

LABOUR AND SOCIAL ISSUES EMERGING FROM VIETNAM'S ACCESSION TO THE WTO

(Ministry Labour, Invalid and Social Affair)

1. Introduction:

The World Trade Organization (WTO) is the most influential institution in the world in terms of trade and investment with sophisticated and complex rules and regulations observed by all member states. WTO membership brings about different opportunities and challenges for different countries depending on their readiness and internal strength. In the case of Vietnam, two groups of issues need analyzing and assessing in preparation for its accession to this organization: *first*, it is essential to understand the requirements for Vietnam to make necessary adjustments and preparations to become a member of WTO by the expected time; *second*, it is equally important to anticipate and assess the various impacts on Vietnam after it becomes an official member of the WTO so as to design policies and measures to turn challenges into opportunities.

It may take a long time for Vietnam to make necessary adjustments to access to the WTO. It took China 13 years to prepare for the WTO membership. Vietnam filed its request for accession in January 1995 and have set a goal of acceding to the WTO by 2005. In the preparative period, Vietnam can set an agenda suitable to its capacity and conditions. However, longer time for preparation also prolongs the waiting for accession. Once a WTO member, except for some areas that developing countries enjoy delays for transition, a country has to satisfy WTO requirements right after its official accession. It means that by then with hardly any time for further adjustments, we will have to comply with WTO agenda and most of its requirements. Therefore, the nature of impacts before and after accession may be the similar but their pressure in the latter period will be much greater. By now, we are able to assess only the initial impacts of WTO accession, mostly basing on experience and lessons learnt during our integration process and forecast possible influences on Vietnam after the accession rather than drawing final conclusions on this matter. From our point of view, it is more realistic for us to set such a modest goal in examining and assessing the impacts of WTO accession over different areas, including labor and social ones.

In our analysis, we take into account the features of a Vietnam in renovation with two parallel and complementary processes: *internal renovation (doimoi)* and *international integration*. The *Doimoi* and open-door policy introduced in 1986 has brought about changes in different aspects of the socio-economic life. Among these changes, we try to identify which are the impacts resulting from internal renovation and which come from the integration process. For the latter

part, we focus on impacts of Vietnam's accession to the WTO. We think that accession to WTO is a part of the integration process, in other words, the integration process incorporates more than just acceding to the WTO. The influences of integration go through diversified channels, at different levels and by different partners. Yet, most influences of WTO accession result from the obligations that a member state has to observe and the implementation of agreements and commitments it makes within the framework of this institution.

2. The Nature and Content of Labor and Social Issues in International Trade in a Globalising World

This section deals with labor and social issues in international trade but not in WTO framework because in principle, there is no technical commitment about labor and social issues in WTO. That is the reason why the Memoranda of countries applying to the WTO do not include issues related to labor or labor standards. To be exact, the issue of linking labor standards and international trade, sometimes called "social clauses" or "labor provision", has been touched upon at different levels, inside and outside of WTO but failed to be incorporated in trade commitments under WTO due to protests from many member states, most of which are developing countries concerned about the possible usage of these standards as non-tariff barriers for the purpose of protectionism. In the 1996 WTO Ministers' Meeting in Singapore, member states agreed to not to put labor into WTO agenda but into the International Labor Organization (ILO) forum. After that, in 1998, the International Labor Conference adopted the ILO Declaration on Fundamental Principles and Rights at Work which reaffirms 8 core Conventions (there were only 7 but in 1999, Convention 182 was added to the list) covering child labor, forced labor, discrimination, freedom of association and collective bargaining. These issues will be discussed in detail in the labor standards section of this paper.

Though in principle, labor is not linked to trade under WTO, labor issues have always been dealt with in parallel with international trade and investment. There are two reasons for this. *One*, labor is an essential input for production. In this aspect, labor is a decisive factor of the competitiveness of each enterprise and each economy. *Two*, if viewed from a social prospective, labor and labor-related issues are discussed to evaluate the social impacts of international trade and investment.

Hence, in terms of labor, the impacts of WTO accession can be divided into 4 groups: (i) *First*, the increase – decline of employment in different economic sectors. These changes in employment depend partially on the opportunities and challenges of international trade and investment and partially on the internal strength of the economy, the quality and quantity of resources; (ii) *Second*, impacts on labor law and labor standards. At national level, these impacts are mirrored in the adjustments made to the labor law and policy, the renewal of

understanding and capacity building for labor administration agencies and social partners (employers and workers' organizations). To some certain extents, labor standards also influence enterprises, especially those in the export sector; (iii) *Third*, impacts on the labor market. Accession to the WTO may change the internal trade and investment structure, which in turn results in the shifting in economic structure and labor *demand*. Once labor demand changes, labor *supply* has to shift in response. Particularly, the labor structure and allocation will be influence; (iv) *Fourth*, accession to the WTO exerts significant impacts on human resource.

From a social perspective, there is a close relation between enterprise reform and WTO membership. Enterprises will be restructured, labor structure reshuffled so as to ensure the effectiveness and competitiveness of each enterprise and the whole economy in an open market and in compliance with WTO rules. Also, more favorable environment for trade and investment and greater flows of goods and services may cause social problems in population groups, economic regions and sectors, especially among the disadvantaged.

3. Impacts on employment:

Impacts of WTO on world employment

Increased international trade and investment within WTO is in fact a process of balancing supply and demand with the harmonization of production inputs and outputs including capital, labor, technology, management, goods and services in order to maximize the effects of the allocation and utilization of these factors. On a global scale, WTO promotes and enhances flows of trade in goods and services, financial and labor markets.

For the international labor market, along with the increase in international trade is the growth in labor demand, which means that more jobs are created. However, this entails drops of labor demand in some sectors or enterprises, which, coupled with severe competition, leads to redundancy and unemployment. It is the increase in aggregate labor demand and sector/region-specific drops in employment that pose opportunities and challenges for countries and enterprises during our accession to the WTO. In other words, if aggregate labor demand is a big pie, then the increase of aggregate demand of labor is the contribution of WTO to make the pie grow, opportunities and challenges that WTO poses to its member countries are measured by their proportion of loss or profit in the growth of that pie.

In globalisation, there is widely accepted concept that technology, capital, know-how and technology-intensive goods "go" from developed to less developed economies while labor-intensive goods, natural resources, raw materials and labor travel in a reverse path. Then, economically, developed economies would earn more profit from international trade thanks to low labor cost, extended goods and services and capital markets. On the contrary, less

developed countries like Vietnam enjoy opportunities to expand markets including labor markets, absorb new technologies and know-how, and improve the quality of their human resource.

In short, international trade and investment promoted by the WTO create more job opportunities. But these jobs are not evenly allocated among countries, groups of countries and economic sectors but those with stronger competitiveness and better human resource tend to benefit more. And to improve competitiveness, many governments and business associations have adopted non-economic measures or the so-called non-tariff barriers which sometimes include labor standards, to protect the interest of their countries and enterprises and gain the most employment opportunities possible for their workers. This is a trend that Vietnam should take into account whenever labor issues in international trade are discussed.

WTO accession's impacts on employment in Vietnam

A developing country, Vietnam enjoys a large labor force. Thus, in principle, employment in labor-intensive industries will increase while that in technologically backward and highly protected industries will face big challenges when Vietnam join the WTO.

Impacts of WTO accession on employment are felt in 3 areas: (i) foreign-invested (or FDI) sector with influences of WTO investment rules; (ii) enterprises in the export sector, especially the labor-intensive ones with influences of WTO trade rules; and (iii) other sectors indirectly affected by international trade. For these sectors, increase in international trade indirectly leads to growth of demand in the national markets, thus making the demand for labor rises.

In the FDI sector, thanks to the Law on Foreign Investment which has created a more favorable climate for investment and a number of the recently-signed bilateral trade agreements, especially the one with the US, the flow of investment to Vietnam grows steadily in the last few years. Therefore, it is projected that there will not be a big difference in the FDI for Vietnam before and that after the WTO accession and as a result, employment in this sector will see modest increase from 2%-3% to 3%-4% of the aggregate employment increase. Apart from employment directly attributed to FDI, the employment in FDI-related suppliers, subcontractors, and service providers

Increase in employment due to WTO accession may be more obvious in the export sector, especially labor-intensive industries with high export value such as textile and garment, fishing and aqua-culture, handicraft, agriculture (rice, coffee, cashew, rubber, fruits, pepper). For textile and garment, by 2005, when the ATC is no longer effective and WTO members remove quota to each other, if Vietnam have not become an official member, it remains subject to quota imposed by WTO member countries, including the US, EU, and Japan – the most important

markets for Vietnam. If by then, Vietnam has successfully completed its bid to the WTO, though free of quota, our textile products will have to compete with countries with similar advantage in labor like China.

Apart from these two sectors, new jobs will also be generated in other sectors. Increased international trade and investment help raise people's incomes, international relations, and communication within and trans-border. These changes, in turn, pull up national demand, both in terms of quantity and quality.

Besides employment, Vietnam's accession to WTO forces local enterprises to boost their competitiveness by renovating machines and facilities, improve productivity, maximizing returns from available resources, including human resource. The pressure is mounting, particularly for SOEs. Perceiving this pressure, Vietnam have made considerable strive in restructuring SOEs, improving their effectiveness with a view to preparing for the challenges awaiting on its way to the WTO. A reform in the loss-making and ineffective SOE sector is highly necessary to better the management and utilization of resources including human resource. Because of this reform, some workers in the SOE sector will become redundant. In the coming years, redundant labor will emerge as a central problem for Vietnam in labor-employment.

4. Impacts on labor market:

The surge of trade and investment after joining WTO will influence on the shift of economic structure, thus affecting labor structure by sector and region. Consequently, migration of labor among regions, sectors and occupations will occur. The development of industries, especially the export-oriented and labor-intensive ones such as textile and garment, footwear, fishing and aqua-culture will attract a large amount of labor. Employment directly generated by FDI, for example well-paid jobs in industrial parks, export-processing zone has caused a flow of migrant labor from rural to urban areas, from agricultural regions to industrial parks, from low-income to high-income areas. Economically in compliant with market rules, these flows of labor help maximize the effectiveness of labor utilization. Yet, market-regulated labor flows do not always go in line with socio-economic development plans. One can easily observe the disparity between market decisions and plans in the over-concentration of skilled labor in urban areas and severe shortage of that in poor areas. Unlike the flow of capital and goods, the movement of labor or humans incur problems that require the intervention of the State. For labor administration agencies, these are big challenges.

Accession to the WTO requires Vietnam to adjust its social-labor structure in the most effective manner. As a member of WTO, Vietnam will be able to join in the international labor allocation

system and accelerate our modernization process. In today's globalising world, labor is less horizontally than vertically allocated, to be more exact, labor is allocated basing on product components. Manufacturers all over the world take part in the production of various parts and components, observing a common standard then these parts are assembled into finished products. In the long-run, Vietnam can join in some stages of this international process and accelerate the adjustment of sector structure of the economy just like what other regional countries, especially the Asian tigers, are doing.

5. Human resource development

When talking about human resource, many people immediately refer to workers and improvement of skills. But in globalization and WTO accession process, we believe that human resource should cover 3 groups: (i) administrators and policy-makers; (ii) entrepreneurship; and (iii) workers, each plays an equally important role.

Administrators and policy-makers: they should be the pioneer in the WTO accession process. These officials are responsible for developing policy, institution and regulatory framework to make it compatible to the rules of WTO. It must be admitted that our general understanding of WTO "play rules" remains narrow and insufficient. Understanding of these play rules, though hard, is still less difficult than playing by these rules. To that end, State agencies, business associations need to significantly improve their capacity to ensure the success of Vietnam's bid to the WTO.

Entrepreneurship: If policy-makers build the road for integration, entrepreneurs are the first to walk on that road to reach out for overseas markets. To compete in the international markets, apart from management skills and experience, these entrepreneurs have to understand international trade rules and practices. This proves to be a big challenge since SOE managers are trying to cope with new management mechanism while private entrepreneurs remain green both in terms of time and experience. For SOE managers, steering the business to overcome severe competition in the local and international markets is a bigger challenge than shifting from centrally-planned to market mechanism. While the latter one is mostly conducted within the country in accordance with our own agenda and safeguarded by national laws, the former is regulated by WTO rules and international trade practices and no exception is accepted. Moreover, it is undeniable that many Vietnamese entrepreneurs prefer to stay small and do business by experience rather than explore new things and "go big" due to lack of management and organization skills. Intelligent and smart but some entrepreneurs are not creative enough to go beyond imitation. So understanding of international rules, experience and creativity make up the essential qualities for Vietnamese entrepreneurs to survive and develop in the domestic market when we accede to the WTO.

Workers. This group decides the competitiveness of the labor force, affects the competitiveness of enterprises and the whole economy. Previously, low labor cost of was an advantage of developing countries like Vietnam in attracting FDI and promoting labor export. However, today, this advantage is fading. When facilities, machinery, technology are almost equally available for all enterprises, competitiveness depends on management capacity and human resource quality. What is more, low labor cost is counted as an absolute advantage of labor-intensive economy but not high- tech or capital-intensive ones. Therefore, businesses and economies are racing to improve the competitiveness of their human resource.

International integration requires us to make comprehensive assessment of the strengths and weaknesses of the labor force so as to work out appropriate solutions. In the past, we were proud of the skillfulness, intelligence and creativity of Vietnamese labor. However, these qualities are not sufficient to ensure competitiveness.

Among the strengths of Vietnamese human resource, education is one of the most highly recognized, especially if compared to that of other developing countries. The literacy rate of people under 15 is 93% and that of the total labor force achieves 97%. Vietnam has finished the universalization of primary education and has embarked on a similar effort in secondary education. The average years of formal education of Vietnamese workers are 9. High literacy rate plus achievements in social health care have lifted Vietnam's Human Development Index (HDI) to a high level in comparison with those of poor and developing countries. Vietnamese workers in FDI enterprises and overseas businesses received positive evaluation from employers for their diligence and quick mind.

However, Vietnamese workers have weaknesses and limitations, some of which root from old mechanism, some from the low-developed socio-economic conditions, others from backward traditions and practices. The proportion of trained workers stays at 20%, a low level by regional standards. The poor sense of responsibility and work discipline of Vietnamese workers resulted in bad consequences in many cases. Particularly, they are emotionally affected, overlooking work disciplines and labor relations principles. Since most Vietnamese workers come from rural areas, they are not familiar with industrial working style.

In international integration in general and WTO accession in particular, unless Vietnamese workers are trained in industrial working style and discipline or business etiquette, their competitiveness would be badly damaged.

6. Labor law and labor standards:

Labor standards:

“Labor standards” or “internationally recognized labor standards” are the Conventions of the ILO – a specialised body of the UN system with 175 member states. Since its foundation in 1919, ILO has adopted 184 Conventions. Since 1992, Vietnam became an official member of ILO and has ratified 15 ILO Conventions, among which 3 are core Conventions.

As mentioned earlier, linkage of labor standards and international trade is not included in the WTO agenda but in reality, labor standards remain an undeniable factor in international trade. Particularly, among questions raised by WTO members to Vietnam, some refer to Vietnam’s ratification and implementation of ILO Conventions.

It should be recognized that the contents of international labor standards serve a progressive goal of protecting rights and interests of workers and employers, building sound labor relations, protect the dignity of workers. Labor standards *per se* are not non-tariff barriers. But they are prone to be used for protectionism or some other political purposes. The 4 major labor standards used to place pressure on trade include equality, child labor, forced labor, and freedom of association with special attention paid to the last one. Some countries require us to allow free labor unions that are independent of the Vietnam General Confederation of Labor (VGCL). This is absolutely against the Labor Union Law of Vietnam.

At enterprise level, Vietnamese exporters, suppliers, sub-contractors of multi-national enterprises face requirement from buyers to adopt Corporate Social Responsibility (CSR) or a Code of Conduct (CoC). This labor-standard requirement is not a legal obligation of the importing countries. It is raised by the buyers to protect their social reputation at local markets. The labor standards incorporated in CoCs are: child labor, forced labor, discrimination, right to join a trade union and collective bargaining, compensation, work time, rest time, occupational safety and health, and discipline practice.

In general, these standards aim at protecting workers’ rights basing on international conventions on labor, some of which have been ratified by Vietnam. Therefore, an enterprise would successfully adopt CSR if it observes well the Labor Code of Vietnam. Yet, our businesses may run into 2 major difficulties in practising CSR. *One* is that they lack experience in keeping transparent records of CSR management and practice in their business. Thus, they are unable to present evidence for buyers when required. *Two*, small and old enterprises need to invest to improve working conditions for their workers in compliant with CSR requirements.

If properly adopted, labor standards can uphold our labor law, promote our access to international standards and better protect workers' rights. For Vietnamese enterprises, good adoption of labor standards or CSR will certainly boost their competitiveness in the international markets. However, if improperly used, labor standards may turn to be a political issue or barrier to trade. Closely monitoring the adoption of labor standards at national and enterprise levels are needed to work out appropriate responses.

Labor law

The development and adjustment of the labor regulatory framework of Vietnam started as far back as the early 1990s. The 1995 Labor Code of Vietnam and the 2002 Revised Labor Code received technical contributions from ILO experts. This helps our Code to catch up with international standards and practices, creating a legal framework that is relatively compatible to the international labor law, facilitating our transition and integration in the field of labor. That international labor standards are embedded in our labor law has benefited workers through enhanced respect of labor rights and better working conditions. The most meaningful contribution of the Vietnam's labor law to the international integration process is a market-based labor relations regulatory framework which is in line with WTO principles. It should be noted that even though labor is not an item in the WTO agenda, it is a factor of evaluation to determine whether a country has *a market or non-market economy*. This is very important for WTO members, especially in cases of trade disputes such as dumping, protectionism, etc. For example, not long ago, in an antidumping petition filed by one of the biggest member of the WTO against Vietnam, the conclusion of the investigation of Vietnam market economy status of the Department of Commerce of that country found that wages in Vietnam is determined basing on market principles. So it can be said that the overall labor policy system of Vietnam is basically ready for Vietnam's WTO accession.

7. Social Impacts:

Social protection for workers

WTO accession will inevitably trigger economic adjustments, which, in turn, exerts impacts on the social aspects of the country. As said earlier, challenges of an open market and removal of State subsidy and protection in sectors and areas will lead to the shrinking or closure of many businesses. In such circumstances, the social protection system of Vietnam has not been able to cover all people in need. Only 12% of the labor force is protected by the social insurance scheme. Informal and agricultural workers remain unprotected. At present, we have not got an unemployment insurance scheme. In the immediate future, the State must resort to certain funds

to support businesses, especially the SOEs, to deal with redundant labor. However, this is only a situational solution.

Widening gap of incomes

Recent research show that in developing countries, the number of new jobs created in labor-intensive industries is larger than the number of jobs lost in capital and technology-intensive ones. It is concluded that the aggregate employment increases, particularly in industries that employ low-skilled workers, most of whom are poor. So poverty incidence in general reduces. However, the imbalance between supply and demand of labor threatens to widen the gap of incomes among groups of workers.

First, gaps of incomes of skilled and qualified workers and unskilled and manual workers. When international investment and trade grow, demand for skilled labor increases rapidly while the supply of such labor stays much lower than the demand. As a result of demand-supply law, wage rate of skilled workers tends to rise quickly. But for unskilled labor, the story is different. With untrained workers accounting for 80% of the labor force plus 1.2 million new entrants each year, supply of unskilled and manual labor always surpasses the demand despite increases in demand due to promoted trade and investment. By demand-supply law, wage rate of workers in this market will increase more slowly than that of skilled labor. Inevitably, the gap of incomes of these two groups is widening.

Second, gaps of incomes between the formal and informal sectors. Thanks to the WTO accession, the formal sector enjoys more chances to access to the global markets while the informal sector is confined to the domestic markets with lower purchasing power and value added. In international trade, whereas formal sector is able to reach out to overseas markets, the informal one serves as suppliers or sub-contractors for exporting firms or secondary sellers of imported goods. This means that profit rate of the latter is much lower than that of primary importers and formal businesses.

Third, gaps of incomes between the rural and urban areas, between farming and off-farm sectors. The story in these cases is quite similar to that of the formal and informal sector. The urban and off-farm areas seize more opportunities to access the international markets, thus enjoying more fruits of integration.

8. Recommendations on measures to ensure the readiness of Vietnam for WTO accession in labor and social fields:

8.1. The implementation of Resolution 07 of the Politburo on International Economic Integration should be promoted with emphasis on training of officers engaged in integration activities. In preparation for WTO accession, training of officers in general and officers in charge of labor and social issues should be prioritized.

8.2. *The regulatory framework for labor has to be continuously improved and renewed* to catch up with international standards and practices and respond to the specific conditions of Vietnam. Particularly, special attention should be paid to anti-discrimination, transparency and predictability – the basic principles of the WTO - in the labor law and management system. In the long run, labor, employment and wage have to observe market rules and the macro-management of the State toward the goal of creating a level playing field for all economic sectors in this area.

8.3. In the long term, the social protection system has to be established and completed with 3 important pillars: (i) active labor market policy; (ii) complete social security scheme; and (iii) establishment of social safety nets. Regarding the *active labor market policy*, emphasis should be placed on training and retraining, smoothing the flow of labor among sectors and localities to ensure the harmony between labor demand and supply of sectors, regions and economic structure, developing labor market information system, and improving the employment service centers. Regarding the *social security scheme*, the coverage of the social insurance scheme should be extended and voluntary pension and unemployment insurance should be added. In the long run, we can consider a social insurance scheme for farmers and informal workers. For a country in transition and economic reforms, social safety nets system is crucially important to support the disadvantaged people in difficult or force majeure situations (it should be noted that these social safety nets aim at short-term and emergency measures only).

8.4. It is necessary to complete the regulatory framework for tripartism and build capacity for social partners (including labor authority, workers' and employers' organizations), promote tripartite and bipartite consultation in the making of labor policy and law. A tripartite and bipartite institution has to be established to help ensure sound labor relations at workplace.

8.5. Appropriate measures are needed to educate Vietnamese entrepreneurs into knowledgeable, experienced ones who are dedicated to build and protect trademarks and reputation of their businesses, respect intellectual property rights, and refrain from

commercial fraud. A successful business promises more jobs and a successful business depends primarily on management capacity. Entrepreneurs should be considered a driving force to improve the competitiveness of the economy.

8.6. Quality of labor has to be improved. It not only relies on skills but also workers' education, sense of discipline and respect of business etiquette. A skilled, disciplined and educated labor force will become a competitive strength of the economy, attracting more foreign investment. With regards to human resource development strategy, on one hand, we continue training of labor for labor-intensive industries, on the other hand, we invest into the development of labor for high-tech industries so as to diversify the labor and economic structure. Human resource development strategy should always be closely linked to and complement to the socio-economic development strategy.

Above are some initial, qualitative assessments of the labor and social issues emerging when Vietnam accedes to the WTO. A more thorough research is needed to have a specific and quantitative view of the matter. We welcome all contributions from national and international agencies and organizations to the paper.