Adjusting to Economic Sanctions

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Opinions expressed are those of the authors and do not necessarily reflect the views of the Banque de France or the Eurosystem

Summary of the paper

Impact of the Russia 2014+ ban on imports of agricultural and agro-food products from sanctioning countries on trade, labor and investment in firms' located in Lithuania

The reduced form (firm-level) estimation explores :

- the difference between "treated" and "matched controlled firms" in each year t,
- the fraction of firm i's sales of the banned products that is exported to Russia before 2014
- a post2014 dummy

The empirical approach accounts for dynamic adjustment (Post 2014 then Post 2016)

The paper develops a dynamic trade model with detailed structure on labor contracts (part time and full time workers) to rationalize the findings

Summary of the paper

Main results :

- Part time labor adjusted mostly in the first period, while full time employment adjusted in the 2016-2017 period only.
- Negative effect on investment as well but mostly in the first period
- Some evidence of rising exports to third countries after 2016

Overall comment :

- Very interesting paper given the large size of the shock for Lithuania : in 2020, Russia was still the first trading parter of Lithuania with about 13% of its total exports !
- Very interesting investigation on the reaction of affected firms via labor adjustment (part time / full time) while other papers have mainly focused on trade adjustment and implied welfare losses (Crozet and Hinz, 2020, Economic Policy)

Comments on the empirical methodology (1/2)

Main empirical specification :

$$\Delta Y_{it} = \beta_1 BannedExportShare_i \times Post2014_t + \gamma_i + \theta_t + \epsilon_i t$$

Δ is the different in year t and outcome Y between firm i and a "matched control firm" , same sector, same size, but not exporting to Russia

- Who are these firms ? Given the proximity to the Russian market, every exporter in the food industry should export to Russia. Non-exporters to Russia may have very different characteristics and therefore do not necessarily represent a very good match.
- How many control firms ? In total, 151 observations in each estimation. With 7 years of observations this makes about 21 firms per year which is not huge for identification (especially with interaction terms)
- Control firms not directly affected but they could also be indirectly impacted due to GE effects with changes in the prices ($\downarrow$) for targeted products

Comments on the empirical methodology (2/2)

- An other problem may come from the presence of wholesalers or intermediaries, which may suffer from a drop in exports but not necessarily in labor. Could drop these firms.
- Export reallocation matters only after 2016 apparently. Where did the missing exports (non-storable production) go ? Domestic market ? Impact on prices ?
- Why not taking logs for the dependent variable ?
- Estimate the impact using event-year dummies rather than using 2 dummies with non-exclusive period

Labor market adjustments

- Is part time work force necessarily more flexible labor in your data ?
- Was there any scheme introduced to facilitate labor adjustment, like partial unemployment associated with public subsidies ?
- Adjustment of part time vs full time changes over time, but this is not a single shock in 2014+. Multiple shocks could generate as well this adjustment on the labor over time (+implementation of policies)

Comments on theory

- Motivate more why a theoretical framework is needed, as the question looks more like an empirical / quantitative
- Is it possible to calibrate the model to go more quantitative with simulations (new sanctions, Covid...) ?
- On the mechanisms, unclear whether GE effects are accounted for.
- Reallocation of exports across markets : Can be obtained with convex unit production costs (check out Antras et al "Venting out" paper, AER 2021)