

Ukraine's Economic Chains

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From battles fought in mammoth industrial complexes to Ukraine's dependence on Soviet-issue military stocks and the proceeds of grain exports, the distorted legacy of Russia's economic exploitation of Ukraine is defining the ongoing war. Economic historian Nazar Gorin looks at how the long history of Russian colonialism shaped Ukraine's economic development. For centuries, the country's wealth and resources were extracted for the benefit of Russian power and alternative development paths were foreclosed.

Ukraine urgently needs to overcome the Soviet-imperial legacy on its politics and culture. But the Ukrainian desire for linguistic and religious freedom has long been blocked by economic dependence on the metropolis. The subjection can be traced back centuries. From the Pereiaslav Council of 1654 on, Ukraine gradually lost not only political but also economic independence due to Moscow-imposed restrictions on business and trade, the redirection of customs and tax revenues, and changes to the export destinations of Ukrainian goods.

The strongest blow to Ukraine's foreign economic relations and industrial development (namely metalworking and weapons production, potash, glass, and paper) came after the defeat of the Ukrainian-Swedish coalition near Poltava in 1709. After that, the use of Ukrainian industrial and agricultural potential for the needs of the newly established (1721) Russian Empire became a matter of policy. The Ukrainian economy was to be integrated into the Russian state economy, strengthening Russia's international standing at the expense of Ukrainian raw materials and labour.

Tsarist heritage

The modernisation of Ukrainian industry from the mid-19th century to the early 20th century aimed to develop the All-Russian domestic market and increase the Empire's exports. During this period, the Russian government encouraged foreign investment in the exploitation of natural resources and the development of new enterprises on the territory of Ukrainian governorates. As a result, powerful metallurgic, coal, and capital goods industries emerged in the southeast of Ukraine.

On the eve of World War I, the region was producing 78 per cent of the Empire's coal, 75 per cent of iron ore, 69 per cent of cast iron, 67 per cent of sponge iron, 56 per cent of steel, 58 per cent of its rolled steel, and 26 per cent of electricity. These industries were the drivers of the Empire's progress. At the same time, the proceeds from the export of Ukraine-produced sugar, food, and fodder grains filled the imperial treasury.

In the late 19th and early 20th centuries, a railway network was built to channel Ukrainian

grain, coal, sugar, and iron ore to the empire's other economic regions. Ukrainian grain was exported through the Black Sea, Azov, and Baltic ports and the Russian imperial military gained strategic access to the territory.

According to Mykhailo Volobuyev, a famous Ukrainian economist of the 1930s, from 1893 to 1910, Russia received almost 3.3 billion rubles from Ukraine while spending 2.6 billion rubles on Ukraine's needs during the same period. The difference went to funding the imperial army and developing other parts of Russia. Ukraine was one of the most developed regions of the Russian Empire but its colonial status meant that its industrial and transportation infrastructure was designed in the interests of the imperial government.

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The launchpad for a socialist leap

In December 1925, the Bolsheviks announced a course of industrialisation. The aim was even grander than strengthening the country's industrial potential in the conditions of economic autarky and opposition to the "capitalist environment". Marx's dreams of a world revolution and forming a world union of proletarian republics were raised to the rank of state ideology and policy in Soviet Russia. At the 5th Congress of the Comintern in 1924, Grigory Zinoviev declared, "We will have to conquer five-sixths of the earth's land surface so that there is a Union of Soviet Socialist Republics all over the world!" Establishing the Soviet Union in 1922 had been the first step on the way to this goal.

As the industrialisation plan started to be implemented, all heavy industries were subordinated to All-Union governing bodies, the People's Commissariats. The Stalinist view of economic management prevailed involving voluntarism in identifying priorities and rates of economic development, directive planning, and command and administrative methods of management. In a strictly centralised system, all economic capacities, and the natural resources of Ukraine were managed from outside its borders, from the Union's "centre".

During the development of the first five-year plans for developing the national economy, Ukrainian scientists and members of the State Planning Committee of the Ukrainian Soviet Socialist Republic (Ukrainian SSR) argued for the balanced development of the Ukrainian economy, criticising excessive centralism and making the case for resource and financial autonomy. However, the Union State Planning Committee turned Ukrainian industrial development into a raw material and energy basis for industrialising all Union republics, especially the Russian Soviet Federative Socialist Republic (RSFSR).

During the 1920s, Ukrainian exports also faced changes. In 1927 to 1928, about 89 per cent of Ukrainian products, including wheat, were exported to Russian regions while other countries accounted for only 11 per cent of exports. This trend only intensified after 1930 when All-Union bodies became responsible for all of Ukrainian SSR foreign trade.

A 1931 railway tariff system reduced the cost of freight transportation as the distance

increased. A bonus was introduced for maximising truck loads and a special reduced tariff was brought in for cargo such as coal, ore, metal, oil, and wood, subsidised from the Union budget. These new policies strived to promote the development of new districts and strengthen the ties between industrial centres and remote and poorly managed territories of the Soviet Union. Ukraine's resources and industrial potential were put at the service of the entire Union's national economic complex. Running on the steel rails made from Kryvyi Rih ore at the Donetsk Metallurgical Plant, Luhansk locomotives pulled wagons produced at the Kharkiv Truck Building Plant carrying Ukrainian raw materials and industrial and agricultural products to the north and east. These resources were used to strengthen the Soviet Union, build new industrial facilities, and develop the military-industrial potential of the world's first Communist state.

The Union comes first

The Soviet leadership was preparing for war with global imperialism. Developing a powerful industrial base was a priority. According to Valerian Kuybyshev, it needed to be ready "to swiftly switch from peacefully building socialism to repelling the capitalist world". Due to the need for large volumes of industrial products and the lack of qualified personnel and modern equipment, the factories constructed were gigantic – these scales suited All-Union interests rather than what would have been required for the harmonious development of Ukrainian industry. The results were sectoral disparities and structural imbalances in the Ukraine SSR regions.

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Among the hundreds of industrial enterprises built, some deserve a mention: the Kharkiv Turbogenerator Plant, the largest in Europe at the time and one of the largest machine-tool plants in the world, the Kharkiv Machine-Tool Plant; Kharkiv Tractor Plant and Kharkiv Electromechanical Plant; the Kuznya on Rybalsky Plant (Kyiv); Sumy and Kyiv machine-building plants; Zaporizhzhia Automobile Building Plant and Ferroalloy Plant; metallurgical giants of world importance Azovstal, Zaporizhstal, and Kryvorizhstal; Interpipe Niko Tube (Nikopol South Pipe Plant); and the Donbas enterprises Horlivka Machine-Building Plant, Khartsyzk Pipe Plant, Mykytiv Mercury Plant, Kostyantyniv Zinc Plant, Lysychansk Soda Plant, and Rubizhne Chemical Plant.

The Dnipro Aluminum Plant (now Zaporizhzhia Aluminium Combine) was the largest in Europe at the time. It produced chemical aluminium, silumin, and magnesium and was strategically important for the Soviet Union's defence industry. Its energy depended on the Dnipro Hydroelectric Power Station, a project whose development raised the local water levels flooding more than 50 communities. Such environmentally destructive industrial development was rarely seen in western Europe. The Ukrainian metallurgical and coal industry met the needs of Russian industrial centres. In particular, the military-industrial complex was the final consumer of numerous labour-intensive and ecologically-damaging

industries – their development aligned with Soviet military-political doctrine, not the interests of Ukrainians.

In general, Soviet industrial enterprises used three types of cooperation: supply of raw materials or parts, and performance of individual operations within the production process. Despite the wide range of goods produced by Ukrainian enterprises, including tractors, combine harvesters, and mining engineering equipment, they still depended on imported precision mechanics, radio installations, and control and measuring equipment. On the eve of World War II, the Ukrainian SSR accounted for more than half of all coal, cast iron, and iron ore production and about half of the steel output in the All-Union national economy. However, rather than being processed in Ukraine, these outputs were supplied by rail to the factories of the RSFSR, the Byelorussian SSR, Central Asia, and Transcaucasia.

The result was continued economic dependence despite Ukraine's industrial prowess. More than two-thirds of Ukrainian industrial manufacturers lacked complete technological production cycles and were forced to rely on often extremely irrational production cooperation with enterprises in other Union republics. For example, the Azovkabel plant in Berdyansk received cast metal products from Russian Astrakhan and Kolchugino even though the local mechanical plant produced the same products for export; the Odesa Car Assembly Plant received an electric cable from Moscow enterprises and, vice versa, the Moscow Auto-Tractor Electrical Equipment Plant received it from Odesa, which significantly increased the cost of final products.

Economic zoning, one of the instruments of the Soviet policy of industrial colonialism, aimed at the structural interdependence of the Union's economic complexes. This intertwining thus created "built-in fuses" against any centrifugal movements of the national republics, strengthening the Union's military potential, and promoting communist ideology.

"Sister Republics" in the "Family of Fraternal Nations"

In the mid-1930s, the development of the eastern Union republics began to gradually intensify due to Soviet military strategies and authorities' unwillingness to allow the self-sufficient development of the Ukrainian SSR economy. This policy of economic zoning and spatial levelling was mostly developed by the state planners in Moscow and World War II went on to significantly accelerate its implementation.

In response to the German offensive in Ukraine from July to October 1941, the Soviet authorities evacuated industrial enterprises and factory equipment to the east, in particular to Magnitogorsk, Zlatoust, Kuznetsk, Chelyabinsk, Ufa, Sverdlovsk, and other cities. The Kharkiv Tractor Plant was dismantled and transported to the Altai Krai, where the Rubtsovsk Tractor Plant was created. Everything that was impossible to evacuate was destroyed or flooded, in particular mines, iron ore industry equipment, and metallurgical furnaces. In total, more than 1300 large industrial enterprises and tens of thousands of trucks with equipment were evacuated from the Ukrainian SSR. From September to December 1941 alone, 55,000 trucks with machine-building and metallurgical industry equipment arrived in Nizhny Tagil. After the end of the war, only a small part of the evacuated enterprises was relocated back to Ukraine. The rest, along with the displaced workers, continued working in the east.

The mobilisation model of the Soviet economy and prioritising the needs of heavy industry caused a mass famine in Ukraine from 1946 to 1947. In contrast to the famine of 1932 to 1933, it was mainly caused by the low efficiency of agricultural production and lack of machinery and labour, but there also was a common deep precondition: resources and crops were distributed and used by the Union “centre” in both the 1930s and the 1940s.

The policy of regional “levelling” and attempts to solve the food problem resulted in a project to develop virgin and fallow lands in the east of the USSR. The project planned to plough over 43 million hectares of land, which had not been cultivated agriculturally before, in Kazakhstan, Siberia, the Volga region, and Ural. Would it be superfluous to say that implement this large-scale plan, funds, and personnel were attracted at the expense of the republic with the highest rate of agricultural development, agricultural traditions, and agrarian specialists? From 1954 to 1955 alone, more than 93,000 machine operators, builders, engineers, technicians, and other agricultural specialists from the Ukrainian SSR went to Kazakhstan to develop virgin lands, and 54 state farms were staffed with Ukrainian personnel. More than half of the graduates of Ukrainian agricultural, veterinary, and zootechnical institutes, technical schools, and colleges were sent to work permanently in the Kazakh steppes. While consuming the lion’s share of state investments in agriculture, the virgin lands programme exhausted the human and material resources of the traditional agricultural regions of the European part of the USSR, primarily Ukraine.

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The number of “Sisters” grows

The post-war recovery of the Ukrainian economy prioritised investments that enhanced production outputs for export to the member states of the Council for Mutual Economic Assistance (CMEA). Made up of Eastern Bloc states, the organisation was formed in 1949 to compete with the then European Economic Community. Exports were completely controlled by the USSR’s Ministry of Foreign Trade based on the political and strategic interests of the Union state. These exports contributed to the industrial development of the German Democratic Republic, Czechoslovakia, Bulgaria, Hungary, Poland, and other countries, and strengthened the European bloc of socialist countries.

The range and destinations of sales of Ukrainian products constantly expanded. In the mid-1980s, more than 1000 Ukrainian enterprises delivered their products to 105 countries. In general, Ukraine generated about a quarter of the Union’s exports: fuel, metals, and mineral raw materials accounted for almost 50 per cent of these, equipment and machines (vehicles, tractors, internal combustion locomotives, electric locomotives, trucks, turbines, generators, motors, electric furnaces, scraper conveyors) were 25 per cent, and food industry products were about 10 per cent. The foreign exchange earnings received were redistributed through the Union’s budget extremely inefficiently. Furthermore, deliveries were often made at reduced prices or even for free, that is, as “fraternal aid” to people’s democratic regimes. The Soviet government thus strived to demonstrate to the world the

advantages of socialism and a planned economic system. When western European states, in response to the energy crisis in the mid-1970s, actively introduced the results of the scientific and technical revolution into production, the Soviet Union increased its export of energy resources and raw materials, slowing down economic innovation.

Ukraine's industrial capacity and high export potential were used to support and strengthen the public sector in the economies of socialist and "Third World" countries. Soviet authorities also sent their engineers and specialists to these countries to assist in using and maintaining the equipment they received. Throughout this period, the Soviet Union covertly and massively armed Asian and African countries, often with loans or subsidies, to support national communist movements.

These exports cemented the structural disproportions of the Ukrainian SSR's economic development. As the Soviet Union's technical and economic assistance enhanced its status as the leader of the socialist camp, Ukrainian production was always central to strengthening Soviet-Russian influence and dominance.

Ties that turned into chains

Since the collapse of the Soviet Union and gaining independence, Ukraine has been reaping the fruits of its centrally planned integration into a single national economic complex for 30 years. Overall, Soviet economic policy towards Ukraine bears all the hallmarks of a colonial relationship.

Ukraine was deprived of the ability to set its own course in matters of economic decision-making, management, and the disposal of its national wealth. Its natural resources, production, and human potential were used in the interest of the metropolis. Through the inter- and intra- branch connections of enterprises, financial centralisation, and planned allocation of resources and products, Ukraine was made dependent on other parts of the Soviet Union. These conditions came together to deprive Ukraine of the possibility of internal development, preventing Ukraine from entering foreign markets with final products and undermining the potential for Ukraine's economic autonomy and state independence altogether.

The economic consequences of Russian-Soviet industrial colonialism in Ukraine include its reliance on the production and export of agriculture and raw materials, its dependence on foreign technology and investment, and the preponderance of "short" production chains lacking complete cycles. Still, Ukraine is not a competitive supplier for both domestic and foreign markets in industries with a high-added value of production. Narrow specialisation and widespread standardisation- features of Soviet industry - were used to establish a system of economic dependence, the preservation and reproduction of which contradicts Ukraine national interest and directly undermines not only economic security but also its self-defence capabilities.

This Soviet heritage is the prerequisite for low-tech raw material exports (which the Russian Federation today blocks) and Ukraine's dependence on imports (especially on supplies from Russia). The main articles supplied from Russia until 24 February , 2022, were gas, oil refining and chemical industry products, and nuclear fuel and equipment. These resources often acted as instruments of political pressure on the Ukrainian authorities and acted as

obstacles to the structural transformation of the Ukrainian economy. Yet, during the second half of the 20th century, Ukraine exported more than 500 billion cubic meters of gas to the Union republics. That quantity could have covered Ukraine's current needs of this strategic resource for two decades. Moreover, it was Ukrainian specialists at the enterprise Ukrburgaz who successfully drilled the Urengoy field in Western Siberia to a depth of more than three kilometres in the early 1980s, thus initiating gas production at the then largest field in the world and increasing the Soviet Union's export capacity.

The economic consequences of Russian-Soviet industrial colonialism in Ukraine include, among others, its reliance on the production and export of agriculture and raw materials.

The Russian Federation's decision to close its market to Ukraine in 2013 led to a significant reduction in the volume of production and exports from Ukrainian machine-building plants. It also complicated the aviation industry's operation which cooperated closely with Russian enterprises. In Soviet times, about 17 per cent of the military-industrial complex was concentrated on the territory of Ukraine, but there was no complete cycle for ammunition production. Special steels, cartridges, detonators, and other components were developed and produced in other Union republics. Ukraine inherited this arms production model as well as Soviet stocks of weapons and ammunition which puts it at risk in the current war.

The major reason behind Russia's war is an attempt to return Ukraine to its control to ensure the reincarnation of the Russian-Soviet empire. This is a direct continuation of the economic policy of dependence, subjugation, and extraction – the policy of colonialism.

Ukraine must finally be free of its colonial past and break these chains to become a full-fledged member of the global democratic community, opening the way to free development and international cooperation based on mutual respect and benefit.

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