

VIETNAM'S LABOUR PRODUCTIVITY IN ASEAN ECONOMIC COMMUNITY

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Abstract

Labour productivity is a key indicator labour market, it reflects economic growth, competitiveness each country and efficiency in the use of labour. According to ILO, Vietnam is one of the most lowest countries, Singapore is 15 times as high as Vietnam, Malaysia is 7 times as high Vietnam; in fact, Vietnam's labour productivity is still higher than Cambodia, Myanmar and Lao PDR. It became one of the main challenge in entering ASEAN economic community after 2015. The paper employed mix method as collected method and analyzed method in this study, the data collected from GSO, ILO, WB. This paper aims at analyzing current situation of Vietnam's labour productivity, next assess their limitation and their cause and finally give some policy implementation in order to improve labour productivity of Vietnam. These policies implementation focus on shift economic growth model from wide growth to deep growth, learning success of Singapore, enhancing national competitive capacity and then it is essential that to assure labour productivity growth rate higher than salary growth rate.

Keyword: Asean economic community; General statistics organization; International labour organization; Labour productivity

1. INTRODUCTION

1.1 About labour productivity

Labour productivity is a key indicator labour market, it play an important role any countries. When we refer to this indicator, there are many definition from international organization like Asian productivity organisation, International labour organisation and General statistical office

According to international labour organisation(ILO) labour productivity is defined as output per unit of labour input (persons engaged or hours worked). Labour productivity measures the efficiency of a country with which inputs are used in an economy to produce goods and services and it offers a measure of economic growth, competitiveness, and living standards within a country

According to Asian productivity organisation (APO), productivity is a combination output with input such as labour force, material raw, machine, energy to produce

According to general statistical office (GSO), productivity of employed population is the indicator reflecting the working performance of labour, usually measured by gross domestic product at current prices to a worker on an average in the reference period, usually a calendar year.

$$\text{Productivity of employed population} \left(\frac{\text{VND}}{\text{worker}} \right) = \frac{\text{GDP}_{\text{PPP},2005}}{\text{Labour population}}$$

1.2 Why is labour productivity important in economic integration?

Labour productivity plays an integral role to estimate quality of economic growth each country. Why is labour productivity important?

ILO Viet Nam Director Gyorgy Sziraczki explains how the ASEAN Economic Community means to Viet Nam's labour productivity and what the country can learn from its neighbours. Labour productivity is important at least for four reasons:

- First, it drives economic growth – a highly productive economy means that we are able to produce more goods or services with the same amount of resource, or produce the same level of goods and services with less resources.

- Second, labour productivity affects everyone. For businesses, increased productivity brings higher profit and opportunity for more investment. For workers, increased productivity can translate to higher wages and better working conditions. And in the longer term, increased productivity is key to job creation. For the government, increased productivity results in higher tax revenues.

- Third, the current state of labour productivity is important. During the past two decades, labour productivity in Viet Nam grew by about 4.5 per cent per year on average, which was the highest rate among the ASEAN countries. As a result, Viet Nam narrowed down its relative gaps with more advanced ASEAN economies. But challenges remain. Among ASEAN countries, Viet Nam's labour productivity level is still near the bottom. Assuming that recent productivity growth rates are maintained, Viet Nam will reach the Philippines only by 2038, Thailand by 2069 and take far more time to catch up with many other countries.

- Fourth, ageing population and economic integration also need to be taken into consideration. Viet Nam is ageing rapidly. In 2045, Viet Nam will face the same population ageing problems as Japan does today. Vigorously boosting productivity is

the only way for Viet Nam to become prosperous before its population becomes ageing. Deepening economic integration, including the establishment of ASEAN economic community, is bringing additional challenges as well as opportunities.

2. Method of research

The study use mixed method such as data statistic, data analysis. Database is related to labour productivity indicator of country, of economic sector from foreign organisation such as ILO, workbank, APO, GSO..... After that, the article keeps going analyze growth rate, make comparison between Vietnam and other countries in ASEAN.

3. Vietnam's labour productivity

3.1 Main issue

a, Vietnam's labour productivity is lower than other countries in AEC

Table 1: Labour productivity of ASEAN countries in a period 2007 to 2013

(estimate current price PPP 2005)

Unit: USD

	2007	2008	2009	2010	2011	2012	2013	Average growth rate
ASEAN	9173	9396	9366	9868	10097	10467	10812	2,84
Brunei	104964	100995	97758	98831	99362	100051	100015	-0,53
Cambodia	3333	3427	3334	3460	3619	3797	3989	2,99
Indonesia	7952	8253	8439	8763	9130	9486	9848	3,63
Lao PDR	4029	4216	4399	4636	4865	5115	5396	4,99
Malaysia	31907	32868	31899	33344	34056	35018	35751	1,92
Myanmar	2229	2282	2364	2454	2560	2683	2828	4,07
Philippines	8841	8920	8795	9152	9168	9571	10026	2,02
Singapore	92260	90987	88751	97151	98775	96573	98072	1,47
Thailand	12994	13205	12922	13813	13666	14446	14754	2,23
Vietnam	4322	4516	4669	4896	5082	5239	5440	3,9

Source: ILO: Trends econometric models 2014; worldbank: World development indicator, 2013

The above table shows that labour productivity of Vietnam is 4322 USD in 2007 and get 5440 USD in 2013, meanwhile growth rate by 7 years 3,9%. Consequently, Vietnam's labour productivity is still higher than Campuchia, Laos and Myamar, however Singapore is 15 times as high as our country, in addition Maylaysia is 7 times as high as mine.

Table 1 provides average growth rate of labour productivity, on average Vietnam's growth rate is 3,9% from 2007 to 2013 – one of the countries which

get highest rate. But, according to Gyorgy Sziraczki if our country don't improve growth rate, we will till catch up Philippine 2038, Thailan 2069 and never catch up Singapore, Brunei or Malaysia

b, Difference of labour productivity in economic sector

Table 2: Productivity of employed population by kinds of economic activity

Unit: Million dong/person

Kinds of economic activity	2010	2011	2012	2013
Total	44	55,2	63,1	68,7
Agriculture, forestry and fishing	16,8	22,9	26,2	27
Mining and quarrying	780,4	1029,7	1354,9	1542,6
Manufacturing	58,3	71,8	79,5	86,1
Electricity, gas, steam and air conditioning supply	550,8	629,2	808,5	944,5
Water supply, sewerage, waste management and remediation activities	98,5	133,2	146,6	157,4
Construction	44,8	50,7	55,6	58,8
Wholesale and retail trade, repair of motor vehicles and motorcycles	51,2	62,3	67,1	73,5
Transportation and storage	46,1	58,7	65	71,6
Accommodation and food service activities	47,2	52,9	57,1	62,8
Information and communication	88,3	88,7	89,8	103,3
Financial, banking and insurance activities	466,4	501,5	556,3	592,7
Real estate activities	1330,4	1399,2	1227,1	1289,3
Professional, scientific and technical activities	130,8	162,8	168,7	198
Administrative and support service activities	45,4	54	54,3	63,5
Activities of communist party, socio-political organizations, public administration and defence; compulsory security	35,2	45,5	51,9	56
Education and training	30,2	38,5	47,8	58,4
Human health and social work activities	53,9	55,7	69,8	117,8
Arts, entertainment and recreation	64,8	69,2	74,9	77,6
Other service activities	50,2	59,2	68,7	74,3
Activities of households as employers; undifferentiated goods and services producing activities of households for own use	17,2	23,3	28,5	32,3

Source: Statiscal yearbooks of Vietnam, GSO 2013

According to GSO labour productivity in 2013 is 1,56 times high than in 2010. Table 2 indicated productivity of mining and quarrying is highest while agriculture, forestry, fishing is lowest with 27 million of dong per worker annually.

c, Labour productivity of domestic enterprise is lower than FDI enterprise

Among the type of company, both private company and SOE is lower than FDI enterprise. For instance, in garment sector, which always lead to export value with many enterprise is lower than FDI enterprise.

Chart 1: Labour productivity of domestic garment enterprise in 2013

Unit: %

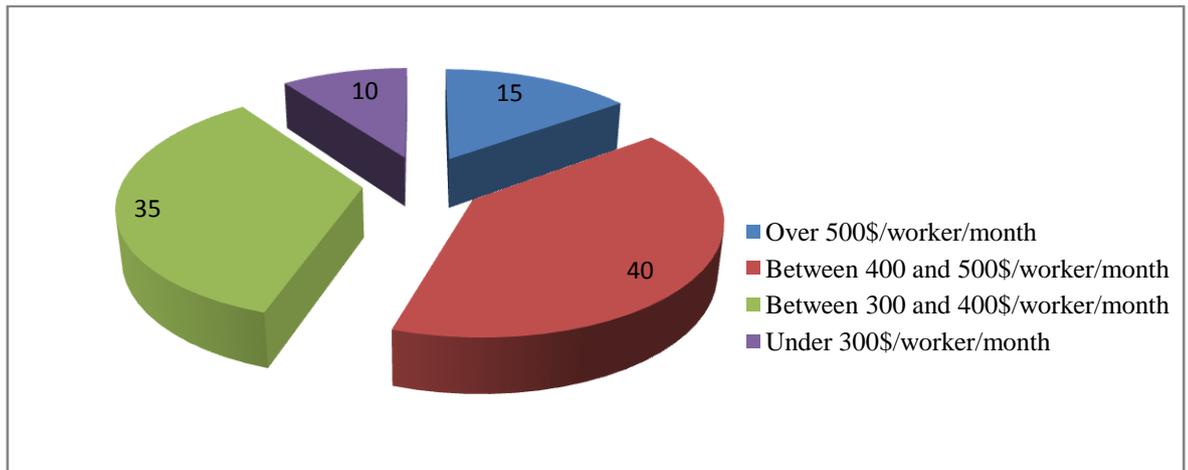
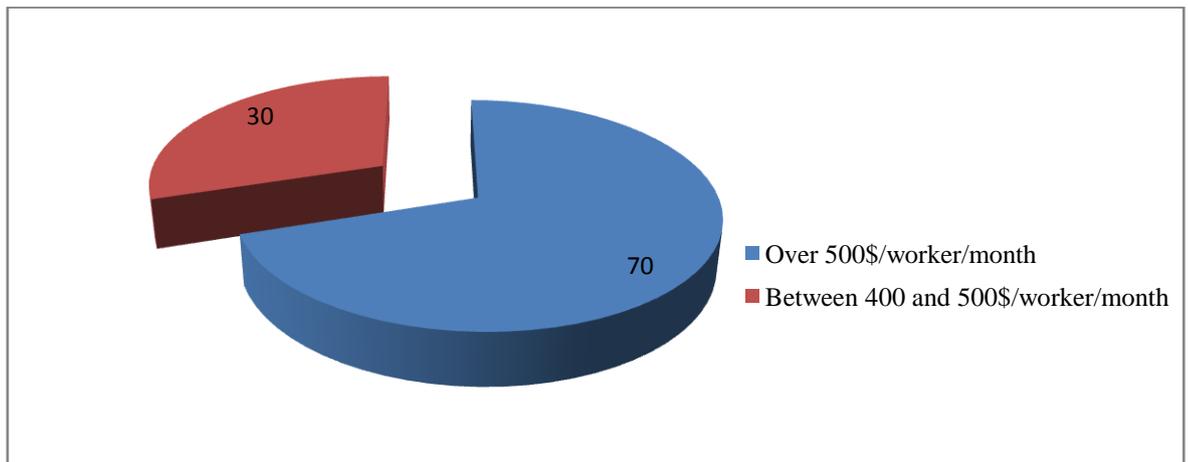


Chart 2: Labour productivity of FDI enterprise in 2013

Unit: %



Pie chart 1 indicated that 75% domestic enterprise get from 300 to 400\$ per worker per month, otherwise about the number of enterprise which get 500\$ per worker per month till represente 15%. While foreign enterprise which it productivity over 500\$, mark up 70%, labour productivity has from 400 to 500\$ accounted for 30%, no one under 400\$ (see pie chart 2). Meanwhile 15% domestic company and 70% FDI achieved over 500\$ per worker per month, otherwise 85% domestic enterprise till get under 500\$ per worker per month. Regarding to labour productivity per hour, enterprise in garment sector till remains low, for instance on average each garment company has productivity from 1,3 to 1,9 \$ per hour. Meanwhile garment industry of Vietnam till accounted for between 60% and 70% productivity of ASEAN and 45% productivity of Korea and China.

3.2 Reason

Why did Vietnam's labour productivity remain low compare with others countries? There are many causes, according to Bui Thai Nguyen, the reason cause in low labour productivity consist of techonoly, main sector and quality of employee.

First, the capacity of production technology remains low, with our technology till concentrate on human ressource, rate of processing is high, level of auto-industrialization is limited, domestic bussiness focus processing step which obtain low added values in global value chain.

Second, the employment focus on many industry which has low productivity. According to newsletter of Vietnam labour market update volume 3 in 2014 the proportion of working labour by agriculture, forestry and fishing remain leading with 47,07% while level of production of this industry remains low, next to industry and contruction account for 21,11% (quoted by newsletter Vietnam labour market update volum 3 in 2014) but it is related to processing, outsourcing

Third, quality of worker remains low. The 2nd quarter (Q2) of 2014 the share of skilled worker in total labour force accounted for 47,98% while workers who have qualification/ certificate remain low rate with 18,25%, in addition worker who does not have certificate marked up 29,73%. In constrast, the proportion of worker who has qualification of Thailand, Malaysia, Philipine and Indonesia follow by 51,4%, 36%, 28,2% and 27% (quoted by ILO (2014) Asean community 2015:Managing interagtion for better job and share prosperity). Employment sectoral structural change showed a positive sign, the proportion of worker in construction and industry increased, whereas in agriculture, forestry and fisheries sharply decreased. However, the proportion of the service sector decreased comparing with the previous quarter and the same quarter last year. In addition, the proportion of total factor productivity which contributed to economic growth remained low, till represented 13,83%. While Thailand accounted for 21,32% and Malaysia marked up 40,74%

4. Some implementation policies to Vietnam

4.1 Vietnam needs to transfer economic growth model from wide growth to deep growth, based on total factor productivity

In fact, Vietnam's economy didn't always based on natural ressource because it wasn't ensure economic growth quality. Besides the input of economic growth such as

capital, labour and natural resource which were not unlimited. After analyzing the reason of labour productivity, we found that total factor productivity contributed to low in economic growth rate. Therefore, it is essential that increasing significantly rate. According to socio economic development strategy in period 2011 – 2020, the government give specific target with 32% in 2015 and 35% in 20120

4.2 Lesson from other countries: evidence of Singapore

Malaysia, Korea, Singapore and other advanced Asian economies have distinguished themselves in developing their workforce and establishing a competitive position based on productivity. Each country faced unique challenges, addressed by specific policies and adjusted its national productivity strategy as they developed. Perhaps, Singapore has the most comprehensive, most institutionalized and most successful system. There are some key lessons VietNam can learn from the Singaporean experience:

- The basis for a productivity focused development strategy is to have a common understanding and agreement among key players (government, business, unions, media and others) on the principles of such a development strategy. These include that improvement in productivity create opportunities for employment growth in the long-term; the government must be prepared to provide support to workers and businesses to overcome short-term problems such as labour surplus in some companies and sectors; government, employers and labour should work together to implement productivity improvement measures; workers must be prepared to accept changes in the scope and requirement of their job, in addition to retraining for productivity improvement; and gains from improved productivity must be distributed fairly among businesses, workers and consumers.
- Once there is an agreement on the principles, strong commitment and effective oversight from the highest level of leadership is critical to drive nation-wide efforts to improve labour productivity.
- It's essential to ensure strong collaboration among Government, private sector, trade unions, industrial associations, and educational and professional organizations.

- To translate principles to specific action, it is critical to create institutions, mechanisms and movements to drive and sustain productivity improvements. The establishment of a National Productivity Council could be a good model for Vietnam.
- Resources need to be spent designing comprehensive and integrated strategies. It is important to take two-pronged approach which includes both sector-specific productivity improvement strategies and economy-wide programmes to support capabilities and enablers such as R&D, SMS productivity roadmap, inclusive growth programmes.
- The Government should support both to businesses and workers to understand any change, embrace it and adjust with it.
- Vigorous learning from best practices through international co-operation is encouraged.
- National outreach campaigns are needed to rally everyone to in the cause of boosting productivity.

4.3 Enhancing competitive capacity in 3 level: Country, sector and enterprise

+ Regarding to country: the government must focus on issue which became a constraint of Vietnam such as management model, transparency, infrastructure, skilled worker and social capital. Vietnam need to strengthen national competitive capacity in next time to improve global competition index.

+ Regarding to sector: we have to improve transition of labour structure from agriculture, forestry, fisherier (which has lowest productivity) to other industries which has higher productivity, strengthen resource restructure

+ Regarding to enterprise: domestic bussiness must to investigate and develop modern technology, it is important that pay attention marketing, managerial model and human resource quality. In order to export goods in international market, Vietnam's company ought to invest R&D, innovation, develop subodinaire industry, take advatage our weak, stimunaltion focus on goodwill – intensive firms such as garment, farm produce, rice,....

Besides, maintaining labour productivity growth rate to be higher than wage growth rate is the determinant of sustainale production development

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