COUNTRY STUDY

The missing link in the chain?

Trade Regimes and Labour Standards in the Garments, Footwear and Electronics Supply Chains in Vietnam

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CLS+

Core Labour Standards Plus

Linking Trade and Shared Prosperity in Global Supply Chains in Asia

FRIEDRICH EBERT STIFTUNG

Contents

List of Abbreviations

CBA	Collective Bargaining Agreement
CLS PLUS	Core Labour Standards Plus
CMT	Cut-Make-Trim
CSR	Corporate Social Responsibility
DOLISA	Department of Labour, Invalids and Social Affairs (provincial level)
EICC	Electronics Industry Code of Conduct
ERC	Research Center for Employment Relations
EVFTA	Europe-Vietnam Free Trade Agreement
EZ	Economic zone
FDI	Foreign direct investment
FES	Friedrich-Ebert-Stiftung
FIE	Foreign invested enterprise
FOB	Freight on Board (or Free on Board)
FOL	Federation of Labour
GDP	Gross Domestic Product
GSC	Global supply chain
GSO	General Statistics Office
HR	Human resources
ILO	International Labour Organisation
ITUC	International Trade Union Confederation
IZ	Industrial zone
MNC	Multi-national corporation
MOLISA	Ministry of Labour, Invalids and Social Affairs
MW	Minimum wage
OBM	Original brand manufacturing
ODM	Original design manufacturing
OEM	Original Equipment Manufacturer
OSH	Occupational Safety and Health
SAT	Standard Allowed Time
SME	Small and medium-sized enterprise
SOE	State-owned enterprise
TPP	Trans-Pacific Partnership
UNIDO	United Nations Industrial Development Organisation
USDOL	Department of Labour of the United States
VCCI	Vietnam Chamber of Commerce and Industry
VGCL	Vietnam General Confederation of Labour
VITAS	Vietnam Textile and RMG Association
VN	Vietnam
VNUTG	Vietnam National Union of Textile and Garment Workers
WB	World Bank

Introduction

In Asia, countries with export-oriented industries like Bangladesh, Pakistan, Cambodia, Myanmar and Vietnam ride on the coattails of cheap labour costs and a growing workforce to ensure participation in the new global trade regimes where traditional forms of protectionism to develop domestic industries (as used by their Asian peers like South Korea and Taiwan) are no longer possible as a development trajectory. Preferential trade access and trade agreements are especially conducive to the growth of these global supply chains (GSCs), since 80 per cent of world trade now takes place through GSCs (UNCTAD 2013).

However, trade liberalisation and trade agreements in their current form have unleashed hyper-competitive pressure in products such as ready-made garments, footwear and consumer electronics. And social clauses linked to trade have provided little protection for workers on core labour standards, let alone safety, fair wages or social protection. The power imbalance between the multinational corporations at the top of GSCs and their suppliers below allows multinational corporations (MNCs) to impose low production prices that contribute to low wages, low profits and unsafe working conditions like dilapidated buildings. In the textiles and garment sector, there is empirical evidence for the period 1989 – 2014 of a relationship between the declining respect for workers' rights and a decline in the price paid for RMG imported by international brands into the United States (Anner 2015). The race to the bottom is not a slogan but an economic reality.

The "monopsony" in GSCs, characterised by monopoly power structures of a few international retailers vs. the suppliers competing for contracts with the large brands leads to asymmetric trade relationships. Pricing and sourcing dynamics exert pressure on the second- and third- tier suppliers that are "sandwiched" between non-compliance with both international and national labour, safety and environmental standards and complying with the orders of the international brands on time. This becomes worse where trade union representation and sector-wide collective bargaining schemes are weak and preference is given to voluntary schemes. As a result of this lack of effective models of industrial bargaining, wildcat strikes become more predominant as shown in Vietnam or China.

Core Labour Standards Plus (CLS Plus) is a regional project coordinated and implemented by Friedrich-Ebert-Stiftung (FES) that aims at promoting the implementation of comprehensive labour and social standards, including but also beyond the Core Labour Standards (CLS), in export-oriented industries in Asia in the framework of trade agreements and preference systems. Therefore, the project also refers to labour rights (plus elements of CLS Plus) in addition to CLS: The concept of living wages, OSH standards, the limitation of hours at work, the protection of migrant workers and adequate systems of social protection. The increase of real wages and living costs for the workers demand for a commensurate rate of productivity increase and a higher share of value adding created in GSCs in developing countries.

Core instruments to develop such a tool are country studies to analyse the patterns of GSCs in selected countries and the related labour conditions (using the framework of related ILO conventions) and identify possible linkages to existing trade and preferential agreements that give leverage to the promotion of CLS Plus.

Within the framework of the CLS Plus project, the country study for Vietnam, coordinated by the FES Office in Vietnam and conducted by the research team from the Research Center for Employment Relations (ERC), explores the labour standards in the GSC of three key exporting industries of Vietnam: garments[5], footwear and electronics, within the context of the industrial and labour relations systems of the country. The outcome of the Vietnam country study is expected to inform the policy-makers and practitioners in Vietnam about the current and upcoming challenges in labour rights in the context of Vietnam's deeper integration into international trade through the EVFTA. At the same time, the Vietnam country study together with the studies from Bangladesh, Cambodia and Pakistan will provide a comprehensive and independent report to policy-makers at the European and international levels.

Research methodology of the Vietnam country study

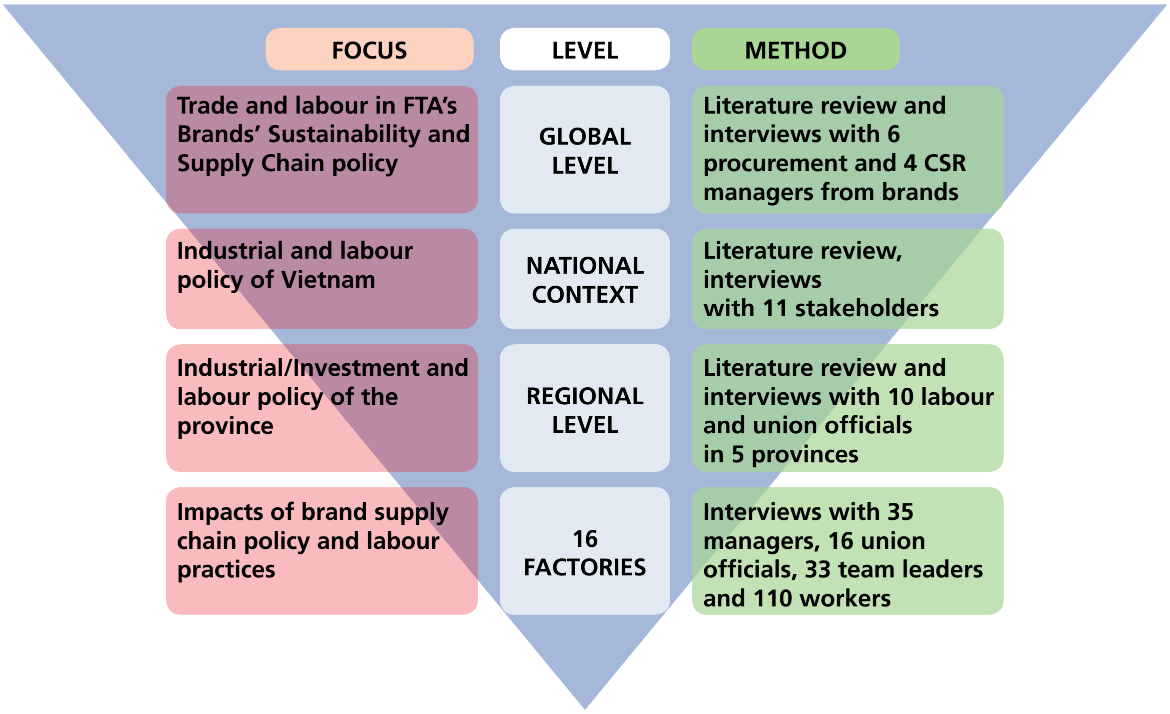


Table 1: Profiles of the factories studied

Factory	Location	Industry	Ownership	Labour force
G1	HCMC	Garment	Vietnamese	700
G2	HCMC	Garment	Korean	1,300
G3	HCMC	Garment	Korean	9,600
G4	Dong Nai	Garment	Vietnamese	3,300
G5	Long An	Garment	Korean	2,300
G6	Long An	Garment	Vietnamese	3,000
G7	Da Nang	Garment	Vietnamese	4,000
G8	Da Nang	Garment	Vietnamese	11,000
F1	Dong Nai	Footwear	Korean	17,300
F2	Dong Nai	Footwear	Taiwanese	22,100
F3	Long An	Footwear	Taiwanese	23,300
E1	Bac Ninh	Electronics	Korean	1,100
E2	Bac Ninh	Electronics	Korean	150
E3	Bac Ninh	Electronics	Korean	3,300
E4	Bac Ninh	Electronics	Korean	1,500
E5	Bac Ninh	Electronics	Korean	10,000

**For confidentiality of the factories participating in this study, their names have been coded into G-garment, F-footwear, and E-electronics.*

Research Methodology

To evaluate the implementation of labour and social standards in export-industries in Vietnam in the framework of trade agreements and preference systems, the Vietnam study used a multi-level research approach with a focus on three industries: ready-made garments (RMG), footwear (with a focus on athletic footwear) and electronics (with a focus on mobile phones and parts). The three industries were selected because they are the biggest export industries of Vietnam and they are also predicted to benefit most from the EVFTA (Eurasia 2015). The research took place at four levels.

At international level, we interviewed the brands that are sourcing from Vietnam in the three focus industries. For each brand, we interviewed both the sustainability team and the procurement team that are in charge of the brand's supply chain in Vietnam. Due to the difficulty in accessing the brands, we were only able to interview three RMG brands, one footwear and one electronics brand. In total, we interviewed six procurement managers and four sustainability managers from the brands.

At national level, we conducted semi-structured interviews with the national stakeholders including: (i) the Ministry of Labour, Invalids and Social Affairs (MOLISA); (ii) the Vietnam General Confederation of Labour (VGCL); (iii) the Vietnam Chamber of Commerce and Industry (VCCI); (iv) the Vietnam Textile and Apparel Association (VITAS); (v) the Vietnam Garment Industry Union; (vi) International organisations and NGOs; and (vii) research institutes. In total, we interviewed 11 stakeholders.

At provincial level, we focus on four provinces including Dong Nai, Long An, Da Nang and Bac Ninh. The two provinces in the South, Dong Nai and Long An, are where the largest garment and footwear factories are located while the Northern province of Bac Ninh is considered the centre of the electronics industry. Da Nang has both garment and electronics factories and it is located in the centre of Vietnam. At each province, we interviewed the provincial union officials, labour administrators, and labour inspectors as well as the industrial zone (IZ) authority to understand the labour policy of the province and how it interacts with the local industrial policy. In total, we interviewed 10 officials.

At factory level, we managed to visit the factories that represent all phases in the supply chain including vendors, 1st tier suppliers, 2nd tier suppliers, and material suppliers (see Table 1 for the profile of all the factories studied). The companies visited also include both foreign-owned and domestic firms of various labour force sizes. At each company, we interviewed four groups of people: (i) managers in charge of sales, buyer relations and production; (ii) CSR and HR managers; (iii) union leaders; (iv) team leaders and rank-and-file workers. The number of workers interviewed varied significantly depending on the company's cooperation; however, we managed to interview 5-12 workers for each factory. In total, we interviewed 110 workers, 33 team leaders, 35 managers and 16 enterprise union leaders.

The Labour and Trade Nexus in Vietnam

The Core Labour Standards Plus approach and its relevance for Vietnam

The core labour standards consist of four standards, laid out in eight conventions. All ILO member states must respect, promote, and realise these Core Labour Standards irrespective of their formal ratification. The eight core labour standards[6] include the following conventions:

I) Freedom of association including the right to strike and the effective recognition of the right to collective bargaining (C. 87 and C. 98);
II) The elimination of all forms of forced and compulsory labour (C029 and C105);
III) The effective abolition of child labour (C138 and C182);
IV) The elimination of discrimination in respect of employment and occupation (C100 and C111).

In addition, a number of ILO Conventions are considered as highly relevant to a high-road development of a sector. They include standards related to: I) Occupational health and safety (C155 and C187); II) Fair remuneration and inclusive MW fixing mechanism (C095, C026 and C131); and III) Limiting hours of work and regulation of rest days (C001 and C014). Apart from the eight core labour standards, the country study for Vietnam will investigate three additional standards that are important for workers employed in the RMG, athletic footwear and electronics (in particular, mobile phones) supply chains, including: occupational health and safety, the MW, and working hours.

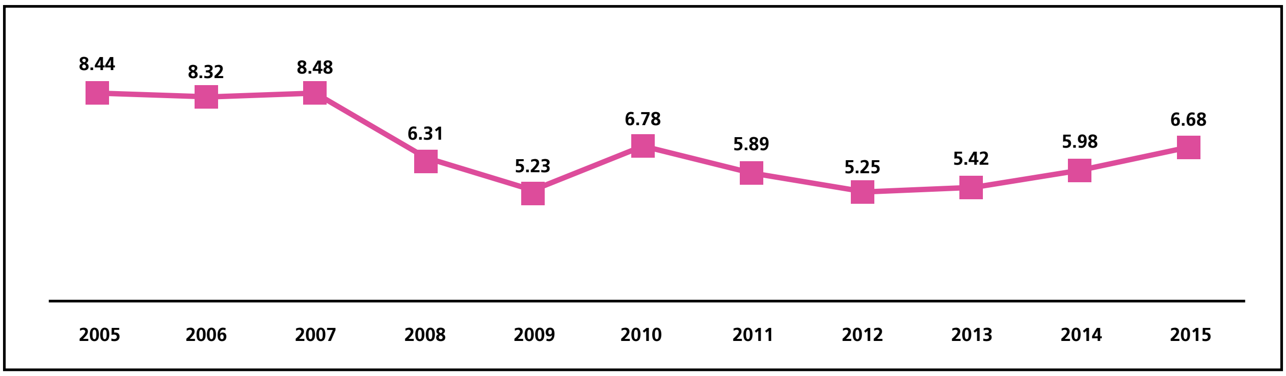
Trade Regimes in place: the integration of Vietnam's RMG, Footwear and Electronics industries in Global Supply Chains

Overview of Vietnam's economy

The Socialist Republic of Vietnam is the eastern-most country on the Indochina Peninsula in Southeast Asia. With a population of 94.1 million as of March 2016,[7] it is the world's 14th most- populous country, and the eighth most-populous Asian country. Vietnam's GDP growth rate has averaged 6.4 per cent per year for the last decade, slightly slowed down to 5.25 per cent in 2012 and recovered in 2015 with 6.68 per cent (Figure 1).

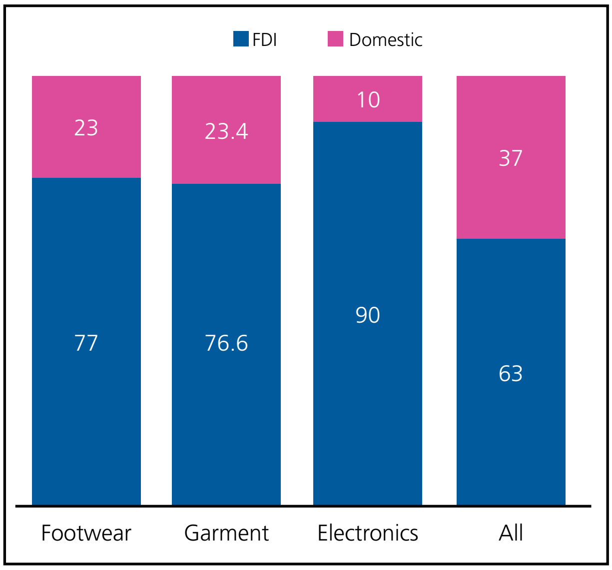
The external sector has been an important engine of growth since the 1990s. In the past five years, the export value has more than doubled from USD 96.9bn in 2011 to USD 162.02bn in 2015. The growth rate of export value in US dollar terms has dropped since 2011 but still maintains an average of 10 per cent/year. Since the launch of the open-door policy which encouraged export-oriented industries in the early 1990s, the export structure of Vietnam has changed considerably. First, export products have been diversified with the domination of manufacturing industries. Exports of natural resources and farm products such as crude oil, rice, coffee and agricultural products have significantly

Figure 1: Vietnam GDP Growth rate, 2005-2015



Source: World Bank database, 2016

Figure 2: FDI and domestic sectors' contribution to total export value in 2015 (%)



Source: Vietnam Customs Office, 2015

declined while electronics, footwear, garments, wood processing and machinery have grown to become the major export industries of Vietnam. In particular, RMG, footwear and electronics are the three biggest export industries of Vietnam. The export "champion" is mobile phones and parts which accounted for 18.62 per cent of the total export value in 2015, followed by garments at 17.42 per cent. Footwear is the fourth-largest export industry with 7.41 per cent of the total export value. Electronics, footwear and RMG are supposed to benefit the most from the EU-Vietnam Free Trade Agreement (EVFTA) as Europe is one of the biggest export markets for these three industries of Vietnam.

However, the export-oriented industries of Vietnam are dominated by the foreign-invested enterprises (FIEs). The FIE sector contributed 63 per cent of the country's total export value in 2015 while the domestic sector accounted for a modest proportion of half the value. But the level of FIE domination is even higher in the top three export industries of electronics, footwear and RMG, with the FIEs contributing 70-90 per cent of the total sectoral export value (see Figure 2). The domination of the FIEs also explains the low engagement of the domestic companies in the global value chain in these three industries, which will be explained in further detail in the next section.

Structure of the global value chain in the Ready-Made-Garment (RMG) industry

Fast Export Growth since the lifting of the US Trade Embargo

The RMG industry has a long tradition in Vietnam which started in 1889 with the establishment of Nam Dinh textile complex but it has only recently integrated into the global value chain (Hill 1998). After the country's reunification in 1975, the RMG industry, which consisted of state-owned textile and garment companies in the North and the nationalised garment factories in the South, mainly produced for the domestic market and exported a small proportion to the socialist countries in the Comecon bloc. By 1995, exports accounted for only 10.4 per cent of garment and 29.5 per cent of textile production of the industry and the total RMG export value was USD 1.02bn (UNIDO 1998). The year of 1995 also marked the lifting of the US trade embargo and the first arrival of foreign-direct investment. By 2001, the garment export value had doubled to USD 2bn.

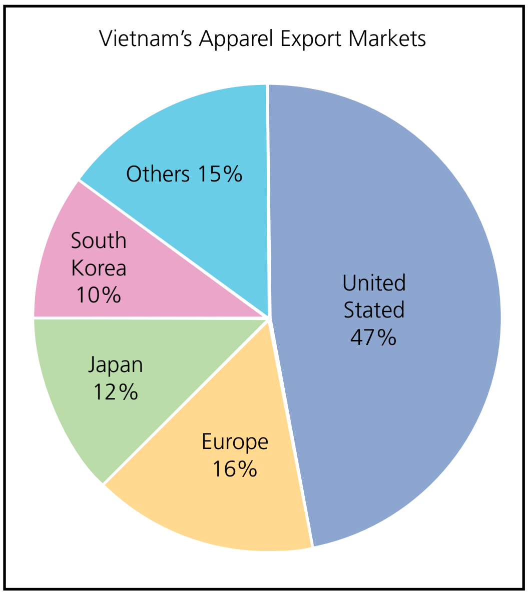
The integration into the global value chain was further boosted by the 2002 US-Vietnam Bilateral Trade Agreement and Vietnam's accession to the WTO in 2006. Between 2002 and 2008, Vietnam's garment export value increased at an annual rate of 22 per cent. The global economic recession and internal economic difficulties have slowed down the growth of Vietnam's garment sector since 2008 but the industry has still maintained an average export growth rate of 12 per cent. The total export value in 2015 was USD 22.81bn, making Vietnam the fourth-largest garment exporting country after China, India and Bangladesh.[8]

The biggest and fastest RMG export market is the United States (47 per cent of total export value) followed by Europe (16 per cent) and East Asian countries including Japan and South Korea (see Figure 3).

Low value added assembly and over-reliance on imported materials

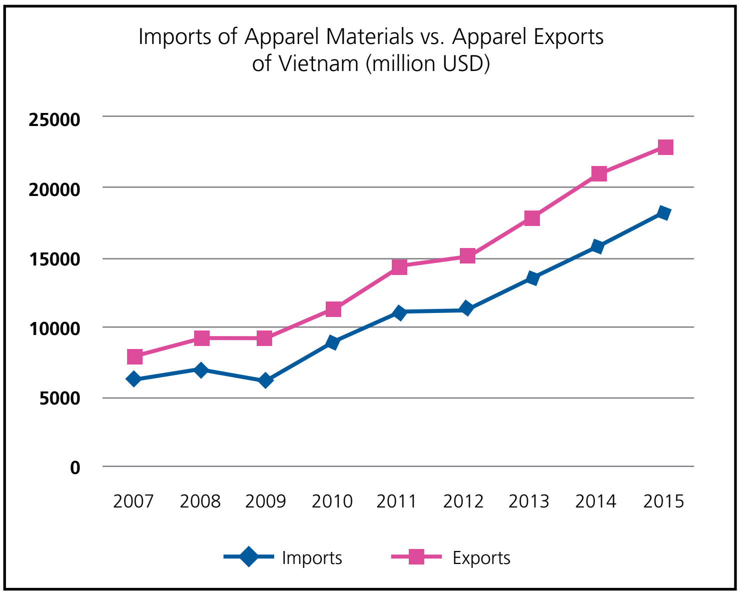
Despite its fast export growth, the RMG industry of Vietnam has not made a lot of progress in improving its position in the global value chain. As Table 2 shows, 70 per cent of the over 2,500 exporting enterprises in Vietnam are garment firms producing on Cut-Make-Trim (CMT) contracts for international fashion brands

Figure 3: Vietnam Garment Export Markets, 2015



Source: Vietnam Customs Office, 2015

Figure 4: Export of Garments and Import of RMG Materials, 2015



Source: Vietnam Customs Office, 2015

and/or RMG vendors. Around 20 per cent of the firms are producing on Freight-on-Board (FOB) but they often do not have the freedom to source materials (FOB level 1).[9] The highest value parts of the value chain, that is original design manufacturing (ODM) and original brand manufacturing (OBM), are found among only 9 per cent and 1 per cent of the enterprises respectively (see Table 2). In fact, while the export value increased significantly over the past decade (see Figure 4), the value added[10] in manufacturing for the RMG industry almost halved from 20.3 per cent to 13.2 per cent between 2006 and 2013 (UNIDO 2015).

There are several reasons for Vietnam's garment industry being trapped in a low value added position in the global value chain. First, most garment companies in Vietnam are small and medium-sized and lack resources and experience in responding to the MNCs' strict requirements for production capacity, efficiency, quality, sustainability standards and delivery time. The production manager of a medium-sized garment firm in Ho Chi Minh city said:

> In order to become a first-tier supplier to international brands and produce on FOB, we must invest a lot in upgrading our machinery, factory infrastructure, improving management efficiency as well as extending our capacity because each direct order from a brand is much larger than the capacity of our company. We do not have such a budget, so we have to accept smaller orders through vendors.[11]

Second, the garment industry of Vietnam is over-dependent on imports of materials. As seen in Figure 2, the value of imported materials accounted for around 80 per cent of the total export garment value between 2007 and 2011 and has only reduced slightly to 70 per cent in the past five years. Although Vietnam also produces fibres and textiles, the products are both too small in quantity and low in quality to satisfy the standards of the international fashion brands. Reliance on imported materials, therefore, has discouraged garment firms from FOB contracts due to the instability of material provision and prices.

Third, the financial policy of Vietnam, especially after 2012, has become a major obstacle to domestic firms in acquiring the needed credits for FOB contracts due to high interest rates.[13] According to the deputy director of a Vietnamese garment company, the difficulties in accessing bank credits were the reason his firm had to stop producing on FOB contracts:

Table 2: Overview of Vietnam's Textile and Garment Industry

Total number of enterprises	6,000
Number of exporting enterprises	2,500
Enterprises employing over 50 workers	Private domestic companies (59 percent) Foreign-owned companies (36.3 percent) State-owned companies (2.7 percent)
Enterprises by stages of garment production	Garments: 70 percent Yarn spinning: 8 percent Weaving: 17 percent Dyeing: 4 percent Supporting: 3 percent
Total employment	2.5 million people
Average age of workers	28 years old
Total export value (2015)	Garments: USD 22.81 billion Fibres: USD 2.54 billion Travel accessories: USD 2.88 billion
Total import value (2014)	USD 15.8 billion (50 percent from China)
Key Export Products	Jackets, t-shirts, trousers, shirts
Enterprises by processes	Cut Make Trim (70 percent); FOB (20 percent); ODM (9 percent); OBM (1 percent)
Local content value	51.1 percent

Source: FPT Securities Overview of the Garment Industry, April 2014[12] *and FES Vietnam's Survey of Garment and Footwear Enterprises in 2015*

> Before 2012, around 30 per cent of our production was FOB, but then the interest rates were increased too high for us to access, usually around 12-15 per cent/year, even higher than our profit. Without bank credits, we could not have enough of a budget to purchase materials for the FOB contracts. We had to go back to CMT.[14]

Structure of the RMG value chain in Vietnam: Domination of East Asian firms

In the past decade, there have been more fashion brands sourcing from Vietnam partly because of Vietnam's advantages in labour costs and business environment and partly because of the brands' shift from China due to rising wages. The biggest fashion brands sourcing from Vietnam include Nike, Adidas, Levis, and Inditex (Zara), among others (see Table 3).

The brands normally enter into FOB contracts with either vendors or 1st tier suppliers (direct suppliers). In some cases, the vendors do not manufacture themselves (as in the case of Li&Fung) but sub-contract to material suppliers and manufacturing firms. For the latter case, the contract is usually a CMT one with the materials selected and prices negotiated by the vendor in advance. The material suppliers are often outside of Vietnam. The materials are imported by the vendors and transported to the supplier factories. In most cases, however, the 1st tier supplier manufactures themselves (like in the case of Han Sae) and sub-contracts a part of the production order to smaller suppliers (2nd tier suppliers). However, according to our interviews with the fashion brands, the 2nd tier suppliers are supposed to be audited and approved by the brands beforehand.

Table 3: Top 10 fashion brands sourcing from Vietnam in 2015

Brand	Nike	Adidas	Levis	Gap	Mango	Kohls	Zara	Columbia	Macy's	H&M
Suppliers in Vietnam	34	32	24	23	18	14	11	11	9	8

Source: FES-VGCL Mapping of Garment and Footwear Supply Chain in Vietnam, 2015

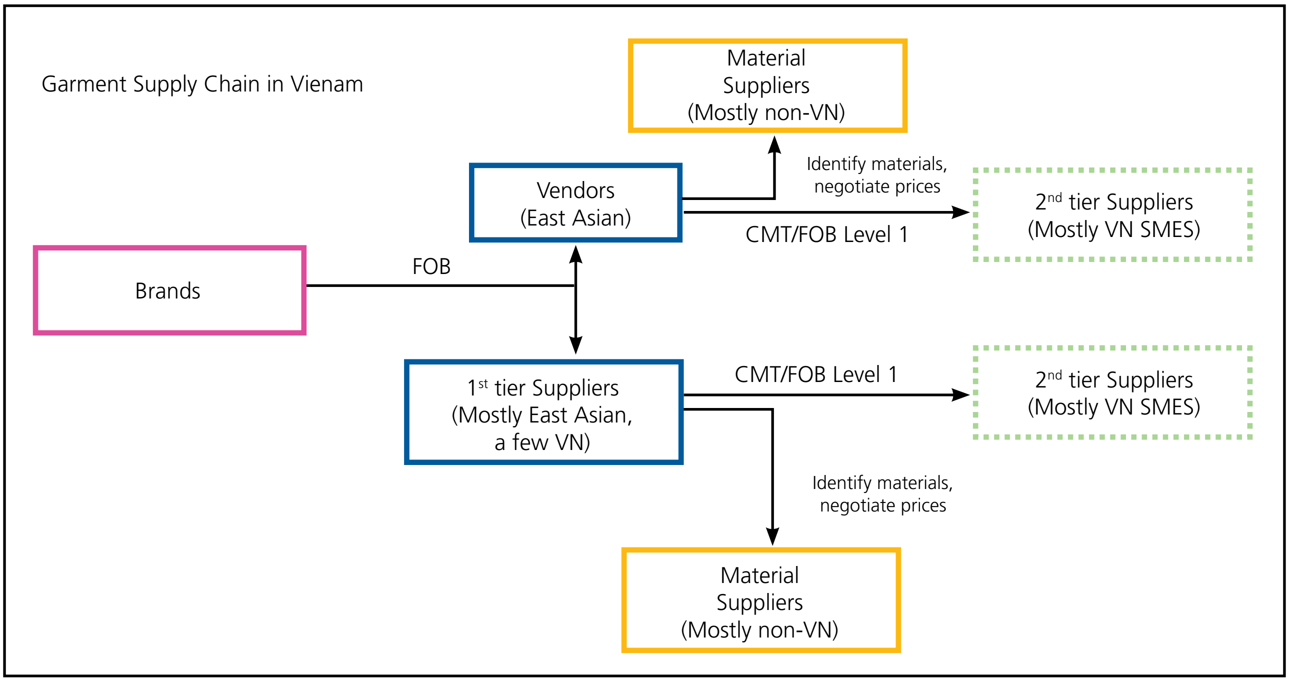
Our interviews with some of the major fashion brands sourcing from Vietnam showed that domestic firms account for a small proportion of their 1st tier suppliers. For instance, Nike (RMG branch) sourced from 10 domestic firms among 34 RMG factories in Vietnam[15] while Inditex had only two domestic firms among their 26 factories in the country.[16] The vast majority of 1st tier suppliers and vendors for the fashion brands in Vietnam are East Asian firms including firms from South Korea, Taiwan, Hong Kong and mainland China. Most of the Vietnamese garment companies are in the group of 2nd tier suppliers, those that sub-contract for the vendors and 1st tier suppliers (see Figure 5).

Distribution of Value in the Garment Supply Chain in Vietnam

Apart from non-production costs such as design, marketing and services, the cost of producing a clothing product is divided into two components: Materials (Fabric and parts) + CMT. The buyer has specific requirements and standards for fabric. For higher-end products, the buyer negotiates fabric prices with the textile suppliers themselves and orders the manufacturing suppliers to use the chosen fabric.

For lower-end products, the buyer specifies their technical requirements and allows the vendor/FOB supplier to purchase and negotiate fabric prices. It is the freedom to select and negotiate fabric (and material) prices that makes the biggest difference in the profit margin of the suppliers. For instance, the fabric for a denim shirt if purchased from a U.S-based manufacturer costs USD5/unit in 2013 but a Bangladesh supplier could buy at the price of USD3.3/unit from a different fabric supplier (CNN 2013). The FOB component accounts for

Figure 5: Garment Supply Chain in Vietnam



Source: developed by the authors based on empirical research and desk review

Table 4: Price Structure and profit margin of fashion brands, 1st tier suppliers and 2nd tier suppliers in Vietnam

<table>
<tr><th></th><th colspan="2">Brand</th><th colspan="2">1st tier supplier (FOB)</th><th colspan="2">2nd tier supplier (CMT)</th></tr>
<tr><td rowspan="5">Cost structure</td><td>Cost items</td><td>Percent in net selling price</td><td>Cost items</td><td>Percent in FOB price</td><td>Cost items</td><td>Percent in CMT price</td></tr>
<tr><td>Design, R&D, marketing, services</td><td>40 percent</td><td>Parts and materials</td><td>0-45 percent</td><td rowspan="2">Direct cost</td><td rowspan="2">70-75 percent</td></tr>
<tr><td>Tax</td><td>16 percent</td><td>Direct costs</td><td>20 percent</td></tr>
<tr><td>Transport from sourcing country</td><td>1 percent</td><td rowspan="2">Factory overheads</td><td rowspan="2">15 percent</td><td rowspan="2">Factory overheads</td><td rowspan="2">15-20 percent</td></tr>
<tr><td>FOB (Parts and materials)</td><td>27 percent</td></tr>
<tr><td>Profit margin</td><td colspan="2">10-20 percent of net selling price</td><td colspan="2">20-25 percent of FOB price or 5-7 percent of net selling price</td><td colspan="2">Ranging from 7-10 percent of CMT price or 1 percent of the net selling price</td></tr>
</table>

Source: Calculated by the authors based on interviews with the managers of RMG suppliers

Box 1: Interview with a domestic RMG supplier

"Our orders have two types: one is to deal directly with the buyers or FOB; the other is through vendors. The vendors will check quality and appoint suppliers of materials. Our materials mostly come from China, Hong Kong, Taiwan, and India. For the FOB orders, we receive designs from the buyers, then we buy materials and make the finished products. With FOB, we can reduce the costs and improve our profit. But the higher-end brands only work through vendors on CMT contracts. Labour cost in these cases accounts for 70 per cent of the assembling price. For FOB orders, labour [cost] accounts for 21 per cent of the FOB price. The labour cost is high because our management and office machinery is cumbersome. Our management cost is 20 per cent or more. Then the profit left from an average CMT order is 10-13 per cent and for an FOB order, it is 20-30 per cent"

(Interview with the marketing and sales director of a Vietnamese equitised garment company in August 2016)

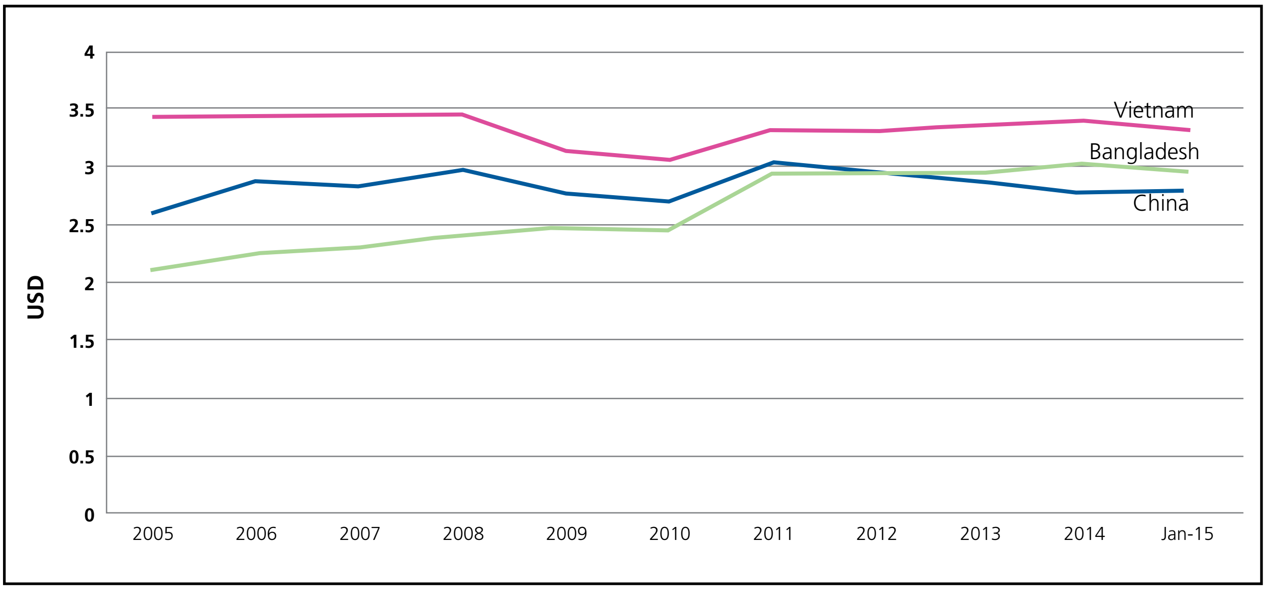
25-30 per cent of the net selling price of the product with fabric and materials accounting for 40-45 per cent of the FOB price (see Box 1 for an example). According to our interviews with the East Asian and Vietnamese 1st tier suppliers in Vietnam, their profit margin ranges from 20-25 per cent of the FOB price.

Inside an RMG supply chain, the bargaining power of the CMT supplier is the lowest. Without the ability to negotiate the fabric price, the CMT supplier can only negotiate on the basis of unit labour cost. Traditionally, both the fashion brand and the supplier have their own technical departments that calculate the Standard Allowed Time (SAT) for each type of product and for each factory, based on which the two parties negotiate the CMT cost. This practice rarely exists now as the procurement team of a fashion brand often applies a regional standard time for assembling each type of product or bases it on the historic production data with little research (Miller 2013). The total CMT cost normally accounts for 10 per cent of the net selling price of the product and the CMT supplier has a modest profit margin of 7-10 per cent of the CMT price (see Table 4).

How labour cost is determined in the garment supply chain and does it matter for workers?

The CMT price includes direct costs and factory

Figure 6: Nominal price of RMG imports in USD from Vietnam, China and Bangladesh to the US



Source: calculated by the authors based on information from US Department of Commerce[17]

overheads. The direct cost includes the compensation for rank-and-file workers which consists of basic salary, allowances, welfare benefits, bonuses, non-cash benefits, social and health insurance contributions, union tax and dues and other labour-related expenses. The factory overheads include all indirect costs such as electricity, water, administration, taxes and rent, among others. With the compulsory social contributions for employers and workers in Vietnam totalling 34.5 per cent of basic salary together with other wage components such as bonus, attendances that are calculated on the basis of the MW, when the MW increases by 1 VND, the supplier has to pay an extra amount of 1.48 VND for one worker. Between 2006 and 2015, the MWs of Vietnam have increased at the average real rate of 12.3 per cent per year (Do and Torm 2015).

As mentioned earlier, the brands and vendors often have a fixed CMT unit price that applies to all suppliers in the country or the region. However, according to all of the seven RMG suppliers interviewed for this study, the CMT prices have not increased over the past five years (since 2012). Three of the seven suppliers admitted that the CMT prices have even decreased by 5-10 per cent/year over the past few years. If we look at the price of RMG imports by square metre to the US, the biggest RMG market for Vietnam over the past 10 years, the nominal price has declined by 0.02 per cent (Figure 6).

When the CMT price has not increased despite the rising labour cost over the past five years, the actual wages of workers in a supplying firm are unlikely to be a factor in price negotiation between the supplier and the brand/vendor although all of the brands interviewed said that their corporate social responsibility (CSR) audits ensure that the suppliers must comply with the MWs. The brands said that it is impossible for them to know the actual labour cost calculation of the suppliers because the latter are strongly resistant to open costing (Miller 2013). In fact, all of the seven garment suppliers interviewed for this study do not practise open costing at all because they were concerned that open costing may put them in a disadvantaged position in price negotiations with the brands/vendors.

According to the suppliers, when their labour cost increases because of the rising MW, the suppliers have to choose one or both of the following measures to maintain their profit margin:

(i) *Increase factory efficiency.* This can be done by improving workers' skills so as to raise labour productivity, reducing unnecessary costs (management and energy costs) and waste
(ii) *Lower wages.* The supplier either lowers the labour costs by reducing various wage components or reduces the number of workers per production line while maintaining the same production target, which

also increases the work pressure on the remaining workers.

Five out of seven suppliers said that labour productivity in their factories increased by 5 per cent/year but that is still much lower than the average MW increase of 12 per cent/year in Vietnam since 2006 (FWF 2015). The deputy director of a domestic supplier stated: "If the MW continues to rise at this rate and the CMT prices are frozen, our company can last for at most three more years."[18]

There are three important implications of the current labour costing practice in the garment supply chain:

First, the garment supply chain is characterised by the **monopsony relationship** between the brands and the suppliers in which the brands dictate the prices and how the suppliers participate in the value chain (Anner 2015). In terms of labour costs, the brands put pressure on the suppliers to keep the same CMT price (or even to reduce the price every year) but also require them to comply with the brands' CSR standards (which also entails rising costs).

Second, while the cost pressure of the brands on their 1st tier suppliers has been severe, the **pressure of the vendors and 1st tier suppliers on their sub-contractors is even harsher.** Although the brands require their vendors and 1st tier suppliers to be transparent about which sub-contractors they use and the sub-contractors should satisfy the minimum sustainability requirements of the brands, the brands do not intervene in how much the vendors/1st tier suppliers are paying the sub-contractors. The vendors/1st tier suppliers consequently do the best they can to pressure the subcontractors to accept the lowest price possible. A Vietnamese garment sub-contractor said to us:

> We cannot work directly with the brands so we have to work through vendors but the vendors are pushing (costs) on us too hard. A few years ago, our profit margin was still higher than the bank interest rate, now it is even lower.[19] But if we do not accept those prices, we don't have enough work for the workers.[20]

At the same time, the brands cannot ensure that they can monitor all of the subcontracting activities within the supply chain. Two FDI (1st tier) suppliers and one domestic 2nd tier supplier admitted that not all sub-contracting activities were reported to the relevant brands. The director of a travel-bag FDI supplier said:

> When the orders are too big, we have to transfer a part to the sub-contractors. Sub-contractors must be approved by the buyers but sometimes we had to do it secretly [...] If the buyers know, we will be sanctioned.

And in the case of this garment supplier, apparently, the buyer was not informed about the sub-contracting activity and the vendor has all the power to push down the price:

> Some South Korean brokers came to us with the orders at very low prices [...]. Our normal price is 1.5 USD/unit but they offered only 0.9 USD. They said if you don't want this price, we can find suppliers who will agree with even 0.7 USD. To have enough work for the workers, sometimes we had to swallow the anger and accepted that low price.[21]

Third, the data collected from the RMG factories in this study does not support a common assumption that the suppliers are paying workers low and cannot support better working conditions because their profit margin is low (Anner 2015). In fact, this study proves that the **actual working conditions and wages that workers have in the supply firms do not necessarily go in line with the value added or the profit margin** that the supplier receives in the supply chain. We compared the following labour standards in the seven garment suppliers (including three FDI and four domestic firms): (i) Wages as compared to MWs and living wage estimates for the specific region;[22] (ii) Overtime; (iii) Workers' voice; and (iv) OSH.[23] Interviews with the workers showed that two of the FDI RMG suppliers had serious violations of labour standards: one firm laid off pregnant women to avoid paying maternity benefits and had bad working conditions; the other paid workers at the MW level and allowed for almost no room for workers' voices to be heard.

Table 5: Overview of the footwear industry of Vietnam

Total number of enterprises	1,382
FDI companies	800
Percentage of enterprises with over 500 workers	16.1 percent
Total labour force	930,000
Main products (percentage of total production)	Sports shoes: 64.4 percent Canvas shoes: 6.4 percent Leather shoes: 29.2 percent
Export/total production	90 percent
Main export markets	United States: 40 percent Europe: 32 percent Asia: 14 percent Latin America: 7 percent
Local content value[25]	45 percent

Source: Vietnam Ministry of Trade and Industry and Vietnam Customs Office (2015)

In the meantime, three out of four of the domestic firms are former SOE companies and had a strong commitment to their labour force. They paid workers better with more generous welfare benefits and opened up (informal) channels for feedback from workers (although wage negotiations are not found in any company). The level of satisfaction among workers in the domestic firms was also higher than among workers in the FDI ones. Ironically, the FDI companies enjoy the highest profit margin as they are 1st tier suppliers and vendors for the brands while 75 per cent of the domestic firms are 2nd tier suppliers.

Structure of the global value chain in the footwear industry[24]

Overview

Vietnam is the third-largest exporter of footwear (by value) after China and India. Footwear exports account for nearly 10 per cent of the total export value of the country, and the industry employs nearly 1 million workers and almost 2 million in the supporting industries (see Table 5). There are 1,382 footwear companies with over 50 per cent of them foreign-owned firms and 80 per cent of footwear companies are concentrated in the region surrounding Ho Chi Minh City (Dong Nai, Binh Duong, and Long An).

The footwear industry is highly export-oriented with 90 per cent of total production being sold overseas while the domestic markets are dominated by footwear imports from China. Similar to the situation of the RMG industry, the footwear industry of Vietnam is dependent on imports of materials, mostly from China and other Asian countries. The current domestic content of footwear is only 45 per cent.

The past five years saw a phenomenal growth of the export-oriented footwear industry with both the number of enterprises and export value doubling (LEFASO 2016). This was mainly because of the production shift of major shoe brands from China to Vietnam to avoid the rising wages in the former country. Taiwanese firms account for 51 per cent of the FDI footwear companies, followed by South Korea (16 per cent) and China (10 per cent).

Domination of East Asian footwear giants and domestic producers sidelined from the global supply chain

Vietnam has grown to be one of their biggest sourcing countries for major sports shoe brands. Adidas now sources most from Vietnam (41 per cent of its production in 2015) and for Nike, Vietnam is the second-biggest production base (see Table 6).

Table 6: Top sports shoe brands sourcing from Vietnam

Brand	Adidas	Nike	New Balance	Puma	Converse
No. of factories in Vietnam	37	25	22	6	6

Source: FES-VGCL mapping of garment and footwear industries of Vietnam, 2015

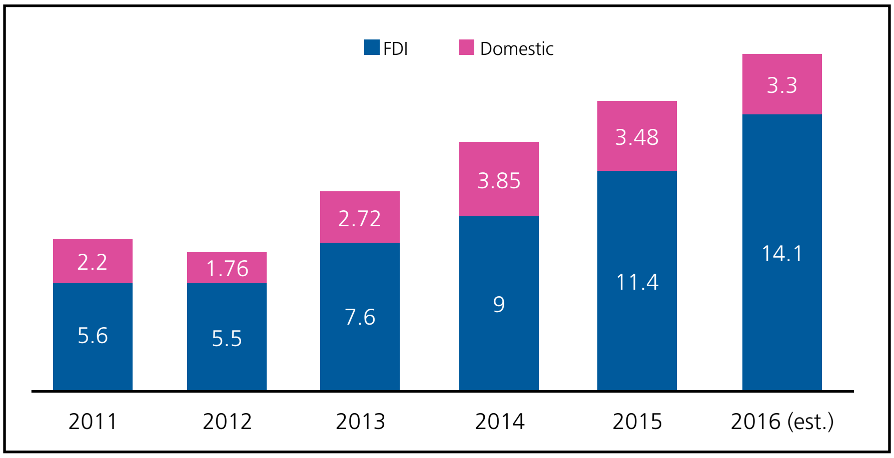
Despite the industry booming over the past five years, the footwear supply chain in Vietnam has been increasingly dominated by the East Asian footwear corporations. The East Asian footwear corporations such as Pou Chen Group and Feng Tay Group have been able to develop the whole cycle of shoe production from material processing, machinery to assembly, which gives them a major advantage in terms of costs, efficiency and time over the domestic competitors. Vietnamese companies, in the meantime, have to import materials and machinery which drives their final cost much higher than the FIEs'. As a result, the FIEs have contributed an average of 77 per cent of the total sector export value since 2011 and in 2016, this proportion increased to 81 per cent (see Figure 7). Unlike the RMG industry, which is characterised by a large number of SMEs, the footwear industry is dominated by a small number of large-scale Taiwanese footwear producers. For instance, PouChen Group, the biggest sports shoe manufacturer in the world, has 11 factories with 200,000 workers in Vietnam and accounts for 17 per cent of the total footwear export value of the country (LEFASO 2016).

Adidas and Nike are the two biggest brands sourcing from Vietnam but **no domestic firm has qualified to be a direct supplier** to these footwear giants. Without the control of materials and machinery and the shortage of budget, the Vietnamese firms cannot meet the two brands' standards. Normally, the brands sign FOB contracts with direct suppliers/vendors that are FDI companies. The direct suppliers purchase materials and parts that meet the brands' requirements and assemble the final products in their factories in Vietnam. In some cases, the direct suppliers (and vendors) sub-contract a part of the order or some production steps (such as finishing or packaging) to smaller firms which are mostly domestic private ones (see Figure 8). Similar to the RMG brands' policy, the shoe brands also require the direct suppliers and vendors to sub-contract only to the firms that have been audited and approved by them. Adidas, for instance, has 43 sub-contractors in Vietnam that are registered with and accepted by the brand.

Distribution of value inside the footwear supply chain

In the footwear supply chain, the brand earns a profit margin of around 9 per cent of the whole sale price while product assembly is the part that has the lowest profit margin, ranging from 7-10 per cent of the assembly price or approximately 1.5-2 per cent of the whole sale price. The profit margin of the direct suppliers in the footwear supply chain is obscure because although the profit margin for the assembly part is stable and relatively clear,

Figure 7: Footwear export value of foreign-owned (FDI sector) and domestic companies (bn USD)



Source: LEFASO statistics (2016)

Figure 8: Footwear supply chain in Vietnam

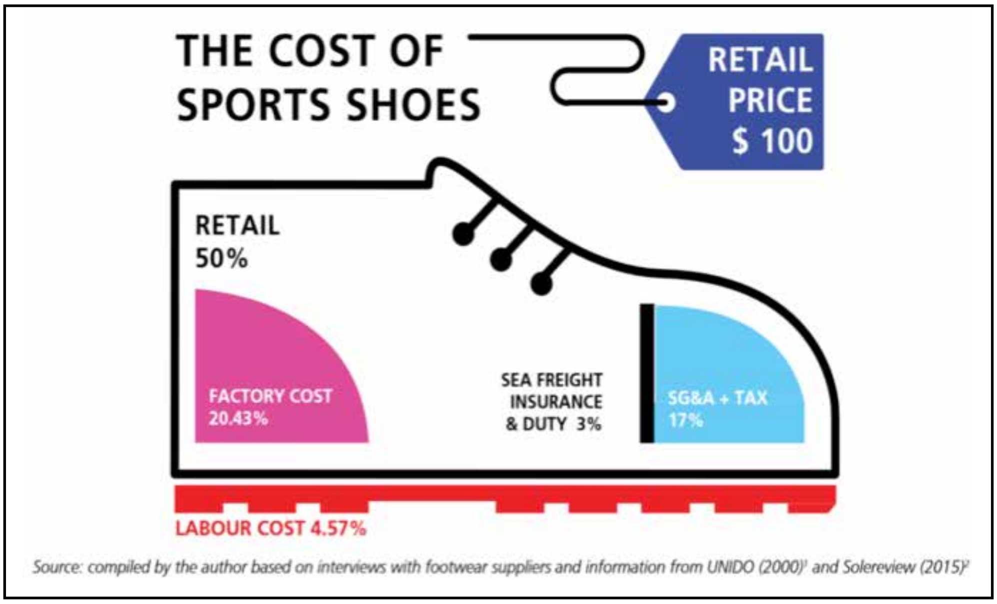
the profit margin from material processing has always been fluctuating and confidential. Also, in the case of Vietnam, the direct suppliers process the materials in a third country before transporting them to Vietnam for assembly, which has made it even more difficult to find out the cost structure in the tanning process. Materials cost around 66 per cent of the factory cost of an average pair of sports shoes and therefore earn extra profit margin for the material processors (see Figure 9). According to some of our interviews with footwear suppliers and sub-contractors in Vietnam, if the direct suppliers can supply processed materials and machinery, their profit margin can reach 15-20 per cent of the FOB price or 7.5-10 per cent of the whole sale price.[26]

How are labour costs determined in the footwear supply chain?

We studied three footwear companies: one produces exclusively for Nike, one produces for Adidas and one produces for almost all major footwear brands including Nike and Adidas. They are located around Ho Chi Minh City with two in the MW Region 1 and one in the MW Region 2. All three are East Asian, direct supplying firms that have been in Vietnam for over 10 years and each employs around 20,000 workers.

While most of RMG suppliers in Vietnam are paying on piece rate, all of the 1st tier suppliers are required by the brands to pay on an hourly basis. Traditionally, the assembly price for a certain product model is based on the pre-determined time standards, whereby basic human motions are used to build up the time for a job at a defined level of performance under defined conditions. This approach deconstructs a product into its constituent parts, identifies the manual labour operations required to complete these components and uses analysis methods to pre-determine manufacturing standard times and production targets. The outcome is a database empirically determined for the range of manual operations necessary to assemble a product (Miller

Figure 9: Cost break down of a pair of sports shoes



SG&A: Service General and Administration

Table 7: Cost minimisation in a footwear supplier

Year	2013	2014	2015
Monthly production (*in USD*)	1.6 million	2.8 million	3.1 million
No. of workers per line	80	70	60
Wages	MW+5 percent/year	MW+5 percent/year	MW+5 percent/year

Source: interviews with the management of F1 company, July 2016

2013). Based on this approach, the so-called Standard Allowed Time (SAT) can be accurately calculated and in turn used to calculate the cost of manufacturing (Prashanta 2012).[27]

However, as the production managers of F1 and F3 said, the assembly price from Adidas and Nike has been kept at USD11 and USD 12 per pair respectively for the last five years irrespective of the increasing production costs, including labour costs, of the supplying firms. The assembly price, according to the F1 production manager, is non-negotiable and the company has to increase its efficiency to retain its profit margin. In other words, **the labour cost is not included in price negotiations between brands and their suppliers.**

All three companies have managed to increase their productivity by 5-10 per cent/year over the past five years by several measures including: (i) increasing the level of automation; (ii) reducing the number of workers per line while increasing the total production; and (iii) minimizing the wages paid to workers. For F1, for instance, the company was able to almost double the monthly production value while reducing the number of workers per line by 25 per cent (see Table 7).

Although the output per production line increased by 31 per cent per year between 2013 and 2015, the workers of F1 are still paid at the minimum level plus only 5 per cent seniority increase per year. In other words, the ratio of actual wages paid to workers over the factory production value decreased over the past three years. **The actual wages of workers are not dependent on the brands' assembly price, the suppliers' profit margin or the workers' productivity but on the MWs.** This is different from what was found in the garment suppliers where workers' wages depend more on skills and productivity than on seniority.[28]

Structure of the global value chain in electronics

Overview of Vietnam's Electronics Industry

The electronics industry has a long tradition in Vietnam dating back to the 1960s when the first state-owned companies produced electrical equipment solely for domestic consumption. Since 1994, together with the lifting of the trade embargo by the United States, Vietnam has enjoyed a rising inflow of investment into electronics pioneered by Japanese MNEs such as Canon, Panasonic, Sony, and Mitsubishi. The electronics industry quickly increased its export value to 6.3 per cent of the national export value by 2011. In 2012, however, with the shift of world-leading mobile phone brands including Nokia, Apple, LG and most notably Samsung from China to Vietnam, the electronics industry of Vietnam has overtaken the RMG industry to become the export champion, contributing 18.2 per cent of the total export value (see Figure 10). This figure continued to grow to 28.25 per cent in 2015 and the total export value was USD45.79bn, in which mobile phones and parts accounted for 70 per cent. The EU is the biggest export market of the electronics industry, followed by the US (see Figure 11).

According to an ILO study, there were 1,088 electronics companies in Vietnam employing 325,583 workers, with female workers accounting for 70 per cent of the labour force in 2015 (ILO Vietnam 2016). As there is a high dependency between the electronics brand firms and their component suppliers, the electronics sector is highly geographically clustered. The cluster of producers of electronic appliances is in the South surrounding the Ho Chi Minh City area while almost all of the mobile phone producers and their suppliers are located in the Northern provinces near Hanoi.

Electronics supply chain in Vietnam

The electronics industry is generally comprised of three

Figure 10: Proportion of electronics exports in total export value of Vietnam (%)

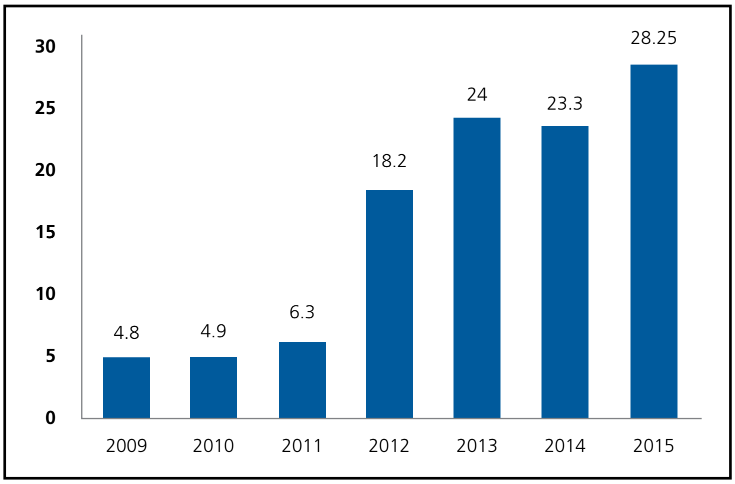
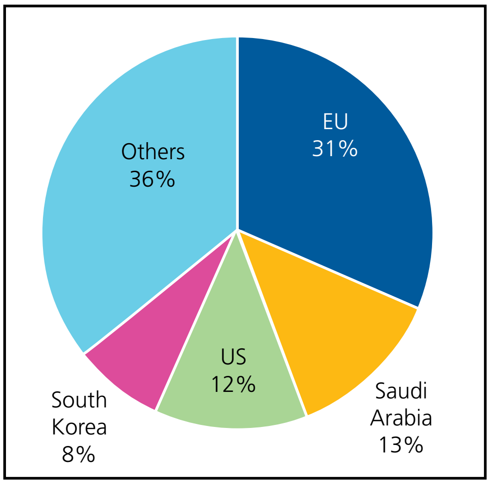


Figure 11: Key export markets of mobile phones and parts from Vietnam



Source: Vietnam Customs Office, 2016

groups of firms: brand firms, contract manufacturers and component suppliers (see Figure 13). There are two types of brands: those that have manufacturing capacity such as Samsung, Canon, Panasonic, among others, and brands that do not such as Apple. With or without manufacturing capacity, the brand firms subcontract and outsource a considerable amount of their manufacturing activities and use a range of suppliers for parts and components.

The second type of firms, contract manufacturers, is a small group of first-tier suppliers. Contract manufacturers are highly capable suppliers that undertake manufacturing, assembly and testing of parts and final products for other companies. Since their rise in the 1980s, contract manufacturers have grown into very large global firms in their own right, the most notable of which is Foxconn (Yusuf 2015).

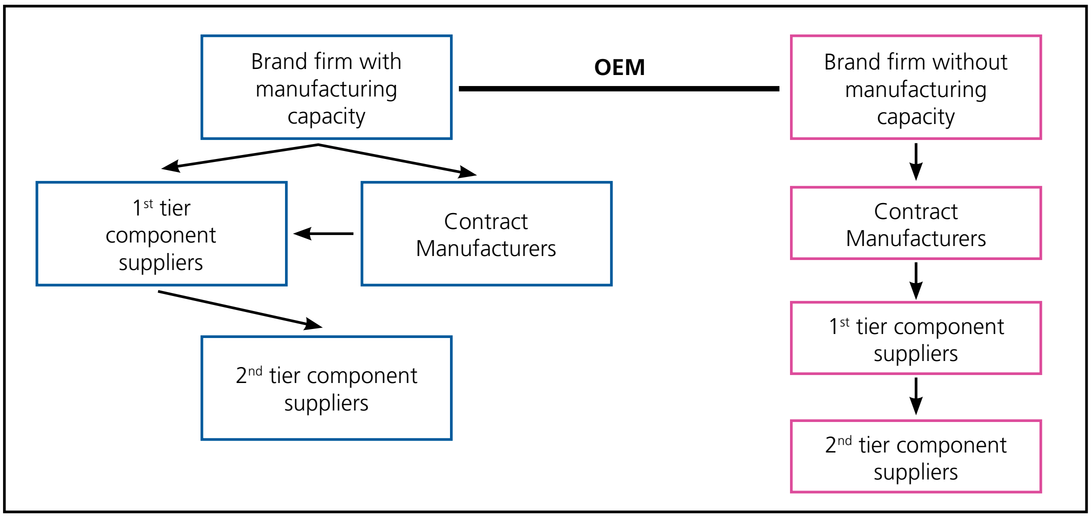
Component suppliers range from large global firms that design and produce technologically advanced components, to very small firms that produce parts and components. Some of the component suppliers (such as Microsoft and Intel) are platform leaders and are highly profitable. Others produce key components and, although engaged in relatively low-value-added activities, are critical for the functioning of the GSC in the electronics industry.

Consumer electronics have short product life cycles, ranging from three to 18 months, with a quick end-of-life time frame. As a result, suppliers of these products face increasingly fast time-to-market orders. For example, when the Apple iPhone was introduced in 2007, the time for the product to be launched was six months; in 2012, it had shrunk to less than two weeks. The electronics industry is also characterised by high production fluctuations. Figure 13 shows the typical life cycle of a product in the electronics industry which lasts for around one year. It begins with a peak at the time of the product's launch, followed by a gradual levelling off during a maturity phase, and ends with a quick end-of-life phase, which may result from planned product replacements. Around six months prior to the launch of a new product, workers in the whole supply chain will have to work excessive overtime. Later, their working hours reduce gradually. At the end of the product's life, they may not have enough employment to work eight hours a day. As found in some electronics suppliers in this research, workers are paid 75 per cent of the basic salary to stay at home two to three days a week during the low season.

Distribution of value and costing practice in the electronics supply chain

According to a survey by Investopedia.com, the average profit margin of electronics companies was 9 per cent and the median profit margin was 6 per cent in April 2015.[29] However, the difference in profit margins

Figure 12: Electronics Supply Chain in Vietnam



Source: Adapted from ILO (2016)
**OEM: Original Equipment Manufacturing*

among electronics firms is wide-ranging, from 0.4 per cent to over 60 per cent. Apple is estimated to earn a profit margin of at least 69 per cent from the iPhone 6 (Samsung is estimated to earn a profit margin of slightly less than Apple) while sub-contractors that do not possess a leading technology may have a profit margin of under 10 per cent.[30]

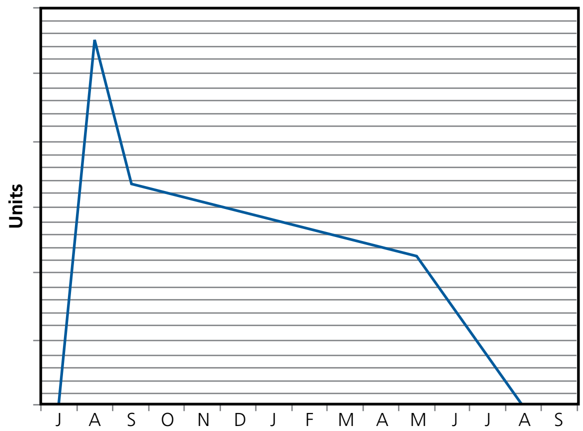
Among the electronics firms visited, four out of five companies were supplying mainly to a South Korean brand (ranging from 80-100 per cent of their production) and one was supplying equally to three different brands. These firms were producing a wide range of mobile phone components including sensors, cases, home buttons, cameras and bluetooth headsets. All five suppliers are South Korean and have been supplying to the lead firm worldwide before they moved together with the lead firm to Vietnam. Four of five suppliers said that there have been no price negotiations between them and the lead firm. In fact, the prices for each component are posted on the website of the lead firm every quarter for the suppliers. In accordance with the life cycle of the product, supplying prices are also reduced every quarter with the highest rate at the beginning of the cycle and lowest at the end (normally one year after).

New generation of free trade agreements: EU-Vietnam FTA and Trans-Pacific Partnership

By the end of 2015, after years of negotiations, Vietnam concluded two important free trade agreements (FTAs) in parallel: the TPP with the United States and 10 other economies on both sides of the Pacific and the FTA with European Union (EVFTA). Both FTAs are considered "new generation agreements" as they are very comprehensive, covering all aspects of trade from trade in goods and services, investment, intellectual property rights and extensive reduction of tariffs. Both agreements contain detailed sustainability (environmental and labour) chapters. Although in January 2017, President Trump decided to withdraw the United States from the TPP, dismantling the original agreement, Vietnam's commitments to the TPP, especially with regards to freedom of association, still have significant impacts on the labour institutions in the country.

EU-Vietnam FTA is the most ambitious free trade agreement the EU has thus far concluded with a developing country. Almost 99 per cent of all tariffs between Vietnam and the EU will be abolished: 65 per cent for Vietnam and 85 per cent for the EU when the agreement comes into force and the remainder after seven years (for Vietnam) and ten years (for the EU). The agreement will directly affect 70 per cent of Vietnamese exports, especially in such labour-intensive sectors as textiles and clothing, shoes, and electronics (Schweisshelm 2015). Regarding RMG, the production steps of weaving and sewing need to be carried out in Vietnam to benefit from customs advantages. This

Figure 13: Life cycle of a typical electronics product



Source: ILO (2014)

is intended primarily to prevent China from obtaining duty-free access to the European market for its textile products by way of indirect access via Vietnam. This means that in the clothing sector, Vietnam must create an entire value-added chain.

There is a legally binding reference to the 2012 Vietnam Partnership and Cooperation Agreement, which contains a human rights clause and rules on cooperation in securing human rights.[31] That said, the EU leans towards an approach that tends to promote workers' rights rather than an approach focused on sanctions. This means providing financial assistance to help Vietnam in ratifying ILO conventions 87, 98, and 105 and incorporating them into national labour law. If this does not transpire, the trade agreement could ultimately be cancelled, although this has rarely happened in the past. A study requested by the European Parliament in April 2014 on the human rights aspect of the agreement with Vietnam was not conducted before the conclusion of the agreement.

The Trans-Pacific Partnership would have been even more important for Vietnam in terms of volume than the agreement with the EU. The TPP member states represent 40 per cent of global gross domestic product (GDP) and 30 per cent of the world's trade volume. For Vietnam, they comprise important markets, among them the US, Japan, Canada, and Australia. As in the case of the EU, Vietnam's most important export products for which tariff reductions will be introduced are electronics, clothing, shoes, and seafood. The rules of origin, however, are stricter than in Vietnam's agreement with the EU.

In the TPP, labour provisions are included in Chapter 19, the core of which is the commitment to comply with the principles laid down in the ILO Declaration on Fundamental Workers Rights from 1998. But it also includes commitments, again required for all TPP Parties, to have laws governing MWs, hours of work, and OSH. Commitments in the labour chapter are subject to the same dispute settlement procedures available for other chapters of the TPP, including the availability of trade sanctions.

Apart from the agreements in the labour chapter for these 12 countries, the US has concluded bilateral implementation plans with Brunei, Malaysia and Vietnam to ensure that their laws and practices are revised to be consistent with international standards at the time of TPP ratification. The commitments in the implementation plans are subject to TPP dispute settlement procedures, meaning they are fully enforceable and backed up by trade sanctions. The implementation plans also establish bilateral mechanisms beyond those in the labour chapter to ensure ongoing engagement, monitoring, and reporting on the implementation of those commitments. In the labour chapter and especially in a binding 13-page side-letter to the TPP between the US and Vietnam called United States-Viet Nam Plan for the Enhancement of Trade and Labour Relations[32] (also referred to as "consistency plan"), Vietnam has made substantial concessions such as its assurance to ratify conventions 87 (freedom of association) and 98 (right to collective bargaining) and to adjust its labour laws accordingly, which will abolish the monopoly of the Vietnam General Confederation of Labour (VGCL), the party-controlled trade union. Also, as soon as the TPP comes into force, legislation has to be there that grassroots labour unions can be formed at the enterprise level. They can register either with the VGCL or labour administration. They will have the same rights as grassroots unions under the VGCL such as the right to collect and manage their membership dues and share of union tax paid by the employer. These independent unions can elect their leaders, manage their affairs, bargain collectively and can go on strike. Five years after the TPP comes into effect, the independent grassroots unions will be allowed to affiliate at the regional and sectoral levels. Vietnam shall ensure by further legislation that strikes are permitted when organized for workers of different enterprises at the same levels at which collective bargaining is permitted under law.

Vietnam has a maximum of seven years (5+2) after these agreements come into effect to fully comply with the commitments in the consistency plan. If this is not done, the US could suspend the abolition of customs duties waiting to be effected for certain product groups. This would apply in particular to products from the clothing and shoe industries, tuna, and porcelain. Groups for which the customs tax is already abolished would not be affected.

Both the TPP and the EVFTA aroused deep scepticism about whether the EU or the US will manage to use the sustainability chapter to secure the rights of workers enshrined in the core labour standards of the International Labour Organisation. The EU's promotional approach, as in the case of the EU-Korean FTA, has been ineffective as the chief negotiator of South Korea said that both the EU and South Korea were well aware that South Korea would not comply with the sustainability chapter before the agreement was signed[33]. In terms of the TPP, the general secretary of the International Trade Union Confederation (ITUC) believed that the agreement exclusively serves the interests of multinational corporations. She has said that ITUC proposals to make the TPP more democratic and socially equitable have largely been disregarded and that the corresponding provisions in the labour chapter are toothless because disputes relating to the ineffective implementation of labour and environment standards are to be advanced by state actors, not the aggrieved parties themselves. Experience from other trade agreements demonstrates that such instruments are not put into use because they are deemed too politically costly to use. The US's sanction-based mechanism has only been attempted once, under the Central American Free Trade Agreement, against Guatemala. That case is in its seventh year, and there is still no prospect that the Guatemalan government will rectify the shortfalls.[34]

Prior to President Trump's decision to withdraw the United States from the TPP, the US Department of Labour (USDOL) under the Obama administration negotiated a memorandum of understanding with Vietnam's Ministry of Labour, Invalids and Social Affairs (MOLISA) to revise the 2012 Labour Code in accordance with the side-letter no matter what the future of the TPP would be (Interview with MOLISA Legal Department, August 2016). The USDOL has also committed to a 3-million-dollar technical project to the ILO Vietnam to support Vietnam's government in not only revising the Labour Code but also strengthening the capacity of the trade unions and employers' organisations in compliance with the side-letter (Interview with Director of ILO Vietnam, August 2016). On 6th January 2017, the Politburo of Vietnam issued Resolution 06 on international economic integration. Article 2.10 of Resolution 06 required the reform of the VGCL system in parallel with the recognition and administration of "worker organisations" (to chuc cua nguoi lao dong) or independent unions (Politburo of Vietnam 2017). The recognition of independent unions was the most important commitment of Vietnam in the TPP; yet, despite the failure of the TPP, Vietnamese authorities continued to implement this commitment. One of the reasons was the expectations of the public aroused by various debates about independent unions prior to President Trump's decisions. The other is the constant pressure of the international community, especially international organisations and major trade partners such as the United States, the EU, Australia, New Zealand, and Japan (Interview with the Director of the Center for Industrial Relations Development, MOLISA, January 2017).

In the meantime, the EVFTA, which is in 'legal scrubbing' and is expected to be ratified in 2018, has made no impact so far on Vietnam in revising the labour legislation. According to the representative of DG Trade, EU Commission, it will be the responsibility of Vietnam's government to handle the labour and environmental issues while the EU focuses on trade.

Though the TPP has faded away, at least in the case of Vietnam, the sanction-based approach has shown more impacts on institutional reform than the promotional one.

Labour practices in the global supply chains in Vietnam: CLS Plus Living Wage, Working Hours, and Occupational Safety and Health

Core labour standards

Freedom of Association and Right to Collective Bargaining (Conventions 87 and 98)

Vietnamese workers have the right to join the enterprise unions which must be affiliated with the VGCL. However, apart from the fact that workers do not have the right to establish the union of their choice, this is also an area of the most pervasive violations by employers in Vietnam.

First, the employer's interference with union activities is common. Better Work Vietnam[35] found a significant number of its member companies manipulated union activities (see Table 5). It is common for high-ranking managers such as HR managers or deputy directors, to serve as union leaders, even union chairpeople. It was estimated that 60 per cent of enterprise union leaders were managers in 2012 (Trinh 2014). We found this practice particularly pervasive among domestic companies. For instance: among the five domestic garment companies visited in this research, the union leaders of three were either HR manager, deputy director or even managing director. According to the sources at MOLISA and VGCL, the management sometimes kept union funds and required the enterprise union officials to secure the executives' signatures in order to withdraw from the union fund (Interviews with MOLISA and VGCL sources, July 2016).

The collective bargaining agreement (CBA) coverage in Vietnam is high, with 67 per cent of unionised establishments having CBAs. However, the general quality of the CBAs registered has been low. According to a survey of FES and VGCL in 2015, 56 per cent of the CBAs are copied from the law and only 15 per cent showed any sign of workers' participation in the collective bargaining[36]. Collective bargaining is widely regarded as a formality rather than the outcome of real negotiations between workers and employers. Better Work Vietnam also found that collective bargaining is an area with a of high level of non-compliance among their member companies. The most common non-compliance issues are employers failing to inform workers about the CBA and the CBAs not being approved by more than 50 per cent of workers covered.[37]

The limitations to freedom of association and the right to collective bargaining have resulted in the "informalisation" of the labour relations institutions at the workplace. While the workers are granted the right to strike, the conditions to organise a legal strike are so formidable that workers have always chosen to walk out without complying with the rules and without the official unions' engagement to assert their rights and interests. The authorities, both at local and central levels, have responded sympathetically to these wildcat strikes mostly by helping the workers to negotiate with the employers (Do and Vanden Broek 2013). As a result, wildcat strikes have become the de facto mechanism for workers to address violations of their rights as well as to bargain collectively. As seen in Figure 15, the incidence of interest-based strikes has been high when the economy was growing while the rights-based strikes became more pervasive during economic recession.[38] With the concessional response from the authorities and the ineffectiveness of the formal representation and collective bargaining mechanisms, wildcat strikes have become the main and most effective mechanism to regulate labour relations in the workplace. An ILO survey in 2011 reported that as many as 94 per cent of wildcat strikes ended with all workers' demands satisfied (ILO Vietnam 2011).

Second, when the enterprise union officials are managers, the formal channels for labour-management communication, consultation and grievance-handling such as the union-management meetings and consultative committees, the workers' congresses, and the quarterly labour-management dialogues have not been trusted by the workers. Instead, the workers rely on informal channels especially private discussion with their team leaders/supervisors to voice up their opinions and complaints. For this study, when we asked the workers to name their most trusted channel for grievance-

Table 8: Status of the ratification and implementation of CLS Plus in Vietnam, 2016

CLS	I.		II.		III.		I.	
Core Convention	C87 – Freedom of Association and Protection of the Right to Organise Convention	C98 – Right to Organise and Collective Bargaining Convention	C29 – Forced Labour Convention	C105 – Abolition of Forced Labour Convention	C138 – Minimum Age Convention	C182 – Invalidity, Old-Age and Survivors' Benefits Convention	C100 – Equal Remuneration Convention	C111 – Discrimination (Employment and Occupation) Convention
Ratified by Vietnam	No	No	Yes	No	Yes	Yes	Yes	Yes
Compliance	Non-compliant	Non-compliant	Partly compliant	Partly compliant	Substantially Compliant (violations found in informal sector)	Substantially compliant	Partly compliant	Partly compliant
Trends	Political willingness to recognise independent unions	Political willingness to recognise independent unions	Improving	Improving	Improving	Improving	MW increase rate diminishing	

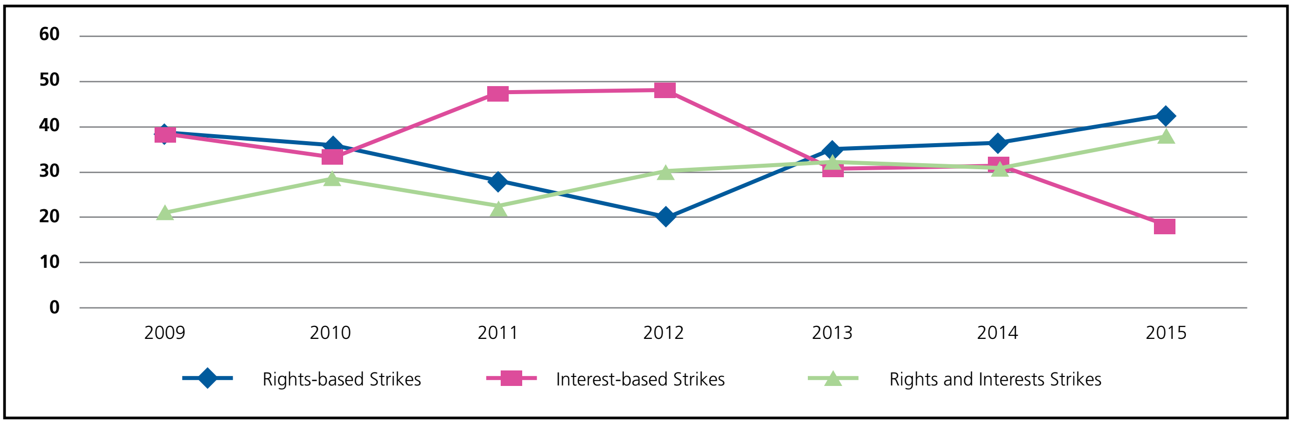
handling, the informal channel via their team leaders was chosen by 55 per cent of garment workers, 33 per cent of footwear workers and 80 per cent of electronics workers. In the meantime, the unions were named by 22 per cent of surveyed workers in garments, 33 per cent in footwear and none in electronics (see Figure 15).

Therefore, for freedom of association and collective bargaining, the research team finds that Vietnam is still in **non-compliance both in law and in practice.** The garment industry has been more advanced, however, than the footwear and electronics industries in providing (voluntary) mechanisms for labour-management communication and grievance handling. The garment suppliers interviewed strongly stressed the need to communicate frequently with workers and team leaders while the employers in footwear and especially in electronics take it more as a formality.

Abolition of Forced Labour (Conventions 29 and 105)

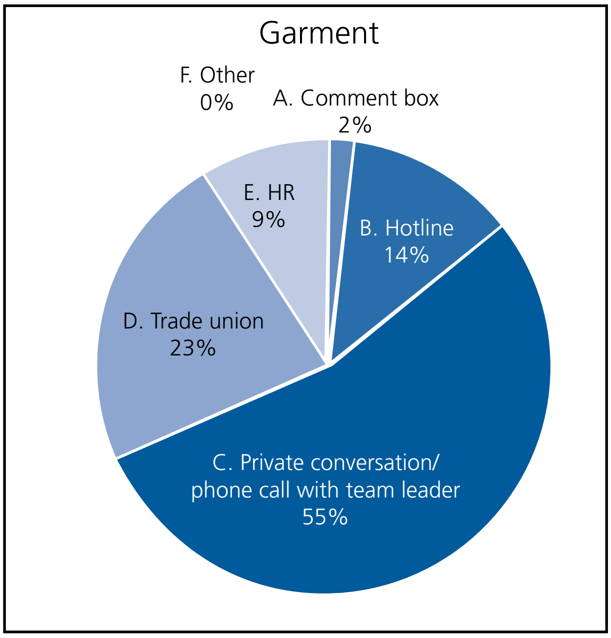
Forced labour is prohibited by the Vietnam Labour Code (see Box 2). According to the International Labour Organisation[39] and International Labour Rights,[40] there were charges of forced labour in drug detention camps and among international migration programs. However, there has not been a public report or statistics on forced labour in Vietnam.

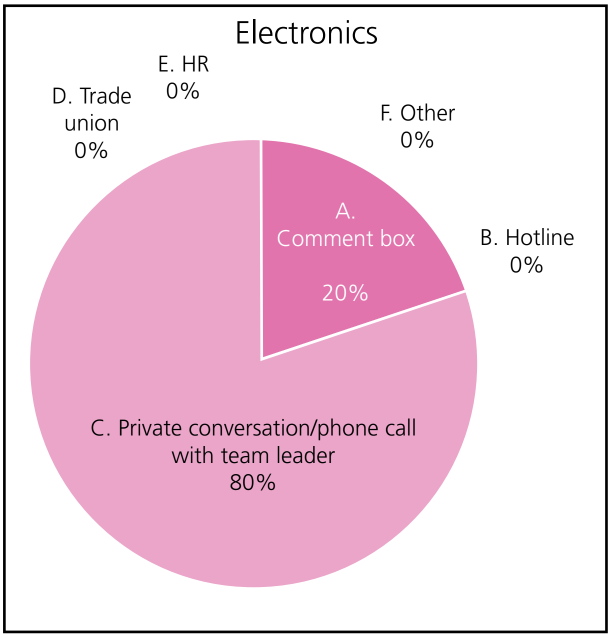
Figure 14: Percentage of rights-based and interest-based strikes



Source: Calculated by the authors based on the unpublished strike statistics of the VGCL, 2016

Figure 15: Most trusted channel for grievance-handling by garment and electronics workers





Source: CLS Plus Study in Vietnam, 2016

The stakeholders consulted expressed concerns over the issues of involuntary overtime and toilet access restriction in the garment industry. The ERC found cases in which the team leaders swiped the clock cards of workers at the end of the shift, but kept the workers behind for overtime. By so doing, the team leaders faked the recording of working hours while forcing workers to do overtime without their consent (VCCI 2009). ILO's Better Work Vietnam, in its 2014 Compliance Report, found signs of forced labour in this report. In one instance, the dormitory was located within the factory site and workers were requested to return to the dormitory before a pre-determined time in the evening (Better Work Vietnam 2014). In two other factories, the auditors found that workers felt it was difficult for them to leave the workplace even if they had not signed up to work overtime.

In this research, we have found opposing viewpoints about overtime. The managers said that their workers liked to work overtime to improve their income and some even threatened to quit if they did not have enough overtime work. But many workers interviewed, especially those in electronics, said that in high seasons they had to work four to five hours of overtime per day and seven days a week, while during low seasons, they were forced to take annual leave due to shortage of work. As discussed in further detail in the "working hours" section, excessive overtime has been found in all three industries, with the highest level of violation found in the electronics sector. The team leaders interviewed

Box 2: Articles on forced labour in the 2012 Labour Code

Article 8.3 of the Labour Code: Forced labour is one of the prohibited behaviours of the employer.
Article 20.1 of the Labour Code: The employer is prohibited from keeping the originals of the identity papers, certificates and qualifications of the employee.
Article 20.2 of the Labour Code: The employer is prohibited from requesting the employee to mortgage cash or property for the labour contract performance.
Article 37.1c of the Labour Code: The employee has the right to terminate the labour contract if he/she suffers from maltreatment, sexual harassment or coercive labour;
Article 96 of the Labour Code: The employee is paid directly, fully and in a timely manner.

admitted that sometimes they had to "put pressure" on workers to accept working overtime as the production line could not operate without sufficient workers. A unionist from Dong Nai Federation of Labour (FOL) mentioned a few cases in which workers were forced to work so much overtime that they called the FOL's hotline for emergency rescue (Interview with Dong Nai FOL representative, July 2016). Apparently, forced overtime still exists in all three industries and the worst case is in electronics.

The research team finds that Vietnam's legislation is largely in conformity with Conventions 29 and 105 but in practice, poor enforcement has resulted in various violations, especially forced overtime in the exporting industries. Therefore, Vietnam is in partial compliance with the conventions on abolition of forced labour.

No Child Labour (Conventions 138 and 182)

According to BetterWork Vietnam and MOLISA, child labour has not been found in registered export-oriented garment factories. Our research team found no case of child labour among the factories surveyed for this study. However, the 2012 ILO-MOLISA Survey on Child Labour found that there were 47,343 workers under 18 years old employed in garment workshops, mostly household businesses (ILO, MOLISA and GSO 2014). Most of these workshops are unregistered and manufacture low-cost RMG products for the local markets. In particular, 1.2 per cent of child workers employed in garment production fell into the age group 5-11 years old.

Non-discrimination in employment and occupation (Conventions 100 and 111)

Gender-based Discrimination

Vietnam has made progress in closing the gender gap in employment in recent years. In fact, Vietnam was ranked higher than other garment-producing countries such as China, India, Bangladesh or Cambodia in terms of gender equality in employment (see Table 10).

The 2012 Labour Code has one chapter (Chapter 10) on female employees. Female employees have equal working rights and it is the responsibility of an employer to create favourable working conditions for female employees (Art. 153 & 154). However, employment of women in 79 occupations is prohibited, 45 of which are applicable to all female employees while the remaining 34 occupations/activities are applicable to pregnant and breast feeding workers.

Within the CLS Plus study, the research team found evidence of gender-based discrimination in the electronics industry. All of the five electronics firms visited said that they only recruited female workers for the assembly jobs. The HR manager of E3 explained:

> Men are not fit for this job [assembling electronic products] because they are not as hard-working, patient and obedient as women. The workers have to sit for long hours and work with very small details so women with small hands are better than men. Also, managing women is easier. Men tend to be more aggressive and reactive to supervisors (Interview conducted in August 2016).

These companies not only posted job advertisements to recruit "female workers from 18-25 years old" but also included in their HR policy which jobs are given to men and which to women. The deputy director of E1 said: "The assembly jobs are for women; heavier jobs such as mechanics and packaging are for men". While 90 per

Table 9: Indicators of child labour, 2014 – Vietnam, China and Bangladesh

	Bangladesh	China	Vietnam
Child labour (%)[41]	13	N.A	7
Global Slavery Index (rank)[42]	59	109	89

Source: UNICEF, The State of the World's Children 2015 and The Walk Free Foundation, Global Slavery Index 2014

Table 10: Gender Equality Indicators of Vietnam, China and Bangladesh, 2014

Indicators	Vietnam	China	Bangladesh
Global Gender Gap Index, 2014[43]	76	87	68
Wage equality for similar work rank, 2014	79	77	105
Gender Inequality Index	58	37	115

Source: Global Gender Gap Report 2014 and World Economic Forum, Global Gender Gap Report 2013 & 2014 The higher the index, the worse the situation* cent of the labour force were female, the union leaders of these firms were men, which prevented the workers from voicing their gender-specific issues. A female worker told us:

> Almost all workers are women but the numbers of toilets for men and women are equal and we usually have to queue for a long time. Also, there is no clean water in the toilets for women during their menstruation period. We told the union chairman but he did not understand.

Discrimination against Domestic Migrant Workers (Convention 189)
The Household Registration (*ho khau*) system of Vietnam which was revised by the 2007 Law on Residence provides for two types of residence categories - temporary and permanent. The temporary residents have limited access to basic social services including education for children at public schools, access to public hospitals at the places of temporary residence, eligibility to purchase houses and vehicles. Such a system has prevented the migrant workers from accessing basic social and health services at their destinations. Oxfam (2015) found that 71 per cent of migrant workers lack access to public health services, and only 44 per cent of migrant workers holding health insurance cards can often use their health insurance. As a result, the migrant workers have to resort to private health and education services which usually cost at least twice as much. The children of migrant workers also suffer from the discriminatory system of social assistance. The study by Oxfam Vietnam in 2015 found that 13.2 per cent of migrant workers' children under 6 years of age do not have access to health insurance (Oxfam 2015). Migrant workers are not yet considered as beneficiaries of social assistance policies at the locations to which they migrated, even though they often face difficult living conditions and are in need of support for their livelihoods.

Additional relevant labour standards with corresponding ILO conventions (Plus elements of CLS Plus)

Occupational Safety and Health (Conventions 155 and 187)
In 2014, there were 6,709 work-related accidents in Vietnam with 630 deaths. The garment and footwear industries accounted for 4.9 per cent of the accident cases and 4.5 per cent of the death toll.[44]

According to Nguyen Quoc Thuan, Better Work Vietnam, the biggest area of non-compliance in OSH relates to the provision of changing rooms for female workers,

Box 3: Vietnam 's Legal Provisions on OSH

Law on Fire Fighting: Written Fire Safety Plan should be approved by the local fire brigade. Practice of the Fire Plan should be conducted at least once a year.

Circular 11/2014/TT-BCA: The grassroots fire fighting team should be trained and certified by the fire brigade and receive refresher training every year.

Article 138 of the Labour Code: Working environment should be tested at least once a year.

Article 138.1d of the Labour Code: There must be an instruction table on labour safety and hygiene for the machinery, equipment and workplace and it should be put in a legible and visible place;

Article 139 of the Labour Code: The employer should assign full-time safety officers, who are properly trained on occupational health and safety.

Article 142 of the Labour Law: All cases of labour accidents should be investigated and reported. The Employer is responsible to pay salary and treatment fees in case of labour accidents. Compensation or an allowance should be paid if the worker's labour ability is reduced due to accident.

Article 147 of the Labour Code: Equipment with strict safety requirements should be inspected by an authorized agency.

Article 150 of the Labour Code: Workers should be trained on occupational health and safety prior to starting their job and on an annual basis.

Article 152 of the Labour Code: The employer should provide annual or bi-annual health check for the employees.

showers, lockers for employees' personal belongings, and other similar types of facilities. Many factories have none of these additional legally required facilities, while others have some but not all or insufficient numbers. Sixteen garment companies in the Better Work Project failed to provide adequate accessible toilets, especially for female workers. Female workers account for over 80 per cent of the labour force but the number of toilets for men and women are the same, leaving many female workers unable to access toilets during working hours. Verbal abuse (such as shouting, using vulgar language) was occasionally found among garment factories. 9.6 per cent of workers in the BW Project were concerned about verbal abuse.

For the CLS PLUS study, the research team found complaints about canteen food safety by workers from three factories (one garment, one footwear and one electronics firm). There were also complaints about hot and dusty working conditions in an FDI garment factory and exposure to chemicals in a footwear company.

Minimum Wage (Convention 131)

Vietnam is one of the few countries in Asia that links the MW to the living wage. The MW is defined in Article 91 of the 2012 Labour Code as "the lowest payment for an employee who performs the simplest work in normal working conditions and must ensure the minimum living needs of the employee and his/her family."

Prior to 2008, there were two types of MW in Vietnam: a single MW for the domestic sector and four regional MWs for the foreign-owned one.[45] Between 2008 and 2011, the government set 4 regional MWs for both the domestic and foreign sectors, although those for the foreign sector remained higher than those of the domestic one. Since 2012, the regional MWs for the two sectors have been merged (see Table 11).

Paying under the MW is not pervasive in the GSCs of garments, footwear and electronics in Vietnam. The share of workers in general paid below the MW was around 10 per cent (see Table 12). The research team did not find any case of workers being paid under the MW among the factories surveyed for this study.

Before 2013, the MW was set by the government in consultation with trade unions and employers' organisations. However, since 2013, the new MW is set by the National Wage Council (NWC) at the end of the year. The National Wage Council is a tripartite body with equal representation of the Ministry of Labour, Invalids and Social Affairs (MOLISA), VGCL and the Vietnam Chamber of Commerce and Industry (VCCI). Each party

Table 11: Nominal Minimum Wages of Vietnam, 2001-2013
(Unit: thousand VND)

Domestic					Foreign			
Year	Region 1	Region 2	Region 3	Region 4	Region 1	Region 2	Region 3	Region 4
2001	210	210	210	210	495	440	385	385
2002	210	210	210	210	495	440	385	385
2003	290	290	290	290	495	440	385	385
2004	290	290	290	290	495	440	385	385
2005	290	290	290	290	495	440	385	385
2006	350	350	350	350	870	790	710	710
2007	450	450	450	450	870	790	710	710
2008	620	580	540	540	1000	900	800	800
2009	800	740	690	650	1200	1080	950	920
2010	980	880	810	730	1340	1190	1040	1000
2011	1350	1200	1050	830	1550	1350	1170	1100
2012	2000	1780	1550	1400	2000	1780	1550	1400
2013	2350	2100	1800	1650	2350	2100	1800	1650

Table 12: The share of workers paid below the minimum wage 2011-13, by gender (%)

	2011	2012	2013	Average
Female	6.5	13.7	15.5	11.0
Male	3.7	8.2	10.0	6.6

Source: Do and Torm (2015)

will consult their own members and develop their own proposal for the new MW. Then, at the annual meeting of the NWC, each party defends their proposal while negotiating for the new MW which takes effect at the beginning of the next year. The debate on MWs at the NWC has become increasingly heated over the years, especially when the issue if the MW should equal or not the minimum living needs was taken into account.

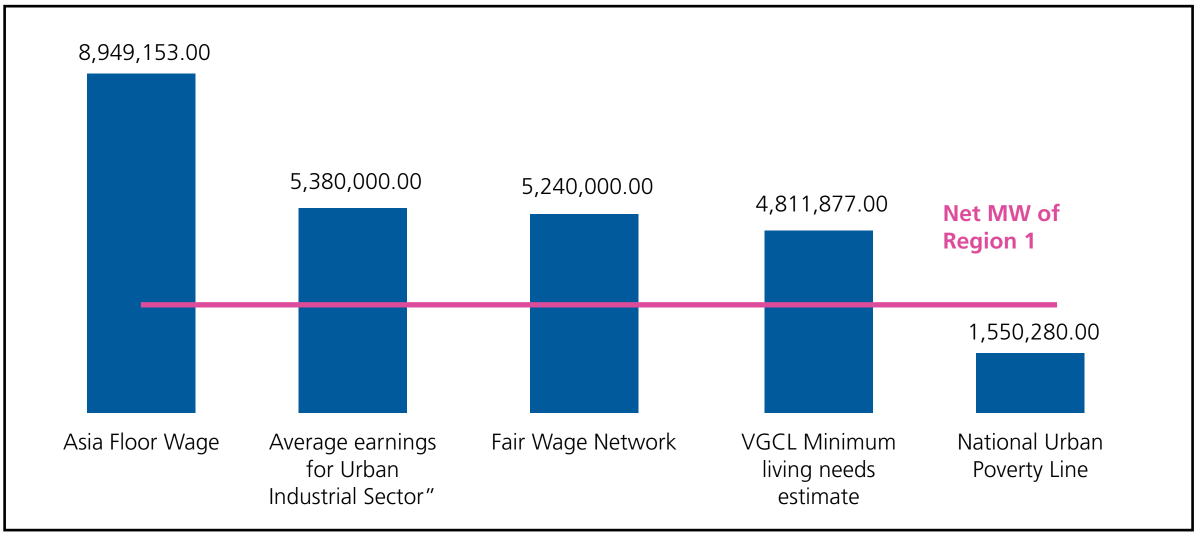
On the one hand, the VGCL and civil society argue that the current MW still lags far behind the minimum living expenses. As seen in Figure 16, the MW of region 1, which is also the most industrialised area, is significantly higher than the national urban poverty line but it is significantly lower than all living wage benchmarks including the Asia Floor Wage, Fair Wage Network and the estimate of the VGCL of the minimum living needs of workers.

However, the business community and recently World Bank Vietnam have pointed to the low rate of labour productivity increase, which has been stagnating at 3.4 per cent/year for the past five years, making Vietnam the country with 4th lowest labour productivity in ASEAN, even lower than Cambodia (See Figure 17). In the meantime, MWs have been increased at an average rate of 12.3 per cent/year since 2011, creating a burden on the local businesses and the whole economy (World Bank 2015). Thus, the National Wage Council agreed to a record low MW increase rate of 7.4 per cent for 2017 although the VGCL originally proposed 12 per cent.

Due to the weakness of grassroots unions in collective bargaining[46], most companies in the RMG, footwear and electronics industries are paying workers at the minimum- wage level, or slightly higher. For instance, when the MW for Region 1 in 2016 was VND3,500,000, the garment factories in Ho Chi Minh City paid their rank-and-file workers (entry level) at the MW level plus 7 per cent (compulsory training allowance) or VND3,745,000/ month. As a result, when the MWs are adjusted, these companies have to adjust their wage scales accordingly.

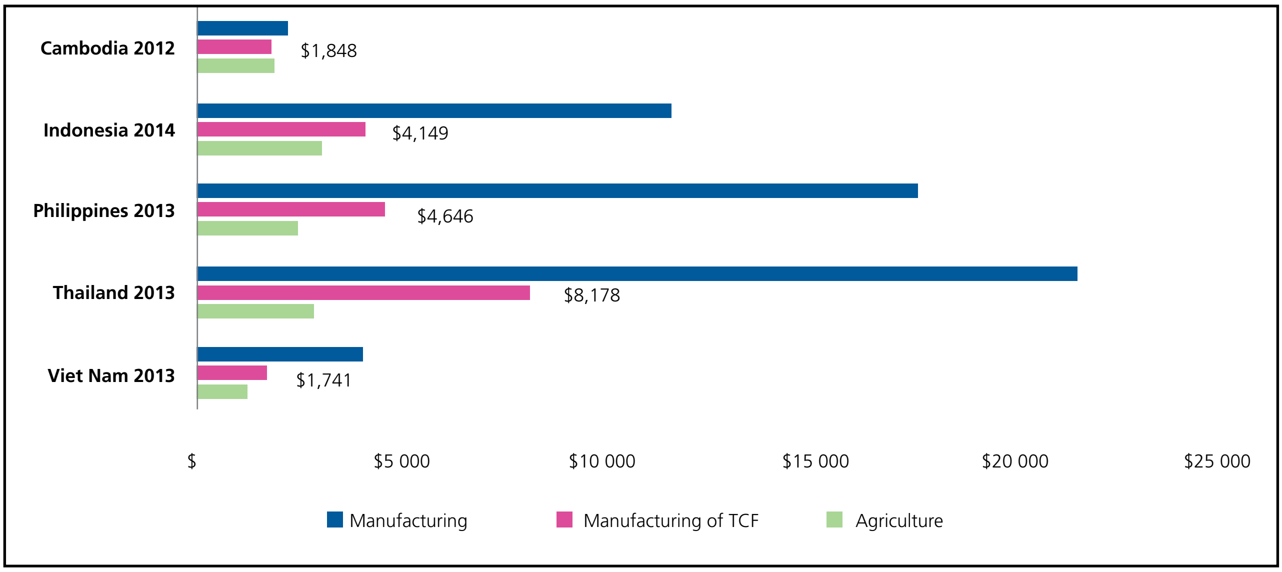
The research found that the average basic salary plus allowances was highest in the footwear firms and lowest in electronics companies. Overtime payments accounted for only 9 per cent of total income in footwear, 16 per cent in garments and 23 per cent in electronics. The cases in the footwear industry may include big outliers as most of the workers selected for the survey were senior ones with higher basic salaries than the average. The research team also found a few electronics firms in

Figure 16: Monthly minimum wage of Region 1 vs. Living Wage benchmarks, 2015
(Unit: VND)



Source: FWF (2015)

Figure 17: Labour productivity in selected ASEAN countries



Source: VCCI (2016)

which overtime accounted for 38 per cent to 58 per cent of the total income (see Table 13).

This study confirmed the findings of previous studies that although workers in the GSC are paid above the MW, their wages lag far behind living wage benchmarks and as a result, they rely on overtime work to improve their income, especially in the electronics industry. With the speed of annual MW increase significantly slowing down, whether workers' wages can be improved towards a living wage will depend first and foremost on the unions' ability to bargain collectively with the employers.

For this standard, Vietnam is in partial compliance but the trend could deteriorate if workers' right to collective bargaining is not improved.

Working Hours (Convention 001)

Excessive overtime remains the major violation of this standard in Vietnam. According to the 2013 national survey on Labour and Employment by the General Statistics Office, 36.1 per cent of workers were working more than 48 hours per week[47]. Better Work Vietnam found a 93- per cent non-compliance rate with regard to overtime regulations[48] exceeding the national legal limit of 200 overtime hours per year (or 300 hours in special cases). In addition, in 45 factories, the working time records did not accurately reflect the number of hours actually worked (Better Work Vietnam 2012). Excessive overtime is one of the biggest problems found during Fair Wear Foundation audits of suppliers to European garment brands in Vietnam. Particularly during peak seasons, working hours are found structurally between 65 and 75 hours per week, with occasionally work on Sundays in case of tight deliveries. Some factories work

Table 13: Monthly wages in the three supply chains (Unit: VND)

	Garments	Footwear	Electronics
Basic wage and allowances	4,341,000	5,348,000	3,983,000
Overtime (% of total income, average)	16 %	9 %	23 %
Total income (July 2016)	5,358,000	5,899,000	5,660,000

Source: compiled from the data collected in the study, August 2016

Table 13: Rating of labour standards compliance in the 03 industries

CLS PLUS	Garment	Footwear	Electronics	Foreign-owned (General)	Domestic (General)
Freedom of association and collective bargaining	1	2	3	2	1
Discrimination	1	1	3	2	1
Forced Labour	1	1	3	2	1
Child Labour	1	1	1	1	1
Living Wage	2	1	3	2	1
Working Hours	1	1	3	1	1
Occupational safety and health	1	2	3	2	2
Total	**8**	**9**	**19**	**12**	**8**

one to three Sundays a month without giving workers the legally required compensation day off every week.

Double booking on overtime is also frequently found among garment factories. Nguyen Quoc Thuan of Better Work Vietnam explained that:

> "45 per cent of BWV companies were found not reflecting the hours actually worked. This reflects an industry wide problem of 'double books' (i.e. keeping two sets of working time records) to conceal true working hours. It is known however that some factories conceal working time out of fear of reprisals from buyers, as well as to cover up the time taken to rectify errors and mistakes made on the production line."[49]

According to our interviews with the team leaders and workers, overtime is most excessive in the electronics industry. Among the five electronics firms visited, one firm has been working on 100 hours of overtime per month during the high season while the average for others was 70 hours per month. The legal limit of overtime in Vietnam is 30 hours per month and no more than 200 hours per year (or 300 hours in special cases). In comparison, the monthly overtime hours in garments and footwear are up to 45 hours during high seasons.

The research team finds Vietnam in partial compliance with this standard as the legal provisions are progressive but the enforcement is weak.

Comparing the Labour standards in the three industries

Based on the empirical research and desk-review of the reports on labour standards in the three industries discussed in this section, we propose a rating system for the three industries and for the FDI and domestic sector in the three industries in terms of compliance with the CLS Plus (Table 13). The rating ranges from 1 to 3 with 1 as having the best level of compliance and 3 as the worst among the three industries. For the case of FDI and the domestic sector, the rating ranges from 1 to 2, following the same rule. Then, the industry/sector that gets the higher score tends to have worse labour standards and vice versa.

The labour standards compliance is best in the garment sector, closely followed by the footwear industry. The wages paid to footwear workers, at least from this study, are better than in the garment firms. The situation in the electronics industry is the worst, especially in the areas of OSH, working hours and the living wage. The industry is also at an infancy level in terms of freedom of association and collective bargaining and anti-discrimination, especially gender-based discrimination in employment and occupation.

Against the common perception that FDI firms provide better working conditions than the domestic ones, the study found that the domestic companies, especially the former SOEs, have been more progressive in complying with the labour standards, even in terms of wages, employee participation, and control of overtime. Both sectors however have problems in complying with OSH standards in different ways.

Towards common interests: Assessment of stakeholders' interests and policies

Government policies for sustainable industrial policies

A comprehensive industrial policy is crucial for the development of any country. For developing countries, this is even more important as not only horizontal industrial policy such as general education, general R&D, and infrastructure are needed but also specific policy interventions to encourage industrial upgrading and technological advancement. As Herr et al (2016) argued, without comprehensive government interventions, Vietnam's structure of international trade reproduces underdevelopment and prevents catching-up. In other words, effective government interventions via industrial and investment policies are crucial in determining whether Vietnam will benefit from trade or race further to the bottom.

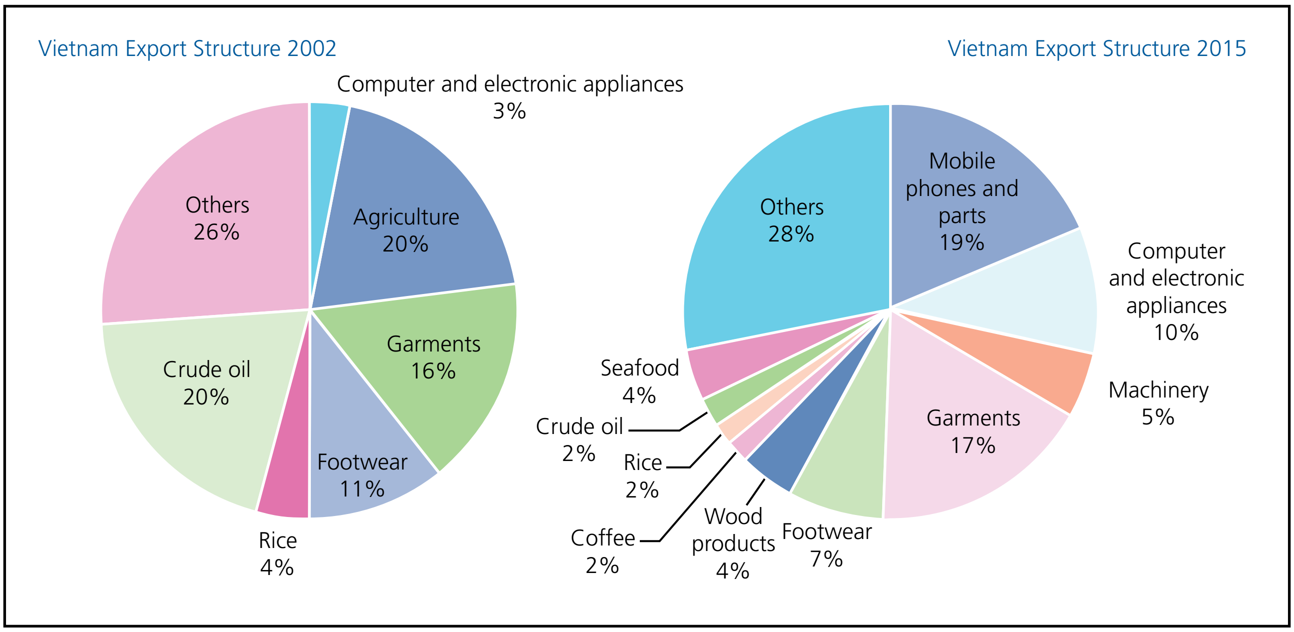
Industrial policy

Vietnam's growth model shifted from reliance on natural resources and unprocessed agricultural products in 2002 to low-tech-labour-intensive products such as garments, furniture, footwear, and electronics 13 years later (see Figure 18). The domestic content of these products, however, remains low, ranging from 40-55 per cent (CNV International 2016).

The key strategic industrial planning directions of Vietnam are usually articulated by the national Socio-Economic Development Strategy (SEDS), a master plan that governs Vietnam's industrial policy framework for each 10 years. In 2011, the Strategy for Acceleration of Socialist-oriented Industrialization to modernise the country by 2020 was launched. The aim was building "some selected important heavy industrial establishments with high technology, which produce the necessary means of production to equip and re-equip advanced techniques and technologies for the whole economy and to meet national defence requirements" (CPV 2011, online version). Among the 13 industries to reach the 2020 target are electronics, garment materials, footwear, construction materials, mineral processing (coal, bauxite, titan, apatite, lead, and zinc), beverages, dairy, pulp and paper.

However, Vietnam's industrial policy has been largely regarded as weak. Ohno (2015) compared and

Figure 18: Changing Structure of Export Products, 2002 vs. 2015



Source: compiled by the author based on statistics from the Vietnam Customs Office (2003 &2016)

evaluated industrial policy in Vietnam with a number of other countries and concluded that industrial policy in Vietnam is poor. In a ranking system from 5 (highest) to 1 (lowest) Vietnam scored: industrial human resources 1.5, domestic enterprise development 1.8, business climate 2.0, power and logistics 2.8, export promotion 1.6, strategic FDI marketing 1.7, industrial parks 2.2, supporting industries and FDI-local firm linkage 1.5, productivity, technology and innovation 1.4, and standards and testing 1.5. Herr et al (2016) argued that Vietnam lacks the institutions which are able to select, implement, evaluate and modify, when needed, both horizontal and selective industrial policy. Fforde (2016) evaluated the economic reality of Vietnam since the economic reform ("Doi Moi") launched in 1986 against the political rhetoric of 'industrialisation and modernisation' and found that Vietnam's economy has been largely driven by market forces with the industrial policy having little effect.

FDI Policy

Due to legal regulations, FDI projects registered in Vietnam until the mid-1990s took largely the form a joint venture between state-owned enterprises (SOEs) and foreign investors. At the end of 1998, the number of joint ventures accounted for 59 per cent of total projects and 69 per cent of total registered capital. In 1997, this ownership restriction was removed. This had a strong impact on the ownership structure of FDI. In 2006, joint venture projects had fallen to just 42.5 per cent of total registered foreign capital, while projects with 100 per cent foreign capital accounted for 45.5 per cent (Tue-Anh et al. 2006). While the model of joint ventures is fading, both the national and provincial governments have offered incentives to encourage FDI at the expense of domestic investors. For instance, the national government offers the reduction of corporate profit tax for projects of over USD300 million, of which mostly FDI projects are eligible as few domestic firms are able to make large-scale investments.[50] In the meantime, to attract FDI, provincial governments have been offering special incentives to foreign investors. Thai Nguyen province, for instance, to attract the USD3bn project of Samsung Electronics, granted the corporation a 50-per cent reduction of corporate profit tax for 30 years and eternal exemption from land rent for Samsung factories.[51] The FDI policy at national and provincial level has been discriminating against domestic investment while granting advantages to the FDI projects without any obligation for technological transfer.

Other policies

Exchange rate policy in Vietnam does not support boosting exports. Vietnam, like many developing countries, pegs the VND to the USD. The VND has been over-valued for most of the time in the past which can be seen by the large trade- and current account deficit of Vietnam. The State Bank of Vietnam follows such an overvaluation policy to curb domestic inflation.[52] Taking into account the high exports of natural resources, the exchange rate of the VND is a big burden for the competitiveness of Vietnamese manufacturing sector (Herr et al 2016).

At the same time, the domestic private exporters' access to bank credits has become difficult, especially since 2012. During the period 2008-2011, Vietnam was faced with a double-digit inflation rate and growing outstanding debts amongst state-owned commercial banks. One reason for this was the increase in interest rates to 18 per cent in 2012 while the accessibility to bank credits was limited to state-owned corporations.[53] In our research, all Vietnamese firms said that since 2012, they were not able to take FOB orders any more due to their inability to acquire loans from the domestic banks. The foreign-owned firms, however, are not limited by Vietnam's monetary policy and policy by banks and thus, they have thrived compared to the domestic sector even more in the past five years.

To sum up, the industrial policy of Vietnam has been both non-comprehensive and ineffective (see detailed discussion at MIT Studies, 2016 and Forde, 2016). Without an effective industrial policy, more international trade threatens to deepen under-development and further prevent catching-up in the global value chain. MIT (2016) named four reasons for Vietnam's ineffective industrial policy, including: the lack of a full-scale SOE reform, corruption, the absence of a sufficient process to define, implement and evaluate industrial policy, and the uncoordinated central-local relationship. As part of this research, we compared the industrial policy of two provinces and its impacts on labour standards at the workplace level. As discussed in the next section, while this research confirms the shortage of coordination between central-local governments, it also shows that strong industrial policy, even just at provincial level, can have positive impacts on labour standards.

Regional Industrial Policy and Implications for Labour Standards: The cases of Long An and Da Nang

Long An has a strategic position in the Southern key economic region as the provinces bridges the economic triangle of Ho Chi Minh City - Dong Nai - Binh Duong and the 12 provinces of the Mekong Delta. In the past decade, Long An has been transformed from an agricultural province into an industrial one with 28 IZs. According to the economic development plan of 2015-2020 issued by Long An People's Committee (PC), the province aims to speed up FDI attraction to fill up 1,500 hectares of IZs within the next five years (or 250 hectares per year) irrespective of industries or technology employed. The rate at which new investment is being attracted to Long An is one of the highest in Vietnam, especially when large investment projects in the RMG, yarn spinning, dyeing, and footwear material manufacturers are flooding in in expectation of benefiting from the TPP agreement. In 2015, Long An attracted USD651.9 million of FDI, the 9th biggest destination for FDI in Vietnam.[54] The biggest FDI projects in 2015 were two yarn-spinning and dyeing factories of VND300 million and VND56 million respectively by Huafu, a Chinese textile corporation and Yuang Yu, a Taiwanese producer of textiles.[55] With the current trend, in the next five years, Long An is expected to become one of the country's biggest material production centres for the RMG and footwear industries, where many medium and large-scale factories attract a great number of unskilled workers.

Fast industrialisation with a focus on low-cost-labour-intensive manufacturing industries has resulted in a number of labour problems for Long An. First, the province experienced a shortage of local labour and skilled labour. The proportion of local workers in the industrial areas was only 55 per cent in 2015 and declining. Long An Economic Zone Authority has said that enterprises here suffer a severe lack of both unskilled and skilled workers, as well as managers and office employees.[56] For skilled workers, Long An wages and conditions are not attractive enough compared to Ho Chi Minh City.

Table 14: Labour force of Long An's IZs

Total number of workers	104,850
% female workers	54%
% workers in apparel and footwear factories	47.,3%
% workers between the ages of 18-30	32%
% technical workers	24.,2%
% unskilled workers	34.,5%

Source: Information provided by Long An Industrial Zone Authority in July 2016

Table 13: Socio-economic characteristics of Long An and Da Nang

	Long An	Da Nang
Population	1,500,000	1,029,000
Labour force	900,000	500,000
GDP Per capita (2015)	USD2,250	USD2,461
Number of IZ-EPZ	28	6
Migrant workers in IZs	45%	40%
Number of FDI enterprises	417	386
Number of domestic enterprises	6,800	13,000
Key industries	Materials for textiles, RMG, footwear, food processing	Tourism, seafood processing, electronics

Source: compiled based on statistics provided by the IZ administration of Long An and Da Nang (July 2016)

Currently, technical workers account for only 24.2 per cent while unskilled workers whom enterprises will have to train themselves make up 34.5 per cent of the total number of workers (see Table 14).

Second, the influx of migrant workers created high demand for housing. According to Long An Industrial Zone Authority, 60% of workers working in IZs are in need of housing (including 45% migrant workers and 15% local workers living away from home). Currently, only two out of 28 IZs have invested in accommodation for workers while the rest had to rely on rented housing provided by the local inhabitants. This is also a reason for migrant workers' low commitment to their jobs in the IZs.

Third, Long An has become one of the most strike-hit provinces in the country, accounting for 13 per cent of the national strike incidence in 2016 and two-thirds of them occurred in the RMG and footwear companies.[57] The rate of worker participation in strikes increased from 29 per cent in 2014 to 54 per cent in 2016. This proves the spreading impact of strikes within the workforce, although all strikes were spontaneous and did not follow the legal procedure (see Figure 19).

In the meantime, the labour relations institutions of Long An have not been developed in accordance with the labour challenges. The union participation rate in Long An's formal workforce reaches 74 per cent but only 28 per cent of enterprises have been unionised. This shows that most large-scale enterprises in the province have established unions while a large number of small enterprises (accounting for 70 per cent of the total number of enterprises in the province) remain unorganised.

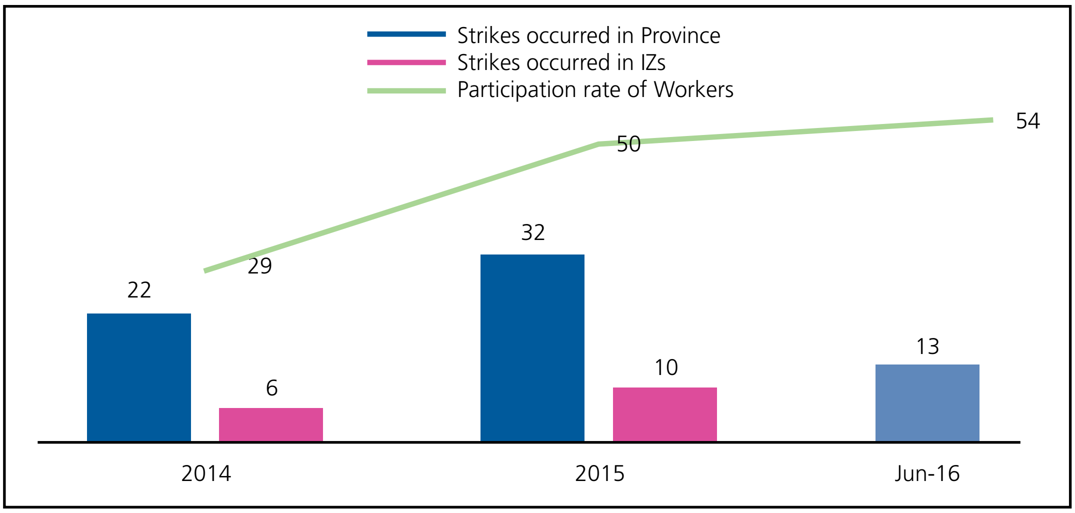
Long An union's approach to organising and selection of union chairpeople at the workplace level is traditional. The head of the organising department of Long An FOL said:

> We follow the traditional method [top-down organising approach]. Only when enterprises do not cooperate and we cannot follow the traditional method, do we then use the bottom-up approach. The new method takes time and resources, while the staff levels of the Federation of Labour at both province and district level are thin […].

And about who should become union leaders in the workplace, she said:

> We want union presidents to come from the enterprise management, such as the production manager or administrative manager. They have good knowledge so they can perform union work very fast. They are backed by the employers so they can

Figure 19: Strike Incidence and Strike Participation Rate of Workers in Long An



Source: Report by Long An Federation of Labour, July 2016

> carry out activities smoothly (Interview conducted on 18 July 2016).

The collective bargaining coverage is 10 per cent and none of the CBAs provided workers with working conditions higher than the minimum standards.[58] The head of the labour-wage division of Long An DOLISA explained the way CBAs are usually developed:

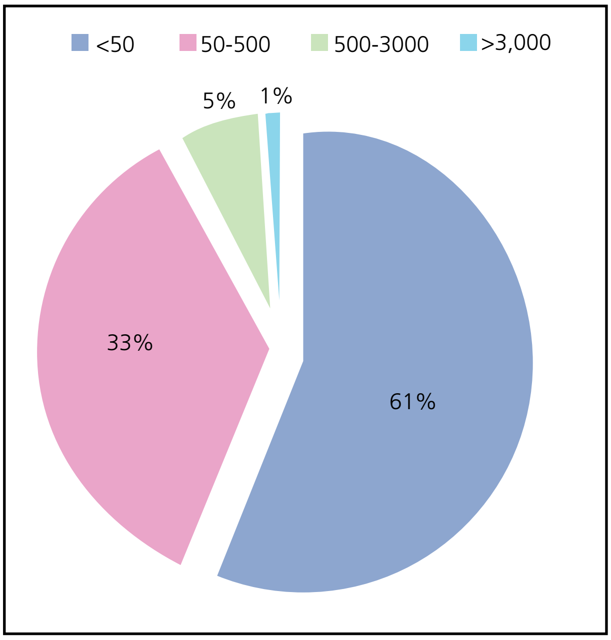
> Collective bargaining agreements are mostly drafted by enterprises' HR office, copying exactly what is stated in the law. We always require at least one condition higher than the legal level but most enterprises do not comply, or just add issues related to family or welfare (Interview conducted on 18 July 2016).

The provincial labour inspection office is overloaded. In total, Long An has 10 labour inspectors, five at provincial and five at district level. Apart from inspection, the labour inspectors are assigned with strike settlement duties. As a result, the chief labour inspector of Long An admitted that they often wait for a strike to last until the third day to intervene as they are short of personnel. In 2015, Long An ranked 8th nationally in the number of labour accidents (201 cases), an increase of 35 cases compared to 2014 and in which 20 cases were fatal.[59]

Da Nang is the centre of Vietnam's central region. Unlike Long An's inclination towards developing labour-intensive manufacturing industries, Da Nang prioritises the service sector. The services industry now accounts for 51 per cent of the city's GDP and is expected to increase to 65 per cent by 2020. Industry is relatively developed with seafood processing and electronics. However, Da Nang authorities have been rigorous in screening investment proposals. In 2015, the city People's Committee rejected 20 per cent of FDI project proposals due to their potential negative impacts on the environment. Da Nang also discourages labour-intensive manufacturing projects such as RMG and footwear. Still, the total FDI attracted by the city doubled that of 2014 to USD44 million.[60] The current investment and industrial policy is a major shift from the city's approach before 2013.

Da Nang has six IZs with 73,188 workers, of which 80 per cent are female and about 40 per cent are migrant workers. The majority of migrant workers are from Quang

Figure 20: Da Nang enterprises by size of labour force



Source: Data provided by Da Nang IZ Administration, July 2016

Nam and Quang Ngai, the two neighbouring provinces of Da Nang. Most enterprises in IZs are SMEs with 94 per cent of enterprises employing under 500 workers and enterprises having more than 3,000 workers accounting for 1 per cent (see Figure 20).

While Long An is a small province, recently transformed from an agricultural province into one hosting developing industries, Da Nang is among the most developed provinces, leading the provincial competitiveness index (PCI) for five consecutive years and predominantly focusing on services with a small number of industrial enterprises.

The period of 2008-2013 was when Da Nang had a lot of labour problems. The city had 23 strikes in these five years, 70 per cent of which occurred in RMG and footwear firms. This was also one of the reasons the city government became reluctant to accept RMG and footwear investment proposals. Since 2013, the number of strikes decreased significantly to one strike in 2015. This was thanks to the active mediation approach by Da Nang Federation of Labour (FOL). The FOL required the district-level unions to report early signs of labour disputes through core workers – a model initiated by Da Nang to keep constant contact with the workers in strike-prone companies. After receiving the information, the DOLISA and FOL approach the enterprise and initiate mediation before the dispute escalates to a strike. Thus, it is unlike Long An where the strike taskforce waits about one to two days after a strike occurs to start resolution.

The FOL is active in collective bargaining: 78 per cent of unionized enterprises have signed collective bargaining agreements at enterprise level, in which all enterprises with more than 500 workers have signed. Most CBAs included provisions for subsidies, allowances and benefits for workers. Da Nang is also the first province to conclude a multi-employer bargaining agreement in the tourism industry. In establishment of trade unions, Da Nang is the only city in the country that set a target for bottom-up unionised enterprises at 30 per cent of the overall union organising quota set by the national union organisation.[61] Unlike the approach of Long An FOL, in which the traditional approach is applied first before changing to a bottom-up approach when meeting with difficulties, Da Nang encourages upper unions to apply the bottom-up method first and only apply the traditional method if it is too difficult. Da Nang FOL is preparing a plan to nurture rank-and-file workers into union leaders by fostering skills and professional knowledge.

Da Nang government is well-known as the most responsive provincial authority to the businesses and local people in Vietnam. Every month, the city's leadership meets with all departments together with the representatives from the districts and the business community. The provincial administrators, therefore, are pressured to find ways to actively cooperate and resolve issues raised by the people and enterprises with the city People's Committee.

Apart from inspection, the labour inspectorate provides legal counselling and mediation for individual disputes (collective disputes and strikes are handled by the provincial strike taskforce). Da Nang labour inspection force has seven staff comprising three inspectors and four contract staff (who have not received special training). Therefore, the labour inspection force is always overloaded and often has to work overtime. Under these circumstances, the labour inspectors actively pushed for enterprises to self-check via forms. In 2015, the labour inspection has issued 500 self-check forms to enterprises, with a high participation rate of 80 per cent.

The comparison of Da Nang and Long An sheds light on two different aspects of industrial policy and labour standards in Vietnam: on the one hand, it proves that there is a serious shortage of national coordination of provincial policies and practices which has driven the disparity among provinces as well as the divergence of provincial policies from the national one. Increasing decentralisation undoubtedly reduces the impact and effectiveness of any national policy. On the other hand, the case of Da Nang shows that strong industrial policy with a clear and selective investment approach does not necessarily reduce FDI inflow. At the same time, in order to prevent labour problems which may damage the investment environment of the city, Da Nang authorities has been active in strengthening labour inspections while reinforcing the local trade union system. In the meantime, Long An's lack of a clear industrial policy and unselective investment approach have resulted in the deterioration of the labour standards in the province despite the annual growth of FDI.

Way forward for Industrial Development in Vietnam

After a long period of low growth from 2008, Vietnam's economy has shown signs of weak recovery.[62] However, with the prospects for TPP ratification dimming, Vietnam is facing increasing competition from Cambodia, Bangladesh and Myanmar in terms of labour costs. The garment suppliers interviewed for this research already saw orders from brands reducing as the brands have shifted production to Cambodia and Bangladesh due to their much lower tariffs to Europe and the United States.

Aware of the need to move away from the low-cost-labour-intensive development model, the Deputy Prime Minister Pham Binh Minh, at the Vietnam Summit in November 2016, said it clearly:

> Our economy has always relied on low labour cost and large investment. Now, Vietnam can no longer rely on these factors for development. We need a new development model that builds upon high productivity and knowledge.[63]

Despite the government's determination, it remains unclear how they will tackle the existing obstacles such as the growing decentralisation of the government, unselective FDI policy, lack of motivation for industrial upgrading and technological transfer, and widespread corruption.

Trade unions' and allied civil society organisations' vision of a sustainable and fair model of production

Overview of the Vietnam General Confederation of Labour and sectoral unions in garments, footwear and electronics

According to figures provided by the VGCL,[64] the total membership increased from 7.3 million to 8.9 million between 2011 and 2015 and the number of enterprise unions rose from 108,302 to 113,000 in the same period with 70.1 per cent in public agencies and SOEs. As the total number of wage earners in Vietnam is 18.7 million,[65] the national union density is 47.5 per cent. However, the union density in the private and foreign-owned sector is only 33 per cent in 2014, much lower than the union density of 76 per cent in the SOEs (World Bank 2015). Since the Vietnamese government is gradually "equitising" SOEs and this will be reinforced by the upcoming free-trade agreements that will create a level playing field between state-owned, private Vietnamese and foreign enterprises, pressure is growing on the VGCL to learn how to organise in non-state enterprises.

The centralised structure of the VGCL is complicated, with branches in all 63 provinces and sectoral trade unions in 22 sectors. Except for the state-owned corporations that have already belonged to the sectoral unions, most of the rest are registered with the FOLs in their locality. Among the sectoral unions, the most prominent may be the Vietnam National Union of Textile and Garment Workers (VNUTG). The VNUTG was only established in 2007 since it was part of a larger general union before. Its membership comprises 136,000 members coming from 111 enterprises. However, about 80 per cent of its membership comes from the state-owned VINATEX, the state-owned textile and garment group and 20 per cent are private Vietnamese companies, almost none in FDIs.[66] However, there are thousands of other textile and garment enterprise unions that are not in the constituency of the VNUTG but affiliated directly through district or provincial chapters to the VGCL. This is also the case with the footwear and electronics sectoral unions. Sectoral trade union representation, therefore, is fragmented and divided among various provincial federations of labour and the sectoral unions without effective coordination among these branches.

Civil society organisations in labour issues

The right to associate is granted by the 2013 Constitution (Art. 25) but the Law on Association which has been drafted, re-drafted and discussed for over 10 years has not been approved. NGOs in Vietnam must be registered under a government-controlled association and their work and plans must be approved by the competent authority. There are very few NGOs working on labour issues in Vietnam, most of which focus on supporting disadvantaged workers in the informal sector (FWF 2015). NGOs are not allowed to engage in union organising.

New wine old bottles? Union reform under strict control

Vietnam's commitments to allow for freedom of association under the US-Vietnam Consistency Plan in the TPP were widely publicised after Vietnam signed the TPP in 2015, raising high expectations among the public while creating pressure on the VGCL. Consequently, the VGCL has been vocal about reforming itself to become more representative of workers, especially those in the non-state exporting firms. For example, the VGCL is pushing for collective bargaining both at enterprise and higher levels. Three multi-employer agreements in tourism, garments and electronics were concluded recently, proving the VGCL's determination to experiment with solutions for reform. The national union also encourages its branches to adopt the bottom-up organising approach in parallel with the traditional top-down one. According to a recent evaluation report of the ILO Industrial Relations Project (ILO IR Project 2016), the outcome of these reform initiatives remains limited as the provincial unions are reluctant to change into the new approaches without strong incentives from the central union.

In January 2017, just a few days before President Trump announced the US withdrawal from the TPP, the Politburo of Vietnam issued Resolution 06, in which the Vietnam Communist Party (VCP) recognised 'worker organisations' (or independent unions) along with the unions under the VGCL.

In the meantime, the government has shown no sign of relaxing its scrutiny and suppression of labour activists and their attempts to set up independent unions. For instance, right after Vietnam's Prime Minister announced the country's labour commitments within the TPP, a few labour activists were arrested and beaten while they were trying to organise workers in Dong Nai[67]. The latest draft of the Law on Associations is regarded as a step backward as it includes mostly limitations on the rights of local associations to affiliate and receive support from international organisations[68]. All these developments suggest that although the government of Vietnam realises the need to revise the labour system, improve the capacity of the VGCL and allow for independent unions, it will retain absolute control of the whole process with little tolerance of the dissident and independent voices.

Sustained corporate management and production within global supply chains: the business

Brands: Between Business Models and CSR strategies

CSR Strategies

The brands interviewed for this research included those most active in pushing for CSR standards in their supply chains in Asia. Their CSR approaches widely vary: some brands regard labour standards audits of suppliers as a social responsibility without any connection to their purchasing practice. The country CSR manager of an American sportswear brand said: "We conduct CSR audits and inform the procurement team. We have no idea about how prices are determined. It's another department's job." If violations of labour rights are found, the brand will give a warning to the supplier and require corrective actions in 3-6 months; yet, labour rights violations rarely result in cessation of a business relationship with the brand. A few other garment brands, however, have taken things one step further by linking the CSR performance of the suppliers to the amount of orders. H&M and Inditex have participated in voluntary initiatives for triangular bargaining with their suppliers and the trade unions in the exporting countries.

When comparing the impacts of the CSR approaches of brands on the supply chain in the three industries, it becomes clear that the openness of the supply chain correlates closely with the effectiveness of CSR strategies. The garment industry is the most open among the three industries as each supplier tends to work for many different brands; also, the garment brands are under much more public scrutiny to guarantee the compliance with labour rights in their supply chain. The CSR audits, therefore, are conducted both by the brands and the third-party auditors.

The footwear supply chain is less open as each supplier produces for only a few major brands due to fierce competition among the brands themselves. For instance, if a footwear factory supplies to Nike, it is not likely to supply to Adidas and vice versa.[69] CSR audits are usually conducted by the brands. The public scrutiny of the footwear brands has increased significantly in the past decade after cases of child labour and mistreatment of workers found among Nike suppliers in Vietnam as well as large-scale wildcat strikes including those at the world's biggest footwear manufacturer, the PouChen Group. Still, the suppliers' violations of labour rights have little impact on their business relations with the brands. The brands also control the sub-contracting practice of their 1st tier suppliers.

The electronics supply chain is the least open one with a few major brands dominating the whole industry. For this research, we visited a South Korean brand's supply chain in the North of Vietnam which comprises 108 suppliers, 90 per cent of which are South Korean firms and only 10 per cent Vietnamese. The electronics brands apply the Electronics Industry Code of Conduct (EICC) to check on the sustainability standards in their suppliers every quarter. When violations are found, the brand does not adopt sanctions in a consistent way: the "core suppliers" which are either owned by the brand or are important for it, are given only oral warnings while the non-core ones suffer from reduction of production orders. Company E2, for instance, was found having excessive overtime and within six months, due to the reduction of orders from the brand, the factory had to reduce their labour force from over 1,000 to 150 workers. By contrast, company E3 had a more serious violation of the overtime limit but as it is owned by the brand, it was given warnings without negative impacts on the orders from the brand. Access to the brand was almost impossible. Neither the workers nor the suppliers are allowed to publish information about the sustainability standards inside the supply chain.

Business Models

The Rana Plaza incident highlighted the serious limitations of the brands' CSR strategy in upholding labour rights in their supply chains. As found by Wilshaw et al (2015) in a study of the supply chain in Vietnam of Unilever, the key to the constraints of CSR initiatives, no matter how hard the brand has been pushing for it, lies in the heart of the business model of the company itself. A company that competes on the basis of low price and fast product is less likely to invest in long-term relationships with its suppliers and tends to emphasise cost-cutting measures. While a company that competes more on quality, high-end products prioritises sustainability in its supply chain.

This study found two different business models being used by a Japanese brand and an American brand sourcing from the same Vietnamese garment supplier (G4). The American brand sells low-price, fast-fashion products. Its orders are large volume with relatively simple and easy product specifications. With a cost-cutting strategy and little need for high technology, the American brand has been changing their suppliers frequently in search of the lowest-cost ones. The Japanese brand, on the other hand, was much smaller in order volume with high-end, complex and sophisticated products. As a result, the Japanese brand invested in technological transfer and labour upskilling. Because technology was transferred at the expense of a Japanese company (primarily through regular on-site consultation processes by Japanese technicians to Vietnamese suppliers), it had strong incentives to maintain a long-term buyer-supplier relationship (15 years in the case of supplier G4). The Japanese company even provided a low-interest loan to G4 when the company had financial difficulties in 2012. The American brand applied a fixed CMT price on the supplier with no negotiation. The price is so low that as admitted by the director of G4, the profit margin is under 5 per cent. The Japanese brand negotiates new prices every year with G4, paying 3-4 times higher for similar product lines. Although the Japanese brand is important to their business, G4 still needs orders from the American brand to ensure sufficient work for its labour force.

In terms of labour and environmental standards, the American brand conducted annual audits, gave warnings if violations were found but rarely followed up on the supplier's response. The Japanese brand sent their specialists to coach the supplier on how to improve their performance.

This case proves that the CSR practices of a brand can only be effective in improving labour standards if it is in line with the business model the company is pursuing. A business model based on low-cost and fast-changing products will hardly result in genuine efforts to uphold labour standards in the supply chain. As the CSR manager of a European brand put it:

> For us, there is hardly a linkage between labour standards and business performance or profitability. Violations of labour standards are the risks that we have to prevent (Interview in August 2016).

In other words, she believed that the compliance with labour standards hardly has any positive impact on business performance; consequently, the brand treats CSR policy as a preventive measure against possible social risks (which are the suppliers' violations of labour standards) rather than embracing labour standards in their business model.

Brands, however, are the immediate beneficiaries of tariff reduction due to free trade. It is estimated that the US brands will save USD1.8bn from tariffs on imports from Vietnam after the TPP takes effect while the European fashion brands will benefit Euro 400m thanks to EVFTA (Schweisshelm 2015). When the CSR approach has been proven to be ineffective and contradictory to the business model of low-cost and fast-fashion brands, it is time for these brands to make more meaningful contributions to upholding the labour standards in the countries they are sourcing from. In other words, labour standards should not be treated as just potential "risks" but integrated into the supply chain management and procurement strategies of the brands.

Employers' organisations in Vietnam

Employers in Vietnam do not have strong coordination. The Vietnam Chamber of Commerce and Industry (VCCI) is the biggest employers' organisation with 2,000 member companies and represents the employers' voice in national fora. But the VCCI has weak connections with the foreign business associations and Vietnamese SMEs with only seven local branches.

At the industry level, the associations of garments (VITAS), footwear (LEFASO), and electronics (VEIA) focus mostly on trade promotion and have only recently become more active in policy advocacy via the coordination of the VCCI. VITAS, for instance, has a permanent seat in the National Wage Council. These industry associations, however, include mostly former SOEs and large-sized private domestic firms while the foreign-owned ones are committed to their national associations such as the Korean Business Association, Japanese Business Association, and Taiwanese Business Association.

The prospects of both the TPP and EVFTA in 2014 and 2015 lured major investments from Taiwan, Hong Kong, South Korea and mainland China into material processing firms in Vietnam in response to the rules of origin. In 2015 alone, the garment industry received USD1.4bn of foreign investment, mostly into yarn spinning, dyeing, and textiles. When the United States withdrew from the TPP, although Vietnam still placed high hopes on the EVFTA, apparently, the country suffered from certain adverse impacts. First, some foreign investors prepared to withdraw their investment as the prospects for reduction of tariffs to TPP countries were dimming. Second, the domestic suppliers now face with even fiercer competition from new and big foreign-owned producers. The domestic garment factories in this study, for instance, complained that in 2016, they lost from 20-40 per cent of production orders to the foreign-owned competitors. Third, the brands have shifted parts of their production from Vietnam to Bangladesh, Myanmar and Cambodia due to the differences in tariff rates. The average export duty of Vietnamese products to the US and the EU is 7.5 per cent and 9 per cent respectively; meanwhile the less developed neighbouring countries enjoy the duty rate of 0 per cent (Foote 2016).

Consequently, the domestic companies face two major challenges at the same time after the TPP failed: on the one hand, they are under strong competitive pressure from the growing FDI sector and higher risks of marginalisation from the GSCs; on the other hand, the whole manufacturing industry of Vietnam, including RMG, footwear and electronics, must have an upgrading strategy to move up the global value chain while compensating for the high export duty obstacle. In so doing, the government's industrial policy plays a crucial role (Goto 2007). The horizontal and selective industrial policy should not only focus on the legislative aspects but more importantly on monitoring, implementation and evaluation of the industrial policy to correct it in case of mistakes (Herr et al. 2016).

Towards common interests

As discussed in this report, each stakeholder has been pursuing their own interests which are sometimes contradictory. The low-cost, fast-fashion business models of many brands in garments, footwear and electronics are putting downward pressure on their supply chains to minimise costs and increase productivity. Such a procurement strategy, however, contradicts the CSR requirements they imposed on the suppliers, which tends to push the production costs of the suppliers up. The (domestic) suppliers that embrace a sustainable approach to labour rights, instead of being rewarded by the brands, are facing more business difficulties and shrinking profit margins.

In the meantime, while Vietnam is integrating deeply into the global economy through the recent FTAs, the country lacks a comprehensive and effective industrial policy. Increased international trade with Vietnam's current industrial structure threatens to prevent industrial upgrading and economic catching-up. The government continues to be cautious in granting freedom of association to the workers and seems to plan a half-way reform of the labour legislation.

On the bright side, however, the good practices found in this study suggest that there can be a "high-road" strategy in which every stakeholder can ensure their interests while not damaging the interests of others. For instance, the shift in the industrial and investment policy of Da Nang showed that the province can prevent labour-intensive, polluting projects and increase FDI investment at the same time. On the other hand, to attract clean and high-tech investment, Da Nang had to strengthen its labour relations system to prevent labour conflicts. The Japanese garment brand's sourcing strategy is the evidence that long-term relationship between the brand and suppliers can benefit both parties and result in labour upskilling and better labour standards. It was also the case of the former SOEs in the garment industry, which, despite their narrow profit margin, have been committed to a sustainable approach to labour standards. In pursuit of such a high-road strategy, the next section will summarise the key findings and make recommendations for the stakeholders accordingly.

Conclusion and Policy Recommendations

Summary of Key Findings

This study has attempted to depict a complicated and multi-dimensional picture of labour standards in the GSCs of garments, footwear, and electronics within the context of international trade regimes and the national industrial development of Vietnam. The key findings from the research are:

1. The RMG, footwear, and electronics supply chains are characterised by a "monopsony relationship" between the brands and the suppliers in which the brands dictate the purchasing prices and in which suppliers participate in the value chain.

2. The monopsony power of the brands is less intense in the garments and footwear industries, compared to the electronics industry due to the variety of brands in garments and the domination of a small number of brands in electronics.

3. As a result of the monopsony of the brands, the assembly supplier gets the smallest share in the GSCs, which forces them to lower labour costs even more.

4. Labour cost is a "take it or leave it" situation, rather than a factor of negotiations between the brands and suppliers in all three industries.

5. The suppliers responded to price pressure from the brands by increasing factory efficiency and minimising labour costs. The result was that many workers lost their jobs and those that remained had to work harder without a commensurate increase in pay.

6. The conflict between the business model of low-cost, fast-fashion brands and CSR standards prevents the brands from making genuine efforts towards improving sustainability standards in their supply chains. The conflicting pressures from the procurement and CSR strategies of the brands have gradually driven out the suppliers with good labour practices (but who were unable to keep costs down), while encouraging those with lower labour standards to minimise labour costs.

7. Apart from the brands, the vendors[70] and major 1st tier suppliers played a critical role in intensifying the downward cost pressure on their subcontractors.

8. Despite the cost pressure from the brands, the domestic suppliers chose to adopt a more sustainable approach to labour standards than the Foreign Direct Investment (FDI) firms. The study found that the actual working conditions and wages of workers in the supply firms did not necessarily correspond to the factories' value-added or profit margin. The Vietnamese enterprises, especially the former state-owned enterprises (SOEs), were found to have better labour practices than the FDI firms, despite their profit margin being the lowest in the supply chain. In particular, the former SOEs in the garments industry were paying workers higher than the FDI firms, invested more in labour upskilling, provided a wide range of labour management communication and grievance mechanisms, and offered more generous welfare benefits. The rank-and-file workers in the FDI firms of all three industries had little chance or incentive to improve their labour skills. The wages of workers in FDI firms depended more on attendance and seniority than on individual skills and productivity.

9. Compliance with labour standards was the best in the garments industry, followed by the footwear industry. The situation in the electronics industry was the worst, especially in the areas of occupational safety and health (OSH), working hours, and living wages.

10. The supply chain in the garments, footwear, and electronics industries in Vietnam was dominated by the East Asian suppliers, while the domestic firms participated mostly at the 2nd tier level.

11. However, as this study found, while most FDI firms in the three surveyed industries have shown little interest in labour upskilling and kept wages and working conditions at minimum levels, the domestic firms are more attached to the local labour force and tend to have a more sustainable approach to

labour standards. Increasing the participation of the domestic firms in the GSCs in the key exporting industries, therefore, tends to have positive impacts on the labour quality and labour standards for workers in these sectors.

12. Vietnam's industrial policy has been largely ineffective. Without an effective industrial policy, more international trade threatens to deepen under-development and prevent economic catching-up (Herr et al., 2016). One of the key reasons for the ineffectiveness of Vietnam's industrial policy was the high level of decentralisation. The study found significant divergences among provinces in terms of industrial, investment and labour policy, as in the cases of Long An Province in Southern Vietnam and Da Nang Province in Central Vietnam.

13. Strong industrial policies and selective investment strategies are conducive to better labour standards. By comparing the investment and industrial policies of Long An and Da Nang Provinces, the study found significant differences between the two provinces which have led to diverging approaches to labour standards. On the one hand, Long An Province strived to attract FDI quickly and unselectively, while not investing enough into the strengthening of labour administration, inspection, and trade unions. On the other hand, Da Nang Province took a high-road approach. The province had strong industrial policies with a clear and selective investment approach, while still maintaining high FDI flows into cleaner and higher-technology industries. At the same time, in order to prevent labour problems that may damage the investment environment of the city, the authorities in Da Nang Province have been active in inspecting labour conditions, while also strengthening the local trade unions.

14. By the end of 2015, after years of negotiations, Vietnam concluded two important Free Trade Agreements (FTAs) in parallel: the Trans-Pacific Partnership (TPP) with the United States, and the FTA with the European Union (EVFTA). At the time of publication of this report, the EVFTA still awaits ratification while in January 2017, President Donald Trump withdrew the United States from the TPP. Still, the two agreements have shown some initial impacts, as the Vietnamese government is committed to revising the legislative framework, including recognition of independent unions, including the Labour Code, in compliance with international labour standards to integrate deeper into the global value chain.

Policy Recommendations

As discussed earlier, although what has been found by this study showed a downward trend in labour standards in the GSCs in Vietnam, the good practices found also prove that it is possible for the stakeholders to embark on a "high-road" strategy. Steps towards a high-road strategy include:

International trade regimes:

- A combination of the sanction-based and promotional approaches in FTAs will encourage genuine commitments by exporting countries to improve their sustainability performance
- The domestic advisory group should include independent civil society organisations. In countries where freedom of association is suppressed, the trading partner should put pressure on the exporting country's government to allow for independent members of the domestic advisory group
- Support for the exporting countries in developing a stronger industrial policy and industrial upgrading strategy

National government of Vietnam:

- Revise the industrial and investment policy by providing better financial and policy support to the domestic sector, limiting FDI investments into polluting, low-tech industries, obligating the FDI to make technological transfer, investing into labour upskilling and industrial upgrading
- Reform the labour system, particularly by: strengthening the labour inspection system, reforming the VGCL to make it more responsive to members, revising the strike provisions, allowing independent unions
- Acknowledge and open up the space for civil society to grow
- Foreign firms should not be privileged in comparison to domestic firms

- More common rules for FDI to prevent a race to the bottom by competing regions in Vietnam to attract FDI
- Government should systematically search for possibilities to support the upgrading of value chains
- Government should strengthen employers' organisations in addition to unions
- Government should create institutions which organise free information flow between all stakeholders and discuss strategies and policies for upgrading
- Strategies should permanently be checked and such institutions should be free of corruption
- Industrial policy should be within the responsibility of the prime minister or a leading ministry with power and responsibility

Brands:

- Link sustainability performance of suppliers to the allocation of production orders, that is the suppliers with better sustainability performance should receive more orders
- Develop the core supply chain and invest in supporting the suppliers in industrial upgrading and upholding labour standards (through training and coaching)
- Participate in dialogues/bargaining with trade unions and suppliers
- Increase third-party/independent monitoring of the supply chain, especially the indirect suppliers
- Increase skill and technology transfer
- Coordination among different Asian countries to enforce common standards for suppliers at different levels of the value chains

Notes

1. The research is conducted by Do Quynh Chi together with the research team of the Research Center for Employment Relations (ERC).
2. Vendors are the intermediaries that take orders from the brands and subcontract to different factories.
3. HEPZA, "Chính sách ưu đãi đầu tư. Ưu đãi thuế", Last accessed February 24, 2017, http://www.hepza.hochiminhcity.gov.vn/web/guest/84.
4. Huyền Thư, "Đề xuất ưu đãi đặc biệt cho Samsung Thái Nguyên", VnExpress, November 11, 2014, http://kinhdoanh.vnexpress.net/tin-tuc/doanh-nghiep/de-xuat-uu-dai-dac-biet-cho-samsung-thai-nguyen-3110403.html.
5. There is no universal definition to distinguish between the garment and textile industries. This chapter refers to "garment, which is also called wearing apparel and clothing [so called Ready Made Garments as] the main final product of the textile industry. Though the industry does have other final products, […] their amount in terms of both consumption and production, are far smaller than the garment, in terms of both quantity and value. Broadly, the textile industry includes the entire production process for final products from fibres […]. In the narrow sense, the textile industry contains only spinning, weaving, and knitting, namely the process that make thread/yarn and fabrics from fibres." Fukahiro, Fukunishi; Yamagata, Tatsufumi, 2014. Introduction: The Dynamism of the Garment Industry in Low-Income Countries. In: Takahiro Fukunishi et al. (IDE-JETRO). 2014. The Garment Industry in Low-Income Countries. An Entry Point of Industrialization, p. 4-5.
6. International Labour Organization, "Conventions", last accessed February 24, 2017, http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12000:0::NO:::.
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8. Trans-Pacific Partnership (TPP): Winners and losers, Standard Chartered Bank, 2015.
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13. In 2012, the bank interest rate peaked at 15 per cent.
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15. FES-VGCL Survey of garment and footwear supply chain, 2015.

16. Interviews with Zara Procurement Team, September 2016.
17. Link: http://otexa.trade.gov/msrpoint.html
18. Interview with the deputy director of G8, 26 July 2016.
19. The bank interest rate in Vietnam in 2015 and 2016 ranged from 6-7 per cent/year.
20. Interview with the deputy director of G7, 25 July 2016.
21. Ibid.
22. For this purpose, we used the living wage benchmarks produced by ISEAL Alliance following Ankers methodology (Anker and Anker 2015).
23. For detailed discussion of labour standards in these firms, please go to Section 3.
24. Footwear refers to all garments worn on the feet made of a wide variety of materials (textile, plastics, rubber, and leather) and products ranging from different types of men's, women's, and children's footwear to more specialised products like snowboard boots and protective footwear. However, this study focuses only on the production of athletic footwear (or sports shoes).
25. Local content value is defined as the value of materials and parts produced in Vietnam as percentage of the total value of materials and parts used to produce the final product (VITAS 2016).
26. This information was collected based on indirect interviews, that is we would ask the sub-contractor about the profit margin of the direct suppliers sourcing from them and ask one direct supplier about the profit margin of their competitors because none of the footwear suppliers were willing to tell us their own profit margin. We then combine the information collected through interviews with the information from previous studies (UNIDO 2000; Solereview 2015) to work out the best possible estimates.
27. Formula used to calculate the cost of manufacturing: Cost of Manufacturing = (Operating cost per day per machine* SAM)/(Target Efficiency per cent * Working hours * 60) Product SAT: Standard time of the garment. Standard time of a garment is measured by using Bespoke time and motions study or Synthetic Data.
    Target Efficiency: Target efficiency percentage is at what percentage you are expecting running a specific product and order quantity.
    Operating Cost per day/machine: Operating cost is factory running cost. Operating costs are all costs incurred to run the business other than material cost. Calculate monthly operating cost and then calculate daily operating cost. Calculate per machine operating cost.
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42. Global Slavery Index: Rank of countries by prevalence of population in modern slavery. Modern slavery involves one person possessing or controlling another person in such as a way as to significantly deprive that person of their individual liberty, with the intention of exploiting that person through their use, management, profit, transfer or disposal. The higher the ranking, the worse the situation of slavery.
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