

# **Human Resource Impacts of the Global Economic Crisis**

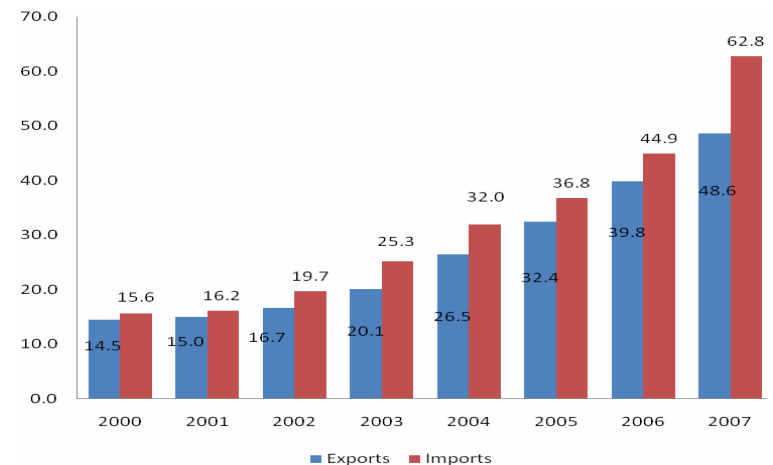
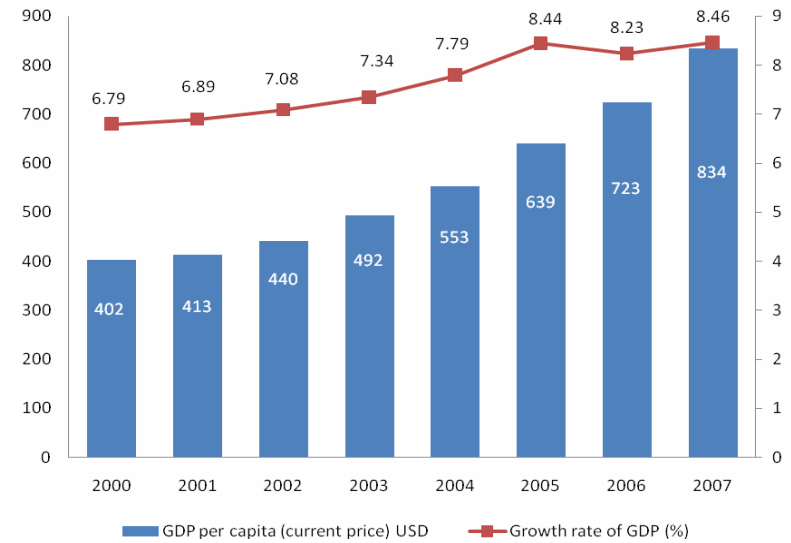
What is working in APEC Member's Social Safety Nets and Labor Market System Policies

- The Case of Vietnam -

Jakarta, 7 – 8 June 2010

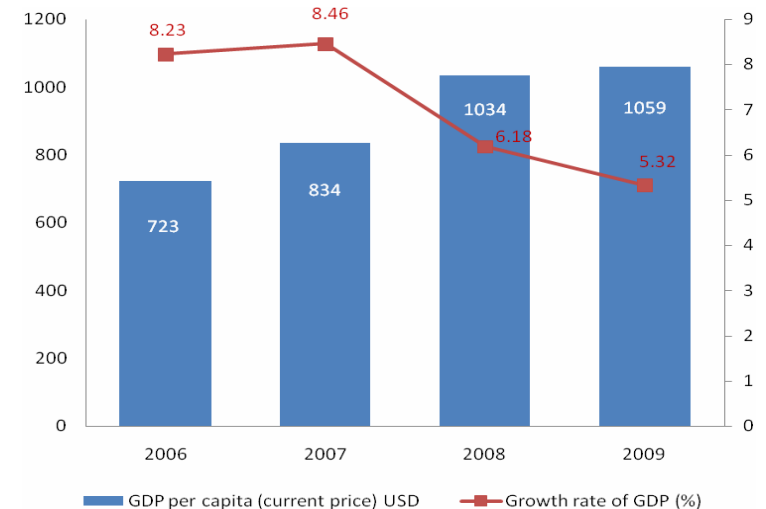
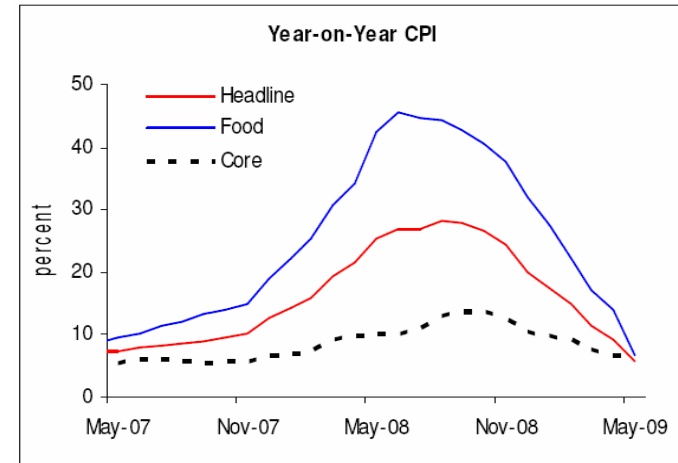
# The Vietnamese economy before 2007...

- The economy was growing at an annual average rate of 7.6% between 2000-2007. Just before the crisis, GDP growth exceeded 8%, domestic and private consumption was robust, FDI soared.
  - Poverty reduction reduced from 30% in 2000 to 12% in 2007.
- Young people account for a quarter of the population and those at the prime working age represented 56% of the population;
  - Labor force participation rate dropped from 72.3% in 2000 to 69% in 2007.
  - Unemployment was low at 2.4%.



# Impacts of the crisis

- In the first part of 2007: the economy was overheating.
- But macroeconomic conditions deteriorated in the second half of 2007 and serious impacts started in 2008.
  - GDP growth decelerated
  - Export growth slowed down and even decreased in 2009.
  - Trade deficit widened.



# Government responses

- Stabilization policy package to counter overheating
  - Starting from March 2008
  - Tight monetary policy: sale of compulsory bills and introduction of cap on interest rate
  - Gov't expenditures was cut back by \$2.6 billion or 4.2% of GDP
- Prompt shift from fiscal restraint to fiscal stimulus.
  - The shift began in late 2008.
  - Total fiscal stimulus package: US\$ 8 million

Revenue Item (trillion VND)	
▪Combination of measures related to rebates and payment delay on CIT, PIT and VAT.	28
<i>Total revenue foregone</i>	28
Expenditure Items (trillion VND)	
▪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)	
<i>Total expenditures</i>	83.9
Financing item (trillion VND)	
▪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>

## Specific labor market impacts

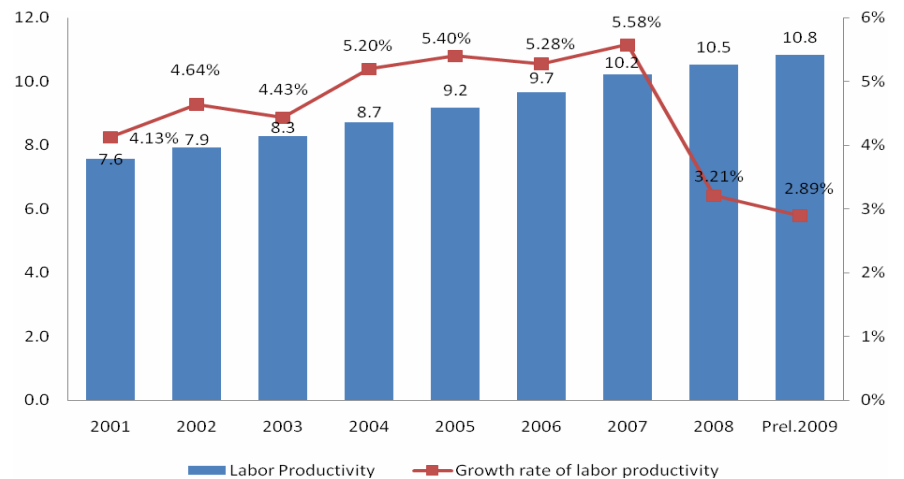
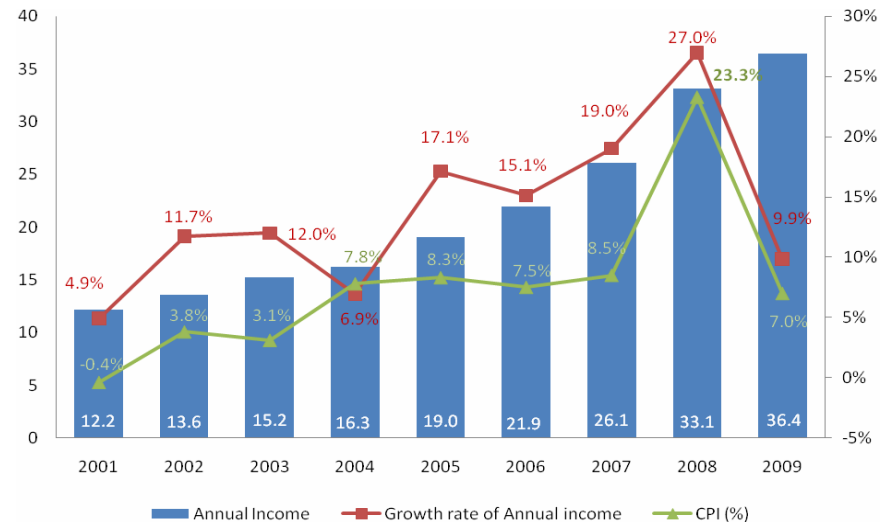
- Capacity to create new jobs was hindered
  - Only 1.61 million new jobs were created in 2008 and 1.51 million in 2009, lower than 1.68 million in 2007.
- Job losses were widespread and women were less affected than men.
  - In industrial zones and industrial provinces, 80,000 job lost in 2008 and another 130,000 in 2009.
  - In rural areas, 40,000 jobs were loss and 100,000 people became underemployed in 2009.
  - 18% of the job loss in industrial areas affected women, and in rural areas 41.2% of the job losses occurred to women.

# Specific labor market impacts

- Demand for Vietnamese workers in overseas market slumped:
  - Number of workers sent overseas declined to 75 thousands in 2009 as compared with 85 thousand in 2007.
- Reduced remittance:
  - 9000 overseas workers lost their job and another 12 thousand workers were badly affected in 2009.
  - This results in losses in overseas remittance, which was estimated to reach US\$ 130 million.
  - Loss in remittance from urban to rural areas due to job losses of migrant workers.

# Specific labor market impacts

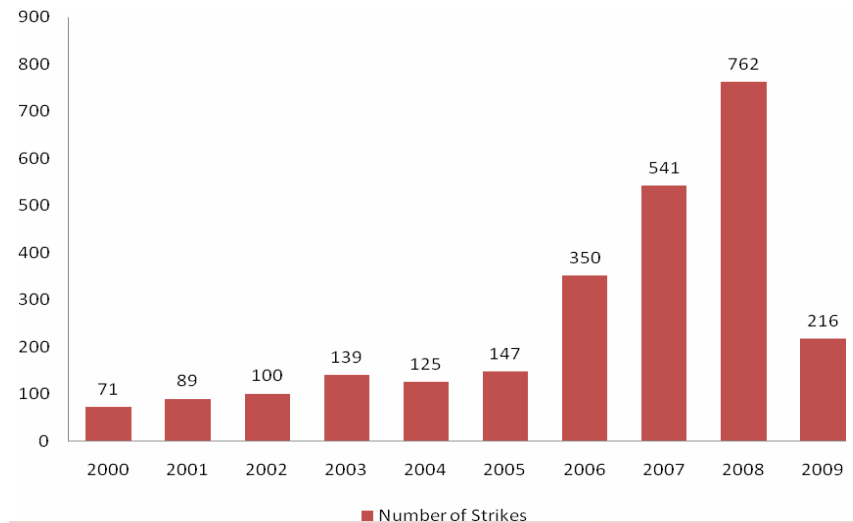
- Workers annual income grew at a much lower rate.
- Sharp decrease in labor productivity.



# Specific labor market impacts

- A shift away from more formal, higher value-added wage employment to lower-productivity and informal economic activities in Vietnam
  - In 2007, 35 million people worked as own-account and contributing family workers. In 2009, this figure increased to 38 million.
- Reverse migration
  - With an increased underemployment, much of the increase occurs in rural areas. Underemployment is even improved between 2007 – 2009.
  - This really back the oft-mentioned anecdotal evidence that many of the unemployed workers actually migrated back to rural areas
- And a more strained industrial relations.

	'07	'08	'09
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





# Government interventions in response to the impacts

- 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.
- With labour market stability being the cornerstone of its policies, key responses of the Government:
  - 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.
- 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.

# Government interventions in response to the impacts

- A controversial subsidy interest rate loan schemes (costing the Government US\$ 2 billion) to fuel consumption and investment.
- The Government also released a policy which encouraged enterprises not to lay off workers but to reduce working time and overtime shifts instead.
- Loans to enterprises to support social insurance payment, severance payment, etc. for their laborer.
- The National Job Creation Fund also fuelled more funds into the market for the purpose of job creation.
- Support to 15,000 overseas workers who were working abroad and were facing the risk of being laid off.

# Government interventions in response to the impacts

- The affect of the crisis also cemented the Government decision to launch the unemployment insurance programme in January 2009.
- Consistent implementation of the roadmap to gradually increase the minimum wage.
- 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.

# Some assessment

- The determined reaction to stabilize the economy in early 2008 was generally assessed as successful.
- The Government proved to be very responsive to the changing conditions.
- 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
- 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. This has prompted the government to work on new policy for the next development phase.

# However...

- 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.
- Rapid credit growth together with an expansionary fiscal policy have led to a sustained increase in inputs and a widening trade deficit.
- The subsidized interest rates is controversial and have been claimed to encourage enterprises to roll over the loans which they had borrowed at higher interest rate before.
- 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.
- The direct transfer programme in early 2009 to support the poor. 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 good but probably not in the right time.
- The actual income of workers in the corporate sector was almost indifferent to the increase in minimum wage. In addition, spiraling inflation wiped off most of the gain in additional income (if any).

Thank you very much!