

Insights of the Mongolian Labor Market

Oyungerel Tudev*, Gerelmaa Damba

Business Administration Department, Institute of Finance and Economics, Ulaanbaatar, Mongolia

*Corresponding author: oyungerel.t@gmail.com

Received May 05, 2015; Revised May 25, 2015; Accepted June 04, 2015

Abstract World Economic Forum's Global Competitiveness Report is a global ranking of the economies, covering over 100 indicators. However, a detailed profile and extensive data tables are perhaps inadequate to explain the existing circumstances of each individual country. The labor market of Mongolia, with its sudden, high evaluation results attracted particular attention of the authors, questioning whether corresponding scores provide sufficient information to understand and define the problem solving policy. The main concern raised by this study is to explain whether and to what extent the Mongolian overall ranking was affected by Flexibility, Management, Gender issues in the labor market.

Keywords: labor market flexibility, efficiency, competitiveness, gender, governance

Cite This Article: Oyungerel Tudev, and Gerelmaa Damba, "Insights of the Mongolian Labor Market." *Journal of Business and Management Sciences*, vol. 3, no. 2 (2015): 64-68. doi: 10.12691/jbms-3-2-2.

1. Introduction

Recently, the World Economic Forum (WEF) launched its new edition of the Global Competitiveness Report (GCR), a comprehensive assessment of social and economic sustainability of 144 countries. It recognizes productivity as a key factor of prosperity, which influences competitiveness, and evaluates a country's rank by a set of productivity factors. [13].

The 35th edition, published in 2013, emphasized that many countries' growth has begun to slow, thus innovation, skills, a prosperous environment and employment for their citizens are becoming key drivers [11]. It states that the traditional view of being "developed" or "developing" has to be changed to "innovation rich" or "innovation poor" differentiation, requiring not only government but business and society as a whole to create a business model to create value added products through innovation [12]. However, in its latest assessment, uneven implementation of structural reforms across different regions and levels of development were identified. Therefore, the structural reform becomes the biggest challenge to sustaining global growth. The innovation, talent development and institutional strength continue to play a defining role in determining world's most competitive economies, thus the leaders in public and private sectors need to collaborate more effectively in these fields [13].

This study was designed to investigate the structural reform of talent development in Mongolia. Despite the fact that the GDP as well as GDP (PPP) per capita are continuously increasing (approx. by 10 percent per annum) Mongolian ranking through the WEF assessment has been continuously falling as 98th out of 144 [5]. The unstable

macroeconomic and political environment was probably a major cause of this situation.

In the latest GCR assessment, due to the high dependency on natural resources (almost 94.3 percent of the annual export), Mongolia was listed in the transition stage of development (from factor driven to efficiency driven economy). At this stage the higher education, labor market, and financial market are driven factors, and Mongolia presents the highest performance on these indicators according to the latest assessment. Remarkably, despite majority of indicators falling behind 100th place out of 144, the dynamism of the Mongolian health, primary plus higher education, and labor market (65th, 68th, and 42nd correspondingly) positively affect its overall score.

Labor market efficiency is the ability to react to the changes in the socio-economic situations, reflecting the rules regulating the labor relations in practice. It is one of the most important elements of a dynamic market economy. To confirm that workers are allocated effectively and are provided with competitive incentives, the efficiency and flexibility of the labor market need to be studied. The GCR define flexibility as the shift of the workers from one economic activity to another rapidly, at low cost, and to allow for wage fluctuations without much social disruption. As much as the labor market is efficient, it positively influences workers' performance and attracts the talented workers [13].

The Labor market efficiency is evaluated by its flexibility and efficient use of talent in equal proportion. The flexibility of wage (17th) and productivity (14th) tremendously affected Labor market efficiency. However, flexibility of the market such as flexibility in determining the wage or hiring practices are rated with high score, the issues related to the talent and management attraction remain unsatisfactory.

Generally, the labor market is the most stable factor for Mongolia; nonetheless, the excessive ranking difference of its sub indicators has bemused the authors. GCI report gives well-structured information; it is not clear, however, whether such high ranking for the labor market provide a precise picture of actual circumstances in Mongolia.

There are 1.2 million people in total in the labor market, forming 63.7 percent of the total labor force. The unemployment rate in Mongolia was 6.4 percent in the third quarter of 2014, reflecting economic slowdown. The portion of workers in the informal sector, the self-employed or family businesses workers, increased due to higher prospect of earnings compared to the formal sector. Recent World Bank report shows that the labor force shifts from the traditional agricultural sector to industrial and service sectors, decreasing this sectors' employment rate from 40.3 percent in 2007 down to 27.8 percent in the third quarter of 2014. As a result of economic and political instability, the mining and construction sectors growth rate has been slowing down in the last two years. However, this is not reflected on the labor market. These sectors' labor market share steadily increased, reaching nearly 21 percent in the third quarter of 2014 [23].

The aim of this paper is to examine the bizarre ranking of the labor market efficiency among all other indicators (42nd out of 144, up nine). We can hypothesize from the previous discussion that the labor market indicators may be considerably inflated; therefore, it is the purpose of this paper to present additional details with the intent of better understanding the actual condition. In this way, this paper was written and structured as a commentary, rather than offering solutions.

Next section presents the empirical specifications regarding different sub-pillows of the assessment. Initially, we will focus on the Flexibility in the market, then on the Management, and lastly on the Gender issues.

2. Discussion

The level of productivity sets the level of prosperity that can be reached by an economy. In turn, researchers have defined competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country.

The concept of competitiveness involves static and dynamic components [11]. This study has addressed only the matter of the flexibility, management and gender issues of labor market. However, exploratory on secondary data, this study may offer some insight into the quality of procedures and practices within certain structure of technology, and market. Thus, this section examines from institutional and market competitiveness perspective.

2.1. Flexibility Issues

The results of WEF survey overall indicate that the wage determination in Mongolia is highly flexible (17th out of 144). Figure 1 illustrates the national average wage between 2010 and 2013, as defined by the Labor Research Institution of the Ministry of Labor of Mongolia. As can be seen, the wage has increased by 129 percent.

As revealed in Figure 2 and Figure 3, detailed data of recent report, given at national and industrial level, demonstrates that most companies have independence on

setting salary level individually [3], supporting the GCR assessment results. Furthermore, Figure 2 shows that the percentage of organizations increased the wage level.

As can be seen, the LLCs or business sector companies are dominating, while the difference between remaining organizations is probably slim. There is a definite possibility that a low percentage of State and Local owned enterprises is limited by the legal issues. The government officials' salary increased several times between 2006-2014. However, by Government Decree No. 96 of 1995, total allowance increase, for all types of government officials, state officials and employees, cannot to exceed 40 percent of their monthly salaries [17].

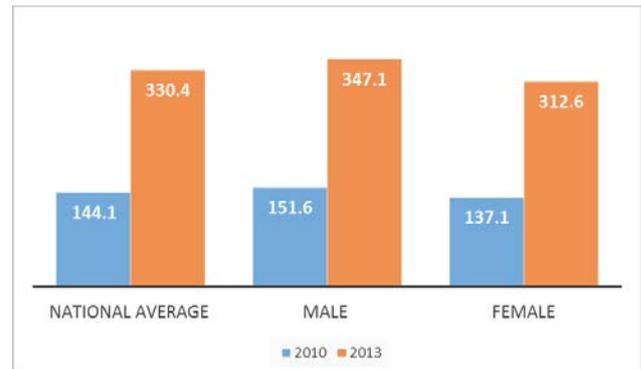


Figure 1. A comparison of the national average wage, by gender, by USD

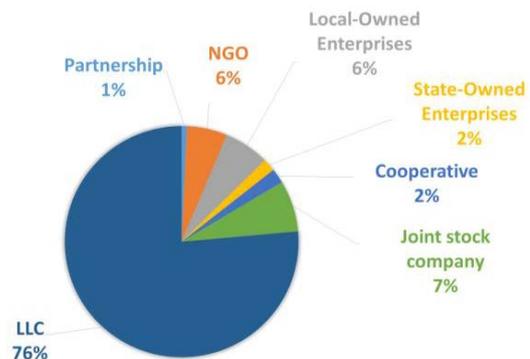


Figure 2. A comparison of enterprises and organizations increased wage, by Business entity form

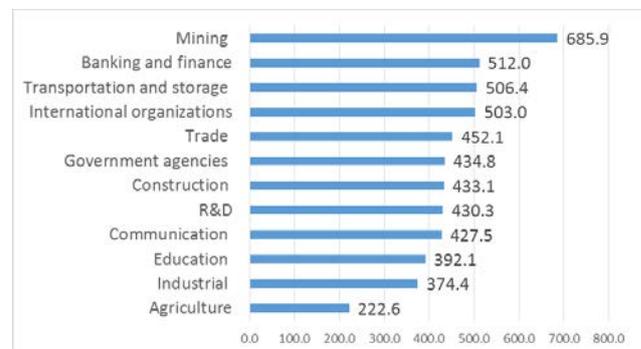


Figure 3. The average wage of employees by sector, by USD

The efficiency and flexibility of the labor market are critical for ensuring that workers are allocated to their most effective use in the economy and provided with incentives to give their best effort for their jobs. Labor markets must therefore have the flexibility to shift workers from one economic activity to another rapidly and at low

cost, and to allow wage fluctuations without much social disruption. Additionally, domestic competition affects productivity level, therefore, enhancing wage increase in the industry. As has been demonstrated in Figure 3, a comparison of the industrial wage level certainly indicates that the highest average salary is allocated to five most growing industry of Mongolia.

Bloom and Van Reenen [9] admit that competitive and legal environments in the short term are statistically independent, and that these environmental factors indirectly encourage producers to be productive. Nevertheless, poorly regulated markets can create perverse incentives that reduce productivity. Research results of Bridgman et al [1] shows that compensation from government to protect domestic producers from import products leads to standard quality distortions and incentives for inefficient production. In 2011, the Government of Mongolia developed national support program for wool and woolen product producers. As part of the program, the Government announced cash rewards of 2000 MNT (appr. 1.25 USD) per 1 kg wool, to sheep and camel herders who supplied their products to national producers [21].

2.2. Management Issues

Many researchers made various investigations to define managerial role in productivity [2,8]. There have been several investigations to evaluate management competence of Mongolian companies [16]. Researchers concluded that despite the progress in technological innovation, as well as the investment enhancement into the production process renovation from various international financial organizations, management team appear to have less professional knowledge, strategic approach, as well as experience [6,7].

Managers coordinate and monitor the processes and procedures related to the labor and capital; yet, managerial inputs, such as their characteristics, time allocation and best practices are rarely recognized and unmeasured in the literature [14]. The empirical research conducted by Bloom and Van Reenen [9] suggested two important findings in management practices. They found that firm’s market competition positively correlated to the best-practices of management. Moreover, they claim that management practices are lower in family-owned firms.

To have a baseline survey, Corporate Governance Development Center cooperating with the International Financial Corporation investigated corporate governance practices of 20 largest, publicly listed companies in Mongolia by Corporate Governance Scorecard. Even though these 20 companies present 5.9 percent of the total publicly listed companies, conversely, they hold 89.7 percent of the total market capital share in Mongolia [4]. Through this survey Mongolian corporate governance is at the rudimentary stage with overall mean score of 27.5 percent indicating that companies have a long way of implementation to reach good practices. Despite the fact that there are some achievements regarding the legal and regulatory framework for the corporate governance, it would be suggested that all participants need to concentrate on ensuring a better implementation of the law, also invent higher capacity of institutional level [4].

On the other hand, the corporate governance level was investigated by the Financial Regulatory Commission of Mongolia [19]. The small and family-owned firms were appraised by OECD survey method. Compared to the publicly listed, largest companies, the overall mean score of the Mongolian family-owned firms were much higher, 57.71 percent, which should probably be defined as “developing” stage. The Figure 4 gives detailed data of this evaluation.

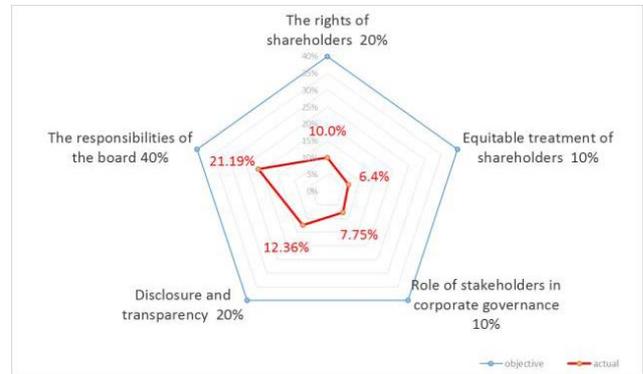


Figure 4. Mongolian family owned companies’ governance evaluation by OECD

Mongolians are family-oriented people, with collectivistic culture, and heavily influenced by the nomadic life. According to the Labor Research Institution’s survey [3], the majority of businesses is family-owned companies and they have a tendency to operate relatively independently. The Table 1 displays distribution company size by their number of employees. As can be seen, majority is micro and small businesses.

Corporate governance is critical and supporting factor for family-owned businesses, thus practicing good governance gives possibility to establish robust business processes and prepare for future expansion.

Table 1. Percentage of organizations and employees

Number of employees	Proportion of organizations	Proportion of employees
1-5	71.1	10.7
6-19	16.9	14.2
20-49	7.2	17.1
50-149	3.8	24.0
150+	1.1	34.1
Total	100.0	100.0

Furthermore, they become more accountable and transparent in their operations, which leads to opportunities for growth, financing and improved performance [15]. Whereas, Mongolian family firms are becoming more aware of the increasing importance of corporate governance, nonetheless, still for some firms it is yet a high strategic priority. Therefore, nowadays, as much as companies are growing, the improvements in the organizational structure and corporate governance requirements are essential.

2.3. Gender Issues

In recent years, Mongolia has made significant progress in gender related Millennium Development Goals (MDG). The main achievements reached were in maternal health and infant mortality rate. Besides, comparing to other East Asia and Pacific region countries, the Mongolian gender indicators in education and health sectors are higher [20].

However, in Mongolia, the human development is dispirited in relation the gender, and is significantly low. Moreover, the gender inequality in the power and decision-making participation is obviously higher in the political and economic environment. In fact, there is a definite possibility to conclude that the participation of women in the political decision making is inferior. In 2009, only 4 percent of Mongolian Parliament members were women [10]. In the latest parliamentary elections 2012, the proportion has increased up to 12 percent, but still lower than the global average of 19.7 percent and other developing countries in the region [22].

Another key issue is the education, where Mongolia has faced reverse gender gaps. There is no difference in the primary school level, but in the secondary and higher education level female domination in the enrollment rates increasing, thus creating disparities among students. Gender inequality in the labor market and economic participation especially in higher education levels are very impressive [18].

In Mongolia, although women's participation rate in the labor market is statistically lower than men, their concentration is more on unpaid part of this market. A third of the women are employed as unpaid family workers. The variance is probably due to the women's household work responsibilities, resulting negatively on their employment. Moreover, they are in a relatively narrow set of occupations such as teaching, catering and retail support services. Representations of women in high-level management positions are also limited.

The inequality mentioned above can be proved by the data shown in Figure 5. As can be seen, women's wage level is lower at all types of sector and positions.

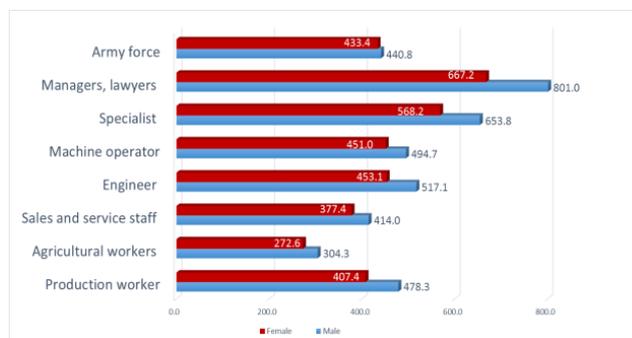


Figure 5. Worker's salary by gender and occupation, by USD

There are large differences in earnings that cannot be explained by education and experience. The overall gender wage gaps in log wages are 0.18, which implies that men get 1.2 higher wages than women. Additionally early retirement, compared with men, affect participation rates among older women, and has negative implications for their career progression, pensions and causes of poverty [3].

3. Conclusion

The Global Competitiveness Report remains the flagship publication within the Forum's Global Competitiveness and Benchmarking Network, which produces a number of related research studies aimed at supporting countries in their transformation efforts [12].

The different aspects of competitiveness are captured in 12 pillars, which compose the Global Competitiveness Index. The main object of this study was labor market efficiency of Mongolia, which presented the highest rank within all indexes. We examined labor market from wage flexibility, managerial practices, and gender equality perspectives, to examine whether these rankings adequately explain the real situation.

National wage and income data provided by Labor Research Institution [3] proved that Mongolian labor market is relatively flexible (16th). Another issue, female participation in labor force (58th), failed to be verified and perhaps need further consideration. Even though the participation rate of women is high, the gender inequality is observed in many patterns by Gender Analysis of Public Spending. Finally, reliance on professional management (120th) ranking is controversial. A majority of companies in Mongolia is small sized and family-owned, which means management is performed by owner, however, the Corporate Governance Survey by OECD concluded that their practices are at the developing level. Therefore, our investigation expresses that experience of producers over time is insufficient.

The results of this study cannot be taken as evidence, and despite its limitations, this study does suggest necessity to provide deep and full investigation of Mongolian labor market by theoretically proven research methodology. However, so far no major international and domestic study exists to corroborate such conclusion. Until such a study is undertaken the true picture of Mongolian labor market will remain open.

References

- [1] Bridgman, Benjamin, Qi, Shi and Schmitz, James A. 2009. The Economic Performance of Cartels: Evidence from the New Deal U.S. Sugar Manufacturing Cartel. *Federal Reserve Bank of Minneapolis Staff Report 437*. 2009, pp. 1934-1974.
- [2] Bushnell, James B and Wolfram, Catherine D. 2009. The guy at the controls: Labor quality and power plant efficiency. *International differences in the business practices and productivity of firms*. Chicago : Chicago Press, 2009, pp. 79-102.
- [3] Chimeddosrj, M. 2013. *The wage structure analysis*. Ministry of Labor of Mongolia, Labor Research Institution. Ulaanbaatar : Munkhiin useg, 2013.
- [4] *Corporate governance scorecard 2011*. Corporate Governance Development Center of Mongolia; Financial Regulatory Commission of Mongolia. 2013.
- [5] Hansen, Jan and Lkhagvasuren, Amar. 2014. Mongolia. [book auth.] ADB. *Economic trends and prospects in developing Asia: East Asia*. ulaanbaatar : s.n., 2014, pp. 146-149.
- [6] *Learning and forgetting: The dynamics of aircraft production*. Benkart, Lanier C. 2000. 4, 2000, American Economic Review, Vol. 90, pp. 1034-1054.
- [7] Thornton, Rebeca Achee and Thompson, Peter. 2001. *Learning from experience and learning from others: An exploration of learning and spillovers in wartime shipbuilding*. 5, 2001, American Economic Review, Vol. 91, pp. 1350-1368.
- [8] Bertrand, Marianne and Schoar, Antoinette. 2003. *Managing with style: The effect of managers on firm policies*. 4, 2003, Quaterly Journal of Economics, Vol. 118, pp. 1169-1208.
- [9] Bloom, Nicholas and Van Reenen, John. 2007. *Measuring and explaining management practices across firms and countries*. 4, 2007, Quaterly Journal of Economics, Vol. 122, pp. 1351-1408.
- [10] World Bank. 2013. *Mongolia: gender disparities in labor markets and policy suggestions*.
- [11] Xavier, S., et al. 2013. The Global Competitiveness Index 2013–2014: Sustaining Growth, Building Resilience. [book auth.] Klaus

- Schwab. *The Global Competitiveness Report 2013–2014*. Geneva : s.n., 2013, pp. 3-52.
- [12] Schwab, Klaus. 2013. *The Global Competitiveness Report 2013-2014*. Geneva : SRO-Kundig, 2013.
- [13] The Global Competitiveness Report 2014-2015. *World economic forum*. [Online] <http://www.weforum.org/reports/global-competitiveness-report-2014-2015>. [Accessed Oct. 20, 2014].
- [14] Syverson, Chad. 2011. *What determines productivity?* Journal of Economic Literature, Vol. 49, 2, pp. 326-365.
- [15] Williams, Andrea. 2014. Family Businesses – Playing a pivotal role in the Economy. *Pedersen & Partners*. [Online] https://www.pedersenandpartners.com/sites/default/files/public/in-the-media/corporate_governance_is_the_key_gcc_family_business.pdf. [Accessed June 25, 2014].
- [16] Ариунцэцэг, З. 2014. *Үндэсний томоохон үйлдвэрүүдийн менежментийн чадавхийг үнэлэх нь*. Улаанбаатар : СЭЗДС, 2014.
- [17] БШУЯ. 1995. Төрийн Албан Хаагчид Нэмэгдэл Олгох Журам. *Боловсрол Шинжлэх Ухааны Яам*. [Online] 06 14, 1995. <http://www.meds.gov.mn/director-content-389-317.mw>. [Accessed Dec. 120, 2014].
- [18] Амгалан, Т. 2009. *Жендэр ба хүний хөгжил*. Улаанбаатар : s.n., 2009. Монгол улсын хүний хөгжлийн илтгэл 2011.
- [19] Март, А. 2014. Монгол улсын компанийн засаглалын үндэсний тайлан 2013. Гэр бүлийн компанийн засаглал. 2014.
- [20] ЭЗХЯ. *Монгол Улсын Мянганы Хөгжлийн Зорилтуудын Хэрэгжилтийн Үндэсний Тав дахь Илтгэл*. Эдийн засгийн хөгжлийн яам. Улаанбаатар, 2013.
- [21] МУЗГ. 2011. Хонины ноос, тэмээний ноос бэлтгэж үндэсний үйлдвэрт тушаасан хоршооны гишүүн малчин, мал бүхий этгээдэд мөнгөн урамшуулал олгох тухай. *Эрх зүйн мэдээллийн нэгдсэн систем*. [Online] 2011. <http://www.legalinfo.mn/annex/details/2894?lawid=2716>. [Accessed Dec. 120, 2014].
- [22] *Gender Analysis of Public Spending*. Ministry of Finance of Mongolia; UNDP. Ulaanbaatar : s.n., 2011.
- [23] World Bank, 2014. *Mongolia Economic Update*. Ulaanbaatar: The World Bank Group in Mongolia, December, 2014.