

SECTION 2

LABOUR PRODUCTIVITY OF CONSTRUCTION SECTOR IN VIETNAM

2.1 Labour productivity and wages

Labour productivity is defined as the ratio of output to labour input. Labour is one of the most critical resources in general and construction sector in particular. Labour productivity is a partial productivity with labour as variable input and all other inputs are kept constant.

Based on nature of construction sector, we may accept measurement of labour productivity as follows:

- Output can be measured in terms of money value corrected for changes in prices. Physical quantities cannot be used since construction sector has diverse products, so we could not add houses to bridges or roads etc., and thus output has been expressed in money value units. The money value of output could be taken either in terms of gross output or value added in the process of production. However, the value added concept is being increasingly used because of its great suitability for comparison.
- Input is measured in physical terms namely number of employment.

Therefore, Labour productivity = Value added/ Number of employment. This indicator reflects how much money worth of output each person of construction sector contribute to national economy.

Table 10 shows the ration of sectoral GDP to employment i.e., labour productivity, and wages for construction sector of Vietnam during thirteen years from 1995 to 2007 assuming base year 1995.

Table 10: Labour productivity and wages of Construction Sector in Vietnam

At 1994 constant prices

Year	GDP (billion)	Employments (hundred)	Labour productivity	Labour productivity index (%)	Wages (hundred)	Wages index (%)
1995	14590	7927	1.84	100.00	4266	100.00
1996	16938	8199	2.07	112.50	4500	105.49
1997	18855	8486	2.22	120.65	5445	127.64
1998	18761	8783	2.14	116.30	5466	128.13
1999	19211	9084	2.12	115.22	5091	119.34
2000	20654	9388	2.2	119.57	5334	125.04
2001	23293	10681	2.18	118.48	5842	136.94
2002	25754	15263	1.69	91.85	6455	151.31
2003	28481	16881	1.69	91.85	6912	162.02
2004	31053	19229	1.62	88.04	6898	161.70
2005	34428	19988	1.72	93.48	7338	172.01
2006	38232	19940	1.92	104.35	7684	180.12
2007	42824	21024	2.04	110.87	7864	184.34

Source: Estimate on the basis of data from general statistical office

As may be seen from table 10, labour productivity of construction sector in Vietnam at 1994 prices fluctuated over period as compared to the base year of 1995. The productivity ratio from 1995 to 2001 always were higher than based year 1995, in particular, reached the big figure of 2.22 in 1997 and second figure of 2.20 in 2000. Consequently, productivity index with 1995 as the based year worked out at 120.65 percent in 1997 and obtained at 119.57 percent in 2000.

During period of 2002 -2005, labour productivity decreased, namely, productivity ratio was 1.69 in both year 2002, 2003, and lowest ratio at 1.62 in 2004 and reached 1.72 in 2005. Therefore, labour productivity index was lower than base year 1995, was only 91.85 percent in 2002 and 2003 and lowest figure at 88.04 percent in 2004 and attained 93.48 percent in 2005. After then in 2006 and 2007, labour productivity achieved little progress in comparison with 1995, ratio index accounted for 1.92 and 2.04 respectively. Correspondingly, its percent indices were 104.35 percent in 2006 and 110.87 percent compared to the based year.

Reasons of labour productivity fluctuation and little progress during past year are lack of skill labour, number of labour was trained to provide construction sector about 25 percent of total labour. This lack of training is due to practical concerns such as employers completing the increased percentage of nonunion work. In general, the workforce of contractors is highly mobile. Contractors are often reticent to invest capital to train those who may soon be someone else's employees. The result may be a decrease in the construction workforce average capability level.

Structure of worker in Vietnam construction sector is irrational (engineers/ technicians/workmen = 1/1.3/3 in which reasonable ratio must be 1/4/10), therefore off-season workers worked at many great projects even they did jobs of technicians¹¹ while construction projects are more complex day by day to require high technology and professional workers in high level.

Besides, weakness of management led to corruption almost state investment projects, for instance, in 2002-2003 the department of construction inspection in Ministry of Construction examined 31 construction projects which were the value of investment being 17,300 million dong, result showed that 31 projects were violated and lost 2,070 million dong¹².

Backward technology in construction sector is one of reasons of low labour productivity. Inefficient investment as well as poor assets utilization in Vietnam related to shortcoming and weakness of management in state-owned enterprises. An organization of labour in state-owned enterprises as well as construction projects is unreasonable. .

Labour productivity reflects contribution of each worker to sectoral GDP, this much, workers of Vietnam construction sector contributed to growth rate of economy being not steadily.

In the meantime, average wages almost moved up during period of study 1995-2007. We must admit that labour productivity even declined, but wages still increased. In base year 1995, average wages were only 4266 hundred Vietnam dong, after then average wages were higher than not only base year but also previous years except year of 1999 and 2004. Workers received payment of 1995 being 4266 hundred Vietnam dong in 1996 up to 7864 hundred Vietnam dong in 2007. Correspondingly, average wages index also raised fair significantly, with

¹¹ <http://fastmoney.vn/Home/Lanh-dao-Quan-tri/Nhan-su/2008/05/2FFB64CF/>

According to Nguyen Van Lien, Vice Minister of Construction

¹² <http://www1.mt.gov.vn/thanhtragtvt/Search.asp?psearch=kh%E1%BB%91ng>

According to senior lieutenant-general Le The Tiem, Vice Minister of Public Security

base year 1995 at 100 percent, they accounted for 184.34 percent in 2007, like this, average wages of 2007 equaled nearly two folds of average wages of base year 1995.

This reason is wages policy of Vietnam. The Government of Vietnam has always adjusted regulation of minimum of salary and wages.

However, policy of payment labor for many skills is relatively low. There is less motivation to automate a task. Evaluation, examination for workers to divide grade of professional has been not carried out usually in enterprises. For this reason, the payment is not reasonable yet.

Figure 2 illustrates the previously mentioned discussion

Figure 2: Trends of labour productivity and wages of Vietnam construction sector



It is evident the growing tendency of wages is faster than that of labour productivity.

2.2 Improving the Productivity of Construction Sector

Productivity in general and labour productivity in particular plays a vital role in the process of economic development of a nation. It constitutes the real measure of economic growth and prosperity and ultimately, determines the standard of living of the people in a country. When discussing productivity, MIT's Paul Krugman (1990) points out "Productivity isn't everything, but in the long run it is almost everything"¹³

To improve the productivity, we should give important policy implications as follows:

- Human resource development in construction sector

Investment in human resource to improve its quality is a prerequisite for achieving high standards in industrialization and modernization.

¹³Paul Krugman (1990), "The Age of Diminished Expectations" MIT press, Cambridge, Mass., p.9.

The construction sector of Vietnam is characterized by predominance of migratory and unskilled labour. Therefore, there is need to expend the training and skill certification programmes at technological secondary schools and vocational schools or the firms providing on-the-job training for construction workers.

In certain areas of operation of the construction sector in Vietnam encountered the shortcoming and weakness of management. The poor management, lack experience of technology of cadres of the state-owned enterprises in the construction sector of Vietnam led to use ineffectiveness of resources. Thus, the technicians and managers of construction work should be regularly further trained in the construction methods of situation, new management and trends of development of each field of construction science and technology in the country and in the world. Management complicates progress in productivity within the construction industry. Past studies found that poor management was responsible for over half of the time wasted on a job site¹⁴ (Business Round Table, 1983). Good management is required for profitability and success.

Besides, educating young generation to produce technicians, scientists and managers suitable for modern age construction sector is necessary. This can be fulfilled by providing different types of technical training courses at universities, research institutes, scientific centers, or even abroad.

To accompany with the above, we need to recompile textbooks on construction engineering at vocational schools and universities in keeping with the new management mechanism and new engineering and technology. To renovate as quickly as possible the research institutes and universities in the direction of equipping integrate up-to-date facilities in correspondence with their leading position in studying the technologies, sciences and training specialists.

To create training and retraining fund by firms and the government because one of the best ways to increase productivity is training and development.

Contract conditions could carry a stipulation that a minimum percentage of trained/certified workers would need to be employed. The percentages stipulated could be increased over time.

- Promotion of technological progress

For big projects, it is necessary to stipulate high technical conditions for units who want to bid these projects that can encourage the firms to adopt superior technology in construction activities. We should improve the policy to attract advance technologies at home through encouraging investment by foreign firms, as foreign countries arrive and leave for us technological frontier, expertise by establishing operations.

The construction sector adopts best-practice techniques in relation with local, regional and national requirements and their investment abilities as well as in general directions of whole sector's modernization and industrialization.

- A Rationalized Policy of Salary and Wages and using talents

Implementation of payment to labour based on labour productivity, but the method of payment to skilled labour should be suitable to work to stimulate professional ability as well as greater efficiency of workers.

Whatever the system of wage payment may be, there must be an adequate compensation for labour put in the work and they should be given opportunity to improve the living standard of labour. Therefore, wages should be linked to the cost of living index. However, in our urge to

¹⁴ Business Roundtable. (1983). *More Construction for the Money*. Business Roundtable. New York, NY

link wage with the cost of living index, we should not lose sight of linking wages with productivity.

We should attract and retain talents by priority policy. First of all, we should use and encourage workers in unit to create good ideas. Besides, we should attract talents from outside of unit even foreign experts.

- Reorganization of state-owned enterprises in construction sector

It is necessary to investigate utilization of capital of state enterprises. Important policy change is required to minimize waste in utilization of capital that exists in these enterprises as well as to remove bottlenecks of bureaucratic management. The construction sector may push up process of privatization for less efficient state-owned enterprises. Inefficient state-owned enterprises must be dissolved by concerned law.

- Removing bureaucratic hurdles and fighting corruption in construction sector

Vietnam should have a law of corruption denouncement. We create transparent environment in tenders. Construction inspectors have qualification and sense of justice.

2.3 Outlooks

The Construction sector may be down in 2008 and 2009 because of inflation. In 2008 government paused to deploy some projects which are not really necessary and less effectiveness and postpone building projects such as headquarters, meeting-halls, museums and cultural houses which were made plan in 2008, but they do not start working yet. Besides, consumer price index of construction materials makes some companies could not carry on construction projects that affects value added in construction sector. So, output of construction sector will decline while employment of construction sector little increase, technology still does not renew, that brings labour productivity tends to decline. It may be anticipated of - 2% productivity growth in 2008, and it will be restored in 2009. The positive outlook of labour productivity in construction sector will be from 2010. This time, Vietnam economy will overcome recession. However, we want to break through labour productivity in construction sector of Vietnam to get higher, we may apply some above-mentioned suggestions in 2.2.

2.5 Conclusion

Construction sector of Vietnam plays important role in economic development. During period of 2000 -2007, sectoral GDP growth rate mostly attained more than 10 percent, excepting 2000 and 2004. Up to 2008, construction sector of Vietnam has affected by inflation, the first six months in 2008, GDP growth rate of construction sector increased only 0.9 percent. Some projects have to delay, because the price of construction materials grew and tighten policy of money of government as well as government policy of pausing unnecessary projects in 2008 to curb inflation.

Labour productivity of construction sector in Vietnam from 1995 to 2007 with based year 1995, we realized that 2002 -2005, sectoral labour productivity is less than based year and remaining years one is greater than based year. Although sectoral labour productivity increased interruption, wages of construction sector grows year by year. However, salary and wages of construction sector did not encourage skilled labour and a talent that is one of reason making labour productivity is not improvement in last years. Weakness in management and corruption in almost projects and backward technique and technology in construction sector in Vietnam are caused low productivity leading weakness of competitions in the international market even domestic market.

To improve labour productivity, we should train construction workers, foster construction staffs in management, fight corruption and adopt best-practice techniques and technology.

REFERENCES

1. Business Roundtable. (1983). *More Construction for the Money*. Business Roundtable. New York, NY
2. Chiang Y.H.; Anson M.; & Raftery J. (2004), *The Construction Sector in Asian Economies*, Spon Press.
3. Communist party of Vietnam (1986) "6th National Congress Documents", Thegioi Publishers, Hanoi.
4. Construction yellow pages, 2007.
5. Fast Money for Smart Investors, Ngành xây dựng thiếu nhân lực trầm trọng (Serious shortages of Construction Manpower) - <http://fastmoney.vn/Home/Lanh-dao-Quan-tri/Nhan-su/2008/05/2FFB64CF/>
6. General Statistics Office (from 1986 to 2006), *Statistical Yearbook of Vietnam*, Statistical Publishing House.
7. General Statistics Office of Vietnam - http://www.gso.gov.vn/default_en.aspx?tabid=501&thangtk=06/2008
8. Ministry of Construction in Vietnam (from 2000 to 2007), Annual Report.
9. Ministry of Finance of the Socialist Republic of Vietnam, Vietnam Records 2007 GDP growth at 8.44 percent, CPI at 12.63 percent <http://www.mof.gov.vn/DefaultE.aspx?tabid=356&ItemID=49786>
10. Ministry of Transport, Phòng chống tham nhũng trong xây dựng cơ bản (Anti – corruption in capital construction) <http://www1.mt.gov.vn/thanhtragtvt/Search.asp?psearch=kh%E1%BB%91ng>
11. Paul Krugman (1990), "The Age of Diminished Expectations" MIT press, Cambridge, Mass., p.9.
12. State Bank of Vietnam (from 2000 to 2006), Annual Report
13. The 2008 world factbook, Vietnam people 2008 - http://www.theodora.com/wfbcurrent/vietnam/vietnam_people.html
14. Vietnam: Key Economic Indicators - http://siteresources.worldbank.org/INTEAPHALFYEARLYUPDATE/Resources/550192-1143237132157/Key_Indicators_Tables_Vietnam.pdf
15. Vietpartners, Social & Economic Indicators of Vietnam Country - <http://www.vietpartners.com/Statistic.htm>
16. V V G ~ *Economic Indicators* - http://www.vvg-vietnam.com/economics_cvr.htm
17. WIKIPEDIA – The Free Encyclopedia, List of Countries by Human Development Index http://en.wikipedia.org/wiki/List_of_countries_by_Human_Development_Index ¹ The 2008 world factbook, Vietnam people 2008 - http://www.theodora.com/wfbcurrent/vietnam/vietnam_people.html