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Wholesale Meat Market and Distribution Changes in Mongolia, Ulaanbaatar

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Abstract:

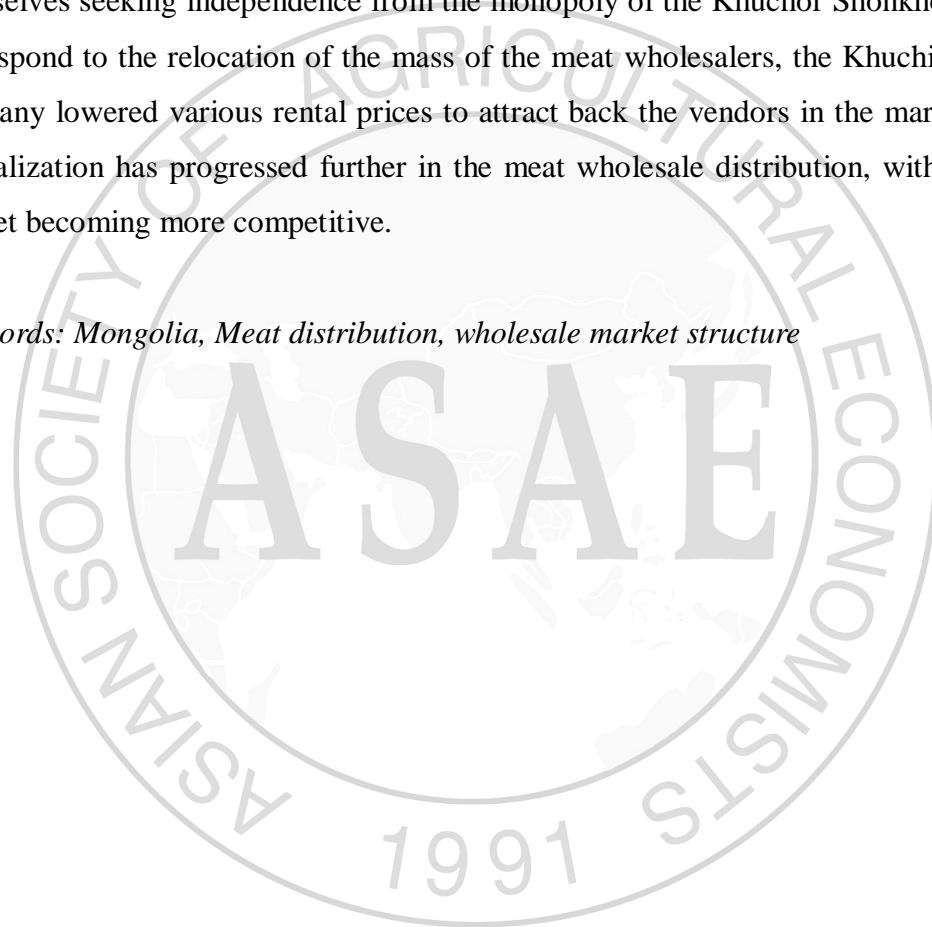
Since the adoption of market economy in the 1990-ies and with the advancement of the economic reforms, significant concentration of population in the urban areas of Mongolia is increasing. Approximately 62.6% of 2 million and 740 thousands of the total population (2009) are urban dwellers. Meat demand is also increasing with the increase in urban population. The instability of the meat market and price hikes have been occurring frequently in the past decade. In Mongolia, the increase in meat prices, which is the staple food, affects seriously the daily life of the increasingly economically disparate city dwellers.

In this paper, we explore the causes of the meat price formation by analysis based on the realities of the meat wholesale market survey of the capital city Ulaanbaatar, and the trends in the wholesale meat market distribution are discussed. This paper reports a research study tracking the data obtained in 2005-2006 and adding a new survey data conducted in July and October 2010.

Trends in the meat market were changing fast in the past decade. There are six food markets in the city. 80% of the total meat market trading accounts for the Khuchit-Shonhor market proceedings. From 2005 to 2010, the Khuchit-Shonhor, which is the largest wholesale meat market in the city, has increased its sales area four-fold. The number of the meat dealers in the market has increased 2-3 times. There are

frequent disputes arising between the market company and the individual meat wholesalers, and the sale of meat is becoming increasingly difficult to maintain for the independent wholesalers. In July 2010 there was formed the meat wholesalers' cooperative to protect their rights before the market company. In October 2010 survey, more than half of the wholesalers of Khuchit-Shonhor market moved to the new meat market Naran-Tuul-2 located in 1 km distance apart from the Khuchit Shinkhor. The Naran-Tuul market was founded through the initiative of the meat wholesalers themselves seeking independence from the monopoly of the Khuchor Shonkhor market. To respond to the relocation of the mass of the meat wholesalers, the Khuchit Shonhor company lowered various rental prices to attract back the vendors in the market. Thus, specialization has progressed further in the meat wholesale distribution, with the meat market becoming more competitive.

Keywords: Mongolia, Meat distribution, wholesale market structure



1. Introduction

Since the adoption of market economy in the 1990-ies and with the advancement of the economic reforms, significant concentration of population in the urban areas of Mongolia is increasing. Approximately 62.6% of 2 million and 740 thousands of the total population (2009) are urban dwellers. The concentration of population in the capital city Ulaanbaatar in 1989 was 28% (588 thousand people) and in 2009 it has been increase to 40.7% (111.2 million people). Meat demand is also increasing with the increase in urban population. The instability of the meat market and price hikes have been occurring frequently in the past decade. In Mongolia, the increase in meat prices, which is the staple food, affects seriously the daily life of the increasingly economically disparate city dwellers.

In this paper, we explore the causes of the meat price formation by analysis based on the realities of the meat wholesale market survey of the capital city Ulaanbaatar, and the trends in the wholesale meat market distribution are discussed. This paper reports a research study tracking the data obtained in 2005-2006 and adding a new survey data conducted in July and October 2010, compares observed corresponding changes in the market, distribution trends and structural changes in meat market.

2. State of Meat Market in Ulaanbaatar and retail price trends

Due to constraints in transport technology meat sold in Ulaanbaatar are brought from the distance limited to within approximately 400km. Mainly are transported from provinces Tuv, Selenge, Bulgan, Ovorhangai, Dundgovi, Dornogovi, Hentii, Dornod, Sukhbaatar, provinces neighbouring to the city. Ulaanbaatar city's food markets in September of 2010 year were six markets, and main trading in meat had been done in the wholesale meat market Huchit-Shonhor. Share of meat handling in Huchit-Shonhor

is approximately 80% of city's meat market, and remaining 20% are shared by five other markets. Huchit-Shonhor market had biggest meat trading volume compared to the other food markets, had the lowest meat prices, and played a central role as the consumer market for meat in the city.

However, in September 2010 the new market Naran-Tuul-II was established in 1 kilometer distance from the Huchit-Shonhor market, because about a half of the meat wholesalers from Huchit-Shonhor market moved to there due to conflict with Huchit-Shonhor market management company. The reason for this is the higher level of market rates paid to Management Company, including restrictions and rules becoming tougher to the meat wholesalers. In October 2010 the meat market share of Huchit-Shonhor market dropped from 80% to 40%, half of share were shifted to the Naran-Tuul II market.

In Mongolia where nomadic herding is a major economical activity, traditionally dietary life was differed depending upon season, the meat was main staple in the cold seasons such as winter spring and fall and in summer the dairy products were the main diet. But nowadays, as a result of the changes in the diet due to conversion to the settled life during the socialist ages from 1921 to 1991, the city dwellers consume meat year round. In socialist times, meat supply was adjusted by the food supply system ruled by government, but after the adopting the market economy and price freeing, market intervention of government reduced substantially. In addition, most of the population concentrated after nineties to the city Ulaanbaatar; in 2004 approximately 60% of 2.53 million populations are the city dwellers. Recently in Mongolia, problems such as shortage in meat supply and meat price skyrocketing occurs, where the main primary factors are increased meat demand due an increase of city population and the seasonal

extension of meat consumption; and the disappearance of the government-managed food supply system. In this paper, the present condition of meat market distribution of Ulaanbaatar city is analyzed, problems facing and the primary factors affecting the market are designated as a topic. The Khuchit Shonkhor food market, which makes the case, is unique among the 13 food markets in UB city as the only "wholesale market". Below, first part is written concerning the trend of the meat supply and demand in Mongolia after the eighties, in the second part the changes and present condition of the meat distribution were discussed. Present condition of the Khuchit Shonkhor food market, generally known as a "meat wholesale market", the management features of each trader inside the market are considered in the third part. And lastly, summarizing the analysis above, we consider the problems of the Mongolian meat market.

3. Trends of the meat supply and demand in Mongolia

Same as other post-socialist countries, the food production and consumption structure of Mongolia changed considerably upon the transition to market economy. In case of the meat, the main producer "farming and herding cooperative" has collapsed, meat production from the deliberate production which was based on national plan, changed to the individual production in order to maintain the life of the independent nomadic people. As for meat consumption, it changed from the consumption based on "distribution" with uniformly fixed prices to "free" consumption, price now is formed in the process when the product passes from nomadic people to individual proprietor, then to middleman and to retailers. Below, we will look concretely how meat demand and supply has changed.

According to "agricultural products and plant foodstuff consumption standard per

capita" of the Mongolian Ministry of Health and Welfare, meat standard consumption is 230 g per day, yearly 84 kg per person is decided optimal for the Mongolian climate (Note 4). As for 2004, nationwide average annual meat consumption was 94.8 kg/person and has exceeded considerably this standard. But the mean annual meat consumption of the city person was 86.4 kg in 2002, which decreased to 80.4 kg in 2003 and 74.4 kg in 2004. The meat is staple food for Mongolians and the stable consumption is required, but under decrease of meat production after 2000 year's dzud and rise of meat price, meat-purchasing ability of the general consumers has become increasingly difficult. The Mongolian herding industry occupied 21.3% of GDP in 2004, 80% of which has produced by the stock farming (Note 5). Through socialist times, the number of domestic animal heads had been restrained to approximately 23 million heads. But after domestic animal privatization (Note 6) enforced in 1991, the numbers of all the domestic animals increased on and 33.57 millions were being registered in 1999. After that heavy snow damage in 2000 (dzud) caused decreases in number of domestic animals substantially, and in 2004 total 28.03 million heads were counted (no more than only 83.5% of 1999 level). It means that meat supply capability has decreased substantially. We should also mention that breeding for cashmere production increased quickly, which is one of the primary factors of meat supply decrease. These were some of negative side effects of the transition from government-planned economy to the free market economy.

4. Meat distribution in nineties

In socialist age, market distribution was regulated mainly by the government-managed commercial system. But after the transition to the free-market and "the privatization" in 1991, this government-managed commercial system had "to be dismantled" and all

food and agricultural products distribution fell to the considerable confusion. Changing times forced small house merchants to shoulder and bear the market distribution, which ties the countryside and the city. As economy settles, those who purchase meat from the nomadic people appeared and they transport meat to the city market. Also with this some of them become wholesalers in the market, they buy meat from merchants and sell to the retailers.

Present condition of meat distribution

More than 930 thousand people, or 36.7% of the total Mongolian population, have concentrated in capital city of Ulaanbaatar in 2004. The annual meat consumption is 65 thousands tons, city production volume being 2,500 tons, the remaining necessary quantity is supplied from the countryside. Presently there are mainly two distribution roots in meat distribution: distribution by "meat wholesale market" and distribution by the meat production plants. The merchant from countryside purchases the domestic animal from nomadic people alive and transports it to the domesticated fowl and animals places in the suburbs of Ulaanbaatar. He pays fee there to have animals slaughtered. In nineties these domesticated fowl and animals places were established inside the food market of Ulaanbaatar city, but in 2003 bringing the domestic animal to the city was prohibited with city regulations and fowl and animals place was removed from the city area. With this, the cost of the merchants became high comparing to the previous time, because at least a truck becomes necessary to transport meat from the domesticated fowl and animals place to the food market, and gasoline cost and car rental fares surplus the cost of meat. Now the domesticated fowl and animals stations are concentrating in Nalaikh city in the west of Ulaanbaatar and in Emeelt city in the

east. The majority of the meat that is produced there is shipped to the Khuchit Shonkhor food market.

In past Khuchit Shonkhor food market was just one of many small markets in the city, but with the movement of fowl places out of the city, the Khuchit Shonkhor market began to carry out "the wholesale market" functions, because retailers and the merchants of the other food markets are buying the meat in the Khuchit shonkhor food market and then sell it to the consumers. When foodstuff retail stage of city is surveyed in 2004, there were total 13 food markets and 74 food centers, 1,507 retail stores (including 196 retail store of 24 hour service). Another distribution form is as mentioned above by the meat processing plants. Survey has shown that in 2004 there were 28 meat-processing companies (including the old government-managed factories), 25 companies among those participates in the "Mongolian Meat Association". The trusted "representative" of the processing company collects the domestic animal from the nomadic people; the domestic animal is delivered to the company at the domesticated fowl and animal's place of the company. The processing company ships the processed meat to the food markets and to the retail store of the city, does meat export to foreign countries such as Russia.

Present condition of Khuchit Shonkhor market

The Khuchit Shonkhor food market, which began operating in 1981 as a public food market, was privatized to Khuchit Shonkhor Co.Ltd in 1992. Market (which sites 630 square meters) mainly offer the transaction place, supervision of transaction inside and guarantee of meat hygienic management. As a private investment company Khuchit Shonhor Co.Ltd pursue as the profit the tenant charge. Up to 2003, the domesticated

fowl and animals place was established inside the market, which played a role for Khuchit Shonhor market becoming meat wholesale market. Meat transaction participants in this market constituted from 250-300 meat wholesalers (daily 90 people), 360 meat salesperson inside the markets, the retailers, eating out traders, general consumers, who comes to buying from outside. We can subdivide the wholesalers into 2 groups, as about 30 merchants doing transaction just inside the market, which we name "the wholesaler inside the market". "The wholesaler from countryside" brings the branch meat to the market and sells it to "the wholesaler inside the market"; that sells the meat to the "meat salesperson inside the market", who rents the stand inside the market. The "meat salespersons inside the market" processes the branch meat to the part meat on the own stand, and then sell the meat to the retailers and the eating out traders who attend the market.

Characteristics and features of wholesalers

The wholesalers of the meat appeared new in nineties. In Khuchit Shonhor meat market approximately 300 wholesalers are registered, we can divide these wholesalers into two types according to their transaction form. The Khuchit Shonhor meat market survey was replied by 24 people, from which 2 person are nomadic people, who answered he/she came to the market for the first time in the survey day, 11 "wholesalers inside the markets" who answered they comes to the market everyday, 9 "wholesalers from countryside" who come to the market 2-15 days in a month, 2 non-reply persons. First we will see "the wholesalers from the countryside". They buy the domestic animal from the nomadic people, transports it to the fowl and animals place around the city, pay dismantling charge there; then transports the branch meat to Khuchit Shonhor meat

market and sells to “the wholesaler inside the market”. They come to the market 2 - 7 times in the month. Comparing to “the wholesalers inside the market” the expenses of “the wholesalers from countryside” such as transportation costs, dismantling charge and hygienic permission charges are high. The quantity of shipment per wholesaler per one time is small about 10-30 sheep. It is considered that “wholesalers from countryside” had a strong intention to sell all shipped meat at one time and return to the countryside quickly, because collecting livestock from nomads is time consuming. So is a tendency of “the wholesalers from countryside” to prefer the transaction with the “the wholesalers inside the market”, who have economic ability to purchase the mass meat at one time.

Second type of wholesalers is "the wholesalers inside the market", they buy meat from “the wholesalers from countryside”, stocks and sells it only in Khuchit Shonhor meat market. The number of such people is approximately 20-30 and the transaction quantity per person is big in comparison with the “the wholesalers from countryside” (Table2). According to the survey, “the wholesaler inside the market” sell meat 20-150 TG more expensive than the price brought per kg. Each stage of the meat sales price in the market was shown in Table 3. Although the actual spending of “the wholesalers inside the market” cannot be pointed out from this survey, it is clear that they are obviously less than the costs of “the wholesaler from countryside”. It is imagined that they are more dominant in this market in respect of the profitability, because a few merchants with the abundant capitals exists, while a lot of petty “the wholesaler from countryside” and petty “salespersons” exists.

Characteristics of meat salesperson in market

Besides the wholesalers, 360 people are registered in the market as private management

meat sellers, who buy meat from “the wholesalers inside the market” and sell to retailers from outside of the market. They borrow the stand from the market, and pay the tenant fee of 63,000TG/month. Most of the suppliers of meat are wholesalers from this meat market, and buying from provinces directly is rare. There are no any contracts or a specific agreement with wholesalers and the other party who sells meat is always different. The amount of sales during a day is about 1 carcass of big animal as cattle, horse, camel or 5-10 carcasses of sheep and goat. Almost all prices are same at one time. Meat will be bought from 6 to 8 a.m. every morning, and be sold in the stand till 7 p.m. In the morning till the noon meat purchasers are mainly retailers from other food markets and meat sellers trying to sell the majority of the meat bought. The quantity of retailer’s and the dining out trader’s purchase are at least ten kg or more. On the other hand, in the afternoon a general consumers are main purchasers and the price is lowered gradually to finish selling. Meat sellers who have the meat not sold out in a day are arranging to sell cheaply for the diner’s and the retail store around the meat market. As for the meat kind, the half is beef according to the survey, about 30% is mutton, the camel meat is 11%, and horsemear is 9%. Meat sellers are specialized to some degree in a meat kind, and those who sells many kinds of meat like beef and mutton at the same time are few. Narrowness of the stands, no freezers, difficulty of the adjustment when meat is not sold out and insufficient management of the Khuchit Shonkhor market were pointed out as problems of this market by meat sellers.

Characteristics of dealing in Khuchit Shonkhor food market

It is considered that the selling quantity of the wholesalers from the provinces and the amount of meat salespersons want to buy were not corresponding at the first times of

distribution changes, which caused difficulty in dealings. Then both requested the existence of the middle merchants, from which the present “the wholesalers inside the market” has derived. Now we can see the picture in the market where “the wholesalers from countryside” depends on “the wholesalers inside the market” to sell a large amount of meat. The meat distribution width narrows in a “wholesaler inside the market” stage located in the middle point of the line, where a lot of “wholesalers from countryside” are connected with a lot of meat salespersons. (90 average “wholesalers from countryside” during a day, 20-30 “wholesalers inside the market”, and 360 meat salespersons). It is thought that a relatively dominant position is occupied by “the wholesalers inside the market” who has strong influence in forming the price of meat in the market.

Consideration

In this article above, the changes and present condition of the meat distribution and meat market structure of Mongolia were discussed. The meat distribution, which was controlled by the state under socialism, accomplished considerable changes with the introduction of the market mechanism based on "the privatization law" of 1991. The government managed distribution system disappeared suddenly and food distribution was re-started by “the wholesaler from countryside” supplying the meat from the nomadic people. Recently many wholesalers and the retailers concentrate in the consumption area market Khuchit Shonkhor, which carries out "a wholesale market" functions. Lastly this paper discusses several problematical points in the distribution system of meat market seeing the wholesale market in a center. The Khuchit Shonkhor food market was expressed conveniently "wholesale market", but, as seen from a case

study, the merchants in this market have a strong influence, because they meet the needs of many wholesaler from provinces and a many meat retail sellers. The “wholesalers inside the market” has occupied the position of the price leader by handling the mass meat on the basis of abundant funds. Transaction of them is done from the privileged position, which is thought that it has speculative character. It is thought that formation of price is done in the form, which is not related directly to the action of nomadic people, “the wholesaler from countryside” and meat sellers who are acting for life maintenance. In present Mongolia there is no index price, which can be used as objective standard in the case of meat transaction and it is to be shared between each transaction. It is probably necessary to set the market transaction principle, which accompanies public regulation in consumption area market such as Khuchit Shonhor meat market.

In order to stabilize meat supply, it is needed the State policy for the meat storage with rationalization of distribution at private level. From 1991's "privatization law" until now it is believed that the conversion to market mechanisms will bring the stabilization and rationalization of meat market, but now it is clear that the meat market should be regulated.