Challenges in the adjustment of enterprises, labor productivity and labor welfare on firm scale under impacts of globalization: Case Studies and policy recommendations

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Background (1)

• Over past 10 years Vietnam has been integrating into global economic system via trade, foreign direct investment, and labor movement.

• Infrastructure (transport and telecommunications systems,...) has gradually been enhancing. Law framework also has been improving by promulgating, revising, and supplementing several important laws as Law on Enterprise, Law on Competition, Bankruptcy Law,...
Over past 10 years, improving business environment has created advantageous conditions in order to increase a number of both FDI and domestic private enterprises.

Private enterprises make up a large part of total small and medium scale enterprises in the economy. Employees are mainly in these enterprises.

FDI enterprises concentrate not only on capital-intensive industries but also on labor-intensive industries. A proportion of non-skilled labor in total employment is highest in FDI sector compared with state-owned enterprise sector and private enterprise sector.
Background (3)

- Four patterns of labor movement: from rural area to urban area; from northern region to southern region; from agriculture to industry and service; and from domestic to foreign countries.

- Vietnamese workers’ skills are still low compared with other countries in the region. A large part of employees are not trained.
Research Questions

- Is productivity of firms decreased in the process of international economic integration? How do firms adjust?
- Which difficulties and challenges do firms face in the adjustment process?
- Is labor welfare reduced in the process of international economic integration? Which factors bring about the decrease/increase in labor welfare?
- Policy recommendations?
Methodology/Approach

• Approach at both macro and micro levels
• Using statistical methods, structured/semi-structured interviews with key informants,…
• At macro level, using aggregate data relating to enterprise and labor.
• At micro level, investigating 4 case studies: one company belongs to state-owned enterprise sector; one is in FDI sector; and two are in private enterprise sector.
Outcomes (1)

• Deeper international economic integration results in an increase in labor productivity
  – by allocating resources more efficiently in the economy;
  – domestic enterprises learn foreign companies’ skills and management knowledge (via formal and informal forms);
  – or FDI companies transfer technology to domestic enterprises.

• Domestic private enterprises benefit more from technological transfers than state-owned enterprises.
Outcomes (2)

• Most enterprises suffer increased competition pressure; some enterprises face difficulties in applying sanitary standards and quality standards for products; some enterprises must pay royalties.

• All enterprises are improving their technology, reducing production costs, expanding to new markets, and innovating management apparatus.

• Difficulties:
  – In borrowing a big amount of capital in order to improve the technology and expand to new markets.
  – Innovating the management apparatus is not always easy for State-owned enterprises.
  – Cutting production cost relating to labor welfare is very difficult for enterprises with strong labor unions or in enterprises they have to conform to sanitary standards required by their partners.
Outcomes (3)

- Number of strikes is increasing and concentrating mainly on labor-intensive factories owned by Asian foreign companies in Southern industrial zones.
- Although number of workers with social and medical insurance is increasing, the participation rate is still low. Cases of food poisoning and industrial accident tend to increase.
Outcomes (4)

• Globalization has two sides: one hand, it creates jobs, increases labor productivity and hence income; on the other hand, under competition pressure enterprises tend to reduce labor welfare, particularly in labor-intensive enterprises where labor cost makes up a large part of the total production cost.

• However, in our case studies it is difficult to cut the labor welfare because (1) their trade unions are strong and (2) they have to satisfy the standards required by their partners.
Policy recommendations (1)

• The small and medium scale enterprises need to be supported (by Government or particularly Ministry of Science, Technology and Environment) in order to approach new technology and to innovate their technology.

• Ministry of Industry and Trade/VCCI should provide information on foreign markets, foreign business environment, business regulations,… for domestic enterprises by variety of forms such as workshops, web-side, mass media,…

• State-owned enterprises should be privatized more rapidly in order to foster flexibility in adjusting management apparatus.
Policy recommendations (2)

- Setting minimum wage must take into account inflation rate and labor productivity to ensure that it is high enough to cover basic living expenses.
- Trade unions should operate more efficiently. Currently, trade unions comprise both workers and managers. And members of the trade union are paid by manager. Consequently, it is difficult for members of the trade union to protect the workers.
- MOLISA/Vietnam General Confederation of Labor should more frequently inspect factories in harmful or high-risk fields.
Thank you for attention!