On the Design of Effective Sanctions: The Case of Bans on Exports to Russia

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The Case of Bans on Exports to Russia*

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Abstract

We analyze the effects of bans on exports at the level of 5000 products and show how our results can inform economic sanctions against Russia after its invasion of Ukraine. We begin with characterizing export restrictions imposed by the EU and the US until mid May 2022. We then propose a theoretically-grounded criterion for targeting export bans at the 6-digit HS level. Our results show that the cost to Russia are highly convex in the market share of the sanctioning parties, i.e., there are large benefits from coordinating export bans among a broad coalition of countries. Applying our results to Russia, we find that sanctions imposed by the EU and the US are not systematically related to our arguments once we condition on Russia’s total imports of a product from participating countries. Quantitative evaluations of the export bans show (i) that they are very effective with the costs to Russia typically being by a factor of \( \sim 100 \) larger than the costs to the sanctioners. (ii) Improved coordination of the sanctions and targeting sanctions based on our criterion allows to increase the costs to Russia by about 60% with little to no extra cost to the sanctioners. (iii) There is scope for increasing the cost to Russia further by expanding the set of sanctioned products.

Keywords  Export Ban · Input-Output Linkages · Quantitative Trade Model · Russia · Sanctions · Ukraine

JEL Classification  F13 · F51

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1 Introduction

In response to the Russian invasion of Ukraine beginning in February 2022, the EU, the US, and their partners have imposed wide-ranging economic sanctions. An important part of these sanctions are restrictions on exports to Russia. These restrictions were introduced at the level of more than 5’000 6-digit HS products, with substantial heterogeneity both across but also within 2-digit HS chapters, as shown in Figure 1. This raises the question how to design these export restrictions most effectively at a detailed level of dis-aggregation. In this paper, we seek to provide guidance for targeting export restrictions by characterizing the associated cost to Russia and its underlying drivers. Our results can readily be applied to other crisis settings to inform economic sanctions.

Much of the debates on sanctioning Russia have focused on its energy exports (see e.g., Hausmann 2022; Bachmann et al. 2022; Baqaee et al. 2022; Bayer et al. 2022; Berger et al. 2022; Gros 2022; Hausmann et al. 2022b,a). Russia extracts large rents from its energy exports, and oil and gas are important sources of Russian public revenues. These exports are therefore natural targets for sanctions. When it comes to energy trade, however, before the crisis, the EU was almost as dependent on imports from Russia as Russia was on the EU.¹ As a consequence, sanctioning Russia’s energy exports may not only inflict large costs on Russia, but interruptions in energy supplies may also inflict significant costs on the EU. This concern is at the heart of why it is so difficult for the EU to agree on sanctioning Russian energy exports. When it comes to Russian imports, the situation is very different: The EU accounts for 40% of Russia’s imports, but Russia constitutes only less than 2% of EU exports. This allows the EU to cut Russia off critical supplies with limited impact on its exports, and particularly so when coordinating export restrictions with partnering countries. Indeed, Figure 2 shows that in many 6-digit HS products, ‘coalition countries’ dominate Russian imports, where here and below we consider the EU, the US, the other G-7 member states, Australia, Korea, and Taiwan to be the coalition.² In this paper, we argue that export bans are, therefore, an effective instrument for sanctioning Russia and for economic sanctions in general.

¹Pre-crisis, the EU bought 25% of its oil and 40% of its gas imports from Russia, while Russia sold 75% of its gas exports and 50% of its oil exports to the EU.
²The choice of the coalition is motivated by the fact that sanctions against Russia have been coordinated at the G-7, with Australia, Korea, and Taiwan also participating. We did not include e.g. Switzerland in the coalition even though it adopted EU export restrictions against Russia because there is no data on Switzerland in the World Input-Output database, and we will use this data to quantitatively assess sanctions in Section 6.
A key motive underlying the export restrictions by the EU and the US is to target Russia’s military and defense sector, but the sanctions were more broadly designed to restrict “Russia’s access to vital technological inputs, atrophying its industrial base [...]”.

In our analysis, we focus on the latter and, more specifically, the economic costs of a ban on exports to Russia. Intuitively, restricting Russia’s imports of a product from a set of countries should be costly if (i) these imports are large, (ii) the sanctioning countries have a dominant position in the product (i.e., the shock is large in relative terms), and (iii) it is difficult to substitute for the missing imports. Such substitution can happen through imports of the same product from third countries; through the use of alternative products; or—in the case of capital goods or durable consumer goods—inter-temporally by living off pre-existing stocks.

With these considerations in mind, we provide an overview of EU and US restrictions on exports to Russia in Section 2. We show that the export restrictions are biased towards large products in terms of Russian imports. However, the share of sanctioning countries in the sanctioned products are not particularly large. Secondly, the sanctioned products do not have a relatively lower trade elasticity, which captures the degree to which trade flows within these product categories respond to changes in trade costs and, hence, the ease with which imports of a product from one country can be replaced by imports of the same product from other countries. Thirdly, the sanctions are biased towards capital goods, and while the

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Notes: For each HS-2 chapter, we calculate the share of 6-digit HS products in that chapter that are subject to export restrictions by the EU or the US. In this figure, we bin these shares into intervals of 0.04 and show the fraction of chapters that fall into each bin for the EU (left panel) and the US (right panel).

Data: See Section 4.1.

Notes: For each HS-6 product, we calculate the share of the coalition in Russia’s imports. Here, we bin these shares into intervals of 0.04 and show the fraction of products that fall into each bin. Coalition countries are: The EU, the US, the other G-7 members, Australia, Korea, and Taiwan.

Data: See Section 4.1.

sanctions are well coordinated in general, about 50% of all products with export restrictions by either the EU or the US are restricted by only one of them. Together, this suggests that it may take time for the cost of the export restrictions inflicted on Russia to materialize. Moreover, there may be scope for increasing the economic impact by stronger coordination among coalition countries and by focusing more systematically on products whose imports are relatively difficult to replace for Russia.

We analyze the costs associated with an export ban in Section 3 to shed light on different drivers of the cost to Russia and their aggregation. We consider an economy with a production hierarchy and where countries trade varieties of 6-digit HS products. We then build on Baqae and Farhi (2019, 2021) to characterize the cost to Russia of an export ban in a transparent way, while accounting for non-linear (second-order) effects, which are increasingly important as the shocks get larger. We derive an analytic expression for these costs and show how it confirms the basic intuition from above. We further show that the cost to Russia is highly convex in the market share of the coalition in Russia, suggesting large gains from coordinated sanctions and from focusing sanctions on products with a dominant position of the coalition.

In Section 4, we use our theoretical results to rank products by their implied cost to Russia from an export ban by coalition countries. We show that sanctions in place by the EU and the US are not systematically related to our ranking once we condition on Russia’s total imports of a product from coalition countries. Hence, our arguments suggest that there is scope for sharpening the sanctions, and there are many highly-ranked products that are currently not sanctioned.
Our ranking provides a first step towards an *ex ante* assessment of the economic cost to Russia from a ban on exports of narrowly defined products. It incorporates important dimensions, but it leaves others out of account: It considers sanctioning one product at a time, it is based on simplified input-output linkages, and we ignore costs to the sanctioners. In part, these simplifications are driven by data limitation. But even without such limitations, providing *ex ante* guidance on export bans at a dis-aggregate level would be difficult in richer environments given the high-dimensionality and the non-linearity of the problem. Nevertheless, an ensuing question is to what extent our analysis can provide valuable guidance in richer settings as well.

To shed light on this, we aggregate export bans at the 6-digit HS level to 15 World Input-Output Database (WIOD) manufacturing industries. We then assess quantitatively their impact, exploiting the full international input-output (I-O) structure. Three key insights emerge from this analysis: (i) the estimated costs to Russia are much larger than the cost to the sanctioners, typically by a factor of $\sim 100$ or even higher with the exceptions of the Baltic countries for whom the estimated costs are by a factor $\sim 10$ lower than the cost to Russia. This is a reflection of the aforementioned asymmetry in the trade relationship between Russia and the sanctioners. (ii) Improved coordination of the sanctions and targeting sanctions based on our criterion allows to increase the costs to Russia by about 60% with little to no extra cost to the sanctioners. (iii) There is scope for tightening the sanctions further by expanding the set of products covered.

We build on the literature that uses quantitative trade models to assess the effects of policy changes and shocks, in particular Caliendo and Parro (2015); Costinot and Rodriguez-Clare (2014); Baqaee and Farhi (2019, 2021). Such models have been used to quantify the gains from NAFTA (Caliendo and Parro, 2015), the gains from European integration and the cost of Brexit (Dhingra et al., 2017; Mayer et al., 2019; Felbermayr et al., 2020a), the cost of the US-China trade war (Charbonneau and Landry, 2018; Caliendo and Parro, 2022), and the cost of decoupling global value chains (Eppinger et al., 2021), for example. Closer to our work are Crozet and Hinz (2020) and Hinz and Monastyrenko (2022), who use quantitative trade models to evaluate sanctions that were imposed following the Russian annexation of Crimea in 2014, and Bachmann et al. (2022); Baqaee et al. (2022); Evenett and Mueenler (2022a); Felbermayr et al. (2022b), who use them to simulate different policy scenarios pertaining to the Russian invasion of Ukraine in 2022. These papers have in common that they evaluate specific (policy) scenarios. As opposed to that, we seek to provide guidance on the design of effective sanctions at a detailed level of disaggregation.

In doing so, we contribute to a large literature on economic sanctions that includes detailed
accounts of case studies (Hufbauer et al., 2007), empirical evaluations of the success factors of sanctions (Ang and Peksen, 2007; Escríba-Folch and Wright, 2010), empirical evaluations of the trade effects of sanctions (Haidar, 2017; Felbermayr et al., 2020; Larch et al., 2022), and game-theoretic analyses of the ability of sanctions—or the threat thereof—to induce change (Eaton and Engers, 1992, 1999; Kaempfer et al., 2004; Hovi et al., 2005; Major and McGann, 2005; Whang et al., 2013; Baliga and Sjöström, 2022)—see Kaempfer and Lowenberg (2007); Peksen (2019); Felbermayr et al. (2021) for surveys. Our work complements this literature in that it builds on the literature on international trade to provide guidance on the design of sanctions, viz. export bans at the product level. Our paper is thus closer to Sturm (2022) who studies economic sanctions as terms-of-trade manipulation in a two-country model. He shows that sanctions as trade taxes optimally target goods that the sanctionee demands and supplies inelastically. While this elasticity also plays an important role in our criterion, our work differs along important dimensions: We simplify by considering export bans rather than general trade taxes, and by considering targeting one product at a time. On the other hand, this allows us to characterize the cost to Russia from an export ban, taking into account the macroeconomic elasticity of substitution in a way that is theoretically grounded, transparent, and easily implementable with readily available data. Moreover, we show that our arguments are quantitatively important, allowing to increase the effectiveness of export bans by $\sim 60\%$.

2 Overview of Restrictions on Exports to Russia

In this section, we characterize restrictions on exports to Russia that were imposed by the EU and the US between February 21st and May 9th 2022. Details on the underlying data are provided in Section 4.1.

Figure 3 provides an overview of the restrictions. As a reference point, panel (a) shows the share of all Russian imports in 2019 that were from the EU, the US, other coalition countries, and China. Prior to the crisis, the coalition accounted for approximately 54% of Russian imports, with the large majority of these imports originating from the EU. Panels (b) and (c) summarize restrictions on exports to Russia since February 2022. All restrictions by the EU take the form of an export ban, while the US has mostly imposed export controls.

\footnote{Export bans correspond to the corner solution with infinite export taxes. Interestingly, this corner solution may be optimal for export taxes, but typically not for import taxes (Sturm, 2022). More generally, export bans may be desirable as a means of disrupting the sanctionee’s economy, and for political economy reasons at the sanctioner. In fact, restrictions on exports to Russia by the EU and the US take the form of bans or controls—not taxes—and, hence, our analysis is of evident relevance for policy.}
Figure 3: Overview of Export Restrictions by the EU and the US

(a) Shares of Russian Imports by Exporter

(b) Share of Product Categories Sanctioned

(c) Weighted Share of Product Categories Sanctioned

Notes: Panel (a) shows the share in Russian imports by groups of countries. Panel (b) shows the share of 6-digit HS product categories that were sanctioned by the EU and the US, respectively. Panel (c) shows the share of 6-digit HS product categories that were sanctioned by the EU and the US, respectively, with each product weighted by Russian imports.

Data: See Section 4.1.

but also some export bans. The figures separate these types of sanctions.\(^5\) Panel (b) shows that more than 35% of all product categories have been sanctioned by either the EU, the US, or both. Out of these product categories, \(\sim 50\%\) have been sanctioned by both, \(\sim 31\%\) by the EU only, and \(\sim 19\%\) by the US only. Taken together, the sanctioned exports account for \(\sim 19\%\) of Russian imports (panel (c)), and these imports are pre-dominantly in product categories that the EU has also sanctioned, in line with panel (a).

Figure 3 reveals large potential for expanding current sanctions and for stronger coordination between the EU and the US. Figure 4 explores the nature of the sanctioned products and compares them to non-sanctioned products along several dimensions. In each panel, the left (blue) bar indicates the (weighted) average of a characteristic across non-sanctioned products. The right (red) bar indicates the same average across sanctioned products. The figure focuses on sanctions imposed by the EU. An analogous figure for US sanctions is provided in Appendix A.2.

The first row summarizes product characteristics that impact the importance of imports from the EU and coalition countries for Russia. They reveal that sanctioned products are large in terms of Russian total imports (panel (a)). Moreover, the market shares in Russia by the EU and by the coalition are somewhat larger in sanctioned compared to non-sanctioned products (panels (b) and (c)). Intuitively, market shares matter independently of total exports because there are decreasing returns to consumption of a product, implying that large shocks (in

\(^5\) We do not have information on the detailed nature of the export controls. In the remainder we will therefore simplify matters by lumping together export bans and export controls.
Figure 4: Characteristics of Products with vs. without EU Export Restrictions

Notes: The figure compares 6-digit HS products with an EU export ban (blue, left bar) to those without an EU export ban (red, right bar) along the dimensions as specified in the panel titles. Bars refer to weighted means with weights given by Russia’s imports, with the exception of panel (a), which considers simple means, and panel (d), which considers the median.

Data: Data on the share of Russia in world employment by industry (panel (e)) is from Dun & Bradstreet, which provides employment data for 6-digit NAICs industries which we match to HS product categories using the concordance from https://cran.r-project.org/web/packages/concordance/. For all other data, see Section 4.1.

relative terms) are particularly costly. We will get back to this point at the end of Section 3.

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6The Dun & Bradstreet data is not representative and we therefore do not make use of this data when computing the Russian home share in Section 4. However, to the extent to which there is no systematic bias between sanctioned and non-sanctioned products, panel (e) is still informative about the difference in the share of Russia in world employment between these two groups of products, which is our main focus here.
The panels in the second and third row consider different factors that are important for
Russia’s ability to replace imports of a product from coalition countries. The second row
focuses on its ability to source the same product from either within Russia or from third
countries. It reveals little systematic differences between sanctioned and non-sanctioned
products. Panels (d) and (e) show that while the Russian export to import ratio tends to
be higher among sanctioned products—an indication of domestic capabilities—its share in
world employment tends to be lower in sanctioned products. Similarly, panel (f) reveals no
differences between sanctioned and non-sanctioned products in terms of how easy it is to
switch suppliers of a given product as measured by the trade elasticity, i.e., the response of
trade-flows within a 6-digit HS product to trade shocks measured by Fontagné et al. (2022).
The last row—panels (g), (h), and (i)—groups products into three categories: consumer
goods, intermediates, and capital goods. While this categorization is crude, it captures
dimensions that are important for Russia’s ability to ‘substitute’ missing imports of a product
by other products or over time. On the one hand, intermediate inputs and capital goods
tend to be less substitutable than final consumer goods, which should increase the cost to
Russia after a ban on these products. The figure shows that the EU sanctions were strongly
concentrated on these goods, and capital goods in particular. On the other hand, capital
goods are a stock variable, and flow imports account for only a small share of the stock in
the short run. The intermediate inputs are used for production, suggesting that a stronger
focus on intermediate inputs may have a larger impact on the Russian economy in the short
run.

In summary, the focus on large products in terms of Russian imports and the alignment of
EU and US sanctions suggest sizable effects on the Russian economy. Yet, there may be room
for improving the effectiveness of the sanctions in terms of economic costs to Russia by (i)
harmonizing them even further between the EU and the US and their partnering countries,
(ii) focusing sanctions on products where coalition countries have a dominant position in
Russia, (iii) focusing sanctions on intermediate as opposed to capital goods, and (iv) focusing
sanctions on products with a low trade elasticity. We explore this more systematically next
and how we can aggregate these different dimensions.

3 Targeting Export Restrictions

In this section, we consider an economy with a production hierarchy. We then build on
Baqaee and Farhi (2019, 2021) to derive a theoretically-grounded criterion for targeting bans
on exports to Russia. We begin with describing the economic environment.

### 3.1 Economic Environment

There are $I$ countries, indexed by $i, j \in I$, and $G$ 6-digit HS products (or goods), denoted by $g \in G$. Each country produces a distinct variety for each of the $G$ products, analogous to an Armington model (Armington, 1969; Anderson, 1979). Production follows a 4-tier production process that uses labor as the only primary factor. At the first stage of the production process, the varieties of 6-digit HS products are produced using a constant-returns-to-scale production technology with labor as the only input that is augmented by a country-product specific productivity. These varieties are traded with importer-exporter-product specific iceberg trade costs $\tau$. In each country and for every 6-digit HS-product, there is a perfectly competitive producer that combines the domestic and imported varieties in a CES aggregator with product-specific elasticity of substitution $\sigma^g > 1$ (stage 2). We henceforth simply refer to this CES aggregator as the 6-digit HS-product. HS products can be consumer goods or intermediate goods. Intermediate goods are supplied as inputs for domestic downstream production in $D$ downstream sectors—denoted by $d \in D$—, that combine these inputs and labor in a CES production function with constant elasticity of substitution $\theta \leq 1$ (stage 3). Lastly, downstream sectors are combined with consumer goods in a Cobb-Douglas final-good aggregator, $Y$. This aggregator is also traded between countries and trade is balanced. Figure 5 provides a schematic overview of the economy.

### 3.2 Impact of an Export Ban on the Russian Economy

The economic set-up allows to derive an analytic expression for the impact of a ban on exports of a 6-digit HS product by coalition countries on the Russian economy, as we now explain.

An export ban by coalition countries on their varieties of a 6-digit HS product impacts Russia via its effect on the price of the associated CES aggregator. For any variable $x$, let $x'$ denote its value after the shock and let $\hat{x}$ denote its change in response to the shock, i.e., $\hat{x} := x'/x$.

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7We are not aware of data that would allow to discipline heterogeneous values of $\theta$ across downstream sectors. To simplify the exposition, we therefore assume that $\theta$ is the same across downstream sectors. That is, we assume that the elasticity of substitution of downstream buyers across their inputs, $\theta$, is constant across downstream sectors. It is, however, different for intermediate goods than for final goods, which are directly supplied to final-good production.

8While our assumptions simplify input-output linkages in the economy, it is worth noting that the setup we consider is a generalization of a multi-industry (or product) Armington model (Armington, 1969; Anderson, 1979).
Notes: The figure provides a schematic overview of the economy in Section 3.

With this notation, we have

$$\hat{P}^g = \left( \sum_i \Omega_i^g (\hat{p}_i^g)^{1-\sigma^g} \right)^{\frac{1}{1-\sigma^g}}, \quad \sigma^g > 1$$

where $P^g$ is the price of product $g$ in Russia, $p_i^g$ is the price of variety $i$ of product $g$, $\Omega_i^g := \frac{p_i^g q_i^g}{P^g Q^g}$ is the pre-shock share of variety $i$ in the total cost of product $g$, and where here and below we simplify the exposition by omitting the importer-identifier for Russia. For all countries participating in the ban and who exported the product prior to the shock, we have $\hat{p}_i^g = \infty$. Moreover, Russian uptake of product $g$ is a small fraction of global output, implying that $\hat{p}_i^g \approx 1$ for all non-coalition members, including Russia. Hence,

$$\hat{P}^g \approx (1 - \Omega^g_{CO})^{\frac{1}{1-\sigma^g}}, \quad \Omega^g_{CO}$$

where $\Omega^g_{CO}$ is the pre-shock market share of coalition members in Russia. That is, $\Omega^g_{CO} := \sum_{i \in I_{CO}} \Omega_i^g$ with $I_{CO}$ denoting the set of countries in the coalition. Intuitively, the shock is bigger if coalition members have a larger market share in Russia ($\Omega^g_{CO}$ larger) and if it is harder to substitute for the missing varieties ($\sigma^g$ smaller).
How does such a shock on Russian imports of a product impact aggregate output in Russia? Baqaee and Farhi (2021, section 6) show how this can be analyzed by considering a ‘dual’ closed economy where the price change $\hat{P}^g$ is induced by a change in the sector-specific productivity, $\hat{A}^g$. In such an economy, Hulten’s theorem implies that—to a first order—the impact on aggregate output would be given by (Hulten, 1978; Baqaee and Farhi, 2019)

$$\Delta \ln(\hat{Y}) \approx \hat{\lambda}^g \Delta \ln(\hat{A}^g),$$

(2)

where $\hat{\lambda}^g := \frac{\hat{p}^g \hat{q}^g}{\hat{Y} \hat{P}}$ is the sales share—or Domar-weight—of product $g$ in the dual closed economy.$^9$ Intuitively, the allocation is efficient, and any re-allocations do not have first-order effects. Hence, all that matters is the direct cost effect on the buyers of product $g$, and the network structure is irrelevant conditional on $\hat{\lambda}^g$.

For large shocks, however, re-allocations may matter. We can conceive of such shocks as a chain of small shocks, each governed by Equation (2). Hence, the change in $\lambda^g$ is important for the economy’s response to large shocks. In turn, this change depends on the macroeconomic elasticity of substitution, i.e., on the economy’s overall ability to substitute away from $g$.\(^{10}\)

In Appendix B.1, we build on Baqaee and Farhi (2019, 2021) to show that in our economy, this can be reduced to the following expression for the impact of the shock:

**Proposition 1**

Consider a ban on exports to Russia of product $g$ by coalition countries. The impact on the Russian economy of this ban is

$$\Delta \ln(Y) \approx \lambda^g \left[ \frac{1}{\sigma^g - 1} \ln (1 - \Omega^g_{CO}) + (\theta^g - 1) \left[ \frac{1}{\sigma^g - 1} \ln (1 - \Omega^g_{CO}) \right]^2 \right],$$

(3)

where $\theta^g$ is the elasticity of substitution across inputs of the downstream buyers of $g$, i.e., $\theta^g = 1$ for consumer goods and $\theta^g = \theta \leq 1$ otherwise.

Intuitively, the export ban has a larger effect if (i) $g$ is an important input for the Russian economy as summarized by $\lambda^g$, (ii) imports from coalition-members account for a large share of total Russian expenditure on $g$ ($\Omega^g_{CO}$ large), (iii) these missing imports cannot easily be substituted by varieties from non-participating countries ($\sigma^g$ is small), (iv) downstream buyers cannot easily substitute the now costlier input $g$ by other inputs ($\theta^g$ small). The

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$^9$As noted in Baqee and Farhi (2021), this sales share need not be equal to the one in the original open economy. In the economy considered here, this is nevertheless the case—see Appendix B.1

$^{10}$In general, this depends on microeconomic elasticities of substitution in production and consumption, and on the input-output structure. Intuitively, the macro-elasticity depends on the ability of $g$’s buyers to substitute away from buying $g$, the ability of the buyer’s buyer to substitute away, and so on.
Notes: The figure illustrates the convexity of $\Delta \ln(Y)$ in Equation (3) with respect to the share of coalition countries in Russian imports, $\Omega^g_{CO}$, for $\sigma^g = 5$ and $\theta^g = 0.2$.

latter implies that in response to a positive price shock on $g$, its buyers will increase their expenditure on $g$, and $\lambda^g$ increases.

Equation (3) shows how the different forces discussed in Section 2 can be aggregated into a single statistics in this economy. This aggregation has an interesting implication: Ceteris paribus, the cost of an export restriction on $g$ to the Russian economy becomes higher as the share of coalition countries in Russian imports, $\Omega^g_{CO}$, gets larger. More importantly, this relationship is highly convex, implying large gains from coordinating sanctions among a broad coalition of countries and from sanctioning products with a dominant market position of the coalition:

Corollary 1

There are large gains from coordinating sanctions among coalition countries and from sanctioning products with a large market share of the coalition in Russia.

We show the convexity of $\Delta \ln(Y)$ with respect to $\Omega^g_{CO}$ in Appendix B.2 and illustrate this point in Figure 6 for $\sigma^g = 5$ and $\theta^g = 0.2$. 

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Figure 6: Market Share of Coalition and Change in Russian GDP
4 Application to Russia

In this section, we use Equation (3) to rank products by their cost to Russia from an export ban by coalition countries. We then compare this ranking to current sanctions in place and use it to identify potential targets for additional restrictions on exports to Russia. We begin with describing the underlying data.

4.1 Data

To take Equation (3) to the data, we need 4 sets of variables: (1) Total expenditure over GDP on product \( g \) (\( \lambda^g \)). (2) The market share of the coalition in Russia (\( \Omega^g_{CO} \)). (3) The elasticity of substitution at the 6-digit HS level \( \sigma^g \). (4) And the elasticity of substitution across inputs of downstream buyers (\( \theta^g \)).

To measure \( \lambda^g \) and \( \Omega^g_{CO} \), we start from trade data for 2019 from the Atlas of Economic Complexity. This data provides us with trade at the exporter-importer-product level for 6-digit HS products. It does not, however, provide us with Russia’s home share in a 6-digit HS product. To estimate this, we complement the trade data with data from the ITPD-E, which provides us with Russian home shares in year 2013 for 37 industries. We use this data to compute the ratio of Russian home sales to exports by industry. We then assume that this ratio is constant for all products within an industry to impute Russia’s home sales for 6-digit HS products. We finally combine this estimate with the trade data to get \( \lambda^g \) and \( \Omega^g_{CO} \).

Elasticities of substitution across varieties of 6-digit HS products, \( \sigma^g \), are from Fontagné et al. (2022). To reduce noise, we winsorize these elasticities at the 10th and the 90th percentile. To classify products into consumer goods, intermediates, and capital goods, we use the classification of broad economic categories (BEC), rev. 4. Consumer goods are directly used in final good production. In combination with our assumption of a Cobb-Douglas final-good aggregator this implies \( \theta^g = 1 \) for all consumer goods. As opposed to that, intermediates are combined in downstream CES aggregators, and we assume an elasticity of substitution across intermediate inputs of \( \theta^g = 0.2 \).13

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11 The data was downloaded in March 2022 from https://atlas.cid.harvard.edu/.
12 The data was downloaded from https://www.usitc.gov/data/gravity/itpde_guide/construction/#construction-of-the-international-trade-data in March 2022.
13 As noted in Baqaez and Farhi (2021), this is broadly in line with Atalay (2017), Boehm et al. (2019), and Herrendorf et al. (2013). When compared to Baqaez and Farhi (2021), we simplify by assuming Cobb-Douglas final consumption instead of a CES demand with elasticity of substitution of 0.9.
In what follows, we use this data to identify potential targets for bans on exports to Russia, and to compare these with export restrictions by the EU and the US. The data on the latter is from the Global Trade Alert.\textsuperscript{14}

4.2 Ranking

Table 1 lists the top-20 products according to Equation (3). Not surprisingly, these products are relatively large in terms of Russian imports, with each of them belonging to the top 10% of all products, and the top 5 products all having imports of over 1bn USD. Yet, the table also illustrates the importance of the other factors. For example, 843680 (germination, beekeeping plant) is ranked below 903289 (transmission for motor vehicles) even though Russian imports are larger and it imports a larger share from coalition countries. This is because 843680 has a relatively high trade elasticity. On the other hand, 940190 (parts of seats) is ranked below 843680, because the coalition has a lower share in this product in the Russian market.

The last two columns of Table 1 indicate whether the EU and the US have imposed an export ban (1) or an export control (2) on the respective product. In both cases, the share of the top 20 products that have been sanctioned is larger than the average share across all products, with the EU sanctioning 7 and the US 13 out of the list of 20 products. Yet, there are many unsanctioned products that might be viable targets for additional sanctions.

Figures 7 to 9 evaluate the relationship between our rankings and sanctions in place more systematically. These figures rank products in decreasing order of the cost to the Russian economy from an export ban by all coalition countries. Figure 7 then compares this ranking to the sanctions in place by the EU (left panel) and the US (right panel). In both panels, the gray histogram in the back shows the uniform distribution of ranks, i.e., a benchmark allocation of sanctions to products that is unrelated to the arguments developed here. The red histogram compares this benchmark to the actual sanctions in place by the EU and the US, respectively, considering US export bans and controls combined.\textsuperscript{15} Figure 7 shows that the export restrictions to Russia in place by both the EU and the US are biased towards highly ranked products. This, however, is entirely driven by the fact that export restrictions are biased towards products that are large in terms of Russian expenditure on these products.

\textsuperscript{14}The data includes export restrictions that were introduced up to May 9, 2022. We thank Johannes Fritz for providing us with the data.

\textsuperscript{15}To derive the ranking, we assume that the entire coalition adopts the sanctions. Hence, strictly speaking, the red histograms consider the desirability of EU and US sanctions, respectively, if the entire coalition were to adopt them.
<table>
<thead>
<tr>
<th>Rank</th>
<th>HS-6</th>
<th>Description</th>
<th>Russian Imports</th>
<th>Coalition Share</th>
<th>Durables</th>
<th>Intermediate Good</th>
<th>Capital Good</th>
<th>Elasticity</th>
<th>Sanction EU</th>
<th>Sanction US</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>870323</td>
<td>Automobiles, spark ignition, 1500-3000cc</td>
<td>$5.30 B</td>
<td>0.18</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>-9.37</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>300490</td>
<td>Medicaments, doses, nes</td>
<td>$7.33 B</td>
<td>0.54</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-20.1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>3</td>
<td>870829</td>
<td>Parts of motor vehicle bodies</td>
<td>$1.47 B</td>
<td>0.43</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>-4.78</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>4</td>
<td>848180</td>
<td>Taps, cocks, valves, appliances, nes</td>
<td>$1.58 B</td>
<td>0.31</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>-3.48</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>5</td>
<td>847989</td>
<td>Machines &amp; mechanical appliances nes</td>
<td>$1.18 B</td>
<td>0.48</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>-4.47</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>6</td>
<td>901890</td>
<td>Instruments for medical science, nes</td>
<td>$691 M</td>
<td>0.68</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>-3.86</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>7</td>
<td>870333</td>
<td>Automobiles, diesel, &gt;2500cc</td>
<td>$1.51 B</td>
<td>0.48</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>-7.27</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>8</td>
<td>870899</td>
<td>Motor vehicle parts nes</td>
<td>$1.77 B</td>
<td>0.28</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>-6.47</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>9</td>
<td>330210</td>
<td>Mixed odors, food &amp; drink</td>
<td>$354 M</td>
<td>0.79</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>-3.48</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>10</td>
<td>880240</td>
<td>Fixed wing aircraft, &gt;15,000kg</td>
<td>$2.70 B</td>
<td>0.16</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>-13.8</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>11</td>
<td>903289</td>
<td>Automatic controlling equipment nes</td>
<td>$394 M</td>
<td>0.68</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>-3.48</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>12</td>
<td>870840</td>
<td>Transmissions for motor vehicles</td>
<td>$1.15 B</td>
<td>0.49</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>-6.99</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>13</td>
<td>870324</td>
<td>Automobiles, spark ignition, &gt;3000cc</td>
<td>$1.17 B</td>
<td>0.39</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>-7.40</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>14</td>
<td>841989</td>
<td>Machinery for temperature change</td>
<td>$670 M</td>
<td>0.59</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>-5.05</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>15</td>
<td>271000</td>
<td>Oils petroleum, bituminous, distillates</td>
<td>$1.23 B</td>
<td>0.01</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-4.31</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>16</td>
<td>853710</td>
<td>Electrical control &amp; distribution boards, &lt;1kV</td>
<td>$851 M</td>
<td>0.19</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>-4.72</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>17</td>
<td>870332</td>
<td>Automobiles, diesel, 1500-2500cc</td>
<td>$1.15 B</td>
<td>0.28</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>-7.55</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>18</td>
<td>843680</td>
<td>Germination, bee-keeping plant</td>
<td>$417 M</td>
<td>0.92</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>-8.57</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>19</td>
<td>901819</td>
<td>Electro-diagnostic apparatus</td>
<td>$371 M</td>
<td>0.74</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>-4.45</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>20</td>
<td>940190</td>
<td>Parts of seats</td>
<td>$403 M</td>
<td>0.51</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>-3.72</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Notes: This table shows the top 20 products according to Equation (3). The last two columns indicate whether the product has been sanctioned by the EU and the US, respectively. A 1 indicates an export ban and a 2 an export control.

Data: See Section 4.1.
Figure 7: EU and US Export Restrictions vs Ranking by Equation (3)

(a) EU

(b) US

Notes: This figure compares the export restrictions by the EU (left) and the US (right), respectively, to a ranking of products by Equation (3). The gray box in the back shows a uniform distribution over these ranks, i.e., a distribution of products that is unrelated to Equation (3). The red histogram in the front shows the distribution of EU and US export restrictions, respectively, considering US export bans and controls combined.

Data: See Section 4.1.

as summarized in $\lambda^g$ in Equation (3). It is known since Hulten (1978), that $\lambda^g$ is an important factor of the cost to Russia from an export ban, and this is also the case here. At the same time, however, the foregone exports by the coalition also scale with $\lambda^g$ and, hence, potential costs to the sanctioners. We will consider these costs in our quantitative exercise in Section 6. For now, we note that an alternative criterion for prioritizing bans on exports to Russia would therefore be to focus on products where the cost to Russia per foregone dollar of exports are highest. Proposition 1 readily lends itself to such an analysis: Dividing Equation (3) by total coalition exports yields

$$\Delta \ln(Y) \Omega_{C_O} P^g Q^g \propto \frac{1}{\Omega^g} \left[ \frac{1}{\sigma^g - 1} \ln(1 - \Omega^g_{C_O}) + (\theta^g - 1) \left[ \frac{1}{\sigma^g - 1} \ln(1 - \Omega^g_{C_O}) \right]^2 \right]. \quad (4)$$

Figure 8 compares this alternative criterion to the sanctions in place by the EU and the US to find no systematic relationship. That is, EU and US sanctions are concentrated on large products in terms of Russian expenditure, but less so on products with low elasticities of substitution or a large market share of the coalition in Russia, in line with our discussions of Section 2. This suggests that there is potential for improving the effectiveness of bans on exports to Russia. We will get back to this point in Section 6.

Moreover, even when accounting for $\lambda^g$, there are many highly ranked products that are not
Figure 8: EU and US Export Restrictions vs Ranking by Equation (4)

(a) EU

(b) US

Notes: This figure compares the export restrictions by the EU (left) and the US (right), respectively to a ranking of products by Equation (4). The gray box in the back shows a uniform distribution over these ranks, i.e., a distribution of products that is unrelated to Equation (4). The red histogram in the front shows the distribution of EU and US export restrictions, respectively, considering US export bans and controls combined.

Data: See Section 4.1.

subject to export restrictions. This may be seen from Figure 9, which shows the frequency distribution of non-sanctioned products by the EU and the US, respectively, over ranks based on our baseline criterion from Equation (3). In other words, there is ample room for identifying target products for impactful additional sanctions. The arguments developed here may help identify such products.

5 Discussion

The previous sections derived a transparent, theoretically grounded criterion for prioritizing export restrictions, and compared this criterion to existing sanctions by the EU and the US. In this section, we present further discussions of the ranking and its underlying assumptions.

To take Equations (3) and (4) to the data, we rely on imputations of the Russian home share and on trade elasticities that are estimated with uncertainty. Appendix A.1 shows that the ranking is robust to alternative choices for these parameters, and particularly so at the tails, i.e., among the highest and the lowest ranked products.

Figures 4 and A.2 show that the export restrictions imposed by the EU and the US are heavily biased towards capital goods. This matters because in times of crisis it is desirable to impose
Figure 9: Products not Subject to an Export Restriction by the EU and the US

(a) EU

(b) US

Notes: This figure shows the frequency distribution of products without export restrictions by the EU (left) and the US (right), respectively, over product ranks according to Equation (3).

Data: See Section 4.1.

sanctions that have impact in the short run. Capital goods—and durable consumer goods—are less effective in that regard because the sanctionee can live off pre-existing stocks.\textsuperscript{16} A detailed account of capital goods is beyond the scope of our paper. Nevertheless, the main point can be illustrated by means of a stylized example. Suppose, for simplicity, that flow services of a capital good are a Cobb-Douglas aggregator of the pre-existing stock with the flow investment, and where the flow investment has a weight of $\delta^g$. In such case, ceteris paribus, a shock $\Delta$ to the price of the flow investment translates into a shock $\Delta^g$ to the price of the flow service of the capital good. Hence, the direct effect of the shock is

$$\hat{P}^g \approx (1 - \Omega^g_{CO})^{\frac{\delta^g}{1 - \sigma^g}},$$

and the short-term impact of an export ban on capital goods is attenuated by a factor $\sim \delta^g$ vis-à-vis a ban on intermediate goods.

In Section 3, we have shown that the cost to Russia of a ban on exports by coalition countries are highly convex in the market share of the coalition. Hence, there are large gains from coordinating sanctions among a broad coalition of countries. Such coordination may be challenging. In Section 4.2, we have ignored this and ranked products, holding the set of countries in the coalition constant. An alternative exercise would be to identify products where exports to Russia are concentrated in a small set of countries, i.e., where only a

\textsuperscript{16}In line with these arguments, internal Russian documents as summarized by Bloomberg (2022) raise the concern that, e.g., lack of access to foreign-made planes or spare parts could lead the aviation ‘fleet to shrink as they go out of service’.
small coalition of countries is required to cut Russia off its supplies of these products. Our framework readily lends itself to such an analysis as well.

Equations (3) and (4) provide theoretically grounded, transparent, and easily implementable \textit{ex ante} guidance on the cost from a ban on exports of a product by coalition countries to Russia. To derive this equation, we assumed an input-output structure with a production hierarchy, and then considered sanctioning one product at a time. That is, Equation (3) and (4) ignore potential interaction effects between the sanctions. Introducing such interactions would allow to refine targeting the sanctions. In particular, there should be gains from jointly banning exports of products that are close substitutes to each other. While it is difficult to get data on elasticities at such a detailed level, one way forward might be to group products into industries and then postulate that pairs of products in the same industry are closer substitutes than pairs of products in different industries. In such case, there would be additional gains from concentrating bans at the industry level.

Our simplifying assumptions are in part driven by data limitations and in particular, at the level of disaggregation considered here, there is no data on input-output linkages. Yet, these simplifications are also needed to increase the tractability of the problem. Even with better data, identifying an optimal combination of export restrictions with rich input-output linkages would be difficult due to the high dimensionality of the problem and the non-linearities involved. Equation (3) and 4 therefore represent a reasonable compromise that can provide valuable guidance on this issue in richer environments as well. To show this and shed light on the costs involved for the sanctioners, we consider a quantitative analysis next.

6 Quantitative Evaluation of Export Bans

In this section, we present a quantitative assessment of the bans on exports to Russia in an environment with rich I-O linkages. A key challenge in doing so is that export restrictions by the EU and the US were imposed at the level of 6-digit HS products, and there is no data on input-output (I-O) linkages at this level of disaggregation. We therefore aggregate 6-digit HS export bans to 15 manufacturing industries present in the World Input-Output Database (WIOD) (Timmer et al., 2015). We then assess the impact of these bans using a trade framework with international production networks analogous to Caliendo and Parro (2015); Costinot and Rodríguez-Clare (2014); Baqae and Farhi (2021); Çakmaklı et al. (2021). We begin with outlining the economic environment.
6.1 Economic Environment

To stay as close as possible to our set-up of Section 3, we again consider an ‘Armington’-type model with $I$ countries, indexed by $i, j \in I$, $D$ industries, indexed by $d, e \in D$, and perfect competition in all markets. As opposed to Section 3, however, there are no HS products. Instead, we assume that every country is equipped with a distinct variety in every industry, which are traded with an exporter-importer-industry specific iceberg trade-cost $\tau_{ij}^d \geq 1$. This provides a tractable set-up that allows calibrating our (pre-shock) model to exactly match the WIOD data. In this section, we describe our model. Technical details are relegated to Appendix B.3.

To capture the richness of the international input-output structure in the data, we assume that varieties are produced combining industry-specific labor with industry-specific intermediate input bundles in a CES production function with constant elasticity of substitution $\phi \leq 1$. $\phi \leq 1$ implies that labor and intermediate inputs are complements in production.\footnote{We use sector-specific factors to capture the short-run effects, following Baqaee and Farhi (2021) and Çakmak & et al. (2021).}

Intermediate input bundles in turn are two-tier CES-aggregators: The lower-tier combines the origin-specific varieties of, say, metals into a ‘metal’ bundle with constant elasticity of substitution $\xi^d$. The upper-tier combines input bundles from different industries into aggregate intermediate input bundles with constant elasticity of substitution $\epsilon$. These aggregate bundles are then used in production. They are destination-country and buying-industry specific. That is, the US transport equipment industry, for example, sources a different input mix when compared to other industries in the US or the transport equipment industry in Japan. Likewise, it buys its ‘metal’ inputs from a range of countries, and this source country mix for metal is different from the one of other industries in the US or the transport equipment industry in other countries. We calibrate our model such that these input shares within and across industries match the data.\footnote{In the WIOD data, source-country mixes for a given input typically differ across buying industries in a given destination because the home shares differ. To capture these differences in our model, we nevertheless need to allow the source-country mix of a given input to be destination and buying-industry specific.}

Analogous to the intermediate inputs, final consumption is based on a two-tier CES aggregator of the varieties. These aggregators also have destination-country and final-consumption specific weights that we calibrate to match the consumption shares in the data. The lower-tier elasticities of substitution are the same as for the intermediate-input bundles, the upper-tier elasticity $\epsilon^f$ is assumed to be larger than for the intermediate input bundles to reflect the fact that goods tend to be more substitutable in consumption than in production.
6.2 Aggregation of Export Bans

To quantitatively analyze export restrictions in place by the EU and the US and compare them to export restrictions based on our analysis of Sections 3 and 4, we feed industry-specific iceberg trade-cost shocks for exports from coalition countries to Russia into this model. We choose these trade shocks such that they have the same overall direct effect on Russian industry-level price indices as export bans have in a ‘disaggregated’ economy analogous to Section 3. That is, an ‘Armington’ economy, where origin-specific varieties are combined in 6-digit HS products using CES aggregators with constant elasticity of substitution $\sigma^g$, and these products are then combined in $D$ WIOD industries using CES aggregators with elasticity of substitution $\theta^d$. As we show in Appendix B.4 this is the case if

$$
\tau^d = \left( \left[ \sum_{g \in \mathcal{G}^d \setminus \mathcal{B}^d} \Omega^g \Omega^d (1 - \Omega^g CO) \right]^{1 - \epsilon^g \theta^d} \right)^{1 - \epsilon^d \theta^d} - (1 - \Omega^d CO). \tag{6}
$$

$\Omega^g CO$ and $\Omega^d CO$ are the Russian market share of the coalition in product $g$ and industry $d$, respectively, $\Omega^g d$ is the share of Russian expenditure in industry $d$ that is on product $g$, $\mathcal{G}^d$ is the set of products that belong to industry $d$, and $\mathcal{B}^d \subseteq \mathcal{G}^d$ the subset of these products with an export ban.\(^{19}\)

6.3 Data and Parameter Choices

To take the model of Section 6.1 to the data and quantitatively assess the export bans, we need information on international input-output linkages, coalition shares in Russia, and elasticities of substitution as introduced in the previous sections.

We take industry-level trade data with international input-output linkages from the World Input-Output Database (WIOD), which provides us with information for 41 countries and 30 industries.\(^{20}\) To decrease the computational burden, we aggregate countries into 18 country groups. Further, we aggregate industries into 16 by collapsing all service industries. A list of countries and industries can be found in Table A.1 of the Appendix. We combine the WIOD

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\(^{19}\)In the economy of Section 6.1, input shares are buying-industry specific. That is, the coalition share in industry $d$ in Russia depends on which Russian industry is buying $d$. In principle, it would be possible to account for this heterogeneity by introducing iceberg trade-cost shocks from coalition countries to Russia that are industry-pair specific, i.e., specific to the selling and the Russian buying industry (or final consumer). We simplify matters by considering a single trade shock per export industry from coalition countries.

\(^{20}\)We use the WIOD data processed by Baqaee and Farhi (2021).
Table 2: Elasticities

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Value</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\sigma^g$</td>
<td>Fontagné et al. (2022)</td>
<td>Elasticity of substitution across HS-6 level varieties</td>
</tr>
<tr>
<td>$\theta^d$</td>
<td>Caliendo and Parro (2015)</td>
<td>Elasticity of substitution across HS-6 level products in the aggregation to WIOD industries</td>
</tr>
<tr>
<td>$\xi^d$</td>
<td>Caliendo and Parro (2015)</td>
<td>Elasticity of substitution across WIOD varieties</td>
</tr>
<tr>
<td>$\epsilon$</td>
<td>0.2</td>
<td>Elasticity of substitution across intermediate inputs</td>
</tr>
<tr>
<td>$\phi$</td>
<td>0.6</td>
<td>Elasticity of substitution between labor and intermediates</td>
</tr>
<tr>
<td>$\epsilon^f$</td>
<td>1 (Cobb-Douglas)</td>
<td>Elasticity of substitution between sectors in consumption</td>
</tr>
</tbody>
</table>

*Notes: This table provides an overview of the different elasticities used for our quantitative analysis.*

data with the product level trade data as discussed in Section 4.1, from which we observe the coalition shares in Russia at the 6-digit HS-level ($\Omega^g_{CO}$) and the share of 6-digit HS products in the total Russian expenditure on a WIOD industry ($\Omega^{gd}$).

This leaves us with 6 sets of elasticities that need to be specified: $\{\xi^d\}_{d \in D}$, $\epsilon$, $\phi$, $\epsilon^f$, $\{\sigma^g\}_{g \in G}$, and $\{\theta^d\}_{d \in D}$. We obtain the elasticities of substitution across varieties in WIOD industries in the ‘aggregated’ economy, $\xi^d$, from Caliendo and Parro (2015).\(^{21}\) For the upper-tier elasticities across input bundles from different industries, we follow Baqee and Farhi (2021) and Çakmakli et al. (2021) and select $\epsilon = 0.2$, which is broadly in line with Atalay (2017), Boehm et al. (2019), and Herrendorf et al. (2013). For the elasticity between labor and intermediate inputs in production, we choose $\phi = 0.6$ (Baqee and Farhi, 2021; Çakmakli et al., 2021; Di Giovanni et al., 2022). On the consumption side, we assume that there is greater scope to substitute across industries and choose a Cobb-Douglas function with $\epsilon^f = 1$. To take Equation (6) to the data, we further need elasticities from the ‘disaggregated’ economy. We take the elasticities across varieties of 6-digit HS products from Fontagné et al. (2022), as discussed in Section 4.1. Lastly, we need to choose the elasticity of substitution across intermediate inputs in the disaggregated economy, $\theta^d$. Note that this elasticity is different from $\xi^d$: The former refers to the elasticity of substitution across different 6-digit HS products within a WIOD industry. The latter refers to substitution across different source countries at the level of 15 industries and, hence, also reflects substitution taking place within narrowly defined underlying 6-digit HS product categories. This suggests that $\theta^d \leq \xi^d$. To err on the side of caution and for lack of data, we choose $\theta^d = \xi^d$, i.e, we use the sector-specific values from Caliendo and Parro (2015) as well. Table 2 shows the summary of all elasticities we used in our empirical analysis. In Section B.5 of the Appendix, we use different values for these elasticities as a robustness exercise.

\(^{21}\)Caliendo and Parro (2015) who provide trade elasticities at the WIOD industry level. These trade elasticities correspond to $\xi^d - 1$ in our model. Table A.1 lists $\xi^d$ for the industries in our sample.
6.4 Quantitative Results

To assess the impact of the sanctions on the Russian economy, we run six different scenarios. In the first scenario, we take the EU and US sanctions as is. In the second scenario, we evaluate the economic impact of the sanctions if all coalition countries were to adopt EU sanctions. In the third scenario, we do the same but with the US sanctions instead of EU sanctions. In the fourth scenario, we consider the case where the EU & the US sanctions remain in place, but in addition all coalition countries (i.e., including the EU & the US) adopt optimal sanctions according to Equation (4) in Section 4. That is, we add the top products according to the ranking in Figure 8. We choose the number of banned products such that the total banned exports from coalition countries to Russia are the same as if all coalition countries were to adopt the EU sanctions (scenario 2). In scenario 5, we consider the case where all coalition countries impose bans on exports to Russia following the ranking in Figure 8, again choosing the number of banned products such that the total banned exports from coalition countries to Russia are the same as in scenario 2. Lastly, in scenario 6 we consider again optimal sanctions, but choosing the number of banned products such that the total banned exports are 1.5 times those of scenario 2.

Figure 10a shows the economic impact of the sanctions on the coalition (left, blue bar) and Russia (right, red bar), respectively, under the six different scenarios. In all scenarios, the cost of the export bans are much larger for Russia than for the coalition. This is true when comparing absolute costs as indicated by the heights of the bars in the figure: These costs are by at least a factor 2 larger for Russia and, in case of sanctions based on our criterion—scenario 5—even a factor of more than 5—we will get back to this point momentarily. Differences are even more dramatic when considering proportionate welfare losses instead as indicated by the percentages on top of the bars: These proportionate losses are by a factor of \( \sim 100 \) smaller for the coalition than for Russia.

Not surprisingly, the quantifications also suggest that the cost to Russia would increase vis-à-vis scenario 1 if all coalition countries were to adopt the EU and / or the US sanctions.

\(^{22}\)This scenario underestimates the total effect of export restrictions by all coalition countries. This is because—due to data constraints—we consider restrictions imposed by the EU and the US only, and do not account for sanctions imposed by other coalition members.

\(^{23}\)We note that in scenarios 1 and 4 the iceberg shocks differ across coalition members. This is to reflect the heterogeneity of sanctions in these scenarios. To compute these heterogeneous shocks within industries, we proceed in two steps: We first compute shocks according to Equation (6), considering one coalition member at a time. We then scale these shocks proportionally to ensure that Equation (6) is satisfied with all shocks combined.

\(^{24}\)In Section B.5 of the Appendix, we run this exercise with different parameter choices for the elasticities of substitution, to find patterns consistent with Figure 10.
(scenarios 2 and 3). This is because in such case the total amount of banned exports increases, and the sanctions are getting perfectly coordinated, which implies that the share of Russian imports of a product that is banned tends to increase. Scenario 4 sheds light on the respective importance of these two forces. In this scenario, we keep the total banned exports the same as in scenario 2, but with less coordination among the coalition. The results suggest that the gains from an improved coordination (scenario 2 vs. scenario 4) are as big or even bigger than the gains from an expansion of the sanctions (scenario 4 vs. scenario 1), in line with our theoretical reasoning of Section 3.25

Interestingly, even with perfect coordination and for a given amount of total banned exports, there is large scope for improving the effectiveness of the sanctions. This is shown in scenario 5, where we assume that all coalition countries adopt sanctions following our criterion from Section 4. In such case, the cost to Russia increase by an additional $\sim 30\%$ compared to scenario 2 at very little extra cost to the coalition. Combined, this implies that our arguments developed here—i.e., improved coordination and targeting sanctions based on our criterion—allow to increase the cost to Russia by $\sim 60\%$ with little to no extra cost to the coalition (scenario 5 vs. scenario 4).

In scenarios 2, 4, and 5, $\sim 43\%$ of all coalition exports to Russia are banned. This suggests scope for tightening the sanctions even further, as shown in scenario 6. In this scenario, we again consider sanctions following our criterion of Section 4, but expanding the sanctions such that 50% more exports are banned when compared to scenario 2. As the figure shows, this has a further sizable effect on the cost to Russia.

Figure 10b shows the impact of the export restrictions from scenario 5 on coalition countries separately. The largest losses are observed in the Baltic countries (Estonia, Latvia and Lithuania). This is consistent with the proximity and historical ties that these countries have with Russia and, hence, the relatively large importance of Russia for these countries as a trading partner. But even for these countries, the welfare losses are by a factor of more than 10 smaller when compared to Russia—see Figure 10a. All other countries face much smaller losses or they even gain.

While the cost to Russia are much larger than the cost to coalition countries, the welfare loss of 1.1% in scenario 5 is nevertheless moderate. This loss is in the same magnitude as

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25We note that this comparison likely underestimates the gains from coordination for two reasons: First, sanctions in scenario 4 are more coordinated when compared to scenario 1 because we assume that the entire coalition adopts the additional sanctions that are needed to get to the same total banned exports as in scenario 2. Second, these additional sanctions are chosen following our ranking from Section 4, which should also increase their effectiveness as shown in scenario 5.
Figure 10: Different Sanction Scenarios

(a) Losses for the coalition and Russia

(b) Impact of optimal sanctions on coalition

Notes: This figure shows the results of our quantitative exercise using the elasticities of substitution shown in Table 2. The left panel shows the cost to the coalition (blue, left bar) and to Russia (red, right bar), respectively for different scenarios. The right panel shows the cost by coalition country from scenario 5 ("Optimal Sanctions").

Similar numbers in related work, e.g., Bachmann et al. (2022); Evenett and Muendler (2022b). More importantly, our main interest is less in the point estimates but more in the relative sizes of the cost to Russia across the different scenarios, and the cost to Russia vis-á-vis the coalition. To the extent that our quantification is not biased in favor of specific countries or scenarios, these insights are robust. Nevertheless, two remarks are in order regarding the estimated costs: First, we consider only restrictions on exports to Russia, and do not account for sanctions on imports from Russia or financial sanctions, for example. The overall cost to Russia from the sanctions may therefore be much higher. Second, some of the elasticities that we use are estimated from small shocks, while we consider large shocks in our analysis. Our quantification may thus over-estimate Russia’s ability to substitute for its missing inputs, in particular in the short-run. Indeed, Russian officials warn that the lack of critical imports from coalition countries and the lack of good alternatives are a significant threat for the Russian economy (Bloomberg, 2022).

In sum, these quantifications strongly suggest that export restrictions inflict higher costs on Russia than on the coalition, a key guiding principle for the sanctions. While this is true for all six scenarios considered, there is great potential for improving the effectiveness of the sanctions by re-designing them based on the arguments developed here. Our quantifications

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26Evenett and Muendler (2022a) show that the cost to Russia could be increased further by sanctioning transportation and increasing shipping costs to and from Russia.
suggest that improved coordination and targeting sanctions based on the ranking in Section 4 could increase the cost to Russia by $\sim 60\%$ at little to no extra cost to the coalition.

7 Conclusion

Economic sanctions are among the swiftest policy measures taken by countries at the onset of international crisis. In today’s globalized economy, such sanctions allow to exert pressure on aggressors without direct engagement in an armed conflict, and particularly so if the leading economies of the world participate in the sanctions. A case in point are the international sanctions against Russia in response to its invasion of Ukraine starting in February 2022, which are the main focus of our analysis.

Designing economic sanctions is an intricate task. There are a multitude of instruments available, sanctions are particularly effective when coordinated among a broad coalition of countries, their effects are difficult to predict, and they also impact the sanctioners themselves. The latter concern features prominently in the debates on sanctioning Russia, and it is widely agreed that, at the least, sanctions should ‘damage Russia more than the sanctioners’ (Olaf Scholz, chancellor of Germany, on 19 May 2022).\footnote{Source: https://www.bundesregierung.de/breg-de/service/bulletin/regierungserklaerung-von-bundeskanzler-olaf-scholz-2041828, accessed on 31 August 2022. The original German quote is: ‘Alles, was wir tun, muss Russland mehr schaden als uns selbst und unseren Partnern.’}

We show that restrictions on exports to a sanctioned country are an effective policy instrument in this regard, and derive an intuitive, theoretically grounded, and easily-implementable criterion that provides guidance on which products to sanction. A quantitative analysis suggests that following this criterion could significantly increase the effectiveness of restrictions on exports to Russia.

Our analysis captures important drivers of the cost to Russia from an export ban, but it leaves out of account other dimensions that are important for designing sanctions. For example, we ignore non-economic motives underlying export bans such as ethical considerations or the desire to cut a sanctioned country off critical inputs for its military. The latter motive plays an important role in the sanctions against Russia. More generally, there may be bottlenecks in value chains that have large cascading effects and that are not captured by our quantitative analysis. Similarly, we do not consider the distributional consequences in the sanctioned country, and our analysis is not targeted towards harming ‘elites’, for example. We are also not taking into account any potential retaliation from Russia, such as gas sanctions to Europe, that might substantially increase the cost to coalition countries. Such motives are
important in their own rights, but they are not readily quantifiable. They therefore need to be considered on a case-by-case basis when designing sanctions. Our analysis is thus best understood not as a blueprint for policy, but as a valuable and easily implementable input into a more comprehensive analytical process.
Appendix

A Empirical Appendix

A.1 Robustness of Product Ranking

Figure A.1 shows the robustness of the product ranking according to Equation (3). Each panel presents a scatter plot with the baseline product ranking on the vertical axis and a robustness check on the horizontal axis.

Figure A.1: Robustness of Product Ranking

(a) No Home Share Russia

(b) Common Trade Elasticity

Notes: This figure shows robustness checks for a product ranking according to Equation (3). Panel (a) locates each product in a scatter plot with its baseline ranking on the vertical axis and a ranking without Russian homeshares on the horizontal axis. Panel (b) shows an analogous scatter plot, but where the ranking on the horizontal axis has been computed assuming a common trade elasticity of -8.2, which is the median trade elasticity at the 6-digit HS level in Fontagné et al. (2022).

Data: See Section 4.1.

To measure the total expenditure over GDP on product \( g (\lambda^g) \) and the share of the coalition in Russian expenditure \( (\Omega^g_{CO}) \), we rely on an imputation of the Russian home share in a product—see Section 4.1. Panel (a) shows a robustness check where we ignore the Russian home share. Panel (b) shows a ranking assuming that \( \sigma^g \) is constant across products and equal to \( 1 + \) the median trade elasticity in our data. As may be seen from the figures, the ranking is quite robust and particularly so in the tail of the ranking. The rank correlation is .99 for panel (a) and .98 for panel (b), and out of the top 1'000 products according to the main ranking, 934 (panel (a)) and 880 (b) are also among the top-1'000 products in the respective robustness check.
A.2 Additional Figures

Figure A.2 replicates Figure 4 from the main text, but considering export restrictions imposed by the US instead of the EU.

Figure A.2: Characteristics of Products with vs. without US Export Restrictions

Notes: The figure compares 6-digit HS products with a US export ban or control (blue, left bar) to those without a US export ban or control (red, right bar) along the dimensions as specified in the panel titles. Bars refer to weighted means with weights given by Russia’s imports, with the exception of panel (a), which considers simple means, and panel (d), which considers the median.

Data: Data on the share of Russia in world employment by industry (panel (e)) is from Dun & Bradstreet, which provides employment data for 6-digit NAICS industries which we match to HS product categories using the concordance from https://cran.r-project.org/web/packages/concordance/. For all other data, see Section 4.1.
A.3 Overview of Countries and Industries in Section 6

Table A.1 provides an overview of the countries and industries included in our quantitative analysis, along with the industry-level elasticities from Caliendo and Parro (2015).

Table A.1: List of countries and industries

<table>
<thead>
<tr>
<th>Countries</th>
<th>Industries</th>
<th>$\xi^d$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 USA</td>
<td>Agriculture, Hunting, Forestry &amp; Fishing</td>
<td>9.11</td>
</tr>
<tr>
<td>2 Germany</td>
<td>Mining &amp; Quarrying</td>
<td>16.72</td>
</tr>
<tr>
<td>3 United Kingdom</td>
<td>Food, Beverages &amp; Tobacco</td>
<td>3.55</td>
</tr>
<tr>
<td>4 France</td>
<td>Textiles &amp; Textile Products</td>
<td>6.56</td>
</tr>
<tr>
<td>5 Italy</td>
<td>Leather, Leather &amp; Footwear</td>
<td>6.56</td>
</tr>
<tr>
<td>6 Japan</td>
<td>Wood &amp; Products of Wood &amp; Cork</td>
<td>11.83</td>
</tr>
<tr>
<td>7 Canada</td>
<td>Pulp, Paper, Printing &amp; Publishing</td>
<td>10.07</td>
</tr>
<tr>
<td>8 Finland</td>
<td>Coke, Refined Petroleum &amp; Nuclear Fuel</td>
<td>52.08</td>
</tr>
<tr>
<td>9 Estonia, Latvia &amp; Lithuania</td>
<td>Chemicals &amp; Chemical Products</td>
<td>5.75</td>
</tr>
<tr>
<td>10 Rest of European Union</td>
<td>Rubber &amp; Plastics</td>
<td>5.75</td>
</tr>
<tr>
<td>11 Republic of Korea</td>
<td>Other Non-Metallic Mineral</td>
<td>3.76</td>
</tr>
<tr>
<td>12 Australia &amp; Taiwan</td>
<td>Basic Metals &amp; Fabricated Metal</td>
<td>8.99</td>
</tr>
<tr>
<td>13 China</td>
<td>Electrical &amp; Optical Equipment</td>
<td>11.6</td>
</tr>
<tr>
<td>14 India</td>
<td>Machinery, NEC</td>
<td>2.52</td>
</tr>
<tr>
<td>15 Turkey</td>
<td>Transport Equipment</td>
<td>1.37</td>
</tr>
<tr>
<td>16 Mexico &amp; Brazil</td>
<td>Services</td>
<td>6</td>
</tr>
<tr>
<td>17 Russia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18 Rest of the World</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: This table provides an overview of the countries and industries included in our quantitative analysis of Section 6. The last column shows the industry-level elasticities from Caliendo and Parro (2015).

B Mathematical Appendix

B.1 Derivation of Equation (3)

In this appendix, we derive Equation (3). To do so, we build on the second-order duality (Corollary 4) in Baqee and Farhi (2021).

Baqee and Farhi (2021, Theorem 7) show that a trade shock in an open economy has the same impact on welfare as a matching productivity shock in a ‘dual’ closed economy has on GDP. In our economy, the dual shock to an export ban on $g$ by coalition countries is given by

$$\Delta \ln \hat{A}^g = \Delta \ln (P^g),$$

where here an below $\hat{x}$ indicates variable $x$ in the dual closed economy. Combining this with the results in Baqee and Farhi (2019) allows deriving a second-order approximation for the
impact of the original shock in the open economy (Baqaee and Farhi 2021, Corollary 4). To simplify notation, let the 6-digit HS producer both produce the domestic variety from labor and combine this variety with imported varieties in the CES aggregator. Let $\mathcal{G}$ be the set of all such 6-digit HS producers, $\mathcal{D}$ be the set of downstream producers, and $\mathcal{H} := \mathcal{G} \cup \mathcal{D} \cup L \cup Y$, i.e., $\mathcal{H}$ is the union of the sets of all producers including the primary factor. Consider a shock to one HS-producer $g \in \mathcal{G}$ only. The impact of this shock is then approximately given by

$$\Delta \ln \hat{Y} \approx \hat{\lambda}^g \Delta \ln \hat{A}^g + \frac{1}{2} \sum_{k \in \mathcal{H}} e^k \hat{\lambda}^k \left[ \sum_{l \in \mathcal{H}} \hat{\Omega}^{kl} \left( \hat{\Psi}^{lg} \Delta \ln \hat{A}^g \right)^2 - \left( \sum_{l \in \mathcal{H}} \hat{\Omega}^{kl} \hat{\Psi}^{lg} \Delta \ln \hat{A}^g \right)^2 \right], \quad (7)$$

where $e^k$ is -1 plus the elasticity of substitution across $k$’s inputs, $\hat{\Omega}^{kl}$ is $k$’s expenditure on $l$’s input as a fraction of $k$’s revenues, and $\hat{\Psi}^{lg}$ is element $lg$ of the Leontief inverse of matrix $\hat{\Omega}$, i.e.,

$$\hat{\Psi} := I + \hat{\Omega} + \hat{\Omega}^2 + \ldots.$$

$\hat{\Psi}$ measures the direct and indirect dependence of $l$ on $g$. Intuitively, the second order term aggregates across all buyers $k$ of $g$ their ability to substitute away from $g$. The latter is governed by the elasticity of substitution across $k$’s inputs, $e^k$, and the differential exposure of all of $k$’s suppliers to the shock to $g$.

Now, $\hat{\Omega}$ is a matrix of expenditure shares in the dual closed economy, i.e., a matrix of expenditure shares on domestic inputs scaled to sum to 1. In our economy, $\hat{\Omega}$ therefore has the following structure
sector $d$. We can write this matrix in block form as

$$\tilde{\Omega} = \begin{bmatrix}
L (1) & G & D & Y \\
\hat{0} & \hat{0} & \hat{0} & \hat{0} \\
1 & 0 & 0 & 0 \\
\tilde{\Omega}_L & \tilde{\Omega}_G & 0 & 0 \\
0 & 0 & \alpha & 0 
\end{bmatrix}.$$

The terms in brackets next to the row labels indicate the dimensionality of rows and corresponding columns. It is a matter of simple algebra to show that

$$\tilde{\Omega}^2 = \begin{bmatrix}
0 & 0 & 0 & 0 \\
0 & 0 & 0 & 0 \\
\tilde{\Omega}_G & 0 & 0 & 0 \\
\alpha \tilde{\Omega}_L & \alpha \tilde{\Omega}_G & 0 & 0 
\end{bmatrix}$$

$$\tilde{\Omega}^3 = \begin{bmatrix}
0 & 0 & 0 & 0 \\
0 & 0 & 0 & 0 \\
0 & 0 & 0 & 0 \\
\alpha \tilde{\Omega}_G & 0 & 0 & 0 
\end{bmatrix}$$

$$\tilde{\Omega}^n = 0, \ \forall \ n > 3.$$

Hence,

$$\Psi = I + \tilde{\Omega} + \tilde{\Omega}^2 + \tilde{\Omega}^3$$

and

$$\tilde{\Omega}^{kl} \tilde{\Psi}^{lg} \Delta \ln \tilde{A}^g = \begin{cases} 
\tilde{\Omega}^{kl} \Delta \ln \tilde{A}^g & \text{if } k \in \mathcal{D} \text{ and } l = g \\
\alpha^l \tilde{\Omega}^{kg} \Delta \ln \tilde{A}^g & \text{if } k = Y \text{ and } l \in \mathcal{D} \\
0 & \text{otherwise}
\end{cases} \quad (8)$$

Using Equation (8) in Equation (7) and the fact that $\epsilon^k = 0$ for the final-good producer yields

$$\Delta \ln \tilde{Y} \approx \tilde{\lambda}^g \Delta \ln \tilde{A}^g + \frac{1}{2} \sum_{k \in \mathcal{D}} \epsilon^k \tilde{\lambda}^k \left[ \tilde{\Omega}^{kg} \left( \Delta \ln \tilde{A}^g \right)^2 - \left( \tilde{\Omega}^{kg} \Delta \ln \tilde{A}^g \right)^2 \right]$$

$$= \tilde{\lambda}^g \Delta \ln \tilde{A}^g + \frac{\left( \Delta \ln \tilde{A}^g \right)^2}{2} \sum_{k \in \mathcal{D}} \epsilon^k \tilde{\lambda}^k \left[ \tilde{\Omega}^{kg} \left( 1 - \tilde{\Omega}^{kg} \right) \right].$$

If $g$ is a consumer good, it is sourced by a single downstream producer who just passes it on to final-good production, implying that $\tilde{\Omega}^{kg} \in \{0, 1\}$. All other downstream producers source from over 4000 6-digit HS products that Russia imports, and we assume that expenditure shares of individual HS products are small, which implies

$$\tilde{\Omega}^{kg} \left( 1 - \tilde{\Omega}^{kg} \right) \approx \tilde{\Omega}^{kg}$$

for all $k \in \mathcal{D}$ and intermediate or capital goods $g$. Using that $\epsilon^k = \theta^g - 1$ for all downstream producers and noting that $\sum_{k \in \mathcal{D}} \tilde{\lambda}^k \tilde{\Omega}^{kg} = \tilde{\lambda}^g$, we get

$$\Delta \ln \tilde{Y} \approx \tilde{\lambda}^g \left[ \Delta \ln \tilde{A}^g + \frac{\left( \Delta \ln \tilde{A}^g \right)^2}{2} \left( \theta^g - 1 \right) \right].$$
Let \( \Omega_{CO}^g := \sum_{i \in I_{CO}} \Omega_i^g \) denote the total share of coalition members. Equation (3) then follows from (i) noting that
\[
\Delta \ln \tilde{A}^g = -\Delta \ln P^g \approx \frac{1}{1 - \sigma^g} \ln (1 - \Omega_{CO}^g),
\]
by Equation (5), and (ii) the fact that \( \lambda^g = \tilde{\lambda}^g \).

**B.2 Convexity of Cost to Russia**

In this appendix, we show that the cost to Russia of a ban on exports of a product are convex in the share of coalition countries in Russia.

Differentiating Equation (3) with respect to \( \Omega_{CO}^g \) yields
\[
\frac{d\Delta Y}{d\Omega_{CO}^g} = \lambda^g \left[ -\frac{1}{\sigma^g - 1} \frac{1}{1 - \Omega_{CO}^g} - 2(\theta^g - 1) \left( \frac{1}{\sigma^g - 1} \right)^2 \ln (1 - \Omega_{CO}^g) \right] < 0
\]
\[
\frac{d^2 \Delta Y}{d^2 \Omega_{CO}^g} = \lambda^g \left( \frac{1}{1 - \Omega_{CO}^g} \right)^2 \left[ -\frac{1}{\sigma^g - 1} + 2(\theta^g - 1) \left( \frac{1}{\sigma^g - 1} \right)^2 \left[ 1 - \ln (1 - \Omega_{CO}^g) \right] \right] < 0.
\]
The inequalities follow from \( \sigma^g > 1, \theta^g \leq 1 \) and \( \Omega_{CO}^g \in [0, 1] \). The concavity of \( \Delta Y \) implies that the cost to Russia, \( -\Delta Y \), are convex in \( \Omega_{CO}^g \).

**B.3 Details on Economic Environment of Section 6**

In this appendix, we provide details on the model of Section 6. The environment is similar to Baqaee and Farhi (2021) and Çakmakli et al. (2021).

**Production** We consider an ‘Armington’-type model with \( I \) countries, \( D \) industries, rich international input-output linkages, and perfect competition in all markets. Countries are indexed by \( i, j \in I \), where \( j \) denotes an exporter when applicable. Industries are indexed by \( d, e \in D \), where \( e \) denotes a selling industry when applicable. Each country is equipped with a distinct variety in every industry. Varieties are produced by combining a country-sector specific intermediate input bundle with sector specific labor using the following calibrated CES aggregator
\[
Y_i^d = \left[ \gamma_i^d (L_i^d)^{\sigma_i^d - 1} + (1 - \gamma_i^d)(M_i^d)^{\sigma_i^d - 1} \right]^{\frac{\sigma_i^d}{\sigma_i^d - 1}},
\]
where \( Y_i^d \) is total output of country \( i \)’s variety in industry \( d \), \( L_i^d \) is its endowment with sector-specific labor, and \( \gamma_i^d \) is country \( i \)’s value-added share in industry \( d \), which we calibrate to

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28This is because \( g \) and its downstream sectors other than the final-good sector are non-traded.
match the data. \( \phi < 1 \) captures the elasticity of substitution between the intermediate input and labor, which we take as complementary. We denote the country-industry specific intermediate input bundle with \( M_i^d \). These bundles are formed using two-tier CES aggregators: The lower-tier combines country-varieties to industry bundles with constant elasticity of substitution \( \xi^e \)

\[
M_{de}^i = \left[ \sum_j \Omega_{ij}^{de} (X_{ij}^e)^{\xi^e - 1} \right]^{\frac{\xi^e}{\xi^e - 1}}.
\]

\( M_{de}^i \) denotes the industry-\( e \) CES bundle that is used for production in industry \( d \) and country \( i \), \( X_{ij}^e \) is the input of the country-\( j \) variety into this bundle, and \( \Omega_{ij}^{de} \) is the baseline share of country \( j \) in country \( i \)'s absorption of industry \( e \) by industry \( d \). We calibrate \( \Omega_{ij}^{de} \) to match the data and take the industry-specific elasticity of substitution parameters, \( \xi^e \), from Caliendo and Parro (2015). The upper-tier combines these industry bundles into aggregate intermediate input bundles with constant elasticity of substitution \( \epsilon \)

\[
M_i^d = \left[ \sum_e \Omega_i^{de} (M_i^e)^{-1} \right]^{\frac{\epsilon}{\epsilon - 1}},
\]

where \( \Omega_i^{de} \) captures the share of industry \( e \) in industry \( d \)'s intermediate inputs. The elasticity of substitution between intermediate inputs from different industries, \( \epsilon \), is taken to be smaller than 1 to model the complementary nature of these inputs.

In the WIOD, we observe the values of inputs between country-industry pairs. Suppose that the input of industry \( e \) from country \( j \) by industry \( d \) in country \( i \) is given by \( X_{ij}^e \) and its price is given by \( P_{ij}^{de} \) (here, we take this price as the purchaser’s price, which includes all trade costs). Let \( P_i^d \) be the producer price of industry \( d \) in country \( i \). We can then define the input share as

\[
\tilde{\Omega}_{ij}^{de} = \frac{P_{ij}^{de} X_{ij}^e}{P_i^d Y_i^d}.
\]

From this, we can calibrate the share parameters that we use in the production side, namely \( \gamma_i^d \), \( \Omega_{ij}^{de} \), and \( \Omega_i^{de} \) as follows. The value-added share can be calculated as

\[
\gamma_i^d = 1 - \sum_j \sum_e \tilde{\Omega}_{ij}^{de}.
\]

Sector shares in the intermediate bundle are obtained by

\[
\Omega_i^{de} = \frac{\sum_j \tilde{\Omega}_{ij}^{de}}{1 - \gamma_i^d}.
\]
And finally, the share of country \( j \) in the absorption of industry \( e \) by industry \( d \) in country \( i \) is calculated as

\[
\Omega_{ij}^{de} = \frac{\tilde{\Omega}_{ij}^{de}}{\sum_j \tilde{\Omega}_{ij}^{de}}.
\]

**Consumption** On the consumption side, we also employ a nested CES-structure. The final consumption good, which we denote as sector 0, is an aggregate of industry-bundles

\[
C_i = \left[ \sum_e \Omega_i^{0e} \left( C_i^{0e} \right)^{\frac{1}{\xi^e - 1}} \right]^{\frac{\xi^e}{\xi^e - 1}}.
\]

Here, \( \Omega_i^{0e} \) is the final consumption share of industry \( e \) in country \( i \) and \( C_i^{0e} \) captures the consumption bundle of industry \( e \) in country \( i \). The elasticity of substitution, \( \xi^e \), dictates the inter-industry substitutability in consumption. We assume this elasticity to be equal to 1. Analogous to production, the industry consumption bundles are generated by aggregating over country varieties

\[
C_i^{0e} = \left[ \sum_j \Omega_{ij}^{0e} \left( C_{ij}^{0e} \right)^{\frac{1}{\xi^e - 1}} \right]^{\frac{\xi^e}{\xi^e - 1}}.
\]

\( \Omega_{ij}^{0e} \) is the share of variety \( j \) in consumption of industry \( e \) in country \( i \). \( C_{ij}^{0e} \) is the amount of variety \( j \) in industry \( e \) that country \( i \) buys for consumption. \( \xi^e \) are the same elasticities as on the production side.

Similar to the production side, we only observe the consumption value of industry \( e \) from country \( j \) in destination country \( i \), \( P_{ij}^{0e} C_{ij}^{0e} \). From this we can derive consumption shares in terms of the total expenditure of country \( i \), which we denote by \( E_i \), as

\[
\tilde{\Omega}_{ij}^{0e} = \frac{P_{ij}^{0e} C_{ij}^{0e}}{E_i}.
\]

The industry shares are then

\[
\Omega_i^{0e} = \sum_j \tilde{\Omega}_{ij}^{0e},
\]

and the variety shares

\[
\Omega_{ij}^{0e} = \frac{\tilde{\Omega}_{ij}^{0e}}{\Omega_i^{0e}}.
\]

**Equilibrium** The economy is in equilibrium if all sector specific factors are employed and the good markets clear

\[
Y_j^e = \sum_i \sum_d X_{ij}^{de} + \sum_i C_{ij}^{0e},
\]
subject to production functions and consumption preferences setting the prices of goods and the different types of labor.

**Solving the model** We are interested in the impact of the bans on exports by coalition countries to Russia. To that end, we introduce iceberg trade shocks from coalition countries to Russia that mimic the sanctions introduced at the 6-digit product level. Details on these shocks are given in Section B.4. We then solve the model in changes following the approach in Baqaee and Farhi (2021), and modifying their Matlab code to accommodate sector-specific factors.

**B.4 Derivation of Equation (6)**

In this appendix, we derive Equation (6)

Consider an ‘aggregated’ economy with 15-WIOD industries and rich I-O linkages. Let $\hat{P}_d$ be the effect (in changes) on the Russian price index for industry $d$ of a shock $\tau^d$ to iceberg trade costs from coalition countries to Russia in this economy. Analogous to Section 3, this effect is given by

$$\hat{P}_d = \left(1 + \Omega_{CO}^d \left[\tau^{d_{1-\xi^d}} - 1\right]\right)^{-\frac{1}{1-\xi^d}},$$

(10)

where $\Omega_{CO}^d$ is the market share of the coalition in industry $d$ in Russia.

Consider a ‘disaggregated’ economy analogous to Section 3 instead. In this economy, origin-specific varieties of 6-digit HS products are combined in a CES aggregator with product-$g$ specific constant elasticity of substitution $\sigma^g$ and these products are then combined in $D$ industries using CES aggregators with elasticity of substitution $\theta^d$. The direct effect of a ban on exports of good $g$ by coalition countries on the price for good $g$ in Russia is then given by

$$\hat{P}_g = (1 - \Omega_{CO}^g)^{\frac{1}{1-\sigma^g}}.$$

Let $G^d$ be the set of products that belong to industry $d$ and $B^d \subseteq G^d$ be the subset of these products that are subject to the ban. Aggregating over all products $g \in G^d$, we then get for the direct effect of the export bans on the industry-$d$ price index

$$\hat{P}_d = \left(\sum_{g \in B^d} \Omega_{CO}^g (1 - \Omega_{CO}^g)^{\frac{1-\sigma^d}{1-\sigma}} + \sum_{g \in G^d \setminus B^d} \Omega_{CO}^g \right)^{\frac{1}{1-\sigma^d}},$$

(11)

where $\Omega_{CO}^{gd}$ is the share of product $g$ in industry $d$ in Russia. Equation (6) then follows from equating (10) and (11) and solving for $\tau^d$. 

36
Table B.1: Elasticities in Robustness Exercises

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Robustness 1</th>
<th>Robustness 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\sigma^g$</td>
<td>Fontagné et al. (2022)</td>
<td>Fontagné et al. (2022)</td>
</tr>
<tr>
<td>$\theta^d$</td>
<td>0.05</td>
<td>Caliendo and Parro (2015)</td>
</tr>
<tr>
<td>$\xi^d$</td>
<td>0.05</td>
<td>Caliendo and Parro (2015)</td>
</tr>
<tr>
<td>$\epsilon$</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>$\phi$</td>
<td>0.6</td>
<td>0.1</td>
</tr>
<tr>
<td>$\epsilon^f$</td>
<td>1</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Notes: This table summarizes the elasticity choices for the two robustness checks of our quantitative results from Section 6.

B.5 Robustness

In our baseline specification, we follow Baqaee and Farhi (2021) and Çakmakli et al. (2021) and calibrate $\epsilon$, $\phi$, and $\epsilon^f$, based on estimates from the literature as discussed in Section 6.3. Elasticities between varieties at the 6-digit HS-level and WIOD industry level are taken from Fontagné et al. (2022) and Caliendo and Parro (2015), respectively—see Table 2 for a summary of these elasticities. In this appendix, we present robustness checks with regards to these elasticities. In the first robustness exercise, we choose $\theta^d = \xi^d = 0.05$ to mimic a situation where at the level of WIOD industries there is a very little possibility to substitute different inputs in the short run. In the second robustness check, we decrease all other elasticities. Table B.1 shows a summary of our elasticity choices in the two robustness exercises.

As shown in Figure B.1, regardless of these elasticities, our main results remain the same, with the Russian economy carrying the highest burden when the optimal sanctions are employed, and Baltic countries being affected the most among the coalition. The main difference is that with a strong level of complementarity at the WIOD industry level, the coalition may even get net gains from imposing the export bans.
Figure B.1: Sanction Scenarios

(a) Robustness 1 - Coalition vs Russia

(b) Robustness 1 - Coalition countries

(c) Robustness 2 - Coalition vs Russia

(d) Robustness 2 - Coalition countries

Notes: This figure replicates Figure 10 for the elasticity choices as summarized in Table B.1.

References


