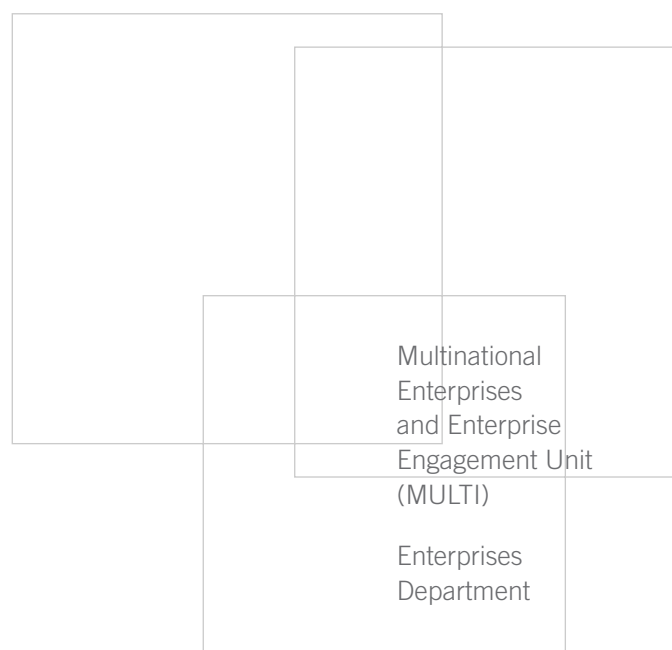




International
Labour
Organization

More and Better Jobs through Socially Responsible Labour and Business Practices in the Electronics Sector of Viet Nam


Kenta Goto and Yukiko Arai





More and Better Jobs through Socially Responsible Labour and Business Practices in the Electronics Sector of Viet Nam

Kenta Goto and Yukiko Arai



Copyright © International Labour Organization 2017
First published 2017

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorization, on condition that the source is indicated. For rights of reproduction or translation, application should be made to ILO Publications (Rights and Licensing), International Labour Office, CH-1211 Geneva 22, Switzerland, or by email: rights@ilo.org. The International Labour Office welcomes such applications.

Libraries, institutions and other users registered with a reproduction rights organization may make copies in accordance with the licences issued to them for this purpose. Visit www.ifrro.org to find the reproduction rights organization in your country.

Goto, Kenta; Arai, Yukiko

More and Better Jobs through Socially Responsible Labour and Business Practices in the Electronics Sector of Viet Nam / Kenta Goto and Yukiko Arai; International Labour Office - Geneva: ILO 2017

ISBN: 978-92-2-131498-1 (print);
978-92-2-131499-8 (web pdf)

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers.

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them.

Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

Information on ILO publications and digital products can be found at: www.ilo.org/publns.

Printed in Switzerland

Foreword

This report seeks to contribute to the question of how enterprises can generate more and better jobs through socially responsible labour and business practices in the Vietnamese electronics sector, taking into account the evolving transnational production system as Viet Nam is further integrated in the global economy. Electronics has become the largest export-oriented industry in Viet Nam and is primarily led by major multinational enterprises (MNEs) producing in Viet Nam.

While new job opportunities have emerged from Viet Nam's successful integration into the global electronics value chain, there are growing questions as to how this is playing out in terms of working conditions in the sector. Working conditions are outcomes of the internal dimensions of business and labour practices which are closely related to the employment and human resources strategies adopted; however, they are also affected by external dimensions through multiple variables, including local labour market conditions, relevant institutional and regulatory frameworks, and above all, enterprises' positions within the value chains and their relationships with other enterprises. This is a particularly prominent feature of Viet Nam's electronics industry, in which MNEs play dominant roles in terms of employment and value chain coordination. From a local economic development perspective, the operations of MNEs in the electronics industry has weak backward linkages with Vietnamese domestic enterprises due to the underdevelopment of local supporting industries. This report presents model cases of good practices on which key stakeholders in Viet Nam can build in order to formulate a concrete future action plan. The report uses the provisions in the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (ILO MNE Declaration) as the global framework reflecting the tripartite agreed consensus on how enterprises can best contribute to socio-economic development and decent work.

Findings and recommendations of this study were presented during a tripartite-plus High Level Policy Dialogue organized in September 2016 involving the Vietnamese government, social partners and multinational enterprises which concluded with the development of a Joint Action Plan, reflecting the joint commitment of the Vietnamese Government and the employers and workers organizations in generating decent work in the sector. The ILO will continue to provide technical assistance for its implementation, including through facilitation of dialogues between the major players in Viet Nam as well as between Viet Nam and the major investor countries.

Chang-Hee Lee
Director
ILO Country Office for Viet Nam

Githa Roelans
Head, Multinational Enterprises
and Enterprise Engagement Unit
ILO Geneva

Acknowledgements

This study has been conducted by Kenta Goto of Kansai University (Japan) and Yukiko Arai of the ILO Multinational Enterprises and Enterprise Engagement Unit (MULTI) in Geneva. Country-level interviews were undertaken during joint missions undertaken to Viet Nam in October 2015 and February 2016.

The authors above all wish to express their appreciation to all those who participated in the interviews and focus group discussions, including the representatives of the Ministry of Labour, Invalids and Social Affairs (MOLISA), Viet Nam Chamber of Commerce and Industry (VCCI), Viet Nam General Confederation of Labour (VGCL), Viet Nam Electronics Industries Association (VEIA), Japan Business Association of Viet Nam (JBAV), and the multinational and national enterprises operating in the Vietnamese electronics industry.

They also thankfully acknowledge the insights and collaboration received from a range of ILO colleagues. Special thanks go to: René Robert (DWT Bangkok) for the technical advice and review; Ha Nguyen Hoang, Le Thu Hang and Le Ngoc Anh (ILO Hanoi) for the country-level coordination; Emily Sims (MULTI) for reviewing the draft report; and Githa Roelans (MULTI) and Chang-Hee Lee (ILO Hanoi) for the overall guidance and support throughout.

This action-oriented MNE study in Viet Nam was funded by the Government of Japan, as part of the “More and Better Jobs through Socially Responsible Labour Practices in Asia” (MNED project) focusing on the Vietnamese electronics sector. It is one of the two studies undertaken under the MNED Electronics project, and should be read in conjunction with the second report analysing the working conditions in Viet Nam’s electronics industry (forthcoming).

The ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration) is used throughout the report as the guiding framework for “socially responsible labour practices.”

Table of Contents

<i>Foreword</i>	V
<i>Acknowledgements</i>	VI
<i>List of tables and figures</i>	VIII
<i>Executive Summary</i>	1
1 Introduction, context and focus	6
2 Overview of the Vietnamese electronics sector	9
2.1 The electronics sector in the national economy	9
2.2 The export-oriented industry and its performance	14
2.3 The importance of MNEs in the electronics sector of Viet Nam	19
3 Internal dimensions of labour and business practice: Working conditions, process characteristics, and worker attributes	24
4 External dimensions of business and labour practices: FDI policy, inter-firm relationships, and institutions	30
5 Aligning competitiveness and social responsibility in core business practices	33
6 Model cases of MNE policies and practices in the Vietnamese electronics sector	35
6.1 Building supplier capacity and achieving collective efficiency: The cases of Fuji Xerox, Apple and Foster Da Nang	35
6.2 Building trust and committing to dialogue outcomes: The case of Panasonic	38
6.3 Successful inclusion of local enterprises in regional and global value chains: The case of 4P Company Ltd.	41
6.4 Supporting better institutions and policy frameworks through partnerships and dialogue: The case of the JBAV	42

7 Challenges, opportunities, and recommendations for future action	45
7.1 Stakeholders, challenges, and opportunities	45
7.2 Recommendations.	47
7.2.1 Promote dialogue within and between enterprises, and in tripartite-plus structures	47
7.2.2 Develop capacity of educational and training institutions	48
7.2.3 Strengthen institutional capabilities and promote interministerial policy coordination.	49
<i>References</i>	50
<i>Annex 1. A note on methodological issues</i>	52

LIST OF TABLES AND FIGURES

Table 1 Outline of the electronics sector of Viet Nam	10
Table 2 Descriptive performance indicators	11
Table 3 Size distribution, by number of workers in 2012	13
Table 4 Changes in key export sectors (HS 2 digit level)	15
Table 5 Key export goods in 2013 (HS 4 digit level)	18
Table 6 Largest 25 electronics enterprises	21
Table 7 Global Competitiveness Index (7th pillar: Labor market efficiency) for Viet Nam	25
Figure 1 Foreign direct investment trends	14
Figure 2 Export performance	17
Figure 3 Number of enterprises (total = 1088)	20
Figure 4 Number of workers (total = 325,583)	20
Figure 5 Workers composition)	26

Executive Summary

The electronics sector is one of the most globalized in terms of its organization; the production processes and functions are highly fragmented and located across different countries, connecting enterprises at various stages in the value chain through complex ownership patterns and inter-firm relationships. This evolving economic organization is important as growth, employment creation, and working conditions have become progressively embedded in it. This report specifically looks at the electronics sector of Viet Nam within that context, and attempts to identify model cases where socially responsible labour and business practices have at the same time enhanced enterprise competitiveness.

In global electronics value chains, lead coordinating firms, typically multinational enterprises (MNEs) from developed countries, occupy dominant positions and exercise power over others in the network, effectively organizing and structuring them. Through this process, they define key parameters such as product quality, target markets, product configuration and other important strategic variables. For developing countries such as Viet Nam, inclusion in these networks has become the most, if not the only, viable option to secure their positions in this dynamic contemporary economic globalization. The hope for governments lies in the possibility of “upgrading” their economic structure towards higher value-added activities, thereby generating much-needed employment. For enterprises, it lies in the possibility of acquiring and building upon the knowledge and technology transmitted through the networks to further advance their positions and shift into higher value-added business functions. Upgrading transformation of these types are, however, neither automatic nor promised.

Socially responsible labour practices can constitute good and sustainable core business strategies, and can generate more and better jobs. These types of practices affect enterprise performance through both internal and external dimensions, where the former is closely related to employment and human resources strategies, while the latter includes broader corporate strategies on inter-firm relationships, and entails different types of outsourcing and offshoring structures. The report attempts to highlight good labour and business practices in both dimensions, and to formulate policy recommendations.

The Vietnamese electronics sector

The electronics sector is currently the largest export industry of Viet Nam. One particular characteristic of this sector is the fact that its export-oriented value chain is governed by foreign-owned companies, in which local processes are confined to a very narrow functional scope, mainly in labour-intensive assembly processes. This export-oriented industry is primarily coordinated by MNEs and generates the bulk of the sector’s employment. However, backward linkages with local enterprises remain very limited. There are a few interesting facts regarding the electronics sector of Viet Nam worth mentioning:

- Out of the largest 100 enterprises, 99 are subsidiaries of MNEs, and the remaining one was a State-owned enterprise (SOE), which ranked 100th.
- The largest 20 enterprises employ 49.4% of all workers; the largest 50 employ 69%, and the largest 100 employ 82%.
- Out of the largest 20 enterprises, 11 were Japanese, four were Korean, three were originating from Taiwan, China, and one was American. The country of origin of the remaining enterprise could not be identified.
- More than half of the enterprises and the workers of the electronics sector in Viet Nam operate in the Red River Delta (RRD) region (which includes Hanoi), suggesting a significant degree of geographical concentration. This is followed by the Southeast (SE) region (which includes Ho Chi Minh City).
- Regarding electronics MNEs, Japanese enterprises dominate in both the RRD and SE regions.

Internal dimensions of labour and business practice: working conditions, process characteristics, and worker attributes

Jobs at electronics enterprises typically comprise the following four categories: (1) *management*; (2) *engineers and professional office staff*; (3) *technical workers and office staff*, and (4) *line operators*. The first three are regarded as “skilled” positions, while the fourth is considered primarily “non-skilled” work in which workers undertake simple and repetitive tasks. The majority of the workforce were line operators, who were predominately female.

Viet Nam is a relatively labour-abundant country; however, its rapid economic growth has generated new employment opportunities in non-manufacturing sectors, which have made recruiting and retaining workers increasingly difficult for electronics enterprises, including MNEs. While this is becoming increasingly apparent for non-skilled line operators, the supply of workers with technical and managerial skills is extremely small, which is one of the main bottlenecks for further development of the electronics sector.

Stable employment relationships are often key to the accumulation of skills at the enterprise level. In this context, the capability of enterprises to hire and retain workers becomes important, and that is dependent on local labour market conditions. Enterprises are, however, also affected by the institutional environment regulating local labour markets. In this sense, the Vietnamese Labour Code of 2013 has been affecting the employment strategies of enterprises, as well as the resulting working conditions of workers to a significant extent. More specifically, provisions related to employment contracts and overtime regulation have been among the most debated issues in relation to the 2013 Labour Code. One critical issue, besides the content-related controversies, seemingly pertains to the lack of involvement of key stakeholders – in particular MNEs – in the elaboration of those provisions. There is a strong need for a new “extended” platform for social dialogue that goes beyond the traditional State-defined tripartite structure. New key stakeholders, such as MNEs, including their headquarters in their home countries, should be included.

FDI policy, interfirm relationships, and institutions

The electronics sector has been one of the key priority sectors for the Vietnamese government, and it has successfully encouraged FDI since the 1990s through various policy measures. These have led to the significant agglomeration of electronics MNEs in the country. There are, however, arguments that these policy measures may have put local electronics enterprises at a relative disadvantage as there was no policy support that specifically targeted and supported them.

As backward linkages with local enterprises remain very weak, technological transfers from MNEs also remain limited. MNEs attribute this to the lack of capacity in local supporting industries. This has been recognized as a challenge by most local enterprises; however, it is also perceived as a major bottleneck for MNEs as it limits their supply source, requires longer lead times (especially when inputs are imported), and keeps input costs relatively high. There are, however, successful cases in which local enterprises were able to penetrate into MNE-led global electronics value chains.

Aligning competitiveness and social responsibility in core business practices

How can win-win outcomes for workers and employers be created through the alignment of competitiveness and socially responsible labour and business practices? One of the most archetypal strategies is through rule-based initiatives, such as establishing and implementing codes of conducts, which explicitly stipulate conditions related to corporate social responsibility (CSR). While such “*de jure*” mechanisms may be effective to ensure socially responsible practices, such behaviour can also exist without rule-based enforcement. Socially responsible corporate practices can, and often do, evolve out of pure business strategies. These types of corporate behaviour are outcomes of pure profit maximization strategies, and are also self-enforcing (“*de facto*” mechanisms).

Unlike *de jure* CSR activities, which depend more on check lists with a strong focus on the documentation of rules and regulations, this report considers *de facto* mechanisms as equally important. Such *de facto* mechanisms typically constitute key pillars of enterprises’ core business practices, which are also effective in ensuring responsible social outcomes in terms of working conditions. We explicitly recognize that such practices may not necessarily be designed as CSR practices and implemented through specifically designed codes of conduct. Rather, they may be operationalized as core business strategies that have a direct bearing on competitiveness, while still being *de facto* socially responsible. *De jure*- and *de facto* practices are not opposing concepts or complete substitutes; rather, in many cases they are mutually reinforcing and exhibit strong complementarity.

Model cases of socially responsible labour and business practices

The question of how enterprise performance and socially responsible behaviour interact and play out has always attracted significant attention. Socially responsible practices are often seen as costly and harmful to competitiveness. However ample anecdotal evidence suggest that this is not always the case. In connection to this, we were able to identify several successful cases in which some MNEs have aligned their core business strategies around practices that have become *de facto* socially responsible. Below are the cases that are highlighted in the report.

- **Building supplier capacity and achieving collective efficiency: the cases of Fuji Xerox, Apple and Foster Da Nang.**

Technological transfers from MNEs to local suppliers may be perceived as costly. However, when the production system is so fragmented, “collective efficiency” and, consequently, the upgrading of suppliers’ capacities become crucial. In such a context, it becomes perfectly rational for MNEs to support the capacity building of their local suppliers, the benefits of which will easily outweigh the costs incurred in the process.

- **Building trust between management and workers, and committing to dialogue outcomes: The case of Panasonic.**

The ability of an enterprise to recruit and retain workers becomes important because this determines the latter’s prospects for internal skill accumulation. The key to success in this is to implement business and employment practices that build trust between workers and managers.

- **Successful inclusion of local enterprises into regional and global value chains: The case of 4P Company Ltd.**

The weak backward linkages between MNEs and the local industry is a major bottleneck for the electronics industry of Viet Nam. This case highlights an example in which long-term cooperative relationships between a local company and several MNEs facilitated the entry of this local enterprise into a globalized electronics value chain, allowing it to position itself as a key component supplier.

- **Supporting better institutions and policy frameworks through partnerships and dialogue: The case of the Japan Business Association in Viet Nam (JBAV).**

MNEs have a significant impact on the determination of labour market and working condition outcomes in the electronics industry of the country. Therefore, establishing close relationships with such associations as the JBAV can provide a highly effective channel through which to jointly design institutions and policies that promote competitiveness and decent work.

Challenges, opportunities, and recommendations for future action

There are still bottlenecks in realizing win-win outcomes through competitiveness-enhancing socially responsible labour and business practices. Those bottlenecks are related to the lack of institutional and policy capacity. First, there is a serious shortage of skilled workers, primarily attributed to the underdevelopment of educational and training institutions. Second, the regulatory environment in Viet Nam is often inconsistent, with frequent and arbitrary changes. Third, the local supporting industry in Viet Nam is highly underdeveloped, with significant capacity gaps between what is required by MNEs and what local enterprises can supply. This is the main bottleneck holding local enterprises back from integration into global supply chains.

The biggest challenges faced by workers are chiefly related to the fact that they are restricted in terms of opportunities to maximize their potential in higher value-added jobs. The capacity of local Vietnamese electronics enterprises needs to be upgraded to benefit fully from the expanding global electronics value chains. Local educational and training institutions in Viet Nam are underdeveloped and still ineffective in building the necessary skills required. In light of this, the following recommendations are key.

- **Promote dialogue within and between enterprises, and in tripartite-plus structures**

Dialogue is key to promoting socially responsible business and labour practices, in particular in the following three ways:

- (1) Dialogue between workers and employers (intra-firm dialogue). Intra-firm dialogue is crucial to realizing consent-based employment and business practices in which decent working conditions and competitiveness enhancing practices coexist.
- (2) Dialogue between enterprises through interfirm relationships (inter-firm dialogue). Dialogue at this level is necessary to promote the transfer of technology from MNEs to local enterprises, which will in turn provide the basis for dynamic collective efficiency gains.
- (3) Dialogue within an extended “tripartite-plus” structure, in which MNEs (both local branches and home country headquarters) are included in the traditional tripartite structure. The involvement of MNE headquarters will become important as most of the fundamental strategic decisions are made there. A practical mechanism to involve MNE headquarters needs to be discussed and operationalized.

- **Develop capacity of educational and training institutions**

There is a serious shortage of skills in the sector, for which the lack of quality and relevant vocational and training institutions is widely held responsible. The ability of workers to think logically is something that is perceived, at least by most MNEs, to be weak in Viet Nam, and education and training institutions can help build such capabilities, provided that the appropriate curricula and able instructors are in place.

- **Promote interministerial policy coordination**

Inconsistencies between key policies pertinent to areas related to MNEs, local Vietnamese enterprises, and the workers must be addressed. Better interministerial policy coordination between relevant ministries, including the Ministry of Planning and Investment (MPI), Ministry of Industry and Trade (MOIT), and the Ministry of Labor, War Invalids and Social Affairs (MOLISA) may be needed. In this process, MNEs and foreign business associations can play major roles.

Introduction, context and focus

The electronics sector is one of the most globalized in terms of its organization; the production processes and functions that were once completed in one country are now fragmented and located across different countries and regions, connecting enterprises at various stages in the value chain through complex ownership patterns and inter-firm relationships. The primary motivations propelling the development of these networks tend to be efficiency seeking rather than market seeking, and are typically vertically structured and intra-industry based.

Government-led multilateral and bilateral trade liberalization arrangements have played key roles in the proliferation of these types of production structures (*de jure integration*). However, strategic business decisions of MNEs, in their attempts to dynamically optimize sourcing decisions through the offshoring and outsourcing of non-core processes and functions, have been the key drivers of the expansion and the intensification of these transnational networks. This private-sector-led economic integration (*de facto integration*) through the formation of such networks is, above all, a prominent feature of Asian economic integration (Armstrong, 2012; Hiratsuka, 2006). The growth and expansion of these networks, both in terms of sectoral and regional coverage, are the cumulative results of reduced trade barriers, lower transportation costs, and the diffusion of Internet-based information and communication technology (ICT), which have collectively unfolded rapidly at a global scale since the 1990s. The electronics sector is particularly prone to fragmentation dynamics, connecting local economies globally and culminating in complex forms of transnational network structures.

This evolving economic organization is important for both developed and developing countries, as growth and job creation potentials have become progressively embedded in this context. In these networks, enterprises from developed countries must continuously redefine their core competences as comparative advantages are always shaped and reshaped in the evolving transnational structures, underpinned by changes in technology, resource endowments, and market conditions in the global economy. These networks are made up from different types of enterprises in asymmetric power relationships, where lead coordinating firms (typically from developed countries) occupy dominant positions and exercise power over others in the network, effectively organizing and structuring them. Through this process, they define key parameters such as product quality, target markets, product configuration and other important strategic variables, which further determines network participation and the allocation of the fragmented processes/functions and the associated economic rents (value added) along the value chain (Goto et al., 2011; Goto and Endo, 2014; Kawakami, 2011).

For developing countries, inclusion in these networks has become the most, if not the only, viable option to secure their positions in this dynamic contemporary economic globalization. The hope for governments lies in the possibility of upgrading their economic structure towards higher value-added activities, thereby generating the much-needed employment and income. For enterprises it lies in the possibility of acquiring and building upon the knowledge and technology transmitted through the networks to further advance their positions and shift into higher value-added business functions. Upgrading transformation of these types are, however, neither automatic nor promised (Goto, 2014; Kawakami, 2011).

While the expansion of such transnational production networks and their potentially positive impacts on local economies in developing countries have attracted significant attention, concerns on how these will actually play out in terms of working conditions have also increased (Goto, 2011). Ample anecdotal evidence suggests that the concentration of economic functions and processes in particular localities through vertical specialization have led to significant increases in competition. Some local enterprises have responded with cost-cutting measures at the expense of working conditions. Such “race to the bottom” survival strategies are, in the long run, detrimental to workers’ livelihoods, enterprise performance, and national development goals. In addition, they will have serious negative publicity effects, which could ultimately cause backlash for the reputation of the enterprise and lead coordinators of the production networks, critically undermining overall business performance.

This report, however, goes one step further and argues that socially responsible labour practices are not just effective in terms of mitigating reputation risks, but can actually constitute good and sustainable core business practices. The focus of this report is therefore on how genuine competitiveness-enhancing business strategies can at the same time be socially responsible and generate more and better jobs in the sector. The report also attempts to gather model cases implemented by MNEs in Viet Nam. The report defines the term “socially responsible” as business (including labour) practices that are compatible with the ILO’s MNE Declaration (ILO, 2006b).

The report will explicitly acknowledge the interconnectedness of enterprises in the value chain, and will address issues that extend well beyond “internal” labour-related business practices. The production processes of this sector are now internationally and vertically fragmented as described earlier, and each enterprise is connected to this value chain through complex inter-firm relationships. The particular positions of enterprises in this structure have important implications on their dynamic upgrading trajectories, determined by their relative competitive positions in vertical (*vis-à-vis* suppliers and buyers) and horizontal (*vis-à-vis* other competitors in the same functional area) inter-firm relationships, which ultimately shape their possibilities for achieving sustainable growth. These all affect the leverage of enterprises in terms of the working conditions they can offer to current and potential workers. The focus is therefore on both *internal* and *external* dimensions, where the former is closely related to employment and human resources strategies, while the latter includes broader corporate strategies on inter-firm relationships and entails different types of outsourcing and offshoring structures and sourcing strategies.

Explicit recognition of these different dimensions is crucial, considering the fact that the relationship and involvement of MNEs with the local industry and its labour market can be significantly different depending on how MNEs are involved in the production and distribution networks, and how these are organized. The classical form is characterized by the establishment of a subsidiary enterprise by an MNE in Viet Nam through FDI. Canon, Samsung, Panasonic, LG, and Fuji Xerox, for example, have all built large production plants and employ thousands of workers. Working conditions at their own factories are thus more or less determined through *internal* dimensions of labour and business practices.¹ Enterprises such as Apple, on the other hand, do not own their own production facilities in Viet Nam (or elsewhere), and rely exclusively on outsourcing to those that operate in Viet Nam. These types of production organization influence workers as well, but not through the same internal path as FDI-based enterprises. As we will discuss in later chapters of this report, this does not suggest that the provision of decent working conditions through good business and labour practices is less important for these production networks. To the contrary, it remains just as crucial as in traditional FDI-based production modalities.

¹ External dimensions can have significant effects as well, particularly when enterprises produce under subcontracting arrangements (original equipment manufacturing, OEM) for other MNEs, and when they are required to implement these buyers’ codes of conduct.

This report is therefore concerned with analysing MNE practices from these perspectives, and documenting model cases of socially responsible labour and business practices within such a context. Further actions for key electronics sector stakeholders in Viet Nam will also be suggested with a view to supporting the country's ongoing efforts to promote decent work in this sector.

The report is based on available secondary data and relevant literature, as well as on primary data and information obtained through intensive individual and group interviews with electronics companies and relevant organizations. The primary information was collected during two missions to conduct field work in locations including Hanoi, Hai Duong province, Hai Phong province, Bac Ninh province, Bac Giang province, Hung Yen province, Da Nang, Ho Chi Minh City and Dong Nai province.²

Secondary data was used mainly to highlight the sectoral context, which is characterized by enterprise heterogeneity and complex/asymmetric inter-firm relationships in production and distribution networks. As each of the enterprises are embedded in this context at different levels and through different relationships, they face significantly different options in labour- and business-related strategies. Their actual practices are thus strongly associated with their respective positions in the value chain, which determine those differences. In that regard, while the primary information collected through intensive enterprise interviews was very helpful and was used in order to identify common sectoral challenges, emphasis was placed on how each of those enterprises responded to those challenges in labour and business practices, and how that has played out in terms of working conditions. In other words, the key motivation of the enterprise interviews was not to identify practices that were (statistically) representative of the electronics sector of Viet Nam, but to identify examples of MNEs engaging in labour and business practices that were compatible with the enhancement of competitiveness and the promotion of decent work. Such practices tended to be unique and difficult to find. While the electronics firms interviewed include MNEs from different countries, it should be noted that the majority of those were Japanese MNEs. This is primarily because of the disproportionately large presence of Japanese MNEs in the Vietnamese electronics sector, as we will outline in the following section.

Accordingly, representatives of 17 electronics MNEs were interviewed, including 12 Japanese, two Korean, two American and one originating from Taiwan, China. Interviews were also conducted with eight local Vietnamese electronics enterprises, out of which four were operating in Hanoi and four in Ho Chi Minh City. Additional interviews were conducted with relevant organizations and stakeholders as well, including the MOLISA and Labour Inspectorates in Hanoi, Da Nang and Ho Chi Minh City, the Viet Nam Chamber of Commerce and Industry (VCCI), Viet Nam General Confederation of Labour (VGCL), Viet Nam Electronics Industries Association (VEIA), JBAV, Japan Business Association in Ho Chi Minh City (JBAH), Japan Business Association in Da Nang (JBAD), Korean Chamber of Commerce in Viet Nam (KOCHAM), Japan External Trade Organization (JETRO), and the Japan International Cooperation Agency (JICA).

The report is structured as follows. It will first provide an overview of the Vietnamese electronics sector, and then look into ongoing labour practices at the enterprise level. Available secondary data and related research, as well as primary data and information obtained through intensive interview-based field work were used. This will be followed by the description and analysis of some concrete examples of the MNE representatives interviewed. Finally, based on the findings, recommendations on future actions to further promote the generation of more and better jobs through socially responsible labour and business practices in the electronics sector of Viet Nam will be proposed.

² The field work was conducted during the periods 4-9 October 2015 and 24 February – 4 March 2016.

Overview of the Vietnamese electronics sector ³

The electronics industry is now one of the largest employers and foreign currency earners of Viet Nam. The industry is, however, highly heterogeneous with wide variation in product categories, process technology, and above all, enterprise characteristics. The Vietnamese industry is also characterized as dual-structured, with a domestic-market-oriented industry on the one hand and an export-oriented one on the other. While locally-owned, domestic enterprises play key roles in the domestic market. The export-oriented sector is almost entirely dominated by foreign-owned enterprises, or MNEs (Vind, 2008).

2.1 The electronics sector in the national economy

This section will provide an overview of the electronics industry in relation to the rest of the economy to highlight some of its characteristics. Table 1 outlines the key features of the electronics sector of Viet Nam. The data comes from the Viet Nam Industrial Standard Classification (VISC) system, and the electronics industry is represented by two sectoral categories in this report as defined by VISC 2007: “Manufacture of computer, electronic and optical products (C26)” and “Manufacture of electrical equipment (C27).” The former includes products such as computers and telephone sets, and the latter includes products such as electric motors, wiring devices, and domestic appliances.

³ Export data for the electronics sector in this report are represented by the HS84 and HS85 product categories. Typical products that are relevant for Viet Nam in these classifications include personal computers and printers for HS84 and mobile phones for HS85. The official code description for HS84 (2012 classification) is “nuclear reactors, boilers, machinery and mechanical appliances; parts thereof.” The official code description for HS85 is “electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles.”

⁴ The VISC system is based on the International Standard Industrial Classification of All Economic Activities (ISIC), and the VISC 2007 is specifically based on ISIC Rev.4 classification.

TABLE 1 – Outline of the electronics sector of Viet Nam

Number of acting enterprises	2005		2005	
		% share (out of total)		% share (out of total)
Total	106,616		346,777	
Manufacturing	20,843	19.5 %	56,305	16.2 %
Manufacture of computer, electronic and optical products	256	0.2 %	713	0.2 %
Manufacture of electrical equipment	485	0.5 %	1,128	0.3 %
Number of employees				
Total	6,077,202		11,084,899	
Manufacturing	2,982,926	49.1 %	4,990,858	45.0 %
Manufacture of computer, electronic and optical products (C26)	45,685	0.8 %	289,757	2.6 %
Manufacture of electrical equipment (C27)	85,782	1.4 %	145,573	1.3 %
Female employees, % share				
Total		43.3 %		43.5 %
Manufacturing		58.6 %		58.8 %
Manufacture of computer, electronic and optical products (C26)		58.0 %		77.1 %
Manufacture of electrical equipment (C27)		63.9 %		61.6 %
Average compensation per month (thousand VND)				
Total		1,657		5,322
Manufacturing		1,404		4,678
Manufacture of computer, electronic and optical products (C26)		1,989		5,303
Manufacture of electrical equipment (C27)		1,840		5,543

Source: General Statistical Office, tabulated by author.

According to this table, the share in terms of the number of acting enterprises of both sectors (C26 and C27) seems quite small in both reference years, with percentage shares between the range of 0.2% and 0.5%. However, it is interesting to note the relatively larger shares for both sectors in terms of the numbers of employees. In 2012 it was 2.6% for C26 and 1.3% for C27. This implies that on average, the electronics sector tends to be larger in the number of workers per enterprise than the cross-industry average. What is noticeable, however, is the rapid increase of the share of the number of employees in C26, which jumped from a mere 0.8% to 2.6% during the seven-year interval, suggesting that the average firm size in this sector grew extremely rapidly in comparison to others.

Another interesting point is the higher than average share of female workers in both sectors, especially the high share recorded for sector C26 in 2012, which suggests that more than three-fourths of its workforce was female. This is in stark contrast with the national average of 43.5%, and even with the manufacturing average of 58.8%. Average compensation per month for both sectors seems, however, very close to the national average.

TABLE 2 – Descriptive performance indicators

	(billion VND)		per enterprise (billion VND)		per worker (million VND)	
	2005	2012	2006	2012	2005	2012
Value of fixed assets and long-term investment						
Total	946,857	6,097,088	8.9	17.6	155.8	550.0
Manufacturing	295,907	1,354,015	14.2	24.0	99.2	271.3
Manufacture of computer, electronic and optical products	9,135	87,799	35.7	123.1	200.0	303.0
Manufacture of electrical equipment (C27)	10,145	36,742	20.9	32.6	118.3	252.4
Net turnover						
Total	2,140,558	11,167,844	20.1	32.2	352.2	1,007.5
Manufacturing	708,110	3,752,317	34.0	66.6	237.4	751.8
Manufacture of computer, electronic and optical products	35,675	475,606	139.4	667.0	780.9	1,641.4
Manufacture of electrical equipment (C27)	31,634	147,734	65.2	131.0	368.8	1,014.8

TABLE 2 – Descriptive performance indicators

	(billion VND)		per enterprise (billion VND)		per worker (million VND)	
	2005	2012	2006	2012	2005	2012
Profit before taxes						
Total	98,424	358,825	0.9	1.0	16.2	32.4
Manufacturing	22,908	117,797	1.1	2.1	7.7	23.6
Manufacture of computer, electronic and optical products	1,286	23,610	5.0	33.1	28.1	81.5
Manufacture of electrical equipment (C27)	1,193	3,324	2.5	2.9	13.9	22.8

Profit rates		
Total	5.25	3.13
Manufacturing	3.19	3.09
Manufacture of computer, electronic and optical products	3.57	4.91
Manufacture of electrical equipment (C27)	3.7	2.22

Source: General Statistical Office, tabulated by author.

Table 2 provides additional descriptive indicators on this sector. While most of the indicators for sector C27 seem to be around the national and/or industry average, those for C26 stand out in many dimensions. First, the values of fixed assets and long-term investments per enterprise are very high for 2012 compared to both manufacturing sector and national averages, while those figures per worker tend to converge towards the manufacturing average. This might reflect the possibility that the average firm size in sector C26 is expanding more rapidly than others.

What deserves special attention is the C26 difference in net turnover, profit before taxes, and profit rates. As highlighted in grey, the values for all of the variables are very high relative to both manufacturing and national averages, with the only exception being 2005 profit rates. Average enterprise performance of sector C26 in terms of net turnover and profits in 2012 seems exceptional.

TABLE 3 – Size distribution, by number of workers in 2012

	Total	less than 5	5-9	10-49	50-199
Total	346,777	127,010	96,088	94,648	21,071
% share		36.63 %	27.71 %	27.29 %	6.08 %
Manufacturing	56,305	12,108	12,926	19,574	7,366
% share		21.50 %	22.96 %	34.76 %	13.08 %
Manufacture of computer, electronic and optical products	739	145	116	199	121
% share		19.62 %	15.70 %	26.93 %	16.37 %
Manufacture of electrical equipment (C27)	1,128	193	231	392	183
% share		17.11 %	20.48 %	37.75 %	16.22 %
	200-299	300-499	500-999	1000-4999	5000-
Total	2,847	2,241	1,615	1,132	125
% share	0.82 %	0.65 %	0.47 %	0.33 %	0.04 %
Manufacturing	1,357	1,181	948	766	79
% share	2.41 %	2.10 %	1.68 %	1.36 %	0.14 %
Manufacture of computer, electronic and optical products	26	39	35	49	9
% share	3.52 %	5.28 %	4.74 %	6.63 %	1.22 %
Manufacture of electrical equipment (C27)	46	36	21	21	5
% share	4.08 %	3.19 %	1.86 %	1.86 %	0.44 %

Source: General Statistical Office, tabulated by author.

It should be noted, however, that heterogeneity is typical in any industry, and therefore these average figures may not correctly reflect the sectoral performance as a whole. The difference is particularly significant between foreign and domestic enterprises, as this report makes clear in the following sections. Table 3 summarizes the size distribution by number of workers for the national manufacturing total and individual mega sectors. Again, what stands out is the relative concentration of large enterprises in sector C26, where mega enterprises employing more than 5000 workers occupy 1.22 % of all enterprises. The fact that this sector's firm-size distribution is skewed towards larger enterprises becomes more obvious when compared with the share of enterprises with more than 500 workers. While this share for "total" and "manufacturing" are just 0.83 % and 3.18 % respectively, that for sector C26 is 12.58 %. Nevertheless, this also indicates that the majority of enterprises in this sector are still small/micro in size, where enterprises with less than 50 workers occupy about two-thirds of all enterprises.

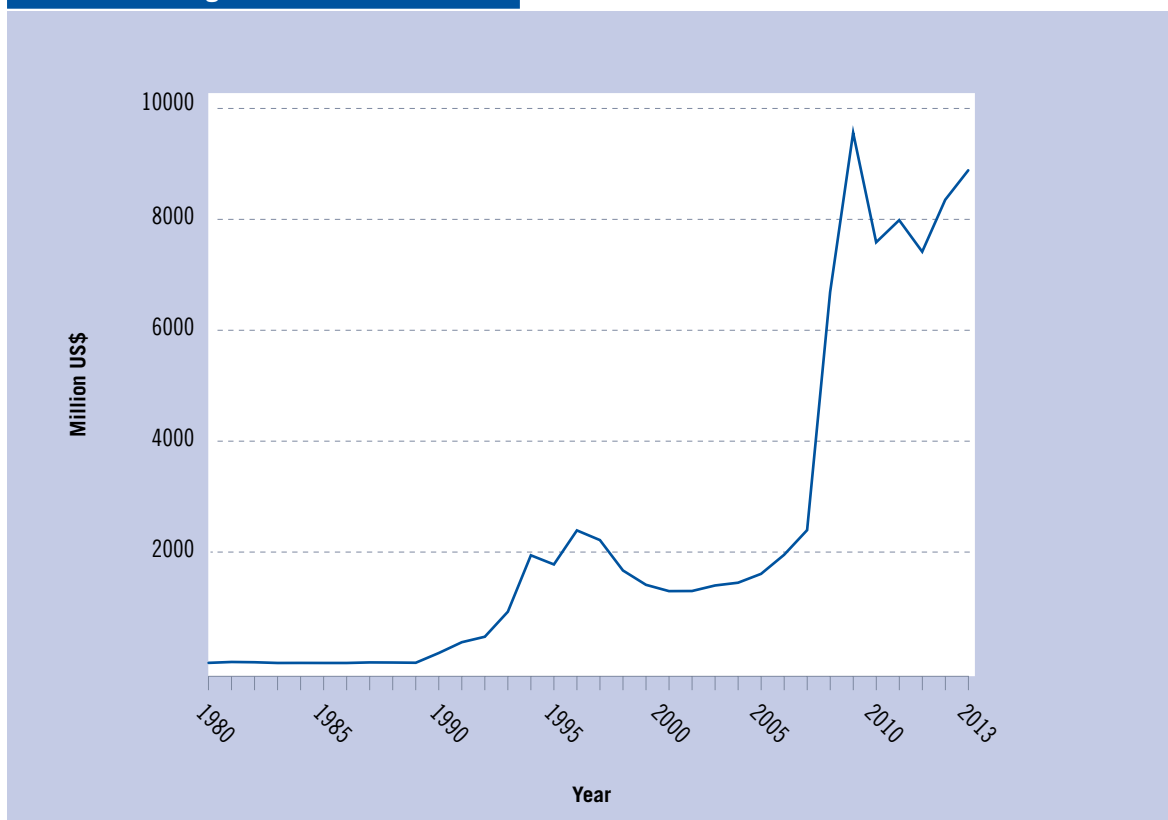
The next section more specifically focuses on the export-oriented electronics sector of Viet Nam, which has today become its largest foreign currency earner.

2.2 The export-oriented industry and its performance

East Asia is the world's largest producer of electronic products catering to the global market, where development was triggered by the enterprise-level offshoring and outsourcing activities of major American, European, and East Asian (especially Japanese) electronics companies (Ernst, 2004; Lowe and Kenney, 1999). While these have been made possible under different multilateral trade liberalization frameworks, advancements in production technology with the rapid diffusion of Internet-based ICT and related application services were the main drivers of these fragmentation dynamics, having impacted directly the evolution of a progressively modularized production system (Sturgeon, 2002). In the case of personal computers production, for example, production processes were in the past vertically integrated. Manufacturing technology and the configuration of parts and components were essentially contained in-house. However, this changed when key components were converted into generic and codified modules, allowing major electronics companies to standardize the production processes, and outsource/offshore such generic processes and functions to cost-saving locations, primarily in the newly industrializing Asia (Gangnes and Van Assche, 2010; Palpacuer and Parisotto, 2003). From the viewpoint of developing countries, standardized and codified modules opened up completely new opportunities to participate in this vertically structured division of labour. Viet Nam is exactly one such country.

Viet Nam's integration into the global economy effectively kicked off when the *Doi Moi* (renovation) policy was adopted in 1986. Linkages beyond the Council for Mutual Economic Assistance (CMEA) block were rapidly established, accompanying a significant increase in inward FDI in the late 1980s (see Figure 1). The Government in general encouraged FDI through policy leverage, including reductions in various taxes and the provision of preferential land rents, and an inward investment boom occurred in the early 1990s – mostly from more developed countries, particularly Japan and other Asian neighbours.

FIGURE 1 – Foreign direct investment trends



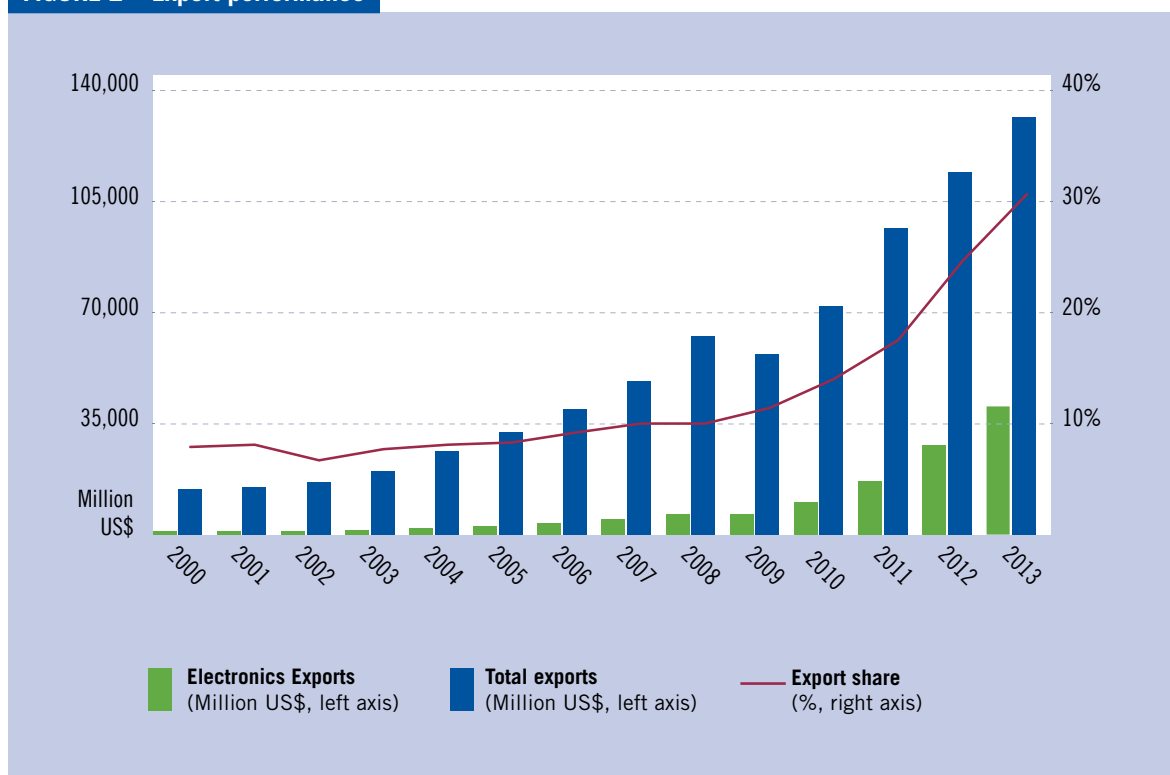
Source: World Development Indicators, the World Bank.

This accompanied changes in its domestic economic structure. Viet Nam had traditionally been a major exporter of primary products such as crude oil and agricultural/food products. However the garment sector quickly rose as one of the largest non-resource based manufacturing export sector in the early 1990s. Table 4 outlines the key export sectors in 2003, 2008 and 2013. In 2003, the largest export sector was mineral fuel and oil (HS27). With about one-fifth of all exports, it has traditionally been the largest foreign currency earner for Viet Nam. This is followed by footwear (HS64), seafood (HS3) and apparel products (HS62 and HS61). Note that the HS codes for apparel products are divided according to the materials used (while the two-digit-level code for footwear is not). Therefore in reality, apparel was the second largest export sector with a share of almost 17% of total exports in the same year. In 2008, “electrical and electronic equipment” (HS85) appears in the top-10 list, and is ranked as the sixth largest export sector which, when combined with the “machinery” sector (HS84), occupies more than 10% of total export share. In 2013, the total share of the two sectors approached almost one-third of total exports (30.7%), with “electrical and electronic equipment” (HS85) becoming the largest export sector, surpassing crude oil exports by a very large margin. The export performance of the electronics sector has been phenomenal in Viet Nam, as is shown in Figure 2.

TABLE 4 – Changes in key export sectors (HS 2 digit level)				Unit: Million US\$	
2003					
Rank	HS	Sector	Value	Share	
1	27	Mineral fuels, oil	4,151	20.6 %	
2	64	Footwear	2,299	11.4 %	
3	3	Seafood	2,075	10.3 %	
4	62	Apparel (woven)	2,022	10.0 %	
5	61	Apparel (knitted)	1,364	6.8 %	
6	85	Electrical, electronic equipment	942	4.7 %	
7	10	Cereals	723	3.6 %	
8	9	Coffee	677	3.4 %	
9	94	Furniture	656	3.3 %	
10	84	Machinery	623	3.1 %	
		Others	3,084	15.3 %	
			20,149		

TABLE 4 – Changes in key export sectors (HS 2 digit level)				Unit: Million US\$	
2008					
Rank	HS	Sector	Value	Share	
1	27	Mineral fuels, oil	12,645	20.2 %	
2	64	Footwear	4,872	7.8 %	
3	62	Apparel (woven)	4,605	7.3 %	
4	61	Apparel (knitted)	3,894	6.2 %	
5	3	Seafood	3,889	6.2 %	
6	85	Electrical, electronic equipment	3,667	5.9 %	
7	10	Cereals	2,905	4.6 %	
8	94	Furniture	2,741	4.4 %	
9	84	Machinery	2,664	4.3 %	
10	9	Coffee	2,604	4.2 %	
		Others	11,455	18.3 %	
			62,685		
2013					
Rank	HS	Sector	Value	Share	
1	85	Electrical, electronic equipment	32,283	24.5 %	
2	27	Mineral fuels, oil	9,685	7.3 %	
3	62	Apparel (woven)	8,829	6.7 %	
4	64	Footwear	8,722	6.6 %	
5	84	Machinery	8,240	6.2 %	
6	61	Apparel (knitted)	7,917	6.0 %	
7	3	Seafood	5,062	3.8 %	
8	94	Furniture	4,242	3.2 %	
9	9	Coffee	3,770	2.9 %	
10	40	Rubber	3,271	2.5 %	
		Others	28,099	21.3 %	
			132,033		

Source: UN Comtrade database, author's tabulation.

FIGURE 2 – Export performance

Note: "Electronics export" is represented by the total export values of HS84 and HS85.

Source: UN Comtrade.

As the two-digit HS code, particularly that for electronics, includes a wide variety of products with significantly different technological and process attributes, a closer look at a more disaggregated level is necessary to correctly understand the characteristics of the current Vietnamese electronics industry. Table 5 shows the key export items according to the four-digit HS codes for 2013.

TABLE 5 – Key export goods in 2013 (HS 4 digit level)			Unit: Million US\$	
Rank	HS	Description	Value	Share
1	8517	Telephone sets, including telephones for cellular networks or for other wireless networks; other apparatus for the transmission or reception of voice, images or other data, including apparatus for communication in a wired or wireless network.	21,853	16.6 %
2	2709	Petroleum oils and oils obtained from bituminous minerals, crude.	7,375	5.6 %
3	6403	Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather.	3,639	2.8 %
4	8471	Automatic data processing machines and units thereof; magnetic or optical readers, machines for transcribing data onto data media in coded form and machines for processing such data, not elsewhere specified or included.	3,413	2.6 %
5	9403	Other furniture and parts thereof.	2,962	2.2 %
6	1006	Rice.	2,926	2.2 %
7	6404	Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of textile materials.	2,865	2.2 %
8	901	Coffee, whether or not roasted or decaffeinated; coffee husks and skins; coffee substitutes containing coffee in any proportion.	2,551	1.9 %
9	8443	Printing machinery used for printing by means of plates, cylinders and other printing components of heading 84.42; other printers, copying machines and facsimile machines, whether or not combined; parts and accessories thereof.	2,519	1.9 %
10	8544	Electrical machinery and equipment and parts thereof (Insulated (including enamelled or anodised) wire, cable (including co-axial cable) and other insulated electric conductors.	2,516	1.9 %
		Others	79,413	60.1 %
		Total	132,033	

Source: UN Comtrade database, author's tabulation.

According to this table, the largest export product group from Viet Nam is “telephone sets and related apparatus (HS8517)” with a share of 16.6 % of total exports, which seems extraordinary by any standard. This is followed by crude oil and footwear. However, computer-related products (HS8471) appear again in the fourth rank. This is followed by furniture, rice, footwear and coffee, and then electronic products appear again, occupying the ninth (HS8443 Printers and related products) and tenth (HS8544 electronic equipment and parts) positions.

2.3 The importance of MNEs in the electronics sector of Viet Nam

One of the key characteristics of the Vietnamese electronics industry is that its role is still limited in the export-oriented sector in two dimensions: *functional scope* and *local enterprise engagement*. This statement may seem rather paradoxical given its prominent position as the country's leading export sector.

The first dimension is related to the fact that the processes undertaken in the Vietnamese electronics sector are still confined to a very narrow functional scope, mainly in labour intensive assembly of components and final products. As production fragmentation (and therefore vertical specialization) has become extremely fine-tuned, the Vietnamese industry occupies only a marginal position in the global electronics value chain (Vind, 2008). While the electronics assembly process is still highly capital intensive, the factor of production to which Viet Nam is capable of contributing is still primarily unskilled labour (production equipment and machinery). Other higher value-added services are almost entirely imported. As such, in functional terms, the Vietnamese electronics sector caters to the same functions as in the garment sector, which also includes labour-intensive assembly processes that are typically low value-added.

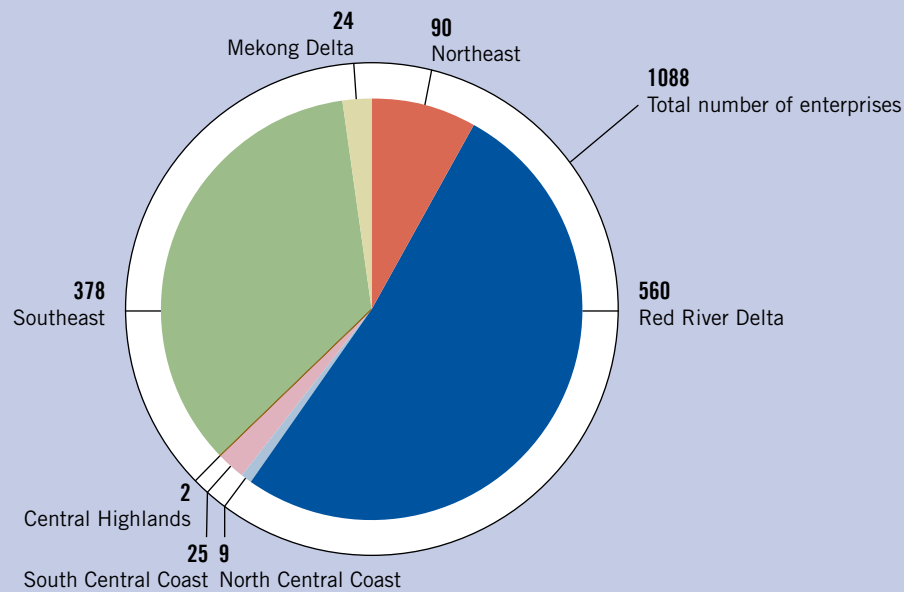
The second dimension is related to the fact that the functions described above are almost entirely undertaken by MNEs, and local Vietnamese enterprises play negligible roles in this. This applies to the supporting industry and sub-contracting arrangements as well – the involvement of Vietnamese enterprises in backward linkages with these MNEs are likewise extremely limited. Electronics MNEs in Viet Nam typically source non-essential inputs such as carton boxes and packing materials from local Vietnamese enterprises. The major obstacle to the integration of Vietnamese enterprises in this network in areas closer to the core of production is the lack of technical capability. Most of the local (Vietnamese) enterprises tend to produce products of lower technological intensity, such as lighting equipment and electronic white goods that include fans and transformers, and compete in completely different markets which are targeted primarily domestically. However, some of those enterprises have been successful in becoming parts/components suppliers for export-oriented MNEs, which we will discuss later in this report. The export-oriented electronics production network of Viet Nam nevertheless remains primarily MNE dominated.

This section provides a description of the sector to validate the dominant positions of MNEs in the electronics sector of Viet Nam, using a unique dataset, entitled “Viet Nam Electronics Sector Dataset (VESD)”, which covers all the electronics-related enterprises that were registered and operating in Viet Nam in 2014. This dataset includes basic information such as the name of the enterprise, location, number of workers, turnover, and key products of each of the enterprise.⁵

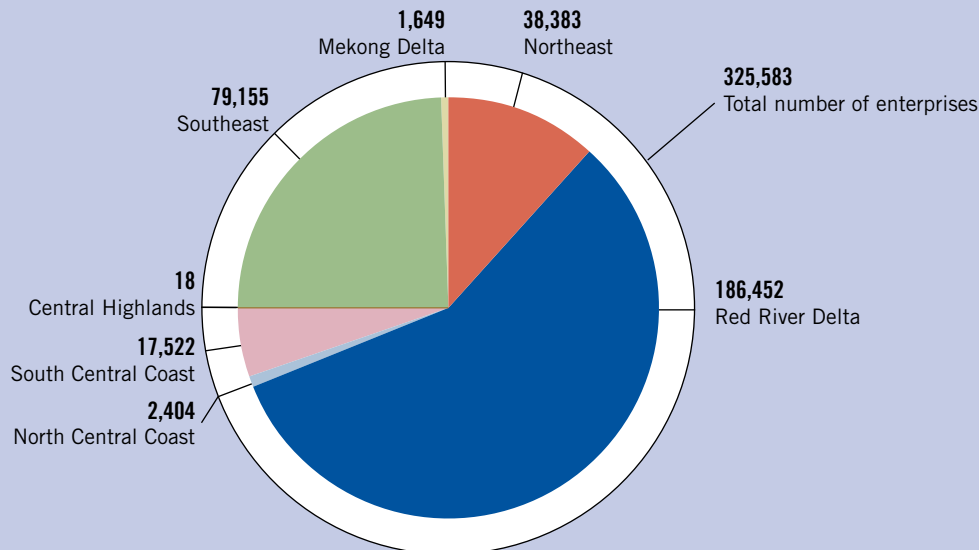
A few interesting facts emerge from this dataset. First, out of the largest 100 enterprises, 99 are FDI enterprises, and the remaining one was an SOE, which ranked 100th in the list. Second, the largest 20 enterprises employ 49.4% of all workers. The largest 50 enterprises employ 69%, while the largest 100 employ 82%. Third, out of the largest 20 enterprises, 11 were Japanese, four were Korean, three were Taiwanese, and one was American. The country of origin of the remaining enterprise could not be identified.

Figure 3 summarizes the regional distribution of all registered electronics enterprises in Viet Nam. According to this figure, more than half of all electronics enterprises (560 out of 1088, which is 51.5%) in this country are located in the RRD region, which includes Hanoi, Hai Phong and their vicinity provinces. This is followed by the SE region, which includes Ho Chi Minh City and surrounding areas, such as Dong Nai province.

⁵ The data in the VESD was extracted from the Enterprise Survey 2015 database, and was compiled by the VCCI as part of the ILO project as an “industry mapping exercise”.

FIGURE 3 – Number of enterprises (total = 1088)

Source: compiled by author using VESD

FIGURE 4 – Number of workers (total = 325,583)

Source: compiled by author using VESD

Figure 4 summarizes the regional distribution of workers in this sector. The trends show similar patterns as that of Figure 3: 57.3% of all workers in this sector are in the RRD region. That is interesting because the SE region is typically considered to be more developed than the RRD region. One might therefore expect a larger concentration of both the number of electronics enterprises and workers in the SE region. The fact that the proportion of workers working in the RRD is larger than the proportion of the number of enterprises also suggests that the average size of an electronics enterprise in the RRD region is also larger than that of both the overall economy as well as of the SE region, which may also be counterintuitive.

TABLE 6 – Largest 25 electronics enterprises

Red River Delta (RRD)				
	Country of origin	City/Province	Year estblished	Number of workers
1	Korea	Bac Ninh	2009	38,849
2	Japan	Ha Noi	2002	22,974
3	Taiwan	Bac Giang	2011	9,930
4	Taiwan	Bac Giang	2008	8,084
5	Japan	Hai Duong	2007	7,057
6	Japan	Binh Duong	2007	6,482
7	Korea	Bac Ninh	2010	5,516
8	Japan	Hoa Binh	1999	3,858
9	Korea	Bac Ninh	2008	3,857
10	Korea	Vinh Phuc	2008	3,589
11	Taiwan	Bac Ninh	2007	3,428
12	Japan	Hai Duong	2007	3,247
13	US	Bac Ninh	2013	3,243
14	Japan	Ha Noi	2006	3,040
15	Japan	Ha Noi	2007	2,893
16	Korea	Vinh Phuc	2010	2,877
17	Korea	Bac Giang	2008	2,466
18	Taiwan	Ha Noi	2010	2,433
19	Korea	Bac Ninh	2010	2,300
20	Korea	Bac Ninh	2008	2,297
21	Japan	Hai Phong	2005	2,264
22	Japan	Ha Noi	2007	2,224
23	Japan	Hung Yen	2012	2,134
24	Japan	Nghe An	2012	2,091
25	Korea	Bac Ninh	2012	2,017
	Average		2008	5,966

TABLE 6 – Largest 25 electronics enterprises

Southeast Region (SE)				
	Country of origin	City/Province	Year estblished	Number of workers
1	Japan	Binh Duong	2006	13,508
2	Japan	Da Nang	2009	8,560
3	Japan	Bac Ninh	2011	5,581
4	NA	Da Nang	2005	3,786
5	Japan	Ho Chi Minh	1995	3,155
6	Japan	Binh Duong	2005	2,994
7	Korea	Binh Duong	2000	2,861
8	Denmark	Ho Chi Minh	2007	2,744
9	Japan	Binh Duong	1999	2,678
10	Japan	Binh Duong	2001	2,526
11	NA	Quang Nam	2007	2,382
12	Japan	Quang Ngai	2013	2,200
13	Japan	Dong Nai	1996	2,122
14	US	Ho Chi Minh	2002	1,748
15	Japan	Binh Duong	2000	1,697
16	Japan	Hai Duong	2007	1,639
17	Japan	Hai Duong	2007	1,573
18	Japan	Ho Chi Minh	1997	1,553
19	Japan	Dong Nai	2008	1,507
20	Japan	Dong Nai	2012	1,406
21	Hong Kong	Binh Duong	2008	1,273
22	Japan	Binh Duong	1998	1,125
23	NA	Ho Chi Minh	2002	1,032
24	US	Ho Chi Minh	2010	958
25	Taiwan	Ho Chi Minh	1996	936
	Average		2004	2,862

Source: compiled by author using VESD

Table 6 summarizes the largest 25 enterprises in the RRD and SE regions. A couple of features stand out. First, while Japanese MNEs dominate in both regions (11 and 16 out of the largest 25 enterprises in RRD and SE respectively), their concentration is higher in the SE region. Second, MNEs started operating earlier in the SE region. While there was only one enterprise operating in the RRD region in the 1990s, there were already six in the SE region. Third, the size of the enterprises in terms of the number of workers tend to be larger in the RRD than the SE region (while the average size of the top 25 enterprises in the SE was 2,862, the average for RRD was 5,966).

The differences in these sectoral characteristics between the two regions are probably due to the Government's effort to attract investment in the RRD. It had attempted to catch up with the level of economic agglomeration of the SE region, which at that time was already ahead of the RRD region by a significant margin. Since then, new inflow of FDI into the RRD region has gained momentum. Major investment projects such as that of Canon in 2001 and the more recent one by Samsung in 2009 have been the major outcome of such Government policies, which have substantially transformed the industrial structure of the RRD region.

Internal dimensions of labour and business practice: Working conditions, process characteristics, and worker attributes

The World Economic Forum's Global Competitiveness Report provides some insights on how MNEs perceive and assess Viet Nam as a destination of FDI. The Report's Global Competitiveness Index (GCI), which attempts to measure a country's relative competitiveness vis-à-vis others, is a composite index incorporating 12 "pillar" indices, with each pillar containing a further detailed set of specific indicators.

In terms of overall competitiveness, the 2014-15 edition of the report ranks Viet Nam 68th out of 144 countries, with a GCI score of 4.2 (maximum score is 7). Among the 12 pillars, the seventh pillar is most relevant to employment, entitled "labour market efficiency", and consists of a further 10 specific indicators, which are reproduced in Table 7.⁶

⁶ Most of the values of the indices come from the "Executive Opinion Survey," while others include data from other sources. The ratio of women to men in the labour force, for example, is taken from ILO's Key Indicators of Labour Markets.

TABLE 7 – Global Competitiveness Index (7th pillar: Labor market efficiency) for Viet Nam

Indicator	Description of the question	Value	Rank/144
Cooperation in labor-employer relations	In your country, how would you characterize labor-employer relations? [1 = generally confrontational; 7 = generally cooperative]	4.2	79
Flexibility of wage determinations	In your country, how are wages generally set? [1 = by a centralized bargaining process; 7 = by each individual company]	5.1	60
Hiring and firing practices	In your country, how would you characterize the hiring and firing of workers? [1 = heavily impeded by regulations; 7 = extremely flexible]	3.9	65
Redundancy costs, weeks of salary	Redundancy costs in weeks of salary This indicator estimates the cost of advance notice requirements, severance payments, and penalties due when terminating a redundant worker, expressed in weekly wages.	24.6	112
Effect of taxation on incentives to work	In your country, to what extent do taxes reduce the incentive to work? [1 = significantly reduce the incentive to work; 7 = do not reduce incentive to work at all]	3.4	86
Pay and productivity	In your country, to what extent is pay related to worker productivity? [1 = not related to worker productivity; 7 = strongly related to worker productivity]	4.6	23
Reliance on professional management	In your country, who holds senior management positions? [1 = usually relatives or friends without regard to merit; 7 = mostly professional managers chosen for merit and qualifications]	3.5	117
Country capacity to retain talent	Does your country retain talented people? [1 = the best and brightest leave to pursue opportunities in other countries; 7 = the best and brightest stay and pursue opportunities in the country]	3.2	84
Country capacity to attract talent	Does your country attract talented people from abroad? [1 = not at all; 7 = attracts the best and brightest from around the world]	3.4	74
Women in labor force, ratio to men	Ratio of women to men in the labor force This measure is the percentage of women aged 15–64 participating in the labor force divided by the percentage of men aged 15–64 participating in the labor force	3.3	23

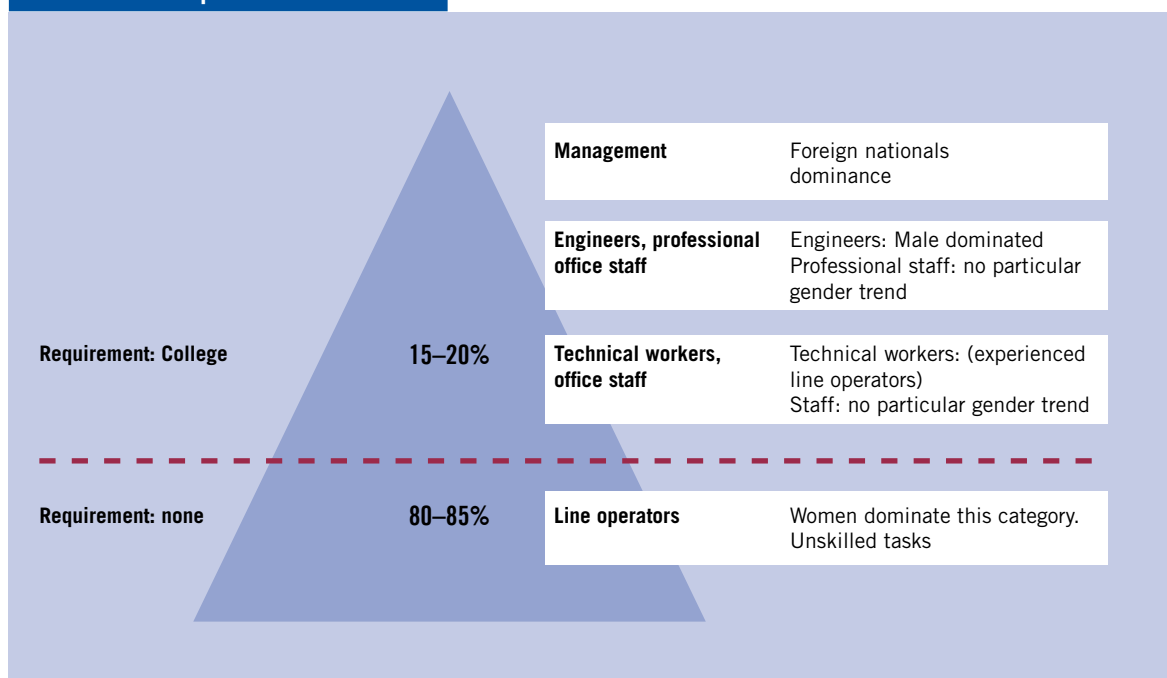
Source: Adopted from Global Competitiveness Report 2014-15 and online data portal of the World Economic Forum.

It is worth noting that Viet Nam ranked forty-ninth out of 144 countries for this particular pillar, which has been relatively high, compared to other pillars (GCI score was 4.4). Within these specific indicators, Viet Nam was especially perceived as “competitive” in terms of *pay and productivity and women in labour force, ratio to men*.

These results however need to be carefully interpreted. If the wages were truly reflecting workers’ productivity levels, this could suggest an efficient labour market and can be genuine sources of competitiveness. However these assessments may differ significantly between employers and workers, especially when effective dialogue mechanisms are lacking at the enterprise level. For example, if working conditions are not set through collective bargaining but are instead decided unilaterally by the employers, and if this is perceived by workers as inconsistent with their contribution (productivity) levels, then the pay and productivity indicator will not be assessed positively by these workers. The simple fact is that what is considered to be “good” from the management’s perspective may not always be “good” from the workers’ point of view. Collective bargaining will become crucial to bridge this gap and to reach mutually agreeable working conditions (especially on their pay levels), which should constitute the basis of this indicator. This report will argue that this issue is not just important conceptually, but also crucial practically for sustainable business performance, especially in a labour market where demand for workers, particularly skilled workers, is expanding rapidly in relation to its supply.

From our interviews with representatives of electronics enterprises, particularly those that cater to the export markets, there was a great degree of similarity in terms of their workforce composition, which is summarized in Figure 5.

FIGURE 5 – Composition of workforce



Most of the MNEs in which we conducted interviewed had different job functions within their workforce, which can be roughly classified into four categories. Out of these four, three, including (1) *management*, (2) *engineers* and *professional office staff*, and (3) *technical workers* and *office staff*, were regarded as “skilled” positions, with skill intensity descending in this order. The workers in the fourth category, *line operators*, were considered primarily to be “non-skilled”. The majority of the workforce in each of the enterprises was comprised of *line operators*, with typically around an 80 % to 85 %.

Each of these job functions had slightly different attributes. The management positions were mostly dominated by foreign nationals, who were sent from their home country headquarters to directly manage their subsidiaries in Viet Nam. There were also cases where Vietnamese nationals were appointed to this functional level; however, these cases are still rare. The engineers and professional office staff (such as accountants and legal advisors), and technical workers (highly experienced line operators who can manage production lines and are in supervisory positions) and office staff were considered essential to daily operations. These two job categories tended to be filled by Vietnamese nationals.

The fourth category (line operators) was typically dominated by women. The workers undertook simple and repetitive tasks, and were almost universally perceived to be unskilled. While the three “skilled” positions required a college- or vocational-school-level education, there were no specific requirements for line operator positions. This is manifested in the high ratio of female workers in the Vietnamese electronics sector in official statistics, such as those shown in Table 3, and also in the high GCI score for “women in labour force, ratio to men.” It is interesting to note that the shares of female workers in operation lines in local Vietnamese enterprises tended to be much lower – between 50 % and 60 %.

The fact that the sector employs a disproportionately higher share of female workers can be positive or negative, depending on the particular job categories and associated working conditions. Literature suggests that foreign-owned enterprises prefer female workers because of their perceived docility and dexterity (Barrientos, 2001; Vind, 2008). From our interviews, one of the main reasons for the high dependence on female workers in MNE operation lines seems to be related to the particular process attributes of the products they produce. The MNEs that were a part of the interview process were all primarily export-oriented, except one that had different subsidiary units producing different products for different markets. They tended to have a very high proportion of female workers because, according to the interviewees, the tasks in their assembly lines were “repetitive, fine and detailed”, which were considered as “not suitable” for male workers. The products that these MNEs produced were mostly small and technology intensive. While some were assembling final products, many were producing parts and components to be assembled by other enterprises through forward linkages, for final items including mobile/smart phones, camera devises, health and medical equipment, and computer-related products, including printers. Male workers in these MNEs were often assigned to tasks that were less repetitive and that required more physical capabilities in shop floors.⁷ However, one manager of an MNE noted that differences in workers’ sexes did not have any effects on productivity or suitability, and thus could be just a gender-biased view of worker-job attributes. However, as the MNE interviewees were quite heterogeneous in terms of both products and processes, it remains difficult to provide a definitive conclusion at this point.

That a significantly larger share of assembly jobs are undertaken by female workers is not necessarily a problem per se. Feminization of the workforce becomes a problem, however, when female workers are systematically discriminated and employed disproportionately in unfavourable tasks associated with

⁷ One subsidiary production unit of a Japanese electronics MNE, which produced white goods such as refrigerators and washing machines for the domestic market, had an 80 % share of male operators in its production line. As these types of products tend to be relatively bulky, they are often assembled in close proximity to their final markets. The primary motivation of MNEs is thus market seeking rather than efficiency seeking. The latter is more typical for export-oriented offshore production. As large and heavier parts and components were handled in the assembly lines for these types of products, they were “more suitable to male workers with physical strength” according to the interviewees.

worse working conditions and limited prospects of skill upgrading and promotion, and substantially less frequently in more technical and professional positions with higher skill components in comparison to their male counterparts (Tran and Nørlund, 2015). Another potential issue arises when female workers are employed more frequently because of the perception that they are relatively easy to hire and fire when flexibility in workforce adjustment becomes increasingly important (Barrientos, 2001; Vind, 2008). The main concern is thus whether differences in gender-related worker attributes lead to such discriminatory employment practices, and further translate into longer-term disadvantages for female workers. Similar issues could arise between domestic migrants and local workers; local workers are considered to be at an advantage because their probability of accessing other sources of incomes (particularly rental income) is higher in comparison to migrant workers. Local workers are therefore less likely to be stuck in jobs with undesirable working conditions (Vind, 2008).

The shares of male workers in non-assembly positions (referred to widely as “staff” by the MNE interviewees) in the MNEs and Vietnamese firms that took part in the interviews were not significantly higher or different than female workers in similar positions. However, engineer positions were, in most cases, dominated by male workers. In most MNEs, the average wage levels of non-assembly staff workers tends to be higher than assembly workers, as the tasks could entail functions that are intrinsically of higher knowledge intensity, therefore requiring much higher educational and skill levels than for line operators. However, as there were wide variations in the positions of these staff members, wage levels were also very diverse within these MNEs. In fact, some of the wage levels of staff were about the same as those of line operators. The wage levels of engineers on the other hand tended to be higher than average compared to line operators. However, the number of these positions was much smaller than that of jobs in both assembly and non-assembly functions. Educational requirements for engineers were typically at the university level, with appropriate training in relevant engineering fields. While demand for workers with competent engineering and other technical skills is expanding rapidly, the fact is that there is a very limited supply of such skilled workers in Viet Nam. As we will discuss later, this is one of the key bottlenecks in the Vietnamese electronics sector, which is recognized by most stakeholders in this industry, including employers (both of MNEs and local Vietnamese enterprises), workers, and the Government.

The fact that a large proportion of the workers in export-oriented electronics MNEs in Viet Nam were female workers can also be interpreted to mean that only a very small number of male workers have been successful in taking up such jobs in this sector, with the notable exception of engineering-related jobs and those that require physical work. In general, job opportunities were expanding much more favourably for female than male workers, particularly for non-skilled workers in the booming export-oriented electronics sector. In addition, most MNEs were finding it increasingly difficult to recruit and retain female workers, especially when they operated in or near Hanoi where alternative job opportunities were available, or in areas where a large number of similar enterprises were located, as competition for these workers was much more severe.

The ability of MNEs (as well as non-MNEs) to maintain flexibility in their labour force according to seasonal business cycles has become difficult under the current Vietnamese Labour Code, which came into effect in 2013. The legislation now allows employers to employ workers under fixed-term contracts for only up to 36 months. Beyond that, a fixed-term contract must be converted into a permanent one. This effectively makes it more difficult for employers to fire workers. This new Labour Code at the same time, however, introduced a new section on labour outsourcing, which allows enterprises to hire temporary workers through licensed agencies. Some of the MNEs that took part in interviews had resorted to using such temporary workers to maintain their ability to adjust their workforce as needed.

However, due to the increasing difficulties in hiring workers under the existing local labour market conditions, most MNEs recognized that the ability to attract workers was more important than the ability to fire these workers during off-peak seasons. More importantly, most of the MNEs that participated in the interviews, generally Japanese MNEs, positively preferred to establish a stable and long-term employer-worker relationship. These MNEs typically put significant resources into upgrading their workers' skills and knowledge, particularly to train them as mid-level managers in both assembly lines and administrative functions. This was considered to be one of the key elements defining the enterprises' operational efficiencies and thus overall competitiveness in the long run. One of the most problematic issues for them was that these middle managerial level workers (engineers, (professional) office staff and technical workers) which they had trained at their own cost, were often hired away by other enterprises.

In relation to this, the GCR also reports problems as perceived by employers, apart from the GCI indicators. In this, employers have identified "inadequately educated workforce" as the third largest problematic factor in Viet Nam out of the 16 issues (the first and second greatest issues were "access to financing" and "corruption," respectively) (WEF, 2014). This problem relates directly to skill shortages at the industry level, particularly at the higher job categories, as shown in Figure 5. This is one of the problems most frequently discussed in relation to labour market conditions in Viet Nam. For example, a World Bank report suggests that significant skill gaps exist in Viet Nam in the context of changing economic structures amidst rapid economic development. More workers with skills to absorb increasingly complex tasks and new technology are needed.

This has important implications on the overall economic development trajectory of Viet Nam. As already described, the Vietnamese electronics sector is primarily assembly oriented, and line operators (mostly female) undertake simple and repetitive tasks. However, it must eventually upgrade and evolve to cater to the more complex and higher value-added functions in the electronics value chain, particularly if it wants to avoid the "middle-income trap". The lack of a workforce with relevant skills and knowledge in the national economy will thus eventually become a critical bottleneck for sustained growth and broad-based development.

The issue of skill shortages is thus an important one, and the quality and relevance of the higher education system in Viet Nam is mainly held responsible for this (World Bank, 2008). While we address this issue related to skills and human resources in the next section, this is one of the main reasons why most MNEs have internalized training systems and have built their competitiveness (and reputation) around these initiatives.

External dimensions of business and labour practices: FDI policy, inter-firm relationships, and institutions

The Vietnamese Government has for some time placed emphasis on the electronics sector, positioning it as a key industry to lead its overall national development process. In this context, the Government has particularly been active in encouraging FDI in this sector since the 1990s, with concrete policies that include such preferential measures as reductions in corporate income and value added taxes (VAT), land-rent reduction, and import/export duty exemptions.⁸ The sector continues to feature prominently in the country's industrial policy front as one of the target industries to be promoted, as outlined in the Prime Minister's Decision, entitled "The plan of action for development of electronics industry (1290/QD-TTg)" of 2014. The Plan includes target issues related to the development of the supporting industry, human resource base, domestic and export markets, further attraction of FDI, and the creation of an electronics industry cluster, among others.⁹

While these policy measures have been successful in terms of attracting incoming FDI from MNEs, there are arguments that these efforts have put local electronics enterprises, including state-owned enterprises, at a relative disadvantage as there was no policy support that specifically targeted and supported them (Hayashi, 2013).

Such a view was especially strongly expressed during our interviews with local Vietnamese enterprises. In principle, preferential treatment of MNEs may not necessarily be unfair to or have negative effects on local Vietnamese enterprises, if the MNE target markets are different from those of local enterprises. Most of the large Japanese and Korean electronics MNEs that participated in the interviews were in fact registered as an export processing enterprises (EPEs),¹⁰ while almost all of the local enterprises that participated in the interviews were primarily focusing on the domestic market. Moreover, even when target markets were the same for MNEs and local enterprises, the likelihood that they produced different products was very high, particularly in terms of technology intensity. As such, while direct competition between MNEs and local enterprises can theoretically work against local enterprises, such cases may have been rare and do not explain the disadvantages perceived by local enterprises entirely.

Rather, preferential FDI policies may have affected local enterprises indirectly through local labour market effects. These policies have no doubt led to increased labour demand, which could have disproportionately crowded out Vietnamese electronics enterprises from local labour markets. Most local enterprises in fact found it increasingly difficult to recruit and retain workers due to the perception that MNEs

⁸ Foreign Investment Agency website (<http://fia.mpi.gov.vn/detail/689/investment-incentives>), accessed on 8 June 2015.

⁹ The master plan is a follow up to Decision No. 1043 of the Prime Minister (1043/QD-TTg) approving "Vietnam's industrialization strategy within the framework of Vietnam-Japan cooperation through 2020 with a vision toward 2030." This Decision declared electronics to be one of the six target industries to be promoted under this Viet Nam-Japan cooperation scheme.

¹⁰ An EPE is an enterprise that operates in export processing zones or other types of authorized industrial zones, and that produces products for exports. They are exempt from VAT and import/export duties.

offered better conditions to workers, especially in terms of wages. Some explicitly linked this with the preferential treatments MNEs receive, particularly with reduced land rent and corporate tax reductions/exemptions. As we have no means to control other enterprise-specific attributes that can affect wage levels and other working conditions (i.e. productivity levels, factor intensity, product variation, and differences in value chain positions), at this stage we can make no conclusive statements linking better working conditions of MNEs to such preferential treatment. This however remains an important policy coordination issue, particularly in terms of compatibility of local industrial development and FDI attraction.

On the other hand, an increase in the number of MNEs in Viet Nam through preferential FDI policies may in fact have a favourable effect on local enterprise development and employment creation overall, especially if substantial production relationships exist between MNEs and local enterprises through subcontracting, procurement arrangements (backward linkages) and other types of outsourcing and offshoring arrangements. This would not just generate employment in local enterprises, but probably also help process and product upgrading through technological transfers from MNEs. These types of inter-firm linkages would also affect working conditions in local enterprises, and could function as important catalysts to build local capacity to implement socially responsible business practices.

BOX 1 – Upgrading through linkages with MNEs: The Case of the Vietnamese Garment Industry

Stable and long-term inter-firm relationships between MNEs and local enterprises were key to local industrial upgrading. Goto et al. (2011), for example, argue that the upgrading trajectories of local Vietnamese garment enterprises have been very different depending on market orientation and value chain coordinators. Buyers in Viet Nam oriented to the United States market tended to offer local garment companies very large order volumes with relatively simple and easy product specifications. Therefore the involvement of buyers (MNEs) in terms of technological transfer and monitoring was very limited as the need for technological transfer was relatively small. Japanese-market-oriented businesses, on the other hand, had much smaller volume with more complex and sophisticated product specifications. These value chains are in most cases coordinated by Japanese buyers (MNEs), and because the technological requirements were higher than those oriented to United States markets, technology transfers from these MNEs to Vietnamese garment suppliers were much more important and occurred more intensively. Because technology was typically transferred at the expense of Japanese MNEs (primarily through regular on-site consultations between Japanese technicians and Vietnamese suppliers), these Japanese MNEs had a strong incentive to maintain a long-term buyer-supplier relationship. In short, value chains coordinated by Japanese MNEs were seen as much less dynamic, smaller in business size, but more stable and with better prospects for process and product upgrading.

The point is that such direct involvement in technological transfer is a relationship-specific investment for MNEs, which can only be captured, or collected over time in stable and long-term relationships. In United-States-oriented value chains, on the other hand, supplier-buyer relationships tended to be established in a much more competitive fashion with much less direct involvement in technology transfer, and therefore had a much shorter time horizon in terms of inter-firm relationships. These strategic differences in inter-firm relationships primarily came from differences in product specifications, order characteristics, and market requirements for the products, and both are in fact completely economically rational from the supplier perspective. For Vietnamese garment suppliers, both chains had their own advantages and disadvantages, the relative importance of which was mainly dependent on their levels of technological accumulation and their positions in their respective value chains.

Local industrial upgrading in processes and products through linkages with MNEs is actually observed frequently in the garment sector of Viet Nam (see Box 1). The difference between the garment and electronics sectors in Viet Nam is that unlike the garment sector, inter-firm linkages between MNEs and local Vietnamese enterprises were widespread in the garment sector, while still quite rare in the electronics sector.¹¹ Interviews with MNEs indicate that the outsourcing of particular functions to local enterprises is almost non-existent, and procurement is typically limited to simple and low value-added inputs such as carton boxes and other packaging materials. Most of the local procurement is limited to Japanese, Korean, or Taiwanese suppliers that have also established production capabilities through FDI arrangements in Viet Nam. The lack of indigenous local supporting industries is an issue that has been recognized widely as a key weakness in the industrial structure of Viet Nam across sectors (Ohno, 2009). Almost all of the managers at the MNEs we interviewed found this to be one of the key bottlenecks in their daily operations as it limits their supply source, requires longer lead times (especially when inputs are imported), and keeps input costs relatively high.

Nevertheless, some of the MNEs were actively looking at local Vietnamese enterprises as potential suppliers and subcontractors. While most of the procurement from local enterprises is currently limited to goods such as packaging and printed materials, these MNEs are increasingly experimenting with local procurement of simple components, parts and equipment such as metallic moulds. In doing this, the initial screening processes for potential local suppliers are typically meticulous and intensive. However, once a potential future supplier is identified, those MNEs tend to adhere to their relationship with these local enterprises, and actively help to upgrade their capacity to meet the required standards through routine visits and informal consultations. The range of advice from such MNEs is often comprehensive, ranging from specific shop-floor processes and other technical issues to administrative functions such as human resources management strategies, and, in some cases, with even more generic compliance issues. In most cases the MNEs maintain a long-term involvement with such local suppliers. For such MNEs, maintaining such an inter-firm relationship is costly, but at the same time it can evolve into an important backward linkage through which collective efficiency can be realized. The next section will describe some of the actual cases in which such cooperative and long term interfirm relationships are built.

¹¹ It should be noted that, like the electronics sector, the Vietnamese garment sector is also characterized by labour-intensive assembly functions. However, while local Vietnamese enterprises tend to cater to that need, it is almost entirely undertaken by FDI enterprises (MNEs) in electronics. The inter-firm relationship between the MNE and local enterprises in the garment sector is thus primarily an outsourcing arrangement. However, backward linkages with the local economy remain limited, as is the case in the electronics sector.

Aligning competitiveness and social responsibility in core business practices

The promulgation of CSR commitments to the wider public has become an increasingly important element in the corporate strategies of MNEs that operate on a global scale and coordinate complex transnational production and distribution systems. While there is no universally agreed definition of CSR, we will refer to voluntary, enterprise-led initiatives that typically go beyond regulatory compliance. In most cases MNEs have developed enterprise-specific codes of conduct as operational guidelines to ensure socially responsible behaviour. Codes of conduct are practically internal regulations that explicitly stipulate detailed rules. We will refer to arrangements that attempt to ensure socially responsible corporate behaviour through such frameworks as *de jure* mechanisms. In the electronics sector, quite a few electronics MNEs have adopted the EICC Code of Conduct as their own. The EICC is a highly influential “non-profit coalition of electronics companies committed to supporting the rights and well-being of workers and communities worldwide affected by the global electronics supply chain”¹², with over 100 major electronics MNEs and first-tier suppliers in the world as its members.

During our interviews in Viet Nam, the representative of one Japanese MNE mentioned that they had been requested by one of their buyers (another major electronics MNE) to observe the EICC Code of Conduct. This Code is monitored through third party auditing firms, which makes multiple visits to these suppliers and conducts intensive audits using a comprehensive checklist consisting of 105 items specified by the EICC. The items include preventive measures for child labour, overtime control, and occupational safety and health standards in the workplace.

According to this MNE, the auditors assess compliance with the Code of Conduct based on three key methods: (1) interviews with workers; (2) on-site (shop floor and office) inspections; and (3) whether relevant CSR practices as defined by EICC are explicitly written and documented as internal regulations and/or reflected in operational manuals. Based on these, the auditors prepare quantified assessment results and report back to buyers, which will be used to rectify “shortcomings” and, in some cases, to renegotiate the terms and conditions of their business deals, as well their overall relationships with the suppliers.

One of the intriguing issues related to the implementation of the EICC’s Code of Conduct is that while in most cases compliance with their standards come from buyers, the actual auditing costs, including that of third party auditing firms, seem to be typically borne by the suppliers. The cost pressures of these external audits are regarded as very significant by suppliers, and such audits would probably be very difficult for local Vietnamese enterprises to observe given that their financial resources tend to be far more restricted.

¹² From EICC web page (<http://www.eiccoalition.org/about/>), accessed on November 11, 2015.

While such *de jure* mechanisms may be an effective way to ensure socially responsible practices, it is important to note that these types of behaviour can also exist without explicit rules designed specifically from a CSR perspective. In other words, socially responsible corporate practices can, and often do, evolve out of pure business strategies. As these types of corporate behaviour are not the result of codes of conduct designed to bind corporate behaviour to achieve specifically determined CSR goals but are instead self-enforcing outcomes of pure profit maximization strategies, we will refer to them as *de facto* mechanisms.

The ongoing trend to implement CSR compliance under the *de jure* system views the existence of written internal regulatory frameworks as the key component of enterprise commitment to responsible corporate behaviour. As such, even if an MNE had in fact already institutionalized socially responsible operations in practice (*de facto*), without explicitly setting down those rules in internal regulations, that MNE would be assessed negatively and punished under the EICC rules. And because such assessment results are used to renegotiate the terms and conditions of ongoing buyer-supplier relationships, they would still have strong (and in most cases negative) effects on the supplier side, as they may not always accurately reflect actual workplace practice.

As outlined at the outset, unlike *de jure* CSR activities, which depend more on check lists with a strong focus on the documentation of rules and regulations, *de facto* mechanisms, which are equally important, are core business practices that are also effective in ensuring responsible social *outcomes*, particularly in terms of working conditions. We recognise that such practices are not necessarily designed as CSR practices, nor are they implemented through specifically designed codes of conduct. Instead they are operationalized as core business strategies that have a direct bearing on competitiveness, while still being *de facto* socially responsible. It should be noted, however, that we do not necessarily see *de jure* and *de facto* practices as opposing concepts or complete substitutes. Rather, in many cases they are mutually reinforcing and exhibit strong complementarity. The following section attempts to outline *de facto* labour and business practices, and to document a selection of model cases from selected MNEs operating in Viet Nam.

As discussed at the outset, it should be noted that most of the model cases concern Japanese MNEs; this is primarily because of the disproportionately larger number of Japanese MNEs operating in Viet Nam. In addition, it is widely known that overall corporate behaviour and particular operations at most Japanese enterprises are traditionally less frequently guided by regulations or manuals. Instead, they tend not to follow any explicitly written rules, which made it relatively easier to identify good model practices in this respect. Needless to say, this does not mean that such model practices are limited to Japanese MNEs; in fact, we were able to identify a strong case in a non-Japanese MNE as well, which we will also introduce in this section. Nevertheless, as the primary aim of this study is not to statistically analyse sectoral trends of MNEs using a representative sample, but instead to document good practices and to extract key implications from them, the representativeness of the sample should not be the primary issue. What is important is the context and details of the individual cases to be generalized and contextualized, and used as reference points for future action.

Another point merits attention. The representative of MNEs (and some local enterprises) we have interviewed already had specific CSR activities that mostly targeted outside communities. They included programmes such as the provision of scholarships to local schools as well as activities, such as tree planting and fundraising, for the disabled. These have been regarded as important as they increased worker morale and loyalty to the company, fostered better relationships with the local communities, and were, of course, intrinsically good. While we do recognize the importance of such philanthropic community outreach programmes, this report focuses on socially responsible labour and business practices that constitute the core strategies in the daily business operations of these MNEs. This is particularly important from a sustainability point of view.

Model cases of MNE policies and practices in the Vietnamese electronics sector

The question of how enterprise performance and socially responsible behaviour interact and play out has always attracted significant attention. Socially responsible practices are often seen as costly and harmful to competitiveness. While this may be true for some activities, we have been able to identify several successful cases during our field work in Viet Nam in which some MNEs have aligned their core business strategies around practices that have become *de facto* socially responsible. These practices were also directly relevant to the core principles outlined in the MNE Declaration. The main point is that such practices are typically self-enforcing and therefore sustainable. We will introduce three model cases of such MNE practices, and attempt to link and interpret these practices in light of the principles set forth in the MNE declaration.

6.1 Building supplier capacity and achieving collective efficiency: The cases of Fuji Xerox, Apple and Foster Da Nang

Fuji Xerox is a major Japanese MNE that manufactures a wide range of electronics, including “copiers, printers, publishing and image systems, network products, communication and translation tools”.¹³ Fuji Xerox’s operations in Viet Nam include an affiliated manufacturing plant in Hai Phong city (Fuji Xerox Hai Phong Co., Ltd.), which is a key port city in North Viet Nam located roughly 100 km to the east of Hanoi. This affiliate manufacturing plant focuses primarily on the production of low-end printers, multifunction devices and related equipment. While it is itself a major brand manufacturer, it also supplies its equipment to other electronics MNEs under OEM arrangements.

This Hai Phong affiliate was established in 2012, and began operating in 2013. It currently employs about 1,700 workers, of which 1,500 are operators in their assembly lines (70% female). There are about 150 workers at the middle-management level, of which roughly half are female. In addition to local workers, there are about 60 expatriates of Japanese, Chinese and Korean nationalities. This plant is a spin-off from a bigger manufacturing site in Shenzhen, China.

One notable business practice of Fuji Xerox is related to its strong commitment to building the capacity of its supplier firms in terms of socially responsible corporate conduct. They occasionally organize seminars and other training opportunities for suppliers with a view to local labour code compliance, and to help with the implementation of private corporate codes of conduct that go beyond such regulatory compliance. For instance, Fuji Xerox Hai Phong organized an ethical procurement seminar in 2014, to which about 40 suppliers were invited to attend. It first asked its suppliers to conduct a self-check exercise

¹³ <http://www.fujixerox.co.jp/eng/> (accessed on November 26, 2015)

using the Fuji Xerox Self-Checklist, which is based on the EICC Code of Conduct and Self-Assessment Questionnaire. These results were not used to evaluate or punish them; instead, they were used as a guiding tool to help them abide by the Code of Conduct. Based on these self-evaluations, Fuji Xerox dispatched their own technical experts on areas such as the environment, safety, and labour management to these suppliers to provide tailored and detailed consultation services and advice to overcome the shortcomings identified through the evaluation exercises.

BOX 2 – Corporate mottos: Stylish slogans or strategic business guidelines?

Core business philosophy and principles are typically determined at corporate headquarters and are embedded in corporate mottos, reflecting how enterprises see the core values of their corporate foundations. Mottos are often used as guiding principles at critical junctures during the course of their businesses. Interestingly, most of these mottos do not just reflect upon their core business domain, but also elaborate on their relationship to the wider society.

Some more specifically address how business should be conducted in relation to other stakeholders. In the case of Japanese electronics MNEs, this seems to be the norm. An example of this are mottos that depict ideal relationships with buyers and suppliers, which often actually do guide corporate strategies in terms of the particular governance and contractual arrangements in backward and forward linkages.

For example, some of the representatives of Japanese MNEs interviewed had corporate mottos such as “*Kyo-zon Kyo-ei* (共存共栄, co-existence and co-prosperity)” (Fuji Xerox) and “*Kyo-ei Kai-sya* (共栄会社, co-prospering company)” (Panasonic). Both of the enterprises take their relationships with their business partners (particularly their suppliers) very seriously, and focus on establishing trust-based and long-term relationships, as discussed in this report.

In the case of Fuji Xerox, this has always been their guiding principle, and such behaviour has motivated their suppliers to follow them when they have decided to establish a plan in other regions or countries, such as Viet Nam. The current local supply chain of Fuji Xerox in Viet Nam is based on these inter-firm relationships built on the *Kyo-zon Kyo-ei* principle. Their challenge is to extend this practice to the local economy and invite new partner enterprises into their supply chain. Likewise, in the case of Panasonic, they tend to actively support technological upgrading of their suppliers by “giving back” some of the profits made out of these relationships by providing technical support to upgrade their process capabilities. The idea behind it is a strong belief, reflected in the *Kyo-ei Kai-sya* principle, that the performance of Panasonic is dependent on the performance of their suppliers, and therefore doing so is important – not as an attractive slogan, but as a practical corporate strategy.

The primary motivation behind such practices has not been to prepare their suppliers to properly abide by the Code of Conduct *per se*, but to prevent the occurrence of *line stop* at both their facilities and those of their suppliers. Line stop is a key phrase used at Fuji Xerox. It literally means production line stoppages due to serious disruptions, including to the timely supply of inputs, such as parts and components. Disruptions in input supply can happen due to multiple reasons. Worker-employer disputes related to working conditions (and the strikes that follow) at supplier premises typically constitute the majority of such disruptions. Frequent occurrences of such events at supplier facilities strongly impact the competitiveness of the supplier concerned as well as that of Fuji Xerox. Therefore, while such initiatives tend to be costly for Fuji Xerox in the short run, their commitment will pay off in the long run as it will have

a positive effect on competitiveness through operational efficiency gains, and by reduced incidence of disruptions in production lines (line stop) at both the suppliers and Fuji Xerox. Fuji Xerox is unique in the sense that it has actually analysed and verified that such initiatives will lead to long-term gains using evidence-based quantitative data.

The initiative to build supplier capacity in terms of socially responsible corporate practices was first implemented in the Fuji Xerox Shenzhen plant in 2007. That initiative is now being replicated in the plant in Hai Phong. As these initiatives have evolved as one of the key components of its core business strategy, Fuji Xerox has been monitoring these activities in relationship with the suppliers' capabilities very closely, collecting quantitative data to assess how such activities have affected the frequency of line stop incidents and profit levels. Systematic cost-benefit analyses have been conducted using the significant amount of data gathered. The initial results seem to strongly imply that there were robust and positive correlations between such practices and profits. One of the main findings was that the lack of dialogue between workers and employers had been the main contributing factor to line stops, which had in turn disrupted operations at the Fuji Xerox factory in Shenzhen.

These initiatives have thus been highly effective in improving systematic operational efficiencies at the process level, leading to better corporate performance. In addition, because such practices have evolved from and are completely compatible with competitiveness-enhancing strategies, they tend to be sustainable as well.

Apple is another electronics MNE that conducts activities with its suppliers that have similar capacity-building effects. Apple is an American company, and is also one of the world's largest electronics MNEs. It produces a broad range of electronics and related products, including computers, other electronic devices and software. Apple's business model differs significantly from that of the Japanese or Korean MNEs in the sense that it does not own its own production facilities. Its internal core functions are primarily in non-manufacturing-related domains, such as research, product development and marketing, and most of its production processes are undertaken by partner companies through arms-length inter-firm relationships. We were able to interview representatives of both Apple and one of its key partner enterprises, Foster Da Nang.

Foster Electric Company Limited is a Japanese electronics MNE that produces parts (mainly acoustic components). It operates two plants in Da Nang, the largest city in the central region of Viet Nam. Foster Da Nang, a subsidiary company of Foster Electronics, employs about 8,000 workers in its plants, where roughly 80% are direct operators. These direct operator positions are practically dominated by female workers, as they are perceived to be better suited to handle work that involves small parts and components.

The Apple Supplier Code of Conduct includes requirements that pertain to such issues as occupational safety and health, respect for worker rights, and environmentally responsible practices in all activities related to Apple. Supplier audits are conducted based on this Code of Conduct, in which all violations are identified. These violations are systematically addressed through a "Corrective Action Verification" process, in which suppliers must first submit a plan (Corrective Action Plan) to rectify shortcomings within 90 days. Once the Corrective Action Plan is approved, the activities related to its implementation are monitored. Technical support is provided by Apple throughout the process.¹⁴

Foster Da Nang acknowledged this verification process to be highly valuable, not only because it helped with Apple code compliance, but also because the process allowed the company to become more effective in addressing strategic business issues related to human resources management. One of the concrete examples of better business outcomes attributed by Foster Da Nang to its relationship with Apple is greater worker satisfaction with working conditions due to better management systems. This has mani-

¹⁴ For more details on this process, please visit <http://www.apple.com/supplier-responsibility/accountability/> (accessed on April 20, 2016).

fested in the low turnover rate of 1.1 % per month.¹⁵ While the local labour market of Da Nang city is still relatively less competitive than those in Ho Chi Minh City and Hanoi, it has become increasingly difficult to recruit and retain workers, and the provision of good working conditions has become one major element in enterprise capacity to manage that issue.

Apple considered its engagement with its suppliers as one of the key sources of their overall competitiveness. This was probably reinforced by the fact that all of their production processes take place outside of the “boundary of the firm”. Because their particular business model is – more than those enterprises that own their own production units – based on a mutually dependent structure, Apple’s efforts to build the capacity of its suppliers makes sense as a business strategy, even if this is costly in the short term. Moreover, it would be important to note that Apple regards its Corrective Action Verification Process not just as a tool to build supplier capacity to observe the Code of Conduct, but more importantly as a tool for Apple to engage and build trust-based relationships with its suppliers.

These cases are good examples of how core corporate business practices can at the same time be socially responsible. The key to the successful implementation of such initiatives seems to be the level of trust in inter-firm relationships, specifically between buyer MNEs (Fuji Xerox and Apple) and their suppliers (Foster Da Nang, in the case of Apple), which can only be built and maintained through regular dialogue.

6.2 Building trust and committing to dialogue outcomes: The case of Panasonic

One of the characteristics that were widely observed among the MNE interviewees was that they preferred to establish long-term relationships with their workers as well as with their suppliers. As in the case of Fuji Xerox, trust-based relationships between employers and workers is a condition as well as an outcome of *de facto* socially responsible corporate behaviour, which tends to be mutually reinforcing.¹⁶

As outlined earlier, the electronics sector of Viet Nam is primarily characterized by labour-intensive assembly functions, and Viet Nam has comparative advantages in these types of business activities. While value addition in such processes remains relatively low, it is still critical for MNEs to increase operational efficiencies in this functional area as it has strong effects on their overall competitiveness. Within the context of international vertical specialization in an increasingly globalized and competitive economic environment, dynamic operational efficiency gains can be achieved through process and product upgrading in their respective value chains. Process upgrading typically takes the form of adopting advanced process technologies, which includes the introduction of new machinery, as well as the rearranging and resequencing of existing production lines. Product upgrading involves the production of higher value-added products, which tend to be highly correlated to the level of process technologies applied in each MNE workplace. A cross-cutting factor affecting upgrading trajectories in terms of both process and product is worker skills, which has been regarded as one of the most important aspects that determine MNE competitiveness.

As the functions these electronics MNEs in Viet Nam undertake are highly labour intensive, recruiting the needed workers is important. However, it is probably more crucial that they be able to retain the workers that they currently employ. As the Vietnamese economy is growing robustly with new sectors and job opportunities emerging, particularly in the service sectors, the demand for labour, especially skilled labour, has increased much more rapidly than the supply in local labour markets. This is especially

¹⁵ A monthly turnover rate of 1.1 % is quite low by Vietnamese electronics sector standards. The rate can be as high as 4 % per month.

¹⁶ There is a great deal of literature suggesting that long-term and consistent inter-firm relationships are one of the main characteristics of Japanese industrial organization. For example, see the seminal works of Masahiko Aoki.

true for locations in or near metropolitan areas such as Hanoi and Ho Chi Minh City. These recent changes in labour market conditions have been affecting the electronics MNEs in Viet Nam as well, as their ability to dynamically upgrade is dependent on the availability of workers (and vice versa). Attracting workers has become exceedingly important.

Panasonic serves as a good model as to how this can be achieved through socially responsible corporate practices that, at the same time, enhance competitiveness. Panasonic is another Japanese electronics MNE that operates five manufacturing affiliates in Hanoi, Ho Chi Minh City, Hung Yen and Binh Duong provinces. At these manufacturing plants, Panasonic produces a wide variety of products, including appliances such as refrigerators and washing machines, distribution panel boards, security camera systems, and mobile phone parts, among others. It focuses not just on export markets but also produces for the domestic market. Out of the five manufacturing affiliates, two are export oriented and three are primarily domestic market focused.

Panasonic currently employs over 8,000 workers in its affiliates in Viet Nam combined. Like many other MNEs in Viet Nam, they are also increasingly facing difficulties in recruiting and retaining the workers. As demand is stronger relative to supply, workers in this sector have become mobile and easily move to other enterprises where wage levels are higher. Retaining, let alone recruiting, relatively skilled workers for administrative job categories is very hard, and this is even more difficult for workers suitable for managerial positions. In such an environment, Panasonic often holds recruitment seminars at key local universities in order to recruit new workers. However, as the shortage of such potential workers with skills for managerial positions is significant, Panasonic often attempts to fill these position by promoting line operators and placing them in administrative or middle-level management positions.

Workers' skills, both tangible and intangible, matter. When it comes to administrative and managerial positions, however, the skill sets needed become more complex than those required for line operators. Interviews conducted with representatives of Panasonic, as well as of other MNEs reveal that while it was in most cases very difficult to exactly describe the particular skills that were required for these key administrative and managerial positions, it seemed that a large part of it was related to intangible skills, which were often also referred to as "soft skills". These typically included skills such as coordinating complex and heterogeneous types of tasks or making proper adjustments in the workplace as unexpected changes or disruptions occurred. "Communication skills", which go well beyond just language skills, and in fact seemed more related to skilled handling of "interpersonal issues", were also frequently mentioned as an important part of such soft skills. Intangible skills like these cannot be usefully built and replicated through training courses or manuals because context matters, and also because such contexts continuously evolve. Workers learn such skills through experience, and this is a time-consuming and costly process (Goto and Endo, 2014).

Therefore, one of the most important objectives for Panasonic (as well as the many other MNEs that participated in the interview process) in managing its human resources is to attract and retain workers in order to establish relationships that are stable and long-term, with a view to building and accumulating capacity for such intangible skills within its own workforce. One of the ways to achieve this could probably be done through offering higher wage levels. However, rather than emphasizing financial incentives, they explicitly focused on improving opportunities to achieve a better work-life balance, taking into consideration the issues that were deemed important from the perspective of the workers. The key to this was to hold regular dialogue between management and workers, and to genuinely commit to the outcomes of such dialogue. The contents of these dialogues are much more wide-ranging and detailed than those of typical collective bargaining negotiations, which tend to rotate around issues such as salary and other conditions and benefits of employment. For example, one of the notable issues discussed at Panasonic was related to the plant's long-term work plans, which are normally decided almost unilaterally by the management and then communicated and implemented in a top-down fashion. Rather,

BOX 3 – Quality of lunch: Not trivial, but essential!

People's attachment to their work can come from multiple sources, such as wage levels, working hours, contractual terms, and the attractiveness of the work itself. Workplace environments, such as clean and comfortable workspaces, good personal relationships with other co-workers, and proximity to workers' homes can be important as well. However, what is almost never explicitly pointed out in academic literature or in policy documents is the intriguing fact that all of the managers interviewed at both MNEs and Vietnamese enterprises considered the quality of lunch offered in canteens at the workplace to be very important, if not the most important.

When interview questions touched on welfare system issues, particularly on workplace canteens, one could almost always expect to hear an anecdote of an unexpected discovery: that a significant number of workers were quitting their job because of the bad lunches served in the canteen. "As a matter of fact," the interviewee would say, "the quality of the lunch provided in our canteens sometimes seems as if it was the most important reason for the workers to stay here and work for us, and therefore we take this issue very seriously." As trivial as it may sound, the truth seems to be that it is definitely not.

The quality of lunch is determined by the food vendors in the canteens and by the variation of choice. One electronics MNE delegated the responsibility of managing the canteen to a dedicated committee consisting of representatives of the workers. This committee would select two food vendors to operate in the canteen on the factory premises, and they would negotiate the price and variations of the menu with these vendors. This committee intentionally appointed two vendors to create a "competitive environment" in the canteen by giving the workers the choice to choose between the different menus provided by these vendors. The performance of these vendors, and ultimately their contracts to continue supplying food at the canteen, was dependent on how many lunch orders they were able to attract. In addition, the committee would also regularly monitor the contents of the lunch in order to maintain the quality of food at a certain level.

As most of the factories of these MNEs are located in industrial areas where restaurants and other food venues are not easily accessible, workers must depend on canteens. After a long morning of work, a good lunch is vital to refresh and to prepare for the work in the afternoon. This seems particularly important for workers who are from remote areas and live away from their families. As they typically want to maximize the amount of money they can remit to their families, it is common for them to save on breakfast and to depend on the lunches in the canteens. In most cases, lunches in the canteens are subsidized by the enterprise, and renewed focus on how to manage them should be among the key corporate strategies, particularly for those who wish to operate in Viet Nam.

Panasonic's work plans seem to be created through a through a characteristically more bottom-up process, in which one of the key items discussed was the timing and length of the company's official *Tet* holiday (the Vietnamese lunar new year). *Tet* is probably the single most important holiday in Viet Nam, and regarded as very important by the Vietnamese. As a result of such dialogues, Panasonic decided to grant nine days of paid leave for the *Tet* holiday in 2015, which was much longer than the average five days in most of the other similar electronics MNEs. While that long *Tet* holiday certainly did increase worker welfare, what was appreciated most by the workers and employers was the process that led to the agreement to that work plan, and the resulting commitment to it from both the workers and employers. A work plan that was created through dialogue probably provides a stronger sense of ownership to both employers and workers – and that seems to be the basis of such a commitment. A work plan to which

everyone is committed eliminates a significant amount of uncertainty, which again benefits both workers and employers. The case of Panasonic is therefore a clear example of a win-win solution, which is also a *de facto* socially responsible business strategy.

6.3 Successful inclusion of local enterprises in regional and global value chains: The case of 4P Company Ltd

4P Company Ltd. is a Vietnamese electronics enterprise that was established in 2001. It is headquartered in Hanoi, and operates two production facilities in Hung Yen and Hai Phong. It currently employs about 700 workers, where about 83% are line operators, 5% are engineers, and the remaining 12% are indirect staff, including management. Interestingly, only about 56% of its line operators are female workers, which seems to correspond to the general tendency of local (Vietnamese) enterprises having higher proportions of male workers in their production lines compared to MNEs, as mentioned earlier.

The company mainly produces Printed Circuit Boards (PCBs) for electronic products, including mobile devices and automobile parts. It also currently produces OEM products such as TV sets. Its product line has been expanding rapidly with continuous upgrading in process technology, such as the recent introduction of the Surface-mount Technology (SMT) in the production of PCBs. In the process of introducing this new technology, technological transfer and support from a Japanese electronics MNE have been crucial. The introduction of such advanced technology typically happens through regular consultations and dialogue with their buyer MNEs, where such practices provide mutually beneficial solutions.

As discussed in the earlier part of this report, one of the key characteristics of Viet Nam's electronics sector is the extremely limited backward and forward linkages between MNEs that coordinate global electronics value chains and the locally owned enterprises. The main bottleneck stems from the lack of appropriate capability on the side of local Vietnamese enterprises, which entails concrete technological as well as much broader managerial issues, often referred to as soft skills or "mind sets." As such, from group interviews with local electronics enterprises, this company stood out in terms of its successful integration into export-oriented global electronics value chains. The company's customer base includes several electronics MNEs, in which particularly strong relationships have been established with major Korean and Japanese electronics MNEs. This is an interesting case, as the enhanced management practices of these MNEs have a direct bearing on those of 4P Company Ltd., helping them to successfully integrate into the international electronics production network.

The current president of 4P Company Ltd. used to work as a deputy general director for a major Korean electronics MNE, and the enterprise was set up as a spin-off to undertake subcontract work for that Korean MNE. It still operates exclusive production lines for the Korean MNE, in which the MNE despatches its own technical staff to supervise the overall production process. This close inter-firm relationship has been an important channel of technological transfer in terms of process technology and overall operational systems, as well as of the skills necessary to effectively manage them. The Japanese MNE later started sourcing from this company as well, and supported the introduction of advanced process technologies, allowing the company to dynamically catch up with global innovation technical frontiers.

While we were not able to identify other local enterprises that were successful in integrating into global electronics value chains, we collected some cases in which electronics MNEs sourced parts other than packaging materials, such as metal moulds for electronic parts. One of the challenges faced by local enterprises is the lack of financial resources to invest in advanced technologies, which tend to be capital intensive. But what underlies those challenges is the uncertainty related to future demand for their

products from buyer MNEs. Unless local suppliers can foresee a reasonably stable stream of orders from their buyers, the risks to invest will become prohibitive. This is of course a risk that is inherent for any business, but if MNEs want to diversify and localize their procurement strategies out of concerns related to costs and delivery time, then some commitment, as the case of 4P Company Ltd. shows, may be dynamically pro-business while enhancing competitiveness.

While we recognize that the experience of 4P Company Ltd. may not be easily replicable by other local enterprises, it nevertheless suggests one major way in which local enterprises can participate in these growing global value chains. Nevertheless, challenges remain: one is the potential competition with foreign enterprises that currently supply the bulk of the parts and components to MNEs in Viet Nam. The issue of the (perceived) inconsistency in FDI attraction and local enterprise development policies may need to be addressed by the Government, which we will discuss in the next section.

6.4 Supporting better institutions and policy frameworks through partnerships and dialogue: The case of the JBAV

The overall business environment of Viet Nam has improved drastically over the years as important social and economic infrastructure, including ports, roads, power plants and access to key business services, has been built and established. However, several important challenges still remain. These include the capabilities to craft and implement consistent and conducive policies, and the upgrading of the country's education systems to facilitate national skill accumulation.

Addressing these challenges is primarily the Government's responsibility; however, MNEs can play major supporting roles. This section will take up the case of the JBAV. How foreign business organizations can advance their own member enterprises' positions by promoting the creation of better business environments through dialogue with other stakeholders, including the Government, will be discussed. JBAV is a volunteer, membership-based association of Japanese businesses, which is officially licenced to operate by the Vietnamese Government. Its membership currently includes more than 600 enterprises operating in northern Viet Nam.¹⁷

Canon was one of the earliest MNEs to establish manufacturing operations in the electronics sector through FDI in Viet Nam, strongly influencing other electronics MNEs to follow suit. Canon operates three manufacturing plants in Hanoi and in Bac Ninh province, and employs a total of about 20,000 workers. It produces low and mid-range printers in these plants, and Viet Nam is Canon's largest production site for printers in this market category. Canon currently chairs a working committee within the association with 13 members from other enterprises – which do not necessarily operate in the electronics sector – and focuses on issues pertinent to labour and employment.

One of the key issues that affects the operation of MNEs (and practically all other enterprises) is the Vietnamese Labour Code, which came into effect in 2013. As mentioned earlier, quite significant changes had been made with respect to specific provisions on the different types of labour contracts. Another change was the introduction of temporary work schemes, which are also referred to as “labour outsourcing.” The new Labour Code also introduced a fairly controversial set of provisions that regulate overtime work. In principle, workers may only work a maximum of 30 additional hours per month, and 200 additional hours per year (300 hours in special circumstances).

¹⁷ There is another major association of Japanese businesses in Ho Chi Minh City, the JBAH, which counts close to 800 member enterprises. The JBAH is formally part of JBAV and works closely with the latter, but is managed independently.

It is worth noting that practically all the participating MNEs and Vietnamese enterprises found this regulation too restrictive, and most also found that it was not beneficial to either employers or workers. Workers at the MNEs typically included people who were living in the vicinity. Those who were originally from remote areas lived in dormitories provided by the MNEs or in nearby apartments, typically living together with other co-workers. While workers of the former group tended to commute from their homes, the latter lived away from their families. In general, workers from remote areas tended to prefer to work longer overtime hours as this would enable them to send more money back to their families. In line with this, quite a few managers at these MNEs and Vietnamese electronics enterprises mentioned that there actually was strong demand from such workers to increase their overtime work. Some MNEs also mentioned that restricting overtime work too much would have negative effects on their ability to build the skills of their workforce. As the current law does not allow for flexibility in this, they see this as one bottleneck to upgrading their operational efficiency.

Regulating overtime is without a doubt important; there is ample evidence around the globe that correlates poor working conditions with excessive overtime work. Labour inspections to ensure compliance are thus crucial for any country. The controversy over this overtime regulation does not pertain to whether it is needed or not, but to whether the particular amount of hours stipulated in the Code are adequate or not, and more importantly, whether such rules had been reached through inclusive social dialogue. Most of the MNEs and Vietnamese enterprises that participated in the interviews felt that such regulations had been decided unilaterally without adequate consultations and thus did not reflect their interests nor those of the workers. While we do not attempt to take any position on the number of overtime work hours allowed, we do see great potential to improve regulations through the re-engagement in national-level social dialogue. Such dialogue should be far reaching, including not just the traditional national tripartite stakeholders of government, employers, and workers, but also appropriate MNE representation.

In addition, quite a few MNEs also mentioned that it is quite common to see inconsistent interpretation and application, as well as arbitrary changes by the government of some Labour Code provisions. Inspections seem to be conducted unsystematically as well. These present all enterprises, including MNEs and local enterprises, with considerable uncertainty, which is highly uncondusive to any corporate activity, and seriously undermines their profitability and, therefore, their sustainability. Needless to say, this has detrimental effects on workers and the broader labour market as well.

On the issue of skills, the capabilities of workers have direct implications on operational efficiencies, and therefore on corporate viability. The fact that a serious gap exists between the skills workers possess and those that are required in the labour market, particularly by the MNEs, has long been a topic of discussion and is regarded as a cross-sectoral issue in Viet Nam. The above-mentioned case of Panasonic provides a good example of how good dialogue mechanisms can provide trust- and commitment-based worker-employer relationships – a foundation upon which key intangible skills can be built over time through core business strategies. While such internal strategies can be very effective at the level of each individual enterprise, complementing such efforts with solid technical and vocational training offered by external institutions could prove to be highly effective in providing a stronger and more sophisticated supply base of skilled workers.

Institutions that provide education and training in skills are central to national innovation systems, and these are normally developed by strategic government policies. In Viet Nam, such institutions are significantly underdeveloped. The education/training that takes place at these institutions are perceived as mostly irrelevant, as the curricula focus too heavily on theoretical dimensions that are often outdated and have little practical value.

The problem is that most governments tend to have no clear idea of what particular skills are required by enterprises, as those skills typically evolve from competitive market dynamics. MNEs can therefore contribute by providing this information to support the development of effective curricula for the purpose of building skills. MNEs with strong employment impact and commitment to the local economy, such as Canon, in cooperation with a highly influential association such as JBAV, can provide a significant boost to relevant government initiatives by providing the needed inputs through dialogue.

Challenges, opportunities, and recommendations for future action

The electronics industry is now the largest export sector of Viet Nam. It has evolved out of globalized transnational production and distribution networks, and MNEs have played a major role in this. It is now fully integrated, and has positioned Viet Nam as one of the key players in the global electronics supply base. While the Vietnamese electronics sector is still primarily characterized by labour-intensive processes, this has had positive effects in generating local employment, particularly in and around urban areas.

These all provide solid opportunities for the country to further advance towards its socioeconomic development goals. However, they are to some extent dependent on the associated challenges being properly addressed. This final section attempts to summarize them as they have been identified through the interviews and analysed in this report. The focus is on the challenges for sustainable employment creation through the promotion of socially responsible employment practices.

7.1 Stakeholders, challenges, and opportunities

For MNEs the challenge is to continuously upgrade in an increasingly competitive environment by pushing their efficiency frontiers outward through innovation, and redefine their core competence areas according to changes in market conditions. As CSR has become an integral part of such corporate strategies, MNEs must now think of new strategies to at least ensure regulatory compliance down the supply chains they coordinate. This report has argued that socially responsible labour and business practices can also be highly efficiency enhancing, and has presented model cases in which competitiveness strategies and socially responsible practices were perfectly aligned. These model practices suggest that there are ample opportunities for such *de facto* responsible strategies.

There still are bottlenecks, which are mostly related to the lack of capacity in institutional and policy dimensions. First, there is a serious shortage of skilled workers. The prevailing opinion is that underdeveloped educational and training institutions are to be blamed for that shortage. Second, the regulatory environment is often inconsistent, with frequent and arbitrary changes, at least in the views of those MNEs that participated in the interview process. This makes long-term strategic planning difficult for all enterprises, and negatively impacts corporate viability. Third, local supporting industries are highly underdeveloped, with significant capacity gaps between what is required by the MNEs and what local enterprises can supply. These bottlenecks generally affect workers in similar ways, and are challenges for the Government to address.

The biggest challenge for workers is primarily that they are restricted in terms of opportunities to fully maximize their potential. Local educational and training institutions in Viet Nam are underdeveloped and still ineffective when it comes to building the necessary skills required in a rapidly changing and increasingly globalized labour market. The electronics sector is booming, meaning that, in principle, the

demand for labour is growing much faster than supply; and yet most of the jobs available in this sector remain limited to assembly functions with few requirements in terms of skill. While strong demand does exist for higher-skill-intensive jobs in this sector (and in other sectors), workers are effectively excluded from this segment of the labour market because of their initial lack in adequate skills and knowledge. The challenges will become especially acute when wage levels reach the point where an economy-wide structural adjustment – characterized by a shift towards higher knowledge and skill-intensive functions – becomes necessary. Without effective national education and training systems in place, such transformation will prove difficult for the workers, leaving them trapped in lower functional areas. This problem is often referred to as the middle-income trap, and will become a major challenge for workers. It will probably also become even more crucial for enterprises and the Government (Goto and Endo, 2014).

The local economy, particularly local Vietnamese electronics enterprises, are another important industry stakeholder. The development of local enterprises is also important for the Government, as this will promote the establishment of advanced technology in its local economy, thereby supporting local innovation, and further facilitating local economic development. As described earlier in the sectoral overview of this report, the industry is expanding rapidly in terms of the number of enterprises and in the number of workers. However, there seem to be several challenges ahead to realize self-enforcing, sustainable and positive local-based development.

The first challenge concerns inconsistent policies that can negatively affect specific groups in the sector. As mentioned earlier, a few of the managers of the local enterprises that participated in the interview process felt that the recent rapid boom in the export-oriented sector had crowded them out, particularly from local labour markets, making it very difficult to recruit and retain the workers. The perception is that preferential government policies to attract FDI have discriminatory effects on the local industry, and that the inconsistencies in local industrial development and FDI attraction may suggest a need for better policy coordination.

Another challenge is the fact that linkages between MNEs and these local enterprises remain very limited in terms of supplier-buyer and outsourcing relationships. Backward and forward linkages are typically the key channels through which technological transfer would occur. This report views such channels as among the most important factors in building the capacity of local enterprises to reorient their business strategies towards socially responsible practices.

As the model cases suggest, close and stable relationships between local enterprises and MNEs have been critical. While the local contents ratio in the Vietnamese electronics sector is low compared to other major electronics exporting countries, MNEs still do procure some of their inputs from local suppliers. The problem, however, is that such local suppliers tend to be FDI enterprises (which can sometimes also be large MNEs), and the actual relationships with local Vietnamese enterprises are minimal, as described earlier. While this is certainly a big challenge for those Vietnamese local enterprises, it is also perceived as a big challenge for MNEs as this restricts their procurement options and limits their flexibility in supply chain configuration. The development of supporting industries and raising local industry capacity has for a long time been seen as a major challenge for full-fledged and genuine local-based industrial development, and this issue has major implications on the type of growth in Viet Nam. What is important from a labour perspective is that stronger linkages between local Vietnamese enterprises and MNEs may have a stronger impact on local employment creation, which is conducive to sustainable and inclusive growth, in particular if the technologies transferred to those local enterprises spill over into other sectors.

7.2 Recommendations

Based on the discussions, this section suggests recommendations on how key actors may promote socially responsible labour and business practices. It should be noted that these practices, first and foremost, are probably useful as entry points for discussion among the stakeholders of the electronics sector in Viet Nam. Action plans should be tailored according to the national institutional setup, and implemented accordingly.

7.2.1 Promote dialogue within and between enterprises, and in tripartite-plus structures

As practically all the model cases suggest, dialogue is key to promoting socially responsible business and labour practices. These cases suggest that dialogue should be promoted at three levels (1) dialogue between workers and employers (intra-firm dialogue); (2) dialogue between enterprises through inter-firm relationships (inter-firm dialogue); and (3) dialogue within an extended tripartite-plus structure.

Intra-firm dialogue is specifically related to employer-worker relationships. Interviews conducted in Viet Nam suggest that dialogue in this context is highly institutionalized in terms of the unionization of workers. For example, all MNEs had unions at their workplace, which was apparently required by law, and 100% of the Vietnamese workers were members. This is very unique as typically union members do not include managerial staff. Similarly, most of the participating Vietnamese enterprises also had unions on the same terms. It seemed these unions were not necessarily positioned or seen as platforms for workers to engage in collective bargaining with the management, which is more typical in most other countries. While such institutionalized unions at workplaces can nevertheless play an important role in building productive worker-employer relationships, dialogue through regular business channels at workplaces may also be highly effective. The point is that such dialogue can be incorporated into daily management strategies, and that they can be easily replicated by other enterprises.

The goal of inter-firm dialogue is to foster trust-based, committed, stable and long-term inter-firm relationships. The practice of Fuji Xerox of helping to build the capacity of its suppliers in socially responsible labour and business practices is a case in point. One of the important implications revealed by this particular case is that Fuji Xerox recognizes that one of their main sources of competitiveness is directly related to the collective efficiency levels of its own supply chain, which cannot be built without effective dialogue between it and its suppliers.

This case has positively shown that while such commitment can be initially costly for MNEs, it will eventually result in a win-win situation for both the MNE and local enterprises. Nevertheless, the point that initial search costs for such potential suppliers tend to be high, particularly where supporting industries are underdeveloped, remains true. Asymmetric information regarding corporate performance among potential suppliers and buyers is high, and this can be mitigated by better circulation of relevant information. The Government and business associations can play important roles in this.

Tripartite-plus refers to the inclusion of non-traditional actors as defined by the ILO's national tripartite structure, namely, representatives of workers, employers and the Government. Representatives from MNEs, whose position in the existing national tripartite framework is currently ambiguous, should be incorporated. As the model cases suggest, MNEs have an important role to play, particularly in maximizing job creation. In addition to MNEs operating in Viet Nam, the active involvement of the MNE headquarters in their home countries is also crucial. This is particularly true when production is organized through arms-length relationships in which the MNEs do not actually produce anything, but instead outsources functions to other MNEs operating in Viet Nam, as in the case of Apple. As discussed, Apple's active engagement with its suppliers (Foster Da Nang) had significantly positive effects on local working conditions and supplier competitiveness. Engaging such key players that primarily

operate from headquarters will therefore become increasingly important. The inclusion of MNE headquarters in dialogue can also be effective leverage to raise awareness in MNE home countries. In that sense, it will also be important to further consider the roles of those home country governments and how they can be involved in this extended structure. Furthermore, the issue of coordination between FDI attraction and local economic development can also be discussed much more effectively within such an extended structure.

Challenges and opportunities can be different among the stakeholders because of the variation in interests and perspectives, which are also dependent on their positions and on how their motivations are shaped. However, it should be remembered that responsibility to comply with regulations, and now increasingly beyond that, rests with all involved. Compliance is therefore not only the responsibility of MNEs, but also that of local Vietnamese enterprises as well as governments. Aligning the interest towards socially responsible business and labour practices of these stakeholders' interest is key, and this can only be achieved by institutionalizing and promoting regulatory compliance through joint commitment with all stakeholders through such three-dimensional dialogue.

7.2.2 Develop capacity of educational and training institutions

Almost all of the participating MNE representatives noted the shortage of skills available in the local labour market in Viet Nam, and it has almost become a norm for those electronics MNEs to train their workers in-house. The lack of quality and relevant vocational and technical institutions is widely held responsible for this.

It may be interesting to note that while the electronics sector is often seen as very technology intensive and advanced in terms of the production processes, the actual assembly work in the production lines requires little technical knowledge or experience. Most of the work in these tasks is aided by highly specialized and precise machines, making the work of assembly operators very simple and repetitive. This is reflective of the characteristics of the products produced. Because electronic products require precision in the assembly process, variation due to manual work is minimized to the extent possible. Accordingly, most MNEs typically consider two or three weeks' training for their new recruits to be enough to build the basic skills necessary to undertake a particular work component in the production line. That seems to be much shorter than similar trainings in other labour-intensive industries, such as the garment sector.¹⁸

However, this does not mean that education and training are irrelevant. On the contrary, the ability of workers to think logically and lead conclusions is something that is perceived, at least by most MNEs, as lacking in Viet Nam, and education and training institutions can help to build such capabilities, provided that the correct curricula and able instructors are in place. Such ability will become very helpful later when further intangible skills become important – as introduced through the case of Panasonic – in particular once the workers with such capacity progress to middle-level managers or leaders in operation lines.

The key issues in relation to this are: (1) only those involved in the sector (MNEs) know what particular skill sets are required for workers; and (2) these skill sets continuously evolve dynamically out of changing contexts, underpinned by technological and demand changes. As such, engagement with MNEs will become crucial if Viet Nam wants to upgrade and establish vocational and technical institutions that are compatible with the trends in globalization.

¹⁸ As there are numerous work components in a production line, workers must of course continuously work to acquire the necessary skills for the different components. However, the variation of these work components seems to be based mainly on the variations in the combinations of basic skills that can be acquired in the initial training period.

7.2.3 Strengthen institutional capabilities and promote interministerial policy coordination

While no concrete non-compliance case came up through our field work, interviews with workers' organizations nevertheless suggest that concerns related to non-compliance in the electronics sector can become an issue, unless effective enforcement, monitoring, and inspection systems are in place. Among such potential concerns, as often mentioned in these meetings, was the issue of overtime work. While overtime can be an important source of additional income for those who want to work more, it could also harm workers' welfare significantly if they are forced to overwork. Labour inspections play a crucial role in enforcing labour codes and overcoming potential decent work deficits. However, the current situation is that Viet Nam still lacks the necessary human resources to effectively enforce compliance.¹⁹

There seems to be the potential for inconsistencies between key policies that affect the performance of MNEs, local Vietnamese enterprises, and the workers involved. The example cited earlier on the relationship of FDI promotion and local enterprise development policies is an example. If this is the case, better interministerial policy coordination between relevant ministries, including the MPI, MOIT, and the MOLISA may be needed. This will become particularly important when the Trans-Pacific Partnership (TPP) Agreement, which was signed by its 12 member countries, including Viet Nam in February of 2016, comes into effect after being ratified by all its members. The TPP is a unique trade agreement, as it covers unprecedented areas with a view to "deep integration." One such area pertains to labour-related provisions, which are based on the ILO's Declaration on Fundamental Principles and Rights at Work. In that event, a much improved and closer coordination, especially between MOLISA and MOIT, will become critical.

The lack of interministerial policy coordination is often cited as a problem in Viet Nam. This is also depicted as a capacity issue. For example, Ohno (2009) discusses Viet Nam in relation to the middle-income trap, and suggests that this is a result of a lack of Government capacity to effectively implement strategic and coherent policies. Capacity-building, particularly that of MOLISA, to more effectively implement thorough inspection schemes as well as to better coordinate policies may be highly useful.

In light of this, this recommendation overlaps significantly with that of strengthening dialogue. Interministerial coordination is primarily a public administration issue. As articulated in the Viet Nam Sustainable Development Strategy for 2011-2020 (Decision No. 432/QD-TTg),²⁰ which is the result of the eleventh congress of the Communist Party of Viet Nam and the main policy framework describing its overall development strategy, administrative reform is a primary area of focus with regard to achieving the country's broader development goals. Such reform, if implemented with significant political commitment, could greatly contribute to mitigating issues of policy consistency and coherence, and provide the foundation for sustainable and inclusive growth through socially responsible labour and business practices.

¹⁹ Interviews with several labour inspectors suggest that because electronics enterprises generally tend to have better working conditions than other labour-intensive manufacturing or service sectors, they are rarely inspected.

²⁰ Details of this national development strategy are available at the Government of Viet Nam Portal (<http://www.chinhphu.vn/portal/page/portal/English/strategies/strategiesdetails?categoryId=30&articleId=10050825>). Accessed on December 4, 2015.

References

- Armstrong, Shiro (ed). 2011. *The Politics and the Economics of Integration in Asia and the Pacific*. London and New York: Routledge.
- Barrientos, Stephanie. 2001. "Gender, flexibility and global value chains." *IDS Bulletin* 32(3), 83-93.
- Ernst, Dieter. 2004. "Global production networks in East Asia's electronics industry and upgrading perspectives in Malaysia" in Yusuf, Shahid; Altaf, M. Anjum and Kaoru Nabeshima (eds) *Global Production Networking and Technological Change in East Asia*. World Bank, Washington DC: Oxford University Press, 89-157.
- Gangnes, Byron and Ari Van Assche. 2010. "Global Production Networks in Electronics and Intra-Asian Trade." *Working Papers 201004*, University of Hawaii at Manoa, Department of Economics.
- General Statistics Office. Various years. *Statistical Yearbook of Vietnam*. Hanoi: Statistical Publishing House.
- Gereffi, Gary and Olga Memedovic. 2004. *Inserting local industries into global value chains and global production networks: opportunities and challenges for upgrading with a focus on Asia, China's rising competitiveness and the phasing out of the multi-fibre arrangements*. Vienna: United Nations Industrial Development Organization.
- Goto, Kenta. 2011. "Competitiveness and Decent Work in Global Value Chains: Substitutionary or Complementary?" *Development in Practice*, 21(7), 943-958.
- Goto, Kenta. 2014. "Vietnam: Upgrading from the Export to the Domestic Market" in Fukunishi, Takahiro and Tatsufumi Yamagata (eds) *The Garment Industry in Low-income Countries: An Entry Point of Industrialization*, Basingstoke and New York: Palgrave Macmillan; 105-131.
- Goto, Kenta; Natsuda, Kaoru; and John Thoburn. 2011. "Meeting the Challenge of China: The Vietnamese Garment Industry in the Post MFA Era." *Global Networks*, 11(3), 355-379
- Goto, Kenta and Tamaki Endo. 2014. "Labor-intensive industries in middle-income countries: traps, challenges, and the local garment market in Thailand." *Journal of the Asia Pacific Economy*, 19(2), 369-386.
- Hayashi, Yuko. 2013. "The Business Strategy of Vietnamese Enterprises Listed on the Stock Exchange: Change in the Business Strategy of REE after Listing." In Sakata, Shozo (ed) *Vietnam's Economic Entities in Transition*, Basingstoke and New York: Palgrave Macmillan; 88-117.
- Hiratsuka, Daisuke (ed). 2006. *East Asia's De Facto Economic Integration*. Basingstoke and New York: Palgrave Macmillan.
- ILO. 2006a. *Governing Body 295th Session: Subcommittee on Multinational Enterprises, InFocus Initiative on Corporate Social Responsibility (CSR), GB.295/MNE/2/1*. Geneva: International Labour Office.

- ILO. 2006b. *Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy*. Geneva: International Labour Office.
- Kaplinsky, Raphael and Mike Morris. 2001. *A handbook for value chain research*. Available at <http://www.ids.ac.uk/ids/global/pdfs/VchNov01.pdf>
- Kaplinsky, Raphael. 2005. *Globalization, poverty and inequality*. London: Polity Press.
- Kawakami, Momoko. 2011. "Inter-firm Dynamics in Notebook PC Value Chains and the Rise of Taiwanese Original Design Manufacturing Firms." in Kawakami, Momoko and Timothy J. Sturgeon (eds) *The Dynamics of Local Learning in Global Value Chains*. Basingstoke and New York: Palgrave Macmillan: 16-42.
- Lowe, Nichola and Martin Kenney. 1999. "Foreign Investment and the Global Geography of Production: Why the Mexican Consumer Electronics Industry Failed." *World Development*, 27(8), 1427-1443.
- Ohno, Kenichi. 2009. "Avoiding the Middle-Income Trap: Renovating Industrial Policy Formulation in Vietnam." *ASEAN Economic Bulletin* 26(1): 25-43.
- Palpacuer, Florence and Aurelio Parisotto. 2003. "Global production and local jobs: can global enterprise networks be used as levers for local development?" *Global Networks*, 3(2), 97-120.
- Palpacuer, Florence; Gibbon, Peter; and Lotte Thomsen. 2005. "New challenges for developing country suppliers in global garments chains: a comparative European perspective." *World Development*, 33(3), 409-30.
- Sturgeon, Timothy. 2002. "Modular production networks: a new American model of industrial organization." *Industrial and Corporate Change*, 11(3), 451-496.
- The World Bank. 2008. *Vietnam: Higher Education and Skills for Growth*. Human Development Department, East Asia and Pacific Region. Washington DC: The World Bank.
- Tran, Angie Ngoc, and Irene Nørlund. 2015. "Globalization, industrialization, and labor markets in Vietnam." *Journal of the Asia Pacific Economy*, 20(1), 143-163.
- Vind, Ingeborg. 2008. "Transnational companies as a source of skill upgrading: The electronics industry in Ho Chi Minh City." *Geoforum*, 39, 1480-1493.
- WEF. 2014. *The Global Competitiveness Report 2014-2015: Full Data Edition*. Geneva: World Economic Forum.

Annex 1:

A note on methodological issues

The identification of focus areas, and the subsequent data collection strategies and related methodological issues employed in this report are a result of a consultative process with key stakeholders in the electronics industry in Viet Nam, which was presented and discussed during the project launching ceremony “More and Better Jobs through Socially Responsible Labour Practices in Viet Nam,” held on 9 October 2015 in Hanoi (See Annex II for details). A desk review was prepared as a base for discussion, the outline of which was proposed as found below.

A1-1 Key issues proposed for further research

This research uses the ILO’s MNE Declaration as the main framework of reference. The MNE Declaration contains five areas of recommendations: general policies; employment; training; conditions of work and life; and industrial relations.²¹

Firms in the electronics industry are connected to production networks through complex inter-firm relationships and governance structures with asymmetrical power relationships. The domestic electronics sector in Viet Nam is also highly heterogeneous in terms of enterprise characteristics, with wide variation in product groups, market orientation, and chain positions (and therefore bargaining power). As working conditions in such a dynamic setting are strongly affected by these enterprises’ attributes and the job types within these particular positions, focus should be placed on issues that will be useful to understand/highlight practical leverage points. This would: (1) *improve enterprise positions* within the production networks; (2) *regulate the competitive (market) conditions* of the functional areas in which they specialize; (3a) *promote win-win solutions for lead and local enterprises* in the production networks; and (3b) *promote win-win solutions for employers and workers* in their respective companies. In addition, (4) *macro-level considerations* will also become relevant as they underlie the economic and social context in which the sector operates. While this report discusses these issues separately, it should be noted that these are in fact all closely interlinked.

²¹ The recommendations for the Government and MNEs for each of the areas are roughly as follows: (1) general policies: respect the sovereign rights of States, obey the national laws and regulations, give due consideration to local practices and respect relevant international standards (MNE declaration, pg. 3, paragraph 8); (2) employment: promoting employment with equality of opportunity and treatment, and security; (3) training: develop national policies for vocational training and guidance, closely linked with employment; (4) conditions of work and life: wage, benefits, hours of work, minimum age, safety and health; and (5) industrial relations: freedom of association and the right to organize, collective bargaining, consultation, examination of grievances, settlement of industrial disputes. For details, please see the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, which can be downloaded from http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---multi/documents/publication/wcms_094386.pdf.

A1-2 Improving enterprise positions in the production networks – the current situation

The particular types of upgrading that local companies can realize has a direct impact on enterprise performance since dynamic competitiveness, almost by definition, depends on the enterprise's ability to achieve this at its respective value chain positions. Upgrading and improving working conditions are highly complementary, particularly when real wages are increasing and the labour supply is contracting relative to demand.

The different types of upgrading have different implications on long-term enterprise development. For local enterprises at the initial stages of network participation, the most realistic type of upgrading trajectory lies in processes, where advanced technology and knowledge often flows down through production networks from foreign enterprises. For example, it is quite common for production networks coordinated by Japanese lead enterprises to dispatch their own technical personnel to local first-tier suppliers in order to directly transfer technology and skills at the shop-floor level.

In this sense, one issue that needs to be clarified is the type of technology transferred (level of skill contents, representative worker profiles of the recipients of technological transfer), and whether that has affected their chain positions. The following is a list of potential concrete issues that could be looked into:

- Types of functions on which local enterprises focus, and worker profiles in these functions;
- Types of technological support they receive from lead firms;
- The contractual characteristics of inter-firm relationships between local and lead enterprises;
- Types of upgrading that have/have not taken place at the enterprise level;
- Perceived bottlenecks by local and lead enterprises;
- The types of dialogue mechanisms between workers and managers at the enterprise level;
- Other.

The MNE Declaration principles become important as guidelines, in particular its recommendations in the areas of training and employment, as employment promotion hinges almost directly on the productivity and efficiency levels of management as a whole, as well as on individual workers, which in turn is dependent on how much technological transfer and skill training is transmitted through their networks and by vocational training institutions. Likewise, employment promotion is also important to sound and sustainable industrial relations, which provides the building block to the promotion of decent work.

A1-3 Regulating competitive conditions through effective institutional design and implementation

Regulatory environments play a major role in determining working conditions. For example, some reports suggest that working conditions have been increasingly downgraded, particularly at the lower tiers of the production networks. That downgrading includes violations related to minimum wages, working hours, and minimum working age requirements. Enterprises tend to resort to such “race to the bottom” strategies when they fail to achieve genuine upgrading and have no alternative option other than to cut costs, especially wages. Labour inspection mechanisms become key instruments to prevent such strategies from being undertaken by enterprises.

The industry, MNEs and local enterprises in the electronics industry are subject to a number of publicly enforceable institutional rules as well as private codes of conduct. While this research uses the MNE Declaration as its key reference point, other relevant CSR-related initiatives (such as the United Nations Global Compact and EICC Code of Conduct) may also impact enterprise behaviour. The question

is, how do each of these different (but overlapping) instruments and initiatives come into play in the national policy and regulatory frameworks? How do these affect enterprise behaviour? How do they play out in terms of industrial relations, local labour markets, and ultimately on working conditions?

Private codes of conduct have also proliferated in the last few decades worldwide. Lead enterprises coordinating the production networks also increasingly affect suppliers by demanding better working conditions through their own codes of conduct. Suppliers are progressively pressured to accommodate these conditions, and their ability to respond to these demands has, to a certain extent, become dependent on their successful network participation and subsequent economic upgrading.

That being the case, concrete issues for consideration include the following:

- Efficacy of national regulatory frameworks;
- Effectiveness of enforcement mechanisms;
- Effectiveness of relevant instruments and initiatives, including the MNE Declaration, OECD Guidelines for Multinational Enterprises, United Nations Global Compact, United Nations Guiding Principles on Business and Human Rights, ISO 26000;
- Effectiveness of private instruments such as the EICC Code of Conduct;
- Other.

A1-4 Promoting win-win solutions in inter-firm and intra-firm (employer-worker) relationships

Dialogue promotes responsible practices, and trust-based, long-term and stable relationships are key in both inter- and intra-firm relationships.

Garment industry studies, for instance, have shown that Japanese lead firms tend to favour longer-term relationships with local enterprises. The firms commit to costly context-specific investments, and therefore have a strong incentive to capture over a long time-horizon. In many cases, this has promoted the active transfer of technology, particularly in the area of process- and product-based upgrading and innovation (Goto et al., 2011). This could be an important aspect in the Japanese-oriented electronics value chain in Viet Nam as well.

The issue of intra-firm relationships bears direct relevance on employment and human resource management practices. Employment contracts, the functional positions that have significant effects on working conditions, as well as skill upgrading potentials should be considered. As these issues are highly context specific, wide-ranging information and data collection will become critical.

The proposed issues in these areas are as follows:

- Typology (mapping) of inter- and intra-firm relationship practices according to chain positions, market orientation, and job categories;
- The question of why some relationships have achieved better trust-building outcomes at the inter- and intra-firm levels;
- Documentation of actual cases at the institutional and enterprise levels where trust and stable relationships have been promoted;
- Other.

A1-5 Macro-level considerations

How the viability of enterprises, through upgrading, unfolds in terms of working conditions, is also influenced (and sometimes practically determined) by the structure and conditions of the labour markets, which evolve within particular macroeconomic and social contexts. For example, in terms of wage levels, Palpacuer and Parisotto (2003) even suggest that local labour market conditions and regulations can have a stronger effect than firm-level strategies.

How competitive pressures and enterprise-level upgrading performance translate into working conditions is also dependent on workers' job characteristics, especially in terms of skill content. Worker profiles may also affect working conditions, particularly when labour markets are segmented according to race, gender or other personal/social attributes (Goto, 2011). National education/training systems, including vocational training and skills development programmes, become important.

Concrete issues for consideration in that regard may include the following:

- Information on the specific labour markets in which their enterprises operate;
- Worker profiles;
- Education and vocational training schemes;
- Other.

A1-6 Methodology and Questions

As there is considerable heterogeneity among enterprises in the electronics sector, working conditions could differ significantly according to product category, market orientation, type of enterprise, and how these companies are positioned in their respective value chains. Therefore, to correctly and meaningfully highlight and understand the issues outlined, a mapping exercise of the sector – focusing on the MNEs while including local suppliers to the extent possible – would be necessary. That could be used to attempt to categorize the enterprises according to their position in the production and distribution network. Second, data and information collection through interviews with the representatives of selected enterprises should be conducted.

Interviews could be conducted with semi-structured questionnaires, the main purposes of which are to:

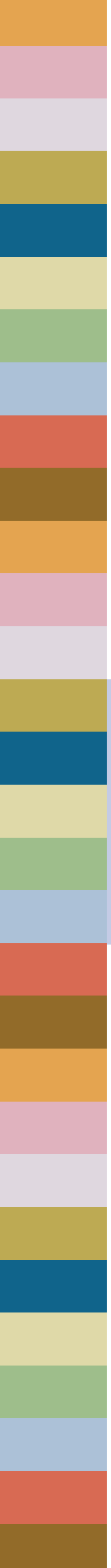
- Collect information with respect to the issues outlined in the previous section. That information will be used to conduct a mapping exercise of: (1) the various inter- and intra-firm typologies according to different product, market-orientation, and enterprise attributes; (2) challenges and constraints for decent work amidst existing labour market conditions, institutional frameworks and policies, and actual enterprise-level practices; and
- Collect information to construct detailed narratives of effective socially responsible labour practices.

The proposed data collection strategy, accordingly, will be as follows.

Institutional level: Face-to-face, individual interviews with representatives of relevant government branches, industry associations, workers' associations, technical and vocational institutes.

Enterprise level: Face-to-face interviews with first-tier suppliers (both foreign and domestic), and second-tier suppliers, possibly with persons in managerial positions. A semi-structured questionnaire will be used.

Worker level: Focus-group interviews (discussions) with workers. A potential concern is that this may prove difficult because company representatives tend to be reluctant to grant interviews, especially if the research deals with issues related to labour relations, wages or working conditions (Vind, 2008).



The Multinational Enterprises and Enterprise Engagement Unit (MULTI) conducts studies to support the application of the recommendations of the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration). The studies serve to inform tripartite plus dialogues on decent work priorities – involving government, social partners, multinational enterprises, and other relevant actors – in order to foster a partnership approach among all actors that supports national development and decent work priorities and encourages sustainable business practices.

Multinational Enterprises and Enterprise Engagement Unit (MULTI)
www.ilo.org/multi
multi@ilo.org

ILO Helpdesk for Business on International Labour Standards
www.ilo.org/business