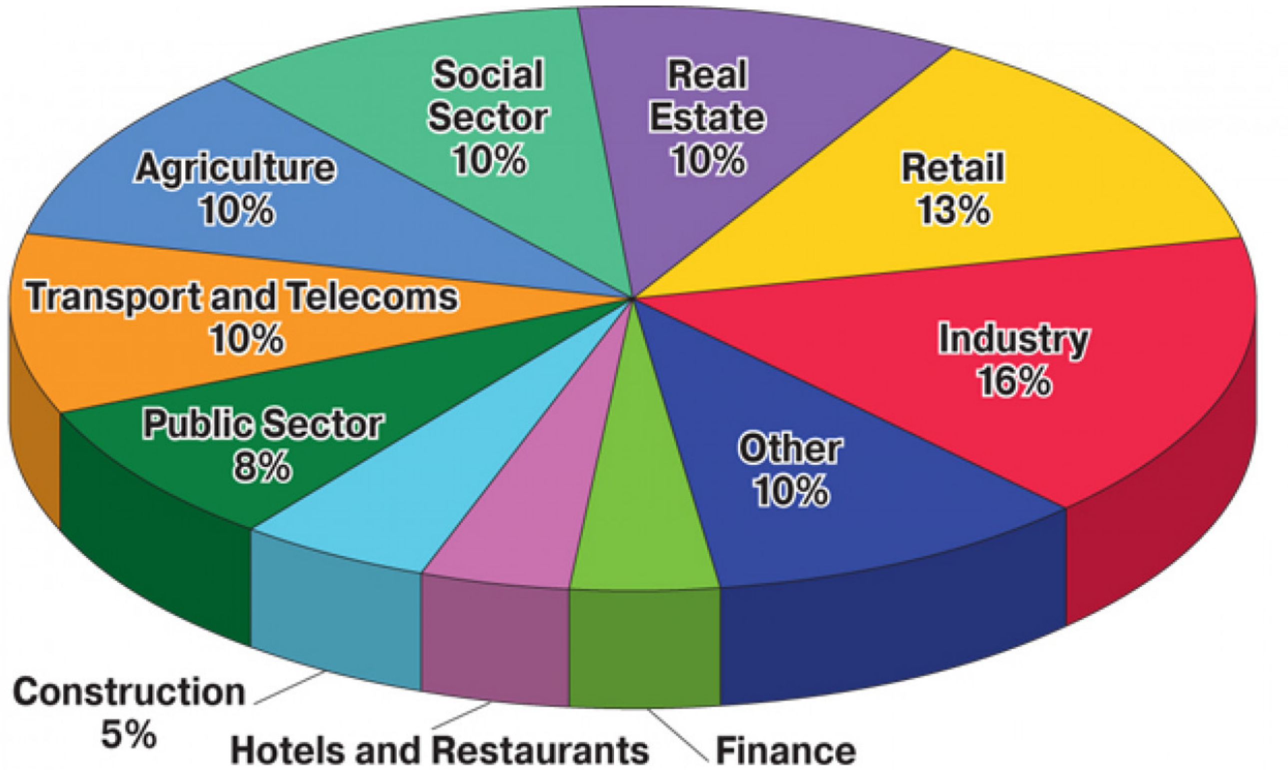
The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Will Crimea Become Russia's Hong Kong?

By Alexander Panin

March 23, 2014



In addition to securing its naval base, pebbly beaches and the oil and gas off the Crimean shelf, Russia's incorporation of the peninsula will yield a number of profitable businesses which have greatly contributed to regional gross domestic product, but are now in limbo.

At first glance, the picture does not seem rosy. Crimea's budget deficit for 2014 is 55 billion rubles ($1.5 billion), Finance Minister Anton Siluanov said last week, adding that part of the sum can be provided from Russia's 243 billion ruble reserve fund and part should come from taxes paid by local businesses.

According to Crimea's Economic Development and Trade Ministry, 16 percent of regional gross domestic product is being created annually by industries that range from chemicals to shipbuilding. This is twice the amount that tourism, for which the region is most famous, contributed to the economy last year.

But most of the major companies participating in the economic life of Crimea are now divided between the two countries. Their future is uncertain, as financial transactions are suspended, contracts frozen and ownership undetermined.

"At this point, we do not know what to expect next and cannot plan ahead," said Vladimir Filonov, deputy chairman of the board of Phiolent, a major marine automation systems and power tools producer based in Simferopol.

Phiolent has been manufacturing more than 90 percent of all electrical tools in Ukraine, and supplying products to Russia, former CIS countries, Romania, Turkey and the Middle East.

The company has now suspended production, selling the stock it had in reserve, Filonov said.

He also said that Phiolent had trouble making payments through PrivatBank, one of Ukraine's major financial institutions.

Another painful subject is ownership. More than 50 percent of Phiolent is owned by the Ukrainian government. Filonov could not say whether Ukraine's stake in the company will be nationalized or not.

"Things are likely to change. Our only hope is that this transition period will be over soon," the executive said, not elaborating on whether he expected a change for better or worse.

Shipbuilding on Hold

Zaliv is another company waiting for an end to a transition phase that is suffocating business. Based in Kerch, on the tip of the peninsula, it is one of the biggest privately owned shipbuilding companies in Eastern Europe.

Ukraine has not ordered new ships for the last 20 years so Zaliv has mainly been an export-oriented company.

In 2008 its owners started investing millions of dollars into technical upgrades and by 2010 Zaliv had all of its key production facilities modernized in hopes of winning future shipbuilding contracts. Until recently business was good, with the firm having completed projects for major Norwegian and Dutch customers.

"In the middle of last year all our previous shipbuilding contracts ended and today ... due to a variety of reasons, including political ones, new contracts have not been signed," said Marina Romanika, a spokeswoman for Zaliv.

Western customers, uneasy over the current political situation in Ukraine, have suspended new contract negotiations they were ready to bring to a close before the crisis, she said.

Now, as Russia mulls oil and gas exploration on the shelf of the Black Sea, the company hopes for new contracts to build platform service ships.

"Only if this transition ends soon," Romanika said.

Another major industrial asset in the region is Crimea Titan, the largest titanium dioxide producer in Eastern Europe. Its two production facilities located in the north of the peninsula annually make about 80,000 tons of the chemical used in cosmetics and food coloring industry. The company's revenue in 2012 was more than $370 million.

The future of Crimea Titan seems uncertain. It is owned by Ukrainian oligarch Dmitry Firtash, who is currently being held in Vienna at the request of U.S. authorities, who suspect him of corruption. In an official statement Firtash's Group DF said his detention was not connected with the Ukrainian crisis. An e-mail request for comment by The Moscow Times was not answered.

But the weather seems sunny for a state-owned Novy Svet premium champagne producer based near Sudak on the Black Sea coast to the south.

"We are likely to be nationalized but do not expect negative changes," Lina Damatievskaya, deputy head of Novy Svet said. "Even with all the politics involved people are likely to continue buying our champagne, which is a well-known and respected brand both in Ukraine and in Russia."

Moreover, the winemaker is currently using obsolete equipment and is expecting an upgrade after the company is transferred to Russian state ownership, the executive said.

Free Economic Zone

While much is still unclear for Crimean business, Russia is already forecasting a bright economic future for the peninsula, which some observers said can become a second Hong Kong or Singapore.

Business association Delovaya Rossia, which has been on a fact-finding mission to Crimea this past weekend, has proposed to turn Crimea into a free economic zone. This initiative was later supported by the State Duma and top government officials.

"With joint efforts on Crimean territory we hope to realize ambitious projects the business community has and which could benefit the economy of the peninsula and the whole country," Andrei Nazarov, a co-chairman of Delovaya Rossia, said while submitting the proposal.

As in the case of Sochi, the region will require investment in its infrastructure.

One of such projects is the bridge across the Kerch Strait, which would create a direct road and rail link from Kerch on the eastern tip of the peninsula to Russia's mainland. Last week Transportation Minister Maxim Sokolov said at a meeting chaired by President Vladimir Putin that the exploration works for the project are slated to begin this year and that a combined auto and rail bridge may require up to 50 billion rubles ($1.3 billion).

"Construction of the bridge will make it possible to directly transport cargo from Russia's mainland to ports in Crimea, thus increasing their loading," said Alexander Kava, coordinator for transport reforms at the Economic Reform Coordination Center under the President of Ukraine.

The majority of freight in the region today goes via railroad, while Crimea has four big commercial ports which are not operating at capacity.

Other transportation projects in Crimea could include modernizing rail and road infrastructure and upgrading the world's only mountain trolleybus route that links Simferopol, Yalta and Alushta on the Black Sea coast, Kava said.

A Broad Range of Needs

Tourism, agriculture and the existing manufacturing base are all in need of investment, said Irina Prokhorenkova, first deputy minister of Crimea's Economic Development and Trade Ministry.

"We are not only waiting for funds from Russia but also expect an inflow of international investments," Prokhorenkova said, adding that 54 various international technical aid projects have been started in the region in the last decade. "Some of the contacts [with foreign investors] have been broken but we hope to reinitiate them," she said.

Crimea's regional domestic product in 2012, the latest available figures, amounted to $4.3 billion, the deputy minister said. The ministry expects that the GRP has grown 2 percent in 2013, which is higher than in most Ukrainian regions.

Russia now has a chance to build an economy afresh in a new region but should take care not to make mistakes it had made on its other territories, said Anatoly Selyukov, a professor of administrative and financial law at Plekhanov Russian University of Economics.

"No one doubts that overall, Russia's economy requires a refurbishment. And in Crimea the government can create an example of economical transformation," Selyukov said.

However, if no positive changes are seen in Crimea's economy in a year that would mean a failure, not only in economical but also in ideological sense, he added.

Contact the author at a.panin@imedia.ru

Original url:
https://www.themoscowtimes.com/2014/03/23/will-crimea-become-russias-hong-kong-a33231