

# **Rapid Assessment of the Social Impacts of Global Economic Crisis in Viet Nam<sup>1</sup>**

Summary of first round research  
March 2009

## **Introduction**

The unfolding global economic crisis is taking its toll on the Vietnamese economy through two main channels - export (including export of goods and labour, and inbound tourist services) and foreign direct investment, not to mention overseas remittances and indirect foreign investment. Up-to-date information reveals that job losses are on the rise in export-oriented labour-intensive firms, such as textiles and garments, footwear, seafood processing, wood processing, and craft villages employing unregistered migrant workers from other provinces. Some analysis points out that if unemployment reaches a certain threshold, it might push the current economic slowdown into a vicious circle: job cuts result in reduced incomes leading to reduced consumption and hence, weakened demand, which in turn forces firms to scale down production with the resultant further job cuts in the next round.

In this context, the top priority for Viet Nam is to maintain jobs, in order to avoid the vicious circle of economic downturn. A fast move that the Government of Viet Nam has made recently in introducing and implementing the first fiscal stimulus package is a timely Government's response. However, in the context of large budget and current account deficits as well as high inflation that Viet Nam has experienced in the last couple of years, special care should be taken to ensure that the fiscal stimulus is most cost effective, i.e. maintaining the maximum number of jobs while keeping inflation and macro imbalances at the lowest level possible. The design of the right types of government response requires that the Government of Viet Nam has sufficient information on the magnitude of the impact of the global economic crisis on enterprises and workers in Viet Nam, their resilience and coping mechanisms, particularly in case the crisis does not come to an end soon, formal and informal social safety nets in areas and communities where the impact on the population is felt strongly etc. Because of the lack of appropriate and high frequency information, particularly on how the affected people respond to shocks, the Viet Nam Academy of Social Sciences, with support from Oxfam GB and the World Bank, has carried out an initial rapid qualitative assessment to collect up-to-date information about the impact of the on-going global economic crisis on firms and workers, in order to provide timely inputs into policy making processes and to complement, but not to replace, the data and statistics collected by GSO and MOLISA.

This report summarises key findings from the first rapid qualitative assessment implemented in Ha Noi. The research team will conduct follow up assessments in different sites, and reports will be made available immediately after each assessment is completed.

## **Methodologies**

A rapid qualitative assessment was carried out at several sites in and around Ha Noi in February 2009 to identify emerging first round impacts of the financial crisis. Sites were chosen to capture the groups where substantial first round impacts were expected i.e. a sample of five "mobile labour markets" in Ha Noi, two export-oriented craft villages (Bat Trang and Ha Thai), and Thang Long Industrial Park.

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<sup>1</sup> This work is supported by Oxfam GB and the World Bank. The research team comprises of Hoang Xuan Thanh (Ageless Consultants) – team leader, Nguyen Tam Giang (consultant), Nguyen Thi Thu Phuong (CAF-VASS), Nguyen Ngoc Anh (DEPOCEN) and Dinh Thi Thu Phuong (Ageless). Some staff from Oxfam GB, CAF-VASS and Ageless also joined the team at times.

The assessment was based on semi-structured interviews and group discussions using PRA tools such as time line and ranking exercises. In total, 105 respondents participated in the fieldwork:

- Informal sector: 3 group discussions with 16 day labourers (of which 3 were women), and interviews with 9 day labourers (of which 6 were women).
- Craft villages: interviews with 29 craft businesses (of which 12 were companies and cooperatives, 17 small-scale household enterprises), 12 labourers (of which 4 were women), 6 leaders of commune, village and craft associations.
- Formal sector: interviews with representative of the developer (landlord) of the TLIP, 4 enterprise managers in and nearby TLIP, 23 workers (of which 18 were women), representatives of vocational school, 2 leaders of commune and village and 2 hostel owners around TLIP.

### **Key findings**

This rapid assessment indicates that the migrant labourers are finding less work and facing reduced income. Some, particularly formal sector workers are returning home. Others are considering returning on a temporary basis hoping they could search for work elsewhere. Some are trying to stay in the city either taking second jobs in less productive sectors or, in some cases, combining reduced work hours with studying, looking for better opportunities. They are particularly vulnerable to recent external shocks and are bearing the early adverse impacts of the economic crisis. Trends and patterns of employment, domestic migration and rural – urban linkages should be the key indicators for monitoring the social impacts of the economic crisis in the coming period.

#### ***Informal sector: the day labourers in “cho lao dong” (mobile labour market) are suffering reduced income and under-employment***

Incomes of the interviewed day labourers in the city are reduced, as there are fewer jobs especially in civil construction (which used to be their primary source of work) compared with one year ago. Also, there is more competition from service companies for cleaning, house moving, un/loading goods, that limit the work opportunities of the day labourers, including women.

- The labourers interviewed, many working in labour markets in Ha Noi for several years, explained that the daily wages in late 2008 increased by 10-20 percent compared with late 2007 to respond to the increase of costs of living. However, the average days worked per month reduced by around 50 percent in the same period. They estimate that they had 20 days work a month during 2007, but they worked only 10 days per month in late 2008, of which the days worked for civil construction reduced by about 70 percent; and the days worked for other jobs (un/load goods, cleaning etc.) reduced by about 30 percent. Their monthly savings accordingly reduced by about 30-50 percent after one year. Some labourers even say that since after Tet this year they have received no construction work, thus had insufficient income to pay for minimum costs of living in the city.
- Reduced income and remittance, together with the increased costs of living, negatively affected the daily consumption of the labourer's families and may threaten the prospect of education of their children at home. One female day labourer coming from Phuc Tho district (former Ha Tay, now Ha Noi) complains *“Money now loses its value. In Tet last year the rice price was only 5-7 thousand dong<sup>2</sup> per kilogram, now it is 10 thousand dong. Most difficulties appear right after*

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<sup>2</sup> US\$1=VND 17,490

*Tet with much less work... Normally I buy meat for my children 3-4 times per month. But since after Tet this year, I have received much less work, thus could not buy meat. Little money earned is only sufficient for some oil, vegetables and some soya curd every meal".* Another woman from Nghe An, going to Hanoi's labour market with her husband, explains that *"If the difficult situation after Tet this year continues for long and my husband and I can not remit enough money home, my elder girl may have to quit schooling to go to Ha Noi to work as a housemaid to sustain the schooling of my two younger children"*.

- The day labourers suffer reduced income and under-employment, but still not unemployment thanks to their high social capital. The day labourers often come in groups from the same locality, they are willing to share the work with less income for each (e.g. more people do a piece of work), and they can borrow pretty cash from each other during the idle days.
- In difficult times, the gender dimension of labour division is less evident as the female day labourers are ready to do the jobs which used to be reserved for men, and vice versa. In fact, they often work in groups with both men and women, and divide equally the earning. However, differentiated gender impact is not fully understood given the limitation of the assessment.
- Assessment in 5 main mobile labour markets in Ha Noi reveals that the majority (an estimated 70 percent) of day labourers are the matured/married people from poor rural areas without adequate education and skills. Though their families remain in the rural area and continue to farm their agriculture land, the livelihoods of the whole family are significantly dependent on the income from day labour. Coming to the labour markets to do simple work become the main choice for their earning in free time after finishing seasonal farm work at home. Thus, they will try to continue this job, even in case of having less income due to economic crisis. One male labourer from Buoi labour market says *"We are the main income earners of our families. My wife at home only raises some pigs to have several hundred thousands dong in cash... relying much on my remittance. That's why we have to continue this job regardless of more or less income"*. Some people may stay home for a while, but will go to the labour markets to find job. Another male labourer from Buoi labour market explains that *"we have low education, no skills, little farmland at home; thus our only choice is to follow this work. If we come back home what we will do, or just sit looking at each other, how to earn money for our living ?"*.
- The remaining 30 percent of day labourers are single youngsters (sometimes even students) who see standing at the labour markets as their temporary solution for some saving to switch to other jobs (e.g. attending vocational training, migrating far to the South). The current economic crisis makes this strategy very difficult.
- Some day labourers can do better than others in this difficult time. The respondents in various group discussions explain that the "professional" labourers who have motorbikes and mobile phones (though being second-hand and of low value) can receive more work from regular clients or can quickly come to the client's address before others who come by bicycle or by foot.

### ***Craft villages: the migrant labourers are losing jobs in the craft villages***

- The craft villages rely significantly on export orders. They are suffering a heavy blow, as there has been a sudden decrease of export orders since late 2008.

Interviews with commune/village leaders and enterprise owners in Ha Thai lacquer and Bat Trang ceramic/porcelain villages reveal that around 70-80 percent of craft sale revenue is from export. Sale revenue in Ha Thai already dropped by 35-40 percent in 2008, as compared with those in 2007; while in Bat Trang the sale revenue (in commune records) decreased by about 30 percent (i.e. from 226 billion dong in 2007 to 175 billion dong in 2008). There are almost no positive signs of transactions from the fairs abroad in early 2009. The domestic demand has also reduced since 2008. Thus market shocks are confirmed to continue to at least mid-year (until the next series of fairs abroad).

- The demand shocks led to domino effects, passing from the marketing/trade companies to craft businesses then to craft households, input suppliers and migrant labourers. Migrant labourers are the most impacted group so far.
- The most visible, immediate effect now, however, is that most of the interviewed craft businesses remarkably downsize their production, limit employing the migrant labourers who often do the simple jobs in craft chains for mass orders; instead they keep the core skilled labourers and try to make (new) designs for exhibition on the shelf or for the next fairs abroad. The head of Bat Trang ceramics/porcelain association indicates that in boom time 3-4 years ago, Bat Trang producers employed nearly 10 thousand migrant laborers (of which 60 percent were women) from neighboring provinces; and this number has reduced by about 50-60 percent since late 2008. Similarly, the commune leader stated that Ha Thai lacquer producers used to employ about 400 migrant labourers from neighboring communes, but now almost no migrant labourers have been employed since after Tet this year. The migrant labourers in craft villages work on temporary/seasonal basis (no formal contractual agreements), thus just return to their rural home villages without any severance payment.
- The flexibility of the two surveyed craft villages in adjusting their production scale, the availability of accumulated savings and the least reliance on external credits, make them less vulnerable to demand shocks so far. A hypothesised second round effect in the craft villages, i.e. reduction of real spending on basic household welfare (on daily consumption, education, health care etc.) has not yet come under this initial phase of economic crisis; though the more “luxury” needs (erection of houses, purchase of electronic appliances and furniture, tourism etc.) have been much restricted. The research team received no complaints from interviewed labourers about the business’s late payment of monthly salary.
- The small craft household enterprises face fewer difficulties than the bigger craft businesses under the export market shocks, as the households are more flexible, i.e. having less capital investment (in workshop, showroom and equipment), being able to diversify to other livelihoods and to quickly adjust the product designs to serve the niche domestic markets.

In the two surveyed craft villages, there are stories of the big producers who have heavily invested in equipment or workshop during the past 2 years, now face tremendous difficulties. For example, one of the apparently most pioneering producers in Bat Trang borrowed money from a commercial bank to build a new model of coal-fired kiln in 2007. However, the prices of exclusive coal for this kiln soared up from 800,000 dong per tonne in mid-2007 to 4.5 million dong per tonne in early 2008. This producer, therefore, had to destroy his newly-built kiln, selling its iron scraps for only 500 million dong and bearing an outstanding debt of 1.5 billion dong from the bank. Similarly, one big lacquer company in Ha Thai invested nearly 1.3

billion dong to his 3000 m2 workshop and showroom in 2008. Now this company is facing a shortage of working capital to sustain operation under the difficulties of having no export orders since after Tet this year.

In contrast, just a few craft businesses in Bat Trang have been able to sustain their production because they focus on niche domestic markets, for example ceramics/porcelain products for construction/renovation of pagodas and museums, or high-value fine art ceramics with exclusive designs for collectors.

- In the craft villages having some agricultural land like Ha Thai, in the past the craft households concentrated in craft business, thus hired the migrant labourers to do the farm work. Now the demand shocks have resulted in much less requirement of labour for craft work; the craft households stop hiring the migrant labourers and come back to do the farm work by themselves. The Ha Thai craft households used to hire more than 100 migrant labourers mostly from Thanh Hoa province to do seasonal farm work; now Ha Thai villagers do the farm work themselves.
- It is noted that there are differentiated impacts between craft villages. Higher risks appear in Bat Trang where the craft business is concentrated and no agricultural land is available, compared to Ha Thai where there is more diversity (lacquer, paper work for worship, farming).
- However, the demand shocks seem to deepen the long-lasting multiple difficulties of the craft villages, i.e. the poor infrastructure, environmental problems, fluctuating and sharply increased input prices while unchanged or even reduced product prices, saturated demand for some traditional craft products, fierce competition while limited business and marketing skills (e.g. being unable to compete with imported Chinese porcelain), lack of capital to upgrade machinery and expand production space, etc. Many businesses were dying even before the current crisis. For example in Bat Trang commune, the number of craft household producers was reduced from 1200 in 2004 to 970 in 2007 and to 800 by the end of 2008. The craft cooperatives, such as the Hop Luc and Song Cuong in Bat Trang, seem to be the most vulnerable businesses due to their failure to overcome the multiple difficulties. Hop Luc's monthly sales dropped substantially from three or four containers per month (from before 2008) to only one or even no container. The number of its employees has decreased from the previous 100 to only 7 now.
- All interviewed craft businesses say that they don't seem to benefit from accessing to the Government's stimulus package of providing concessional loan from banks. They perceive the main reasons are that they have no investment plan at this difficult time and they often work on informal transactions without adequate paperwork to show to the banks. It is noted that the horizontal linkages between the businesses are weak; and almost all interviewed businesses do not positively comment on the roles of the craft associations in helping them to cope with the current difficulties.

***IP Formal sectors: Migrants comprise a high percentage of the IP labour force, many of whom are suffering reduced wages and un-employment***

- Many export-oriented enterprises in Thang Long report decreased sales. Although no mass cancellation of orders was found, there is evidence that the number of export orders has dropped significantly. As a result, the sales and production of these FDI enterprises dropped significantly, in some cases the

sales decreased by 30-40% (Nissin), and even 50% (Inoac). Representative of the developer (landlord) of Thang Long industrial park confirms that most of the 67 factories in the TLIP have had to reduce production (only 1-2 high-tech factories have increased production); the severe situation in the TLIP can be seen through the fact that industrial water usage within the park has decreased by about 30-40 percent; and the TLIP developer itself has been facing difficulties because many tenants want to reschedule the payment for sub-lease contracts, e.g. changing from advance payment for one year or more to monthly payment.

- Some of the enterprises facing reduced sales have cut labour costs by reducing the number of employees and working time (i.e. let the workers take turns staying home and receiving 70 percent of basic wage). The representative of the developer (landlord) of Thang Long industrial park says that among 50000 workers in the TLIP, 3000 have lost their jobs since late 2008; and the current demand for new workers is reaching zero. However, other sources report a larger number of job losses in TLIP. According to VNExpress (2/009), many big companies in TLIP have cut jobs or are planning future job cuts: *“Panasonic informs to cut 500 jobs in optical disk factory in the first wave. Nissei Company encourages workers to stop their contracts due to the lacks of orders and get 1,600 dismissed before Tet. Canon cuts 1,200 jobs. Sumimoto cut 1,500 and 600 jobs in December 2008 and after Tet, respectively”*.
- The representative of the TLIP developer indicates that the big, labour-intensive companies in TLIP especially in the fields of assembling electronic, automobile products and associated sub-contractors that used to employ several thousand workers for simple jobs have made the largest reductions in their workforce. While some interviewed smaller, high-tech companies prefer to keep the core workforce by letting the workers take turns staying home (“rotational day-offs”) because of the high cost of re-employment and re-training of skilled workers. These companies may respond to the current crisis by producing inventories, cleaning the factories and training the workers.
- According to many of the workers interviewed, the FDI enterprises in TLIP prefer the worker’s “voluntary resignation” rather than the “lay-offs” in downsizing, as lay-offs needs to follow a strict procedure stipulated by the Labour Code and may affect the company’s prestige. In fact, the representative of TLIP developer comments that none of the reported 3000 workers who have lost jobs in the past several months are under the “lay-offs” cases.
- The FDI enterprises seem to follow the Labour Code in contractual arrangements. Some enterprises provide additional bonus (equalling to 1-2 month wage) for the voluntary resignees. Respondents described a system developed by some firms to reduce the workforce: based on performance, managers classified the workers into several groups. This allowed them to find many legitimate reasons (e.g. bad health, low productivity, poor discipline, etc.) to terminate the labour contracts of the redundant workers.
- The newly employed workers are most vulnerable to job loss, as the enterprises simply announce not to renew the current short-term or trial labour contracts. In a number of interviews, workers reported that since late 2008, only short-term contracts (i.e. 3-6 months) were issues, which allowed firm more flexibility in reducing the workforce when necessary.

- As migrant workers account for a majority of workforce in the industrial parks, i.e. 70 percent of the total of 737,500 workers in IPs and EPZs in Ha Noi according to Vietnam Economics News (2009), they are very hard hit by reduced wages and un-employment under the current economic crisis.
- The migrant workers have been suffering double hits so far: the first hit has been the sharply increased prices for their living costs, from food to rental in 2008 (though the enterprises may increase wages by around 10 percent every year, the increase of wages can not cover the inflation rate of nearly 23 percent in 2008); the second hit has been the reduced income and the risk of losing the job since late 2008. Working overtime, the main way to increase income for the migrant workers, has been stopped in most enterprises since late 2008. The double hits make them unable to have some savings to remit home.
- The interviewed workers who are working but suffering rotational day-offs with 70 percent pay say that though trying their best to curb the personal costs they hardly save any money. For some workers who are elder brothers/sisters in their families, their biggest worries are having no money to remit home to help their parents in meeting the education costs of their younger brothers/sisters. Instead of sending remittances to families, some other workers ask for money from families or borrow from friends, or even bring rice from home while working in the industrial park in this difficult time. One female worker who comes from Vinh Phuc province, and has been working in TLIP for 3 years, explains her situation: *“This year I receive a basic salary of 1280 thousand dong, an increase from 1120 thousand dong last year. Also allowances for travelling and work responsibility increased a bit. But now I have to take turns staying home for 8 days per month to receive 70 percent pay. Last year I could work extra time including weekends to increase the income, thus could have a saving of 500-600 thousand dong per month. This year I have to pay 400 thousand dong for hostel rental, 100 thousand for electricity and water, 300 thousand for meals each month, not to mention the costs for rice and cooking gas. I used to bring some rice from my home here to save food costs, but this year the rice harvest at home is lost. Now I have no money for saving every month”*.
- The interviewed workers who have just lost jobs in the TLIP explain that they will try to stay idle for a while to find new jobs. However, securing a job in the industrial park seems hopeless at this time; but almost none of the workers have available savings, except the received severance payment, to stay idle for long. The last solution for the workers is to come back home. Only few workers can find other temporary jobs (e.g. mechanic, hair-dresser helper, cooking, meal delivery) near the industrial park to pay the costs of hostel rental, food, and other basic daily items or additional vocational training. One female worker, who comes from Ninh Binh province, who lost her job in November 2008 after working in an electronic appliance company in the TLIP for 3 months, states that *“I worked for the company for 3 months, of which already one month of day-offs for 70 percent pay. The company used to employ 6000 workers, but only 3000 now. The company encourage the workers to voluntarily resign. As a new worker, fearing of being laid-off, I wrote the resignation letter to receive 2-month wage as the severance payment from the company. I returned home since last November after losing my job, and just came back here 1 week ago to find job. I will try to find a job here, it impossible I will return home again”*.
- The interviewed workers say that the female migrant workers account for a majority of labour force in the industrial parks. This fact is also confirmed by other

sources, for example according to Vietnam Economics Times (2009), there are 60 per cent female among 737,500 workers in IPs and EPZs in Hanoi. However, female worker proportion in each factory depends on characteristics of work and products. Some interviewed workers explain that in such TLIP electronics assembling factories where massive job losses have occurred, female workers may account for 80-90 per cent of total workforce, thus much more female workers here would bear the brunt of economic crisis. On the contrary, male workers form the majority in motorbike factories, or heavy and harmful jobs.

- Now there are two parallel trends: the enterprises reduce the workforce, reduce working time and cancel the employment of new labourers to save labour costs; and many migrant workers are tired of reduced wage, can not afford the increased costs of living and can not remit home, thus voluntarily resign and come back their rural home villages. Therefore it is also not easy for any enterprise seeking to employ a large number of workers for simple job and low wage.
- Impacts on the communities near the industrial parks are also clear, as they heavily invested in hostels for rent but there is a lack of lessees now even in case of reducing the rental fees. For example, Vong La commune near the TLIP has provided 60 per cent of its land for the development of the IP. Local economy was restructured towards services for IP workers. Around 200 villagers in the commune already invested their land compensation of VND 65 million per sao (360m<sup>2</sup>) into hostels for rent. The hostel owners suffer from the shock of rent demand drop, as most of the hostels have to close up to 50-70 per cent of rooms despite offering lower rental fees. One hostel owner in Sap Mai village, Vong La commune sadly complains: *“it’s a mistake when I erected this 5-room hostel last year. It costs me 90 million dong, taken from the compensation for my 3 sao of land for expansion of the industrial park. Since after Tet this year only 2 or 3 rooms have been occupied though I reduced the monthly rental fees from 400 thousand dong last year to 350 thousand dong per room now. With the unstable monthly income of less than 1 million dong, for how long I will pay back my money ?”*
- Also the associated services for the migrant workers are stagnant (e.g. selling of breakfast, food and groceries). The labourers who worked in a catering company serving the TLIP workers say that their workforce has reduced by 30 percent since late 2008.

#### **Suggestions for follow up:**

- Given the limitation of the 1<sup>st</sup> quick assessment, the research team can not investigate the situation of the returned migrants and their families at their rural home villages, while this seems to be the most important issue among the first round social impacts of the economic crisis. All three components of research have brought up the importance of “linkages” to the rural areas and showed very strongly the interconnectedness of labour markets in urban/peri-urban areas and rural welfare. While a longer term research agenda might take sometime to get going, an immediate follow up research on this issue is therefore crucial to have a fuller and timely picture of current impact and can provide better insights for policy discussion to the government. It could include a similar quick assessment in the South and follow up research in some majors sending provinces (such as Nghe An, Thanh Hoa, Nam Dinh, Vinh Phuc). [This follow-up research will take place in late March and early April 2009].



- Differentiated gender impact is not fully understood given the time limitation of the assessment and should be explored further in the follow up research.
- The assessment was undertaken right after Tet when generally less day labourers come back to work in daily mobile markets as the demand often falls after Tet. Also the orders of craft villages often fall after Tet (after the peak demand at year-end and before Tet). A longitudinal approach should be applied to monitor the impacts in the coming period.
- It seems to be still too early to detect any social consequences of the economic crisis, for example, crime, violence, social unrest or increased tensions between migrants and local residents. We found almost no visible evidence on these issues in the surveyed sites, except for some complaints of both the migrant workers and local people of some anti-social behaviour (e.g. theft, robbery) at the villages surrounding the TLIP where the workers rent the hostels.
- It is proved to be difficult to make interviews with the FDI enterprise managers in industrial parks, as they are busy to settle their own problems, and perhaps they fear of “losing prestige” when we want to talk about their difficulties and the workers’ issues. Better arrangement should be made for similar assessment in the South.

ENDS