

# The Labor Market: Challenges and Development Trends

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## Abstract

**Background/Objectives:** In current context, typical problems for CIS countries are associated with imbalance between supply and demand of national labor markets. Formation, development of forms of employment will reduce unemployment rate. **Methods/Statistical Analysis:** The article concerns with the theoretic-methodological problems of labor market formation in countries with market economies at different levels of their advancement. The author reveals features, development trends and labor market formation issues in the context of general and regional aspects from the standpoint of system-structural, program-oriented and goal-oriented approach. The article presents also comparative analysis of dynamics of employment and labor market key parameters in the CIS countries. Special attention is paid to the condition of the labor market in Uzbekistan. **Findings:** It is argued that the labor market both in the country and at the regional level is a complex integrated system with a large number of business entities and intermediaries, the diversity of the occurring socio-economic processes, ambiguity of current tasks, the exceptionally large volume of information, constantly increasing number of links between market participants as well as their probabilistic nature. Solving the problems of imbalances between supply and demand in the labor market is possible through the implementation of the strategic partnership between the state, employers and institutions of professional education system. It is shown that the analysis of employment dynamics and the labor market, as well as their structural characteristics, should be considered in the context of the diversity of forward and backward linkages with the key macroeconomic and demographic processes. The proposed measures will promote further the formation of conditions for sustainable functioning of national labor markets in the CIS countries that in future will contribute to the growth of living standards. **Application/Improvements:** Results can be used in development of national programs aimed at reduction of unemployment and the labor market development.

**Keywords:** Labor Market, Mid-Annual Number of Inhabitants, Economically Active Population, Level of Unemployment, Dynamics, Labor Migration, Trends.

## 1. Introduction

In the current context the features of global financial and economic crisis have a direct impact on the situation in the labor market in all CIS countries. Coherent and harmonious functioning of the labor market remains one of the most intractable problems in economic systems.

The Commonwealth of Independent States (CIS) is a part of the socio-economic space, which covers powerful diversified economy with large-scale resource (including human resources) and commodity flows that ensures a strong socio-economic inclination of the CIS countries to each other. This feature has a dual nature. On the one hand, this means more broad opportunities for

production specialization and application of the labor division principles, as well as improvement of utilization efficiency of available material and resource base. On the other hand, this predetermines the generality of socio-economic problems, because interrelated economic systems actively interact with each other<sup>10</sup>. Currently, this is especially important in today's efforts to recreate the common economic space and enhance the economic cooperation within new framework.

In terms of regional specificity, practically all countries have similar problems, related in particular, to the economic crisis, decline in production, and drop in employment. The consequence of these processes is, for example, the imbalance between supply and demand in

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national labor markets, as well as fall of living standards of population.

These circumstances determine the relevance of the labor markets study in the CIS countries, the assessment of the coordination between demand for labor and its supply in these countries, as well as identification of existing interdependencies between the labor market parameters and other macroeconomic factors.

## 2. Materials and Methods

Theoretical and methodological aspects of the labor market study are based on the works of the classics of world economic science: D. Ricardo, A. Smith, T. Veblen, G. Galbraith, J. M. Keynes, A. Marshall, A. Pigou, M. Friedman and others.

The problems of formation and structural mismatch of supply and demand in the labor market of Russia and the CIS countries, as well as research methodology are considered in the works of V. Gurtov, R. Kapelyushnikov, A. Korovkin, S. Sigov, N. Loktyukhina, I. Korolev, M. Vinokurov, N. Gorelov, A. Ananskikh, etc.

The problem of labor migration management is considered in the works of V. Volokh, O. Vorobiev, A. Topilin, O. Kosenko, N. Loktyukhina, P. Bizyukov, etc.

The issues of the partnership between the labor market entities and education system are studied in the works of M. Baryshnikova, M. Borovskaya, S. Grinenko, A. Topilin, N. Kamenskikh, V. Kutuzov and K. Drakino.

Territorial and sectorial aspects of labor market emergence are considered in the works of A. Topilin, A. Ananskikh, L. Sharonina, K. Drokina, N. Loktyukhina, etc.

The studies of the labor market concept, its problems and trends were based on general scientific and special methods of cognition, such as logic, induction, deduction, statistical method, graphical and tabular information interpretation methods, as well as analysis and classification methods<sup>1-19</sup>. The labor market study is based on the use of the composition of system-structural and special-purpose approaches.

## 3. Results and Discussion

The labor market, both at the state's and regional levels of the economy is a complex socio-economic system<sup>11</sup> consisting of a set of strategic socio-economic elements (market agents and contractors) and characterized by a significant number of relationships between them and

the environment, as well as the lack or incompleteness of information about the elements.

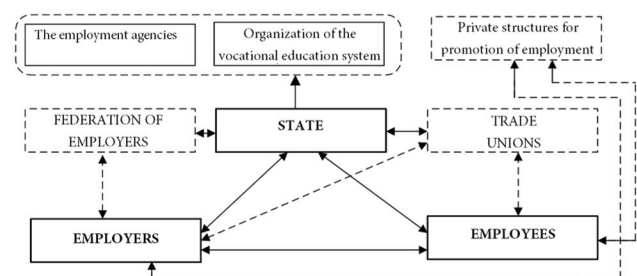
The research findings of theoretical framework of contemporary labor market formation and development revealed that it is a hierarchical poly-subject structure with many actors pursuing their own goals and interests and needing to strengthen interrelations<sup>13</sup> [Figure 1]. Strong relationships between the labor market entities (solid lines) are conditioned by the availability of long-term relations between the entities, weak relationships (dash-dotted lines) are just information transfer channels.

The major system properties of the labor market are isolation, structuredness, gradation, divisibility and dynamism. Highlighted properties allow exploring the regional labor market not as a random set of economic entities, operating in a certain territories, but as the emerging system able to respond adequately to the organizational and managerial impact.

There are two main types of labor market regulation:

- Operational regulating measures based on maintenance of the equilibrium state between labor supply and demand, and determination of equilibrium price (salary);
- Integrated multi-level impact through the implementation of targeted programs based on the prediction of quantity, structure and nature of changes in labor demand.

Thus, the mechanism to achieve effective employment is created and implemented primarily at the regional level. The inconsistency of trends in labor demand and levels of employment of the economically active population in the region results from disparities in the professional-qualification structure of personnel supply and demand, as well as their low competitiveness.



**Figure 1.** The diagram of interrelation between the labor market entities.

The analysis of the regional labor market revealed the following features and problems<sup>15,17</sup>:

- The spontaneity of the labor market;
- Low efficiency of agencies providing employment services to population;
- A high degree of self-employment;
- Difficulty in employment of certain social stratum;
- Development of the informal sector and illegal employment of foreign citizens;
- Influx of migrants from the CIS countries;
- The availability of stable gap between the level of general and registered unemployment;
- Isolation of the education system from the requirements of specific employers;
- Structural imbalances in population employment in some kinds of economy activities (between production and services);
- Mismatch between labor supply and demand in the context of specific specialties;
- Limited opportunities in selection of the employment field;
- Employment in part-time work, administrative leaves initiated by the employer and the debt on salary payments.

Because the market labor “derived from economy”, it seems that overcoming the problems associated with the employment structure in the country and the regions should be based on sound economic policy reflecting the interests of population employment. Policy pursued at the state level should encourage business for social responsibility. Within the confines of this policy, it is necessary to encourage businesses participation in solving social problems in the framework of existing legislation and develop the system of social partnership.

Dynamic analysis of key employment parameters and labor market in the CIS countries.

The economic transformations period in the CIS countries is characterized by a change in the number of economically-active population (2010-2014) [Figure 2]:

- ✓ Increase (growth) in 2014 in relation to 2010 was noted in the following CIS countries (thousand people): Azerbaijan (+253.3); Kazakhstan (+351.3); Kyrgyzstan (+48.2); Tajikistan (+102.1) and Uzbekistan (+1281.4);

- ✓ Decrease (decline) in 2014 in relation to 2010 was noted in the following countries (thousand people): Armenia (-87.7); Belarus (-169.4); Moldova (-3.0); Russia (-49.6) and Ukraine (-2130.7).

Among the CIS countries, the highest values of the economically-active population in 2014 were accounted in Russia (56% of total population), Ukraine (14.8%) and Uzbekistan (10.1%) [Figure 3].

At that, an increase in the average annual population, caused primarily due to demographic reasons, was noted in the following countries (thousand people) (Figure 3): Azerbaijan (+480.7), Kazakhstan (+967.7); Kyrgyzstan (+387.9); Russia (+3241.1); Tajikistan (+738.5); and Uzbekistan (+2195.3).

The decrease in average annual number of population was noted in the following CIS countries (thousand people): Armenia (-242.3); Belarus (-16.0); Moldova (5.7); and Ukraine (-2859.5).

The dynamics of employed population in the CIS countries is presented in Figure 4. In 2014 in relation to 2010 the positive trends were noted in the following countries (thousand people): Azerbaijan (+273.8), Kazakhstan

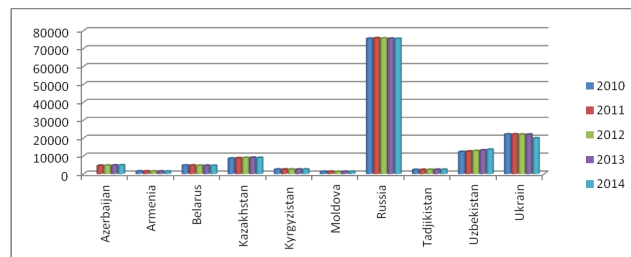


Figure 2. Dynamics of economically-active population, thousand people (Economic active population, thousand people).

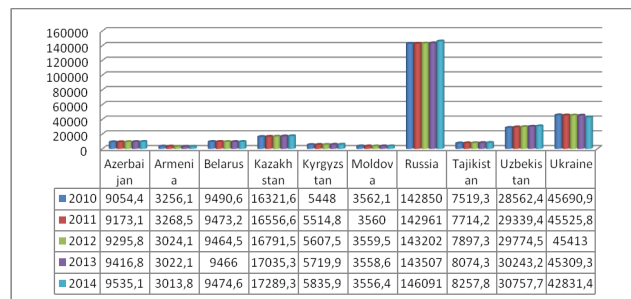


Figure 3. Dynamics of average annual number of inhabitants in the CIS countries, thousand people.

(+395.9), Kyrgyzstan (+59.0), Moldova (+41.5), Russia (+1605.3), Tajikistan (+92.4) and Uzbekistan (+1050.6). The decline trend in the number of employed people was observed (thousand people) in Armenia (-51.7); Belarus (-152.5); and Ukraine (-2192.7).

Leading positions in terms of volume of employment are held by Russia, Ukraine, Uzbekistan and Kazakhstan Figure 5.

The dynamics of unemployed population in the CIS countries is presented in Figure 6.

Figure 7 shows change in level of unemployment in the CIS countries. The highest level of unemployment is in Armenia, followed by its decline in 2014 down to 17.6%. The minimum level of unemployment registered by the bodies for labor, employment and social protection, is typical for Belarus (0.5%). In other countries, the level of unemployment fluctuates within the range from 3.9% (Moldova) to 9.3% (Ukraine) (2014). At that, during 2010-2014 this indicator has shown a decrease in Azerbaijan, Kazakhstan, Kyrgyzstan, Moldova, Russia, Belarus and Uzbekistan. An exception was Ukraine, where this indicator increased. We should note the low level of unemployment in some countries such as for example Moldova, Uzbekistan and Azerbaijan. Perhaps this is due to the low trust of the population to employment agencies

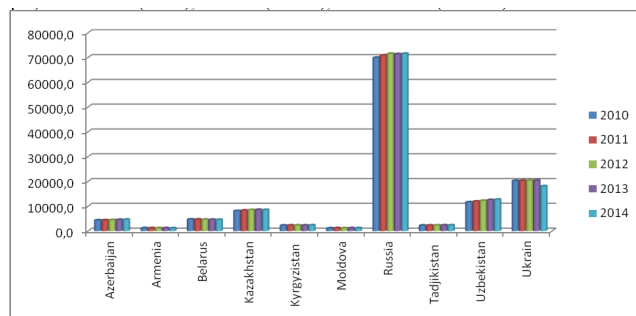


Figure 4. The dynamics of employed population in the CIS countries, thousand people.

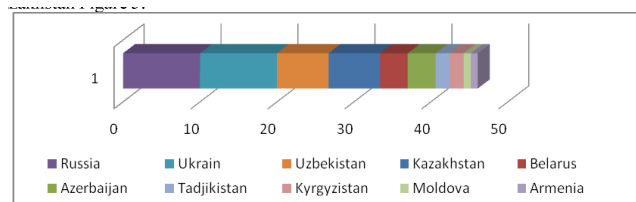


Figure 5. Ranking of employed population in the CIS countries, %

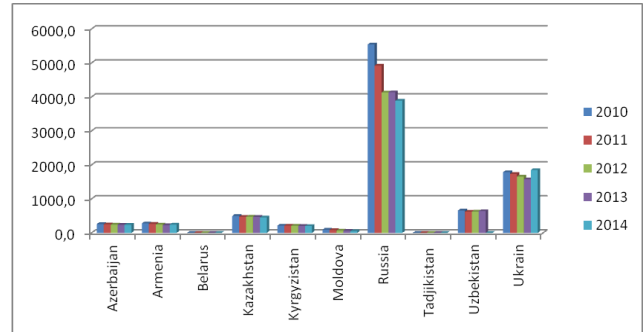


Figure 6. The number of unemployed in the CIS countries for 2010-2014, thousand people.

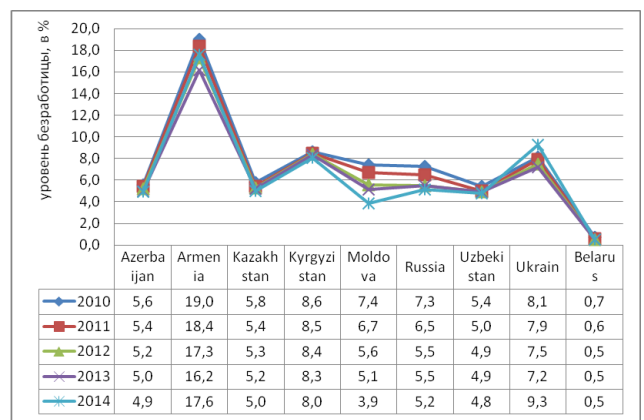


Figure 7. Level of unemployment in some CIS countries, % . (no data available for Tajikistan)

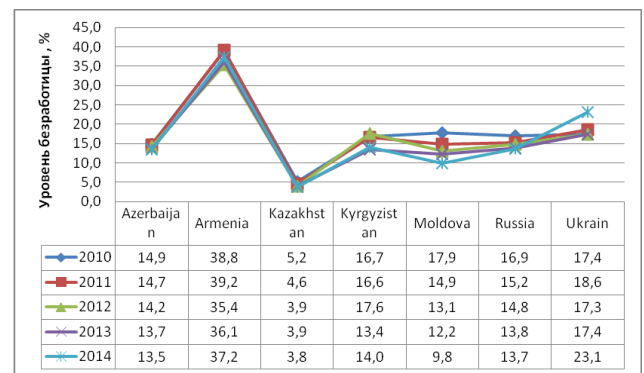


Figure 8. Level of youth unemployment (age of 15-24) in the CIS countries, %.

and limited job opportunities available through their services.

Figure 8 represents the change in the level of youth unemployment (age of 15-24) in the CIS countries . The highest value of this indicator was observed in Armenia

(37%) and Ukraine (23.1%), whereas the lowest value was noted in Kazakhstan (3.8%). In general, over the period from 2010 to 2014, there was a tendency of reducing the level of unemployment among young people in all CIS countries (Azerbaijan, Armenia, Kazakhstan, Kyrgyzstan, Moldova, Russia and Uzbekistan). Ukraine was an exception (here level of unemployment among young people was growing).

### 3.1 Analysis of Labor Market and Employment in Uzbekistan

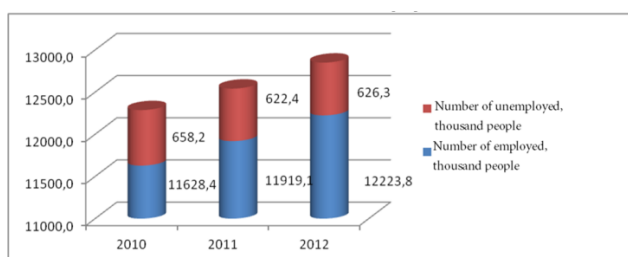
The development of labor market and the creation of new jobs is one of the priority challenges in social-economic policy of Uzbekistan in recent years. It is home to more than 31.0 million people, of which 60.3% are young people (under 30 years).

According to Figure 9, Uzbekistan is characterized by the increase of the economically-active population by 7.1% in 2013 in relation to 2010 [Figure 9]. At that, there has been a total population growth in the country (in 2010 – 28001.4, in 2013 – 29993.5 and in 2015 – 31022.5 thousand people).

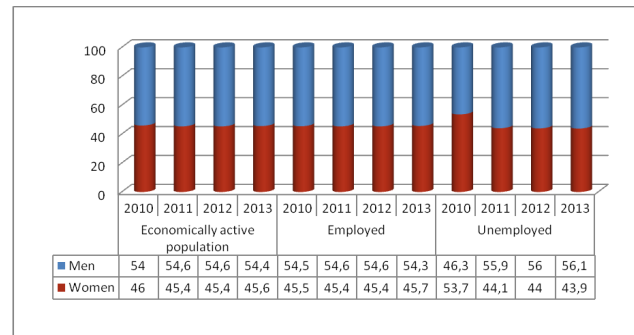
At that, in the structure of the economically-active unemployed and employed population, the proportion of men (on average 54-55%) exceeds the proportion of women (on average 45%) [Figure 10].

The gap between the proportion of men and women in the total number of unemployed in 2013 is 12.2% (56.1% and 43.9%, respectively). This resulted from faster growth of unemployment among men than among women. In 2013 the number of unemployed men increased in comparison with 2010 by 17.6%, while number of unemployed women decreased by 20.4% (with an overall reduction in the number of unemployed by 3%).

On average, the distribution among the employed population in the economy in 2012-2013 is as follows:



**Figure 9.** The ratio between employed and unemployed in Uzbekistan, thousand people.



**Figure 10.** The ratio between female and male population in the structure of the economically-active population, employed and unemployed, %.

Men (54.6% and 54.3%, respectively) and women (45.4% and 45.7%, respectively). Employment by industry sectors among male and female population of Uzbekistan is represented in Figure 11. The highest level of employment among women is observed in the following sectors: “Trade, public catering, sales, intermediates”, “Health care, physical training and welfare” and “Education, culture, art, science and scientific services”. The employment in other areas (Industry, Agriculture and Forestry, Construction, Transport and Communication, Housing, Communal services and Non-production household services, Finance, Credits and Insurance) is prevailed among men.

According to experts<sup>18,19</sup>, the labor market in Uzbekistan lacks labor resource offers in the following areas of national economy: Industry, information technology, healthcare, pharmaceuticals, finance and insurance. The imbalance between high demand and relatively low supply (especially of skilled professionals) leads to low wages offered by employers. As a consequence, there is a constant turnover of staff and outflow of skilled professionals abroad with the goal of obtaining decent wages.

The labor market in Uzbekistan lacks enough mid-level professionals for the production sector, secondary and tertiary level of engineering education. There are a lot of those who wish to find a job, though usually applicants do not have practical experience and the appropriate qualifications. Basically, the lack in these specialists is compensated by qualified personnel of the older generation.

The country has enough professional colleges and lyceums, though there is a gap between the existing level of skills (low) and level of skills (high) required by employers. On the other hand, employers at some enterprises do



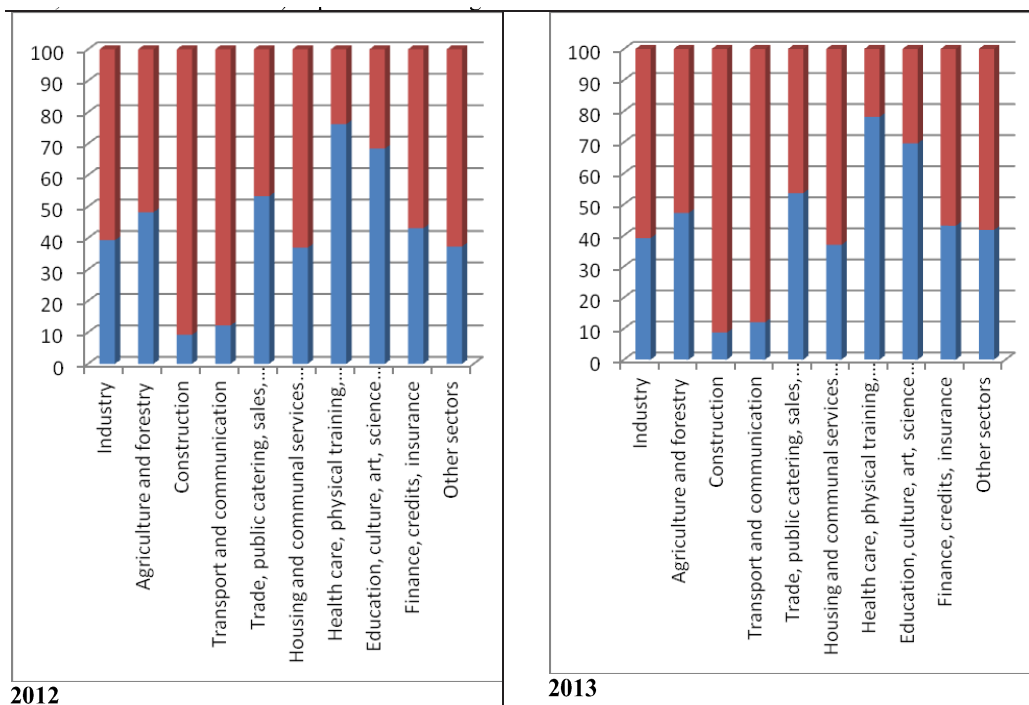


Figure 11. Employment depending on scope of activity in women (blue) and men (red), %.

not wish to provide the opportunity for advance training of their employees.

Thus, the effective functioning of the labor market can be carried out in the following areas:

- Improving the quality and competitiveness of labor force on the labor market through reforming the vocational education system at all levels;
- Improvement of professional training, retraining and advanced training of the economically-active population in order to increase its competitiveness in the labor market and provide the possibility for early employment.

The level of unemployment in Uzbekistan has a tendency to decrease [Figure 12]. This is associated primarily with the ongoing activities in the area of employment and strengthening the role of the state in social protection of the population in terms of rights to labor.

In the current context, the labor market in the CIS countries (including Uzbekistan) is characterized by disbalance in labor supply and demand in specific occupational groups. On the one hand, this disbalance is explained by the mismatch between the demand for educational services and the needs of the labor market. On the other hand, vocational education institutions do not

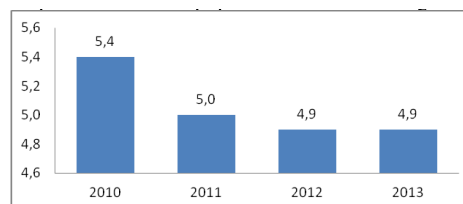


Figure 12. The level of unemployment in Uzbekistan, %.

have strict qualification requirements for the jobs. Thus, they form mix of skills that do not correspond to the needs of the economy. Employers complain about the graduates training level, focusing on the fact that graduates' knowledge, acquired at the vocational training institution, is isolated from the real situation.

The solution to the problems of qualitative and quantitative disbalance between supply and demand in the labor market can be obtained through practical implementation of the strategic partnership model between the state, employers and vocational education institutions. The model is constructed on a voluntary contractual basis allowing for achieving the strategic interests of the parties involved in the partnership.

In case of successful implementation of the strategic partnership in the labor market we may expect the following results:

- ✓ Providing maximal adaptation of the graduates from the institutions of the vocational education system to the beginning of their professional development activities;
- ✓ Improving the competitiveness of educational institutions in the educational services and the labor markets;
- ✓ Developing scientific and technological capacity of vocational education institutions as well as enterprises;
- ✓ Reducing disbalance in supply and demand in the labor market.

Significant impact on the labor market in the country is provided by foreign labor migration. Its regulation becomes a decisive factor for a given sector and socio-economic development of the state and society.

In the context of demographic recession, the employment of foreign workers in vocational qualification groups, which are a priority for the needs of the economy, becomes one of the conditions for its progressive development. However, the labor migration, especially its illegal form, has negative consequences for host countries, such as losses from non-payment of taxes, the burden on social infrastructure, social and ethnic tensions and violations of the law. These problems are especially acute in economically advanced regions, attractive for foreign citizens. In Russia, the main attraction center of external labor resources is the city of Moscow, where more than 600 thousand foreign citizens are employed every year just officially.

Between the CIS countries there are migration flows of labor resources caused by economic reasons<sup>8</sup>. According to statistics, the negative balance of interstate migration is observed in the following countries: Armenia, Azerbaijan, Kyrgyzstan, Tajikistan, Moldova and Uzbekistan. The outmigration to other countries (Russia and Kazakhstan) does not solve acute social problems associated with the employment.

The data in Table 1 shows that the number of people departed from Uzbekistan is greater than the number of people arrived from other countries. However, there has been some reduction in the indicator of "balance of international migration". Nevertheless, the dynamics is not sustainable that should be taken into account by the state authorities.

In unstable employment is defined as non-standard forms of employment with low wages, the lack of

**Table 1.** Indicators of migration flows in Uzbekistan for 2011-2014, mln people

	2010	2011	2012	2013	2014
Number of immigrants	139.8	136.5	169.6	155.1	145.3
Number of emigrants	183.8	184.1	210.6	189.7	183.8
Interstate migration balance	-44.0	-47.5	-41.0	-34.6	-38.5

protection against dismissal, lack of social protection system, the inability of the employee to defend his rights and interests, the expansion of temporary work relationships and informal labor-management relations.

The main problems of the fluctuating unemployment in the labor market are as follows:

- High level of illegal employment among foreign citizens;
- Low wage of foreign workers;
- The short-term labor relations with foreign employees;
- Limit access of foreign workers to exercise their rights in the workplace.

Specialists focused on labor market study have developed proposals on state regulation of foreign labor migration, aimed at reducing the risks of fluctuating unemployment. Due to the extension of the scope of patents application for foreign citizens we propose the following:

- To provide the entities of the Russian Federation the opportunity of applying economic leverage towards attracting foreign workers to certain types of economic activity and occupations;
- To modify the legal standards on enactment of the right to establish regional factors to the cost of the labor patents;
- To credit the tax revenues received from the sale of patents to the regional budget.

For foreign citizens arriving for work to Russia, we propose to establish special guarantees on wages, broaden access to social, health and educational services, as well as implement a series of measures for their social and labor adaptation in the labor market.

In general, the proposed measures should protect national labor market against unwarranted inflow of foreign workers, since for them a professional behavior

and competency should become a competitive advantage in the labor market rather than “cheap cost” and homeliness.

## 4. Conclusion

Thus, the labor market both at the levels of the state and the region is a complex integrated system with a large number of involved business entities and intermediaries, the diversity of the occurring socio-economic processes, ambiguity of tasks, the exceptionally large amount of information, constantly increasing number of links between market participants and their probabilistic nature. Solving the disbalance problems relating to supply and demand in the labor market would be possible through implementation of professional education system into the strategic partnership between the state, employers and institutions.

The present study shows that the analysis of employment dynamics and the labor market, as well as their structural characteristics should be considered in the context of the diversity of direct and inverse relationships with the key macroeconomic and demographic processes. On the one hand, this diversity is determined by the existing features of local labor markets, first of all, regional and sectorial. On another hand, the causes and consequences of the current socio-economic and demographic processes, sometimes, run beyond the domestic labor market. It is therefore appropriate to consider them within broader spatial boundaries, taking into account, for example labor markets dynamics of the CIS countries.

In the current context the labor market conditions in the CIS countries are exacerbated by the impact of the current geopolitical crisis in industrial economies. In this regard, the formation, development and implementation of adaptive forms of employment will reduce the level of unemployment in the CIS countries. The economically-active population will have the opportunity to generate cash income and maintain an appropriate level of qualification. For employers, the implementation of flexible forms of employment will result in the ability to manage differentiated costs of jobs organization and maintenance, as well as upkeep of personnel in a down economy. This will promote further the formation of conditions for sustainable functioning of national labor markets in the CIS countries and will be a factor improving the welfare of the population.

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