INSTITUTE OF
INTERNATIONAL
POLITICS AND
ECONOMICS

Hanns
Seidel
Stiftung

Proceedings

The Old and the New World Order – between European integration and the historical burdens: prospects and challenges for Europe of 21st century

Edited by
Duško Dimitrijević

Belgrade, 2014

Proceedings from the international conference

Belgrade, May 29–30, 2014

The Old and the New World Order – between European integration and the historical burdens: Prospects and challenges for Europe of 21st century

Publisher
Institute of International Politics and Economics
Makedonska 25, Belgrade

For the Publisher
Duško Dimitrijević, Ph.D., Director
Institute of International Politics and Economics

Editor
Duško Dimitrijević, Ph.D.
Institute of International Politics and Economics, Belgrade

Reviewers
Blagoje Babić, Ph.D.
Institute of International Politics and Economics, Belgrade
Joackim Becker, Ph.D.
Institute for International Economics and Development,
University of Vienna, Vienna, Austria

Layout
Sanja Balović

Prepress,
„Mala knjiga”, Novi Sad

ISBN 978-86-7067-207-9

The thematical proceedings was financially supported by the Ministry of Education and Science of the Republic of Serbia within the project "Serbia in contemporary international integration processes – foreign policy, international, economic, legal and security aspects" of the Ministry of Education, Science and Technological Development of the Republic of Serbia, No. OI 179023 for the 2011-2015 period.

Mikhail M. LOBANOV[1]
Jelena ZVEZDANOVIĆ LOBANOVA[2]

NEW WORLD ORDER AND POST-SOVIET BORDER ISSUES: AN ECONOMIC POTENTIAL OF THE RUSSIAN-UKRAINIAN BORDER REGION

Abstract: The dissolution of the USSR resulted in the formation of a new system of interrelations in the post-Soviet space. Among the most crucial problems were border issues between the republics of the former USSR, including the development of local cooperation and economic revitalization of the border areas. Since internal boundaries became external the border regions of the newly independent states transformed their functions from contact to barrier ones. Bilateral relations concerning border issues are still strained in some cases, but the major territory of border zones could be considered potentially favorable for cooperation. The present article is focused on the problems of the economic development of the frontier Russian and Ukrainian regions which were separated by the border in the early of 1990s as well as on the specificity of mutual investments and industrial organization located in the proximity of the common border. The economic potential of the border region is investigated taking into account the events of the Ukraine crisis and the recent developments in the Russian-Ukrainian relations that have radically influenced the prospective of bilateral cooperation.

Key words: New World Order, post-Soviet borders, Russia, Ukraina.

1. Transformation of the world order concept and its projection on the Ukraine crisis

The contemporary world order should be considered (in spite of its formal definition) changeable and unsustainable system of multi-scale interrelations between different actors or their groupings. Recently, the number of various

[1] Mikhail M. Lobanov, Ph.D., Senior Research Fellow, Institute of Economics, Russian Academy of Sciences, Moscow.

[2] Jelena Zvezdanović Lobanova, MA, Research Assistant, Institute of Social Sciences, Belgrade.

challenges for global political architecture has significantly increased, including of those in the regions of latent conflicts. Experts say that the concept of world order has to be modernized on the basis of modern geopolitical situation. For instance, former U.S. Secretary of State Henry Kissinger believes that concept of world order has been exclusively defined by the West since World War II. The global leadership of America helped to reach the main aim of international order – to spread the Western system of values.[3] Thus, the second half of XX century could be considered as a period of initial formation of global world order.[4]

Professor of international law Eric Posner believes that U.S. did not use a chance to preserve its legal norms "during its brief period of global hegemony" – since the collapse of the Soviet Union. The period of enthusiasm concerning the replacement of the former bipolar system by new world order is coming to the end. Posner writes that this order is breaking down due to weakening of U.S. global hegemony.[5]

The weak point of the model of world order designed by the West is underestimation of the variety of geopolitical codes and the extent of other regions inclusion in the proposed political architecture. Kissinger assumes that Ukraine crisis, in particular, reveals the fact that Western concept of order is not accepted worldwide.[6] Posner reckons that most of non-West countries traditionally rejected the norms of proposed international legal system, as, for example, China and Russia did. More to say, this rejection may stemmed from the fact that in the post-Cold War period the sole superpower forced these countries to obey international law. According to Posner, "the rules were Western rules" not reflected "universal human values", so the liberal world order "rested on a fiction".

Confrontation between states could also be the result of balance-of-power principles prevail (as it happens, for example, between present and potential great powers in Asia). In the current world order great powers have no effective mechanisms to cooperate (even at international forums) in order to avoid tensions. According to Kissinger, common purpose that underpins world order

[3] Kissinger, Henry. World Order. The Penguin Press, 2014.

[4] Huntington, Samuel P. The Clash of Civilizations and the Remaking of World Order. New York, Simon & Schuster, 1996.

[5] Posner Eric, A. Sorry, America, the New World Order is Dead. / Foreign Policy. May 6, 2014. [http://www.foreignpolicy.com/articles/2014/05/06/sorry_america_the_new_world_order_is_dead_russia_ukraine].

[6] Henry Kissinger on the Assembly of a New World Order / The Wall Street Journal. Aug. 29, 2014. [http://online.wsj.com/articles/henry-kissinger-on-the-assembly-of-a-new-world-order-1409328075].

is not obvious in the conditions of clash between globalized economic system and nation-state political system of the world. To sum up, the contemporary concept of world order is in crisis.

Inadequacy of current world order may lead to struggle between regions with different structure of governance (that could be more exhausting that the struggle between nations, Kissinger argues). The only solution is to implement a concept which brings different regional orders together. It means transformation of U.S. foreign policy that should be based not only on Western principles but the recognition of specifics of other regions and their system of values.

Russian political scientist F. Luk'yanov argues that the dissolution of the Soviet Union marked the end of balance-of-power period but new world order since 1991 has not been established. Apparently the author takes into consideration the sense of term 'order' – disposition of some things according to a particular pattern, – and in this regard interprets the situation in world politics as disorder. Just after the Cold War, great powers had an intention to build up global political architecture, but later it became clear that globalization process was still out of the control.[7] Instead, U.S. could manage to structure and govern only separate regions.

Henry Kissinger recognizes the difference in the attitude of Russia and the Western countries towards Ukraine crisis. He argues that the "the ideal solution" would be to consider Ukraine as a buffer area between the two sides. In other words, the current world order will have more chances to remain stable if Ukraine sticks to nonaligned status as it did before. F. Luk'yanov explains the reaction of the West by historical heritage from Cold War period. In order to secure status quo on global political arena Western countries have to respond to the change of the "rules of the game". It is expected that armistice and future negotiations between great powers could be a starting point for the formation of new world order.

2. Legal issues of Post-Soviet delimitation of border (the case of Russia and Ukraine)

Russia realized on practice the principle of continuity of the USSR legal personality.[8] It became possible not only on the basis of international recognition,

[7] Лукьянов Ф.А. Принуждение к новому миру / Газета.ru, 4 марта 2014. [http://www.gazeta.ru/comments/column/lukyanov/5935113.shtml]. Лукьянов Ф.А. Игра в мировой порядок / Россия в глобальной политике, 4 июля 2007. [http://globalaffairs.ru/redcol/n_8898].

[8] According to international law, there are two types of succession: universal succession (complete transfer of sovereignty from predecessor to successor state) and liquidation of

but also due to stand of new sovereign states. Being active in the inheritance partition process, Russia could gather the Soviet overseas assets in exchange for taking sole responsibility for payment of foreign debt. Obligations and rights specified in international treaties of the USSR, including those concerning nuclear weapon, were the issue of multilateral and bilateral negotiations between the CIS countries[9]. Regulation of open questions concerning the delimitation of borders between Russia and new independent states took time, but it seemed that most of the problems with disputed boundaries were successfully settled. The future of regulation process became less clear after Crimean referendum (March 2014) and Ukrainian crisis in general.

Breakup of the USSR led to uncertainty in the borders delimitation. The urgent problem was to determine rights and obligations concerning the border issue (in particular, borders between new sovereign states that considered as internal boundaries before the Soviet Union collapse). International law generally paid little attention to the theoretical basis of succession in respect to boundaries, mostly because of wide implementation of *conditio sine qua non* principle (indispensible condition) which was interpreted as constancy of borders in the transition of sovereignty rights. However, border issues have specific importance due to their conflict potential as it was proved by the latest developments in Russian-Ukrainian relations.

The most usual delimitation measure is based on *uti possidetis* concept – the borders before and after the change of the legal status (e.g. independence) should remain the same. In spite of the worldwide spread, it is believed that this concept has no clear legal content and does not rely on the categories of international law. *Uti possidetis* acquires the nature of legal principle only when becomes a part of the broader principle of the inviolability of borders. A number of authors emphasize that there is a contradiction between the *uti possidetis* principle and the right of peoples to self-determination.

For the reasons of stability new independent states had to recognize the borders existed before the USSR breakup. In the '*Agreement on the establishment*

previous state with the establishment of new state sovereignty. In the second case, transfer of rights and obligations is limited to the border treaties only. Besides that, law enforcement practice in international relations often refers to continuity concept. In contrast to succession concept based on transfer of rights and obligations continuity theory means continuity of the state as a subject of international law (in other words, the continuity of its rights and obligations). After the Soviet Union dissolution, there were two options for legal recognition of Russian Federation – as a successor state or as a state that continues international legal personality of the USSR.

[9] For details see: Kulikova, N., Lobanov, M. International legal issues of the USSR inheritance partition / „Regulisanje otvorenih pitanja između država sukcesora SFRJ", Institut za medjunarodnu politiku i privredu, Beograd, 2013, pp. 109-124.

of the Commonwealth of Independent States' (08.12.1991) this approach was reflected: "The High Contracting Parties recognize and respect the territorial integrity of each other and the inviolability of the existing borders"[10]. According to Russian Law '*On the state border of Russian Federation*' (01.04.1993)[11], the state border corresponds to the boundary of RSFSR which was legally fixed by international agreements and the Soviet documents. However, some borderlines had been disputed between Russia and its neighbors since of the USSR breakup. The most radical changes in border delimitation followed the conflict in Georgia (2008) and Crimean referendum (2014)[12]. These facts empirically refute the principle in international law called *estoppel*, when the state loses the right to plead the invalidity of the treaty in case if it agreed with the status quo for long time. In other words, the possible territorial claims of the former Soviet republics to each other should become less and less valid with the course of time. But, this is not happening.

An Agreement on the Russian–Ukrainian border was signed in January 2003, but Ukraine intentionally delayed with ratification. The process was obviously accelerated by the construction of the dam from Russian Taman peninsula towards Ukrainian town Kerch. This construction caused a conflict over the ownership of Tuzla Island in Kerch Strait (in September and October 2003)[13]. In April 2004, Russia and Ukraine ratified the agreement on the border. The status quo was maintained almost ten years – until the referendum in Crimea in March 2014.

3. Russian–Ukrainian border region: The pre-crisis potential for cooperation and the present situation

Spatial structure and other characteristics of Russian-Ukrainian border region became more uncertain since the escalation of political crisis in Ukraine in 2014. The aim of this paper is to single out pre-crisis factors of economic

[10] Соглашение о создании Содружества Независимых Государств от 8 декабря .

[11] Закон РФ от 1 апреля . № 4730-I „О Государственной границе Российской Федерации".

[12] The transformation of the post-Soviet territory map is sometimes legitimated by the priority of the right of the peoples to self-determination. Criticism of this position is based on the principle of priority of the territorial integrity of states (the United Nations Charter, 1945). Besides that, the problems of newly independent states recognition could end up with their international isolation and further conflicts over territorial claims.

[13] Since 1941 an island was a part of the Crimean Autonomous Soviet Socialist Republic belonged to RSFSR, but in 1954 was gifted to Ukraine together with Crimean peninsula. After the declaration of independence, Ukraine became the sole owner of the Kerch Strait and started to charge ships that pass the strait, including Russian ones. Russia could deepen

cooperation in the given area, to determine the main branches of cross-border investment flows and leading centers of industrial growth. It should be noticed that the recent developments in Russian-Ukrainian relations radically influenced the potential of economic partnership in the region. It is not an overstatement to say that mutual contacts have limited to the lowest level ever. In order to predict the directions of economic cooperation recovery the authors consider the situation at important industrial objects which were directly or indirectly affected by the military conflict. The investigation results are based on the data collected before the Ukraine crisis[14], and therefore the border region is defined correspondingly the situation before Crimean referendum. It means that the considered border area consists of Bryansk, Kursk, Belgorod, Voronezh, Rostov regions of Russia and Chernigov, Sumy, Kharkov, Lugansk and Donetsk regions of Ukraine. The key investigation method is mapping: several maps showing the structure of mutual investments and industrial production were made for this article. Map analysis makes possible determination of local features of production objects distribution and, in particular, estimation the achievements in industrial clusters formation.

a. Geoeconomic characteristics of the border region

Russian-Ukrainian border region has a prospective for self-organization and modeling of clusters and spatial-production complexes. There are over 15 major industrial centers and dozens of medium centers in this area (characterized by a high level of branch diversification and stable cooperation links between companies). An important factor of cooperation development is territorial proximity of industrial agglomerations (such as Kharkov and Belgorod, production centers of Donbass on both sides of the border). The examples of successful investment projects (Donetsk, Lugansk, Kharkov, Sumy, Rostov regions) support thesis of high potential for industrial complex formation in the border area. The space between the basic production knots of the middle part of the Russian-Ukrainian border region (Kursk, Voronezh, Kharkov / Belgorod, Rossosh', Sumy) is "filled" with existing industrial enterprises to a significantly higher extent than, for example, in the Russian-Belarusian border region. This feature makes possible prediction of cross-border clusters formation. A kind of axiom for industrial production

its shallow channel and make it navigable. The construction of the dam was halted after the meeting of Russian and Ukrainian presidents: in December 2003 they signed a 'Treaty on cooperation in use of the Azov Sea and Kerch Strait' that established the freedom of navigation for commercial and military ships of both countries.

[14] Data set includes statistics from the national and regional statistical offices, local administrations and companies.

concentration is the agglomeration of Donbass (at least 60 industrial centers and knots) that was economically linked with Russian border regions for many decades. Ukraine crisis in 2014, besides triggering the humanitarian disaster, resulted in unprecedented transformation of economy spatial structure.

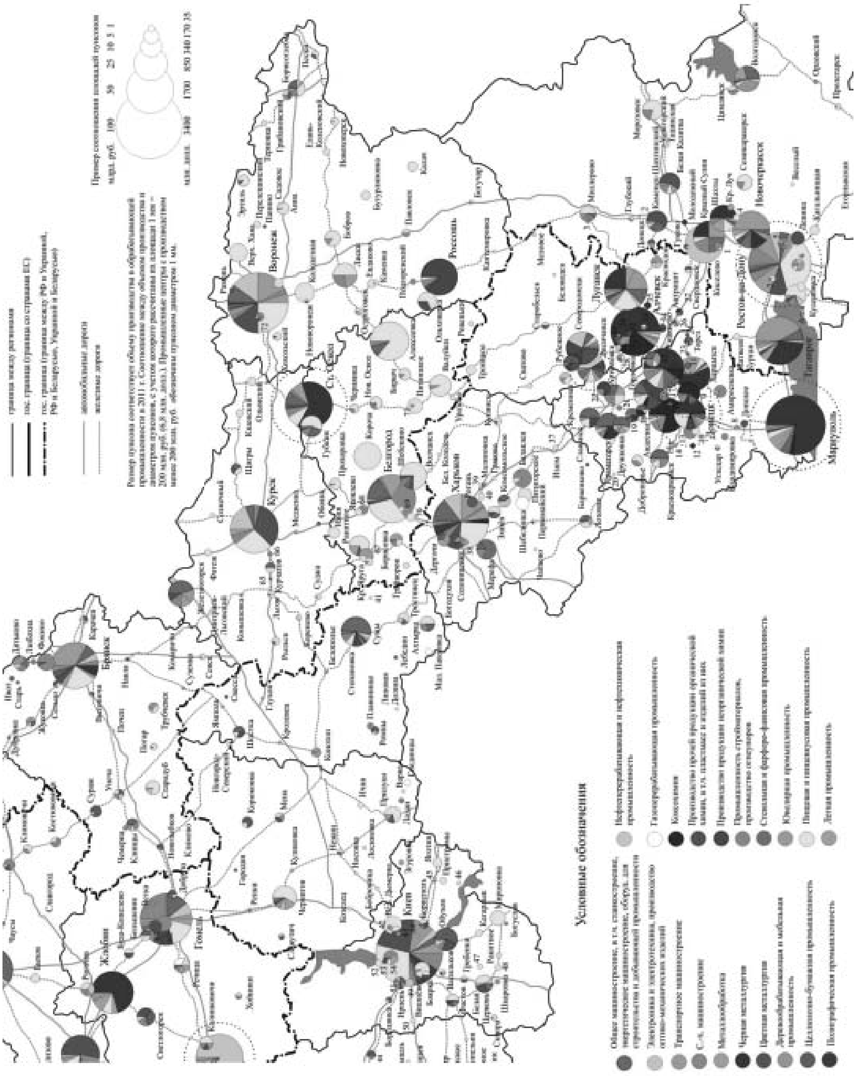
The transport network of the Russian-Ukrainian border region is characterized by a high extension and the presence of not only the main, but minor railways and roads. The only part of the border region with a low density of roads divides agricultural areas of Lugansk, Rostov and Voronezh regions. Overall, the features of transport infrastructure are sufficient for the formation of industrial complexes. Social, cultural and historical factors traditionally play a key role in the development of integration processes in the border regions of Russia and Ukraine. Their manifestation largely enhances contact functions of the border between Belgorod and Kharkov regions, as well as Donetsk, Lugansk and Rostov regions.

Integration projects development and cluster modeling in the region should be done with an eye to the phenomenon of structural inertia of industrial production organization, when the territorial structure changes slowly over time, and thus, "inherits" some elements of previous stages of industrialization. Features of the present-day industry location could be often explained by the influence of previous economic or administrative boundaries. This thesis is well illustrated by the projection of the Chernigov guberniya / province borders (1802-1919) on the modern grid of administrative territorial division.[15] Taking into account the thesis of existence of territorial structure inertia, we can make the following particular conclusion: the development of industrialization programs and economic integration of border areas will be less effective without considering the peculiarities of earlier delimitation (see Map 1).

[15] The 'imaginary' administrative border that was abolished long time ago still divides modern Bryansk region on western and eastern parts, and Sumy region – on northern and southern parts. It should be underlined that in the 20th century industrial centers and knots of these parts developed mostly independently from the regional centers. A similar conclusion can be drawn based on analysis of demographic indicators, such as migratory activity or ethnic composition of population.

Diversification of industry branch structure allows predicting the development of clusters and spatial-production complexes characterized by variety of cooperated industries. Euroregion "Slobozhanshchyna" has the most favorable conditions for the formation of the first single-industry clusters (which could become more complex territorial entities in future). Among the main factors of dynamic development of Belgorod region is attraction of investments in agro-processing, that helps to expand the existed agro-industrial centers (Belgorod, Alekseevka Shebekino, Valuyki) and to form the new ones (Korocha). Production concentration in the neighboring Kharkov region is significantly higher: city of

Kharkov forms an industrial agglomeration of monocentric type that produces a wide range of goods. In general, these two regions have a set of complementary industries, which could provide stimulus for interregional economic cooperation. The industries that can be represented in the cross-border territorial-production complexes include mechanical engineering, metalworking, construction materials and food industry. See Map 2 below:



Among the most important contact zones of Russian-Ukrainian border region are Donbass and Priazov'ye (Azov Sea littoral). An optimal combination of factors for complex formation can be found in the following areas: Lugansk / Alchevsk – Kamensk-Shahtinskiy / Krasniy Sulin / Shahty and Donetsk / Makeevka – Rostov-on-Don / Taganrog. Bearing in mind the peculiarities of specialization and high market capacity of three regions (more than 10 million people), the potential for involvement in complex formation have businesses related to food and apparel industries, metalworking, construction materials industry, production of household chemical goods, electronics and electrical engineering (see Map 2).

b. Production links and investment cooperation in the border region

An important aspect of cross-border economic relations is dynamic of investment flows and development of intercompany cooperation, with a particular attention to the enterprises with traditional production and technological links. The evolution of interfirm relations in the real sector of the economy, despite the long-term deindustrialization process, clearly reflects the nature of economic relations in the border region. Transformation of the sectoral structure of industry at the first stages of market reforms was caused by the collapse of a number of unprofitable industries involved in interstate cooperation and trade relations. Financial stability deterioration of the frontier companies had a negative impact on the scale of their investment activity. The companies situated in the largest economic centers were mainly involved in the process of capital export.

Russia plays a role of the main donor of capital and takes part in the majority of cooperation agreements in the post-Soviet space. An important task is to increase the activity of investors in the rapidly developing industries, which have specialization in the production of goods with high added value. However, the Russian investment expansion in the region can contribute to technological upgrading of enterprises only in a very slight extent, as well as the direct investment inflows likely preserves the existing structure of Russian industry.

Prospects for the export of Russian capital mainly depend on the peculiarities of the domestic TNCs development. Some of them have potential for successful functioning on competitive markets and progressively develop the network of production and service enterprises in the region. The number of Ukrainian companies engaged in investment activities in Russia is significantly lower. It should be noticed that for some of them the development strategy on the Russian market was based on the purchase of production capacities, because the imposed trade barriers negatively influenced their export potential.

The state also contributes to the increase of intercompany cooperation level, particularly in strategically important branches of machine building (e.g.

armament production). The state policy of self-reliance led to isolation of drafting departments and industrial enterprises of the former Soviet republics. But, later the Russian government has initiated a number of mutual projects (mainly with Ukrainian companies) for inclusion of foreign partners in the production chain of the local arms industries. The other purpose of "artificial" formation of joint ventures (in aircraft construction, shipbuilding, aerospace industry etc.) was the indirect support of state corporations. From the other side, the policy of lost cooperation links restoration implemented before the Ukraine crisis was combined with the efforts to stimulate import substitution in the areas of promoted cooperation. It is obvious that for development of industrial cooperation political elites sometimes needed a certain level of mutual trust.

Production of various types of weapons by joint ventures is one of the most remarkable forms of cooperation development. Projects in military-industrial complex have national status and they usually involve several firms of narrow specialization. Leading drafting bureaus and research-and-production departments in Russia and Ukraine are located in capital cities and other large settlements with high scientific potential (in case of border region – in Kiev, Kharkov, Voronezh, etc.).

Pre-crisis potential of bilateral cooperation between Russia and Ukraine in military-industrial sphere could be explained by traditional specialization of both countries in the production of certain types of military equipment, assemblies and parts.[16] Ukraine was a supplier of components for armament production at Russian plants (including aircraft manufacturing, shipbuilding, rocket production and aerospace industry). In particular, Ukraine is a regional leader in the production of gas turbine engines for helicopters ("Motor Sich" company from Zaporozhye, which owns one plant in border region – in Snezhnoye near Donetsk) and power installations for ships and naval vessels ("Zorya-Mashproekt" company from Nikolaev). Besides that, Ukraine has technological superiority in development of military transport aircrafts (Kiev-based concern "Antonov"), aircraft engines ("Motor Sich" and "Ivchenko-Progress ZMKB" from Zaporozhye), some types of armors and missile systems. It is noteworthy that the majority of assemblies and components for these industries Ukraine imported from Russia (for example, 80% of components for aircraft engines). In addition, there was a practice of so-called joint export of Russian helicopters and Ukrainian helicopter engines to other countries.

[16] Before 2014 around 70% of Ukrainian companies of military-industrial complex used assemblies imported from Russia. According to official figures, Ukraine export of armament to Russia decreased in 1994-2010 from 620 to 64 million USD. Spatial structure of export has significantly diversified since 1990s: nowadays Russia is the fifth export partner for Ukraine, whereas after the collapse of the USSR it was the main one (with share exceeded 2/3).

Ukrainian "Motor Sich" and its Russian competitor "Klimov" company (manufacturer of gas turbine engines) have approximately equal shares in the structure of supply to the Russian helicopter assembly factories (Canadian "Pratt&Whitney" is also represented on the market). The contract with the Ukrainian supplier was signed for 2012-16. At the same time cooperation with Ukraine partner was perceived in Russia as a dangerous dependence on external supplier. That is why in the mid-2000s St. Petersburg plant of "Klimov" company launched production of helicopter engines similar to Ukrainian ones. Furthermore, in order to make possible the refusal to import engines from Ukraine a new plant was built in St. Petersburg.

The most important project of cooperation in machine-building before the Ukraine crisis was the agreement between Russian "United Aircraft Corporation" (UAC) and Ukrainian state company "Antonov" on joint production of the "An" aircraft models – heavy transport aircraft An-124 ("Ruslan"), military transport aircraft An-70, cargo-passenger plane An-140 and passenger plane An-148. It was expected that the joint venture would have only administrative functions, but in 2011, the sides started negotiations on the inclusion of production units in it, namely plants "Aviant" (Kiev), "Aviastar" (Ul'yanovsk) and "VASO" (Voronezh). Participation of Kiev and Voronezh plants in the joint project could develop cooperation in the aerospace industry of the Russian-Ukrainian border region ("Antonov" and UAC also hold aircraft plants in Kharkov and Taganrog). However, according to "VASO" performance reports the production of passenger plane An-148 remains unprofitable (in 2009-2011 12 aircrafts were assembled for customers from Russia and North Korea). Noteworthy that the engines for Ukrainian aircrafts assembled in Russia were produced by Zaporozhye-based "Motor Sich" and "Ivchenko-Progress ZMKB".

Some joint projects were realized in rocket production and aerospace industry. Among them is the establishment of JV "Kosmotrans" (in 1997) which developed carrier rocket "Dnepr" (on the basis of liquidated Soviet intercontinental ballistic missiles) to launch satellites from cosmodromes "Baikonur" and "Yasniy". This joint venture united companies from Moscow, St. Petersburg, Dnepropetrovsk and Kharkov. Since the late 1990s Russian and Ukrainian enterprises have been members of the international consortium "Sea Launch" using mobile maritime platform for launches of commercial satellites on "Zenit" rockets. This rocket was designed and manufactured in Dnepropetrovsk (about 2/3 of components for its production imported from Russia). In 2010, Russian RSC "Energia" received the control of this maritime platform.

The permanent problem for the development of joint projects in the military-industrial sector was frequent politicization of any negotiations on possible cooperation. Russian authorities stimulated programs of import substitution for certain types of components, explaining this position by the risk from possible membership of Ukraine in NATO, while the Ukrainian side avoided the agreements on cooperation linked to the issue of accession to the Customs Union. In 2014, the Ukrainian crisis has resulted in refusal of any cooperation in the military-industrial complex, and the restoration of the lost potential of mutual relations may take a lot of time, if possible.

The analysis of mutual investments shows the domination of Russian exporters of capital. Strategies of these Russian investors are depended, first of all, on the level of profitability and market position. The proximity of the acquired Ukrainian firms to the state border is not accidental: territorial structure of industry is characterized by production concentration in the close-to-border Eastern regions and capital area. By the way, the geography of the Belarusian investment in Russia (in neighboring Bryansk and Smolensk regions) could be explained by the phenomenon of territorial adjacency. The neighborhood factor also influences investment strategies of the Ukrainian food companies (purchase of assets in the neighboring regions of the first order, such as Kursk region, or second order – Lipetsk region and Stavropol Krai) and machine-building enterprises (investments from Donbass in nearby towns of Rostov region). In general, the main recipients of recent investment in border region were located on Ukrainian territory (city of Kiev and Kiev region, Kharkov, Lugansk and Donetsk regions; see Map 2).

Dynamics of mutual investments in civil engineering indicates the development of economic cooperation in the border region. Companies invest abroad to enter emerging markets, cut production costs and optimize their business, but in some cases the acquisition is aimed at getting know-how to narrow technological gap. The most widespread form of partnership is joint ventures; hundreds of specialized plants and factories participate in cooperative programs.

The majority of M&A transactions in Ukraine happened in the second half of 2000s, but some businesses became a property of the Russian companies in the period of privatization in 1990s. The biggest enterprise of Ukrainian railway engineering – "Luganskteplovoz" – was sold in 2010 to Russian "Transmashholding". JSC "Russian Railways" is the main buyer of company's production, but in 2014 deliveries were stopped. Kharkov tractor plant (the leading company' on the Ukrainian agricultural engineering market) is owned by Russian "GAZ Group" since 2007.

Russian businessmen invest in the production of equipment for the fuel and power industries. For example, "HMS Group" producing pumping equipment for the oil and gas industry had a strategy for consolidation of the companies with the same specialization in a single holding (Sumy-based plants "Nasosenergomash" and "Hydromash" were included in it). Russian holding "Energy standard" bought block of shares in Ukrainian generation and distribution companies and invested in energy engineering. The holding controls "Sumyoblenergo" (Sumy; electricity distribution), "Transformator" (Zaporozhye; transformers production), "Turboatom" (Kharkov; production of turbines for power plants) and "Sumy Frunze Machine-building SPA" (Sumy; production of equipment for nuclear power plants).

Ukrainian investments in machine-building industry of neighboring Russian regions contributed to the formation of horizontally integrated TNCs. The development strategy of the acquired companies, as usual, involves the increase of export volumes to Ukraine. In this regard, the objects of "greenfield" or "brownfield" investments should be located as close to the border as possible. Therefore, companies from Donbass region were rather active in Rostov region: for instance, an enterprise owned by Ukrainian billionaire R.Akhmetov has a control over the producer of equipment for coal mining in Kamensk-Shakhtinskiy. Company "Nord" launched production at the new plant of refrigeration equipment in Matveev Kurgan located near the border with Ukraine.

The branch structure of industry of Russian-Ukrainian border region is characterized by a significant share of ferrous metallurgy which had a high level of investment attractiveness until the end of the 2000s. Demand for metallurgical assets (which are mostly located in Donetsk and Lugansk regions) decreased with the deterioration of the situation on the world market of ferrous metals, but some foreign businessmen, in contrast, were interested in buying discounted assets. In 2010, the group of Russian investors (including the owners of "Evraz" holding) took over Ukrainian "Industrial Union of Donbas" including its key production facilities – Alchevsk and Dneprodzerzhinsk metallurgical plants. Ukrainian secondary metallurgy plants (in Kiev, Kharkov, etc.) which had been bought by holding "MAIR" in the early 2000s stopped their activities due to the company's debt. "Donetsk electrometallurgical plant" operated for just a year after the change of owner: the company was acquired by the Russian industrial group "Mechel" in 2011, and in 2012, its work was stopped. Among successful investment projects is the acquisition of the plant for castings and forgings "Energomashspetsstal" (Kramatorsk, Donetsk region) by Russian state company "Atomenergomash".

Oil refining and petrochemical companies from Russia started their expansion on the Ukrainian market in the 1990s. One of the six Ukrainian refineries is located in border region – in Lisichansk (installed capacity is circa 8 million tons of crude oil). In 2000, it was acquired by Russian oil company "TNK" (in 2003-2013 – Russian-British "TNK-BP", since 2013 – state holding "Rosneft"). Most of oil refineries in Ukraine became unprofitable in the second half of 2000s, just as Lisichansk refinery that temporarily used tolling scheme of production, but was finally suspended it in 2012.

Foreign investors are also interested in small and medium-sized plants producing organic chemicals, mostly for construction companies or households. As an example of investment inflow in Ukrainian low-tonnage chemistry one can mention a takeover of Kharkov plant "Biolek" by Russian pharmaceutical company "Pharmstandard".

Russian companies are represented on Ukrainian market of building materials. For instance, "Group LSR" owns two production sites close to Kiev (porous concrete, ferroconcrete), while "Eurocement" holding possess two plants in Kharkov and Donetsk regions (cement, roofing slate). As a result of these investments, Russian companies control one-third of Ukrainian cement market. Russian producer of refractory materials for metallurgy "Magnezit" bought the leading Ukrainian plant of the same specialization in township Panteleimonovka near Donetsk.

The volume of mutual investments in textile, apparel and footwear industries is limited by the shortage of companies' financial resources. The only significant exporter of capital is "Gloria Jeans" registered in Rostov region. It is noteworthy that the development strategy of company is based on the establishment of "greenfield" facilities in the neighboring Lugansk and Donetsk regions: eight of nine garment factories belonged to "Gloria Jeans" in these regions are newly built.

The factor of territorial adjacency is very important for investment in food and beverages manufacturing. Companies are active abroad in order to develop new markets and gain a foothold on them, especially when they are forced to expand their spatial structure in the conditions of import restrictions. The rules of international food trade in the CIS region are changeable (trade wars are regular occurrence), and in order to avoid the consequences of political tensions companies reduce risks through the acquisition of foreign production facilities. For example, in 2001 Ukrainian company "Roshen" (owned by the current Ukrainian president P. Poroshenko) acquired confectionery factory in Lipetsk mostly to reduce dependence on export to Russian market. In 2004, "Roshen" was followed by another confectionery producer, Donetsk-based company "Konti", which invested in Kursk factory. Expansion of Russian milk producers on the Ukrainian market began in the first half of the 2000s. "Wimm Bill Dann", one of the largest dairy producers in Europe, bought two milk-processing factories in Kharkov and near Kiev as well as milk powder factory in Sumy region. Its competitor "Unimilk" company acquired Kiev dairy plant. It should be mentioned, that later both enterprises became the daughter companies of the leading food and beverage TNCs: "Unimilk" merged with French "Danone", while "Wimm Bill Dann" passed into the ownership of American "PepsiCo".

c. Conflict-induce damage in industry of the border region and the results of severance of economic relations.

Military conflict has led to drastic deterioration of socio-economic situation in eastern regions of Ukraine. Lack of main means of subsistence de facto caused humanitarian crisis and triggered migration. In such circumstances the maintenance of economic and, in particular, industrial growth remains impossible: some factories and plants were damaged or almost destroyed, the other ones had to suspend production due to the shortage of raw materials. Not to mention export-oriented companies that faced with the obstacles for deliveries abroad.

Russian-Ukrainian relations are not far from the lowest point in contemporary history, and the talks about their improvement remain impossible. As for economic sphere, the state-controlled companies have to refuse cooperation with traditional partners over the border. Private enterprises are under administrative pressure and cannot determine their own policy. The thematic example of new obstacles for cooperation is the situation in military-industrial complex. In March 2014, Ukraine officially stopped deliveries of assemblies and parts for Russian munitions factories. After presidential initiative in June to suspend all the forms of military cooperation, Russia started to work out the plan of complete substitution of import of weapons from Ukraine. According to different estimates, the share of Russian firms that will have to find new suppliers varies from 1/10 to 2/3. "NPO Saturn" from Rybinsk manufacturing engines for aircrafts and ocean vessels will become the basic enterprise for realization of the program for imports substitution (total costs exceed 1 billion USD).[17]

Ukrainian producer of helicopter and aircraft engines "Motor Sich" has one the highest levels of dependence on export contracts with Russia, so its officials are planning to avoid the restrictions (even against presidential decision) by the establishment of joint ventures. The question is if Russian side plans to agree with this proposal, since there were efforts to substitute import of engines even before the crisis. From the other hand, current capacities of Russian factories allow to equip only fifty new helicopters with the engines – a third of the yearly plan defined by arms program.[18]

It is still impossible to launch production of gas-turbine engines for naval vessels technologically similar to the engines of Ukrainian "Zorya-Mashproekt". It means slower delivery of new frigates and destroyers for the army and important foreign customers, such as India. The breakup of the ties with Russia will not put "Zorya-Mashproekt" on the brink of closure, since the share of engines in

[17] С чувством глубокого замещения / Коммерсантъ – Деньги. 18.08.2014.

[18] Военно-промышленный гопак / Огонёк. 30.06.2014.

company's total turnover is rather low. An ambitious mutual project "Sea Launch" which enabled to put into orbit more than thirty commercial satellites on Ukrainian "Zenit" rocket will be also suspended due to difficult political situation. Maritime platform in Pacific Ocean will be out of use at least until the end of 2015.

Machine-building and metal-processing companies located in the conflict area are also subjects of mutual sanctions. Some of them were damaged as a result of bombardment, like plants in Donetsk region: "Energomashspetsstal", "KZTS" (both – in Kramatorsk), "DZMM" (Debal'tsevo), etc. First of these plants producing castings and forgings (owned by Russian "Atomenergomash") will be likely suffer from the losses because Ukrainian officials forbidden state companies to cooperate with it. Due to the current ownership, the plant will not be able to supply Ukrainian thermal power stations with its production[19]. Lugansk plants producing machinery are also in the list of destroyed industrial objects. The leading railway engineering plant "Luganskteplovoz" (Daughter Company of Russian "Transmashholding" significantly suffered from bombardment and stopped the supply of locomotives on Russian market. It should be mentioned that Ukrainian media accused pro-Russian forces of demounting the equipment from strategic munitions factories, such as "Mashzavod-100" (Lugansk), "Yunost" (Krasnodon), "Tochmash" (Donetsk).

Ukrainian food and beverages enterprises are involved in conflict as participants of trade wars. The new rules for activities of confectionary companies on Russian market confirm this thesis. The Federal Service for Supervision of Consumer Rights placed an embargo on import of confectionary produced by Ukrainian "Konti" and "AVK" (btw. total share of Ukrainian producers in import exceeded 1/3). Russian factory of "Roshen" confectionary company in Lipetsk (owned by Ukrainian president P.Poroshenko) faced with production difficulties. At first police investigated "Roshen" activities in Russia and arrested its financial accounts. Some months later Lipetsk factory representatives announced the production suspension due to sales slowdown caused by administrative pressure on retailers in Russian regions.[20]

Economy of Donbass region is traditionally highly dependent on situation in coal mining, ferrous metallurgy and chemical industry. Some of state and private facilities in these industries suffered from military conflict. For example, every fourth coal mine has been temporary closed and every second mine is exploited partially. Metallurgical plant in Alchevsk had to suspend its production due to the shortage of raw materials. Coke plants in Avdeevka and Yasinovataya were seriously damaged.

---

[19] Украина отказывается от российского атома / Коммерсантъ. 10.06.2014.

[20] „Рошен" в тесноте и обиде / Коммерсантъ-Черноземье. 12.09.2014. Запретные сладости / Ведомости. 08.09.2014.

There are also many chemical plants in the area of armed conflict and in the case of their destruction, the vast territory will be threatened with ecological catastrophe. The leading producer of fertilizers "Stirol" from Gorlovka in Donetsk region had to suspend production in order not to endanger population; the workers disposed of the explosive materials, in particular, ammonia. Lisichansk oil refinery of "Rosneft" was damaged as a result of bombardment, but its facilities had not been used for two years before the incident. Russian company accused Ukrainian competitors (known for financial support of armed formations) of deliberate destruction of its property and intends to claim compensation from the Ukrainian government.[21]

* * *

The recent change of geopolitical and geoeconomic role of Russian–Ukrainian border region could be one of manifestations of new world order formation. Frontier regions of two countries seem to strengthen their barrier functions to the detriment of contact ones, which stimulated local cooperation and mutual investments. In these conditions, the period for re-establishment of bilateral relations is difficult to predict, not to mention the prospective of economic potential development.

[21] "Роснефть" накрыло войной / Коммерсантъ. 21.07.2014.

CIP - Каталогизација у публикацији
Народна библиотека Србије, Београд

316.322:32(082)
316.322:94(082)
316.322:33(082)
316.322:34(082)

INTERNATIONAL Conference The Old and the New World Order-between European Integration and the Historical Burden: Prospects and Challanges for Europe of 21st Century (2014 ; Beograd)

The Old and the New World Order-between European Integration and the Historical Burden: Prospects and Challanges for Europe of 21st Century : proceedings : [Belgrade, May 29-30, 2014] / edited by Duško Dimitrijević. - Belgrade : Institute of International Politics and Economics, 2014 (Novi Sad : Mala knjiga). - 731 str. : ilustr. ; 25 cm

Tiraž 150. - Napomene i bibliografske reference uz svaki rad.

ISBN 978-86-7067-207-9

a) Глобализација - Политички аспект - Зборници b) Глобализација - Историјски аспект - Зборници c) Глобализација - Економски аспект - Зборници d) Глобализација - Правни аспект - Зборници
COBISS.SR-ID 210653196