

Will Russia Buy Up Ukraine?

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Ukrainian President Viktor Yanukovich

The description of Belarusian President, Alyaksandr Lukashenka, as “pro-Russian” has side-stepped the fact that he is a Soviet Belarusian nationalist which developed after 2002, when he rejected the then Russian President, Vladimir Putin’s, offer to unite both countries. One factor behind Lukashenka’s Soviet Belarusian nationalism is his unwillingness to open up the Belarusian economy to Russian economic take-over. Moscow’s exasperation with Lukashenka partly rests on his economic protectionism in relation to Russia, which closely resembles that of Latin American left-wing nationalism vis-à-vis the US (EDM, July 12). Hence, it is not surprising that Lukashenka has developed close ties with left-wing, anti-American populist Venezuelan President, Hugo Chavez.

The election of Viktor Yanukovich brought to power in Ukraine a team with similar pro-Russian sentiments and Soviet nostalgia as that found in Belarus –but with one major difference. Ukraine, unlike Belarus, has undergone a transition to a market economy and the majority of its GDP is produced by the private sector. Russian investment in Ukraine, and the takeover of strategic sectors of its economy, is therefore more likely than in Belarus. Ironically therefore, Lukashenka looks more like a nationalist than does Yanukovich (“Why Is Moscow so Nervous About the Warming Trend in Georgia-Belarus Relations?” www.jamestown.org/blog, July 20). Economic protectionism (nationalism) has its supporters in the Yanukovich team, but is directed against Western rather than Russian investors, as the latter are seen as more benign. This is assisted by the inter-mixing of Russian, Ukrainian and former Soviet capital through Foreign Direct Investment (FDI) from Cyprus and the Virgin Islands, two of the biggest sources of FDI in Ukraine.

When the Yulia Tymoshenko government nationalized and re-privatized the Kryvorizhstal plant to a Western investor, Yanukovich and the Party of Regions criticized the sale on economic protectionist grounds with the plant remaining under Ukrainian control (www.kmu.gov.ua, October 24, 2005). Kryvoriozhstal was privatized in July 2004 by the oligarchs, Renat Akhmetov and Viktor Pinchuk, for \$800 million and re-sold in October 2005 for \$4.8 billion to Mittal Steel.

On June 8, Putin had dinner with Yanukovich in Istanbul and told him about his irritation with Akhmetov for causing difficulties with Russian companies trying to buy metallurgical businesses in Ukraine (Interfax-Ukraine, June 8). Putin pressured Yanukovich to reduce Akhmetov's influence within the Party of Regions. Such a step would put Yanukovich and Akhmetov on a collision course as the latter is the wealthiest person in Ukraine, closely linked to the Donetsk clan since its incarnation as the Party of Regions in 2001, and hugely popular in that city. Akhmetov is a major benefactor for the Shakhtiar soccer team and financed the construction of its new stadium opened in July 2008 at a cost of \$250 million.

Akhmetov blocked the sale of the Mariupol MMK Ilyich steel plant, one of Ukraine's top three steel producers, to a secretive group of Russian investors backed financially by Russia's state-owned Vnesheconombank, chaired by Putin. Akhmetov's Metinvest agreed to take a 75 percent stake in the plant and invest \$2 billion in return for a merger of the two steel producers (Kyiv Post, July 8; EDM, September 28, 2007).

Prime Minister, Nikolai Azarov, stated: "The government is on the side of the working collective and will not allow a raider takeover of one of Ukraine's flagship metallurgical enterprises," (Ukrayinska Pravda, June 18). Russian investors Alexander Katunin and Troika Dialog Russian investment bank, had earlier taken control of the Industrial Union of Donbas (ISD) group, one of Ukraine's top three steel producers. Zaporizhstal, another large Ukrainian steel producer, is also likely to fall under Russian control. Such a lack of transparency was also evident in Russia's acquisition of Luhanskteplovoz, one of the world's largest producers of rail locomotives. Deputy Prime Minister, Sergei Tigipko, complained about the lack of transparency in the sale and the loss of 200 million hryvnia (\$25.3 million) (Interfax-Ukraine, July 9).

Russia controls MTC (formerly UMC) and a controlling share in Kyiv Star, Ukraine's two biggest mobile phone operators, which have led to warnings about the threat to national security if Russia gains access to Ukraine's mobile phone network. Russia is also prioritizing Ukraine's nuclear energy sector. Ukrainian economic expert, Andriy Kolpakov, sees Russian economic expansion into Ukraine in four waves.

The first, metallurgical, was almost fully achieved except for one take-over being blocked by Akhmetov. The second is beginning in machine building, with the first attempted take-over in Mykolayiv. The third will be into the banking sector (Hazeta po-Ukrainski, July 15). The final stage would witness a push to take over large areas of Ukrainian land. Russia is not only seeking to acquire Ukrainian blue chip industries in a non-transparent manner, but also land. Moscow will move into food processing at the end of this year and within 2-3 years Russian capital will enter the land market if a moratorium on land privatization is lifted, Kolpakov believes.

First Deputy Head of the Presidential Secretariat, Iryna Akimova, has called for the removal of the moratorium on land privatization (UNIAN, July 23). The government will propose a law on land sales by the end of 2010. The Communist and Volodymyr Lytvyn bloc (which includes the renamed Agrarian Party) factions within the ruling Reforms and Stability coalition, who together provide 47 deputies, are opposed to land privatization. Yet, with defections from the opposition, the coalition has grown to 265 and the government could eventually have sufficient deputies to initiate legislation to privatize land. A high level source told Jamestown that Putin wants his

people within the Yanukovich administration to accelerate legislation to enable the privatization of agricultural land in Ukraine. The same source said Putin has offered to make available \$6 billion to Russian businesses to purchase huge tracts of Ukrainian land.

Russian take-overs are non-transparent and unlikely to bring new investment and capital. Their purpose is geopolitical and to remove competitors rather than the profit motive. Akhmetov and Ukrainian oligarchs who supported Yanukovich's election have been side-lined from the Yanukovich administration, which is controlled by the gas lobby and pro-Russian ideological wing of the Party of Regions who provide it with a link to former communist voters. The weak influence of the oligarchs, long associated with pragmatism, makes Ukraine's foreign policy less pro-European as the energy and ideological lobbies increase the influence of the eastern vector. This makes Yanukovich's foreign policy more pro-Russian and explains why a return to Leonid Kuchma's multi-vector approach so far has failed to occur.