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## STAGES OF INDUSTRY FORMATION IN THE EASTERN REGIONS OF UKRAINE

**Problem Statement.** The evaluation of contemporary industrial capacity of the Eastern part of Ukraine and the creation of proposal on the improvement of regional economy are impossible without a profound historic and economic analysis of the establishment and development of industry in Donbas, mainly the industry of Luhansk region.

**Analysis of Researches and Publications.** The problem of industry establishment in Donbas was considered in the works of H. Bakuyev, B. Dontsov, O. Druzhinina, V. Zhglo, V. Podov, B. Rozen, I. Time, as well as a great number of historical archives, collections of statistical records etc.

**The objective of the article** is to investigate the economic and socio-political aspects of industry establishment in the eastern part of Ukraine.

**Presentation of the Main Material.** The discovery of hard-coal and iron ore deposits on the territory of Donbas in the year of 1721 gave momentum to the industrial development of the region.

On the edge of the XVIII and XIX centuries, due to the large reserves of natural resources, the birth of the coal, iron and steel industry took place in the economy of Donetsk region. At the beginning, the ore mining and smelting industrial complex was presented by two state-owned enterprises, including Luhansk foundry plant and the first colliery of the basin in Lysya Balka (present-day region of Lysychansk in Luhansk region).

On November 14, 1795 Tsarina Yekaterina II signed the decree "On the Foundation of the Foundry in Donetsk District at the River Lugan and the Establishment of Coal Quarrying, Found in the Country".

It should be noted that the Decree became an important landmark on the way of development of productive forces in Donbas; it heralded the emergence of coal and metallurgical complex of Donetsk basin [3]. In accordance with the considered Decree, Luhansk (Katerynoslav) plant, the first enterprise of the southern metallurgy, was built in the settlement of Kamiany Bred near the river Lugan until the year of 1800.

As a natural result, the development of coal mining, coal iron and steel industry produced the urban growth and development. The settlement near the foundry, which later was named Luhansk plant, grew at a rapid rate.

In September 1882 the imperial decree approved the provisions for the foundation of Luhansk town, based on the settlement of Luhansk plant.

Luhansk foundry plant became the pioneer of development of coal iron and steel industry not only in Donbas but also in the whole south of the Russian Empire.

The plant became the first large metallurgical enterprise of Donbas, which was the pioneer in the development of iron smelting in mineral fuel blast furnaces, which played a notable role in the development of metallurgical enterprise both in the territory of Donbas and the whole Russian Empire, being the basis of integrated development for the natural resources of Donetsk basin. In the end of the XIX century Luhansk plant was closed due to the solved issues, which were the reason for its creation, as well as due to the exhaustion of its potential.

It should be noted that the development and depression of manufacturing now and in the XIX century changed each other on the principle of the curve.

However, the advanced industrial experience, gained during the decades, appeared to be popular, though in absolutely new concept. In 70 – 80-th. of the XIX century new industrial factories and works were founded in Luhansk, the biggest of which were Luhansk ammunition factory (restructured from the foundry) and Hartman locomotive works.

We would like to emphasize on as follows: all contemporary processes of the XXI century on the restructuring of the industry as a result of changes in the market conditions, tend to be the direct analogy of processes, which were already experienced by the society in the XIX century. A case in point is the dependence of coal mining and metallurgical industries.

The XIX century became an important period in the development of coal mining industry of the region.

The economy rules undoubtedly dictate the terms of development of the economy. A classic of the genre is as follows: the increase in supply at the merchandise market results in the drop of prices for the merchandise without the increase in demand and, respectively, to the decrease of profitability and other financial indicators in the activity of the economic entity.

The specified axiom works, worked and will always work. The condition of the coal mining industry of Donbas of the XIX century is a demonstrative example of action of the analyzed law.

With the discovery of Grushevsk antracite deposit in the lower course of the Donets in the middle of 30-th of the XIX century, the structure and condition of the coal market changed completely.

Grushevsk antracite mines within the then competition at the coal market won the competitive struggle from other mines for the extent of production and sale, and became real monopolists for the supply of coal for sale into the sea ports and the Black Sea Fleet. As for clarification, according to the statistical data, the main consumer of coal was Luhansk foundry plant until the end of thirties of the XIX century, starting from the year of 1837 (when Chernomorsk ocean company was founded) Chernomorsk ocean company became the main consumer of coal. In the fiftieth the shipping company consumed 29% of coal, which was mined in the region, while Luhansk plant got only 8% [3].

It should be noted that until the end of the fiftieth of the XIX century the rate of Grushevsk mines was about seventy three per cent of the whole crop in Donbas. As a natural result, the centre of the coal mining industry of the basin moved into the lower course of the Donets, where the deposit of Grushevsk mines was located.

In the eightieth of the XIX century the industrial revolution took place in the Russian Empire. Railways developed rapidly, which caused the current increase in the demand for coal. In that connection, railways became not only a reliable vehicle for coal delivery, but also its largest end consumer. For example, the railway consumed about 36% of coal, produced in Donbas.

Another important consumer of coal was the metallurgy industry, which received 29 per cent of the produced coal. Besides, ocean and inland navigation companies, as well as other industrial enterprises, needed the coal fuel, including the mines; coal was also used for the accommodation heating.

For example, if during the five-year period, from 1860 to 1865, the production of coal in Donbas increased 1.5 times only, from 6 mln. to 9.8 mln poods, with the emergence of railways the consumption of coal increased respectively. In the year of 1880 the extent of production reached 86.3 mln poods, which exceeded the production level of the year of 1860 14 times [4].

The presence of considerable fuel reserves and the developed infrastructural network became the

catalyst of the development of the coal mining industry itself as well as industrial enterprises, which use the transport networks and junctions.

The important thing was that metallurgical plants opened their own coal mines for the provision with fuel. This happened with Alchevs'k, Sulins'k, Mariupil, Kramatorsk, Druzhkivsk, Olkhovsk and other metallurgical plants, turning them into complex enterprises.

We can draw some logical conclusions based on the historic material.

First of all, the conducted historical and economic analysis proves that it was the private industry that gave a stimulus for the recovery of coal-mining industry of Donbas after its continuous standstill, caused by the absence of national orders for coal and metallurgical products because of the termination of military campaigns.

Second, state management of the coal-mining sphere showed considerable advantages over the private sector for hundreds of years, if not to say it hotter. A private owner, applying the principles of the entrepreneurial initiative, knowledge of the sale markets and other personal factors, shows more considerable, compared with the government, interest to timely reorient a lossmaking state (public) enterprise and to tailor its efficient functioning.

And the third is that the experience of the past centuries witnesses that nothing lasts forever. Donbas already underwent the stages of recovery and decline more than once. Besides, the development of coal-mining and metallurgy industry (and historic experience proves that) cannot exist and develop only at the expense of state subsidies, dotations and transfers. The process of overcoming the crisis for districts, regions and certain industrial enterprise should have an objective economic basis. Otherwise, if not to take into account the state influence, the economy will always be lossmaking and constantly swallow up the additional allocations without getting any economic benefits from it.

But let us come back to the subject of our scientific analysis. Until the end of the XIX century 209 coal pits already worked in Donbas, with 289 coal mines.

In particular, the development of industrial production made it possible to notably develop the coal mining field: For forty years, i.e. the period from 1860 to 1900 coal production in Donbas increased over 111 times [1].

It should be noted that the development of coal mining industry as well as other industry fields, was intermittent during the analysed period. This was expressed in the periodic changes of growth stages as

well as economic crisis stages. The first manifestation of a crisis took place in the seventies of the analyzed century. In particular, the production of coal in Slovyanoserbbsk district decreased from 157 thous. tons in the year of 1872 to 44 thous. tons in the year of 1874. Moreover, only eight mines remained active among the existing twenty [4].

After another boom in the sphere of coal-mining, which took place in the second half of the seventieth, the beginning of the eightieth, a new rapid decline of coal production took place in Donbas, as well as the decrease of price for fuel. As a result of the absence of sale (!) of coal in Donbas in the year of 1883 only ninety three coal pits were active, while one hundred and twenty four pits worked in 1882.

In fact, the then history is repeated with almost the same scenario now. Both then and now the temporary local coal production increase took place due to the increase of the number of employees. Thanks to the low workforce price neither local, nor foreign mine owners were interested in the mechanization of operations. The imported mining equipment, due to its high cost, was accessible only to the limited number of enterprises.

Both now and then, in the eightieth of the XIX century, the development of coal mining industry in Donbas demanded huge capital investments. Moreover, the domestic entrepreneurs unwillingly invested their funds into the industry; they were more interested in the consumer goods industry, where the profit could be received much faster.

The countries of Western Europe accumulated some excessive capital at that time, and the industrialists of some West-European countries turned their views to Donbas, which had cheap workforce, and expected high (by European standards) returns. After the increase of excise duty for foreign coal and import of coal equipment by the royal government, it became more profitable for western industrialists to import their capital into Russia.

Development of coal mining industry was accompanied with the concentration of production. Thus, if in the sixtieth of the pre last century the largest coal mines produced not more than 200 – 300 thousand of poods per year/ In the end of the seventieth 18 largest enterprises exceeded the millionth barrier of the crop, and in 1900 seven most powerful enterprises produced over 20 mln poods each.

Until the end of the XIX century Donbas basin turned into the largest industrial centre of the country; coal production increased one hundred and twenty times over forty post-reform years. At the point of the new

XX century Donbas produced 671.7 mln poods of iron, which made 91.5% of the all-Russian annual output (not to take into account Poland). For better understanding, only one Yuz Novorussian society produced 50 mln poods of coal annually [3].

Despite the impressive statistical figures, Donbas' metallurgy developed rather slowly if compared with the countries of Western Europe. From our point of view, which is based on the position of the outstanding history scientists and economists, one of the reasons of such underdevelopment was permanent mistaken policy of the royal government in the sphere of tariff and state duty for the import of cast iron, iron and machines from abroad. In the year of 1861 the government allowed the duty-free import of the indicated commodities for the machine-building plants, and in 1864 these benefits referred already to all mechanical plants with steam or water-power engines.

Such protecting policy towards foreign-manufactured production made the domestic industry dependent from the metal, machines and equipment, imported from abroad, and consequently delayed the development of native metallurgy.

However, the government realized the fault of the economic policy rather quickly and changed the situation for the better. Thus, in the year of 1866 the Russian Empire adopted the law, which stated that all orders, connected with the development of railway transportation, should be performed by native plants only.

Moreover, the government established bounties for the production of engines and carriages, as well as steel metals on the state enterprises.

These novations turned out to be in favor of the development of domestic metallurgy industry and machine manufacturing. Foreign investors always tended to invest into the production of ready industrial products on our territory in order to get additional preferences from the government. Particularly, John Yuz bought back the concession right in Duke Kochubey for twenty four thousand sterling in the year of 1866, which was provided by the Russian Government for the construction of the rail plant. Yuz concluded an agreement with the Committee of Ministers for the creation of Novorussian society of coal-mining, iron and rail production, as well as the society of railway branch from Kharkiv-Asov line [2].

And there are lots of examples of impressive construction of metallurgical giants. Private investor, thanks to previously considered strategy, so to say with present-day language of "state industrial policy" gave occasion to the boom in industrial production, putting the technically underdeveloped Russia at the level, which

is more or less close to the development of Western European countries.

**Conclusion.** The indicated data is not a mere formal presentation of historic information, but the analysis of laws of development and decline in the regions, districts, and certain industrial enterprises. Knowledge of basic principles for industry functioning, depending on political, social and other factors, makes it possible to predict the contemporary scenario, efficiently use the centuries-long empiric and social experience, as well as to avoid the unwanted negative effects of the present-day reality.

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#### **Кудріна О. Ю. Етапи формування промисловості в східних регіонах України**

У статті досліджено економічні і соціально-політичні аспекти становлення промисловості сходу України.

*Ключові слова:* розвиток, вугільна й металургійна промисловість, Донбас, соляна промисловість, хімічна і скляна промисловість.

#### **Кудрина О. Ю. Этапы формирования промышленности в восточных регионах Украины**

В статье исследованы экономические и социально-политические аспекты становления промышленности востока Украины.

*Ключевые слова:* развитие, угольная и металлургическая промышленность, Донбасс, соляная промышленность, химическая и стеклянная промышленность.

#### **Kudrina O. Yu. Stages of Industry Formation in the Eastern Regions of Ukraine**

The article investigates the economic and socio-political aspects of industry establishment in the eastern part of Ukraine.

*Key words:* development, coal mining and metallurgical industry, Donbas, salt industry, chemical and glass industry.

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