

# Vietnamese Textile and Garment Industry in the Global Supply Chain: State Strategies and Workers' Responses

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**Abstract:** This paper examines the development of textile and garment manufacturing in the context of the prevailing arguments on pursuing market-oriented liberalisation and state directed domestic linkages, and the impacts of these developments on unions and workers in Vietnam. Despite rapid growth in exports and employment, the empirical evidence shows that market-oriented integration in the global economy has limited firms' operations to low value-added activities and workers to toil for non-livable wages. The global supply chain has also exposed firms and consigned workers to the vicissitudes of volatile fluctuations in demand causing retrenchments, substandard working conditions and a vicious circle of underdevelopment and poverty. Albeit limited the state-controlled Vinatex has managed to promote domestic linkages in Vietnam, suggesting that the industry can actually be restructured to absorb higher value-added activities. A shift to upgrading activities, including learning and skills training, is essential to support improvements in wages and working conditions.

**Keywords:** garment, linkages, markets, subcontractors, suppliers, textile, unions, workers

**JEL classifications:** I38, J31, L67, L78

## 1. Introduction

The strategy to create a complete chain of five stages – cotton-fiber-weaving-dyeing-sewing (bông-sợi-dệt-nhuộm-may) – went into full swing with a media spotlight on the major state textile corporation's plan to increase domestic content requirements in 2011.<sup>1</sup> What is behind the interest to create linkages especially when Vietnam's Textile and Garment Industry (VTGI) operates

primarily as subcontractors for global brand names and their suppliers, using 70 per cent of their fabric inputs from imports?<sup>2</sup>

The VTGI is an interesting case study to examine both the development of a labour-intensive industry, as well as its impacts on workers, especially when the East Asian economies of Korea and Taiwan have been considered to have achieved rapid growth through the promotion of labour-intensive industries. Also, the VTGI contributes significantly to exports and employment. Since joining the WTO in January 2007, Vietnam has become a major exporter of textiles and garments.<sup>3</sup> Vietnam placed 7<sup>th</sup> among garment exporters in 2011 with exports reaching US\$13.5 billion.<sup>4</sup> The industry employed over 2 million workers in 2010.<sup>5</sup>

This article builds on a previous study's analysis (Tran, 2004) and focuses on developments since 2004. It uses secondary publications, as well as interviews with government officials, business associations, union representatives, scholars/researchers, managers and workers from 16 small and medium enterprises (SMEs)<sup>6</sup> to analyse impacts of the industry on workers. Section two presents the two leading debates on the promotion of the industry in Vietnam, followed by an analysis of the industry's integration with the global economy in section three. Section four examines efforts by Vietnam's leading textile and garment corporation to promote linkages. Section five assesses the role of trade unions in the labour process. Section six discusses the impacts of these developments on workers. The final section presents the conclusions.

## **2. Theoretical Considerations**

Two main debates dominate discussion on the promotion of the textile and garment industry in Vietnam, namely, the neoclassical approach of leaving it to free market/free trade and static comparative advantage, and the structural approach of promoting domestic linkages.

The market advocates Riedel and Turley (1999) encourage participation in international trade to specialise in export-oriented products on the basis of comparative advantage, while importing intermediate inputs. Hill (1998: 42-43, 57) argued for Vietnam to pursue an open-economy so that firms could buy inputs at internationally competitive prices. However, participating in free trade does not take place on a level-playing field as assumed by these market-based economists. Where a country is situated in the global supply chain determines whether it can source inputs at internationally competitive prices. I argue that the power asymmetry in the global supply chain severely restricts Vietnam's ability to "buy inputs at internationally competitive prices" to raise competitiveness.

The structural approach provides an alternative framework to create and develop backward and forward linkages for long-term economic development. Successful economic development has been shown to be achieved through

the promotion of dynamic comparative advantage (Hirschman, 1958; Gerschenkron, 1962; Kelegama and Foley, 1999; Gereffi and Korzeniewicz, 1994; Reinert, 2007). The Ministry of Industry and Vinatex (which is the leading state textile/garment corporation) supported the promotion of backward and forward linkages. Hirschman (1958) advocated the development of linkages by connecting between domestic industries, and building domestic and export markets to enable economies of scale for domestic products. The government plays an important role by using leverage to stimulate linking investment to knowledge bases, learning, and technology transfer (Gillis *et al.*, 1992; Rasiah, 1995, 2011).

Given the power asymmetry facing latecomers such as Vietnam and the difficulty of pursuing industrial policy, the VTGI is still characterised by groups in the policy circle seeking market liberalisation, while others promote domestic linkages.

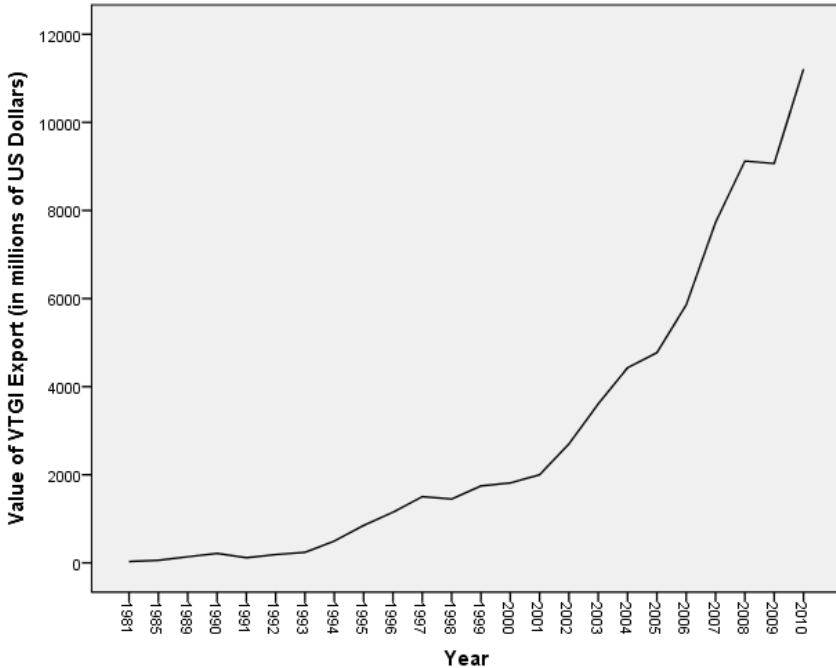
### **3. Global Integration**

The nature of integration within the global economy has created at least three tiers. At the top level (tier 1) are the foreign corporate buyers and brand name holders who place orders to contract suppliers (tier 2). Tier 2 suppliers manage production operations in Vietnam. Most tier 2 firms are from East Asian countries. They produce for tier 1 and also subcontract work to tier 3 firms. Vietnamese-owned factories largely operate as tier 3 subcontractors. The relationships between tier 2 and tier 3 producers are not always transparent, which can lead to difficulties in monitoring and thus violations in labour and environmental standards.

Most tier-2 factories in the VTGI are from Korea, which had 380 projects (with US\$1.7 billion in registered capital), 370 textile/garment factories, which accounted for 18 per cent of total textile and garment factories in Vietnam in 2010.<sup>7</sup> Taiwan had 240 textile and apparel projects (total registered capital of US\$2.35 billion) while Hong Kong had 80 projects and Japan 60 projects.<sup>8</sup>

Textile and garment exports have risen, although the value-added recorded in Vietnam has remained small. Starting in 2009, textile and garment export ranked the highest (US\$9.07 billion), surpassing crude oil export (US\$6.2 billion) and footwear (US\$4.07 billion).<sup>9</sup> VTGI exports in 2010 reached US\$11.2 billion.

By export markets, the US ranked top with over US\$6 billion, the EU came second with US\$1.8 billion followed by Japan with US\$1.2 billion in 2010. Figure 1 shows exports of VTGI over the period 1981-2010. It can be seen that exports rose strongly from 1994, and with the exception of 2009, steeply from 2001.

**Figure 1: Vietnamese Textile and Garment Exports, 1981-2010**

Sources: *Statistical Yearbook of Vietnam* in various years (1990, 1995, 1999, 2000, 2001, 2002, 2007, 2010, 2011).

### 3.1 Reforms and International Agreements

The lifting of the US trade embargo in 1994 started off strong exports. Nevertheless, garment exports had already started to rise due to domestic policies aimed at opening up Vietnam to integrate with the global economy. For instance: in January 1991, the state introduced the Company Law and the Law on Private Enterprise; in February 1992, Vietnam established the first export processing zone (EPZ) near Ho Chi Minh City (the Tan Thuan EPZ) over an area of 300 ha; in 1992, the state opened the first joint venture bank and signed co-operation and trade agreements with Korea and Japan. Consequently, FDI grew very rapidly between 1991 and 1997, of which a portion was in garment production. Then, possibly affected by the Asian financial crisis, exports first dropped slightly (1997-8) and slowed down in the early 2000s.

Garment production began to accelerate from 2001-02 (Figure 1) following the signing of the Bilateral Trade Agreement (BTA) with the United States in July 2000, accounting for 55 per cent of Vietnam's textile and garment export revenues.<sup>10</sup> This upsurge preceded the signing of the Vietnam-US Textile

Agreement (VUTA) in May 2003. Under the BTA, Vietnamese exporters were given temporary normal trade relations (NTR) with the United States, which lowered tariffs from 40 per cent to 3 per cent on most imports, as well as lowering Vietnamese tariffs on US exports (Semones, 2005: 35-36). In essence, the BTA restored the “most-favored nation” (MFN) treatment between the two countries.

The signing of the VUTA in May 2003 has had some effect on the development of the VTGI. The agreement set the quotas on 38 out of 120 Vietnamese apparel and textile product categories, which were to grow by 7 per cent a year, valued at US\$1.7 billion a year (Semones, 2005: 38). Firms complained about the quota limits imposed by the agreement (Tran, 2004: 170), and these were removed following Vietnam’s accession to the WTO on 11 January 2007.<sup>11</sup> Since joining the WTO, firms in Vietnam have faced competition from the big exporters from China, India and Bangladesh.

### **3.2 Domestic Content**

From negative balances, net exports became positive since 2004 (Table 1). In the first 6 months of 2011, the prices of imported fabrics increased a lot more than the prices of finished apparels. Out of US\$6.16 billion of export value, US\$4 billion worth of imported fabrics (65 per cent) were used in these garment exports. According to Lê Tiến Trường (the Vice President of Vinatex), the value-added that remained in Vietnam is just \$2.16 billion (about 35 per cent).<sup>12</sup>

Most Vietnamese producers subcontract for corporate buyers in the global supply chain, using imported inputs (cotton, fiber, fabrics and other materials) and machinery. Overall, the domestic content ratio has remained low, though imported cotton, fabrics and other materials fell in 2008-09. Further research is needed to examine whether this import reduction was replaced by domestic production of cotton and fabrics.

Cut, make and pack (CMP) contracts still dominated in 2011, in which most value-added is derived from low wage assembly of imported materials. This is not as desirable as the Freight on Board (FOB) contracts in which they can source/buy, and thus benefit from the inputs (primarily fabrics).

Vietnamese producers cannot source inputs under CMP contracts; this fact undermines the usefulness of market-based arguments. Interviews with leaders in Vinatex and associations for management such as the Vietnam Textile and Apparel Association (VITAS), and the Ho Chi Minh City Textile/Garment/Embroidery Association (AGTEK) confirmed that low value-added garment assembly for export still dominated exports from Vietnam. Interviews show that over 70 per cent of inputs are provided by the tier-2 suppliers or brand holders.<sup>13</sup> Thus, beyond price, it is very difficult for the Vietnamese producers to break into this well-established relation between the brands and their suppliers.

Table 1: Imports and Exports, VGTL, 2000-2009 (US\$ million)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Cotton	90.4	115.4	111.6	105.4	190.2	167.21	219.0	268	468	395
Fiber	237.3	228.4	272.6	317.5	338.8	339.59	544.6	744	788	896
Fabrics	761.3	880.2	1,523	1,805	1,927	2,399	2,984	3,980	4,454	4,212
Auxiliary materials*	1,194.7	1,397.9	1,513.4	1,825.9	1,724.3	1774.2	1,952.0	2,152	2,376	1,932
Import**	2,283.7	2,622	3,421	4,054	4,180	4,680	5,700	7,144	8,086	7,435
Export	1,891.9	1,975.4	2,732.0	3,609.1	4,385.6	4,838.4	5,834.0	7,794	9,121	9,066
Net export	-391.8	-646.5	-688.7	-445.1	+205.6	+158.4	+134.4	+650	+996	+1631

Sources: Nguyễn and Đặng (2010: 15-6); Statistical Yearbook (2011: 525, 533).

\*: Auxiliary materials include machinery, parts, and other accessories.

\*\*: These statistics are the sums of imported cotton, fiber, fabrics and auxiliary materials. They exclude chemicals and dyes.

Nevertheless, there is hope for raising domestic content, especially in knitted products which may not require expensive dyeing. Producers use 20-30 per cent of inputs from domestic sources in knitting compared to only 5-10 per cent in the fabrics used in garment manufacturing for export. Domestic producers can also use some Vietnamese-made accessories, such as thread and carton packaging products. Most cotton yarn is imported – 40-50 per cent from the US and the rest comes from India, Brazil, Pakistan, and West Africa.<sup>14</sup>

The staff we interviewed from 16 textile and garment SMEs in 2011 confirmed the subcontracting role of Vietnamese producers and the dependence on imported inputs delivered by brand holders and suppliers. Only 5 factories (about 30 per cent) stated explicitly that they source 30-100 per cent of their inputs domestically, while the rest are completely dependent on imported inputs. The general trend is that the factories that can source their own raw materials tend to service domestic and Eastern European markets, while those importing fabrics tend to export to other foreign markets.

Many managers complained about being dependent on imported inputs. One interviewee expressed: “The corporation has many subsidiaries, so most of the raw materials come from these small subsidiaries”. Another owner of a family-owned factory said: “Buyers supply raw materials. We only buy thread, (packing) cartons, and bags from factories in HCMC.” An owner of a medium-sized garment factory said matter-of-factly: “Because of doing subcontracting work so all raw materials are provided by overseas buyers”. Another factory owner making backpacks for Korea said:

Since we are at the last stage, buyer is the one who buys the raw materials. We have no role in this. Mostly are outside sources – 80 per cent are fabrics coming from China, only 20 per cent from domestic sources: zippers, zip locks.

Being dependent on imported raw materials has subjected the VTGI to vulnerabilities in global markets. First, the devalued Vietnamese currency (đồng) has undermined Vietnam’s ability to import materials such as raw cotton, fabrics and machinery. An owner of a medium-sized knitting factory who must import 80 per cent of the cotton yarn and fiber from foreign sources to produce knitted fabrics for both markets (50 per cent domestic and 50 per cent foreign) complained:

The loss in value of VND is a big problem. We need foreign currency to import raw materials ... we need to have investment policy in raw materials – too much dependence on imports will limit our competitiveness. Moreover, exchange rate and raw material prices vary too much. Therefore we can’t sign long-term contracts with foreign buyers.<sup>15</sup>

Vietnamese fiber producers engaged in long term fixed price contracts, who also use raw cotton as input at fixed prices, are unable to raise the price of fiber, thus taking a loss. Finally, fluctuations in the supply of raw cotton are a major cause of losses. For instance, the reduction in Chinese cotton output (due to a bad harvest) gave rise to other countries protecting their cotton (thus not exporting), which seriously affected knitting firms due to soaring prices.<sup>16</sup>

Consistent quality for raw materials is required in most cases, but especially for exports to Japan, United States and Europe. A small owner, producing shirts for export to Europe, said:

We need to buy clean raw materials with trustworthy brands, not fly-by-night products. Low quality finished garments will hurt our company's reputation (Interview with VV Garment owner, September 2011).

A young owner of an embroidery factory in one of the most famous traditional embroidery villages in the North lamented:

The (corporate) buyers decide where to get raw materials. For example, upscale products require upscale raw materials which are imported from outside such as high quality Italian linen, and high quality French thread, which has consistent coloring over time.<sup>17</sup>

From the key stakeholders' perspective, the consequences of "static" comparative advantage do not bode well for the long-term interest of Vietnamese producers and workers. Without proactive initiatives to create linkages, they will remain as low value-added subcontractors.

#### **4. The Case of Vinatex**

There are few systematic studies about equitised state-owned factories. Overall, the Vietnamese state has chosen a gradual approach and maintained control over a substantial proportion of its former state sector. In general, the state supports both, namely, private enterprises as engines of growth and State-Owned Enterprises (SOEs) in their capacity to play a leading role in the economy (Communist Party of Vietnam, 2000, cited in Sjöholm, 2006: 4). Officially started in 2002, as of August 2008, 5,041 state enterprises were 'transformed' of which 75 per cent (3,786) were local SOEs, various ministries, and state-owned conglomerates, while 15 per cent (749) were either dissolved or declared bankrupt. Another 10 per cent (513) were merged, handed-over without payment or leased (Lê, 2008: 6).

From the workers' perspective, the outcomes of this process have not been good as the new ownership structure has weakened the Vietnamese General



Confederation of Labor (VGCL) and the Ministry of Labour, Invalids and Social Affairs (MOLISA). Most state workers were declared redundant and laid-off, while managers have been able to keep their jobs. Many of the older workers did not receive their one-time severance pay of VND5 million.<sup>18</sup>

While most SOEs had been equitised, the state held controlling shares in most of them. In principle, there are three types of state ownership: 100 per cent state-owned companies; joint-stock; and one-member companies with limited liabilities in which the state controlled 100 per cent legal capital (Lê, 2008: 4). These “one-member companies” use state tables on salary, steps, ranks, allowances, and promotion (VTGI, 2010: 9).

Despite equitisation state ownership has remained non-transparent. While a few SOEs have been acquired by strategic investors (including foreign), state investment is hidden in foreign joint-ventures and local joint-stock companies (Sjöholm, 2006). Some of them are large joint-ventures between foreign and state owners, e.g. Việt Tiến Tung Shing. But in general, the shares owned by foreign investors and the state are not reported. Moreover, the remaining SOEs are still controlled by different ministries, thus making efficient state management difficult (Sjöholm, 2006).

Although the October 2005 law on Foreign Direct Investment had allowed foreigners to own up to 49 per cent of SOEs, the Ministry of Planning and Investment has been reconsidering this policy due to frequent *foreign capital withdrawals* as many foreign-invested enterprises (FIEs) overvalued their assets to obtain high values for their stocks during the listing process. Many FIEs sold part of their shares and transferred them out of Vietnam.<sup>19</sup> Quite a few foreign garment factories, owned mostly by East Asian investors, fled Vietnam without paying wages, unemployment and social security benefits for thousands of workers.<sup>20</sup>

#### **4.1 Ownership and Control**

The Ministry of Industry and Trade promoted linkages with renewed efforts to invest in the production of quality fabrics in order to compete with imported fabrics. They aim to move away from the CMP contracts and increase the FOB contracts in which the Vietnamese producers can source fabrics and accessories themselves, and thus, retain more value-added. The most valuable type of contract is the Original Design Manufacturing (ODM), in which Vietnamese producers design, source fabrics and other inputs, and manufacture the products, thus, capturing more value-added, though buyers still retain the specifications and brand names over the final products.<sup>21</sup>

Vinatex was created by the Prime Minister in 1995 to oversee state-owned textile and garment factories and to foster better integration among them. In 1997, Vinatex coordinated the activities of 52 textile and 122 garment SOEs.

Vinatex still had 67 members.<sup>22</sup> The production sector consisted of 52 joint-stock companies and 38 joint-venture companies. The non-production sector had 5 vocational, industrial and fashion colleges, 2 research institutes, 2 fashion magazines, 1 fashion design institute and 1 health centre.<sup>23</sup>

By the end of 2007, 90 per cent of Vinatex's member firms were equitised. In 2011, Vinatex had 60 textile and garment equitised members. Although most are joint-stock companies, the state maintained control by owning the majority shares of Vinatex's big textile factories, such as Phong Phú (52 per cent), Việt Tiến (60 per cent), as well as, countless one-member companies.<sup>24</sup>

#### **4.2 Backward Linkages**

The following interview with Phạm Minh Hương sheds light on an important challenge faced by the VTGI to develop backward linkages:

Weaving and dyeing require investment in waste management for sustainable development, as well as land set aside to build textile factories and supportive infrastructure such as waste treatment facility. Dyeing is a very polluting activity and as of now, we don't have proper treatment for it. In short, the ongoing problems include lack of land and adequate capital investment into fiber and textile plants. Local governments play a very significant role in making land available for textile factories.<sup>25</sup>

Clearly, investment into the treatment of pollution in the weaving and dyeing processes is critical, but the high demand for land also suggests competing usage of land: between textile and other industries; between VTGI owned factories and other foreign owned textile factories and in terms of the power of local politics, among hamlet, commune, district and province levels.

It is more difficult to invest in textile or weaving because it is much more expensive than to invest in sewing or stitching of garments – weaving and dyeing machinery can cost millions of US dollars each compared to thousands for garment machinery.<sup>26</sup> The high costs requirement might explain the insignificant investment in textile manufacturing by Vinatex factories.<sup>27</sup>

However, Vinatex's support of the textile industry is ambiguous as it assumes the conflicting elements between promoting linkages and export-oriented industrialisation. It is for these reasons Vinatex's plans since 1998 to attract foreign and domestic capital for cotton production, weaving and dyeing in Vietnam has not been successful.

Nevertheless, Vinatex's large factories appeared to be more efficient than other national factories.<sup>28</sup> While employing slightly over 5 per cent of the labor force of 2 million, Vinatex factories accounted for around 33 per cent of VTGI exports. Some large Vinatex factories enjoy strong networks with brand holders to guarantee large orders.

The then President Nguyễn Minh Triết had reminded Vinatex to prioritise the task of raising domestic linkages and value-added.<sup>29</sup> Vinatex has tried to develop backward linkages by buying yarn and fabrics from its flagship firm, Phong Phú Textile (the largest textile factory in Vietnam) and other textile factories: Việt Thắng (VICOTEX), Thắng Lợi (VITEXIM), Thành Công (TCTEX), and Tài Thanh.<sup>30</sup> With modest achievement, in January 2011, overall, the VTGI had increased the domestic content ratio (in terms of raw materials) to 46%. But most of these raw materials were in the form of cotton—produced in the Central and the Northern regions—being supplied to Vinatex fiber factories.<sup>31</sup>

Vinatex has promoted cotton production targeted at replacing cotton imports with domestically produced cotton. Vietnam imported US\$395 million worth of raw cotton in 2009 (Table 1), and US\$664 million (preliminary statistics) in 2010.<sup>32</sup> Cotton production has yielded some positive preliminary results. Vinatex invested in plantations in the central provinces of Ninh Thuận and Bình Thuận using Israeli drip systems to water the cotton plants since 2009. The first two harvests had high yields of raw cotton.<sup>33</sup> Vinatex also invested in the production of other import-substitution materials such as visco fiber. Currently, it plans to expand the acreage to 5,000 hectares to produce inputs for garment production, which can create jobs in poor rural areas in the central and northern regions.

Also, Vinatex plans to upgrade machinery. According to Lê Tiến Trường (Vice Director of Vinatex), weaving, dyeing and finishing constitute the most capital intensive and expensive phase in the whole supply chain of textile and garment products: “on average, a dyeing machine with 10 million meters/year capacity would cost US\$15 million”.<sup>34</sup>

Through Vinatex, the state has tried to raise investment in both backward and forward linkages. Vinatex and PETRO Vietnam established an alliance to produce polyester fiber and filament. In trying to raise capital for these plans, Vinatex proposed the investment plan for the VTGI up to 2020 with capital of VND42,950 billion from: 1. equitised assets and corporate owners; 2. annual profits; 3. other strategic domestic and foreign investors.

The development of linkages is evident in the collaboration between Petro-Vietnam corporation and Đình Vũ polyester (PE) fiber factory in Đình Vũ Industrial Zone, which is a three-way joint-venture among 1. Hyundai Engineering Co., 2. LG International Corporation, and 3. the Vietnamese Oil and Construction Joint-Stock (PVC) generating US\$325 million in investment using German technology.<sup>35</sup> The factory produced the first batch of polyester filament in 2011, and when it achieves its forecasted full operational capacity in 2012 it can reduce PE filament imports by US\$380-450 million a year.<sup>36</sup>

Conscious of developing forward linkages, Vinatex has also opened 60 Vinatex Marts, a chain of clothing outlets nationwide, which have begun selling household appliances in addition to clothing.<sup>37</sup> Moreover, they made use of a nationalistic campaign – Buy Vietnamese Products. For instance, they have used the motto “người Việt dùng hàng Việt” (Vietnamese consumers use Vietnamese products).<sup>38</sup>

Vinatex has also started to promote fashion design by using Caucasian and Asian models, with a flashing motto – “phong cách và đẳng cấp” (style and class).<sup>39</sup> Indeed, Bùi Xuân Khu, the president of Vinatex, noted their plan to move from subcontracting to fashionisation (Mai Van, 8 July 2008). If this move could be implemented properly, it would be a good strategy as it could shift Vietnamese workers from low-skilled, low-paid assembly work to higher-skilled and higher-wage jobs.

However, upgrading requires training centres for technical skills and fashion design. Whereas textile and garment departments at universities trained engineers during the socialist era, they have since focused on business and finance.<sup>40</sup> Skills in design and product development will be necessary if Vietnam expects to win ODM contracts from brand holders. Thus far, the Fashion Design Institute (Fadin) of Vinatex focuses mainly on fashion shows and boutique clothing.<sup>41</sup>

To facilitate Vinatex’s plans to increase domestic content ratio and value-added, efforts are underway to develop the two most expensive stages, weaving and dyeing, which require about US\$15-20 million.<sup>42</sup> Phong Phu Textile has largely integrated the five stages of manufacturing apparels and managed to win ODM contracts, which has resulted in rising revenues. Vinatex has since been developing 5 textile and garment industrial zones in Vietnam: 1. Hưng Yên-Thái Bình-Hải Dương; 2. Nam Định; 3. Bình Định-Phú Yên; 4. Huế-Đà Nẵng-Quảng Nam; 5. Long An.

## **5. Labour Unions and Collective Bargaining**

The role of unions is often important in the direction of the labour process. The only state sanctioned union, the VGCL, is organised by administrative area (city, district, workplace levels) and industrial sector. In both state corporations and private firms, labour union representatives report directly to the VGCL. Labour unions at the workplace level are the weakest link in this hierarchy.

Fulltime union representatives are cadres who are paid by the VGCL to work in local union offices at the city, province and district levels. The union’s budget comes from union fees collected from workers’ wages, their own businesses’ profits and state funds, which gives them financial autonomy from management. However, many union representatives at the workplace level are fully employed by management as personnel managers and accountants, and

thus only undertake part-time union work. These part-time union representatives are not effective in representing workers at the negotiating table. But when there are strikes or labour-management conflicts, the full-time union representatives of VGCL will intervene and undertake negotiations with management so that the independence of worker representation is not compromised.

Vietnam has maintained its past socialist legacy by requiring the formation of labour unions in export processing zones and industrial parks. However, unions in the economic and industrial zones are not as strong as one would expect. The earliest and most well-known union in these zones is the HEPZA Labour Union, established in 1996, to deal with labour-management issues at factories belonging to the HCMC EPZs Authority (or HEPZA). This is similar to the Philippine Economic Zone Authority (PEZA), the government corporation mandated to run the ecozones there.<sup>43</sup> During the ten-day minimum wage strike waves in Ho Chi Minh City from 28 December 2005 to 7 January 2006 – sparked by one footwear and two garment East Asian-owned suppliers for big brands – this labour union had worked closely with the Ho Chi Minh City Labour Federation, and successfully brought the contentious labour-management negotiations to a peaceful resolution, winning some benefits for workers (Trần, 2007).

All levels of VGCL are conscious of the function and ramifications of multi-level global supply chains (with weak bargaining power of workers in the bottom rung). Hence, they are keen to establish *collective* bargaining agreements (CBA) to negotiate for better pay and benefits for workers. Đặng Ngọc Tùng, the president of the VGCL, had praised the signing of the first pilot CBA on 26 April 2010 as a foundation to stabilise textile/garment production, commerce, and worker employment, as well as to prevent labour-management conflicts.<sup>44</sup>

### 5.1 Vietnam Textile and Apparel Association (VITAS)

The VITAS is a business association, established in 2000 to represent management. Out of 700 national and foreign members, half are regular factory members and the other half are association members. Although the foreign chambers of commerce are not formal members, they exert strong demands on labour-management and investment policies. Three active VITAS association members with closely connected business ties with the VTGI account for 300 Korean companies (mostly garment), 280 Taiwanese companies (mostly textile), and 30 Japanese companies (mixed).<sup>45</sup> The large membership of VITAS provides them with strong power to influence state policy compared to the VGCL.

With offices in 175 countries VITAS' formal objectives are lofty<sup>46</sup> but real functions are limited to connecting corporate buyers with their factory members to produce and deliver the orders. As Phạm Gia Hưng noted,

Many corporate buyers place orders with VITAS, who in turn allocates the orders to their members based on their ability and capacities. While most orders would go to the big companies, smaller companies can help the bigger ones, such as Saigon 3 Garment, to fulfill their orders on time.<sup>47</sup>

Moreover, VITAS has been asked to represent their members in meetings with government officials on operational issues such as taxation, electricity, and water. As Phạm Gia Hưng noted,

When our members have problems with government units such as taxes and electricity, we represent them by sitting down and talking with tax and electricity offices. They respect us and only talk to us, not individual member factories.<sup>48</sup>

But they also represent their members and connect them to the state when there are conflicts, with VITAS serving as a bridge between its members and the state.

VITAS represents members in the process of drafting and revising laws that are directly related to management's interests. As Phương Dung stated,

The drafting of the law requires VITAS perspectives because it has representative character. This does impact the drafting and implementation of the law. We hold meetings and conferences to present our members' points of view and positions. This facilitates dialogues among member companies and state organs. If there are serious issues, we hold conferences to address the concerns. For example, we've had inputs into the customs procedure for import/export, and we discuss members' positions in the discussion on the minimum wage, labour law revision [in which there is an important strike clause], and collective bargaining agreement (CBA). Additionally, in 2009-2010, VITAS participated as a consultation committee on the Prime Minister Proposal 30 entitled: 'Reforming bureaucratic regulations' with active participation of Amcham, Eurocham, Lefaso (Vietnamese shoe association), and the Vietnam Seafood Association<sup>49</sup>

## **5.2 *Collective Bargaining Agreements (CBAs)***

On 26 April 2010, the first, pilot CBA involving the VTGI was signed between the Labour Union of the Textile and Garment Industries (Công đoàn Dệt may Việt Nam) and VITAS (Hiệp hội Dệt may Việt Nam) with the participation of 70 factories and about 100,000 workers,<sup>50</sup> which was piloted for one year and to be developed further. The Labour Union of the VTGI was the labour union of Vinatex members until the VTGI underwent equitisation from 2000. As of September 2011, it directly oversees over 100 enterprise-level labour unions and indirectly represents 200,000 workers from 340 textile and garment factories.<sup>51</sup>

Tension sometimes arose among the state apparatuses as to which organisation was in charge to carry out the pilot CBA as the VGCL and the Vietnamese Chamber of Commerce and Industry (VCCI)<sup>52</sup> had questioned in the past the legitimacy of these two signatories. The Labour Union of the VTGI only represents workers employed in Vinatex (factory) members, which constitute only 5 per cent of the total workforce in the VTGI, while VITAS only represents its 700 members.<sup>53</sup>

Also, there are weaknesses in the CBA. While the stipulated wage rates in the four regions are higher than the minimum wage levels (27 per cent, 34 per cent, 44 per cent, 30 per cent respectively),<sup>54</sup> workers' right to go on strike in unresolved negotiations is curtailed in factories that have no enterprise-level labour union representatives. Item 3 under Stipulation 11 states that,

in case of an absence of a representative of the enterprise-level labour union to negotiate with managers/owners, the said management can unilaterally (có quyền đơn phương) give final decisions about workers' collective requests (The Collective Bargaining Agreement in the VTGI, p. 12).

Hence, if the CBA lets managements make decisions in the absence of enterprise unions, it could encourage the disbanding of unions.

The CBA seeks to counteract management misuse of labour contracts, which are to be signed by the employee at the time of hiring but in reality this may be bypassed by management. The focus should be on *wages* and *employment benefits*. The CBA sought higher minimum wages than the most recent increase from 27 to 44 per cent in the four zones, based on cost of living. Also, workers can get at least 7 per cent more wages if their work is heavy and hard, dangerous and toxic, while workers holding vocational certificates should receive at least 10 per cent higher wages than the minimum wage.

The CBA also sought allowances for meals within a shift (each meal should be worth at least VND5,000 per worker/day) to protect workers' health, a 13<sup>th</sup> month salary, and other bonuses (especially important for poor migrant workers), such as those given at Tết or for high productivity performance. Strikes are then prohibited if the management upholds the CBA's terms.

Đặng Quang Điều, Director of Workers and Labour Unions Institute, a think tank of the Ministry of Labour, Invalids, and Social Affairs (MOLISA), reported in 2009 that most of the existing CBAs addressed only 60 per cent of workers' complaints about management violations. Most CBAs stipulate basic labour law without additional benefits for workers.<sup>55</sup> However, as pointed out by Phuong Dung, VITAS supports the existing tripartite CBA framework, though only about 100 factories participate. For companies that cannot meet the stipulations of the pilot CBA they still need to comply with the labour law. In general, CBA terms should vary based on the locations.<sup>56</sup>

## 6. Impact on and Responses from Workers

Most of the 900,000 manufacturing workers in the 140 export processing and industrial zones in Vietnam were in textile/apparel and leather shoe factories. About 70 per cent of the workforce was migrant workers from the rural areas of Mekong delta, Red river delta and north central Vietnam. Over 60 per cent of the workforce was young females aged between 20-35 years with junior to high school education. Most migrant workers found work through informal channels or through formal recruitment processes in which they paid recruitment companies to secure jobs (Trần Cầu, 2008: 1-3; Bowen, 2008).

Most workers earn very low wages, which are not livable. According to a survey by the Ho Chi Minh Labour Federation on 36 factories characterised by strikes, the average wage was a little over US\$100 per month (VND2.2 million), inclusive of allowances for perfect attendance and productivity. Workers have complained that the attendance allowance requires that they work all 26 days per month *plus* overtime. Even a day's absence because of illness or excessive overtime fatigue will cost them their attendance bonus.<sup>57</sup> Moreover, on the productivity allowance, many companies dangle the allowance of VND200-500,000 (up to about US\$24) for workers to surpass production quotas (vượt chỉ tiêu) for on-time delivery. Also, it is almost impossible to get the productivity allowance as production quotas are adjusted upward often.<sup>58</sup>

Workers are commodified by corporate buyers who value the products more than the workers. Even some small and medium sized owners were concerned about this mindset. One owner making rain gear for export in an SME in South Vietnam said, "If input prices increased, (corporate) buyers will pay the difference, but they don't increase the subcontracting price (wages for workers)". Another owner making shirts for export said,

Corporate buyers can negatively affect factories' profitability because they dictate subcontracting prices which go up and down, but workers' salaries have to be fixed (to minimum wage which is not livable).<sup>59</sup>

Strikes in textile, garment and footwear factories in Vietnam were largely a consequence of dissatisfaction arising from wages, working hours, overtime compensation, productivity targets, fines, benefits, social security, health and unemployment insurance, paid leave and meals (Trần, 2007; Kerkvliet, 2010). In a national survey, garment workers were found to work longer hours than workers in the rest of the economy (Kabeer and Trần, 2006, cited in Bowen, 2008: 61). Based on the self-completed surveys of 235 women migrant workers and in-depth interviews with fifteen young women workers, as well as interviews with factory managers in 5 garment and footwear factories, she found rampant excessive overtime work. This was due to the high pressure

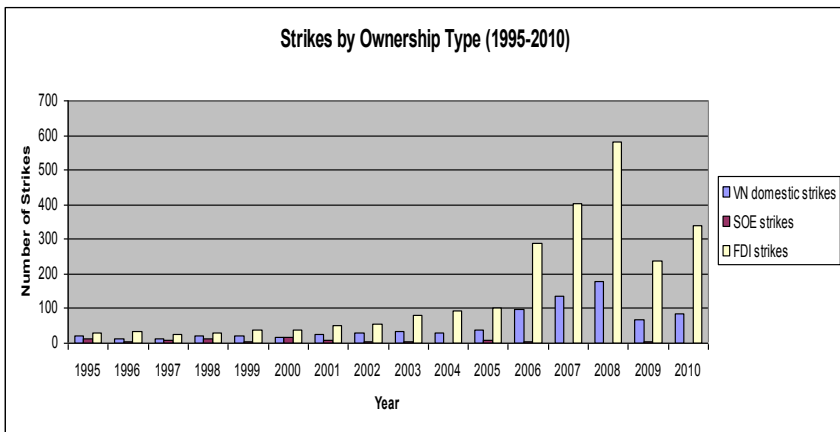


nature of the fashion-oriented industry and a serious lack of enforcement of labour protection regulations in these factories (Bowen: 6, 40, 61, 94).

In 2005-06, workers from one footwear and two garment East Asian factories in the Linh Trung I EPZ in Ho Chi Minh City producing for Nike, Adidas and other buyers went on strike over the freezing of minimum wages at US\$40 a month in foreign firms since 1999 (Trần, 2007: 437). These strikes – which spread to other factories – were staged to air grievances against both foreign factories and state policy, and then led to the state minimum wage increases for workers in foreign factories since 2006. Further strikes led to annual adjustment to rising costs of living – every November since 2009, the state announces the minimum wage increases for *both* FDI and domestic sectors that takes effect on 1 January the following year.

Most reported labour-management conflicts occurred in foreign firms, though conflicts also increased in national private firms while falling in the SOEs since equitisation began in 2000 (Figure 2). Strikes rose sharply in the period of 2006-08 as workers began to fight for their rights and interests. Strikes in 2006 forced the state to legislate and foreign firms to comply with a 40 per cent increase in minimum wages mentioned above. Strikes in 2007 were targeted at increasing wages to compensate for spiraling inflation. Strikes in 2008 were caused by foreign firms’ refusal or misapplication of the inflation adjusted wages.

**Figure 2: Nationwide Strikes by Ownership, Vietnam, 1995-2010**



Source: Vietnamese General Labour Federation of Labour (VGCL), July 2010; Trần Văn Lý (VGCL), October 2011.

High inflation in 2007-08 (19 per cent in March and 25 per cent in May 2008) had raised food prices by 30 per cent and housing rents by 20 per cent.<sup>60</sup> Migrant workers had to pay higher non-resident prices for necessities such as rent, utilities, childcare and education, which drove them to work overtime excessively. Even then most only earned less than US\$100 a month, which is not livable in HCMC and thus led to strikes.<sup>61</sup> Strikes fell in 2009, which is likely to be a consequence of falling demand following the global financial crisis rather than an easing of labour-management tensions. Strikes rose again in 2010 due to overall low wages and high costs of living. Workers have complained about management's failure to raise wages periodically—according to management's published steps of raises registered with the local labor department—and inadequate benefits such as social security, health and unemployment insurance.<sup>62</sup>

The majority of garment and textile workers in SMEs in South Vietnam reported that what they earned is not livable. On average, they earned VND2-3 million per month when it requires VND3-5 million to pay for their basic needs.<sup>63</sup> One worker from TH purse factory stated that,

The current wage level is lower than the cost of living because rent increases, electricity increases, food prices also increase ... so this wage is not enough for us to live. The wage of office workers without having to work overtime [like us] is raised to VND3 million. Factory workers like us with over time only make around VND3 million.<sup>64</sup>

Although strikes have helped raise wages and working conditions, the evidence shows that the export-oriented production of textiles and garments have created employment but most workers earn non-livable wages. It is important that the government pursues further Vinatex's efforts to drive the development of domestic linkages into high value-added activities, including government-supported skills training and learning, to facilitate improvements in wages and working conditions to livable levels.

## **7. Conclusions**

This paper broached the market-linkage debate on the promotion of textile and garment manufacturing in the global supply chain, and the consequences on unions and textile and garment workers in Vietnam. The evidence shows that leaving subcontract production to the global market will be disastrous for workers as most of them earn non-livable wages in substandard working conditions.

Four developments show signs of improvement. First, Vinatex's efforts to promote domestic linkages by integrating the five stages of textile and garment

production with a focus on weaving and dyeing stages can go a long way to shifting more value-added into Vietnam. Second, a number of SMEs have started to source domestically their raw materials, especially knitted fabrics, when sales are targeted to the domestic markets. Third, exports to the traditional Eastern European as well as to newer markets such as in Africa, which do not impose conditions to use imported inputs, need to be supported. Fourth, workers have managed through strikes to improve minimum wages paid to them, albeit they are still largely non-livable. Moreover, both union representatives and workers need government-supported skills training in order to engage in effective collective bargaining with foreign buyers and their suppliers.

Efforts to grow cotton domestically and expand domestic linkages need to be complemented by stable macroeconomic policies to insulate especially the SMEs from external shocks, which often affect the textile and garment industry. Finally, the five-stage integration scheme initiated by Vinatex requires active government roles in leveraging the transfer of technology and knowledge base from foreign investors/buyers to local producers, and in funding workers' skills training to shift the specialisation of the VTGI from low-paid subcontracting to upgrading activities such as engaging in ODM, textile/garment design, marketing networks, global labour and environmental standards,<sup>□</sup> in order to raise the domestic value-added as successfully pursued by Hong Kong, Korea and Taiwan decades ago.

Last but not least, the discussion on linkages should expand beyond the economics-based backward and forward linkages, by including "social" linkage regarding workers. A comprehensive structural change should empower workers through education and skills training in order to promote their direct participation in production, income distribution, and collective bargaining processes. Only then can we sustain improvements in wages, working conditions, workers' capacities and economic development.

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## Notes

- 1 Nghiên Cứu Đầu Tư, 18 September 2011
- 2 Interviews with Pham Xuan Hong, 2 August 2011.
- 3 Người Lao Động, 11 October 2007.
- 4 Vneconomy, 28 August 2011.
- 5 General Statistics Office (2011) *Statistical Yearbook of Vietnam 2010*, p. 100.
- 6 Enterprises in the VTGI employing 10-49 workers and 50-300 respectively are classified as small and medium.
- 7 Vneconomy, August 2011.
- 8 Thời Báo Kinh Tế Việt Nam, 2 December 2010.
- 9 Electronic goods ranked fourth (\$2.8 billion) and rice fifth (\$2.7 billion) in 2009 preliminary figures (Statistical Yearbook of Vietnam 2010: 459; M. Ha, Người Lao Động, 20 January 2010).
- 10 Ngân Anh, 21 November 2008.
- 11 The MFA quotas were phased out over the period 1995-2004. <http://www.amchamvietnam.com/1302>, accessed in August 2011.
- 12 Tuổi Trẻ, 28 August 2011,
- 13 Interviews with Pham Xuan Hong at VITAS and AGTEK, Pham Minh Huong at Vinatex, Pham Gia Hung at VITAS and Phuong Dung at VITAS. They all complained about how the VTGI position in the global supply chain dictated Vietnamese producers to use imported fabrics (sometimes even thread) provided by the brand-name holders or their suppliers.
- 14 Interview with Phạm Minh Hương, 8 August 2011.
- 15 Interview with the owner of HT Garments, August 2011.
- 16 Thiên Lộc, 18 April 2011.
- 17 Interview with AP Embroidery owner, August 2011.
- 18 Nam Dương and Phạm Hồ. 15 September, 2008 “Môi Mòn Chờ Trợ Cấp Sau Cỗ Phần Hóa.” *Người Lao Động*, <http://nld.com.vn/239342P1010C1012/moi-mon-cho-tro-cap-sau-co-phan-hoa.htm>, accessed in August 2011, In principle, within the first year of layoff or forced early retirement, they were entitled to some compensation from their own state factory and from the “Fund to Assist Redundant Workers”, managed by the World Bank and the Ministry of Finance (Decrees 41, 64, 155, 110, 187, 109). But Decree 110 (2007) cut compensation to laid-off state workers and put all control into the hands of the remaining state corporations. Since then, there is no more severance pay for newly laid-off workers, and no oversight from MOLISA.
- 19 Thời Báo Kinh Tế Việt Nam, 30 August 2011.
- 20 Lê Thủy, 14 March 2006, “Xin đừng bó tay ngời nhìn!” *Người Lao Động*, <http://nld.com.vn/145024P1010C1012/xin-dung-bo-tay-ngoi-nhin.htm>, accessed August 2011; Dương Minh Đức, 16 June 2010. “Bảo hiểm xã hội TPHCM tiếp tục kiện 9 DN chiếm đoạt tiền,” *Lao Động*, <http://www.laodong.com.vn/Utilities/PrintView.aspx?ID=188410>; accessed July 2010.
- 21 Thương mại, 28 August 2010. “Xuất khẩu hàng may mặc : Bài toán giá trị gia tăng” <http://vietnamtextile.org/ChiTietTinTuc.aspx?MaTinTuc=2773&Matheloai=5>, accessed August 2011.

- 22 <http://www.vfabric.com/textile/Vinatexmembers.htm>, accessed in July 2009.
- 23 *Ibid.*
- 24 Interview with Phạm Minh Hương, the Director of Vinatex International Business Department, 8 August, 2011.
- 25 *Ibid.*
- 26 Interview with Trần Đăng Thanh, Head of Vinatex's textile/garment human resources department, 3 August 2011.
- 27 Pham, *op cit.*
- 28 *Ibid.*
- 29 B.T.H, 28 May 2010, *Người Lao Động*
- 30 Interviews with Phạm Gia Hưng on 3 August 2011, Phạm Minh Hương on 8 August 2011.
- 31 Vân Khánh, 23 January 2011, *Người Lao Động*
- 32 Thiên Lộc, 18 April 2011, *Người Lao Động*
- 33 *Ibid.*
- 34 Tuổi Trẻ, 28 August 2011.
- 35 Vietnam Textile Organisation, 21 July 2011.
- 36 *Ibid.*
- 37 Interview with Phương Dung on 11 August 2011.
- 38 M.Hà, 20 January 2010 "Dệt may "qua mặt" đầu thô," *Người Lao Động*
- 39 From the main VINATEX website, flashing "style and class", one is introduced to the 9th annual Viet Nam International Fashion Fair which opened from 31 October to 6 November 2011 at Ho Chi Minh City's Tan Binh Exhibition and Convention Centre, featuring fashions from some well-known VINATEX brands such as Phong Phú, Việt Tiến, Nhà Bè, Việt Thắng, May 10. <http://www.vinatex.com.vn/en/news/news-in-brief/9471/viet-nam-international-fashion-fair-%28viff-2011%29/newsdetail.aspx>.
- 40 Interview with Phạm Minh Hương on 8 August 2011.
- 41 Pham, *op cit.*
- 42 The five stages of manufacturing a garment product include: 1. producing cotton; 2. processing into fiber/filament; 3. weaving; 4. dyeing; and 5. sewing (Nghiên Cứu Đầu Tư, 18 September 2011).
- 43 Some studies show that women workers in the Philippine EPZs were able to organise amidst many difficulties and challenges. They worked in different forms of unions: unionised companies (with or without collective bargaining agreement); independent unions; labour-management councils; and worker's associations (The International Textile Garments and Leather Workers Federation, ILO, Manila, December 2003). But while organising workers in Philippine special economic zones is not officially prohibited (as it was under the Marcos "no union, no strike" policy of the early eighties), workers in the EPZ factories face overt and covert actions used by the management (such as intimidation, bribery attempts, physical isolation, and dismissal) to discourage trade union activity in many EPZ factories (Trade Union World Briefing, International Confederation of Free Trade Unions, 2005).
- 44 Kim Liên, 26 April 2010 "Ngành dệt may ký thỏa ước lao động tập thể."

- 45 Interview with Phạm Gia Hưng on 3 August 2011.
- 46 They are to: foster cooperation among member enterprises in production, technology and business; promote Vietnamese textile and garment products in the world markets; as the industry representative, promote and advise the government (and other state bodies) to successfully integrate into the global economy; be a bridge between Vietnamese textile and garment enterprises and international organisations (<http://www.amchamvietnam.com/organization/565/detail>).
- 47 Interview on 3 August 2011.
- 48 Interview on 3 August 2011.
- 49 Interview on 9 August 2011.
- 50 <http://vietnamtextile.org/ChiTietTinTuc.aspx?MaTinTuc=3041&Matheloai=5>.
- 51 Công thương, 18 September 2011.
- 52 VCCI is another business/management association, but it encompasses all economic sectors nationwide, not just textile and garment industries.
- 53 Lê Thủy and Nam Dương, 24 February 2009.
- 54 The CBA rates for the four zones, in comparison with the minimum wage in FDI factories, are: VND1.7 million per person/month in Zone 1 (27 per cent increase from the FDI minimum wage in this zone); VND1.6 million in Zone 2 (34 per cent increase from the FDI minimum wage in this zone); VND1.5 million in Zone 3 (44 per cent increase), and VND1.3 million in Zone 4 (30 per cent increase). Thanh Vân, *Người Lao Động*, 26 June 2010.
- 55 Nguyễn Quyết, 12 May 2011.
- 56 Interview with Phương Dung on 10 August 2011.
- 57 There are cases when workers even use their annual vacation for their illness absence, they still lose their monthly attendance bonus.
- 58 Vĩnh Tùng, 4 May 2011.
- 59 Interview in August 2011.
- 60 Dương Minh Đức, 2008; Nhóm phóng viên CT-CĐ, 2007; Hồng Đào, 2009; Phạm Hồ - Hồng Đào, 2008.
- 61 Nam Dương, 18 May 2008.
- 62 Thủy Linh. 20 September 2010 *Người Lao Động*.
- 63 Interview with workers in several factories: VN garment factory, TH purse factory, and HT textile factory in August 2011.
- 64 Interview with TH worker in August 2011.
- 65 See Trần 2011 for a critical assessment of the meaning of corporate social responsibility in Vietnam as part of the global initiatives on labour and environmental standards.

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