Mongolian Path of Market Transition

From the Viewpoint of Labour Market

Enkhmandakh Enkhchimeg

To my darling daughters Duurenjargal, Gegeenlen, and Duurenbilig;

to the love of my life, Lkhagvadorj;

and to my lovely sister, Enkhjargal

Acknowledgements

It feels surreal to sit and write this. Seven years have passed since I came to this beautiful city of Kyoto under the guidance of my academic supervisor Professor Satoshi Mizobata. He has placed an enormous trust in me, the trust which I will strive to keep for the rest of my life. I would like to thank Professor Mizobata for his guidance, encouragement, and unwavering support throughout the entire process. Professor Mizobata's expertise and feedback have been invaluable in shaping my research, helping me develop my ideas, and compelling me to grow. In him, I see all of the qualities an outstanding mentor should possess; expert knowledge, a curious mind, kindness, humility and a sense of humour. I express my deep gratitude for his unwavering academic and personal support. I am honoured to be able to call him my mentor.

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In conclusion, I am grateful to all those who have played a role in helping me to achieve this milestone. This accomplishment is a testament to the power of community, and I am deeply grateful for the support and encouragement I have received from everyone along the way.

The result of my short academic journey is the present dissertation that analyses issues of the labour market during the market transition in Mongolia. This dissertation is, in a sense, still a work in progress with many drawbacks and shortcomings; for that, I ask my readers to forgive me.

P.S.: I also thank my anonymous PhD colleagues on the internet who have generated many hilarious yet accurate memes about our collective journey. It was comforting to know that I was not the only one.

<div align="right">Enkhchimeg Enkhmandakh</div>

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Publication of Dissertation Results

Some parts of the present dissertation were publicly presented at scientific conferences, research seminars, young scientist workshops. Moreover, the major findings have been published in the form of a research article, stated below. The author bears full responsibility for the remaining errors and omissions.

Major publications:

1. Enkhchimeg Enkhmandakh, (2020). Sectoral and regional labour reallocation in Mongolia: transition and beyond. *The Journal of Comparative Economic Studies*, No. 15, 87–117. (Chapter 3).

Major conference participations:

1. Enkhchimeg Enkhmandakh, "Labour market during socialism in Mongolia: initial conditions for transition," presentation at *41st Annual Conference of the Japanese Society for Comparative Economic Studies*, 29 August 2022, KIER (Kyoto Institute of Economic Research), Kyoto University, Kyoto, Japan (Chapter 2).

2. Enkhchimeg Enkhmandakh, "Labour market institutions and policies in Mongolia,", presented at *Young Scholars Seminar on Comparative Economics*, 22 December 2021, KIER

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3. Enkhchimeg Enkhmandakh,"Mongolian labour market in transition," presented at *Advanced Study on Transition Economics and Comparative Economics*, 4 March 2019, Kyoto, Japan (Chapter 3).

4. Enkhchimeg Enkhmandakh, "Labour market institutions in Mongolia and their institutional complementarities," presented at *Kyoto International Conference on Sustainability and Multinationals in Asia: Perspectives in the 21st Century*, 13 December 2019, Kyoto, Japan.

5. Enkhchimeg Enkhmandakh,"Labour relations in post-socialist Mongolia: what type of capitalism?" presented at *Seminar on Macroeconomics and Economic Systems*, 22 October 2019, KIER (Kyoto Institute of Economic Research), Kyoto University, Kyoto, Japan.

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7. Enkhchimeg Enkhmandakh,"How transition shaped Mongolian society," presented at *International Conference*, 25 August 2018, KIER (Kyoto Institute of Economic Research), Kyoto University, Kyoto, Japan.

8. Enkhchimeg Enkhmandakh,"Contemporary market quality in Mongolia," presented at *Young Scholars Seminar on Comparative Economics*, 8 December 2017, KIER (Kyoto Institute of Economic Research), Kyoto University, Kyoto, Japan.

Acronyms

ALMP Active Labour Market Policy

BoM Bank of Mongolia

CBR Crude Birth Rate

CMP Child Money Programme

GDP Gross Domestic Product

GDR German Democratic Republic

HDF Human Development Fund

ICLS International Conference of Labour Statisticians

JPY Japanese Yen

LFP Labour Force Participation

LFS Labour Force Survey

MNT Mongolian Tögrög

MRYL Mongolian Revolutionary Youth League

MSL Minimum Subsistence Level

NMP Net Material Product

NSO National Statistical Office

NTCLSC National Tripartite Committee for Labour and Social Consensus

OECD Organisation for Economic Co-operation and Development

PHC Population and Housing Census

SDU Statistics Department of Ulaanbaatar

SNA System of National Accounts

UB Ulaanbaatar

USD US Dollar

VoC Varieties of Capitalism

WC Washington Consensus

Glossary

aimag a primary administrative division, or province, consisting of several sums.

ard a citizen, used to refer to a free commoner in the pre-revolutionary period, a herder.

bag a third and lowest level of an administrative unit, replaced the brigade after 1990.

datsan a religious school.

dzud a severe winter following a dry summer, resulting in extremely harsh conditions for the survival of livestock. Large numbers of livestock perish, primarily due to starvation and the inability to graze, sometimes directly from the cold.

ger a traditional mobile dwelling made of felt and canvas, that is used by the nomads of Central Asia, including Mongolians.

khamjlaga ard a collective noun used to refer to serfs who were subject to princes and other secular nobility.

lama a Buddhist monk.

negdel agricultural cooperative.

shavi ard a collective noun used to refer to student monks and personal subjects to religious authority.

sum a secondary administrative unit, or rural district, consisting of several bags, or brigades under the socialist period.

Notes on Translation and Transliteration

The author performed all Mongolian and Russian translations. However, if accepted translations have been offered elsewhere, that source is used and made clear. The MNS 5217:2012 standard for transliterating Mongolian into English is applied consistently throughout. In it, the Mongolian Cyrillic letters Ө, Ү, У and Щ are transliterated as Ö, Ü, U and Sh, respectively. The Scientific transliteration of Cyrillic is employed when transliterating Russian into English.

Mongolian names are given using the patronymic (occasionally matronymic) initial followed by the given name. Thus, for example, the scholar Gundsambuu, whose patronymic is Khayan-khyarvaa, is Kh. Gundsambuu. Although the General Authority for State Registration of Mongolia's current format is based on the format used for international passports and arranges last names after first names without possessive forms, it presents a challenge when referring to individuals whose patronymics (matronymics) are unknown. Therefore, to maintain consistency, this dissertation uses first names when citing Mongolian authors and scholars throughout.

Also, in the case of some well-known Mongolian names and words, the most widely accepted versions in English literature is followed. For example, 'зуд', which should be 'zud' in the MNS 5217:2012 standard, often appears as 'dzud' in English literature.

Introduction

The collapse of communism, marked by the fall of the Berlin Wall in 1989, was one of the most significant economic events in recent history. One by one, countries emerged from the socialist economic system and embarked on their paths towards free-market capitalism. When the countries first joined the socialist experiment, each had different levels of economic development, political, economic, and social institutions, and vastly different cultures and religions. Under socialism, they had been on a convergence trajectory, but as the regimes collapsed, the old differences re-emerged (Szelenyi & Wilk, 2010). Transition experiences have been diverse, to say the least. However, one striking commonality is that they all went through "transformation depressions" (Myant & Drahokoupil, 2010).

Mongolia is an intriguing case for economists because of the heterogeneous impacts of both socialist and capitalist transformations. Despite seven decades of socialism and thirty years of capitalism, some aspects of the economy have changed dramatically, such as modernisation and marketisation in and around the capital Ulaanbaatar, while others have remained unchanged, particularly the traditional nomadic[1] herding. It still accounts for a substantial share of the workforce and the economy and clearly demonstrates the powerful case of path-dependency institutions .

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[1] Despite the use of the term 'nomadic,' we recognize that Mongolian herders are far from 'free-roaming' (Orhon, 2021). From at least the Qing dynasty's colonial rule over Mongolia to the present, population movement restrictions have been the norm rather than the exception.

There is no single method for studying a country's economy. It is, however, even more so in Mongolia. Mongolian development encompasses such different aspects that, on the one hand, it is a post-socialist country that can and should be studied using a standard transition economics framework. Without a doubt, the exercise will reveal some of the distinctive features of the transition[2] processes and the resulting economic, political and social circumstances such as the length of the communist regime, heavy economic and political dependence on the former Soviet Union (FSU), relatively swift economic and political reforms, and a peaceful transition to democracy.

On the other hand, a development economics perspective is another way to examine Mongolia - a lower middle-income developing country with a large agricultural sector and a sizeable, persistent informal economy. This approach will also reveal features of the economy, such as the lack of diversity and heavy reliance on the extraction industry, while recognising its tremendous economic potential. The primary goal of economic development is to improve the well-being of the average person. It is measured in terms of the type of transformation that occurs in the life of an ordinary citizen, as well as the extent to which more opportunities and alternatives for advancement are made available. More than income equality, the goal of development programmes is equality of opportunities and capabilities (Goyal, 1999). According to Seers (1969), to determine whether a country has experienced development, declines in three areas must occur: poverty, unemployment, and inequality must all fall from high levels.

However, in the past few decades, the fundamental role of institutions has reshaped the understanding of development and growth (Roland, 2014). "Institutions are the rules of the game in a society" (North, 1990, p.3). As incentive structures guided by the institutions evolve, they "... shape[s] the direction of economic change towards growth, stagnation, or decline" (North, 1991, p.1). That is why, it becomes essential to look beyond the measurements of progress in order to

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[2] We acknowledge that the term 'transition' may carry the notion of 'hypothesized end-state,' (Stark, 1992) and that its meaning is likely to emphasise the destination. Whereas the term 'transformation' emphasises the ongoing and dynamic process. We invariably mean the latter when we use the terms interchangeably in this dissertation.

seek answers within the institutional and historical structures.

Yet, still, Mongolia, with its vast mineral resources and periods of rapid economic growth, is considered an emerging economy. Its development can be analysed using the Varieties of Capitalism (VoC) framework to identify the typology of its capitalist formation. The results will undoubtedly be intriguing and informative, allowing comparison of differences and similarities between Mongolia and other countries, identifying the factors of economic performance, and contributing to the study of Mongolian capitalism and the study of the VoC in transition economies.

Whichever approach is chosen does not offer a complete picture, which is necessary to understand the precise specificities of Mongolia and their causes. We argue that the specificities of the contemporary Mongolian economy and labour market are the results of the adaptations, rearrangements, and reconfigurations of traditional institutional forms with the newly emerging institutions and policies of a given time.

"Heterogeneous institutional economics presented the historical view that institutions of the economic system are not built from scratch; some of them are path-dependent, evolutional and contingent. Therefore, diversity in behavioral patterns of culture, history, religion and others factors has become an important domain which economics takes into account" (Mizobata, 2012, p.8).

On the topic of labour markets, the inquiry into the labour markets in post-socialist countries can serve as a valuable lens to examine the complex and multifaceted transformation from socialism to capitalism. By examining changes in employment patterns, such as the emergence of new industries or the decline of traditional sectors and understanding the changes in the labour market, we can gain insights into broader economic, political, and social transformations within a given country.

Conventionally, labour markets in economics are analysed under the field of labour economics.

There are many studies published by international organisations that aim to portray the Mongolian labour market from a macroeconomic perspective. While many of them precisely analyse the structural changes of the labour market at the macro-level, they tend to focus on the official markets and institutions. They do not necessarily take into consideration the fact that labour markets in post-socialist countries are rather specific and are categorised by large shares of family, inactive and informal labour.

In the case of Mongolia, the historical heritage of herding and its path-dependency has profound impacts on the formation and evolution of the labour market. Thus, it is necessary to track the evolution of the labour market from a historical perspective, starting from the initial conditions before the introduction of socialism.

In view of the above, the present dissertation aims to contribute to the existing literature in the sense that it aims to simultaneously analyse formal and informal employment, policies and institutions of the Mongolian labour market from a historical perspective. The dissertation particularly focuses on the issues of the formation and evolution of formal and informal institutions and examines the profound reasons for their emergence, paths of evolution and institutional complementarity. In addition, the dissertation also highlights the fact that due to institutional voids of the Mongolian labour market, formal institutions are not only complemented but sometimes are substituted by informal ones.

Chapter 1

Historical Development of the Mongolian Economy and the Theoretical Framework of the Dissertation

The Mongolian economy has developed based on its own institutions, both from the perspective of transition economics and development economics. In analysing the process of institutional evolution in Mongolia, it is necessary to consider the historical process of the Mongolian economy. This chapter examines a methodological and theoretical framework for approaching the Mongolian labour market, based on historical considerations of the Mongolian economy.

1.1 Historical Overview

This section briefly characterises the political circumstances and main events leading up to the 1921 revolution and the economic developments between the 1920s and the late 1980s until the country's transition to the free market.

1.1.1 Political Transition to Socialism

Following over two centuries of Qing rule, and coinciding with the departure of the Manchu governor from *Örgöö*[3] Bogd Gegeen, the Eighth Javzandamba Khutagt (1870-1924), was proclaimed the theocratic ruler of the newly independent Bogd Khanate of Mongolia in 1911. However, the three-party Khyagta Treaty of 1915 (China, Russia, and Mongolia) soon after reduced Mongolia's independence to autonomy under Chinese national sovereignty. In 1919, China dispatched troops to Örgöö.

The Communist Party of Mongolia, Mongolian People's Party (MPP)[4] was established on 25 June 1920, when the two underground revolutionary groups – Örgöö group and the Consular group - joined forces. MPP sought assistance from and met with the representatives of Soviet Russia and the Comintern in the summer of 1920. In October 1920, the *tsarist* Baron von Ungern-Sternberg entered Mongolia, and in February 1921, Ungern's troops took Örgöö from the Chinese and Bogd Khaan was reinstated.

Meanwhile, MPP established the Mongolian Revolutionary Army and, with substantial Soviet backing, fought Ungern at *Maimaichen*[5] and entered Örgöö on 6 July 1921. 'On 9 July, a government of men favorable to, and manipulated by, the invaders [Soviet Union] was installed in Urga' (Murphy, 1966, p.2). On 11 July, the people's government under a limited monarchy was proclaimed. After the death of Bogd Khaan in May 1924, the first People's Great Khural was called to order, and on November 26, with the ratification of the constitutions, the Mongolian People's Republic (MPR) was established (Sanders, 1987).

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[3] The Russian spelling of Urga is used frequently for the capital city, modern-day Ulaanbaatar.
[4] Renamed Mongolian People's Revolutionary Party at the Third Party Congress in 1925.
[5] Modern-day Altanbulag, in northern Mongolia, a sum bordering with Khyagta, Russia.

Plan	Period	Main objectives
I five-year	1948-1952	Develop on the basis of central planning, with focus on industrialisation and collectivisation
II five-year	1953-1957	———"———
Three-year	1958-1960	———"———
III five-year	1961-1965	Meet the domestic consumption needs
IV five-year	1966-1970	Expansion of material and technical base
V five-year	1971-1975	From agrarian-industrial to industrial-agrarian
VI five-year	1976-1980	Large-scale industrial development
VII five-year	1981-1985	Improvement of material, technological base
VIII five-year	1986-1990	Up national income by 29%, capital investment by 26%

Table 1.1: Plan years, 1948-1990
Source: Information Mongolia, (Academy of Sciences MPR, 1990)

1.1.2 Economic Developments During Socialism

Conventionally, the economic history of the MPR is roughly divided into four stages. The period until 1940 is described as the revolutionary years; the period between 1940 and 1960 - 'the years of transition from feudalism to socialism' (Murphy, 1966) or the 'construction of the foundation of socialism' (Sanders, 1987, p.87). The years between 1960 and the mid-1980s are often described as industrialisation years when the ruling party's efforts were to transform the country from an agrarian-industrial to an industrial-agrarian society and raise the efficiency of social production. Lastly, the period from the mid-1980s until 1990 could be described as the reform years, following Kornai (1992). From 1948 Mongolia implemented eight five-year and one three-year plan (see Table 1.1).

The key features of the early twentieth century MPR – and where most of the challenges lay - were its small population with limited skills, sparsely populated over a vast territory with almost non-existent modern transport and communication infrastructure. The investment capacity was limited due to low levels of national income. The quality and accessibility of mineral deposits were inadequate to base the industry on. Due to its arid climate, the country had a limited fund of arable land. Most importantly, contrary to other poorly developed countries, where the agricul-

Year	Population ('000)	Urban population (% of total)	National income (million tug.)	Employment ratio*	Female workers (%)	Life expectancy	Literacy rate
1940	738.6	1.5	638.8	50.8	9.7[a]	-	20.8
1950	758.9	7.3	879.3	56.7	12.6[a]	39.6	59.7
1960	936.9	21.6[b]	1,978.4	67.4[g]	30.8	45.0	71.5[b]
1970	1,230.2	44.0	3,449.4	63.7	40.3	52.7	81.5[c]
1980	1,639.7	51.0	6,817.3	58.5	46.2	55.6	92.1[d]
1990	2,153.5	57.0	8,327.5	65.7	52.4[f]	58.8	96.5[e]

Table 1.2: Economic and social indicators, 1940-1990
Source: NPC (1951), NSO (1988), NSO (2012), UN data
*- Employment ratio was calculated for total population aged 15 and up, except 1940 and 1950 - 18 and over, using employment numbers from NSO (2012);
a - estimates, for details see 2.2; b - for 1956; c - for 1963; d - for 1969; e - for 1979; f - for 1987; g - for 1989.

tural sector usually contains underemployed (latent or hidden unemployment as Kornai (1992) termed it), - which could be utilised without reducing productivity in that sector- Mongolian population size was small and such utilisation was unfeasible (Murphy, 1959).

The establishment of MPP and its initial motivations were not strictly communist (Gundsambuu, 2021; Tserendorj & Jargalsaikhan, 2019). Rather, the party was formed as a response to foreign and domestic circumstances of the time. Additionally, Mongolia did not have an extensive working class or a substantial industrial sector by the early twentieth century. Thus, society was not particularly defined by class and their consequent ideological distinctions.

However, under state socialism, workers, employees, and their families constituted over a quarter of the total population by 1956. By 1989, the share rose to over 70 per cent (Table 1.3). Meanwhile, the *Other* group, dominated by monks (*lamas*) and religious serfs (*shavi ard*), which made up a third of the population in 1918, rapidly decreased as they secularised. The composition of free, secular commoners (*ard*), which was said to be around 67 per cent in 1918, increased in 1925 to reach 87 per cent (as lamas became secular ard) before decreasing sharply starting with the collectivisation drives that accelerated in the late 1950s. Since the

	1918	1925	1956	1963	1969	1979	1989
Total population	100	100	100	100	100	100	100
Out of which:							
Workers & employees	-	-	25.9	46.5	56.4	63.1	71.9
Members of agricultural cooperatives, artisans	-	-	11.1	53.3	43.5	36.6	27.8
Private producers, non-cooperative members	67.1	86.6	62.8	0.2	0.1	0.3	0.3
Other	32.9**	13.4	0.2	-	-	-	-

Table 1.3: Social structure of the population, 1918-1989*
Source: NSO (1958), NSO (1971), Information Mongolia (1990)
*- including families
**-monks, traders and other

establishment of the first co-operatives in the late 1920s, the number of *negdel* (agricultural cooperative) members and artisans and their families began to increase slowly, and by 1963, the group made up 53 per cent of the population. Essentially, by 1989 Mongolian society was said to be made up of two groups: workers and employees (72 per cent) and negdel members and artisans (28 per cent). This, however, is an oversimplification of circumstances, as will be discussed in the dissertation.

1921-1940

In the early years, according to Tserendorj & Jargalsaikhan (2019), economically the state was taking a gradual approach to economic development in accordance with the 'Basic Economic Policy'[6]. The two principal aims were the 'development of the livestock sector and the processing of agricultural raw materials'. The state also aimed to establish the foundations for developing crop production and infrastructure building, as well as improvements in trade, the establishment of a national currency and the state budget systems.

In 1924, 10.7 per cent of the state budget was allocated to agriculture, while 3.2 per cent was

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[6] A document produced by the Economic Policy Development Commission, which included Tserendorj, B., Tseveen, J., Jamiyan, O., was approved by the parliament on 24 July 1923.
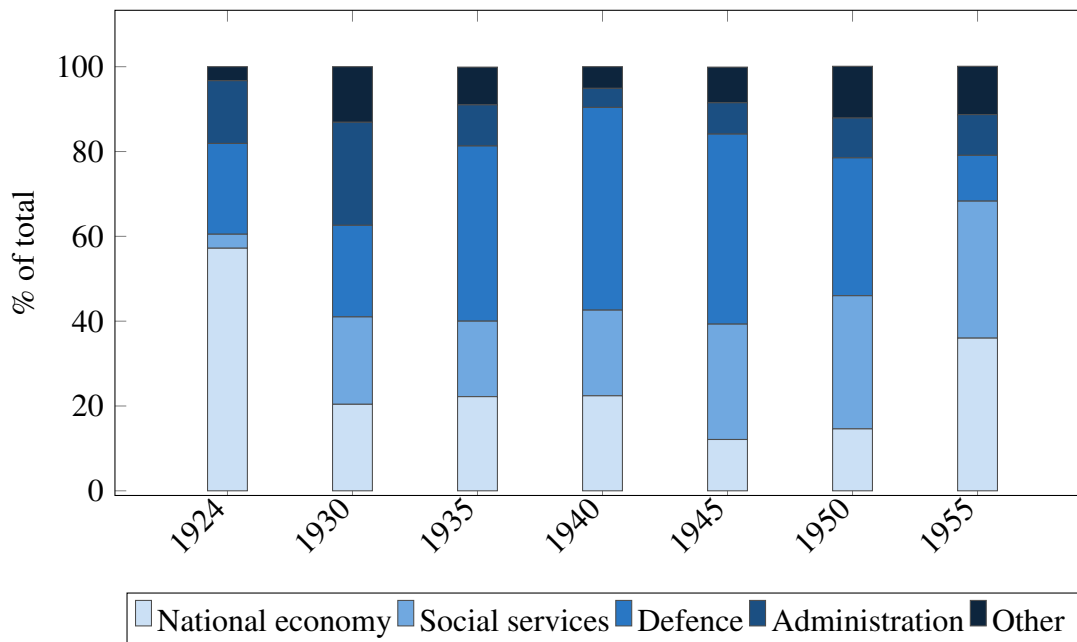
Figure 1.1: Allocation of state budget expenditure, % of total, 1924-1955
Source: (NPC, 1949b; NSO, 1958)

spent on education and culture. The numbers have risen to 26.0 per cent and 6.0 per cent in 1926, respectively (Tserendorj & Jargalsaikhan, 2019, p.31). Meanwhile, the defence budget which stood at 21 per cent of the total state budget in 1924, increased over twofold to reach 45 per cent in 1945 and the national economy which was allocated 57 per cent in 1924 went down to 12 per cent (see Figure 1.1).

As the Communist Party's hold on power strengthened with the help of the Soviet Union and the Comintern, the political ideology of the leaders and, consequently, the state policy took a radical left turn, with emphasis on the 'collectivisation of properties of black and yellow feudal class'[7] and 'establishing negdels'. The early 1930s were characterized by attempts at forced collectivisation and punitive taxation, which led to popular uprisings and the slaughtering of livestock in protest. The number of livestock decreased by 7.5 million between 1930 to 1932.

The 'New Turn Policy" (*shine ergeltiin bodlogo*) was approved in 1932. The government

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[7] Derogatory terms 'black and yellow feudal' were used under socialism to refer to the lay society of noble status, and the high-ranking lamas of ecclesiastical society, respectively.

Year	Total employed	of which						
	(thousands)	Industry	Construction	Agriculture	Transport & comm.	Trade	Education	Health
1940	33.1	13.7	-	1.0	1.4	7.3	2.7	3.0
1945	40.5	13.6	0.7	4.3	1.2	5.8	3.1	2.4
1950	62.8	23.7	1.7	7.8	2.8	5.0	8.1	4.9
1955	101.3	18.0	7.3	16.1	6.5	13.0	7.2*	6.7*
1960	144.6	35.3	19.3	20.4	15.4	14.7	17.1	11.6
1965	173.2	39.9	13.6	22.8	17.4	22.6	22.0	16.6
1970	200.7	46.2	15.4	19.5	21.1	24.8	29.6	20.1
1980	319.8	67.9	24.2	36.4	35.0	34.3	49.2	32.0
1985	393.4	91.0	29.2	42.8	41.9	41.6	58.7	37.3

Table 1.4: Employment in major economic sectors, 1940-1985
Source: NPC (1949a), NSO (1978), NSO (1990), NSO (1992)
* - Numbers from 1956;
Note: *Health* sector for 1965 includes sports, and for 1980 and 1985 include sports and social insurance sectors.

focused on three distinct aims. First, to eliminate the political power of the monasteries, to strengthen the Communist Party and lastly, to fortify the defence arm. Until 1940, the country faced numerous challenges deriving from foreign and domestic conflicts, such as 1939 *Battle of Khalkhyn Gol* at the eastern border and political repression and purges back home.

1940-1960

Starting in 1941, yearly plans were introduced. During World War II, Soviet exports to MPR were reduced substantially, meaning domestic production had to be increased to replace imports and additionally to assist the Soviet Union with livestock exports (Murphy, 1959).

By 1940 the industrial sector made up 8.5 per cent of national income, while the agricultural sector had the largest share of 61 per cent (Table 1.5). According to early statistics, in 1935, less than 12 thousand people were working in the national economy (NPC, 1949a, p.23). The number gradually increased to 33.1 thousand in 1940 (Table 1.4). After World War II, in 1948 (1948-1952) the first five-year plan was introduced with an aim to transform the pastoral economy of

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the MPR into a centrally planned Soviet-style economy.

During the transition period (1940-1960), efforts were made to diversify the economy, venturing into ore-mining, metalworking, timber-processing, consumer goods production (Sanders, 1987), as well as the development of food and light industry (Tserendorj & Jargalsaikhan, 2019). Especially during the second five-year plan (1953-1957), most of the planned investment was on infrastructure, and mining (Murphy, 1959). For a country with a vast territory like Mongolia, among the newly emerging sectors, the development of the transport and communications sector was of great importance. In 1949 Ulaanbaatar – Naushki railway and 3500 km telephone lines were completed (Academy of Sciences MPR, 1990). The first three plans (1948-1960) concentrated heavily on transport and communication, energy production and urban construction.

One of this period's most politically significant events happened in 1952, with the death of Choibalsan Khorloo, the leader of MPR. Choibalsan was succeeded by Tsedenbal Yumjaa. The most consequential policy following the change in leadership was the collectivisation movement that started in 1954. The number of negdels, which stood at 91 in 1940 with 2,000 member households, increased to 354 cooperatives and 168 thousand member households by 1960. Almost all of the 26.2 million livestock was owned by the individual ard in 1940, but by 1960 they owned 22 per cent of the total of 20 million. Meanwhile, 76 per cent was owned by negdels and the rest by state farms, haymaking stations, and other state enterprises.

The efforts of collectivisation were deemed complete by 1959, and that the country had 'entered a new stage of development' (NSO, 1971). During this period, the government complained of labour shortages, and in 1955 it started importing labour from China. By August 1956, about ten thousand had been imported (Murphy, 1959, p. 257). The statistics on foreign workers in MPR are nonexistent, and it is unclear how many were employed since, for how long, and whether they were part of official statistics.

As shown in Table 1.5, by 1960, the industry made up 14 per cent and agriculture 21.8 per

Year	National income	of which				
	(mln. *tugrugs*)	Industry	Construction	Agriculture	Transport, commun.	Trade
1930	85.5*					
1940	638.8	54.1	4.8	389.5	4.1	58.4
1950	879.3	86.2	11.4	522.3	57.2	96.7
1960	1,978.4	276.5	127.4	432.1	172.5	836.2
1970	3,449.4	708.9	182.3	793.0	234.3	1,144.3
1980	6,817.3	1,634.6	342.1	838.3	624.0	2,024.5
1990	8,327.5	2,915.1	462.3	1,686.9	841.3	2,280.5

Table 1.5: National income, by sectors, 1940-1990
Source: National Statistical Office of Mongolia (NSO) (1971, 1992, 2012); *- Murphy (1959)

cent of national income, and the largest share came from the trade, procurement, and material-technical supply sector with 42.3 per cent. Employment-wise, in 1960 the number of workers and employees in the national economy increased substantially to reach about 145 thousand, with 105 thousand engaged in material production. Although the number of workers accounted for less than 30 per cent of the estimated half a million working-age individuals at the time, another 326 thousand were members of 354 negdels across the country. Only about 800 individual ard households who were not negdel members remained. From this, it can be estimated that approximately 350 thousand were still engaged in the agricultural sector[8].

1960-1984

The aims of this period were to strengthen and expand the material and technological base, further industrialise the country, raise labour productivity, and ensure efficient use of production assets by the mechanisation of agriculture. It was said that the transformation of Mongolia into

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[8] Including 20,400 workers and employees of the agricultural sector within the national economy and on average 2 persons per individual ard household.

a country with an industrial-agricultural economy would be achieved (Myagmar, 1975). The third (1961-1965) to fifth (1971-1975) five-year plans were devoted to these aims.

Around this time, efficient utilisation of labour resources had become an important part of state plan execution. Until now, one of the challenges was the slow growth pace in the working-age population. However, the birth rates, which have been persistently rising for over two decades, facilitated the share of young people among the working-age population to rise by the 1960s.

Workers in the national economy further increased from over 200 thousand in 1970 and 388 thousand in 1980. Women's employment also increased substantially; the share of women in the total number of workers rose from 28.5 per cent in 1960 to 46.2 per cent in 1980, the absolute number more than tripling. However, the concern of the government now became the labour shortages in the agricultural sector and some remote economic zones.

Between 1960 and 1980, the share of investment in industry increased from 29 per cent to 42 per cent, while in agriculture, it decreased from 26 per cent to 13 per cent.

1984-1990

When Tsedenbal was removed from power in August 1984, and Batmunkh Jamba became the General Secretary of the Mongolian People's Revolutionary Party (MPRP), Mongolia entered its reform years. What followed was a programme of political openness (*il tod*, Mongolian equivalent of *glasnosti*) and economic restructuring (*shinechlel - perestroika*), with emphasis on 'accelerating development, application of science and technology to production, reform of management and planning, as well as granting greater autonomy to enterprises' (World Bank, 1991). However, this unfolding of events was no surprise, as it closely resembled the policy directions within the Soviet Union under Gorbachev and was greatly influenced by the events throughout the Socialist Bloc. Kaser (1992) called the period between 1984-1989 the *'Mongolian perestroika'*.

In 1986, the government increased domestic wholesale prices, granted limited investment autonomy to public sector enterprises, and introduced long-term investment bank loans, among other measures. The following year, modifications were made to the investment planning system for setting overall targets, further expanded the investment autonomy of state enterprises and restructured the government ministries.

In 1988, the government passed a Law on Cooperatives to promote private sector cooperatives, permitted limited liberalisation of agricultural products pricing and sale of excess of state orders, decentralised the budgetary operations to the local level, reduced five-year plan performance indices, and introduced more depreciated non-commercial MNT/US Dollar (USD) exchange rate.

By 1989, the state was taking further actions of liberalisation and decentralisation, with the expansion of operating autonomy to public enterprises and easing of intra-public-sector enterprises pricing controls, elimination of monopoly of state trading corporations, and increases in selected administered retail prices, among others (Denizer & Gelb, 1992).

Despite these reforms, the industrial Net Material Product (NMP) that grew 9 per cent between 1980-1985 decreased to 5 per cent in the second half of the 1980s. Popular demonstrations began in late 1989, and by March 1990, the Politburo resigned, ending Mongolia's seven-decade history of state socialism. In May 1990, amendments were made to the Constitution, and on July 22, 1990, the first democratic general election was held. However, 354 out of 430 seats went to MPRP. Nevertheless, a coalition government has been formed with members of the Democratic Union taking key positions in charge of the economy.

Market Transition in Mongolia

In 1990, Mongolia underwent democratic reforms with the amendment to the Constitution, declaring the end of MPRP's one-party rule over the country and the legalisation of opposition

parties. The new amendments created a bicameral legislative body, and Mongolia held its first democratic election in July 1990. The MPRP won the majority of seats, but opposition parties gained a significant number of seats in the Small Khural (lower chamber). The ruling MPRP formed a coalition government with the democratic opposition.

The collapse of the Soviet Union had a devastating impact on Mongolia's economy, leading to negative economic growth and trade disruptions. Mongolia's GDP fell by 24 per cent in four years between 1990 and 1993 due to the Soviet withdrawal of subsidies, and the loss of foreign market due to the dissolution of CMEA. Inflation reached 320 per cent in 1993 (NSO).

The newly formed government implemented economic reforms through liberalisation, stabilisation and privatisation following the shock therapy approach (Washington Consensus (WC)). The implementation of the policies resulted in some negative consequences, including economic contraction, slow growth, unemployment, poverty, and inequality. The policy-making process during the early stages of the transition was fragmented and often contradictory, and many of the reforms were hastily executed, and poorly sequenced (Enkhbayar, 2007).

Nevertheless, Mongolia transitioned to a free-market economy with privatisation as its central tenet. The Law on Privatisation was adopted in May 1991, establishing the legal framework for the privatisation of state-owned assets. The privatisation programme in Mongolia is generally regarded as speedy and ambitious (Korsun & Murrell, 1995). However, the state remained a majority shareholder in most large enterprises, and the ones with 'strategic' importance were not privatised. Some of the large enterprises were taken off the list of offered enterprises and remain operating as state-owned enterprise (SOE)s today, such as MIAT (Mongolian Airlines) and Erdenet Mining Corporation (Goyal, 1999).

A new Constitution was adopted in January 1992, and with it established a unicameral legislative body, State Great Khural (State Parliament), with 76 members. The first election under the new Constitution was held in June 1992. MPRP emerged victorious again with 70 seats. In

1996, the Democratic Union Coalition won a majority of seats in parliament and instituted more dramatic changes, including energy price deregulation and privatisation. However, in 2000, the democratic reformers were voted out again and MPRP was re-elected.

A series of important laws were adopted that established market institutions, such as the Law on Banking in 1991 Foreign Investment Law in 1993. However, the most significant and consequential Law on Mining was adopted in 1997.

Economic growth returned in 1994. However, many Mongolians remained poor, with 36 per cent of the population living below the poverty level in 1995 (NSO). Mongolia's transition from a command to a market system was difficult and came with social, economic, and political costs. Mongolia was hit by two major crises towards the end of the 1990s: the Asian Financial crisis and the three-year *dzud* (a severe winter following a dry summer, resulting in extremely harsh conditions for the survival of livestock). 6.4 per cent Gross Domestic Product (GDP) growth in 1995 decreased to 1.1 in 2001.

Since then, the economy has returned to growth until the global financial crisis (GFC). In 2009 GDP declined 1.3 per cent but bounced back fairly quickly, the expansion of the mining sector, particularly the development of the Oyu Tolgoi copper and gold mine. The mining sector attracted significant foreign investment and generated substantial revenue for the government through taxes and royalties. In 2011, GDP growth in Mongolia reached 17.3 per cent, one of the highest in the world at the time. However, the growth was accompanied by inflation, trade deficits, and a rapidly growing budget deficit, which led to macroeconomic instability.

In addition to the mining sector, Mongolia's economy also suffered from a lack of economic diversification, which made it vulnerable to external shocks. For example, in 2016, the country was hit by a sharp drop in commodity prices, leading to a balance of payments crisis and significant currency depreciation. This, in turn, led to higher inflation and reduced household purchasing power.

In 2020, the COVID-19 pandemic also significantly impacted Mongolia's economy, with border closures and reduced global demand for commodities leading to a contraction in economic activity. The economy shrank by 5.3 per cent in 2020, and unemployment and poverty increased due to the pandemic.

1.2   Lessons from the Literature Review

The transition from a socialist system to a free market has been studied extensively over the past three decades (Lavigne, 1999; Roland, 2000; Åslund, 2007; Myant & Drahokoupil, 2010, among others). There is a broad consensus among scholars that the degrees of impact and outcomes of transition reforms vary across regions (Blanchard, Froot, & Sachs, 1994; Svejnar, 1999; Roland, 2000; Manduhai, 2008). Scholars further agree that despite differences in outcomes, the countries of the post-socialist world can be broadly classified into two groups: (1) the countries of Central-Eastern Europe (CEE), where they experienced 'shorter and shallower depressions'; and (2) the countries of the Commonwealth of Independent States (CIS) with 'longer and deeper depressions' (Myant & Drahokoupil, 2010).

The research on the Mongolian transition is relatively extensive[9] on economic reforms, policies and macroeconomic performance, owing to the comprehensive reports and country studies by the International Financial Institutions (IFIs) (World Bank, 1991; Milne, Leimone, Rozwadowski, & Sukachevin, 1991; Asian Development Bank, 1992; Griffin, 1995, and many others). However, apart from periodic reports by IFIs, interest in Mongolia as a subject of study has not been wide.

The studies on the democratic transition are fewer (Fish, 1998, 2001; Munkh-Erdene, 2010; Mendee, 2012). In general, the studies examining the democratic transition of the country view it positively and attribute its success to the robust civil society (Fish, 1998, 2001; Fritz, 2002;

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[9] For detailed literature review on political and economic transition in Mongolia, see Narantuya (2013).

Batbayar, 2016). However, some studies have pointed out that civil society has not fully institutionalised and warns of its vulnerabilities (Mendee, 2012). Recently, concern over single-party dominance has grown (Fish & Seeberg, 2017).

During the 1990s and early 2000s, numerous reports and studies were produced that analysed the economic performance and reforms (Denizer & Gelb, 1992; Hahm, 1993; Boone, 1994; Cheng, 2003), privatisation programmes (Jermakowicz & Kozarzewski, 1996), and its outcomes on the economy, firm performance (Korsun & Murrell, 1995; Anderson, Korsun, & Murrell, 1997, 1999; Anderson, Lee, & Murrell, 2000). Generally, in terms of macroeconomic performance, most scholars agree that declines experienced in Mongolia were on the milder side. For example, according to Cheng (2003), this was due to the country's stable social and political environment, sound economic policies, and low level of industrialisation before the transition. However, others recognise the lack of efficient economic mechanisms, planning, and poorly designed programmes (Enkhbayar, 2007).

Privatisation programmes in Mongolia exhibit several distinctive features, including the remarkable speed at which it proceeded (Korsun & Murrell, 1995; Anderson et al., 1999). However, the studies also recognise the link between the culture of policy-making formed under socialism and the reform progress (Murrell, Dunn, & Korsun, 1992). Due to its natural endowments, the Mongolian economy has seen interest from economists analysing its mining sector development prospects (Misheelt & Ali, 2017; Narankhuu, 2018). Misheelt and Ali (2017) identify the Mongolian development model as state-centric resource development and stress the need to strengthen the quality of its institutions while highlighting the negative impacts of the growing state involvement.

The existing literature on the macroeconomics of Mongolia provide valuable insights into the country's overall economic performance. A recurring theme among the studies is Mongolia's heavy reliance on the mining sector and the importance of diversifying the economy. How-

ever, these studies overlook the role of informal institutions in shaping economic behaviour and outcomes.

Harris-Todaro's two-sector model provides a theory of understanding rural-urban migration in developing countries and explains persistently high unemployment and informal employment in urban areas. They argue that politically determined high minimum wages in the industrial sector that exceed agricultural earnings would act as an incentive for rural residents to migrate to urban areas and contribute further to the rise of urban unemployment. However, they remain at the destination (the cities) for the opportunity to enter formal employment in the modern sector (Harris & Todaro, 1970). However, the model has the following drawbacks when it comes to analysing the Mongolian labour market. First, the model does not consider social, cultural, and institutional factors influencing migration. The second is more significant because the model assumes migration as a one-way process, i.e., rural-to-urban. However, in the case of Mongolia, the experience has been different during the transition period. Therefore, a different approach is necessary for understanding the Mongolian situation.

Another approach to Mongolian development in general and to labour markets specifically could be from the development economics discipline. The standard development economics theory proposes a set of principles that explain the processes of economic growth and development, such as capital accumulation, international trade, market-oriented policies, and other macroeconomic principles. In a way, most of the literature reviewed above on Mongolia could be regarded as an application of development economics theory to Mongolia. This is especially true for reports and studies the IFIs produce.

However, development economics as a discipline has extended into different stands in recent decades. One of them is the study of the role of institutions in the development of nations (Roland, 2014). The main idea of the theory is that differences in economic institutions are the main determinant of different levels of development across countries and that reforming these

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institutions is necessary for development. Although the focus also tends to be on the formal institutions, the approach can provide a useful background in analysing the Mongolian labour market.

To our knowledge, this topic has not been explored, and this dissertation aims to fill this gap. However, in doing so, it seeks to approach the topic from the perspective of another understudied area, the labour market in Mongolia. In the next section, the topic and literature review will be discussed while attempting to describe the methodological framework of the dissertation.

1.3   Methodological Framework of the Present Dissertation

Studying labour markets in post-socialist countries can serve as a valuable lens to examine the complex and multifaceted transformation from socialism to capitalism. By examining changes in employment patterns, such as the emergence of new industries or the decline of traditional sectors and understanding the changes in the labour market, we can gain insights into broader economic, political, and social transformations within a given country.

Similar to the overall economic performance, labour markets of post-socialist countries have also behaved differently regarding their methods of adjustment (Boeri & Terrell, 2002; Rutkowski, 2006; Riboud, Sánchez-Páramo, & Silva-Jáuregui, 2002; Rashid & Rutkowski, 2001; Gimpelson & Kapelyushnikov, 2013, and others). On the one hand, CEE countries utilised employment adjustments in response to output declines, resulting in a rapid decrease in employment in the early transition period and persistent open unemployment (Boeri & Terrell, 2002; Rutkowski et al., 2005). On the other hand, the CIS countries mostly opted for the wage adjustment method, with much slower labour market responses to economic crises, with lower unemployment rates, hidden unemployment, and widespread labour hoarding, such as lowered wages, shortened working hours, early retirement schemes, and unpaid holidays (Gimpelson & Kapelyushnikov, 2015; Rutkowski, 2006). The most notable outliers in each group are the Czech

Republic (Svejnar, 1999) and Estonia (Rutkowski, 2006), respectively.

The Mongolian labour market has not received much attention in the international literature to date, and it remains the least studied area of the Mongolian economy (Altantsetseg & Bayarmaa, 2014). The existing research can be broadly categorised into two groups. First are the surveys and reports conducted by the NSO and the Research Institute of Labour and Social Protection (RILSP)[10], such as the Labour Force Survey (LFS) and barometer surveys, which provide periodical data for policymakers and researchers. Second, reports and surveys conducted by international organisations such as the International Labour Organisation (ILO), World Bank, International Monetary Fund (IMF), and the United Nations (UN) and its affiliated organisations that emphasise policy prescriptions, focusing on poverty alleviation and economic growth. Reports and studies by ILO focus more on the structural components of the labour market, with greater emphasis on youth employment and technical and vocational education and training (TVET) systems in Mongolia (Pastore, 2008, 2009; Hilal, 2016), as well as promoting and strengthening social dialogue and collective bargaining in the country (Buckley & Rynhart, 2011), with some studies providing regional comparisons (Yoon, 2009; Hilal, 2016). A few focused on Mongolia specifically (Yi, 2006).

Furthermore, a handful of dissertations and papers are authored by Mongolian researchers. Several dissertations have been produced during the 2000s, such as Adiya (2004), Oyunchimeg (2007), as well as Saktoyev & Bolor (2007).

A research monograph by Saktoyev & Bolor (2007) highlights the deterioration of legal institutions surrounding the labour market during the transition, which serves as a background for the existing large share of informal employment. They also conclude that none of the models that characterise the labour markets in developed countries can be applied to the labour market in Mongolia.

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[10] Formerly known as the Institute for Labour Studies (ILS) of the Ministry of Labour and Social Protection

Adiya's (2004) theoretical analysis of the Mongolian labour market and its regulation concludes that Mongolia's labour market is in its initial stage of formation. The weak labour demand keeps unemployment high and participation low. Therefore, the supply tends to outgrow demand. The conclusions reached by the above researchers highlight Mongolia's demographic characteristics, such as sparse population and the drops in birth rates during the late 1990s and the early 2000s (Adiya, 2004; Oyunchimeg, 2007; Saktoyev & Bolor, 2007). They have also identified several challenges in the labour market, such as a higher unemployment rate among young people, the persistence of precarious and informal employment, the decline and failure of growth in labour productivity, and the weakness of regulatory institutions.

Shatz et al. (2015) analyse the Mongolian labour market using a supply-demand framework and focus on youth labour and education issues. They find that Mongolia has a high unemployment rate among youth (15–34 years old), especially those with higher education. The study also finds that there is a mismatch between the skills demanded by employers and the skills supplied by workers, as well as a lack of information and guidance for job seekers. The authors recommend improving the quality and relevance of education, strengthening the linkages between education and employment, enhancing labour market information and services, and promoting entrepreneurship and innovation among youth.

Most studies cover developments mainly after the 2000s, and few studies relate the labour market outcomes during the transition to the present circumstances. Bolormaa & Clark (2000) offer a look at the labour market between 1991 and 1997. They discuss how the Mongolian economy, which was not heavily industrialised, deindustrialised following the transitional recession of the early 1990s. They also identified that the drop in the employment rate was not as drastic and considered the construction sector to identify the severity of the recession and indicated that the agricultural sector was a possible absorber of labour.

The studies so far have established, and most scholars agree that there are distortions in the

labour market, the labour demand is weak, industrialisation is limited, economy lacks diversity. However, the evolution and root causes of persistent informal employment and rising economic inactivity have not been explored. The conventional approach to analysing the labour market's supply and demand is insufficient. Instead, we argue a slightly different approach is necessary, and in this section, we aim to explain our method.

1.4 Conceptual Framework: Mongolian Labour Market

In this section, we aim to illustrate the methods used in this study as we argue that the standard theories are ineffective in the task of exposing the important aspects of the Mongolian labour market. Figure 1.2 illustrates the conceptual framework of the dissertation.

There are a number of approaches that can be utilised to analyse the Mongolian transition experience and the labour market. For example, the transition economics approach, the development economics approach, and the VoC approach, are part of a broader set of conventional economic disciplines that are used to analyse the economies of emerging and developing countries. The above-mentioned approaches are all mainly used to study the formal institutions within the countries.

When it comes to the labour markets, the standard labour market approach is the branch of economics that is used to analyse the formal labour market institutions. Even the study of the labour market institutions has attracted the attention of labour economists since the 1990s, with the starkly different labour market outcomes between Europe and the United States (OECD, 1994; Nickell & Layard, 1999). Its application to transition countries and developing countries are even more recent (Cazes, 2002; Lehmann & Muravyev, 2011).

However, in a sense, analysing Mongolia, informal labour market institutions is a slightly daring project. Nevertheless, considering the country's large informal sector and the traditional

livestock and aim to focus on informality, labour market exit, family, networks and others, it may be suggested that there are constraints to approaching the Mongolian labour market from the normative labour economics. The specificities bring into question the effectiveness of the standard labour market and mainstream economic development approaches.

Therefore, the dissertation has raised an 'extended labour economic model', or extended theoretical framework for analysing the Mongolian labour market as a method to enquire into the unique research target - Mongolia. Extended in a sense that it extends the conventional labour market analysis out of its borders into the informal institutions' realm. The standard economic theories that only focus on formal institutions and tangible measurements of economic performance often lack the capacity to explain the causal relations and the historical path dependency permeating every aspect of formal and informal institutions. Economic transactions, including the ones in the labour market, are performed by actors whose values and behaviour patterns have been formed in the past. "Rules of the game require their own players as well as behaviour patterns and values suitable to the market. Those players, however, came from the former system, and therefore all transition economies experienced path-dependency" (Mizobata, 2012, p.5).

While, the transition economics and orthodox labour market supply-demand analyses focus primarily on the macroeconomics performance and the formal labour markets, while the VoC and recently the development economics approaches do recognise the importance of institutions, but they too focus on the performances of the formal labour markets.

However, as previous studies of the Mongolian labor market have pointed out, focusing solely on macroeconomic performance and the formal labor market does not provide a picture of the Mongolian labor market as a whole or identify the problems it contains. Therefore, this dissertation combines such approaches with the analysis of the underlying institutions to analyse the often neglected parts of the labour market; informal employment and economic inactivity. Additionally, we identify the birthing behaviour of Mongolian women with potential implications
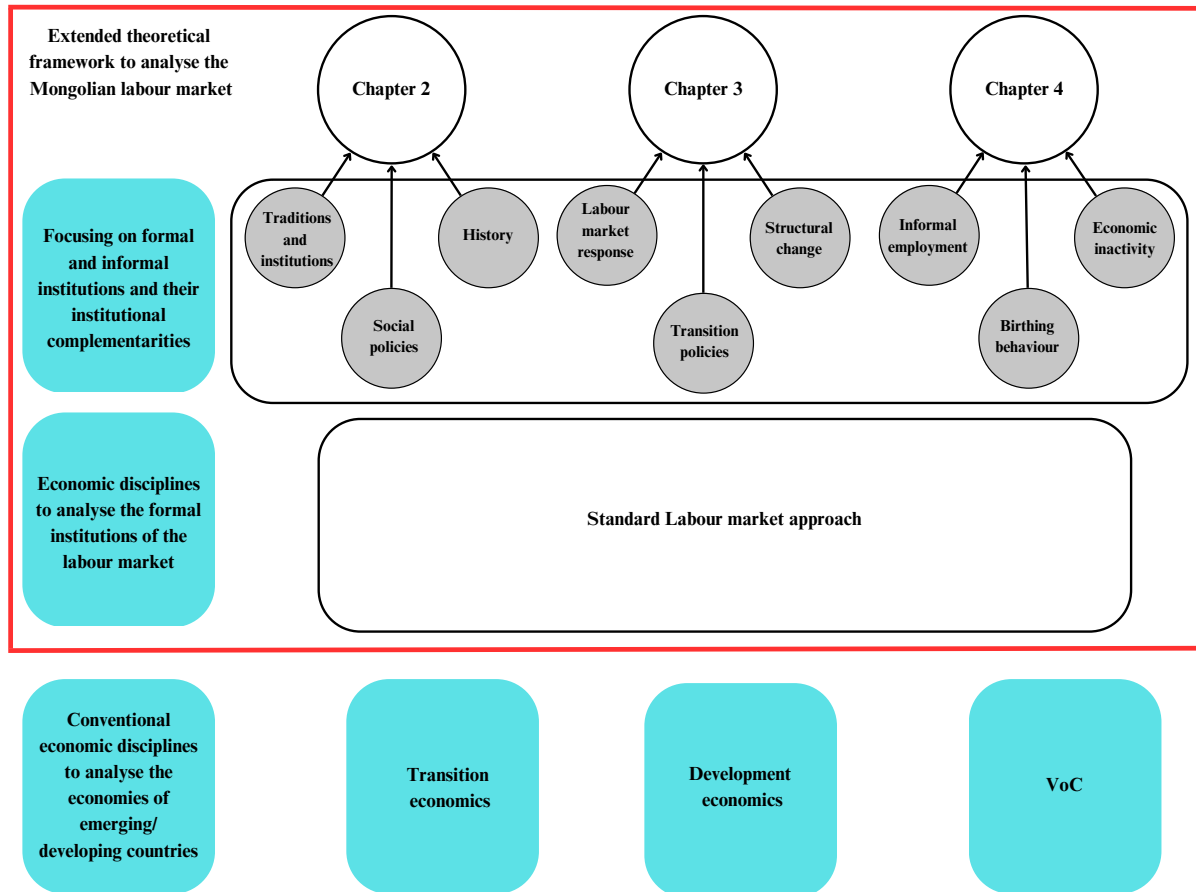
Figure 1.2: Conceptual framework defining the Mongolian labour market.
Source: Made by the author.

for the rise of the economically inactive. This behaviour, in turn, is shaped by the traditional values, institutions and state's social policies, and they are path-dependent (Stark, 1992; Mizobata, 2012).

What this dissertation reveals is that in the early years of the transition, the agricultural and informal sectors served as a buffer, absorbing those who would become unemployed, but since the 2000s, the agricultural sector has become smaller and the informal sector and the inactive population have increased. Of course, some of these phenomena have been pointed out in previous studies, such as the problems of industrial structure, but what is more decisive in the difference from other transition countries is the population growth, and the institutions, including the related female childbearing behavior and the various practices that determine people's life plans, have a major impact The study also points out that the difference between the transition countries and other countries is even more critical in terms of population growth. Therefore, it is inevitable to look at social policies in general, including family and labor market policies, and to consider their relationship to path dependency and economic development. As a result of our analysis, we expect to find that the agricultural and informal sectors acted as the main buffers during the early years of the transition. The reasons for this, especially regarding the agricultural sector, are the path-dependent nature of the sector. It is further hypothesised that the state's population and social policies would have far-reaching consequences for the labour market.

This dissertation aims to answer the following research questions:

1. What were the major characteristics of the labour market in Mongolia at the start of the transition?

2. How did these characteristics affect the outcomes of the early transformation period?

3. To what degree can the challenges faced by the current labour market be traced back to the institutions and policies of the early transition?

4. How many of those institutions and policies can be regarded as path-dependent?

Finally, this dissertation aims not to fit the Mongolian experience of transformation within a certain, predetermined group but to critically examine the labour market's history, institutions, and policies. Comparisons are made to other countries to draw distinctions rather than similarities.

1.5 Key Definitions of the Present Dissertation

First of all, this dissertation focuses on the market transformation in Mongolia from the labour market perspective. In this dissertation, the 'transformations is a political, social, and economic change of a substantial systemic character initiated in a revolutionary and target-oriented way by identifiable actors' (Merkel, Kollmorgen, & Wagener, 2019, p.2).

1.5.1 Definition of the Labour Market in Mongolia

Here, we define the different segments of the labour market in Mongolia. Since 2009 Mongolian labour statistics has followed the statistical methodology of employment adopted by the Thirteenth Conference of International Conference of Labour Statisticians (ICLS) of 1982. The methodology was renewed in 2019 in accordance with the Nineteenth Conference of 2013. However, in this dissertation, we focus primarily on the methods prior to the 2019 update.

There has been a significant change in labour statistics since 2009, as the data published by the NSO started to reflect the results from the LFSs. In previous years, it was compiled on the basis of the 'Annual Report on Employment' prepared by the employment offices of local governments. The main difference between the two is in the number of unemployed, as the 'Annual Report on Employment' only included registered unemployed and the LFSs estimated the numbers based on surveys.

However, the basic components of labour statistics are:

Labour force is the sum of the total workers and the unemployed who are actively seeking employment (registered unemployed before 2009, and the registered and unregistered, but looking actively for employment thereafter).

Employment - before 2009, the numbers for employed were estimated. For example, for the years where the comparisons with the LFS are possible reveal that the official employment numbers overestimated employment numbers by 99.3 thousand and 125.9 thousand in 2007 and 2008, respectively. However, more relevant to our discussion is that starting in 2009, as the numbers started to be based on LFSs, i.e., the official employment now included the people working in the informal sector.

Unemployed, as discussed in relation to the labour force above, starting in 2009, the official numbers began to reflect registered and unregistered unemployed.

Economically inactive, people over 15 who are not a part of the labour force for various reasons, such as students, pensioners, elderly, sick, disabled, people with childcare, elderly care or household duties, and other reasons.

1.5.2 Data and Statistics Used in the Present Dissertation

Regarding the labour market data during the socialist period, there are considerable discrepancies between the data published in the statistical yearbooks before and after 1990. The biggest inconsistency is the number of agricultural sector workers. We use both figures in order to illustrate the contrast. In general, in regard to the statistical publications of the MPR, Kornai's quote seems to capture the root of the issue bluntly yet accurately.

> The gathering of data is obstructed by secretiveness. The continuity of the time series is broken by constant reorganization. In many cases, no regular observation and measurement of certain phenomena have been undertaken, even if they were observable and measurable in principle. Such observation and measurement tend to

be omitted, particularly if the phenomenon is an embarrassing one for the system from the propaganda point of view (Kornai, 1992, p.14).

Unfortunately, the transition to market did not improve the statistical data challenges. Due to changes in the labour statistics and discrepancies arising from it, the numbers until 2000 had to be sourced from the statistical yearbooks and theNSO data published on the website. However, to reflect more realistic numbers, the data from 2000, often 2002/3 and onward, are from 2000 Population and Housing Census (PHC) and the LFSs. For further explanations of the data used in this study, see the Notes on the Statistics (Appendix A).

1.6   The Outline of the Dissertation

The dissertation is structured as follows.

Chapter 1 provided a brief historical outline of Mongolia's economic development and presented the theoretical framework of the present dissertation.

Chapter 2 examines the implications of the socialist experience for the Mongolian labour market. It provides a brief overview of the pre-socialist initial conditions in the early 20th century, followed by a discussion of the historical evolution of the labour market from the introduction of the socialist system to the collapse of the socialist system. In particular, the agricultural collectivization such as negdel and the social policies implemented by the socialist regime and their outcomes are analysed. Overall, the chapter aims to provide a comprehensive picture of the initial conditions of the labour market as it embarked on market transformation in 1990.

Chapter 3 primarily focuses on labour migration during the post-1990 regime transformation. An overview of major changes in the labour market during the transition can be obtained by analysing labour mobility between economic sectors and urban and rural areas. The results reveal that labour migration in the early 1990s, during the regime change, was different from

that in the post-2000s and point to the problems of the contemporary labour market in Mongolia, which are characterised by strong informal employment and increasing economic inactivity.

Chapter 4 focuses on the problems in the Mongolian labour market identified in Chapter 3, namely informal employment and economic inactivity. It examines the root causes of the persistence of the former and the expansion of the latter. It then refers to various institutional periodic factors, including social policies, as the background that created these conditions. Among them, the high fertility rate as a circumstance peculiar to Mongolia is also analysed. Generally, the fertility rate tends to decline with economic growth, which is why many countries in transition have little or no population growth. Conversely, Mongolia continues to record a high fertility rate, which is accompanied by continued population growth and an abundant supply of young people in the labour force. This has not only affected the labour market due to the abundant labour supply but has also significantly impacted women's employment due to their birthing and childrearing behaviour. This is a significant point that has been overlooked in previous studies.

In conclusion, we highlight the major findings of the present dissertation and present the limitations and further research agendas of this research.

Chapter 2

Labour Market During Socialism

2.1 Introduction

Before socialism, Mongolia had an underdeveloped, slow-growing economy based on nomadic animal husbandry. Traditional livestock herding accounted for 90 per cent of the national income in 1919, and the remaining 10 per cent was constituted mainly by barter trade (Academy of Sciences MPR, 1990, p.185)(Sanders, 1987, p.90)[11]. All major industries such as farming and manufacturing, transportation and communications were primitive and the sector of services (banking, trade and commerce) was concentrated in the hands of Chinese and other foreign owners. By and large, many free ard (commoners) were believed to be illiterate, Buddhist monasteries provided a limited form of education and medicine and a large part of the male population lived in monasteries. Buddhist monasteries provided a limited form of education and medicine. Livestock was mostly owned by nobles and monasteries, other sectors had strong Chinese and other foreign ownership participation. Mongolia was one of the least developed countries with a low proportion of the labour force engaged in production (Lkhamsuren, 1982).

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[11] The statistical data dating back to the socialist years are scarce and the figures presented in this chapter are sourced from available statistical yearbooks and constructed while aiming to maintain the consistency.

The country lacked any form of modern industry apart from a few small artisanal gold and coal mines. The monetisation of the commodities market was insufficient, and there was no official national currency; Russian and Chinese banknotes, silver bullions, tea bricks, and sheep were used as a medium of exchange. Thus, according to the above descriptions and in line with Kornai (1992), Mongolia was indeed a 'backward, slow-growing' economy that made 'poor use of their resources' when the socialist system assumed power.

Botvinnik (1928)[12] estimated the national income at MNT 51 million or approximately 34 million gold roubles[13] in 1927. Per capita income was estimated at 49 gold roubles, compared to 114 for Russia, 670 for the U.S., and 486 for Great Britain.

According to one of the few accounts dating back to pre-revolutionary Mongolia (Maiskiy, 1921), the population stood at approximately 648 thousand people, including 100 thousand Chinese and 5 thousand Russians. Maiskiy's discernible ethnocentric account focused primarily on the country's male population and analysed their social stratification. According to his calculations, less than 6 per cent of males were of noble status, almost 45 per cent were lamas, 17 per cent were serfs (*khamjlaga ard*) and the commoners ard made up 26 per cent.

Thus, considering the above-mentioned initial conditions, building a socialist economy in Mongolia was an extremely difficult task. The transformation of the Mongolian economy and society under socialism continued for seven decades since the 1921 revolution (Table 2.1).

First, in 1921-1940, under the stage of 'general economic transformation', the government forcibly attempted to collectivise herders, but such measures were met with fierce opposition followed by widespread public apathy. The state focused on the development of industry based on animal husbandry products and crop raising in state farms and simultaneously nationalised transportation, communications, domestic and foreign trade, banking and finance industries which

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[12] In Murphy (1966, p. 30).

[13] Gold rouble - the monetary unit of the Russian Empire, introduced by the monetary reform of 1897 in connection with the establishment of the gold standard.

were placed under direct government control and cooperative organisations of Mongolian-Soviet joint-stock companies. Ulaanbaatar was selected to become Mongolia's industrial centre.

During the second stage of 'construction of the foundations of socialism' (1940-1960), agriculture was finally collectivised owing to extensive programmes that increased the benefits of negdel memberships while also employing strategies and policies that reduced the viability of private livestock. The industrial sector diversified into mining, timber processing and consumer goods production. Ulaanbaatar remained the major industrial centre, however, some economic decentralisation started after the construction of the Trans-Mongolian Railway and the development of food processing plants in aimag centres.

Under the third stage started in 1961, Mongolia joined the CMEA and started to receive financial and technical assistance from the Soviet Union and East European countries for the construction of material and technical basis of socialism. New industrial centres were built in Baganuur, Choibalsan, Darkhan and Erdenet and industrial output grew significantly. In the late 1980s, the government proclaimed that Mongolia turned into agricultural-industrial economy. The share of industrial sector increased from 9.8 per cent in 1950 to 24 per cent in 1980, while the share of agriculture declined from 59.4 to 12.3 per cent. The growth of national income was the highest during the 1980s (NSO, 2012).

Nevertheless, according to socialist-country standards, industrial development in Mongolia was slow compared to other socialist economies. Regardless of the central government's claims about the nation's achievements, the pattern of industrialisation was very different from the typical path taken by other socialist countries. According to Ulaan (2021), industrialisation primarily happened in the livestock industry, in which the total output per person in 1973 exceeded by 26 per cent that of the USSR average. This is extremely evident on the example of labour market analysis.

The historical development of the Mongolian labour market has not received much attention.

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Year	Population ('000)	Urban population (% of total)	National income (million tug.)	Employment ratio*	Female workers (%)	Life expectancy	Literacy rate
1940	738.6	1.5	638.8	50.8	9.7[a]	-	20.8
1950	758.9	7.3	879.3	56.7	12.6[a]	39.6	59.7
1960	936.9	21.6[b]	1,978.4	67.4[g]	30.8	45.0	71.5[b]
1970	1,230.2	44.0	3,449.4	63.7	40.3	52.7	81.5[c]
1980	1,639.7	51.0	6,817.3	58.5	46.2	55.6	92.1[d]
1990	2,153.5	57.0	8,327.5	65.7	52.4[f]	58.8	96.5[e]

Table 2.1: Economic and social indicators, 1940-1990
Source: NPC (1951), NSO (1988), NSO (2012), UN data
*- Employment ratio was calculated for total population aged 15 and up, except 1940 and 1950 - 18 and over, using employment numbers from NSO (2012);
a - estimates, for details see 2.2; *b* - for 1956; *c* - for 1963; *d* - for 1969; *e* - for 1979; *f* - for 1987; *g* - for 1989.

This is especially true for international scholarship. During the socialist period, Mongolian scholars published works on the formation of the working class (Tudev, 1963) and the social structure (Urtnasan, 1984); however, as sociologist Gundsambuu (2021) critiques, '... historians, philosophers, economists, and sociologists who specialise in the study of class structure make the mistake of exaggerating the working class in Mongolia and its leadership role without investigating the true origins and development trajectory' (p.278, author's translation). Indeed, academic literature on the economy, society, and politics of the late nineteenth and early twentieth century Mongolia, particularly the ones published under the socialist regime, need to be viewed and interpreted with caution, as they often tend to denigrate the circumstances of the pre-revolutionary conditions while magnifying the achievements of the socialist regime.

Meanwhile, Gundsambuu's seminal work (2021) examines the formation and evolution of Mongolian social stratification from the early twentieth century to the early twenty-first century. However, thus far, little research has been conducted on the labour market. We argue that an understanding of contemporary social and economic problems requires a historical perspective. Hence, the goal of this chapter is to paint a broader picture to lay the historical groundwork for future chapters that will analyse the Mongolian labour market during the 1990s market transi-

tion. While doing so, this chapter aims to clarify the different periods of the state's economic, social, and population policies that have shaped the trajectory of the country's socialist development, which will inadvertently aid in identifying the distinctive characteristics of the Mongolian socialist labour market.

The next section aims to accomplish this goal by describing the economic and labour market developments during the socialist era and highlighting the salient features of the socialist labour market. The subsequent section attempts to relate these traits to institutions and policies that had the highest effects on how the labour market functioned. This chapter is summarised in the final section.

2.2 Labour Market Outcomes Under Socialism

The Mongolian labour market faced several challenges in the first half of the twentieth century. One of them was that Mongolia, unlike most underdeveloped countries, did not have an abundance of labour resources hidden within the agricultural sector. The population was small and sparsely distributed across the vast territory, with limited transportation and communication links. To free up enough labour, the state had to invest heavily in improving agricultural techniques and outputs. Another issue was that national income was low, and the government lacked both the funds to invest in industry and the workforce to mobilise. Therefore, the evolution of the labour market under socialism should be examined against the backdrop of the state's investment and labour mobilisation policies.

Mobilisation of surplus labour is a fundamental strategy for forced growth in the classical socialist system (Kornai, 1992); labour is extracted from six major sources. These are open unemployment, hidden unemployment, workers in family undertakings, the 'declassed', women working in the household, and population growth (1992, pp. 204-205). In the case of Mongolia, the groups that were utilised as sources of labour had their own distinct characteristics, and

different groups were used at different times.

> It is erroneous to assert that Mongolia's working strata arose voluntarily and gradually. It should be noted, however, that it emerged as a result of state-level punishment, repression, and forced secularisation of the lamas. In general, the rise of the working class was influenced by social changes of the time on the one hand and forced labour allocation on the other. While under capitalism, the process is gradual and evolves over time, in Mongolia, it was achieved through 'tough' measures (Gundsambuu, 2021, p. 273, author's translation).

During the socialist period, the state systematically used policies to mobilise the labour surplus. The first segments of Mongolian society to be utilised were the urban poor, serfs, traders, and craftsmen. The Nalaikh coalmine[14], previously operated by Chinese firms, was expropriated by the state, and operations began in 1922 with 110 workers. The leather factory opened in the same year with 119 workers (Zagasbaldan, 1973, p.57). By one account, in 1927, of 4000 residents of the capital, over 1000 were engaged in various occupations, such as workers (588), seamstresses (157), herders (122), and craftsmen (69) (Natsagdorj, 1978, p.289).

According to Gundsambuu (2021, p.277), there were 2855 workers and employees in 1925, and the number reached 5517 in 1931. Many Mongol-Soviet joint ventures were established throughout the 1920s and 1930s. In 1929, timber, brick, and iron factories were established, with over 200 workers. In March 1934, the Industrial Complex started its operations with 1200 workers (Tserendorj & Jargalsaikhan, 2019). According to the statistics from the early National Planning Committee (1949a, p.23), the national economy employed 11.7 thousand people in 1935. This represented slightly more than 2 per cent of the total population aged 18 years and older.

The Fifth State Great Khural initiated the expropriation of private properties belonging to

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[14] Located in present-day *Nalaikh* district of Ulaanbaatar, about 40 km from the city centre.

	1934	1940	1956	1963	1969	1979	1989
Total population	744.5	738.6	845.5	1,017.2	1,197.6	1,595.0	2,044.0
Working age population	486.0^a	477.7^a	588.6	620.4	665.2	888.8	1,188.3
Employed in the national economy	11.0^b	33.1	104.8	169.9	197.0	305.0	451.4
Negdel members	0.2^c	2.0	84.3	300.6	261.0	236.1^d	146.6^e
Individual herder households	204.8	209.9	216.4	0.4	-	-	-

Table 2.2: Population and labour market indicators (in thousands), 1940-1989
Source: NSO website and Statistical Yearbooks, various years.
Note: *a* - Working age population 18 and over, 15 and over for the rest; *b* - Murphy (1966, p.139); *c* - for 1938; *d* - Number of negdel members calculated using the average number of communal livestock per member; *e* - employed at negdels (NSO, 1992).

nobles, aristocrats, and Buddhist monasteries in late 1928. Property expropriation and brutal repression lasted until May 1932. Over 800 religious and secular leaders' properties were seized and distributed among the ard and the lamas who left the monasteries between 1931 and 1932, and over 700 heads of aristocratic households were imprisoned. According to the policy of the Central Committee Against Religion, lamas were either executed (high-ranking lamas), imprisoned (middle-status lamas), or forced to secularise, and to join the army, or the economy (ordinary lamas or shavi ard) (Worden & Savada, 1991, p.44-45). Several artels and handicraft cooperatives were established around this time, specifically to use the secularised lamas. In 1931, there were 690 workers in less than 14 artels; by 1939, the number of artels had risen to 165, with 8.3 thousand workers, 7.3 thousand of whom were members.

However, as discussed briefly in the preceding chapter, this was met with fierce opposition and had disastrous economic consequences, as the total number of herd fell by more than 7 million, from 23.7 million in 1930 to 16.2 million in 1932. Around this time, the monastery herd declined from 3.2 million to 392 thousand in 1933. The population decreased from 727,390 in 1930 to 670,039 in 1932 (NPC, 1951), and the share of lamas fell from 10.4 per cent in 1930 to 3.2 per cent in 1938 (NPC, 1949a).

Contrary to the academics' and state machinery's claim at the time, people were unwilling to abandon their old lifestyles, and they did not see many advantages in joining the negdels (Raymond, 1956). They opted to continue living, as they had been, while selling any residual agricultural goods to the state via State Procurement. Meanwhile, the state was in a difficult situation because it required both labour and income from the livestock industry. However, due to the labour-intensive nature of the industry, one could not be maintained without the other. Furthermore, the interests of the MPR appeared to be at odds with those of the Soviet Union. The Soviets sought to increase cattle production and mining in Mongolia to meet their import needs for raw materials, while the MPR government aimed to develop its industrial sector. According to Altantugs (2019), the Soviet Union and MPR's food and light industries were the largest end consumers of agricultural cooperatives' products, even though the State Procurement was their primary market. Indeed, the Soviet Union was the only country MPR exported to in the 1950s, with agricultural raw materials accounting for the lion's share all the way through the 1960s.

> It is possible that the Russians and the Mongols thus have different ideas about how
> to develop the MPR for the latter may not be satisfied with their country remaining
> a primary producer, though the facts of the matter surely seem to indicate that this
> is probably Mongolia's fate anyways (Murphy, 1959, p. 258).

By 1940, the total number of workers stood at 33 thousand, representing less than 7 per cent of the working-age population of 18 years and above. Furthermore, collectivisation of the livestock sector through negdels was far from complete, with only 0.1 per cent of herds and 0.8 per cent of the adult population[15] organised through 103 negdels in 1942.

The collectivisation drive resumed in 1950, and the number of members, and thus the socialised herds, began increasing rapidly. Following the thirteenth Party Congress in March 1958, efforts peaked in 1958-1959. As a result, the 3.8 thousand negdel members in 1942, which had

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[15] Estimated from 1940 population over 18.
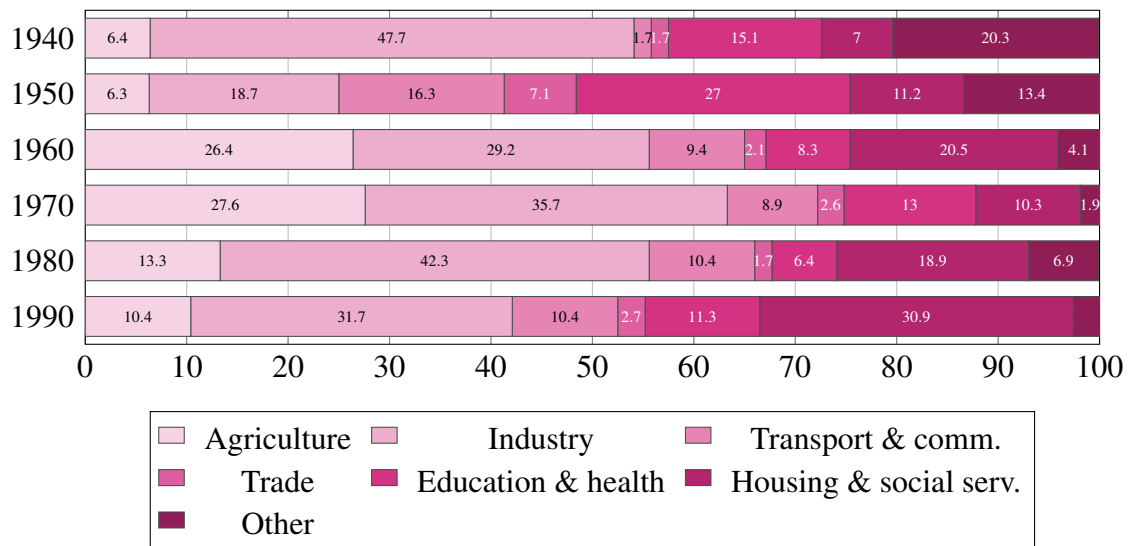
Figure 2.1: Total investment shares, by sector, 1940-1990
Source: NSO Statistical Yearbooks, various years.

grown to 119 thousand by 1957, more than tripled in just two years to 360.1 thousand by 1959.

Even though the state declared in its early economic policies that the livestock sector would be its primary economic sector, industry received the vast majority of its investments in 1940 (see Figure 2.1). Less than 7 per cent of the total investment was allocated to agriculture, which did not help the state address the aforementioned labour shortage issues. In 1950, the industry received roughly three times, and education and health received nearly four times as much investment as agriculture. In 1960 and 1970, the agricultural sector received more than a quarter of all investments, although this was likely due to the recently expanded network of negdels. Agriculture's ability to release labour, which was critical for the industry's expansion, had been hampered by a lack of investment in the sector during the regime's early years, as well as its failed attempt at collectivisation.

Starting in the late 1950s, the government also actively sought to implement policies to encourage women to work with extended childcare facilities, public laundries, tailors, and canteens while also encouraging the bearing of many children. Pronatalist policies were tied to the last of the abovementioned six sources of labour. At this point, it is apparent that the agricultural sec-
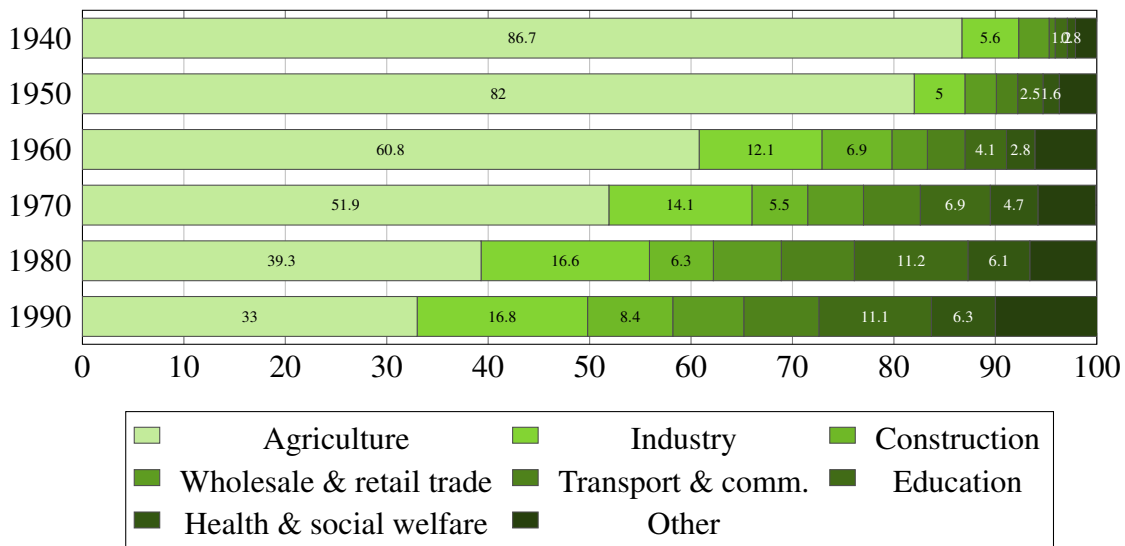
Figure 2.2: Structure of employment, by sector, 1940-1990
Source: NSO (2012)

tor, and especially, the negdels were instrumental in the country's overall socialist development. More importantly, as these organisations retained a substantial proportion of the labour force, they undoubtedly had a greater impact on the labour market.

Sectoral Changes in the Labour Market

To determine the evolution of the labour market during the socialist era, in this section, we investigate labour mobility between economic sectors. Here, we use the employment data from publications made after socialism, specifically from *Mongolia in 100 Years* (NSO, 2012). The rationale for this choice mainly owes to that the labour statistics of the socialist era did not include the negdel members, as they were not deemed to be employed by the state. Unfortunately, these data only include figures for each decade and exclude information for the years in between. The number of people working in each sector of the national economy is shown in Table 2.3, and the shares are illustrated in Figure 2.2.

Table 2.3 and Figure 2.2 clarify that the majority of the working individuals were still engaged in the livestock sector (52 per cent) well into the 1970s. However, only a little more than 16

	1940	1950	1960	1970	1980	1990
Agriculture, forestry, fishing and hunting	210.4	229.2 (18.8)	254.2 (25.0)	222.3 (-31.9)	203.0 (-19.3)	258.8 (55.8)
Industry	13.7	14.0 (0.3)	50.4 (36.4)	60.6 (10.2)	85.4 (24.8)	131.6 (46.2)
Construction			28.9	23.7 (-5.2)	32.7 (9.0)	66.1 (33.4)
Wholesale and retail trade	7.3	8.6 (1.3)	14.7 (6.1)	23.7 (9.0)	34.5 (10.8)	54.6 (20.1)
Transport, storage and communication	1.4	5.8 (4.4)	15.4 (9.6)	24.1 (8.7)	37.4 (13.3)	57.7 (20.3)
Financial and insurance services		0.2	0.6 (0.4)	1.8 (1.2)	1.9 (0.1)	3.9 (2.0)
Public administration	4.9	8.1 (3.2)	19.1 (11.0)	8.8 (-10.3)	11.6 (2.8)	32.1 (20.5)
Education	2.8	6.9 (4.1)	17.1 (10.2)	29.6 (12.5)	57.9 (28.3)	86.8 (28.9)
Health	2.0	4.6 (2.6)	11.6 (7.0)	20.1 (8.5)	31.3 (11.2)	49.2 (17.9)
Public and private services		1.0	2.7 (1.7)	8.2 (5.5)	14.4 (6.2)	33.9 (19.5)
Other	0.3	1.0 (0.7)	3.3 (2.3)	5.8 (2.5)	5.9 (0.1)	8.9 (3.0)
Total	242.8	279.4 (36.6)	418.0 (138.6)	428.7 (10.7)	516.0 (87.3)	783.6 (267.6)

Table 2.3: Changes in number of employed, by economic sectors (in thousands), 1940-1990
Source: NSO (2012)

per cent of workers were employed in the industrial sector, even towards the end of the 1980s and the collapse of socialism. Meanwhile, significant gains are found in the fields of health and education as well as in other non-material production spheres. It also shows that the actual decline in the number of agricultural sector occurred only in the 1960s and the 1970s, declining by more than 50 thousand between 1960 and 1980. The industry, education, and health sectors gained 35 thousand, 40.8 thousand, and 19.7 thousand workers, respectively, during the same period. In 1990, the agricultural sector was still the largest, nearly twice as large as the industrial sector.

Table 2.4 compares the changes in the sectoral distribution of employment in CMEA member states, including Mongolia. Several trends began to emerge. First, all the countries had expanded their industrial workforce, with Bulgaria having the highest level, the German Democratic Republic (GDR) having the lowest level (as it was already quite high), and Mongolia having a slightly above-average level. The next was a general reduction in the agricultural workforce. Bulgaria, Mongolia, and Romania experienced the largest losses, each seeing a decrease of approximately 50 per cent. For instance, in Mongolia, 82.1 per cent were employed in agriculture in 1950. This figure decreased to 31.1 per cent in 1987.

The most intriguing change observed in the table is the increase in the percentage of workers in the social services sector (non-material production sphere) in Mongolia. In fact, Mongolia had the highest growth in this area among all the countries that have been compared. In 1950, Mongolia's early conditions were similar to those of Romania and Bulgaria, with a low share of industry and a significant number of agricultural workers. In the end, however, Mongolia utilised labour from the agricultural sector in the non-material production sphere, whereas the other two countries did so for the development of the industry. This provides a window through which the state's top policy priorities are further investigated.

The non-material production sphere, which has garnered little attention in official statistics,

	Industry & construction	Agriculture	Social services	Other
Bulgaria	34.9	-59.5	13.2	11.0
Czechoslovakia	11.4	-26.6	10.8	3.7
GDR	6.2	-16.7	6.3	3.8
Hungary	14.9	-29.7	4.7	9.1
Mongolia	19.3	-51.0	19.4	12.2
Poland	10.7	-25.6	10.4	5.3
Romania*	30.5	-45.6	6.3	8.0
USSR	10.9	-28.6	11.9	6.4

Table 2.4: Changes in the sectoral distribution of employment in CMEA countries between 1950-1987.
Note: *-Between 1950 and 1986 for Romania.
Source: CMEA (1985, 1988)

has grown significantly over the entire socialist era. The fields of education and healthcare are particularly important. As an illustration, the education sector experienced growth from 2.8 thousand workers in 1940 to 86.8 thousand in 1990, growing over 30 times in 50 years. The number of employees in the healthcare sector also increased during this period, rising 25 times from 2,000 to 49,000 (Table 2.3). The reason for such growth is tied to many factors that are specific to Mongolia, especially to the issues of women's employment and demographic changes. These factors are discussed in the following sections.

Regional Mobility of Labour and Demographic Trends

Mongolia's administrative divisions underwent several changes during the socialist period. In general, these units became smaller and more numerous. For example, prior to the establishment of the MPR in 1924, Mongolia was divided into six aimags, which expanded to 13 in 1931. Mongolia had 18 aimags and 318 sums from 1950 to 1994. The aimags and sums were

Year	Western	Khangai	Central	Eastern	Ulaanbaatar
1960	n/a	n/a	n/a	n/a	14.0
1970	n/a	n/a	n/a	n/a	18.5
1980	n/a	n/a	n/a	n/a	24.6
1985	19.5	24.4	21.1	9.7	25.4
1986	19.6	23.9	21.1	9.6	25.8
1987	19.3	24.2	21.8	9.4	25.3
1988	18.7	23.2	21.2	9.7	27.2
1989	18.6	23.0	21.3	9.3	27.8
1990	18.7	23.6	20.7	9.3	27.7

Table 2.5: Employment by regions, shares in total, 1960-1990
Source: Calculated using NSO (1984) data for UB from 1960 to 1980, and the rest from the NSO website.

the territorial equivalents of state farms and negdels (Potkanski & Szynkiewicz, 1993). This facilitated direct control over negdels.

Although the data are scarce and the official statistics do not provide employment numbers by aimags and regions prior to 1985, Table 2.5 uses the available data and provides employment shares by regions. While in 1960, Ulaanbaatar accounted for 14 per cent of total workers, the share doubled by 1990, and it consistently employed more people than any other region of Mongolia.

The central government controlled population movement in two ways. One was through employment, with an 'employment record book' (*hödölmöriin devter*) without which a worker could not change jobs, and continuous entries were actively encouraged. The second was the residence card, which bound the individual to their locality and required any relocation to be approved by both the sending and receiving local governments. These have been used extensively to control and direct migration to and from urban centres throughout the socialist period. The restrictions applied primarily to migration between rural areas until the 1960s. However, begin-
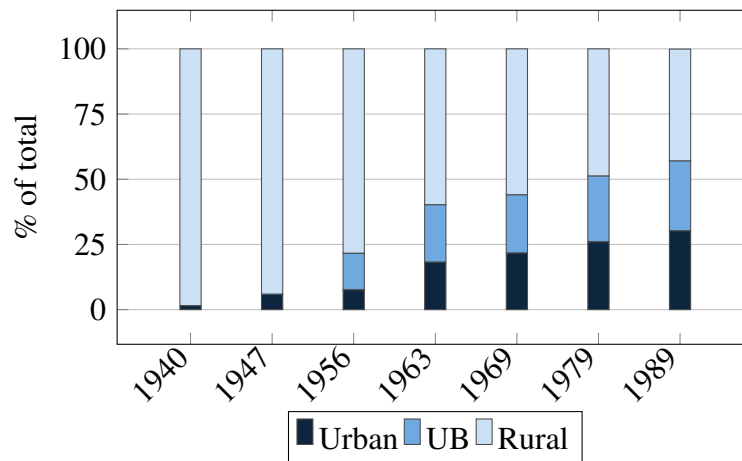
Figure 2.3: Urban, rural population, % of total, 1940-1989
Source: NSO website

ning in the 1970s, the industrialisation policy that created industrial complexes in urban centres (particularly Ulaanbaatar) required labour, and the technical improvements and mechanisation in agriculture following the collectivisation process resulted in a labour surplus in rural areas, which meant that rural–urban migration was encouraged. However, as the agricultural sector began to experience labour shortages, rural–urban migration became more constrained, though not entirely restricted (Neupert & Goldstein, 1994).

The rate of urbanisation has accelerated since the late 1950s, and it surpassed 50 per cent by 1979. Compared to other CMEA countries, in 1950, urbanisation rates in Mongolia were the lowest, but rapidly increased between 1950 and 1960 before declining slightly in the 1960s before resuming growth. By 1985, the urbanisation rate was comparable to the socialist countries' average of 51.8 per cent.

The state's economic policy was closely tied to its population policy, due to both the Marxist ideology and Mongolia's chronic concern over its small population. Hence, population growth has been and is still an important priority for the state. The third five-year plan (1961–1965), contained extensive pronatalist policies, such as cash benefits, medals (Motherhood Glory first introduced in 1957), and early retirement schemes for women with many children, while taxing
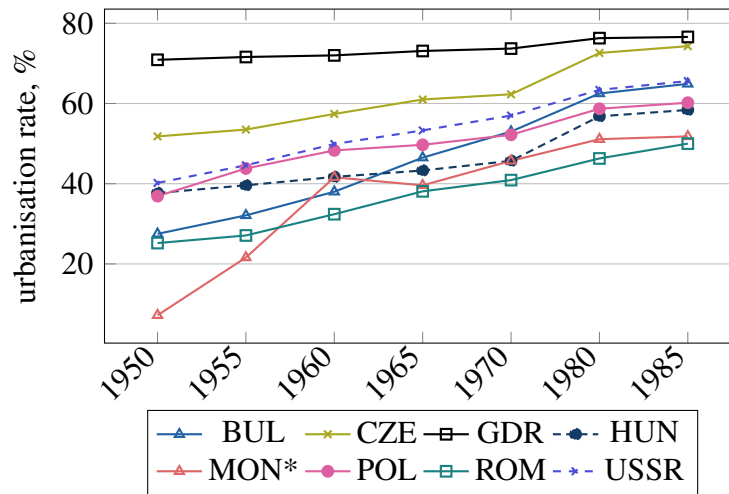
Figure 2.4: Urbanisation rates in selected CMEA countries, 1950-1985
Source: CMEA (1971, 1989)
Note: * - Rate for 1950 is from NSO statistical yearbook; and1962 rate from NSO is used for 1960.

childless married couples. The Federation of Mongolian Women has encouraged large families and promoted reproduction as a civic duty (Neupert & Goldstein, 1994). Consequently, the total fertility rate soared (Figure 2.5, Table 2.6). Since the late 1960s, as the first of the babies born during the 'baby boom' reached working age, the working-age population grew at 3 per cent a year for the next two decades. Creating a substantial demographic bonus. In the next section, we discuss the employment of women under the socialist regime.

Employment of Women

Although women were educated and employed where possible, the consolidated approach to getting women into employment started in the late 1950s. Around this time, the number of kindergartens increased considerably. In 1955, there were 79 kindergartens accommodating less than four thousand children, but a decade later, in 1965, the number of kindergartens increased six-fold to 483, providing childcare to 26.6 thousand children. The numbers continued to increase, and by 1985, 680 kindergartens (121 of which were in Ulaanbaatar) were accommodating 62.5 thousand kids throughout the country. Further details are presented in Table 2.7.

Year	Population growth (%)			
	Total	Men	Women	Aged 15-64
1918-1930	1.0	0.8	1.1	-
1930-1940	0.2	-0.1	0.4	-
1940-1950	0.3	0.3	0.2	-
1950-1960	2.1	2.3	2.0	-
1960-1970	2.8	2.8	2.8	1.3
1970-1980	2.9	3.0	2.9	3.2
1980-1990	2.5	2.5	2.5	3.1

Table 2.6: Average annual population growth, 1918-1990
Source: NSO (1994), for aged 15-64 World Development Indicators (WDI).
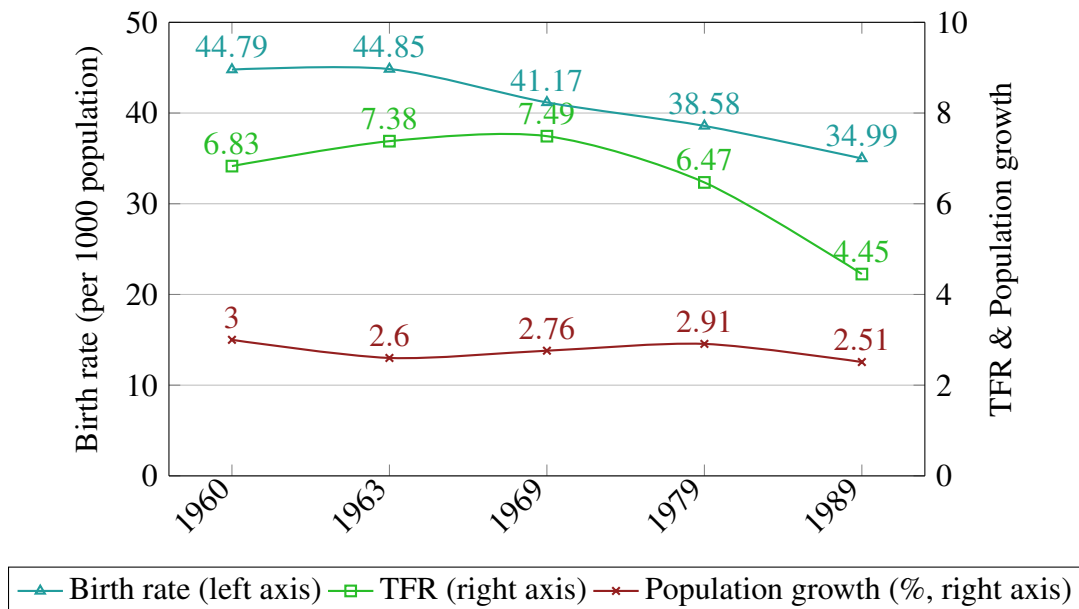
Figure 2.5: Fertility and population indicators, 1960-1989
Source: Crude Birth Rate (CBR) and Total Fertility Rate (TFR) are from WDI; population growth rate for 1960
was calculated using population data from statistical yearbooks, for 1963-1989 NSO (2012, p.34)

	1940	1950	1955	1960	1965	1970	1980	1990
Kindergartens	6	49	79	160	483	546	617	909
Kids attending ('000)	0.1	1.8	3.9	9.7	26.7	31.8	49.8	118.8
Crèches	4	22	39	99	-	320	392	441
Kids attending ('000)	-	0.6	1.5	4.7	-	14.8	18.7	21.6
Attendance per 10 000	-	-	-	580	-	1425	1621	2446*

Table 2.7: Number of pre-school institutions and attendance rates, 1940-1990
Source: NSO Statistical Yearbooks, CMEA (1971, 1985)
Note: *-author's calculation using data from NSO

Although the attendance ratio increased substantially, it remained low compared with other socialist countries. For instance, by 1983, 1705 kids attended preschool institutions per 10,000 preschool age kids, that number stood at 2847 for Poland, 4388 for Romania and 8224 for GDR (CMEA, 1985). The low attendance ratios suggest that the expansion of childcare facilities and its overall reach was not keep up with the rapid increase in birth rates.

The figures on women workers prior to 1960 are scarce; however, according to the National Planning Commission (1951), at least 3 thousand women worked across the national economy in 1940. However, this figure did not include important sectors, such as agriculture, health, and education, where women tend to dominate. Nevertheless, it still provides an estimate, that between 1940 and 1950, women workers and employees constituted at least 10-15 per cent of total employment. Within the sectors, the ten-year average share of women workers in industry, trade, and finance was 29 per cent, 32.9 per cent, and 24.4 per cent, respectively. However, the total comes to 13.3 per cent owing to the lack of data in other industries and sectors.

The statistical yearbooks published basic data on women's employment starting in 1960, and the share of women workers in the economy stood at 28.5 per cent. This share further increased to 40.2 per cent in 1970 (NSO, 1971). The share of women workers peaked in 1987 to reach 52.4 per cent (Academy of Sciences MPR, 1990, p.468), but fell to 49.3 per cent in 1989 (NSO website). The female share in total employment in Mongolia, along with some CMEA

Year	Women workers and employees (thousand)	% of women in total number of workers and employees
1960	43.4	28.5
1965	61.0	35.2
1970	80.6	40.2
1980	149.2	46.2
1985	204.8	50.9
1987	225.2	52.4
1989	376.5	49.3
1990	385.0	49.1

Table 2.8: Number of women workers and employees in the national economy
Source: Figures for 1960, 1965, 1970 are from NSO (1971); for 1980, 1985 and 1987 are from Information Mongolia (Academy of Sciences MPR, 1990, p.466); for 1989 and 1990 are from NSO website.

countries, is depicted in Figure 2.6. It demonstrates an impressive increase for Mongolia, from 28.5 per cent in 1960, which was among the lowest, to 50.9 per cent in 1985, becoming one of the highest.

Not many sources are available on women's employment by economic sectors, but Table 2.9 presents the available data, which shows that by 1987, women's employment had nearly equalled men's employment in all sectors except transportation. Furthermore, the share of women is higher in non-material production sectors, particularly education (61.7 per cent), health (77.1 per cent), and finance (71.3 per cent). Within the material production sector, their share is highest in trade, material technical supplies and procurement sector. Overall, half of all women workers worked in agriculture (30.1 per cent) and industry (21.1 per cent), with an additional 12.3 per cent in education and 10 per cent in health.

	1979		1987	
	% in total	% of female	% in total	% of female
In the national economy	45.6	100	51.2	100
Of which in material	42.5	69.0	48.5	70.1
Of which				
Agriculture	46.8	34.9	48.9	30.1
Industry	45.9	14.5	54.0	21.1
Construction	35.0	6.7	40.0	4.9
Transport	14.7	2.8	24.2	3.6
Communication	46.9	0.9	51.7	1.0
Trade, material technical				
supplies & procurement	57.8	8.9	64.6	9.2
Of which in non-material	54.6	31.0	59.1	29.9
Of which				
Housing and domestic services	54.9	3.1	45.5	3.3
Science and scientific services	41.3	1.4	41.3	1.4
Education, arts & culture	62.6	11.5	61.7	12.3
Health, sports & social security	78.8	9.4	77.1	10.0
Finance, credit & insurance	59.3	0.6	71.3	0.6

Table 2.9: Employment of women, by economic sectors, 1979 and 1987
Source: NSO (1986, 1988)
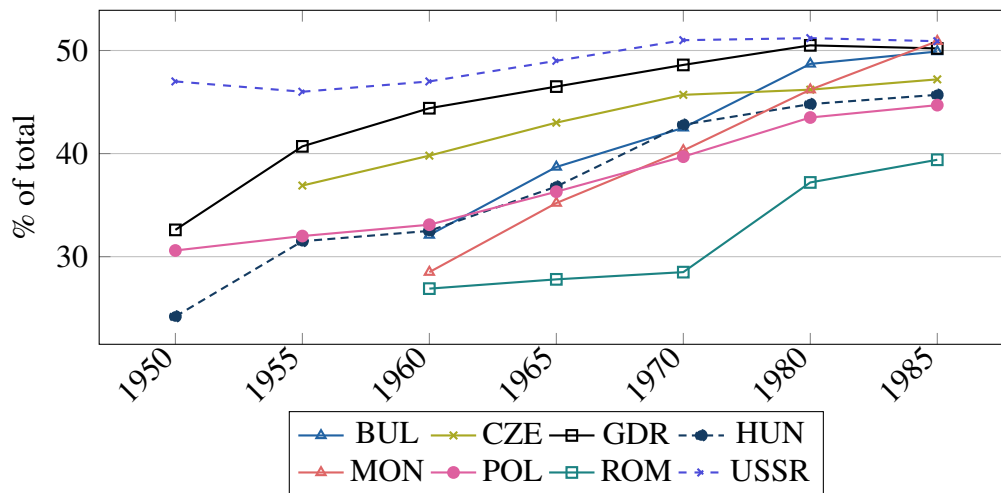
Figure 2.6: Female employment share in total, selected CMEA countries, 1950-1985
Source: CMEA (1971, 1989)

2.3 Socialist Labour Market Institutions

Socialist labour market institutions in Mongolia, as expected, have typical features of those of other socialist countries, especially the Soviet Union. For example, here too, trade unions lacked independence to struggle for the worker' interest and were merely a part of the central governments' bureaucratic apparatus, which acted as a 'transmitter' of plans of the party. However, a distinct feature of the early Mongolian labour market was its almost non-existent working class. Hence, in the case of Mongolia, it was not the struggle of the working class, but rather the initiatives and directions of the ruling party that led to the construction of a working class and workers' organisations, such as the trade unions. Rather, the trade union, party, and central government were the three leading forces that laid the foundation for and shaped the development of the working class in Mongolia (Gundsambuu, 2021). Precisely because of this, the central government had to construct the idea of the proletariat from the existing social groups, which came in the form of herders. '[S]ince Mongolia's social strata did not lend themselves easily to the Marxist-Leninist conflict scenario of feudal exploiters versus the exploited... the herders were a substitute proletariat, since no urban working class existed in Mongolia in the 1920s and 1930s,' (Endicott, 2012, p.71).

Therefore, in this section we look closely at the agricultural cooperatives (negdels), as institutions with the greatest implication for the labour market and whose influence arguably endured Soviet industrialisation.

2.3.1 Agricultural Cooperatives (negdels)

Since 1950, agricultural cooperatives, which were originally founded as voluntary associations of herders, became the predominant type of agricultural enterprise as a result of various policies aimed at boosting membership and collectivising livestock. The implementation of state purchase obligations for private herders was the most significant change in policy. Under the previous system, which existed in the 1930s and the 1940s, herders were required to sell a predetermined proportion of their livestock production at a predetermined price. However, since 1950, state purchase obligations as well as harsh financial or livestock penalties for failure to fulfil these obligations created tremendous pressure for them to join the negdels (Rosenberg, 1981).

The organisational structure and the functioning of these negdels closely resembled the Soviet *kolkhoz*, where the state maintained the control through the nominally appointed negdel chairmen. In 1935, there was only one negdel; by 1945, 1955, and 1965 the numbers had grown to 99, 239, and 289, respectively. The share of livestock owned by negdel was less than 1 per cent in 1950, but it reached 68.2 per cent by 1960. The individual herders who owned over 80 per cent of livestock in the 1920s came to possess, on average, 21.1 per cent of livestock for the rest of the socialist era. Upon joining the negdels, herder households could retain small private herds, usually up to 50 heads per household in *Khangai*[16] and up to 75 heads per household in the *Govi*[17] regions (Ressel, 2005). This permission to own private herds in Mongolia could be equated to the 1935 garden plot allowance of the kolkhoz members.

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[16] A fertile region surrounding the Khangai mountain range in central Mongolia.
[17] An arid region in and around the Gobi desert range.

	1940	1950	1960	1970	1980	1990
Negdels	91	139	354	272	255	255
Negdel members ('000)	2.0	8.5	326.0	268.0	234.3*	139.4**
Share of negdel livestock (%)	0.1***	0.5	68.2	73.2	76.1	58.6
Workers in the national economy ('000)	33.1	62.8	144.6	200.7	319.8	480.3

Table 2.10: Number of negdels, negdel members, and workers in the national economy, 1940-1990

Source: Statistical Yearbooks, various years and UN (1970).
Note: * - calculated using the average number of livestock per member;
** - negdel employees (NSO, 1992); *** - in 1942.

Negdels are significant to the labour market because they retained the majority of workers, yet they were not included in the official employment statistics. As presented in Table 2.10, the total number of workers and employees in the national economy stood at 145 thousand in 1960, while the negdels had over twice as many members, at 320 thousand.

In addition, the official statistics do not provide the number of non-negdel members. Therefore, it is difficult to construct a realistic scope for the entire agricultural sector, and subsequently, for total employment. On one occasion in 1958, NSO published a total number of people engaged in agriculture at 350.2 thousand or 73 per cent of the working-age population (approximately 59 per cent for 15+, equivalent to 83.7 per cent of total employment in 1960). The number included 200.7 thousand 'individual ard', 119.3 thousand negdel members, 18.4 thousand working in the agricultural sector of the national economy, and 11.8 thousand family members of workers and employees who are engaged in their own private herding (1958, Table 13).

Unfortunately, when such vital numbers are not compiled or accurately reported, industrial sector employment appears to be dominant. Recent publications, such as those shown in Figure 2.2, provide a more realistic picture. According to these data, in 1940, 86.7 per cent of workers were involved in the agricultural sector. Since then, the share has declined, dropping to 61 per cent in 1960 and reaching 33 per cent by 1990.
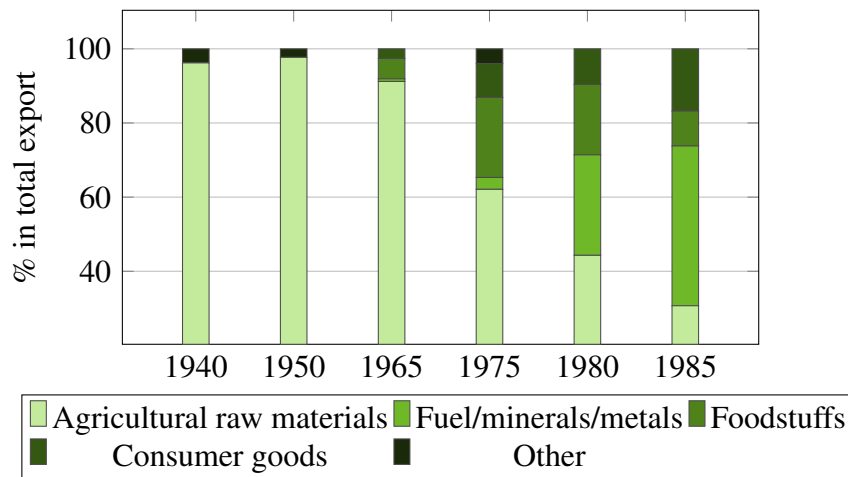
Figure 2.7: Composition of export by goods type, 1940-1985
Source: NSO (1958, 1978, 1988)

However, the absolute number of agricultural workers did not decline until 1970. Incidentally, around the 1970s, large-scale industrialisation projects were implemented, and the industry's share in national income increased by 15 percentage points between 1970 and 1990 (Table 1.5), urbanization picked up (Figure 2.4), and the country's export composition saw major changes (Figure 2.7).

Although declining due to rapid industrialisation, by 1990, the agricultural sector had remained relevant, as it provided over 20 per cent of national income and 33 per cent of employment. The social services sector was another crucial aspect of the economy and the labour market, and we turn to this sector in the next section.

2.3.2   Social Policies of Socialist Mongolia

Under socialism, Mongolia has made noticeable progress in terms of the health and education of its population. From the beginning, investments in human capital through education became a key priority in socialist programmes. According to the official statistics, the literacy rate was 2 per cent in 1918 (NSO, 2012). This should be viewed with caution, as many who could read might have been registered as illiterate to avoid the clerical duties of the Manchu administration

(Sanders, 1987).

Prior to the revolution, the *lamaist* monasteries served as an important institution for the education of the population, teaching Buddhist philosophy, astronomy, Tibetan medicine, and language, even though the Mongolian language was not one of the main subjects taught. According to Shagdar (2000), cited in Erdenesuren (2019, p.340), by the end of the nineteenth century, approximately 25–30 per cent or roughly 18–20 thousand school-age children were studying at over 700 large monasteries and 1000 *datsans*. Additionally, a number of 'ger schools' were operated by local officials and nobles, albeit on a smaller scale[18]. Despite this, it can be said that education and literacy were exceptions rather than the norm in Mongolia in the early twentieth century. The same can be said of the health and well-being of the population. It has been estimated that around this time, one out of two children died before their first birthday (Neupert & Goldstein, 1994). According to the UN data, the average life expectancy was 39.6 in 1950. However, NSO reported 63 in 1962 (NSO, 1971).

Education

Mass education of the population was an important policy for the state. In the 1940s and 1950s, together with the health and sports sectors, the education, science, and culture sectors accounted for 15–27 per cent of the total investment (Figure 2.1). Table 2.11 illustrates the shares of the state budget allocated to social and cultural programmes. The expenditure on social services has been rising consistently throughout the socialist period, reaching over 40 per cent in the 1970s and 1980s.

Mongolia spent a larger share of capital investment on the non-material production sector than other socialist countries (Figure 2.8). The investment was particularly high during the 1960s, following the government's policy to boost population growth, coupled with women entering

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[18] By 1911, there were 55 schools with 360 students, that is 0.3 per cent of population (Erdenesuren, 2019, p.340).

Year	Average annual share (%)
1924-1929	10.5
1930-1939	15.7
1940-1949	21.5
1950-1959	30.9
1960-1969	34.5
1970-1979	41.5
1980-1989	40.2

Table 2.11: State budget on social and cultural programs, 1924-1989
Source: NSO statistical yearbooks.

the labour force, largely taking up jobs in the service sector. Recall how employment in the non-material sector was the highest in Mongolia.

Throughout the socialist period, education was under the government's total control, including teaching, accrediting, and curriculum programming, as well as determining the number of students allowed to enter certain disciplines (Krueger, 1961). With the establishment of the education system and the training of the workforce, the educational attainment of workers gradually improved (see Table 2.12). In the early years of industrialisation, in the 1930s, on-the-job training was emphasised, with Soviet specialists training the workers. With the establishment of universities and technical schools in Mongolia, as well as professional training in the Soviet Union, the quality of educational attainment of workers and employees improved considerably.

Despite this increase, the heads of plants and specialists remained mostly from the Soviet Union and other socialist countries in Eastern Europe. By the early 1980s, over 100 thousand Soviet specialists had been stationed in Mongolia. In 1985, one-third of all Soviet specialists working abroad were in Mongolia (Narantuya, 2013). On a comparative note, in terms of the share of workers with higher and specialised education, Mongolia fares well with 34 per cent in 1988, while it was 25.3 per cent for Bulgaria and 30.9 per cent for Poland (CMEA, 1989).
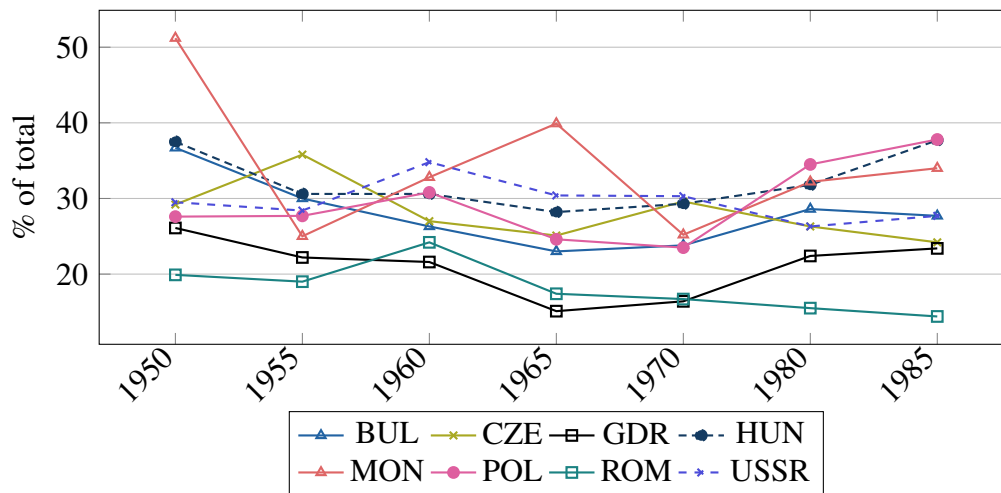
Figure 2.8: Share of investment in non-material production sector, selected CMEA countries, 1950-1985

Source: CMEA (1971, 1989)

Furthermore, Mongolian state socialism had centralised labour and industrial policies that were closely tied to education and population policies. For example, the state-controlled education system determined the number of places available for a particular course of study. University and technical and vocational institution graduates were assigned to employment for two to three years, and there were several instruments to reduce turnover and offer incentives.

In 1940, Mongolia had 952 teachers, and a decade later, the number reached 3100 (NPC, 1949b, 1951). Since then, it increased rapidly during the 1960s and 1970s, reaching almost 14 thousand teachers in general education institutions, 1.3 thousand at technical and vocational institutions, and another 1.1 thousand at universities and higher education institutions by 1980.

Health

Healthcare is another sector that has seen sizable growth during socialism. Although in absolute terms, the number of workers in this sector stayed well below that in the education sector, it rose from 2 thousand in 1940 to 49.2 thousand in 1990. Health sector employment grew annually, with an average of 3.9 per cent in the 1960s, 4.5 per cent in the 1970s, and 4.1 per cent in

	1940		1950		1956		1970		1990	
	number	%	number	%	number	%	number	%	number	%
Higher	-	-	1.1	1.8	3.4	3.2	17.7	8.9	73.9	15.4
Special secondary	0.7	2.0	4.7	7.5	7.8	7.4	26.4	13.2	90.1	18.8
Complete secondary	-	-	2.3	3.7	4.2	4.0	-	-	-	-
Incomplete secondary	0.9	2.7	0.7	10.7	15.1	14.4	-	-	-	-
Primary	2.1	6.4	3.6	5.7	62.4	59.5	-	-	-	-

Table 2.12: Education attainment of workers
Source: 1940-1956 are retrieved from (Myagmar, 1975, p.38), 1970-1990 from NSO (1991)

	1940	1950	1960	1970	1980	1990
Teachers	952	3112	4200	13400	16300	23700
Institutions	338	438	490	813	954	928
Students ('000)	25.8	73.4	131.0	276.0	458.4	516.2

Table 2.13: Number of teachers, institutions and students at all levels, 1940-1990
Source: National Planning Commission (NPC) and NSO (1949b, 1951; 1991)

	1950	1960	1970	1980	1984	1984/1950
Bulgaria	9.2	17.0	22.2	30.0	33.8	3.7
Czechoslovakia	10.1	17.5	23.1	32.4	35.3	3.5
GDR	11.1	12.1	20.3	26.1	29.0	2.6
Hungary	10.3	15.3	22.0	28.1	31.2	3.0
Mongolia	2.0	9.7	17.9	21.9	23.4	11.7
Poland	4.6	12.7	19.3	22.5	23.8	5.2
Romania	9.5	13.5	14.7	17.9	20.4	2.1
USSR	14.6	20.0	27.4	37.5	41.2	2.8

Table 2.14: The number of doctors, including dentists, per 10,000 population, 1950-1984
Source: CMEA (1985)

the 1980s.

Table 2.14 presents the number of doctors per 10,000 population between 1950 and 1984, and the ratio of increase between the periods. In 1950, Mongolia had 2 doctors per 10,000 individuals, but the number increased more than 10 times to reach 23.4 by 1984, while the rest of the countries saw growth of around three times on average. This again illustrates the unusual expansion of Mongolia's social services sector.

2.4   Summary

Socio-economic transformations and social policies under socialism to a large extent shaped peculiar features of the Mongolian labour market.

First, the Mongolian working class was purposefully created through top-down government policy and did not naturally emerge as in the case of other socialist economies. After the integration of the urban poor, serfs, traders, and craftsmen into the newly established industrial sector, efforts were made to secularise the noble and ecclesiastical classes. Consequently, the

resulting labour market in Mongolia under socialism was the result of the traditional lifestyle of the population integrating with the socialist government's economic, social, and population policies, as well as a reaction to changing social and political circumstances at the time.

Second, the analysis implemented in this chapter revealed the fact that despite the decline in agricultural employment during the communist era, industrial employment did not grow rapidly. In agriculture, the total numbers were constantly increasing, partially due to the fact that most of the industrialisation happened primarily in the livestock industry. Collectivisation attempts initially failed and the state only managed to fully implement livestock collectivisation and the recruitment of individual herders into cooperatives by the end of the 1950s. The agricultural industry, its participants, and their livestock remained significant in terms of both number and impact. Almost everything in the economic sense depended on it. The sector provided Mongolia with both the capital and labour required for industrialisation. Thus, it might be concluded that industrialisation was delayed due to the late completion of agricultural collectivisation and a general lack of interest on the part of the Soviet Union, which provided the majority of technical assistance to Mongolia. Agricultural employment began to decline only in the 1970s and 1980s, a pattern observed much earlier in other socialist countries.

Third, contrary to the official statistics at the time, the rise of industrial workers was far less impressive, and it was only possible through the exclusion of negdel members from the employment statistics.

Lastly, the expansion of social services is notable; for the better half of the socialist period, Mongolia expanded its 'nonmaterial production' sector instead of the heavy industry. This was partly due to the government's emphasis on improving the health and education of the general population, as well as its goal of increasing population growth through extensive pronatalist policies. As a result, the social services sector has grown significantly, absorbing any released labour from the now collectivised agricultural sector while potentially delaying industrialisation

until the 1970s.

To sum up, Mongolia's traditional livestock herding is extraordinarily adaptable, and the socialist industrialisation project failed to undo its fundamental ties to the vast majority of the Mongolian population. State socialism, which lasted seven decades, was unable to break the path-dependency circle and sufficiently reduce the scope and impact of traditional herding to solidify industrialisation. On the verge of transition in 1990, Mongolia had a robust livestock industry that still employed over 30 per cent of the workforce and contributed 13 per cent of GDP, an early-stage industrial sector with 16 per cent of workers and over 35 per cent of GDP, a substantial demographic bonus of 3 per cent annual growth in the working-age population, and a sizable public sector that employed over 26 per cent of workers, primarily in social services such as education and health.

The collapse of the Soviet Union paved the road for a transition era of the Mongolian economy. Transition costs caused by the abrupt changes in trading patterns and economic assistance together with the transformation policies towards the market system, required significant restructuring and adjustment, including on the labour market. Mongolia's economy was mainly concentrated on mining, animal husbandry, and the service sector in the 1990s, with manufacturing experiencing a sharp decline. This had a profound impact on employment creation, income generation and human resources during the transition period (Morris, 2001). As would be discussed in the next chapter, during the transition, agricultural and informal sector employment became the shock (transition costs) absorbers, providing livelihoods to many Mongolians.

Chapter 3

Labour Market Response to Transition

3.1   Introduction

This chapter aims to analyse Mongolia's aggregate labour market response to the transitional recession of the 1990s and define its key characteristics that have since emerged. The initial look at employment figures creates a misconception that the Mongolian labour market experienced minimal turbulence, as unemployment numbers remained moderately low. The aggregate number of employed saw almost no decline — characteristics of the countries of the FSU (broadly applied to the countries of the CIS). However, we argue that the declines in the formal labour market were profound.

During state socialism, as discussed in the preceding chapter, the central government planned labour demand and supply. The new entrants were directed to their place of employment by the Directorate of the Mongolian Organised Work Force. Enterprises and institutions were mainly responsible for housing and other welfare benefits for their workers (Sanders, 1987; Jeffries, 2007). Wages, prices, and output targets were set following the five-year plans of the NPC. Transition to the free market decentralised all of the above decisions, allowing the market forces

to create competition, and employment was no longer guaranteed.

Several factors resulted in a severe economic recession in Mongolia. First, the suspension of Soviet aid in the form of grants and loans, which in the second half of the 1980s accounted for roughly 30 per cent of the GDP per year (Denizer & Gelb, 1992, p.3). Second, the collapse of the CMEA, resulted in a loss of foreign markets. In 1989, the share of CMEA countries stood at 92.5 per cent of the total foreign trade (NSO, 1992).

Post-socialist countries of CEE and FSU have had similar transitional recessions of output declines and hyperinflation. However, it is worth acknowledging the existence of vast heterogeneity in the countries' initial conditions, history, traditions, and institutions, as well as previous experience - or a lack thereof - with capitalism. All of which contributed to the diverse sets of challenges faced economically, politically, and socially in each country. Needless to say, the reform measures undertaken and their subsequent outcomes varied from country to country (Roland, 2000).

Nevertheless, to create a free-market economy, former socialist countries have implemented radical transformation programmes that targeted main economic spheres, such as trade and price liberalisation, macroeconomic stabilisation, and privatisation of state assets. Privatisation in Mongolia was instrumental in establishing private property as the driver of market competition. It had at least two important implications in Mongolia. On the one hand, the dissolution of state farms and negdels and the privatisation of assets and livestock presented opportunities for many people. On the other hand, the layoffs, and employment insecurities resulting from restructuring and privatisation of SOEs created immense challenges.

These two forces served as the catalyst for internal migration and labour mobility across the country's geographic regions and economic sectors. Therefore, to investigate the true impact of transition on Mongolia's labour market, this chapter examines the reallocation of labour across economic sectors and geographic regions resulting from macroeconomic reforms implemented

in the early 1990s.

The remainder of the chapter is structured as follows: Section 2 discusses the main labour market outcomes since the transition until 2018, such as LFP, unemployment, and household income. Section 3 looks at sectoral and regional labour reallocation between key sectors of the economy through transition and beyond, including descriptions of policy reforms that have had important implications on labour mobility, such as the privatisation of livestock and the SOEs. Additionally, the informal employment, self-employment and economic inactivity trends are discussed briefly in the last subsection, illustrating its notable expansion and significance in light of the market transition.

In Section 4, the employment elasticity to GDP and labour market response to a series of economic expansion and contraction are analysed to illustrate the distinct periods of the 1990s and the 2000s. Finally, Section 5 offers a brief summary, highlighting the key labour market responses to the transition in Mongolia.

3.2 Labour Market Outcomes During Market Transition

Mongolia transitioned from a socialist economic system to a market economy, which brought abrupt transformations throughout its economic, political, and social fronts. Although economic reforms gradually started from the mid-1980s with an increase in domestic wholesale prices, the promotion of private cooperatives and greater autonomy to public sector enterprises (Milne et al., 1991, also discussed in Chapter 1), the *real* transition to free markets began following the collapse of the one-party system in March 1990.

The economic transformation brought a GDP decline (the halt of external financing, output decline, and loss of CMEA foreign markets combined) of roughly 62 per cent in national purchasing power during the three years 1989–1991, far greater than Europe and America during
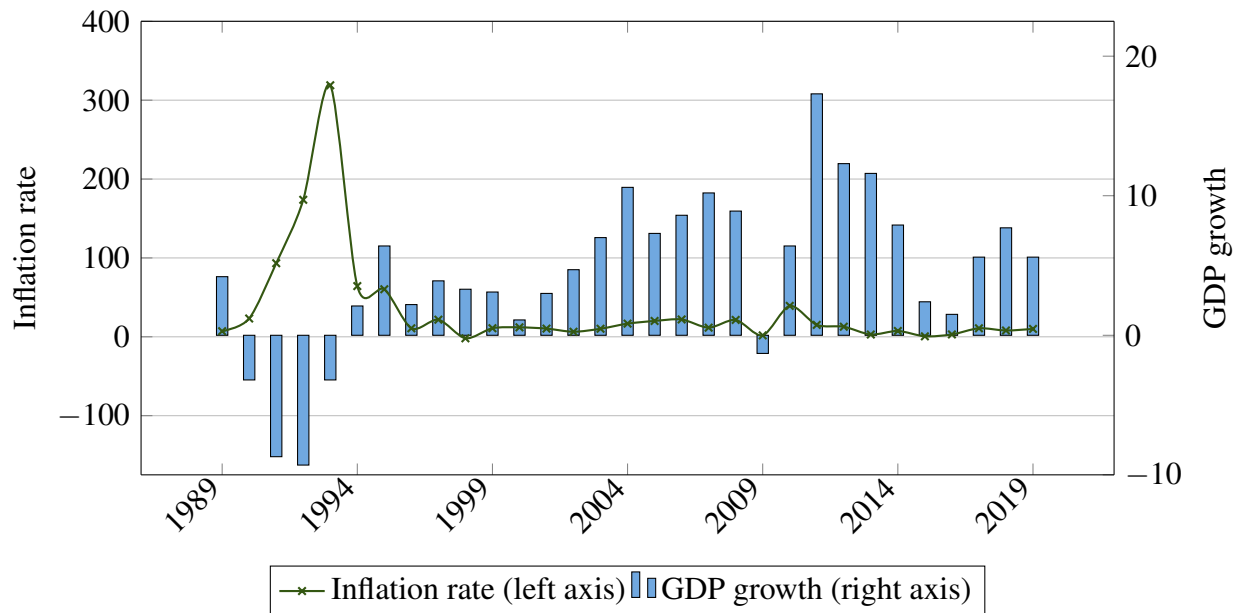
Figure 3.1: GDP growth rates and inflation rates, 1989-2019
Source: WDI, NSO database

the Great Depression and similar to wartime Italy and Japan (Boone, 1994, p.330). Figure 3.1 illustrates the GDP growth and inflation between 1989 to 2018. However, in terms of cumulative output decline and inflation rates, circumstances in Mongolia were much milder, compared to other transition economies of CIS and the Baltic States (Narantuya, 2013).

The LFP rate had started declining rapidly from higher than the international average[19] to as low as 61.7 per cent in 2000 (Figure 3.2). Since then, the LFP rate remained low, with an average of 62.5 per cent during 2000–2018. According to the ILO modelled estimates, the average LFP rate in Mongolia is much lower than that of East Asia and Pacific, Europe and Central Asia, and slightly higher than in lower-middle-income countries. However, the reason for Mongolia's high LFP rate until 1997 had a methodological explanation, i.e., the labour force was calculated based on "*able-bodied*" working-age population, working children and elderly, rather than the entire working-age population (see Appendix A).

On average, Mongolia's total population grew annually by 1.1 per cent during 1992–2001 and

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[19] The international average stood at 65.5 during 1990-1992, according to WDI.
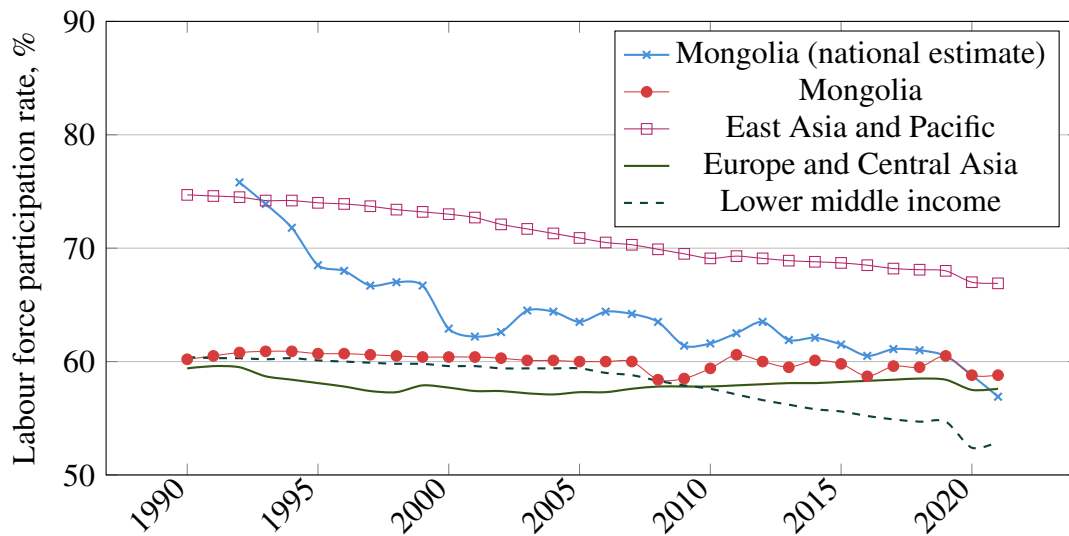
Figure 3.2: Labour force participation rates, 1989-2021
Source: The national estimate is from NSO database; the rest are the LFP rates for the population aged 15+ (ILO modelled estimates) from the WDI

1.5 per cent during 2002–2011. Meanwhile, the annual growth of the working-age population over the same period was 2.5 per cent and 2.4 per cent, respectively (Table 3.1). However, the number of employed grew on average by just 0.5 per cent, while the economically inactive population grew by 7.7 per cent a year during 1992–2001. The same figures grew 2.3 per cent and 2.6 per cent, respectively, during 2002–2011. A much higher growth rate of the inactive populations indicates the failure of the formal labour market to absorb the growing working-age population. According to WDI, the average annual growth of the working-age population (15–64 years old) in Mongolia (2 per cent) remained one of the highest among the post-socialist countries, topped by only Uzbekistan (2.4 per cent) and Turkmenistan (2.8 per cent) during 1990–1999. Recall from the previous chapter how the working-age population grew at 3 per cent annually during the 1970s and the 1980s.

The reason for the sustained growth in the population is Mongolia's very high fertility rates throughout the socialist period, the legacy of the central government's pronatalist policies. The TFR stayed above 7 for much of the 1960s and early the 1970s. Birth and population growth

	1992	1994	1997	2002	2006	2010	2014	2018	2021
Total population	2,158.4	2,206.9	2,307.5	2,465.7	2,583.3	2,761.0	2,995.9	3,238.5	3,409.9
Working age population (15+)	1,281.6	1,350.3	1,466.7	1,661.0	1,846.6	2,008.2	2,154.5	2,236.4	2,314.7
Economically active population	860.1	834.6	819.7	901.7	1,142.8	1,147.1	1,206.6	1,358.6	1,225.4
Employed	806.0	759.8	756.0	870.8	1,010.0	1,033.7	1,110.7	1,253.0	1,125.6
Registered unemployed	54.0	74.9	63.7	30.9	33.0	38.3	37.0	25.0	-
Economically inactive population	274.5	328.4	409.9	537.6	576.7	716.2	735.0	868.0	926.8

Table 3.1: Population and labour market indicators, 1992-2021
Source: Statistical Yearbooks and LFSs (NSO, 1994, 1999, 2004, 2011, 2019a), NSO database.

	1985-1990	1990-1995	1995-2000	2000-2005
Mongolia	4.74	3.35	2.40	2.12
Central Asia	4.26	3.70	3.01	2.69
CIS*	2.25	1.89	1.50	1.37
CEE	2.02	1.66	1.32	1.28

Table 3.2: Average total fertility rates in Mongolia and the other transition economies, 1985-2005

Source: WDI; *- excluding Central Asia

rates declined sharply during the 1990s to reach 0.8 per cent dropping from 2.8 per cent in the late 1980s. However, such a decline was observed not only in Mongolia but also in other post-socialist countries. Economic hardships of the time, coupled with the emergence of family planning options, have contributed to this decline (NSO, 2001).

Because of the exceptionally high TFR, its sharp decline, which reached the lowest of 2.1 per cent in the early 2000s, managed to remain above the replacement rate. The rates were one of the highest, along with Tajikistan, among the transition economies (Table 3.2). Due to the high birth rates during the socialist era, Mongolia overcame the population decline without major consequences, a fairly distinct characteristic of the Mongolian labour market. The population growth rate has since steadily increased starting in the mid-1990s, and the TFR has also seen an increase since the mid-2000s (WDI).
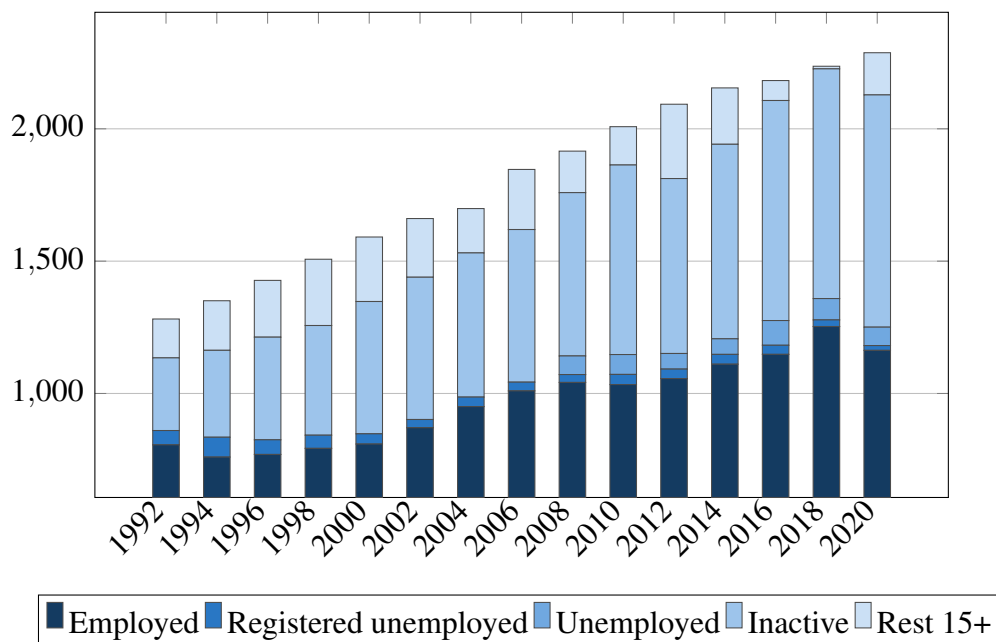
Figure 3.3: Economic activity of working age population (thousands), 1992-2020
Source: NSO website

The official unemployment rate remained relatively low, within single digits, throughout the 1990s (Figure 3.4). However, it reflected only the number of people registered with the local employment agency (Labour and Welfare Services Office). During the transition, Mongolia's social protection system deteriorated significantly, with low unemployment benefits sometimes unpaid. This undoubtedly lowered the incentive for the unemployed to register. However, official unemployment rates at the time were widely accepted as underestimates[20].

Along with the unemployment rates published by the NSO, Figure 3.4 includes estimates from Bolormaa and Clark (2000), who calculated unemployment rate, including individuals who were outside the labour force without reasons. The figure also includes survey-based estimates from

[20] (1) Milne et al. (1991, p.16) stated that "by mid-1990... about 7-8 per cent of the labour force were reported to be unemployed and by the end of the year it reached 15 per cent"; (2) World Bank (1991, p.11) reported that "including non-registered unemployed, the Ministry of Labor estimated unemployment at about 45,000 (4.8 per cent) in mid-1991"; (3) ADB (1992, p. 27) report suggested that unemployment rate was 6 per cent at the end of 1990, but demonstrates that it reached 11 per cent by mid-1991; (4) According to Appendix 1 of the Government Resolution on National Programme on Reduction of Unemployment, unemployment rose from 3.1 per cent to 8.7 per cent in 1990 to 1994 (Government of Mongolia, 1995, p.1); (5) Subbarao and Ezemenari (1995) found that the Ministry of Population Policy and Labour estimated the unemployment rate was close to 15 per cent by the end of 1994.
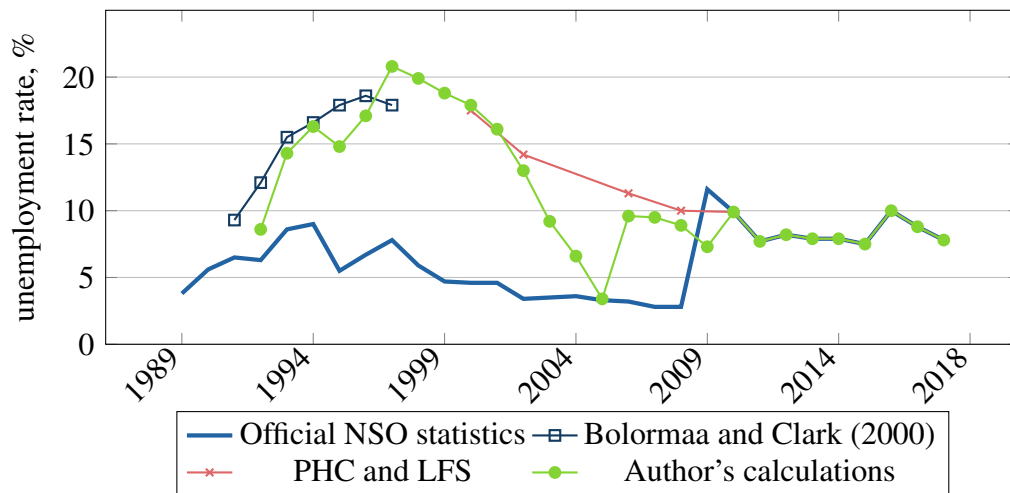
Figure 3.4: Unemployment rates, 1989-2018

Source: Statistical yearbooks from 1991 onwards; 2000 PHC (NSO, 2001), LFSs and Bolormaa and Clark (2000).

the 2000 PHC and a series of LFSs. Lastly, it also includes our estimate, which was calculated by subtracting from the total working age population (in this case, 15-59 is used) the sum of the economically active and inactive population and adding the official number of unemployed. It is evident from these estimates that the rate of unemployment was much higher.

Furthermore, there are considerable differences between unemployment in urban and rural areas. According to the LFS (which also included unregistered unemployed), unemployment was considerably higher in urban than in rural areas (Figure 3.5). Between 2002 and 2003, unemployment was highest in both regions, with urban employment being almost twice as high. The gap narrowed noticeably between 2011-2015 before widening again when unemployment in urban areas increased, whereas, in rural areas, it decreased. Although rural unemployment remained within single digits, there have been periodic increases throughout.

NSO website published the employment-to-population ratio starting from 1992, and it is shown as a line graph in Figure 3.6. To allow for comparison, a share of employed in the working-age population (15+) has been calculated and plotted as a bar. Figure 3.6 shows that the employment-to-population ratio had fallen consistently from a high of 63.3 per cent in 1989 to a low of 48.6 per cent in 2021, and the twenty-year average for 2002–2020 was 52.9 per cent.
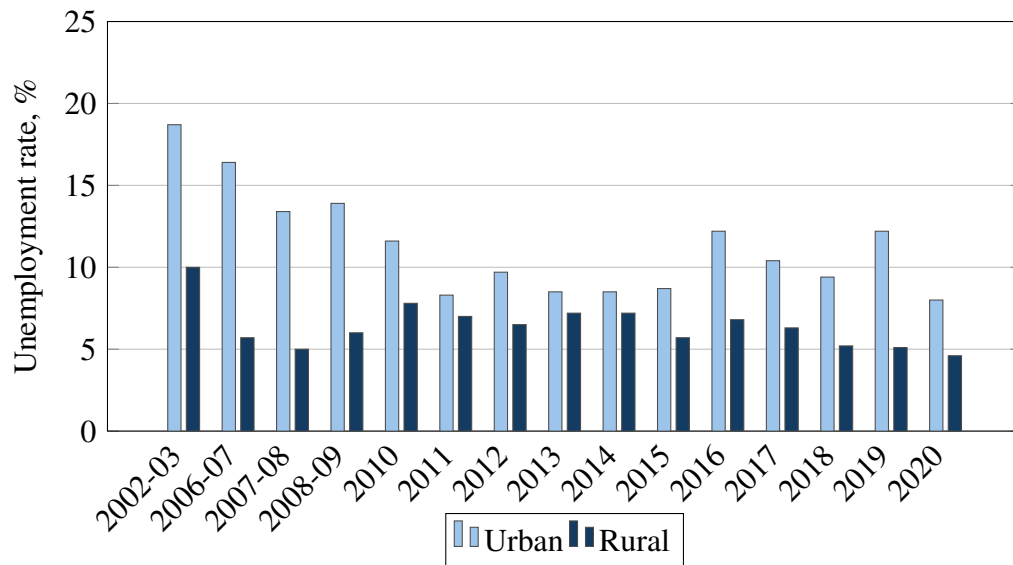
Figure 3.5: Unemployment rate, by region, 2002-2020
Source: LFSs published by the NSO, various years.

Lastly, household monetary income compositions have seen drastic shifts in urban and rural households (Figure 3.7). Slight changes in both groups' *Wage and salaries* income during 1985–1990 plummeted by more than 30 per cent in the next five years for urban households and nearly 50 per cent for rural households. For the same period, income from *Individual activities* increased substantially for rural households and remained high ever since, pointing to increased private herding. However, urban households had increased incomes from *Other* sources exceeding 32 per cent, pointing to the expansion of private economic activities within the informal economy. The registered private enterprise activities fall under *Individual activities*, which has also increased but modestly.

Thus far, labour market indicators reveal that LFS is relatively low, but the registered unemployment rate is also low, suggesting limited job opportunities and a demoralised labour force. It also reveals that the number of economically inactive people has increased significantly. Many of them could be employed in Mongolia's large informal sector. As Anderson (1998) stated, most people employed in the informal sectors did not consider themselves employed. Regarding the rise in economic inactivity, several underlying factors may have contributed to its rise.
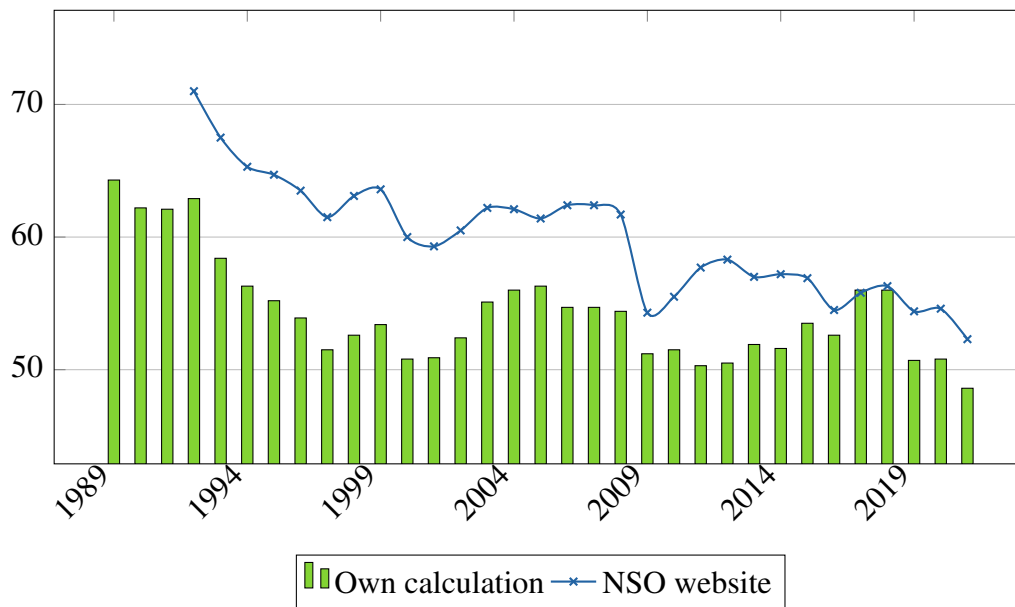
Figure 3.6: Employment-to-population ratio, 1989-2021
Source: Author's calculations using working age population (15+) and employment data from NSO website. The
line chart plots the data published on the NSO website.

1. An increase in birth rates had resulted in a growing number of people with childcare needs, against the backdrop of deteriorating social services and drastic budget cuts for early childhood education and the number of available childcare institutions[21]

2. There is evidence of economic and climatic shocks affecting employment and economic activity (discussed in detail in the next section), such as:

   - In the mid-1990s, privatisations of SOEs lead to job losses;

   - Between 1999 and 2002, severe droughts and dzud that occurred for three consecutive years resulted in a loss of almost 10 million heads of livestock[22], leaving many herders unemployed. Most migrated to urban areas, particularly Ulaanbaatar, searching for employment.

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[21] Public expenditure on education as a percentage of GDP has fallen from 10.4 per cent in 1989 to 3.6 per cent in 1995 (NSO).

[22] Total of 3.3 million heads of livestock perished during winter of 1999-2000, 4.2 million in 2000-2001 and 2.2 million in 2001-2002, cumulatively making up almost 30 per cent of total livestock and approximately 13 per cent of average GDP between 1999-2002.

- During the GFC and the significant economic decline brought by the fall of commodity prices on the world market, another devastating dzud in the winter of 2009–2010 resulted in a 1.3 per cent GDP decline and the loss of 11 million animals.

- Lastly, the aftermath of the economic downturn caused by, yet another, fall in commodity prices in 2014, following the mining boom of 2011.

3. The increase in welfare benefits following the 2003 Social Security Sector Master Plan, which resulted in several different universal cash transfers, such as the Child Money Programme (CMP), maternity cash benefits, Human Development Fund (HDF) cash transfers, cash allowances for newborns, newlywed couples, and large families[23]. Arguably, the expansion of different welfare benefit programmes aimed at women of childbearing age, monthly and quarterly cash transfers such as CMPs, maternity cash benefits, and other cash allowances have had an effect on women's participation in the labour force[24].

To summarise, the transition brought sweeping changes across the labour market in Mongolia: a decline in LFP and employment-to-population rates, an increase in economic inactivity, and a rise in unemployment as well as stark disparities across geographical regions.

However, the aggregate employment adjustment, 1989 taken as a baseline, was very stable in the first three years (Figure 3.8). The number of employed increased until 1993, while the real GDP dropped to 78 per cent in 1993 and did not reach the 1989 level until 2002. In contrast, the employment-to-population ratio continued to drop throughout the 1990s and remained below

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[23] CMP was introduced in January 2005 as the first programme targeting the poor using proxy-means test, transformed into quasi-universal in July 2006. The amount rose from MNT 3,000 (USD 2.5) per month to MNT 25,000 (USD 21.5) per quarter. The maternity cash benefits, around USD 30 per month distributed to expectant mothers from the fifth month of pregnancy for 12 months (effective between November 2009 and June 2017). HDF transferred around USD 15 per month to every citizen in 2011. the programme ran between February 2010 to June 2012. Cash allowances for the newlyweds and newborns were one-time payments of MNT 500,000 (USD 350) and MNT 100,000 (USD 70), respectively (applied to first-time married couples and babies born between 1 January 2006 and 31 December 2009, only).

[24] Altantsetseg and Bayarmaa's (2014) estimation of the participation model found that during the expansion years, LFP decreased by 3.4 per cent to 5.4 per cent.

(a) Urban

1985: 83.2 | 10.6 | 4.9
1990: 84.5 | 9.3 | 24.2
1995: 51.1 | 7.2 | 8.7 | 33
2000: 40.1 | 9.3 | 20.2 | 30.4
2005: 58.7 | 11.9 | 20.1 | 9.3
2010: 60.1 | 15.1 | 14.7 | 10.1
2020: 60.7 | 19.9 | 8.3 | 11.1

(b) Rural

1985: 71.8 | 8.3 | 11.4 | 8.5
1990: 75.8 | 7 | 13.1 | 4.1
1995: 26.5 | 6 | 47.7
2000: 17.9 | 5.8 | 47.4 | 28.9
2005: 17.8 | 11 | 64.7
2010: 34 | 22.1 | 35.5 | 8.3
2020: 35.3 | 24.8 | 32.8 | 7.1
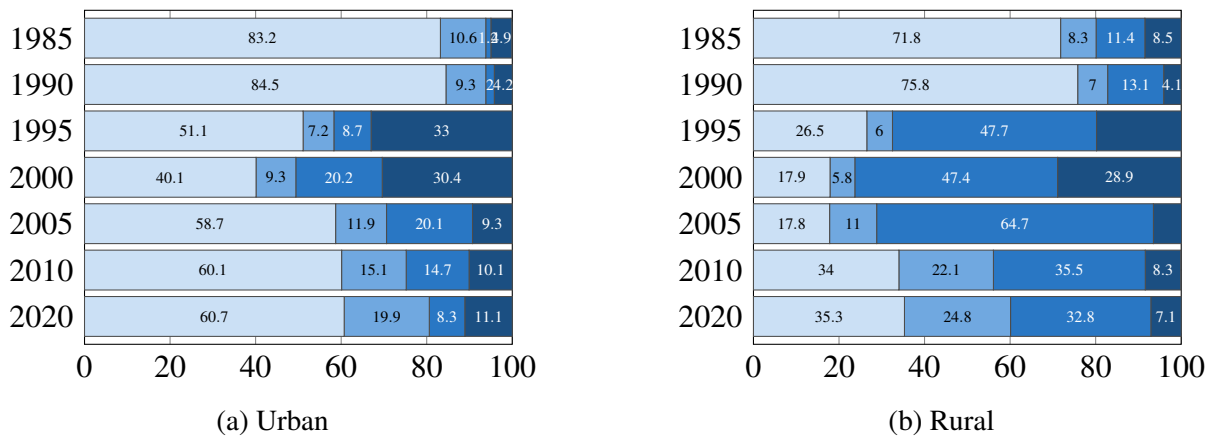
Figure 3.7: Composition of monthly average monetary household income, urban
Source:NSO database

the 1989 level. The next section examines Mongolia's employment and settlement patterns to explain the reasons behind these phenomena and how economic and climatic shocks have affected them.

3.3 Sectoral and Regional Reallocation of Labour

The changes in the labour market as a result of market transition are reflected in the entry and exit from the labour force, and in the movements of workers across different economic sectors and geographic regions. Therefore, this section looks at labour mobility across economic sectors and regions in detail.

3.3.1 Sectoral Reallocation

At the aggregate level, employment during the early years of transition did not show a drastic decline, as seen in Figure 3.8. In absolute terms, the number of employees decreased by only 16 thousand between 1990 and 1995 (see Table 3.3). This limited labour-shedding pattern is similar to the characteristics of CIS countries. However, looking at each sector in isolation reveals that
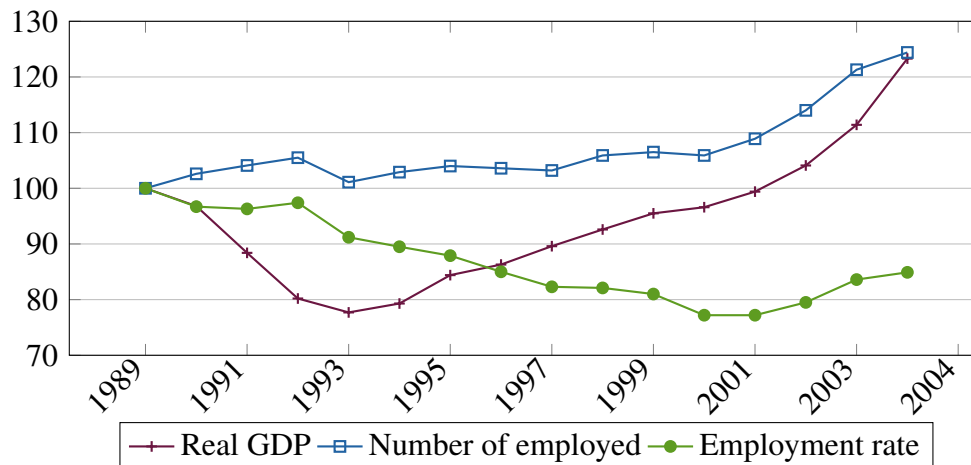
Figure 3.8: Real GDP, number of employed and employment rate adjustments, 1989-2004 (1989=100)

Source: Calculated using data from NSO, Statistical Yearbooks and WDI

the only sector that gained considerable employment was the livestock sector[25] (an increase of almost 100 thousand in five years).

The total number of agricultural workers stood at 258.8 thousand in 1990[26] of which 147.5 thousand were herders (NSO, 1996). However, the number of herders spiked, reaching 390.5 thousand in 1995 and 421.4 thousand in 2000[27]. The agricultural sector was one of the biggest absorbers of labour during the transition, where the share of total agricultural employment increased from 33 per cent in 1990 to almost half in 1999. Nevertheless, it has been declining since the early 2000s (see Figure 3.9, Table 3.3).

Most other sectors experienced declines in 1990–1995, except wholesale and retail trade and financial services. The wholesale and retail trade sector[28] grew steadily before accelerating in the early 2000s but experienced another decline during the GFC years. In 2009 and 2010,

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[25] Average shares of herders in the total number of agricultural sector employment between 2005 and 2015 was 90%

[26] Employment numbers for the early 1990s have several discrepancies. For example, according to the 1991 Statistical Yearbook (1992, p.9), there were 180.9 people working in the agricultural sector including 2.6 thousand in forestry. However, the numbers have changed since then to 258.8 thousand (NSO, 1993).

[27] Number of herders indicate the number of people engaged in livestock herding, but not necessarily employed, which might explain the slightly higher number of herders reported.

[28] Trade, procurement and material-technical supply on earlier versions of the National Statistical Yearbooks
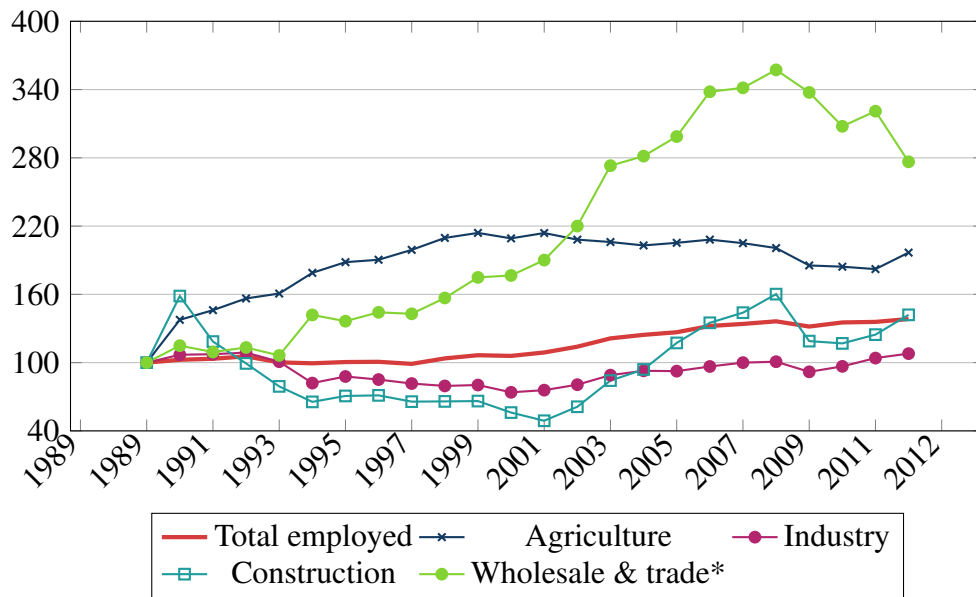
Figure 3.9: Sectoral adjustments (pre-transition year 1989 as baseline)
Source: Calculated using data from NSO, Statistical Yearbooks
*-Trade, Procurement and Material Technical Supply on earlier versions of statistical publications

employment in the wholesale and trade sector dropped by 23.6 thousand, despite the positive number between 2005 and 2010, as in Table 3.3, which is obscured by the growth for the rest of the period.

The sector with the biggest drop in employment in the first five years was the education sector, almost halving in 5 years. The construction sector as well dropped over 55 per cent. Transportation, storage and communications, and the industry sectors decreased by 49.6 thousand, experiencing 45 per cent and 18 per cent declines, respectively. The health sector also shrank by over 11 thousand workers (23 per cent decline). The above four sectors cumulatively shed almost 125 thousand workers. The education and health sectors experienced the adverse effects of transition in the early years due to budget cuts and drops in real wages, increasing school dropouts and maternal mortality[29].

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[29] Government investment in education during the socialist period was relatively high, by 1990 the total expenditure on education accounted for 17.6% of government expenditure and 11.3% of GDP. However, between 1990 and 1992, the education expenditure was cut by 56 per cent. By 1993, the allocation to education had been reduced to 3.8% of GDP (Wu, 1994, p.xv). By 1993, 'an estimated 23 per cent of compulsory school-age children were not enrolled in school. There were about 100,000-120,000 dropouts in 1993. In 1994, primary school dropouts

	1990	1995	2000	2005	2010	2015	2020
Agriculture, forestry, fishing and hunting	258.8	354.2 (95.4)	393.5 (39.3)	386.2 (-7.3)	346.6 (-39.6)	327.6 (-19.0)	276.5 (-51.1)
Industry	131.6	108.1 (-23.5)	91.0 (-17.1)	113.9 (22.9)	119.1 (5.2)	145.4 (26.3)	164.0 (18.6)
Construction	66.1	29.5 (-36.6)	23.4 (-6.1)	48.9 (25.5)	48.8 (-0.1)	88.1 (39.3)	77.3 (-10.8)
Wholesale and retail trade	54.6	64.8 (10.2)	83.9 (19.1)	141.9 (58.0)	146.1 (4.2)	178.2 (32.1)	166.6 (-11.6)
Transport, storage and communication	57.7	31.6 (-26.1)	34.1 (2.5)	42.5 (8.4)	91.0 (48.5)	88.7 (-2.3)	85.3 (-3.4)
Financial and insurance services	3.9	8.3 (4.4)	6.8 (-1.5)	16.1 (9.3)	15.1 (-1.0)	23.8 (8.7)	29.4 (5.6)
Public administration	32.1	31.1 (-1.0)	34.7 (3.6)	46.7 (12.0)	61.0 (14.3)	68.1 (7.1)	83.4 (15.3)
Education	86.8	48.4 (-38.4)	54.4 (6.0)	58.8 (4.4)	85.3 (26.5)	89.1 (3.8)	110.7 (21.6)
Health	49.2	38.1 (-11.1)	33.6 (-4.5)	39.5 (5.9)	40.3 (0.8)	38.2 (-2.1)	60.2 (22.0)
Other service activities	33.9	26.6 (-7.3)	29.0 (2.4)	26.7 (-2.3)	21.4 (-5.3)	20.2 (-1.2)	29.8 (9.6)
Other	8.9	26.9 (18.0)	24.6 (-2.3)	47.2 (22.6)	58.9 (11.7)	83.9 (25.0)	79.8 (-4.1)
Total	783.6	767.6 (-16.0)	809.0 (41.4)	968.4 (159.4)	1,033.6 (65.2)	1,151.3 (117.7)	1,163.0 (11.7)

Table 3.3: Changes in number of employed, by economic sectors (in thousands), 1990-2020
Source: Calculated using data from *Mongolia in 100 years* (2012); and NSO database for 2015 and 2020.

Employment in the construction sector managed to recover quite rapidly since 2002 to reach 66.8 thousand in 2008, surpassing the 1990 level but dropped to 49.6 thousand due to the GFC the following year. The construction sector is highly responsive to the business cycle. Although the decline was not as drastic, the industry sector surpassed its pre-transition level only in 2012. Reinert (2004, p.158) wrote, "In Mongolia 50 years of the industrial building was virtually annihilated over only four years, from 1991 to 1995, not to recover again".

At this point, it is fruitful to look at how privatisation contributed here. First, if we consider employment in the agricultural sector, the reasons behind the huge increase were the dissolution of state farms and negdels and the privatisation of livestock in the early 1990s. Privatisation of state assets was one of the key reforms of transition, and the programme was to be carried out in three phases. In the first phase, according to Jermakowicz and Kozarzerski (1996), plans were made to privatise by the end of 1992:

1. Eight hundred and four large enterprises, mainly in the industry, construction, transportation, and trading sectors (681 were sold).

2. 3750 smaller enterprises predominantly in the retail, trade, and small manufacturing sectors, including restaurants, small factories, shops, and retail outlets (3300 were sold);

3. The agricultural privatisation that included agricultural assets, livestock and state farms (790 negdels and state farms were privatised).

By mid-1992, most of the second and third privatisation sub-categories were complete. The share of privately owned livestock rose from 28 per cent in 1989 to 90 per cent in 1993 (NSO, 1996), explaining the large increase in agricultural employment around that time. However, the privatisation of large-scale enterprises was delayed until early 1992 but picked up later on, and by mid-1993 three quarters were complete, before slowing down again in 1994. This explains the

numbered 10,465 and secondary school dropouts 12,588'. The dropout rates were higher in rural areas and among older boys (Burn & Oyuntsetseg, 2001, p.29). 'Maternal mortality rates have deteriorated over the transition, from 119 per 100,000 live births in 1990 to 157 per 100,000 live births in 1998' (Burn & Oyuntsetseg, 2001, p.13)

relatively sharp drop in industrial employment in 1993. In short, the lion's share of privatisation in the country was completed throughout the first phase in the 1990s.

An interesting observation can be made when considering the differences in the job losses in the construction and industry sectors. Despite ambitious privatisation agendas, the state-controlled the so-called strategic enterprises in the industrial sector, including mining, transport, and utilities; hence, moderate job losses. Although the industry sector (including the construction sector) lost over 60 thousand employees in the first five years, almost 61 per cent were from the construction sector alone.

According to the World Bank study (1996), out of 705 large and small enterprises privatised in the industry sector, 342 (48.5 per cent) were in construction, making it a private enterprise-dominated sector (62 per cent) contributing 2 per cent of GDP. However, 36 per cent of the rest of the industry sectors were privatised and contributed 32 per cent of the GDP. This reveals the state's reluctance to privatise 'strategic enterprises'. Regarding the possibilities of labour hoarding and underemployment, the study suggested that over-staffing, early retirement, and shortened working hours were tolerated in the remaining state sector.

Anecdotal evidence suggests that most separations were voluntary. The consumer price index rose by 'more than twenty times between January 1991 and January 1994. The average wages and salaries in the public sector increased by only eight times, justifying voluntary separations. Thus, public-sector workers experienced a loss of about 60 per cent of their real salaries during those three years' (Ginneken, 1995, p.48).

In conclusion, despite the rapid privatisation of state assets, enterprise restructuring was slower than anticipated, and labour hoarding occurred in the remaining state sectors. Notably, among the strategic enterprises that remained state-owned, many were Russian-Mongolian joint-stock companies, such as *Erdenet Mining Corporation*, *Mongolrostsvetmet* (formally, *Mongolsovtsvetmet*), and *Ulaanbaatar Railway*, some of which remain as such to this day. Therefore, undeni-

ably, Russian management approaches or reluctance to respond to market forces independently were all at play to tilt the management decisions within those enterprises.

So far it is safe to say that although total employment did not decline vastly following the market transition in Mongolia, there have been substantial shifts within the economic sectors. Sizable declines in sectors such as education, health, transportation, and industry, especially construction, have been masked by a vast increase in employment in the agricultural sector. It is also important to note that even though official unemployment rates remained low, the number of people who exited the labour force and some of whom entered the budding private sector informally have been equally significant.

The next section looks at how this changing labour market dynamic has been reflected in population settlement patterns across urban, and rural regions.

3.3.2 Regional Reallocation

After the collapse of communism, people in the countries undergoing transition were faced with enormous economic challenges. Although the individual experiences and social changes were diverse, the overall trend of population movement was generally from rural to urban centres. On the contrary, in Mongolia, an increasing number of herders and people losing jobs in urban centres have created a distinctive internal migration pattern - the urban-rural migration (Figure 3.10).

Notably, the population of the capital also rose constantly, whereas the figures for rural and the rest of the urban regions are mirror images. From this, it can be concluded that during the transition years, there were two distinct forces at play: (1) people internally migrating from urban to rural areas, mostly from aimag centres and other cities to pursue livestock herding; (2) people who were laid off or quit their jobs in rural areas and smaller cities moving to Ulaanbaatar in search of job opportunities. Figure 3.11 shows the in- and out-migration of Ulaanbaatar.
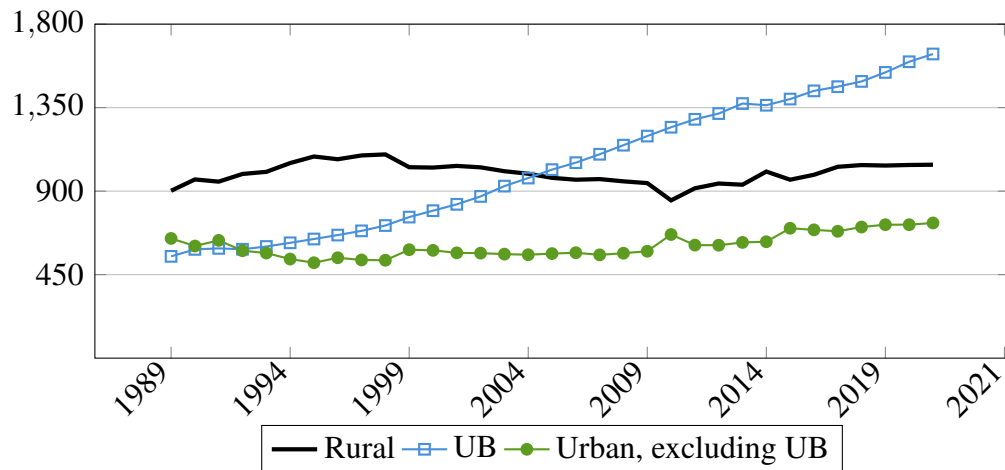
Figure 3.10: Rural, urban population (in thousands), 1989-2021
Source: Calculated using data from NSO database
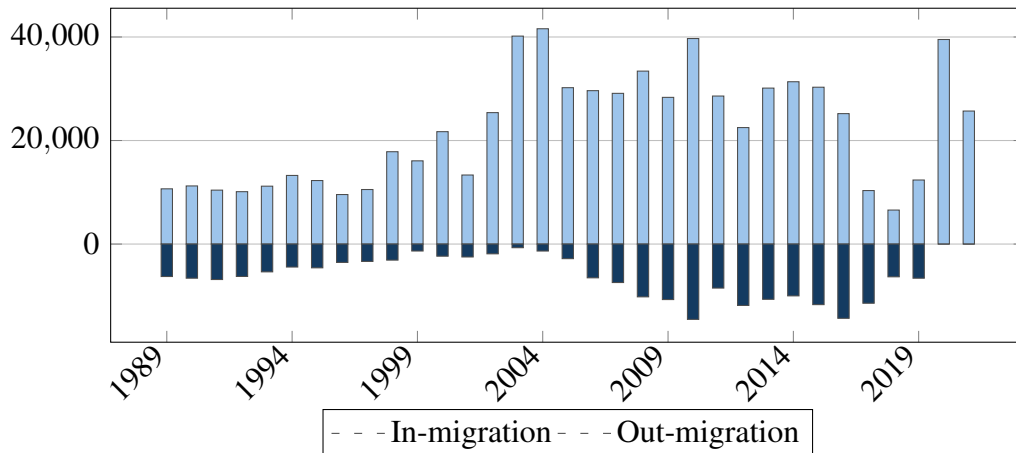
Figure 3.11: In-and-out-migration of UB,1989-2021
Source: NSO database

Here, it is evident that in-migration was much larger than out-migration. However, Ulaanbaatar's out-migration increased during the early years of the transition. Between 1989 and 1995, over 40 thousand people migrated out of the capital city.

Since the 2000s, the in-migration to Ulaanbaatar drastically increased. The rural population steadily decreased simultaneously. The population in other urban areas remained relatively stable, as people who moved to Ulaanbaatar (as suggested) were mostly absorbed by the growing service sector (as discussed in the previous subsection).

The sharp decrease in the rural population and an equal increase in other urban populations in 1999 and 2010 could be explained by dzud occurrences, and herders, who've lost their animals resettled in urban centres. 2014 saw another return to rural areas and a slight decrease in the Ulaanbaatar population and a slight increase in other urban areas. This could be related to the economic downturn Mongolia faced following the fall of commodity prices. However, this time, the migration scale was much smaller compared to that in the early 1990s.

Between 1990 and 1995, agricultural employment increased by 95 thousand, while the population in the rural regions and Ulaanbaatar increased by 123.7 thousand and 55.8 thousand, respectively. The population in the other urban settlements declined by approximately 90 thousand during the same period. In contrast, during the 2014–2015 economic downturn, the urban population increased by 72.5 thousand. The rural population decreased by 44 thousand, suggesting that livestock herding no longer served as a 'shock absorber' in economic hardship. Whereas, the population of Ulaanbaatar increased by 77 thousand in two years between 2014 to 2016.

Bolormaa and Clark (2000) argued that most Mongolians have familial connections in the rural regions and with associated herding lifestyles, and many people have become herders. Although it might be true that most Mongolians have extended kin who reside in rural areas and are engaged in traditional herding, not everyone who wished to become a herder could take up this lifestyle. First, agricultural privatisation was largely reserved for existing negdel workers and locals. The second, harsh climate and isolated living were not viable options, especially for people from the city who lack knowledge and expertise in traditional herding. These are, in our view, important points.

For the sedentary population, however, the informal economy presented opportunities to sustain a livelihood, and even start lucrative private enterprises within the newly established market economy. The next section looks at informal and self-employment during the early transition

years.

3.3.3   Informal Employment and Self-employment

Informal sector employment has sharply increased all throughout the post-socialist world after the collapse of the communist regime (Paci, 2002; Rutkowski et al., 2005; Polese & Rodgers, 2011) and Mongolia was no exception (Anderson, 1998; Bikales, Khurelbaatar, & Schelzig, 2000a; Morris, 2001).

Mongolia displays characteristics similar to those of low-income CIS countries, with a substantial increase in informal employment. The definition of informal employment within the scope of this chapter refers to "... all those who worked in informal jobs, i.e. who, during the reference period: were employees with no social protection coverage, or with no paid annual leave and/or no paid sick leave; or were employers and own-account workers, owners of informal sector enterprises or producing only for own-use production (as households); and all contributing family helpers", as noted in the NSO database definition[30]. Another important point is that informal employment in developing countries does not include employment in the agricultural sector, per ILO recommendations. Figure A.2 provides a diagram that defines informal employment in LFSs in Mongolia.

Although unofficial and private trade activities were not entirely new in Mongolia prior to 1990 (Takiguchi, 2013), informal economic activities spiked in the first decade since the start of the transition. Elsewhere, it has been pointed out, however, that "...informal sector is a fairly new phenomenon..." and "...Mongolia differs from other economies in transition in that a "second economy" did not exist under the command economy" (Morris, 2001, p. xii).

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[30] According to the State Policy on Informal Employment (Resolution of the State Parliament) approved in January 2006, "informal employment is the performance of work or provision of services by individuals, households, and/or groups outside the agricultural sector that are not fully covered by official registration, social security, and are not prohibited by law."

The first major study on Ulaanbaatar's informal sector was conducted by Anderson(1998). He found that the informal sector in Ulaanbaatar employed 30–35 per cent or 105 thousand to 130 thousand people; equalled to around 33–38 per cent of officially recorded GDP at the end of 1996; 47–51 per cent of households had some form of informal income; informal activities generated one-thirds of Ulaanbaatar households' income, and informal economy has helped 15 per cent of Ulaanbaatar households to rise above poverty.

Anderson also emphasised the speed and scope of informal sector expansion in Mongolia to be very high and identified the main reasons for such rapid increase as (i) privatisation of SOEs resulted in numerous layoffs[31] creating a large pool of labour which the formal economy was unable to absorb; (ii) substantial rural to urban migration contributing further to the growth of informal labour; (iii) the 'market' reallocating resources towards areas neglected by or unable to be addressed by the formal economy; (iv) most importantly, the ease of entry for the informals and relative difficulty for the formals.

Another study by Bikales et al. (2000a) found that in 1999, the total annual value added contributed by the urban informal economy was approximately 13.3 per cent of the official GDP in 1999. It also provided income to 20 per cent of the households in Ulaanbaatar. The study concluded that informal employment was estimated at over 60 thousand, out of which 64.4 per cent were 20-40 years old, and nearly half have some form of post-secondary higher education, which demonstrates that "the informal sector is not, as some imagine, a haven for unskilled, uneducated workers" (Bikales et al., 2000a, p. 16).

According to the LFSs, the average share of informal employment (in the non-agricultural sector) in total employment was 16.1 per cent between 2002 and 2020, ranging from the lowest, 12.5 per cent in 2008–2009 and the highest of 18.1 per cent in 2013. However, the seemingly

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[31] Based on the project by James H. Anderson, "The Research on the Consequences of Large-Scale Privatization in Mongolia", which surveyed 250 enterprises that had been privatized through Mongolia's large-scale privatization programme by mid-1996.

modest percentages become higher if calculated as a share of total non-agricultural employment, with figures ranging from 27.4 per cent in 2002–2003 to 19.8 per cent in 2011. Additionally, if we combine the informal sector with the number employed in the agricultural sector, cumulatively, about 42 per cent of the total employed were working in those two sectors in 2020. Although the share has been on the decline since the early 2000s from around 60 per cent, it was largely driven by the shrinking agricultural sector employment[32].

Compared with other transition economies, excluding the livestock sector, informal employment in Mongolia is relatively small. The numbers are comparable with the ones in the CEE countries, such as the Czech Republic and Slovakia (Rutkowski, 2006). However, the reason for performing informal work is different from that of the European transition economies. In Mongolia, much like in the CIS countries, the informal sector was an employer of last resort providing subsistence income, at least in the early years of the transition. In CEEs, the informal sector was a way of evading taxes and strict regulations. This argument is backed by the fact that informal in Mongolia used to pay taxes between 1993-2015[33]. The perception of contemporary informal sector workers will be discussed in the following sections.

Around 80 per cent of informal employment is in the wholesale and retail trade and repair of motor vehicles and motorcycles, the transportation and storage, and the manufacturing sectors. Geographically, according to the 2002-2003 LFS, over 71 per cent of informal workers were in urban areas, the number rose slightly, and the average stood at 78 per cent between 2007-08

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[32] The reason for equating the livestock sector to informal employment is that herders were exempt from tax on their herd until January 2021. Additionally, informal employment, along with livestock herding, was the biggest shock absorber during the transition.

[33] In 1993 (effective from 1 January 1994) Mongolia passed a Law on Income Tax of Citizens Who Individually Engage in Business Activities and Services with Unregistered Income (hereafter referred to as Law on Informal Sector Income Tax), which allocated a flat tax for 32 different economic activities, ranging from taxicab driving, selling cigarettes and chewing gum on the streets, shoe shining, shoe repairs and kiosk operations. Although the flat tax rate provided simplicity and efficiency in terms of calculations and collections, it turned out to be highly regressive, i.e. informal workers with lower income, who were more vulnerable and depended more on such income, ended up paying a higher percentage of their income on taxes. The revised version of the law passed in 2001 (effective from 1 January 2002) listed 38 economic activities. The law was repealed in January 2016, following the passage of the revised Law on Value Added Tax.
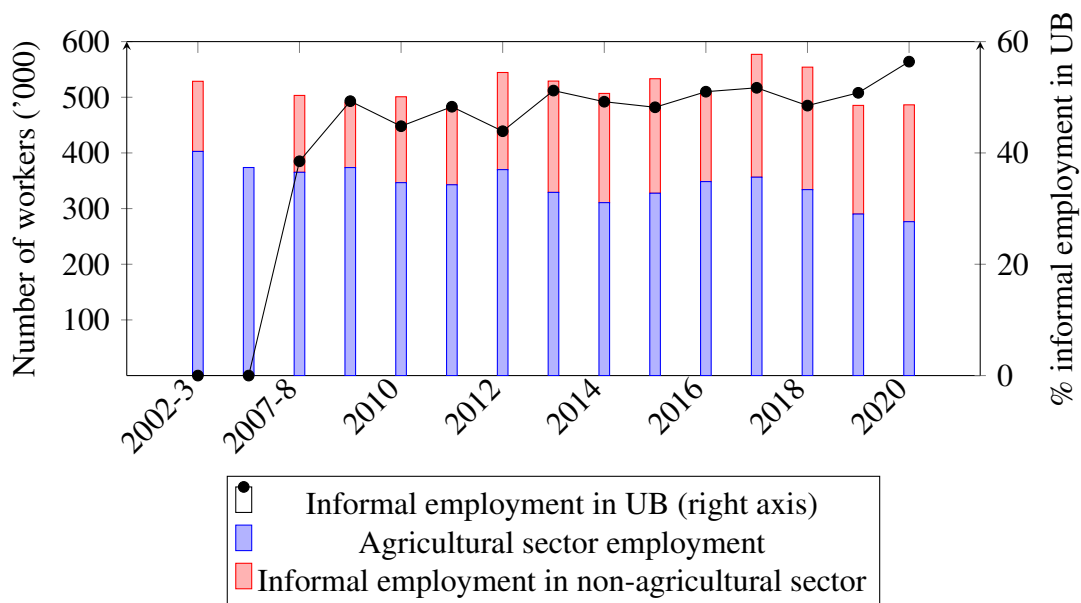
Figure 3.12: Agricultural and informal sector employment, 2002-2020
Source: LFSs published by NSO, various years.

and 2020. The share of Ulaanbaatar, on average, was 47 per cent for the same period. As of 2020, the number of informally employed in the capital was 118.3 thousand out of a total of 210 thousand (Figure 3.12). Gender-wise, women take up a higher share in the wholesale and retail, processing, education, health, and other service sectors within the informal sector.

During the socialist regime, self-employment was not widespread. Throughout the 1980s, self-employment income ranged around 3 per cent of the total income of the population (Milne et al., 1991, p.51). The number of self-employed stood at 5435 in 1989 (NSO, 1990, p.9). The 2000 PHC revealed that the number of self-employed stood at 243,212 or 31.2 per cent of total employment, over 75 per cent of which were men. Women represented 28 per cent out of 9,964 employers and 70 per cent of 197,441 unpaid family workers (NSO, 2001).

According to the NSO database, the average share of monetary income per household from private economic activities (other than wage and salaries and pensions and allowances) stood at 62 per cent and 31 per cent in 2000 and 2010, respectively.

On a comparative note, according to the WDI, the share of self-employment (ILO modelled estimate) in Mongolia was on average 57 per cent between 1991 to 1999. The estimate is well above the average in most transition economies, Organisation for Economic Co-operation and Development (OECD) countries (20.1 per cent), and Europe and Central Asia (19.0 per cent). However, it is lower than East Asia and Pacific regions (61.9 per cent). Recently, the percentage of self-employment has been decreasing, reaching the lowest in 2016 (48.3 per cent), 57.4 per cent between 2000 and 2010, and 50.6 per cent between 2010 and 2019.

Harris-Todaro's two-sector model provides a theory of understanding rural-urban migration in developing countries and explains persistently high unemployment and informal employment in urban areas. They argue that politically determined high minimum wages in the industrial sector that exceed agricultural earnings would act as an incentive for rural residents to migrate to urban areas and contribute further to the rise of urban unemployment. However, they remain at the destination (the cities) for the opportunity to enter formal employment in the modern sector (Harris & Todaro, 1970). Restriction of migration and wage subsidy are the two policies that can be used in combination to limit rural-urban migration. However, the model has the following drawbacks when it comes to analysing Mongolian labour market. First, the model does not take into consideration social, cultural, and institutional factors influencing migration. The second is more significant, because the model assumes migration as a one-way process, i.e., rural-to-urban . However, in the case of Mongolia, the experience has different the reverse. However, Roland (2014) argues that creating jobs in rural areas, instead of urban areas, would be the solution.

In Mongolia, the data illustrates that, as the country deindustrialised and jobs disappeared in the urban areas, people migrated to rural areas as agricultural gains became higher than those in modern industrial sectors in urban areas. The population with no means of taking up agricultural jobs moved to or remained in Ulaanbaatar to become informal workers or urban unemployed. However, since the 2000s, people settled in the capital are not waiting to return to herding. A

recent internal migration study has revealed that migration is mostly related to a lack of job opportunities, inadequate living conditions (poor infrastructure), and the low quality of health and education services in rural regions (International Organization for Migration, 2018).

Along with individuals returning to traditional herding en masse, starting small businesses in the informal sector and becoming self-employed, or taking up informal work, there was also a significant increase in people who became economically inactive. As was shown in Figure 3.3, the number of people outside the labour force has continued to rise from 275 thousand in 1992 to 927 thousand in 2021. To put it alternatively, the share of economically inactive went from 21.4 per cent to 40 per cent of the total working-age population aged 15 and over.

The topics of informal employment and economic inactivity will be discussed in detail in the next chapter, as the causes for and reasons behind such prolonged informal employment and increasing inactivity might help to understand the current labour market and identify the challenges it is faced with.

However, the next section examines the employment-to-output elasticity to see how the labour market responded to different economic circumstances and to identify any given patterns.

3.4   Employment Elasticity

The labour market changes were felt throughout Mongolia from the onset of the transition, with people becoming unemployed, starting petty trades, and returning to traditional livestock herding. Official labour statistics reveal very little on the surface. However, a closer look at the movement of labour between different economic sectors, considering the emergence of informal employment and self-employment and the massive return to livestock herding and migration to rural areas, indicates profound changes.

Conventionally, a decline in economic growth should decrease the demand for labour, and

increased output should consequently increase it. However, the economic circumstances in the transition economies during the early years of transformation could not be explained by "normal" economic, policy variables, but by their method and scope of economic reform policies (Polanec, 2004).

This section uses the same technique used by Bah and Brada (2014) to estimate the average annual elasticity ratio of employment to output. The percentage change in employment in a given year is divided by the percentage change in GDP[34]. This exercise is performed three times: (1) for the aggregate economy, (2) excluding the agricultural sector; and (3) for the agricultural sector alone, to estimate how the labour market reacted to the shocks of transition and to identify the agricultural sector impact. Figure 3.13 illustrates the results for the overall employment elasticity to output.

In the first two years, between 1991 and 1992, employment elasticity ratios were negative, i.e. while overall GDP declined, aggregate employment grew. But in 1993, the ratio was 1.6, indicating that for every 1 per cent GDP decline, 1.6 per cent of jobs were being lost. GDP growth became positive starting from 1994; however, jobs do not seem correlated with the output, just as SOEs were being privatised. In 1994, 1997, and 2000, overall employment decreased despite positive GDP growth.

However, starting from 2001, the employment elasticity ratios improved, especially in 2001–2003, indicating that jobs and outputs were almost equal. From then on until the GFC, employment growth remained positive, but the rates dropped. This could be related to the mining sector GDP growing 5.5 times. Still, the number of employed went from 19.9 thousand to only 39.8 thousand, between 2001 and 2005 (total employment increased by 16 per cent during the period). The mining sector's share in total employment averaged around 2.6 per cent during 1995–2004 and 4.1 per cent during 2005–2020.

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[34] However, it should be noted that this simple analysis does not consider the effect of wages or lags. This chapter aims to illustrate the effect of agricultural employment on overall employment outcomes.
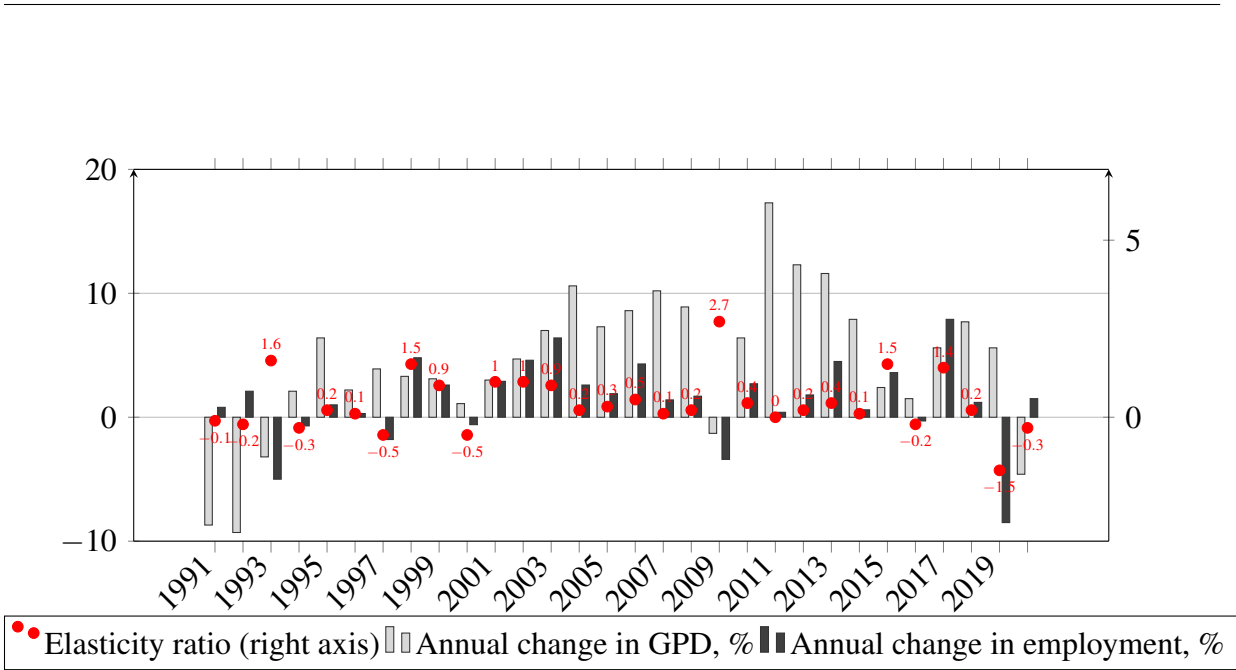
Figure 3.13: Employment elasticity to GDP, percentage change in employment and GDP, 1991-2020

Source: Calculated using data from WDI and NSO database

Figure 3.14: Employment elasticity to GDP, excluding the agricultural sector, 1991-2020

Source: Calculated using data from WDI and NSO database

	1990	1995	2000	2005	2010	2015	2020
Agriculture	12.5	32.5	27.4	19.8	11.7	14.1	13.0
Mining	12.5	11.3	10.8	21.1	21.5	18.1	23.3
Industry, other	23.0	19.5	9.2	8.7	9.1	9.4	10.1
Construction	5.7	2.0	2.2	2.7	2.6	4.0	3.7
Wholesale & retail trade	16.3	9.2	9.5	7.5	12.3	11.6	9.2
Transport & storage	8.2	4.6	7.6	8.4	6.9	5.3	3.8
Information & communication	3.0	1.7	2.8	3.2	2.6	2.1	1.9
Finance & insurance services	1.1	1.3	2.5	3.7	2.5	3.6	4.5
Real estate	6.3	2.0	4.0	5.3	7.0	7.0	5.3
Public administration	2.2	2.6	3.9	2.2	4.4	5.9	5.4
Education	2.8	3.3	4.0	2.8	3.9	4.4	4.4
Health	1.9	2.2	1.5	1.2	1.7	2.0	2.2
Other	4.5	7.6	14.7	13.4	13.7	12.6	13.3

Table 3.4: GDP composition, 1990-2020
Source: NSO database

The GFC resulted in the GDP growth plunging to -1.3 per cent, and this time jobs were lost too, but at a higher rate of -3.4 per cent. Economic growth quickly returned, and Mongolia enjoyed very high growth for the next five years. However, the jobs were not as quick to return. This again indicates that growth was driven by the mining sector, which is not a labour-intensive sector.

Table 3.4 illustrates Mongolia's GDP composition, showing an increase in the share of agriculture during the 1990s and a decline in the 2000s. In comparison, the mining GDP increased substantially starting in the 2000s. Considering the discussions in the previous sections on the disproportionate increase in agricultural employment, Figure 3.14 repeats the exercise, excluding the agricultural sector.

The results illustrate the impact of the economy's transition, with massive declines in output of 8 per cent, 23.4 per cent, and 3.4 per cent in 1991, 1992, and 1993, respectively. This also illustrates the acceleration period of large-scale privatisation in 1993 (elasticity ratio of 28.5) and 1994 with substantial declines in employment and the second phase of privatisation with the second wave of decline in 1997. 1997 was also when the Law on Minerals[35] was passed, and Mongolia enjoyed a brief growth in the mining sector. The two figures contradict each other, resulting in a negative elasticity ratio of -0.5. The job growth increased from 1998, surpassing GDP on several occasions. In 1998, the increase was attributed to the increase in the service sector. Still, in 2002 and 2003, most of the increase was in mining, other industry, and service sectors with losses in agriculture.

Overall, up until the early 2000s, the GDP declines were much larger, and labour market responses were slower. During 2009, due to the GFC, although output managed to stay positive, employment declined with an elasticity ratio of -2.6. Similar negative ratios of -0.1 and -0.9 were discovered in 2012 and 2016, respectively. In 2009, there were major losses in employment in agriculture (due to dzud), mining, construction, wholesale, real estate, and banking sectors (due to GFC). In 2012, employment decreased in the wholesale and transportation sectors the most, and in 2016, the pattern was similar to that in 2009.

Nevertheless, 2002, 2003, 2013, and 2017 saw job creations exceeding the GDP growth. The rates were much lower at other times. The above data illustrates that the overall elasticity of employment to GDP had stabilised in the late 1990s and early 2000s and remained relatively elastic.

If the calculations are repeated one last time for the agricultural sector, it highlights the large variances in elasticity ratios (Figure 3.15). The employment increased from the get-go, but GDP growth was very high in 1992, where the agricultural sector share of GDP went up to 26

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[35] The Law on Minerals was passed in June 1995, effective from 1 July 1995. A repealing law was passed in July 2006, https://legalinfo.mn/mn/detail?lawId=7069.
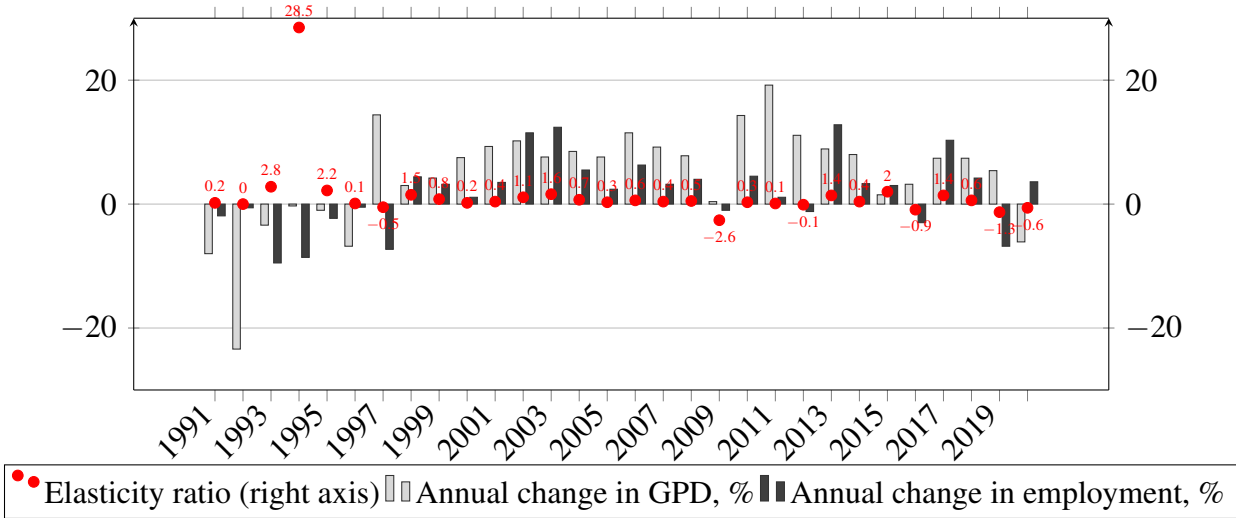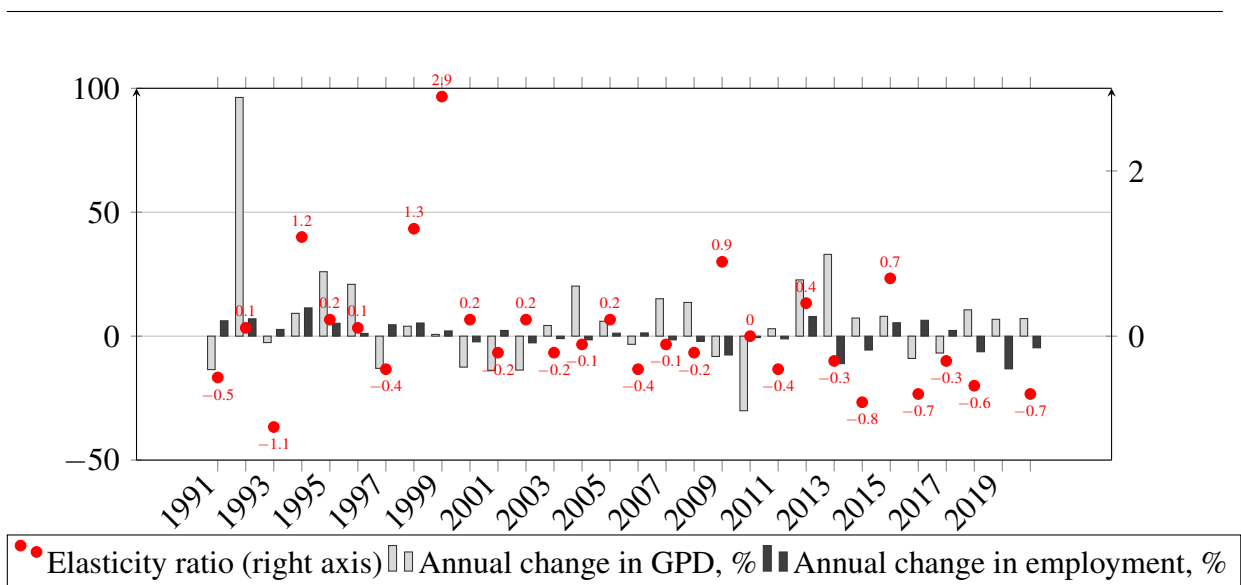
Figure 3.15: Employment elasticity to GDP, agricultural sector, 1991-2020
Source: Calculated using data from WDI and NSO database

per cent from 12 per cent a year prior.

Output growth slowed down since then, but employment continued to grow until 1999, after which the rate slowed and continued to decline on average. There were several fluctuations in employment and output growth rates, which means that, for the most part, agricultural employment is inelastic regarding the agricultural sector GDP. The important revelation it provides is that the agricultural sector responds to dzud. The periods of harsh winters directly affect the sector, where some herders lose all of their livestock, who then cease to be herders and are forced to migrate to urban centres. GDP share of the agricultural sector rose from 12.5 per cent to 27.4 per cent between 1990 and 2000 but declined on average 13.3 per cent annually in three years from 2000 to 2002.

A similar but more severe decline occurred again during dzud in the winter of 2009–2010, with decreases in both, the real GDP (cumulatively 38.4 per cent in two years) and employment (8.3 per cent). The overall picture is more inelastic than the rest of the economy, for example, in many instances with a larger increase in employment than the output or sometimes going in the opposite direction. This is because the output in this sector is largely tied to climatic conditions,

and employment largely depends on the extent of the losses sustained during dzud. Additionally, notably, the overall employment trend in the agricultural sector is declining, and we hardly ever observe a substantial increase in employment, apart from 2012, when employment in other sectors declined. By observing the employment elasticity to GDP and the above-discussed labour market transitions, we can draw a few key conclusions:

- A large part of the 1990s was extremely precarious in terms of both employment and output growth.

- In Figure 3.13 and 3.14, for the periods since the 2000s, the figures had stabilised and looked similar, suggesting that the agricultural sector had minimal impact on overall economy from then on.

- Although employment elasticity ratios have remained positive, meaning employment growth remained in tandem with GDP growth, job creation persisted in being lower than output growth due to the growth of capital-intensive sectors, such as the mining sector.

- During the GFC, GDP decline in 2009 was largely driven by the agricultural sector declines of over 8 per cent in output and over 7 per cent in employment (when dzud coincided and was largely responsible), while the rest of the economy's output managed to stay positive at 0.4 per cent and employment declined by 1 per cent.

3.5   Summary

The market transition in Mongolia had a sweeping impact on all aspects of the economy, including the labour market. The event amplified some, created, and reversed other characteristics of the Mongolian labour market throughout the 1990s and 2000s.

First, it amplified the role of the traditional livestock sector. During state socialism, Mongolia was on the 'path of industrialisation'. The labour force engaged in the industrial sector was

on the rise, while the traditional livestock sector declined. With the collapse of socialism and subsequent privatisation of livestock, the sector was revived once again, absorbing nearly half of the total employment by the end of the 1990s.

Secondly, the transition to the free market also "created" informal and self-employment practices. The fraction of the economy deemed illegal in the socialist era, mushroomed with street vendors, petty traders, and cab drivers. By the end of 1996, the number of people employed in non-agricultural informal employment was estimated at roughly 15 per cent of total employment. Although this phenomenon is certainly not unique to Mongolia, the persistence and slower growth in wage employment seem to be singular. With the transition came also, unemployment, economic inactivity and poverty. Although the official unemployment numbers remained low in Mongolia, and only recently the official statistics have started capturing realistic numbers, the exits from the labour market were substantial. The fraction of the working-age population that remains outside of the labour force has rarely seen declines since then.

Thirdly, industrialisation policies and central planning by the state dictated employment and settlement allocations, resulting in increased urbanisation rates. However, the transition to the market and the consequent freedom of movement and opportunities in rural areas following livestock privatisation have reversed the migration patterns and increased urban-rural migration.

Alas, with the turn of the century, these characteristics have seen adjustments again. Starting in the early 2000s, triggered by dzud, devastating the herds and the simultaneous return of the economy's growth elsewhere, agricultural employment started to decline. By 2018, the share of agriculture in total employment decreased to 27 per cent, almost halving.

Nevertheless, informal sector employment has proven to be much more robust to change. As the tertiary sector developed further, it provided the primary option of income for many. The share of non-agricultural informal employment in total employment stood at 17.6 per cent in 2018. Regarding internal migration, it has seen another reversal, the rural-urban migration

pattern, with an increased rate of in-migration to Ulaanbaatar, where as of 2018 47 per cent of the total population resided.

Although aggregate employment did not fall substantially during the transitional recession, the close examination of labour mobility between sectors reveals that the drastic increase in agricultural employment disguised job losses in other sectors. During the transition, agricultural and informal sector employment became the shock absorbers, providing livelihoods to many struggling in times of uncertainty and economic hardships. Despite the declining trend in agriculture, the informal sector share is still considerable.

Finally, looking at employment-to-output elasticity ratios for the aggregate economy and excluding the agricultural sector, the periods after the 2000s are similar, suggesting that since the 2000s, the agricultural sector's role decreased, and the service sector's share of the total employment increased. In contrast, the mining sector overtook the share of economic output.

Hence, from here it can be concluded that urban-to-rural migration and agricultural sector employment are on the decline within the current Mongolian labour market. However, informal employment, self-employment and economic inactivity are not showing signs of decrease. Therefore, the next chapter looks at these in more detail in the hopes of uncovering the reasons and consequences of those phenomena.

Chapter 4

Economic Inactivity and Informal Employment

4.1 Introduction

The changes that occurred in the broader economy and more specifically in the labour market — a subject of the previous chapter — at the start of the market transformation from socialism to capitalism, were primarily a logical, spontaneous response of the traditional herding and informal sectors to absorb the oversupply of labour. Furthermore, the formal labour market's ability to absorb the unemployed ceased to exist with the state's decentralisation. We demonstrated in the previous chapter that agricultural sector employment, and thus urban-to-rural migration, has decreased since the early 2000s. This indicates that the agricultural sector no longer serves as a labour absorber[36]. Instead, informal sector employment has increased, as has economic inactivity.

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[36] It is essential to note that one of the reasons for the decline in agricultural sector employment, mainly since the turn of the century, is dzud, which can have negative consequences and force herders who have lost all or a significant portion of their herd during the harsh winter to migrate to urban centres in search of work. The capital, Ulaanbaatar, is frequently the destination.

According to the Labour Force Survey (LFS), by the early 2000s, wage employment was only 37.2 per cent of total employment, and the number of economically inactive[37] individuals reached 534 thousand (NSO, 2004). Between 2010 and 2021 the percentage of employed individuals in the non-agricultural informal sector has increased from 13.3 to 18.1 per cent of the total employment, or 19.8 to 25.8 per cent of non-agricultural employment.

The literature on the topic of Mongolian informal employment is limited. However, the first noteworthy study on Ulaanbaatar's informal sector was conducted by Anderson (1998). Anderson identified four main reasons for the emergence and rapid increase of the informal sector in Mongolia. The privatisation of state-owned enterprises (SOEs) resulted in numerous layoffs creating a large pool of labour that the formal economy could not absorb. Second, substantial rural-to-urban migration further contributed to the growth of informal labour. Third, the 'market' reallocated resources towards areas neglected by the formal economy. Lastly, the ease of entry experienced by informal workers compared to the relative difficulty experienced by formal workers was the most important factor in the expansion of the informal sector.

Another study by Bikales et al. (2000a) emphasised that nearly half of the individuals in the informal sector have some form of post-secondary higher education, demonstrating that 'the informal sector is not, as some imagine, a haven for unskilled, uneducated workers' (Bikales et al., 2000a, p.16). In a study, Morris (Morris, 2001) reviewed the above two studies and conducted interviews with key informants, mainly confirming the previous findings and contributing further evidence for the informal sector development in Mongolia. There have been occasional reports and surveys on the informal sector and the employment within the sector by NSO (NSO, 2013, 2020c) and ILO (ILO, 2021).

Unfortunately, none of these studies explores the reasons behind the robustness of the informal

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[37] The terms 'economically inactive' and 'outside/out of the labour force' are interchangeable when referring to individuals aged 15 and over, who are not employed or actively seeking employment. Before 2019, the former term was used in statistical publications; however, as of 2019, the NSO has switched to the latter term.

sector in Mongolia. It is quite intuitive to expect informal employment to thrive under severe economic conditions, such as a market transition in post-socialist economies (Timár, 1995). Conversely, it is also logical to emphasise a need to identify the underlying institutions and policies that continue to facilitate the increase of the informal economy in Mongolia.

The second issue that requires similar attention is economic inactivity. The literature on labour force participation (LFP) has seen an increased focus in recent years. The resulting studies can broadly be divided into three groups. First are the studies investigating the consequences of the government's ineffective policies, for example, Altantsetseg & Bayarmaa (2014) studied the LFP and earnings in Mongolia. Their model estimates a 3.4 to 5.4 per cent decrease in LFP during the years of expanded cash transfer policies. Khishigt & Choi (2019) studied the effects of the Child Money Programme (CMP) on female labour supply and found that after the programme's introduction, the relative LFP of women with children decreased by 12.3 per cent. According to Gassmann et al. (2016), receiving social welfare affects men and women's participation in the labour force differently. Men in beneficiary homes typically work longer hours, whereas women who are social welfare users primarily work shorter hours.

The main issues impeding women's empowerment in Mongolia's labour market, according to Schmillen and Weimann-Sandig (Schmillen & Sandig, 2018), are a lack of childcare facilities, persistent inequalities in the legal system, and the 'traditional' gender roles and attitudes toward women. Other studies also provide evidence in relation to the state's failure to shield the vulnerable groups from the adverse effects of market transition more effectively (for Mongolia, see Robinson & Solongo (2000), Burn & Oyuntsetseg (2001), for other post-socialist countries, see UNICEF (1999), Ishkanian (2003).)

Another angle from which to view women's LFP takes a more traditional approach, discussing the topic of gender disparities in the labour market and arguing that it can hinder economic growth (Daly, 2007; Cuberes & Teignier, 2012; McKinsey Global Institute, 2015). In the case

of Mongolia, these gender disparities are explored by Tsolmon et al. (2022) and Duganova (2019). The former study found that eliminating gender inequality in the labour market could increase women's LFP rate to 63.2 per cent (13.3 per cent increase from 2021) and would result in a 0.5 per cent increase in the country's annual per capita growth rate. According to the authors, the elimination of gender inequality in the Mongolian labour market would entail addressing the 'double burden' of unpaid care work that is disproportionately performed by women, eliminating the gender divide in higher-paying positions and professions, modifying the early retirement age for women, as well as changing deeply ingrained gender stereotypes and biases (Tsolmon et al., 2022).

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Furthermore, Duganova (2019) conducted a comparative analysis of gender relations and the welfare models in Kazakhstan, Russia and Mongolia, and found that the type of welfare models in those countries are hybrid, and stresses that a 'neo-liberal approach to welfare provision, conservative social norms, and limited agency of civil society to influence policy agenda' are

the reasons behind persistent gender inequality. She also indicates that the countries have all 're-familialised' following the fall of the socialist regimes.

Lastly, Nikolova and Polansky (2022) investigate the effects of parental and care responsibilities on women's employment outcomes and conclude that the presence of school-age children, the elderly or disabled members in the household has no effect. In contrast, the presence of young children and preschoolers significantly decreases employment probability. They also argue that increasing women's employment is critical for ensuring the economy's growth and resilience; however, simply providing women with job opportunities will only contribute marginally to their empowerment. Instead, comprehensive policies addressing educational, sociocultural, and legal aspects are required. Another study that supports this is Gantungalag et al. (2019), who conducted an impact evaluation using a randomised control trial to study the impact of free childcare on women's labour market outcomes after one year and found that it increased mothers' current employment by 4.5 per cent and hourly wage by 6.3 per cent from the mean. These studies emphasise the need for childcare to facilitate women's participation in the labour market.

The following could be drawn from the current literature on LFP, which can be extended to investigate the economic inactivity of women in the Mongolian labour market. The extensive welfare provisions and cash transfers, the limited availability of social services such as childcare facilities, have a negative impact on women's LFP. However, the studies so far do not link the above factors with women's birthing behaviour, societal expectations, and social or labour market policies the state implements.

Therefore, this chapter seeks to answer questions such as: why informal employment and economic inactivity are prevalent in Mongolia? Why women's economic inactivity is low? And what kind of institutions, policies, or lack thereof, are enabling the current situation? While it could be argued that decreasing the size of the informal sector is beneficial to the state from

the fiscal standpoint, understanding the core reason for their prevalence is essential so that the policies implemented would not hamper entrepreneurial activities and hence have a negative effect on individual's opportunities to make a living. In the same sense, understanding the challenges and solving the problems women face outside the labour force is also crucial. This is vital for the wider national economy, as not utilising women's potential and human capital is prodigal.

The remainder of the chapter is organised as follows: The following section includes the characteristics of the inactive population, whereby we determine their age, sex, and reasons for remaining inactive to discover the causes of the phenomenon. The third section examines recent changes in the characteristics of informal workers. Thereafter, an overview of the current COVID-19 pandemic and its impact on the economy and labour market will be discussed. The chapter then follows with birthing behaviour as characteristics determining women's LFP in Mongolia. Thereafter concluding with a section examining the four broader institutional settings that affect the issues outlined above: welfare provisions, early retirement schemes and general age discrimination, labour market policies, and social services. The final section then concludes with a summary.

4.2 Characteristics of the Economically Inactive

During an economic downturn, an increase in the economically inactive population is to be expected, particularly during the early years of transition in post-socialist countries (Timár, 1995). However, in the case of Mongolia, the continued increase suggests some systemic irregularities in how the labour market operates (Figure 4.1).

There are two types of data concerning the earliest official numbers on the economically inactive population dating back to the late 1980s. The first is the number of working-age, 'able-bodied' individuals who are not engaged in 'socially organised labour,' and which stood at 21.4
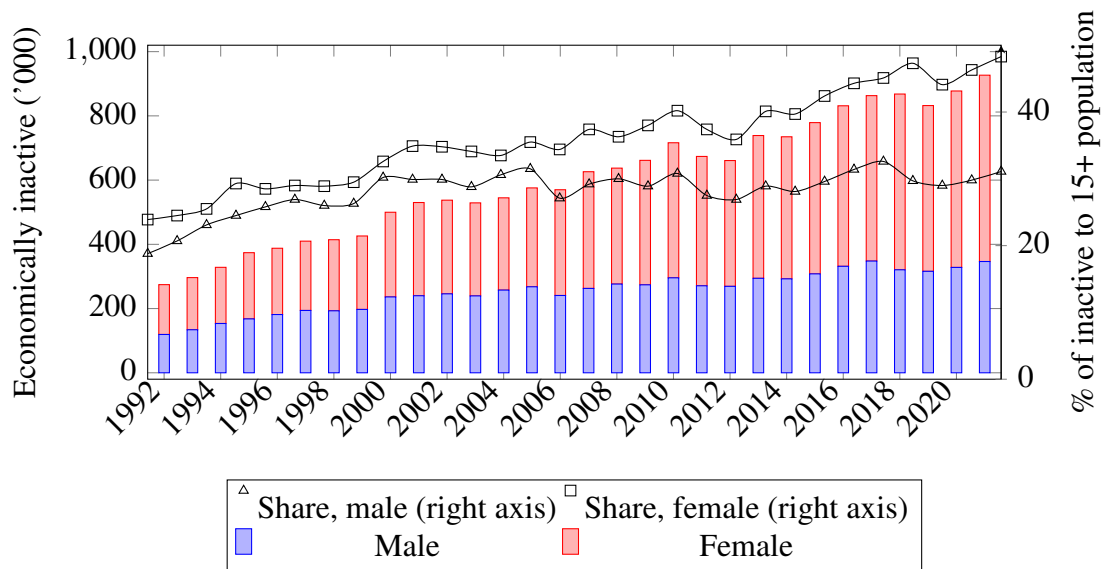
Figure 4.1: Economically inactive population, 1992-2021
Source: Figures for 1992-1999 are from NSO website, for 2000 - PHC (NSO, 2001) and 2002-3 to 2020 - LFSs published by NSO, various years.

thousand in 1987 and increased to 27.5 thousand the following year. This number had reached 30 thousand by 1989 (NSO, 1990, p.10). Conversely, the second sheds light on much higher, more realistic figures. According to the 1991 Statistical Yearbook (NSO, 1992, pp. 6-7;10-11), the working-age, 'able-bodied' population stood at 806.4 thousand in 1987, while the economically active population was 619.8 thousand, leaving 186.6 thousand individuals unaccounted for; however, this was not indicated in the publication as inactive. Since 1987, that figure has steadily increased, reaching 255.2 thousand by 1991. Based on the estimates above, it is possible to conclude that Mongolia's economically inactive population was already on the rise before the transition.

The number of economically inactive individuals published on the NSO database in 1992 started at 274.5 thousand. By 2021, this number had reached 926.8 thousand. Conversely, the proportion of economically inactive individuals aged 15 and above increased from 21.4 per cent to 40 per cent. Figure 4.1 depicts the overall number of individuals (by sex) outside of the labour force. The figure also shows that the proportion of economically inactive women has

	1992-1994	1995-1999	2000-2006	2007-2010	2011-2014	2015-2019	2020-2021
Population, 15+	2.6	2.5	2.8	2.1	1.8	0.9	1.2
Inactive population	9.4	5.4	4.4	5.9	0.9	2.6	5.5
Male	13.4	5.2	3.2	5.3	-0.1	1.7	4.7
Female	6.1	5.7	5.5	6.4	1.5	3.2	6.0

Table 4.1: Average annual growth of working age and economically inactive population, 1992-2021

Source: NSO website, LFSs published by NSO, various years.

been increasing, accounting for nearly two-thirds of the total economically inactive population in recent years. In 1992, for example, there were 130 women for every 100 men who were economically inactive. By 2021, that figure had risen to 167 women for every 100 men.

Considering economic inactivity dynamics over the past 30 years, there are periods of growth and contraction. For example, the number of both men and women increased rapidly between 1992 and 1994 before slowing down between 1995 and 1999. Indicating that during the early stages of the transition, more individuals left the labour force, specifically men — economically inactive men increased on average by 13.4 per cent per year, compared to 6.1 per cent for women (Table 4.1). Since 1995, when the economy slowly began to recover, growth rates have gradually decreased. Nonetheless, it remained around 5 per cent for both men and women, which is well above the growth rate for the working-age population.

Then, beginning in 2000, the growth rate began to accelerate again. The number of inactive individuals went from 425.6 thousand in 1999 to 500 thousand in 2000 (a 17 per cent increase). There are two possible explanations for this. First, there was the 1999–2002 dzud, which resulted in the loss of approximately 10 million head of livestock, leaving many herders without a means of subsistence and possibly forcing some of them out of the labour force (see section 3.2). However, the decline in employment in the agricultural sector (9.1 thousand) at this time was less than the rise in economic inactivity (73.9 thousand), which brings us to the second
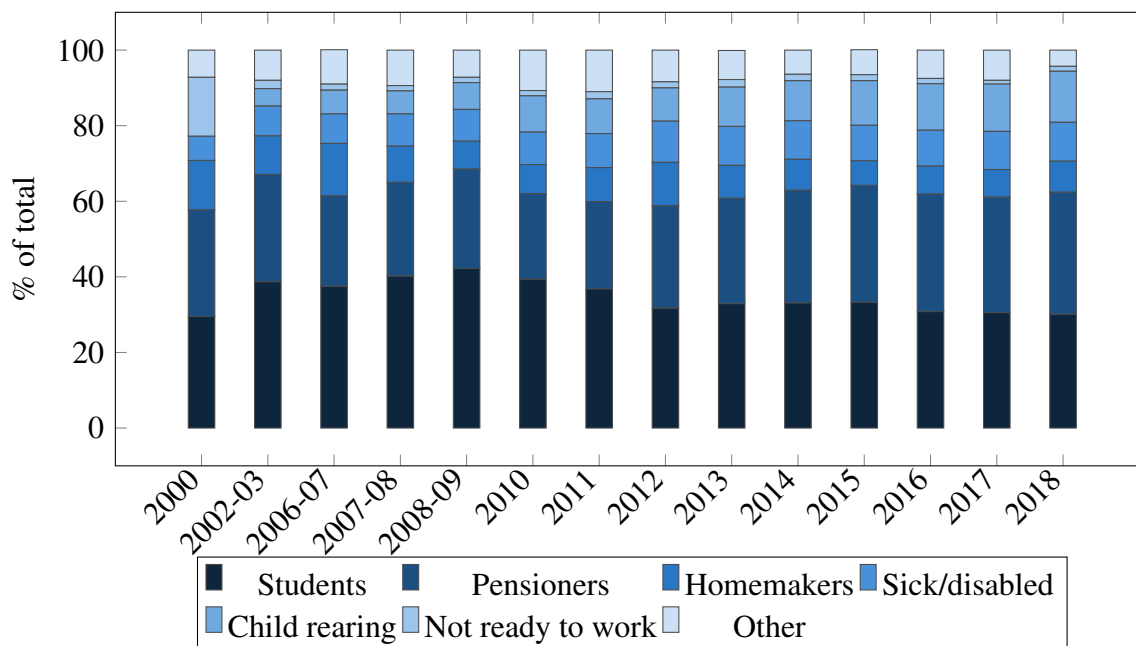
Figure 4.2: Economic inactivity by reason, 2000-2018
Source: PHC (NSO, 2001) for 2000, the rest are from LFSs published by NSO, various years;
Note: For 2000, the category of respondents who could not find suitable job are represented here under *Not ready
to work*.

possibility, which is more technical. Before the early 2000s, the foundation for labour statistics
was the 'Annual Report on Employment' compiled using local administrative records and ob-
servational data. However, significant changes have been made to the procedures for gathering
and preparing labour statistics, beginning with surveys such as PHC (2001) and LFSs (2004).

Between 2007 and 2010, the number of economically inactive women rose from 362.4 thou-
sand to 420.6 thousand. In 2005, the birth rate bottomed at 17.9 births per 1,000 individuals.
It began to increase, reaching 25.7 by 2009. This, in turn, can be explained by the fact that
the latest generations of individuals born during the socialist era's 'baby boom' had reached
reproductive age (Agence France-Presse, 2017)[38]. It is also possible that the introduction of
assistance programmes like the CMP, Newlyweds, and Newborn Cash Allowances have con-
tributed to this. In fact, up until 2006, both men's and women's inactivity rates were increasing

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[38] It has been suggested that the Year of the Golden Pig in 2007 significantly increased the birth rates (Agence
France-Presse, 2017).

similarly. However, as of 2006, the two began to rapidly diverge as the male share stabilized and the female share grew faster, thus widening the gap. The number of economically inactive individuals appeared to be declining from 2011 onward due to favourable economic conditions. However, it began to rise again in 2015 when the economy slowed.

Due to the COVID-19 pandemic, the economically inactive population increased further in 2020 and 2021, with a significant number of women leaving the labour force. According to the data presented above, men benefit more during economic expansions, while women experience greater disadvantages during economic downturns in terms of LFP.

The reasons for inactivity can provide clues for identifying labour market challenges. Therefore, Figure 4.2 depicts some of the primary causes of economic inactivity. The most common reasons for economic inactivity are studying (*students*) and reaching old age (*pensioners*); the two categories account for roughly 60 per cent of the total economically inactive population. However, in recent years, the proportion of students has decreased slightly while the latter has increased. The proportions of other categories have generally remained stable, except for the number of individuals with child-rearing duties. Table 4.2 shows the absolute numbers for selected categories. Overall, the number of students has remained around 250 thousand, and the number of elderly and pensioners surpassed 200 thousand in 2013.

However, the number of individuals remaining at home to care for their children has increased almost fivefold from 25 thousand in 2002/3 to 117 thousand in 2018. This can be explained by the increase in birth rates. During this period, the number of individuals with household responsibilities (*homemakers*) has varied substantially, ranging from fewer than 50 thousand in 2008–2009 to 85 thousand in 2006–2007. Nonetheless, when combined, the two categories account for a sizeable portion. According to a breakdown by sex, women perform the vast majority of unpaid care and housework (Figure 4.3). Women, on average, make up 94 per cent of those responsible for raising children, 73 per cent of homemakers, and 61 per cent of those

Periods	Total	of which			
	inactive	Students	Elderly	Childcare	Homemakers
2002-03	534.4	207.0	152.0	24.5	54.3
2006-07	607.4	227.5	145.1	38.0	84.6
2007-08	641.1	257.7	158.9	39.4	61.3
2008-09	658.5	277.8	173.4	46.5	48.8
2010	716.2	282.3	161.6	68.6	55.4
2011	673.7	247.8	155.6	62.2	60.6
2012	661.0	209.5	179.1	58.1	75.8
2013	738.7	243.1	206.1	77.1	64.4
2014	734.9	243.6	219.1	77.9	59.9
2015	779.0	259.3	240.4	91.6	50.9
2016	831.4	256.1	258.6	102.3	61.5
2017	863.0	263.2	264.1	107.9	63.0
2018	868.0	261.1	280.0	117.2	71.1

Table 4.2: The number of some economically inactive (in thousands), 2002-2018
Source: LFSs published by NSO, various years.
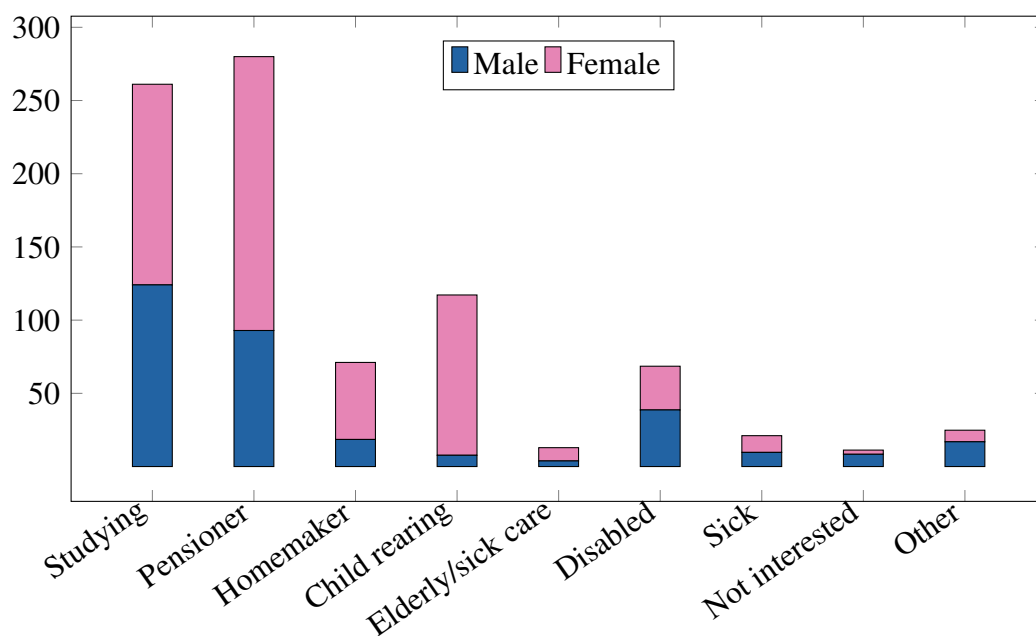
Figure 4.3: Economically inactive population (in thousands), by reason, by gender, 2018
Source: LFS (NSO, 2019a)

who care for the elderly and sick[39]. The issue of economically inactive women will be discussed in detail in the next section.

However, the number of people looking after their children at home has increased almost fivefold from 25 thousand in 2002/3 to 117 thousand in 2018. This can be explained by the increase in birth rates, as discussed previously. During this period, the number of people with household responsibilities (*Homemakers*) has varied substantially, ranging from 85 thousand in 2006–2007 to fewer than 50 thousand in 2008–2009. Nonetheless, when combined, the two categories account for a sizeable portion. Women perform the vast majority of unpaid care and housework, according to a breakdown by gender (Figure 4.3). Women make up, on average, 94 of those who are responsible for raising children, 73 per cent of those who are homemakers, and 61 per cent of those who look after the elderly and the sick. The issue of economically inactive women will be discussed in detail later in the chapter.

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[39] The average numbers are based on LFSs between 2002/3 and 2020 (excluding 2019).

When the total number of students at universities, colleges, and TVET institutions is compared to the number of students from LFSs, the former numbers are consistently lower than the latter. For instance, there were said to be 119.5 thousand students in the 2002–2003 academic year (NSO, 2005), yet the LFS reported 207 thousand economically inactive individuals as students. Furthermore, according to education statistics (NSO, 2019b), there were 160 thousand students in 2018, compared to 261 thousand according to LFS (NSO, 2019a), increasing the discrepancy to over 100 thousand. It's interesting to note that the gap significantly decreased around the time of the 2011 'mining boom', when fewer students were reported in LFSs, increasing the possibility that there are young individuals who are not in school but who are unemployed and willing to work if jobs become available.

The opposite is true for the number of pensioners and senior citizens. Old-age pension recipients (NSO database) have constantly outnumbered pensioners and the elderly reported in LFSs, with an average difference of 32 thousand (between 2002/3 and 2018). This demonstrates that some retirees are still economically active. The disparity is most significant during an economic expansion, when the numbers reported in LFSs decreased in 2010 and 2011, indicating that a sizeable portion of the elderly and pensioners also found employment.

The age structure of the economically inactive (Figure 4.4) shows that between 2000 and 2010, significant increases occurred among individuals between 15 to 24 years of age (110 thousand), driven by the rise in the number of students (age distribution of students is not available for 2010, but the total number of students in universities, TVET and other further education institutions increased by 116 thousand between 2000 and 2010).

Between 2010 and 2020, the most significant increases occurred among the older cohorts. The number of inactive aged 55 years and over increased by 160.3 thousand. However, an increase for 55-64-year-olds was much higher (from 69.4 thousand to 175 thousand) than for 65 years and over (from 90.3 thousand to 145 thousand). The increase on this occasion can also be linked
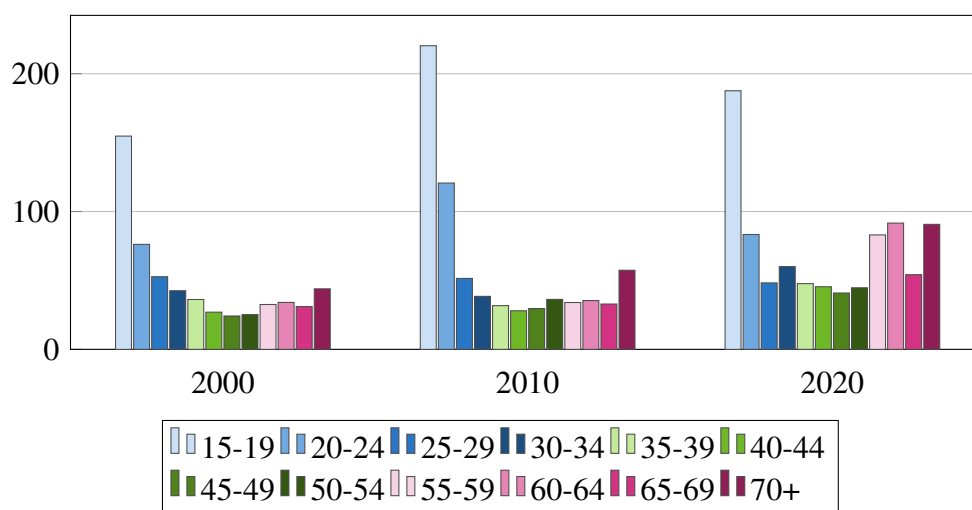
Figure 4.4: Economically inactive (in thousands), by age group, 2000-2020
Source: PHC (NSO, 2001) for 2000, and NSO website

to increases in pensioners (131 thousand between 2010 and 2020). Evaluating the remaining age groups, the only cohort that has declined is the 25–29-year-olds. This cohort has been on a declining trend since 2017. For both sexes, the 30–34-year-old cohort has been increasing by 6 per cent annually between 2010 and 2020. For women, the 35–39 and 40–44-year-old age groups also had significant annual growth rates of 5 and 9 per cent, respectively. The changes in the age structure of economically inactive suggest the following: First, despite the decline of the economically inactive younger people (25-29), a large portion of the prime-age population continues to exit the labour force. Second, the share of pensioners is rising rapidly, but 55-64-year-olds are exiting in greater numbers. Pointing to widespread early retirements. By sex, increases are higher for men over 50, while for women, the increases occur at all age cohorts but are highest for 30-44 and 55 and over.

Considering the regional and sex distribution of economically inactive people in Figure 4.5, it is clear that inactivity has been very stable in rural areas. For rural men, the numbers were between 65.4 thousand to 81.1 thousand, while for women, it was 87.4 thousand and 124.4 thousand. This is most likely because most individuals are engaged in the livestock sector,

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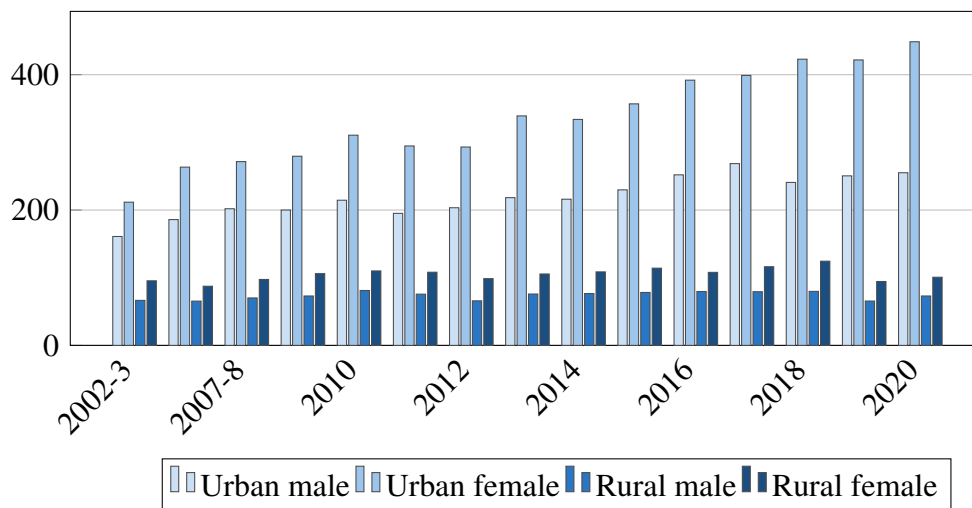
Figure 4.5: Population outside the labour force, by gender, by region, 2002-2020
Source: LFSs published by NSO, various years.

which is potentially a lifetime occupation (RILSP, 2015), and for women, as the primary area of economic activity within the rural livestock sector is centred around the home. Therefore, having small children has less impact on their economic activity. However, although the number has increased for urban men, it was not as drastic as for urban women, which more than doubled from 212 thousand in 2002/3 to 448.7 thousand in 2020.

Therefore, it can be summarised that most economically inactive individuals are women, and this proportion has risen. However, before we look at women's economic activity, the following section revisits the issue of informal employment and aims to identify the challenges faced by individuals in this sector.

4.3   Characteristics of Informal Employment

As described in the previous chapter, informal employment[40] and livestock herding served as shock absorbers in Mongolia during the period of transition (Bolormaa & Clark, 2000; Morris,

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[40] The definition of informal employment used in this chapter and the different frameworks surrounding the informal sector statistics and data are presented in the Appendix (A.1.)

2001; Turner & Koenig, 2015). However, the early trends that emerged during the first ten years of the market transition, such as increased agricultural employment and migration from cities to rural areas, have reversed. Nevertheless, the significance and variety of informal employment remain relevant. In this section, we examine the informal sector's size, makeup, and functions in Mongolia's labour market and investigate possible causes for the longevity of the sector.

Although unofficial and private trade activities were not entirely new (Takiguchi, 2013), informal economic activities spiked in the first decade since the start of the transition. As discussed in Chapter 3, by the late 1990s, over 100 thousand individuals were employed in the sector in Ulaanbaatar alone and equalled to around a third of the officially recorded GDP at the end of 1996 (Anderson, 1998). Studies conducted by Anderson (1998), Bikales et al. (2000a), and Morris (2001) have identified the following as distinct features of the Mongolian informal sector workers:

- Informal workers paid income taxes.

- Informal workers are relatively educated.

- It is easy to enter the informal sector.

- Rural-to-urban migration creates a large pool of workers.

The studies from the late 1990s and early 2000s are the foundation for the above-mentioned observations. Thus, it could be useful to determine if these still apply and to identify any possible changes. However, before proceeding further, it is useful to distinguish informal workers by status. This is especially important in contemporary informal sector employment in Mongolia, as there have been some noticeable changes. Not all LFSs present this classification, but Table 4.3 illustrates available data. The share of employers has been rising rapidly, and it stood at 51 per cent in 2021, compared to 9 per cent in the early 2000s. Conversely, the share of self-employed has been declining throughout, but more gradually, while the share of paid employees

	2002/3	2007/8	2010	2015	2021
Employer	8.9	4.6	9.9	24.7	50.5
Self-employed	90.2	76.0	68.0	51.8	42.2
Paid employee	0.9	11.9	16.8	12.1	7.3
Unpaid family worker	N/A	6.7	5.3	10.1	N/A

Table 4.3: Informal employment, by employment status, 2002/3-2021
Source: LFS (NSO, 2004, 2009b, 2020b) and ILO (2021)

has been declining considerably since 2010.

In other words, in the recent decade, employers and self-employed have come to comprise the majority of workers in the informal sector. This is in stark contrast to informal sector employment in Russia, where hired labour accounts for the vast majority of informal employment (Gimpelson & Kapelyushnikov, 2014). Individuals' perceptions and attitudes toward informal employment have changed, with the majority perceiving it as a permanent alternative to paid formal work. It is a significant shift from Anderson's finding that most individuals in Mongolia's informal economy did not even consider themselves employed (Anderson, 1998). Similar findings were reported by Bikales et al. (2000b) in 1999.

One of the distinct features of the Mongolian informal sector was that they were registered with local authorities and paid taxes (Anderson, 1998; Bikales et al., 2000b; Turner & Koenig, 2015). Bikales et al. (2000b) confirm that enforcement was high, as all informal sector businesses they surveyed were registered and taxed. However, according to Turner and Koenig (Turner & Koenig, 2015), it slightly declined, with 10 per cent reporting that they did not pay taxes. Moreover, the Law on Informal Sector Income Tax was repealed in 2015. The new laws on Value Added Tax (Parliament of Mongolia, 2015) and Personal Income Tax (Parliament of Mongolia, 2019) offer the legal framework to impose taxes on profits even when no legal corporation has been constituted. Although taxes might not be the main reason to remain in the informal

	1995	2002	2009	2015	2021
Total insured (in thousands)	409.1	308.1	543.8	989.0	1,019.1
Compulsory	395.4	285.8	492.2	799.8	862.2
Voluntary	13.7	22.3	51.7	189.2	157.0
Share of voluntary, %	3.4	7.2	9.5	19.1	15.4
Informal sector employment		126.0	163.9	205.7	178.1
Number of herders	390.5	289.8	349.3	297.8	305.4

Table 4.4: Social insurance contributors, 1995-2021
Source: NSO website

sector combined with labour costs, they have been found recently to be considerable barriers to formality (ILO, 2021). The most frequently cited reason for the self-employed was the lack of interest in changing their current circumstances. Social insurance contributions that employers are required to pay have risen from 10 per cent in 2008 to 12.7 in 2018. It was lowered again from July 2021 to 11.7 per cent.

Conversely, the voluntary social insurance contributions[41] are a much cheaper alternative and the number of people taking advantage of the scheme has been rising in recent years. NSO reports that between 1995 and 2015, the number of volunteer contributors increased from 13.7 thousand to 189.2 thousand, or between 3 and 19 per cent of all contributors (see Table 4.4). It could be argued that it has become easier to register and make contributions thanks to technological advances and increased use of mobile devices and internet access.

Regarding educational attainment, in order to make a living during the transition years, it could

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[41] The legal and policy framework, Parliament Resolution 2006 approved the government's Policy on Informal Employment, which was implemented in three phases: the first in 2006–2008, the second in 2009–2011, and the third in 2012–2015. In addition, objectives and measures affecting the improvement of labour and social protection of all employees are being developed in policy documents such as Mongolia's long-term development policy, the Government Action Programme (2020–2024), 'State Employment Policy 2016-2025', 'Three Pillar Development Policy', and 'Vision-2050', but there is currently no specific policy document explicitly concerned with informal employment.

Education level	2002-2003	2019	2020	Registered unemployed, 2020
Unskilled	1.2	2.1	2.4	1.5
Primary	5.1	2.6	3.1	2.1
Incomplete secondary	23.2	9.0	11.2	6.4
Secondary	36.9	21.2	27.4	58.7
Technical and vocational	9.1	40.0	29.9	5.1
Specialised secondary	13.8	6.7	4.9	3.7
Diploma, Bachelor	10.7	17.3	20.3	21.7
Masters	-	1.1	0.8	0.9

Table 4.5: Education attainment of informal sector workers, 2002-2020
Source: LFSs (NSO, 2004, 2020a, 2021)

be argued that educated individuals were forced to take up jobs in the informal sector. Such informal jobs were considered undesirable and a last resort. Individuals would try and obtain formal jobs once the economy recovered, and formal jobs became available. However, the recent numbers from the LFSs show that educational attainment has only improved, and not gotten worse (Table 4.5). Bikales et al. (2000b) compared the education levels of informal workers and registered unemployed in 1999 and found that the share of individuals with higher education among informal workers was five times larger than for the registered unemployed. However, a comparison of 2020 figures shows that the proportion of educated is larger in the latter group, while the informal workers slightly declined but remains above 20 per cent. Indicating that although the assessment that Mongolian informal workers are educated is still largely valid, it also points to a weak demand in the formal labour market.

The fact that it is easy to enter the informal sector still seems valid. However, it could be argued that no two activities are the same, nor do two potential entrants have the same means. The World Bank's Doing Business Report indicates that it is relatively easy to start a business

in Mongolia, and in recent years, it has become even more accessible due to improved access to credit and tax reforms. However, other indicators related to operating a formal business, such as obtaining electricity, trading across borders, dealing with permits, and resolving insolvency, have seen little progress and remain burdensome. Mongolia's Ease of Doing Business ranking has fallen from 56 in 2016 to 81 in 2020.

As discussed in the previous chapter, the case of rural-to-urban migration remains relevant. According to the 2002/3 LFS, over 71 per cent of informal employment was located in urban areas, the number rose slightly, and the average stood at 77.2 per cent between 2002/3 and 2020. On average, the share of Ulaanbaatar was 48.6 per cent between 2007/8 and 2020. As of 2020, the number of informally employed individuals in the capital was 118.3 thousand out of 209.9 thousand. Furthermore, the internal migration process has become simpler with the revision to the Civil Registration Law in 2018 (Parliament of Mongolia, 2018). Individuals wanting to relocate can do so by registering at the new address without deregistering at the old one. The most important conditions that make the relocation in Mongolia even more straightforward in terms of administrative procedures and logistics are (i) not officially owning land in the rural areas, as the state owns pastureland; (ii) families migrating to the city do not have concerns about the immediate shelters, as they migrate with their mobile homes (*gers*); and (iii) even if a job is not immediately available, ease of entry into the informal sector provides economic opportunities, that are lacking in the rural communities.

For those who work informally, the benefits include flexible hours, decent income, and a job that matches their skill set. In contrast, the drawbacks include the lack of social security, unstable wages, and limited access to healthcare (ILO, 2021). The average length of time spent in informal employment was 11.8 years. Furthermore, 30.5 per cent worked for 16 years or more, 34.3 per cent for 8–15 years, and 35 per cent for less than 7 years. In general, self-employed individuals worked the longest tenure in their current occupation, while employees worked the

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	2009	2012	2015	2018	2021
Industry	16.8	19.7	17.9	20.1	19.2
Female	36.9	41.4	44.3	44.8	35.5
Construction	4.8	5.8	7.3	4.0	19.7
Female	26.3	23.5	26.4	11.8	16.1
Wholesale and retail trade	47.8	44.4	41.3	43.5	25.8
Female	53.4	57.8	55.1	51.1	53.4
Transportation and storage	18.7	17.2	20.0	19.2	15.2
Female	5.5	5.3	5.4	5.7	2.1
Accommodation and food	2.4	3.0	3.0	3.2	6.0
Female	67.3	65.7	74.8	72.0	80.9
Finance	0.2	0.1	0.5	0.3	0.8
Female	65.3	56.4	78.2	76.7	53.4
Information	0.4	0.9	0.5	0.5	0.5
Female	34.7	29.9	19.2	25.3	68.8
Other	8.9	9.0	9.3	9.3	12.9
Female	41.3	59.8	51.0	50.8	47.6
Total (non-agricultural)	100.0	100.0	100.0	100.0	100.0
Female	39.6	43.7	41.2	40.1	35.8
Agriculture (in thousands)	348.8	370.0	327.6	334.1	285.9
Female (%)	45.7	46.8	45.1	42.9	43.8
Total (in thousands)	512.7	544.4	533.3	554.1	464.0
Female (%)	43.7	45.8	43.6	41.8	40.8

Table 4.6: Informal employment, by economic sectors (% on total), 2009-2021
Source: NSO website
Note: Except for 2021, the agriculture sector employment figures presented are total numbers that include a small percentage of people who work in the formal agricultural sector[1].

(a) Total employed (in thousands)

(b) Shares (% of total)
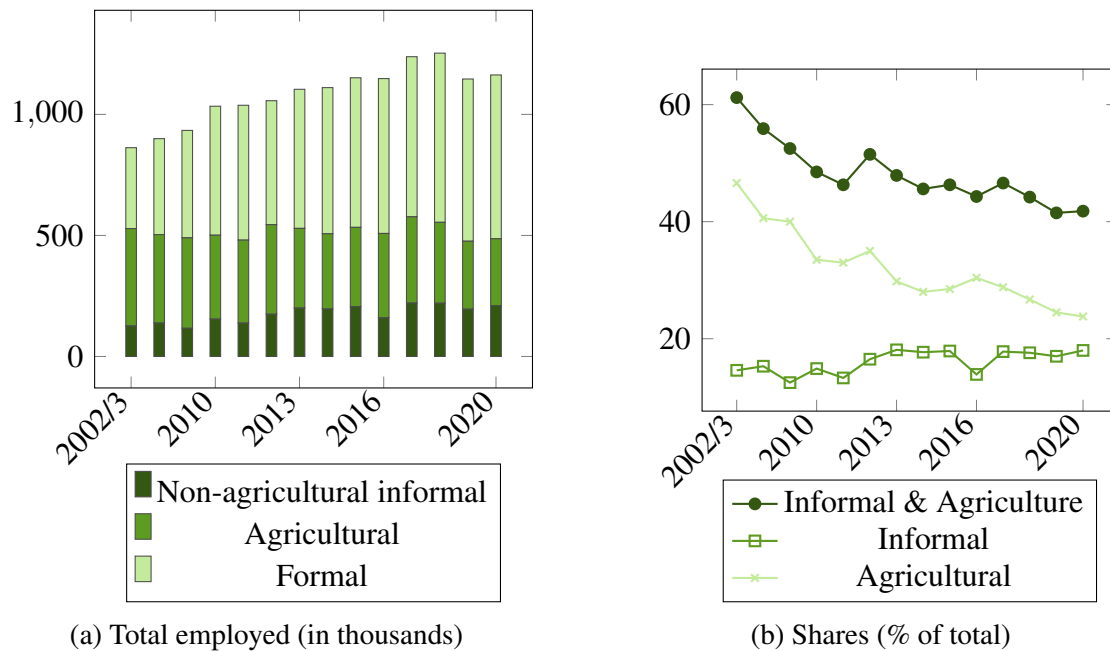
Figure 4.6: Agricultural and non-agricultural informal, formal employment, shares, 2002-2020
Source: LFSs published by NSO, various years, NSO website.

shortest tenure (ILO, 2021). This is remarkably stable when compared to another finding in 2015 (2015, p.28), which estimated the average job tenure (including herders) to be 5.6 years and 7.7 years, respectively. This indicates that informal employment in Mongolia is becoming a more solidified and permanent form of work, where few intend to formalise.

The distribution of informal employment across the major economic sectors is presented in Table 4.6. Between 2009 and 2021, fewer than 20 per cent of informal employees worked in the industrial sector, which includes mining (3 per cent). Over 40 per cent of individuals worked in the wholesale and retail trade, automobile and motorcycle repair, another 20 per cent were engaged in transportation and storage, and 8 per cent were employed in the construction industry[42].

The average share of women employed in the non-agricultural informal sector was around 40

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[42] Beginning in 2019, NSO began to publish data on informal employment, both including and excluding the agriculture sector, which meant that it became possible to distinguish between informal and formal agricultural sector. However the difference is small. For instance, the total number of people working in agriculture in 2019 was 290 thousand, whereas the number of people working in informal agriculture was 280.8 thousand.
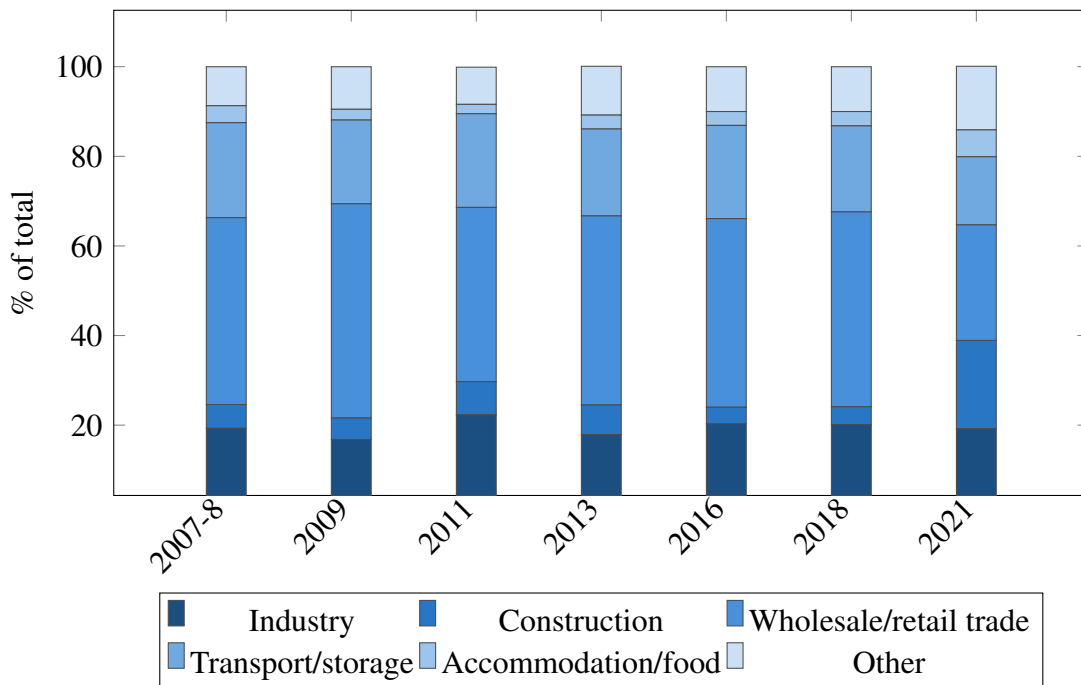
Figure 4.7: Non-agricultural informal employment, by economic sectors, % of total, 2007-2021
Source: LFS (2009a), NSO website

per cent. However, while their representation is lowest in the construction (20.1 per cent), transportation and storage sectors (4.8), women are predominant in industries such as wholesale and retail trade (54.2 per cent) and accommodation and food services (72.1). The table also includes employment figures for the agricultural sector. Although the agricultural sector is excluded from informal employment in Mongolia, it is worth illustrating them together to emphasize their combined proportion, which is sizeable.

Figure 4.6a illustrates the total employment by three categories, informal in the non-agricultural sector, agricultural sector, and formal employment in the non-agricultural sector. Although the total number of informal and agricultural jobs has decreased from 528 thousand to 486 thousand over the last two decades, the decrease is due to the latter's decline, while the former has increased overall (Figure 4.6b). Furthermore, in almost two decades, the formal employment share has increased by almost 20 per cent since the early 2000s, from 38.8 per cent in 2002 to 58.2 per cent, increasing from 334.2 thousand to 676.6 thousand.

Household grouping by income (national)	2019 (NSO website)	Pre-pandemic ILO (2021)	Household grouping by income (informal)
Under 500,000	17.2	3.8	Under 420,000
500,001 - 700,000	13.3	10.5	420,000 - 750,00
700,001 - 1,100,000	25.1	24	750,000 - 1,000,000
1,100,001 - 1,600,000	20.8	19.6	1,000,000 - 1,500,000
1,600,001 - 2,100,000	11.2	17.1	1,500,000 - 2,000,000
2,100,001 and over	12.4	5.3	2,000,000 - 2,500,000
		19.6	2,500,000 over

Table 4.7: Share of household, by income groupings, national average and informal.
Source: NSO website, ILO (2021, p.34)

Lastly, looking at how informal workers' household income and salaries fare with the national average is helpful. Although such data are scarce, ILO report provides information on the average monthly household income among informal employment workers, which stood at MNT 1,937,000 (USD 730[43].) before the COVID-19 pandemic (ILO, 2021). This is 44.2 per cent and 28.4 per cent higher than the total national average household monthly income in 2019 and 2020, respectively. Compared to Ulaanbaatar average, it is still higher, by 28.2 per cent and 11.3 per cent for the same periods (NSO website).

Table 4.7 compares the share of households by income groupings: the national average versus informal workers. Unfortunately, the income groupings could not be manipulated to reflect same groupings. According to the table, the share of low-income households is much lower among informal worker households, while the share of high-income households is significantly higher. Additionally, informal workers work 58 hours per week on average, with men working slightly more. For both men and women, employers work the longest hours.

According to the report, the average monthly wage for workers or net income for self-employed

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[43] AroundJapanese Yen (JPY) 80,000

individuals in informal employment was MNT 1,709,000 (USD 640)[44]. On average, males earned more than females, particularly among employees in the informal sector. Figure 4.8 compares the report's findings to national NSO figures. Although the average monthly salary for the three groups of informal workers is significantly higher than the national average of MNT 1,124,300 in 2019, categorizing them by group and sex, and comparing them to salaries in other categories, provides more nuanced information. First, both men and women employers in the informal sector earn much higher than the national average.

Men's net income as employers is nearly 80 per cent higher; women's net income is double the national average. It is slightly lower for self-employed individuals, at 21 per cent and 19 per cent, respectively. Conversely, employees in the informal sector earn 13 per cent less than the national average (3.5 per cent for men and 25.6 per cent for women). In fact, the employees earn just slightly more than the workers in the 'elementary occupation' (low-skilled, in the figure). The net income of self-employed workers in the informal sector is closest to that of the catch-all category of 'other' workers classified according to the type of business organisation (NSO website).

It can be summarised that informal employment in Mongolia has strengthened in recent years. Due to the lack of adequate incentives to formalise, the share of informal workers who employ others has grown considerably. The share of formal wage employment is declining, while the share of the informal sector is gradually growing. Furthermore, only employees in the informal sector, who make up a smaller proportion, would want to change if formal jobs became available. Suggesting that Mongolia's informal sector has adapted and learned to survive under current economic conditions. Moreover, because employers and self-employed individuals earn higher wages, they are more resistant to change. Another factor contributing to the informal sector is rural-urban migration, caused by a lack of economic and employment opportunities in rural areas. The relative ease of entry and the formal sector's bureaucratic burdens and labour costs

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[44] Around JPY 70,000.

Figure 4.8: Average monthly salary comparison
Source: Average salary for three groups of informal workers (Employee, Self-employed, Employer) are from ILO
(2021, p.50); the rest taken from NSO website.
Note: * - the category of *elementary occupation* was renamed her, for the sake of brevity;
** - refers to category of "Other" workers classified according to the type of business organisation.

help maintain the status quo.

4.4   The Effects of COVID-19 on the Labour Market

The COVID-19 pandemic has had a significant and widespread economic impact in Mongolia. In the first nine months of 2020, the economy contracted by 7.3 per cent — the worst since the transition (World Bank, 2021). A sharp decrease in demand for key commodities and border closures with China significantly impacted the mining sector, declining by 20 per cent between 2019 and 2022. The services sector was also hard hit due to mobility restrictions and declining incomes. The impact of COVID-19 was most severe for small and newly established businesses, and those in the manufacturing, tourism, trade, transportation, construction, and education sectors. In fact, by the end of 2022, the construction sector experienced a 19.4 per cent decline between 2019 and 2022. The transport and storage sector (-21.9 per cent), real estate (-1.8 per

cent), and other services (-5.8 per cent) still have not fully recovered to pre-pandemic levels (NSO website).

The pandemic had a severe effect on the labour market as well. Overall, LFP fell by 4.1 per cent between Q1 of 2020 and Q1 of 2021. The number of unemployed individuals increased by 22.5 per cent between Q1 of 2020 and Q2 of 2021. However, the number of unemployed women increased by 50.3 per cent during this period. Conversely, men's unemployment fluctuated greatly during the same period, with increases in Q3 of 2020 and Q1 of 2021. However, the number of economically inactive men increased by 11.3 per cent year on year in Q1 of 2021, whereas it increased by 7.5 per cent for women (see Appendix A.2).

Government response to COVID-19: Mongolia was one of the few countries to implement strict lockdowns early on during the pandemic (WHO, 2020). Although international agencies and the media lauded the early response, longer and stricter lockdowns meant the economic ramifications would be more severe in the long run. The following are the key events and government responses during the first year of the pandemic:

- By the end of January 2020, Mongolia closed its borders to all foreigners travelling from China, prohibited public events and large gatherings, and ordered the closure of all schools until March.

- By mid-February, the government introduced customs duty and VAT exemptions on certain essential goods (UNDP, ADB, & NCGE, 2021).

- The first case of COVID-19 was detected on 10 March 2020, and the patient received treatment without a widespread outbreak.

- By the end of March, the government introduced tax relief measures, including social security contributions and personal and corporate income tax. Also, MNT 200,000 (USD 72) per employee to enterprises retaining their workers. CMP allowance was increased

briefly to MNT 30,000 before increasing to MNT 100,000, and back payments were made to cover the difference.

- The extension of school closures for the remainder of the school year; state exams were cancelled.

- On 29 April 2020, the Law on Neutralising the Negative Effects of the COVID-19 Pandemic was passed (Parliament of Mongolia, 2020).

- Schools started on 15 September, but the kindergartens for children under 2 years old remained closed.

- On 11 November 2020, the first locally transmitted case was reported, followed by five-day strict lockdown measures, which were then extended until December.

The government relief package, totalling to MNT 3.6 trillion (USD 12.8 billion) or 9 per cent of GDP, two-thirds were intended for spending measures, such as increases in CMP allowance (by this time it stood at MNT 100,000 per child per month), health spending, cash transfers to herders, doubling food stamps allowances, wage subsidies for enterprises etc. The rest covered tax relief measures (World Bank, 2021). Apart from this, the government has also issued exemptions on utility fees of households and certain enterprises until the end of 2021.

Sectoral changes in employment during COVID-19: Employment in the mining sector fell 18.4 per cent by the fourth quarter of 2020. Construction fell by approximately 13 per cent year on year by Q1 of 2021. However, women's construction employment increased from 8 thousand in Q1 of 2020 to 26 thousand in Q3 of 2021. Women in the wholesale and retail trades immediately felt the impact, with a 7 per cent decrease in employment during the first two quarters of 2020. After a slight increase in Q3 of 2020, employment fell for two consecutive quarters to reach 84.6 per cent of the level it was during the Q1 of 2020. The overall wholesale and retail trade sector has yet to reach pre-pandemic levels by Q4 of 2022.

Lockdowns and mobility restrictions have significantly impacted the transportation and storage sectors. The overall sector fell by more than 30 per cent in the first year and a half. However, women's employment in the sector has more than halved. For women, the accommodation and food sector has also reduced by more than 13 per cent in the first year. The information and communications sector added 8.6 thousand jobs in Q1 of 2020 but lost those gains and fell below pre-pandemic levels a year later. Women left the finance and insurance industries in greater numbers, thus decreasing by 21 per cent in a year. Overall, the real estate industry suffered greatly, losing 3.7 thousand jobs or contracting by nearly 80 per cent between Q1 of 2020 and Q1 of 2021. Women's contraction was also higher here, at 84 per cent.

During the same period, the education sector reduced by 24 per cent for women. However, it recovered faster than the average until the Q4 of 2021. Another sector that has experienced an early increase is the health sector, where over 23 thousand jobs were added between Q4 of 2019 and Q1 of 2020. However, it decreased throughout Q2 of 2021. For women, the increase in the health sector was 15 thousand between Q4 of 2019 and Q2 of 2020, and the decreases were milder (NSO website).

The NSO has introduced 'due to the recent pandemic' as one of the reasons for economic inactivity since the Q1 of 2020, and for unemployment since the Q1 of 2021. For both inactivity and unemployment, the proportion of men citing COVID-19 as a reason was higher than that of women. Overall, the share of economic inactivity due to the pandemic was relatively small, with an average of 0.6 per cent between Q1 of 2020 and Q4 of 2022, and it is 0.9 per cent for men. The shares have also risen in Q2 and Q4 of 2020, Q3 and Q4 of 2021, and Q2 and Q4 of 2022. In all instances, men's proportions were larger, and the peaks were in Q2 of 2020 at 2.3 per cent, Q4 of 2020 at 1.7 per cent, and Q4 of 2021 at 2.2 per cent, with a slight increase to 1.1 per cent in Q2 of 2022. Conversely, the proportion of unemployed individuals due to COVID-19 was much larger. In Q1 of 2021, the overall proportion of unemployed individuals

due to the pandemic was 14.3 per cent, and for men, it was 16.3 per cent. The proportion peaked in Q3 of 2021, with 23.9 per cent of men being rendered unemployed for this reason. It has since declined and remained less than 1 per cent for the last three quarters of 2022, suggesting the labour market has started to recover from the pandemic.

Due to the restrictions imposed during COVID-19, more than half of self-employed and the majority of employers and employees in the informal sector reported having ceased their business activities (ILO, 2021). Approximately, 70 per cent reported a decrease in operations, and 10 per cent reported their businesses were temporarily closed, mostly in the hospitality and food sectors. The service and processing industries suffered the most. The average weekly working hours have decreased by 6-7 hours, with women experiencing greater reductions. Profits were cut by 50 per cent on average, and nearly half of the informal sector workers said their earnings were insufficient to cover household expenses.

The effects of COVID-19 on women and girls have been extensive, and it can be explained by the following arguments. First, as a result of COVID-19, more women-led businesses (23 per cent), particularly small businesses, laid off employees compared to men-led businesses (8 per cent). Furthermore, freelance workers with little or no income have struggled to meet loan repayment, social insurance, taxes, and rent schedules. This was most noticeable in the trade and service sectors, which employ the majority of female informal workers (Tsolmon et al., 2022). The largest decline in revenue was in the accommodation and food services sector, where the real GDP declined by 18.8 per cent in two years between 2019 and 2021. After a decline of 12.5 per cent in the first year, the wholesale and retail trade sector is slowly returned to growth, reaching the 2019 level by the end of 2022. Other sectors, such as education, reported losses in 2020 and 2021, declining by 3.2 per cent in two years (NSO website).

Second, women make up a larger proportion of front-line workers. They made up 84.3 per cent of health and social welfare service workers in 2019. Furthermore, women comprise women the

majority in the education sector (73.3 per cent in 2019), which was affected early on. The school closures have increased the burden on teachers and affected children's learning, particularly in poorer households with limited access to technology.

Third, lockdowns, school and kindergarten closures, and overburdened healthcare systems drove many women out of work. The need for children, elderly, sick, and disabled members of the household and overall unpaid care burdens increased significantly. This is especially true for single women with young or multiple children, who are more likely to experience poverty.

Lastly, it is also worth mentioning the increase of domestic and gender-based violence during the lockdowns and restrictions (Nagashima-Hayashi et al., 2022)), as well as a general decline in health indicators. For instance, maternal mortality increased from 23 in 2029 to 95 in 2021 (NSO website).

In conclusion, the coronavirus pandemic exacerbated Mongolia's already poor labour market performance by lowering LFP rates and increasing unemployment. Although unemployment had decreased for both men and women by the end of 2021 compared to 2020, LFP rates continued to fall as individuals left the labour force. Between 2019 and 2021, economically inactive men increased by 9.7 per cent, while women increased by 12.4 per cent. The pandemic's adverse effects were also much higher for the informal sector workers, as most government relief plans targeted formal businesses. If the COVID-19 pandemic can be viewed as an X-ray of the larger economy, exposing the weaknesses and issues, it exposed the weaknesses in the labour market in Mongolia, particularly the issues of informal workers, economically inactive people, the burden of underfunded social services, and gender biases. The following section turns to examine how societal expectations affect women's birthing and marriage behaviour and how that, in turn, affects their LFP.

4.5   Birthing Behaviour as a Characteristic of Women's LFP

It was established earlier in the chapter that most of the growing economically inactive individuals are women. In this section, we focus on women's economic activity, and in the next section, we attempt to explain the growth from the institutional perspectives that impact women's economic activity. The notion that women's education and LFP have contributed to declining fertility rates in the developed world is supported by a large body of research in demography and economics (Goldin, 2006; Lutz, Skirbekk, & Testa, 2006; Myrskylä, Kohler, & Billari, 2009). Studies have found that higher levels of education among women are associated with lower fertility rates (Martin, 1995) and effects on the timing of critical life-cycle events for young women, such as marriage and childbirth (Bongaarts, Mensch, & Blanc, 2017).

By global standards, the education of women and girls in Mongolia is particularly high for secondary and tertiary education. Although a reverse gender gap in higher education has emerged since the 1990s, the gap has recently decreased. The average female-to-male ratio in higher education was 1.50 between 2002-2022 (NSO website). Table 4.8 presents some statistics on gender dimensions in Mongolia. From here, it is clear that women obtain an education at higher rates. However, the gender gap in LFP and pay are quite high. Significantly, the gap in the LFP rate rose to 15.0 per cent in 2020.

Figure 4.9 illustrates the age distribution of women's LFP rates (see Figure A.3 for male LFP rate for comparison). A few aspects of the dynamics of the LFP are also noteworthy. First, compared to the early 2000s, by 2018, the overall participation of women in the labour market has sharply declined. The LFP rate of women between the ages of 15 and 44 has seen the most significant decreases (Figure 4.9a). Second, the statistics comparing urban and rural areas show that the national decline in the participation of women aged 15 to 29 is primarily caused by the decreases in participation among rural women (Figure 4.9c). Whereas, for women aged 30-54, the leading cause is the decline in urban women's LFP (Figure 4.9b). Third is the sharp decline

	2000	2006	2010	2015	2020
Girls to boys in secondary education, ratio	1.20	1.11	1.19	1.21	1.20
Female to male students in higher education, ratio	1.72	1.53	1.48	1.36	1.55
Women in total employment (%)	46.0	48.4	47.5	47.5	47.4
Gender gap in LFP	13.1	9.2	11.0	12.7	15.0
Gender pay gap	11.8^a	16.1^b	15.1	11.1	16.3
Women in managerial positions (%)	-	-	35.8	37.8	47.4
Women in total full-time employees with scientific degrees, ratio	-	1.01	1.09	1.03	1.41
Women candidates elected to parliament (%)	11.84	6.58	3.95	17.11	17.33

Table 4.8: Gender dimensions in Mongolia, 1990-2020
Source: Ministry of Education and Science website, Adiya and Weidman (2011), NSO website, PHC (NSO, 2001), and LFS (NSO, 2008).
Note: *a* - in 2001; *b* - in 2005.

(a) National average	(b) Urban	(c) Rural
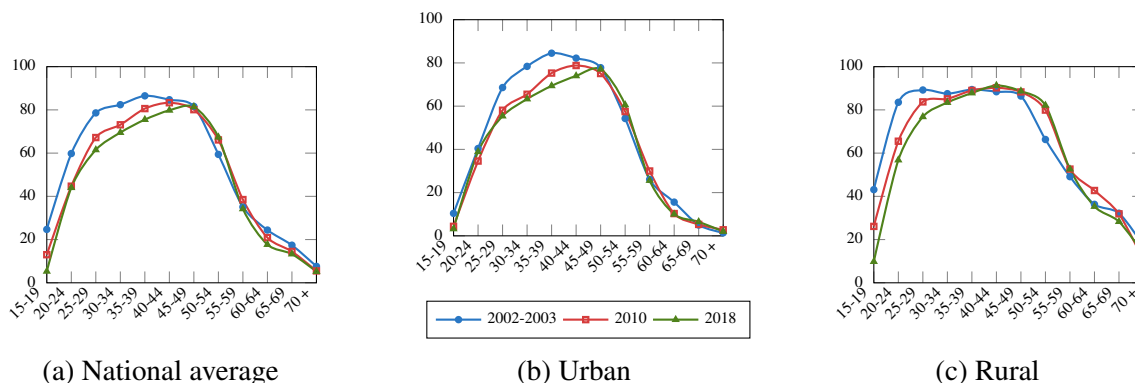
Figure 4.9: LFP of women, by age, by region, 2002-2018
Source:LFSs (NSO, 2004, 2011, 2019a)

of LFP in women over the age of 49.

In an international comparison, women's LFP rates in Mongolia at all stages are relatively low (Figure 4.10). While the LFP rate for women aged 25-54 is somewhat comparable to many countries, it is the second lowest after Romania. Women between the ages of 15 and 24, it ranks second to last among the countries compared. However, the LFP rate for older women between the ages of 55-64 is most striking, as it is more than 40 percentage points lower than Lithuania's (71.9 per cent) and still 5.4 percentage points lower than Romania's (36.4 per cent), which has the second lowest rate.

Hence, the distinct features of the female LFP in Mongolia can be summarised as having (i) a delayed start, (ii) a late peak and (iii) a sharp early decline. Educational level is high, to begin with, but the LFP remains low because the fertility rate is high. Women in Mongolia also tend to have children earlier. According to Reproductive Health Surveys (RHS)s and Social Indicator Sample Survey (SISS) 2013, the mother's mean age at first birth was between 21.6 in 1998 (NSO & UNFPA, 1999) and 22.3 in 2008 (NSO & UNFPA, 2009). In 2013 — the latest year available — women had their first child at 22.1 years of age, a small change (NSO, 2014). For comparison, in 2013, the transition countries average was 25.5 (UNICEF)[45]. Incidentally, age

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[45] Transition countries include Albania, Azerbaijan, Armenia, Bulgaria, Belarus, Croatia, Czechia, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Poland, Romania, Russian Fed-
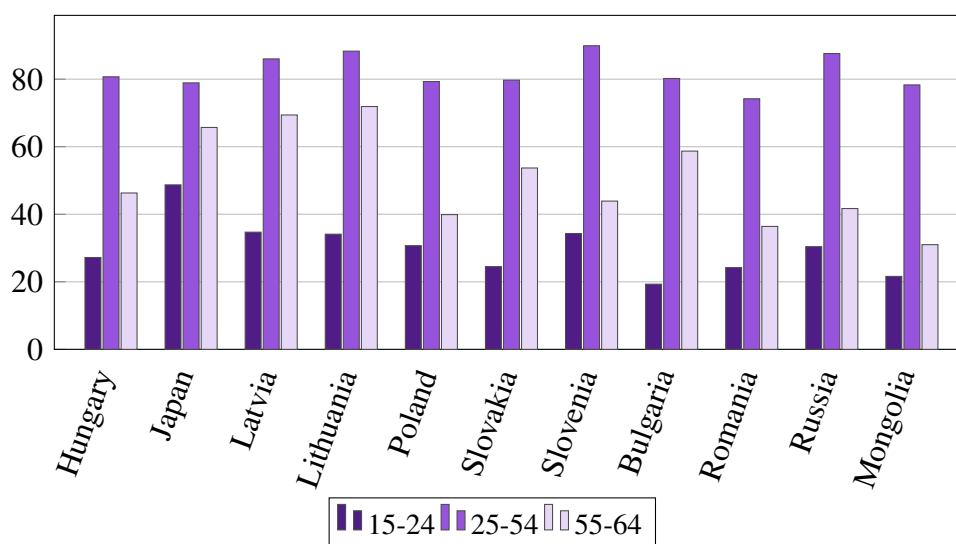
Figure 4.10: LFP of women in selected countries, 2018
Source: OECD database, figures for Mongolia are calculated using data from NSO website.

22 is also when most young women graduate from higher education institutions and universities. This explains the lower participation rates for women aged 20-24 who remain home to care for their children. The increase in birth rates and total fertility rates in recent years is illustrated in Figure 4.11. Historically women in Mongolia got married early. For instance, in 1979, the average age for young women at first marriage was 18.5 years. However, it is worth noting that it increased rapidly to 26.7 years of age in 2020.

While increasing women's educational levels and simultaneously maintaining population growth and family formation is not necessarily bad; low LFP of women at prime age is concerning and inefficient. When women's employment is delayed, they lose valuable knowledge and skills. The crucial life-cycle event occurring at the stage when women are meant to be starting their careers results in a delayed start. Additionally, Mongolian women are forced out of the work-force as soon as they turn 50 due to the early retirement age of 55[46], and even earlier at 50 for

eration, Slovakia, Slovenia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. UNICEF data portal: https://w3.unece.org/PXWeb/en .

[46] Since 1999, women have been able to work past the traditional retirement age of 55 'upon request' (see A). According to the Law on Pensions and Benefits Allocated from the Social Insurance Fund, it has been resolved to gradually raise the retirement age to 65, with women attaining that age by 2067 and men by 2042. However, they
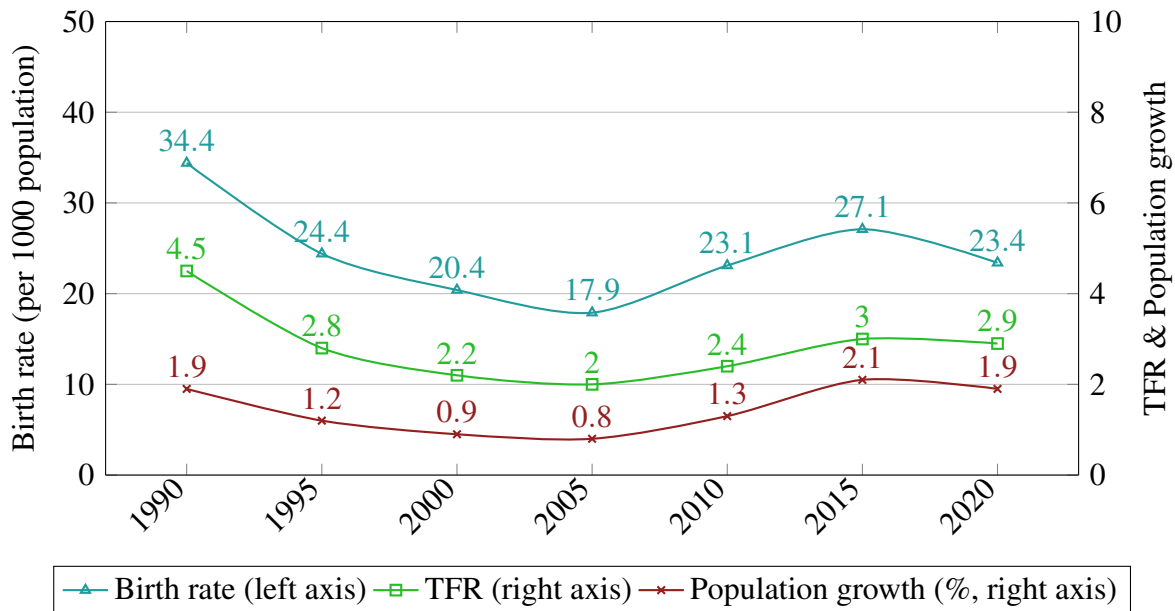
Figure 4.11: Fertility and population indicators, 1990-2020
Source: Population growth rate is from WDI, crude birth rate and TFR are from NSO database

women with four or more children, herder women or women who have worked in harsh conditions. As a result, women's working lives are very brief. Moreover, job interruptions due to subsequent children or other life decisions prevent women from seeking opportunities to further their careers and increase their earnings.

While there may be many reasons for the phenomenon under consideration at both macro and micro levels, including factors such as women's individual choices related to important life events like marriage and childbirth, as well as professional education and career, this chapter identifies the following factors that will be discussed in more detail in the next section. These are:

- The government's pronatalist policies strongly manifested in the form of welfare provisions, such as the CMP and "Mothers with Salary", coupled with;

- Weakening childcare and the absence of elderly care services in the face of the growing

could still retire at 55 and 60, respectively.

population.

- The early retirement schemes for women.

- Weak labour market policies.

4.6   Institutional Background to Inactivity

4.6.1   Welfare Provisions

The State Policy on Population Development, approved by Parliamentary resolution in 2004, highlighted the decrease in population growth since 1989 and emphasised the need to increase population growth by encouraging families to have three or more children and assisting newly-wed couples. The resolution expanded family-focused welfare provisions, such as Newlywed, Newborn cash transfers and provided revisions to other pronatalist policies inherited from the socialist period. The expansion of social transfers was made possible by large budget surpluses achieved in 2005–2006 as a result of rising global prices for the country's copper and gold exports. Overall, the share of government transfers in the form of pensions and allowances in the total average household income has been rising. The growth has been especially steep since the early 2000s (Figure 4.12).

In this section, we focus on three specific programmes that are targeted toward children and women with children. The first two are much more generous. However, the third was an effective tool in raising the fertility rate in Mongolia (*Do Financial Incentives on High Parity Birth Affect Fertility? Evidence from the Order of Glorious Mother in Mongolia*, 2022).

Child Money Programme

Child Money Programme (CMP) is a non-contributory social assistance programme, which was launched in January 2005 as a targeted, conditional programme, using a proxy means test as
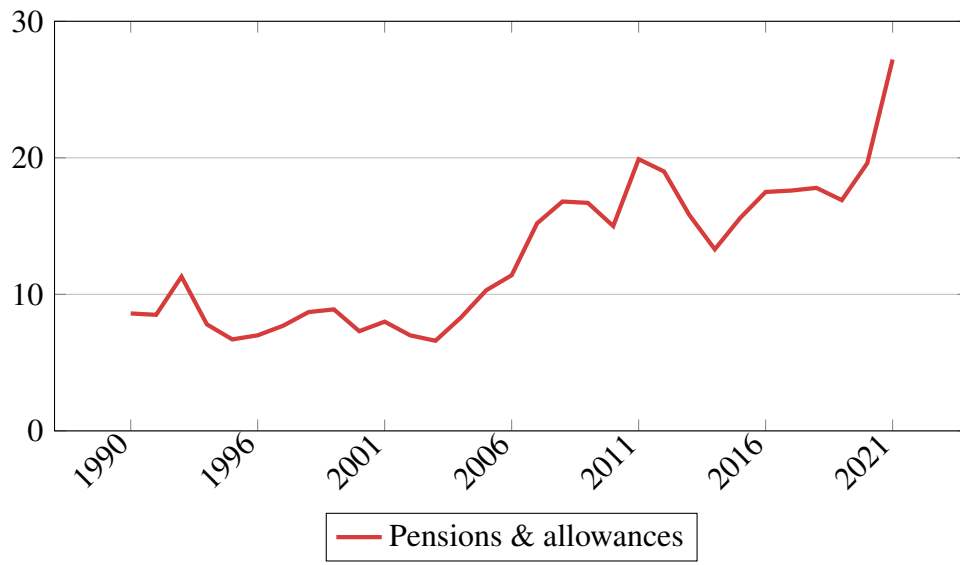
Figure 4.12: Share of pensions and allowances in total household monetary income.
Source: NSO website.

well as behavioural conditions to determine the eligibility of MNT 3000 (approximately USD2.5 or JPY 270) per month to children aged 0-17 years, living in the families with three or more children, and below Minimum Subsistence Level (MSL). It is also one of the most important tools for social protection and poverty reduction. The programme's coverage was expanded in July 2006 into a universal programme that did not use means testing while retaining a few conditionalities, such as school enrollment and living with parents. In January 2007, the benefit amount was increased to MNT 25,000 (USD22 or JPY 2,500) per quarter. From October 2012, the amount was raised significantly to MNT 20,000 (USD15 or JPY 1,200) per month and all conditionalities were removed. Currently, the amount stands at MNT 100,000 (USD35 or JPY 3,850) per child, per month, in accordance with the Law on Neutralising the Negative Effects of the COVID-19 Pandemic (Parliament of Mongolia, 2020). Apart from occasional brief periods in the beginning and in 2018, CMP has remained largely universal and since 2012, the CMP has provided monthly payments to approximately 1 million children aged 0-17 years. It is the largest programme, accounting for half of all cash transfers made by the government. In 2012, CMP was found to have a coverage rate of 33 per cent of the total population, and 94 per cent

of children under the age of 18. The programme accounted for 12 per cent of total household consumption for the poorest quintile (Gassmann, François, & Trindade, 2015).

Dandarchuluun and Choi (2019) investigated the effects of CMP on female labour supply and hours worked. They found that between 2002 and 2007 women with children reduced their relative LFP by 12.3 percentage points and their relative annual working hours by 155 hours. Although the study was conducted before the great expansion of CMP, the effect is still sizeable and with increases in benefit amounts, the effects have most likely persists, if not increased.

Other assistance programmes, such as newlywed and newborn one-time cash handouts of MNT 500,000 and MNT 100,000, respectively, have been introduced around the time of CMP launch, as part of the pronatalist policy actions taken by the government. The programmes ran between June 2006 and 1 January 2010. Around this time fertility did rise (Figure 4.11).

During the mining boom, yet another programme that was universal and populist in nature was the Universal Payments allocated to every citizen from the HDF, a fund that was established from the mining revenues. The programme ran between February 2010 and June 2012. Although these programmes have been shown to have a positive impact on poverty and inequality, without other policy instruments, the outcomes are not sustainable and incur a substantial burden on public finances. Between these years, public external debt of the country rose from 31 to 48 per cent of GDP (Yeung & Howes, 2015). The impacts of these programmes are illustrated in Figure 4.12.

Mothers with Salary

A programme called 'Mothers with salary' was introduced by the government in January 2018 to ensure the social security of mothers who care for children under the age of three. This programme pays mothers a monthly allowance of MNT 50,000 (USD 20 or JPY 2200). In the first year of the launch, the programme covered 153 thousand mothers (13.2 per cent of women

aged 15+); in 2021, it increased to 206.2 thousand (17.2 per cent of women aged 15+), and it cost the government MNT 89.7 billion (USD 31.5 million JPY 3.5 billion) or 0.2 per cent of GDP.

However, the programme does not grant the same benefits to working mothers with children less than three years of age. In May 2021 an amendment to the law was made to make it possible for fathers to receive childcare benefits (Parliament of Mongolia, 2017). As of May 2020, there were 20 thousand fathers who were eligible for the benefits (Tsolmon et al., 2022). The beneficiary data mentioned above does not provide sex segregation, thus it is impossible to know, what percentage represents fathers at this point.

Tsolmon et al. (2022) argue that the programme's design creates a further disincentive for women considering taking up employment. Such welfare provisions that strongly encourage women to stay home have the potential to perpetuate the traditional female versus male stereotypes further.

4.6.2 Old Age, Pension System, and Age Discrimination

The non-contributory public pension system inherited from the socialist era has been restructured to change to a contributory one with the 1994 'Law on Pensions and Benefits Provided by the Social Insurance Fund'. As previously discussed, the LFP rates of women sharply decline around the age of 50 years. For men, it is around the retirement age of 60. However, we argue that although early retirement at 50 years of age for women with four or more children and in certain professions is voluntary and under the revised law, the retirement age will eventually reach age 65, the voluntary nature does not help eliminate the age discrimination within the labour market. Schmillen & Weimann-Sandig (2018) discovered that age discrimination was perceived to be a significant issue, especially by individuals aged 30-50 years. To explore this further, we discuss here the Order of "Motherhood Glory", which falls under the social welfare

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Motherhood glory	208.8	207.5	208.2	209.5	213.5	214	218.7	223.3	231.5	239.3
CMP	896.2	948.6	994.2	1,029.4	911.8	1,073.6	870.9	1,000.6	1,186.3	1,220.2
Mothers with salary	-	-	-	-	-	-	153.0	204.5	199.1	206.2
Pregnancy	91.4	96.0	98.7	92.3	173.9	128	83.4	81.6	84.8	83.8
Allowances to twins	1.4	4.3	1.1	1.1	0.8	0.8	0.9	1.0	0.9	0.9
Single parent with 3+ children	0.9	1.8	1.6	1.6	1.7	1.6	8.1	7.0	7.5	8.0

Table 4.9: Number of recipients of some family oriented welfare provisions (in thousands), 2012-2021

Source: NSO database

provision, because it serves as the precondition for the early retirement scheme for women.

Motherhood Glory

The "Motherhood Glory" is the policy that has existed since 1957, which rewards women with many children with annual cash benefits and early retirements. Prior to 2011, it rewarded the second order to women with five or more children and the first order to women with eight or more children. In July 2007, the annual cash benefit was increased to MNT 50,000 (USD 20 JPY 2200) and MNT 100,000 (USD 40 JPY 4400) for the second and first orders, respectively. In October 2010, the criteria were lowered to four and six children, and the transfer amounts doubled. Another 'benefit' these mothers get is early retirement at the age of 50.

Between 2012 and 2021, the number of mothers receiving "Motherhood Glory" benefits increased by 15 per cent to 239 thousand. That is approximately 20 per cent of working-age women of 15 years and older. This means one in five women will retire early at age 50. Therefore, under such circumstances, employers are reluctant to hire women, creating a gender bias; additionally, if the woman is older, even more so.

Although the proportion of the population over the age of 65 has remained around 4 per cent since 1989, between 2000-2010, the number of pensioners has been increasing on average by

2.5 per cent a year. That rate has risen even further to 4.5 per year between 2011-2021 (NSO website). This is significant because it shows the looming increase in the ageing population. If social services are not improved, the significant burden on working-age women will again adversely affect women's employment, and women are primary caregivers to the elderly. The next section looks at the changes to social services that have occurred since the transition.

4.6.3   The Erosion of Social Services

Following the market liberalisation of the 1990s, the expenditure on social consumption as a percentage of GDP has decreased drastically, from 23 per cent in 1990 to 10.6 per cent in 1995. It then increased to 22 per cent in 2001, and it has been on a declining trend since then. However, the changes in real social spending might be more revealing (Figure 4.13). The figure shows that in the first half of the 1990s, spending on education, health and social welfare all stood at around 50 per cent of 1990 levels. There has been a considerable increase starting in the early 2000s. Social welfare spending alone rose 61 per cent between 2000 and 2005. There has been a big jump again in 2012 regarding the Universal payments from the HDF. Social welfare spending slightly decreased in the following few years, whereas the education sector increased substantially. The average share between 2002 and 2021 was 12.6 per cent, while for education, it was 5 per cent, 2.6 per cent for health and 4.6 per cent for social welfare. Social welfare spending started rising again in 2016 before increasing exponentially under the COVID-19 pandemic.

Apart from social benefits, the growth of the available physical infrastructure is crucial for a country with a growing population. The growth of facilities, such as childcare and nurseries, has been slow. Since 1990, the number of preschool institutions totalling 1350 halved by 2000 (Table 4.10). The preschool attendance ratio decreased from 2446 for every 10 000 preschool-age kids in 1990 to 1336 in 1993. Increases in subsequent periods, despite a decrease in the
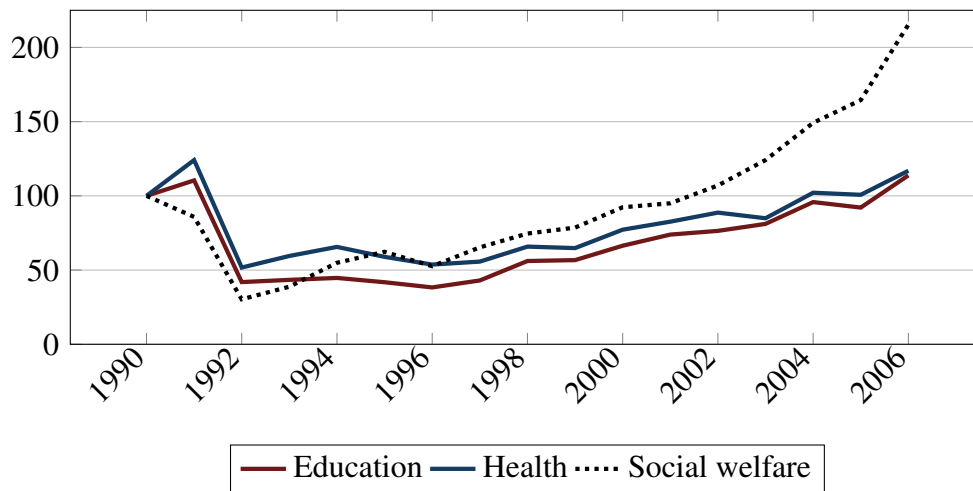
Figure 4.13: Real social expenditure, 1990=100, 1990-2006
Source: Calculated using data from NSO Statistical yearbooks.

number of facilities, could be attributed to the fertility decline of the 1990s when the number of children aged 0-9 years declined at an average of 5 per cent annually between 1991 and 1997. Additionally, the school enrollment age of 8 years was lowered to 7 in 2003 and 6 in 2007, contributing to the decline of preschool kids in 2005 and 2010. Subsequently, the enrollment ratios also increased.

The number of private daycare centres has grown considerably, starting in 2012. For example, the share of private preschool institutions stood at 14 per cent in 2010 (117 out of 839), which went up to 38 per cent in 2018 (546 out of 1,435). However, the proportion of children in private schools remains relatively low, as the state facilities are universally free.

Due to growing demand and shortages of state childcare services, the state introduced a public lottery for Ulaanbaatar kindergartens in 2016. Gantungalag et al. (2019) studied the impact of access to free childcare on women's labour market outcomes using the data from the lottery. They conducted a baseline survey and a follow-up survey a year later. They found that public childcare increases mothers' current employment by 4.6 percentage points and hourly wage by 6.3 per cent from the mean after one year.

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	1990	1995	2000	2005	2010	2015	2021
Kindergartens	909	660	653	729	835	1288	1453
Kids attending	97.2	64.1	79.3	91.4	122.1	201.8	178.4
Crèches	441	51	27	11	4	-	-
Kids attending	21.6	4.0	1.9	3.7	3.6	-	-
Preschool age kids	485.7	444.9	381.8	338.4	321.4	451.6	453.9
Attendance per 10 000	2446	1531	2127	2811	3911	4470	3931
State, %	-	-	-	-	86.1	64.1	66.9
Private, %	-	-	-	-	13.9	35.9	33.1
Kids in state, %	-	-	-	-	94.3	87.2	83.7
Kids in private, %	-	-	-	-	5.7	12.8	16.3

Table 4.10: Number of preschool institutions and the number of kids, 1990-2021
Source: NSO Statistical Yearbooks
Note: Due to changes in the school enrollment age, preschool ages range from 0–7 years old for 1990 and 2000, 2–6 years old in 2005 and 0-5 for 2010–2021. Moreover, since there is no single age breakdown of the population available before to 2000, prior figures for children of preschool age are estimates.

School enrollment rates decreased from 87.8 per cent in 1990 to 74.0 per cent in 1995. The number of teachers in general education institutions has declined from 20.6 thousand to 19.4 thousand during the same period, with another 1.1 thousand drop in the number of teachers in TVET institutions. Overall the number of workers in the education sector declined from 86.8 thousand in 1990 to 48.4 thousand in five years (44 per cent decrease). The healthcare sector also suffered losses during this time, with the total number of health sector workers decreasing by 11.1 thousand from 49.2 thousand to 38.1 thousand. The number of physicians also declined (by nearly 500). During the same period, maternal mortality increased to 101 from 89 (NSO, 2001).

After the initial declines the indicators for social services, such as enrollment, and the number of teachers and physicians, have resumed growth from the mid-1990s. However, as the population has grown, the number of childcare facilities, for example, has only started to grow from the 2010s with the expansion of private institutions. As private institutions charge fees, access

to private institutions is limited, and the availability of public institutions remains crucial.

Labour Market Policies

Unemployment Benefits

The unemployment benefit scheme is a branch of the Social Insurance Programme - one of the main categories of the social protection system in Mongolia - and was enacted into the Law on Unemployment Benefits from the Social Insurance Fund in July 1994. Unemployment benefits in Mongolia are not particularly generous. The eligibility for unemployment benefits starts with paying unemployment insurance for nine months consecutively within the last 24 months before becoming unemployed. The replacement rates range from 45 to 70 per cent of the last three months' average monthly pay. The duration of unemployment benefits is 76 days.

For comparison, Table 4.11 presents the main features of the unemployment benefit schemes in selected transition countries and in Mongolia. Transition countries have made unemployment benefits increasingly less generous (Cazes, 2002). However, unemployment benefits in Mongolia are even less generous. Hungary's unemployment benefits system comes closest to Mongolia's regarding replacement rate and duration. However, Hungary's coverage (the percentage of unemployed receiving unemployment benefits) of 74 per cent is much higher than Mongolia's 21 per cent.

Active Labour Market Policies

Active Labour Market Policies (ALMPs) adopted in Mongolia are funded through one of three branches within the social insurance system, the Employment Promotion Fund. ALMPs have two main strands (i) employability enhancement and (ii) employment promotion. The two strands include spending in (i) public employment services and administration; (ii) job mediation and counselling; (iii) skills and vocational training; (iv) employment subsidies; (v) employee incentives for individuals with disabilities, youth and herders, as well as employer incentives for

Country	Benefit replacement ratio	Benefit duration	Coverage rates
Azerbaijan	50 - 60%	9 months	
Bulgaria	60%	4-12 months depending on age and tenure	24.8%
Czech Republic	60%	6 months	48.8%
Estonia	40 - 50%	6-12 months	59.3%
Hungary	60%	3 months	73.9%
Kazakhstan	21 - 30%	Depends on the covered period	
Kyrgyzstan	250 - 500 KGS (10% added for every dependent)	6 months	
Mongolia	45 - 70%	76 working days	20.8%
Poland	541.12 - 1,033.68 PLN	6-12 months	23.1%
Romania	75%	6-12 months	
Russia	75%	12-24 months	89.5%
Slovakia	50%	6 months	27.0%
Slovenia	50 - 80%	2-25 months depending on age and tenure	32.6%
Ukraine	50 - 70% (benefit amount decreases with the unemployment duration)	9 -12 months	53.1%

Table 4.11: Characteristics of the unemployment insurance system in selected transition economies, 2018

Source: Data on the countries of the EU obtained from the European Commission website; Data for Azerbaijan, Kazakhstan, Kyrgyzstan, Romania, Russia and Ukraine gathered from the US Social Security Administration website; Data for Mongolia is extracted from the Law on Unemployment Benefit from the Social Insurance Fund

Note: Coverage rates for transition countries, apart from Mongolia, are from Cazes & Nesporova (2004). Coverage rate for Mongolia is extracted from the NSO website

Country	ALMP expenditure as a percentage of GDP, %	Unemployment rate, %	ALMP spending per unemployed
Canada	0.23	6.60	0.035
Czech Republic	0.35	4.05	0.086
Denmark	1.99	6.03	0.330
Estonia	0.32	6.29	0.051
Hungary	0.84	5.50	0.153
Italy	0.43	11.60	0.037
Japan	0.15	3.06	0.049
Korea	0.33	3.49	0.095
Latvia	0.18	9.30	0.019
Mongolia	0.17	6.66	0.025
Poland	0.43	6.28	0.069
Slovakia	0.22	9.80	0.022
Slovenia	0.27	7.66	0.035
United Kingdom	0.32	6.85	0.047
United States	0.1	4.91	0.020

Table 4.12: Public expenditure on ALMP as a percentage of GDP, %, 2014-2018*
Source: Spending data for all countries, apart from Mongolia, is from OECD database; JICA (2021) for Mongolia; unemployment rate (national estimate) data on all countries, including Mongolia is from the WDI; ALMP spending per unemployed was calculated using above data. * Data on ALMP for Italy - 2012-2015, 2018; South Korea - 2013-2017; U. K. - 2007-2011; and Mongolia - 2015-2018, 2017-2019

employing individuals with disabilities, youth and herders; and (vi) start-up incentives through small loans and grants.

Table 4.12 presents ALMP spending data for OECD countries and Mongolia. The figures are diverse, even among transition countries. Mongolia's proportion of ALMP spending as a percentage of GDP was approximately 0.17 per cent between 2015-2018, which is one of the lowest proportions of spending among the countries compared. Conversely, Table 4.13 lists the expenditure in some of the main social welfare schemes with the labour market programmes as a share of GDP. Expenditure on labour market policy programmes is relatively low in Mongolia,

	2018	2019	2020	2021
CMP, % in GDP	0.642	0.607	2.812	3.340
Mothers with salary, % in GDP	0.281	0.244	0.242	0.206
Motherhood Glory, % in GDP	0.089	0.077	0.079	0.070
Unemployment benefits, % in GDP	0.105	0.115	0.134	0.131
ALMP*, % in GDP	0.156	0.168	0.454	-

Table 4.13: Expenditure on some social welfare and labour market programs, 2018-2021
Source: NSO database, JICA (2021, pp.56-57).
Note: * - Employment Promotion Fund expenditures.

although the amount for ALMPs has increased considerably in 2020 to MNT 170.2 billion (USD 60 million) from MNT 63.6 billion (USD 24 million) in 2019. However, monthly stipends to TVET students comprised 27 per cent. Mothers with Salary programme expenditure is much higher than the entire pre-pandemic ALMP expenditures. The welfare provisions are aimed at women but do not encourage fathers' involvement in child-rearing and household responsibilities. Simultaneously, the limited reach and lack of efficiency of the official labour market policies that are supposed to encourage individuals to enter the labour market, coupled with extensive cash assistance, seem to push women out further from the labour force.

4.7   Summary

The two trends in the Mongolian labour market that did not reverse with economic growth after the transitional recession were the size and scopes of informal employment, and the economically inactive. The latter grew at a rapid rate since the mid-2000s. Considering the characteristics, it was found that women were becoming increasingly economically inactive. In this chapter, the aim was to identify institutional barriers or preconditions that resulted in women exiting the labour market.

The following were identified: The proportion of women in the inactive population is growing year after year, and this can be attributed to their role in unpaid work in the household, particularly childcare, which has caused many women to remain out of the labour force. Refamilialisation, a process that began during the market transition, has also contributed to this trend. Additionally, extensive governmental pronatalist policies with significant expansions of welfare provisions aimed at women and children, and early retirement schemes create age discrimination in the labour market, especially against older women. Furthermore, the spending on labour market supporting policies is proportionally small compared to other welfare provisions, and they are also ineffective in promoting women's participation in the labour market. These institutional barriers and preconditions have made it difficult for women to enter and remain in the labour market, which has resulted in a growing proportion of women in the economically inactive population. Addressing these issues is crucial to promoting equality between the sexes and increasing women's participation in the labour force.

The informal sector in Mongolia has become solidified and institutionalised and is now the preferred alternative to wage employment for many workers. The wages and household incomes of informal sector workers are actually higher than the national average, which could be one of the reasons why they do not want to formalise their businesses. Informal sector workers are becoming wary of taxes, but especially added labour costs, higher instances of bureaucratic procedures and burdens in the formal sector play a role in their decision to operate outside of the formal economy. However, during the COVID-19 pandemic, it has been shown that informal sector workers were more severely affected compared to those in the formal sector as they could not benefit from the government's relief efforts. This highlights the need to create policies that will protect informal sector workers during times of crisis and provide them with access to social security and other forms of support.

The objective of this chapter was to investigate the causes of the persistent informal sector

and the increasing economic inactivity in the labour market. Based on the findings, the formal labour market has not demonstrated sufficient strength. Therefore the informal sector continues to provide a significant proportion of the population with income and employment opportunities. Access to informal employment remains relatively easy.

To stimulate the formalisation of informal workers, it is necessary to employ different policies targeting various groups within the sector. While providing formal labour market opportunities would benefit paid employees in the informal sector, providing business opportunities linked to formalisation may be more effective for employers and self-employed individuals. Irrespective of the approach, the size and scope of the informal sector necessitate the implementation of effective policies.

Economic inactivity in Mongolia is a complex issue intricately linked to urban women's circumstances. Pronounced pronatalist policies are often implemented, targeting children and mothers but excluding support for working women, which does not facilitate employment. The welfare benefits offered solely to women who remain at home reinforce gender stereotypes and biases, further contributing to the problem.

The lack of adequate social services, such as childcare facilities, is a barrier to women's employment. Additionally, early retirement schemes for women create age discrimination within the labour market, making it difficult for women as young as 40 to secure employment. Weak labour market policies that fail to reach the population also exacerbate the issue, limiting their effectiveness.

In addition, the lack of participation of women in the labour market implies wasted resources. The underutilisation of women's skills and talents due to the factors mentioned above has a negative impact on the national economy, as it decreases the potential output and productivity of the workforce. Hence, addressing the issue of economic inactivity among women in Mongolia should be a priority for policymakers, not only from a social perspective but also from an

economic perspective.

Conclusions

In the dissertation, we attempted to address the issues of labour market development in Mongolia during the transition, tracing the specificities back to the socialist period and weaving the issues forward to the contemporary labour market challenges. We argued that institutional determinants, historical backgrounds and traditional values have a much greater role in the contemporary issues faced by societies and attempted to illustrate this in the context of the topic at hand.

Any country has its own specificities, and Mongolia may be regarded as multifaceted, based on its historical path. The two transformations - one toward socialism and the other, toward capitalism - clearly illustrate functions and the restrictions of permeation in the planning (state sector) and marketisation (private sector).

The development of the labour market in Mongolia under socialism was influenced by the state's economic, social, and demographic policies. The Mongolian path was unique and path-dependent. We can regard Mongolian climate, nature, and culture as an ecosystem network that has had a strong impact throughout the country's history for as long as herding has been practised. Mongolian traditional livestock herding was highly resilient in the face of socialist industrialisation. In short, despite the initial shift from the preservation of existing social mechanisms to collectivisation and industrialisation, the penetration of the socialist system in Mongolia failed to overtake the entire economic system.

Industrial development was slowed down by the relatively late completion of the collectivisation, which was caused by failed early attempts. Although Mongolia did not adhere to the Soviet model due to its latecomer nature and natural conditions, it was able to make structural changes after the 1960s by steering towards collectivization and industrialisation. Moreover, the socialist welfare model has ingrained a tradition in Mongolia to invest in social and human resources beyond its own economic potential.

At the onset of the market transition, the industrial sector was still in its infant stage. In contrast, the agriculture and social services sectors were more significant in size in terms of employment. Furthermore, the state's extensive pronatalist policies initiated in the late 1950s stimulated female labour participation and urbanization, while the early retirement age was becoming a barrier to female labour participation. Nevertheless, the policy effectively grew the population of Mongolia at an extremely high rate. By the late 1980s, the working-age population grew at 3 per cent annually, creating a substantial demographic bonus.

During the market transition, Mongolia has made progress in becoming a market economy, and its economic structure has undergone a major transformation. Stabilisation, liberalisation and privatisation have indeed been implemented. However, Mongolia's labour market clearly differed from that of other transition countries. An initial look at the employment numbers hid the considerable labour reallocation during the 1990s. With an economic decline, the labour absorptive capacity of the formal market has failed, with traditional livestock herding initially becoming the emergency absorber and the informal employment and labour market exits becoming the main ones. Yet, again traditional livestock sector survived the transitional depression. With an increase in agricultural employment, urban-to-rural migration increased. The unemployment numbers, which remained modest throughout the 1990s, reflected only the registered unemployed. In reality, unemployment and economic inactivity have significantly increased.

The year 2000 seems to mark the turning point for many of the trends occurring in the 1990s.

Agricultural employment started to decline, and rural-to-urban migration increased. The historical legacy of 'herding' has lost its resilience. While the formal sector could not function sufficiently, informal employment and economic activity showed no signs of a decrease. It became almost intuitive for the government to 'formalises' the informal market as it recognised and consciously considered the informal market's capacity to act as a stabilising instrument in times of economic shock.

The dissertation identified that the increasing economic inactivity among women in Mongolia is attributed to their role in unpaid household work, pronatalist government policies, and extensive welfare provisions that target women and children while failing to provide the necessary social services to promote women's employment. This, coupled with early retirement schemes inherited from the socialist era, shortens women's working lives. At the same time, labour market policies are largely ineffective. Institutional barriers and preconditions make it difficult for women to enter and remain in the labour market. However, women's decisions regarding childbearing and marriage also hinder their employment prospects. These decisions are influenced by the societal expectations imposed on women in Mongolia.

Meanwhile, the structure and characteristics of the Mongolian informal sector have changed considerably. The share of hired labour in the informal sector has decreased substantially, making it the preferred form of occupation for many. The wages and household incomes are comparable, if not higher, than in the formal sector. The inability of the formal sector to absorb excess labour persists, while at the same time, the agricultural sector is shrinking, and rural-to-urban migration is growing. Thus, the informal sector absorbs the labour from the agricultural sector, demonstrating that the formal institutions are being complemented and partially replaced by the informal ones.

The COVID-19 pandemic has had an 'X-ray effect' on societies, exposing weaknesses and distortions. The weaknesses of the Mongolian labour market were also exposed, particularly the

issues of informal workers, economically inactive people, the burden of underfunded social services, and gender biases. It signalled the need for policies to protect vulnerable groups during times of crisis and to provide them with access to necessary social services, decent employment and other forms of concrete support. Despite its resilience in the face of past economic and political upheavals, the agricultural sector in Mongolia now faces a new and potentially devastating challenge in the form of climate change and pasture degradation, which threaten to upend the traditional livestock herding that has been the backbone of the Mongolian economy for centuries.

Analysing the legacy of a socialist regime in Mongolia is not a simple task. On the one hand, the outcome of a socialist regime may have affected the transition process. On the other hand, we cannot limit the analysis exclusively to the socialist legacy. In other words, the profound impact of the pre-socialist traditional heritage, such as herding and rural life, and the value of women's labour should not be underestimated. Thus, it is natural that the geographers, for instance, focused on the livelihood of herders and the grassland system (the so-called ecosystem network) as both advantageous and decisive factors for Mongolia's socio-economic development (Yamamura, Fujita, & Maekawa, 2012).

As we focus on informality, labour market exit, family, networks and others, it may be suggested that there are constraints to approaching the Mongolian labour market from the normative labour economics. The specificities bring into question the effectiveness of standard labour and social policies. Hence, the policies needed may be tailor-made for Mongolia. Therefore, the dissertation utilised an 'extended labour economics approach', combing the traditional approaches of conventional labour economics with the examination of informal institutions, as a research method because of the unique research target - Mongolia.

As previously discussed, Mongolia's demographics are unique because the current birth rate is high, and the population continues to grow. This differs from other transition countries where

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birth rates decreased during the transition period. However, this population growth does not necessarily translate to an increased labour supply because more women are occupied with childcare due to traditional gender roles in Mongolian society and inadequate social services. As a result, there is a significant impact on women's employment, informal jobs, and the growth of the inactive population. To fully understand the effect of Mongolia's population growth on the labour market, it is essential to consider both the inactive and informal labour populations. Therefore, an 'extended labour economics approach' is necessary to comprehend the dynamics of the entire working population.

Regarding further avenues for research, the Mongolian labour market alone offers endless possibilities. On the issues of female employment, in line with Goldin (2006), a further study could reveal more if women's choices and decisions related to their careers are analysed. More specifically, has a 'job' become a 'career' for women in Mongolia? To what extent are their identities tied to their professions?

Another relevant strand of research is the study of regional disparities in the Mongolian labour market and the economy at large. The urban primacy in Ulaanbaatar, where the capital city dominates the country's urban system and economy, highlights the urgent need for research on regional disparities and development to address the social and economic inequalities that exist between urban and rural areas.

Lastly, despite the relatively low share of individuals over 65 years olds in Mongolia (around 4 per cent), the increasing number of elderly citizens underscores the need for research into elderly care and the integration of such services into the country's social services system, to prevent overburdening women with care duties and to ensure that the elderly can retire in comfort in old age.

To the best of our knowledge, this dissertation is the first attempt to comprehensively analyse the evolution of both formal and informal institutions and examine the path-dependency of the

labour market in Mongolia. The study's originality is its coverage of the extensive historical timeline it aimed to tackle and the extended labour economics research methodology that it attempted to apply. With this dissertation, we hope to further stimulate interest in investigating the complex issues of the Mongolian labour market by both Mongolian and international scholars.

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Appendix A

Notes on the Statistics

It must be mentioned that the academic literature and the statistical publications, particularly the ones produced during the socialist era in Mongolia, do not provide sufficient consistency or clarity to provide definitive solutions to all problems raised in the dissertation. The official statistics often contain intentional distortions and obscurities and are misleading. Kornai's remark about the statistical materials in the former socialist countries illustrates precisely the situation regarding the statistical publications and materials in Mongolia (see 1.5.2). Needless to say, this exact aspect of statistical publications has presented challenges throughout the research process[47].

Although following the transition, the methodologies were gradually changed to adhere to the International standards, the major modifications occurred in 1997, 2009, and most recently in 2019. Prior to 1997, labour statistics calculated labour force as the sum of total'*able-bodied*' working-age individuals, plus the number of working children and the elderly. From 1997, it

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[47] The data used in this dissertation are publicly available and were mainly collected from the NSO and WDI. Some of the data drawn from the WDI, such as LFP rates, are from the ILO. We use such data to illustrate cross-country comparisons. Labour statistics published on the NSO website began in 1992. Therefore, the labour market statistics are mainly sourced from available statistical yearbooks published yearly since 1960 (NSO, 1998). Unfortunately, we could not obtain several, especially ones from the 1960s (1960, 1961, 1966, 1968 and 1969) and the 1980s (1980, 1982, 1983, 1984, and 1988).

started to be defined as the number of employed, plus the number of unemployed registered with the local labour offices (Labour and Welfare Services Office). Hence, the unregistered unemployed population of working age, students of working age, military personnel, and the incarcerated are not included in the labour force.

The next major upgrade in the methodology of 2009 was approved by the Joint Resolutions from the Chairman of the NSO and the Minister of Labour and Social Protection (formerly, Social Welfare and Labour) to adopt the international standards set through the Resolutions passed at the Thirteenth International Conference of Labour Statisticians (1982).

Until 2009, employment estimates were based on results from "Annual Reports on Population Employment" prepared by administrative units at the local level, and unemployment rates were based on the registered unemployed population at the employment offices. Since 2009, following the above changes, official unemployment numbers, for example, started to reflect quarterly LFS results, where unemployed was a person fulfilling one of three criteria for unemployed (did not perform work during the last 7 days prior to the survey, was ready to work, or sought work actively, during the said period), called flexible criteria. This explains the immense spike in the number of unemployed in 2009.

Although it is worth mentioning that particular impact is undoubtedly due to people becoming unemployed in the aftermath of the GFC and the state's decision to temporarily increase the amount of unemployment benefits[48], it is impossible to determine the extent. Therefore, caution is due when comparing figures, especially the early 1990s with the late 1990s and the 2000s with 2009 and thereafter.

The latest significant change in labour statistics methodology in Mongolia was in 2019[49], that

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[48] The amendment remained effective between 1 August 2009 to 1 January 2011. Accordingly, the benefit duration rose from 76 days to 126 days, and eligibility criteria were lowered. Law on Unemployment Benefits accessible at https://www.legalinfo.mn/law/details/382.

[49] January 2019 Joint Resolutions from the Chairman of the NSO and the Minister of Labour and Social Protection, A/09-A/08

adopted guidelines outlined in ILO (2013). The previous and current frameworks are presented in Figures A.2 and A.1.

The main changes were to the criteria used to define the unemployed and introduced the 'potential labour force' concept. The previously flexible criteria for unemployed was changed to standard, meaning all three conditions needed to be fulfilled to be counted as unemployed. People who did not fulfil all three, together with the segment of the population outside the labour force who sought or wanted to work, came to comprise the newly defined potential labour force.

On the note of LFSs, the first one was published in 2004, conducted in four quarters between October 2002 to September 2003. No LFS was produced until 2006-2007 (NSO, 2008). The 2006–2007, 2007–2008, and 2008–2009 LFSs cover the periods from July through June of the following years. However, from 2010, surveys were conducted between January and December of the given year. Therefore, there is a gap in the second half of 2009 (third and fourth quarter) and a considerable gap between October 2003 and June 2006.

Additionally, the concept of the working-age population is noteworthy. In Mongolia, the pension age has been raised several times. The 1994 Law on Pensions and Benefits set the retirement age at 60 for males and 55 for women. The retirement age was raised to 60 in 1999 for both men and women, and the women's part of the law was changed to read 'upon request,' thereby extending their eligibility for employment. But, if they had four or more children, they might have retired at 50. Across the board, significant increases were made in April 2017 by adding five years, including for mothers with four or more children. However, less than a year later, in February 2018, the retirement age was again decreased for women and mothers with four or more to 55 and 50, 'upon request'. 2018 amendment went into force on February 15 of that year, while the 2017 amendment was supposed to take effect on January 1, 2018. Because of this, the 2017 amendment was only in force for 2.5 months.

However, the LFSs define the working-age population as those aged 15 and over. Nevertheless,

the official labour statistics published on the website presumably use the working age 15-59 to calculate the LFP rates and relative labour market indicators. The legal age to start working has also been lowered to 15 following the new Labour Law, effective 1 January 2022(Parliament of Mongolia, 2021).

There are contradictions in employment-to-population ratios in the data as well. The LFS calculated it as a share of employed in a total number of the economically active population, i.e. opposite of the unemployment rate, until 2012 LFS, which yielded very high figures indeed. Starting in 2013, the ratios were calculated as a share of the working-age population. This time, the official statistics on the NSO website seem to use the latter method throughout.

For the above reasons, the dissertation uses statistical yearbooks as the data source for the period until 2000 and LFSs and PHC from 2000 onward.

Lastly, government resolutions, laws, amendments, and other legal and regulatory documents were obtained from the National Legal Institute's database[50]. There are very few documents before 1990, and many were missing for the 1990s, but most were available for the 2000s. The availability of documents has improved drastically since the late 1990s.

A.1 Informal Sector and Informal Employment

A.1.1 International Guidelines

Informal employment, as defined by the 17th ICLS, comprises the following categories[51]:

- own-account workers and employers employed in their own informal sector enterprises;

- contributing or unpaid family workers;

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[50] National Legal Institute's database can be accessed through www.legalinfo.mn
[51] In Hussmanns (Hussmanns, 2004).

- members of informal producers' cooperatives;

- own-account workers engaged in the production of goods exclusively for own final use by their household;

- employees holding informal jobs (here, "informal" means their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits).

A.1.2 Guidelines in Mongolia

One of the major changes that happened within the labour statistics was the adoption of the 13th ICLS in 2009. Following this change, the official labour statistics published on NSO website and statistical yearbooks have begun to include the number of workers in the informal sector as part of the employed population. The changes were reflected starting in 2010. Furthermore, the number of unemployed since 2010 includes both the registered and unregistered unemployed.

In Mongolia, the 17th ICLS has been adopted in 2019. The following guideline define the 'informal employment workers' (ILO, 2021, p.30).

- non-agricultural self-employed workers whose businesses were not registered with the General Registration Authority of Mongolia and which were not classified as either a state-owned enterprise, local government enterprise, budget organization, non-governmental organization (NGO), or international organization; and

- non-agricultural employees not benefiting from employer contribution to a pension fund or health/ unemployment insurance, paid annual leave and paid sick leave.

Thus, the following groups constitute Mongolia's informal employment workers (contributing family workers (unpaid family workers) are sometimes excluded from LFSs and other reports):

	1990	1995	2000	2005	2010	2015	2020	2021
USD/MNT	3.86	447.63	1,076.47	1,205.30	1,356.44	1,970.66	2,813.53	2,849.29
JPY/MNT				11.00	15.46	16.29	26.38	25.96

Table A.1: Exchange rates of US dollar and Japanese yen in MNT
Source: NSO database

- Paid employees working in conditions where employment relationship was not fully regulated within the legal framework. Operationally, this covered paid employees who did not get social security support from their employers or did not have paid sick leave or paid annual leave.

- Employers of market-oriented household enterprises working in the informal sector and own-account workers without paid employees.

- Paid workers in households that produced products only for their own consumption

Informal employer A self-employed person who employs one or more persons for a fixed period of time as a "paid employee".

Own-account worker without paid employees A self-employed person who engages in economic activities independently or jointly with others at his or her own expense, and who has not hired any paid employee during that period. This category of informal employment workers are referred to as "own-account workers".

Informal employee A paid employee working in conditions where the employment relationship is not fully regulated within the legal framework. This category of informal sector workers are referred to as "employees" in the informal sector.
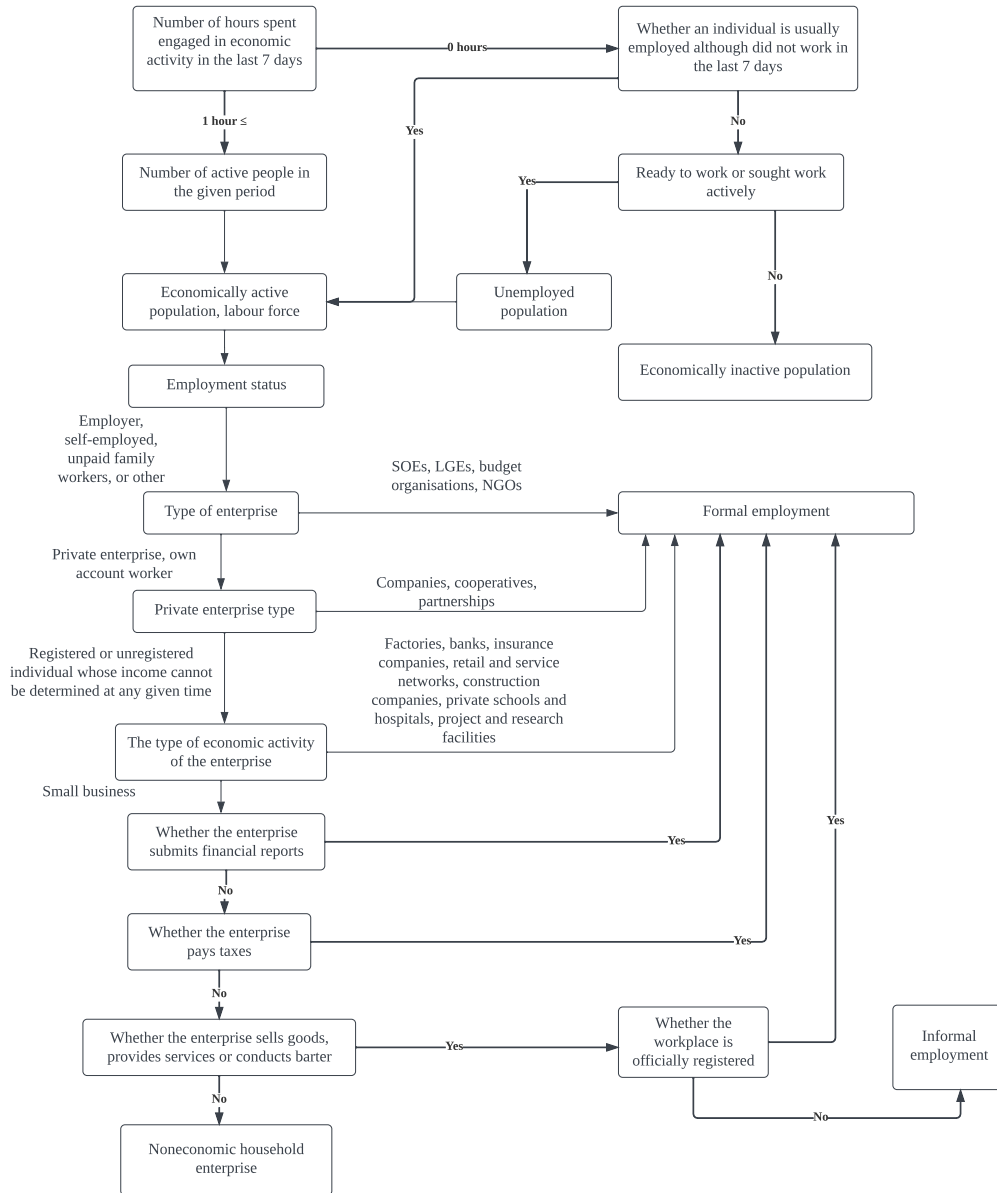
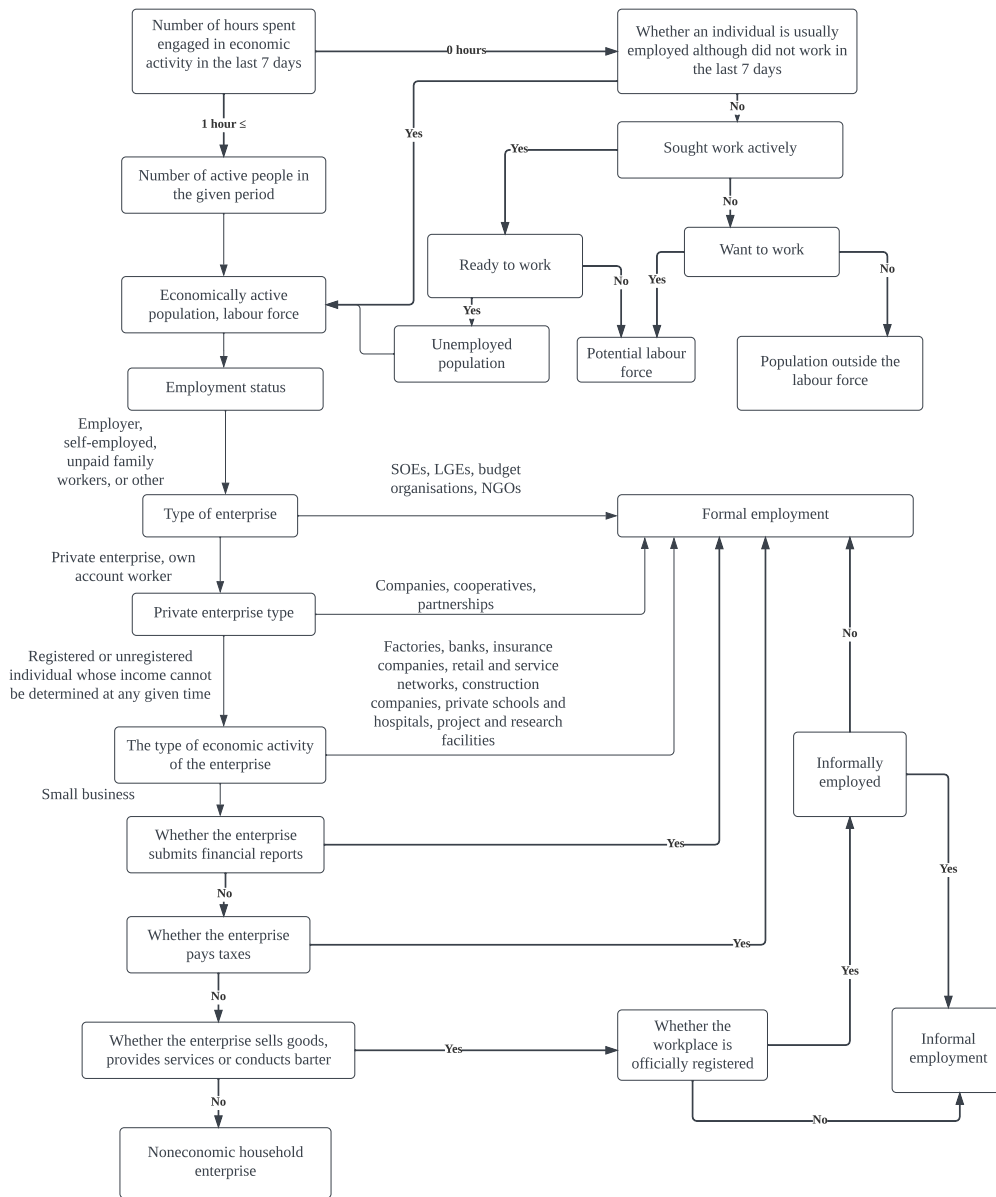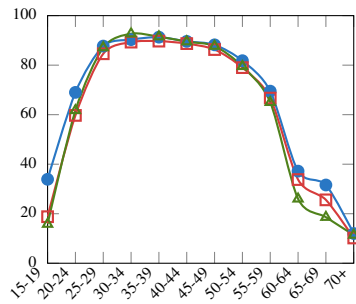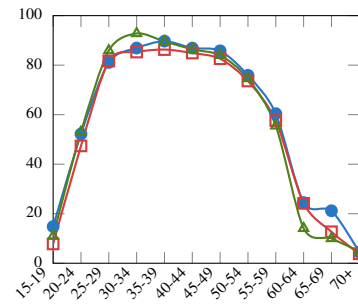Figure A.1: Labour statistics diagram, until 2018
Source:LFS (NSO, 2011)

Figure A.2: Labour statistics diagram, starting 2019
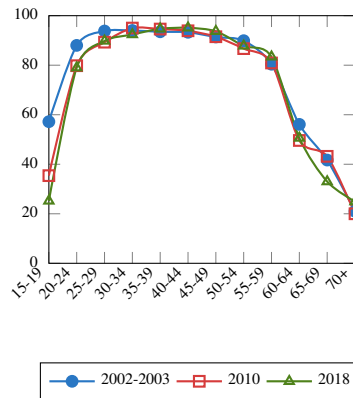Source:LFS (NSO, 2020a)

(a) National average

(b) Urban

(c) Rural

Figure A.3: LFP of men, by age, by region, 2002-2018

Source:LFSs (NSO, 2004, 2011, 2019a)

Note: LFP rate in 2002-2003 for the age group 15-19 was estimated, based on available information on the LFP rates and population proportions of subgroups 15-17 and 18-19. LFS for 2002-2003 does not offer the population of each subgroup. Therefore, to obtain this estimate, the available information, which is the total population of age group 15-19, was multiplied by the proportion of each subgroup's population (the averages for each subgroup in 2002 and 2003, obtained from NSO website). The estimated number of individuals in the labour force was then calculated for each age subgroup. The total estimated number of individuals in the labour force for the age group 15-19 was then calculated by summing the estimated numbers for each age subgroup. Finally, the estimated LFP rate for the age group 15-19 was calculated. It is important to note that this estimation is subject to several limitations. The estimates of the population of each age subgroup are based on assumed proportions and may not accurately reflect the actual population distribution.

	2020-I	2020-II	2020-III	2020-IV	2021-I	2021-II	2021-III	2021-IV	2022-I	2022-II	2022-III	2022-IV
Labour force	100.0	101.3	101.2	97.1	92.3	96.3	97.9	97.9	98.4	100.8	100.5	97.6
female	100.0	100.6	103.5	97.7	92.1	95.4	99.0	99.1	95.7	98.8	101.3	96.4
Employed	100.0	101.3	100.5	96.1	90.1	94.5	97.0	96.3	96.4	99.5	101.8	99.0
female	100.0	99.1	102.1	95.2	90.0	92.2	97.0	97.1	94.5	97.2	101.5	97.2
Unemployed	100.0	101.2	112.0	111.4	122.4	122.5	110.0	120.2	126.3	119.2	82.4	78.2
female	100.0	125.8	127.0	141.2	128.4	150.3	133.4	134.7	116.9	125.8	96.4	82.6
Outside of labour force	100.0	98.0	101.1	105.3	108.9	105.2	102.5	100.7	102.4	99.2	99.4	101.9
female	100.0	99.0	99.9	105.0	107.5	106.0	104.1	99.0	101.5	98.6	97.1	98.7
LFP rate	59.0	59.8	59.0	57.0	54.9	56.8	57.9	58.3	58.0	59.3	59.2	57.9
female	51.8	52.2	52.7	50.0	48.0	49.0	50.6	51.9	50.4	51.9	52.9	51.2
Unemployment rate	6.6	6.6	7.3	7.6	8.8	8.4	7.4	8.1	8.5	7.8	5.4	5.3
female	5.5	6.8	6.7	7.9	7.6	8.6	7.4	7.4	6.7	7.0	5.2	4.7
Household income	100.0	98.4	100.3	94.4	96.1	102.3	108.5	108.9	118.4	118.5	120.3	122.4
UB average	100.0	94.8	97.9	91.4	88.1	94.1	100.7	101.4	113.9	112.6	117.8	117.1
Aimag center	100.0	99.5	102.4	96.9	102.4	110.4	115.1	111.8	118.9	123.9	124.8	136.3
Sum centre	100.0	102.8	107.6	102.1	109.0	117.2	119.5	122.3	125.7	125.4	125.5	130.0
Rural areas	100.0	103.7	95.7	93.9	102.9	113.4	117.8	125.4	134.0	130.0	120.8	120.3

Table A.2: Labour market and household income responses to COVID-19, Q1 2020- Q4 2022
Source: NSO website. For numbers, Q1 2020=100