International Labour Organization

6 Trade and decent work in Viet Nam: Insights from small and medium-sized enterprises

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Summary

- The participation of Viet Nam in international trade has increased sharply over the past four decades. In parallel, there has been some improvement in labour market conditions, including in informality rates and social protection coverage.
- Firms' participation in trade has often been associated with gains for their workers, especially in terms of formal employment and wages. However, although small and medium-sized enterprises (SMEs) are found to struggle more with providing decent working conditions for their employees, the effects of trade on them have been less frequently explored.
- While trade participation of SMEs in Viet Nam is low, they make up around 96 per cent of enterprises and employ roughly half of the workforce. Shedding light on the implications of trade for SMEs could be useful in formulating policies that can better support them.
- This chapter explores the links between trade and labour in Vietnamese SMEs based on the ILO's Decent Work Indicators. It finds that SMEs engaged in exporting and importing tend to employ more workers, offer more formal contacts, and provide better social protection coverage compared to their non-trading counterparts.
- These findings support the idea that policies promoting trade participation of SMEs could yield positive consequences in terms of working conditions. However, they also point to the differences between trading and non-trading firms, to which policymakers need to pay particular attention while designing policies.

Background and introduction

Since the mid-1980s, Viet Nam has undertaken major structural reforms to reorientate its planned economy towards an open-market economy. This transition included a focus on trade liberalization, with the country joining the Association of Southeast Asian Nations and the World Trade Organization and signing a number of bilateral trade agreements, including with the United States. In parallel, Viet Nam's participation in international trade has increased substantially, with trade as a percentage of gross domestic product (GDP) increasing more than eightfold over the last four decades, from 25 per cent in 1986 to 212 per cent in 2019.

The economic transition has been followed by important changes in the labour market. Employment in agriculture has declined to the benefit of manufacturing and services. Some improvement has also been observed in working conditions, including lower informal employment and increased social protection coverage across a range of dimensions – greater provision of unemployment benefits, work injury and disability benefits, and pensions.

While increased participation in trade might have contributed to these changes, there are few studies analysing the labour market effects, in the context of Viet Nam, that go beyond wages and employment. Moreover, firms and their workers may not benefit from trade evenly. In this regard, the relationship between trade participation in SMEs and working conditions is of particular interest. While a minority of SMEs engage in trade, they usually make up the majority of enterprises in Viet Nam and in the world. They are also often found to struggle more with providing decent working conditions for their employees than larger firms.

Research question and methodology

This chapter investigates how firms' increased participation in trade has affected the provision of formal contracts, social protection coverage, and training in occupational safety and health (OSH). The focus is on SMEs, which make up around 96 per cent of enterprises in Viet Nam and employ roughly half the workforce.

The data used for the analysis are based on a survey of SMEs conducted every two years from 2011 to 2015 by the Institute of Labour and Social Affairs of the Vietnamese

Ministry of Labour, Invalids and Social Affairs and the United Nations University World Institute for Development Economics Research (UNU-WIDER). This survey includes a comprehensive set of indicators for both firm-level and worker-level variables, which allows firm characteristics to be considered while analysing labour effects.

The study employs a two-stage Heckman selection model to account for possible selection bias. This arises from the fact that the majority of firms do not export, while those that do have particular characteristics that make it more likely for them to engage in trade. Using such a model, the study first focuses on the relationship between trade and employment. Then, it explores the dimensions of decent work based on the indicators related to the provision of formal contracts, insurance for healthcare, unemployment, sick leave and OSH training.

Findings and policy considerations

The chapter finds that firms that engage in trade are associated with higher employment levels when compared to those that do not. Concerning the other dimensions of decent work, the results are more nuanced. More specifically, trade is positively associated with the presence of written formal contracts, social protection coverage represented through insurance for healthcare and unemployment, and sick leave, but not with other variables such as OSH training, as shown in the graph below.

These findings have significant consequences for policymaking, as they show that measures that mitigate barriers to international trade for SMEs, such as facilitating market access, providing trade financing and enhancing market information, can also lead to gains in employment and improved working conditions. Generally, multinational enterprises, which participate disproportionately in international trade, are found to offer better working conditions. At the same time, the study highlights that trade can have important distributional effects in terms of labour market outcomes even among SMEs. As not all SMEs can engage in trade, policymakers need to pay particular attention to ensure that non-trading firms and their workers are not left behind, by putting in place relevant social protection and labour policies.

Finally, the study provides an important step towards better understanding the complex relationship between trade and decent work, but the dearth of comprehensive, high-quality data remains a challenge for research in this area. Future studies would benefit from the availability of more representative surveys that allow information on both employers and employees to be linked, and both groups to be tracked over time. Such surveys would allow a more comprehensive and realistic analysis of the worker- and firm-level effects of international trade.

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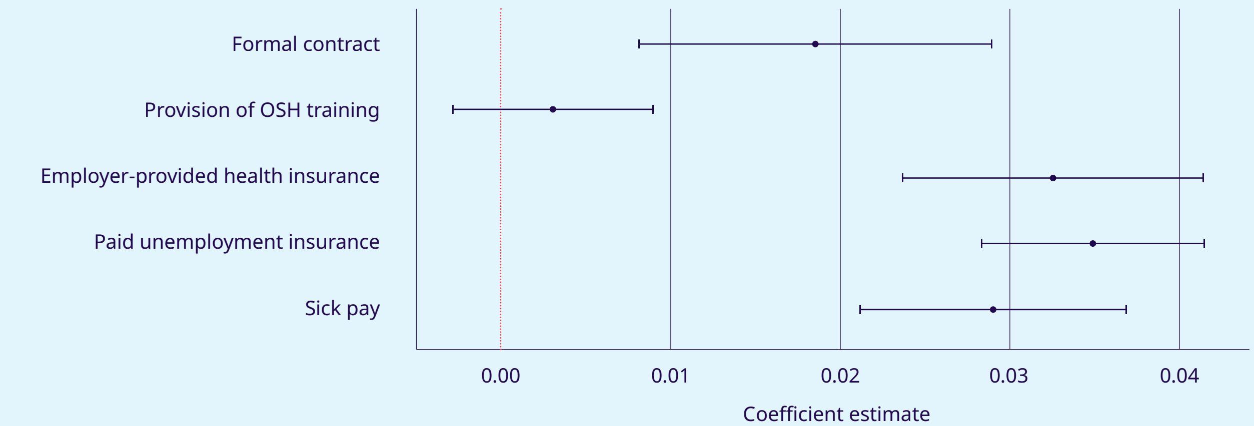
▶ **Impact of exporting by SMEs on selected labour market outcomes in Viet Nam**



Note: Coefficient plot of Heckman two-step estimation effects of exporting on labour market outcomes, with 95 per cent confidence interval. The coefficients represent effect sizes, with the relationship being statistically significant for all labour market outcomes except provision of OSH training.

Source: Authors' calculations based on SME surveys in Viet Nam, 2011–2015, conducted by the Institute of Labour and Social Affairs of the Vietnamese Ministry of Labour, Invalids and Social Affairs, and UNU-WIDER.

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