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Problems of functioning of the service sector and their impact on the position of Ukraine in the global division of labor

Abstract

The purpose of the paper is to determine the problems of functioning of the service sector in Ukraine and the impact of the identified shortcomings on the position of the country in the global division of labor. *Methodology.* The study was conducted using a systematic approach to the study of economic categories and processes. The following research methods were used in the study: induction and deduction, synthesis, economic analysis, graphic analysis, historical analysis. *Results.* At the current stage of economic development, ensuring stable growth of the service sector is a particularly important issue for Ukraine, on which the further development of the state depends. However, today the activity of Ukraine's service sector is characterized by low efficiency, which does not allow the country to fully realize its potential in this area. The reason for the inefficient functioning of the tertiary sector of the economy is the presence of numerous problems inherent in the service sector. The main problem with the functioning of the services sector is the lack of a strategic vision of its role in the development of Ukraine's economy. In addition, the services sector is negatively affected by systemic problems of Ukraine's economy, such as unstable legislation, corruption, bureaucracy, etc. Some areas of the tertiary sector of the economy have certain shortcomings. The identified problems in the functioning of the services sector have a negative impact not only on the functioning of the tertiary sector, but also on the competitive position of the country as a whole in international markets. The identified weaknesses in the tertiary sector affect most of the key components of competitiveness: the level of infrastructure development, the stability and depth of the financial system, education and the quality of the workforce, the ability to innovate, the implementation of information and computer technology, etc. In this regard, today it is necessary to rethink the role of services in ensuring the stable growth of Ukraine and strengthening the country's position in the global division of labor. There is also a need to develop a comprehensive strategy with the active participation of business, professionals, academics and the public to overcome the problems of the services sector and ensure further development of the services sector. The results of this study can serve as the basis for developing a strategy to improve the functioning of the services sector.

Keywords

Service sector, functioning problems, global division of labour, national economy competitiveness, transport services, computer and information services, financial services, tourist and recreation services, educational services, medical services

JEL: F10, F29, L80, L83, L84, L86, L90

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1 Introduction

The post-industrial stage of global economic development is characterized by the dominant role of the services sector. Today, the services sector accounts for more than 60% of GDP in economically developed countries, and the importance of the tertiary sector in developing economies is growing rapidly. Today, the level of development of the services sector has become one of the determinants of economic growth and a critical part of ensuring the competitiveness of national economies under the global division of labor.

Therefore, sustainable development of the services sector is necessary for ensuring stable economic development of the country and strengthening its position in the world markets.

This task is also relevant for Ukraine, which is currently losing its competitive position in the global economic space. The tertiary sector is an important component of Ukraine's economy, but its functioning today has a number of significant problems that slow down its further development and lead to a decrease in the country's competitiveness. The identification of these problems and their full impact on the country's

economy will form the basis for the development of future effective management measures that will overcome all existing shortcomings, improve the economic situation in the country and gain new advantages in the global division of labor.

The study of the current state, problems and prospects of development of the services sector of Ukraine, including international trade in services, is devoted to a wide range of scientific works. Various aspects of Ukraine's services sector and shortcomings in various branches of the tertiary sector have been studied by many scientists, including R. Yakovenko, N. Osadcha, N. Trushkina, S. Perminova, K. Redko, V. Herasymenko, T. Yashchuk, etc. However, most of the existing scientific works do not cover the impact of the service sector and the problems of its functioning on the economy as a whole and the competitive position of the national economy in the global division of labor.

The purpose of this article is to determine the problems of functioning of the service sector in Ukraine and the impact of the identified problems on the position of the country in the global division of labor.

2 Analysis of the current state of the service sector in Ukraine

Today the service sector is actively developing in Ukraine. The share of the services sector in the structure of Ukraine's GDP over the past five years was more than 50% and showed a steady growth. As of the III quarter of 2021 the tertiary sector of Ukraine's economy provided 56.44% of Ukraine's GDP. Between 2016 and 2020, total services produced increased 2.74 times. In recent years, however, there has been a slowdown in service growth: while in 2017 services sold increased 27.83% over the previous year, in 2020 growth was only 8.1% (Figure 1).

During the 3 quarters of 2021, wholesale and retail trade services (25.65% of all services sold), utility services (11.36%), services related to real estate

operations (10.8%), and transportation services (10.25%) were sold the most (State Statistics Service of Ukraine).

There is no stable trend in international trade in services. Exports and imports of services showed stable growth until 2019 (exports increased by 40.3% and imports by 31.4% during this period). In 2020, the coronavirus pandemic resulted in a decline in exports (down 10.88%) and imports (down 28.96%) of services (Figure 2). Exports of services for 3 quarters of 2021 were 22.33% of total exports and imports were 18.16% of Ukraine's imports.

Computer and information services (38.65% of total services exports), transportation services (26.6%), business services (16.95%) and processing services (8.16%) were exported the most in Q3 2021. The bulk of Ukraine's services imports for 3Q 2021 were travel-related services (47.12%), transportation services (14.68%) and business services (8.53%) (Ukraine's Balance of Payments for 3Q 2021).

The data obtained indicate the presence of significant shortcomings in the functioning of the services sector in Ukraine. Despite the continuing trend of growth in the volume of services produced, there has been a slowdown in the rate of increase in recent years. International trade in services until 2019 also showed a slowdown in growth, which was replaced by a decrease in volumes in 2020. These negative trends are due to numerous problems in the functioning of Ukraine's services sector and do not allow the sector to fully utilize its potential and use it to strengthen the country's position in the global division of labor.

3 General problems of functioning of the service sector in Ukraine

Systemic problems of the Ukrainian economy, such as unstable legislation, high social risks, currency instability, corruption, bureaucracy and other economic and political factors have a significant negative impact on the functioning of the services

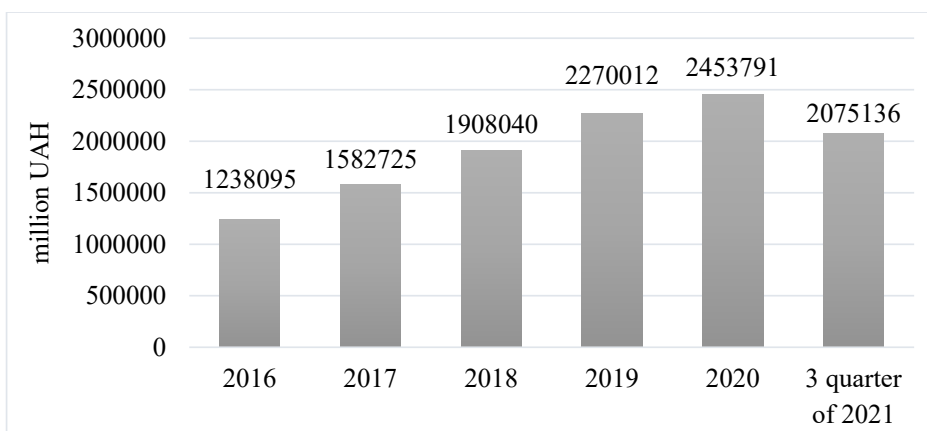


FIGURE 1 Dynamics of the volume of sold services in Ukraine for the period from 2016 to the 3rd quarter of 2021 (Developed on the basis of data from the State Statistics Service of Ukraine)

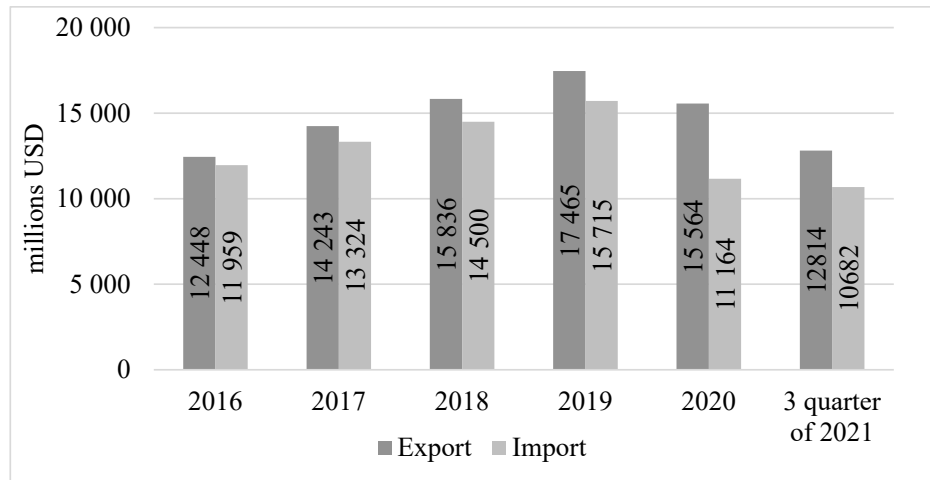


FIGURE 2 Dynamics of international trade in services of Ukraine for the period from 2016 to the 3rd quarter of 2021 (Based on the data of the balance of payments of Ukraine for the 3rd quarter of 2021)

sector. However, the main problem is the lack of a strategic vision of the role of the services sector in Ukraine's economic development. Economists and politicians see Ukraine's future in the development of material spheres, such as agriculture, partially or completely ignoring the growing importance of the tertiary sector of the economy at the current stage of world economic development. As a result, the government largely ignores the current prospects and development potential of the various service sectors, and as a result, the country loses financial resources and its position in the global division of labor remains low.

In addition to systemic economic problems and a lack of strategic vision, Ukraine's services sector and international trade in services have the following shortcomings:

1. Insufficient level of financial support from the state – in Ukraine the state support of small business (the main producer of services) is rather weak, and the level of state investment in the development of the service sector remains insufficient.

2. Relatively low quality of services – some Ukrainian services are characterized by lower quality than competitors, and high-quality Ukrainian services lose customers due to existing prejudices about their properties.

3. Insufficient level of foreign investment in the services sector – the aforementioned systemic problems of the Ukrainian economy, as well as many political factors (including foreign policy), led to low confidence of foreign investors in Ukrainian companies and loss of necessary investment in the services sector.

4. The low level of technological development compared to other countries – Ukraine is currently between the third and fourth techno-economic paradigm, which indicates a significant lag of Ukraine from developed countries (which are currently at the

sixth level), which leads to a lack of production of high-tech services and causes a decrease in competitiveness of existing Ukrainian services.

5. Underdeveloped market infrastructure to support exports – Ukraine has neither effective financing systems, nor reliable export insurance mechanisms.

6. Lagging behind trade in services compared to trade in goods in terms of liberalization and market openness – some service markets in Ukraine are still restricted to foreigners, which prevents foreign firms from entering Ukrainian markets and slows the development of the services sector (Semeniuk, Yakovenko, 2015).

These problems slow down the development and growth of Ukraine's service sector. In addition, these problems prevent the service sector from becoming a competitive sector of Ukraine in the global division of labor.

4 Problems of functioning of the tertiary sector in Ukraine

In addition to the above-mentioned general problems of Ukraine's services sector, there are many specific problems with the development of individual services markets. These problems not only impede the development of the tertiary sector of the economy, but also have a negative impact on the country's competitive position in the global economic space. Therefore, it is advisable to investigate the shortcomings of service industries with great potential and outline their negative impact on the country's position in the division of labor.

A significant part of the services sector in particular and the Ukrainian economy as a whole is the transport sector, which produces more than 6% of Ukraine's GDP and provides more than 8% of Ukrainian

exports. However, the functioning of transport today is characterized by the following problems, which do not allow to fully realize the transport potential of the country (Osadcha, Trushkina, 2021):

1. High level of depreciation of rolling stock and infrastructure of all types of transport – Ukrainian transport companies mainly use morally and physically obsolete rolling stock. In addition, a significant part of the infrastructure of all modes of transport in Ukraine is in poor condition (roads, railroads, airports, ports, etc.), which led to a lag in the pace of development of the Ukrainian part of international transport corridors.

2. Almost complete lack of reconstruction, repair and maintenance of rolling stock and material and technical base – the enterprises of Ukraine, including state-owned, rather slow and unevenly renew the fleet of vehicles.

3. Relatively low level of development and use of public-private partnership (PPP) for the development of transport infrastructure – according to the Ministry of Economic Development, Trade and Agriculture of Ukraine as of January 1, 2021 only 3 public-private partnership projects related to infrastructure rehabilitation were implemented, which indicates the inefficiency of PPP in Ukraine.

4. Inability of Ukraine's transport sector to adapt quickly to changes in the international transport market.

5. The low level of development of state border infrastructure, the low capacity of checkpoints and the relatively high cost of services provided at border crossings, complicated and lengthy procedure of border crossing.

6. Insufficiently flexible tariff policy, which does not always take into account changes in the tariff policy of competitor countries, the presence of local fees, the need for collateral, etc.

These problems prevent the transport sector from becoming an area of international specialization for Ukraine in the global division of labor. Low level of infrastructure development, outdated rolling stock, complicated and inconsistent legislation force foreign companies to avoid business contacts with Ukrainian companies, and transit flows to bypass the country. Because of this, the country loses billions of dollars, and economic development and growth slow down. In addition, the problems of transport services have a negative impact on the competitive position of the country as a whole. The transport infrastructure development indicator is an important component of the Global Competitiveness Index, which is calculated by the World Economic Forum. In 2019, Ukraine's transport infrastructure score was at 55.5 out of 100, below that of developed economies around the world (Schwab, 2019).

Information and telecommunication services are currently developing quite actively in Ukraine – this service sector generates almost 5% of Ukraine's GDP

and accounts for 8.5% of the country's total exports. However, this service sector is also characterized by problems that complicate its development and competition on international markets (Perminova, 2017; Protsykevich, 2020):

- low level of training in higher education due to insufficient qualifications of teachers, mismatch of educational programs with modern requirements of employers and changes in labor market conditions, inability of universities to adapt the educational system to the trends of information technology, which are changing rapidly;
- the lack of state and regional strategies and programs for the development of the IT sector and a strategic plan for the development of the national economy based on the introduction of innovation and IT;
- the presence of systemic deficiencies in the implementation of e-government and the development of the consumer segment of the IT services market;
- the lack of a unified electronic database of active participants and implemented projects in the market of IT services and systematic periodic monitoring of the development of the information society;
- weak information and consulting support of IT subjects in the preparation and promotion of investment projects, the lack of institutional platforms for cooperation in the development and planning of investment projects;
- the low level of use of information technology by the population and business, the weak impact of information technology on the economic and social sphere – enterprises are reluctant to introduce the latest technology, because in Ukraine their presence does not create significant competitive advantages and does not allow firms to compete more effectively;
- migration of highly qualified specialists abroad and transfer of business from Ukraine to other countries due to the lack of conditions for the development of software products and low salaries of programmers and software developers in Ukraine.

The existing problems in the field of information and telecommunications services significantly hamper its development and do not allow it to realize its full potential. These shortcomings stimulate the brain drain and migration of promising IT projects from Ukraine, which poses a threat to the future development of the country as a whole and significantly weakens its competitive position on the world stage. The level of implementation of information and communication technologies is also a component of the Global Competitiveness Index, and as of 2019, this indicator for Ukraine was 51.9 points (78 out of 141 countries) (Schwab, 2019). In addition, these problems have a

negative impact on the pace of innovation and the skill level of the workforce.

Many developed countries of the world are characterized by a high level of development of financial services and a significant share of financial services in the structure of exports. However, in Ukraine this sector remains underdeveloped and characterized by low competitiveness in foreign markets (3.2% of Ukraine's GDP and 0.2% of exports). Among the reasons for the inefficient functioning of the financial services market are the following problems (Shevchyk, 2020):

1. Insufficient state regulation and supervision of banking and non-banking financial institutions and underdeveloped financial services market infrastructure.

2. Lack of concept for the development of long-term banking and non-banking institutions in the market of financial services.

3. Lack of capital and low level of professional training of a significant part of the staff of non-banking financial institutions.

4. The presence of high "risk" factors for investors and other users of financial services – unstable and unstable economic situation in the country creates additional risks for users of financial services and draws away potential investors.

5. Significant degree of distrust of ordinary citizens towards some non-banking financial institutions – the presence of numerous credit institutions with hidden conditions and the activity of collection services create a negative image of non-banking institutions and distract potential customers.

The low level of capitalization of the non-banking financial services market, which negatively affects the solvency of non-banking financial institutions.

The revealed problems of financial sector lead to inefficiency of its functioning and minimal role in the structure of Ukrainian export. In addition, the low level of financial market development has a negative impact on the competitiveness of the Ukrainian economy as a whole, as the indicator of financial system development is also a significant component of the Global Competitiveness Index. As of 2019, the development of Ukraine's financial system was estimated at 42.3 points out of 100, and in the rating, on this indicator, the country ranked 136th out of 141 (Ukraine ranked last – 141st – for the stability of the financial system) (Schwab, 2019). The low position of the country in the rating not only draws away potential investors, but also forces foreign companies to minimize interaction with Ukrainian financial institutions, which leads to the loss of the financial system of significant resources.

Ukraine has considerable potential for development of tourist services. The country has numerous tourist attractions, health resorts and a developed hotel system, which creates prerequisites for Ukraine to become a major tourist center of Eastern Europe.

However, today the country's tourism industry is inefficient (in the structure of exports, these services account for less than 1%), and the implementation of the existing potential and opportunities of tourist and recreational services is complicated by the following problems (Redko, Furs, 2020; Herasymenko, 2013):

- Lack of an extensive system of information and advertising support for tourist and recreational services – Ukraine has a rather weak system of information support about existing tourist attractions, which leads to low awareness of tourists about Ukraine and low interest in tourism in Ukraine. Military actions on the territory of Ukraine also scare away a significant part of foreign tourists;
- shortcomings in the system of regional management of the market of tourist and recreational services;
- outdated material and technical base and infrastructure of the market of recreational services – the infrastructure of most tourist and recreational facilities in Ukraine is physically and morally obsolete and its renewal is practically not happening;
- sale or lease of land on which tourist and resort facilities are located to individuals or legal entities, and development of the coastal area by businesses – there is a problem of transferring land on which tourist and cultural heritage facilities are located to private individuals engaged in construction, which leads to the destruction of tourist facilities or loss of their tourist attraction;
- decline in the quality of hotel services and recreational services due to insufficient qualifications of medical and management personnel, their inconsistency with existing standards;
- increase in the cost of hotel and recreational services due to the general economic situation in the country, as well as the low level of income of enterprises and the desire to increase profits by raising prices.

The tourism industry in Ukraine today is in crisis. The above-mentioned problems do not allow the industry to actively develop and become an essential part of the Ukrainian economy. As a result the country loses significant financial resources. In addition, low tourist attractiveness of the country and lack of awareness about Ukraine create a negative image of the country in the eyes of citizens of other countries, which also has a negative impact on investors' decisions to cooperate with Ukraine.

Educational services occupy a relatively small place in the structure of Ukraine's GDP and foreign trade (4.3% of Ukrainian GDP and less than 1% of exports), which is due to various problems and shortcomings in the functioning of the education system. Ukrainian higher education today is characterized by such drawbacks:

1. The existence of a large number of institutions of higher education, which does not improve the quality of education.

2. The imbalance between supply and demand in the market of educational services, accompanied by an increase in the number of graduates of unclaimed specialties.

3. Decreasing quality factors in the work of higher education institutions, in particular, the qualifications of graduates.

4. The presence of a crisis of resources, which is manifested in the reduction of funding from the state budget and the commercialization of educational activities.

5. Depreciation of the material and technical base of higher educational institutions.

6. Growing competition between institutions of higher education for the attraction of potential students (Yashchuk, 2017).

These problems lead to the inefficiency of the education sector, the low quality of educational services and the weak demand for educational services in Ukraine among foreigners. The relatively low quality of education negatively affects the country's position on the world stage. The indicators of the quality of the labor force (current and future) and innovation potential, which are included in the Global Competitiveness Index, directly depend on the level of development of the education system in the country. As of 2019, these indicators for Ukraine were above average, but in a number of key components (for example, the state of cluster development) our country lags far behind the leading countries of the world (Schwab, 2019).

The market for medical services in Ukraine is currently underdeveloped. Ukrainian medical services are less attractive for consumers than foreign ones, as Ukrainian services are of lower quality and are practically not exported to foreign markets. Among the negative factors constraining the development of the medical services market and preventing the country from effectively competing in foreign markets are the following:

- high entry barriers – there are many barriers and restrictions for health care providers;
- low purchasing power of the population – due to rising prices, consumers are forced to reconsider their expenses and reduce medical expenses;
- high level of qualification requirements for the staff of the medical services department against the background of a shortage of qualified medical personnel;
- high level of state regulation of market activity and availability of centralized pricing mechanisms for goods and services on the medical services market;
- imperfections and specifics of competition in the market, as well as a high level of variability of market conditions;

– insufficient standards of medical procedures supported by basic research (Barzylovich, 2020).

The medical services sector in Ukraine is inefficient, which negatively affects both the socio-economic conditions inside the country and its position on the world stage. The above-mentioned problems stimulate medical tourism among Ukrainians, which leads to a loss of public confidence in the medical system and significant financial revenues. The demand for Ukrainian medical services among foreigners today remains minimal. In addition, shortcomings in health care have a negative impact on the competitiveness of the economy as a whole: in a ranking based on the Global Competitiveness Index on the health care indicator, Ukraine ranked 101 out of 141 in 2019 (Schwab, 2019).

Other service sectors and the problems of their functioning also have a direct impact on the components of the Global Competitiveness Index and, as a consequence, on a country's competitiveness in the global division of labor.

5 Conclusions

In the post-industrial stage of the world economy, shortcomings and problems in the functioning of the service sector have a significant negative impact on the competitiveness of the state. Various aspects of competitiveness, such as the level of development of infrastructure, health care, quality of labor and human resources, ability to innovate, implementation of information and computer technology, quality of institutions, financial system, etc. directly depend on the level of development of certain components of the tertiary sector. Therefore, the development of the service sector becomes one of the ways to strengthen the positions of countries in the global division of labor. However, today Ukraine lacks a strategic vision of the role and necessity of developing the service sector to ensure economic growth and strengthen the country's position in the global economic system. This has led to the existence of many unresolved issues that complicate the functioning of the services sector and lead to the loss of the country's competitive advantage in the division of labor.

Therefore, today it is necessary to develop a comprehensive approach to overcoming the shortcomings of the tertiary sector and an effective mechanism for the development of the services sector, which will help to realize the full potential of the country. However, the implementation of these measures requires significant resources, the active participation of the state and the creation of a full-fledged separate strategy for the development of the services sector in Ukraine. The strategy will include specific goals and step-by-step steps of the government with broad involvement of business and the public to find the best ways and sources of funding. The results of this study can serve as a basis for the development of the above-mentioned strategy for improving the service sector in Ukraine.

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