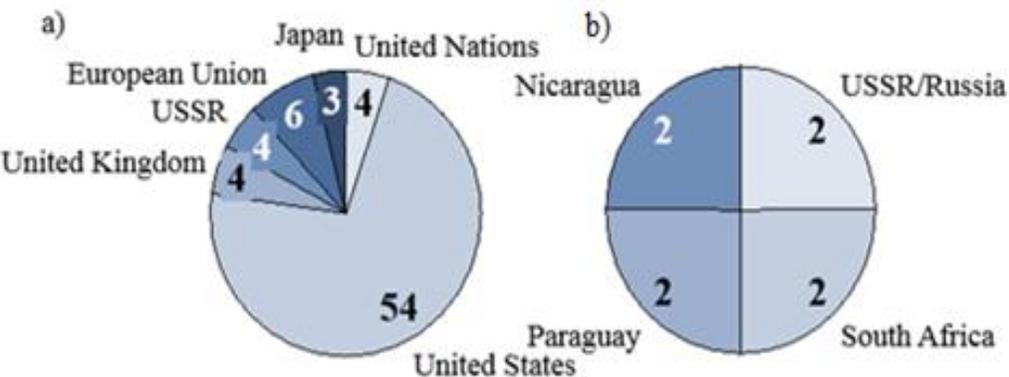


1.8. Sanctions connected with military impairment and disruption of military impairment had maximum duration

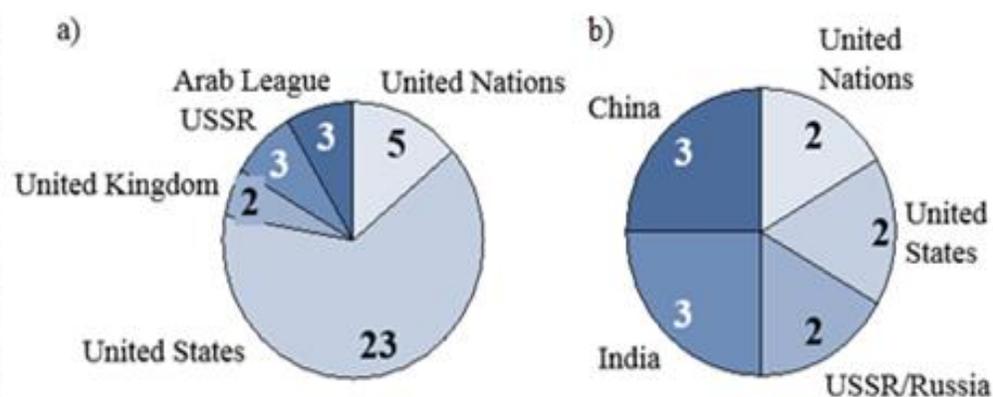
- ❑ **Maximum duration** of sanctions, connected with military impairment is registered during the period of World War II (**13,8 years on average**), and right after it (in the period from 1951 to 1960 – 15,6 years);
- ❑ Overall, the picture clearly shows that the maximum duration of sanctions based on their aims for the period from 1991 to 2000 is precisely attributed to sanctions connected with military impairment (average duration of 5,1 years), while **the minimum duration of 2,6 years is connected with regime change and democratization.**

1.9. Countries which imposed sanctions the most, and countries most targeted by sanctions, from 1910 to 2000

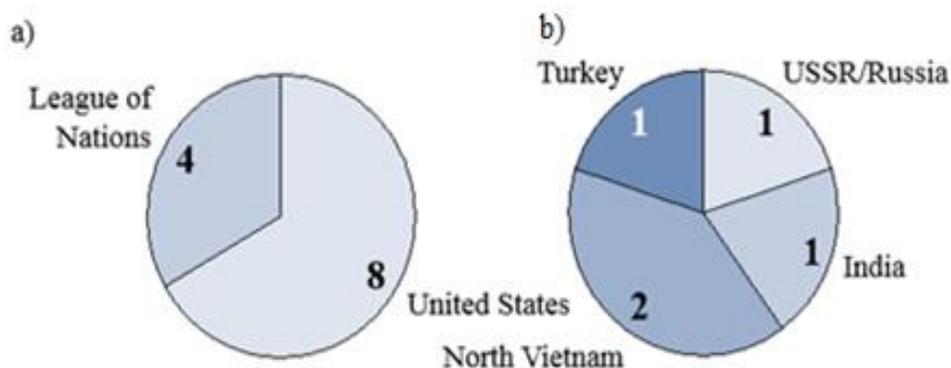
1. Sanctions connected with regime change and democratization; countries which imposed sanctions the most (quantity of sanctions, 1a); countries most targeted by sanctions (quantity of sanctions, 1b) from 1910 to 2000



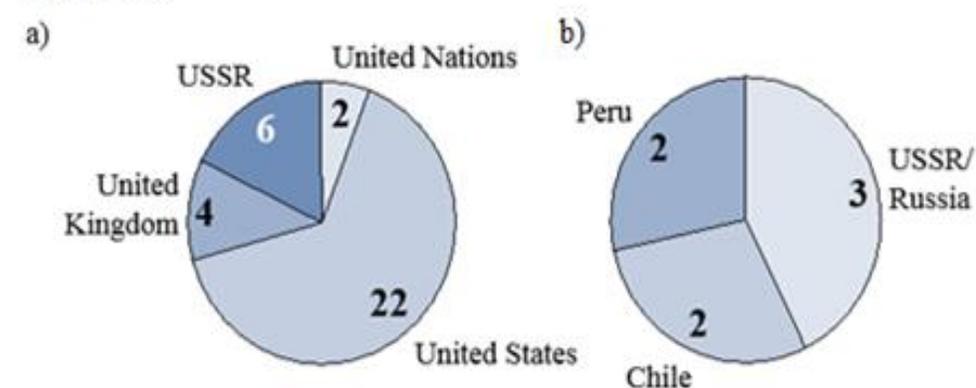
2. Sanctions connected with military impairment; countries which imposed sanctions the most (quantity of sanctions, 2a); countries most targeted by sanctions (quantity of sanctions, 2b) from 1910 to 2000



3. Sanctions, connected with disruption of military adventures; countries which imposed sanctions the most (quantity of sanctions, 3a); countries most targeted by sanctions (quantity of sanctions, 3b) from 1910 to 2000

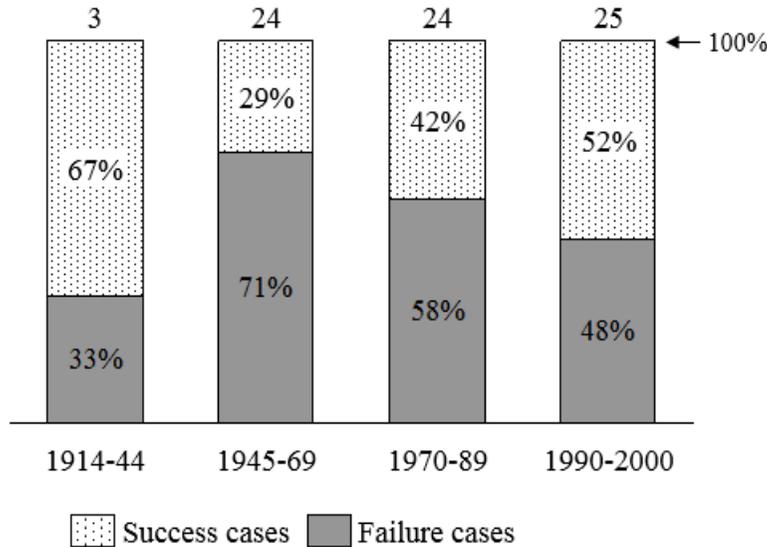


4. Sanctions connected with other policy changes; countries which imposed sanctions the most (quantity of sanctions, 4a); countries most targeted by sanctions (quantity of sanctions, 4b) from 1910 to 2000

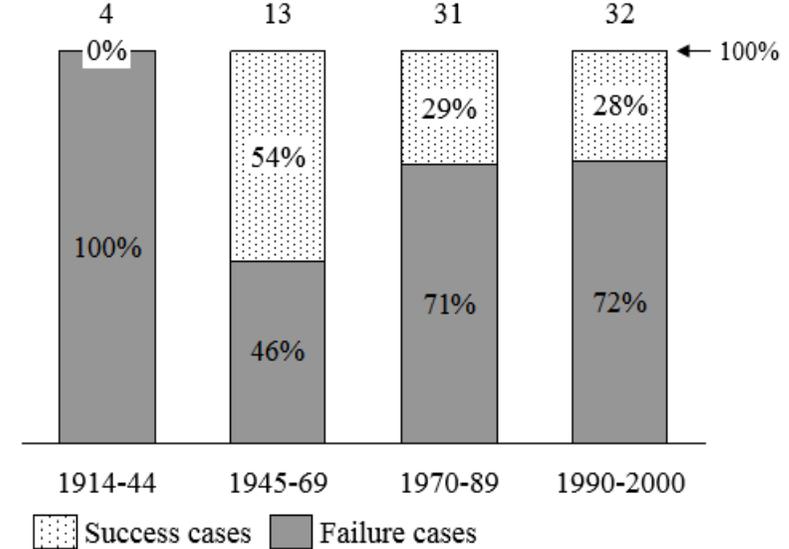


1.10. Sanctions, resulting in success and failure based on their goals from 1914 to 2000

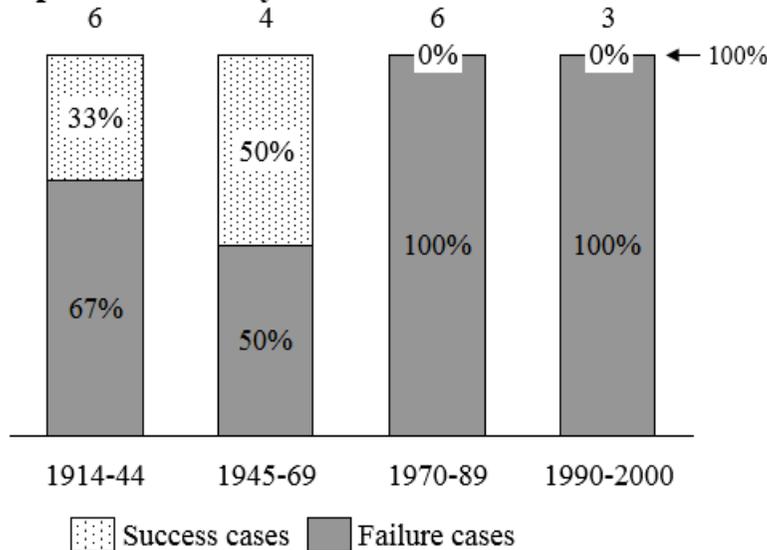
a) Sanctions for policy changes: success and failure 1914-2000



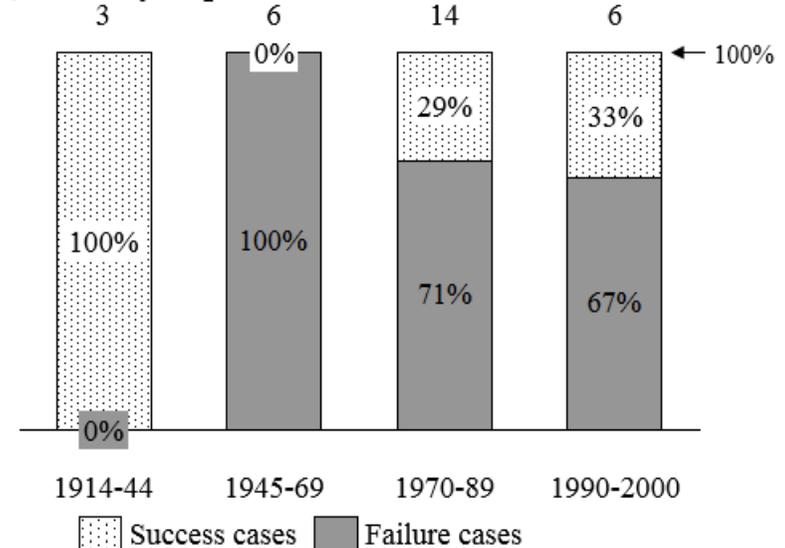
b) Regime change and democratization: success and failure 1914-2000



c) Disruption of military adventures: success and failure 1914-2000



d) Military impairment: success and failure 1914-2000



1.11. Consequences of imposed sanctions for a target country

Short term effect	Medium term effect	Long term effect
<p>Import reductions</p> <ul style="list-style-type: none"> • Medicine; • agricultural products; • machines and equipment. 	<p>Healthcare</p> <ul style="list-style-type: none"> • worsening of living standards; • increase in mortality rates; • lack of access to medical equipment 	<p>Healthcare</p> <ul style="list-style-type: none"> • Outbreak of illnesses and diseases accompanying poverty; • decrease of national potential for providing quality medical services;
<p>Decrease in exports and access to foreign finance</p>	<p>Food provision</p> <ul style="list-style-type: none"> • increase in food prices; • decrease in main food types; • development of black markets for food 	<p>Economy</p> <ul style="list-style-type: none"> • loss of trade partners and foreign investors; • negative consequences for state and private infrastructure
<p>Decrease of diplomatic role on the world arena</p>	<p>Economy</p> <ul style="list-style-type: none"> • decrease in wages and purchasing power; • increase in inflation; • increasing unemployment; 	<p>Social problems</p> <ul style="list-style-type: none"> • Psychological effect; growth of social inequality; growth of poverty; • Decrease of social cohesion

2. Cost analysis for countries from 1980 to 2015

2.1. Duration of sanctions in some countries

6 countries were selected for our analysis:

- ❑ 3 countries which were targeted by sanctions more than once for the given period (Côte d'Ivoire, Iran, Iraq);
- ❑ 3 countries – only once (Liberia, Angola, Zimbabwe).

Country/Years	1980	1984	1990	1993	1999	2000	2002	2003	2004	2005	2006	2016	Present days
Côte d'Ivoire (1,2)*													
Iran (1)**													
Iraq (1)													
Iran (2)**													
Iraq (2)													
Liberia													
Angola													
Zimbabwe													

* (1,2) – first sanctions were imposed in 1999, lifted in 2002; second sanctions were imposed in 2004 and continued until 2016

** In 2016 many sanctions (including economic ones) were removed from Iran by EU, USA and UN

Created by the authors using the data from: *Economic sanctions reconsidered*, Financial Times, Rambler News Service, RIA

2.2. Costs of sanctions in target-countries (1)

Years	1975	1980	1985	1990	1995	2000	2005	2010	2015
	GDP at market prices (constant 2010 mln. US\$)								
Cote d'Ivoire	13501,1	16543	16764,5	17764,1	19108,3	22300,4	22300,7	24884,5	33966,8
Iran	238867	165116,	201537	205513	237327	281927	368530	467790	-
Iraq	21676,4	45684	40754,3	71262	46941,5	101597	104188	138516	186460
Liberia	2484,51	2759,07	2508,66	858,96	240,1	1132,15	912,48	1292,7	1653,5
Angola	-	-	27308,2	32018,4	25340,3	34535,3	46226	82470	103919
Zimbabwe	7765,89	8356,27	10284,4	12857,1	13648,5	15299,6	10423	9422,16	12709,3

Source: World Development Indicators // World Bank, electronic source -

<http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators&preview=on#>)

2.2. Costs of sanctions in target-countries (2)

- ❑ Since imposed sanctions largely had a long-term orientation, we have observed the growth of GDP indicator, calculated in constant prices of 2010, for the first five years (for some countries the number of years was larger) after the imposition of sanctions;

- ❑ The first years of sanctions resulted in a decline in GDP (in constant prices of 2010) for two countries :
 - Angola from 32 bln. USD in 1990 to 25,3 bln. USD in 1995;

 - Zimbabwe from 15,2 bln. USD in 2000 to 10,4 bln. USD in 2005 respectively.

2.3. Exports of goods and services (% of GDP)

Years	1975	1980	1985	1990	1995	2000	2005	2010	2015
	Exports of goods and services (% of GDP)								
Cote d'Ivoire	36,73	35	46,77	31,69	41,76	40,78	49,9	50,63	39,49
Iran	40,74	13,74	8,88	13,28	21,68	21,47	31,22	25,4	-
Iraq	52,33	63,49	25,14	7,7	0,01	75,7	54,35	39,42	34,79
Liberia	69,9	71,78	54,86	-	-	31,38	59,09	43,94	23,48
Angola	-	-	50	33,33	-	89,63	86,02	62,39	33,93
Zimbabwe	22,76	23,37	22,21	22,87	38,24	38,16	33,55	36,78	25,91

Source: World Development Indicators // World Bank, electronic source -

<http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators&preview=on#>

2.4. Imports of goods and services (% of GDP)

Years	1975	1980	1985	1990	1995	2000	2005	2010	2015
	Imports of goods and services (% of GDP)								
Cote d'Ivoire	36,58	41,18	32,4	27,11	34,44	33,86	44,02	43,33	36,22
Iran	35,38	28,75	14,29	23,8	13,47	19,79	24,83	20,34	-
Iraq	42,57	31,56	29,82	7,43	0,02	49,63	61,39	34,08	22,13
Liberia	64,39	71,84	47,57	-	-	38,94	211,27	146,28	88,91
Angola	-	-	50	33,33	-	62,83	53,64	42,95	36,14
Zimbabwe	24,43	26,52	22,01	22,79	40,92	35,91	42,5	63,59	49,69

Source: World Development Indicators // World Bank, electronic source -

<http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators&preview=on#>

2.5. Exports and imports of goods and services (% of GDP)

- ❑ The shares of exports and imports relative to the GDP remained unchanged due to sanctions for Côte d'Ivoire;
- ❑ Exports and imports of Iran and Iraq (including a trade embargo from USA and EU) were hurt more than other countries:
 - minimum value for exports of goods and services as % of GDP for Iran amounted to 8,88%, for Iraq – 0,01%;
 - minimum value for imports of goods and services as % of GDP for Iran amounted to 13,47%, for Iraq – 0,02%).

2.6. Foreign direct investment, net inflows (BoP, current mln. US\$) (1)

Years	1975	1980	1985	1990	1995	2000	2005	2010	2015
	Foreign direct investment, net inflows (BoP, current mln. US\$)								
Cote d'Ivoire	69,06	94,66	29,16	48,11	211,48	234,7	348,92	358,12	430,16
Iran	494,4	80,91	-38,15	-361,95	17	193,58	2889,1	3648,9	2050
Iraq	-44,92	1,53	0,39	0,42	2,4	-0,03	515,3	1396,2	3468,53
Liberia	180	71,92	-16,2	225,24	4,6	20,8	82,8	452,34	721,03
Angola	0,05	37,42	278	-334,8	472,43	878,62	-1303	-3227,2	9282
Zimbabwe	28,87	1,55	2,85	-12,21	117,7	23,2	102,8	122,59	399,2

Source: World Development Indicators // World Bank, electronic source -

<http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators&preview=on#>

2.6. Foreign direct investment, net inflows (BoP, current mln. US\$) (2)

Sanctions had a negative effect on foreign direct investments in Iran, Iraq:

- for Iran the outflow amounted to 38,15 mln. USD in 1985 and almost 362 mln. USD in 1990;
- for Iraq – the FDI were insignificant both in the 80s and in the 90s.

2.7. Key points of cost analysis for countries from 1980 to 2015

The data allows us to conclude the following:

- ❑ to a large degree the countries under trade embargo suffered the most – Iran and Iraq;
- ❑ the imposition of sanctions had a negative effect on exports and imports of these countries, on FDI and overall on GDP;
- ❑ other countries suffered losses to a lesser extent, but nonetheless, negative effects of sanction policy also found their reflection in their economic indicators and served as a significant impediment to their development.

3. Economic sanctions against Russia

- ❑ Due to events in Ukraine and as a result of annexation of Crimea by Russia, on 17th of March, 2014 the United States have imposed an array of sanctions against high-ranking Russian politicians;
- ❑ This, in turn, led to a chain reaction and many other countries (EU countries, Japan, Australia and others) have gradually joined in the efforts of imposing sanctions against Russia;
- ❑ It is also necessary to point out the fact that in response to Western sanctions Russia imposed restrictions on imports of food from USA, EU, Norway and other countries.

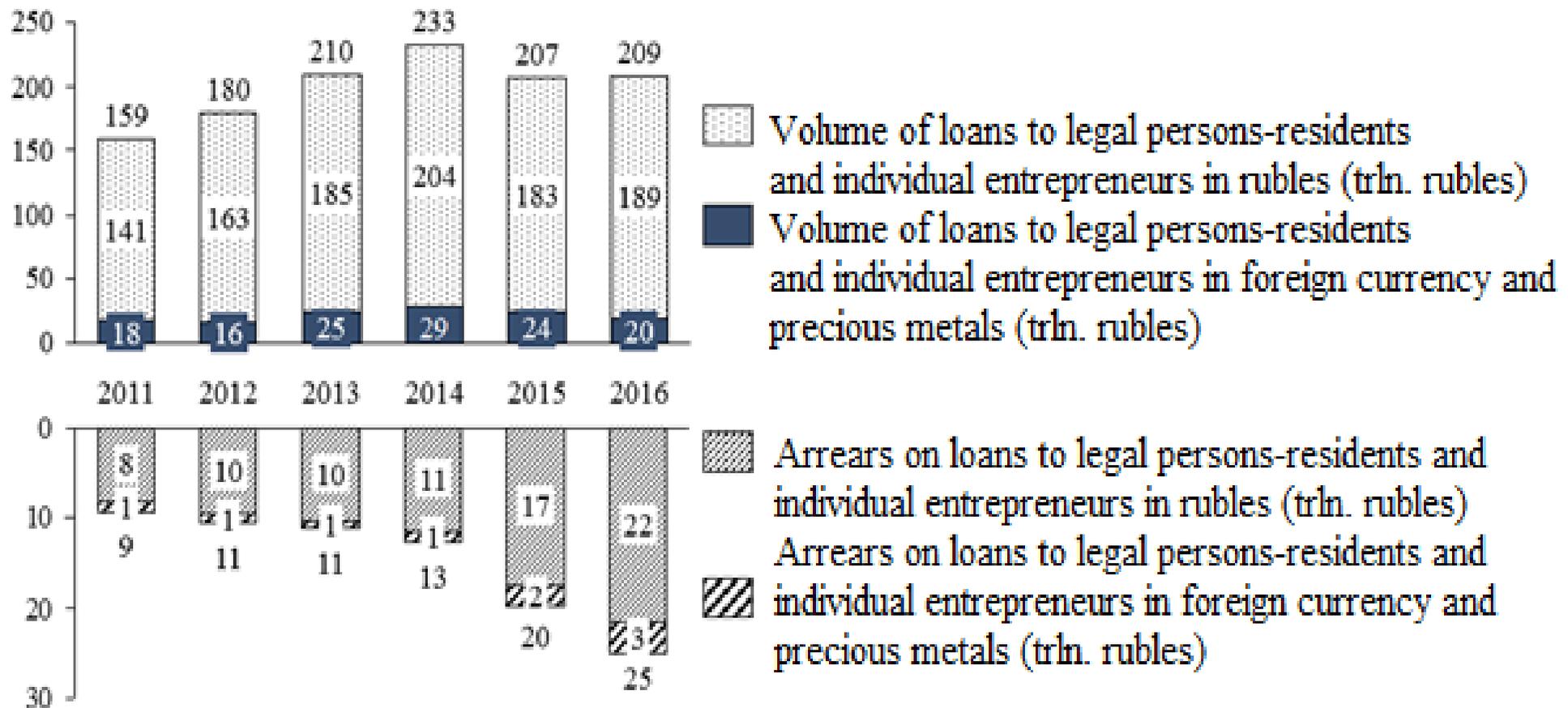
3.1. Economic sanctions were imposed on several segments

Later, economic sanctions were imposed which affected:

- ❑ Oil industry (sanctions in relation to oil companies and their subsidiaries; restriction in exports of oil extraction and refining technology to Russia);
- ❑ Gas industry (sanctions against gas extracting companies and their subsidiaries; freezing of existing and refusal of future projects);
- ❑ Banking industry (freezing of financial assets of Russia legal and individual persons from Russia; restriction of access to credit resources; restriction of placing funds in Western banks);
- ❑ Other industries (personal sanctions in relation to companies and individuals; restrictions of carrying out operations with Russia in exports and imports of arms).

3.2. The volume of loans, extended by Russian banks to legal persons-residents and individual entrepreneurs

Volume of extended loans to legal persons-residents and individual entrepreneurs (rubles and foreign currency) by Russian banks and their arrears on them from 2011 to August 2016 (in trln. rubles).

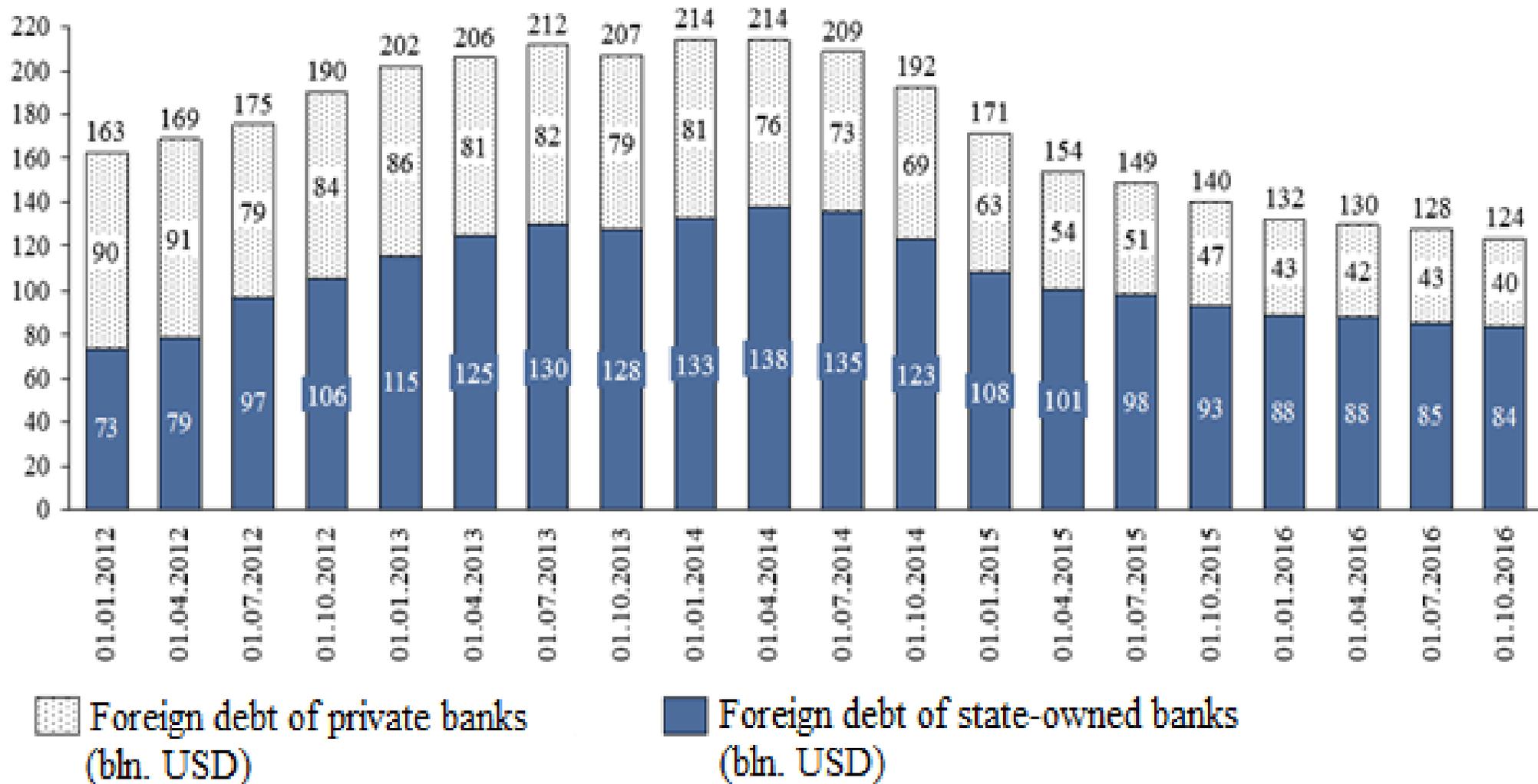


Created by the authors using the data of Central Bank of Russia

3.3. Comments on the volume of loans, extended by Russian banks to legal persons-residents and individual entrepreneurs

- ❑ The decline of extended loans can be clearly seen in 2015, while previously the trend was increasing. The cumulative average growth rate on extended loans amounted to around 10% from 2011 to the end of 2014.
- ❑ In 2015 there was a sharp decline in the volume of extended loans both in rubles and foreign currency, which amounted to 11.1% in comparison to 2014.
- ❑ There have been no significant improvements in 2016. Moreover, in 2015 the aggregate arrears on loans has rapidly increased by 53.8% in comparison to 2014, and in 2016 it increased by some 25% more.
- ❑ Thus, the total arrears on loans extended to legal persons-residents and individual entrepreneurs increased by 92% in two years. It is evident that this situation can grow into a serious problem not only for the banking sector, but also for the real sector of the economy.

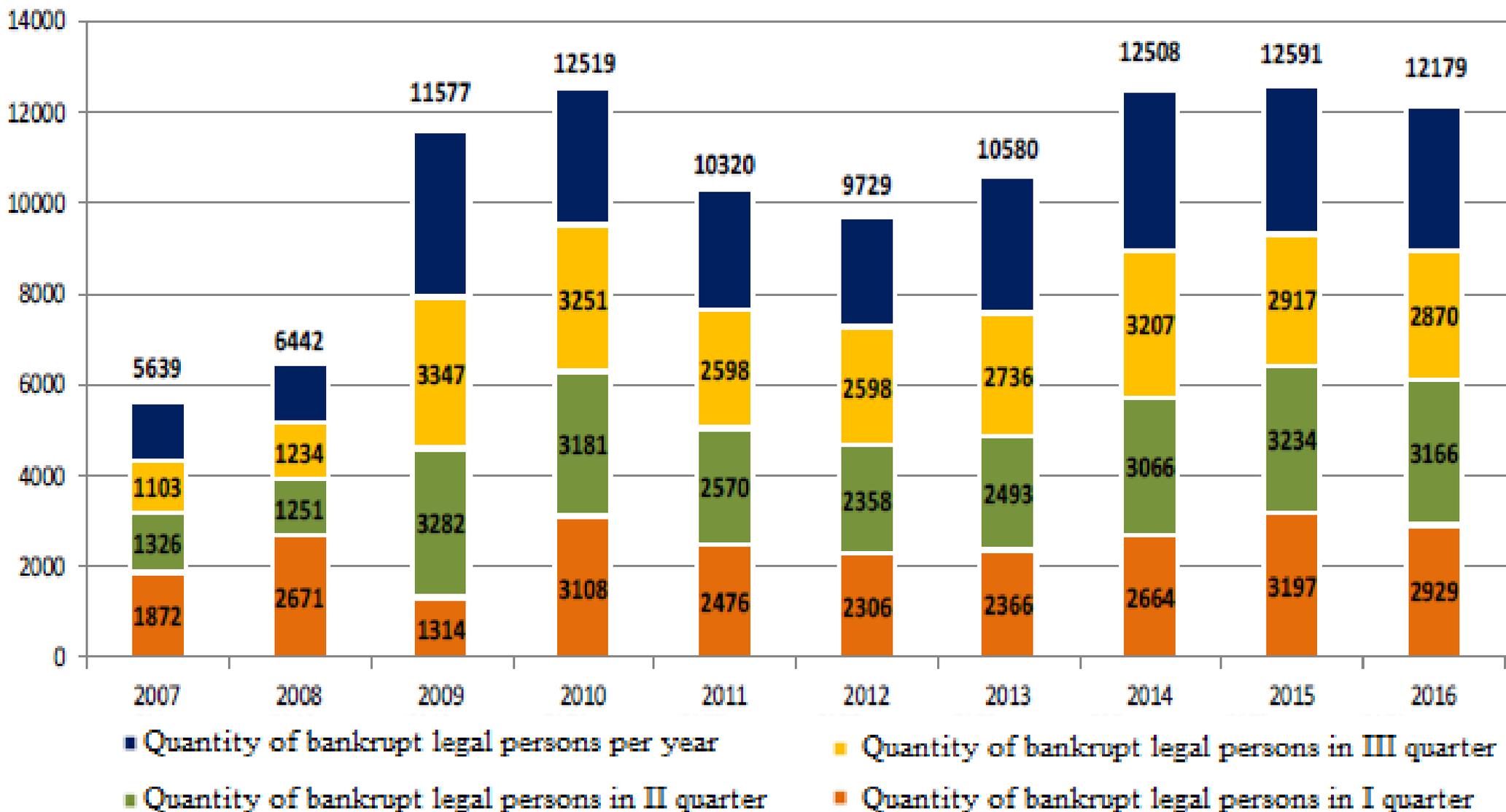
3.4. Foreign debt of Russian banking sector by quarters from 2012 till 3rd quarter of 2016



3.5. Comments on foreign debt of Russian banking sector

- ❑ A negative situation in the banking sector is exacerbated by a restriction of external financing;
- ❑ Based on the data on foreign debt of Russian banking sector, there is a declining level of debt to Western participants;
- ❑ The foreign debt in third quarter of 2016 declined by 42% for private banks and by 32% for state-owned banks;
- ❑ This means that banks are lowering their existing levels of debt, but at the same time are not attracting any additional financial resources without the possibility of borrowing abroad;
- ❑ This lowers the banking liquidity in conditions of increasing volumes of arrears on loans.

3.6. Dynamics of bankruptcies in Russian Federation from 2007 to the fourth quarter of 2016

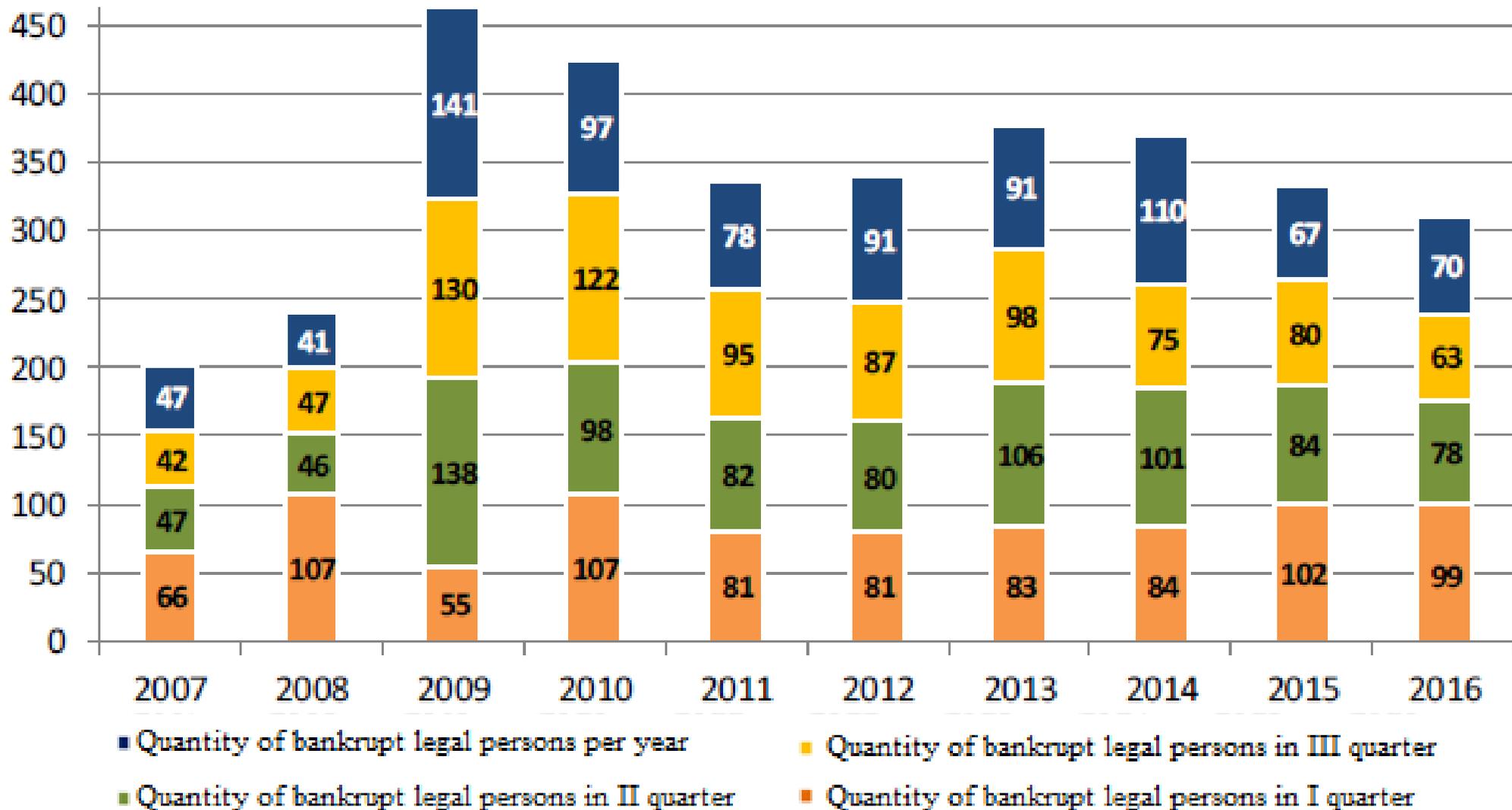


3.7. Comments on dynamics of bankruptcies in Russian Federation

The rapid increase in the number of bankruptcies connected with a few key factors which also became the consequences of anti-Russian sanctions:

- ❑ Worsening of borrowing conditions on external markets (despite that sanctions targeted an array of Russia enterprises (including Bank Russia, SMP Bank, OAO NK Rosneft and etc), foreign banks will account for risks connected with giving out loans to all Russian companies);
- ❑ Interest rate hikes in banks, connected with the growth of Central Bank key interest rate (in the beginning of 2014 the key interest rate was 5.5%, by the end of 2014 it amounted to 17%, and currently (from 19.09.2016) the key rate is 10%);
- ❑ Lowering of profitability of Russian companies, connected with stagnation in the economy.

3.8. Dynamics of bankruptcies in food industry from 2007 to the fourth quarter of 2016



3.9. Comments on dynamics of bankruptcies in food industry

- ❑ The number of bankruptcies in food industry decreased by 12% by the 3rd quarter of 2016 as compared to the 3rd quarter of 2015 and by 7% by the end of 2016 as compared to 2015 year;
- ❑ From the data of domestic shipments, performed work and services follows that the volume of shipments in food products grew by record 21.4% by the end of 2015 compared to 2014 and in absolute terms amounted to 5,880 and 4,840 bln. rubles respectively and by the end of 2016 grew some 6.8% more compared to 2015.

3.10. Set of negative effects for food industry

There is a set of negative effects for food industry, connected with imposition of sanctions. Among the reasons which did not allow the Russian enterprises to fully realize the potential of import substitution are the following :

- ❑ As a result of growth in interest rates the companies are experienced difficulties with attracting loans not only for investments but for replenishing their current assets;
- ❑ Some investment projects have a long payback period, for instance, production of meat;
- ❑ Growth of expenditures on imported materials, for example, incubational eggs for poultry farming and feed additives for cattle.

Conclusion (1)

As a result of our analysis, the following can be concluded:

- ❑ Economic sanctions have a long history, but their most active usage began in XX century, after World War II, in five year periods, 14 sanction cases are initiated on average;
- ❑ The most effective sanctions are considered to be sanctions against RSA, Haiti and Iraq, and even then, the goals pursued by imposing these sanctions were reached with the help of forceful intervention, which makes us consider their real efficiency;
- ❑ There are many factors which a country-exporter of sanctions must consider when forecasting their influence on target country, and among these factors are: trade dependency between countries, duration of sanctions, cooperation of target country with other countries, authoritarian regime in target country and etc.;

Conclusion (2)

- ❑ To a large degree the greatest harm from implemented sanctions from 1980 to 2015 (for countries, considered in this paper) was experienced by Iraq and Iran, while other countries suffered losses to a lesser degree, but the slowdown in their development, which reflected upon such indicators as GDP, nonetheless reveals significant losses, which target countries may encounter when subjected to sanctions;
- ❑ The banking sector of Russia is in a state of crisis, in spite of the measures, attempted by the Central Bank. In 2014 the Central Bank implemented regulatory easements (for instance in the area of interest rates on loans and deposits). Moreover, there was an additional capitalization of banks by the government amounting to 830 bln. rubles. Still, the problem connected with bad debts and growth in arrears on loans remains unsolved and a high volatility of Central Bank's key rate, which was observed for the past 2 years does not improve the situation;

Conclusion (3)

- ❑ Food industry has certain improvements – the growth in volume of production, decrease in bankruptcies in this segment. But it is not yet clear if the government's expectations towards the import substitution program will be realized. Russian companies in the absence of competition can refrain from investing in their development, which can lead to negative consequences – including the lack of competitiveness in the Russian food sector;
- ❑ Despite the fact that Russia did not change its decision on Crimea, it can be assumed that the expectations of Western countries regarding the influence of sanctions on Russia largely came true. The reduction of international reserves, growth of inflation from 6.5% in 2013 to 12.9% in 2015, the reduction of rates of growth of industrial production – all of this, to some extent, symbolizes the negative consequences of imposed sanctions.

Thank you for your attention

