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## **THE CURRENT STATE OF INDUSTRY DEVELOPMENT IN UKRAINE: ADVANCE PERSPECTIVE**

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*The current state of the industry of Ukraine are considered at the article. The author determined that the stabilization of the situation and further development of the industry need first of all cessation of hostilities. It is necessary to implement effective measures to combat corruption, the development of consistent, constructive and concerted action on the formation of institutions guaranteeing stability, predictability and transparency of the market rules and procedures that minimize the impact of shadow factors, and implementation of professional privatization and limitation of monopoly at the markets, forming a transparent, competitive business environment, the introduction of new energy saving technologies. These measures will help attract investment, increase production and improve enterprise profitability.*

**Keywords:** *Ukrainian industry, coal, chemical industry, metallurgy industry, institutional factors, public administration.*

**Introduction.** What economy of Ukraine needs today is the further development for its advance in the modern industry as Ukraine aims for the global competitiveness. The industry is the crucial part of the country potential and it forms as the public production key element the valid part of the Gross Domestic Product (GDP) and national income. Underlying further prospects for growth over the coming years in Ukraine it must be understood that the current state is being assessed in the growth prospects perspective for Ukraine. For today, the economy demonstrates such depressed

state and dismal fact as circumstances shrinkage of markets, increase of the foreign debt, growth of rate of inflation, aggressive devaluation of hryvna, investment output (wave of GDP falling having been covered since the third quarter of 2012 year). Specifically, in the third quarter of 2014 compared to the same period of 2013 decline in GDP was 5.3% [1]. The Industrial Production Index (IPI) in 2014 estimated as 89.3% (in 2013 IPI was at 95.7% rate and in 2012 year IPI showed 99.3% respectively).

**Analysis of recent researches and publications.** The state of ukrainian economy and the industry in particular, the factors that affect the industry are researched in many publications, both foreign and Ukrainian authors. The state of the industry in Ukraine analyzed O.I. Amosha, V.P. Vyshnevskyy, L.O. Zbarazska and others. [1]. The impact of institutional factors on the industry investigated V.V. Demytyev [1] K. Shvab [3], K. Basu [4] and others.

**Previously unsettled problem constituent.** However, there remain many unresolved issues regarding the current state of industrial production and factors affecting it.

**The main purpose of the article.** The aim of this article is to develop of recommendations to increase production of industry in Ukraine and its development in the future.

**Basic material with substantiation of the result of the research.** The institutional environment (that is not perfect in Ukraine) influences industry and its advance in the way. Making rankings to represent best world economies some international experts even claimed that institutional arrangements can be principal factor that contribute to the economy development. The ratings previously taken made Ukraine take up the 76th position in the Global Competitiveness Index of the World Economic Forum in 2013 (selecting from 144 countries). According to the international experts' view the worst case took place in analysis of the status of the institutions (130), and among the biggest challenges for the business they name: corruption, policy instability, poor governance, inefficient government bureaucracy.

general instability in the country, etc. [2]. The World Bank experts report that Ukraine takes up the 96th place out of 189 countries is the Doing Business-2015 rating (Ukraine has challenges with electricity and namely with power supply networks which makes Ukraine to take up the 185th place in the rating and Ukraine takes up the 142nd place in the rating of defaulting countries due to their financial insolvency and etc.) [3]. Indicating a need to change strategic direction, in the corrupt practices rating Transparency International refers Ukraine to the 144th place in the rating out of 175 countries [5]. Presenting an overall index, Ukraine takes the 162nd place out of 178 countries according to the level of economic freedom [6]. Referring to Ukraine in the

term «repressed economy» experts indicate a need to change strategic direction as Ukraine takes up the last place out of 43 European countries. The worst complexities in Ukraine demonstrate such areas as guarantees property rights (for currently in Ukraine there have been reported corruptive delinquencies; also the judicial system has been reported as total risky and poorly protected especially in the private property rights), the experts claim that investment opportunity development is in a deplorable state; Public Finance Management leaves a lot to be desired and etc.

Starting with 2014 year, as it was stated above, there is a downtrend in the Ukrainian industry as it has been reported to be in a weakened state and has clearly demonstrated the tendency in industry reduction and production level drop. The 2014 year showed the 10.7 % decrease in industrial production what is the obvious downtrend of economy in crisis. The economic collapse factors are such institutional factors as high concentration in the industry, inefficient role of state as a business owner, corruption schemes and so on and so forth. Thus, the total level of concentration in the industry in Ukraine is quite high (in 2012 the top 10 Ukrainian companies provided 22% of total sales, while and the top hundred companies provided 58.5% of the overall production). In recent years the oligopolistic market of the domestic industry has shown a tendency of growth, where the top 50-100 companies continue to gain market share and reports revenue growth.

The mining industry saw the decrease of the production level by 13.7%, including the reduction of coal mining production by 29.3% (the industry gained 44.7 million tons of coal). The crude oil output also decreased and was down by 128 thousand tons and the production of gas condensate dropped and was down by at 127 thousand tons. Let's stop in more detail on the development of the coal industry.

It should be noted that in recent years negatively on the development of the coal industry were represented as macroeconomic and institutional factors. The lack of sufficient investment, reducing government subsidies and other had negatively affected the development of infrastructure and state assets (depreciation of fixed assets - 60%), new mines under construction (eg, mine number 10 «Novovolynska»).

The reduced efficiency of the industry was caused by increasing loss development of the companies (e.g. in 2013 year state coal mines in Ukraine increased losses of production output by 27%); also, the decreased productivity was affected by institutional factors such as lack of reforms in industry, incomplete privatization, corruption schemes (value detraction can be exemplified by overvaluation of coal) and some other contributing factors.

Some new affecting factors were added in 2014 year, namely: the imperfection of international legislation and the deployment of military operations (shooting war) in

eastern Ukraine, which have been influenced by the destruction of infrastructure, shutting down or de-energization of power substations of mines wherefore having resulted in almost half of the 150 mines are out of operation and not working any more. According to the official data there was not taken profit from the beginning of June 2014, the cost of losses and damages in coal mines production of State Enterprise «Artemvuhillya» and State Enterprise «Luganskugol» were estimated in more than 3 thousand tons and 2.5 thousand tons, respectively. The state enterprises in the areas near the counterterrorist operation in the Donetsk and Luhansk oblasts are not working now; the evacuation of the workers has been made [7]. At the end of 2014 on the territory controlled by the Ukrainian government, there were 35 working mines (17 coal producers were in a state of liquidation or conservation) [8]. The state mines produced about 17 tons of coal.

The production index in primary processing industries of 2014 year was 89.9% in comparison with 2013 year. This index thus includes the steel industry, having been the productive potential and the basic sector of the economy for many years, the sector of the budget-value and a source of foreign exchange earnings and revenue in the economic turnover of construction materials. The steel industry, which is a number one player in engineering, metalworking and construction sectors showed fall in 2014 year in comparison with the last year by 14.9%.

Among other things, there was reduction of iron and steel production by 14.6%, 12.2% tubes (e.g. iron production fell up to 4.3 million of steel production fell up to 5.7 million tons). Other products of primary steel processing production fell up to 15.7% production of metal structures production fell up to 29.9%. Until last year the factors that negatively affect the steel industry, for the industry is dependent on the unfavorable external economic situation (e.g. lower world prices for steel, falling prices for iron ore, steel products in the world market) increased competition in the European and Asian markets in non-full potential of the domestic market consumption of steel products, inadequate investment, increased the systemic, structural, organizational and other problem areas (e.g. energy and specific resource production, technological backwardness, lack of intra, inter-sectoral cooperation, low environmental performance, etc.), which resulted in an imbalance of production and increased costs.

Also, the reduced quality products added new factors related to the deployment of combat actions in the southeast of the country, where there were the significant share of capacities in the industry. Thus, a number of companies: PJSC «Alchevsk Metallurgical Plant», «Stakhanov Ferroalloy Plant», LLC «Steel», «Yenakiyev Metallurgical Plant», «KhTW», JSC «Donetsk Electrometallurgical Plant», «Metals and Polymers» were damaged to infrastructure as a result of military operations (e.g. erosion of the bridge in

Zaporizhzhya region), the debt of public enterprises, the state budget, higher tariffs for freight complicated operations, timely supply of resources has led to shortage of working capital companies, resulting happened forced the shutdown of several plants in MMK «Ilyich Iron and Steel Works of Mariupol» and the «Azovstal» and the temporary suspension of all investment projects.

Manufacture of chemicals and chemical products in 2014 compared to last year decreased by 14.7%. Chemical industry as the leading field has been for many years specialized in the production of mineral fertilizers saw fall of production: the chemical complex of Ukraine reduced production up to 23.7%. Ukraine possesses significant capacity for the production of ammonia, which is the base of mineral fertilizers. However, this area is monopolized and dependent on world conditions and high energy utilization system of the Ukrainian fertilizer than analogous indicators of enterprises industrialized countries. Enterprises that are not withstanding of competition from the countries with more cheap raw materials are gradually losing the world market.

Under the influence of industrial-technological, financial and economic, institutional (governance, the introduction of new rules and laws, tariff and tax laws), internal factors (seasonal fluctuation of the mineral fertilizers consumption) and external (e.g. price volatility) factors, most enterprises producers of fertilizers (PJSC «Nitrogen» Concern «Stirol», «Severodonetsk association Nitrogen», «Rivneazot» SCR) are working with a loss more than a year, reducing production and bringing some companies to near bankruptcy.

**Conclusion and further research directions.** Development of industry, stabilization and formation of a new economy of Ukraine require primarily the cessation of hostilities. Equally important for the further: implementation of effective measures to combat corruption; privatization and implementation of professional monopoly restriction on the markets; the formation of transparent competitive business environment.

In order to ensure the efficient operation of the coal industry should: restore the functioning of coal companies temporarily ceased operations as a result of military action, based on modernization of technological equipment. Make consolidation and corporatization of public enterprises. Making a gradual transition to market conditions through privatization that will attract private investment and promote modernization; the gradual transition should be made that will allow industry to take self-sustaining unsubsidized mode and become independent. Restrict vertical integration business, reduce administrative barriers, implement measures to reduce the size of transaction costs, increase the speed of business processes there should be done. It is necessary to

accelerate the elimination of wasted coal mining and processing enterprises with parallel solution of social problems in the release of labor.

The Ukrainian steel industry has been demonstrating negative tendencies for extended periods, (e.g. high cost of energy, depreciation of assets, outdated technology, etc.). These persistent negative trends in the industry are loaded by difficult global conditions. That is the time when industry is in high need of investment, modernization, technical and technological makeover.

The chemical industry should be modernized, including the Ukrainian fertilizers; the increasing competitive advantage in the global market needs to attract investment, new, economical use of gas.

In Ukraine there should be taken serious measures to tackle corruption in order to form a flexible system of public administration, harmonization functions of the state and the market; develop a system of consistent, constructive and cooperative action on the formation of institutions matched guarantee stability, predictability and transparency of the market rules and procedures to minimize the impact of shadow factors. These measures will help attract investment, increase production and improve enterprise profitability.

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## **СТАН ПРОМИСЛОВОСТІ УКРАЇНИ ТА ШЛЯХИ ЇЇ ПОДАЛЬШОГО РОЗВИТКУ**

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*У статті розглянуто стан промисловості України. Автором визначено, що стабілізація ситуації та подальший розвиток промисловості потребують в першу чергу припинення військових дій. Необхідним є здійснення дієвих заходів спрямованих на боротьбу з корупцією, розробка системи послідовних, конструктивних, узгоджених дій щодо формування інститутів, які гарантують стабільність, прогнозованість та прозорість ринкових правил і процедур, мінімізують вплив тіньових чинників, а також сприяють здійсненню професійної приватизації та обмеженню монополізму на ринках, формуванню прозорих конкурентних умов ведення бізнесу, впровадженню новітніх, енерго- та ресурсозберігаючих технологій. Реалізація зазначених заходів сприятиме залученню інвестицій, зростанню обсягів виробництва та прибутковості підприємств.*

**Ключові слова:** промисловість України, вугільна, хімічна, металургійна промисловість, інституційні чинники, державне управління.

## **СОСТОЯНИЕ ПРОМЫШЛЕННОСТИ УКРАИНЫ И ПУТИ ЕЕ ДАЛЬНЕЙШЕГО РАЗВИТИЯ**

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*В статье рассмотрено состояние промышленности Украины. Автором определено, что стабилизация ситуации и дальнейшее развитие промышленности нуждаются в первую очередь в прекращении военных действий. Необходимо осуществить действенные меры, направленные на борьбу с коррупцией, разработку системы последовательных, конструктивных, согласованных действий по формированию институтов, гарантирующих стабильность, прогнозируемость и прозрачность рыночных правил и процедур, минимизирующих влияние теневых факторов, а также способствующих осуществлению профессиональной приватизации и ограничению монополизма на рынках, формированию прозрачных, конкурентных условий ведения бизнеса, внедрению новейших энерго- и ресурсосберегающих технологий. Реализация указанных мероприятий будет способствовать привлечению инвестиций, росту объемов производства и прибыльности предприятий.*

**Ключевые слова:** промышленность Украины, угольная, химическая, металлургическая промышленность, институциональные факторы, государственное управление.