

## NIKE IN VIETNAM: THE TAE KWANG VINA FACTORY\*

### I. Abstract

Nike started its commercial venture in Vietnam in 1995 and made a significant contribution to the country's economy during the late 1990s. However, violations of the labor code at Nike's Vietnamese contract factories or 'sweatshops' soon became apparent, as in the case of the Tae Kwang Vina factory or VT, which employed around 10,000 workers, mostly young rural women. The toxic solvents and glues used in manufacturing caused dizziness, nausea, and respiratory ailments among workers. Accidents were prominent in hazardous sections of the plant. VT violated environmental regulations without facing any consequences or strong protests, as the local community and workers could not mobilize themselves. However, transnational information networks of NGOs like Vietnam Labor Watch and activists helped raise the issues around labor conditions in Vietnamese sweatshops globally, which contributed to holding Nike accountable for the workers' plight. Consequently, Nike took proactive measures and allowed independent auditing of the sweatshops. In 1999, Nike implemented its own "Code of Conduct" in Vietnamese factories. During recent years, there has been a visible improvement in VT's practices, such as safer work conditions and workers' awareness of their rights and entitlements.

### II. Background

Nike, world's leading manufacturer of sports shoes and apparel, is one of the main firms deploying global outsourcing.<sup>1</sup> Nike started its venture in Vietnam in 1995 and its share in the country's Gross Domestic Product reached 5 percent by 1999. Despite Nike's contribution to the Vietnamese economy, the corporate giant failed to prevent the violation of the labor code in the Vietnamese sweatshops during the mid- and late-1990s. The five Nike factories in Vietnam, owned by Korean and Taiwanese subcontractors, employed over 35,000 people, predominantly young women, who left village farms to earn better wages.

The Tae Kwang Vina Factory (VT), a Nike sweatshop in an industrial estate in Dong Nai province, employed around 10,000 people (over 85 percent of whom were women).<sup>2</sup> Most workers were immigrants from northern and central Vietnam who left their homes, families and work in rice fields for a better city life. VT became operational in 1995 and

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\* This case study was prepared by a team comprising Prof. Deepti Bhatnagar and Animesh Rathore at the Indian Institute of Management (Ahmedabad) and Magüi Moreno Torres and Parameeta Kanungo at the World Bank (Washington DC).

<sup>1</sup> Nike does not own any of the factories that produce its famous sports shoes. Nike designs its shoes in Beaverton, Oregon, but prototype shoes are produced in Seoul or Taipei, and a final production run is done in the contract factories or 'sweatshops' in countries like China, Indonesia or Vietnam. The subcontracting arrangement has been highly profitable for Nike, with annual sales reaching US\$9.6 billion in 1998. Nike could thus create competition between subcontractors, push down production costs, shift risk, and avoid the difficulties of managing large workforces. However, Nike has also used the subcontracting system as an excuse to avoid responsibility for environmental and work conditions in the sweatshops manufacturing Nike shoes.

<sup>2</sup> Dong Nai is situated next to Ho Chi Minh City.

soon achieved the reputation of a bad place to work. The workers were forced to work over the legal overtime limits almost everyday. Their monthly salaries (around \$40) were insufficient for survival. Besides unhygienic work conditions, the workers were subject to verbal and physical abuse by managers. The local people usually avoided working at VT, and thus the large number of migrants served as VT's labor pool.

A 1997 audit carried out by Ernst & Young showed that 104 workers at VT were below 18 years of age, which clearly violates the national labor code. The factory also avoided complying with the country's environmental regulations. Since the factory was located in the middle of an industrial zone, no one officially lived near it and there was no local community that could complain about the problems. The Tae Kwang Vina company controlled the workers' union through representatives chosen by the management. The residents of the surrounding area had little connection with VT workers, as the workers, mostly immigrants, usually stayed less than two years. Moreover, the surrounding community had little capacity or cohesion, and few linkages to external actors. Thus, initiating protest at the local level was unlikely.

Nike claimed to have little control over VT under the subcontracting arrangement, and due to the Vietnamese government's willingness to attract foreign capital, regulation of companies like VT had become even more difficult. However, human rights and labor activists in cities like Portland, San Francisco, and New York, were beginning to organize campaigns against labor conditions in "sweatshops". In October 1997, groups in over 10 countries organized protests, pickets, and informational campaigns regarding Nike's production practices. By April 1998, protests and pickets expanded to more cities and countries across the US and Europe. International NGOs, such as *Global Exchange*, along with individual activists, pressured Nike to force its subcontractors in Asia to improve their labor conditions.

### **III. Impact/Results**

Activist campaigns demanding improved labor conditions in Nike plants gained worldwide media attention and considerably affected the company sales during late 1990s.

In May 1998, Nike announced a major initiative to eliminate the use of toxic solvent-based cleaners and glues, pledging to comply with US workplace laws in all its factories. By 2001, water based adhesives were used in manufacturing 95 percent of Nike shoes. To enhance its sustainability, Nike has set a goal of creating "zero waste" in the production of Nike footwear by the year 2020. By December 1998, workplace health and safety conditions were much improved at VT.<sup>3</sup> According to the Dong Nai Health Department, the nose and throat diseases among VT workers decreased from 86 percent in 1997 to 18 percent of workers in 1998, suggesting a significant reduction in air pollution and workplace hazards. During the same period, VT's yearly clinic data report showed a 7 percent increase in clinic visits, indicating improved health awareness among the

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<sup>3</sup> O'Rourke and Brown, 1999.

workers. A survey of Nike factories in Vietnam done by *Global Alliance* in 1999 indicated that 85 percent of workers considered the work conditions as safe.

In 1999, Nike introduced its own “Code of Conduct” in Vietnam, modeled after several ILO (International Labor Organization) conventions, to establish and protect workers’ rights and strengthen accountability and transparency in Nike operations in Vietnam.

The workers are now aware of their rights, such as the right to minimum wages, and other entitlements, like food at subsidized rates. The workers also have access to basic education. By 2001, 85 percent of the Nike factories offered education and training programs and the remaining factories had similar programs in the pipeline. Nike committed itself to stop dealing with factories lacking basic education facilities for workers by the end of 2001. Nike also planned to benefit a target number of about 1,000 families in Vietnam through its microenterprise loan program, and extended the program to residents of communities in which Nike factories were operational.<sup>4</sup>

#### **IV. Key Elements of Empowerment:**

##### ***Information***

Activist campaigns targeting labor practices and conditions in Nike factories received worldwide media attention. NGOs like *Global Exchange*, *Campaign for Labor Rights*, and *Press for Change*, along with activist groups, used media to educate people about conditions inside Nike plants. The information campaigns and protests were fueled by a CBS (Columbia Broadcasting System) television report in October 1996 on work conditions in Vietnamese sweatshops, subsequent research and publicity by Vietnamese Labor Watch (VLW), and a *New York Times* report in November 1997.<sup>5</sup>

#### **Box 1: The Vietnamese Labor Watch**

The information collected by Vietnamese Labor Watch (VLW) was shared among labor and environmental NGOs, activists, and the media, and was posted on VLW website. The VLW gave out prepaid calling cards to factory workers at VT and contacts around the community to call Washington and report problems. When complaints were made, the VLW used its connections with media outlets in Vietnam to draw public attention to the problem. In one case, a worker called VLW about being physically abused and VLW arranged a film crew. Within a day, the film crew recorded the abuse at VT on a videotape and distributed it to cable outlets. The calling cards proved to be a highly effective though informal way of getting information about factories to the activist community and the media, and demonstrated the rapid work and influence of transnational networks.

<sup>4</sup> Source: *Nike Critics Voice Hopes and Reservations*, May 1998. URL: <http://www.dogeatdogfilms.com/nike2.html>.

<sup>5</sup> Based on research by Dara O’Rourke for the United Nations Industrial Development Organization and on an Ernst & Young audit of VT which was leaked to the press.

Due to the worldwide reporting of violations of the labor code and human rights in the sweatshops, Nike's corporate image was considerably affected and this prompted the firm to enforce certain basic norms, such as establishing 18 as the minimum age for footwear factory workers.

The activist community demanded earlier unreleased information on Nike operations and its factories. In response Nike began disclosing information since 1999 and created 'Transparency 101' which publishes action plans and progress reports on the company's website. Nike joined the *Global Alliance for Workers and Communities*, which conducts independent research on the attitudes and aspirations of factory workers.<sup>6</sup>

VT has documented inspections and management programs (on environment, health, and safety) for reference. VT improved its communication on hazardous substances through measures like the "Material Safety Data Sheets" (MSDS) posted at each section, which provide summary information on the chemicals used in the plant, including their effects on eyes, skin, respiratory system, etc. In December 1998, VT started a newsletter, published every two months, providing information on health and safety issues.

### ***Inclusion/Participation***

Significant changes were made to train the staff responsible for health and safety issues. VT implemented Nike's customized environmental and occupational health management system called MESH (Management of Environment, Safety and Health). VT has implemented nine workshops on MESH to train managers and workers. VT also implemented PPE (personal protective equipment) program to train supervisors. Also, Nike factories now offer educational opportunities to workers. Although this could potentially lead to increased participation levels, so far there is no clear indication that workers have become more active in labor unions or factory decision making.

### ***Accountability***

Nike began defining its labor and environmental standards in the early 1990s, and drew up its corporate code of conduct in 1992. After the attention on VT and other sweatshops in the mid- and late 1990s, Nike began monitoring factories through quarterly inspections called Safety-Health-Attitude of Management-People Investment-Environment (SHAPE), done by Nike's production staff. The SHAPE inspections also included periodic visits and tests by external health and safety specialists. This external monitoring, done by independent agencies like VLW, involved workers and other executives and officials, along with legal and foreign investment experts. These inspections helped improve the work conditions, with actions such as reducing worker's exposure to toxic solvents and glues.

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<sup>6</sup> Members of the Global Alliance include the Gap, Inc.; the International Youth Foundation; Nike, Inc. and the World Bank. The Global Alliance was founded to help improve the lives, workplace experience, and communities of workers in global manufacturing and service companies, and to promote collaboration among the private, nonprofit and public sectors in support of these efforts. The organization's primary goal is to build a sustainable worker assessment development process and the infrastructure to ensure its continuation.

The VLW was a key player in pressuring Nike and VT to improve labor and environmental practices. The calling card experience shows how the workers, by calling VLW in Washington, could hold the higher executives accountable for misconduct. The ‘Transparency 101’ initiative helped strengthen transparency in Nike’s operations by publicizing action plans and progress reports. Nike considerably improved the extent of its information disclosure and now demonstrates a self-reinforcing disclosure and accountability policy: as it discloses information, activists put more pressure on the company to improve its standards and practices.

## **V. Issues and Lessons**

### *Challenges*

- Regulation of companies like VT was quite difficult due to Vietnam’s agenda of attracting more foreign investment to compete with countries like China and Indonesia, which account for the bulk of Nike’s production. Also, Nike was responsible for over 35,000 jobs and 4 percent of Vietnam’s total exports in 1998 and hence carried a fair amount of influence with government officials.
- Most VT workers were young rural women, used to hard work and poor living conditions, yet they found it difficult to work under VT’s extreme conditions. The toxic solvents and glues used in manufacturing caused dizziness, nausea, and respiratory ailments among workers. Accidents were prominent in hazardous sections of the plant. The workers were not allowed to go to bathroom more than once and drink water more than twice during an eight-hour shift. They also experienced repeated verbal and physical abuse. In one instance, women were forced by supervisors to kneel down with their hands up for 25 minutes. During a VLW survey in 1997, the female workers complained about frequent sexual harassment by foreign supervisors. There was no community living near VT, and the workers had no independent union to raise their issues. However, pressure from Nike, driven by external NGO and media attention, prompted regular visits by Nike’s inspectors as well as independent monitoring. This helped improve work conditions and reduce hazards like exposure to toxic solvents and glues.<sup>7</sup> The introduction of Nike’s “Code of Conduct” in 1999 ensured a safer work environment in Nike factories including VT.
- VT had apparently started violating local labor laws and environmental regulations following the experience of its parent company T2 in South Korea and China.<sup>8</sup> Environmental laws were selectively enforced in Vietnam, and VT faced no difficulty in violating them. For instance, the scrap rubber in VT was burned to generate steam, which produced black smoke. Despite requests from officials in the Department of Science, Technology and Environment to reduce the pollution,

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<sup>7</sup> Ventilation systems are now in place and direct reading screening equipment monitors air quality and noise inside the factory. Weekly screening for airborne contaminants is done to evaluate total exposure levels. The air current smoke tubes evaluate the effectiveness of fans and ventilation systems. VT has renovated bathrooms and has also installed 48 drinking water (a major concern of workers in the past) fountains throughout the plant.

<sup>8</sup> T2, the parent company of VT, had been producing Nike products in South Korea since the early 1980s and later, when labor costs began rising, set up shop in China and Vietnam.

VT purchased additional scrap rubber from other Nike factories in Vietnam. VT also avoided complying with national requirements for a wastewater treatment plant, and was given no penalties. It was apparent that even if there had been a local community, it would not have been able to pressure the factory to change its polluting habits. Moreover, VT hired the son of the provincial communist party chairman to negotiate with the government on such issues. Due to the pressure from Nike and external agencies to reduce the pollution, VT extended certain measures including a recycling program, and started selling its scrap to recycling firms.

- VT lacked a good system for tracking worker illnesses or accidents. When it began tracking illnesses in November 1998, there was inadequate data from previous years for comparison, making it difficult to measure the health impacts of new measures, such as reductions in the use of toxic glues and solvents.
- Traditionally, the Nike staff monitored daily production and quality of final products in the sweatshops, yet it took action by third external agencies to assess the actual condition of workers. Even Ernst & Young, the consulting firm initially hired by Nike, was asked to monitor and assess only selected conditions. The workers were reluctant to participate, considering the monitoring team to be part of management. The monitoring reports were inaccessible for workers, their representatives or any third party, including the public. However, one such report was leaked to the media, publicizing the misconduct at VT.<sup>9</sup>
- The absence of strong and independent local NGOs and lack of linkages between NGOs and communities restricted local demand for improvement in VT's practices. However, networks of NGOs and individuals in US and Europe pressured Nike and VT to improve production practices, and indirectly pressured the Vietnamese government to increase enforcement. Some efforts involved media in educating the public about conditions in Nike factories; some called for a boycott of Nike products, and some lobbied governments to force Nike to change.

### ***Lessons Learned***

- The NGOs and activist campaigning can play a vital role, by using the potential of local-global linkages to raise voices against firms like VT, which appear invincible in the local context.
- The global coalition of agencies and activists can help governments regulate the big corporations, thereby ensuring the protection of workers.
- It is possible to attract foreign investment while regulating factories like VT through proactive policies.
- Global information disclosure by international firms can help establish a highly effective accountability mechanism ensuring improvement in their standards and practices.

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<sup>9</sup> Prof. Dara O'Rourke moved the information in Earnst and Young Audit Report to draw public attention on the situation of VT workers.

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