

УДК 338:514(8746.543)***Korneeva Julia******CROSS-SECTOR DIVISION OF LABOR: THE CASE OF UKRAINE**

The financial crisis of late 2008 – early 2009 led to a significant downturn in economic activity. Ukraine was one of the countries hardest hit by the global economic and financial crisis. Vulnerabilities had built up for years along several dimensions, but were masked by strong catch up growth and terms-of-trade windfalls. Exposed by strong reliance on steel exports, rising macroeconomic and private sector balance sheet imbalances, the simultaneous deterioration in terms of trade, drop in external demand shock, and reversal of capital flows triggered a balance of payments crisis, which also eroded confidence in the banking system. On the heels of sharp recession - Ukraine's real GDP dropped by 14.8 percent in 2009 [1].

Before the crisis, Ukraine experienced strong economic growth over many years but its institutions remained weak. From 2000 to 2007, real GDP growth averaged 7.5 percent of GDP, one of the highest among transition economies, with a dent only in 2005 when steel prices fell by 30 percent in the first half of the year and credit growth slowed in the aftermath of a near-banking crisis at end-2004. From 2003 to mid-2008, the price for steel, which accounted for 40 percent of Ukraine's export and 15 percent of GDP at the time of the crisis, had increased four-fold and prices for gas imports were still far below world market prices, providing little incentive to improve Ukraine's dismal inefficiency in energy use. Steel prices decreased by 80 percent between July and November 2008, supply sat idle in ports as demand vanished, and steel production was cut by over 20 percent in the second half of 2008. Adding to the terms of trade shock, Russia announced it would raise the heavily subsidized gas prices to Ukraine from 2009 [1, p. 9]. Ukraine is an energy transit country, providing transportation to Western Europe and the Balkans, for Russian and Caspian oil and gas through its territory. But unfortunately that fact doesn't give Ukraine the possibility for being fully independent in the energy sphere. So the environment for business activity in Ukraine was quite adverse and complicated with large exposures in macroeconomic sphere.

Small and Medium Enterprises (SMEs) are present in all sectors of the economy. Middle-sized enterprises as usual support manufacturing; large enterprises dominate in the capital-intensive industries. It should be noted that in Ukraine since 1991 only small and large enterprises were calculated, and only with the adoption of the Commercial Code in 2003 the term of "medium enterprises" appeared in statistics reports. According to the Commercial Code of Ukraine from 16.01.2003, № 436-IV the term "small enterprises" is defined as the enterprises of any kind of ownership with the average number of employees up to 50 in the reporting financial year.

Small and medium-sized enterprises (SMEs) are often referred to as the backbone of the economy, providing a potential source for jobs and economic growth. In EU SMEs are defined by the European Commission as having less than 250 persons employed. They should also have an annual turnover of up to EUR 50 million, or a balance sheet total of no more than EUR 43 million (Commission Recommendation of 6 May 2003) [5].

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It is interesting that the actual number of employees in small enterprises of Ukraine at the beginning of 1996 accounted for an average of 11 people (industry - 17; construction - 20; science and scientific services - 10; transport - 14; trade - 8) [6]. The part of small enterprises in the overall economic structure of enterprises in Ukraine in 2007 was 85.1% (324 thousand), medium - 14.7% (56 thousand), and only 0.2% of large enterprises (770 units) [2]. If we are speaking about the average number of employees occupied in the Ukrainian enterprises, the structure is described in Figure 1.

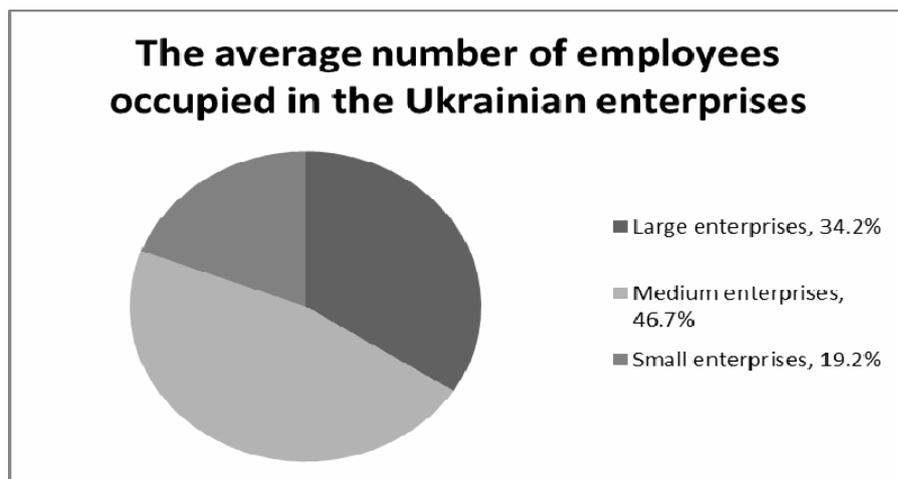


Figure 1. Average number of employees occupied in the Ukrainian enterprises in 2012.

Source: [2].

After the Soviet Union collapsed in the early 1990s, hundreds of millions of people were left very much in chaos and disorder on all levels of governance. Ukraine produced about 17.5% of industrial and 22% of agricultural product of USSR. For example in 1988 the share of Ukrainian production in the Soviet Union production of iron ore reached 46.4%, pig iron - 41.1%, production of steel, finished steel and steel pipes - 35%, also Ukraine produced more than 25% of machinery and equipment and more than 50% of sugar, more than a third of sunflower oil [3]. Nowadays the agricultural sector has one of the major roles in Ukraine's economy. It employs around 17% of the population and contributes around 10% to the GDP. The main crops are cereals, sugar, meat and milk. Ukraine is the fifth biggest exporter of cereals in the world [2].

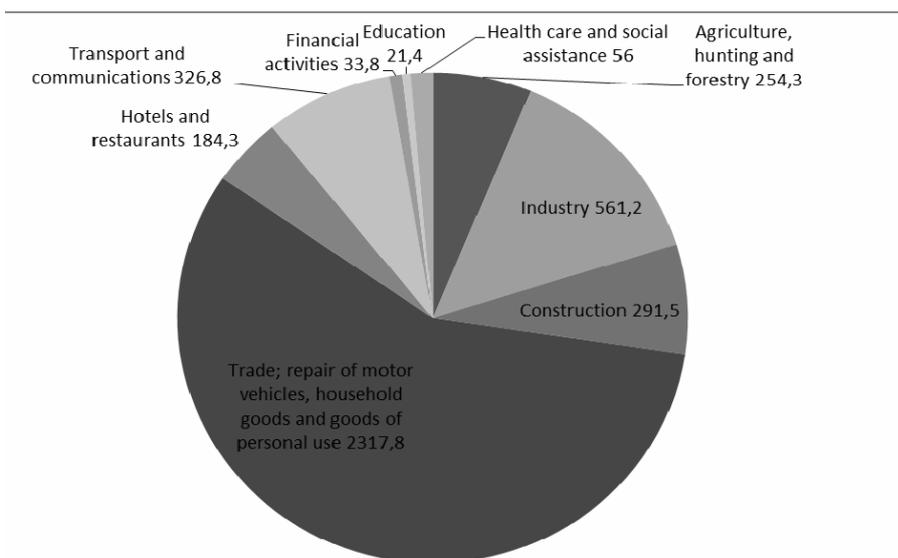


Figure 2. Sectorial analysis of the SMSs in Ukraine in 2012 (number of workers employed, thousand people)

Source: [3].

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The service sector employs close to 60% of the workforce and contributes up to 38% of the GDP [2]. The manufacturing sector employs 24% of the population and contributes about more than a half of the GDP. The Ukrainian manufacturing sector is dominated by heavy industries such as iron (Ukraine is the 6th biggest producer of iron in the world), and steel. These two sectors alone, account

for 30% of the industrial production. Coal mining, chemical and mechanical products (airplanes, turbines, locomotives and tractors) and ship building are also important sectors.

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