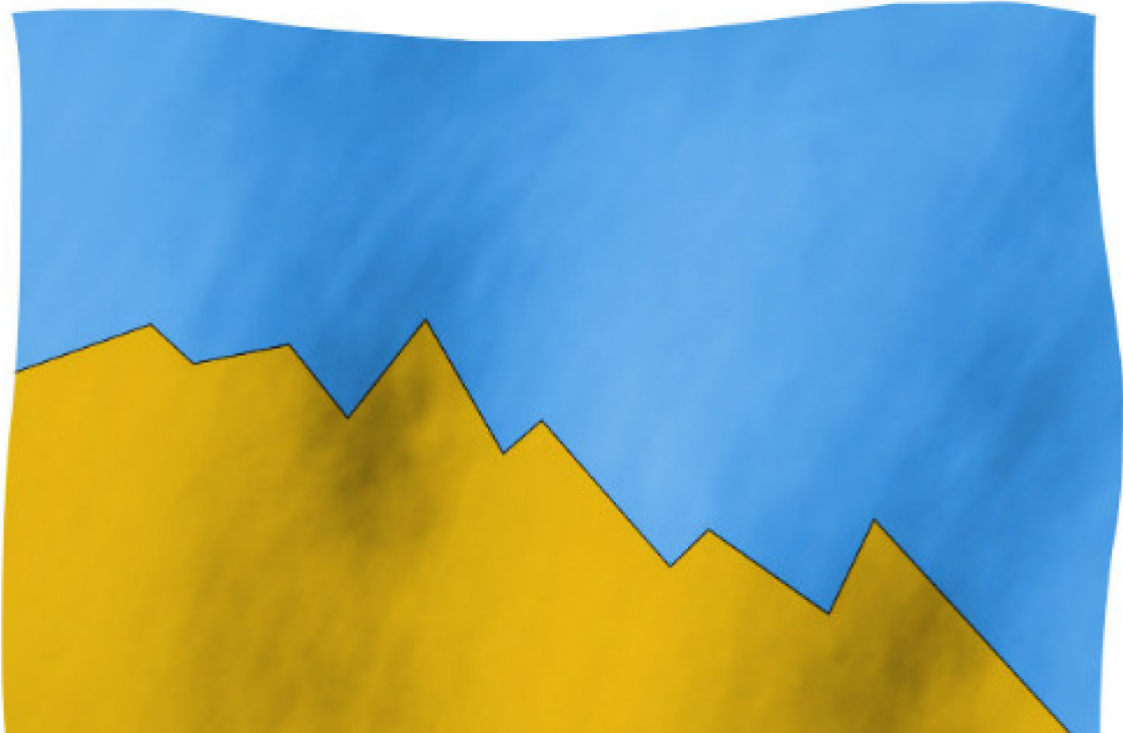


Specter of Money Haunts Ukraine's Turmoil

By [Ben Aris](#)

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It is critical to understand the economics of the current crisis in Ukraine. Ukrainian hard currency reserves have dwindled from \$35 billion to \$17 billion — not enough to ensure the stability of the government. Ukraine is bankrupt.

Under the terms of the European Union offer of last year, which virtually nobody in the Western media seriously examined, the EU was offering \$160 million per year for the next five years while the bond repayments to the International Monetary Fund alone were greater than that amount.

In contrast, Russia offered \$15 billion in cash and immediately paid \$3 billion. Another \$2 billion was to be paid earlier this week, but that tranche has been suspended “for technical reasons,” an unidentified Ukrainian government official told Reuters on Thursday. President Vladimir Putin’s spokesman said separately that the Kremlin was waiting for the situation to normalize in Ukraine before sending the funds.

Ukraine was willing to move toward the broader European fold, but the EU flubbed by offering rhetoric and red tape when what it should have done is put cash on the table. The EU's failure to understand Ukraine's desperate need for cash tied Ukrainian President Viktor Yanukovych's hands and forced him into doing the deal with Russia.

I am very sympathetic to the Ukrainian protesters. Yanukovych is indeed very corrupt. But journalists are unfairly characterizing him as some sort of puppet to President Vladimir Putin. Moreover, Putin somehow ended up demonized on the last two covers of *The Economist*. The most recent edition carries the headline, "Putin's Inferno," even though Ukrainian opposition leader Arseniy Yatsenyuk has said Yanukovych is "personally" responsible for the crisis.

Had Yanukovych accepted the EU deal, the country would have collapsed. The EU proposal, in addition to providing miniscule financing, also contained harmful provisions such as one that would have limited Ukraine's trade. Ukraine is becoming a larger exporter of eggs — one of its few successes — but the EU deal would have limited Ukraine's export of eggs while allowing EU goods into Ukraine.

Russia has been accused of bullying Ukraine into nixing its effort to sign off on the EU deal, formally known as the Association Agreement and Deep and Comprehensive Free Trade Agreement. Indeed, Putin has been playing hardball. But this emotive talk that reflects schoolyard values of what is "fair" is pure political rhetoric. We live in a grownup world and Russia is acting in its national interests, using what tools it has to get what it thinks it needs. Its Eurasian Economic Union, due to be created in 2015, makes no sense without Ukraine's participation.

For the West to claim that Russia is bullying Ukraine to achieve its ends is disingenuous, as what are the current sanctions on Iran if not bullying to get a reluctant Tehran to curb its nuclear ambitions? And that is not to mention the Persian coup organized by the U.S. and Britain in 1953 to bring in a more Western-friendly government. Or the more recent wars in Afghanistan, Iraq and Libya. The list of this sort of bullying by the West is very long indeed.

Yes, Yanukovych is corrupt and should be voted out of office in the next election, which is scheduled for February 2015 but is increasingly likely to happen earlier. Still we cannot just ignore the democratic process along the way. U.S. officials were on the streets of Kiev handing out cookies to the demonstrators. Imagine if Russian Foreign Minister Sergei Lavrov had been on the streets with Occupy Wall Street handing out cookies at Zuccotti Park.

The current turmoil in Ukraine started with money. Yanukovych was probably sincere when he said he saw Ukraine as an integral part of Europe in the future. But because Ukraine was facing an imminent economic meltdown, he needed money — and he needed it right away. That is why he went with Russia's offer.

But Ukraine is almost certain to default on its debt. Standard & Poor's on Friday downgraded Ukraine's credit rating by one level, to CCC from CCC+, and kept the outlook negative. We have already passed the point of no return that Yanukovych was trying to avoid with the Russian deal — and now it looks like even this solution has failed.

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