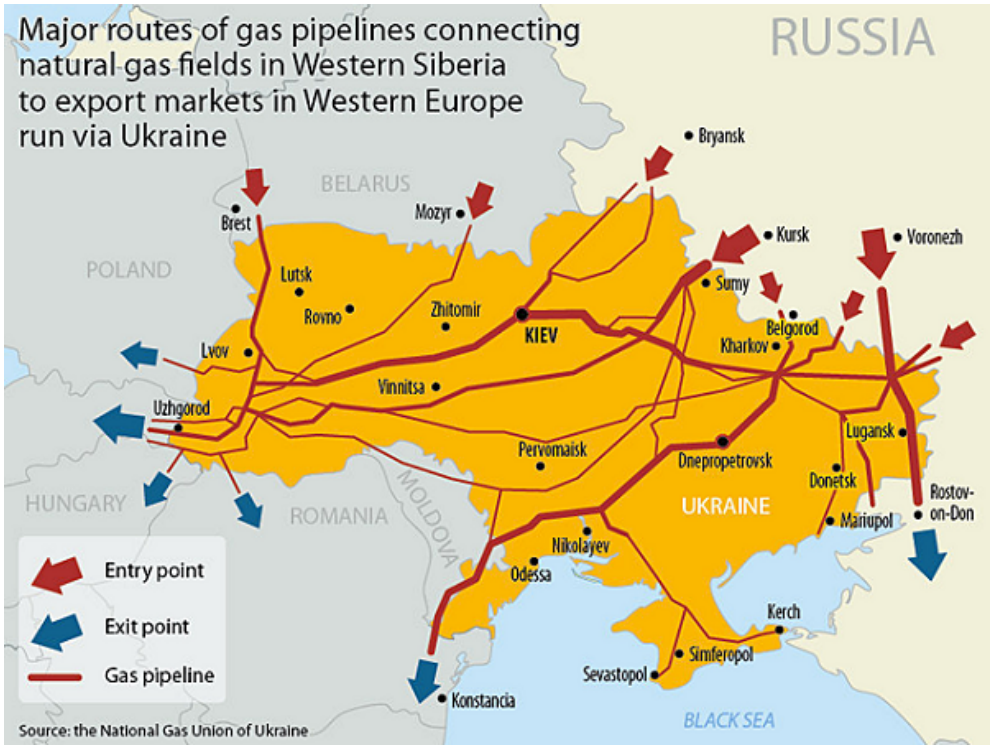
WE SHOULD CARE ABOUT UKRAINE

Why worry about Ukraine? To many, it seems far away and a country about which they know little. (Excepting TTPers, of course, who were updated on events there in the HFR of 01/24/14.)

News clips of the recent violent demonstrations in Kiev have occasionally appeared on the news shows, but most Americans have shown little interest. Yet Ukraine has the very real possibility of setting off the next financial crisis.

The first thing to grasp about Ukraine is its size. It is the largest country in Europe at 233ksm (thousand square miles), bugger than France (213ksm), not quite as big as Texas (268ksm). The second thing is its critically strategic location between Russia and Europe:

The crisis scenario is as follows: Russia is Europe's major gas supplier. About half of that gas is sent through pipelines that cross Ukraine.



The countries of central and southeastern Europe, including Italy, receive virtually all of their Russian gas via Ukraine. The economies of many of these countries are showing very little growth. Even a temporary disruption of Russian gas supplies as a result of the pipelines being sabotaged is likely to throw them into a recession.

Given the very high debt level in Italy, a recession almost certainly will cause a new banking crisis, which will spill over into the rest of the European Union. Unlike Greece and Ireland, Italy is too large for the Germans to bail out. The renewed European financial crisis will then cause new problems in the United States and Asia.