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**Human Resource Impacts of the Global Economic Crisis:  
What Is Working in APEC Members' Social Safety Nets and Labour Market System Policies?**

**The Case of Vietnam**

A Report Prepared for the  
APEC Human Resource Development Working Group

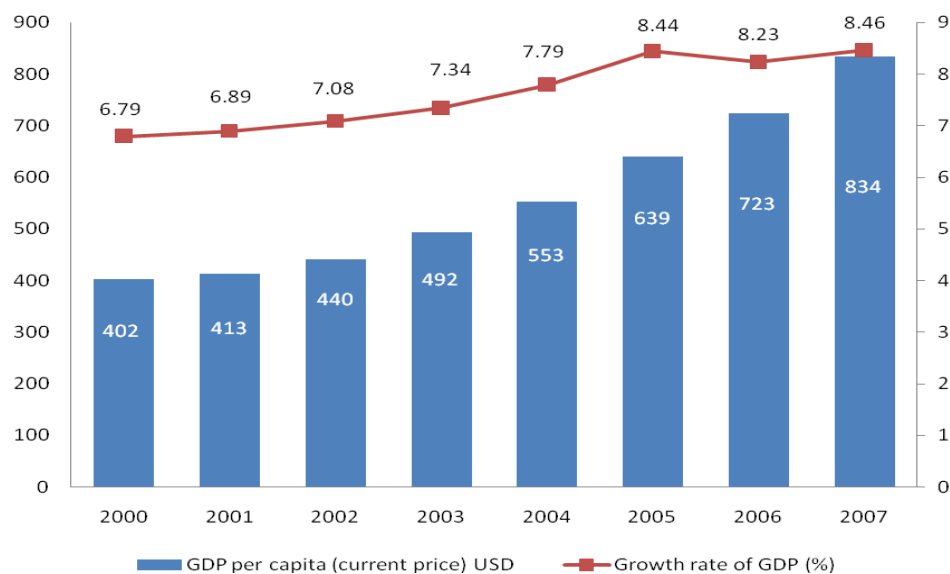
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## I. INTRODUCTION

After the Asian financial crisis 1997-1998, Vietnam's Gross Domestic Product (GDP) grew at annual average rate of 7.6 percent between 2000 and 2007. In US dollar terms, per capita GDP rose from US\$ 402 in 2000 to US\$ 834 in 2007. Compared with East Asian countries Vietnam's growth in this period is second only to China, and somewhat better than other strong performers like India. In current price, this represents a 2.6 time increases, lifting the country's GDP from VND 441,646 billion (US\$ 31.2 billion) in 2000 to VND 1,143,715 billion in 2007. In US dollar terms, the country's GDP in 2007, just before the turmoil, stood at US\$ 72 billion with a population of 84.2 million.

**Figure 1: Vietnam's GDP growth rate (%) and GDP per capita (USD) in the period 2000-2007**



**Source:** Vietnam's General Statistics Office, [www.gso.gov.vn](http://www.gso.gov.vn)

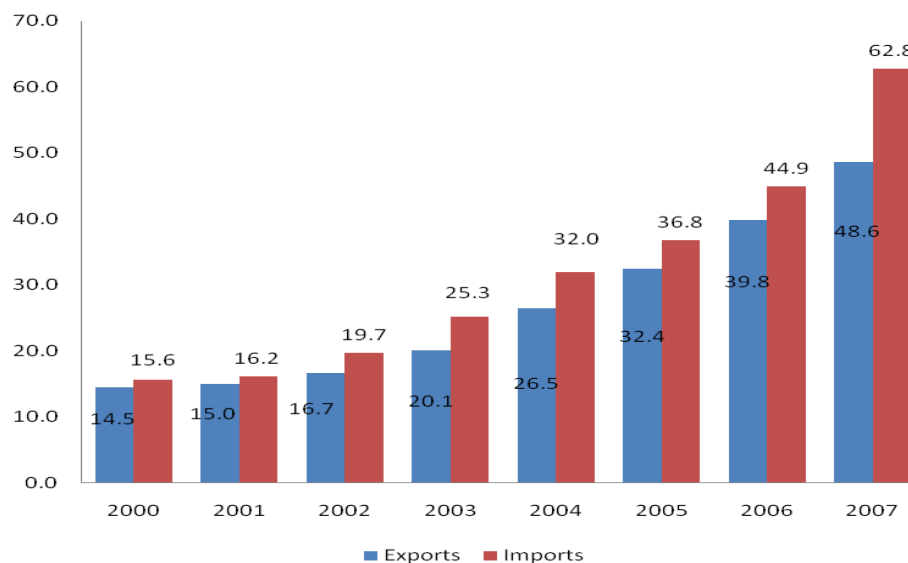
The State sector was an important factor of the national economy and their role did not change during the whole observation period. During the period 2000-2007, the structure of the country's GDP by economic sector experienced very slight changes. The state sector's part of GDP increased from 40.8 percent in 2001 to 41.1 percent in 2004 then decreased in the next three years to 39.0 percent in 2007. The contribution of non-state sector decreased from 48.4 percent of GDP in 2000 to 47.3 percent in 2005, then increased slightly to 47.8 percent of GDP in 2007. Meanwhile, the contribution of FDI sector to GDP increased steadily from 10.8 percent in 2000 to 13.3 percent in 2007.

In the period 2000-2007, the consumption of state increased at an annual average growth rate of 7.2 percent. Its share of the GDP was stable. In 2000, State consumption accounted for 6.5 percent of total GDP (VND 18,245 billion or US\$ 1.65 billion). In the 7 years that followed, the figure was hanging over 6.5-6.6 percent of GDP. In 2007, government expenditure was VND 30,272 billion or US\$ 2.74 billion. The figure in 2009 is US\$ 3.12 billion or 6.8 percent of GDP (at constant 1994 prices).

In terms of industries, the composition of Vietnam's economy underwent significant changes since 2000. In 2000, industry accounted for 36.73 percent of GDP, while the agriculture and service sectors accounted for 24.53 percent and 38.74 percent respectively. In 2007, the industry sector represented 41.48 percent of total GDP, while agriculture and service sectors respectively accounted for 20.4 percent and 38.18 percent of the country's GDP.

Boosted by the adherence to the ASEAN Free Trade Area (AFTA), the Bilateral Trade and Investment Agreement (USBTA), with the United States signed in December 2001 and then WTO membership in January 2007, Vietnam export and import increased at an average annual growth rate of 20.6 percent throughout 2000-2007. Total export and import soared from US\$ 30,1 billion in 2000 to US\$ 111.3 billion in 2007. Of the amount, export grew at annual average rate 19.7 percent, bringing the figure from 14.5 billion USD in 2000 to 48.6 billion USD in 2007. Meanwhile, the annual average growth rate of import value was 21.5 percent, resulting in a sharp rise from 15.6 billion USD in 2000 to 62.8 billion USD in 2007. With such an impressive growth in import and export, Vietnam has become one of the countries with the highest ratio between foreign trade and GDP.

**Figure 2: Export and import of goods (billion \$US)**



**Source:** Vietnam's General Statistics Office, [www.gso.gov.vn](http://www.gso.gov.vn)

Large increases in the population between 1997 and 2007 have added to the country's labour force, placing pressure on the Vietnam labour market. However, future population growth is not expected to be as high as the previous decade. In 2000, its population was 77.6 million people, including 38.2 million males and 39.4 million females. In 2007, it was 84.2 million people. The population growth rate slowed down from 1.35 percent in 2000 to 1.09 percent in 2007. The employed population (at 15 years of age and above) increased from 37.1 million people in 2000 to 45.2 million people in 2007.

Young people (those between the ages of 15 and 24) accounted for nearly a quarter of the population expansion, while those in the prime working ages, that is, 25 to 54 year-olds, represented close to 56 per cent of the ten-year population growth.

The labour force participation rate, defined as the ratio of the labour force to the working-age population, dropped by nearly 5 percentage points, from 72.3 per cent of the population in 2000 to 69.7 per cent in 2007. According to MOLISA and ILO in a recent study, it appears that nearly the entire decline in labour force participation between 2000 and 2007 can be explained by people staying at school longer in the lower age groups and moving into retirement earlier in the upper age groups<sup>i</sup>.

**Table 1: Key Indicators of Vietnam Labour Trend between 2000 and 2007 (%)**

	2000	2004	2005	2006	2007	Change 2000-2007
<b>Labour force participation rate (15+)</b>						
Both sexes	72.3	71.4	71.1	70.3	69.7	-2.6
Males	76.1	75.5	75.5	74.7	74.4	-1.7
Females	68.8	67.6	67.0	66.1	65.4	-3.4
<b>Employment-to-population ratio(+15)</b>						
Both sexes	70.7	69.9	69.6	68.7	68.1	-2.6
Males	74.3	74.1	74.0	73.0	72.6	-1.7
Females	67.4	66.0	65.5	64.6	63.8	-3.6
<b>Unemployment rate (15+)</b>						
Both sexes	2.3	2.1	2.1	2.3	2.4	0.1
Males	2.4	1.9	2.0	2.3	2.4	0.0
Females	2.1	2.4	2.2	2.2	2.5	0.4

**Source:** ILO, Molisa and EU. (August 2010). *Vietnam Employment Trend 2009*

Unemployment is not presently a problem in the country, with the unemployment rate remaining stable and very low over the past decade. Total employment also grew by about 10 million persons between 1997 and 2007, and, as with labour force participation, the employment-to-population ratio, which is a key indicator of economic activity, declined by about 4 percentage points over the period to 68 per cent. In 2007, the rate of unemployment, also a key indicator, was a very low at 2.4 per cent.

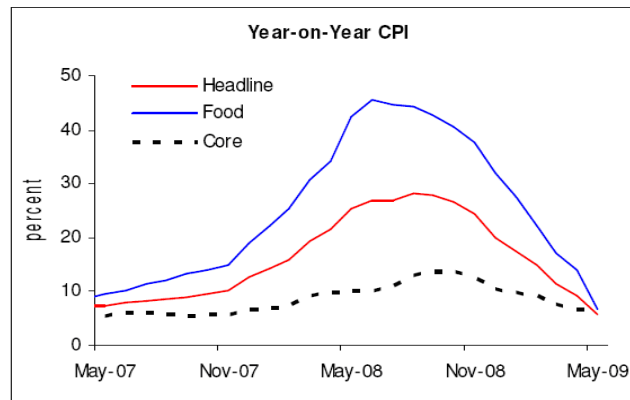
## II. GENERAL IMPACTS OF THE GLOBAL ECONOMIC TURMOIL ON VIETNAM

In 2007, just before the crisis, GDP growth exceeded 8 percent. Domestic investment and private consumption was robust and non-oil exports experienced impressive growth. Foreign direct investment (FDI), boosted by Vietnam's accession to the World Trade Organization (WTO), soared. FDI commitments surged to 20.3 billion in 2007, well above its 2006 level of 10.2 billion dollars in 2006 and 2005 level of 6.2 billion. The stock market, though still small by regional standards, had grown rapidly to reach above 40 percent of GDP. During the first part of 2007, Vietnam's economy was obviously confronted with the overheating created by massive capital inflows, resulting in spiraling inflation, a ballooning trade deficit and a real estate bubble.

However, since the last quarters of 2007 there was an increase in non-food prices, which reached over 10 percent (year on year) at the end of the first quarter of 2008. The main causes were home made rather than as a consequence of the world economic worsening conditions. Credit to the

economy increased by 63 percent over the 12 months period ending in March 2008. Credit growth was caused by the attempt by the State Bank of Vietnam (SBV) – the central bank - to prevent the appreciation of the dong due to the massive capital inflows. Trying to preserve the competitiveness of exports, the Government bought more than US\$ 10 billion in a single year. They have therefore injected the equivalent in *dong* into the economy<sup>ii</sup>.

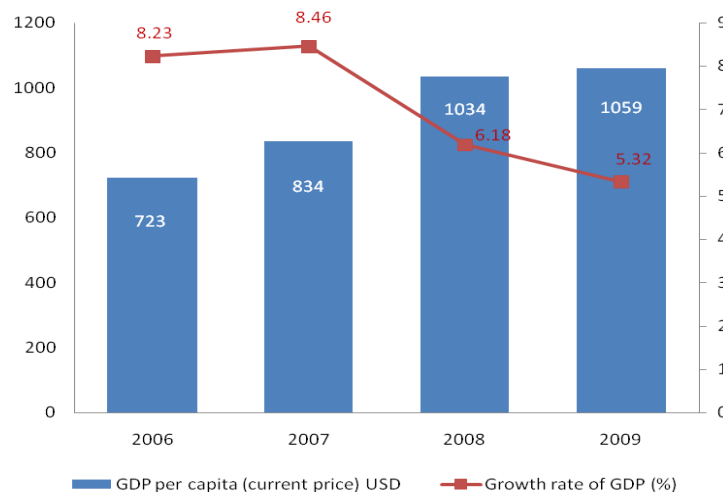
**Figure 3: Year-on Year CPI of Vietnam 2007-2009**



Source: Vietnam’s General Statistics Office, [www.gso.gov.vn](http://www.gso.gov.vn).

Global macroeconomic conditions started to deteriorate in the second half of 2007. In addition to a slowdown in industrial countries, there is considerable uncertainty in financial markets and a surge in the world prices of commodities. Rapid increases in the international prices of rice and oil were of particular concern for Vietnam. Growth forecasts around the world have been revised downwards, and are lower for 2008 than for 2007.

**Figure 4: Vietnam’s GDP growth rate (%) and GDP per capita (USD) between 2006 and 2009**



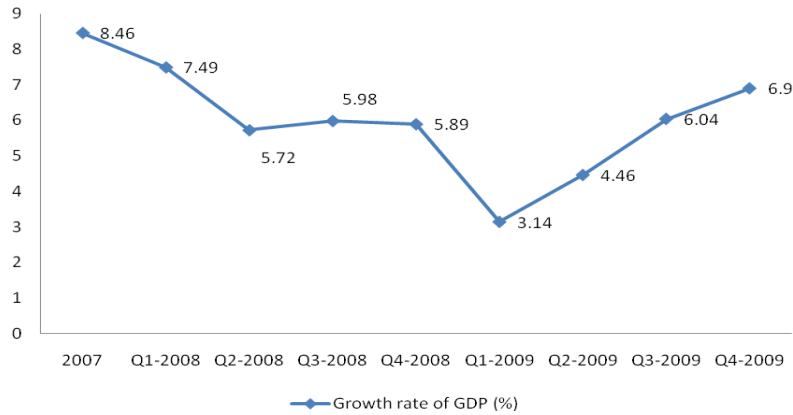
Source: Vietnam’s General Statistics Office, [www.gso.gov.vn](http://www.gso.gov.vn).

The world economic recession started to wreck havoc on Vietnam’s economy in 2008. The GDP growth rate of Vietnam decelerated remarkably in 2008 and 2009. After reaching its peak of 8.46

percent in 2007, the growth rate of Vietnam’s GDP fell by 2.28 percentage points to 6.18 percent in 2008. In 2009, it continued declined by another 0.86 percentage points to 5.32 percent.

Looking deeper into details, the growth rate of GDP in Vietnam reached the bottom of the crisis in Q1 of 2009 when the economy was growing at an alarmingly low of 3.14 percent. The growth rate t picked up to 4.46 percent in Q2, and then 6.04 percent and 6.9 percent respectively in Q3 and Q4.

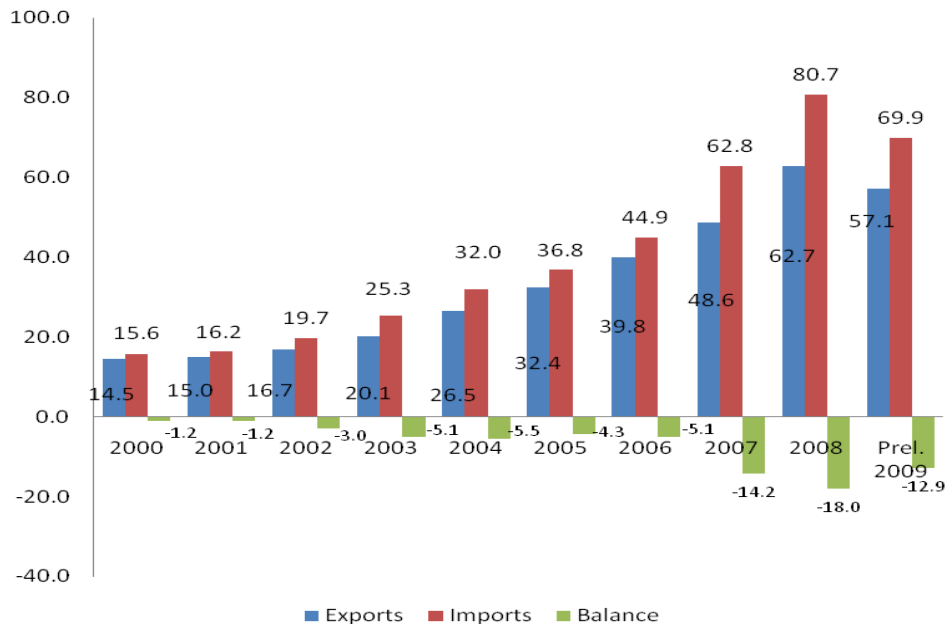
**Figure 5: GDP growth rate of Vietnam, by Quarter**



**Source:** Vietnam’s General Statistics Office, [www.gso.gov.vn](http://www.gso.gov.vn).

Vietnam’s export and import of goods has been seriously affected by the global recession. In 2008, it seemed that the fallout of the global financial crisis on Vietnam still small, it still exported 62.7 billion USD, or an increase of 129.1 percent as compared to that in 2007. However, in 2009, its export value was only 57.1 billion USD, accounting for 91 percent of the export value in the previous year.

**Figure 6: Vietnam’s Export and Import**



**Source:** Vietnam’s General Statistics Office, [www.gso.gov.vn](http://www.gso.gov.vn).

The impacts of global recession are illustrated in Figure 11. From 2000 to 2008, the growth rates of Vietnam's exports are highly positive. Except for 2001, all of the years in the period saw two-digit growth rates, which were well over 20 percent/year. However in 2009, the growth rate of Vietnam's export became negative at -8.9 percent.

### **III. GENERAL POLICY RESPONSES**

In brief, Vietnam suffered from two major economic problems in just only a very short period of time. Vietnam had experienced a huge credit expansion in 2007. But conditions changed so quickly after the global crisis unfolded in the second half of 2008, with the dramatic fall in global demand for goods and services churned out by Vietnamese companies. The government reacted by different set of policies to address these problems.

#### **Stabilization Policy Package to Counter Overheating**

It took several months of overheating elapsed before the government reacted. By the end of 2007, it was clear that inflation was accelerating, the trade deficit was widening and real estate prices were soaring. Yet, rapid economic growth was still seen as the top priority for Vietnam, and this required both a competitive exchange rate and massive public investment in infrastructure.

Only in February 2008 did the government decide to shift its policy and give priority to macroeconomic stability over rapid growth.

As part of the stabilization package adopted in March 2008, the State Bank of Vietnam (SBV) adopted a tight monetary policy. The tightening took place through successive and eventually quite strong measures. The SBV stopped purchasing foreign exchange from late 2007 when the inflationary trend started accelerating. Then, in early 2008, it sold compulsory bills to further absorb VND liquidity in the banking system while simultaneously introducing a cap on deposit interest rates. As a result, credit growth declined sharply and raised concerns of a credit crunch in June and July.

Fiscal balance remains manageable as a result of prudent fiscal policies in general, high oil prices during most of 2008, and a significant fiscal tightening as a part of the stabilization package. In this respect, the government intends to cut back its expenditure by VND 48 trillion (equivalent to US\$ 2.6 billion or 4.2 percent of GDP in 2007), by reducing general government expenditure (excluding salaries and some social entitlements), and canceling or postponing inefficient or non urgent public investment projects. The GDP growth target for 2008 was revised downwards, from 8.5-9 percent to 7 percent<sup>iii</sup>. The stabilization package announced by the government in March 2008 seemed to work. Inflation came down.

#### **Moving from fiscal restraint to fiscal stimulus**

However, the international economic environment continued to deteriorate dramatically. The world economy was entering a major downturn, caused by the most dangerous shock in mature financial markets since the 1930s.

In that context, by the end of 2008, the policy of the Government was quickly shifted from addressing the domestic overheating to global crisis. Policy emphasis was moved from fiscal restraint to fiscal stimulus. Since 2009 national budget was approved, additional stimulus measures were approved and came into rounds. The first one, costing US\$ 1 billion focused on cuts and delays in tax

payment, the interest rate subsidy and more social spending. A much bigger one was announced also at the end of Q1 of 2009 and costed US\$ 8 billion (VND 143 trillion).

The package is organized around five groups of measures: 1) promoting production and exports, 2) supporting consumption and investment, 3) further loosening the financial and monetary stance, 4) reducing poverty and providing social welfare, and 5) strengthen public sector management at all levels.

The Government also approved a 15 percent increase in pension and social subsidies starting October 2008, three months ahead of the plan. Subsidies to low-wage civil servants and military personnel were also approved. It has also redefined the national poverty line in 2008, which will have important implications for spending in the social sectors. These measures, while costly, are important to alleviate the impacts that poor and vulnerable segments of the population are likely to suffer due to the recent bout of double-digit inflation and the global financial crisis<sup>iv</sup>.

**Table 2: VND 143 trillion (US\$ 8 billion) Economic Stimulus Package Programme**

	<i>In trillion VND</i>
<b>Revenue Item</b>	
▪ Combination of measures related to rebates and payment delay on CIT, PIT and VAT.	28
<i>Total revenue foregone</i>	28
<b>Expenditure Items</b>	
▪ Advancing the implementation of critically important projects from 2010. In practices, resources will be reallocated from project with poor implementation	37.2
▪ Subsidized interest rate schemes.	17
▪ Other spending, mainly on social safety net, including Tet (Chinese New Year) allowance.	7.2
▪ Investment to be financed on revenue brought forward from the 2008 budget.	22.5
▪ Issuance of additional off-budget domestic bond (VND 20 trillion were to finance additional expenditure. The other 7.7 trillion represent additional finance)	22.5
<i>Total expenditures</i>	83.9
<b>Financing item</b>	
▪ Suspending the recovery of advances made in 2008 for investment not implemented.	3.4
▪ Issuance of additional off-budget domestic bonds for investment	27.7
<b>Total financing</b>	<b>31.1</b>

*Source: Taking Stock, World Bank Vietnam, June 2009.*

#### IV. SPECIFIC LABOUR MARKET IMPACTS OF THE RECESSION

Due to the lack of reliable data and information through labor survey, it is very difficult to assess the impact of the growth slowdown. At the peak of the crisis, there were many anecdotal evidence of increased hardships, especially in industrial zones and in handicraft villages. Different local authorities, business associations or international agencies have been trying to put the data



together to provide an overall picture on the impact of the global recession on the labor market in the country.

### **Capacity to Create New Jobs were Hindered**

With the fall in exports and the slowdown of the national economy, job creation capacity of the country was badly affected. While in 2007, 1.68 million new jobs were created. The figure just fell dramatically to 1.61 million in 2008. In 2009, only 1.51 million new jobs were created, falling far from the official target set for the year of 1.7 million.

Given the slow recovery of the economy and the lasting consequence of the recession, the Ministry of Labor and Social Affairs (MOLISA) aims at a more modest target of job creation for 2010 of 1.6 million – much lower than the previous years.

### **Job losses were widespread and women were less affected than men**

Job losses were widespread in industrial parks in late 2008 and early 2009. But few took the form of outright layoffs. Non-renewals of contracts and incentives for voluntary departures were more common. Job losses were frequent among seasonal workers, and those on short-term contracts. Many enterprises in industrial parks faced difficulties in complying with social insurance and the new system of unemployment insurance. Even in the enterprises that reported a recovery in production, workers were often offered regular hours and shifts only, with no overtime. Lack or scarcity of overtime pay forced workers to cut on expenses, especially in Ho Chi Minh City and surrounding areas, due to the high cost of living. Remittances to families staying in rural areas suffered as a result.

MOLISA estimated that over 80,000 workers nationwide lost their jobs in 2008. In 2009, more than 133,000 workers lost their job and the majority of the job loss (107,000 workers) occurred in the first half of the year and in more industrialized provinces, e.g. Ho Chi Minh City, Hanoi, Binh Duong, Bac Ninh, Dong Nai, Nam Dinh and Hai Phong. Also in 2009, in rural areas more than 40,000 jobs were wiped off and 100,000 people were underemployed.

Also according to the ministry, in 2009, 18% of the jobs loss in industrial zones or factories affected women. In craft villages and rural areas, 41.2% of the job loss affected women.

### **Demand for Vietnamese workers in overseas market slumped**

Labor export is also one of the main pillars in Vietnam labor market development strategy. Vietnamese laborers are now working in more than 40 countries and territories. The country started to send laborers to work abroad in 1995 with the first batch of 10,050 people. In 2006 alone, Vietnam was able to find jobs for 78,000 workers in overseas markets. This figure soared to 85,000 in 2007.

This is an area where the world economic recession really hit. Faced by the economic hardships, the demand for Vietnamese workers just froze in major labor markets for Vietnamese labor, e.g. South Korea, Japan, Taiwan, Malaysia and the Middle East. In 2008, Vietnam could still manage to create 85,000 new jobs in overseas labor market. This represents a stagnation as compared with the previous years and is in stark contrast with the growth rate of 10-15 percents often seen in the period that proceeded. In 2009, the figure dropped sharply to 75,000 – far behind the ambitious target of 90,000 set by the Government for 2009. According to MOLISA, it is estimated that in 2009, 21,000 workers abroad affected by the world economic recession either in terms of income reduction and the risk of temporary unemployment. Of the amount, 9,000 workers had to return to Vietnam due to job loss.

**Figure 7: Labor Export of Vietnam between 2006 and 2009 (million workers)**



**Source:** MOLISA. (2009). *“Report on Activities of MOLISA in 2009”*.

Given the impact, the Government now aims at a more modest target for labor export of 85,000 for 2010 – the level in 2007 before the recession hit.

### **Reduced remittances**

As migrant workers’ incomes were at risk in the current economic downturn, so were the remittances to their families who live mostly in rural areas. Remittances are an important source of income for many families in Vietnam, and in particular for poor households. Remittances from overseas were US\$ 5.5 billion (8 percent of GDP) in 2007 and kept flowing in in 2008 at US\$ 7.2 billion. Affected by the crisis, the remittances into Vietnam then declined significantly to US\$ 6.3 billion.

According to MOLISA, 9,000 Vietnamese workers working abroad lost their job as a consequence of the recession in 2009. With the averaged annual income of US\$ 10,000, this translates into a loss equivalent to US\$ 90 million in remittances by these workers in 2009. With another 12,000 Vietnamese overseas workers abroad being affected by the world economic recession, their remittances to Vietnam also decreased by another US\$ 40 million under a conservative assumption that their income in the year was cut back by 30%. Total remittances lost by these Vietnamese workers, whose families were very poor and had to rely mostly on these remitted income, were estimated to reach 130 million USD in 2009.

In terms of urban remittances to the rural poor areas, the job losses of 105,000 migrants workers in 2009 also means that the same amount of poor households in rural who were counting on the remittance of these workers were affected financially. Anecdotes went that many of the poor

families even had to send money back to the urban areas to support these migrant workers to subsist while waiting for new job opportunities. It is also the case for the rural families with migrant workers whose were luckily not laid off but had their working time and of course their income reduced.

### Construction sector was hit the hardest

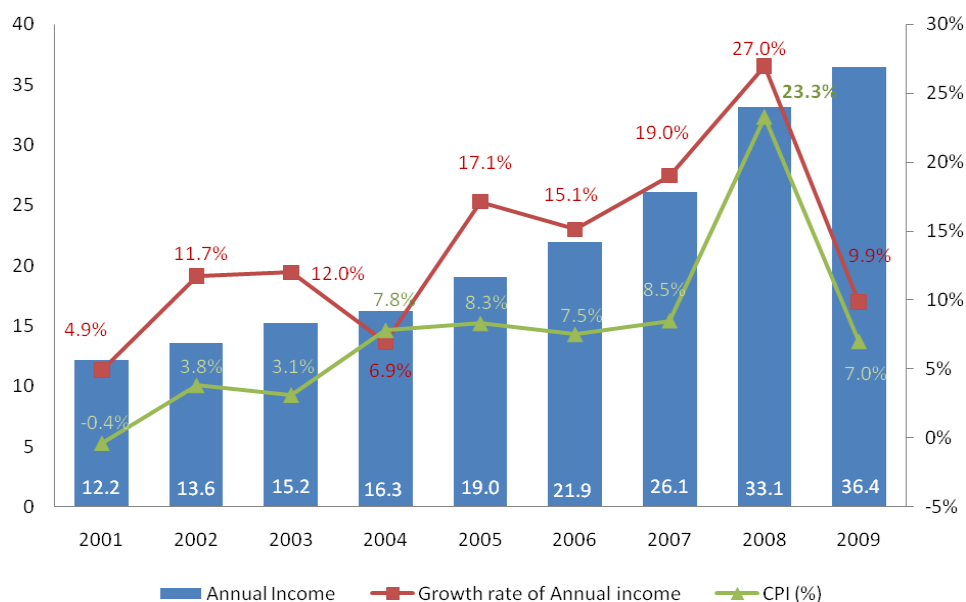
Among the various sectors of the economy, the construction sector had been affected the hardest by the recession in 2008, as reflected in a declining annual growth rate of sectoral value added from 12.2 per cent in 2007 to -0.4 per cent in 2008. The manufacturing sector, which had performed remarkably well between 1997 and 2007, experienced its lowest annual growth rate of value added in 2008, 9.5 per cent, since 1999. The 2008 figure was down by 2.9 percentage points from the previous year. Efforts to prevent a bust of the property market bubble was one of the important factors that curbed the growth of this sector.

### Workers annual income grew at a much lower rate

Between 2001 to 2008, the annual income of Vietnamese workers increased at double digit growth rate (except for 2004). The highest growth rate was observed in 2007 when the economy was overheated and in 2008 when the fallout of the overheating was still lingering on. But in 2009, the average annual income could grow at only 9%. Due to the budget deficit caused by the fiscal stimulus, the Government had to reschedule the roadmap for the increases in minimum wage. High-as-usual increases in annual worker income in the business sector was not possible due to lower sale, lower exports, and to customers being less willing to pay.

Despite the high increase in 2007 and 2008, the CPI was spiraling in the two years. The high CPI wiped away almost all of the gain in average income of workers in the two years.

**Figure 8: Annual real wages of labors between 2001 and 2009**

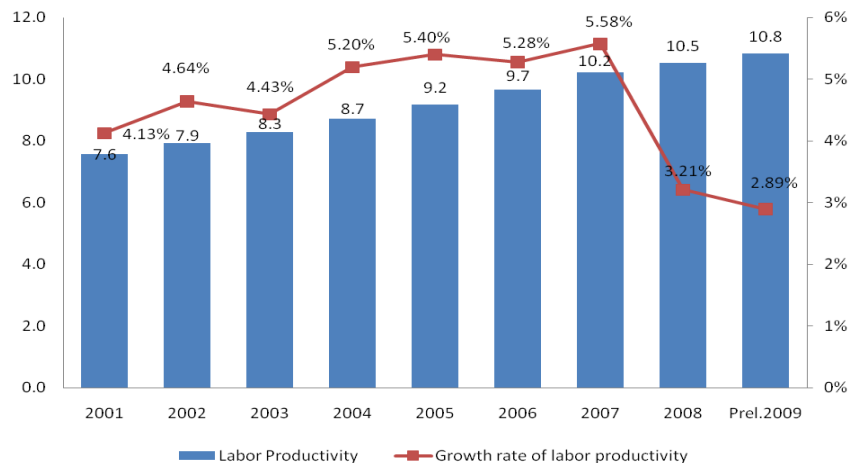


Source: Vietnam's General Statistics Office, [www.gso.gov.vn](http://www.gso.gov.vn).

## Sharp decrease of labor productivity

The annual growth rate of labor productivity in the period 2001-2007 was in a steady upward trend. It surged from 4.13 percent in 2001 to 5.58 percent in 2007. The average annual growth rate of labor productivity in this period was 4.95 percent. The economic recession has badly affected the productivity in the country with nosedived to 3.21 percent in 2008 and further to 2.89 percent in 2009.

**Figure 9: Labor productivity between 2001 and 2009 (at 1994 constant prices)**



**Source:** Vietnam's General Statistics Office, [www.gso.gov.vn](http://www.gso.gov.vn), and calculation by the author

## Shift to vulnerable and informal employment

The economic crisis and corresponding decline in production has resulted in a shift away from more formal, higher value-added wage employment to lower-productivity and informal economic activities in Vietnam. One useful indicator in this regard is the number and share of workers in vulnerable employment, which is defined as the sum of own-account workers and unpaid family workers. Many workers in these types of employment status do not enjoy social protection in case of job loss, personal or family illnesses or other difficulties; they are less likely than formal wage employees to receive an adequate income and to have respect of their fundamental labor rights.

Data released by MOLISA illustrates this adverse shift to vulnerable employment. In 2007, there were approximately 35 million people who are own-account and contributing family workers<sup>v</sup>. In 2009, this figure which also reflects the number of workers in the informal sector was estimated to represent 82 percent of total workforce<sup>vi</sup> or 38 million people. The rise reflects a negative trend because most of people working in the informal employment sector are not covered by any official social security program.

## Reverse migration

During the recession, job losses in export manufacturing have affected the rural-to-urban migrants and their income support to their rural families. Some ten thousands of retrenched workers who are not able to find new urban employment, seeking rural work opportunities is often their only remaining option. This process of reverse migration has taken place in Viet Nam.

Unemployment rate increased from 2.38 percent in 2008 to 2.9 percent in 2009. Worryingly, most of the rise in unemployment occurred in the rural areas with unemployment rising from 1.53 percent to 2.25 percent in the two years. Meanwhile unemployment even decreased by 0.05 percentage points between 2008 and 2009 (see more on table 8 below). This means that unemployment hit the rural areas – the more vulnerable areas – very much harder. This also backs the oft-mentioned anecdotal evidence that many of the unemployed workers, many of them working in the informal sector as construction workers, street vendors, etc, who could not find jobs in the urban areas any more actually migrated back to rural areas, thus exacerbating the unemployment there.

However, the reverse migration has not been that severe and obvious as one might see in some other Asian countries during the peak of the recession.

### Increase in Employment and Underemployment

According to the official statistics of the Government, the underemployment rate also increased from 5.10 percent in 2008 to 5.61 percent in 2009. The underemployment rate in rural areas is really high. It increased from 6.1 percent in 2008 to 6.51 percent in 2009. In urban areas, the underemployment rate in 2009 was 3.33 percent, surging by 1 percent point as compared to that in 2008. The unemployment rate rose from 2.4 percent in 2007 to 2.90 percent in 2009 and much of the surge occurs in the rural areas.

**Table 3: Unemployment rate and underemployment rate of labor force at working age**

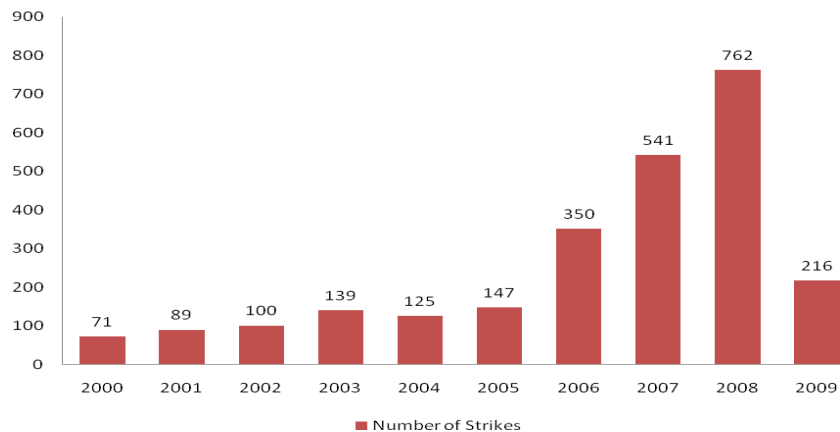
	2007	2008	2009
Unemployment rate (%)	2.4	2.38	2.90
Urban	4.9	4.65	4.60
Rural	1.6	1.53	2.25
Underemployment rate (%)	-	5.10	5.61
Urban	-	2.34	3.33
Rural	-	6.10	6.51

**Source:** Vietnam's General Statistics Office, [www.gso.gov.vn](http://www.gso.gov.vn),

### Worker Strikes

Despite the sharp growth in number of enterprises between 2000 and 2005, the number of worker strikes in Vietnam only doubled in this period. But the number of rose to 350 in 2006 and then 541 in 2007 – reflecting the fact that strikes also surged with a gradually overheating economy. Exacerbated by the crisis, the number of strike soared to 762 in 2008 when the world demand for Vietnamese exports plummeted, many orders were cancelled and worker lay-off was imminent in major industrial provinces. This is an important indicator which reflects the tension of the industrial relation in Vietnam as consequence of the crisis.

**Figure 10: Number of labor strikes in Vietnam**



**Source:** *Benedict J. Tria Kerkvliet, Workers' Protests in Contemporary Vietnam, Journal of Vietnamese Studies, Vol. 5, Issue 1, 2010, pps. 162–204, and the Lao Dong newspaper on January 05, 2010*

## **V. INTERVENTIONS IN RESPONSE TO THESE LABOUR MARKET IMPACTS**

Preventing a collapse in economic activity was also critical to mitigate the social impacts of the global crisis. Keeping the economy growing or avoiding a recession is key to creating jobs for more than 1.5 million people entering the job markets each year, keeping underemployment low and under control and to improving the quality of the jobs for Vietnamese workers.

With labour market stability being the cornerstone of its policies, key responses of the Government were started with a stabilization package to stabilize the economy in early 2008 to prevent a burst and then with the fiscal stimulus programme to prevent a recession and to counter the overall impact of the global economic crisis. The objective of the Government in these policies was obviously to prevent a negative consequence on the labour market and to mitigate any social impacts which the turmoil may bring about.

In early 2008, only half a year after the first signs of overheating were visible, the government shifted its priorities decisively, from growth to stabilization, effectively ending the real estate bubble and bringing the inflation rate down in a matter of months. In late 2009, when some analysts still claimed that inflation could be running out of control, the government swiftly shifted its priorities once again, from stabilizing the economy to sustaining growth. The stimulus measures adopted in the following months were effective at reversing the decline in economic activity and preventing any major-scale social impact. By late 2009 the Vietnamese economy is among the fastest growing in the world. All of these measures helped to make sure that more than 1.5 million new jobs were created in 2009 (though lower than the figures in 2007 and 2008) and that unemployment rate only increased very slightly from 2.38 per cent in 2008 to 2.9 percent in 2009.

To support enterprises to sustain production and to avoid mass lay-off, the Government introduced a combination of measures related to rebates and payment delay on corporate income tax and VAT. The payment of PIT in the first six month of 2009 was deferred and then was decided to be

exempted also helped to increase the disposable income of labourers. Total costs incurred by the Government for this combination of measures were estimated at US\$ 1.55 billion.

Another policy was to introduce a controversial subsidy interest rate loan schemes. The total amount spent by the Government for this programme reached US\$ 2 billion. In January 2009, the Government announced the first package of US\$ 1 billion to subsidize 4% of the interest rates on loans made to selected enterprises. In April, 2009, another package, also of 1 billion, was announced. The second package laid a stronger focus for medium term loans of maximum 24 month. As of November 2009, total loans made by banks at subsidized interest rate reached VND 414 trillion (US\$ 23 billion). 67% of the loans were channelled through state-owned banks, 25% through private banks and 8% through foreign and joint venture banks. In terms of benefiting borrowers, 15% of the loans made went to state-owned enterprises, 69% to private sector enterprise and foreign invested enterprises and the rest of 16% to households and family business.

The Government also released a policy which encouraged enterprises not to lay off workers but to reduce working time and overtime shifts instead. As a result, even in the enterprises that reported a recovery in production, workers were often offered regular hours and shifts only, with no overtime.

Many enterprises in industrial parks encountered difficulties in complying with social insurance and the new system of unemployment insurance. To address this problem, the Government launched a programme to provide loan to enterprises to support social insurance payment, severance payment, etc. for their laborer. According to the Government Programme, enterprises affected by the world economic recession and thus unable to pay salary, social insurance and severance payment for their workers would be given a loan by the Government in the form of interest-free loan for the purpose. This is applied to enterprises which had to lay off either 30% of the workforce or more than 100 workers (excluding seasonal workers or workers with contract of less than 3 months). MOLISA reported that by the end of 2009, approximately US\$ 4 million were lent out to enterprises in support the implementation of this policy.

The National Job Creation Fund also fuelled more funds into the market for the purpose of job creation. In 2009, US\$ 89 million was disbursed by the fund. Most of the loans were made to informal sector and family business. It was estimated by MOLISA that 250,000 new jobs were created thanks to the loans made out of the Fund.

The Government proactively worked with labor export companies to find new jobs for 15,000 overseas workers who were working abroad and were facing the risk of being laid off. It also took action to find new jobs or provide financial support to 9,000 workers who we sent back home as a result of the financial crisis. Despite the low demand for labor in international labor markets, the Government has been persistent in its programme to send more workers abroad. By the end of 2009, also partly thanks to the recovery of the world economy, more than 73 thousand people could find their jobs in other countries. Improved vocational training for overseas workers and relentless efforts to enter new labor markets, e.g. the Middle East, North America, Australia, East Europe, etc, also helped to achieve this objective.

Lack or scarcity of overtime pay forced workers to cut on expenses, especially in Ho Chi Minh City, Hanoi, Binh Duong, Hai Phong and surrounding areas. Remittances to families staying in rural areas suffered as a result. Reduction in and loss of remittances from overseas workers also worsened this problem. The hardship is aggravated by lower demand for products produced in rural areas (especially handicraft products for export), rising employment and underemployment and the higher cost of living. The country's 2.4 million poor people and those who lost their jobs and had their income reduced obviously were the one who suffered the most. In an effort to relieve the pain, the Government introduced a direct transfer program which amounted to US\$ 190 million. The programme was implemented just before the Tet (the Chinese New Year which took place in March 2009). According to the programme, each of the poor will receive a direct transfer of VND 200,000 (or US\$ 12) for the Tet event.

The affect of the crisis also cemented the Government decision to launch the unemployment insurance programme in January 2009. This is the first time that an insurance scheme of this sort is introduced in Vietnam and has been made mandatory. The unemployment insurance scheme is based on the contribution of workers, employers and the Government, with each of the three paying 1% of the salary stated in the worker contract. Since the scheme was introduced only at the beginning of 2009, no single worker was eligible to benefit from the programme in 2009.

In an effort to help workers to increase their disposable incomes and strengthen the social security net, the Government has worked out a roadmap to gradually increase the minimum wage. The roadmap was consistently implemented during the crisis hit period. Since 2007, the minimum wage has been increased three times, first in January 2008, then in May 2009 and May 2010. The current minimum wage for workers in private enterprises, state-owned enterprises and public sector is VND 730,000/month (US\$ 38 ). The increases aimed at relieving the hardships of the workers, especially in the context of the economic turmoil and of high inflation.

## **ASSESSMENT**

Sustaining job opportunities, mitigating social impacts and the preventing a massive slide-back into poverty as consequence of the world economic turbulence have been one of the main objectives of the economic policies since 2007. In most of the Government statements, these issues have emerged as the prime concerns of the Government.

In reality, there has not been an official report by the Government which provides a comprehensive assessment on the effectiveness of the stimulus package. Most of the assessment has been focused chiefly on the loans made under the subsidized interest scheme. There was no official report released to the public on the direct transfer programme. Neither was there published report on the programme of CIT, PIT and VAT rebates and payment delay. It is therefore difficult to monitor the implementation of the whole stimulus package. Information about the package and its impact is patchy and fragmented. Effectiveness of the programmes and government policies to counter the recession have been mostly reflected through key macro economic indicators over the year, e.g. GDP growth rate, inflation, trade deficit, budget deficit, unemployment and under employment ratios, etc.

The determined reaction to stabilize the economy in early 2008 was generally assessed as successful. In spite of surging world prices of food and oil, a tight monetary policy and some



measure of fiscal restraint ended the real estate bubble, gradually brought down the inflation rate and reduced the trade deficit to manageable levels. In the process, economic activity was also affected, with the first half of 2008 seeing the worst growth performance in years. The overall economic situation was fragile around May, 2008 when markets were nervous about a possible balance of payment crisis, but it gradually became apparent that the stabilization package was working.

The Government proved to be very responsive to the changing conditions. Especially in late 2009, when some analysts still claimed that inflation could be running out of control, the government swiftly shifted its priorities once again, from stabilizing the economy to sustaining growth. The stimulus measures adopted in the following months were effective at reversing the decline in economic activity and preventing any major-scale social impact. The stimulus package in 2009 helped in keeping credit flow going on and in sustaining the growth of the corporate sector. As a result, the economy still grew at 5.3% in 2009 – a rate which is higher than those of many countries in the region.

These have made tremendous contribution to the stabilization of the job market. Massive lay-off was avoided. More jobs were created even though at a level which was lower than those before the crisis hit. Workers who lost their jobs did not have to suffer long before they found new job opportunities which emerged thanks to the improved economic conditions. Recovery in the world economy and relentless effort of the Government also helped to sustain the demand for Vietnamese workers. Tampered inflation made the life of workers, both in the formal and informal sector, less stressful. Unemployment and underemployment rates of the 2009 increased but just slightly.

But this does not mean that there is no cost involved. The stimulus package of 2009 came on top of an already expansionary budget plan, resulting in an overall budget deficit substantially above those of previous years. In addition to the explicit measures adopted to stimulate economic activity, the fall in oil prices and the slowdown in economic activity resulted in a large decline in government revenue.

The stimulus program, while effective at boosting economic activity, contributed to increased external vulnerability. Rapid credit growth together with an expansionary fiscal policy, have led to a sustained increase in inputs and a widening trade deficit.

The stimulus policies of early 2009 included an interest rate subsidy scheme for working capital. The subsidized interest rates have been claimed to encourage enterprises to roll over the loans which they had borrowed at higher interest rate before. Some enterprises were suspected to channel the loans borrowed under the scheme back into saving accounts at banks which were offering saving interest rates much higher than the subsidized lending rate. This is really a negative side-effect of the policy.

The response by the Government relied heavily on standard monetary and fiscal policy instruments. However, administrative measures and moral suasion (especially on state-owned enterprises and banks) were consistently complemented more conventional monetary and fiscal measures. For example, to mop up liquidity in early 2008, the Government implemented a massive compulsory bond issue.

The direct transfer programme in early 2009 to support the poor – many of them have been badly affected by rising inflation and less disposable income – was praised as a good programme designed with good intention by the Government. However, implementation was fraught with problems of mismanagement and misuse of funds.

The launch of the compulsory unemployment insurance scheme by the Government in early 2009 was lauded as a determined effort to strengthen the safety net for workers in the formal sector. The importance of an effectively managed unemployment insurance programme was highlighted by the recession which resulted in job losses of more than 130,000 workers in 2009. But the critics said that it was introduced at a time in which enterprises were facing too many hardships. With contribution of 1% of salary each by employee and employers, it effectively added additional cost burden on enterprises and also on the laborers. This is also another factors that dents further the advantage of the country in terms of cheap labor. Another critic is that it is ill-suited to assist young and educated job seekers, and other potentially vulnerable group of workers, especially those in the informal sector.

Since 2007, the minimum wage has been increased three times, first in January 2008, then in May 2009 and May 2010. During the peak of the crisis, the increases aimed at relieving the pain of the workers. However, this policy did not seem to work since the purchasing power of the increased salary of the workers did not improved but fell. With the consumer price index spiraling in 2008 and 2009, the increase in minimum wage did not help to relieve the hardship of workers.

The actual income of workers in the corporate sector was almost indifferent to the increase in minimum wage. Faced by competition for laborers, most of the enterprises already paid the workers at levels higher than the minimum wages. The additional costs for enterprises are related to the increase in costs for social insurance, health care and unemployment insurance. In reality, most of the enterprises only sign contracts with workers at minimum wage levels to minimize the costs. The increase in minimum wage only means a proportional increase in the costs for enterprises for social, healthcare and unemployment insurance for their workers.

But the minimum wage helped to increase the disposable income of some 3.5 million workers in the public sector. The salaries of the civil servants are calculated through a sophisticated formula involving the domestic minimum wage and coefficients related to occupation and seniority, plus a series of bonuses and additional payment. And it is also the effective increase in salary in this sector as a result of the increase in minimum wage that further strained the government budget.

Worried that labor conflicts might lead to social unrest, the Government paid particular attention to addressing the issue during recession time. Provincial authorities were asked to closely monitor the industrial relation situation and take prompt actions to prevent large scale strikes. Special taskforces were set up in provinces where migrant workers were most concentrated, e.g. Binh Duong, Dong Nai, Ho Chi Minh City, etc. Financial support measures to address the problems of salary or severance payment were also introduced. Dialogue between the employers and workers were encouraged. As a result, after soaring to 541 in 2007 and 762 strikes in 2008 – the highest levels ever that Vietnam ever seen since 1995, the number of strikes plummeted to merely 216 in 2009. This is also thanks to the improving economic conditions in the year. The rise in the number of strikes during the crisis and good practices in more industrialized provinces like Binh Duong, Dong Nai, Da Nang and Hai Phong have prompted the idea of setting of Industrial Relations Committee at provincial level which is tasked with addressing the issue of strikes. The committees are expected to be established, on a pilot basis, in some provinces by the end of 2010.

The recession did reveal many of the structural issues of the Vietnam's economy. The country has relied strongly on labor intensive export – oriented industries. A fall in world demand for Vietnamese products and commodities, as the recession has shown, could easily affect the life of hundred of thousands of workers and their families. The recession and the fact that the country has been lifted to the lower-middle-income status have prompted the Government to think over a longer term development strategy and to avoid the middle income trap. A strategy to transit to a better economy structure is being worked out in which growth based on productivity, innovation, higher value added are emphasized. The labor market development strategy is being shaped to fit with this new development strategy and to meet the needs for this new development phase. Below are some initial measures have been taken towards this change in labor structure:

- Strengthening the vocational training system, thus improving the skills of workers and helping them to be prepared for new job opportunities in higher-tech factories;
- Implementing the vocational training and job creation for the youth.
- A large scale training programme for farmers have been kicked off. The programme is destined to support the effective movement of labor from agriculture to other economic sectors.
- Support to the functioning of the labor market. Emphasis is given to improving the performance of job service centres, labor market information system, etc.
- Labor productivity has become a priority for the Government in its development strategy. The draft strategy for social economic development of the country in 2010 – 2020 articulates the linkage between economic growth and productivity improvement. As the country shift more of its focus to the quality of growth in the next decade, labor productivity and income are considered to be the decisive factor for sustainable economic development.
- The Government also tries to strike a balance between protecting workers from abuse and keeping formal enterprises competitive. This has been widely discussed in the debate of the remaking of the Labor Law which is on-going.
- The mechanism for resolution of conflict in industrial relations will be improved in the upcoming revised Labor Law.

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## Notes

- <sup>i</sup> ILO, Molisa and EU. (August 2010). Vietnam Employment Trend 2009.
- <sup>ii</sup> World Bank. (June 2009). "Taking Stock"
- <sup>iii</sup> And the country eventually could manage to grow at 6.2 per cent in 2008.
- <sup>iv</sup> World Bank. (June 2009). "Taking Stock"
- <sup>v</sup> ILO, MOLISA and EU. (2009). "Vietnam Employment Trend 2009".
- <sup>vi</sup> Vietnamese Academy of Social Sciences, Vietnam General Statistics Office, France Institute of Development, International Conference on Informal Labor Sector, Hanoi , May 6-7, 2010.