In this chapter transformations in the sphere of production are examined from a macro and sectoral perspective. The dynamics of industrial decline and restructuring will be analysed as well as changes in major economic sectors.

Deindustrialization

The Soviet economic system caused enormous dislocations. Entire branches of industries were developed that became value-subtracting. Many products were produced that nobody needed. A huge military industrial complex emerged for which there was less need in the new circumstances after the Cold War. A lot of high value added production took place for which there are no markets in a situation of free competition. Also, branches that were tightly integrated into the Soviet industrial complex had no chances of survival when disconnected from this system after the independence of Ukraine. On the other hand, the service sector was hardly developed.

Many expected that, with the gradual development of a market economy, the value-subtracting industries would suffer most while the traditionally underdeveloped consumer goods industry would develop better if freed from the constraints of a centrally planned economy.

In fact, the opposite happened. The value-subtracting ferrous and non-ferrous metallurgy and energy sectors enhanced their share in industrial production and increased enormously their share in exports. The coal mining industry is still absorbing huge amounts of subsidies while the sector has hardly been restructured. On the other hand, the consumer goods industry completely collapsed, not being able to
compete with foreign products and faced with an enormous decline in demand.

The share of power utilities in total industrial output increased between 1990 and 1999 from 7.3 per cent to 16.2 per cent, that of oil and gas from 9.5 to 10.2 per cent, that of coal from 7.0 to 11.6 per cent and that of steel from 14.4 to 26.0 per cent. All these branches together increased their share in total industrial output from 39 per cent in 1990 to 64 per cent in 1999. On the other hand, the machine-building industry’s share dropped from 29.8 per cent to 8.3 per cent and that of food from 14.0 to 13.3 per cent.¹ Light industry collapsed, with output declining between 1990 and 1999 by 85–95 per cent. In the same period industrial output as a whole declined by 63.9 per cent.²

The increase of base industries in total industrial production is only partly related to the fact that these industries can less easily divert activities to the shadow sector.

An increased importance of resource rich sectors can be observed. The same trend can be observed in Russia. But unlike Russia, Ukraine does not have a rich resource base and is a net energy importer.

The employment structure changed less dramatically than output structure, due to the inclination of many enterprises to hoard labour. Nevertheless, remarkable changes occurred: from 1990 to 1997 the share of industry dropped from 30.7 per cent to 24.7 per cent, but that of agriculture increased from 19.6 per cent to 24.7 per cent, although the share of agriculture in GDP decreased substantially.³ The share of construction and transport declined (from 9.4 to 6.4 and from 7.1 to 6.4 per cent, respectively) and the share of the health sector and state apparatus increased (from 5.9 to 7.4 and from 1.6 to 3.5 per cent, respectively). The financial services sector appeared with 1.0 per cent. Other sectors remained relatively stable.

Instead of changing its employment structure in the direction of most developed market economies, employment structures began to resemble the less developed economies. According to official figures, in terms of employment, the service sector did not develop dynamically. If the shadow sector is included, the picture changes and a larger share of the population is active in trade, visible in the phenomenal growth of the bazaar.

Thus, the structure of the economy changed, but not in the direction many expected in the early 1990s and not as the outcome of deliberate government policies, but rather as the result of differential decline.