

# Report on Bachelor Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University

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| <b>Student:</b>             | <b>Vojtěch Tomšů</b>   |
| <b>Advisor:</b>             | <b>Vilém Semerák, Ph.D.</b>                                    |
| <b>Title of the thesis:</b> | <b>Analysis of Russian efforts to avoid economic sanctions</b> |

## **OVERALL ASSESSMENT** (provided in English, Czech, or Slovak):

*Please provide a short summary of the thesis, your assessment of each of the four key categories, and an overall evaluation and suggested questions for the discussion. The minimum length of the report is 300 words.*

### **Short summary**

The thesis focuses on the identification of Russian adaptation to economic sanctions. Most of the empirical work describes and analyzes the effects of the sanctions imposed before the subsequent Russian invasion to Ukraine in 2022, i.e. of the regime that failed to discourage the aggressor country from deepening the conflict; section 6 adds descriptive analysis of more recent data, too.

The author provides a relevant overview of the sanctions literature, discusses the development of the use of sanctions, as well as examples of attempts to circumvent embargoes.

The core of the thesis are two empirical approaches: (i) a gravity model which attempts to test the effects of the sanctions during 2014-2022, (ii) a data-based analysis based on more detailed trade statistics which shows the rise of possible indirect channels by which Czech products might be ending up in Russia after all (this part also covers newer data).

Both empirical approaches have been used by other authors who analyzed related topics (and can be thus described as relevant and adequate for the job), but while they lead to some results, the implementation of both methodologies, as well as the explanation of the results (especially in the case of the gravity model) also leaves space for additional improvements (more on that below).

The conclusions seem plausible, and at least in the case of the redirections analysis, they are also quite interesting. Unfortunately, in the case of the gravity model, the explanation of the gravity specification and interpretation of the estimates is too brief, leaving some uncertainty about the reliability of the results.

### **Contribution**

From my point of view, the up-to-date literature review on sanctions and sanctions typology and the analysis of trade data in section 6 can be considered the main contributions of the thesis.

The contribution of results based on the application of the gravity model (section 5) is limited. The model does not go too deep, and – unfortunately for the author – quite a few similar (but more detailed) applications of gravity models on sanctions have been published in recent years. The author also does not try to sell the results to the reader too much either; the discussion of the results is short, and the author does not explain why he finds them better. However, my evaluation takes into account the fact that it is not easy to come up with a significant improvement in an undergraduate text. What is a bit more serious is that the description of the specification also leaves some space for doubts about the reliability of the estimates of the coefficients on sanctions-related variables.

Similarly, but to a lesser extent, the contribution of the analysis of trade statistics is a bit constrained by the decision to focus mainly on Czech exports and HS4; it might have been possible to try to go deeper (more detailed HS classification) or broader (more European countries) relatively easily.

### **Methods**

Gravity models are definitely adequate for testing the effects of sanctions on trade (as documented by the very important recent contributions of the circle of authors relying on the Global Sanctions Database). Mr Tomšů explains the gravity model in a simplified, albeit still acceptable way. Basic discussion of the need for micro-founded models and the possible benefits of the PPML estimator is included. The model is also based on a relatively standard (and reasonably up-to-date) dataset that he

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compiled from reliable and often-used sources. The specifications (and estimators used) reflect current requirements on gravity models based on macroeconomic data. A few factors might be missing, though:

- (i) Bilateral trade relations analyzed in the model also depend on other sanctions (not just the ones imposed on Russia and by Russia) as well as on preferential trade liberalization (esp. new free trade agreements). The author clearly had access to at least some of these variables; if they are relevant, then not including them in the specification might lead to biased results. Therefore, the author might have invested a little extra time into explaining why he opted for the implemented specification (or perhaps into providing an additional “robustness check” that would include such variables).
- (ii) I also found the explanation of the role of the variables *sanc\_RUS\_imp* and *sanc\_RUS\_exp* a bit too brief, a reader might be left wondering whether the variables do not overlap with the *sanc\_RUS* variable too much – with possible adverse implications for the identified statistical significance of the estimated coefficients. I assumed that the original objective might have been to use additional variables that would identify pairs in which (i) countries which imposed sanctions on Russia were trading with other countries than Russia or (ii) pairs in which third (non-sanctioning) countries were trading with Russia. This would fit into the framework that the author briefly outlines at the beginning of section 4 (p. 24) where he mentions the redirection of trade flows caused by sanctions and the possible similarity of these effects with the concepts of trade creation and trade diversion. It would also nicely complement the analysis of similar effects that he presents on more detailed data in section 6.

Concerning the analysis of redirection of trade in section 6: In spite of the relative simplicity of the methodology, applied papers based on similar simple indicators (or, indeed, comparisons) calculated from detailed trade statistics are still being published. Therefore, again, I consider the methodology quite adequate for an undergraduate level. It just seems that if he had more time, the author might have tried to dig a bit deeper.

## Literature

The thesis includes an up-to-date literature review, which includes many of the essential contributions to the literature relevant to the analysis of sanctions (including recent texts authored by authors building on the Global Sanctions Database), as well as an overview of the research necessary as a basis for the gravity methodology used in the thesis. Quite a few additional texts (esp. on sanctions avoidance) can be found, but it seems to me that the author provides an acceptable overview at a level adequate for a bachelor thesis.

Most importantly, the text provides a brief and comprehensible categorization of sanctions (p.5 - 7), of their objectives (p. 7-8) and of sanction evasion techniques (p. 16-17). I also appreciate the inclusion of the discussion of the problems with the depiction of oil and gas in trade statistics, which is often neglected even in published papers (p. 24). I also highly appreciate that the author very clearly differentiates between the effects and success of sanctions (section 2.5).

## Manuscript form

It might have been useful to provide an appendix (with additional charts or econometric results or more detailed versions of the charts presented in the main texts). Occasionally, less clearly formulated statements also reveal that the author is not a native speaker, but in general, I find the manuscript, both in terms of formatting and language quality, adequate for an undergraduate thesis.

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## Overall evaluation and suggested questions for the discussion during the defense

The overall results of the Turnitin analysis show a slightly higher overall score (24%) of overall similarity, but more detailed analysis shows that there is no significant text similarity with other available sources.

In my view, the thesis fulfills the requirements for a bachelor thesis at IES, Faculty of Social Sciences, Charles University, I recommend it for the defense and suggest a grade B.

## Questions for the defence:

1. Explain the term „smart sanctions“. When did the term appear, and how are such sanctions supposed to differ from other types of sanctions? Would you expect the effects of such sanctions to be identifiable by approaches based on gravity models?
2. Briefly outline the logic of the so-called “multilateral trade resistance“ and its implications for the econometric specification of gravity models.
3. Please clarify the issue regarding the meaning and role of the variables *sanc\_RUS\_imp* and *sanc\_RUS\_exp*. If you find it relevant, outline how “trade creation“ and “trade diversion“ effects can be tested in a simple gravity model.

## **SUMMARY OF POINTS AWARDED** (for details, see below):

| <b>CATEGORY</b>                         | <b>POINTS</b> |
|---|---------------|
| <i>Contribution</i> (max. 30 points)    | 23            |
| <i>Methods</i> (max. 30 points)         | 21            |
| <i>Literature</i> (max. 20 points)      | 19            |
| <i>Manuscript Form</i> (max. 20 points) | 18            |
| <b>TOTAL POINTS</b> (max. 100 points)   | <b>81</b>     |
| <b>GRADE</b> (A – B – C – D – E – F)    | <b>B</b>      |

**NAME OF THE REFEREE:** **Vilém Semerák, Ph.D.**

**DATE OF EVALUATION:** **August 29th, 2024**

**Digitally signed (August 29th, 2024)**  
**Vilém Semerák**

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**EXPLANATION OF CATEGORIES AND SCALE:**

**CONTRIBUTION:** *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

**METHODS:** *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

**LITERATURE REVIEW:** *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

**MANUSCRIPT FORM:** *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

**Overall grading:**

| TOTAL    | GRADE |
|----------|-------|
| 91 – 100 | A     |
| 81 - 90  | B     |
| 71 - 80  | C     |
| 61 – 70  | D     |
| 51 – 60  | E     |
| 0 – 50   | F     |