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# West Needs to Put Up or Shut Up About Ukraine

By Mark Adomanis

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The West's rhetorical support for Ukraine's territorial integrity has been exceptional. Barely a day goes by without a stirring news release from Washington, London or Berlin that defends Ukraine's right to conduct whatever foreign policy it deems most suitable and attacks Russia's illegal and unjustified interference.

Even politicians that are not normally associated with soaring rhetoric — like German Chancellor Angela Merkel and French President Francois Hollande — have gotten in on the act.

The problem is that talk, even from extremely powerful and well-connected people, is cheap. Words don't pay for natural gas, and they don't do anything to replace the orders from Russian firms that Ukraine — quite understandably — no longer wants to fill.

To put it bluntly, Ukraine doesn't need more words. It needs money — quite a lot of it, in fact, and in the very near future.

Unfortunately, the West's actions have not been in alignment with its public posture. As the Washington Post noted in a recent article, Ukraine is quickly approaching the brink of total economic collapse.

The $17 billion worth of aid that the IMF announced in May, which at the time was widely touted as a "solution" to Ukraine's accelerating economic free-fall, was "not designed to compensate for the effects of months of fighting between Ukraine's military and Russian-backed separatists."

That's right: the largest piece of international "aid" that Ukraine has received to date — which isn't so much "aid" as it is a loan that must be paid back — was predicated on the assumption that fighting in eastern Ukraine would soon come to a halt.

I haven't seen any precise estimates of the cost of the war in Donetsk and Luhansk. Due to the ongoing shelling and low-level violence, the difficulty of performing such an estimate would be extreme. It will likely be months or even years before we know exactly what the war really cost.

But it doesn't take an advanced degree in economics to see that the costs have already been enormous. As the fighting has raged, most of the region's largest industrial enterprises have been idled, and several others have been outright destroyed.

From the standpoint of government finances the situation is, if anything, even more dire: Many of Ukraine's largest taxpayers are now outside the effective control of its central government.

The war essentially presents Ukraine with two different types of economic costs: the direct costs of repairing damaged and destroyed infrastructure, and the long-term costs of lower growth. As noted previously, the direct costs of destroyed roads, railroads and airports is large, likely somewhere in the billions of dollars.

Worse, no one knows where this money is going to come from. Ukraine simply doesn't have these kinds of resources at its disposal as its government finances are already at a breaking point. The West could easily come up with this money if it genuinely wanted to, but if the EU or U.S. has any intention of doing so, it has been keeping uncharacteristically mum.

The even larger economic costs, however, are likely to be indirect in the form of permanently lower economic growth. Eastern Ukraine wasn't exactly a hotbed of private sector investment before the crisis, but now that the region's extreme vulnerability to Russian pressure has been so horrifically illustrated, it will be virtually impossible to get private investors to put up their own capital.

It is now clear that any factory or physical asset in either Donetsk or Luhansk is potentially fair game for a bunch of guys in balaclavas toting automatic weapons. It would take an appetite for risk that borders on suicidal to invest any significant amount of money in such a region.

Large-scale capital flight and disinvestment appear all but certain, and unless its final political and legal status is clarified, the entire Donbass region risks slipping into permanent

recession and backwardness. The costs this would present for Ukraine would be difficult to find on a balance sheet, but they would be enormous.

Fixing the grim situation I've outlined above is possible, but it will require a financial commitment from the West of a magnitude significantly larger than what has already been offered. Even in the current environment of austerity and fiscal restraint, the EU or U.S. could come up with the sums of money needed to get Ukraine back up on its feet if it were deemed a genuine necessity.

The current combination of large rhetorical commitments and paltry financial ones is the worst of both worlds. Talking tough feels like the right thing to do and does quite a lot to antagonize and goad the Russians, but it doesn't actually do anything to address Ukraine's real and rapidly worsening economic crisis.

Ukraine's current pro-West mood will eventually turn sour if the Kiev political elite realizes that the West isn't willing to do anything to support its bold rhetoric. This is exactly what happened in Russia in the 1990s: constant rhetorical affirmation from Western leaders of "the process of reform" with a near-total absence of resources.

Talking big and acting cheap was the wrong policy then, and it is the wrong policy now.

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*The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.*

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