

Sanctions and the Shifting Landscape of International Trade

Beata Javorcik
Oxford, EBRD and CEPR

Motivation

- **Economic sanctions** have been proliferating, yet their effectiveness and implications are **not well understood** (Hufbauer et al., 2009)

Too much optimism about what sanctions can deliver?

The economic and financial sanctions already implemented will lead to a **deep recession** in Russia (March 8, 2022)

US survey

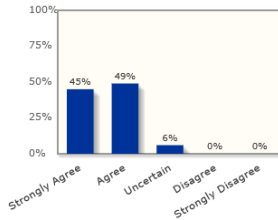
Responses weighted by each expert's confidence



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Source: Clark Center Economic Experts Panel
Methodology

Euro survey

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Methodology

Motivation

- **Economic sanctions** have been proliferating, yet their effectiveness and implications are **not well understood** (Hufbauer et al., 2009)
- Small, but growing literature, has typically focused on the impact of the **official** sanctions on **trade**
- But what about
 - ways in which **sanctions** are **circumvented**?
 - implications of **private sanctions**?
 - threat of **secondary sanctions** and **reputational damage**?

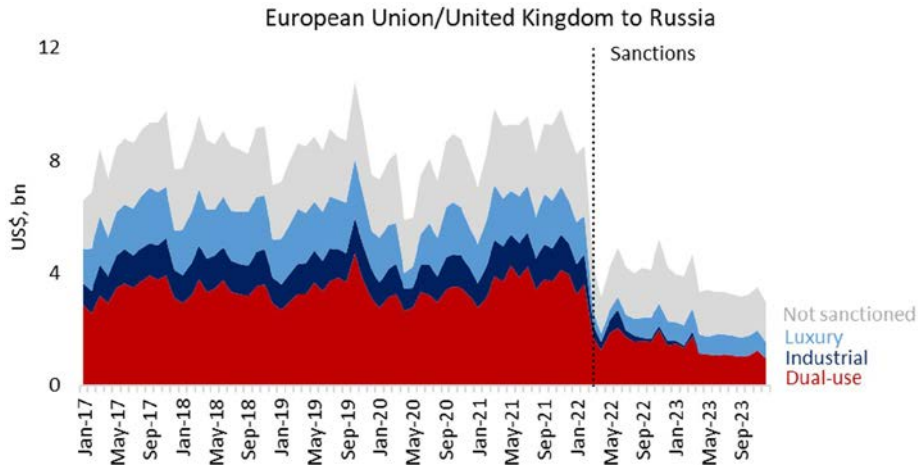
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 - threat of **secondary sanctions** and **reputational damage**?
- Focus on **sanctions imposed on Russia** after its full-scale invasion of Ukraine in Feb **2022**
 - Sanctions targeted a wide range of exports: e.g. arms, advanced and dual-use technology, industrial and luxury goods
 - Russian financial institutions were disconnected from SWIFT and Russia's state assets frozen
 - This sanctions episode **stands out in terms of its comprehensiveness and the size** of the sanctioned economy (11th largest in 2021)

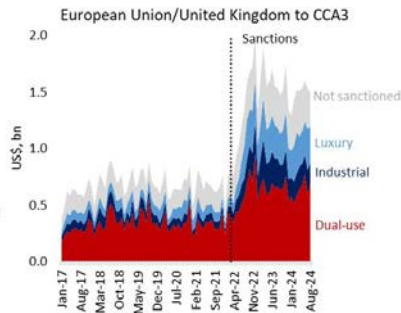
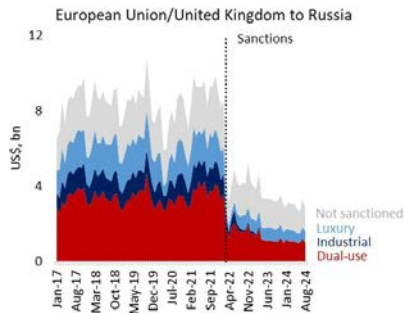
Setting the scene

Dramatic drop in European exports to Russia

Chupilkin et al. (AEA P&P, 2025)

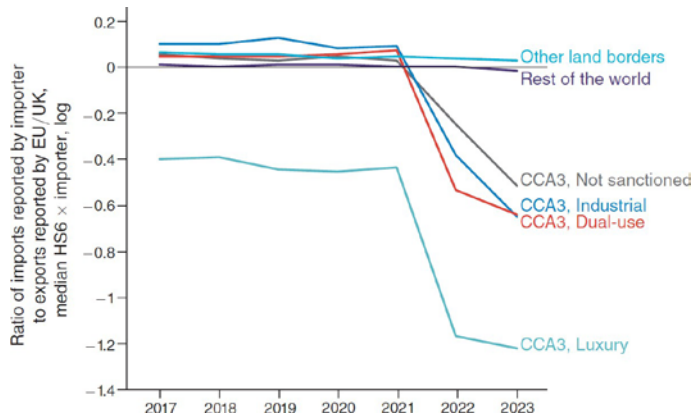


Circumvention of export sanctions via Kazakhstan, Kyrgyzstan and Armenia (CCA3), Chupilkin et al. (AEA P&P, 2025)



With some goods 'getting lost in transit' on the way to CCA3

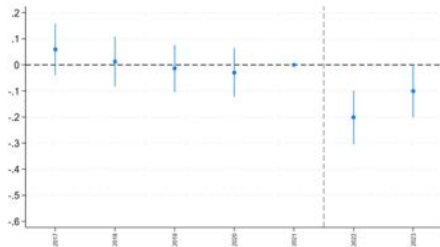
Chupilkin et al. (AEA P&P, 2025)



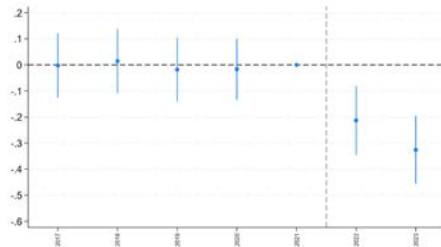
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Chupilkin et al. (EER, 2026)

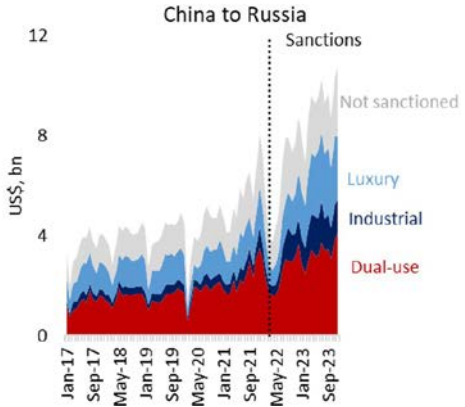
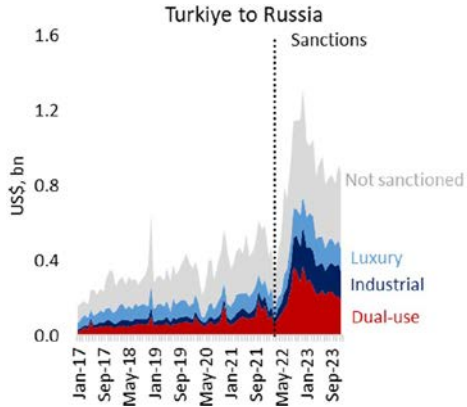
CCA3 vs RoW, dual-use vs not sanctioned goods, import-to-export ratio, log



CCA3 vs RoW, industrial vs not sanctioned goods, import-to-export ratio, log



Trade diversion: Turkiye and China



Summary (so far)

- As intended, **sanctions** have **restricted exports to Russia**
- But **sanction circumvention** has been taking place through
 - **transshipment** via CCA3
 - goods '**getting lost**' in transit
 - with these channels **compensating for about 1/3 of the drop** in direct European exports to Russia (Chupilkin et al., EER 2026)
- **Turkiye** and **China** have stepped in to fill the void



Not wearing Prada: Do private sanctions reinforce official sanctions?

Maxim Chupilkin, Beata Javorcik, Aleksandra Peeva and Alexander Plekhanov

Motivation

- Economic sanctions imposed by states are not new. What is new now is the presence of **massive private sanctions** imposed on Russia by private companies (Hart et al., 2023)
- **Private sanctions** are **self-imposed restrictions by firms** in order to
 - safeguard their reputation
 - avoid secondary sanctions
 - signal values to customers
- **More than 1,000 companies**, employing over a million Russians, chose to leave Russia within a few months of the 2022 invasion of Ukraine (Sonnenfeld et al., 2022)

Announcements of private sanctions

McDonald's to leave Russia for good after 30 years

17 May 2022 · 2218 Comments



War in Ukraine

Chanel, Louis Vuitton, Prada, and Other Luxury Brands Suspend Business in Russia

As Vladimir Putin's war on Ukraine continues, global businesses are suspending or eliminating their activity in Russia.

Apple suspends all product sales in Russia



By Brian Fung, CNN Business

2 min read · Updated 5:22 PM EST, Tue March 1, 2022



EXCLUSIVE Nike to make full exit from Russia

By Minerva Spencer, Jacob Gershkoff-Pedersen and Richa Naidu

June 23, 2022 4:07 PM GMT+1 · Updated June 23, 2022



Mercedes-Benz becomes latest Western company to pull out of Russia

26 October 2022 · 740 Comments



War in Ukraine

Public pressure on firms to discontinue business in Russia

- Survey of 3,000 Americans, a representative sample of the US population by Hart et al. (2023) shows that
 - 61% agree that **'Doing business in Russia is like being an accomplice of the war. The company should sever its ties to Russia, whatever the consequences'**
 - Only 30% agree that 'it is not a company's role to decide what is right and what is wrong' and that this task should be left to the government
 - The authors conclude that "only a minority of respondents would agree with the Milton Friedman adage that 'the business of business is business'"

Some firms remained and benefited from a less competitive market

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Austria's Raiffeisen faces US wrath over Russian business



May 16, 2024 - 07:59

5 minutes

LONDON/FRANKFURT (Reuters) -The U.S. Treasury has warned Austria's Raiffeisen Bank International (RBI) that its access to the U.S. financial system could be restricted because of its Russian dealings, according to a person who has seen a letter detailing the threat.

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French company Auchan supporting Russia's war effort in Ukraine, report says

Investigation says some Auchan employees in Russia collected donated goods that were then sent for free to the frontlines.

SHARE



The report immediately triggered reactions from the Ukrainian government | Alisa Kisbeneck/AFP via Getty Images

FEBRUARY 17, 2023 4:26 PM CET
BY GIORGIO LEALI

Research questions

- Did Western MNCs **follow their public announcements**?
 - Implications for import volume
- Did private sanctions **reinforce official sanctions**?
 - Implications for non-sanctioned goods
- Did **sanction circumvention** take place?
 - Implications for trade intermediated via neutral jurisdictions

- **Transaction-level** data on Russia's imports **2016–2023**
 - importing firm, HS6 product, **trademark**, origin country, **trading** country, month
 - 12 million+ import records in 2022
 - 74,000+ unique importing firms
- Using trademark information to match **public announcements (private sanctions)** of trademark owners collected by **Sonnenfeld et al. (2022, 2023)**
- Sample of **Western 1,657 trademarks** accounting for a third of Russia's imports in 2021

Data on private sanctions: Classification of announced policies

Withdrawal:

- Withdrawal from the market – 470 (Mercedes, Toyota, HP): *Making a clean break/permanent exit from Russia or and/or leaving behind no operational footprint*

Scaling back:

- Suspending operations inside – 505 (Boeing, Hyundai, Apple): *Suspending almost all operations without permanently exiting or divesting*
- Scaling back – 159 (Skoda, General Electric, Linde): *Suspending a significant portion (but not all) of their business in Russia*

Business as usual

- Buying time – 370 (Airbus, Bosch, Philips): *Pausing new investments/minor operations in Russia but largely continuing substantive business*
- Digging in – 153 (MSI, Liebherr, Mitsubishi): *Largely doing business-as-usual*

Did Western MNCs follow their public announcements?

- Compare trade flows of goods bearing TMs of owners who **announced private sanctions**
 - withdrawing (470)
 - scaling back (664)
- to the baseline category of **business as usual** (523)

$$\log Trade_{prt} = \beta PostSanctions_t * PrivateSanctions_r + \alpha_{pr} + \alpha_{pt} + \varepsilon_{prt}$$

p denotes HS6 product

r denotes trademark

t denotes month

Private sanctions are associated with a decline in imports

Dependent variable	Trade, log	Trade, 0-1	Trade, hyperbolic	Trade, PPML
<i>Full sample</i>				
Post-sanctions x Private sanctions	-0.640*** (0.0207)	-0.0488*** (0.00151)	-0.485*** (0.0146)	-0.532*** (0.0914)
Observations	3,569,813	18,022,848	18,022,848	17,094,721
R ²	0.786	0.527	0.619	
<i>Sanctioned goods</i>				
Post-sanctions x Private sanctions	-0.643*** (0.0244)	-0.0531*** (0.00205)	-0.547*** (0.0200)	-0.524*** (0.104)
Observations	2,563,175	11,731,104	11,731,104	11,258,418
R ²	0.774	0.537	0.628	
<i>Not sanctioned goods</i>				
Post-sanctions x Private sanctions	-0.629*** (0.0390)	-0.0411*** (0.00206)	-0.375*** (0.0183)	-0.567*** (0.155)
Observations	1,006,638	6,291,744	6,291,744	5,836,303
R ²	0.807	0.497	0.587	

Note: Standard errors are clustered at the product level. *, **, *** denote statistical significance at the 10%, 5% and 1% levels, respectively. Post-sanctions refers to March 2022 onwards.

Private sanctions reinforced official sanctions

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Goods of some brands that withdrew from Russia continued being supplied through **intermediated trade**

Inditex + Add to myFT

Zara clothes reappear in Russia despite Inditex's exit

Sale of branded products follows Spanish group's insistence it was not returning to the country



A Tade store in St Petersburg, Russia. Inditex's apparel had previously been destined for sale across several EU countries, according to tags © Morimoto/Shutterstock

IN DEPTH

How British luxury cars are still being sold in Russia despite sanctions

Rolls-Royce and Bentley cars built in UK factories are independently imported through neighbouring countries to showrooms in Moscow and St Petersburg

RUSSIA

Ghost trade: How Russia imports Mercedes Benz cars despite sanctions

Moscow is following Chinese and North Korean tactics so it can continue to bring in European goods and machinery

Sanctioning Economies

European Economic Area

Austria	Belgium	Bulgaria
Croatia	Cyprus	Czech R.
Denmark	Estonia	Finland
France	Germany	Greece
Hungary	Iceland	Ireland
Italy	Latvia	Liechtenstein
Lithuania	Luxembourg	Malta
Netherlands	Norway	Poland
Portugal	Romania	Slovak R.
Slovenia	Spain	Sweden

Other

Albania	Australia	Canada
Japan	Monaco	Montenegro
New Zealand	North Macedonia	Singapore
South Korea	Switzerland	Taipei China
Ukraine	United Kingdom	United States

More imports intermediated via neutral jurisdictions for trademarks under private sanctions

	Full sample		Sanctioned goods		Not sanctioned goods	
Neutral traders	Share	0-1	Share	0-1	Share	0-1
Post x Private sanctions	0.157*** (0.00505)	0.140*** (0.00506)	0.166*** (0.00579)	0.149*** (0.00599)	0.130*** (0.00971)	0.114*** (0.00919)
Observations	3,484,042	3,485,379	2,504,883	2,505,769	979,159	979,610
R ²	0.699	0.639	0.687	0.625	0.731	0.677

Note: Standard errors are clustered at the product level. *, **, *** denote statistical significance at the 10%, 5% and 1% levels, respectively. All regressions include product-trademark and product-month fixed effects. The sample is restricted to imports where attitudes to serving the Russian market have been identified and excludes observations with missing country. Neutral traders are exporters in neutral jurisdictions. Private sanctions combine withdrawing, suspending, and scaling back; base group is no private sanctions (digging in/buying time). Post refers to March 2022 onwards.

Concern: MNCs withdraw bc of poor performance in Russia

■ IV approach based on publicly listed status

- Publicly listed TM owners were more likely to face investor scrutiny and associated pressure
- ⇒ more likely to **scale back/withdraw** irrespective of expected performance

Church of England to reconsider shares in TotalEnergies over Ukraine inaction

Pension board and investment fund managers urge French energy company to cut ties with Russia



While TotalEnergies has condemned Russia's aggression, it has not followed many of its peers in the energy sector, such as BP and Shell, in withdrawing from Russia. Photograph: Gonzalo Fuentes/Reuters.

Investors put pressure on Nokian Tyres after controversial Russia comments

There has been a consumer outcry in Finland as comment tire manufacturer were interpreted as saying the war in Ukraine could increase its market share in Russia. Nokian Tyres, whose price has plummeted since the beginning of the war, is partly owned by the state holding company Solidium and pension funds Varma and Ilmarinen.

Investor pressure to withdraw

McDonald's decision follows a plea by the New York state pension fund, with an estimated \$280 billion in assets under management as of the end of 2021.

"Pausing or ending McDonald's business operations in Russia would address various investment risks associated with the Russian market and play an important role in condemning Russia's role in fundamentally undermining the international order that is vital to a strong and healthy global economy," state comptroller Thomas DiNapoli stated Friday in a letter to Kempczinski.

IV results

Dependent variable	Trade, log	Trade, 0-1	Trade, hyperbolic	Trade, PPML	Neutral traders, share	Neutral traders, 0-1
	<i>Second stage</i>					
Post x Private sanctions	-0.464*** (0.0771)	-0.0365*** (0.00770)	-0.400*** (0.0741)	-0.498 (0.313)	0.166*** (0.0164)	0.0689*** (0.0220)
	<i>First stage</i>					
Post x Listed	0.267*** (0.00889)	0.205*** (0.00342)	0.205*** (0.00342)	0.204*** (0.00359)	0.267*** (0.00890)	0.267*** (0.00890)
Observations	3,569,813	18,022,848	18,022,848	17,094,721	3,484,042	3,485,379
First-stage R^2	0.842	0.776	0.776	0.777	0.843	0.843
F statistic	904.3	3601	3601	3250	900.4	900.3

Note: Standard errors are clustered at the product level. *, **, *** denote statistical significance at the 10%, 5% and 1% levels, respectively. Classification of private sanctions is fixed based on the earliest record available. All regressions include product-trademark and product-month fixed effects. The sample is restricted to Western trademarks where the attitudes to serving the Russian market have been identified. IV refers to estimates by 2SLS where the interaction between private sanctions and the post-sanctions dummy is instrumented with an interaction term between the listed status dummy and the post-sanctions dummy. IV-PPML is estimated using a control-function approach, adding the first-stage residual to the PPML specification. For linear IV columns, F statistics are Kleibergen-Paap rk Wald F statistics; for the PPML-IV column, where this statistic is not defined, we report the auxiliary first-stage F statistic estimated on the PPML sample. First-stage rows are estimated on the corresponding IV sample in each column. Neutral-trader regressions exclude observations with missing country. Post-sanctions refers to March 2022 onwards.

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Summary

- **Private sanctions** — self-imposed restrictions by firms — **reinforced** the effects of **official sanctions**
- The **price of values is substantial** — **equivalent to a tariff of 9–84%**
- Trade conducted via neutral jurisdictions **attenuated the impact of private sanctions**

A white Turkish Cargo truck is parked on a wet tarmac in the foreground. In the background, a large white Turkish Cargo cargo plane is visible. The scene is set against a clear blue sky. The text "Trading around Geopolitics" is overlaid in the center of the image.

Trading around Geopolitics

Giancarlo Corsetti, EUI and CEPR

Banu Demir, Oxford, Bilkent, and CEPR

Beata Javorcik, Oxford, EBRD, and CEPR

Introduction

- **Exporters from non-sanctioning economies** trade off higher profits from a sanctioned markets with
 - heightened risk of **reputational damage** and **secondary sanctions**
 - higher transaction costs
 - greater **risk of non-payment**
- This paper: A **theoretical and empirical** study of the **trade-off** between **increased business opportunities** and **heightened costs and risks** when trading with countries under sanctions

- **Monthly firm-level exports** data from **Turkiye** for the **2021-2023** period, including information on HS8 products, destination countries, payment methods, and invoicing currencies
- Firm registry reports industry of operation and ownership structure
- Exclude re-exports from the sample—a related but different question: possible sanction violations
- Baseline sample consists of $\approx 18,000$ firms
- **Turkiye has not imposed sanctions**, but foreign affiliates operating there may be concerned about reputational damage and secondary sanctions

Empirical specification

- Standard Diff-In-Diff (DID) and Event Study (ES) specification, comparing Turkish exports to Russia with Turkish exports to RoW.

- DID:

$$Y_{fpdt} = \beta \text{Post}_t \times \text{RUS}_d + \alpha_{fpd} + \alpha_{pt} + \alpha_{ft} + e_{fpdt}$$

- $\text{Post}_t = 1$ for the post-invasion period, i.e. after February 2022
- $\text{RUS}_d = 1$ for Russia, and $= 0$ for other countries
- Rich set of fixed effects:
 - firm-product-destination (fpd)
 - product-time (pt)
 - firm-time (ft)

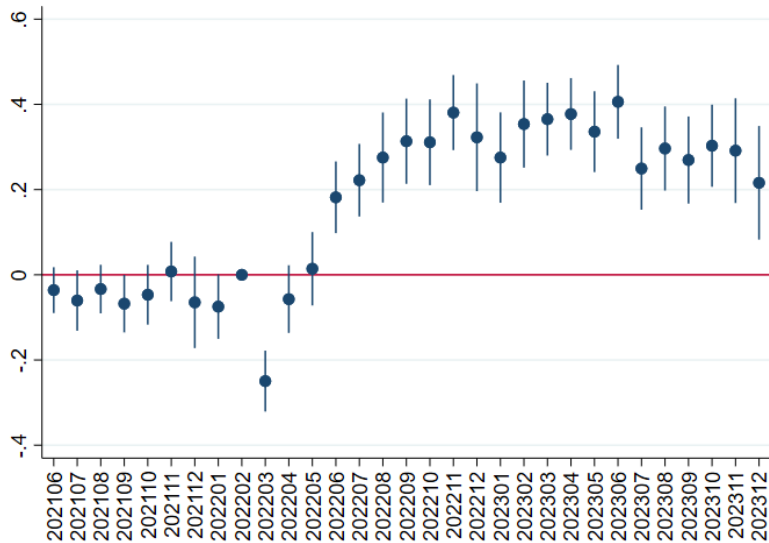
- Event study:

$$Y_{fpdt} = \sum_{l=-7}^{11} \beta^l \times 1_{t=l} \times \text{RUS}_d + \alpha_{fpd} + \alpha_{pt} + \alpha_{ft} + \epsilon_{fpdt}$$

Large increase in exports to Russia

Dep. Variable:	Log Value (1)	Log Quantity (2)
$\text{Post}_t \times \text{RUS}_d$	0.284a (0.0273)	0.249a (0.0282)
Fixed Effects :		
Firm $\times$ Product $\times$ Country	✓	✓
Product $\times$ Time	✓	✓
Firm $\times$ Time	✓	✓
R^2	0.867	0.897
# observations	14436818	14436818

Event study estimates for export value



Affiliates of Western MNCs behave differently $\Rightarrow$
 threat of **secondary sanctions** and **reputational risk**

Dep. Variable:	Log Value (1)	Log Quantity (2)
$\text{Post}_t \times \text{RUS}_d$	0.300a (0.0271)	0.266a (0.0276)
$\text{Post}_t \times \text{RUS}_d \times \text{Western MNC}_f$	-0.215b (0.103)	-0.214b (0.106)
Fixed Effects :		
Firm $\times$ Product $\times$ Country	✓	✓
Product $\times$ Time	✓	✓
Firm $\times$ Time	✓	✓
R^2	0.867	0.897
# observations	14436818	14436818

Is it the threat of secondary sanctions or reputational risk?

Dep. Variable:	Log Value Non-sanctioned (1)	Log Quantity (2)	Log Value Sanctioned (3)	Log Quantity (4)
$\text{Post}_t \times \text{RUS}_d$	0.216a (0.0220)	0.196a (0.0216)	0.369a (0.0385)	0.322a (0.0396)
$\text{Post}_t \times \text{RUS}_d \times \text{Western MNC}_f$	-0.398b (0.170)	-0.371b (0.183)	-0.209c (0.111)	-0.202c (0.115)
Fixed Effects :				
Firm $\times$ Product $\times$ Country	✓	✓	✓	✓
Product $\times$ Time	✓	✓	✓	✓
Firm $\times$ Time	✓	✓	✓	✓
R^2	0.884	0.914	0.856	0.882
# observations	6624252	6624252	7503862	7503862

No similar pattern for non-Western MNCs

Dep. Variable:	Log Value (1)	Log Quantity (2)
$\text{Post}_t \times \text{RUS}_d$	0.299a (0.0275)	0.265a (0.0281)
$\text{Post}_t \times \text{RUS}_d \times \text{Western MNC}_f$	-0.214c (0.115)	-0.213c (0.116)
$\text{Post}_t \times \text{RUS}_d \times \text{Other MNC}_f$	0.0717 (0.0904)	0.0464 (0.0949)
Fixed Effects :		
Firm $\times$ Product $\times$ Country	✓	✓
Product $\times$ Time	✓	✓
Firm $\times$ Time	✓	✓
R^2	0.867	0.897
# observations	14436818	14436818

Summary

- **Reputational risk** and the **threat of secondary sanctions** weigh on export decisions of Western multinationals
- A back-of-the-envelope calculation: **aggregate annualized foregone revenues of USD 230 million**
- The **reputational-risk effect** equivalent to tariffs of up to **42%**

Conclusions

- **Sanctions are working**, albeit imperfectly
- **Circumvention of sanctions:** reshipment via CCA3 and goods 'getting lost in transit' compensate for about 1/3 of restricted flows
- **Public pressure** and the **threat of secondary sanction matter:** many Western brands chose to stay away from the Russian market
- Bottom line: **Sanctions**, even if not working perfectly, **have deprived Russia of access to knowledge embodied in imported goods**

Have economists updated their views on sanction effectiveness?

Past experience suggests that **economic sanctions do little to deter** the target countries from their course of action (US panel)

March 25, 2014

Responses weighted by each expert's confidence



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Source: Clark Center Economic Experts Panel
Methodology

June 25, 2025

Responses weighted by each expert's confidence

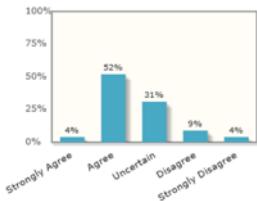


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Source: Clark Center Economic Experts Panel
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The experience of the past 10 years suggests that Western-led economic sanctions **do not substantially deter** the target countries from their course of action (June 25, 2025)

US survey

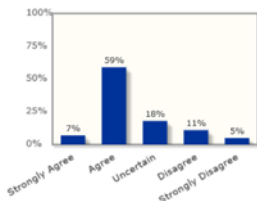
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