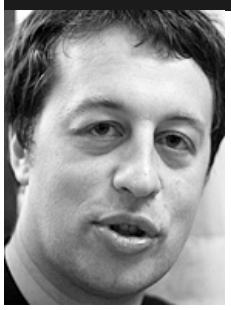
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New Trade Wars Are a Bad Idea

By Konstantin Sonin

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A fierce debate is raging in Russia over whether Ukraine should become an associate member of the European Union or join the Customs Union with Belarus, Kazakhstan and Russia. President Vladimir Putin has sounded ominous warnings and firm recommendations and backed them up with actions by various regulatory bodies — from the Federal Customs Service to the infamous Federal Consumer Protection Service — that can ban foreign food imports at will.

The fact that a fierce debate is not raging in Ukraine itself is a bit strange. Ukraine has roughly the same level of trade with both the EU and Russia and, at least theoretically, choosing one over the other should be a very difficult task. However, the majority of prominent Ukrainians, from politicians to businesspeople, feel that if a choice must be made, it is better to have good relations with the EU than with Russia. Unfortunately, Moscow's threatening attitude has a negative effect.

With all economic factors being fairly equal, the EU emerges as more attractive for the simple reason that its policy does not depend on the mood of individual politicians. Nowadays, customs union agreements are not made with the use of threats.Heavy-handed pressure and methods that have worked in centuries past do not necessarily have a place in the 21st century. Most of my acquaintances in Kiev said that it was Putin's words that had driven them into the EU camp. Of course, that does not mean that Ukrainian leaders are

motivated by the same reasons, but it seems obvious that Moscow's saber rattling has backfired badly.

It is not too late for Russia to change its position with regard to Ukraine becoming an associate member of the EU. Whatever alliance Kiev does join, Ukraine remains one of Russia's closest neighbors, one with shared cultural and historical ties and one of its most important trading partners. Moscow must demonstrate that, as a good neighbor, it will support whatever choice Ukraine makes and will not complicate trade relations.

Of course, the trade situation will change with Ukraine's new status, but possibly for the better. Russian politicians talk blithely about taking punitive actions against trading partners, but those sanctions will also hurt Russian citizens.

When foreign imports from a country like Ukraine, Moldova or Lithuania are banned, only a handful of competing domestic firms — and in some circumstances their employees — benefit. The majority of Russian citizens lose out by paying higher prices for inferior goods — the inevitable result of such actions — even if those goods were initially as good as or better than their foreign counterparts. If Ukraine and the EU lower trade barriers and this results in lower barriers for Russia as well, the vast majority of Russians will ultimately benefit from the increased trade.

What conclusion can be drawn? Of course, it is regrettable that Ukraine will not join the Customs Union, but there is nothing inherently wrong or bad about its choice. The real problems will come if Russia reacts wrongly to that decision.

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