



POLICY BRIEF – VOL.1, 2019

IMPACT OF NEW GENERATION FREE TRADE AGREEMENTS TO THE LABOUR AND EMPLOYMENT IN VIETNAM

The participation in new generation Free Trade Agreements (FTAs) with high standards on labour will bring positive impacts to the Vietnam labour market, such as: job creation, especially in industries that Vietnam has advantage in terms of human resources and low labour cost, e.g. garment & textiles, leather, footwear, wood manufacture, food processing, coffee production, etc.; wage is improved in export enterprises, especially in foreign investment sector. Beside opportunities, there are many challenges in labour institution, policies and human resources quality. The amendment of labour law system in accordance with agreements in FTAs (meaning of to be in line with international labour standards of ILO) is very necessary and urgent.

1. Participation in new generation FTAs and emerged issues to the labour and employment

In new generation FTAs, in addition to commitment to reduce taxes, facilitate investment, there are commitments on complying with international labour standards. The commitment on labour in new generation FTAs was stemming from the viewpoint that labour costs accounted for a significant proportion in production costs, and therefore, the equality in labour is a condition to ensure the competition equality and to maintain morality in international trade. Although the income and living conditions are different across countries, basic labour principles and rights must be ensured as a standard of fairness and equal competition

If a country maintains low labour standards, wage and working conditions are not established on a negotiated basis, it is assumed that there will be lower productions costs than those that implement the higher labour standards.

In new generation FTAs, regulations on labour include two types of regulations as follows: *firstly*, direct regulations on labour related to the improvement, protection, implementation, promotion of employees' basic rights or labour standards as well as improvement of living and working conditions of citizens or implementation of sustainable employment¹. *Secondly*, regulations to ensure effective implementation of labour regulations.

FTAs bring many economic benefits through attracting foreign investment and expanding export volume. The

¹ Pablo Lazo Grandi, Trade Agreements and their Relation to Labour Standards: The Current Situation, International Centre for Trade and Sustainable Development (ICTSD), Geneva, 2009, page 34, see at: <http://www.ictsd.org/downloads/2011/12/trade-agreements-and-their-relation-to-labour-standards.pdf> (dated 10/04/2017)

economic development creates jobs and increases wages. Besides the benefits, there are number challenges on the human resources quality, labour migration management, inequality, social protection system, etc. as participating in new generation FTAs. The number of job increases, but it focuses mainly in labour-intensive and required low skills industries. Wages increase but it mainly happens in the export and FDI's workers. An increasing gap in employment opportunities and income among population happens, in which, the poor is the most disadvantaged.



2. Impact assessment of new generation FTAs on labour and employment in Vietnam

Presently, Vietnam has participated in or negotiated to participate in 17 FTAs with 56 countries and economies in the World. Particularly, two new generation FTAs, that are expected to have strong impacts on the economy and domestic labour market, include: Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and EU-Vietnam Free Trade Agreement (EVFTA). Currently, Vietnam is negotiating for Regional Comprehensive Economic Partnership (RCEP) between ASEAN and 6 partners. It is estimated that about 80% of Vietnam's import and export turnover will be governed by these agreements when they come into force.

2.1. Impact on employment

Using regression model with dependent variable is the rate of employment growth, independent variables are export value, foreign investment and some other control variables calculated on the Enterprise Survey data set in 2016 of the General Statistics Office, the result of estimating the impact of participating new generation FTAs on employment shows that, when other factors keep unchanged, the value of export goods increases by 1%, the number of jobs in export enterprises increases compared to non-export enterprises at 0.082% (CPTPP), 0.080% (EVFTA) and 0.034% (RCEP) at statistical significance level of 99%. The calculation also shows that when the FDI increases

by 1%, the number of jobs increases by 0.061% for CPTPP and EVFTA, and 0.062% for RCEP in comparison with non - FDI.

The total impact of export on employment by FTA is determined on the basis of Vietnam's export to those in the FTA and the corresponding impact on labour demand. Although the impact level of export on employment of RCEP is the lowest (0.034), the export share of Vietnam to RCEP countries is the highest (40.43%). Thus, the total impact on employment of 3 FTAs is relatively even: 0.014 for RCEP and CPTPP, and 0.015 for EVFTA.

Using the forecasting scenario from the reports of EU-MUTRAP project (2016) and the World Bank (2018), the regression results show that: thanks to the EVFTA, CPTPP and RCEP, the number of jobs increases annually, specifically:

- For EVFTA, the number of jobs will be increased by 7,591 per annum during 2019-2020 and by 8,097 per annum during 2021-2025;
- For CPTPP, the number of jobs will be increased by 5,484-8,694 per annum during 2019-2020 and by 7,312-11,672 per annum during 2021-2025;
- For RCEP: the number of jobs will be increased by 6,095-10,080 per annum during 2021-2025;

By industries, the estimation shows that:

- EVFTA: The wood manufacturing industry's employment will be the highest promoted to increase (at the rate of 0.083%), followed by garment& textiles (0.072%), food and beverage (0.057%), leather footwear (0.028%), electronics and other industries (0.037%) in comparison with non-export companies (the statistical significance of 99%).
- CPTPP: the wood manufacturing industry's employment will be the highest promoted to increase (at the rate of 0.084%), followed by garment & textiles (0.073%), food and beverage (0.058%), leather footwear (0.028%), electronics and other industries (0.037%) in comparison with non-export companies (the statistical significance of 99%).
- RCEP: the wood manufacturing industry's employment will be the highest promoted to increase (at the rate of 0.066%), followed by garment & textiles (0.056%), food and beverage (0.043%), leather footwear *0.025%), electronics (0.034%) and other services (0.033%) in comparison with non-export companies (the statistical significance of 99%).

2.2. Impact on demand for skilled labour

For analyzed FTAs (EVFTA, CPTPP and RCEP), all estimates show a numbers of impacts on increasing the demand for skilled labour, but they are statistical insignificance. This result is relatively consistent with recent assessments which indicated that enterprises

are focusing on exploiting the available advantages of Vietnam such as cheap labour and other preferences. In fact, many enterprises have been relocating production facilities to areas with cheaper labour costs such as the Central or Southwest regions.



2.3. Impact on labour costs of enterprises

Using the regression model with dependent variable is the average labour cost, independent variables are export, foreign investment calculated on the 2016 Enterprises Survey data of the GSO, the results are as follows: when other factors remain unchanged, the average labour cost is higher for export and foreign-invested enterprises. Specifically, the average labour cost of export enterprises is 0.091% higher than non-export enterprises, while this number of enterprises with foreign investment is 0.44% higher than those without foreign investment.

The regression results also show that joining new generation FTAs is likely to increase the wages.

2.4. Impact on labour policy and labour relations

In CPTPP, the parties pledge to “adopt and maintain” the fundamental rights stated in the ILO’s 1998 Declaration: (i) freedom of association and the right to collective bargaining; (ii) forced or compulsory labour; (iii) Child labour; (iv) no discrimination in respect of employment and occupation. Through EVFTA, EU and Vietnam jointly recognize international standards and agreements on labour, including ILO’s declaration on Fundamental principles and rights at work in 1998.

Comparing with international labour standards, Vietnam’s legislative system needs to adjust some contents related to the freedom of association, the right to establish and join to representative organizations of employees and employers; ensuring that employees have the right to choose representative organizations to protect their legitimate rights; dialogue at workplace and collective labour agreement; labour disputes and strikes; agreement on wages; institutions on labour relations; the role of state management agencies in building and resolving labour relations issues.

Additionally, the Labour Code also needs to clarify the concepts of forced labour, discrimination in employment and occupation (by genders, union participation, disability, sexual orientation), sexual harassment, dealing with overtime work, elimination of differences in retirement age between male and female, regulations on work must not use female workers, child labour, etc.

3. Policy implications

By participating in new generation FTAs such as CPTPP, EVFTA, Vietnam has more opportunities to participate more deeply in the global value chain and distribution network, international division of labour. In addition to advantages, there are still many difficulties and challenges. From the results of assessing impacts and international experience, Vietnam, in order to take advantage of opportunities and minimize risks when joining new generation FTAs, should focus on solving the following issues:



a. Completing the labour and employment institution in accordance with international labour standards and the commitments roadmap in CPTPP and EVFTA, including: amending and supplementing the 2012 Labour Code, Law on Trade Union and other relevant regulations, especially contents on the freedom of association and right to agreement.



b. Completing institutions on labour relations, especially, the institution on reconciliation and arbitration towards the professionalism and efficiency, ensuring the harmonious labour relations, the labour disputes are handled promptly and comply with laws, protecting legitimate rights and interests of the parties.



c. Strengthening capacity for representative, social dialogue, negotiation, agreement consultation and settlement of labour disputes for both employers and employees and their representative organizations; developing a mechanism to identify the largest representative organization of employees in the context of having many representative organizations; facilitating and promoting workers' organizations to promote true effectiveness in the role of protecting workers' rights and interests.



d. Completing wage policy towards increasing negotiation and agreement following market principles. Developing consultation activities, labour market information disclosure; reforming unemployment insurance policies, aiming at solutions to maintain and secure jobs for employees.



d. Improving the human resources quality, strengthening the skilled worker force; closely linking labour training with technology investment and innovation trends.



e. Creating environment and conditions to develop the labour market to be clear, unified with the management, control and regulation of the State. Developing the labour market information system to ensure the proactive exploitation of opportunities of global value chain to contribute to improve labour productivity.



g. Developing and completing mechanisms for public services delivery in the field of labour, employment, strengthening labour management, linking and synchronizing with national database on population and other related databases.



h. For employers, it should actively strengthen the awareness about new generation FTAs, promote the coordination with business associations, with government agencies to timely capture information, especially on policies and laws, take advantages of government support programs; comply with labour laws and international labour standards; proactively develop strategies on improving labour quality; build harmonious labour relations and strengthening dialogue at the workplace; strengthen the implementation of corporate social responsibility.



i. For employees, it needs to actively learn for capacity building, accumulate skills that are suitable to new and ever-changing jobs, have a sense of capacity building and skills change to adapt with new technologies, meet work requirements through lifelong learning; need to carefully understand the rights of workers, laws on labour; participate in trade union on their choice.



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