Sanctions

Implications for Trade, Globalization, and International Finance

Presentation to Dallas Association for Business Economics, May 13, 2021
by
Sri Thiruvadanthai

Key Questions

- Can economics drive politics?
- Can sanctions coordinate a superior equilibrium?
- Can it catalyze long-term shift toward a non-cooperative equilibrium (de-globalization)?

Disclaimer: Views expressed here are my own and do not represent that of Citi.

Why Sanctions have been Effective?

- Interdependent world—extensive trade links

- Interconnected global financial system, dominated by the dollar and controlled by western institutions

- Undergirded by rule of law and property rights—reflected in the dollar and Treasuries as the dominant safe assets

Paradox

- Sanctions and freezing of reserves undermine

  - Political support for free trade by heightening the perception of insecurity
  - Support for capital flows
  - Safe asset characteristic

Good Outcome: End of History Redux

- Sanctions discourage other countries from military adventures

- Are perceived as narrowly applicable and consistent with rules-based global order

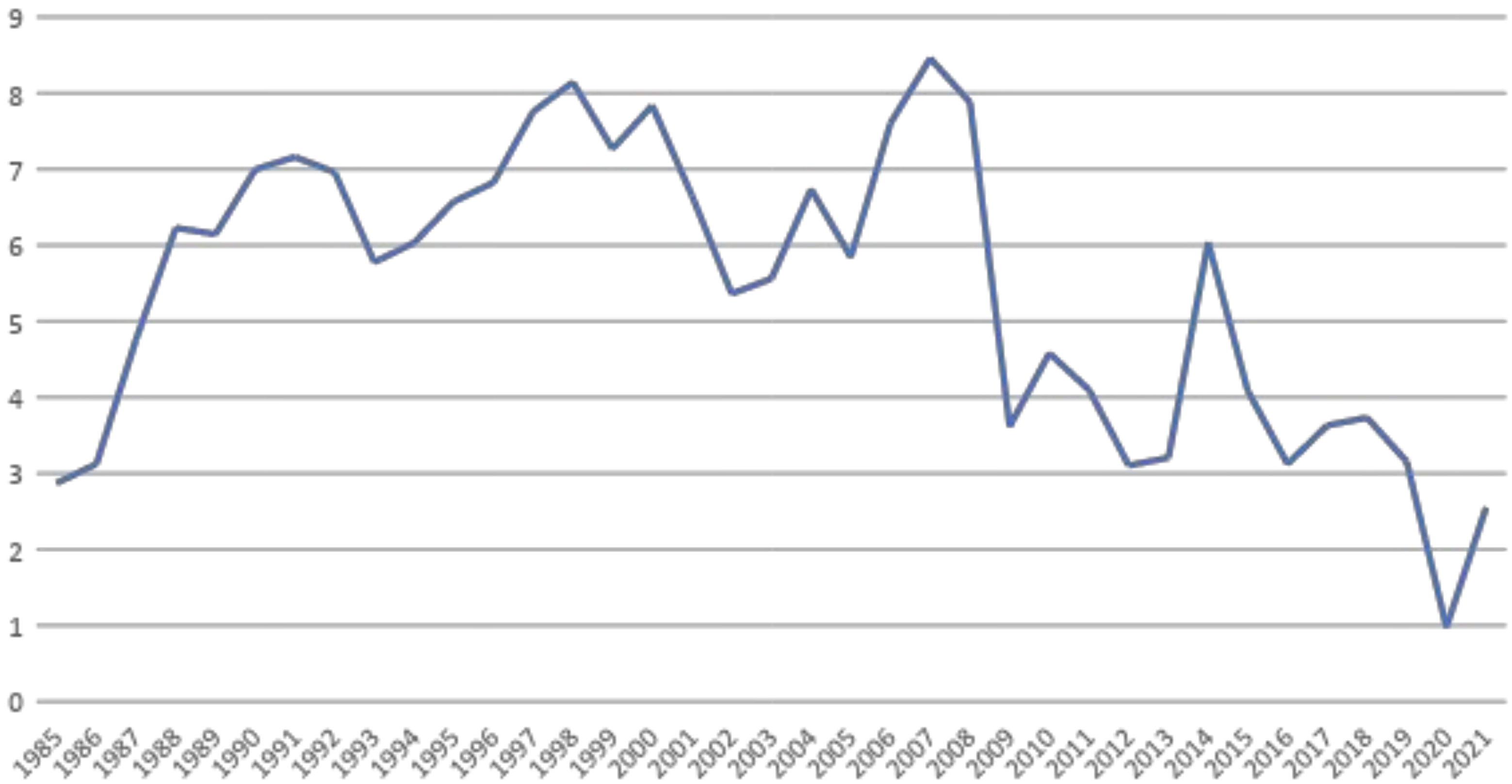
- Foster peace and cooperation

Is Globalization Carrot still Attractive?

- International trade had slowed sharply in the 5 years prior to COVID (slide 7).
- Capital flows have stagnated; FDI has declined (slide 8).
- Emerging economy capital markets have been stagnant (slide 9).

Anemic Trade Growth in Decade Before COVID

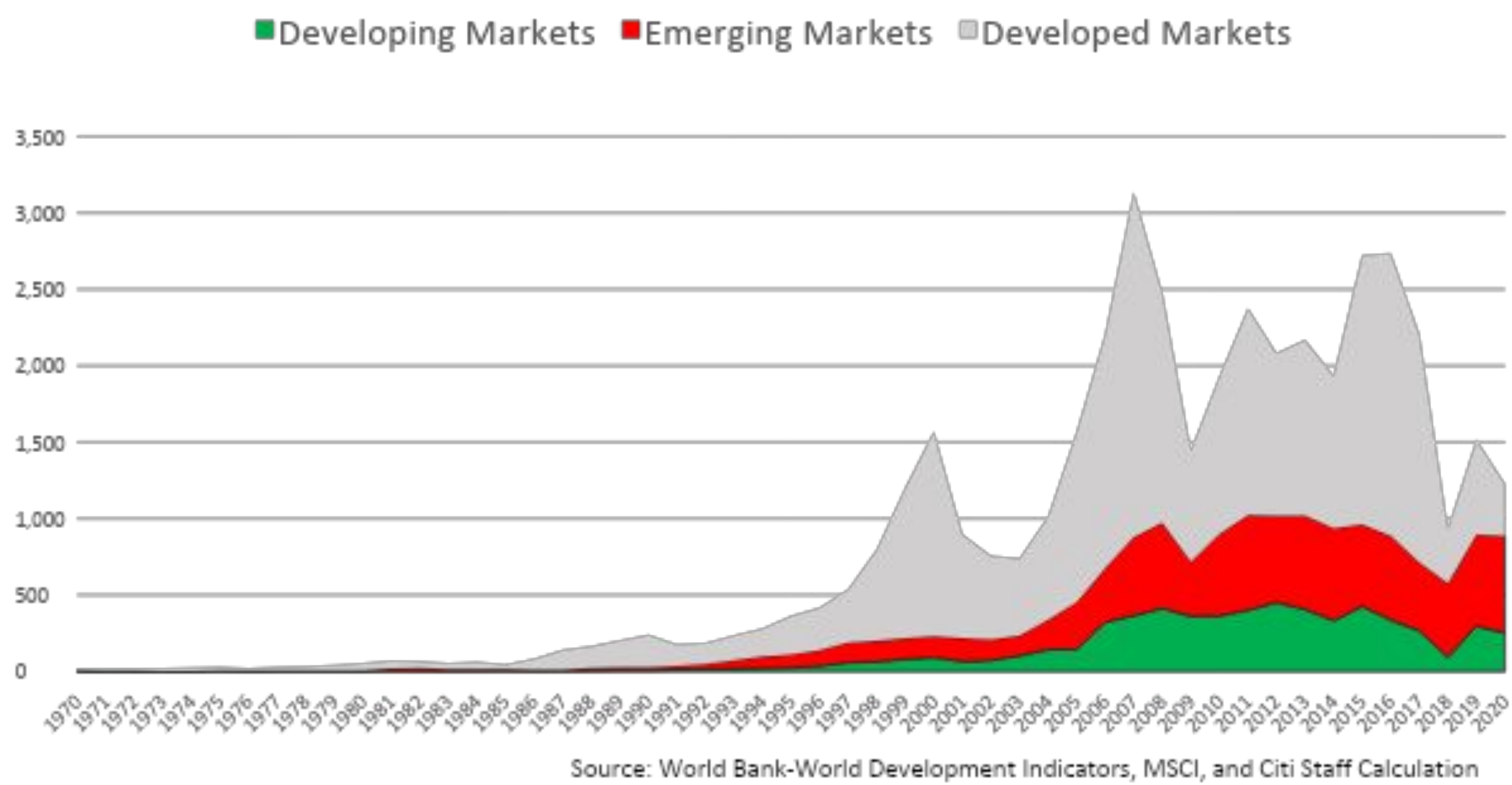
(5-year moving average, annualized % change)



Source: IMF WEO via Haver Analytics

FDI Stagnating Since 2008

(In USD Billion)



Emerging Market Equities Flat Since 2008

Source: /MSCI/Haver Analytics

Key Stakeholder Decisions

- Governments: “national” security vs. growth

- Businesses: resilience vs. optimization

- Central banks: capital controls?

Potential Implications

- Partial localization of sourcing
- Restrictions on international borrowing
- Reducing the reliance of dollar reserves
- Fragmentation of global financial markets—lower returns on capital, increased benefits of diversification

Disclaimer: Views expressed here are my own and do not represent that of Citi