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Sammanfattning

This thesis examines labour conditions in Vietnam, and the impact of Swedish investments and trade on these conditions. The thesis is a qualitative investigation that includes a theoretical and an empirical part. The theories we use are international trade theory, focusing on comparative advantage and the Heckscher-Ohlin theory. We also utilise Solow’s growth model and the theory about FDI. The concept of social dumping and the effect of imposing a social clause is also discussed. We are using the ILO’s eight core conventions about minimum standards on labour conditions as a measuring instrument. Three Swedish lead multinational corporations have been chosen for the investigation, namely ABB, Ericsson and IKEA. Swedish companies currently have only small investments in Vietnam, but co-operation between the two countries have existed for a long time. Sweden is known to have good labour conditions and it is interesting to see if these are transferred through the Swedish companies. To investigate the labour situation in Vietnam, we have also conducted interviews with people working on these issues at ministries, UN organisations and representatives for trade unions.

Nykeltal

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Margareta Przedpelska
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To investigate the labour situation in Vietnam, we have also conducted interviews with people working on these issues at ministries, UN organisations and representatives for trade unions.

ABB, Ericsson and IKEA in Vietnam are according to our investigation behaving well in Vietnam. They are through transferring know-how and capital contributing to Vietnam’s development process. Because of the hard control on the Vietnamese market, weak legal framework, distance from Sweden and the low purchasing power of the Vietnamese consumers, the amount of investment remains small. Our conclusion is that different alternatives can be considered to improve Vietnam’s labour conditions, but both an open trade and increased inflow of investment, have positive effects on the country’s development process. We believe that in the case of Vietnam, poverty must be diminished in order to deal with bad labour conditions.
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<th>Full Form</th>
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<tbody>
<tr>
<td>AFTA</td>
<td>ASEAN Free Trade Area</td>
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<td>APEC</td>
<td>Asian Pacific Economic Co-operation</td>
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<td>ASEAN</td>
<td>Association of South East Asian Nations</td>
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<td>BTA</td>
<td>Bilateral Trade Agreement</td>
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<td>CEPT</td>
<td>Common Effective Preferential Tariff</td>
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<td>EVN</td>
<td>Electricity of Vietnam</td>
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<td>EU</td>
<td>European Union</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FTA</td>
<td>Free Trade Area</td>
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<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
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<td>GB</td>
<td>Governing Body</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>ILC</td>
<td>International Labour Conference</td>
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<td>ILO</td>
<td>International Labour Organisation</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>JV</td>
<td>Joint Venture</td>
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<tr>
<td>LPB</td>
<td>The Labour Protection Bureau</td>
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<tr>
<td>MFN</td>
<td>Most Favoured Nation</td>
</tr>
<tr>
<td>MNC</td>
<td>Multinational Corporation</td>
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<tr>
<td>MoET</td>
<td>Ministry of Education and Training</td>
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<td>MOI</td>
<td>Ministry of Industry</td>
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<tr>
<td>MoLISA</td>
<td>Ministry of Labour- Invalids and Social Affairs</td>
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<td>MoT</td>
<td>Ministry of Trade</td>
</tr>
<tr>
<td>MPI</td>
<td>Ministry of Planning and Investment</td>
</tr>
<tr>
<td>NTB</td>
<td>Non Tariff Trade Barrier</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>ODA</td>
<td>Official Development Assistance</td>
</tr>
<tr>
<td>PPP</td>
<td>Purchasing Power Parity</td>
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<td>SDS</td>
<td>Socio-Economic Development Strategy</td>
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<td>SOE</td>
<td>State Owned Enterprise</td>
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<tr>
<td>UNICEF</td>
<td>United Nations Children’s Fund</td>
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<td>VCCI</td>
<td>Vietnam Chamber of Commerce and Industry</td>
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<td>VGCL</td>
<td>Vietnam General Confederation of Labour</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
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<td>WTO</td>
<td>World Trade Organisation</td>
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1 INTRODUCTION

Looking back on the *World Trade Organisation* (WTO) conference in Seattle in 1999, linking trade with labour conditions is one of the most controversial trade issues. One of the major issues at the conference was trade with countries competing with bad labour conditions, sometimes referred to as social dumping. A conclusion drawn from the Seattle conference is that interest groups in many different areas, such as trade unionists, politicians and producers and so forth, believe that social dumping is a serious problem. Representatives of these groups came from both developed and underdeveloped nations. Focus of the discussion was, whether, and in what way trade with countries competing with bad labour conditions should be regulated by the WTO. The WTO was established in 1995, as the successor of *General Agreement on Tariffs and Trade* (GATT), founded in 1947. One of the purposes of the WTO is to co-operate with the World Bank and the *International Monetary Fund* (IMF), to achieve a better co-ordination of trade and economic policy.

Countries have different rules and regulations. Besides universal human rights, countries have their own culture rights. The WTO conference in Seattle ended in failure, because the member states could not agree if labour standards should be handled by the organisation. Some member countries could not see a clear connection between trade and regulating labour standards. Many of the members argued that this should be dealt with by the *International Labour Organisation* (ILO). Jagdish Bhagwati, the Indian-American professor of international trade, says that the discussion about trade and labour conditions has to be separated. Promoting free trade by using environmental restrictions and social clauses is doomed to fail.\(^1\) On the other hand Dani Rodrik, professor in Political Science at Harvard University, argues that differences in countries’ labour standards have caused conflicts in international trade, and therefore a harmonisation of labour rights would facilitate trade.\(^2\)

1.1 Problem of Investigation

In a time where there are discussions about regulating trade with countries that have poor labour conditions, it is important to investigate the potential of such regulations. Different interest groups, as mentioned above, believe that social dumping is a serious problem. They argue that trade with countries with access to cheap labour and poor working environment will result in lower wages and worse labour conditions in the West. In international economic

theory, competition by lower labour costs can be a comparative advantage. In the discussion, producers in underdeveloped countries are suspicious of labour harmonisation. They see it as a form of Western protectionism. Free trade advocates on the other hand, believe that free trade is the best way to get underdeveloped countries out of poverty. However, this has not always been the case. Historically, free trade has not always lead to economic growth.

The question is what is the most effective way to deal with bad labour conditions? If restrictions should be imposed, it is important to establish what effects they might have on a country. If we assume that the developed part of the world will implement restrictions, one way might be to regulate their imports through quotas and tariffs. The effect a restriction has on the exporting country depends on the exported goods importance to the exporting economy. A country can also influence labour standards by regulating Foreign Direct Investment (FDI), through setting up conditions for the investing companies. Many underdeveloped countries do not have any conditions or control over FDI. This can lead to the exploitation of underdeveloped countries. The consequences depend on the West’s desire to improve labour standards, but there are several different competing interests. The problem is who wants to see the improvement in labour standards. Underdeveloped countries might see the need for improvement in labour standards in order to avoid being used, and for improving their own welfare. For change to be possible, a country has to be active in its development process.

Vietnam is a country undergoing economic and political change. Today the workforce mainly consists of low skilled workers. Sweden and Vietnam have been co-operating for a long time, and Sweden supports Vietnam financially. Sweden is a country with highly developed know-how and well established labour rights. It is therefore interesting to investigate how this relation between the two countries affects the labour standards in Vietnam, and if Swedish companies transfer this knowledge to the Vietnamese society.

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1.2 Objective and Issues
The objective of this thesis is to examine labour conditions in Vietnam, and the impact of Swedish investments and trade on these conditions. This leads us to following issues:

1. What are labour conditions like in Vietnam?
2. What are the trade patterns of the chosen companies?
3. What are Swedish companies and the Vietnamese Government doing to improve labour conditions?
4. What could be done to improve labour conditions in Vietnam?

1.3 Methodology
This thesis is a qualitative investigation that includes a theoretical and an empirical part. The theories used are international trade theory, focusing on comparative advantage and the Heckscher-Ohlin theory. We also utilise Solow’s growth model and the theory about FDI. The theories are an appliance to develop a framework for the analysis. We are using the ILO’s labour standards as a measuring instrument. The ILO’s eight core conventions are minimum standards of labour conditions.4

Our two first issues are described in chapter 3 and 4 and in chapter 5, we analyse the issue 3 and 4. This is illustrated in the following research model:

Figure 1.1. Research Model

The empirical part is based on interviews, and supplemented with literature. In order to examine labour conditions we have tried to get a broad view by conducting interviews and study visits. To examine what Swedish companies are doing about the labour issue, we have chosen three different Swedish-led multinational corporations operating in Vietnam, namely ABB, Ericsson and IKEA. All three companies have different business models and trade
patterns, which make it interesting to investigate how different branches can affect the labour situation. We have also interviewed UN organisations, ministries and representatives for trade unions involved in the matter.\textsuperscript{5}

Of the three companies, a greater number of focus has been placed on ABB, which is also the subject of a case study. The case study is based on 10 interviews and a visit to its factory in Hanoi.

1.4 Limitations and assumptions

Swedish companies currently have only small investments in Vietnam, but co-operation between Sweden and Vietnam has existed for a long time. Sweden is known to have good labour conditions and we are interested to see if these are transferred through investments. Both the Swedish Government and Swedish companies are at the moment operating in Vietnam.

In the thesis we are using the terms ‘bad labour conditions’ and ‘improve labour conditions’. This refers to fulfil the minimum standard of the ILO’s core conventions. We are only using ILO’s conventions, even though other relevant conventions exist, such as those of the Organisation for Economic Co-operation and Development (OECD) and the European Union (EU) conventions.

We have only visited one factory in Vietnam, and there have been difficulties to get in contact with suppliers. We do not however necessarily believe that interviews with these would have changed the result of the thesis. Through interviews with many different parties, we believe that we covered a large area concerning this issue.

We visited ABB, Ericsson and IKEA’s offices in Hanoi. Most of the employed in these companies are Vietnamese. In key positions however the employees are often of other nationalities. The motivation for this is that the Vietnamese are still not skilled enough. We also visited a company called Schmidt Company, because the company had a Swedish MD, Per Dahlin, who has been working in Vietnam for 30 years and is familiar of the changes in the Vietnamese society.\textsuperscript{6}

\textsuperscript{4} See page 12.
\textsuperscript{5} Places were we have conducted interviews in Vietnam are the ILO, the World Bank, the UNDP, the Swedish Embassy, The University of Economics in Hanoi, MoT, VCCI, MPI, MoLISA, VGCL, Vietnam Development Information Centre and the GSO.
\textsuperscript{6} Dahlin (2001), interview 31/05/01.
The effect of aid on the Vietnamese economy is not considered. We are only focusing on the effects from trade and investment.

1.5 Sources and Criticism

The collection of data is constituted of literature, articles, research papers, interviews and study visits. The subject is sensitive, and it has been a struggle to get objective information. This is because of the generally positive approach of the Vietnamese people. They do not give more information than what they consider to be absolutely necessary. Some of the information given to us during the interviews may be subjective. In order to get a differentiated view, we tried to include as many different parties as possible.7

Our working language was English, and this worked well in general. It was slightly complicated to understand the Vietnamese pronunciation a few times. We had to receive help from an interpreter on two occasions. Mrs Doung, the Human Resource Manager at ABB, was our interpreter when we conducted interviews with the workers at ABB. In some sense this could have scared the workers from telling the whole truth about their view of working in ABB. Nonetheless our judgement is that they were answering sincerely. The other time we needed an interpreter was at VGCL, were they provided us with one of their interpreters.

During the interviews both of us participated in order to avoid misunderstandings, and to get hold of as much information as possible. We alternated to ask questions, but both where writing. We prepared the questions out of a standard questionnaire8, but made adjustments before every interview in order to tailor-make the questions.

Concerning the statistic material in the thesis, it can generally be said that the Vietnamese population statistics and price index are reliable. Other statistical material can be biased because of the Vietnamese report system. The data is collected from all the provinces and after that gathered centrally. Mr Arvidsson, Swedish expert at the General Statistic Office of Vietnam (GSO) says, as a result, some people involved in the process may have done some ‘minor adjustments’, to make their result look as good as possible. To come around this problem samples are made, but there are deviations.9

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7 See footnote four.
8 See Appendix A.
1.6 Structure
The thesis consists of six chapters. In chapter 2, *Frame of References*, international trade theory, differences in labour standards and social dumping followed of the Solow growth model and FDI are presented. We also briefly present the ILO and the eight core conventions that we use as our measuring instrument. In chapter 3, *Vietnam*, we map the socio-economic situation in the country with focus on labour, trade and economic integration. After that comes chapter 4, *Company Structure*, were we present ABB, Ericsson and IKEA, and map their operations in Vietnam. In chapter 5, *Analysis*, we analyse issue three and four, followed by chapter 6, *Conclusions*, where we present the result of the investigation and topics for further research.

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[^9]: Arvidsson (2001), interview 02/05/01.
2 FRAME OF REFERENCES

2.1 International Trade Theory

One of the most fundamental ideas in international trade is that there are gains in trading with other countries. Those gains appear when countries specialise in producing what they are best at in relative terms. It is a combination of free trade and comparative advantages against the level of protectionism that creates the playing field for international trade.

Trade encourages the development of economies of scale. In economic theory trade is a method for reaching a certain goal. The goal is often higher welfare, efficiency or growth. Trade gives companies the possibility of producing more from a given amount of resources, and leads to increased competition, as well as technological development. The degree of political involvement in a country plays a significant role. Through economic policy, resources can be reallocated to a certain sector. The gains from trade and the effects in a country depend on which policies are used for distribution within the nation.10

According to the classical international trade theory, the world market makes efficient use of the world resources when countries use their comparative advantages. Differences in labour standards give rise to trade flows. Today, the focus of comparative advantage is changing, as technology and knowledge are becoming the key factors rather than natural recourses alone.11

2.1.1 The Theory of Comparative Advantage: The Ricardian Model with N Goods

Countries that produce with a comparative advantage are able to minimise their opportunity costs. In a Ricardian world, labour is the only factor of production and the number of produced goods is two or more. According to this model, comparative advantage can only arise where countries have different levels of labour productivity. The goods are produced in the country where it can be produced to the lowest cost.12 Assume we have two countries, Home and Foreign and that they produce a large number of different goods, 1 to N. The unit labour requirement for producing a certain good is for Home $a_{Li}$ and for Foreign $a^{*}_{Li}$. We make the following assumption13:

\[
\frac{a_{L1}}{a^{*}_{L1}} < \frac{a_{L2}}{a^{*}_{L2}} < \frac{a_{L3}}{a^{*}_{L3}} < \ldots < \frac{a_{LN}}{a^{*}_{LN}}
\]

11 Krugman (1986), p.8
13 Ibid, p.27f.
To be able to determine who produces what, we have to know the ratio of Home to Foreign wages, w/w*. The good will be produced in Home if:

\[ (2.2) \quad \frac{a^*_{L_i}}{a_{L_i}} > \frac{w}{w^*} \]

and in Foreign if:

\[ (2.3) \quad \frac{a^*_{L_i}}{a_{L_i}} < \frac{w}{w^*} \]

A country with access to labour intensive industry can produce to a lower relative price.\(^{14}\)

### 2.1.2 The Heckscher-Ohlin Theory

Countries’ comparative advantages are affected by natural resource endowments. The Heckscher-Ohlin theory, also referred to as the factor proportions theory, emphasises the proportions used in production, and the degree to which these proportions are available in different countries. Countries tend to export goods that are intensive in the factors that they have a large supply of. The factor-proportions model states that a change in the relative price of goods affects income distribution. International trade contributes strongly to this distribution. The amount of qualified labour and fixed capital is higher in industrialised countries, while the opposite situation can be seen in developing countries.

Trade may not be the result of comparative advantage alone. Economies of scale occur more easily when production is on a larger scale. This gives countries incentive to trade and specialise, even though there are no differences between their technology and resources.\(^{15}\)

### 2.2 Differences in Labour Standards

Many companies relocate their production to countries with lower labour standards.\(^{16}\) A country’s labour force is embodied by its capital stock. The labour force represents the investments made in human capital, through development in the scientific, industrial and skill areas.\(^{17}\) Labour is not privileged in the same way as monetary flows in the capital markets. The globalisation of the labour market is more complex because it involves humans and not capital alone.\(^{18}\)

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\(^{15}\) Ibid, p.67.


\(^{17}\) Kenen (1989), p.35.

2.2.1 Diversion of Resources by Labour Standards

Six basic criteria should be imposed for an international labour standard to become a reality. How do these criteria’s affect countries’ factor resources?

1. *Freedom of association and the right to organise*. These criteria do not affect the factor requirements in any important way. A labour union does not need a lot of people to be able to exist.

2. *Freedom from forced labour* is a purely labour-using standard. If a country that uses forced labour decides to keep the workforce, wages has to be paid to the workers. This leads to an increasing cost. It is also likely that the supply of labour will be reduced.

3. *Minimum age for employment* is also a purely labour-using standard. If a country uses a lot of workers under the age of 15, the workforce will be reduced.

4. *Minimum wages* alters the price of factors. If the labour market works well, the workforce will be reduced as a result from higher price on labour. This too is a labour-using standard.

5. *Hours of work* are also labour-using. If a country has inhumane working hours, an upper limit will reduce the workforce.

6. *Occupational safety and health*. These factors are not labour using, leading rather to a need of investments to be made in machines, and in safe technology for example.\(^{19}\)

Most of the labour standards reduce a country’s workforce. When it comes to workers’ safety and health, as stated above, other factors such as capital are essential. When health and safety regulations are imposed in a labour-intensive country, wages tend to fall.\(^{20}\) Harmonisation of workers’ rights will reduce differences in the price of labour. Therefore, the possibilities for international trade are reduced.\(^{21}\)

One way to achieve world welfare is through the elimination of market imperfections. The question is whether different labour standards should be seen as market imperfections, or rather a natural result of underdevelopment that will disappear within time. Labour standards can also have other implications. In some cases they can lead to a redistribution of income, as in the case of child labour.\(^{22}\)

2.2.2 Labour Standards Applied to a Heckscher–Ohlin Model

Imagine that we have two countries that produce two goods, with which they trade on the world market. The countries use two factors of production and have identical constant-returns-to-scale production functions. Assume that labour standards are imposed. The effect the labour standards will have on trade and output depends on factor intensity needed in the


\(^{20}\) Ibid, p.255.

production. This means how many factors have to be withdrawn from production as a consequence of the labour standards.\footnote{Brown - Deardorff - Stern (1997), p.270.}

**Figure 2.1. Effects of Imposed Labour Standards**

![Figure 2.1](image)


Country A is labour abundant and produces a good, \(X\), which is labour intensive. \(X\) is exported to the world market. Country A produces at \(P\) and consumes at \(C\). When labour standards are imposed, the production line shifts inwards. This model assumes that the production factors are reduced proportionally. The result will be a reduction in domestic trade. See Figure 2.1.

Country B, produces with a different proportion of the factors compared to country A. Country B is capital intensive. How the imposed labour standards will affect country B depends on the factor requirements of the labour standards in comparison to the factor requirements of world production. If labour standards that reduce a country’s output of a labour intensive good are implemented, the world price of the labour intensive good will rise. If country A’s export of good \(X\) is significant on the world market, the higher price on \(X\) will affect country B terms of trade negatively, while the terms of trade in country A will improve.

The only labour standards that are Pareto optimal are those in exact proportion to world production.\footnote{Ibid, p.248f.}

\footnote{Ibid, p.250f.}

\footnote{Brown - Deardorff - Stern (1997), p.248f.}
2.3 The ILO and Labour Rights

The question of international labour rights has been discussed since the early 19th century. The demand for international labour rules resulted in the establishment of the International Labour Organisation (ILO) in 1919. Today the ILO is a United Nation (UN) agency. The ILO has today 174 member states.\(^{25}\)

The ILO tries to promote social justice for workers by pushing for international labour rights. The organisation wants to ensure that there is a balance in the development process, both economically and socially. Social development is a cause of economic development, and the standard in underdeveloped countries cannot be as high as in more developed countries. This can be acceptable if the country allows free association, the right to bargain collectively as well as the absence of forced labour. In many underdeveloped countries these rights do not exist.\(^{26}\) Concerning efficiency, the ILO is mostly an organisation for discussing labour conditions, and does not have much power to ensure the conventions are obeyed.\(^{27}\)

2.3.1 The ILO’s Core Conventions

Within the organisation there are 180 conventions on the subject of labour rights. The conventions are non-binding international treaties that member states should follow.\(^{28}\) The ILO has eight core conventions covering fundamental workers’ rights, and since 1995 it has been pressing for all member countries to ratify them. These core conventions are not negotiable, but unions occasionally complement them with sector-specific questions.\(^{29}\) Sweden finds the ratification of the ILO’s eight core conventions important and has ratified them all. The organisation requires member states frequently to report to the international bureau on the steps they have taken to implement the conventions.\(^{30}\)

\(^{26}\) Memhet (1999), p.74f.
\(^{27}\) Ibid, p.76.
\(^{28}\) Ibid, p.76.
\(^{30}\) Ibid, p.9.
The eight core conventions are as follows:

- No. 29, *Forced or Compulsory Labour*, established in 1930. The aim is the suppression of forced labour.
- No. 105, *The Abolition of Forced Labour*, established in 1957. The aim is the prohibition of forced or compulsory labour in any form.
- No. 87, *Freedom of Association and Protection of the Right to Organise*, established in 1948. The aim is the right for workers to organise their interests freely and without distinction. The government must not interfere in this matter.
- No. 98, *The Application of the Principles of the Right to Organise*, established in 1949. The aim is the protection of workers who exercise the right to organise; the non-interference between workers’ and employers’ organising; the promotion of voluntary collective bargaining.
- No. 100, *Equal Remuneration for Men and Women Workers for Work of Equal Value*, established in 1951. The aim is to reward and secure the implementation of equal wages for men and women for equal work.
- No. 111, *Discrimination in Respect of Employment and Occupation*, established in 1958. The aim is to promote equality of opportunity and treatment in respect of employment and occupation.
- No. 138, *Minimum Age for Admission to Employment*, established in 1973. The aim is the abolition of child labour. The minimum age is 15 years. Sometimes, exceptions can be made in developing countries to the age of 14, until they reach higher standards.
- No. 182, *The Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour*, established in 1999. The aim is the prohibition and elimination of the worst forms of child labour carried out by all persons under the age of 18.31

In order to investigate how the labour situation looks in Vietnam, we are using the ILO’s eight core conventions as our measuring instrument, see Figure 2.2:

**Figure 2.2.** Summary of the ILO’s Core Conventions: Measuring Instrument

Source: Authors’ illustration

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2.3.2 ‘Codes of Conduct’

It has become more common for companies establishing or investing abroad to implement codes of conduct, which become their guiding principles in the foreign country. There would be no need for codes of conduct if the ILO’s principles were obeyed. A code of conduct should never have fewer standards than the ILO’s core conventions, or be against the law in the foreign country. Codes concerning the labour market are not common in the engineering industry. This is because the products are not in direct contact with consumers and therefore do not arouse public opinion. A code must be well defined and measurable.\(^\text{32}\)

2.4 Social Dumping

The concept dumping has existed for a long time.\(^\text{33}\) After the Second World War, international rules were established to prevent dumping. According to GATT article VI, dumping is defined as a situation when products are introduced on a market to a lower price than what is common for the product. If the price on the international market is lower than the price on the domestic market it is a matter of price discrimination, referred to as dumping.\(^\text{34}\)

Within time, the concept dumping has been enlarged. In the discussions about unfair trade and competition, a new expression has arisen. It is called social dumping and refers to situations were countries compete by low-cost labour, often a result from poor working environments and a low-skilled work force. Social dumping and dumping gives the same result on the market where the product is dumped. The question is if the concepts have the same meaning. There are different ideas whether social dumping is price discrimination or just a socio-economic consequence. Countries have different institutional capacities, structures and conditions, and as a result, they trade on different grounds.\(^\text{35}\)

Labour conditions in developing countries are often extreme, with long working hours under bad conditions, no safety regulations, low wages and sometimes the use of child labour. The problem is often caused by poor safety nets and bad legislation. Companies have low labour costs at the expense of their employees’ safety. Workers are most often not allowed to get involved in trade unions.\(^\text{36}\) Governments can also use social dumping. By constructing laws that prevent workers from organising, they prevent workers from bargaining collectively

\(^{33}\) There are different forms of dumping, such as price-, environmental- and social dumping.
\(^{34}\) GATT article VI, in Wen Xi (1995), p.15.
and limit their ability to gain a greater part of companies’ profit, which can result from labour productivity increases.\textsuperscript{37}

The ideas about how to deal with social dumping depend on the participant’s view and background. Producers and trade unionists in developed nations, see the competition from developing countries as a threat. They believe that developing countries compete on an unfair basis, using bad labour conditions as their comparative advantage. There is a risk that the Western producers are being protectionists, and do not want to lose market advantages in favour for developing countries.\textsuperscript{38} Many consumers and interest groups world-wide, find it morally incorrect to trade with countries that compete by using child labour for an example. These groups want to restrict trade with developing countries that have bad labour conditions, through implementing a social clause on trade with these countries. The definition of a social clause is according to Liemt:

A social clause aims at improving labour conditions in exporting countries by allowing sanctions to be taken against exporters who fail to observe minimum standards. A typical social clause in an international trade arrangement makes it possible to restrict or halt the importation or preferential importation of products originating in countries, industries or firms where labour conditions are inferior to certain minimum standards.\textsuperscript{39}

In the following section we will discuss the effects of a social clause.

\textbf{2.4.1 Imposing a Social Clause}

A social clause works as an import restriction. Implementing a social clause affects both developed and underdeveloped countries. In the short-run, domestic producers in developed countries gain protection from foreign competition. Producer surpluses increase, a in Figure 2.3. Because of the protected industry the employment remains unaffected. Consumers have to pay a higher price, (consumer surplus is illustrated by a + b + c + d). In the underdeveloped country, the producers’ export revenues decrease, g in the Figure, because of export restrictions. Supply surplus is illustrated by g in the Figure. The consumers are in the short-run unaffected but there is an increase in unemployment as a result of the diminishing export sector. The amount of welfare losses depends on the market situation in the country.

\textsuperscript{37} Michalos (1997), p.220.
\textsuperscript{39} Liemt (1998), p.434.
Prices rise for consumers in developed countries. In underdeveloped countries there is a shift from the export sector to the domestic sector, which is often much more under developed. If it had been effective, the producers would have already chosen to work in the domestic sector. The high unemployment rate might become permanent, would risk affecting social stability.

### 2.4.2 The Third World’s Perspective on Social Dumping

The Third World is sceptic towards to combine rules for trade, with environmental restrictions and social clauses. They fear that the restrictions are an excuse for the developed world to close the door to the world market and to regulate competition.\(^{40}\) Developing countries are afraid that social clauses will hinder their industrial development, and take away their most important comparative advantage of low-cost labour production.\(^{41}\) Many underdeveloped countries focus on economic growth. The Solow’s growth model shows which factors that are important for economic growth.

### 2.5 The Solow Growth Model

The Solow growth model is dynamic and includes factors as saving, population growth and technological progress. The model shows the total affect of the output in the economy over time. It also explains why countries have different living standards. The efficiency of production per worker, depends on the capital per worker, see equation 2.1. The production function is assumed to be constant return to scale.\(^{42}\)

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\(^{42}\) Mankiw (1997), p. 80ff.
\[(2.1) \quad \frac{Y}{L} = F\left(\frac{K}{L}, 1\right) \quad y = f(k)\]

When an extra unit of capital is introduced in the production function the effect on output per worker can be shown by the slope of the production function.

\[(2.2) \quad MPK = f(k + 1) - f(k)\]

When there is only a little capital available, an extra unit of capital gives a significant effect on the output. In the Solow model the consumption function (2.3) states that consumption is proportional to income.\(^43\)

\[(2.2) \quad c = (1 - s)y\]

The amount of capital in an economy rises as a result of investment. The investment per worker can be explained as the function of the capital stock per worker. The Solow model assumes that a high saving rate results in a higher stock of capital and level of output.\(^44\) In the long run other factors such as population growth and technology progress are also important for economic growth. The increase of workers causes a fall in the capital per worker.\(^45\) However, when technology improves there is a rise in labour efficiency. Improvements in health, education and labour skills also raise the efficiency.\(^46\)

In a country that lacks capital, every extra unit of capital becomes important for the output. FDI contributes with new capital, and has as a complement to trade become more and more important.

### 2.6 Foreign Direct Investment

FDI refers to investments in companies in foreign countries, where the investor keeps a certain level of control over the company and its capital. There are different kinds of investment structures, such as direct ownership and partial ownership. FDI does not only cover financial matters whereby companies transfer capital between each other, but also the establishment of foreign subsidiaries. FDI is, to a large extent, about transferring technological and organisational knowledge and can be seen as a complement to trade. According to John H. Dunning’s ‘eclectic paradigm’, FDI only occurs when three conditions are met. These conditions are **ownership specific advantage, location advantage and internationalisation**

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\(^{43}\) Mankiw (1997), p.82f.

\(^{44}\) Ibid, p.84.

\(^{45}\) Ibid, p.99.

\(^{46}\) Ibid, p.103.
opportunities. Ownership specific advantage means that the company involved in FDI has an advantage in for example technology. Ownership advantage is an internal advantage for the company. Location advantage means that there must be benefits in producing the product locally. Such benefits can for example be cheap labour, low transportation costs or tariffs. Location advantage is external to the company. Internationalisation advantage refers to that a company uses its advantage rather than selling or leasing it to a new market.47

Factors that global companies have to consider when investing and establishing abroad include the climate for entrepreneurship, if the country is economically stable and if a legal system exists that is favourable for foreign investments.48 International companies are becoming more and more important in the global economy. They offer knowledge, technology, capital and job opportunities. Companies are decentralising their control systems in the sense that international companies manage capital and knowledge, while subcontractors take care of other stages in the production. Often subcontractors compete with low prices rather than quality.49

During recent years, FDI has increased more than both world trade and industrial production.50 Developing countries are receiving capital inflows through foreign investments. Today FDI often is larger than aid in developing countries.51 Multinational Corporations (MNC’s) often have much better production techniques and knowledge than domestic producers.52 MNC’s can, through FDI, exploit ‘localisation advantage’, and technological knowledge can be introduced to the world more cheaply. There is a correlation between growth and FDI in developing countries, but FDI can ‘crowd-out’ domestic investment, because of the impact of capital formation and capital flows. Capital flows might sometimes indicate a higher rate of capital formation excess in the country.53 It is difficult to comment on the total investment effect. FDI influences a country’s balance of payments on three levels, namely the capital balance, the trade balance and the balance on current account. The transaction of capital affects the capital balance. This might lead to possible gains on the

51 Axelsson Nycander (1999), p.11.
53 MPI and UNDP 2001, p.9f.
balance on current account and eventually the trade balance show the influence of the product delivery.\(^{54}\)

### 2.6.1 Joint Ventures

There is a difference between investment through Joint Venture (JV) and direct investment. JV is a way to expand into foreign markets by first establishing a contact in the chosen country. In order to be described as a JV, each company must own at least 5 percent. Often JV’s are constructed with one foreign- and one local company. This makes it easier for foreign firms to enter the new market concerning employees, contacts and property. A JV reduces the risks, because potential losses are shared among more than one party. In some countries, a JV company has to have local knowledge in order to invest. Working in a JV can be difficult when it comes to understanding different cultures and language barriers. Sometimes local interest makes it difficult to decide what is best for the company. One example is that local companies can prefer to produce locally, even if it is cheaper to produce elsewhere. It is important that the parties joining a JV have the same goals.\(^{55}\) To establish a new company abroad is often very expensive. The costs are connected to finding suitable employees, establishing contacts, buying equipment, find establishment and so forth.

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3 VIETNAM

3.1 Background

The Socialist Republic of Vietnam was founded on the 2nd of July 1976. The Communist Party is the only party allowed. Vietnam has no free press and questioning the socialist system is not allowed.\(^{56}\) The country is 1 600 kilometres long, covers an area of 331 114 km\(^2\), and has boarders with China, Laos and Cambodia. The population is approximately 80 million people.\(^{57}\) Vietnam is divided in 61 provinces, including the big cities. Buddhism stands for 65-70 percent of the practised religions.\(^{58}\)

In 1998 the total GDP was USD 27 184 million and USD 350 per capita. The greatest part of GDP comes from the service sector, with 41 percent. The rest of GDP is split almost equally between agriculture and industry, as illustrated in Figure 3.1.\(^{59}\)

![Figure 3.1. Distribution of Vietnam's GDP](image)

Source: Asia 2001 yearbook, s.12ff.

Since 1986 Vietnam has tried to implement a market economy. Unfortunately, the political system is time-consuming, and changes in the political field have been hard to achieve. Vietnams’ relations with the rest of the world have improved during the 1990’s, and growth has increased. Nevertheless there is a risk that the ineffective State will slow down growth. Because of the Government’s inconsistent policy towards the market it is difficult for companies to invest in the country. During the Ninth Party Congress, in the middle of April year 2001, the Communist Party said that it wanted to see an increase in economic growth, but without widening the gap between rich and poor.\(^{60}\)

The Government exercises a strict control over its citizens and restricts civil liberties on grounds of national security and social stability. The people’s situation has improved during


\(^{57}\) Ibid, p.5.

\(^{58}\) Ibid, p.5.

\(^{59}\) Asia 2001 yearbook, p.12ff.

\(^{60}\) Ibid, p.213.
the 1990’s, but the development of human rights is still poor. Lately, however the Government has opened up and is willing to discuss human rights problems with other governments.61

3.1.1 Doi Moi

In 1986 a new gradual reform of the economy and society began. It is referred to as ‘Doi Moi’, the renovation, and has lead to a significant change in the Vietnamese economy. Before Doi Moi, Vietnam was a centrally planned, Soviet-style economy, compared to the more mixed economy of today.62 Because of the low purchasing power of the Vietnamese people, foreign trade was highly prioritised by Doi Moi. Overseas markets became important for Vietnamese export. One of the most remarkable changes since the start of Doi Moi has been the State’s reduced share of trade.63 Development is still in progress, with the Vietnamese Government willing to let the private sector expand, and to reform the institutions as well as the State Owned Enterprises SOE’s. At the same time, it is afraid of loosing control. Furthermore, the stagnation and macroeconomic instability before Doi Moi, has given way to reasonably stable prices and rapid growth.64

The effects of Doi Moi on living standards have been positive. During its first ten years, poverty has been reduced by a third. The health service has become available to a larger part of the population, as have safe water and education.65 Even if poverty has been reduced, the gap between rich and poor is widening.66

3.1.2 Understanding Vietnamese Society

Vietnam’s history has been coloured by several wars, which has affected the Vietnamese mentality. The education level is low because the wars forced men to join the army instead of getting an education.67 If the Vietnamese people had not been struggling through so many wars, they would probably have come further in the development process. This is especially so since the Vietnamese mentality is strongly affected by the philosopher Confucius, who believed that education is fundamental in life.

63 Jerneck (1995), p.44.
65 Ibid p.2.
66 Hoang (2001), interview 24/05/01.
67 Nguyen (2001), interview 08/06/01.
Vietnam has a ‘consensus government’, which means that there is no competition within the Government. Trade unions are not independent, but passive representatives of institutions and employees. Strikes mostly occur in foreign companies, and only a few in domestic companies. Decisions in SOE’s are made collectively in institutions and are not always what is best for the workers, rather they reflect institutional interests. Workers in domestic companies do not have the opportunity to strike. Another problem in Vietnam is that there are so many workers that there will always be someone who are prepared to work, no matter what the conditions are like.  

Generally people do not trust banks, preferring to borrow money from family and friends. Despite that, bank lending has increased in Vietnam. The problem is that the banks have been lending to unproductive SOE’s who cannot pay back their loans.

3.2 Vietnam Today
Vietnam has close ties with China and has recently asked for advice in transforming its economy without weakening the Communist Party’s strength. China is more or less the only role-model left to Vietnam, since the break up of the Soviet-Union. The reformation of Vietnamese society in socio-economic terms is far from finished. The Government has developed a *Socio-economic Development Strategy* (SDS) for the years 2001-2010. The main goals for this strategy are maintaining stability and sovereignty, achieving sustainable, high economic growth rates, achieving sustainable poverty reduction and equity. Today, the Government is focusing on economic growth and social development has become a secondary priority. During the period 1990-1998, Vietnam had annual growth of 8.4 percent. The country has been affected by the Asian crisis of July 1997, and there has been a slow-down in growth. Mostly because of the inter-dependence with its Asian trade partners, many of which were worse off.

Based on the internationally comparable ‘poverty line’, 29 million people in Vietnam live below the poverty level. Family planning has been compulsory since 1986. Parents with

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68 McCarthy (2001), interview 09/05/01
70 Ibid, p.7f.
72 *Asia 2001 yearbook*, p.12ff.
74 The World Bank defines the poverty line from a weekly income of USD 7.50 per person. Vietnam’s own poverty line is USD 5.70 in mountainous areas, USD 7 in rural areas and USD 10.50 in the cities.
more than two children risk being punished in the form of higher taxes or being made redundant from state employment. In 1998 the total fertility rate was 2.3 percent.

3.2.1 Institutions

Institutions and ministries in Vietnam are well established, but there is a problem with corruption. Corruption is caused by weak institutions and a weak legal framework. The Government is working to strengthen the country’s legal framework, but there are too few lawyers. It is also working on more transparent salaries for the state employees, based on quality and performance. Today, the salary is a base sum, and those in higher positions often receive benefits such as a car, driver, house and subsidised utilities. Because of the low base salary, starting from USD 15 a month, the corruption will most likely not disappear with the old system. However, a change in the system can lead to inflation.

3.2.2 State Owned Enterprises

Before Doi Moi, employees in SOE’s were granted lifetime employment. The Government set wage levels and social insurance. Because there was excess demand for jobs, SOE’s recruited more labour than needed. Over employment resulted in low motivation and inefficiency. In 1998 the total number of SOE’s was 5,462, and the number of employees was 1.6 million.

Privatisation is increasing in Vietnam; despite the fact the Government is sceptical against it. Within the next three years, around 2,300 SOE’s are expected to be privatised. The Government has a plan to reduce the number of SOE’s to 250-300. Today, the unproductive SOE’s are more or less bankrupt. It will become even harder for the SOE’s when imports are no longer restricted and they face foreign competition. In order to cope with competition the SOE’s need to reform. The reform of ineffective SOE’s is giving rise to a labour problem; it will lead to higher unemployment. Neither the State nor the SOE’s have sufficient assets to pay the workers who become redundant. This can threaten social stability.

77 Asia 2001 yearbook, p.12ff.
The development of the SOE’s has been weak. Low productivity and quality is the result of working with obsolete machinery and equipment. The attendance is generally low at work and having many employees is both a way for the employers to make sure they have a complete workforce, and also a matter of status. SOE’s borrowing from the international market has also contributed to the country’s growing external debt. In 1996 the external debt, in convertible currencies was approximately USD 8.3 billions, around 35 percent of GDP.84

3.3 Vietnam and Labour

The preliminary figure for the total employed labour force in 1999 was approximately 38,5 million.85 The Vietnamese labour force is constantly increasing. Prognoses for the period 2001-2010 suggest that the labour force will increase by 2.4-2.5 percent. Around 1.4 million people enter the labour market yearly.86

Vietnam has only 8.1 million hectares of agricultural land and it is estimated that the agricultural sector is in maximum need of 19 million people. This results in a rapid urbanisation.87 This can cause problems as these workers are often low-skilled and there are difficulties in finding jobs.88 The table below shows the distribution of employment in the industry, rural and urban sectors.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Rural</th>
<th>Urban</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>79.23</td>
<td>13.43</td>
<td>66.28</td>
</tr>
<tr>
<td>Industry</td>
<td>9.05</td>
<td>30.18</td>
<td>13.21</td>
</tr>
<tr>
<td>Services</td>
<td>11.72</td>
<td>56.39</td>
<td>20.52</td>
</tr>
<tr>
<td>Rural/urban</td>
<td>80.31</td>
<td>19.69</td>
<td>100.00</td>
</tr>
</tbody>
</table>


The private sector is becoming more important in Vietnam as a ‘job-creator’. Small and medium sized enterprises are now considered to be the backbone in the modern society, as Vietnam is struggling with a high unemployment rate, around 30 percent of the economically active population.89 Even if the Government is afraid of losing control, the private sector is growing, as a consequence of a rapid growth of small family businesses. In Figure 3.2 the volume of the circles represents the relative share of the total labour force. The figure

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84 Kokko (1998), p.3.
85 Asia 2001 yearbook, p.12ff.
87 Ibid, p.4.
88 Hoang (2001), interview 24/05/01.
89 Schyner (2001), interview 07/05/01.
illustrates the amount of family and village networks in Vietnam. These are hard to control and it is difficult to say how many are employed in this sector.

**Figure 3.2. Vietnam’s Dual Economy in Perspective**

![Diagram showing the non-state and state sectors](image)


The cost of labour in Vietnam is low in comparison to other countries in East and Southeast Asia. Vietnam is seeking to take advantage of its low cost-labour and proclaims that it is its comparative advantage. A low-skilled work force often produces low quality results. In 1991-2000, the average labour productivity rate increased by 6.54 percent. The average level of individual annual labour productivity was only about USD 743 per worker. Only 22 percent of the workers were trained. Between 1991-2000 the average level of profitability per worker was gradually reduced. Highly skilled workers are a minority. Wages are insufficient, and this in turn has resulted in a society with low motivation in labour productivity, and has invited corruption.

General policy guidance and direction is controlled centrally by the *Ministry of Education and Training* (MoET). The education level between 1997-98 is illustrated in table 3.2.

**Table 3.2. Education Level, 1997-98 (percent)**

<table>
<thead>
<tr>
<th>Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than primary</td>
<td>29.56</td>
</tr>
<tr>
<td>Primary</td>
<td>27.05</td>
</tr>
<tr>
<td>Lower secondary</td>
<td>25.24</td>
</tr>
<tr>
<td>Lower technical</td>
<td>3.26</td>
</tr>
<tr>
<td>Upper secondary</td>
<td>7.59</td>
</tr>
<tr>
<td>Upper technical</td>
<td>4.74</td>
</tr>
<tr>
<td>University</td>
<td>2.56</td>
</tr>
<tr>
<td>Σ</td>
<td>100</td>
</tr>
</tbody>
</table>


---

92 Quan (1999), p.373.
Because of the poor technological skills in Vietnam, companies that invest in the country often want to bring in expatriate staff. This right is limited by the State. The amount of expatriate labour is controlled and has to be approved by the Ministry of Planning and Investment (MPI). Foreign investment companies also have to agree on training programs for Vietnamese people so that they can eventually take over.93

There is a minimum wage rule in Vietnam, but it is difficult to be certain if it is followed, and how much people really earn, because they often have more than one job. Wages also differ by region. If measured on a PPP basis, minimum wages for foreign enterprises in Hanoi and Ho Chi Minh City are USD 215 a month. For foreign enterprises located outside big cities the wages are USD 165 per month this could be compared with the SOE’s, were the rate is USD 60 a month. In other sectors the minimum wages can be as low as USD 15-20 a month.94

In Vietnam there are three stages of dealing with bad labour conditions. When a company behaves wrongly it is given a warning, and if the company does not make any changes it is punished. If no remedies are made, the Government will cancel the company’s licenses for production. In order to deal with bad labour conditions, Vietnamese newspapers frequently publish the events and as a result, some companies have been told to leave.95 One of Vietnam’s problems concerning labour is that there is a lack of statistical and systematically collected information about the labour situation. This kind of information is hard to obtain.96

Mr Nguyen, Director of the international department at Vietnam General Confederation of Labour (VGCL), argues that the labour situation is dependent on the economic situation. Foreign investment is good for improving living standards, but raises labour disputes. The main reason is that some foreign investors do not follow the Labour Code. This is a challenge for the trade union movement.97 VGCL have two amendments; there must be a fixed working time, because this is often violated, and there must be social improvements for women. If abuses occur, employers are taken to the labour court. The punishment is financial. Only once has a manager for a foreign company been deported after violating the Labour Code.98

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95 Hoang (2001), interview 24/05/01.
96 Manyin (2001), p.3.
97 Nguyen (2001),interview 08/06/01.
98 Ibid.
In SOE’s the main problem when it comes to labour conditions is different. Wages are low, and not always delivered on time. A lack of capital results in obsolete equipment and low working security.99

3.3.1 Child Labour
Child labour is the same as creating a future generation poor. A Government report made in 1998 states that Vietnam has approximately 2.3 million child workers. However, recent figures suggest that child labour is no longer rising. Many families have no other alternatives than putting their children into work. Child workers often start to work at an age of 13-14 years. They work around seven to eight hours for USD 1 a day.100 The Government make a distinction between ‘child labour’ and ‘child work’, and believe that it is all right for children to work, as long as it does not interfere with school or their well-being. The Ministry of Labour crack down when a case of abuse is discovered.101

In rural areas there are a lot of children helping their families instead of going to school. Today, some rural areas have evening classes, but many children are too tired to attend them after a long day of work. United Nations Children’s Fund (UNICEF) is working to improve the child labour situation together with the Government. UNICEF is trying to reform the relevant legal instruments, strengthen enforcement, provide education about children’s rights and improve the public awareness of the child labour problem.102

In rural areas, child labour is mostly connected to household farming activities, but in the urban areas non-farm and wage work are more common.103 Street child labour exists. Children come from their villages to seek jobs in the cities. The Ministry Of Labour- Invalids And Social Affairs (MoLISA), has a project to bring street children in to school. This has been a success in Da Nang.104

Mrs Greve, Director of ILO in Vietnam, argues that there is not more child labour in Vietnam than in other Asian countries. It is controlled in the formal sector, but in the informal sector the problem is getting worse. There is an increasing problem with trafficking, both young women and children. The situation is worse in agricultural areas because they are harder to control. The Government tries to deal with it when discovered. The division of child

99 Hoang (2001), interview 24/05/01
101 Greve (2001), interview 09/05/01
104 Phung (2001), interview 08/05/01.
labour and children working is not clear. Therefore the amount of child labour can be higher than the official statistics shows.\textsuperscript{105}

3.3.2 Recommended Labour Standards in Vietnam

In 1995 Vietnam established its first labour law, referred to as the ‘Labour Code’. The Labour Code applies to both domestic and foreign companies and involves issues such as maternity leave, maximum working hours, overtime payment, minimum wages. The code is not always followed, often because employees do not always understand the law and are not really trained or used to working with the Labour Code. In fact many workers are still unaware of the law.\textsuperscript{106} The Labour Code is very extensive and has too many details. A great concern for the Government is how to implement the Labour Code and control it. In many cases the Labour Code is contradictory.\textsuperscript{107} MoLISA is working on a new edition of the Labour Code. The Labour Code is not suitable for the textile and garment industry, where the code on maximum time for extra work, 200 hours a year, is frequently disobeyed. The excuse is said to be that they have to cut down the delivery time in order to be able to compete on the world market.\textsuperscript{108}

Mr Phung, Chief at Vietnam Chamber of Commerce and Industry (VCCI), believe that developing countries should have their own way of development and that there should be no restrictions, as for example, with social clauses.\textsuperscript{109} When VGCL obtain information about bad labour conditions they try to discuss the matter with the company involved and to solve the problem.\textsuperscript{110} Mr Phung argues that there is no control if foreign companies follow the Labour Code. Inspections are approximately equivalent to zero.\textsuperscript{111} The Labour Code affects nine million workers in the domestic and foreign sector. Only 350 000 of these are in the foreign sector.\textsuperscript{112}

VGCL uses their newspaper \textit{Lao Dong} as a tool to inform its workers and create awareness. In the newspaper, they criticise and discuss bad labour conditions. Mr Nguyen believes that VGCL has to improve in the area of foreign investment, but to do this they have to make a great effort, and ‘go out’ and talk to their workers. Mr Nguyen believes that Vietnam has to implement the Labour Code more seriously in order to improve labour

\textsuperscript{105} Greve (2001), interview 09/05/01.
\textsuperscript{106} Manyin (2001), p.10.
\textsuperscript{107} Greve (2001), interview 09/05/01.
\textsuperscript{109} Phung (2001), interview 08/05/01.
\textsuperscript{110} Nguyen (2001), interview 08/06/01.
\textsuperscript{111} Phung (2001), interview 08/05/01
conditions. Health and safety conditions at work are not sufficient. Many unsafe workplaces exist, but the government is working to improve them. Issues such as poverty and hunger are discussed at the Ministry of Labour, and linked to employment. Mrs Greve believes it is unusual that governments in the Third World are aware of the connection between poverty, unemployment and bad labour conditions, but that the Vietnamese Government are aware of this relationship.

According to MoLISA, around 218 job-accidents were reported annually between 1990 and 1996. From 1997-1999, the number of accidents increased, reaching around 308 on average per year. The Labour Protection Bureau (LPB) believes that, in reality, there are far more accidents than reported. A poor and unsafe labour environment causes most of the accidents. Vietnam has had a lot of problems with South Korean and Taiwanese companies considering these issues. Even American companies such as NIKE and Delphi Co, have been accused of having bad work environments.

Strikes are allowed by the Labour Code but are only legal if they are declared by the trade union. During 2000 there were 71 strikes, and of these, 43 percent were in JV’s. The strikes appeared mostly in South Korean and Taiwanese companies. VGCL has discussions with trade unions in South Korea in order to improve labour conditions and increase their awareness. They also have meetings with South Korean companies to reach mutual understanding and respect.

3.3.3 Labour Union

Vietnam General Commission for Labour (VGCL) was established on the 28 of July 1929 and is the united trade union. All trade unions are in some way connected to VGCL. The State believe that free trade unions would cause fragmentation and weaken the power of the union. The head of the trade union is sometimes also engaged in management, and therefore not always on the workers’ side. These different interests create problems. Mr Phung, Chief at Vietnam Chamber of Commerce and Industry (VCCI), argues that Trade Unions should be independent and work in co-operation with the employees to be able to solve disputes between

112 Nguyen (2001), interview 08/06/01.
113 Ibid.
115 Greve (2001), interview 09/05/01.
117 Ibid, p.5.
118 Nguyen (2001), interview 08/06/01.
employers and employees.\textsuperscript{119} Today VGCL has 4.3 million members, which is a small amount, considering the work force of 38.5 million people. VGCL expects the number of members to rise as the country becomes more industrialised.\textsuperscript{120} Only 3 percent in the private sector are members of VGCL. In 1999, around 2.5 million employees were working in the private sector.\textsuperscript{121}

VGCL’s task is to represent workers’ interests and to contribute to the social development of the country. VGCL also works to strengthen its co-operation with other countries. VGCL follows article 10, National Constitution of the Socialist Republic of Vietnam (1992):

The Trade Union being the socio-political organisation of the working class and the labouring people, in co-operation with government agencies, economic and social organisations, takes care of and safeguards the right and interest of cadres, worker, employees and other labouring people: It participates in State administration and social management, in the control and supervision of the government agencies, economic and social entities: It educates cadres, workers, employees and other labouring people to do their at most for national construction and defence.\textsuperscript{122}

VGCL has the right to send delegates to government meetings. The Government has to discuss social issues with VGCL before taking action.\textsuperscript{123} VGCL and workers are not always in agreement.\textsuperscript{124} VGCL argue for industrial stability and low wages rather than high. It can be questioned weather these demands are linked to the poorest workers.\textsuperscript{125}

As Vietnam has started to open up, the need for trade unions has become larger. In order for the State to keep control of labour in the private sector it needs to organise. The open debate in Vietnam over labour issues shows that Vietnam is willing to work on these issues.\textsuperscript{126} Collective bargaining has to start existing on the enterprise level and Vietnam has started a process of learning to understand how to bargain collectively.\textsuperscript{127} Educational help has been received from Swedish trade unions.

\textsuperscript{119} Phung (2001), interview 08/05/01
\textsuperscript{120} Nguyen (2001), interview 08/06/01.
\textsuperscript{122} Ibid.
\textsuperscript{123} Ibid.
\textsuperscript{124} Ibid.
\textsuperscript{125} Greve (2001), interview 09/05/01.
\textsuperscript{127} Phung (2001), interview 08/05/01.
3.3.4 Vietnam and the ILO

Vietnam has problems with discrimination against women, ethnic minorities, child labour and prostitution. The Government prohibits some fundamental labour rights but has recently started working with the ILO on making improvements. Vietnam has been a member of the ILO since 1992, which established an office in Hanoi in January 2001. The ILO wants to help Vietnam implement the core conventions, to deal with poverty, employment creation and the promotion of a safe working environment. Since 1992 Vietnam has ratified 15 conventions. This includes three of the ILO’s core conventions, no.100 (1997) no.111 (1997) and no.182 (2000). Vietnam is now working on the remaining core conventions and might soon ratify both the conventions on forced labour and minimum age. Vietnam is also considering ratifying the ILO’s core conventions no.98 and no.138. Convention no.98, is included in the Labour Code, and gives permission for workers to strike under some circumstances. Strikes are not allowed in the public sector and in institutions deemed vital to national security, such as oil, gas, banking and transportation.

Vietnam has not ratified the ILO’s two conventions on forced labour, but has asked the ILO for help in doing so. In the labour code it is said that maltreatment and forced labour are against the law, but still Vietnam has some of these problems. The Communist Party is demanding that all workers between the age of 18 and 45 must fulfil 10 days community service without payment. If a person does not want to do community service he/she has to pay a fee. The problem is that people with good economy can pay a fee to be free from this duty and a person without money has to work. These people that have to work are normally those that have problems with getting a couple of days off work, because they need the money. As a consequence they loose their payment when being away from work. Convention no.29 and no.105 about forced labour will most probably be ratified in a near future.

Convention no.100 is followed satisfactorily and the Government is currently working on gender equality.

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128 Greve (2001), interview 09/05/01.
129 Ibid.
131 Ibid, p.13f.
132 Ibid, p.18f.
3.4 Vietnam and Trade

Japan is Vietnam’s biggest export market. Vietnam has significant oil exports and is, the next biggest coffee exporter, after Brazil, and the third biggest rice exporter in the world.\textsuperscript{135} Vietnam trades mostly with surrounding countries partly because of lower prices and transportation costs, but also because of a lack of foreign currency.\textsuperscript{136}

In 1997 Vietnam had a large trade deficit. In order to deal with the problem and to avoid a crisis in its balance of payments, there was a severe tightening of import controls. It concentrated on limiting the import of consumer goods through strict quantitative restrictions and temporary import prohibitions. The import to the companies was controlled through licensing. All trade restrictions affected FDI negatively, and in 1997, the applications for FDI licenses decreased by 50 percent.\textsuperscript{137} In April 2000 there were 11 items that had a quantitative restriction; these were oil, petroleum, motorcycles, automobiles, construction steel and iron, cement, vegetable oil, sugar, paper, alcoholic beverage and construction glass. These goods, excluding petroleum compete with domestic import-substituting industries and that is why quotas have been very restricted. Many quotas will be replaced by tariffs by 2001.\textsuperscript{138} The average tariff is 16 percent on Vietnamese imports.\textsuperscript{139} Quotas on cars, automobiles, motorbikes and alcohol will remain.\textsuperscript{140}

Table 3.3. Vietnam’s Trade Pattern

<table>
<thead>
<tr>
<th>Principal exports 2000 (% of total)</th>
<th>Principal imports 2000 (% of total)</th>
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<tbody>
<tr>
<td>Crude oil</td>
<td>Steel and iron</td>
</tr>
<tr>
<td>Textile and garments</td>
<td>Refined petroleum</td>
</tr>
<tr>
<td>Marine products</td>
<td>Motorbikes and cars</td>
</tr>
<tr>
<td>Footwear</td>
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<tr>
<td>Rice</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Crude oil</td>
<td>25.0</td>
</tr>
<tr>
<td>Textile and garments</td>
<td>14.3</td>
</tr>
<tr>
<td>Marine products</td>
<td>10.3</td>
</tr>
<tr>
<td>Footwear</td>
<td>9.8</td>
</tr>
<tr>
<td>Rice</td>
<td>4.7</td>
</tr>
<tr>
<td>Steel and iron</td>
<td>17.5</td>
</tr>
<tr>
<td>Refined petroleum</td>
<td>13.3</td>
</tr>
<tr>
<td>Motorbikes and cars</td>
<td>6.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Main destination of exports 1999 (% of total)</th>
<th>Main origins of imports 1999 (% of total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>Singapore</td>
</tr>
<tr>
<td>China</td>
<td>Japan</td>
</tr>
<tr>
<td>Singapore</td>
<td>Taiwan</td>
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<tr>
<td>Australia</td>
<td>South Korea</td>
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<tr>
<td>Taiwan</td>
<td>Sweden</td>
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<tr>
<td>Germany</td>
<td>Thailand</td>
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<td></td>
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</tr>
<tr>
<td>Japan</td>
<td>15.5</td>
</tr>
<tr>
<td>China</td>
<td>7.5</td>
</tr>
<tr>
<td>Singapore</td>
<td>7.1</td>
</tr>
<tr>
<td>Australia</td>
<td>7.1</td>
</tr>
<tr>
<td>Taiwan</td>
<td>5.9</td>
</tr>
<tr>
<td>Germany</td>
<td>5.7</td>
</tr>
<tr>
<td>Singapore</td>
<td>16.2</td>
</tr>
<tr>
<td>Japan</td>
<td>12.9</td>
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<tr>
<td>Taiwan</td>
<td>12.7</td>
</tr>
<tr>
<td>South Korea</td>
<td>12.4</td>
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<tr>
<td>Sweden</td>
<td>6.8</td>
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<tr>
<td>Thailand</td>
<td>5.9</td>
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\textsuperscript{136} Tran (2001), interview 04/06/01.  
\textsuperscript{137} Kokko (1998), p.5.  
\textsuperscript{138} Hakkala mfl (2001), p.18.  
\textsuperscript{139} Tran (2001), interview 04/06/01.  
\textsuperscript{140} Larsen (2001), interview 07/05/01.
There are few restrictions on exports, some can be found in the garment industry. In 1999 tariffs were revised. As a result the maximum standard tariff was reduced from 60 to 50 percent. Exceptions were made for very sensitive goods. In early 2000 the number of tariffs was 19. One of Vietnam’s biggest trade problems is trade policy with *non-tariff barriers* (NTB), which are a form of import quotas. NTB’s are very expensive for the economy, but are used by the Government in order to protect local production and regulate supply and demand for goods that are of strategic importance. The IMF ranks countries according to their level of protectionism, giving Vietnam a rating of 9 out of 10.

Vietnam imports mostly machinery, which is needed for the country’s productivity. Export has also been growing, mainly because of increased world oil price. Year 2000, imports increased by 45 percent. In recent years imports have increased more than exports, but during 1999 the trade deficit decreased to USD 82 million. In 1999 Vietnam’s exports was USD 11,540 billion and imports USD 11.622 billion. The development of Vietnam’s exports and imports during the years 1991-1999 is shown in figure 3.3.

**Figure 3.3.** Time-series Over Vietnam’s Export and Import, 1991-1999, (USD billion)


Vietnam exports goods that are produced from local raw materials. It is therefore not the export sector that is the target for imports, rather products for consumption and products that are as yet too advanced for their own economy and industry. Figure 3.4 shows the structure of demand in Vietnam.

142 MPI and UNDP (2001), p.28.
143 Larsson (2001), interview 11/05/01.
144 Larsen (2001), interview 07/05/01.
3.4.1 Trade Agreements

After the ‘American war’ relations with the USA were ruined. Today relations have started to normalise. In July 2000 Vietnam and the USA signed the *Bilateral Trade Agreement* (BTA), which will give Vietnam access to the US market. Vietnam has also joined the *Association of South East Asian Nations* (ASEAN) and *Asian Pacific Economic Co-operation* (APEC), and applied for a membership in WTO in 2006.\(^{146}\)

On the 28\(^{th}\) of July in 1995, Vietnam became an official member of ASEAN. Being a member of ASEAN means that the country gets access to the *ASEAN Free Trade Area* (AFTA). The purpose of AFTA is to reduce tariffs on intra-regional trade under the *Common Effective Preferential Tariff* (CEPT). Tariffs on intra-regional trade should be reduced to no more than 2 percent by 2003. However, Vietnam has an exception until the year 2006.\(^{147}\)

In 1998, Vietnam formally entered the *Asian Pacific Economic Co-operation* (APEC). This entrance required Vietnam to undertake trade and investment liberalisation. The goals are for free and open trade and investment to be the objective for developing countries until 2020, and 2010 for industrialised countries. APEC commitments are not binding as commitments within CEPT and the WTO are.\(^{148}\)

An ease of the EU’s trade barriers, in particular garments and textiles, has led to an increase in Vietnam’s export. Access to the US market, through the BTA, will also be positive for Vietnam’s export.\(^{149}\) However, the BTA with the US has started to crack with the new president MR Bush, the US claim better labour conditions, but Mr Phung, Chief of VCCI, believes that they have another objective.\(^{150}\) BTA does not deal with labour, but the US senate

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\(^{148}\) Ibid, p.55.
\(^{149}\) Asia 2001 yearbook, p.215f.
\(^{150}\) Phung (2001), interview 08/05/01.
focuses on labour conditions anyhow.\textsuperscript{151} The relationship with the USA is very significant for Vietnam’s candidacy to the WTO, considering the power that the US holds in the WTO.\textsuperscript{152}

### 3.4.2 A Vietnamese Membership in the WTO

The WTO is built on the principle of the \textit{Most Favoured Nation} (MFN). This principle guarantees that member states are being treated equally. Exclusions can be made for different \textit{Free Trade Areas} (FTA) that have other rules.\textsuperscript{153}

Before membership of the WTO can become reality, Vietnam must make great changes in its trade policy. Some of the changes are not to subsidies directly or indirectly, reform the SOE’s and to take away the quantitative restrictions on trade and goods. Licenses are required for all basic business activities and can be viewed as a form of quantitative restrictions. The problem with the licensing system is also that it in some sense ‘encourages’ corruption.\textsuperscript{154} The Government is currently working with a significant reduction of the licensing system.

For Vietnam to be able to join the WTO, it has to implement institutional reform.\textsuperscript{155} It also has to obey non-discrimination, meaning that Vietnam should not discriminate between domestic and foreign products, services and nationalities. Trade barriers have to be reduced through negotiation. The average tariff on 16 percent must be reduced by 8-10 percent.\textsuperscript{156} The use of non-tariff trade instruments shall be limited.\textsuperscript{157} There are four principles of advantages in joining WTO\textsuperscript{158}:

1. No discrimination, equalised treatment when trade in goods, services and investments.
2. Reduced import tariffs and non-tariff barriers.
3. Trade policy clearer and more transparent.

Vietnam has shown great interest in participating in the WTO. Membership of the WTO would imply multilateral trade agreements for Vietnam, which so far has only bilateral trade agreements. The main opinion is that WTO membership is not possible for at least 10 years.

\begin{thebibliography}{9}
\bibitem{151} Greve (2001), interview 09/05/01.
\bibitem{153} Hellsten- Osarenkhoe (2000), p.117.
\bibitem{154} Chance (1997), p.5.
\bibitem{155} MPI and UNDP, p.8.
\bibitem{156} Tran (2001), interview 04/06/01.
\bibitem{157} MPI and UNDP (2001), p.35f.
\bibitem{158} Tran (2001), interview 04/06/01.
\end{thebibliography}
3.4.3 The World Bank’s Six Pillars for Development in Vietnam

The World Bank contributes with Official Development Assistance (ODA) to Vietnam, mainly in the energy, transportation and agriculture sectors. In 1997 the World Bank disbursed USD 187 millions and was the largest distributor of ODA in Vietnam.\(^{159}\)

1. Create a supportive climate for enterprises and ‘open up’ to trade. It must keep on mobilising FDI as well as reconstructing banks and SOE’s.
2. Transform the rural economy through investments in rural infrastructure.
3. Enhancing human capacity. Even though Vietnam is a country with high literacy, school enrolment rate, low infant mortality and high life expectancy, they have a weak social service.
4. Providing efficient infrastructure services, which today are weak.
5. Improving environmental quality since pollution is growing.
6. Building modern governance.\(^{160}\)

3.5 FDI in Vietnam

FDI in Vietnam has been very attractive since Doi Moi began. The reason for this has been Vietnam’s great assets of raw material and a large, cheap labour market that can be used in the export sector.\(^{161}\) The Government knows that FDI is important for the country in order to sustain growth; therefore it has become more flexible.

Today, FDI has turned to more labour intensive investment because of the asset of cheap labour. Before, the main reason for locating in Vietnam was to gain access to new markets. Mr Larsen, economist at the World Bank in Vietnam, does not believe that increased investment will result in lower labour standards, rather the opposite.\(^{162}\)

The problem with FDI in Vietnam has been that many foreign firms started to invest in Vietnam at an early stage. Therefore the investments have not always given the expected outcome. Often the cost has been larger than the revenue gained. Before the new enterprise law, it was difficult to invest in Vietnam.\(^{163}\) The new enterprise law, constructed on the 1\(^{st}\) of January 2000, has generated 500 000 new jobs until April 2001.\(^{164}\)

JV’s are the most common way for foreign companies to invest in Vietnam, and mostly created between foreign investors and SOE’s. Recently, companies have found it easier to

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\(^{159}\) Quan (1999), p.373.
\(^{162}\) Larsen (2001), interview 07/05/01.
\(^{164}\) Glofcheski (2001), p.3.
establish whole owned firms. One reason for companies to establish JV’s instead of wholly owned firms was that it was troublesome to get hold of a license for a foreign company; it could take up to two years, while it only took half the time to establish a JV. In the licensing system, SOE’s tend to be favoured. Earlier, companies in Vietnam had to apply for a licence from the Ministry of Trade (MoT) in order to export and import. Even though liberalisation has been made, foreign enterprises still have restrictions on their imports. MPI want to train Vietnamese staff so that they can manage JV companies and improve the effectiveness of trade unions, mostly foreign capitalised companies.

The private sector in Vietnam, including domestic and foreign firms, stands for 50 percent of GDP. The new enterprise law has made it easier for private firms to establish, because it reduces costs and the administrative burden. Companies no longer have to buy licenses to establish. Vietnam tries to get hold of foreign capital through liberal investment rules. Foreign companies do not meet many restrictions. The problems they meet are the slow and corrupt bureaucracy and a weak legal system, which keep many investors away.

During 1999, the approved FDI pledges fell to USD 1.48 billion from USD 4.06 billion in 1998. During the first eight months of 2000, the FDI approvals reached USD 666 million. The first three months of 2001 showed an increase of USD 350 million in FDI capital, a 7 percent increase over the same period last year. This is said to be due to the new law on foreign investments, enacted in August 2000.

Because of the low purchasing power in the domestic market, foreign enterprises export to other markets from Vietnam. Sweden only has seven investment projects in Vietnam, of which the total capital is USD 370 million. Comviq is the biggest investor. The two-price system creates problems for investors. The Vietnamese government is working on new laws to level the playing field between foreign and domestic investors. This is a step in the direction to end the dual-price system. Foreign companies account for more than 34 percent of industrial output. The Government will in the future try to encourage investors to focus on high-tech projects in the countries industrial parks and export sectors. MPI states that FDI has

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169 Asia 2001 yearbook, p.215f.
172 Doan (2001), interview 15/05/01.
been very important in Vietnam’s development process. In Vietnam foreign companies account for more than 34 percent of industrial output. The FDI sector has created employment opportunities for 35,000 employees.174

### 3.6 Sweden-Vietnam Relations

Sweden has a very good relationship with Vietnam. Vietnamese people trust the Swedish, and Sweden has helped to build up Vietnam since 1975. Vietnam is very keen to learn more about the Swedish modern style of management, which is a form of comparative advantage. Swedish investment in Vietnam has a good reputation. In general, there have not been problems with Swedish investors, but problems can arise when companies use small sub-suppliers.175 In 2000, the import from Sweden was USD 48.5 million. The same year, export to Sweden from Vietnam was USD 69.1 million. The main items imported from Sweden are raw material chemicals and machinery. Mr Tran, Senior Officer at Ministry of Trade (MOT) believes that it is difficult to trade with Sweden because of the regulations and trade barriers within the EU, even though Vietnam has good relations with both Sweden and the EU.176

Today, Vietnam is more or less dependent on Swedish support and aid. Mr Larson, Counsellor Economist at the Swedish embassy, believes that trade between Sweden and Vietnam should increase.177 Swedish companies transfer knowledge about organisation structure that can improve the labour conditions. They also transfer their well-developed knowledge about workers’ rights.178

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175 Nguyen (2001), interview 08/06/01.  
176 Tran (2001), interview 04/06/01.  
177 Larsson (2001), interview 11/05/01.  
178 Phung (2001), interview 08/05/01.
4 COMPANY STRUCTURE

There are not many Swedish companies in Vietnam. They do not compete with one and another because they are in different branches. They have an open communication and help each other.\textsuperscript{179}

4.1 ABB in Vietnam

In 1993 ABB\textsuperscript{180} started to look for markets in Vietnam, and the year after that, ABB and the Vietnamese state-led company, CTBT, started a JV. ABB owns 65 percent, and CTBT 35 percent.\textsuperscript{181} ABB’s customers in Vietnam are mainly SOE’s. The Ministry of Industry (MOI), is the main controller of all SOE’s that trade with ABB.\textsuperscript{182} ABB’s main projects for the time being are substations for their main customer, Electricity of Vietnam (EVN).

4.1.1 Reason for Localisation and Difficulties

ABB’s main interests in Vietnam are products and complete systems for the transmission and distribution of electricity, electrical equipment and automation systems for the industrial sector oil and gas. With a population of 80 million, ABB saw great potential in both the market and work force. It wanted to enter the new market at an early stage in the industrialisation process. Mr Brekke, General Manager at ABB in Vietnam, says that maybe ABB entered the Vietnamese market too early. It had to invest heavily in equipment and infrastructure. This was very costly and therefore the investments have not yet given the expected profits.\textsuperscript{183}

Mr Brekke says that the bureaucracy in the country is a big problem as well as the corruption. This results in inefficiency as everything takes time. There is not an equal playing field for private and state-led companies. ABB’s greatest competitors, Dong Huh E.E.M.P and Thu Duc E.M.C are owned by ABB’s most important customer; EVN. This makes it difficult for ABB to enter the market and hard for it to change their prices. ABB has focused on projects with the Asian Bank and the IMF to avoid the control from the Vietnamese

\textsuperscript{179} Brekke (2001), interview 05/06/01.
\textsuperscript{180} ABB was established in 1987 as a result of the merger of Swedish Allmänna Svenska Elektriska Aktiebolaget (ASEA) and the Swiss Brown Boveri.
\textsuperscript{181} Brekke (2001), interview 23/04/01.
\textsuperscript{182} Ibid.
\textsuperscript{183} Ibid.
Government. They have had problems with market share because the Government controls everything.\textsuperscript{184}

ABB has had difficulties to reach and decide goals together with the local partner. From the outset over employment was a big problem and even to decide what contributions should make. New production methods and investment in a new machine park increased efficiency. The JV had the capacity to produce the same quantity with a third of the staff. The Vietnamese view of ‘lifetime employment’ became a big problem for ABB, when they had to reduce their staff. Another minor problem was the over-valuation of the local company’s contribution with old buildings and obsolete machinery.

In 1998 ABB had to reduce the staff, and 120 workers were made redundant. They were compensated with early retirement pension, because they were old. Later another 100 workers were made redundant. This time the employees were compensated financially according to the Labour Code. Even though the Labour Code was followed, the workers and the Government did not accept it. The process lasted for two years and ended up in the Labour Court on 8th of May 2000. The outcome was a political and financial loss for ABB. Mr Brekke states that it is very difficult for a foreign company to win in the Labour Court. It was a political verdict, but Mr Brekke argues that ABB might have been able to handle the situation better.\textsuperscript{185}

4.1.2 Suppliers

ABB has almost no local suppliers. Most of ABB’s suppliers are international. The reason for this is that the Vietnamese suppliers cannot produce to the level of ABB’s quality standards. Instead ABB imports components from overseas, for example from Japan, Sweden, Korea and Germany. ABB has global purchase agreements for prices and quality.\textsuperscript{186} According to the supply manager at ABB Transformers, even the local suppliers import goods for production from overseas because the local quality is poor.\textsuperscript{187}

ABB has a social policy based on the ILO’s core conventions that their suppliers and sub-contractors should follow.\textsuperscript{188} The social policy includes codes of conduct. ABB do not control the labour conditions of their suppliers. The important things for the company are

\textsuperscript{184} Brekke (2001), interview 23/04/01.
\textsuperscript{185} Brekke (2001), interview 05/06/01.
\textsuperscript{186} Brekke (2001), interview 23/04/01.
\textsuperscript{187} Dang (2001), interview 05/06/01.
\textsuperscript{188} Sustainability report (2000), p.65.
quality, price and timely delivery. Mr Brekke believes that a factory that produces high quality products must have good basic standards and good management.\textsuperscript{189}

4.1.3 ABB and Labour

ABB has 275 employees in Vietnam, the majority are Vietnamese, even in higher positions.\textsuperscript{190} Mr Brekke finds it easy to work with Vietnamese people and says they are hard working, loyal and eager to learn. One problem Brekke has discovered from working with Vietnamese is that they communicate in circles and there is no direct communication. In discussions with Ministry of Industry (MOI) there have been some political misunderstandings.\textsuperscript{191}

The Vietnamese have a very low wage differentiation that originates from the Communist society. When ABB tried with wage differentiation, it discovered that it was a big problem. The Vietnamese staff could not see why a qualified engineer should have a higher salary than a less qualified one.\textsuperscript{192} In our interviews with workers at ABB, the employees seemed satisfied of working for the company. The workers at ABB, no matter position, where all dining together in the company’s canteen, where Vietnamese plain food of good quality was served. The factory gave a modern impression. It has so far been one serious accident at work, in 1995.\textsuperscript{193}

ABB has a trade union, but Mr Brekke believes this is a disappointment, because the union is weak and does not take any initiative.\textsuperscript{194} At ABB the union chairman was previously in the management team. This has changed recently, and today the chairman is an ordinary worker. It is common in Vietnam that the union chairman is in the management team. The reason for this is that many unions do not know how to organise and have no broader vision about how to work. This construction also gives the management team control over their workers. Mr Doung argues that the security of an employee in a JV is less than for a worker in a SOE, but wages and possibilities for personal development are generally better in a JV.\textsuperscript{195}

At ABB there are no differences in wages for men and women, but the majority of the workers are men. However, there is a big difference between a Vietnamese and a foreign

\textsuperscript{189} Brekke (2001), interview 05/06/01.
\textsuperscript{190} Brekke (2001), interview 23/04/01.
\textsuperscript{191} Ibid.
\textsuperscript{192} Ibid.
\textsuperscript{193} Dang (2001), interview 05/06/01.
\textsuperscript{194} Brekke (2001), interview 23/04/01.
\textsuperscript{195} Doung - Doung (2001), interview 23/04/01.
Mr Brekke argues that the reason for this is that otherwise no foreigner would accept to work in Vietnam, and leave their home country.  

4.1.4 ABB and Trade

ABB currently exports very little. It mostly exports to Asia but there are high tariffs on exports. The good that ABB is exporting is distribution transformers, only 5 percent of the production, but they would like to export power transformers in the future. In order to export to Thailand, Laos, Indonesia and the Philippines, ABB meets 20 percent tariffs on exports. As a result of Vietnam’s AFTA agreement, Mr Brekke believes that their export in the future will increase to 20-30 percent. ABB purchase 90 percent of the material needed in production from overseas.

4.1.5 FDI

ABB’s FDI in Vietnam is around USD 24 million, 65 percent in theory, but has in reality 100 percent financial responsibility. ABB guarantees all loans. The Government controls ABB’s investments. ABB have to turn to MOI in order to buy license. This is not a problem and does not cost much, but it takes time. The Government is working on abolishing the licensing system. ABB is investing in training their personnel and many of them have even been abroad on training. The workers in ABB in Vietnam are educated so that they can work in any ABB factory worldwide.

Mr Brekke argues that in order to facilitate FDI to Vietnam, there has to be an equal playing field with more transparency. An improvement of the legal framework is also necessary. The market in Vietnam is extremely poor, and there is a need to develop and increase purchasing power.

4.1.6 Case Study of ABB Workers at the Transformer Factory

Our case study is based on interviews with ten workers at ABB from 5 different workshops, at ABB’s transformer factory, which has 80 employees. We asked the workers about their

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196 Brekke (2001), interview 23/04/01.
197 Ibid.
198 Dang (2001), interview 05/06/01.
199 Brekke (2001), interview 23/04/01.
200 Ibid.
201 Brekke (2001), interview 05/06/01.
202 See Appendix B.
opinion of the working environment at ABB. The answers we got were very positive with no complains. The summary is:

The workers we interviewed seemed a bit shy, but curious. It was noticeable that they were not used to talking to strangers about their work. The education level between the workers is varied and only a few have university diplomas. The majority have only compulsory schooling. All workers have gained training by ABB and some have even been abroad, visiting ABB factories. When new machines are installed, the workers receive training in how to use the machines.

All workers are members of the trade union. None of them have really been in contact or gained support from the trade union. They work 8 hours a day and overtime is not common, on average one day a month with compensation. The wages are between USD 117-136 a month.

Accidents are rare, only the winding shop and the insulation shop have had small accidents. Almost all of the interviewed workers said that they were pleased with the working conditions at ABB, except from two workers in the insulation shop. They complained over it was hot and dusty, and too small space.

When it comes to having more than one job only the two interviewed from the winding shop had extra jobs, in the form of family businesses. Other family members run the family business. When we asked a question where the workers had to choose between two alternatives, on more leisure time or working more with higher salary, all except two workers wanted to work more if given a higher salary. This is because they said that they are in need of more money to be able to support their families. A majority of the workers were not able to save from their salaries. The other two workers that preferred more leisure time were older, and satisfied with their salary even though they had the lowest salaries.

4.2 Ericsson in Vietnam

Ericsson’s biggest markets are the USA followed by Europe and China. Ericsson in Vietnam is a supplier of advanced communication solutions for mobile and fixed networks. Since 1993, Ericsson has had a representative office in Hanoi today even having branch offices in Ho Chi Minh City and Da Nang. In Vietnam, Ericsson has established the AXE

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203 Lars Magnus Ericsson was the founder of Ericsson in 1876.
204 Ericsson in Vietnam, p.4.
system and supplies a microwave product called Minilink. They also supply ASA gears, and communication systems for companies and mobile phones.205

Ericsson has around 100 employees in Vietnam, distributed in three offices. Ericsson’s staff is mainly local, and only about 10 percent are foreigners in the company. Mr Wennerberg, General Manager and Chief Representative at Ericsson in Vietnam, says that it is easy to work with Vietnamese people; they are ambitious, well educated and they try hard. Vietnam is a country built on relations, which means that it takes time to build up confidence.206

Our impression from visiting Ericsson’s branch office in Hanoi is positive. The office is modern and all employees are well educated.

4.2.1 Reason for Localisation and Difficulties
The reason for locating in Vietnam is mainly to gain market share, and because of the potential market of 80 million inhabitants. It is a big market, but hardly nobody uses mobile phones, yet. The Asian market represents 25 percent of Ericsson’s sales.207

During our interviews there has not been any information about difficulties concerning Ericsson in Vietnam. To avoid problems with the Labour Code they always consult the Labour Bureau.208

4.2.2 Suppliers
Ericsson does not have any suppliers in Vietnam, but they hire services like office equipment, cars and electricians.

4.2.3 Ericsson and Labour
When Ericsson set their wages, they compare them with statistics from similar branches. In Ericsson, the minimum wage for an engineer is USD 350 a month.209 Ericsson has a lot of training for its staff and customers.210 Because Ericsson is a representative office it can recruit

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206 Wennerberg (2001), interview 03/05/01.
207 Ibid.
208 Pheng (2001), interview 01/06/01.
209 Wennerberg (2001), interview 03/05/01.
210 Ibid.
its staff itself, and does not necessarily have to go through state-led job agencies. Personnel administration must be according to the labour law in Vietnam.211

Ericsson has no trade union. Mr Wennerberg says that it is not a necessity in a representative office.212 Mrs Pheng, Human Resource manager, says that the employees at the company do not feel any need for a trade union they mean it is only bureaucratic. She says that the staff is well educated and can speak for themselves. Mrs Pheng also argued that Ericsson tries to have the same labour policy worldwide. To achieve this, the employees need personal training.213

4.2.4 Ericsson and Trade
Ericsson has no problem with imports to Vietnam. Ericsson’s customers are the Government and SOE’s and they provide Ericsson with licenses.214 They sell their products on the local market. The use of mobile phones is increasing in Vietnam, and the market for cell phones is most likely to expand in the future. Today, no free competition is allowed at the telecom market. Ericsson has no production in Vietnam, and does not export any products from the country.

4.2.5 FDI
Ericsson does not have any investments in Vietnam and the reason for this is mainly because the Government does not allow any 100 percent foreign investments in any telecom business. FDI would be possible through a JV but then Ericsson would have to find a local partner. That is both costly and difficult. Ericsson does not establish production in countries with low labour costs, because the wages are marginal when the machine park takes 90 percent of the investment. Ericsson would not have much to gain from local production. Instead it buys its components from large-scale suppliers, which has the advantage of increasing returns to scale.215

211 Pheng (2001), interview 01/06/01.
212 Wennerberg (2001), interview 03/05/01.
213 Pheng (2001), interview 01/06/01
214 Pheng (2001), interview 01/06/01
215 Wennerberg (2001), interview 03/05/01. Ibid.
4.3 IKEA in Vietnam

IKEA operates in many countries world-wide. IKEA purchases 22 percent of their sales from the Asian region and three percent of IKEA sales are in this region. IKEA exists in countries from whom they are buying, which gives them a chance to control their operation and to buy the products at a low price. IKEA was established in Vietnam in 1996.  

4.3.1 Reason for Localisation and Difficulties

IKEA used to operate in Indonesia but it became expensive because of strong cartels on goods. Mr Ingvar Kamprad, the founder of IKEA, saw the potential of access to cheap raw material in Vietnam. They liked the mentality and the people. IKEA believes that the quality in Vietnam is good if you control it.  

IKEA have had problems with publicity concerning bad labour conditions among their suppliers. There have been incidents where child labour has been used in production. IKEA has since established codes of conduct, to avoid child labour. They try hard to avoid bad labour conditions.  

4.3.2 Suppliers

IKEA tries to build up long-lasting relationships with its suppliers. IKEA follows the national law and international conventions. IKEA in Vietnam is trying to make sure that its suppliers follow the codes of conduct. It does this through unannounced inspections at different suppliers. If a supplier behaves wrongly IKEA makes an action plan in order to solve the problem without cancelling the operation in the first place.  

In many countries where IKEA operates, child labour exists. Therefore, IKEA has its own code of conduct. The codes have been made in order to show their suppliers that if they work with IKEA they cannot accept child labour. IKEA’s codes of conduct are based on the ILO’s core conventions, especially those for labour no.138 and no.182. IKEA demand that the suppliers have a work force register in which every employee’s date of birth is written. If the country does not have this system they have to register by the country’s local practise.  

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216 IKEA was founded by Invar Kamprad in 1943.  
217 Verboe - Gallacher (2001), interview 25/05/01.  
218 Ibid.  
219 Ibid.  
221 Ibid, p.5.  
222 Ibid, p.6.
It can sometimes be difficult to control suppliers. A problem exists concerning security. The equipment is very old and people are used to working under very different labour conditions than Europeans. They are often not aware that some situations can be bad for their health. IKEA supplied a factory with wooden tables, so that the workers should not bend their backs. IKEA later found out that their workers were sitting on the tables instead of the ground. Handcraft industry is difficult to control and to find out who the suppliers are. To deal with them one by one is easy, but there are often many middle hands and that is what makes it difficult. Because of many family businesses there can be problems with the control of child labour. IKEA tries to build up a good relationship with suppliers, and every now and then make inspections to investigate the working environment. IKEA has 52 main suppliers and a lot of sub-contractors. Being a supplier to IKEA means getting access to a huge market.223

4.3.3 IKEA and Labour
Workers in Vietnam have to be informed about labour conditions in order to change their situation. IKEA has 50 employees of which nine are expatriates, and 50 percent are women. They invest in their staff and have frequent training trips to Sweden. IKEA believes that there is a great benefit with culture differences. To work with Vietnamese people gives a broader understanding and the right perspectives of how the Vietnamese society works. Mr Verboe, Chief Representative, and Mr Gallacher, Office Manager in Vietnam, believes that the Vietnamese people are very ambitious and hardworking.224

IKEA has no trade union. However, Mr Verboe, MD at IKEA, says that one third of their time is focused on working conditions.225 Our impression after visiting IKEA’s branch office is positive. The office is very modern like at ABB and Ericsson.

4.3.4 IKEA and Trade
IKEA exports to every country that has IKEA stores. However not to the US because the tariffs are 40 percent of the export. There are still some textile quotas on export. But in general, trade barriers are not a big problem for IKEA in Vietnam. At the moment the strong dollar is the largest barrier. In Vietnam IKEA buy and export for USD 110 million a year.

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223 Verboe - Gallacher (2001), interview 25/05/01.
224 Ibid.
225 Ibid.
There are six areas of importance for IKEA; metal, textile, ceramics, handicraft, wood and natural fibres.\textsuperscript{226}

4.3.5 FDI
IKEA has no plans for investments in Vietnam. The company wants to be flexible. Mr Verboe argues that the moment you own a factory the efficiency decreases.\textsuperscript{227}

4.4 Summary

<table>
<thead>
<tr>
<th>Chosen companies</th>
<th>ABB in Vietnam</th>
<th>Ericsson in Vietnam</th>
<th>IKEA in Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Production in Vietnam</strong></td>
<td>Power- and distribution Transformers.</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td><strong>Products</strong></td>
<td>Complete transformer Systems.</td>
<td>Switchboards, Operative systems and mobile phones.</td>
<td>Handicraft, textile, furniture and wooden products.</td>
</tr>
<tr>
<td><strong>Suppliers</strong></td>
<td>Mostly European and a few locals.</td>
<td>Only a few locals providing services in form of electricians and hiring office equipment.</td>
<td>Over 50, plus subcontractors.</td>
</tr>
<tr>
<td><strong>Export</strong></td>
<td>Export only 5 percent, to other Asian countries.</td>
<td>No export, only local Market.</td>
<td>Export to Europe and Asia, USD 110 million.</td>
</tr>
<tr>
<td><strong>Trade Union</strong></td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>Codes of conduct</strong></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Control of suppliers</strong></td>
<td>No real control.</td>
<td>No real control, because Ericsson hardly has any suppliers.</td>
<td>Try to control their suppliers, but finds it difficult.</td>
</tr>
<tr>
<td><strong>Work Force</strong></td>
<td>Mostly Vietnamese Workers, even in key Positions.</td>
<td>Both Vietnamese and foreign workers.</td>
<td>Both Vietnamese and foreign workers.</td>
</tr>
<tr>
<td><strong>Gender</strong></td>
<td>Majority are men. Provokes equal wages for men and women.</td>
<td>50 percent women working in the office. Provokes equal wages for men and women.</td>
<td>50 percent women working in the office. Provokes equal wages for men and women.</td>
</tr>
</tbody>
</table>

Source: Authors’ illustration

\textsuperscript{226} Verboe - Gallacher (2001), interview 25/05/01.
\textsuperscript{227} Ibid.
5 ANALYSIS

Sweden and Vietnam have been co-operating for a long time. Sweden has a comparative advantage in know-how, and Vietnam has access to cheap labour and a big potential market. Vietnam tries to deal with the problem of bad labour conditions and the Swedish companies have pressure from their consumers not to exploit workers in the world. It is important that foreign investors understand the Vietnamese people and their history when working with them.

5.1 Efforts made in Vietnam in Order to Improve the Labour Conditions

After conducting interviews with different ministries and people involved with labour issues, the main conclusion is that workers rights are widely discussed and that efforts are made to deal with the problems. The World Bank assists the Government with ODA and advice to improve the country’s economic situation. Much is done to create a better legal framework for society in general, as well as for labour conditions. The introduction of the Labour Code in 1995 has not been uncomplicated. Difficulties still remains in understanding and working with the Labour Code. In many ways it is a new way of thinking and it takes time to adjust. The Labour Code is complex; therefore MoLISA is working with a new more defined and comprehensive edition.

The ILO and the Vietnamese Government are working together to improve the labour standards in the country. According to Mrs Greve, the co-operation is unique in the sense that the country is poor, but still aware of its problem. The situation over Vietnam’s current labour standard, considering the ILO’s core conventions, is shown in table 5.1.

Table 5.1. The ILO’s Core Conventions in Vietnam

<table>
<thead>
<tr>
<th>No.</th>
<th>Convention</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>29</td>
<td>Forced or compulsory labour</td>
<td>Hopefully ratified in the beginning of year 2002</td>
</tr>
<tr>
<td>105</td>
<td>The abolition of forced labour</td>
<td>Hopefully ratified in the beginning of year 2002</td>
</tr>
<tr>
<td>87</td>
<td>Freedom of association and the right to organise</td>
<td>No schedule</td>
</tr>
<tr>
<td>98</td>
<td>Application of the principle of the right to organise</td>
<td>No schedule</td>
</tr>
<tr>
<td>100</td>
<td>Equal remuneration for men and women workers for work of equal values</td>
<td>Ratified in 1997</td>
</tr>
<tr>
<td>111</td>
<td>Discrimination in respect of employment and occupation</td>
<td>Ratified in 1997</td>
</tr>
<tr>
<td>138</td>
<td>Minimum age for admission to employment</td>
<td>Not ratified, can be ratified within the year 2001</td>
</tr>
<tr>
<td>182</td>
<td>The prohibition and immediate action for the elimination of the worst forms of child labour</td>
<td>Ratified in 2000</td>
</tr>
</tbody>
</table>

Source: Authors’ illustration

As an outcome of the summery, Vietnam still has five conventions to ratify. Difficulties to obtain information about violations of labour rights can be seen from two angles. Workers in
unfortunate situations will not speak about their problems in fear of losing their jobs. The widespread problem with corruption prohibits the ‘best intentions’ from the Government to make improvements for the workers. The Government want to see improvements, but they themselves contribute to stimulating corruption by accepting bribes.

The unemployment rate in Vietnam is high. In order to reduce it, the Government has created a new enterprise law for foreign companies. This has facilitated FDI to Vietnam, by making foreign establishment easier. The Government is in a difficult position because it understands that the country is in need of foreign capital in form of investments, but is at the same time afraid of losing control. Vietnam faces hard competition from China. To be able to compete Vietnam has to find their competing branch. At the moment China is superior in almost all branches. A fundamental element is to boost the private sector in order to create new jobs.

Bad labour conditions exists in Vietnam and there are several different reasons, such as not enough capital, ‘bad investors’, old equipment and no safety and health regulations. These factors contribute to low productivity, and low wages. In a trade context, can this be seen as a comparative advantage or is it the initiation to social dumping? It can be difficult to see the difference between social dumping and a country’s comparative advantage. Vietnam is not proclaiming bad labour conditions rather work for improvements. Sometimes foreign companies behave badly and exploit workers in order to sell products to a low price at their domestic markets. In the case of Vietnam bad labour conditions often are a consequence of poverty. The Government and both national and international institutions are working on improvements of the labour situation, lack of capital and corruption hinders improvements.

5.2 ABB, Ericsson, IKEA and the Vietnamese Labour Situation

ABB, Ericsson and IKEA are transferring capital and knowledge to Vietnam. They also provide new job opportunities. ABB and Ericsson are high technological companies. ABB has 275 workers employed. Ericsson’s offices only have 100 employees and IKEA has 50 employees. This amount is not high, but on the other hand, as Ericsson they indirectly create jobs for those who sell their products. IKEA has a big net of suppliers from whom it purchases its products, and this creates a lot of job opportunities. The working conditions in this branch are difficult to control considering the chain of suppliers. The suppliers try to adjust to IKEA’s demands, because being a supplier to IKEA denotes big and important business. ABB and Ericsson are rather transferring know-how and technological skills to
Vietnam. In a country with most low skilled workers they create opportunities for workers to get educated.

ABB introduce their workers to new equipment, management policy and values. IKEA tries to transfer its values to their suppliers, but finds it hard to control if the working conditions are satisfactory in every case. Vietnam seems to be interested in the Swedish tradition of workers rights and management structure. In our interviews the interest of working in Swedish companies is high because of their good reputation in the country. When ABB, Ericsson and IKEA established branch offices in Vietnam, they brought the Swedish concept of codes of conduct and management structure with them. This is a way of changing sources, the Swedish companies obtained access to a new market and in return Vietnam received information and education in management structure and labour standards. This information is only privileged to a small amount of people in the society. As labour is changeable it contributes to spill over effects.

Codes of conduct are a way for the Swedish firms to incorporate good labour conditions for their employees, and for workers working for their suppliers. IKEA is working the hardest to implement them, and the reason might be that they are most closely related to bad labour environments. ABB has codes of conduct, but does not pay much attention to them since quality is its major interest and their philosophy states that good quality equals good working standards. Ericsson does not have any problems with poor working conditions in Vietnam, because they only have representative offices and no production in the country. At our interviews with representatives at all three companies, they gave a sincere impression of being most concerned with their workers welfare as well as the country’s well-being. After an inspection and interviews with workers at ABB’s transformer factory, the working conditions seemed modern and the workers seemed satisfied. The same conclusion must be drawn from visiting Ericsson and IKEA’s branch offices in Hanoi. The working environment there appeared both modern and satisfying. The ILO’s core conventions were complied except from that Ericsson and IKEA do not have any trade union, see Table 5.2.
Many factors can contribute to improve workers welfare. Some of them can be measured, but some are harder to estimate, such as spill-over effects. The cases of spill-over in the Vietnamese economy from the Swedish companies are difficult to measure. Often when companies invest through FDI, the assets and technologies remain in the company. The spill-over from FDI is most often effects that companies are unable to control or charge for, as for example when employees’ make copies and transfer knowledge. When employees get trained they can often later use their knowledge elsewhere in the economy. Swedish FDI is still quite small, but has resulted in technological spill-over, especially from ABB since it has a modern factory in Vietnam. Vietnam is on the stage of development and has problems in attracting FDI. An explanation for this is the weak legal framework and underdeveloped infrastructure. Some investors, like Ericsson, have therefore chosen to establish representative offices and distribution systems instead of production facilities.

ABB has been involved in more difficulties than Ericsson and IKEA. A reason for this is that ABB is a JV. Of course there are both benefits and cost from being a JV. The positive effects are that the company gets contacts on the new market, but on the other hand problems from different experiences and routines might slow down and complicate the cooperation. ABB experienced this when it wanted to reorganise the organisation. Ericsson is afraid of this

Table 5.2. The ILO’s Core conventions at ABB, Ericsson and IKEA

<table>
<thead>
<tr>
<th>Convention</th>
<th>ABB</th>
<th>Ericsson</th>
<th>IKEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. 29 Forced or compulsory labour</td>
<td>Followed</td>
<td>Followed</td>
<td>Followed</td>
</tr>
<tr>
<td>No. 105 The abolition of forced labour</td>
<td>Followed</td>
<td>Followed</td>
<td>Followed</td>
</tr>
<tr>
<td>No. 87 Freedom of association and the right to organise</td>
<td>Followed</td>
<td>No trade union</td>
<td>No trade union</td>
</tr>
<tr>
<td>No. 98 Application of the principle of the right to organise</td>
<td>Followed</td>
<td>No trade union</td>
<td>No trade union</td>
</tr>
<tr>
<td>No. 100 Equal remuneration for men and women workers for work of equal values</td>
<td>Followed</td>
<td>Followed</td>
<td>Followed</td>
</tr>
<tr>
<td>No. 111 Discrimination in respect of employment and occupation</td>
<td>Followed</td>
<td>Followed</td>
<td>Followed</td>
</tr>
<tr>
<td>No. 138 Minimum age for admission to employment</td>
<td>Followed</td>
<td>Followed</td>
<td>Followed</td>
</tr>
<tr>
<td>No. 182 The prohibition and immediate action for the elimination of the worst forms of child labour</td>
<td>Followed</td>
<td>Followed</td>
<td>Followed</td>
</tr>
</tbody>
</table>

Source: Authors’ illustration
kind of communication problems and chooses to remain a representative office. IKEA finds it satisfactory to remain a purchasing office and has no plans for investments in Vietnam.

### 5.3 What Could be Done to Improve Labour Conditions in Vietnam?

In an environment full of actors with different interests it can be difficult to predict the best way to improve labour conditions. There is a connection between trade and labour conditions, but it can be debated whether there is a direct link between them. In Vietnam poverty seems to be the overarching problem, in situations with bad labour conditions, see Figure 5.1.

**Figure 5.1. Consequences of Poverty in Vietnam**

![Diagram illustrating the relationship between poverty, bad labour conditions, socio-economic instability, weak legal framework, large population and high unemployment.](image)

In Vietnam, poverty is widespread and for many people the most elementary need is to survive and therefore other needs become secondary. The large amount of unemployed reduces the requirement for a job and there is always someone that will do the work no matter conditions. In many cases they are too poor to choose. The access to a large amount of cheap labour creates a potential arena for investors. However, corruption, bureaucracy, a weak legal framework and not forgetting that the Asian crisis in 1997 slows down the inflow of FDI.

Instead of linking trade directly to labour conditions, the connection can be illustrated as Figure 5.2 describes it.
Trade and FDI is starting to push the development forward. If the political system is effective in allocating resources, the development can eventually result in improved labour conditions. Of course, many other factors are important, for example the political climate, trade unions and the degree of openness towards the international market. Corruption is a major problem in this development process, as we mentioned before.

In order to reduce poverty in Vietnam foreign capital is needed. Through FDI there is an inflow of capital, which can be used to develop the infrastructure, industry, create job opportunities, invest in new, safer machines for production and get the economic wheel going. Vietnam has a low saving rate, which results in a small level of the capital stock and low national income. As referred to the Solow model an important factor that raises the economic level is investment. A poor country often has a low investment rate. Rising living standards can in the Solow model be explained through a technological progress. Improvements in the technology field and investment in human resources can according to Solow’s model prevent a negative effect in growth, even if the amount of labour is increasing. This is interesting in the case of Vietnam were 1.4 million workers enter the labour market yearly. The productivity is low; investments in labour such as health, education and labour skills could raise the output. Improvements in labour standards would also be a consequence from this. The Vietnamese Government tries to control the population growth, as an attempt to reduce poverty.

On of the problem is that all investors do not have good working conditions on their agenda. ABB, Ericsson and IKEA have pressure from the Swedish consumer opinion. This has contributed to a good standard on their investments in Vietnam. Consumer opinion has gained a significant role in the world economy, much because of that information is spread more quickly today with the World Wide Web. Other countries, mostly Asian, which do not have this strong consumer opinion and no tradition of good working standard have the worst
forms of investments considering labour conditions. The consumer opinion is not always fair. When consumers stops to buy products, for example when child labour is involved, the results can be that the families becomes even poorer and worse situations like trafficking might become the other alternative.

5.3.1 Different Alternatives to Improve Labour Conditions in Vietnam

*Alternative one, imposing a social clause:* In the debate about social dumping a social clause is often mentioned as a strategy to improve bad labour conditions. The effect of a social clause depends on the development level in the country where it is imposed. This import restriction affects the export sector in the first case. In Vietnam bad labour conditions in the domestic sector is often a consequence of poverty. In the foreign sector the problem with bad labour conditions is a bit different. Some investors are taking benefit of the cheap labour market and exploit their workers. The problem with an import restriction from the West, such as a social clause, hinders Vietnamese export and reduces the possibilities to import because of lack of foreign currency. Vietnam will have difficulties in improving the labour conditions as more people become unemployed and the country becomes more poor as a result of reduced trade. As in the case of Vietnam poverty and corruption are the greatest problems. A lot of investors can buy themselves free from almost any incident and there is a weak legal framework.

A social clause would not affect ABB or Ericsson in any significant way. ABB’s export is small, and Ericsson does not export from Vietnam. For IKEA the situation would be worse. IKEA is purchasing products for USD 110 millions, which gives them a significant position when it comes to transferring foreign capital to Vietnam. IKEA exports mostly to its stores in the West. If a clause was implemented and if IKEA would chose to cancel its operations in the country, a lot of job opportunities in Vietnam would disappear, along with foreign currency.

To link trade with labour have often been seen as protectionism from the West. Other alternatives must be more effective when improving the labour conditions. Vietnam is a country that is concerned about its worker situation. But the lack of foreign capital results in that investment, no matter the conditions. At this moment a social clause on Vietnamese trade would not be beneficiary for the country or the people, but when the economic situation improves and if the problem sustains, a social clause might be an alternative.

*Alternative 2, restrictions:* FDI can have both good and bad effects on the labour conditions and therefore it might be of interest to control FDI through restrictions. The effect a restriction has on the exporting country depends on the good’s importance in the economy. In
the case of Vietnam there are some problems. At the moment the Government consider the country too desperate to set demands on investors. Vietnam needs all the investments it can get in order to stabilise the economy. Therefore the pressure on FDI should perhaps come from the investing country. The investing country’s government might consider imposing restrictions on their companies when investing abroad. The problems with this alternative are how these restrictions should be constructed and controlled, especially since there are so many parties involved. This is not likely to be a real alternative because it is far to complex. Restrictions on FDI from the Vietnamese Government would most likely not make any difference for ABB’s JV, because the Government is satisfied with ABB’s involvement in the country.

Alternative 3, Economic integration: Trade agreements create a closer relationship between countries. The competition becomes more effective because it encourage specialisation. Vietnam has since 1995 joined ASEAN (1995), APEC (1998) and BTA (2000). Trade has during these six years almost doubled. These trade agreements are a way for Vietnam towards a more liberal trade. Through an increased trade, Vietnam gets access to more foreign capital. Economic growth can help to diminish poverty and raise the labour standards; that is if the Government allocates the resources in these fields.

Vietnam is counting on joining the WTO in a near future. In order to join the WTO a lot of economic improvements have to be done. This would also facilitate Vietnams trade; through opening up to multilateral trade agreements and not only bilateral trade agreements. Free trade advocates points at the welfare gains from a more open trade. These gains are often for the world economy in total. Seen in the case of Vietnam it also means diminishing governmental revenues from reduced tariffs. However, for Vietnam it seems like facilitated trade in a combination with a strong development policy from the Government has given rise to high growth and reduced poverty. The Vietnamese consumers, with a low purchasing power, have a lot to gain from cheaper products that come from trade without barriers. The Vietnamese producers face harder competition with increased trade. This has been notable in the SOE’s and the Government has started to realise the inefficiency in this sector. Maybe this discovery would not have been made if the competition had not increased.

An import quota is often enforced by issued licenses to companies. The licences decide to what quantity the companies are allowed to import. A quota is a direct restriction and limits a country’s import and raises the domestic price of the imported goods. The big difference between a quota and a tariff is that the revenue from a tariff goes to the Government, while the
revenue from a quota goes to the company that has the licence.\textsuperscript{228} Tariffs, as a protection mechanism is not as harmful as quantitative restrictions. Quantitative restrictions make foreign competition difficult and isolate the domestic market. This can result in undermining the development of a financial market. In the long run it can hamper economic growth and development.\textsuperscript{229} Vietnams trade policy includes NTB’s, which is a form of quantitative restriction. In order to join WTO Vietnam has to reduce their trade barriers including the NTB’s. ABB wants to expand its export, and sees new possibilities in doing so through Vietnams economic integration and reduction of trade barriers.

\textit{Alternative 4, wait and see:} Let the development have its process and wait and see, but give aid and transfer knowledge. In the past, western countries have had problems with bad labour conditions during the industrialisation process. Even today there are problems with bad labour conditions in the West, as for example minimum wages and discrimination. Developed countries appear to always know what is best for other countries, especially developing countries. The ‘Western way’ has shortages, and developed countries cannot always think their way of thinking is universally prevailing.

\textsuperscript{228} Krugman - Obstfeld (1997), p.217.
\textsuperscript{229} Schuknecht (1999), p.40.
6 CONCLUSIONS

When investigating labour conditions in Vietnam, based on the ILO’s core conventions, Vietnam is heading in the right direction. Vietnam allows 100 percent foreign investment and accepts almost any investment, even if the conditions for the workers are not always satisfactory. In the short run it is a way to give people a chance to work rather than not to work at all. At the moment it is a strategy of desperation. It might become a poverty trap unless people are educated in the same time. If companies adjust their technology and structure to those criteria available today, it might be difficult to raise the standards of labour conditions. Human development is a way out from bad labour conditions. Investments in labour, productivity and wages can rise in the mean time, as cost per unit of output become lower.

Corruption is a significant problem. Sometimes bad labour conditions are ignored because the authorities want a certain investment. Corruption also keeps investors away in fear of troubles with the authorities. Together with a weak legal system, an insufficient banking system and an underdeveloped infrastructure, investors still tend to choose other Asian countries for their investments. There must be a structural change in Vietnam within ten years; otherwise great socio-economic problems will arise. Only reforms are not enough.

Swedish companies in Vietnam are according to our investigation behaving well in Vietnam. They are through transferring know-how and capital contributing to Vietnams development process. Because of the hard control of the Vietnamese market, weak legal framework, distance from Sweden and the low purchasing power of the Vietnamese consumers, Swedish investments are still small. This might change in the future as Vietnamese economy develops further. The Government is working hard for improvements, but are at the same time afraid of loosing control. The private sector is at the moment the only job-creating sector, and is at the same time a threat to the Communist Party.

At the moment Vietnam need foreign currency in order to get the economic wheel going. This can be accomplice through foreign investments and trade. Therefore investments from Sweden and other countries with a tradition of good working conditions are important. What we saw during our investigation is that investments from particularly Taiwan and South Korea are often offering bad conditions for the workers. These countries do not even have good labour conditions in their own countries and are therefore not transferring any improvements to Vietnam. Even if this problem is under progress, some investors should be left out; if they violate the laws in Vietnam.
Different alternatives can be considered to improve Vietnams labour conditions, the question is which way is the most effective. We believe that poverty is the factor to be diminished in order to deal with bad labour conditions. Once poverty is diminished other factors as the labour situation can become more important. Any forms of restrictions and trade barriers towards Vietnam would at this moment lead to further poverty, instead of an improved situation for the Vietnamese workers.

6.1 Topics for Further Research
Yet in 2001 there is a lot to be done concerning the subject social dumping. First of all it is a matter of reducing poverty. Depending on which level a country has on its stage of development, different solutions to solve the problem with bad labour conditions might be considered. Therefore it is interesting to make this kind of study in different developing countries because of their many differences in economic, political and cultural backgrounds.

Countries have their own ways to approach bad labour standards. Various actors tries to protect their interests and this creates difficulties in finding a solution of the problem. Therefore it can be interesting in focusing on one or two of these actors in order to investigate their influence on social dumping.
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APPENDIX A

Questionnaire I

1. What does the Company produce?

2. What were the reasons for the Company to locate in Vietnam?

3. If you may choose between three reasons for your Company to locate in Vietnam, which of the following alternatives would you consider as most important?
   - Local advantage?
   - Internationalisation advantage?
   - Owner specific advantage?
   - Other advantages?

4. How large are the Company’s investments in Vietnam?

5. How much of your investments are controlled in Vietnam? How are they controlled?

6. Have you had any controls or inspections from the Government?

7. Which countries does the Company export to? Which markets are important for your Company? Do you meet any sort of trade barriers in those markets?

8. From which countries does the Company import?

9. Does the Company supply any other companies?

10. How many under-suppliers do you have? What kind?

11. What Vietnamese legislation does the Company have to follow?

12. How many employees does the Company have in Vietnam?

13. How does the Company’s work force look like? Do you mainly have Vietnamese or European workers and what positions do they have? Is it a coincidence or a chosen strategy of this combination? Distribution of gender?

14. Does the Company provoke equal wages for equal work?

15. Is the cultural difference a benefit or a problem?

16. Do you have a union at the Company?
   - If yes, how does it work?
   - If no, why not?

17. Does the Company follow any codes of conduct? If yes, are they hard to implement on your suppliers and control them?

18. Does your Company have the ability to control its under-suppliers?

19. Do you believe that the Company’s under-suppliers try to live up to higher expectations compared to what they otherwise would do?

20. Is the Company implementing Swedish labour standards in Vietnam?
   - If yes, how?
   - If no, reasons for why not?
21. Do you believe that the Company is transferring technological knowledge to Vietnam?

22. What do you think could be done to improve the situation for Swedish investors?

22. Do you see poor labour conditions as a problem in Vietnam?

23. What do you think about the suggestion to implement a social clause within the WTO? What do you think would be the benefits and costs?
Questionnaire II

1. What are your idea about the economic and social situation in Vietnam?

2. What are your reflections over the development process in Vietnam?

3. What do you think about the Vietnamese labour situation?

4. What is done/can be done to improve the labour situation in Vietnam?

5. Can FDI rise labour standards in Vietnam?

6. Do you see a positive effect on the labour situation through FDI?
   - If yes, how?
   - If no, what could be done?

7. What kind of FDI is not wanted in Vietnam?

8. Has Vietnam had any problems with Swedish investors?

9. Do you believe that the Swedish companies (ABB, Ericsson and IKEA) are behaving well in Vietnam?

10. Have there been any complaints towards ABB, Ericsson or IKEA concerning labour conditions?

11. Have the Swedish companies (ABB, Ericsson and IKEA) have had any problems with Vietnamese authorities?

12. How would you describe the relation between Sweden and Vietnam?

13. What do you think about the Labour Code?
   - Implemented?
   - Followed?
   - Not followed?

14. How is the Government dealing with bad labour conditions?
   - Control?
   - Punishment when not following the Labour Code?

15. Do workers have the freedom to bargaining collectively?

16. Is it common with child labour?

17. How does the Vietnamese trade union work?

18. Do you believe that the trade union protect its workers?

19. Is it a difference in domestic and foreign firms when it comes to labour rights and the ability to protect the workers?

20. What is the minimum wage for a Vietnamese worker?

21. What is the average wage for a Vietnamese worker?
   - In state sector?
   - In private sector?
   - Rural and urban differences?

22. Which are Vietnams most important trade partners?
23. How are the Vietnamese trade regulated?
   - Tariffs.
   - Quotas.
   - Subsidiaries.

24. How are the Vietnamese non-tariff barriers constructed?

25. Do you believe that trade should be regulated or free?

26. Do you believe that FDI should be regulated or free?
   - If regulated, how?

27. How does the New Enterprise Law work? Has it lead to a change? If yes, in what direction?

28. What is your reflection of social dumping?

29. A membership in the WTO:
   - When?
   - How?
   - What gains?

30. What are your reflections of Vietnam's future?
Questionnaire III

1. How does the Human Resource Department work?

2. How do you solve disputes for your workers?

3. What are your opinion of working with the Labour Code?

4. Do you believe that the Company need a trade union, why not or why?

5. How does the Company recruit its staff?

6. Does the Company follow any codes of conduct?

7. Do you believe that the Company takes good care of its employees?

8. Do you believe that bad labour conditions are a problem in Vietnam?
# APPENDIX B

Schedule over the interviews with 10 workers at ABB’s Transformers factory, at 5 different workshops of TPT:

(Interpreter: Doung Pham Bach, Human Resource Manager at ABB)

<table>
<thead>
<tr>
<th>Time</th>
<th>Participants</th>
<th>Workshop</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 p.m. - 2.15 p.m.</td>
<td>Nguyen Hong Quan, age 27 and Ngo Van Quynh, age 28</td>
<td>Winding shop</td>
</tr>
<tr>
<td>2.15 p.m. - 2.30 p.m.</td>
<td>Ngo Van Do, age 27 and Hoang Van Chinh, age 41</td>
<td>Assembly shop</td>
</tr>
<tr>
<td>2.30 p.m. - 2.45 p.m.</td>
<td>Chung, age 24 and Nguyen The Tuong, age 36</td>
<td>Tank shop</td>
</tr>
<tr>
<td>2.45 p.m. - 3.00 p.m.</td>
<td>Hoang Dinh Duon, age 37 and Nguyen Van Tac, age 38</td>
<td>Core shop</td>
</tr>
<tr>
<td>3.00 p.m. - 3.15 p.m.</td>
<td>Nguyen Minh Tuen, age 51 and Nguyen Van Tu, age 41</td>
<td>Insulation shop</td>
</tr>
</tbody>
</table>

Date and Place: 06/05/01, Milestone 9 National Highway No.1, Than Tri, Hanoi.