

Financial Times. – 05.10.2017

by Charles Clover in Beijing and Roman Olearchyk in Kiev

*Additional reporting by Archie Zhang, Lucy Hornby and Yang Yuan*

## Chinese deal with Ukraine defence group raises hackles

Court action highlights fears about technology transfer from once-vibrant sector

*Китайська угода з оборонним комплексом України викликала збентеження*

*Судове розслідування висвітлює побоювання щодо передачі технологій від колись прогресивного сектору*

*Експерти з авіації недавно були приголомшені, дізнавшись, що маленька китайська компанія Skyrizon стала головним акціонером української компанії Мотор Січ, однієї з провідних світових компаній з виробництва двигунів для військових вантажних літаків та вертольотів, з високотехнологічними лініями, що відносяться до Радянських часів. Але через кілька місяців після того, як високопоставлений український чиновник з захопленням привітав авіаційне партнерство, київський суд заморозив китайський пай в Мотор Січі.*

*У своєму рішенні минулого місяця він заявив, що ця угода є "змовою для послаблення української держави".*

<https://www.ft.com/content/e8aed9f4-a1dc-11e7-9e4f-7f5e6a7c98a2>



*A diorama of the Chongqing facility in the Motor Sich Skyrizon booth at the Beijing Aviation Engine Expo*

On a sprawling campus on the outskirts of the Chinese city of Chongqing, dozens of Ukrainian aviation experts arrive by bus to help start the production lines for some of the world's most advanced aircraft engines.

A video of the project shown at a Beijing aviation engine expo last month showed the five-square-kilometre Skyrizon Aero-engine Industrial Base taking shape, with manicured lawns, football pitches and advanced research facilities.

Aviation experts were stunned in recent weeks to learn that Skyrizon, a little-known Chinese company, had become majority shareholder in Ukraine's Motor Sich, one of the world's top makers of engines for military cargo aircraft and helicopters, with an exalted lineage dating back to Soviet days. But just months after a senior Ukrainian official enthusiastically hailed the aviation partnership, a Kiev court has frozen the Chinese shareholding in Motor Sich. In a ruling last month it said that the deal was a "conspiracy to weaken the [Ukrainian] state".

Ukraine's motive for launching the court action, however, remains unclear. Some observers have cited concerns in Kiev and Washington that the country is losing a valuable military asset as its war with Russia drags on. Political infighting within Ukraine has also been cited.

The SBU, the state security service that investigated the deal and brought the case, fears that transferring ownership to "foreign companies that intend to move the company's assets and production capacity outside Ukraine...will lead to [the] liquidation and destruction" of the domestic production of aviation engines.

The court ruling also cites a clause in Ukraine's criminal code about the sabotage of strategic assets that are key to the country's security interests. Motor Sich, which employs 20,000 people in Ukraine, remains the country's sole producer of aviation engines. The SBU declined to reveal further details about the investigation but people with knowledge of the situation suggest both sides are negotiating a resolution to the deal.

Ruslan Pukhov, head of the Moscow-based Centre for Analysis of Strategies and Technologies, said Motor Sich's problems appeared to be the result of a domestic power struggle and that powerful factions within the Ukrainian state-owned defence sector were trying to use the Chinese shareholding as an excuse to seize the privately owned concern.

Since the partnership first began in 2015, Skyrizon said it had sent more than 100 specialists to four different aerospace technology institutes and companies in the Ukrainian cities of Kharkov and Zaporizhia. An official at the Chongqing industrial park where the Skyrizon factory is based said it was now capable of testing, repairing and maintaining imported engines, but not manufacturing them.

"In recent years there has been technology transfer on a massive scale, with hundreds of Ukrainian specialists going to China to set up production lines [at Skyrizon]," said Vasily Kashin of the Higher School of Economics in Moscow, who is an expert on the Chinese military. He said the Skyrizon facility could produce engines for drones, helicopters, training jets and possibly even cruise missiles.

A slide on the wall of the joint Skyrizon and Motor Sich booth at the Beijing expo reinforced the impression that the Chongqing facility was created with the ultimate aim of transferring Ukrainian technology to China. The two companies "joined hands to establish a national-level aero engine industrial base where the Chinese and Ukrainian technologies, manufacturing resources and top talents are gathered shared, and implemented," it said. The goal in 20 years, it said, was that "independent innovation is to be mastered" by the Chinese company.

"We are not obliged to reveal our plans in detail," said Anatoly Malysh, Motor Sich's spokesman, but he denied the plans envisioned a transfer of production assets, know-how and manpower to China. Mr Malysh said the only financial help received from the company's Chinese partners was \$100m "for development of our enterprise", which he admits was struggling. Skyrizon has declined to comment.

More broadly, concerns over technology theft, particularly by China, are a sore point among Russian and Ukrainian companies, which have sold many advanced systems to Beijing only to see their designs copied.

China's problems are precisely that its defence industry is often not efficient enough and is not advanced enough to copy the most complex weapon systems

Ruslan Pukhov, head of the Centre for Analysis of Strategies and Technologies

Moscow just last year resumed sales to Beijing of advanced aviation technologies, such as the Su-35 fighter, following a 10-year moratorium imposed amid accusations that China had reverse-engineered Russian weapons such as the Su-27 fighter-bomber. Mr Pukhov said most Chinese "copies" of foreign defence technology were done with the co-operation of the foreign partner under licence, although this was seldom advertised for political reasons.

"China's problems are precisely that its defence industry is often not efficient enough and is not advanced enough to copy the most complex weapon systems," he said. "It is the direct assistance of the developer and the serial producer that is needed."

Still, the Chinese market also represents an opportunity for an industry that has struggled since the collapse of the Soviet Union.

Motor Sich's Mr Malyshev outlines the conundrum: "They are building a new factory," he says. "Are they going to move [our production assets] from here or people? We are seeking new markets. China is a lot bigger than any other."

Vladimir Sudakov at NPO Energomash, a Russian rocket engine maker at the same expo, voiced the fears of many in the industry about China's interest in Ukraine.

"China is a country which wants to travel its own path [in the development of aviation] — look, there is MotorSich over there," he says, motioning to the Ukrainian booth. "It's entirely possible that, 'yes, today we take their experience and in a few years we will be able to independently make our own engines'. That is entirely possible."

*Additional reporting by Archie Zhang and Lucy Hornby*

*Air of mystery surrounds Wang Jing*

The Chinese businessman behind Skyrizon is known for his diverse interests. Wang Jing studied traditional Chinese medicine, has been contracted to dig a canal across Nicaragua and folded China's failed "indigenous" 3G standard into an international telecoms company that does much of its business in Cambodia.

Mr Wang — the controlling shareholder in Skyrizon as well as the companies that control Motor Sich's new factory in Chongqing — has told foreign partners to call him "Teddy" but little else is known about him. He conducts his businesses with a military-style patriotic flair and sufficient mystery such that, despite the formally private ownership of his various companies, it is hard to tell if he is acting on behalf of the Chinese state or simply very good at anticipating Beijing's policies.

Mr Wang's controversial project to dig a canal across Nicaragua is proceeding slowly, if at all. But his alliance with the Nicaraguan president's son has netted him a 100-year concession on the planned route and ports on both the Caribbean and Pacific coasts.

His company, Xinwei Telecoms, privatised China's 3G technology, developed as the crown jewel of China's "indigenous technology" drive, but it has been a commercial disappointment. It is now investing in satellite telecoms, the latest technology priority for Beijing, but dropped a 2016 plan to buy Israeli satellite firm Spacecom following a launch explosion. Mr Wang is not new to politics in Ukraine. In 2013, shortly before the Russian invasion, he announced plans to build a deepwater port next to the Russian naval port of Sevastopol. That plan does not seem to have progressed.

*By Lucy Hornby. Additional reporting by Archie Zhang and Yang Yuan*

