

# Challenges for inclusive development and the case of Vietnam

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# The first twenty years of economic reform – *đổi mới*

A successful transition

# The *đổi mới* (renovation)

- Officially launched in December 1986
- In some regards, anticipated by national policies and grassroots changes since the late 1970s – early 1980s
- A response to shrinking aid and trade with Eastern Europe
- But also an answer to a ‘systemic crisis’ due to weaknesses in the planned economy

# ***Đổi mới*: reasons for success**

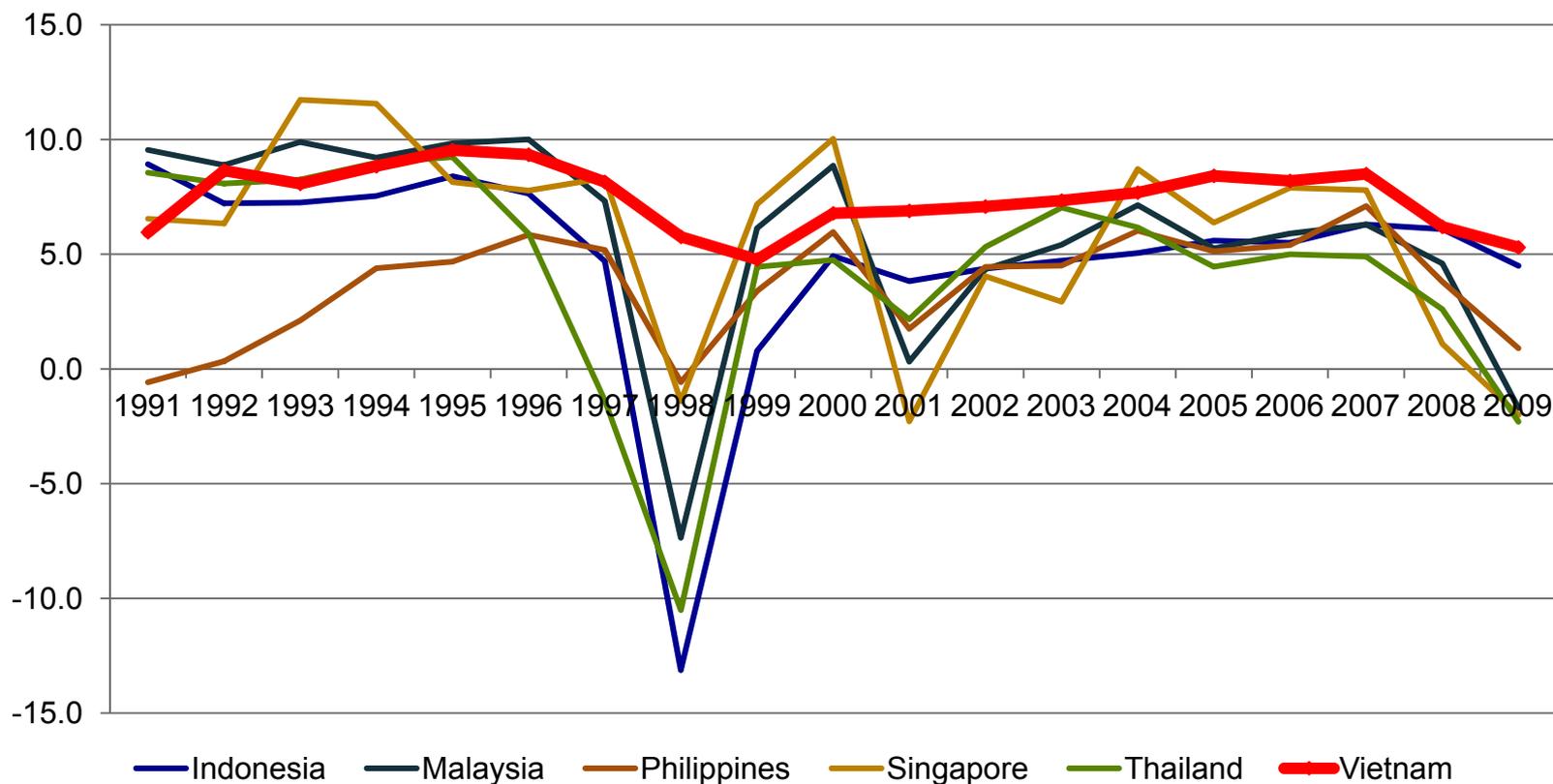
- Economic backwardness and scarce diffusion of the centrally planned economy (only 10% of the labour force was employed by the state)
- Convergence of bottom-up ‘fence-breaking’ and national policies
- Gradualism in the reform process (step-by-step)
- Reforms in agriculture – land distribution to households (cum land reform) and agricultural diversification
- Structural adjustment-like reforms only at the end of the first phase of *đổi mới*
- Favourable international environment in the early 1990s

# The first phase of đổi mới: poverty and inclusive development

- Improved rural livelihoods contributed to a wide (absolute) poverty reduction
- The dismantling of the socialist social services – especially school and healthcare – contributed to increasing inequality, in a context of a generalized improvement of living conditions
- Market reforms (e.g., laws on enterprise and FDI)
- Extremely slow process of SOEs privatization and financial sector reform
- Trade liberalization coexisted with *de-facto* import substitution in favour of SOEs (with scarce ability to prioritize strategic industry)

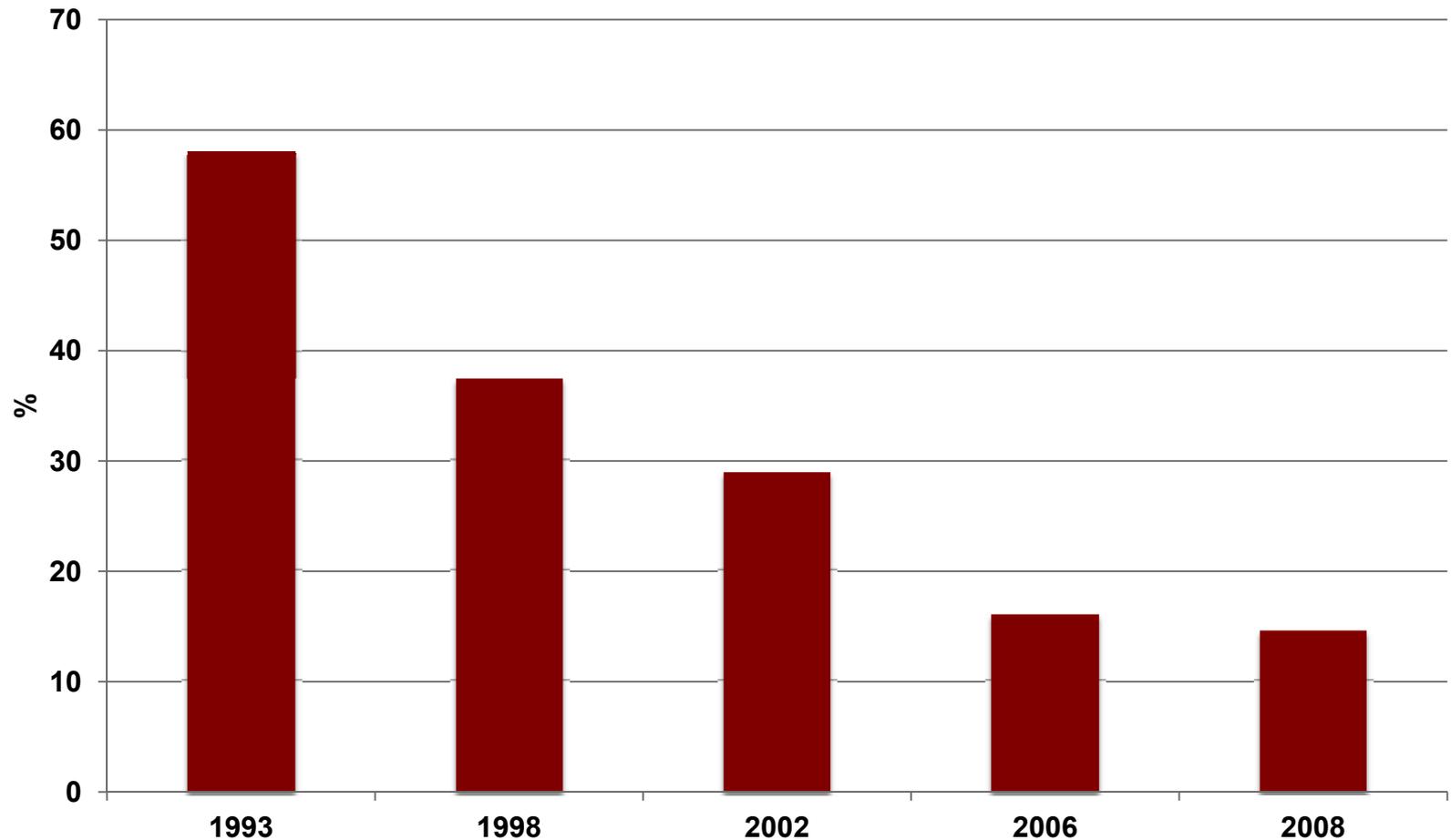
# Defying the regional crisis 1997/98

## ASEAN6 GDP growth, 1991–2009



# Sharp reduction in absolute poverty

(Number of households below the poverty line)



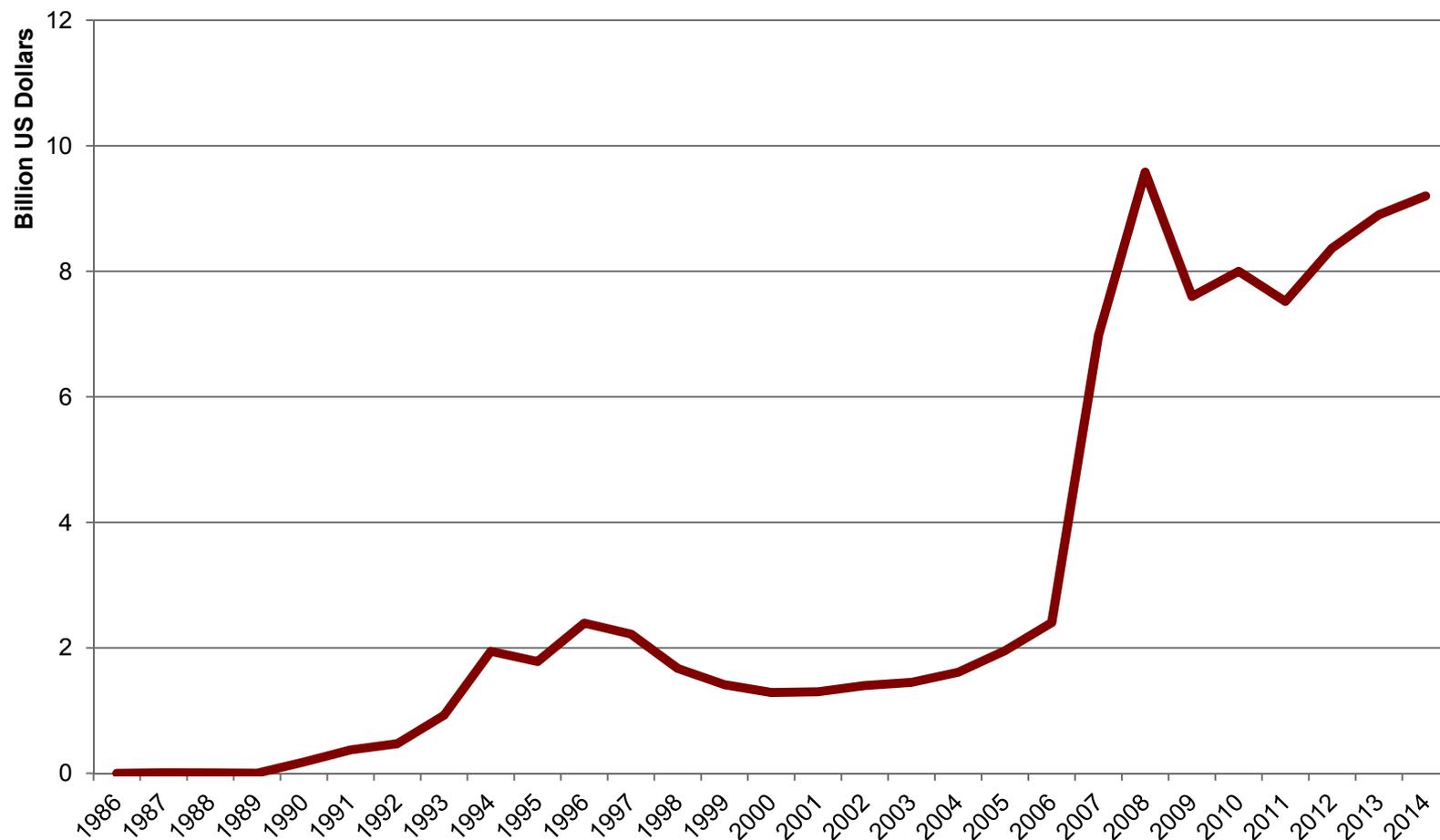
# From WTO to TPP – a FDI driven industrialization strategy

Setting the stage for a middle-income trap

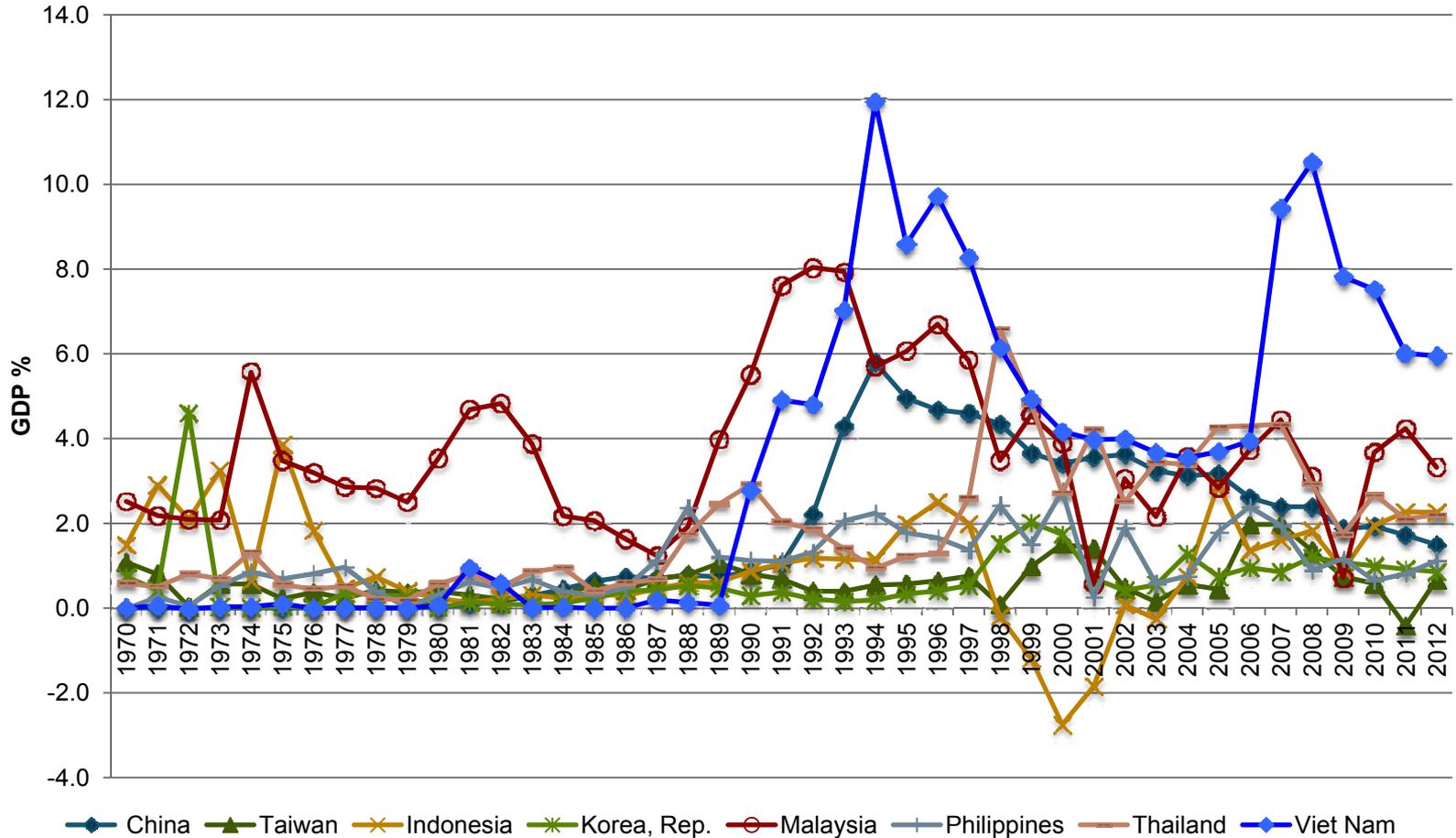
# A new strategy based on trade openness and FDI attraction

- A key đổi mới objectives was the political and economic integration of Vietnam in post Cold War East and Southeast Asia
- In economic terms this implied joining the regional multi-layered subcontracting system, with a growing flow of FDI for labour-intensive productions
- Two major milestones marked the road towards a significant trade and investment liberalization: the bilateral trade agreement with the US (2001) and the entrance in the WTO (2007)
- In the mid 2010s Vietnam embarked a “ultra-liberal” path to industrialization, transforming the country in a manufacturing hub, attracting large FDI flows thanks to low labour costs and tax incentives
- This strategy moved a bold step forward in 2015 with the bilateral free trade agreement with the EU and the TPP

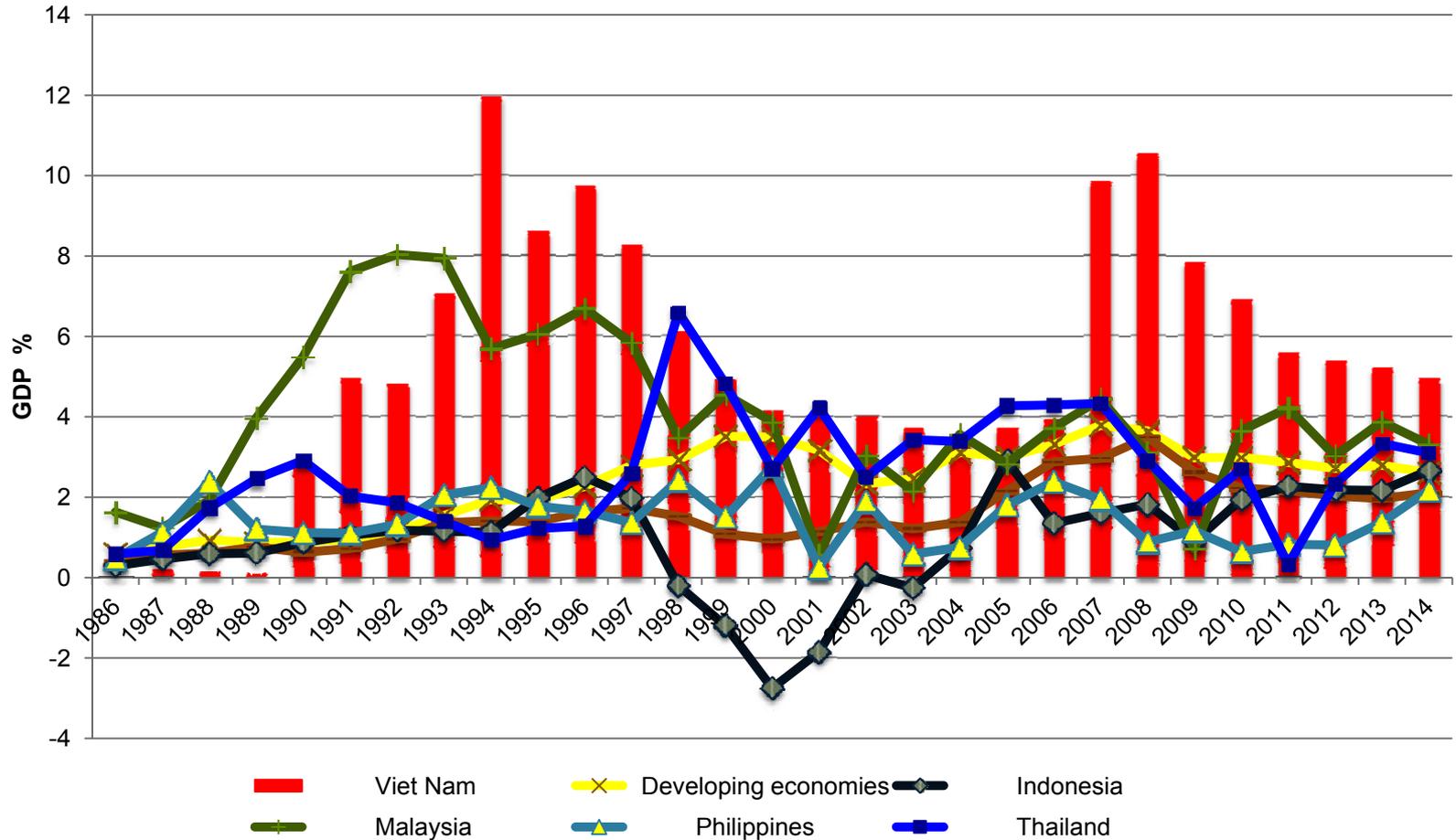
# FDI flows to Vietnam, 1986–2014



# Southeast Asia's high dependence on FDI



# FDI inflows: ASEAN countries, 1970-2014



# Southeast Asia's FDI driven and dependent industrialization

- The first generation of Asian NIEs (South Korea and Taiwan) were included in the Japanese multi-layered subcontracting system through technology transfer, with *very limited FDI*
- In Southeast Asia (especially Malaysia and Thailand, and to a certain extent Indonesia) industrialization since the late 1980s depended on FDI (which became an *alternative* to technology transfer), with very limited backward and forward linkages
- While China can insist on national content in licensing new foreign investment, this is obviously much more difficult for smaller and weaker SEA countries (but Singapore proved very capable in guiding FDI on the basis of its own industrial strategy)
- The entrance of China in the regional division of labour has created a strong competition (both in labour and technology intensive industries), but the ASEAN3 inability to move up in the value chain is largely a result of inadequate industrial policies

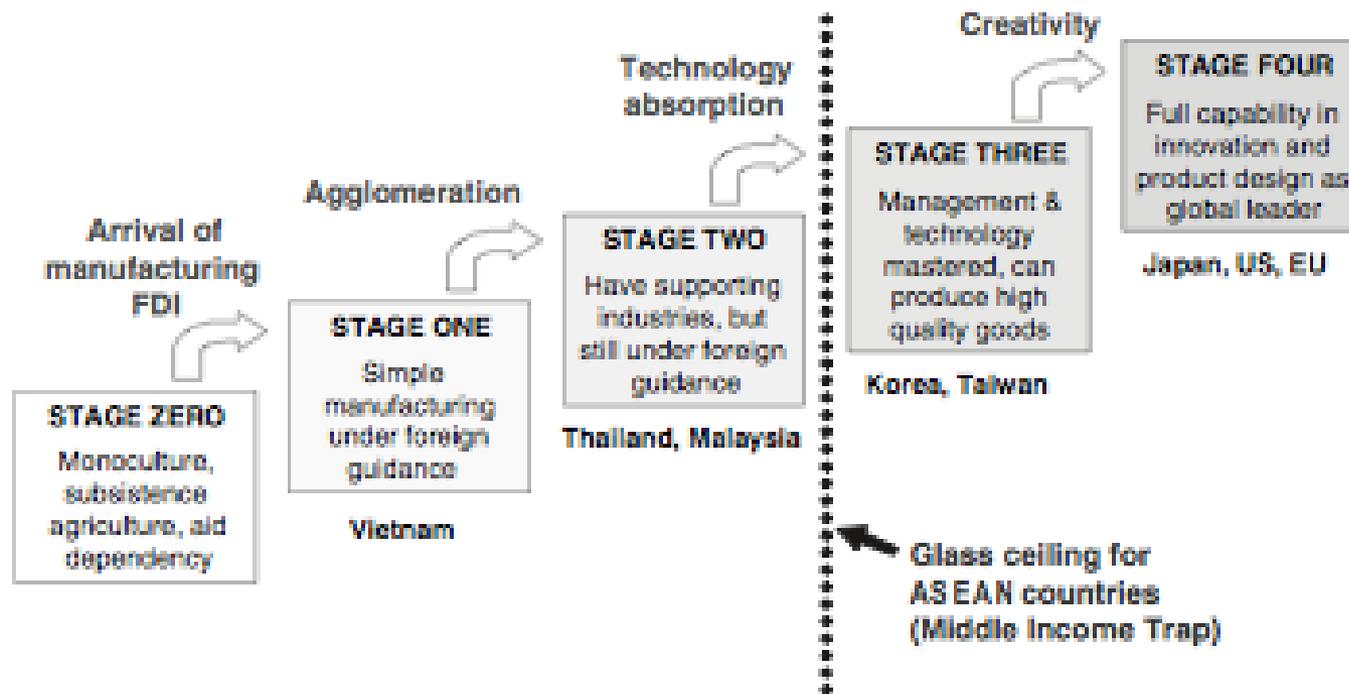
# Dependence on FDI and foreign technology – the middle income trap

- The ASEAN3 were integrated in the regional productive system from the late 1980s, at the time of major changes in industry in terms of management and organization: lean production, *just in time*, *total quality management*, *total quality manufacturing*
- These changes induced leading firms to re-internalise production and to consolidate relations with existing subcontractors rather than integrating new ones
- The FDI in the ASEAN3 produced limited spillover effects and industrial upgrading
- ASEAN3 economies remained dependent on foreign technology and management
- The inability to climb the value chain and the competition from countries (such as Vietnam) with lower labour cost is now described as middle-income trap

# Regional constraints, national weaknesses, and middle income trap

- The regional division of labour has contributed to rapid industrialization and structural change in the ASEAN3 (and then Vietnam)
- The next step – industrial upgrading – is, however, more complex and requires the ability to absorb technology, to develop local supporting industry and to climb the value chains
- The inability to take the next step is a result of regional (and international) constraints, but also of limited incentives and ineffective policies at national level

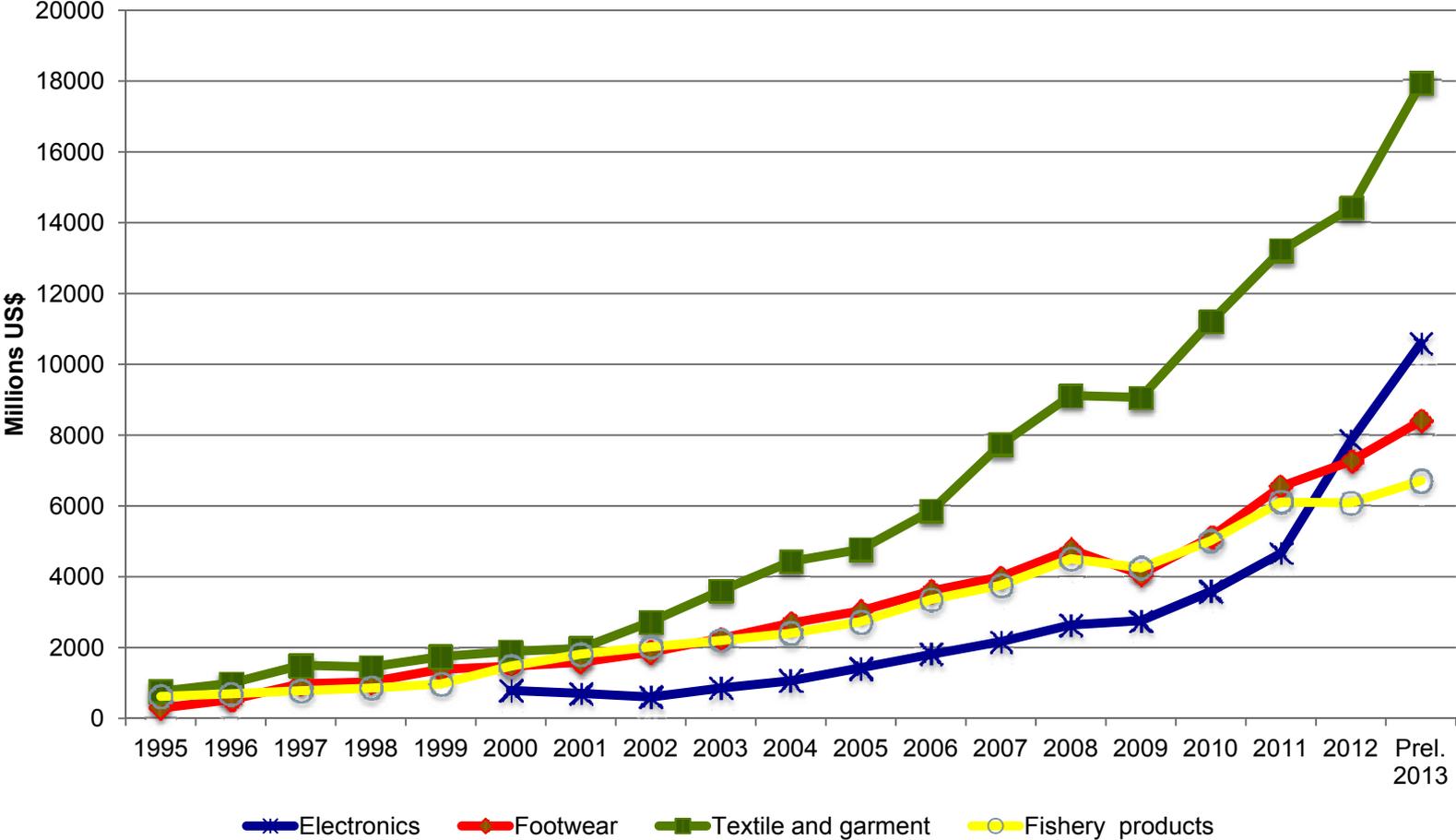
# The middle-income trap in Southeast Asia



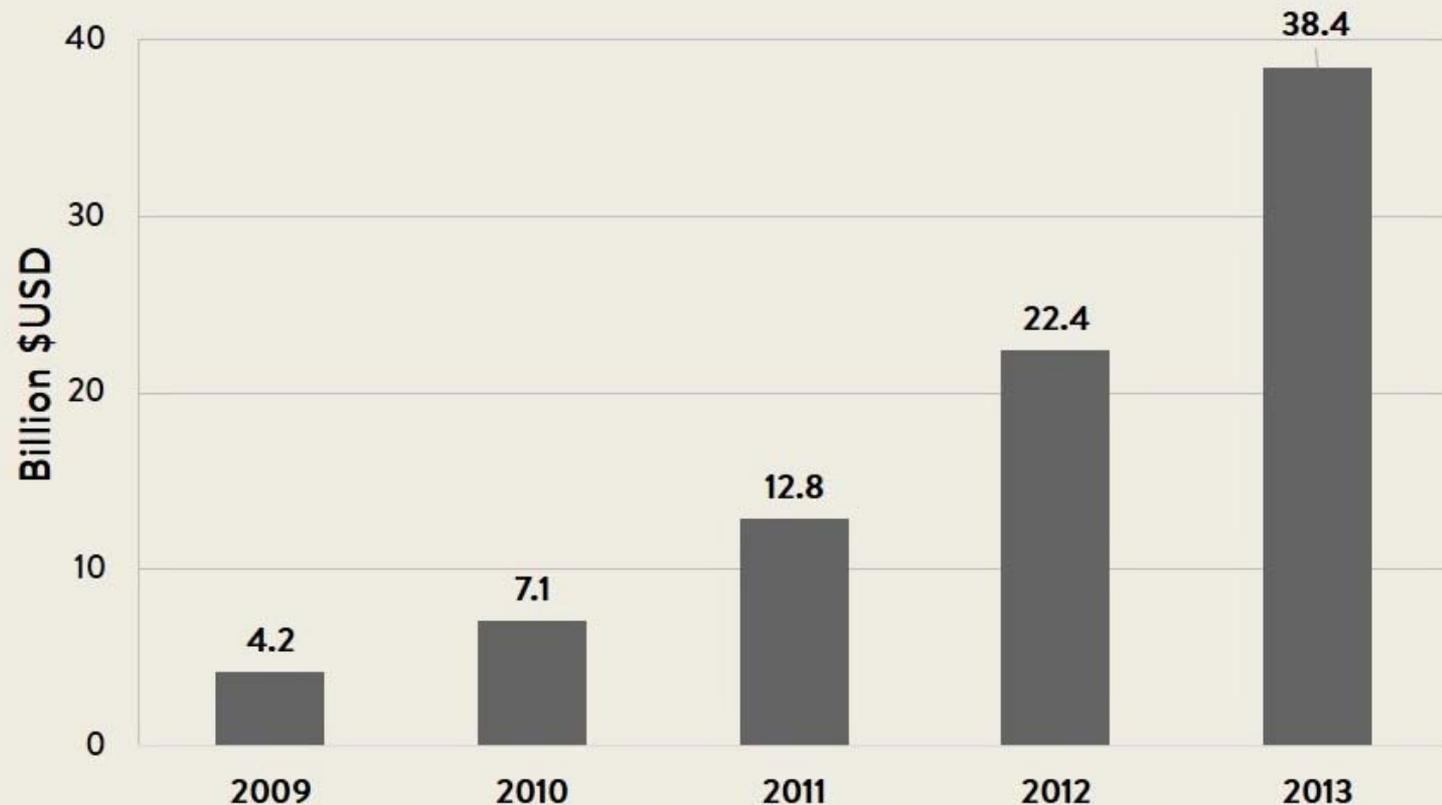
# FDI in Vietnam produce a very limited spillover effect

- Foreign invested enterprises procure from domestic manufacturers only 26.6% of the value of their total inputs (22.5% for TNCs), while most of the inputs come from abroad or foreign suppliers based in Vietnam – limited vertical backward linkages
- FIEs also contribute very little in terms of vertical forward linkages as 71.9% (73.2% for TNCs) of their production in terms of value is directly exported and only a very limited amount is sold as intermediate good for local firms
- In other terms, there is a risk that Vietnam becomes an offshore location for TNCs, gaining little apart from a larger amount of low-skilled and poorly paid jobs

# Main industrial exports, 1995-2013

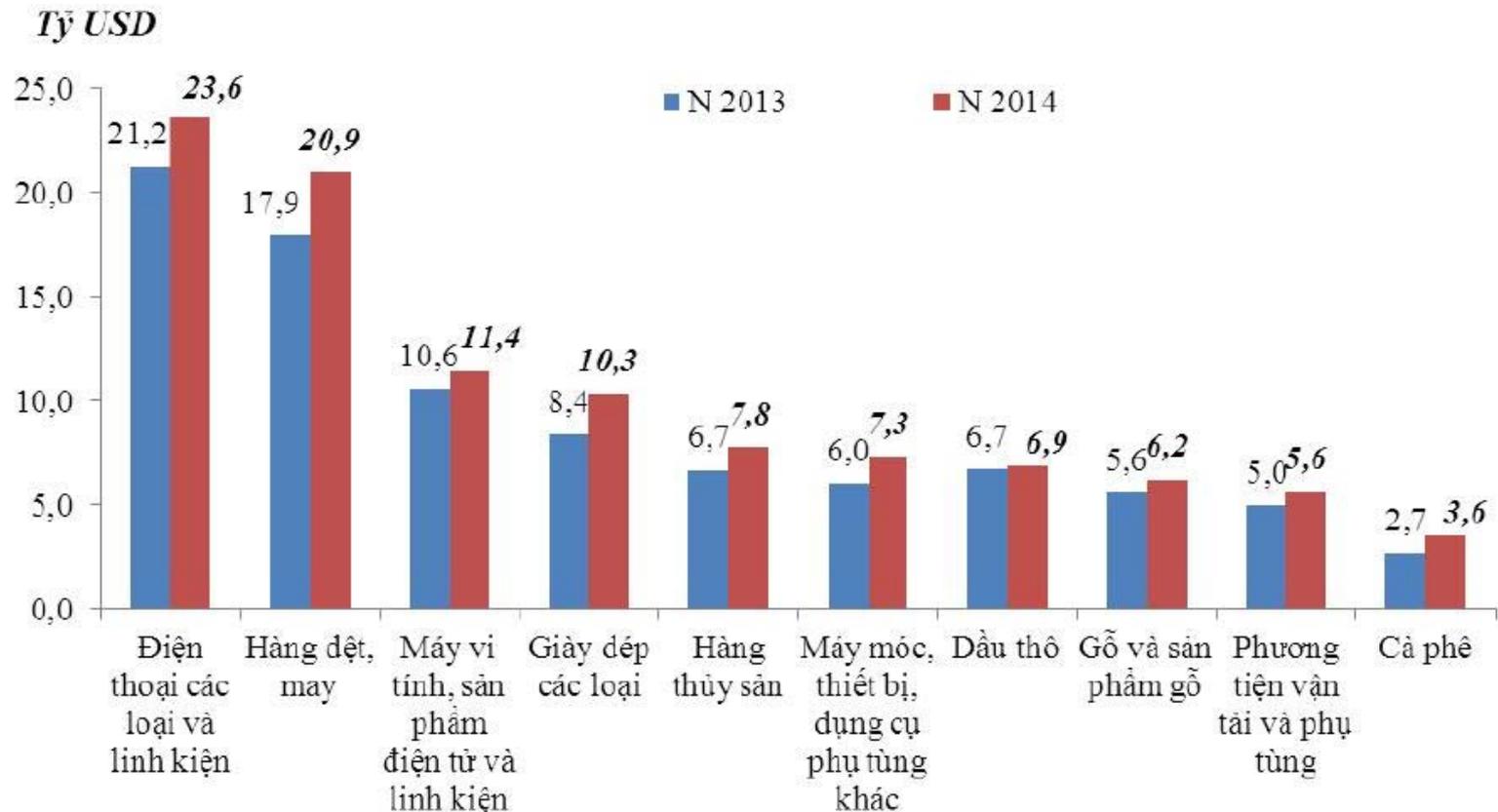


# Vietnam: the 12<sup>th</sup> largest electronics exporter in 2013



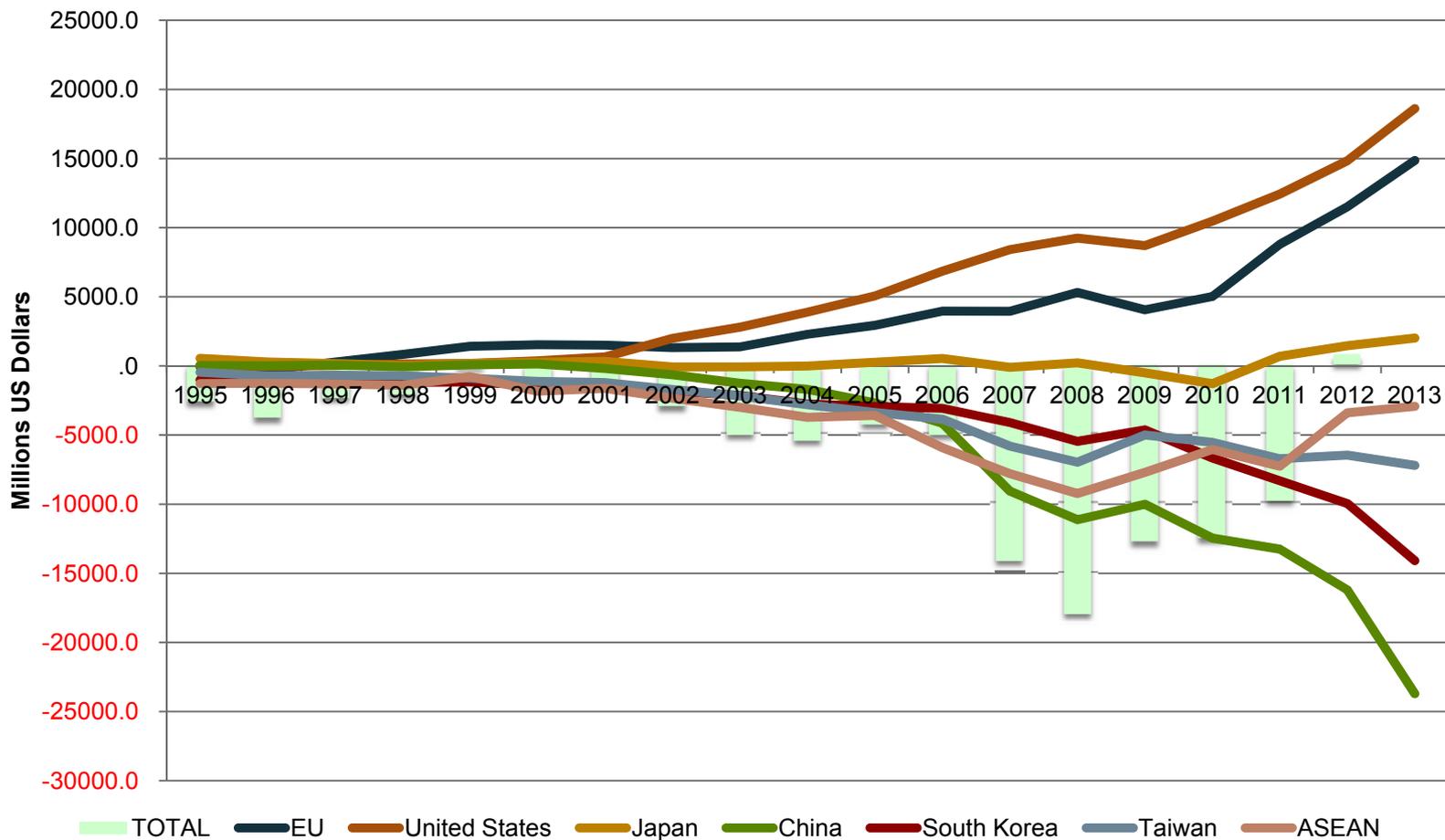
Source: International Trade Centre, Trade Map – International Trade Statistics, 2013; chart © BDG Asia, all rights reserved.

# Structure of Vietnamese export 2013-2014



# Vietnamese trade balance

## Selected economies, 1995-2013



# Dependent and uneven development: implications for labour

Findings from a EC co-financed “Strengthening  
Workers and Trade Unions in Vietnam”

# Dependent and uneven development: implications for labour

- The current structure of the regional division of labour makes very difficult to break the hierarchies and to climb the value chain, confining Vietnam and the other SEA country (mostly) in labour-intensive productions
- A foreign-invested driven industrialization process means continuing to rely on cheap and disciplined labour – that is, on a labour regime intrinsically inimical to workers rights
- Contrary to the prevailing discourse, including within Vietnam, this is not a temporary pain, but it risks becoming a permanent condition
- The experience from SEA countries suggests that dependent development implies a structural tendency towards poor living and working conditions for industrial labour

# FDI driven industrialization: challenges for inclusive development

- An industrialization process so highly dependent on low costs of labour requires a continuous reproduction of cheap labour force
- However, the current industrial strategy externalizes the costs of labour reproduction through a process of circular migration from and to the rural areas, to guarantee an unlimited reserve of young labour force
- Even in a country so successful in terms of (absolute) poverty reduction such as Vietnam there is already evidence of growing inequality and higher relative poverty
- The adoption of ILO core labour standards (as imposed by the TPP) do little to improve workers conditions as the position of labour remains extremely weak and precarious

# SWORR– a EU co-financed project

- Strengthening Workers Rights and Representation: financed through a EIDHR CBSS call for proposals in Viet Nam
- A 30 months initiative involving:
  - Vietnamese Academy of Social Sciences
  - Vietnamese General Confederation of Labour (VGCL)
  - Institute for Social and Economic Research (CGIL - Italy)
  - Foundation May 1<sup>st</sup> (Comisiones Obreras – Spain)
  - University of Naples “L’Orientale” (Italy)

# The field research component of the project

- Research conducted in the provinces of Hanoi, Hai Duong and Vinh Phuc (Red River Delta)
- Specific focus on garment/footwear enterprises and electronics
- Interviews conducted in the hamlets were workers live
- 1338 workers interviewed through quantitative and qualitative research (1038 workers in quantitative research and 300 workers in qualitative research)
- (The field study had also the aim to contribute to capacity building for VGCL researchers and officers)

# Main findings: precarious and temporary employment

- Widespread use of short-term contracts – although long-term contracts do not guarantee stable employment either
- The ‘full wage’ is based on a fix component (national minimum wage) plus a discretionary component dependent on a complex bonus and evaluation system
- The full wage is generally slightly above the living costs for a single person in the (very expensive) peri-urban industrial areas
- Workers are normally expelled (or choose to live) at around 30 or 35 – industrial employment does not imply a permanent movement from a rural and informal towards urban and formal conditions

# Main findings: hard working conditions and high vulnerability

- Trade-off between ‘full wages’ and physical and mental exhaustion due to high pressure at work
- Extra-time work in peak periods well beyond what established by the law
- Bonus and evaluation system based on so complex rules that workers are unable to contest ‘unfair decisions’ – even full compliance doesn’t necessarily guarantee a ‘full wage’, especially in off-peak periods
- Need for young and docile workforce, thus a continuous turnover as “old” workers either leave voluntarily or are expelled

# Main findings: circulatory migration – from rural to peri-urban and back again

- Low wages and high living costs make it difficult for a household to settle in industrial areas
- Factory dorms are only for single workers while private rooms in the village are very expensive – in both cases conditions are very poor
- Lack of essential services (like kindergarten) force mothers either to leave the factory or to send children back to the village
- Industrial employment only represents a phase in workers life, while long-term perspectives are back in rural areas