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THEORETICAL AND APPLIED ASPECTS OF RESTRUCTURING THE NATIONAL ECONOMY OF UKRAINE

Viktor Halasiuk

Committee of the Verkhovna Rada of
Ukraine on Industrial Policy and
Entrepreneurship,
Kyiv, Ukraine
E-mail: galasyuk@gmail.com
orcid.org/0000-0002-1617-326X

Introduction. The article deals with problems and consequences of the Ukrainian economy deindustrialization under the neoliberal paradigm dominance in government's economic policy. The problems of deindustrialization in transition economies during the period of postindustrial transformation in developed countries and the neoliberal economic thought dominance has so far been overlooked. The subject-matter of the study is structural shifts caused by deindustrialization and diversification of the economy. The methodological principles of research involve joint application of a set of well-known common scientific methods as well as special research methods in economics, such as retrospective analysis method to investigate the origin of modern neoliberal economic doctrines.

Aim and tasks. The purpose of the article is to distinguish the fundamental differences in structural changes in the economy of Ukraine and developed countries and to identify key areas for restructuring the domestic economy on the basis of modernization and reindustrialization policy.

Results. The fundamental differences between dramatic reduction of the industrial sector share in the Ukrainian economy and economy diversification with a relative decrease in the share of industry that occurs in mature economic systems under transition to the postindustrial stage of development are revealed. It's proved that formal signs of a transition to a postindustrial society may reflect diametrically opposed trends of economic development. A critical analysis of the theoretical postulates of economic thought that underlies leading international organizations' cooperation with individual countries is conducted. It's argued that neoliberal economic paradigm relies on abstract, sterile, and unfeasible hypotheses based on ideology, not the experience of successful structural transformations. Key areas of Ukraine's economic policy transformation include a set of tools of budget, infrastructure, tax, customs and foreign trade policies to ensure structural changes in output and export. It's argued that such measures, as introducing a local component criterion in public procurements, free connection of industrial objects to engineering networks, tax incentives for industrial park residents, barriers to raw materials exports, revision of Ukraine's obligations under WTO, launching of an export-credit agency, deploying a network of official trade missions in key partner countries, etc., will trigger reindustrialization of Ukrainian economy.

Conclusions. Implementation of a full-fledged industrial policy in developing countries is hampered by the rule of neo-liberal economic ideology, which denies the possibility of effective state governance of structural changes in the national economy. The article puts forward a critical view on the mainstream economic ideology and discusses its destructive impact on the Ukrainian economy that is worth to be introduced in masters' graduation programs in economics. Implementation of author's recommendations on reforming governmental economic and industrial policy is a basis for launching reindustrialization processes in the Ukrainian economy.

Keywords: deindustrialization, restructuring, diversification, globalization, neoliberalism.

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ТЕОРЕТИКО-ПРИКЛАДНІ АСПЕКТИ РЕСТРУКТУРИЗАЦІЇ НАЦІОНАЛЬНОЇ ЕКОНОМІКИ УКРАЇНИ

Віктор Галасюк

Комітет Верховної Ради України з
питань промислової політики та
підприємництва,
Київ, Україна
E-mail: galasyuk@gmail.com
orcid.org/0000-0002-1617-326X

Вступ. У статті розглядаються проблеми та наслідки деіндустріалізації української економіки за домінування неоліберальної парадигми в економічній політиці уряду. Проблемам деіндустріалізації в країнах з перехідною економікою в період постіндустріальної трансформації в розвинених країнах і домінування неоліберальної економічної думки досі залишається приділено недостатню увагу. Предметом дослідження є структурні зрушення, спричинені деіндустріалізацією та диверсифікацією економіки. Методологія дослідження побудована на застосуванні комплексу загальнонаукових методів, а також спеціальних методів наукового пізнання, зокрема методу ретроспективного аналізу для дослідження походження сучасних неоліберальних економічних вчень.

Мета і завдання. Метою статті є виявлення принципових відмінностей у структурних змінах в економіці України і розвинених країн та визначення ключових напрямів реструктуризації вітчизняної економіки на основі політики модернізації та реіндустріалізації.

Результати. Виявлено принципові відмінності між різким скороченням частки промислового сектора в економіці України та диверсифікацією економіки з відносним зменшенням частки промисловості, що відбувається в зрілих економічних системах при переході до постіндустріальної стадії розвитку. Доведено, що формальні ознаки переходу до постіндустріального суспільства можуть відображати діаметрально протилежні тенденції економічного розвитку. Проведено критичний аналіз теоретичних постулатів економічної думки, які лежать в основі співпраці міжнародних організацій з окремими країнами. Стверджується, що неоліберальна економічна парадигма спирається на абстрактні, стерильні та нездійсненні гіпотези, засновані на ідеології, а не на досвіді успішних структурних перетворень. Визначено основні напрями трансформації економічної політики України з метою забезпечення якісної зміни структури національної економіки. Ці напрями включають набір інструментів бюджетної, інфраструктурної, податкової, митної та зовнішньоекономічної політики для забезпечення структурних змін у виробництві та експорті.

Висновки. Реалізація повноцінної промислової політики в країнах, що розвиваються ускладнюється пануванням неоліберальної економічної ідеології, що заперечує можливість ефективного державного управління структурними змінами в національній економіці. У статті висвітлюється критичний погляд на домінуючу економічну ідеологію та обговорюється її руйнівний вплив на українську економіку, дослідження чого варто ввести в магістерські програми з економіки. Впровадження авторських рекомендацій щодо реформування державної економічної та промислової політики слугуватиме базисом для початку реіндустріалізації в українській економіці.

Ключові слова: деіндустріалізація, реструктуризація, диверсифікація, глобалізація, неолібералізм.

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Introduction. Since the mid-twentieth century the problem of providing effective structural shifts in the national economy became a topical issue of modern economic science. Undoubtedly, an increase in labor productivity in the primary sectors of agriculture and industry frees up labor and capital, directing them to more productive sectors of manufacturing industry and services. As industrial facilities become more and more modernized, the factors of production move from low-tech sectors to more complex innovation sectors where they can be used with even greater returns. Successful implementation of this scenario was key to achieving an accelerated socio-economic development for those countries that today are leaders in the world economy, as well as those that are rapidly improving the prosperity of the population and gaining economic weight in international relations.

During the period of market transformations, Ukrainian economy underwent reverse processes: the economic system became more primitive, more and more people were forced to leave the country in search of high-paying jobs, and agricultural sector received an increasing share of the economy. In this regard, the investigation of key factors of the Ukrainian economy degradation and identification of governmental regulatory mechanisms for structural improvements are of considerable relevance.

Analysis recent research and publications. A number of economic scientists such as S. Yerokhin [1], L. Shynkaruk [2], A. Vasina [3], A. Melnyk [4], A. Humeniuk [5], N. Skirka [6] and others dedicated their works to solving the issue of reaching positive structural transformations in the Ukrainian economy through a purposeful reindustrialization policy. Paying tribute to the existing profound developments in this area, it should be noted that the problems of deindustrialization of transition economies during the period of postindustrial transformation in developed countries and the neoliberal economic thought dominance has so far been overlooked. This determines the need for further investigations.

Aim and tasks. The purpose of the article is to distinguish the fundamental differences in structural changes in the economy of Ukraine and developed countries and to identify key areas for restructuring the domestic economy on the basis of reindustrialization policy.

Results. Nowadays more and more developed countries are moving to the so-called postindustrial stage of development, which is marked by an increase in the share of services in economic structure and a decrease in the share of goods production and a reduction in the number of employees in the manufacturing industry, because of production automatization, in particular. At first glance, during the period of independence, similar processes have taken place in Ukraine – the service sector has become dominant in economic structure, and the role of the manufacturing industry in shaping GDP and employment has declined significantly. However, the formal similarity of these processes should not be misleading. It's fundamentally important to distinguish between dramatic premature deindustrialization and diversification of the economy with a relative decline in the share of the manufacturing industry that occurs in mature economies. Comparing the trends of industrial development in Ukraine and the Czech Republic serves as an illustration of this fundamental difference (fig. 1).

During 1993-2017, Ukraine experienced a sharp drop in the share of the manufacturing in GDP from 29.7 to 12.4 per cent. In the Czech Republic, it decreased gradually and even recovered positive dynamics since 2010 reaching 24.3 per cent in 2017. At the same time, the absolute value added value in manufacturing of the Czech Republic during 1993-2017 grew 4.3 times (from 13.6 to 58.3 USD billion at constant prices of 2010), whereas in Ukraine this indicator declined by 14.8 per cent. As a result, if in 1993 the value added in manufacturing of Ukraine exceeded the corresponding indicator of the Czech Republic by 19.1 per cent, then in 2017 it was only one-fifth of the Czech.

More distinct tendencies of economic diversification with a relative decrease in the industrial sector share during rapid

manufacturing growth took place in Turkey where in the period of 1993-2017 the value added in the manufacturing increased by 3.3 times, while share of industrial sector in GDP declined from 21.0 to 17.5 per cent. In Poland, value added in manufacturing increased by 3.1 times, while share of industrial sector in GDP declined from 19.4 to 17.6 per cent [7]. The divergence in the experience of these countries with Ukrainian realities clearly shows that the formal signs of

a transition to a postindustrial society may reflect diametrically opposed trends of economic development. If the Czech Republic, Turkey and Poland reduced their share of industry in the economy as a result of economic diversification, faster growth of the service sector and productivity growth, Ukraine's industrial decline reflects economic degradation and partial destruction of production potential.

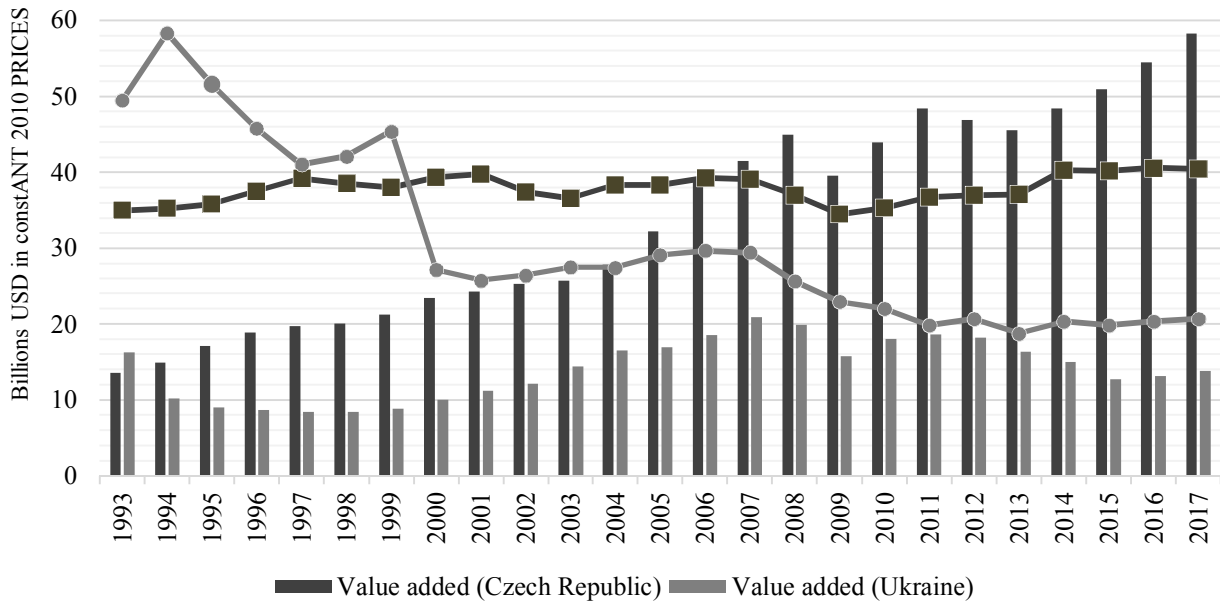


Fig. 1. The dynamics of value added in the manufacturing and its share in GDP of the Czech Republic and Ukraine, 1993-2017

Source: formed by the author based on [7].

For Ukraine, the only adequate way out of the current situation is formation and implementation of a reindustrialization policy. It should be noted that any attempt to pass or "jump over" the stage of a diversified industrial complex development and immediately enter the postindustrial phase is clearly unfeasible and hopeless, since it contradicts the very nature and logic of the developed national economies formation. First, most services serve the production and circulation of material goods, and therefore, originate from the industrial sector. Second, the scope for automation in the service sector is much narrower than in the industry, and therefore the potential for productivity growth in it is much lower. The domination of the service sector naturally leads to a slowing down of productivity growth, which makes it

impossible even a catching-up economic development, not to mention the outpacing one.

Third, deindustrialization negatively affects the country's trade balance, since services are harder to export than industrial goods. While goods can be delivered to any country in the world, the export of most services requires the international transfer of either supplier or consumer to bring them together. Thus, an increase in the share of services in the economy leads to a reduction in export earnings [8]. If in post-industrial countries this gap is filled by other balance-of-payment articles (in particular, the repatriation of foreign investment earnings), then in countries experiencing premature deindustrialization, the only source to fill this gap is external borrowing. Any loans sooner

or later have to be given back, which ultimately leads to the national currency devaluation, reduces the possibility to import technologies for the development of industry within the country, and also fuels the inflation, which, in turn, increases the cost of credit resources for existing enterprises. Thus, the country slips into a spiral of economic system degradation, which cannot be prevented by market forces.

However, despite the repeated confirmation of the above-mentioned practice in a number of countries, the transition to the implementation of active industrial and structural policies is restrained by the worldwide prevailing economic thought based on a neo-liberal doctrine, which denies the possibility of effective public governance of structural changes in the national economy. In particular, paying tribute to previous industrialization gains, the IMF challenges the possibility of using its benefits under the current conditions of globalization, arguing that the world market has long been saturated with industrial products of "Asian Tigers" – China, Taiwan, South Korea, Vietnam, and others – and is shared between these main players. Thus, the attempts of other countries to industrialize will happen under "zero-sum" scenario. The policy of export-oriented industrialization under such conditions is considered to be a failure, and import substitution only reduces the world's level of well-being, until the "tigers" enter the stage of postindustrial development and free up the place of "world's workshops" for other countries [9].

So far, developing countries still have to rely on foreign investment, because global liberalization of commodity, capital and technology markets has the potential to embed them in international value chains at least partially. To reach this goal, the government ought to develop the fundamental institutions by strengthening the private property rights, fighting corruption, improving the education system, etc. It is also worth considering infrastructure development measures to support the rapid expansion of production. According to supporters of the neoliberal economic thought, this approach will ensure long periods of growth for

developing countries in the era of globalization thanks to the "unconditional international convergence in productivity" [9].

In my opinion, the only adequate thing in this viewpoint of neoliberal economists is recognition of necessity to run government infrastructure policy. Instead, the very idea that all world markets are already divided among the main players is based on the Ricardian principle of the static nature of the competitive advantages and the fundamentally false D. Ricardo's assertion that any country can benefit from international specialization in goods with prevailing relative advantages, regardless of what the goods are. Hope for foreign investment as a key driver for development may also fail. If the government stays away from setting industrial priorities for investment and avoids the policies to encourage inflows in corresponding sectors, foreign investors will mostly seek access to a raw material base and / or cheap labor in the country, which will in no way contribute to economic restructuring.

The emphasis of neoliberal paradigm supporters on the fact that the government should focus, first of all, on strengthening the private property rights, fighting corruption and improving the education system, derives from misunderstanding of the nature of causality. Corruption, inequality and poor education are a consequence of a low standard of living in the country, therefore measures to overcome these problems must necessarily be accompanied by active economic policy aimed at restructuring and modernization of the national economy. As for the expectations of neo-liberals for "unconditional international convergence in productivity," these hopes are deliberately useless. The idea that factors productivity in different countries will be evened with the deepening of globalization derives from the hypothesis of P. Samuelson, according to which the prices for capital and labor will eventually become equal in all countries when world economy will be absolutely liberalized [10]. It is obvious to any critical person that the persistent use by neoliberals of such an abstract, sterile, and unfeasible hypothesis is due exclusively to ideological motives and

has nothing common with economic considerations.

UN economic institutions, primarily UNCTAD and UNIDO, are the centers that advocate alternative opinion on the mechanisms for implementing the structural policy of government. Unlike the IMF, the World Bank and the WTO, which regulate and supervise their member states, UNCTAD and UNIDO's activities are advisory. However, it is these international institutions that have united many experts who defend a much more adequate economic agenda, including the formation and implementation of a policy that promotes welfare growth through structural changes in the national economy.

In particular, UNCTAD's 2016 report on structural transformation in the economy explicitly postulates that the transition from raw material and agricultural poverty to postindustrial prosperity is impossible without conducting a targeted government policy supporting prioritized industrial sectors with higher factor productivity, better wages and greater technological potential. It's stressed that the governments of developing countries must be ambitious, strive for development through creation of new sources of growth and dynamism, rather than just try to do everything possible with what they have, using existing relative advantages. It is clearly indicated that the discussion should be about the means to conduct structural policy in the best way, not about the necessity of such policy [11].

The of UNIDO's 2017 report [12] also provides professional arguments in favor of an active structural policy through industrial development. Based on the analysis of a large array of statistical data, the publication denies the myth of a global decline in employment in the manufacturing sector and proves that no country has yet seen a phenomenon such as "positive deindustrialization". Even a relative decline in the share of industry in GDP as a result of economy diversification at the postindustrial stage leads to a slowing down of economic growth. At the same time, it is clearly shown that the defining factor of dramatic premature deindustrialization is always the failure of the government's economic policy, while effective policies

always lie at the heart of a successful economy restructuring [12-13].

Among key instruments for effective structural policies, UNIDO experts identify a variety of financial support approaches (direct government funding, public-private partnerships, state guarantees), import duties and non-tariff measures to restrict imports, preferential loans, subsidies and investor preferences in strategic industries, investments in human capital (education, training) and support of R&D by companies and specialist research institutes. It's noted that governmental support should be selective, since in practice available amount of budget funds is always strictly limited, and therefore these funds should not be dispersed among numerous horizontal projects [12].

Sharing general principles of the UNCTAD and UNIDO experts, it is considered appropriate to propose a system of priority measures for a new industrial policy in order to bring the Ukrainian economy out of disastrous neoliberal deadlock. Such policy should cover measures of tax, customs, infrastructure, monetary, fiscal and foreign trade policies, as well as improvement of the public procurement system (fig. 2).

The primary measure is import substitution in public procurement by limiting state demand for goods with a high share of import components and encouraging the industrial capacities localization in Ukraine. This requires the adoption of Draft Law No.7206 "Buy Ukrainian, pay to Ukrainians", which introduces a price advantage for goods with a higher level of localization.

To improve the investment climate in Ukraine, based on the experience of the "Asian tigers", Turkey, Poland and a number of other countries, it is advisable to introduce such a mechanism of economic and industrial development as industrial parks. The transformation of industrial parks into a real mechanism for attracting investments in Ukraine requires the adoption of a legislative package (Nos. 2554a-d and 2555a-d), which introduces tax and customs investment incentives and guarantees for new production facilities and research centers in Ukraine. Equally important is the provision of fast and affordable connection of industrial facilities to

engineering networks, as Ukraine still faces unreasonable investment barriers consisting of unfair, complicated, bureaucratized and corruption-friendly schemes for connection to energy, water, heat, and gas supply.

Current tariff rates under the WTO and major free trade agreements do not contribute to the modernization of the Ukrainian economy and formation of a diversified industrial base. So revision of these rates

regarding the interests of domestic producers should become one of the systematic measures to create a favorable environment for the reindustrialization of the domestic economy. The main directions of tariff policy should be the establishment of barriers for import of finished products and the abolition of import duties on high-tech innovative equipment, as well as restrictions on the export of raw materials.

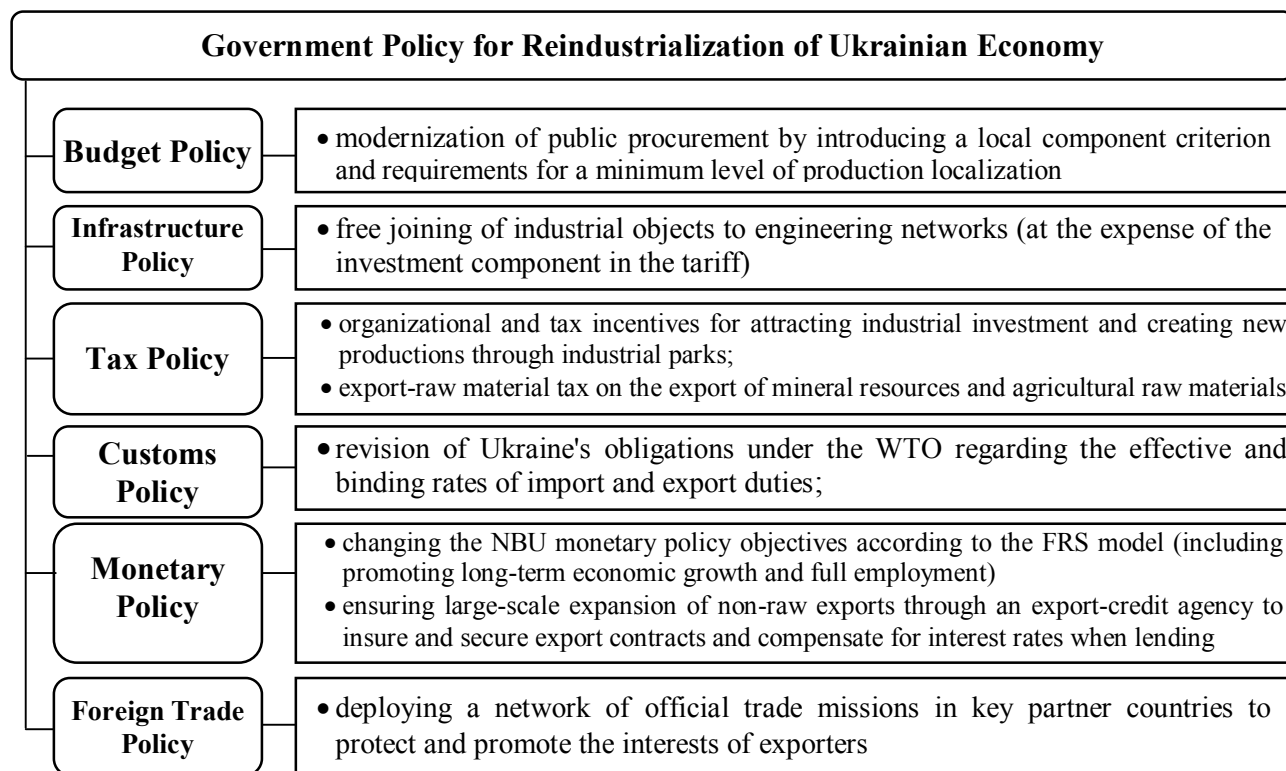


Fig. 2. Government Policy Measures for Ukrainian Economy Reindustrialization

Source: developed by the author.

Important role in preserving and strengthening the competitiveness of domestic industry can also be played by the pro-industrial tariff policy, which will restrain the growth of energy and transport tariffs from the side of natural monopolies.

During the transitional phase of overcoming raw material orientation of exports, it is necessary to introduce a 3% export-raw material charge that should be directed towards a large-scale modernization of infrastructure and utilities, which will further stimulate demand for domestic products. Along with measures restricting the export of raw materials, it is necessary to simultaneously introduce mechanisms to encourage the export of high-tech products.

The key mechanism in this area should be the launch of an export-credit agency.

Equally important for the development of domestic high value-added exports is the strengthening of trade diplomacy through the opening of trade missions, primarily in the most promising countries regarding perspectives of trade and economic relations development. Trade missions should coordinate interaction of Ukrainian business representatives and members of the Chamber of Commerce in countries of dislocation.

At the same time, it is also important to develop sectoral programs and strategies in the areas of structural modernization of the national economy.

Conclusions. Seemingly similar tendencies of reduction of the share of industry in the economy of Ukraine and a number of developed countries actually have fundamental differences in their intrinsic characteristics. While in mature economies there was a diversification with a relative decline in the share of industry, dramatic deindustrialization took place in Ukraine, with the subsequent primitivization of production and employment. And transition of declining economies to postindustrial stage of development, bypassing the restoration of industrial potential, is impossible due to the fundamental differences between sectors of industry and services.

Implementation of a full-fledged industrial policy in developing countries is hampered by the rule of neo-liberal economic ideology, which denies the possibility of effective state governance of structural changes in the national economy. It should be noted that the assessment of the impact of specific structural policy measures on the dynamics of the country's economic development using modern methods and tools of economic and mathematical analysis will strengthen the positions of responsible economists-practitioners in international discussion with adherents of the neoliberal mainstream. This determines the topicality and perspective of further research in this direction.

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