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Crisis in the East of Ukraine: end or beginning of regional labour market development?

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Keywords: *labour market; small and medium business; migration; internally displaced person; crisis.*

Abstract

Research background: Armed conflict and political crisis in Ukraine resulted in significant economy decline, caused migration inside the country and unemployment, changed Ukrainian labour markets. The questions arise, if these changes bring only negative effects and if there is a chance for economy revival.

Purpose of the article: The purpose of the article is to examine changes in economy structure, present state of labour market in Donetsk and Luhansk regions, changes in demography situation; reveal the main tendencies and give recommendations concerning further development of labour market of the regions.

Methodology/methods: The statistical information from the State Statistics Service of Ukraine, reports of International and other organizations have been analysed. Such methods as statistical and economic analysis, abstract-logical analysis, classification and systematization have been used.

Findings & Value added: The population of the Eastern regions of Ukraine decreased under the influence of natural decrease and internal migrations. The internally displaced persons lost their jobs, and now they are suffering hard to survive. Many of them have to change their professions and acquire brand new skills and knowledge to become competitive. The majority of internally displaced persons are young people aged less than 30 years old. Their survival and survival of the regions are possible only on condition of existing desire of people to self-develop and self-organize. Thus small and medium enterprises and entrepreneurs start to appear in Donetsk and Luhansk regions. They substitute the existing huge industrial plants and become the main direction for labour market development in the East of Ukraine. Creation of small businesses is fully supported not only by government bodies, but also by International organizations. Assistance of international organizations should give the impetus for the search of new areas for growth and forms of interaction with the existing government and business.

Introduction

Prior to the armed conflict, which started in 2014 in Ukraine, the economy of the Eastern regions of the country had inefficient structure, which had been formed way back at the Soviet times. Developed large scale industries, presented by ferrous metallurgy, chemical industry, machine-building, fuel and energy complex, dominated in this structure. The capacities, which significantly prevailed the necessities of the internal market, proved its inefficiency. Russia was the main market for production of many industrial enterprises from the East of Ukraine, especially for machine-building and ferrous metallurgy. Break of economic relations with Russian enterprises in the result of the armed conflict, occupation of significant parts of Luhansk and Donetsk regions, which possessed 20% of industrial potential of the country, laying-off or complete destruction of enterprises resulted in the cardinal changes in economy structure, labour-market and human potential in the East of Ukraine (Ukraine crisis in maps, 2015).

Armed conflict and political crisis in Ukraine resulted in significant economy decline, caused migration inside the country and changed Ukrainian labour markets, as well as led to other significant changes to the country's development (Tracey & Emmanuel, 2016; Davi, 2016). The biggest industrial enterprises from the East of Ukraine, which provided numerous working places, remained on the occupied territories of Luhansk and Donetsk regions. Internally displaced persons lost their jobs and became uncompetitive at labour market, as the structure of economy changed, and people who possessed certain skills and knowledge in operating industrial plants were not able to find the new jobs in the new places. Contraction of demand for labour force in the result of military operations and economic crisis changed structure of labour supply. Setting new prices for labour supply defined a brand new range of problems and brought significant changes to the economy of the regions. However, the questions are if these changes bring only negative effects and if there is a chance for economy revival.

Research Methodology

Research of the pre-conditions of production systems development required use of abstract-logical analysis, classification and systematization. Examination of the present state and the tendencies of labour force demand and supply required use of statistical and economic analysis. The statistical information, presented in the paper, includes data from State Statistics Service of Ukraine, reports of International organizations, which operate in Ukraine, and individual reports and papers.

Change in Luhansk and Donetsk regions' economy

The crisis significantly affected the economy of Ukraine, the Eastern regions in particular. The majority of industrial enterprises remained on the occupied territories of Luhansk and Donetsk regions. Loss of these territories resulted in significant reduction of the annual production output in the country. The quantity of big enterprises in Donetsk region in 2014 reduced by more than two times compared to 2013 (from 106 to 40). Today only 25% of big enterprises receive profit. The quantity of big enterprises in Luhansk region reduced by more than three times. Only 7 big enterprises operate at present (State Statistics Service of Ukraine, 2016). All of them are unprofitable due to loss of sales markets, suppliers of raw materials including gas and oil, lack of electric power and energy resources for operation activity, and problems with production supply because of transport infrastructure destruction.

The total number of enterprises in 2015 compared to 2013 reduced by 3.39 times in Luhansk region and by 2.44 times in Donetsk region, thus making predictable the reduction of capital investments by 3.36 times in Donetsk region and 5.52 times in Luhansk region (State Statistics Service of Ukraine, 2016). It is difficult to expect full revival of economy and industries in the East of Ukraine, as 50% of industrial enterprises on the occupied territory have been totally destroyed (Aseev & Smelianskaia, 2016).

The quantity of small enterprises in Donetsk and Luhansk regions before and after the beginning of antiterrorist operation reduced by 2.57 and 3.6 times respectively. However, this quantity grew in 2015 compared to 2014 (State Statistics Service of Ukraine, 2016). These changes happened also due to such United Nations Development Programme (UNDP) projects in Ukraine as "Rapid Response to the Social and Economic Issues of Internally Displaced Persons in Ukraine" and "Economic and Social Recovery of Donbas Region". At the beginning of 2016 due to the projects 2514 new workplaces were created by small and middle enterprises in Luhansk region. Among them, small enterprises created 526 working places, middle enterprises created 73 working places, self-employed individuals created 1915 working places. At the beginning of 2015 the total number was less by 1.5 times and amounted only to 1636 workplaces. Besides, government and public administrations adopted their own policies directed to development of small and medium businesses in Luhansk and Donetsk regions. Such Regional Target Program as "Attracting investments, development and support of small and medium enterprises in Luhansk region for 2016-2017" is among them. According to the Program 84.5 mln UAH was spent on small and medium business support during the first 6 months of the year

2016, 15.7 mln UAH of which was spent on business crediting (Overview of Our Projects, n.d.).

The economy of the Eastern regions experiences investments inflow, which is directed not into renewal of old technologies, unprofitable productions and out-of-date capital assets, but into development of small and medium profitable business, creation of new businesses with short terms of recoupment. Such businesses are often represented by service industry: medical, educational, social and others. With development of service business the structure of industries in the regions changes. All the above-described factors influence the changes in demand for labour force and the amount of employed and unemployed people in the East of Ukraine.

Labour market in Luhansk and Donetsk regions

Condition of the labour market in Luhansk and Donetsk regions is presented in table 1.

Table 1. Condition of the labour market in Luhansk and Donetsk regions (composed using the data)

Indexes	2010	2011	2012	2013*	2014*	2015*	2016* January– June
Economic activity of population by regions thousand people /percentage of population aged 15-70 years							
Donetsk region	2166.6/ 63.7	2173.1/ 64.8	2157.2/ 65.2	2133.7/ 65.4	1968.8/ 60.9	877.7/ 58.3	871.9/ 58.3
Luhansk region	1094.1/ 61.6	1072.5/ 61.3	1077.1/ 62.5	1078.0/ 63.3	990.3/ 58.7	362.7/ 64.7	354.1/ 65.9
Unemployment of population aged 15-70, thousand people / percentage of the economically active population aged 15-70 years							
Donetsk region	182.9/ 8.4	177.7/ 8.2	171.8/ 8.0	165.6/ 7.8	216.4/ 11.0	121.4/ 13.8	124.2/ 14.2
Luhansk region	78.7/ 7.2	70.3/ 6.6	68.5/ 6.4	66.3/ 6.2	112.7/ 11.4	56.4/ 15.6	58/ 16.4
The total number of registered unemployed, thousand people							
Donetsk region	32.0	27.5	28.8	32.957	26.813	21.2	20.9
Luhansk region	19.6	17.7	19.9	22.356	17.636	9.9	9.3
Demand in workers to fill vacancies, total							
Donetsk region	2930	4108	3354	2075	1059	400	900
Luhansk region	1940	2579	790	732	175	100	200
Quantity of unemployed on one free vacant position, persons							
Donetsk region	11	7	9	16	25	59.7	-
Luhansk	11	7	26	31	101	140	-

Indexes	2010	2011	2012	2013*	2014*	2015*	2016* January– June
region							
Employment of people during the year, which were previously registered as unemployed, thousand people							
Donetsk region	50402	54545	42968	34.0	27.6	17.7	8.4
Luhansk region	35289	36558	32825	24.0	15.5	8.8	5.3
Average quantity of staff workers, thousand persons							
Donetsk region	1156	1139	1148	1097	924	472.182	-
Luhansk region	547	533	527	503	164	172.667	-
Employed population aged 15-70, thousand people/percent of population aged 15-70 years							
Donetsk region	1983.7/ 58.3	1995.4/ 59.5	1985.4/ 60.0	1968.1/ 60.3	1752.4/ 54.2	756.3/ 50.3	747.7/ 50.0
Luhansk region	1015.4/ 57.1	1002.2/ 57.3	1008.6/ 58.5	1011.7/ 59.4	877.6/ 52.0	306.3/ 54.6	296.1/ 55.1
The average monthly nominal wage of one full-time employee, UAH							
Donetsk region	2549	3063	3496	3755	3858	4980	5743
Luhansk region	2271	2742	3090	3337	3377	3427	4289
Dynamics of arrears in the payment of wages, mln UAH							
Donetsk region	266.2	233.5	200.3	172.9	115.4	1178.6/ 363.7*	360.6
Luhansk region	132.4	110.1	92.9	69.2	44.2	364.6/ 62.7*	506.8
Indices of real wages by region, % to the corresponding period of the previous year							
Donetsk region	89.4	110.9	112.2	106.3	89.4	89.6	100.6
Luhansk region	90.6	110.1	111.7	107.6	86.4	71.7	113.8

Source: State Statistics Service of Ukraine

*Without including changes in the occupied territories of Luhansk and Donetsk regions

Starting from 2011 the demand for workers to fill available vacancies declined with every year until 2015. The biggest decline took place in 2014 compared to 2013: the demand for workers decreased by more than 4 times in Luhansk region, and twice in Donetsk region. However, the quantity of regular workers also decreased. In the result of the marked tendencies, the annual increase of unemployment rate began exactly in this period, attaining 16.4% in 2016 in Luhansk region and 14.2% in Donetsk region. At the same time demand in workers to fill vacancies grew to the unprecedented level: 140 persons for one vacancy in the Luhansk region and 60 persons - in Donetsk region. Employed population at the age of 15-70 made 50% in Donetsk region and 55% in Luhansk region in 2015-2016. Taking into account the biggest debt on salary payment in 2016 and low level of employ-

ment, the number of working people is equal to the number of unemployed. Such situation at the labour market is critical. The only positive tendencies in 2016 are increases of the real wage by 0.6% and by 13.8% in Donetsk and Luhansk regions accordingly.

Internal migration in Ukraine

The crisis events and changes in labour markets influence demographic situation in the country, which is also unfavourable. The population of the Eastern regions of Ukraine decreases under the influence of natural decrease and internal migrations. The regions suffered the largest natural decrease during the active phase of the antiterrorist operation in 2013-2014 because of military actions, which led to the physical destruction of the population and deaths of people due to the stress. High rates of natural decrease of population in the regions had been already in 2010-2011, as they reflected the impact of the financial and economic crisis of 2008-2009, when the birth rates were low and people were thinking mostly about the employment and earnings (State Statistics Service of Ukraine, 2016).

The maximum emigration of people from the Eastern region is observable in 2014-2015 in the result of internal migration of population due to military actions on the territory they had been living before (Woroniczka-Krzyzanowska & Palaguta, 2016). Despite the insecurity of residence in Luhansk and Donetsk regions, the balance of cross-border migration is positive due to foreign students, who continue their education in Ukrainian universities including displaced universities, and increased attention of international organizations to these regions. International organizations, such as UNDP, IOM, OSCE, Mercy Corps and others are actively involved in the reconstruction and restoration of peace in the East of Ukraine (IOM Ukraine, n.d.; UNDP in Ukraine, n.d.; OSCE Ukraine, n.d.; Mercy Corps Ukraine, n.d.).

State agencies and organizations, public authorities, law enforcement agencies, educational, medical and cultural institutions also moved from the occupied territories to the territories under Ukrainian control. Employees and their families moved together with institutions, organizations and enterprises. Other displaced migrants moved to the territory of Luhansk and Donetsk regions under control of Ukrainian authorities due to the political believes, in search of safe living, work, and decent living conditions.

According to Interagency Coordinating Headquarters for Social Security of Persons Displaced from the Anti-Terror Operation Area and Temporarily Occupied Territories 1 026 177 persons had been officially registered as internally displaced persons (IDPs) by the middle of 2016 (Smal, 2016). However, more than half of them are willing to return home. 21% of IDPs

are willing to return to Donbas as soon as the fighting stops. 36% of IDPs are willing to return home after the liberation of the occupied territories (National monitoring system, 2016). The main reasons for this are the high cost of rental housing in Ukraine, discrimination of IDPs by their place of official residence, denial in employment, absence of suitable work for a long time, violation of constitutional rights to participate in the elections, and the necessity of registration.

Local authorities should have paid more attention to integration of IDPs into local communities (Husted et al., 2009). However, this function is rather being performed by international organizations (Lanz, 2008). International donor organizations aim to provide decent living conditions, education, new jobs creation in Donetsk and Luhansk regions, and in other areas of IDPs settlement. Such organizations implement various programs on integration of IDPs into local communities and promote self-employment.

Thus, the situation on the labour market of the Eastern regions in Ukraine has changed dramatically over the past few years. The changes touched both: demand for labour and its supply. Promotion and development of small and medium business, decrease of quantity of big enterprises influenced the change in the structure of demand and emergence of new requirements to the quality, skills and knowledge of applicants for the position. The change of economy structure forces the unemployed to improve their skills or pass retraining in special employment centres.

Conclusions

The armed conflict brought significant changes not only to Donetsk and Luhansk regions, but also to Ukraine as a whole country. The political and economic crisis led to significant decrease in economy, migration inside the country, changes in economy structure and transformation of labour market in Donetsk and Luhansk regions. The IDPs who had been previously working at big industrious enterprises had to acquire new skills and knowledge, and start working in brand new spheres. Those who cannot find new jobs return back home to the occupied territories. Government bodies together with international organizations aim at solving the problem of economy restoration and employment supporting small and medium enterprises and entrepreneurship. International organizations granted money to the new businesses, which allowed employing significant number of people.

At the same time, survival of the regions is possible only on condition of existing desire of people to self-develop and self-organize. International assistance only for quick consumption and meeting current needs will not transform the crisis. Destruction of powerful companies, which had been material, energy and capital intensive and performed negative impact on

environment, in fact created the ground for modern industries, oriented to the needs of domestic and foreign markets, with new modern resource-saving technologies. The East of Ukraine has a unique opportunity to create new social and production infrastructure and business, aimed at consumer and his needs, and not at the production capacities. The problems of the labour market in the East of Ukraine are complex and systemic. However, any territory consists of people. The first step towards settlement of the problems should include promotion of self-employment, job creation, easy-term crediting.

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