



Responsibility in the Time of Crisis?

Brands' practices during the Covid-19 Pandemic and Impacts on Factories and Workers in the Garment, Footwear and Electronics Supply Chains in Vietnam

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Foreword

The global Covid-19 pandemic has had devastating impacts on societies and economies across the world. In Vietnam, although a health crisis was effectively prevented, the economic damage is enormous with key exporting industries – including footwear, garments, and electronics – among the hardest hit.

One of the key reasons for the damage to these industries was the practices of several international brands and retailers that quickly cancelled or postponed orders upon the onset of the crisis – refusing, in many cases, to pay for products already finished. Taking advantage of their dominant power over local suppliers, these international brands shifted losses created by the pandemic to the most vulnerable sections of global supply chains: the assembly suppliers that operate on thin profit margins and their poorly paid workers.

This study provides evidence of this trend by drawing from responses to online and phone-based surveys

of 179 factories and 166 workers in the garment, footwear and electronics sectors in Vietnam. It not only reveals the impact of order cancellations on factories and workers in producing countries such as Vietnam during the pandemic, but also illustrates serious problems resulting from the existing power imbalances in global supply chains. Direct responsibilities of brands to factories and workers in producing countries are therefore identified as key to the sustainability of global supply chains during and beyond this time of crisis.

The study was conducted by Dr. Do Quynh Chi of the Research Centre for Employment Relations, supported by the Friedrich-Ebert-Stiftung Vietnam Office, as part of our continuous efforts over the years to promote responsible business practices in global supply chains in Vietnam. We sincerely thank the author for this significant work.

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Executive summary

This research titled “Responsibility in the Time of Crisis? – Brands’ practices during the Covid-19 Pandemic and Impacts on Factories and Workers in the Garment, Footwear and Electronics Supply Chains in Vietnam” was funded by the Friedrich Ebert Stiftung (FES) in Vietnam and conducted by the Research Center for Employment Relations (ERC). It examines the practices of international brands in the garment, footwear and electronics sectors towards their supply chains during the Covid-19 pandemic and the impacts on factories and their workers in Vietnam. The research is based on two surveys conducted between June and August 2020: an online survey of 179 factories and a phone-based survey of 166 workers from the three industries.

The key findings of the research are:

- International brands’ practices towards their supply chains during the pandemic are mixed: on the one hand, some brands have pledged full payment and provided low-cost financing initiatives to support suppliers affected by delayed payments, while other brands have cancelled or delayed payments for in-process or completed orders to protect their liquidity, pushing all the risks to suppliers and their workers.

- The online survey revealed that 35.8 per cent of factories suffered from cancellations of in-process orders and 27.4 per cent of companies surveyed had their completed, ready-to-ship orders cancelled. Footwear manufacturers faced a higher level of cancellations of in-process orders, followed by the garment industry. Just over half (52%) of footwear companies experienced order cancellations, in contrast to only 22.9 per cent of electronics firms.
- Aside from order cancellations, nearly 60 per cent of factories were requested to delay shipments of completed orders, nearly half of factories were asked to postpone production and almost 30 per cent reported that buyers had asked for price reductions.
- Only 8.9 per cent of surveyed factories were paid in full for the materials purchased for cancelled in-process orders and 10.1 per cent received full payment for labour costs to produce the cancelled orders. Around 19 per cent of factories were promised that buyers would pay for some of the materials and labour costs used for the cancelled orders and approximately 9 per cent received no payment at all.

- For orders already completed/shipped, more than half of factories still faced delayed payments for part or completed orders. Some factories expected the delay to last until 2021.
- Just under half (45.8%) of factories reported that all of their buyers discussed the situation of orders with them in advance, while 15.6 per cent said only a few or no buyers engaged in discussions before deciding on orders. The rate of discussion was highest in electronics and lowest in the garment industry. Some 68 per cent of surveyed factories received no support from buyers when orders were cancelled or postponed.
- Workers have been most impacted by order cancellations with heavy income cuts made to reduce costs for factories. This trend is dramatically underlined by the 96 per cent of surveyed workers in the garment and footwear sectors who reported reduced or totally lost income since the emergence of the pandemic. This rate in the electronics sector was 81.4 per cent. In response to reduced income,

75 per cent of surveyed workers have cut food expenses and 2.4 per cent suffered from hunger.

- A large percentage (83%) of workers experienced constant feelings of anxiety, depression, or insecurity about their futures. The reduction in income and job-loss risks have had negative impacts on the family relationships of 34 per cent of workers.
- The biggest source of support for workers is families and friends. According to this study’s interviews with local unionists and media coverage, an increasing number of affected workers have sold their social insurance books to the black market or borrowed from ‘black creditors’ with high interest rates.
- The pandemic and the brands’ responses have made 79.8 per cent of suppliers consider adjusting their business strategies by diversifying markets and products as well as being more selective of buyers. Particularly, some suppliers wished to include specific provisions on cost-sharing with buyers during the crisis instead of shouldering all the risks alone.

■ Due to the crisis, 82.7 per cent of factories were in need of financial support. However, by the end of June 2020, only 35.8 per cent had access to at least one type of government stimulus package or support initiative. Three-quarters (76.5%) of companies faced difficulties accessing the support initiatives, mainly due to complicated procedures (25.7%) and the unrealistic eligibility criteria (50.8%).

The pandemic also has important implications for sustainability in global supply chains (GSC):

First, the responsibility of buyers to communicate regularly and in advance on decisions over orders has important impacts on the suppliers' ability to sustain their business as well as employment and incomes for their workers. This responsibility for buyers, therefore, should be added to the sustainability requirements for GSC.

Second, provisions within purchasing contracts on risk-sharing between buyers and suppliers in times of crisis are necessary. Currently, purchasing contracts between buyers and suppliers have been shaped in a way that shields buyers from any liability in the event they cancel/postpone orders as well as sanctions if they fail to pay suppliers in full and in time.

Third, the pandemic has shown the direct linkage between international brands and rank-and-file workers in their supply chains. Therefore, instead of simply demanding that supplying firms comply with corporate social responsibility (CSR) codes of conduct, the brands should also be directly responsible for the protection of worker rights and interests in the producing countries. And during a time of crisis, provision of support to suppliers and workers should be considered a legal responsibility rather than a philanthropic act.

Abbreviations

CGWR	Center for Global Workers' Rights
CMT	Cut-Make-Trim
CSR	Corporate Social Responsibility
EU	European Union
FDI	Foreign Direct Investment
FES	Friedrich-Ebert-Stiftung
FIE	Foreign-Invested Enterprise
FOB	Freight-on-Board
FPTS	FPT Securities Joint Stock Company
GBP	Pound Sterling
GDP	Gross Domestic Product
GSC	Global Supply Chain
GSO	General Statistics Office of Vietnam
HCMC	Ho Chi Minh City
IFC	International Finance Corporation
ILO	International Labour Organisation
ITMF	International Textile Manufacturers Association
LEFASO	Vietnam Leather, Footwear and Handbag Association
MoM	Month-on-Month
MW	Minimum Wage
NGO	Non-Governmental Organisation
ODM	Original Design Manufacturing
POE	Privately-Owned Enterprises
R&D	Research and Development
SME	Small- and Medium-sized Enterprise

SOE	State-Owned Enterprise
STAR	Sustainable Textile of the Asian Region
USD	United States Dollar
US	United States
VGCL	Vietnam General Confederation of Labour
VITAS	Vietnam Textile and Apparel Association
VND	Vietnam Dong
WRC	Worker Rights Consortium

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Chapter 1: Introduction

The global Covid-19 pandemic has caused enormous adverse impacts on enterprises and workers in almost all economic sectors. In Vietnam, although the pandemic has been effectively controlled, most of the key economic sectors - especially garment, footwear and electronics - have faced devastating economic impacts. Between January and early March 2020, the supply of materials from China was disrupted due to the spread of Covid-19 in Wuhan city and Chinese provinces. As soon as the supply from China slowly recovered in early March, Vietnam's two biggest export markets for clothing, footwear and electronics – the European Union and the United States - closed borders and imposed lockdowns. Factories in Vietnam faced with cancellation of buying orders by international brands. As estimated by Vietnam Textile and Apparel Association (VITAS), 70 per cent of garment and footwear factories in Vietnam had cut their labour force by the end of March and 80 per cent of garment workers had been affected with reduced incomes or lost jobs as factories partially or wholly closed down.

One of the key reasons for the devastating impacts on these industries was the fact that a number of international brands quickly cancelled or postponed their orders, while refusing to make full payment for

purchased materials and the cut-make-trim (CMT) cost of finished products. By resorting to 'force majeure' clauses in business contracts, the brands have pushed the risks created by the pandemic to the most vulnerable sections of GSCs: the assembly suppliers that operate on thin profit margins and their poorly paid workers. Worker Rights Consortium (WRC) estimated that collectively global fashion brands have potentially cancelled in excess of £20 billion in orders worldwide from major garment-producing countries, such as Vietnam as well as Bangladesh, Cambodia and Sri Lanka.¹

In response to this business practice, the textile industry representatives from six Asian countries, including Vietnam, issued a joint statement on April 9 urging clothing brands to fully compensate suppliers when canceling orders.² The WRC and the Center for Global Workers' Rights (CGWR) at Pennsylvania State University have also tracked down the garment and footwear brands that have and have not committed to paying in full for orders completed and in production.³ According to the survey by CGWR in Bangladesh,⁴ 45.8 per cent of garment suppliers have had their orders cancelled, while 72.1 per cent of buyers refused to pay

for raw materials (eg: fabric) already purchased by the supplier, and 91.3 per cent of buyers refused to pay for the CMT cost (production cost) of the supplier. As a result of order cancellations and lack of payment, 58 per cent of factories surveyed in Bangladesh reported having to shutdown most or all of their operations.

The Covid-19 pandemic has shown the limits and impacts of responsible business policy and practices in the fashion and electronics industry on firms and workers at the bottom of GSCs. It is essential, therefore, to study how the major brands have reacted to their suppliers and workers amid the crisis, while identifying the good practices of brands supporting their suppliers. At the same time, it is necessary to understand the impacts of the brands' practices during the crisis on suppliers and their workers. The lessons learnt from this study are crucial to improving the responsible business policy and practices in the global garment, footwear and electronics supply chains.

Research questions

The overall objective of this study is to acquire an in-depth understanding of how different garment, footwear and electronics brands have reacted to the Covid-19 crisis, focusing on their handling of manufacturing suppliers in Vietnam and the impacts of their practices on firms and workers. In particular, the study tries to answer the following research questions:

- How have the international garment, footwear and electronics buyers/brands handled their respective supply chains during the Covid-19 pandemic? And how have their responses affected the suppliers in Vietnam?
- What are the impacts on the income and employment of workers in the supply chains in Vietnam?
- Are there any good practices among brands and suppliers? If so, which factors contribute to the good practices?
- What are the implications for GSCs and suggestions to improve responsible business practices?

Methodology

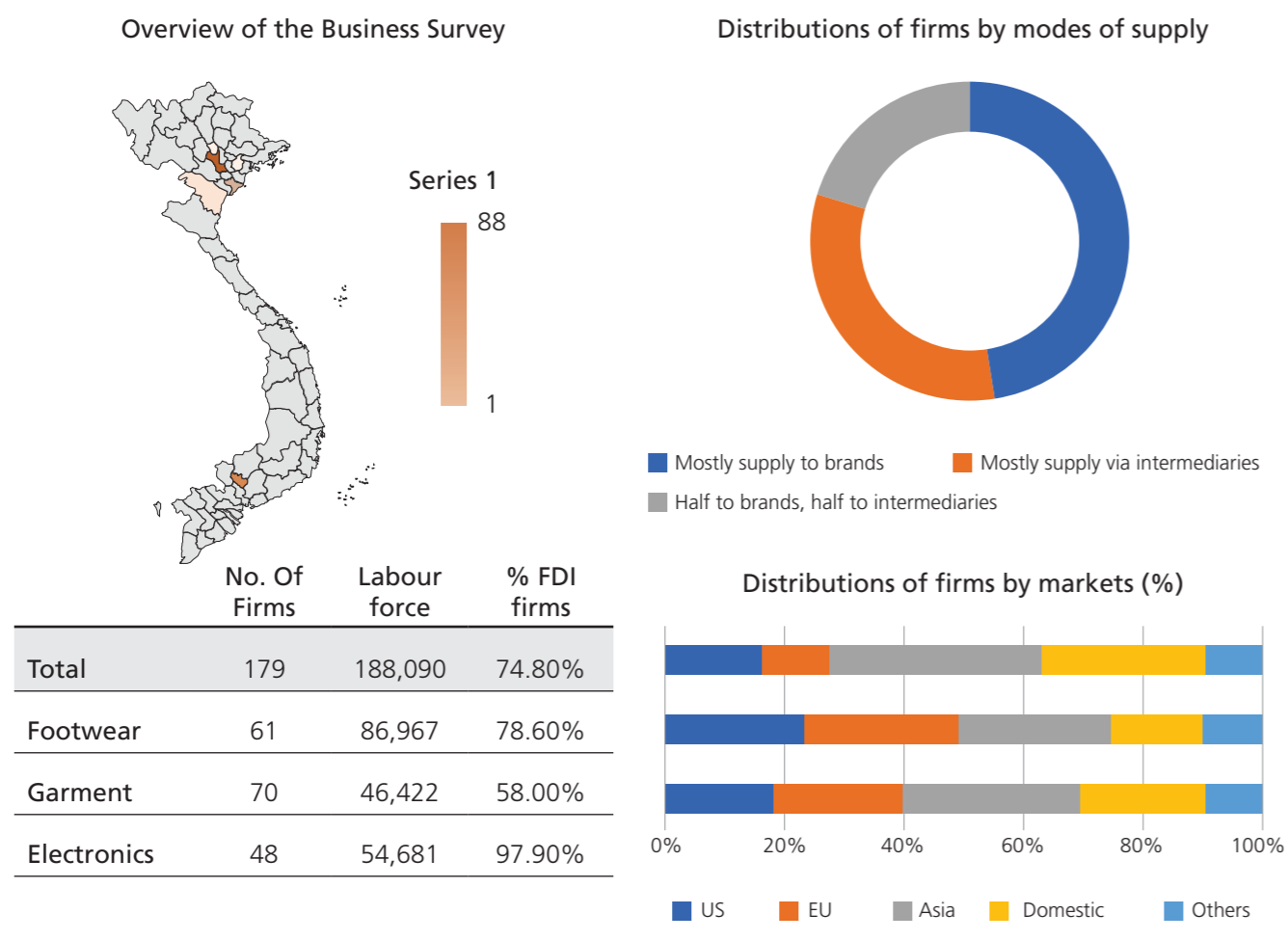
According to Vietnam's Ministry of Industry and Trade's Report on Trade and Industrial Development for the first quarter of 2020⁵, the industries most affected by the pandemic included aviation, tourism, hospitality and export-oriented manufacturing sectors, particularly garment, footwear, electronics, wood-processing and agricultural. Upon consideration of the pandemic's impacts and the importance of the industries in terms of economic value, integration into the global economy, and scale of the labour force, this research focused on three key industries: garment, footwear, and electronics. The three selected industries are the backbones of Vietnam's export sector, contributing more than 50 per cent of national export value in 2019⁶ and employing nearly five million workers.

The research is primarily based on an online survey of businesses that participate in the GSCs and a phone-based survey of workers.

Business survey

The survey of firms was conducted with the use of Google forms during the first half of June 2020. The survey was assisted by a network of independent collaborators who are researchers from universities and staff of local NGOs. A list of exporting firms in each locality was developed based on the database of the respective Departments of Planning and Investment. The collaborators contacted the factories in the list to request their participation in the survey. Then, a link to the online questionnaire was shared with the respondent. In a few other cases, the collaborators interviewed factory representatives over the phone and filled in the online questionnaires.

Figure 1: Overview of firms' survey (n=179)⁷



Overall, the survey covered 179 companies with a total labour force of 188,070 workers. The survey achieved a confidence level of 90 per cent and a 10 per cent margin of error. Upon consideration of the large number of businesses in the three industries,⁸ the confidence interval is acceptable for social science surveys (Hair et al. 2009; Hazelrigg 2009).⁹

Most surveyed firms are located in the capital Hanoi (88 companies), southern Binh Duong province (58

companies), and Red River Delta's Nam Dinh province (27 companies), while the remainder were in the southern commercial hub Ho Chi Minh City as well as Ben Tre, Can Tho, Thanh Hoa and Vinh Phuc provinces. As the survey focused on the export sector, FDI firms accounted for the majority of the samples in the three industries, especially in electronics (see Figure 1). In terms of markets, the surveyed businesses mainly export although the domestic market is also important, especially in electronics (consumer electronics products)

and footwear. The EU and US markets are most important for garment firms, while Asian markets are key for electronics companies. Factories either export via intermediaries, sell directly to international brands or a combination of both channels. This means the surveyed firms include direct suppliers (tier-1 suppliers) and sub-contractors. The diversity of suppliers and their markets enabled the research to explore different layers of GSCs.

Worker Survey

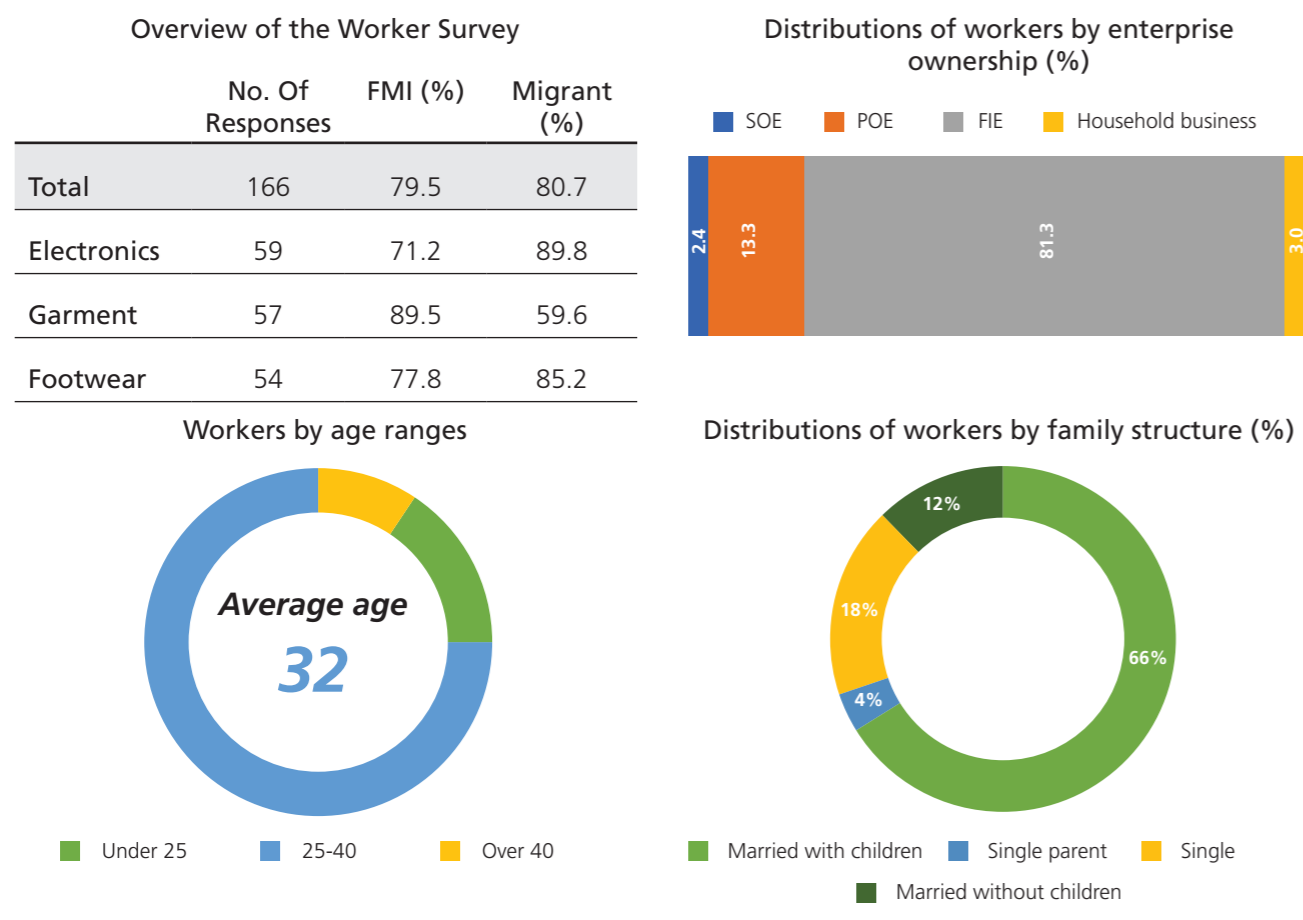
Interviewers identified workers through NGO networks and used snowball techniques to approach more workers. Interviews were conducted in the second half of May and June 2020. Workers were interviewed over the phone, usually after work or during weekends, using a structured questionnaire. However, interviewers had the flexibility to dig deep into aspects that workers were willing to share additional information based on a set of guiding questions. This means that apart from a quantitative survey, the research team also collected qualitative, in-depth information. Overall, the survey

reached 166 workers from the three industries (see Figure 2). With a population of 4.5 million workers in the three industries, the survey reached a confidence level of 90 per cent and a 7 per cent margin of error acceptable for social science surveys.

The sample resembled the characteristics of the labour force in the three industries: women workers accounted for 79.5 per cent and migrants made up 80.7 per cent of the sample. Most interviewed workers were aged 25-40 years, but there were also young workers (17-25 years) and older workers (over 40), which allowed for a comparative analysis. Similar to the business survey, the majority of interviewed workers were from FDI companies, with a small proportion of household businesses.

Unfortunately, the researchers were not able to define the informality of workers, if any, in the survey. Many workers, especially those employed by household businesses, were uncertain whether they had employment contracts.

Figure 2: Overview of workers' survey (n=166)



The research was also informed by in-depth interviews with provincial and industrial zone-level union representatives in Binh Duong, Dong Nai and Haiphong (three), representatives of international brands (three), and labour NGOs (five). Most international brands contacted declined to participate in the research. Therefore, a review of publicly available information on supply chain policies during the Covid-19 pandemic by some key brands sourcing from Vietnam was conducted instead.

Structure of the report

This report consists of five chapters. After Chapter 1 introduces the research rationale and methodology, Chapter 2 reviews the impacts of Covid-19 on businesses and workers in Vietnam in general. Chapter 3 zooms in on the various impacts of practices of brands and buyers during the pandemic on garment, footwear and electronics supply chains. Chapter 4 analyses the impacts of cost-cutting measures by factories on the employment, income, health, and basic expenses of workers and their families. Chapter 5 wraps-up the discussion by focusing on implications of the pandemic for the re-structuring of GSCs as well as the sustainability aspect of supplier-buyer relationships.

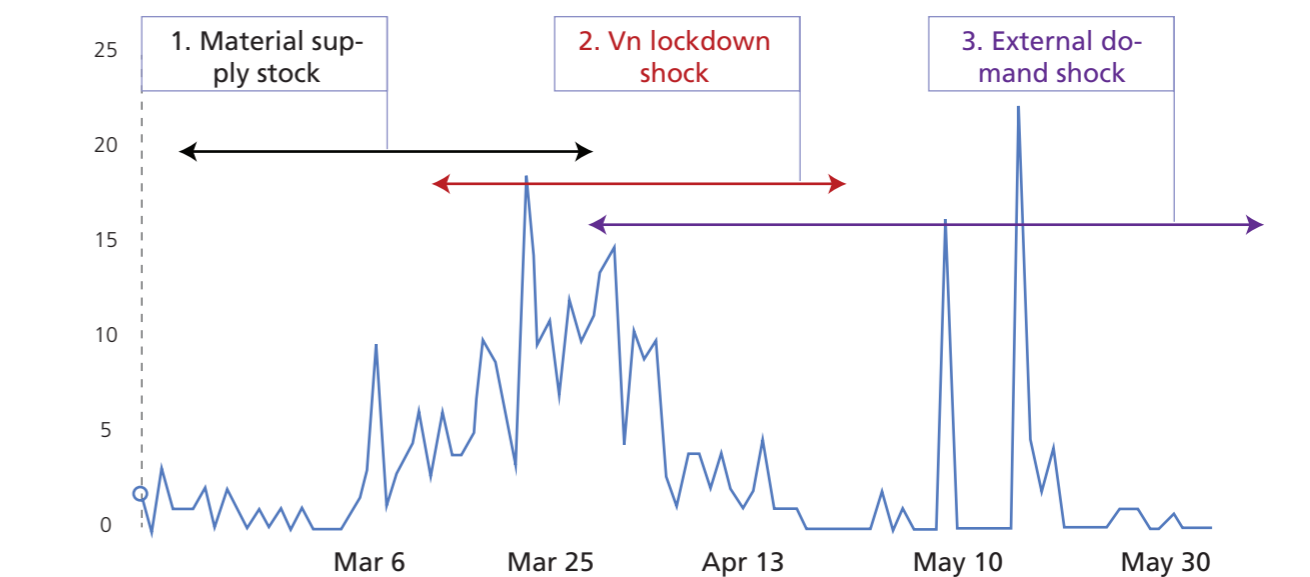
Chapter 2: Overview of Covid-19 Pandemic Impacts on businesses and workers in Vietnam

The Covid-19 pandemic hit Vietnam quite early in January 2020, but was controlled effectively through a rapid government response resulting in more than 1,000 cases and 35 deaths¹⁰. Yet, the economic shocks stemming from the pandemic have hit the domestic economy and workers hard.

The first economic shock came from the closure of the Chinese border on 31 January 2020, which resulted in the disruption of up to 70 per cent of material supply for many industries such as garment, footwear, and electronics. Also, the lockdown in China meant a serious drop in demand for numerous industries, including tourism and hospitality¹¹, wood

and furniture, and agricultural products. On March 6, Vietnam stepped into the second phase of the pandemic with further restrictions of gatherings, which significantly reduced domestic consumption of non-essential products and services. In the middle of March, the United States and many European countries applied lockdown measures, which led to the third economic shock, particularly to the export sector of Vietnam. At the time of writing, although the lockdown was lifted in Vietnam and several Asian countries, the United States and Europe remain heavily affected by the pandemic. This means the recovery of Vietnam's export sector may not happen as swiftly as expected.

Figure 3: Three economic shocks to the manufacturing sector of Vietnam



The impacts on Vietnam’s economy in the first half of 2020 were significant: the year-over-year GDP growth rate in the first six months of 2020 was 1.8 per cent - the lowest in the past decade, while the inflation rate was 4.96 per cent - the highest in the last five years (GSO 2020). By the end of April, more than 41,000 enterprises had temporarily closed down (GSO 2020) and 28.4 per cent of enterprises resorted to lay-offs and 21.3 per cent had furloughed workers (see Table 1).

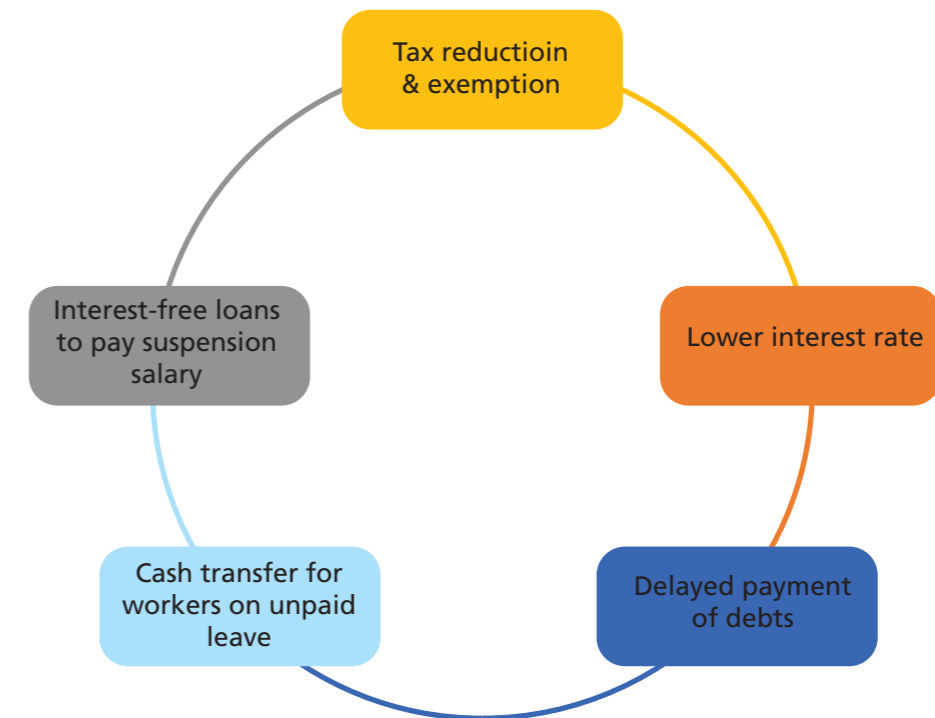
Table 1: Percentage of enterprises applying labour-related measures in response to Covid-19 pandemic

Source: GSO Survey of 123,000 enterprises, April 2020

	Apply measures related to labour	Lay-off	Reduce paid work hours or work in rotation	Furlough workers	Reduce wages
Whole country	66.8	28.4	39.5	21.3	18.9
Enterprise by size					
Micro Enterprises	60.0	24.8	30.6	19.9	16.8
Small Enterprises	75.3	33.3	38.3	23.8	66.8
Medium Enterprises	73.3	32.2	53.1	20.5	66.8
Large Enterprises	70.3	27.5	53.9	19.5	66.8

According to the Department of Employment, Ministry of Labour, Invalids and Social Affairs, in the first six months of 2020, 30.8 million people lost their jobs, 30.8 million, 57.3 per cent (17.6 million) had incomes reduced and 1.4 million people lost their jobs, including 900,000 who became unemployed as their companies were furloughed or had their hours and incomes reduced due to impacts of Covid-19.¹² The number of people in work is at its lowest level for a decade, and the rate of under-employment is at a five-year high. Of the 30.8 million, 57.3 per cent (17.6 million) had incomes reduced and 1.4 million people lost their jobs, including 900,000 who became unemployed as their companies closed or reduced production. Most workers who lost jobs were in the industrial processing, wholesale and retail, transportation and storage, and accommodation and food and beverage sectors.

Figure 4: Government support initiatives



In response to the economic impacts of the pandemic, the Government of Vietnam has issued a number of policies and stimulus packages to support affected businesses and workers (see Figure 4). The initiatives ranged from tax reductions, concessional loans, delayed payment of business debts and cash transfers

to furloughed workers. However, according to some reports, businesses and workers struggled with procedures and eligibility criteria to gain access to such support. This research attempts to explore the obstacles to businesses and workers accessing these support packages.

Chapter 3: Impacts on Garment, Footwear and Electronic suppliers

Overview of the garment, footwear and electronics supply chains in Vietnam

The garment, footwear and electronics industries employ more than 4.5 million workers, more than 75 per cent of whom are women. The majority of enterprises in the three industries employ less than 50 workers each (see Table 2). The three industries are highly integrated into GSCs, but mainly at the lowest level of assembling. In the garment sector, for instance, 60 per cent of factories have been producing on CMT

contracts, 30 per cent on Freight-on-Board (FOB) and 10 per cent on original design manufacturing (ODM) (FPTS 2017). The three industries are dominated by international lead firms/brands and FDI suppliers. As much as 95 per cent of exports of the three industries go through international buyers/brands and the FDI firms account for 77-95 per cent of export value.

Table 2: Overview of the garment, footwear and electronics industries in Vietnam (2018)

Source: Vietnam Statistical Book (2018)

Industry	No. of Firms	% Firms with under 50 workers	Total labour force	% women workers	Key export markets (2019)	No. of FDI firms	FDI contribution to export value
Garment	6,961	68.6	2,500,000	78	US: 47% EU: 16%	1,700	76.6%
Footwear	2,095	61	1,300,00	76	US: 36% EU: 25%	800	77%
Electronics	1,755	58.2	736,000	74.5	US: 17.3% ¹³ EU: 24%	700	95%

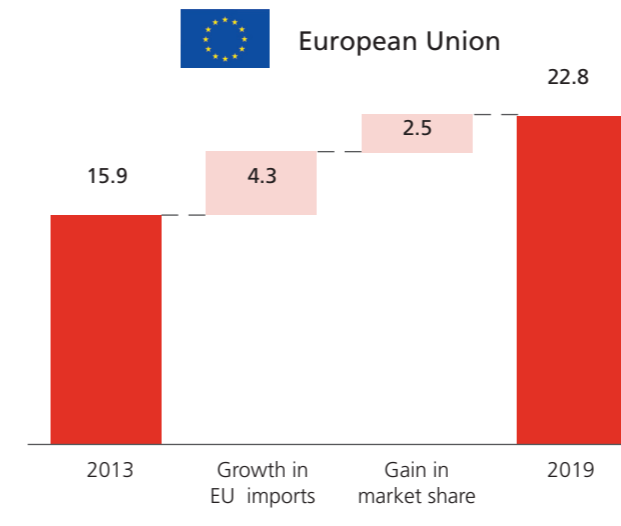
The three industries rely heavily on exports to the European Union and United States. In 2019, these two markets accounted for 60 per cent of garment,

footwear and electronics exports. As seen in Figure 5, these two markets have experienced significant growth in market share of exports from Vietnam in the three product groups.

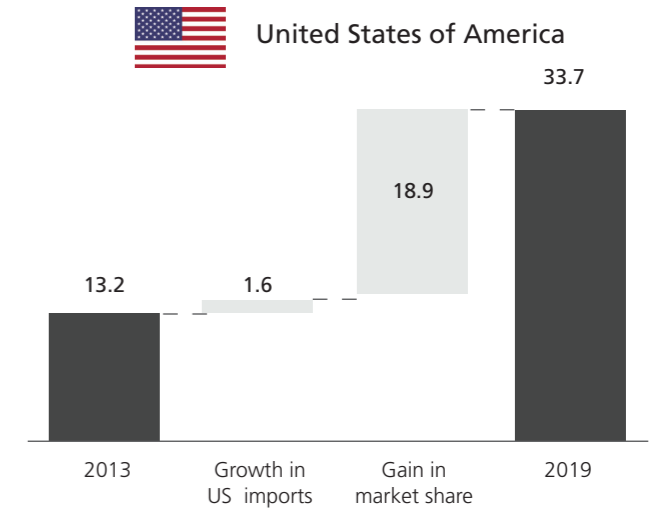
Figure 5: Growth in Vietnam’s exports (phones, consumer electronics, garment and footwear) to the EU and US, 2013-2019

Source: PWC (2020)

Growth in Vietnam’s exports to the EU (phones, consumer electronics and textile / garments)



Growth in Vietnam’s exports to the US (phones, consumer electronics and textile / garments)



The 2020 first quarter economic performance displayed mixed results. Vietnam appears to have maintained overall export levels to key export destinations. Except for textiles, Vietnam’s exports in fact increased in the first quarter of 2020 compared to the same quarter in 2019. However, the three industries suffered the biggest falls in exports in April 2020 when month-on-month (MoM) rates were -31 per cent, - 61 per cent and -53 per cent for textiles, handbags and telephones respectively (see Table 3). These drops were mainly

attributed to the lockdown measures applied to the United States and European markets since the end of March 2020. The three industries welcomed signals of improvement in exports in May and June, especially for textiles and telephones. The GSO forecasted that textiles and telephones were among the industries that would see strong export recoveries by the end of 2020, while the forecast was less positive for shoes and hand-bags (GSO 2020).

Table 3: Exports of key products, April to June 2020 (month-on-month)*Source: Customs Office, Rong Viet Securities¹⁴*

	April % mom	May% mom	June % mom	Percentage of total
Total export	-27%	9%	18%	100%
Seafood	-2%	4%	12%	3%
Wood	-29%	11%	23%	4%
Yarn	-39%	1%	20%	1%
Textiles	-31%	16%	39%	12%
Foot-wears	-14%	9%	10%	6%
Handbags	-61%	93%	20%	1%
Rattan products	-30%	23%	30%	0%
Iron and steel	-30%	-23%	70%	2%
Electrical products	-18%	12%	16%	17%
Telephones	-53%	17%	25%	16%
Machine	-16%	5%	11%	8%
Furniture	-22%	8%	22%	1%
Toys and sports requisites	-17%	-8%	55%	1%
Means of transportation	-38%	3%	16%	3%
Other products	-11%	12%	25%	6%

Impacts from the pandemic resulted in 1.2 million workers in garment and footwear industries losing their jobs by the end of June 2020 (VITAS and LEFASO 2020). These impacts on factories and workers in Vietnam have been exacerbated by the fact that many international buyers cancelled in-process orders without paying factories for purchased materials and manufacturing costs. In April 2020, VITAS joined five other garment manufacturing countries in Asia within the framework of STAR (Sustainable Textile of the Asian Region) to make a joint statement demanding fashion brands act responsibly towards their supply factories and workers.¹⁵

Brands' practices towards supply chains during the Covid-19 pandemic

Globally, the fashion and electronics brands have faced unprecedented difficulties due to the Covid-19 pandemic. These challenges intensified for brands that rely on Chinese supply chains and retail mainly through shops. A long list of fashion brands have declared bankruptcy, mainly between April and June, such as J.Crew, J.Hilburn, J.C. Penney, Neiman Marcus,

NewYork&Co and True Religion, among others.¹⁶ Electronics brands faced fewer bankruptcy threats, but the major brands saw significant drops in revenue in the first quarter of 2020. The revenues of Apple and Samsung, for instance, fell by 13 and 7.6 per cent, respectively in the March quarter.¹⁷ The electronics giants expect deeper drops in revenue and profit in the second quarter, especially for products like TVs and smartphones.¹⁸

A number of brands have been quick to declare their commitment to payment for completed and in-process orders. Fashion brands that source apparel and shoes from Vietnam such as Adidas, H&M, Inditex, Nike, Uniqlo and VF have pledged to pay in full and without delay for all completed and in-process orders.¹⁹ Some other brands have initiated programmes to compensate and support their suppliers as the orders are canceled or delayed. Gap Inc. for instance, has a supplier finance programme which provides low-cost financing to suppliers to address needs that may arise as a result of delayed payments.²⁰ Levi's has provided low-cost financing to its suppliers through a programme

involving International Finance Corporation (IFC). The programme aims to support the suppliers affected by delayed payments to ensure cash-flows and the ability to pay workers' wages.

Still, a number of other brands have cancelled or delayed payment for in-process or completed orders to protect their liquidity, pushing all the risks to the suppliers and their workers (see examples in Table 4).

Table 4: Responses of selected brands to Covid-19 and impacts on their suppliers

Source: Worker Right Consortium Tracker²¹

Brands/Country/Supply network in Vietnam	Industry	Covid-19 practices
Kohl's Department store chain (US)	Apparel, shoes and handbags, electronics	<ul style="list-style-type: none"> Cancelled more than USD 1 billion in orders Notified suppliers in mid-March, via conference call, that it did not intend to pay for these goods Employs a cancellation clause in all of its purchase orders that gives Kohl's the contractual right to cancel orders without liability at any time and for any reason.
Asda Supermarket chain (UK)	Apparel	<ul style="list-style-type: none"> Asda demanded 40 to 70 per cent price reductions on orders completed, but not yet shipped and on in-process orders Refused to accept up to 20 per cent of orders that suppliers had already shipped to Asda before the crisis began Asda remain open throughout the lockdown in the UK..
Primark Fashion retailer (UK - 23 suppliers in Vietnam)	Apparel and shoes	<ul style="list-style-type: none"> Canceled GBP 2 billion in orders Agreed to pay for about USD 460 million in orders previously canceled Payment is delayed until Autumn 2020.

Communication between buyers and suppliers prior to cancellation/postponement of orders is another key problem during Covid-19. A significant number of factories were not informed in advance about the buyers' decisions, which deprived them of necessary time to prepare for the impacts. According to a survey by ITMF covering 600 CEOs of textile and garment companies globally, across the garment supply chain up to 40 per cent of customers failed to give warnings or advanced discussions with the producers when they cancelled or postponed orders. This situation is most pervasive for North American producers and less in Southeast Asia (ITMF 2020).

Impacts on the supplying factories in Vietnam

Among the surveyed factories, the EU and US are the biggest markets for garment firms, while Asia and domestic markets are more important for electronics and footwear companies. Also, around half of surveyed firms supply directly to the brands, whereas 33 per cent are indirect suppliers, selling via vendors and intermediaries. Around 20 per cent of factories supply directly and indirectly to brands.

The nature of supplier-vendor-lead firm relationship in electronics is different from that in apparel and footwear. In apparel and footwear the supplying firms in Vietnam, upon receiving orders from buyers (either brands or intermediary vendors), start purchasing materials for manufacturing. The assembling firms normally have to pay for the materials within one month upon reception. Once the final products are made, they are shipped to the brands for retailing. Normally after 90 days upon receiving the shipments, the brands pay the suppliers (including the costs of materials if the mode of supplying is FOB and ODM).²² However, in electronics, the suppliers operate mainly in two ways:²³

- i. When the suppliers are located geographically close to the brands' factories (usually within the same industrial zone) to facilitate 'just-in-time' manufacturing, the components/parts are transferred immediately to the customers for production/assembly. Canon, for instance, has a network of 300 suppliers, most of which are located around the Canon factories in northern Vietnam. This is also the case for other brands such as LG, Panasonic and Samsung, amongst others. In this mode of supplying, the brands and their suppliers need to communicate on daily basis as their production plans depend closely on one another.

ii. When the supplying firm in Vietnam is the subsidiary of a mother company that produces parts and components, the Vietnam factory needs to export its finished products back to headquarters or the distribution centre of the mother company before they are transported to customers. This is the case for electronics corporations that produce parts and components. For instance, Hoya manufactures glass disks (for hard drives) in its factory in Vietnam, then exports back to Japan or to its distribution centres around the world before transferring them to the electronics brands for production of the final products. In this case, it is the headquarters instead of the supplying factories in Vietnam that communicates directly with the brands/customers. The supplying factories in Vietnam do not have to shoulder the financial burden for materials nor the budget for labour costs as their financial resources are managed by the mother companies.

These differences in the supplier-brand relationship also means that garment and footwear suppliers are exposed to much higher (financial) risks, than electronics factories, as the industries hit by the Covid-19 crisis and retailing brands' cancellation or postponement of orders. These differences are clearly reflected in the supplier survey.

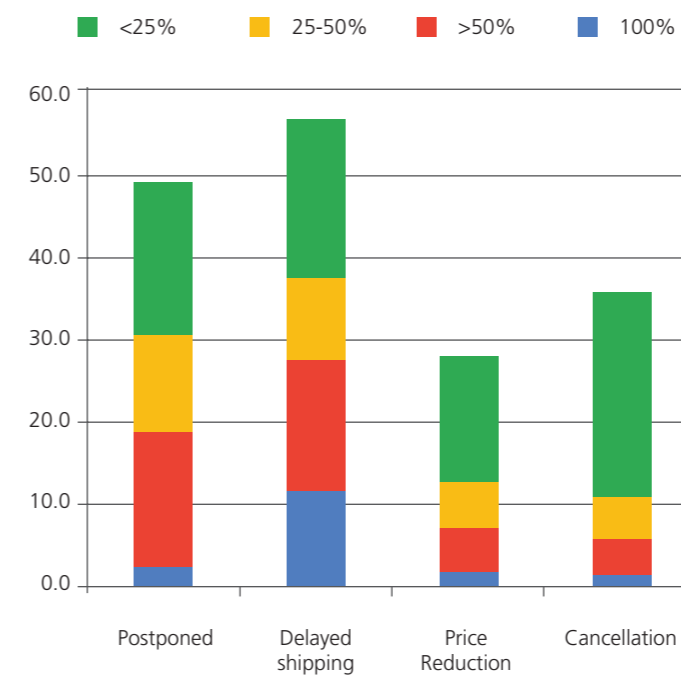
In-process orders

In-process orders are those that have been signed, the suppliers have purchased materials and started production. This means that the suppliers have already paid for the materials and factory costs for production.

As seen in Figure 7, footwear manufacturers faced a much more extensive level of cancellations of in-process orders, followed by the garment industry. As much as 52 per cent of footwear companies experienced order cancellations and nearly 13 per cent had more than 50 per cent of in-process orders cancelled. In comparison, only 22.9 per cent of electronics firms experienced order cancellations and their extent affected less than 25 per cent of overall orders.

It should be noted that apart from cancelling orders, the buyers have other responses to in-process orders. As shown in Figure 6, nearly 60 per cent of factories were asked to delay shipments of completed orders,

Figure 6: Brands' reactions to orders in-process



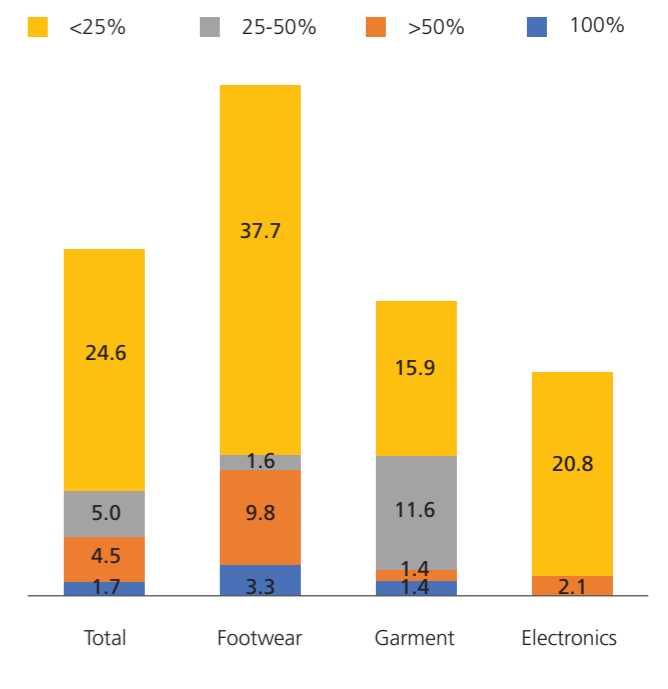
Completed orders, ready for shipping

The situation was similar for the orders completed and ready for shipping. As much as 67.6 per cent of factories had to postpone shipments, keeping the products in storage (Figure 8). In an interview with the manager of a Taiwanese footwear factory, he expressed his concern:

“ ‘Our storage is up to limit now. We don't know where else to store products. And in this heat, after 2-3 months, the products will be totally damaged’.

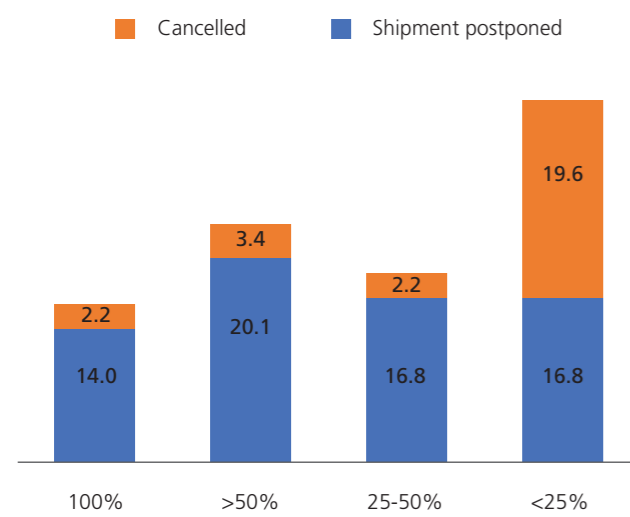
nearly 50 per cent of factories were requested to postpone production and almost 30 per cent reported that the buyers asked for price reductions.

Figure 7: Factories with in-process orders cancelled (%)



Nearly 30 per cent of factories experienced cancellation of completed orders. This rate is highest among the footwear industry and lowest in electronics (Figure 9). In most cases, the cancellation happened with less than 25 per cent of the factories' completed orders.

Figure 8: Buyers' reactions to completed orders, ready for shipping



Payment for cancelled orders

Only 8.9 per cent of surveyed factories were paid in full for materials purchased for cancelled in-process orders and 10.1 per cent of factories received full payment for labour costs for producing cancelled orders. Around 19 per cent of factories were promised that buyers would pay portions of materials and labour costs used

Figure 10: Payment of labour costs for in-process orders cancelled (%)

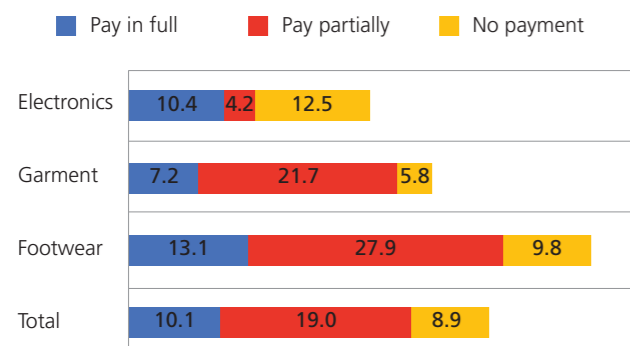
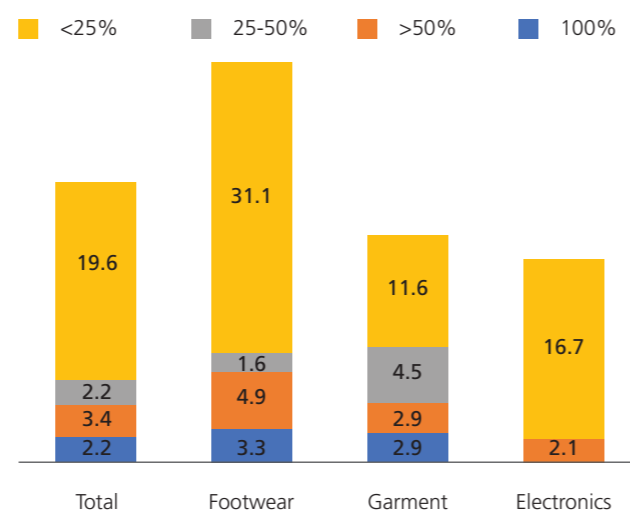


Figure 9: Cancellation of completed orders, ready for shipping



for cancelled orders and approximately 9 per cent received no payment (Figures 10 & 11). Again, the footwear industry was hit much harder than garment and electronics as the proportion of footwear factories receiving partial or no payment was significantly higher than in other industries.

Figure 11: Payment of purchased materials for in-process orders cancelled (%)

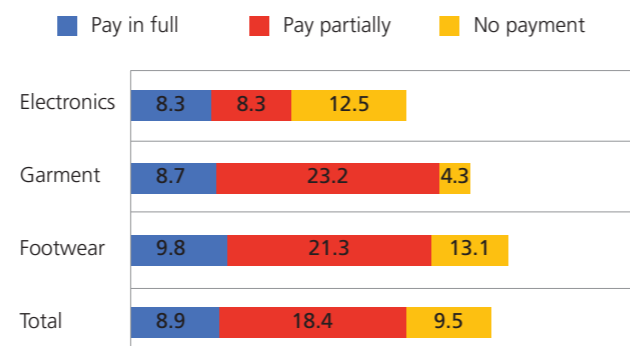
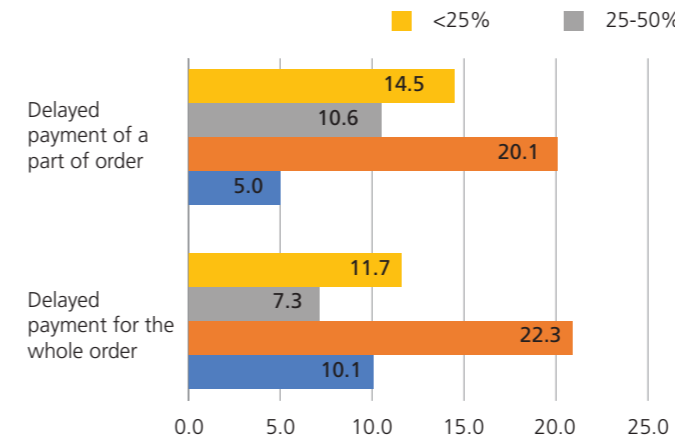
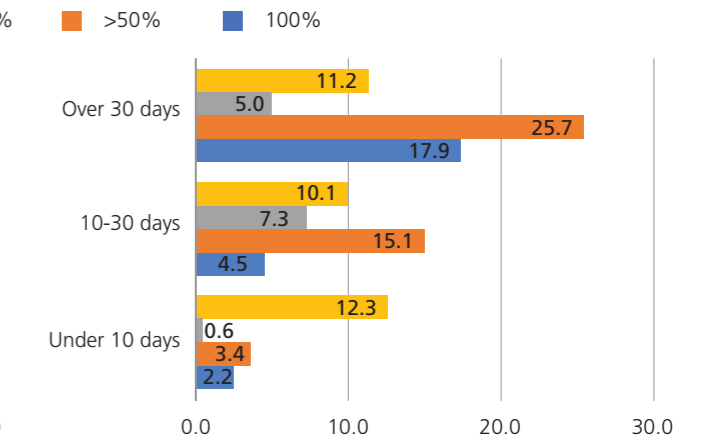


Figure 12: Payment for completed/ shipped orders



For orders already completed and in many cases when buyers have agreed with suppliers to ship products, more than half of factories still faced delayed payments for a portion or the whole order. A third of suppliers reported delayed payment for more than half or all orders (Figure 12). Some 43.6 per cent of factories claimed payment for more than half of their orders would be delayed by 30 days or more. Some factory managers, during interviews in June 2020, expected delays to last until 2021.

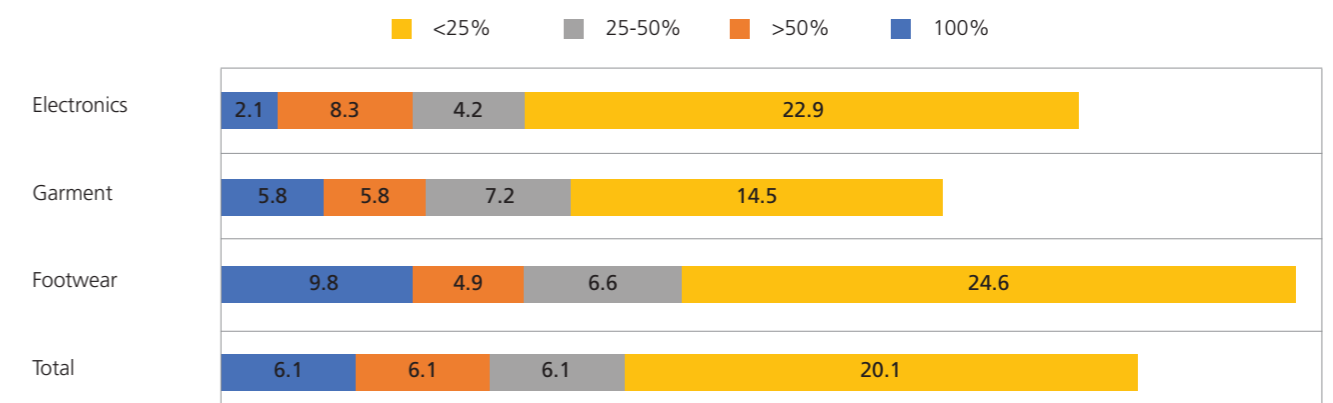
Figure 13: Time of payment delayed



Orders planned, not yet signed

Prior to the Covid-19 crisis, suppliers engaged in discussions with buyers about planned, yet unsigned orders. As a result of the pandemic, 61 per cent of surveyed factories reported postponements of signing new orders and 38.5 per cent cancellations of signing planned orders. The cancellation rate of planned orders is highest in footwear, followed by garments and electronics (Figure 14). According to VITAS, all of its member factories were operating at 30-70 per cent capacity. VITAS and LEFASO reported most of their members have not signed new orders after August 2020.

Figure 14: Cancellation of unsigned planned orders

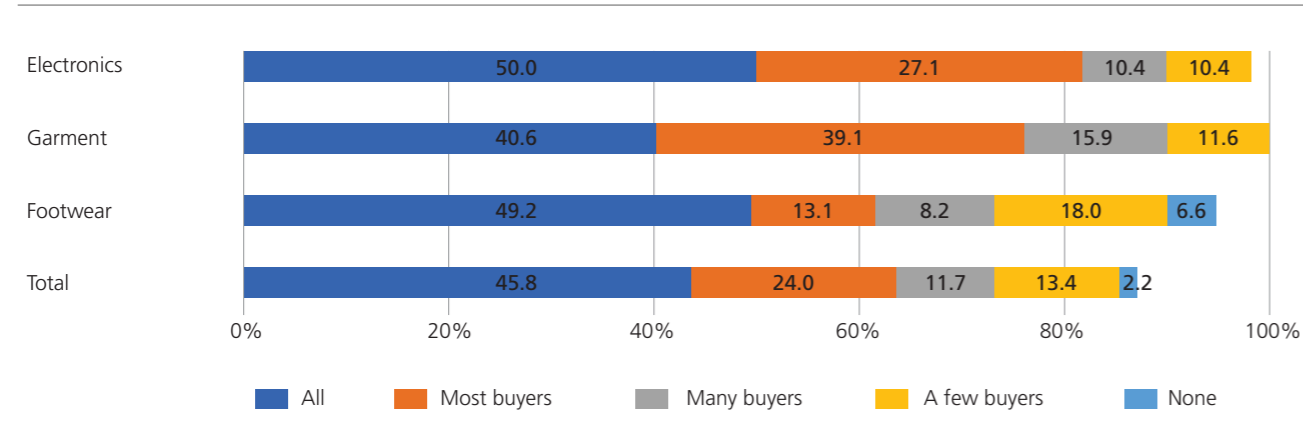


Discussions between buyers and suppliers

Suppliers were asked whether buyers had discussed decisions about orders, either postponements or cancellations, in advance as well as the possible impacts on factories. Some 45.8 per cent of factories reported that buyers engaged them in advance, while 15.6 per cent said only a few or no buyers did. The rate

of discussion is highest in electronics and lowest in the garment industry (Figure 15). However, the proportion of suppliers rarely entering into advanced discussions with buyers is highest in the footwear industry (24.6%).

Figure 15: Discussions with suppliers about orders



Regular and advanced discussions on orders, especially during a time of crisis, plays a crucial role in suppliers finding alternative solutions to minimise negative impacts on their business and workers. A footwear supplier based in southern Binh Duong province said: As much as 69 per cent of suppliers requested buyers discuss orders in advance with them.

“The buyer did not inform us in advance about the possibility of cancelling the order. Until the order was completed and we informed the buyer that we were ready to ship, they told us that the order is canceled. It was a big order and our company had to pay workers, bank loans and materials. It was too late for us to change the products to sell to other buyers’.

Buyers' support of suppliers upon order

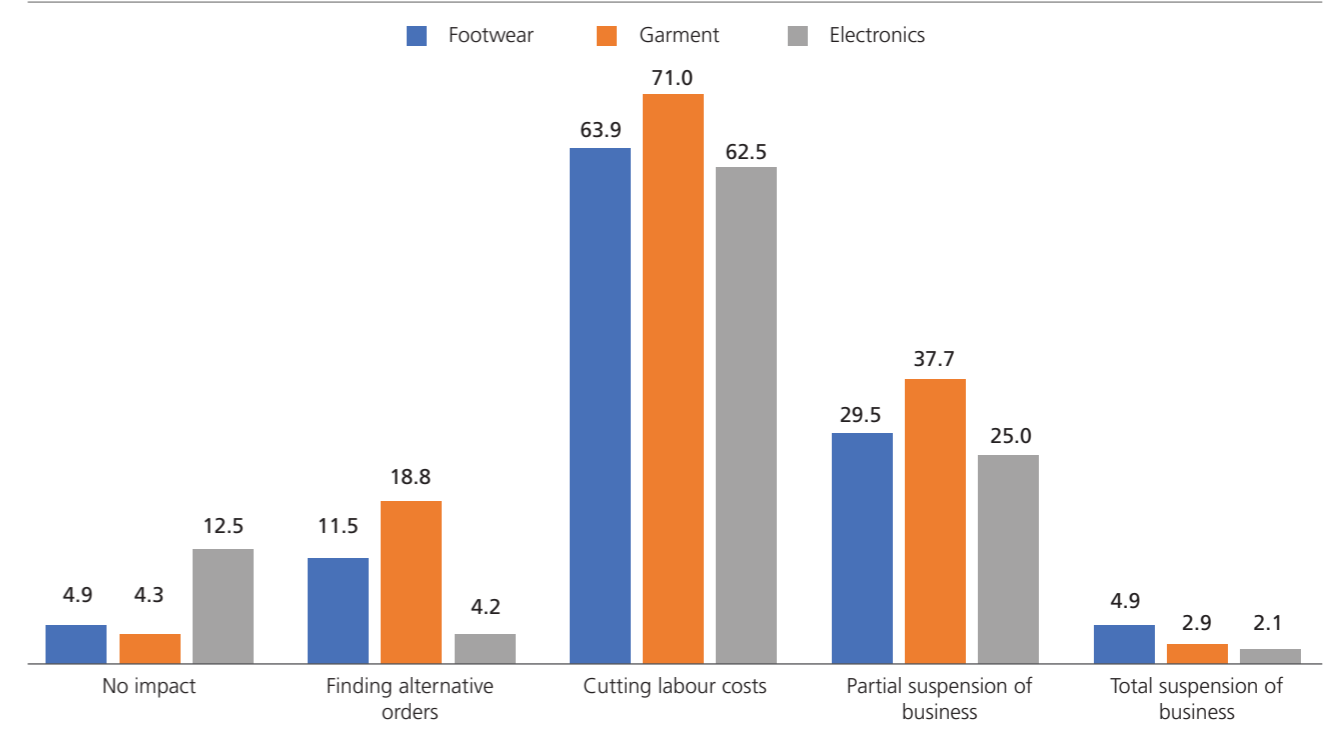
cancellations and postponements

As much as 68 per cent of surveyed factories received no support from buyers when orders were cancelled or postponed, while 28.5 per cent got some form of support. Among the latter, 39.2 per cent received

financial support to pay wages, 29 per cent accepted support to pay job-loss allowances and 13.7 per cent enjoyed concessional loans.

Impacts on supplying factories

Figure 16: Direct impacts of order cancellations, postponements and delayed payments (%)



Suppliers were asked about the direct impacts of order cancellations/postponements and delayed payments by buyers on their business. As seen in Figure 16, the biggest impact was on workers with cut or reduced income and employment to reduce costs of factories. The garment industry resorted to this measure more

than the other two industries. The second biggest impact was partial suspension of business, meaning the supplier closed part of the factory to save costs. Partial suspension also means a company reduced its labour force. Finding alternative orders was also an option for 18.8 per cent of garment suppliers and 11.5

per cent of footwear producers, but only 4.2 per cent of electronics companies. The production of garments and, to some extent, footwear is more flexible than electronics. Many garment firms, for instance, adjusted cancelled products and sold at discount prices or switched to producing facial masks and personal protective equipment.

In in-depth interviews, suppliers pointed to a number of initiatives to deal with shrinking demand and cancellation of orders from export markets (see Box 1).

Box 1: Immediate responses of suppliers to mitigate the impacts of order cancellations/postponements

- ✓ Searching for new orders from regions less affected by the pandemic
- ✓ Searching for orders from domestic markets
- ✓ Utilising the remaining materials to produce low-priced products
- ✓ Selling cancelled products at discount prices to reduce inventory
- ✓ Accelerating automation
- ✓ Diversifying markets, buyers and products
- ✓ Connecting with other firms to share orders
- ✓ Investing into developing new products
- ✓ Including a provision on sharing costs during times of crisis in contracts with buyers

Adjustment of suppliers' business strategies post-pandemic

Figure 17: Are you planning to adjust your business strategy post-pandemic (%)? (n=179)

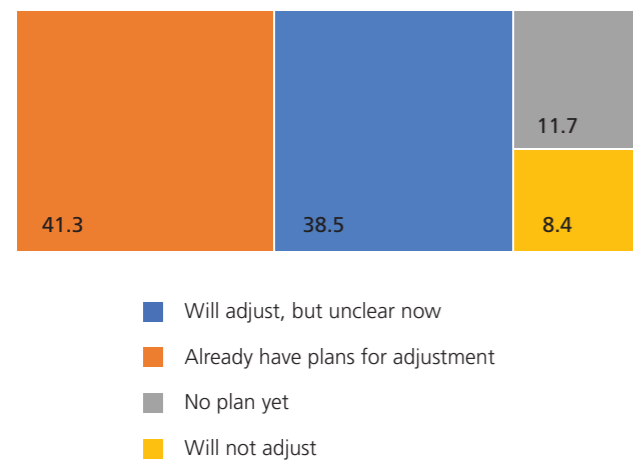
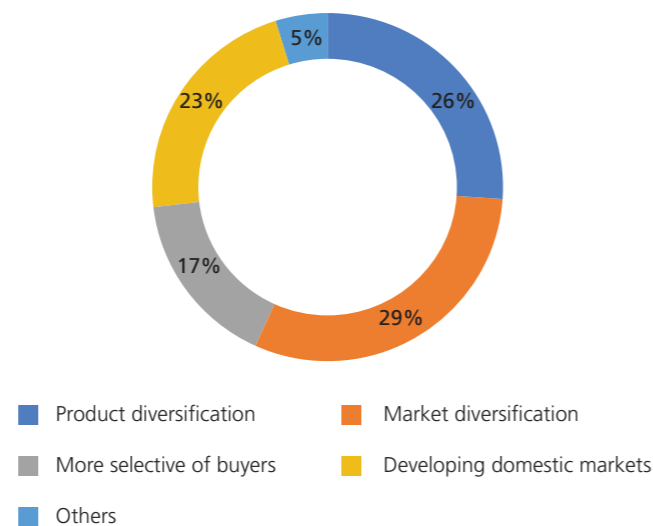


Figure 18: How suppliers adjust their business strategies? (n=143)

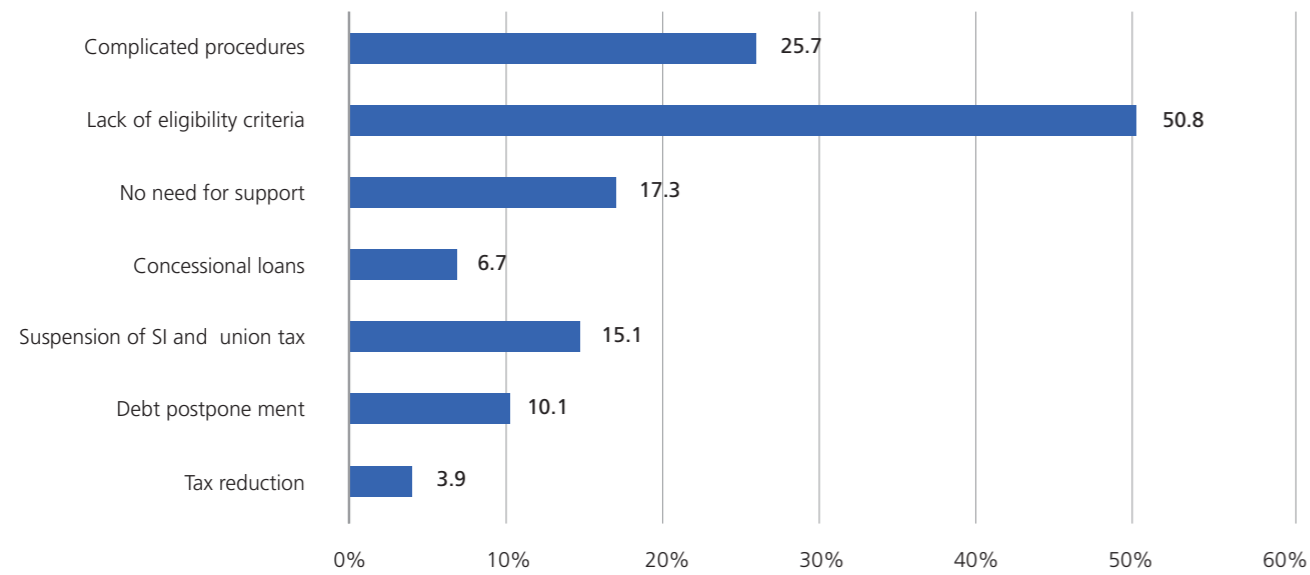


The pandemic and brands' subsequent reactions made 79.8 per cent of suppliers consider adjusting their business strategies with 41.3 per cent already with specific post-pandemic plans and 38.5 per cent working on strategies. Only 8.4 per cent claimed they would not adjust their business approach at all (Figure 17). Among the 143 companies to change their business strategies, 29 per cent would diversify export markets. The pandemic shows that over-dependence on a small number of markets can jeopardise a whole business. As seen in Figure 18, product diversification is planned by 26 per cent of surveyed firms. A few companies would invest more in R&D to develop new, higher-quality products. The domestic market appears more attractive for surveyed factories post-pandemic as 23 per cent planned to focus more on selling at home. It is interesting to note that 17 per cent of factories would be more selective of the buyers they work with in light of buyers' practices during the pandemic negatively impacting their businesses. Particularly, one firm suggested it would include specific cost-sharing provisions with buyers during times of crisis instead of shouldering all the risks alone.

Access to government stimulus packages

Since April 2020, the government has worked out a number of stimulus packages and support initiatives for businesses and workers affected by the pandemic. Among the surveyed companies, 82.7 per cent were in need of support. Yet, by the end of June 2020, only 35.8 per cent had accessed at least one type of stimulus package/support initiative from the government. As shown in Figure 19, 15.1 per cent suspended union tax contributions (2% of wage bills) and to pension and survivor allowances, 10.1 per cent enjoyed delayed payment of debts and 3.9 per cent had tax reductions. However, 76.5 per cent of companies struggled to access support initiatives, mainly due to complicated procedures (25.7%) and an inability to meet eligibility criteria (50.8%). For instance, to borrow from the Social Policy Bank (without interest) to pay furloughed workers, a company must not currently have any income. In fact, many enterprises faced serious drops in turnover and real difficulties in paying their workers, but did not mean they had no income at all.²⁴

Figure 19: Suppliers' access to stimulus packages and reasons for non-access (%)



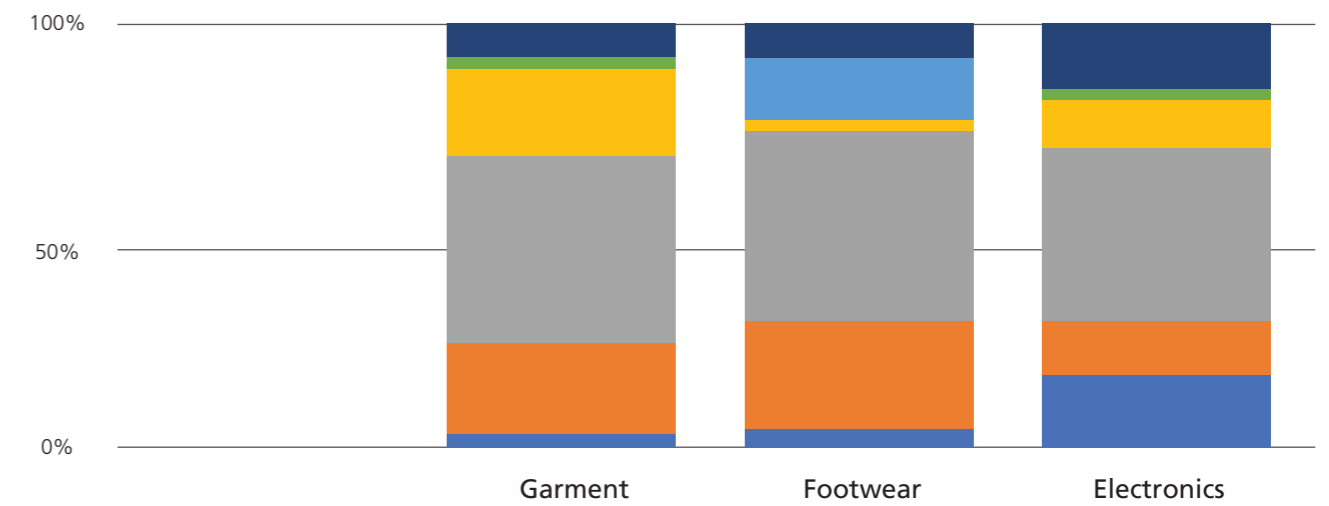
Chapter 4: Impacts of cost-cutting measures on workers

The worker survey covered 166 workers from 11 provinces (Binh Duong, Dong Nai, HCMC, Soc Trang, Tien Giang and Tay Ninh in the south, Nghe An in the centre and Bac Giang, Bac Ninh, Ha Nam and Hai Duong in the north). As this survey focuses on GSCs, 97 per cent of workers are from export companies and only 3 per cent from household businesses which, as claimed by workers, sub-contract to export firms.

Impacts on workers' employment, income and basic expenses

In this worker survey, 10.2 per cent of respondents in the three industries had lost their jobs by the time of interview. These workers encompassed those new and with up to 15 years' experience with companies. The respondents worked for a range of companies: from household to bigger ones (employing more than 500 workers) as well as domestic and FDI firms. This means pandemic impacts have not only hit smaller businesses, but also bigger ones in the industries.

Figure 20: Impacts on workers' incomes (June 2020)

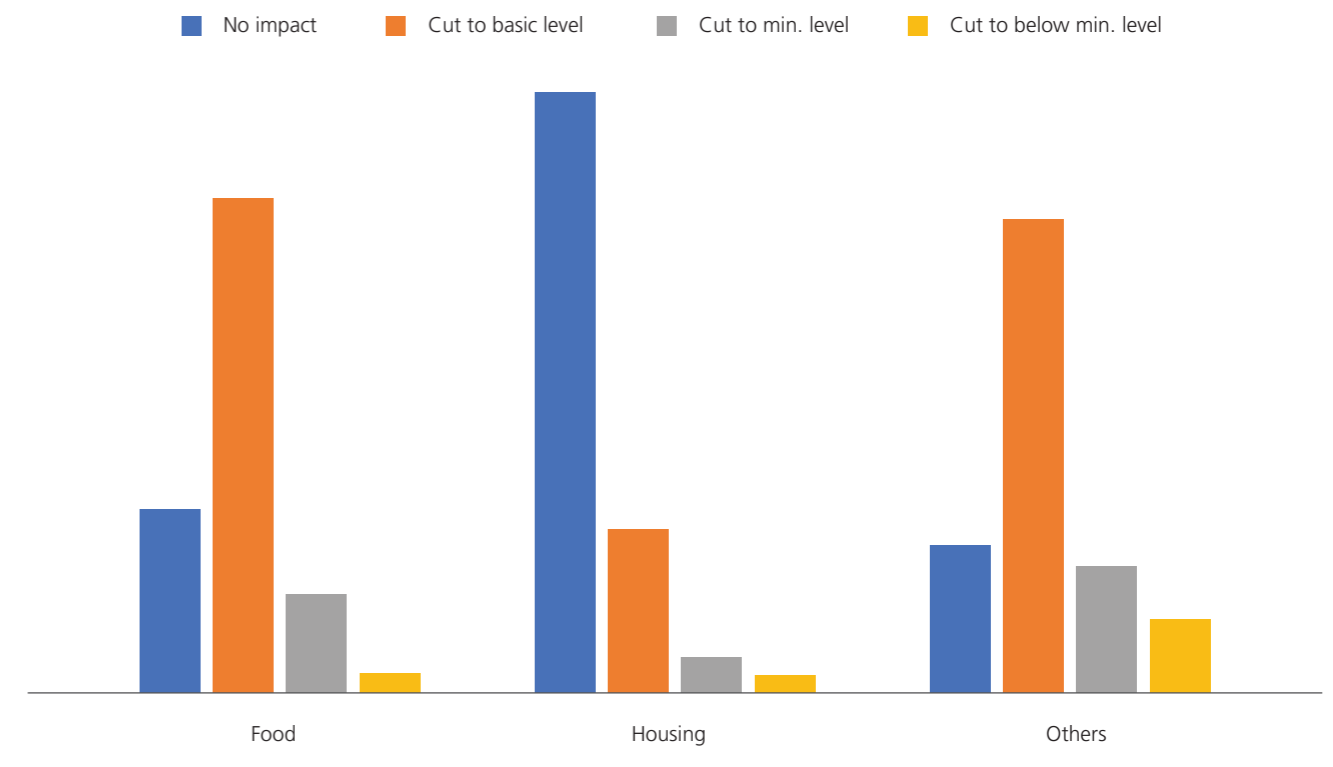


By the time of the survey in June 2020, *the income of nearly all (96 per cent) surveyed workers in garment and footwear firms had been reduced or totally lost.* This rate in electronics was 81.4 per cent. Nearly half of workers in the three industries had lost between 20-50 per cent of their income. It should be noted that the proportion of workers who lost all of their income was much higher in electronics, than in garment and footwear. This reflects the divergence within the electronics industry with producers of phones and computers performing much better during the crisis than manufacturers of other consumer electronics products (cameras, printers). Among workers to have suffered from income reductions or job losses, *66.2 per cent reported that cancellations/postponements of orders by buyers* was one of the most severe impacts of the pandemic on companies. In other words, the loss of employment and income for 66.2 per cent of surveyed workers was a direct impact of brands/buyers' practices towards their supply chains during the pandemic.

To understand the impacts of the pandemic on the spending of workers and their families, these costs were placed into the three categories of food, housing and other basic expenses (such as clothing, transportation, education) using three benchmarks of 'basic',

'minimum', and 'below minimum'.²⁵ In particular, when spending are 'cut to basic level', the nutrition, housing and other living standards are maintained at a minimum acceptable level. When spending are 'cut to minimum level' these standards are only enough to sustain life and below which, the life and safety of workers can be threatened. When spending is 'cut to below minimum level', these living standards are so low that workers and their families suffer from hunger, homelessness or acute shortages of other basic necessities. As shown in Figure 21, other spending (non-food, non-housing spending) suffered from the biggest reductions as reported by 80 per cent of workers (highest among footwear workers at more than 90 per cent). This means that spending on transportation, socialising, education (for children) and healthcare reduced, mostly to the basic level. Housing was the least affected as local workers commonly own their houses, aside from migrants who face greater accommodation constraints. Instead, workers tended to reduce food costs, with 75 per cent cutting such spending to basic level. But there was also a small percentage (2.4 per cent) who reduced food expenditure to below minimum level, meaning they suffered from hunger.

Figure 21: Impacts on workers' basic spending



Impacts on workers' psychology and family relationships

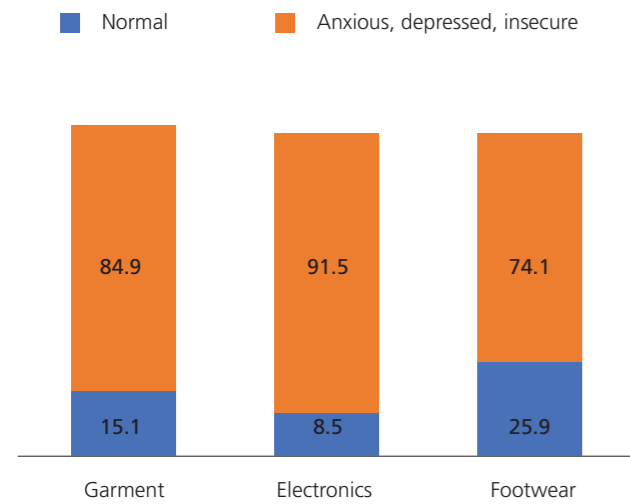
The pandemic and cost-cutting measures by enterprises had extensive negative impacts on workers' psychology. On average, 83 per cent of workers experienced constant feelings of anxiety, depression or insecurity about their futures. However, it is interesting to note that the impacts on footwear workers were slightly less severe than on electronics workers, despite the former industry suffering heavier impacts from order cancellations and postponements.

According to footwear workers, they were often consulted well in advance before decisions on their wages and employment were made. On the other

hand, the practice of labour-management dialogue was not common among electronics factories. An electronics worker said:

“I may go to work tomorrow and may be laid-off at the end of the day. This is really a time of uncertainty”²⁶

Figure 22: Impacts on workers' psychology (%)

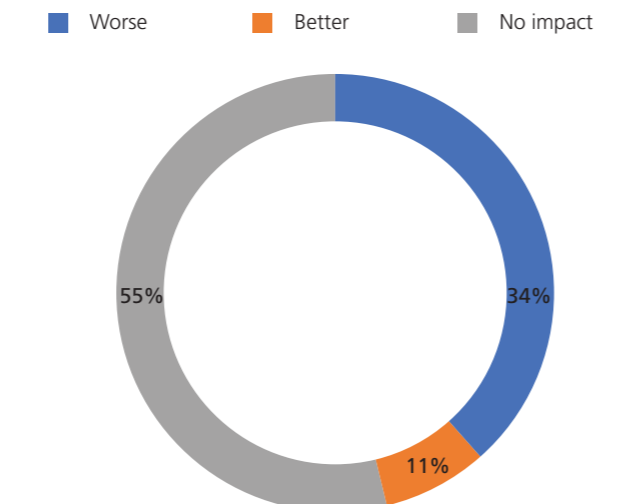


Cost-cutting measures due to the pandemic had mixed impacts on workers' family relationships: more than half of workers reported no impacts and 11 per cent claimed their family relationships improved as they were able to spend more time with their families. However, income reductions and job-loss risks had negative impacts on the family relationships of 34 per cent of workers.

Sources of support to workers

Sources of support to affected workers were limited. Among impacted workers in the three industries, 83 per cent received no support at all from employers (Figure 24). The remainder received certain cash-based and in-kind support from factories, such as one month's salary, rice and cooking oil. Among the 49 workers who

Figure 23: Impacts on family relationships (%)



benefitted from other sources of support, 26 per cent received cash transfers from the government support package (a VND 62 trillion package). The biggest source of support was from families and friends. According to interviews with local unionists and media coverage, an increasing number of affected workers sold their social insurance books to the black market or borrowed from 'black creditors' with high interest rates.²⁷ To support workers in need of low-interest loans, the Social Policy Bank has tried to persuade companies to allow the bank to use workers' monthly wages to cover loans. However, so far, this attempt was not successful with export-oriented firms saying this practice may conflict with sustainability codes of conduct that international buyers require them to comply with.

Figure 24: Support from employers (n=151)

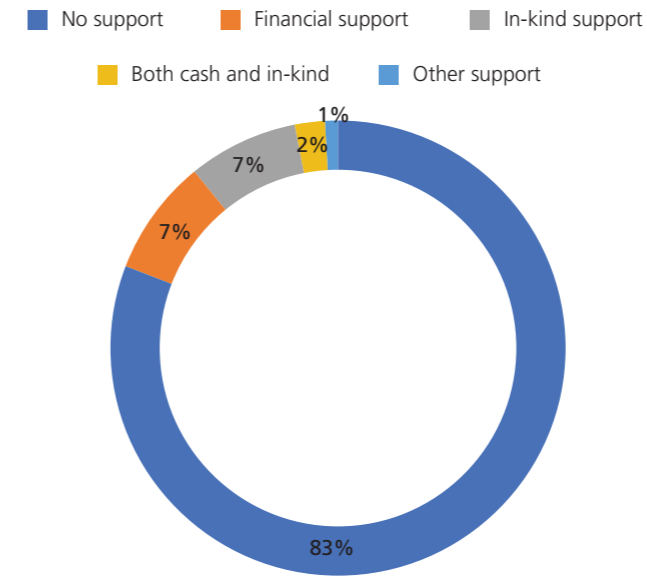
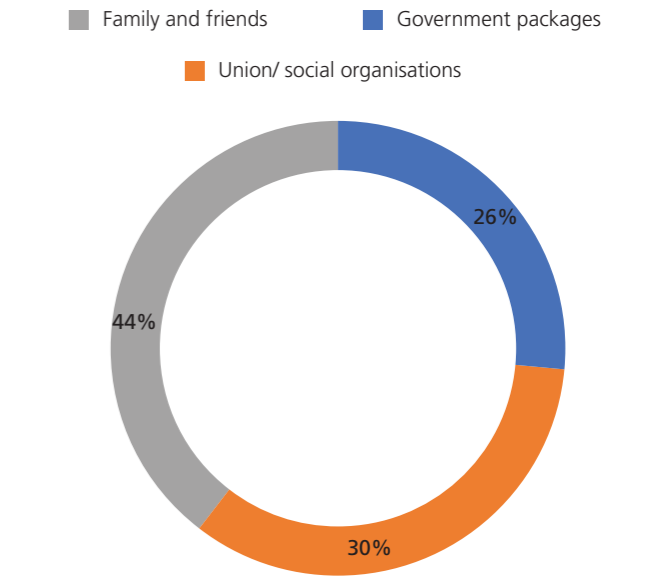


Figure 25: Support from other sources (n=49)



Chapter 5: Implications of Covid-19 Pandemic on Global Supply Chain - The 'New Normal' of sustainability?

The term 'new-normal' has been widely used to refer to a new context after the Covid-19 pandemic, in which people and businesses will need to adjust their behaviour and working arrangements. At the same time, GSCs all over the world – especially garment, footwear, and electronics industries heavily affected by the pandemic – will need to adjust to this 'new normal' in the post-pandemic era. It remains unclear how this 'new-normal' in GSCs will eventually turn out. But this study, combined with other research so far, points to some emerging trends in GSC re-structuring which may shed light on understanding possible changes from the perspective of sustainability.

Implications of the pandemic on re-structuring GSCs

A review of recent studies on the implications of the pandemic on GSCs reveals the following emerging trends:

The risk of over-relying on China for the supply of intermediate goods has resulted in disruptions to whole supply chains. A preliminary analysis by the United Nations Conference on Trade and Development (UNCTAD) showed that even a relatively small decline in trade in intermediate goods could have strong repercussions. For example, it is estimated that a 2 per cent reduction in exports of intermediate inputs from China to automotive manufacturers in the European Union, Japan, North America, the Republic of Korea and other major automotive-producing economies could lead to a US\$7 billion reduction in automotive exports from these economies to the rest of the world.²⁸ This means that *international brands will further push for diversification of their supply chains, away from China*. Japan and United States are providing financial support to their companies to shift away from China. Recently, 15 out of 30 Japanese companies receiving support from the Japanese Government decided to move their production from China to Vietnam.

GSC shocks suggest that one consequence of this pandemic could be an *acceleration in reshoring or near-shoring* in the future in some industries, particularly those where supply chains have been highly disrupted and where export controls have been imposed by governments. A reaction to this might be a shift towards parts of the GSC that are closer to the end user, with particular emphasis on regional supply chains.²⁹

The pandemic might also lead to structural changes in supply chains to increase supplier diversity.³⁰ The supplying factories themselves, will also attempt to diversify their client portfolio, maintaining a fair share among bigger and smaller buyers.³¹

This pandemic was preceded by, and is occurring concurrently to, a trade war that has raised tariffs for key products between a number of countries over the past two years and was already creating incentives to reconfigure supply chains towards countries with

lower tariffs. Consequently, there is a widespread debate about whether there is a need to rethink GSC strategies to increase their resilience and reduce their exposure to disruptions and shocks, and to improve their sustainability.³²

The current pandemic and recessionary environment may also accelerate technological change through artificial intelligence and automation. Research shows that, during recessions, *automation occurs at a faster pace* than during "normal" times, enabling enterprises to restructure and possibly leading to significant job losses. For example, in the United States, 88 per cent of job losses in routine occupations since the mid-1980s occurred within 12 months of a recession, and these jobs did not rebound once the recovery began.³³ Thus, labour-displacing technological changes that are implemented during the current downturn may limit job growth in certain occupations once the recovery begins.

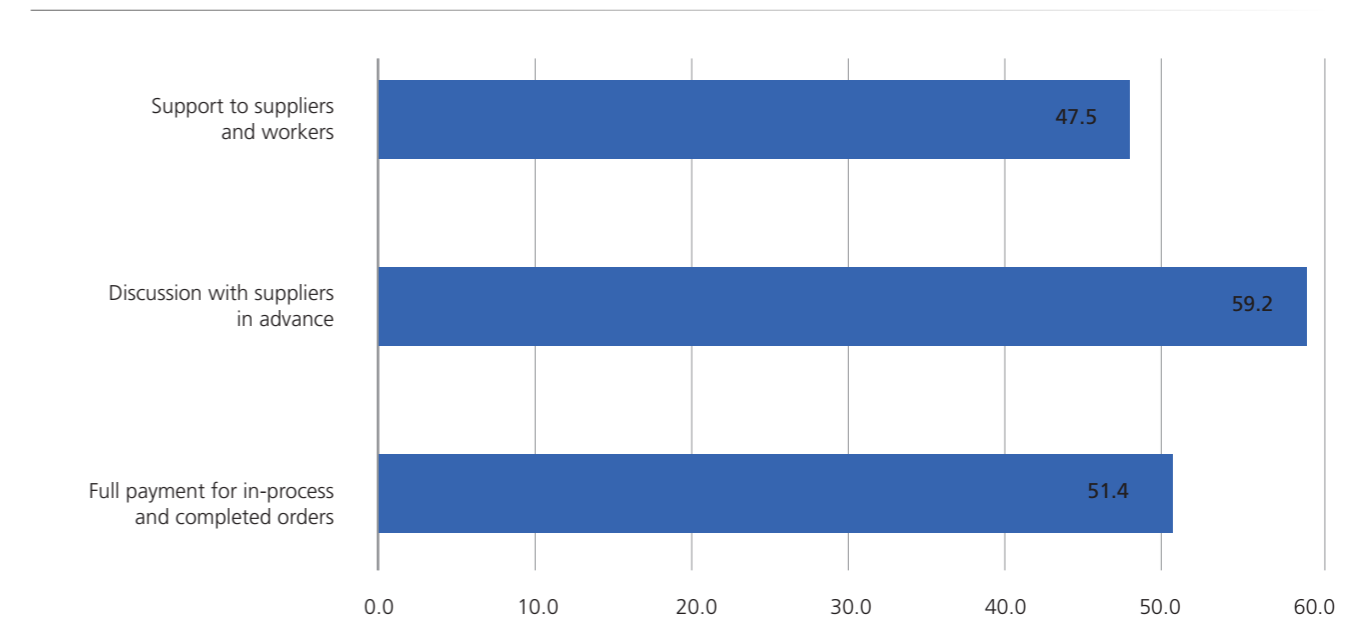
Implications on sustainability

This study has revealed a number of weak points in supplier-buyer relationships in the three industries:

First, communication between buyers and their suppliers during this time of crisis has not been as effective as needed. More than half of surveyed suppliers complained that some or all of their buyers failed to discuss in advance the possibility of order cancellations/postponements. Better communication within the supply chain was also the most common request by surveyed firms to their buyers (Figure 26). The responsibility of buyers to communicate regularly and in-advance on decisions about orders has important impacts on the suppliers' ability to sustain their business as well as employment and income for workers. This responsibility of buyers, therefore, should be added to the sustainability requirements for GSCs.

Second, the fact that buyers refused to pay in full and in time for the in-process and completed orders resulted in the most detrimental shock to suppliers, especially SMEs, as they lost their cash-flow and ability to pay their workers. The purchasing contracts between buyers and suppliers have been shaped in a way that shields the buyers from any liability in case they have to cancel/postpone orders nor sanctions if they fail to pay the suppliers in full and in time. In other words, if a crisis occurs, it is the suppliers that will have to take all the financial risks. Although these practices tend to happen during a time of crisis only, the buyers' reactions have been the direct cause for business closures and losses of jobs and income for millions of workers. In our survey, 51.4 per cent of suppliers demanded full payment for in-process and completed orders.

Figure 26: Suppliers' requests for buyers (%)



Third, more than any other time, the pandemic has shown the direct linkage between international brands that may not own factories or employ workers in the developing countries and working conditions for rank-and-file workers in their supply chains. Therefore, instead of simply demanding supplying firms comply with CSR codes of conduct, the brands should also be directly responsible for the protection of worker rights and interests in the producing countries. And during a time of crisis, provision of support to suppliers and workers should be considered a responsibility rather than a philanthropic act.

Since the pandemic began, there have been regional and international campaigns calling for the brands and buyers' responsibility for their suppliers and

workers. For instance, the ILO, International Trade Union Confederation, IndustriALL Global Union, and International Organisation of Employers jointly issued the call for action 'COVID-19: Action in the Global Garment Industry', which has been endorsed by more than 100 brands, retailers and NGOs. This call for action has asked the endorsing brands and retailers to:

- “ a. Paying manufacturers for finished goods and goods in production.
- b. Maintaining quick and effective open lines of communication with supply chain partners about the status of business operations and future planning.
- c. Should financial circumstances permit, direct support to factories can also be considered.¹³⁴

As the practices of brands and buyers affected suppliers in supply chains across the world, it has generated a sense of solidarity among producing countries that have been competing with one another. In April 2020, with similar requests to the brands and retailers, VITAS joined 60 business associations in the fashion industry in Asia, Europe, Africa, and Americas to issue a joint statement about supporting factories and protecting workers during the Covid-19 pandemic.³⁵

The Covid-19 pandemic has unveiled the darker side of global supply chains where the asymmetrical relationships between the powerful brands and suppliers in developing countries, such as Vietnam, have resulted in the unfair share of risks when crises occur. In the end, as illustrated by this study, it is the rank-and-file workers in supplying factories that must shoulder the ultimate impacts of this crisis and further ones in the future unless action is taken. Sustainability in supply chains, therefore, should not only be the responsibility of suppliers for their own workers, international brands first and foremost must protect and uphold the rights of the workers making their products, no matter where they are.

Endnotes

- 1 <https://www.theguardian.com/global-development/2020/apr/15/arcadia-group-cancels-over-100m-of-orders-as-garment-industry-faces-ruin>
- 2 <https://vietnaminsider.vn/vietnams-textile-sector-is-reeling-from-a-sudden-loss-of-orders/>
- 3 <https://www.workersrights.org/issues/covid-19/tracker/>
- 4 Anner, M. (2020). Abandoned? The Impact of Covid-19 on Workers and Businesses at the Bottom of Global Garment Supply Chains. CGWR Research Report (March 27, 2020)
- 5 Link to the report: <https://moit.gov.vn/web/guest/bao-cao-tong-hop1>
- 6 Vietnam Customs Office. 2020. The situation of exports and imports in 2019: <https://www.customs.gov.vn/Lists/ThongKeHaiQuan/ViewDetails.aspx?ID=1734&Category=Ph%C3%A2n&Group=>
- 7 The figures and tables were created by the author
- 8 There are approximately 3,800 exporting firms in the three industries in Vietnam (GSO 2017)
- 9 Hair Jr., J.F., Black, W.C., Babin, B.J. and Anderson, R.E. (2009). *Multivariate Data Analysis*. 7th Edition, Prentice Hall, Upper Saddle River, NJ. Hazelrigg, L. (2009). *Inference*. In: M. Hardy and A. Bryman (eds.). *The Handbook of Data Analysis*. Sage, London, UK.
- 10 At the time this report was written
- 11 Chinese tourists accounted for more than 30 per cent of in-bound guests for Vietnam's tourism industry (GSO 2017)
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