policy brief

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Theme Day Session Summary
The Future of (Ag-) Trade and Trade Governance in Times of Economic Sanctions and Declining Multilateralism

This IATRC Policy Brief summarizes outcomes of the Annual Meeting Theme Day presentations.

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Introduction

The International Agricultural Trade Research Consortium (IATRC) is an international association of agricultural researchers and policy practitioners. The objective of the Consortium is to enhance the quality of agricultural trade research by encouraging collaboration among international researchers to improve public understanding of international trade and trade policy issues through various activities such as its flagship annual conference, organized symposia, commissioned papers, and outreach activities.
Each year, the consortium holds its Annual Meeting, where members, including academics, government representatives, and business researchers, discuss research priorities and plans as well as report on ongoing research. As part of the Annual Meeting, the *Theme Day* focuses on innovative trade analysis and research that holds potential applications for agriculture. The *Theme Day Sessions* help facilitate the exchange of ideas and foster collaboration among participants.

This year, the *Theme Day* focused on the latest research and analysis regarding the ***evolution of trade governance in the context of economic sanctions and declining multilateralism***. The Sessions comprised three key presentations. It began with a discussion of recent methodological advancements in structural gravity estimation, a useful tool for quantifying the economic impact of sanctions. The discussion was followed by firm-level studies on the economic impact of sanctions, with abundant illustrations from recent empirical studies. Lastly, the discussion continued with a reflection on the recent manifestation of deglobalization, particularly in comparison with the 1930s recessions.

Session 1. "Quantifying the Impact of Sanctions with New Quantitative Trade Models" presented by **Yoto Yotov (Drexel University)**

The development of sanctions and the impact of sanction

Economic sanctions have become a highly debated and widely used measure by countries worldwide. According to the Global Sanctions Database (Rev.3), the number of sanction cases has been gradually rising since 1950. Cumulatively, many nations have either imposed sanctions or been targeted by them. The impact of sanctions is primarily expected between the interacting nations, but the effect may develop directly and indirectly through third-party countries. As sanctions come in a variety of forms and for a variety of reasons, it is challenging to quantitatively examine their impact uniformly.

Three effects can be identified when economic sanctions are imposed: 1) the primary sanction effect, 2) the general equilibrium effect, and 3) the extraterritorial sanction effect. The primary effect is the direct economic impact caused by changes in bilateral trade costs among senders and targets. The primary effect of sanctions generates indirect effects on third countries through an indirect channel, which is accounted for by the general equilibrium. The extraterritorial effects occur due to changes in bilateral trade costs between countries directly involved in a sanction and third countries.

Estimating the effect of sanction in economic studies: state-of-the-art gravity modeling

As the prevalence of sanctions continues to rise, there is an increased significance in quantifying the economic impact of these measures. As a methodological tool, Dr. Yotov emphasizes the role of the structural gravity model (a new quantitative trade model) and its correct applications. Due to its simplicity, flexibility, and effectiveness in predictive power, the structural gravity model has been applied in numerous studies in international economics and stands out as one of the most effective tools for analyzing the impact of sanctions and providing welfare implications. When estimating the structural gravity equations, special attention must be paid to technical attributes. For instance, failure to account for multilateral resistance and zero trade flows may lead to severely biased policy predictions. Similarly, measuring the economic impact of sanctions requires carefully designed econometric models that can capture potential general equilibrium effects.

Session 2. "Firm-Level Effects of Sanctions" presented by **Julian Hinz (Bielefeld University and Kiel Institute for the World Economy)**

Sanctions and firms

In geopolitical conflicts, economic sanctions are commonly used to impose political pressure on a foreign government with the hope that a targeted country would alter its policies. Besides consumer welfare and political economy, an uncertain environment brought about by sanctions also significantly affects firms' performances and their behaviors, especially among those who are actively involved in export activities and transactions with foreign partners. As firms are operating in an interconnected network, weaponizing those links may create permanent damage that is unlikely to fully recover. While the research on firm-level impacts is relatively limited, Dr. Hinz highlighted some of the latest studies that provide evidence on the (unintended) consequences of sanctions at the firm level for both sanctioning and sanctioned countries.

Effects in sanctioning countries

Upon investigating firm-level response to sanctions in the sanctioning countries, some questions are worth keeping in mind: how large is a drop in a firm's possibility to serve in a targeted market? What are the characteristics that help firms remain in the market? What happens to the surviving firms? Evidence from the Iranian and Russian sanctions show that there is a significant drop in the number of French exporters to the two sanctioned countries, especially for firms that are large, multi-product, and have intensive trade finance. However, the adverse effects attenuated for firms having previous experience in the sanctioned markets. Another study focusing on the 2014 Russian sanction and its retaliatory embargo on agricultural products also documents a strong decline in export value among the surviving firms in the Russian market. An interesting finding is the spillover effect of sanctions where most of the drop in exports comes from the decline in exports of non-embargoed products, especially among products having intensive trade finance instruments. This finding highlights an unintended consequence of sanctions and their political, legal, and financial risks channeled to every product and actor, including the non-targeted ones.

Effects in sanctioned countries

For the sanctioned countries, the intriguing research question involves how much firms can recover after the sanction is lifted, and whether there is a reallocation of resources and government support across different firm types. A study on the Russian-Turkey conflict during the 2015-2017 period shows that sanctions imposed on Turkish firms have caused a lasting adverse effect that cannot be fully reversed after the sanction ended. Moreover, there is no evidence that firms can reroute their sales to the domestic market. A study on the so-called "smart sanction" that targeted Russian elite-owned firms in 2014, aiming to avoid affecting ordinary citizens, highlights the potential unintended effects of sanctions: the elite-owned firm receiving government subsidies as a reward at the expense of the rest of the economy. In addition, sanctions can potentially stimulate a rally around the flag effect, leading to popular support for the sanctioned country's leader or creating a price shock for consumers. These indirect effects reveal the complex nature of economic sanctions, emphasizing the need to analyze the economic impacts of sanctions from multiple perspectives.

Session 3. "Resilience to Deglobalization" presented by **Peter van Bergeijk (Erasmus University Rotterdam)**

Some manifestations of deglobalization

While there is no clear consensus on the current trend of globalization, Dr. Bergeijk suggests some signs that the world is possibly undergoing a phase of deglobalization, akin to the 1930s era known as the 'Great Recession.' Based on his work and review of the relevant literature, he proposes the following key attributes can characterize deglobalization: 1) a long-term trend lasting at least a decade, 2) levels below the post-peak (e.g., trade openness and FDI flows), and 3) a significant drop in the Gross Planet Product (GPP). One observable manifestation of deglobalization is increased economic warfare, as evidenced by the growing number of economic sanctions. Given globalization's cyclical nature of expansion and retreat, the current retreat is likely driven by diminishing marginal benefits of trade, rising costs of redistribution of wealth, and shifts in global leadership.

The 1930s versus the 2000s

Some stylized facts reveal that both periods share economic similarities: the long-run reductions of trade costs, the emergence of new global players, imperialistic war, financial crises, etc. The empirical analysis also shows that both periods experienced major trade collapses, but the 1930s saw stronger and more prolonged contractions. The contraction appears less severe today, likely due to multilateral trade structures and expert advice against protectionism. Democratic regimes and manufacturing share are also relevant to trade resilience. Despite recent negative shocks in trade, recovery time today has shortened, suggesting that world trade has become much more resilient. The increased resilience is attributed to stabilizing factors, such as the economic growth of emerging economies, multilateral linkages through global value chains, and institutional improvements. Overall, today's deglobalization appears to be less extreme than that of the 1930s, though still historically significant.

Session 4. "Wrap-up Workshop" moderated by **Fabio Santeramo (University of Foggia and European University Institute, Italy)**

As the era of globalization is perceived to be in retreat, the International Agricultural Trade Research Consortium (IATRC) has organized an interdisciplinary conference for academic researchers and policymakers from government agencies to share their diverse perspectives and facilitate a vibrant exchange of insights. The keynote talks by Yoto Yotov, Julian Hinz, and Peter van Bergeijk have provided a timely discussion on (i) the theoretical framework and quantification methods for the economic impact of sanctions, (ii) the empirical evidence of firm-level impacts of sanctions for both sanctioning and targeted countries and the unintended consequences of sanctions that have both economic and political implications, and (iii) the reflection on the deglobalization and how we can relate past deglobalization experience to the current situation that we are facing today. Other relevant topics covered in the conference include climate change, the global agricultural value chain, geopolitical conflict and retaliation, and international food security, to name a few.

Overall, the IATRC this year served as a platform for participants to revisit the significance of cooperative global governance and a resilient supply chain, particularly in the agri-food sector. The discussions from the *Theme Day Sessions* helped participants expand their understanding of how interconnected yet fragile the world is when the global value chain is disrupted, and countries retreat from international integration and cooperation. Continued interactive efforts between academics and policymakers are called for to cope with the challenges the agri-food industry faces around the world.

Conclusion

The swift evolution of the global economic system and the subsequent unraveling of the geopolitical environment over the past decades appear to have catalyzed an alarming rise in international conflicts and a decline in multilateralism. There has been a noticeable surge in the weaponization of economic sanctions, which are employed to exert political pressure and seek behavioral changes in the targeted country. These trends pose a formidable threat to the global supply chain, with a significant impact. extending to all agricultural and food markets. In particular, the escalating political and economic instability has exposed the vulnerability of the global food supply system, jeopardizing the food security of numerous regions around the world.

In this regard, research and analysis are important to governments as they navigate the challenges posed by the ongoing trends of rising economic sanctions and weakening multilateralism. In the face of numerous pressing questions, some of the crucial issues include the following:

1. **Reshaping International Trade:** How will economic sanctions influence the dynamics of international trade, especially concerning agricultural food products? Will the impact be short-term, or will it result in long-term structural changes to the patterns of international trade?
2. **Governmental Responses to Challenges:** What role should governments assume in responding to the multifaceted challenges arising from political and economic sanctions? What would be the best strategy to alleviate the adverse supply or demand shocks within the current global food supply chain? What measures should be taken for countries facing food insecurity due to the direct or indirect impact of sanctions?
3. **Back to Multilateralism**: Does the escalating imposition of sanctions mark a significant reversal of previous efforts in trade liberalization and international cooperation over the past decades? How will individual countries and international society respond to palpable manifestations of deglobalization?