

Covid-19 as a Challenge to Vietnam's Development Strategy: Effects on the Labour Force and Economic Growth

Huong Tran

As an effect of the Covid-19 pandemic, millions of Vietnamese workers are finding ways to deal with the difficulty of massive layoffs from manufacturers. The pandemic also reveals flaws in the argument in favour of the national economic strategy based on the advantage of a cheap labour force and outsourcing manufacturing.

It is July 2020, and life seems “back to normal” in Vietnam with busy traffic on streets and the re-opening of public places and stores. Vietnam announced that Covid-19 has been contained with no deaths; infected and recovered cases were under 400, and it has been more than three months with no new infections in the community.

However, the impact of Covid-19—particularly in the export, domestic, or foreign direct investment (FDI) industries—is raging on in the lives of millions of workers in hundreds of industrial zones throughout the entire country. The crisis only began in the last couple of months and is not likely to end soon, as the forecast for the outbreak is still very complicated and not so positive at the moment.

Exporting industries have been badly affected during Covid-19, triggering unemployment and instability in people's lives

It was 15:00 on 17 July 2020, in the series of tiny rooms rented to workers in the alleys alongside the Bình Hòa 24 street, in the Dong An Industrial Zone of Bình Dương Province (close to Ho Chi Minh City). It seemed quiet as workers were not yet home. However, taking a closer look, there were open doors and you could easily ask the question of who were these workers, staying home because they had just been laid off by manufacturers affected by Covid-19. Many of them were outside searching for new jobs or doing random, temporary work in informal sectors for a living. Most of them previously had jobs in the garment, textile, or footwear industries.

“A lot of workers are recently out of work. Now, I only come to work three days per week, but the lady named Dao living over in that room is pregnant, and she has just been laid off”, said a young woman, pointing to the room opposite. Dao is 28 years

old, from Tiền Giang Province, in the eighth month of pregnancy for her second child, and out of work as of a month ago. Yesum Vina, the Korean garment factory where she had been working for nearly nine years, had to close due to a lack of orders from customers. In May, workers only had to go to the factory three days a week with a reduced income, and they were informed that the company would have to close at the end of June. It turned out that they had to close it in the middle of June because of a shortfall of new orders.

Dao described her situation and its associated worries:

Since I have had nine years working [there], and I paid employment insurance for that period, I will be eligible for eight months of unemployment insurance from the government. It is about 3.3 million Vietnamese đồng (VND) (142 USD) a month. My husband works for a monthly income of five million VND (215 USD), while the apartment rent costs more than 1.5 million VND, and my son's kindergarten fee takes another 1.5 million VND. If I also work as before, we just barely make our living expenses, but I don't know how we can manage when we have more kids and [are] just solely dependent on my husband's income.

In the nearby alley, Dong, 34 years old, from Thanh Hóa province, a worker at Freetrend Industrial VN (a Taiwanese footwear company), had given birth to her third child just seven months ago, going back to the factory after maternity leave but there is now no work for her to do. She is now staying at home with income equal to 70 percent of a new worker. She feels that she is still much luckier than others because, although the company has just laid off over 3,000 workers due to a coronavirus-related lack of orders, she is safe from immediate layoff because she has been at the company for six years and she has a newborn child. However, she worried how long her job and income could last, or if the manufacturer would survive.

Being a migrant means not belonging to anywhere, and therefore receiving no support

Dong and Dao are special cases since they are on maternity leave and have had a long history working for the company, so Dao has three million VND as a one-off support payment, as well as the insurance payment for eight months, and Dong is still getting 70% of the salary a new worker from the company ("Other people got laid off right away without any assistance or just some hundreds of thousands of VND (less than 50 USD)", Dao said. Other than that, Dao has not received any other assistance from the authorities, neither from the local authority where she is living now, nor from the authority in her hometown where she has her Hộ Khẩu ("household registration book", a form of identity document required for many bureaucratic tasks). Her hometown is 100 km away from Bình Dương province.

Dao and Dong are still lucky to have some extra subsistence money while looking for alternatives. Meanwhile, Truc, a 44-year old from Sóc Trăng Province, was working for Chung Don, a Chinese footwear company, and has not received any form of support from her company, insurance, or from the government when she got laid off. She joined the company less than a year ago and she didn't have unemployment insurance. She stopped working there in April and still has not found a new job. "It is easier for younger and healthier workers to find new jobs than middle-aged women like me", she said.

Truc hasn't received any support since she lost her job, although she heard people are getting money from the government financial assistance package. "Here I am not in the list of local people. I heard in my hometown, unemployed people receive a couple of hundred VND but people working far away like myself would never get anything", she said. "Even people selling lottery tickets got something, while now they can go on selling lottery tickets again, but nothing for thousands of workers like us facing massive job losses". Truc's hometown (Sóc Trăng) is 230 km from Bình Dương, where she is now staying.

Urbanization and a broken family structure

Workers living in these rented rooms are migrants from other provinces, mostly from the North or West provinces of Vietnam. They are part of the urbanization process which has been happening for at least twenty years, facing trauma and challenges in their new lives, particularly the issues arising from the broken family structure, lack of support from government, or with children unable to attend state schools. Now what will happen if they cannot survive in urban areas when they do not have jobs?

"I think I will go to my mother's (in Tiền Giang province) when preparing to give birth and will stay there for a while, so that I could lessen some of the burden on my husband and my first child here, even though my mother is also very poor", Dao explained.

As for Dong, she calculated:

Raising three kids at the same time is expensive. For two older kids, sending them to kindergarten and primary school costs two million VND a month for each kid, and the cost for the third newborn child is even more expensive. If we send the two older kids to my hometown to stay with my parents, we have to give my parents three million VND a month to take care of both of them. So, we are considering sending our kids there until we have a better financial situation.

A sum of only one million VND (less than 50 USD) is what will ultimately make the difference in deciding whether to make the difficult and sad decision to send their

children away to their hometown in Thanh Hóa (a thousand km away from Bình Dương), which is also poor, and where life is also not easy.

Asked why the whole family does not go back and find a new livelihood in Thanh Hóa, Dong shook her head, and said they had to leave their hometown in search of opportunities because there had been no work with a proper income for them there. She does not know how she can make a living if she does go back there.

As for Truc, going back to her hometown has not been an option for a long time. Her husband and her 20-year-old son are working as delivery men or daily waged labour. They earn a paltry income and now their lives are even more unstable since she lost her job, but she said at least they can live on something here. Her son dropped out of school when he was in seventh grade (six years ago), then followed his parents to Bình Dương to earn a living, for they were too poor and could not make enough to cover basic necessities in their hometown.

Truc's story echoes my past research and writing about students dropping out of school in the Mekong Delta in 2008, when a lot of young people and young parents left their hometowns for cities or industrial zones in search of work opportunities.¹ This "wave" caused another wave of broken family structures when those hometown villages were left only with old people and young kids taking care of each other. There were parents only "visiting" their children every five or ten years because they needed to save money. One of these children, when asked about his dream for the future, said that he dreamed of growing up and getting old enough to go to the city and be a waged worker as his father was—then he could live together with his parents. I had met many kids of that generation, who always looked sad and lost and whose childhoods had been stolen due to being away from their parents for a long time, growing up without a proper family environment or even a proper dream for the future. Maybe Truc's son was one of these children who chose to drop out of school years ago to go to the city so that he could reunite with his parents.

Now the crisis of Covid-19 is creating another period of broken family structures, whereby Dao, Dong, and others like them again have to make tough decisions that split their family up (or sacrifice basic education) in order to survive, even though their hometowns are in no better situation.

No saving nor investment for a better future

¹ Thanh Hương, "Người nhập cư và những cuộc đi - về (Immigrants and Exodus – Return)", The Saigon Times, 20 February 2016, available at <https://www.thesaigontimes.vn/142402/Nguoi-nhap-cu-va-nhung-cuoc-di--ve.html>. Last accessed on 12 August 2020.

I also interviewed Sang and Giang, two young single people who had just lost their jobs for the same reasons. Giang is a 20-year-old from Hà Tĩnh province, and her job was one of 3,000 jobs at Freetrend Industrial VN which were cut in the prior month. Sang is 21, from An Giang, and has just been laid off from his work in the warehouse department of Greystone Data Systems Vietnam, an American electronic device outsourcing company. Giang is applying to a factory making sausages and Sang is temporarily working nights at a karaoke restaurant while looking for a new job.

Although they do not know each other, they both have the same answer when I ask if they intend to learn and gain more skills or certificates so that they can have better jobs in future. They both said that, with their current salaries, they can just barely make a living and so do not have any money left for saving or access to further education or training. They both cannot afford to go out on dates, nor indeed any entertainment activities. They are also not thinking about going back to their hometowns since there are no potential job opportunities for them there. It seems their futures can be foreseen much like the situations for Dao, Dong, and Truc: finding a low-income job and sustaining that unstable, exhausting life until another crisis.

The vicious cycle of the cheap labour strategy

According to reports from industry associations, in 2019 the garment industry in Vietnam contributed 39 billion USD while the luggage and leather industry contributed 22 billion USD into the total export turnover of 263 billion USD nationwide. Garment industry exports are expected to reach sales totaling 41– 42 billion USD in 2020. However, the Covid-19 pandemic has caused garment export turnover to decrease by 20 percent (with increased income from exporting masks already being factored in) in six months compared with the previous six-month period, and the industry is predicted to keep on shrinking in the next six months. More than one million labourers out of 4.3 million workers in the garment industry have lost their jobs. The remaining employees are working 50 percent of the time, with average income reduced by 40 percent. Meanwhile, more than 75 percent of the workers in this industry are female, who are the most vulnerable to economic uncertainty.²

As stated in an International Labour Organization report regarding Asia-Pacific, wages in the garment, textile and footwear industry (GTF) remain low across developing Asia. On the high end, nominal average wages in China were 582 USD/month in 2016, while nominal average wages in Vietnam in the same year were just 210 USD/month. Meanwhile, Vietnam has had the fastest growth of total employment in

² Thế Hoàng, "Xuất khẩu dệt may, da giày có thể "tuột" 14 tỷ USD vì Covid-19 (Exports of textiles, leather and footwear may "slip" by 14 billion USD because of Covid-19)", Baodautu Online, 26 June 2020, available at <https://baodautu.vn/xuat-khau-det-may-da-giay-co-the--tuot-14-ty-usd-vi-covid-19-d124756.html>. Last accessed on 12 August 2020.

GTF recently, increasing by ten percent from 2013 to 2016.³ The growth was considered to be taking advantage of the cheaper price of labour compared with China, Thailand, and Indonesia.

Meanwhile, reports from the General Statistics Office of Vietnam show a GDP of 266.5 billion USD in 2019, compared to a total turnover of 500 billion USD, seeing turnover reaching almost double the value of GDP. Exporting turnover in 2019 was 263.45 billion USD, including turnover from the FDI sector, which stood at 68.8 percent (the rate for 2018 was 71.3 percent).⁴ All these statistics reveal that economic growth relied heavily on exports and on the FDI sector, which also means a reliance on the advantages of cheap labour domestically and on outsourcing manufacturing to other countries.

Within the past decades, this strategy of economic growth has been criticized by many national and international economic and social experts, who say that it will cause the whole economy and labour force to become more vulnerable. The crisis of the Covid-19 pandemic could be an example of this vulnerability. If the pandemic were not happening, such an economic crisis might take place regardless, maybe less aggressively so but at a steady rate with the advent of the “industrial revolution 4.0”, when automation and new technology take the place of routine tasks performed by workers. Semi-skilled or unskilled workers, employees, and farmers are the most vulnerable and will be impacted within the next ten years if governments do not have a strategy to prepare them for this transformation (this has been the most urgent warning from experts recently).

Now it seems that they will not have to wait until they are replaced by the automation and smart technologies of the fourth industrial revolution. Covid-19 has driven them back to the vicious cycle of poverty that they had previously tried to escape from: they left the countryside and their families for a better future, but now they are unemployed, have nowhere to go, are forced into informal work sectors, and again need to make difficult family decisions for survival, or instead go back to their hometowns and once more suffer extreme poverty.

The Covid-19 pandemic should alert policymakers to think about the safety net, better state assistance, and social welfare for workers—particularly migrant workers—during times of crisis and also in general. Workers should take priority when policymaking around health care, education, state assistance, affordable housing, and

³ International Labour Organization, “Asia-Pacific Garment and Footwear Sector Research Note”, Issue 8, October 2017, available at https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_581466.pdf. Last accessed on 12 August 2020.

⁴ General Statistics Office of Vietnam, “Tình hình kinh tế - xã hội quý IV và năm 2019 (The socio-economic situation in the fourth quarter and 2019)”, available at <https://www.gso.gov.vn/default.aspx?tabid=621&ItemID=19454>. Last accessed on 12 August 2020.

other benefits, and policies should rule out any discrimination based on workers' household locations. Labour unions should, for example, consider free or affordable kindergartens and schooling expenses for workers' children, and this within the vicinity of their workplaces.

The implication for macro policy is that Vietnam should have long-term strategies to encourage and invest in the development and ownership of science and technology, instead of just encouraging the FDI sector which takes advantage of cheap and unskilled labour. This strategy also goes back to the need for investment and development in workers and their children's education and vocational training, and even a better quality of life, so that they might be able to escape the vicious cycle of poverty and economic vulnerability, and be more prepared for the fourth industrial revolution.

Box 1: According to the latest report from the General Statistics Office of Vietnam, published early July on the effects of Covid-19 on employment up to June 2020, Vietnam has 30.8 million people aged 15+ years who have been negatively impacted by Covid-19. The labour force and employed workers decreased by more than three million people—the largest drop within the last ten years. Female labourers, semi-low skilled or unskilled labourers, and labourers in informal sectors were affected most by Covid-19.⁵

Box 2: Diep Thanh Kiet, deputy chairman of the Vietnam Leather, Footwear and Handbag Association (LEFASO) said that many businesses specializing in footwear outsourcing and manufacturing have been impacted. Making substantial job cuts is seen as a last resort, with new orders being limited.

“Many footwear producers are struggling to maintain operations. As of the present, there are very few orders from the two main markets of Europe and US, which has dragged these producers into a jam. Notably, these markets occupied 65 percent of Vietnam's footwear export turnover last year,” Kiet said.

According to the International Labour Organization, mass layoffs have impacted Vietnam's economy heavily, especially the 13 million informal workers who are not entitled to basic welfare.

(from VNexpress.vn, 8 July 2020)⁶

⁵ General Statistics Office of Vietnam, “Thông cáo báo chí Tình hình Lao động việc làm Quý II và 6 tháng đầu năm 2020 (Press release: Employment situation in second quarter and the first 6 months of 2020)”, 10 July 2020, available at <https://www.gso.gov.vn/default.aspx?tabid=382&idmid=2&ItemID=19674>. Last accessed on 12 August 2020.

⁶ Truc Van, “PouYuen's employees plagued by massive layoffs”, Vietnam Explorer, 8 July 2020, available at <https://vnexplorer.net/pouyuens-employees-plagued-by-massive-layoffs-a202061723.html>. Last accessed on 14 August 2020.

