

What Does Arming Ukraine Do to Investment in Russia?

The situation in Ukraine continues to worsen. Now the USA wants to send advanced defensive weaponry to Ukraine to counter state of the art Russian armor being used by Russian soldiers posing as Ukrainian separatists. USA today reports that German Chancellor Merkel, on her [visit to Washington](#), believes that if the West arms Ukraine that Russia will simply send more arms and intensify the conflict.

Merkel has opposed sending weapons to Ukraine. On Saturday, she said she “cannot imagine any situation in which improved equipment for the Ukrainian army leads to President Putin being so impressed that he believes he will lose militarily,” according to the Associated Press.

The view of many in Europe is that Russia’s President Putin sees a Ukraine that is closely associated with the European Union as an existential threat to his form of government and his leadership in particular. As our focus is on business and investment we ask, what does arming Ukraine do to investment in Russia?

Twenty-first Century Version of the Guns of August

In the early years of the twentieth century the Czar ruled Russia and the Hapsburg dynasty ruled the Austro-Hungarian Empire. The Ottoman Empire with its capital in Turkey ruled most of the Middle East and Imperial Germany extended from Alsace Lorraine to modern day Poland. The British Empire boasted a fourth of the world’s population and a thirty percent of its area. When the heir to the Hapsburg throne was assassinated it set off a series of events that spiraled out of control and led to the First World War in which nine million people died. In the aftermath of the war Germany lost half of its territory and the Austro-Hungarian and Ottoman Empires were dissolved. For lack of cool heads and successful diplomacy during August of 1914 Europe was devastated and the stage was set for a more devastating Second World War just two decades after the end of the first. This may be the worst case scenario but as Putin digs in his heels despite severe economic sanctions the minimum result will be a new version of the Cold War and damage to investment opportunities between the West and Russia. This is our concern regarding arming Ukraine and investment in Russia.

Reminiscent of the Soviet Era

The New York Times reports comments made at the Munich Security Conference by the Russian foreign minister about [Ukraine](#) and remarks that the most difficult thing for a communist is to predict how the leadership will rewrite the past.

The most difficult thing for a communist, it has been observed, is to predict the past. I was reminded of this as I listened to Russian Foreign Minister Sergei Lavrov, in full Soviet mode at the Munich Security Conference, suggesting that after World War II it was “the Soviet Union that was against splitting Germany.”

People laughed; they guffawed. Germans recall the Soviet clamp on the east of the country and the Berlin Wall. But in a way Lavrov was right: The Soviet Union would have been quite happy to swallow all of Germany, given the chance.

Today, in similar fashion, President Vladimir Putin’s Russia would be quite happy to absorb all of Ukraine, which it views as an extension of the motherland, an upstart deluded by the West into imagining independent statehood.

What does this sort of Soviet-Speak have to do with East-West relations? It moves them back a quarter of a century or more and makes diplomacy increasingly difficult. What does arming Ukraine do to investment in Russia? It may simply be a moot point as dealing on any level with Putin’s government has gone from possible to a fantasy.

Foreign Direct Investment in Russia Is Going Away

Even the press in Moscow reports that **Russia needs the West** to invest in Russia. The Moscow Times quotes President Obama regarding the effect of Western sanctions on Russia.

U.S. President Barack Obama summed up Russia’s current predicament during his State of the Union Address to Congress recently, saying that “Russia is isolated with its economy in tatters.” His rhetoric caused outrage in Russia and was consistent with that of European leaders and diplomats, who have stressed Russia’s growing isolation as a result of its actions in Ukraine.

Our opinion is that economic sanctions will eventually bring Mr. Putin to the negotiating table and lead to renewed investment in Russia. What does arming Ukraine do to investment in Russia? Think of the months running up to the First World War and then the fall of empires in its aftermath. That was certainly not good for investment!

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