

Tracing Sanctions through the Value Chain: Evidence from the US Cotton Ban *

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Abstract

We investigate to what extent and in what way the US Cotton Ban on products originating from Xinjiang province affected Chinese exports. We find that direct exports of cotton and cotton products to the United States fell by 19% at the intensive margin and 4% at the extensive margin. While the import reduction is strongest for Chinese provinces sourcing most actively from Xinjiang, reductions in US imports from third countries correlate only very weakly with the extent to which countries source cotton inputs from China. The European Union did not impose sanctions, but its cotton-related imports from China declined significantly as well. Our analysis demonstrates that this negative spillover effect is not due to lower prices, nor to EU countries indirectly facing the ban as they want to maintain access to the US market. The most likely reason for the import decline is European firms' concerns about reputational damage associated with using cotton products sourced from China.

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