



NATIONAL RESEARCH  
UNIVERSITY

# Political economy of sanctions: Evidence from Russia

NUG Political Economy

Daria Pudova

[dpudova@hse.ru](mailto:dpudova@hse.ru)

National Research University  
Higher School of Economics (Moscow)

February 7, 2018

- Sanctions are a foreign policy instrument applied in order to change certain actions and decisions of the target country
- Countries utilize sanctions from time to time as an instrument of political coercion, starting from 432 BC. (Askari et al., 2003)
- Currently, under the sanctions of United States are more than 15 countries, including North Korea, Cuba, Iran, Iraq, Venezuela and Russia.
- Stages of sanctions include
  1. The diplomatic actions including, among others, deferral of international deals and negotiations.
  2. Sanctions are addressed directly to certain individuals (freezing of assets) and legal entities (restrictions in foreign funds access).
  3. Ban of trade in certain industries.



- Economic consequences
  - GDP and its components (Dizaji & van Bergeijk, 2013; Gurvich & Prilepskiy, 2016)
  - rise in unemployment and inflation rates (Hufbauer et al., 2007)
  - trade (Askari et al., 2003; Torbat, 2005)
  - conflict (Hoffmann & Neuenkirch, 2015)
  - insurance markets (Moran & Salisbury, 2014)
  - stock returns (Hoffmann & Neuenkirch, 2015; Draca et al., 2016; Stone, 2017)
- Political consequences differ in their intensity (Hufbauer et al., 2007)
  - no impact (Yugoslavia, Albania, China, Cuba)
  - change in political regimes (cases of Brazil, Panama, Sierra Leone, Haiti, Iraq)

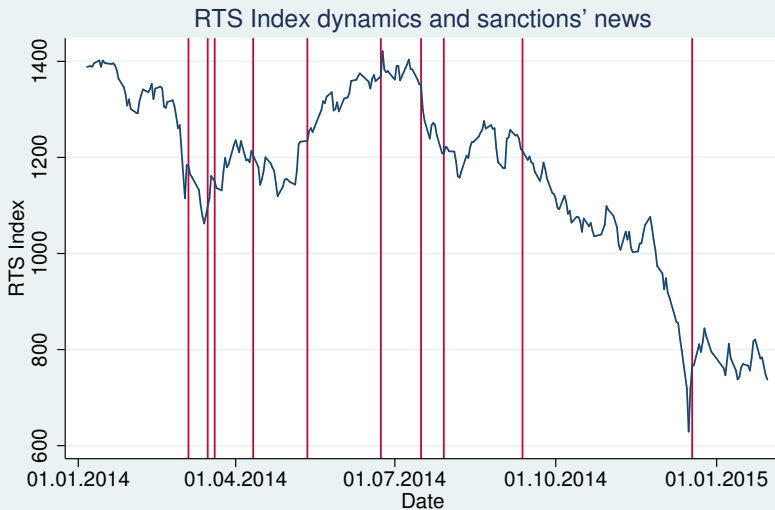


- Consequences in social sphere
  - health & nutrition (Garfield et al., 1995);
  - unprotected group of society - women (Drury & Perksen, 2014)
- Antecedent factors of sanctions (Burlone, 2002; Torbat, 2005)
- Effectiveness (Torbat, 2005; Dizaji & van Bergeijk, 2013; Emerson, 2014; MalmLöf et al., 2014).
- Cross-national analysis (Hufbauer et al., 2007; Allen & Lektzian, 2013)
- However, the effectiveness of sanctions is still debatable

1. Sanctions' effectiveness tends to be limited by the lobby capacity of the businesses, which are the residents of the sender state, but involved in the partnership and trade with the target country (H.1).
  - to check whether the risk of sanction is higher for the companies with state participation in the ownership
2. Sanctions are more successful in the regions where the production or headquarters of companies that fall under targeted sanctions are located (H.2).
3. Federal authorities use intergovernmental transfers to compensate for the sanctions' losses and create new rents to be captured (H.3).

## Milestones of sanctions' imposition during the year of 2014

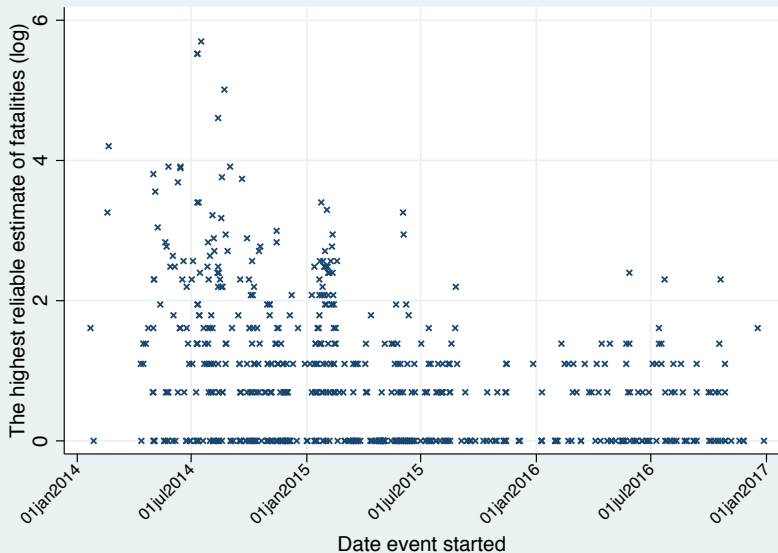
Date	Country	Description	Persons	Entities
5/6 March	US/EU	US President signs the decree on introduction of sanctions against individuals supporting the annexation of Crimea. The EU suspend the preparations for the G8 Summit in Sochi in June.	0	0
16/17 March	US/EU	First set of restrictive measures against 21 (7 in the USA) Russian and Ukrainian officials	21	0
20 March	EU/US	12 names were added to the list subject to EU travel bans and asset freezes. The US expanded the list, adding the Bank "Rossiya".	33	0
11/15 April	US/EU	Strengthening of sanctions against persons responsible for misappropriating Ukrainian state funds and targeted additional individuals under the assets freeze and travel ban.	48	0
12 May	EU	A new set of sanctions. The recognition of the illegal transfer of property in Crimea.	61	2
23 June	EU	Import ban on goods from Crimea.	61	2
16 July	US	The sanctions hit Rosneft, NOVATEK, VEB, Gazprombank, Almaz-Antey & etc.	72	2
17 July	The crash	of the Boeing 777 in the Donetsk region		
29/30 July	US/EU	The package of targeted 'economic sanctions' is adopted. The USA adds in the list: Bank of Moscow, Bank VTB and Rosselkhozbank. The EU adds to the list Almaz-Antey and Dobrolet.	95	23
12 Sept.	US/EU	A ban on the supply of goods and technology for companies: Gazprom, Gazprom Neft, LUKOIL, Transneft, NOVATEK, Rosneft. The ban on the purchase of long-term bonds of companies: earlier mentioned banks, Sberbank, NOVATEK & Rosneft. Sanctions on Russian defence companies.	119	23
18/19 Dec.	EU/US	The strengthening of the sanctions on investment, services and trade with Crimea and Sevastopol.	132	28



Source: Moscow Stock Exchange  
Red vertical lines show the dates of sanctions' imposition or extension

# Eastern Ukraine

Highest reliable estimate of fatalities over time





*Sanctions' effectiveness tends to be limited by the lobby capacity of the businesses, which are the residents of the sender state, but involved in the partnership and trade with the target country.*

### Data

- The conflict related information
  - UCDP Georeferenced Event Dataset (Mihai and Sunberg, 2017) for period from 22.01.2014 to 28.12.2016.
  - 1-2 days events represent 92,56% of the whole sample.
- Daily data on stocks traded at Moscow Stock Exchange
  - Close, open, high and low values of stock prices are obtained from yahoo.finance, investing.com and cbonds.ru. The observations cover the period from 06.01.2014 to 31.08.2017.

### Method

- Standard event methodology

$$CR_{it} = \alpha Industries_{it} + \theta Fatalities_t + \beta Government_t + \nu Controls + \gamma_s + \epsilon_{it} \quad (1)$$

where  $\gamma_i$  is a sector fixed effect.

*Sanctions imposed on Russia are successful in regions with larger presence of sanctioned companies (operations, factories or headquarters)*

### Data

- Data on Gross Regional Product for 85 regions is available from 1998 to 2015 annually from Russian Federal Statistics Agency
- Data on the sectoral structure of gross value added as a percentage of total by regions and will be used to define the weight of the industry under sanctions in the total gross regional product.

### Method

- Difference-in-Difference

$$\ln(Y)_{st} = \alpha + \gamma Treat_s + \lambda Post_t + \nu(Treat * Post)_{st} + \epsilon_{st} \quad (2)$$

where  $Treat_s$  is a dummy indicating if an observation belongs to region,  $s$ , affected by sanctions;  $Post_t$  is a time dummy indicating if the observation is observed after sanctions' implementation.

*Government compensates for the sanctions losses' through intergovernmental transfers in order to seek electoral support for the incumbent political regime.*

### Data

- Data on intergovernmental transfers was collected from the Federal Statistics Service
- Data on elections is from Central Election Commission of the Russian Federation.

### Method

- Panel data with fixed effects and IV estimation, instrumenting intergovernmental transfers via natural resources, windfalls and temperature variations

*The risk of sanction is higher for the companies with state participation in the ownership.*

Table: Summary statistics: stocks' data

Variable	Mean	Std. Dev.	Min.	Max.	N
Open	4828.567	24445.574	0.04	231000	28059
High	4902.052	24839.69	0.04	235700	28059
Low	4747.078	24000.146	0.039	220100	28059
Close	4830.015	24454.715	0.04	231000	28059

Table: Summary statistics: conflict data

Variable	Mean	Std. Dev.	Min.	Max.	N
Number of sources	1.460	1.172	1	10	597
Fatalities (high)	6.164	21.17	1	298	597
Duration	1.524	0.5	1	220100	597

Table: Regression table: companies of RTS Index

	(1)	(2)	(3)	(4)
Dummy for fatalities	0.000686* (2.30)	0.000771* (2.57)	0.000890** (2.81)	0.000859** (2.67)
Price of URALS \$/bbl.		-0.0000232*** (-3.71)	-0.0000288*** (-3.42)	-0.0000105 (-0.36)
RUONIA, %			-0.000115 (-1.01)	-0.000127 (-1.14)
Effective exchange rate				-0.0000383 (-0.71)
Constant	0.000502*** (3.73)	0.00179*** (5.12)	0.00327* (2.20)	0.00471* (2.13)
Observations	27221	27221	27221	27221

*t* statistics in parentheses

\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$



## Political economy of sanctions: Evidence from Russia

Daria Pudova

[dpudova@hse.ru](mailto:dpudova@hse.ru)

National Research University  
Higher School of Economics (Moscow)

February 7, 2018