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# EUROPEAN POLICY BRIEF

## INTEGRATION IN SOUTHEAST ASIA: TRAJECTORIES OF INCLUSION, DYNAMICS OF EXCLUSION

### LABOUR IMPLICATIONS OF DEPENDENT AND UNEVEN INDUSTRIALISATION: THE CASE OF VIETNAM



This policy brief looks at the nexus between current models of industrial development in Southeast Asia and the quality of working conditions. On the basis of an extensive field study in new industrial areas of the Red River Delta (Vietnam), the research suggests that a rapid industrialization process driven by FDI is resulting in a large expansion of industrial labour force. However, working conditions are poor and the contribution to sustainable poverty reduction is limited. Contrary to mainstream accounts, the movement from rural areas to industrial work does not represent a permanent transition towards urbanization and formal employment. On the contrary, industrial workers are exposed to a high level of vulnerability as their employment is precarious (even in case of long-term contracts) and they normally move back to their rural communities (and poverty) after ten to 15 years in industry.

**Pietro Masina & Michela Cerimele, UNIMIB, January 2016**

## INTRODUCTION

Vietnam is emerging as a key East Asian manufacturing hub. Also benefitting from rising labour costs in China (where an active state-led industrial policy is pushing firms to more technology intensive productions) this country has already become the 12<sup>th</sup> largest exporter in electronics besides a very important garment producer. In terms of FDI attraction (as a percentage of GDP) Vietnam has surpassed Malaysia, the Southeast Asian economy more largely dependent on foreign investment (besides the special case of Singapore). The large FDI flows have contributed to rapidly increase the number of people occupied in industry, allowing absorbing a large youth under-employed labour force from rural areas. In positive term, this rapid industrialization process helped the country progressing in its impressive (absolute) poverty reduction drive.

The research carried out by the SEATIDE team allowed to investigate also the more critical aspects of this industrialization process. On the one hand, the research revealed a structural vulnerability of the national industrialization process in the country, offering an alternative reading

of the problem from the one exposed in terms of “middle-income trap” (see Masina *forthcoming*). On the other hand, the team explored the impact of the current modalities of industrial development for the working and living conditions of the new labour forces, with an important contribution for the analysis of the long-term human sustainability of this industrialization process, including concerns on its impact in terms of poverty and vulnerability.

This Policy Brief focuses in particular on the livelihoods of the industrial workers basing on an extended grassroots research in new industrial areas of the Red River Delta in Vietnam. This research suggests that industrial employment has remained a temporary and precarious escape from poverty. Skills in highly labour intensive productions tend to be so low that workers can be easily replaced, while low wages push workers toward a restless search for better jobs. Our research concludes that industrial employment represents only a temporary phase in the life trajectory of Vietnamese workers, thus providing a very limited contribution to poverty reduction.

The Vietnamese case contrasts with those of Thailand and Malaysia at the same levels of economic development, in which movement to industry and urban life was considered to be a permanent shift for the new labour force (as also reported by a significant literature, especially in the years before the regional crisis 1997/98). The Vietnamese case may indicate that the regional division of labour – coherently with international trends, including those affecting EU countries – is resulting in an even stronger pressure on labour. Ultimately this modality of integration into the world economy does not allow a sustainable escape from poverty to young industrial workers or to the countries that rely on this model of industrial development in the name of catching up with more economically advanced economies.

## FIELDWORK RESEARCH: EVIDENCE AND ANALYSIS<sup>1</sup>

The fieldwork concentrated on internal migrant workers – especially female – employed in the northern provinces of Hanoi, Hai Duong and Vinh Phuc. Particular attention was devoted to migrant workers employed in industries (partially or wholly) financed by foreign investment and located in industrial parks. It also included some enterprises located outside industrial areas for comparative purposes. The research – which focused on the garment and electronics sectors – made use of both quantitative and qualitative data gathering and analysis.

Some 1,250 internal migrant workers were interviewed in total, mostly concentrated in the following industrial parks: Thang Long and Sai Dong (Hanoi), Tan Truong and Nam Sach (Hai Duong), Khai Quang (Vinh Phuc). Overall, the new generation of industrial workers as emerged from the fieldwork appeared to be mainly female and young, characterized by lower secondary or secondary education, and low skilled: most of the workers interviewed were simple workers quickly trained at enterprise level. Although ‘formal’ by international and national statistical standards, employment appeared to be characterized by the widespread use of short-term contracts, while working conditions revealed to be very hard and workers’ vulnerability and turnover rates high.<sup>2</sup>

Qualitative research at Thang Long Industrial Park (Hanoi province, electronics sector), clearly demonstrated that even indefinite term contracts do not guarantee fully permanent positions. For example, workers tend to be fired anyhow in the event of low market demand. Moreover, after their thirties, they tend to be expelled from the industry as they are no longer healthy and productive enough. It is not rare that workers quit their job voluntarily and move in search for better occupations given the hard working conditions and low wage levels. The Thang Long case study also showed that in order to earn an above-the-subsistence wage level, workers need to comply with a very strict system of factory rules and discipline, in turn linked to a complex bonus and

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<sup>1</sup> The field research was conducted in cooperation with the EU co-financed project “Strengthening Workers and Trade Unions” in Vietnam (EIDHR/2012/303425). The cooperation between the SEATIDE and the SWORR projects allow us to maximize the knowledge basis generated through the research, to enhance the level of dissemination in Vietnam and internationally, and increase the impact of the two initiatives.

<sup>2</sup> See: SWORR Fieldwork Research: Synthesis Report. Author: Do Ta Khanh. August 2015.

evaluation system. This implies a “constant trade-off between earning a full wage and physical and mental exhaustion”. A similar trade-off was identifiable for workers at Khai Quang Industrial Park (Vinh Phuc province, both garment and electronics sectors).

Qualitative interviews highlighted here a clear linkage between earning a ‘decent’ wage and working overtime. On the one hand, overtime work implies longer-working hours and very high pressure at work. It is worth noticing that in peak periods – when overtime work is available – workers cannot refuse to work longer hours, although labour laws only allow for voluntary overtime work. In fact, this is also the only way for workers to earn much needed extra income and do some extra saving. As qualitative fieldwork undertaken in Hai Duong shows, this explains workers’ preference for working overtime, regardless that monthly overtime working hours often exceed the ceiling set by law and regardless that overtime working is *de facto* made compulsory by employers. The Hai Duong case study showed how labour regulations limiting overtime work were bypassed by employers making workers declare they were working voluntarily on overtime shifts. In general, workers are mostly unaware of their rights – and incapable of enforcing them, given the limited operation of trade unions at the factory-level – and ‘unfair decisions’ related to wages, contracts, working hours, etc. cannot be contested.<sup>3</sup>

Qualitative fieldwork research conducted at Thang Long Industrial Park, Hanoi, investigated the set of devices both within and outside the factory gate, including specific spatial engineering, that contribute to making the female migrant workforce circulatory and structurally vulnerable and transient.<sup>4</sup> The research specifically focussed on the articulation between the productive and reproductive spheres of these workers’ experiences. This allowed identification of the main drivers of worker vulnerability and the main factors impeding workers’ settlement in cities/industrial zones and their permanent exit from poverty. Overall, the Thang Long Industrial Park’s labour regime may be characterized as follows:

- Wages are typically composed of a flexible component and a fixed one. ‘Full wages’ appear to be slightly above the subsistence level of a single migrant (female) worker, who is not intended to settle and to support a family in the locality where she works. However, earning a full wage depends on compliance with a strict system of rules and disciplinary measures. At the same time – given the disproportionate weakness of workers against the employers (lack of voice and representation) – even full compliance with the rules does not necessarily guarantee a ‘full wage’. Thus, having moved ‘out of poverty’ and having been integrated into industry, workers are exposed to conditions of extreme vulnerability.
- The use of short-term contracts is widespread and contributes to make the work force precarious and vulnerable, especially in periods of low market demand. The shift from short-term contracts to long-term contracts implies a selection of the physically strongest, most productive, determined and disciplined workers. Yet also long-term contracts do not guarantee truly permanent positions: workers are expelled anyway in periods of low market demand and they are expelled anyway as, after their thirties, they become less productive. Even in this case, workers’ lack of awareness about how the ‘firing system’ works and about their rights – along with their lack of protection at factory level – hinders any possibility of contesting ‘unfair decisions’ and dramatically increases workers’ vulnerability.
- Official dormitories only accept single workers, who are by definition not expected to settle. The newly arrived, younger, workers normally live here. Although living conditions are hard and discipline is strict, their young age and conditions of extreme need make the workers living in official dormitories appear to be the most compliant, focused and less likely to complain.
- Privately rented rooms in former rural villages surrounding the industrial zone are the only option for families. However, once a family is set up at the village, costs rise to unaffordable levels. This has specifically to do with the price of housing – the wages are too low to allow a shift to better accommodations – and with the costs of rearing children. These are especially

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<sup>3</sup> See: SWORR Fieldwork Research – Qualitative Report: Vinh Phuc, Author: TUU, with IES and IWTU, May 2014 and SWORR Fieldwork Research – Qualitative Report: Hai Duong, Authors: TUU, with IES and IWTU, May 2014.

<sup>4</sup> For an extended version of the case study of Thang Long Industrial Park, see: Cerimele, Michela (forthcoming) ‘Informalising the formal: work regimes and dual labour dormitory systems in Thang Long Industrial Park (Hanoi, Vietnam)’, in M. Alcano, S. Vignato (eds) *A place for work: small-scale mobility in Southeast Asia*. Chiang Mai: Silksworm Books.

linked to the difficulty of accessing public kindergartens due to the working of the *ho khau* household registration system. Thus, regardless of other factors – for example, contract type – after they get married and have children, female workers tend to be pushed ‘back to the countryside’.

- Around the age of 30-35 all the workers are expelled from factory work because they are no longer healthy, highly productive and able to comply with rules and discipline.
- Moreover, around this age most of workers tend to leave the job anyway because of physical and mental exhaustion, especially due to the high pressure work regime and the ‘impossibility’ of obtaining a ‘full wage’, especially if they are working mothers.

Although through providing illustrative qualitative evidence, this case study raises important questions related to the nature and social content of FDI-led industrialization, in much need of further enquiry. The labour regime emerging from the fieldwork appears to be structurally tailored to single female workers and to producing workers that are structurally vulnerable and transient. Contrary to the prevailing consensus, the fieldwork’s results suggest that instead of a transition from the rural to the industrial/urban, and from informal to formal employment, FDI-led industrialization is spurring wide processes of circulatory migration and of ‘informalization of the formal’. Indeed, the study shows how transnational capital exploits locally produced ‘margins’ – such as the gender divide, the rural-urban divide – to create a workforce that is highly ‘flexible’, productive, disciplined, low cost and transient regardless of the type of contract workers are employed on.

Indeed, having moved ‘out of (monetary) poverty’ – and exposed to conditions of extreme vulnerability through integration into industry – workers are pushed back to the countryside and to their original conditions of poverty. This has implications for policy.

## POLICY IMPLICATIONS AND RECOMMENDATIONS

1. The Vietnamese example – which is, at the same time, a success story in terms of FDI-led industrial development and a showcase of how an industrialization process may be inimical to labour rights and scarcely contribute to sustainable poverty reduction – could delineate a wider general trend. Industrial development in Southeast Asia seems to be increasingly characterized by a process of precarization of labour, with informalization of labour relations even in those sectors considered to be typically formal. This assumption, which requires further regional scrutiny, has implications for Southeast Asia at different stages of industrial and economic development. Our research suggests that a labour analysis of industrial development can give a major contribution to the assessment of development policies. Such analysis should be widespread and mainstreamed – while today it is often perceived as an obstacle to faster industrialization because it could scare off foreign investors. **Promoting labour-informed analysis of industrial development can contribute to sustainable economic development, as it helps governments assess alternatives to strategies promoted by international capital.**
2. The research has implications for the definition of new industrial development strategies. It suggests the importance of simultaneously addressing the quality of industrial development and the quality of labour. Bad quality jobs are the result of bad quality industrial strategies, being simply based on the attraction of FDI, which result in scarce backward and forward linkages between foreign companies and the local enterprises. An alternative strategy would promote incremental industrial upgrading by increasing the national value adding in the value chains. Such national industrial strategies may be allied with improvements in working conditions, as better working conditions contribute to enhancing the skills and productivity of labour. This strategy also implies a lower dependence on regional and international capital and export-led productions. On the contrary, it emphasizes stronger investment in the creation of national and regional markets for local industrial goods, thus creating virtuous circles between national demand and national productions. **Economic development rooted in stronger internal markets (rather than excessive dependence on export markets) is likely to be**

**less volatile, more conducive to industrial upgrading and more favourable to a gradual improvement in working conditions.**

3. The study revealed the structural weakness of the Vietnamese trade unions as both a dialogue partner on industrial development and a representative of grassroots voices. Although each Southeast Asian case is different, regarding the role and strengths of local trade unions, it appears that trade unions' inability to provide adequate support to the workforce is a general trend. **Strengthening the role of trade unions and giving adequate recognition of workers' rights is a major concern for the promotion of universal human rights, as also indicated by the European Consensus on development. More active and representative trade unions are essential to improving the quality of sustainable human development, and not an obstacle to faster economic growth (as often feared by governments and employers' associations).**

## RESEARCH PARAMETERS

### 1. Main scientific objective

Integrative processes offer the promise of economic and cultural development, the free movement of people, the promotion of citizenship and knowledge networks with extensive links with the wider world. At the same time, failure to take advantage of these benefits can result in processes of exclusion that undermine national/regional frameworks, and entail risks in the fields of human development/security, including the danger of framework disintegration.

In examining these processes, SEATIDE's research will be informed by an awareness that dynamics of exclusion should be studied in tandem with dynamics of inclusion to produce holistic analyses of integrative processes and their contemporary forms, which take into account long-term local perspectives.

### 2. Research capacity building

By reinforcing European research on SEA, the project will contribute to the coordination of EU-ASEAN scholarly exchange, the improvement of networking capacity, and the promotion of a new generation of field researchers on SEA.

### 3. Methodology

The project will conduct field research and produce analyses that take into account local knowledge as well as macroeconomic studies and expert perspectives. Qualitative and quantitative data will be presented in case studies structured by a common analytical framework, centred on but not restricted to four SEA countries (Thailand, Vietnam, Indonesia, and Malaysia), with a unifying focus on transnational issues.

## PROJECT IDENTITY

**PROJECT NAME** Integration in Southeast Asia: Trajectories of Inclusion, Dynamics of Exclusion (SEATIDE)

**COORDINATOR** Yves Goudineau, EFEO, Paris, France, [direction@efeo.net](mailto:direction@efeo.net).

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Tallinn University – TU – Tallinn, Estonia  
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Universiti Sains Malaysia – USM – Penang, Malaysia

Universitas Gadjah Mada – UGM – Yogyakarta, Indonesia  
Chiang Mai University – CMU – Chiang Mai, Thailand  
Vietnamese Academy of Social Sciences – VASS – Hanoi, Vietnam

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#### FUNDING SCHEME

FP7 Framework Programme for Research of the European Union – Collaborative Project (small or medium-scale focused research project) for specific cooperation action dedicated to international cooperation (CP-FP-SICA) – Activity 8.4 Europe in the world

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#### DURATION

December 2012 – March 2016 (40 months).

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#### BUDGET

EU contribution: 2 415 017 €.

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#### WEBSITE

[www.seatide.eu](http://www.seatide.eu)

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#### FURTHER READING

- Masina, Pietro P. (forthcoming) 'Uneven development trap in Southeast Asia and its implications for labour', in M. Alcano, S. Vignato (eds) *A place for work: small-scale mobility in Southeast Asia*. Chiang Mai: Silkworm Books.
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