

# The trade war between Ukraine and Russia and its impact on global trade

Ukraine and Russia are locked in what has been criticised as a 'tit-for-tat' trade war. Nataliia Zaika suggests that good can come out of it.

**T**he signing of the EU-Ukraine Association Agreement precipitated what is now an escalating trade war between Kiev and Moscow, with mutual import restrictions on Ukrainian goods entering Russia (and vice-versa), conducted against the backdrop of intensifying political and military conflict between the two countries. Recently, in addition to the embargo on the import of Ukrainian products, the Russian government has put restrictions on Ukrainian transit routes. It is difficult to attribute Russia's actions to protectionism or protection of the domestic market from foreign products – rather, the situation is a natural consequence of Ukrainian foreign policy.

## The results of trade war

Given the intertwined histories of Russia and Ukraine, the closeness of trade relations – particularly in sectors such as heavy engineering, food, energy, defence, chemicals, aviation and agriculture – is inevitable, and neither stands to benefit from deteriorating relations. If Ukraine attempts to reorient sales of its products on the European market, the Russian Federation suffers from loss of Ukrainian and European imports.

But this is the situation that Russia is looking to engineer: fewer imported goods demands that Russian industry steps up its production so as to meet the needs of the internal market. Russia's economic recession demonstrates the fruit of the trade embargo – now a trade war. Russia's actions contravene the free trade agreement signed by the two nations on 10 October, 2011 – and the principles of the World Trade Organisation. (Russia has attempted to justify its actions first by arguing that agreement with the EU impacts negatively on a free trade zone that includes Ukraine and Russia, and latterly by claiming that Ukrainian production fails to meet certain sanitary standards – despite the absence of similar complaints from other Ukraine's partner countries.)

But competition incentivises product improvement – which suggests that the import restrictions imposed by Russia will actually hinder its own national economic development.

## Benefits for Ukraine

At first glance, these restrictions have imposed billions of dollars' worth of damage to the Ukraine economy – and will continue to do so in the short term. On the other hand, there is also an opportunity here to incentivise production optimisation, upgrade production capacity, reorient production toward consumer demand in the European Union, and establish and deepen economic relations with the

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Middle East and Europe. Indeed, the Ukrainian government – and industry – have long anticipated developments along these lines, for the trend was that the value of exports to Russia (even in the absence of a trade war) was decreasing, one reason for which being the low purchasing power of Russian consumers.

It should be noted that Ukraine is dependent on exports from countries including Russia (the value of imports exceed the value of exports). But in recent years this import dependence from Russia has tended to decrease, and, starting from 2013, the negative trade balance has reduced every year.

As for the foreign trade turnover between countries, starting in 2012 it is actively reducing (both exports and imports) as the result of introduction of mirror trade restrictions.

Despite the economic crisis, the loss of territory along with production

facilities and partial change of export and import partners, in 2016 Ukraine expects economic growth (according to the International Monetary Fund, Ukraine's GDP growth in 2016 stood at 1.5% with inflation of 15%, and according to World Bank estimates GDP growth stood at 1% with inflation of 15%).

## The impact on the global trade

Besides the prohibition of imports of Ukrainian goods to Russia, the transit of goods from Ukraine through Russia to Central Asia (Kyrgyzstan, Kazakhstan and others) has also been restricted. Initially transit was possible only at the border crossing with Belarus; it subsequently received a general ban.

Considering the fact that the CIS countries are still the main trading partners of Ukraine, such restrictions violate foreign economic relations in the region. Undoubtedly, these limitations negatively affect the international trade in general.

## Expectations for Ukraine

Russia is trying to exert pressure on Ukrainian policy making and general development – with negative effects for Ukraine.

The appropriate response for Ukraine lies in a fundamental reorientation of its production, and the search for new trading partners. This is already in play, and the country is attracting new foreign investment so that it can modernise equipment, construct new enterprises and implement infrastructure projects. It should be remembered that Ukraine has significant economic, labour, resource and scientific potential – and that the forecast is for stable growth and economic development.

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