

**Economic Theory**

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**DEINDUSTRIALIZATION UNDER  
THE CONDITIONS OF GLOBALIZATION**

**Abstract**

A theoretical analysis of the crisis of the neoliberal model of globalization, which led to the processes of deindustrialization in many countries of the world, including Ukraine, is presented. It is shown that through the restoration of the development of high-tech sectors of the real economy, a global economic model is changing, that gives a chance to overcome negative consequences of the global crisis. The analysis of various models of capitalism under conditions of neo-liberal globalization, including those in the countries emerging in the post-socialist space, has been carried out. It is shown that solving the contradiction that has developed in Ukrainian economy between current and long-term tasks is possible on the basis of a reproductive approach.

**Key words:**

Globalization, deindustrialization and reindustrialization, various models of capitalism, industrial policy, depreciation, strategic goal-setting, a model of sustainable economic growth.

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Intermediate results of market transformations in certain regions and countries of the world make it possible to make a conclusion about the specific models of capitalism that have appeared, both in the states of Central Europe and in the post-Soviet space. Such economic models have a number of special features that are different from the models of highly developed countries.

For the new members of the EU, the existing model of dependent capitalism is a historical form, expressing the internal contradictions of Transnational corporations (further in the article TNCs), for which a variety of factors of production and marketing of goods are a necessary condition for their existence. As for the results of market transformation in countries emerging on the post-socialist space, in most of them, including Ukraine, an inefficient model of capitalism of the clan-oligarchic type was established. The reasons for the formation of such model of capitalism had already been considered by the author earlier (Beck, p. 41–49). Let us dwell on them in a thesis.

Firstly, there is a misunderstanding of the very nature of the Soviet economy, where elements of the clan organization of society were present. Secondly, there are mistakes made in defining the reform strategy, and the subordination of the reform process to the political interests of the new elite. Thirdly, it is the weakness of the state in the process of building a new institutional environment and, as a reaction to this weakness, the preservation and development of informal institutions in the political and economic system of society. Fourthly, ignorance of true, and not declared motives of power, which was not interested in a transparent and competitive market environment and social protection of the population (Beck, p. 41–49).

Within this clan-oligarchic model of capitalism, financial industrial groups (further FIGs) which ensure individual reproduction of capital in enterprises under their control are formed. In certain cases, the necessary technologies are procured at the world level, and research can be carried out in the interests of controlled business.

All the above mentioned give certain stability to the FIGs concentrating their business in the raw materials industries with a full production cycle.

Rent and raw materials sectors are oriented to world markets and world prices. The enterprises of this sector form certain enclaves, consisting of suc-

cessful and financially stable corporations. Their finances are poorly spread beyond the boundaries of these corporations. For example, products of metallurgical corporations or agricultural grain holdings, which sell abroad successfully, but does not find sustainable demand within the country. The fact is that in the national economy there is very little demand for high-quality metal and grain for domestic needs. Consequently, the rent-seeking sector of the economy creates insufficient demand in the domestic market. As a rule, these FIGs have their banks, investment companies, which are tightly connected with foreign financial organizations.

The concentration of income in the rental sector determines the appropriate proportions in the distribution of capital and investment. If enterprises exporting raw materials have a surplus of capital relative to the possibilities of its effective use (as indicated by the direction of only half of the incomes in their own investments), then enterprises oriented to the domestic market are simultaneously experiencing a shortage of capital and low investment attractiveness. These enterprises do not reproduce the active part of fixed capital. According to expert estimates, the rate of commissioning of new facilities in the enterprises targeted at the domestic market over the past 10 years has been 3% per year.

Therefore, with a high degree of probability, we can say that the Ukrainian economy, dominated by the clan-oligarchic model of capitalism, fell into the «trap of stagnation.» This state of the economy preserves low rates of economic growth, creates prerequisites for inefficient use of national resources and loss of the potential for sustainable economic dynamics, and ultimately – lowers the level and quality of life of citizens, and increases social tensions.

To change the negative vector of economic development, it is necessary to change the model of clan-oligarchic capitalism and move to a different model, close to the one that in literature was called «state market capitalism» (Faux, p. 10). J. Faux calls this model «authoritarian capitalism» (Brenner, p. 24).

This type of capitalism arose as a reaction to the business oriented towards the earliest possible return of private capital as opposed to nationwide tasks. Under the state capitalism in a broad sense we understand the influence of the state on the economy in the form of both ownership of shares of companies' shares, and granting of subsidized loans to private companies or other support. This type of capitalism is characterized by a close interaction of the state apparatus with rapidly developing business elites. Government bodies block the ways to subordinate state policy to private interests. In this connection, there is a question: is the transition to a model of state capitalism possible in Ukraine? In our opinion, it is possible to give a negative answer if we take into account the whole gamma of historical circumstances. What are the circumstances?

First, Ukraine went through the historical fork in the early 1990s, and targeted to liberal reforms.

Secondly, in accordance with the current «geopolitical choice», which is presented in the form of the «Association Agreement between Ukraine and the EU», such a change in the model of economic development seems impossible in this historical period.

Third, there is no social power in the country that would see the successful development of the national economy as a result of the transition to a model of state market capitalism. Therefore, it is necessary to look for opportunities to modernize the economic policy pursued in the country, which will help generate additional revenues for the state and the population at all levels of the economic system and ensure real qualitative changes in the economy on this basis.

The state of this type of capitalism is characterized by: significant expenditure on R&D; large-scale state projects; creation of joint ventures by national and foreign companies; weak protection of intellectual property rights, contributing to the spread of reverse engineering, which becomes an important tool for overcoming the technological gap with developed countries. As the historical experience of the post-socialist countries of Southeast Asia, especially China, showed, national companies of this type of capitalism become competitive in those sectors of the economy where accelerated scientific and technological development is observed. It was this kind of capitalism that proved to be most effective in the «catching up» form of development and the transfer of the economy to the production of medium technological level. Such a model of capitalism makes it possible to take advantage of market relations and, at the same time, have a system for protecting key economic sectors and also to have mobilized financial resources for implementing large-scale national projects (Faux, p. 10–11).

The necessity of modernization of economic policy in Ukraine is due to the fact that the national economy has exhausted its potential for sustainable economic growth. Modernization of economic policy mechanisms should be aimed at improving economic growth, ensuring its sustainability in the long term. In other words, it is necessary to change the trend of development of the national economy. The situation existing nowadays can be described as a crisis of the mechanisms of reproduction associated with the end of the recovery cycle of economic growth. In the Ukrainian economy, fundamental limitations were constantly growing, and made sustainable development impossible while preserving the mechanisms characterizing the pre-crisis development.

As a result of ongoing reforms in Ukraine, in accordance with the laws of the market, most of the enterprises of the machine-building industry could not stand competition with international corporations and either converted to primitive types of production or just closed down. On the first positions there were enterprises only of the raw materials industries, the products of which were in demand on world markets.

Only market methods to change the negative trend in the industrial sector are impossible, because national producers will not be able to withstand competi-

tion with international TNCs. Therefore, national business needs an active industrial policy, based on large scale investment projects that can initiate structural changes in favor of high-tech industries that stimulate the development of innovative processes. It is an integrated approach to solve problems in the industrial sector that presupposes the existence of a long-term program of the state to revive the economy on the basis of innovations.

The orientation of the national economy towards a new industrialization requires overcoming the neo-liberal ideas about the development of the capitalist market, which makes the rich even richer, while the rest deprives the chances of achieving perfect forms of life. In our opinion, the implementation of the neo-industrial paradigm in countries with undeveloped market institutions can only be successful within the framework of the theory of a socially regulated market economy, in which the state plays a key role in transforming the rent-and-raw structure of the national economy into a high-tech one, producing large added value through processing industries. The choice in favor of such a development model depends on the ideological values of the politically active sections of society, which are striving to rebuild the national economy and increase its competitiveness.

The experience of other states that made the transition to accelerated development based on innovative technologies shows, such choice is quite real. For this, a meaningful economic strategy, oriented to those who can win in the competitive struggle not only on the domestic market, but also on the world market is necessary. Within this strategy, priority industries and spheres of manufacturing, sources of investment and potential markets, and ways of macroeconomic regulation of the national economy should be clearly defined.

Unfortunately, an extremely difficult social, economic and political situation requires the country's leadership to resolve current problems. There is a constant postponement of the solution of long-term tasks. This philosophy of behavior has become dominant throughout the period of building a national economy. Indeed, without solving current problems, it is difficult to focus on achieving long-term goals. However, changes in the current situation must occur with the expectation of the future. The way out of the existing contradictions in the economy between the solution of current and long-term tasks is possible on the basis of a reproductive approach, because the deep causes of the slowdown and the crisis of the economy are the violation of reproductive proportions. According to the experience of market economy, in countries with highly developed market economies and emerging markets (as, for example, Ukraine), reproduction processes are carried out differently.

As it has already been shown above, in highly developed countries, the formation of financial resources and their distribution through intra- and inter-sector competition takes place in those industries which produce more added value. In other words, the distribution and redistribution of reproductive proportions of goods and services for industrial and consumer purposes are subject to

the laws of market competition. The state redistributes the reproductive proportions of GDP by the budget and tax incentives. Nowadays, in the economy of highly developed countries, state participation in the redistribution of GDP through the state budget has reached 50%.

As for such countries as Ukraine, where markets and their institutions for competitive distribution of GDP are formed, in order to realize the concepts of «catching up» development, it is necessary to create conditions for expanded reproduction of primary economic links.

In other words, the conditions for cost recovery, as well as sources for the accumulation and the fastest return on capital investments, should be created for enterprises. Only if such conditions exist, economic growth can accelerate and the structure of production change in favor of manufacturing industries that create higher added value. Unfortunately, we have to admit that the necessary conditions for individual reproduction at enterprises, which are trying to become competitive in the domestic and world markets, are not created in the national economy. But without that, extended reproduction across the economy and economic growth are impossible. Each enterprise must possess monetary and natural-material resources sufficient for the constant expansion of production. These are the necessary reproduction patterns that characterize the market economy itself, regardless the specifics of the historical features of development. As it is known, such resources are: firstly, depreciation funds providing replacement of worn out tools with more productive ones; secondly, part of the profit of the firm, which after tax is directed to accumulation; thirdly, bank loans necessary to expand or modernize production.

The main source of reproduction of fixed capital in the market economy is the depreciation fund. They can also be used as a source of investment by enterprises in the modernization and expansion of production. In highly developed countries, depreciation charges amount up to 70% of capital investments, and only 30% fall on loans and profits of enterprises (Sidenko, p. 63). Due to the amortization resource, not only the simple reproduction of fixed capital occurs, but also the increase of its technical characteristics due to the assimilation of innovations. Profit and investment loans are mainly directed either to the expansion of production, or to its diversity.

According to calculations of experts, for business, cash from depreciation is the most effective financial source of investment. Comparison of the three sources of financing in the implementation of the same project due to accrued depreciation charges, net profit and borrowed funds, taking into account the time factor, showed that the return on the use of depreciation charges is 2 times higher than the costs incurred from own profit, and 4 times – in comparison with the bank loan. Today, depreciation funds serve as a stable source of investment and less than other sources (profit and credit) are subject of crisis effects. Just because the share of depreciation in investment in the US in 2001–2008

amounted up to 77% in the private sector, in the post-crisis period they managed to maintain the stability of investment resources (Sidenko, p. 70).

In other words, if in some countries the depreciation is dominant in the investment structure, then the real sector enterprises will produce products at a lower price than in the countries where the greater part of the investment is borrowed funds and own profit.

The Western world has come a long way to understand the necessity to increase the share of depreciation deductions in the structure of investment. For example, in the US from the second half of the twentieth century, approximately every 10 years, on the regular bases, major amortization reforms were carried out to reduce the amortization periods for the renewal of fixed assets, as a result of which the share of depreciation in general investment for 1950–2013 in the United States increased from 18% to 70% (Sidenko, p. 69). Such regular amortization reforms allowed them to take the leading positions in the world in terms of labor productivity and technical modernization of the economy \*.

In highly developed countries, the mechanism of accelerated depreciation is successfully applied, which is characterized as «a soft economic coercion» to investment activity. Due to high depreciation deductions, investments are made into innovative development and modernization of production. Enterprises are interested in increasing the non-taxable profit base, but with misuse of depreciation, it is subject to high profit taxes.

There are no such mechanisms of increasing the share of depreciation charges in the Ukrainian economy. In our opinion, in the process of developing industrial policy in Ukraine it is worth to propose the usage of a mechanism for the gradual increase in the share of depreciation deductions in the structure of investments. In the years of market transformation in Ukraine, depreciation (in the total volume of investments in fixed assets) accounted about 15–17%, the rest of capital investment – for profit and borrowed funds. As a consequence, the profitability of manufacturing enterprises was significantly lower than in the raw material industries.

Thus, if the mechanism for financing economic growth is changed, it is necessary to create a new reproductive model gradually. It is necessary, as in highly developed countries, to transform depreciation charges into the main source of renewal of fixed capital step by step. To do this, it is necessary to reduce not only the terms of renewal of fixed capital, but also to carry out its periodic revaluation, so that depreciation is calculated at their replacement cost. It is also necessary to carry out financial control over the targeted use of the depreciation fund and to impose an increased tax on profits not used for this purpose.

Reproductive approach is based on the use of the depreciation fund as the main investment resource, and also involves accounting not only for physical, but also moral depreciation of fixed assets. The current practice of increasing the

value of fixed capital by revaluing it instead of renewing increases not only the period of use of equipment, but also the costs of its maintenance. As a result, this leads to an increase in production costs and a rise in the cost of production. Therefore, in high-tech countries, depreciation policies and tax systems are aimed at stimulating investment in production, which accelerates depreciation and reduces the tax burden on businesses.

Reduction of budget revenues from income tax, in case of using the mechanism of accelerated depreciation, can be compensated by introducing progressive income tax on individuals, as well as other taxes on consumption (property tax, sales tax) into tax practice.

The introduction of a progressive personal income tax, as well as prestigious consumption through higher VAT rates, will not only be able to compensate a possible reduction in the profit tax, but it will also help to reduce the enormous inequality that has arisen in our society \*.

While outlining the new economic policy the main condition for sustainable economic growth must be based on a strategic goal-setting system, where the expected result is clearly stated. It is clear that, in the long term, the vast majority of citizens of our country sees the national economy where the deindustrialization of industry is suspended, a restored high-tech manufacturing sector functions, and the enterprises produce deep processing products with a high share of added value.

The neo-liberal course in Ukraine, agreed upon with the IMF and aimed at achieving macroeconomic stabilization, as well as creating effective market institutions and improving the business climate, suggests that market forces will create new sources of growth spontaneously. However, in our opinion, this will not change the raw material vector of economic development.

For the transition to a model of sustainable economic growth, first, it is necessary to develop a policy to ensure the real sector of the economy by the conditions of simple reproduction of fixed and working capital. This implies the necessary maneuver with depreciation charges and also by establishing loans to enterprises in the real sector of the economy. Secondly, it is necessary to involve mechanisms of project financing through special state banks for enterprises that produce products with deep processing, which is in demand in the domestic and foreign markets. Such necessary changes, under the conditions of reproduction, can be considered as a short-term task (up to 5 years).

At the next, medium-term development stage (5–10 years) of the domestic economy, it is necessary to stabilize consumer demand, and also to expand investment demand in the real sector on this basis. Today, economic policy ignores an important fact that takes place in the real economy: the lack of growth in aggregate demand from the agents of the economic process, primarily the domestic demand for the means of production, which must be met through the de-

velopment of its own industry. The launch of the production of investment goods will depend on the domestic demand for them, as well as on the availability of an investment mechanism aimed at competitive production.

**Conclusions.** The development of globalization on the basis of a liberal model of the organization of economic life has not eliminated the contradictory nature of the capitalist system of management. The crisis of 2008–2009 can be considered as a logical result of the development of capitalism in the context of globalization. The current post-crisis stage in the development of the world economy represents a difficult and long period of elimination of the disproportions that have arisen in the scale of both global and national economies.

The main spokesmen for globalization are TNCs, which have internal contradictions and a dual nature of development. On the one hand, they form a global market space and carry out free circulation of capital, goods and labor, and on the other hand they can receive super profits under the conditions of preserving local heterogeneous labor markets and conditions of economic functioning. The dynamics of receiving super profits is the peculiar economic limit of the development of globalization. In those cases where high profits in local markets decrease, TNCs are looking for new, more reliable conditions for capital application. The search for more favorable conditions for the use of capital by transnational corporations led to a negative dynamics of industrial production and the creation of value added in the US, where the de-industrialization of the economy took place, which was particularly intensive in 1990–2009, when the share of manufacturing in GDP fell from 17% to 11%. However, from 2009 to 2012, the US industrial sector reversed this trend, increasing its share in GDP to 11.9% in 2012. The emergence of the trend of reindustrialization occurred under the influence of the «shale revolution». The expansion of the production of new goods and services through innovative processes in the real sector caused structural changes in the economy and changed reproduction proportions. All the above-mentioned testifies to the beginning of the process of re-industrialization in the USA.

The restoration and expansion of the industrial sector as the main direction of strategic development are considered in the Europe-2020 strategy adopted by the EU member states. However, the prospects for the development of high-tech industries envisaged by it do not take into account the important systemic circumstance within the EU, despite the operation of uniform institutional norms, different models of capitalism operate. If in the leading EU countries there are models of liberal and coordinated capitalism, then in the new countries there is a model of dependent capitalism, where the central mechanism of coordination is the hierarchy within TNCs. This dependent model of capitalism leads to the fact that in CEE countries the level of payment for one worker per hour of working time is several times lower than in the leading EU countries. In the countries of Central and Eastern Europe, two unequal segments have been formed: high-yield, oriented to the external market, and low-yield, oriented to the domestic

market. For the new EU member states, the developed model of dependent capitalism is a historical form expressing the internal contradictions of TNCs, for which the heterogeneous conditions of production and marketing of goods are necessary for their existence.

As for the results of the market transformation in the countries emerging in the post-Soviet space, in most of them, including Ukraine, an inefficient model of capitalism of the clan-oligarchic type was established. Within this model, FIGs are formed, which ensure individual reproduction of capital in controlled enterprises. These groups purchase the necessary technologies in the world market and can carry out innovative developments meeting the interests of the business under control. All above mentioned gives them stability, as they concentrated their business in the raw materials industries. The concentration of income in the rental sector has determined the appropriate proportions in the distribution of capital and investment. Consequently, the Ukrainian economy, dominated by the clan-oligarchic model of capitalism, fell into the «trap of stagnation.» This state of the economy preserves low rates of economic growth, creates prerequisites for inefficient use of national resources, reduces the level and quality of life of citizens, and increases social tension.

To change the negative vector of economic development, it is necessary to change the clan-oligarchic type of capitalism and switch to a different one, close to the one that would have the capacity to implement large-scale national projects.

Thus, depending on the existing model of capitalism, the processes of industrialization in different regions and countries in the framework of the global reproduction cycle are formed in different ways. It is impossible to change the negative trend in the industrial sector using exclusively market methods, since national producers can not withstand competition with international TNCs. National business needs an active industrial policy, based on high-tech investment processes. To do this, an economic strategy is necessary, oriented to those who can be competitive within the priority industries. The change in the current situation should take into account long-term goals. In the industrial sector, it is possible on the basis of a reproductive approach. In other words, enterprises should create the necessary conditions for cost recovery, as well as sources for the accumulation and payback of investment in the shortest possible time.

In highly developed countries, the main source of reproduction of fixed capital is the depreciation fund, the share of which in the structure of capital investments exceeds 70%. Amortization funds are the most effective financial source of investment. In Ukraine, to move to a model of sustainable economic growth, it is also necessary to formulate a policy of providing the real sector with investment resources by increasing the share of depreciation in the investment structure gradually.

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