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Sustainability re-defined in the pandemic?

DISRUPTION, RESILIENCE AND ADJUSTMENT
IN THE APPAREL AND FOOTWEAR INDUSTRIES
OF VIETNAM



Acknowledgements

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Sustainability re-defined in the pandemic?

**DISRUPTION, RESILIENCE AND ADJUSTMENT
IN THE APPAREL AND FOOTWEAR INDUSTRIES
OF VIETNAM**

April 2021

Executive Summary

- The COVID-19 pandemic hit Vietnam's apparel and footwear industries hard

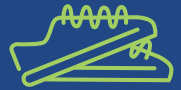
Export value



10.2%



9.6%



- Recovery has been slow and uneven:** around 10% of the biggest producers reported recovery while the rest still mired in difficulties
- New purchasing trends have emerged in the Global Supply Chains:** smaller orders, shorter delivery time, higher quality requirements, and lower prices in parallel with stricter compliance with labour and environmental standards.

- The new purchasing practices imposed by the brands tends to create conflicting cost pressures on the producers



60.9% suppliers found competition fiercer as brands shortening supply chains



45.1% reported price reduction



36% found the pressure on compliance with labour standards intensified which entails higher costs for the suppliers

- In 2020, cutting labour costs was inevitable for most firms



90% reduced overtime



62% cut off allowances and bonus



55.8% furloughed workers without pay



15% of the firms laid-off up to 20% of their labour force

The extent of these measures will be narrowed down in Quarter 1/2021

- Despite the massive economic impacts of the pandemic, many producers have stayed resilient and aim for economic upgrading



55.7% plan to invest further into automation



49.8% will develop new products



41.5% to invest in labour upskilling



Yet, **33%** factories face economic downgrading as they will return to Cut-Make-Trim production

The impacts on workers have been extensive and multi-dimensional. Particularly, these impacts have been exacerbated by the country's systemic problems:

Workers' voice rarely heard at the workplace during the pandemic

Only **20%** 

workers were informed about the labour cost-cutting measures

Nearly **10%** 

workers reported employers' discrimination against older workers and women, including pregnant women in apply cost-cutting measures

Only **15%** 

union members chose to voice their grievances on the cost-cutting measures via enterprise unions

Workers living on the verge of poverty – Women more seriously affected

33% 

Workers lost an average of income compared to that in 2019. For the laid-off, the income dropped by **59%**

27% 

The rate of income reduction among women workers currently working compared to **19%** for men workers and **63%** compared to **51%** among those who have lost their jobs

65.8% 

of the laid-off workers had not found new jobs and **23.3%** found informal, temporary jobs. Thus, **12%** of the laid-off were living below the World Bank poverty line

It is estimated that **2.4%** of the apparel and footwear workers suffered from hunger in the 2nd and 3rd quarter of 2020




The rate of workers in debt increased from **29%** to **37%**, with **13%** borrowing from loan sharks



Violence against women workers almost doubled

19.8% 

of women workers reported experiencing at least one form of violence ¹ (at home and @ work) in the past 6 months

53.2% 

The rate of domestic violence against women during COVID-19 period almost doubled that in 2019

12% 

Workers observed an increase in sexual harassment ² during the pandemic

1. Gender-Based violence refers to harmful acts directed at an individual based on their gender. This research looked at 6 behavioral forms including (1) Cursing, yelling, offensive language, defamation; (2) Beating, slapping, kicking, (3) Sexually suggestive staring (breast, waist, buttocks), causing uncomfortable feeling, (4) Profane or casual comments or allusion about the appearance or the body, (5) Deliberate touching of certain body parts (breast, waist, buttocks), (6) Solicited/forced sexual intercourse, using sex in exchange for employment benefits.

2. Sexual harassment at work in this research looked at behaviors occurring in the working-relationship such as condition for a job benefit (e.g. continued employment) or hostile working environment. These behaviors might be physical behaviors such as physical violence, touching, unnecessary close proximity; verbal such as comments and questions about appearance/body, sexual orientation; and non-verbal such as whistling, sexually-suggestive gestures, display of sexual materials as well as sending pornography via phone, messages or emails.

- With the conflicting cost pressures growing, thousands of SMEs may have to shrink or close down, resulting in significant labour reshuffling

15% 

of the apparel and footwear workforce are likely to move to other manufacturing industries

11% 

of the existing workers remain in the sector but switch to casual jobs

29% 

to turn to other jobs in the informal sector

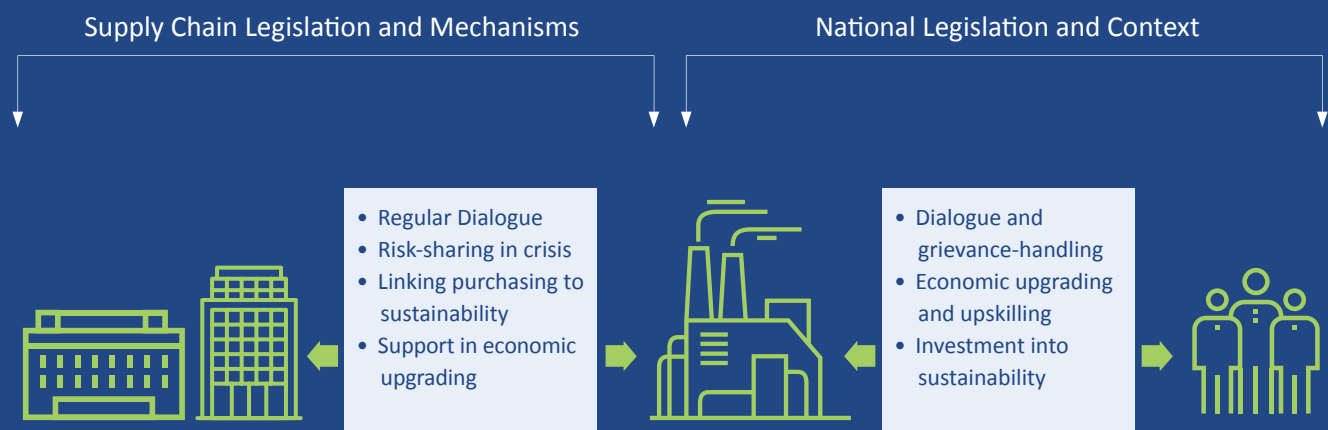
The pandemic provided a test of what works and what does not in sustainable supply chains. The most important lessons learnt are:



- Dialogue (between buyers and suppliers, between supplying factories and their workers) is crucial
- Economic upgrading and sustainability must go together
- Small and Medium-sized Enterprises must be engaged into the supply chains
- Structural supports are much more accessible and effective for workers during crisis than the emergency support schemes.

To minimize the negative impacts of the conflicting cost pressures and the divergence of the industry after the pandemic as well as building a more resilient and sustainable industry, the Report proposes a holistic approach to sustainable development in the GSCs

Sustainability in the Global supply chains post-pandemic



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Abbreviations

FWF	Fair Wear Foundation
GDP	Gross Domestic Product
GSO	Vietnam General Statistics Office
GSC	Global supply chain
IDH	IDH-The Sustainable Trade Initiative
ILO	International Labour Organization
ITMF	International Textile Manufacturers Federation
LEFASO	Vietnam Leather, Footwear and Handbag Association
OBM	Original Brand Manufacturing
ODM	Original Design Manufacturing
OEM	Original Equipment Manufacturing
SME	Small- and Medium-sized Enterprises
VITAS	Vietnam Textile and Apparel Association

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Why this Report?

Vietnam has been widely hailed as one of the most successful countries in the world at containing the COVID-19 pandemic³ with the number of cases under 2,000 while keeping the economy growing at 2.9% in 2020. What is often missing from this bright picture is the struggle of thousands of enterprises and millions of workers. The apparel and footwear industries have been among the most affected sectors in Vietnam. Their stories are not exceptional among the other garment-exporting countries: disruption of material supply, cancellation of orders, postponement of shipping, and delay of payments which have led to work suspension, income reduction, and job loss for millions of rank-and-file workers. As a consequence, workers and their families have been living on the verge of poverty as they had to cut down on basic expenses including food, housing, healthcare and resorted to loans from black creditors. Violence against women workers who contribute nearly 80% of the workforce increased at a worrying rate both at home and in the factories.

Table 1: Overview of Apparel and Footwear Industries in Vietnam (2019)

Industry	No. of firms	% firms with under 50 employees	No. of workers	% of women
Textile and apparel	6,961	68.6%	2,500,000	78%
Footwear and travel goods	2,095	61%	1,300,000	76%

Source: Annual Statistical Book (2019)

In reaction to the pandemic, it seems a new trend of purchasing has emerged in the apparel and footwear supply chains in the world: smaller orders as online sale prevails, higher quality requirement, shorter delivery time, lower prices while the pressure for investing into complying with environmental and labour standards keeps ever growing. This new trend promises opportunities for bigger factories but threatens to further sideline the SMEs that make up over 60% of the employment in the two industries in Vietnam⁴. Is this new purchasing trend in the fashion industry a sustainable one? What are the lessons we should learn from this pandemic to shape a sustainable recovery for all stakeholders in the global supply chains, especially the most vulnerable of all – the (women) workers?

In an attempt to find answers to these questions, Fair Wear Foundation and CARE International in Vietnam co-sponsor this policy paper which draws from two recent studies. The first study is ‘COVID-19 impacts on footwear and apparel workers in Vietnam’⁵

3. <https://www.un.org/en/desa/three-things-made-these-countries-more-successful-fighting-covid>

4. MCSS (2020)

5. Link to the full study report: https://event2020.vietnamtextile.org.vn/images/upload/event/-dai-hoi-VI-HNTK-2020/Tai-lieu/Covid19_AFS-research-report-Vi.pdf



funded by TARGET and CNV International and conducted by CARE International in Vietnam . The second one is *'Textile, garment and footwear industries amid the COVID-19 crisis – Impacts and Strategic Responses'*⁶ funded by the Sustainable Trade Initiative (IDH), CNV International, Fair Wear Foundation (FWF) and conducted by the Research Center for Employment Relations (ERC). The two studies were authorised by the Public-Private Partnership Working Group for Sustainable Development in Vietnam's textile, garment and footwear industries (PPP WG).⁷ In the first study which focused on the impacts of COVID-19 on footwear and apparel workers, a survey 1,280 workers (including those who had been laid-off and those who retained their jobs in the industries) was conducted in five provinces between August and September 2020 (see Table 2). The second research dwelled upon an online survey of fashion brands sourcing from Vietnam (Figure 2) and a survey of 253 footwear, textile and garment exporting firms in over 20 provinces between August and October 2020 (see Figure 1).

The combination of these two studies in this Report will attempt to sketch a comprehensive picture of the economic and social impacts of COVID-19 pandemic on the apparel and footwear industries in Vietnam. However, beyond the immediate impacts of the pandemic, the Report will also point out the emerging trends of adjustment in the global supply chains and the implications for supplying factories and workers in Vietnam. In the final chapter, the Report will propose a new approach to sustainable development in the apparel and footwear supply chains and specific recommendations to the lead firms and the governments of importing countries.

6. Link to the full study report: <https://event2020.vietnamtextile.org.vn/Pages/PostDetail.aspx?p=2181&i=6432>

7. The PPP WG was established in January 2016 with membership ranging from the governmental agencies such as Ministry of Industry and Trade (MoIT); Ministry of Natural Resources and Environment (MoNRE); Ministry of Labour-Invalids and Social Affairs (MoLISA); the business associations including the Vietnam Textile and Apparel Association (VITAS); Vietnam Leather, Footwear and Handbag Association (LEFASO); Vietnam Cotton and Spinning Association (VCOSA); fashion brands and international organisations like IDH, FWF, CNV International, CARE Vietnam, among others.

Figure 1. Supplier Survey

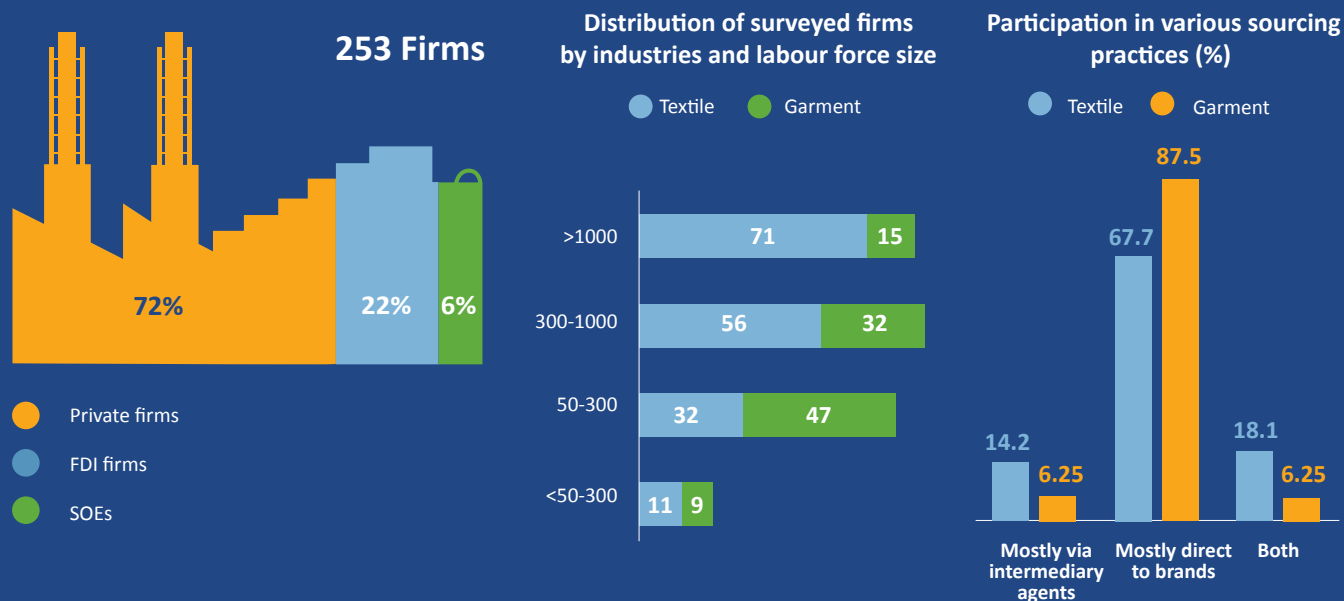
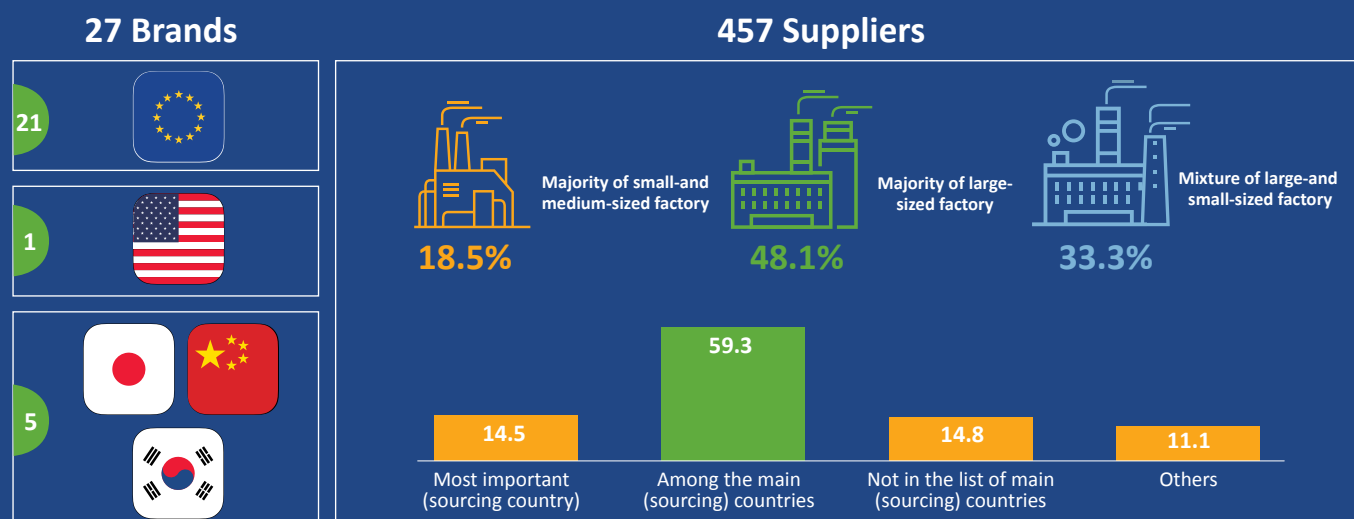


Table 2. Worker Survey (n=1280)

Attributes of survey samples		Number of people (N = 1,280)	Percentage (%)
Sector	Apparel	698	54.5
	Footwear	582	45.5
Employment status (August 2020)	Currently working in AFS sector	698	54.5
	Lost their job in AFS sector	542	42.4
Gender	Female	877	68.5
	Male	403	31.5
Type of workers	Migrant workers	724	56.6
	Local workers	556	43.4

Figure 2. Online Survey of Fashion Brands Sourcing from Vietnam



CHAPTER 1



Vietnam's Battle against COVID-19

The COVID-19 pandemic hit Vietnam quite early, in January 2020, but was controlled effectively by quick measures of the Government.⁸ By the end of February 2021, there were over 2,000 cases and 35 deaths.⁹ No factories were ordered to close because of the pandemic.¹⁰ Yet, the economic shocks stemming from the pandemic have hit the economy and workers hard: the first economic shock came from the closure of Vietnam's border with China on 31 January 2020, which resulted in the disruption of up to 70% of material supply for many industries such as garment, footwear, and electronics.¹¹ Also, the lockdown in China meant a serious drop in demand for quite a few industries including tourism and hospitality¹², wood and furniture, and agricultural products. In the early March 2020, Vietnam stepped into the second phase of the pandemic with further restriction of gatherings followed by a nationwide isolation of 15 days¹³, which significantly reduced domestic consumption of non-essential products and services. Also in the middle of March 2020, the United States and Europe, the two biggest export markets of Vietnam, applied lockdown measures, which have led to the third economic shock. The third economic shock has made a lasting impact on the key export industries of Vietnam until the time of writing.

Economic Impacts

In 2020, Vietnam experienced the lowest GDP growth rate over the past decade but compared to other Asian economies, Vietnam was among the top performers.¹² As shown in Figure 3, the economy went through a steep dive in the 2nd quarter and recovered in a V-shape trend towards the end of the year.

8. For a recap of Vietnam's measures to control COVID-19, please see: <https://www.theguardian.com/commentis-free/2020/oct/20/vietnam-covid-economic-growth-public-health-coronavirus>

9. <https://www.google.com/search?q=covid+statistics&oq=covid+statistics&aqs=chrome..69i57j0l3j0i22i30i395j69i60i3.4095j1j4&sourceid=chrome&ie=UTF-8>

10. One exception was a factory in Ho Chi Minh City that was ordered to close, as the size of the workforce posed a threat to COVID-19 spread

11. <https://nhandan.com.vn/tin-tuc-kinh-te/ung-pho-nhung-thach-thuc-moi-453088/>

12. Chinese tourists account for over 30 percent of in-bound guests for Vietnam tourism industry (GSO 2017)

13. Between 1-15 April 2020

14. CNBC praised Vietnam as Asia's top-performing economy in the Covid pandemic: <https://www.cnbc.com/2021/01/28/vietnam-is-asias-top-performing-economy-in-2020-amid-covid-pandemic.html>

Figure 3: Vietnam’s annual GDP growth rates from 2011-2020 and quarterly GDP growth in 2020



Source: General Statistics Office (2020)

However, behind this positive picture was the suspension and closure of over 60 thousand companies, most of which SMEs – an increase of 13.9% compared to the rate in 2019 (GSO 2020). The export sector led the economic growth by increasing 6.5% year on year; yet, it was the FDI enterprises that dominated the most important export products including 98% of export value in phones and parts, 97% in electronics, 86% in machinery, 79% in footwear and 60% in garment (GSO 2020). Thanks to the US-China Trade War and its geographical proximity to China, Vietnam’s exports to the United States and China witnessed phenomenal surges of 24.5% and 17.1% respectively while exports to all other markets faced with contraction in 2020.

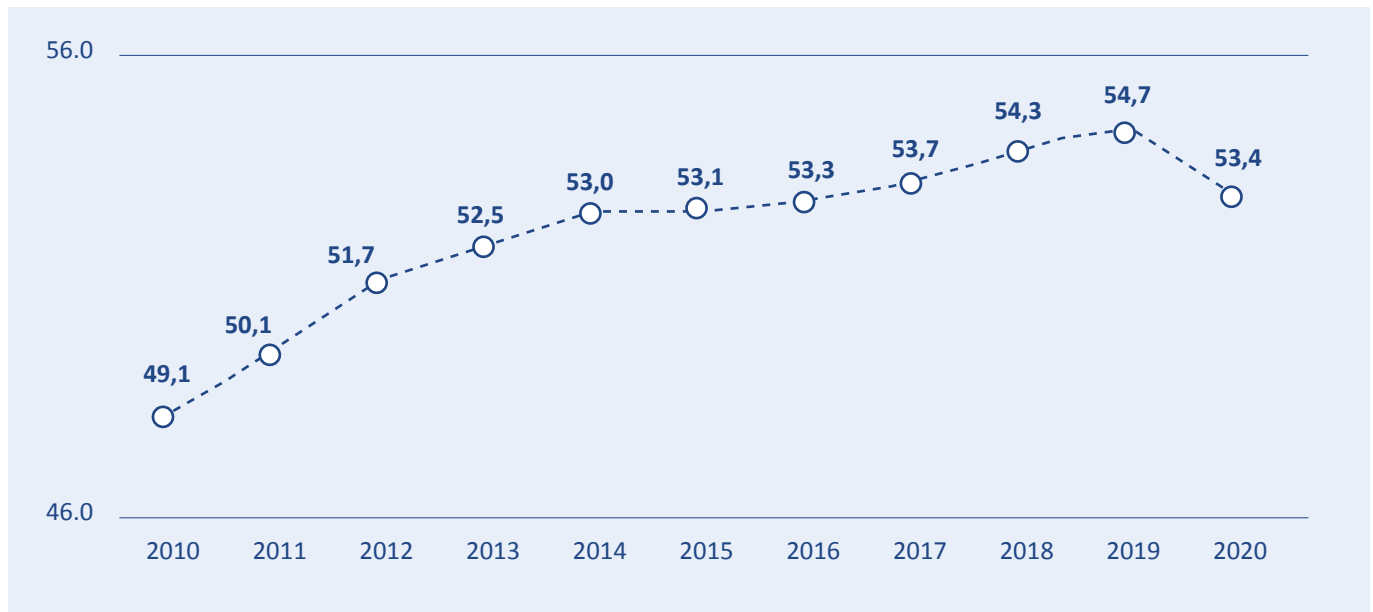
32M
workers affected

1.3M
lost jobs

Impacts on the Labour Market

By the end of 2020, 32 million workers or 60% of the total labour force were negatively affected by the pandemic; among them, 69.2% experienced income reduction and 14% were either furloughed or laid-off (GSO 2020b). In total, a record number of 1.3 million people became unemployed, among them 51.6% women (Figure 4).

Figure 4: Vietnam Labour Force, 2010-2020 (million workers)



Source: General Statistics Office (2020b)

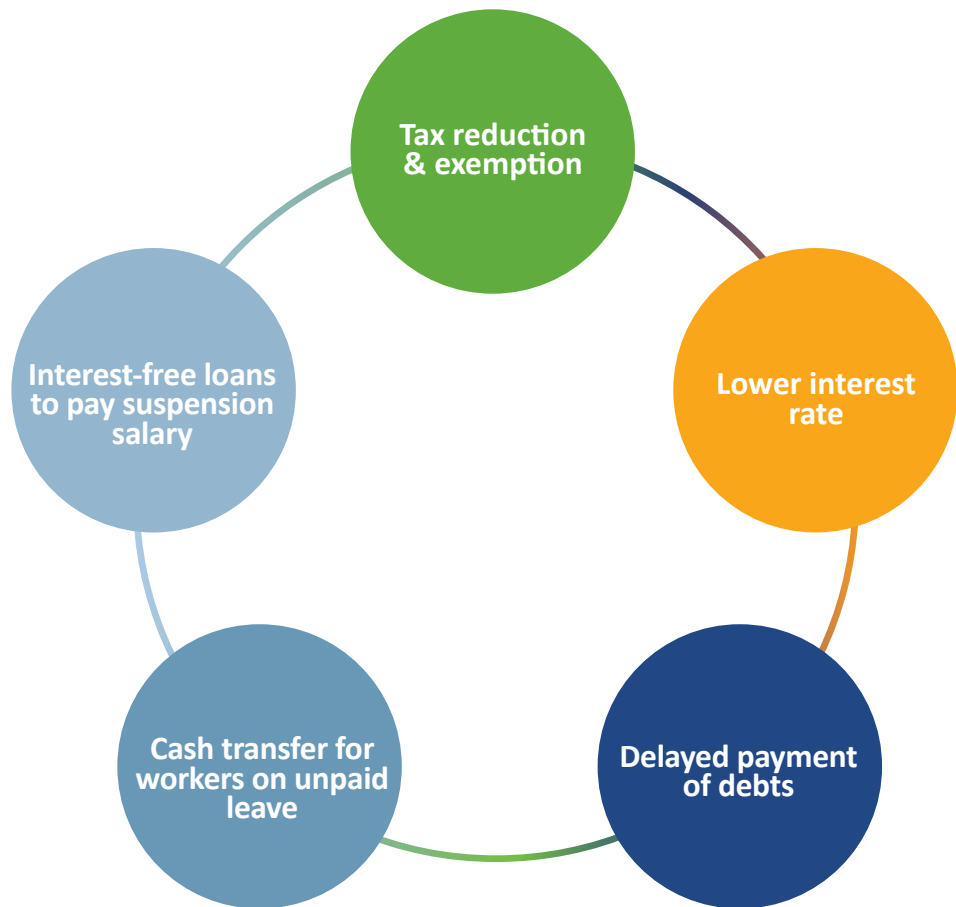
The urban unemployment rate reached 3.68%, the highest rate in a decade. The pandemic also reversed the decade-long trend of reduction in informal employment as 119 thousand more workers taking up informal jobs in 2020 compared to 2019. The average income of workers reduced by 2.3% to VND 5.5 million/month.

State Support Schemes for Businesses and Workers

In April 2020, the Government launched a bail-out package of USD 2.7bn including cash transfer for suspended workers, self-employed workers and poor households as well as concessional loans and tax exemption companies. By the end of September 2020, the package reached 12.5 million people, mainly self-employed workers, and 23.5 thousand household businesses. The rate of employees and enterprises benefitted from the bail-out package was limited. By the end of November 2020, cash transfer had been made to 16,000 workers on unpaid leave (out of the original target of one million) and only 60 companies received interest-free loans to pay salaries for 2,400 workers.¹⁵

15. <http://thoibaotaichinhvietnam.vn/pag-es/xa-hoi/2020-11-21/gan-2400-lao-dong-bi-ngung-viec-duoc-ho-tro-tu-goi-16000-ty-dong-95618.aspx>

Figure 5: COVID-19 support schemes



In the supplier survey, nearly 80% of footwear and 40% of apparel companies have not accessed any State support programs (see Figure 6). The main reason for inaccessibility is because the criteria were set too high (Figure 7). For instance, to be eligible for the no-interest loan, an enterprise must prove that it has no revenue at all in the first quarter of 2020.¹⁶ Among the workers who were furloughed without pay or laid-off in the survey, only 5.3% received the cash transfer from the State support scheme by the end of August 2020.

16. <https://tuoitre.vn/thu-tuong-ban-hanh-quyet-dinh-ve-goi-ho-tro-62-000-ti-dong-20200425193449618.htm>



Figure 6: Accessibility of Firms to State support schemes (%)

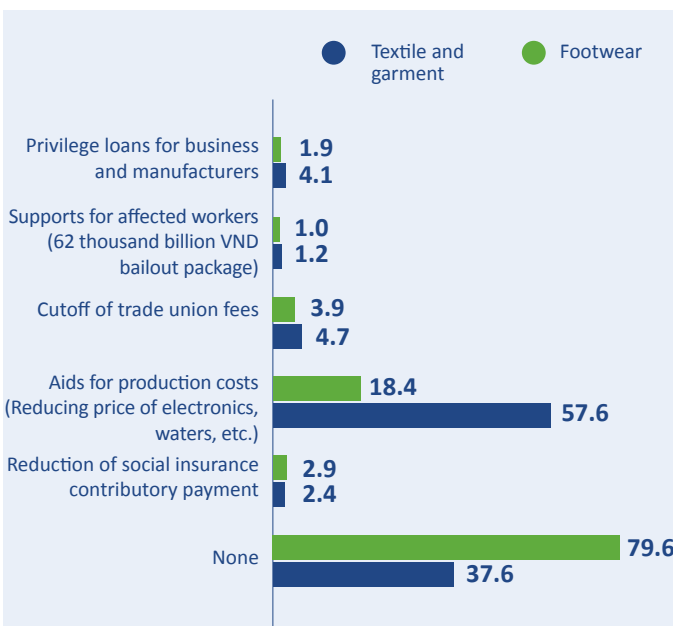
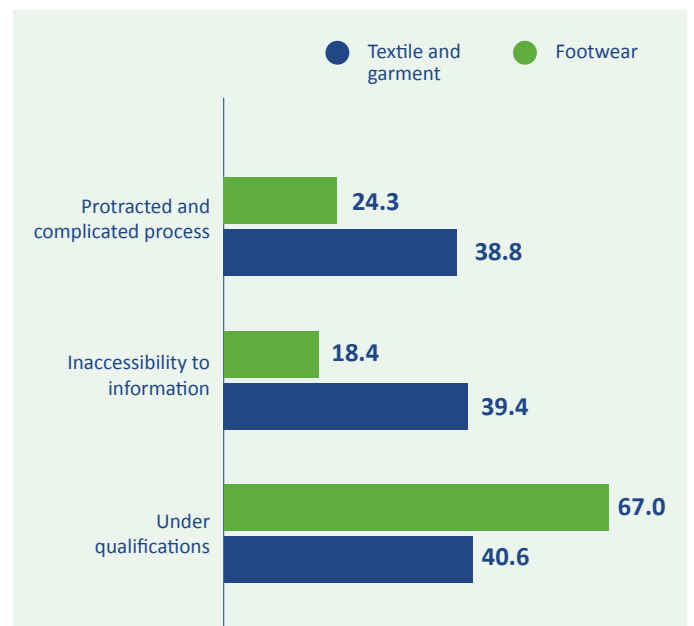


Figure 7: Causes of Inaccessibility (%)



Source: Supplier survey (n=253)

CHAPTER 2

Conflicting Cost Pressures and Growing Divergence in the Supply Chains

Slow and Uneven Recovery

Both apparel and footwear industries experienced significantly weaker performance in 2020: the total export value of the two industries dropped by 10.2% and 9.6% respectively (GSO 2020a). By the end of 2020, except for garments, the export of other products including yarn, fabric, and footwear have not shown clear signs of recovery (Figure 8).

Figure 8: Monthly exports of apparel and footwear products, Mar-Dec 2020 (thousand USD)

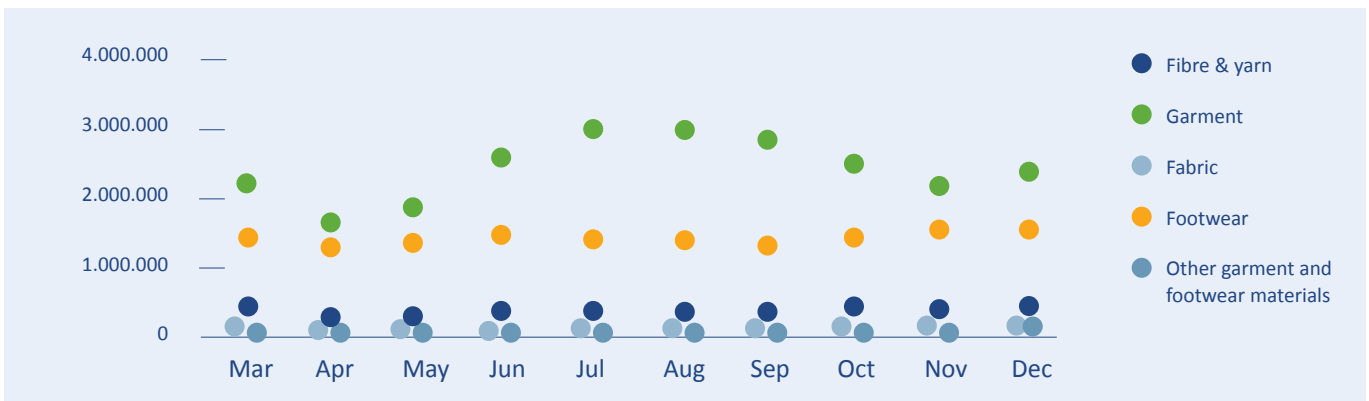
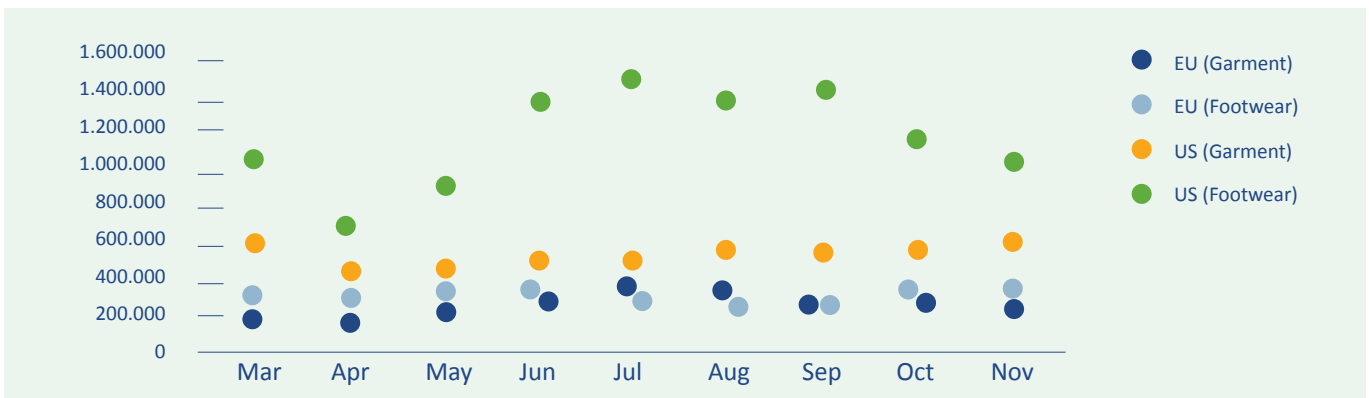


Figure 9: Monthly exports of apparel and footwear products to EU and US, Mar-Dec 2020 (thousand USD)



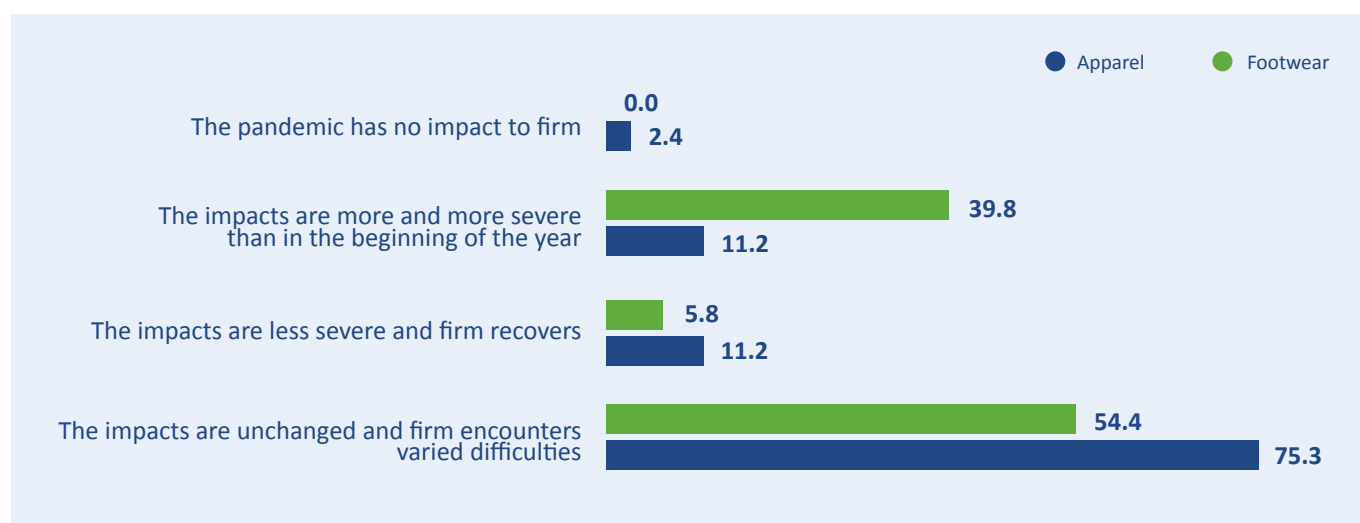
Source: General Statistics Office (2020)

The resurgence of garment exports since June 2020 was mainly attributed to the United States market (Figure 9), which, according to the interviewed garment manufacturers, was due to international brands shifting their orders from China to Vietnam due to the US-China Trade War. In other words, the large part of the apparel and footwear industries are still mired in difficulties and an overall recovery has not been in sight yet. According to

the Vietnam Textile and Apparel Association (VITAS), 70% garment manufacturers reduced shifts and rotated workers in March 2020, with an additional 10% following in April and May.¹⁷ In July 2020, VITAS reported that re-opened factories were operating at 50-60% capacity and approximately 500,000 to 600,000 workers remained furloughed.¹⁸

This trend was fully captured in our survey in September 2020: 75.3% of apparel and 54.4% of footwear companies reported that the impacts of the pandemic remained unchanged and they were still facing with a lot of difficulties; particularly nearly 40% of footwear companies found the pandemic’s impacts getting worse compared to the first half of the year (Figure 10). Only a modest proportion of 11.2% of apparel and 5.8% footwear firms, mainly the large-sized, reported recovery.

Figure 10: Directional impacts of the COVID-19 pandemic on apparel and footwear enterprises (%)



Source: Supplier Survey (n=253)

Emerging purchasing trends in the GSCs

The most prominent impact of the pandemic on the fashion brands has been their definite turn to online sale. As shown in our survey, boosting online sale is the choice of more than half of the brands sourcing from Vietnam (Figure 11). The growth of online sale means that the order volume becomes generally smaller while lead times are shortened with

17. Nguyen, Jason and Quan Le. 2020. "Vietnam's Textile and Garment Industry Hit Hard By COVID-19." East Asia Forum, 19 May

18. ILO. 2020. The supply chain ripple effect: How COVID-19 is affecting garment workers and factories in Asia and the Pacific. Research Brief (Link: https://www.ilo.org/asia/publications/issue-briefs/WCMS_758626/lang--en/index.htm)

higher personalization requirements such as more varied sizes. According to the footwear and apparel suppliers interviewed, the lead time has reduced by an average of 30% since the beginning of the pandemic. Furthermore, online sale requires stricter quality control to ensure consumers' satisfaction and minimize the return of products. In response, the suppliers have to be more flexible with production line arrangements to handle both smaller and bigger orders whereas the pressure on line supervisors, QCs and rank-and-file workers to reduce the fault rate has escalated.

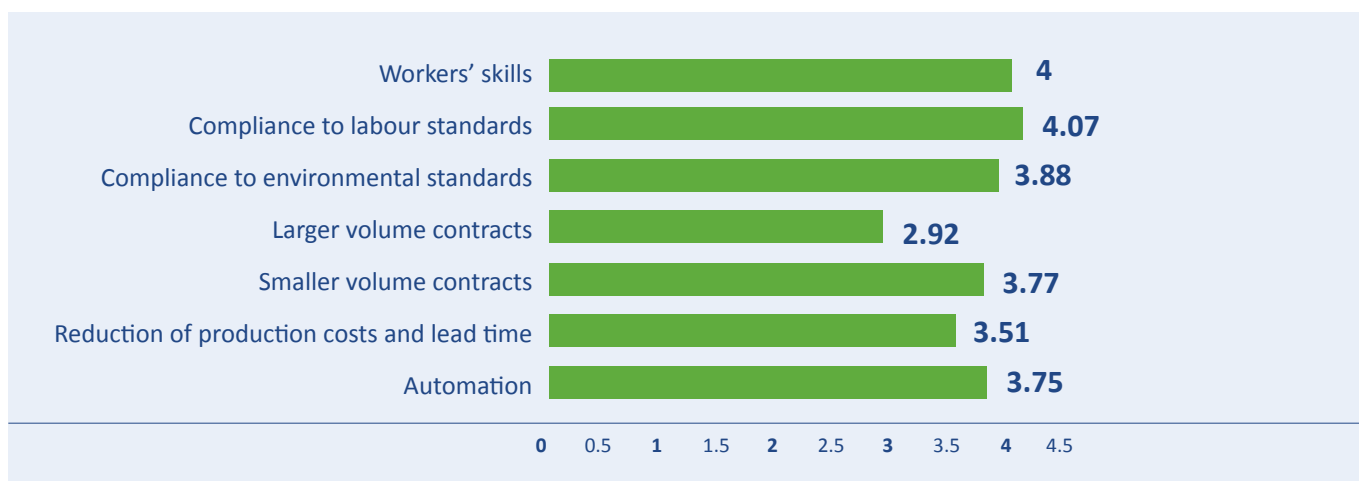
Figure 11: Trends of adjustment by fashion brands due to COVID-19 (%)



In line with their adjustments, the surveyed brands also expect current and potential suppliers to invest in automation, worker skills, minimize the production costs, shorten the lead times and accept smaller orders (Figure 12). These adjustments mainly target higher efficiency and lower production costs. At the same time, in response to rising demands for sustainable practices in the GSCs from consumers and governments¹⁹, brands emphasise on suppliers' compliance with labour standards (4.07/5) and environmental standards (3.88/5).

19. More countries have legalised human rights due diligence in the global supply chains. It started In 2012 with the California Transparency in Supply Chains Act in the US; then in 2015 with the British Modern Slavery Act and the same Act regulated in Australia in 2019; and Duty of Vigilance Law was adopted by France's government in 2017. For the time being, Germany and the European Parliament are both discussing the obligations to ensure environmental and labour standards in the supply chain, which may be adopted in 2021.

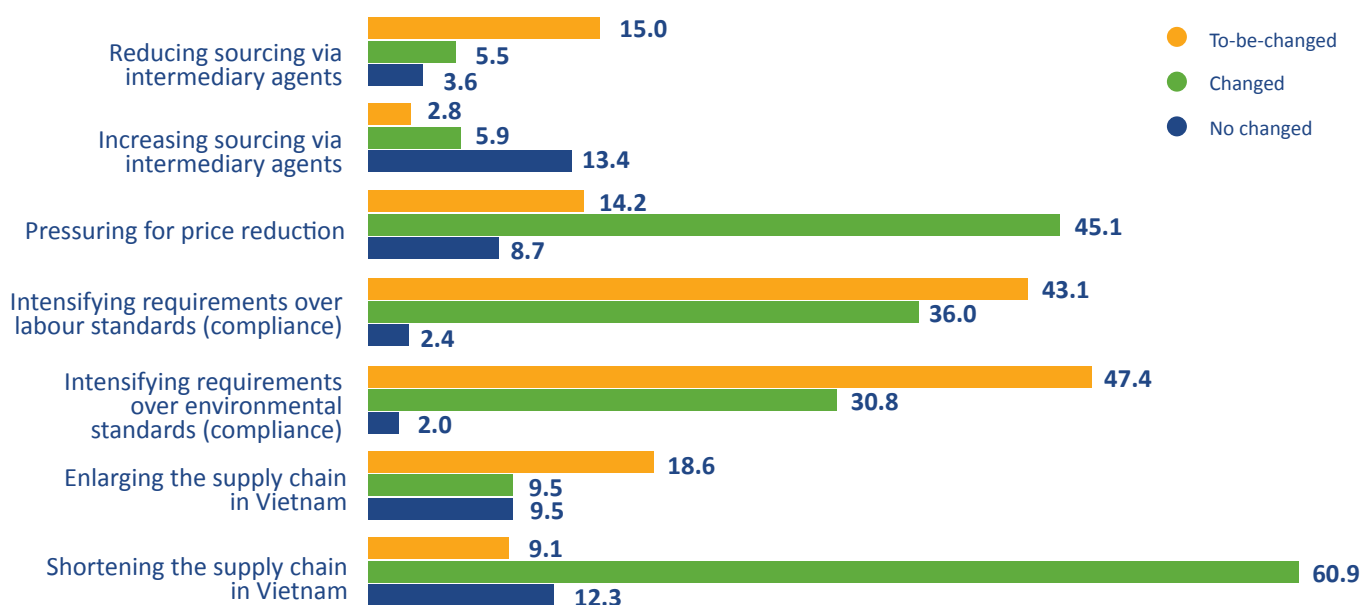
Figure 12: What brands expect their suppliers to adjust? (Ranking of importance 1-5)



Source: Online survey of fashion brands sourcing from Vietnam

According to the surveyed suppliers, the *afore mentioned* changes in the brands' practices have already been felt across the supply chains. First, according to 60.9% of the surveyed suppliers, competition among supplying factories intensified as the brands cut short their supply chain (Figure 13).

Figure 13: Changes in the buyers' policy from suppliers' perspectives (%)

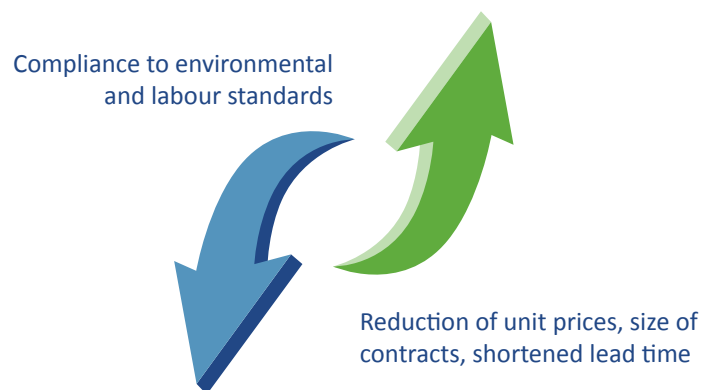


Source: Online survey of fashion brands sourcing from Vietnam

The pressure to lower the prices have substantially increased ever since the early 2020 for nearly half of the interviewed suppliers. A survey of the apparel, footwear and electronic supply chains in June 2020 found that almost 30% of the suppliers were asked by the buyers to reduce the prices for in-process orders by up to 70% (FES Asia 2020). The prices of imported apparel to the United States, the biggest export market for Vietnam, dropped by 13% in the first 9 months of 2020 (Odexa 2020). In the mean time, the intensification of sustainability requirements (labour and environmental standards) has already started for over 30% of the suppliers in the first 9 months of 2020 and is expected to continue in the next 1-3 years for over 40% of the firms.

The new purchasing trends in the GSCs have emerged. As supply chains are shortened and diversified resulting in fiercer competition among the suppliers, they have to accept lower prices, smaller orders, and shorter lead time while the pressure to comply with labour and environmental standards becomes stronger than ever. These changes have created conflicting cost pressures on suppliers: on the one hand, they have to cut costs and increase efficiency; on the other hand, they have to increase investments into automation, green energy, new technology, waste treatment, compliance with the labour standards and paying for the cost of social audits. In most cases, the compliance costs are covered by the suppliers alone. According to a survey by Better Buying, only 36.2% of apparel suppliers in the world reported that the order prices include the compliance costs (Better Buying 2020). Also, evidence from recent studies shows that the missing linkage between purchasing practice and compliance monitoring means that better compliant suppliers may not necessarily receive more orders and eventually be discouraged from improving their compliance (Amengual et al. 2019; Anner 2012).²⁰

Conflicting cost pressures on suppliers



20. Amengual M, Distelhorst G, Tobin D. Global Purchasing as Labor Regulation: The Missing Middle. *ILR Review*. 2020;73(4):817-840. doi:10.1177/0019793919894240

Anner, Mark . 2012. Corporate social responsibility and freedom of association rights. *Politics & Society* 40(4): 609–44

Staying Resilient or Losing out? The Local Business Responses

The pandemic hit the footwear sector harder than the apparel industry: as much as 84.5% of surveyed footwear firms faced with the cancellation and postponement of orders, and 74.8% were not able to export whereas these rates for the apparel companies are only 53.5% and 22.9% respectively (Figure 14).

Figure 14: Impacts of COVID-19 pandemic on apparel and footwear firms in Vietnam (%)



Source: Supplier Survey (n=253)

Even when orders were not cancelled, the suppliers faced with delayed shipment and payment. Half of the surveyed suppliers reported late payment from brands and 16.6% of factories have not received full compensation for cancelled orders. For many companies, the prospect for compensation for is gloomy as the contracts they signed with the buyers do not specify on the responsibilities of the buyers in cancelling orders. According to the suppliers, the SMEs are not in the position to negotiate with the buyers and have to accept the terms and conditions as given.

As a large firm, we have a team of lawyers and we are able to negotiate risk-sharing terms in case of force majeure situation. For smaller businesses, the buyers offer their default contracts which they do not fully understand and cannot negotiate with the buyers ... when the buyers cancel orders because of Covid, these firms do not have any grounds to ask buyers to compensate [their loss].

– Vice President of a large footwear manufacturer

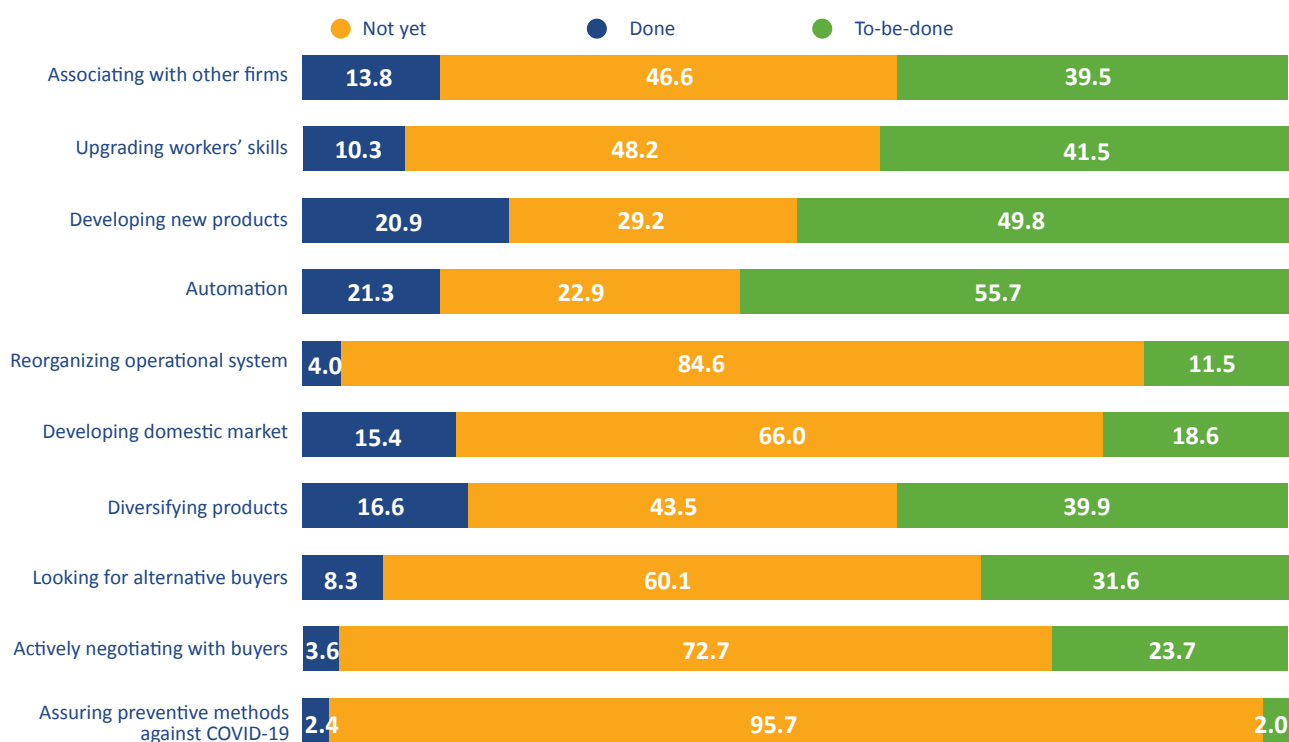
Delayed shipment also poses a big risk for the factories as storage leads to additional costs and deterioration of the products.

‘Finished products cannot be shipped and are now stored in the warehouse which costs us a good deal. With this humidity and temperature, the glue will perish off in a few months. We may then lose the whole order’

Deputy Director of a Taiwanese footwear company, Binh Duong

In response, the garment and footwear enterprises have shown their resilience by actively negotiating with buyers to reduce loss, turning to the domestic market, and minimizing operational costs. Particularly, the pandemic did not hinder many firms from planning ahead with strategic upgrading: in the next 3 years, 55.7% of suppliers will invest further into automation, 49.8% plan to develop new products, and 41.5% to invest in upskilling for their workers (Figure 15). Specially, the COVID-19 has enhanced the demand for the firms to develop backward linkage domestically (46.6% of surveyed firms have developed linkage with others while 39.5% plan to do so in the next 3 years).

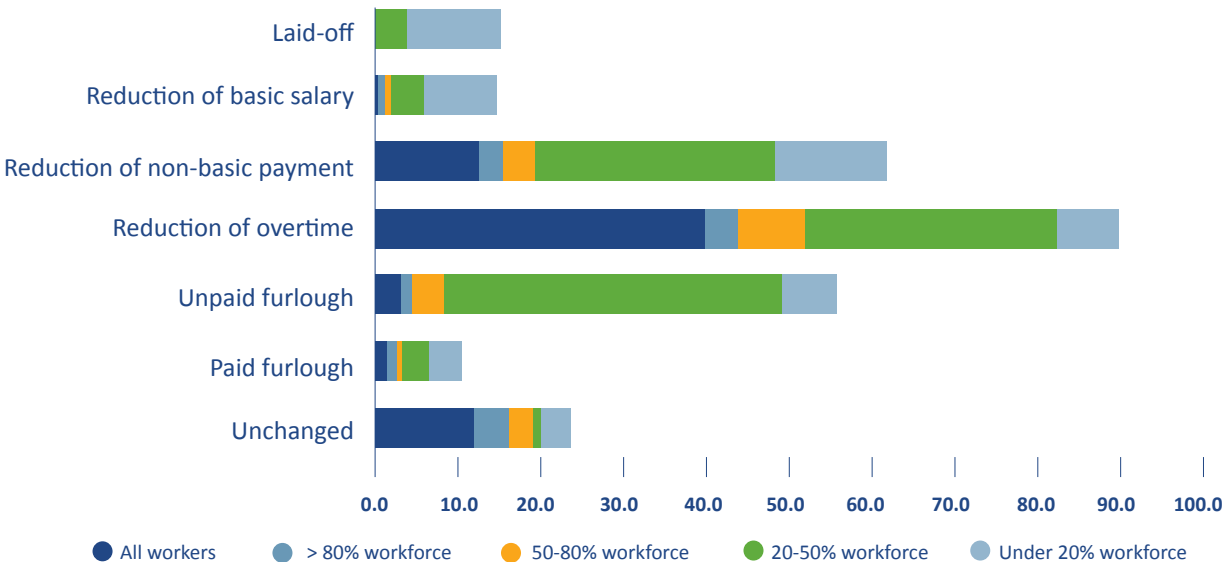
Figure 15: Current and Prospective Responses by Enterprises (%)



Source: Supplier survey (n=253)

Still, the vast majority of the surveyed firms have had to cut down on labour costs: 90% reduced overtime, 62% cut off allowances and bonus, 55.8% furloughed workers without pay, and 15% of the firms laid-off up to 20% of their labour force (Figure 16). The impacts on labour tend to be lessened in the 1st quarter of 2021 as the surveyed firms plan to restrain labour cost-cutting measures, especially furlough and dismissal; yet, 85% of the factories will continue to minimize overtime. As indicated in the next section, without overtime payment which normally makes up 22-33% of their income, workers risk living on the edge of poverty even though they are able to keep their jobs.

Figure 16: Labour cost-cutting measures implemented by firms in the first 9 months of 2020 (%)



Source: Supplier survey (n=253)

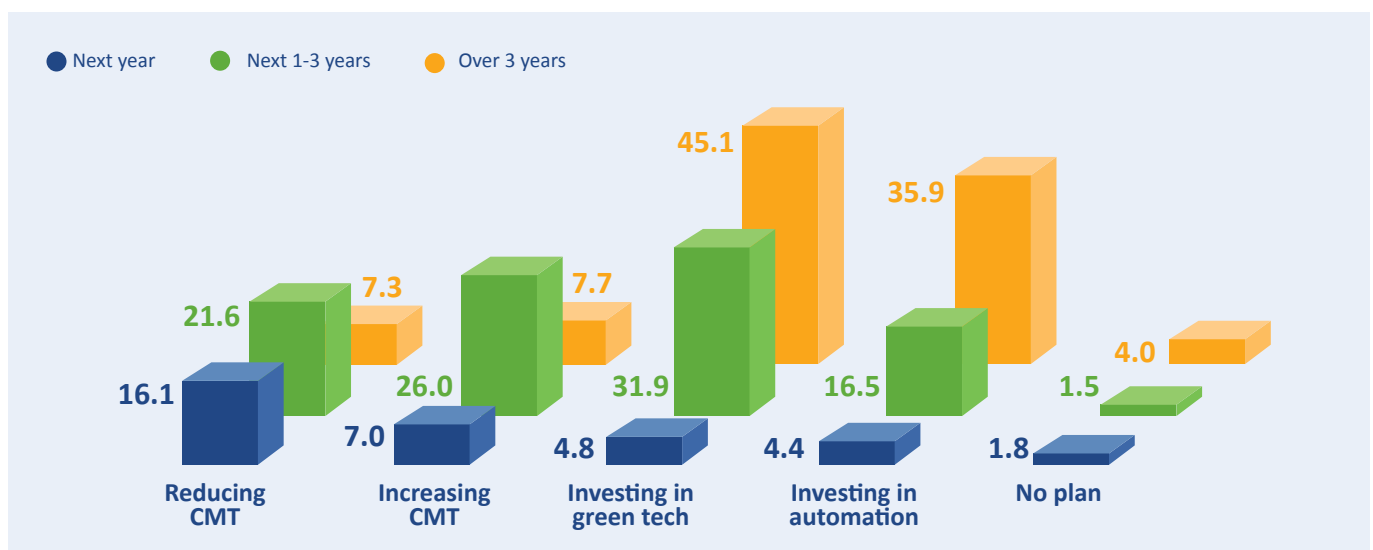
The pandemic has accelerated the divergence in the fashion industry.

The well-off consumers turn more to high-quality, sustainable brands whereas those impoverished by the pandemic opt for the cheap fashion regardless of their sustainability reputation.

The pandemic has made the gap between the rich and the poor growing fast. The rich turn to high-quality, sustainable brands while the poor buy from the discounters. The cheap fashion companies will have big impacts in the future, huge business ... it means a price-squeezing problem for the supply chain. This is a complete disaster!
- Global Purchasing Director, European sportwear brand -

This trend will be translated into the further divergence among the suppliers. The bigger factories with long-term partnership with the brands and better (financial) resources are more likely to sustain business during the crisis, satisfy the brands' elevated requirements and thus, receiving more orders in the post-pandemic period. The smaller factories, especially those selling via vendors, faced with extensive order cancellations and quickly exhausted their financial capacity. As a result, thousands of SMEs had to closed down a part of business²¹ while the others may not have the sufficient resources to respond to the stricter requirements of the sustainable brands. These factories will have to work with the cheap fashion buyers that ignore sustainability standards and squeeze further on prices.

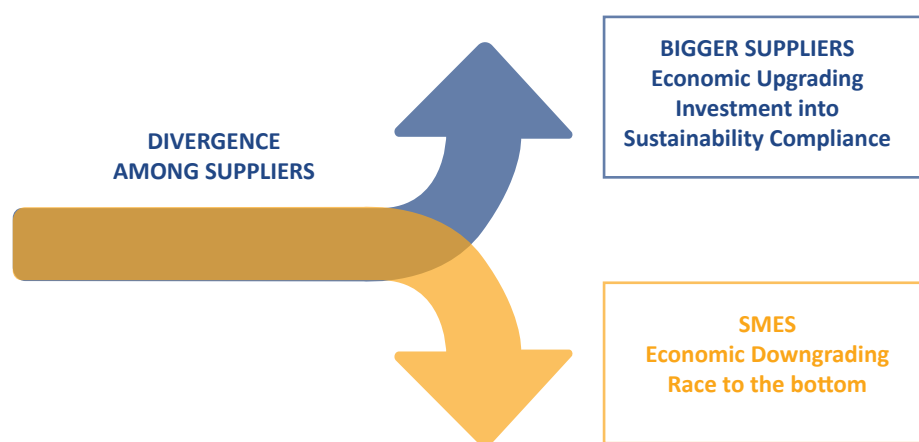
Figure 17: Prospective adjustments by apparel and footwear enterprises (%)



Unfortunately, such divergence among the suppliers has emerged, as reflected by the surveys: when asked about their future adjustments, 37% of the surveyed companies plan to reduce the rate of Cut-Make-Trim (CMT) production and increase FOB (Freight on Board) or ODM (Original Design Manufacturing) in the next 3 years (Figure 17). However, 33% manufacturers will turn back to CMT production while reducing FOB/ODM. Such move can be regarded as 'economic downgrading' as the CMT manufacturers participate in the least value-added section of the supply chain. As the director of a garment company with 250 workers in Hanoi explained, they now have no better option:

21. According to the General Statistics Office, in 2020, 5,572 enterprises in the manufacturing sector suspended temporarily, an increase of over 50% compared to that in 2019

“We know that CMT production is low profit but FOB or ODM requires big investments and involves higher financial risks. As the pandemic goes on, our company is in difficulties. We have no other way but turning back to CMT”.



If this trend goes on, as figured out in the next chapter, nearly half of the labour force in the two industries, mostly women in the SMEs, may lose jobs or have to work in deteriorating working conditions.

Lessons learnt

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
- A footwear supplier in southern Vietnam -

The pandemic has provided a tough test of what works and what does not in making the global apparel and footwear supply chains resilient and sustainable. Our studies pointed out three important lessons:

Lesson 1: Brand-supplier dialogue is crucial

Although in many cases, cancellation and postponement of orders was unavoidable, the lack of advanced discussion by the buyers with their suppliers deprived the factories of necessary time to prepare and find alternative solutions. According to a survey by ITMF covering 600 CEOs of textile and garment companies globally, across the garment supply chain up to 40% of buyers failed to give warnings or advanced discussions with the producers when they cancelled or postponed orders (ITMF 2020). Our survey indicates that regular discussions with buyers about purchasing practices and a mechanism for risk sharing if problems arise was one of the most pressing demands of over 60% of the surveyed factories towards their buyers. Quite a few factories, on the other hand, reported that due to strong partnership and frequent dialogue with their buyers, they were able to sort out a win-win solution: the buyers agreed not to cancel signed orders and ensured sufficient orders to sustain the factories while the suppliers accepted delayed payment.

We have built a long-term partnership with the brand. We discussed a lot during the pandemic. The brand gave us enough orders to keep our workers and we accepted to share difficulties with the brand. No order was cancelled!

Deputy Director, Thai Binh Shoes

Lesson 2: Economic upgrading and sustainability must go together

When faced with the conflicting cost pressures, the suppliers will have the urge to cheat in social audits unless they are able to upgrade economically so as to at least retain their profit margin and thus, having the resources to invest into compliance. Price squeezing by the buyers without economic upgrading by the suppliers only results in deterioration of worker rights (Anner 2020; Do 2020)²².

Box 1: Economic upgrading is defined as the process by which firms move from low-value to relatively high-value activities with the global value chain. Firms can achieve economic upgrading by four ways

- (i) Process upgrading: to apply new technology and methodology to improve labour productivity, increase the quality of products and minimize errors.
- (ii) Product upgrading: to produce higher value-added items.
- (iii) Functional upgrading: to perform a high-value function in supply chains, for example: a supplier who used to perform assembly and process only, now is able to design their models, develop their own materials and engage in create in their own brand.
- (iv) Sectoral upgrading: s to move from a low-value to a higher-value sector

(Humphrey and Schmidt 2002)

The experience of the apparel and footwear factories that have managed to upgrade economically and recover after the pandemic proves that apart from their own resilience, the long-term partnership with the core buyers is crucial. The long-term partnership here means that the buyers provide consistent and long-term (technical and financial) support to the factories to adopt new technology, improve efficiency, lower production costs while enhancing compliance with sustainability standards. It also means that the buyers and suppliers agree to share risks during the crisis. As shown in the case of Decathlon with its

22. Anner, Mark. 2020. Squeezing workers' rights in global supply chains: purchasing practices in the Bangladesh garment export sector in comparative perspective, *Review of International Political Economy*, 27:2, 320-347

Do, Q. Chi. 2020. Social and Economic Upgrading in the Garment Supply Chain in Vietnam. IPE Working Paper No. 137/2020

Vietnamese suppliers, the brand worked along with their suppliers on a daily basis for a decade and shared the difficulties during the pandemic. In other words, the foundation for sustainability in the supply chains should be economic upgrading²³ among the suppliers with the committed support by the buyers.

Box 2: Long-term partnership between the brand and suppliers

Decathlon is a French sportswear brand. In Vietnam, Decathlon has about 100 suppliers, including 02 domestic companies: Thai Binh Shoes and TNG. With the principle of ‘going along with the suppliers’, Decathlon has worked with these suppliers for ten years since the two suppliers were not of much smaller size. Decathlon sent their specialists to help the suppliers improve technology, product quality, digitalise the factory management system as well as guide on labour practices. During the crisis, the suppliers accepted lower prices and delayed payment while Decathlon ensured the sufficient orders to keep all workers.

(Interviews with Decathlon, Thai Binh Shoes and TNG, Sep-Oct. 2020)

Lesson 3: Engaging SMEs into the sustainable supply chains

In the garment, textile and footwear industries, manufacturers with fewer than 1,000 workers have little opportunity to source directly to brands. According to a survey by Wage Indicator (2018), garment suppliers with fewer than 1,000 workers sell directly to 1.36 brands on average while this rate for the 13 largest garment producers is 50 brands. In our survey, only 19% of the brands sourced more from SMEs in Vietnam than the large-sized manufacturers. The purchasing manager of an European brand explained:

We only source from bigger factories with at least 1,000 workers. To be honest, the smaller companies cannot reach our production, quality and CSR standards.

Over 80% of garment and footwear companies in Vietnam employ fewer than 1,000 workers. If those companies are excluded from producing for the big brands, then they have little opportunity to upgrade and improve their sustainability practices. This results in a race to the bottom across the industry. Local industries and international brands would benefit from SMEs being gradually incorporated into sustainable supply chains.

23. For a detailed discussion of economic upgrading for garment and footwear suppliers, please refer to the full report from the Supplier Survey: <https://event2020.vietnamtextile.org.vn/Pages/PostDetail.aspx?p=2181&i=6432>



Over the past decade, the government of Vietnam has launched various policy incentives and support schemes for SMEs.²⁴ However, for the SMEs to join the global supply chains, it also requires the active and long-term support from the international brands. Our research has found quite a few examples of international buyers successfully nurturing SMEs into their core suppliers by providing technical and financial support (see Box 3).

Box 3: Supporting an SME to join the supply chain

HT, a Vietnamese garment company in the central province of Quang Nam started working with a Japanese brand since 2008 when the company had slightly over 500 workers. The brand sent their specialists to assist the company in improving management, technology and labour standards. The company also enjoyed concessional loans from the brand during difficult time. The factory now has grown in both labour force size (with over 5,000 workers) and capacity (performing ODM orders for Japanese and American brands).

24. In 2017, the Law on Supporting SMEs was passed by the National Assembly (Link: <https://m.thuvienphapluat.vn/van-ban/doanh-nghiep/luat-ho-tro-doanh-nghiep-nho-va-vua-2017-320905.aspx>)

CHAPTER 3

Those who Shoulder the Loss: Multi-Dimensional Impacts on Workers

As indicated in the previous section, while many apparel and footwear factories have tried to stay resilient during the pandemic, most of them have had to resort to wage cutting, furlough and even dismissal. According to a survey by FES Vietnam and ERC in June 2020, around 70% of the apparel and footwear exporters had to cut labour costs as the direct consequence of order cancellation, postponement and delayed payment (Do 2021: 21). This means that the impacts of the pandemic have trickled down from the international brands to the manufacturers and finally onto the rank-and-file workers who now have to shoulder the bulk of the loss. Further more, the economic impacts of the pandemic have been exacerbated by the pre-existed systemic problems and have substantially deepened the workers' sufferings.

'Until my name is called!'

"We can only be certain of every single day we work, without being able to predict the future as we can be made redundant right tomorrow"

- A female garment worker, northern province of Hai Duong -

Dearth of workers' voice

In case of temporary work suspension, either with or without pay, the 2012 Labour Code requires the agreement of both parties to the decision (Art. 32, 98 and 116). This means that the employers not only have to consult workers but also secure their agreement in the case of work suspension. Of the 1280 surveyed workers, only 76% reported being informed by the employers about the business difficulties and 20.2% of workers were aware of measures used by the employers to reduce wages and adjust the staffing structure. Nine out of ten workers were reportedly not aware of the selection criteria for a workforce reduction. 75.5% of workers accepted the workforce reduction plan of their employers but 41.5% indicated a low level of satisfaction.²⁵ The information is not transparent while consultation between the employers and the employees is missing, leading to employment uncertainty.

25. Below 50 points in a scale of 100

Dialogue with workers has not been a common practice among the employers. A study by the International Labour Office in Vietnam found that 63.4% of the surveyed employers opted for an unilateral approach to labour cost-cutting measures while only 20% consulted their employees (ILO Vietnam 2020). One of the reasons for the lack of social dialogue during the crisis is the fact that many employers have never embraced a dialogue culture themselves. Unfortunately, the failure to conduct dialogues with workers and their representatives sparked over a hundred wildcat strikes²⁶, most notably the three-day strike by over 10,000 workers at Chi Hung, a Taiwanese footwear factory in Dong Nai²⁷ and most recently a strike of 3,000 garment workers at YSS, a Hongkong company in Nam Dinh.²⁸

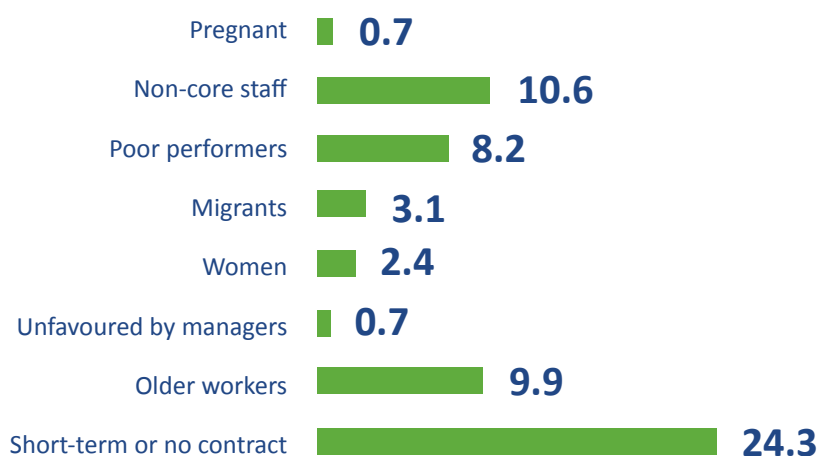
Signs of discrimination against women and older workers

Although it has never been admitted by the employers, the interviewed workers observed that workforce restructuring tends to be age and gender sensitive. According to the workers, workers who are laid off usually include: "female workers who are pregnant or those with small children", or "elderly workers (50 years old and older) because of, presumably, low productivity and failure to deliver performance targets. The study by ILO Vietnam also found that the older workers, women, migrants and even pregnant workers were at higher risk of being dismissed (Figure 18). The prospective for older workers to find new jobs in the formal sector is bleak, even in normal time. Consequently, they either have to accept informal, precarious jobs or return to the agricultural work in their rural villages.

"The company normally has fewer orders between April and June and they also laid off workers during this time last year. This year, they used Covid19 as an excuse. Women with small children or pregnant women are often targeted because they tend to take leave often"

– A furloughed garment female worker in northern province of Bac Giang –

Figure 18: Workers' observations of the most vulnerable groups for dismissal?



Source: ILO Vietnam (2020)

26. In 2020, there were 126 (wildcat) strikes in Vietnam (VGCL Statistics, 2020)

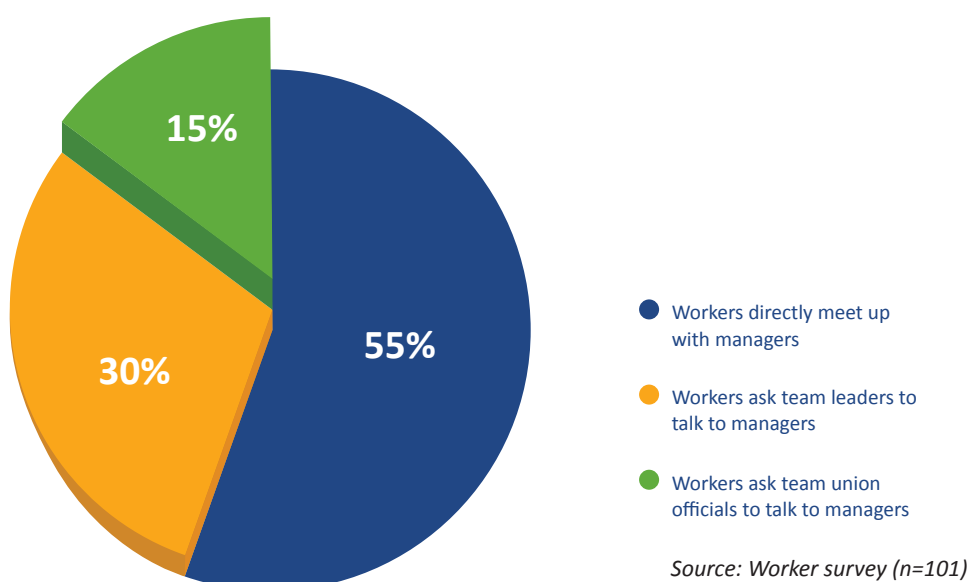
27. <https://nld.com.vn/cong-doan/vi-sao-8000-cong-nhan-cong-ty-tnhh-chi-hung-dinh-cong-20200601151038704.htm>

28. <http://daidoanket.vn/nam-dinh-hang-nghin-cong-nhan-may-ngung-viec-vi-khong-duoc-thuong-tet-549697.html>

Unions' roles at the workplace

Before the COVID-19 pandemic, the union system of Vietnam, which has remained largely unchanged since the period of command economy, struggled to perform their role as representatives of workers' rights and interests in negotiations with employers.²⁹ At the workplace, it is common to find union leadership dependent on the employers as it is estimated that 60% of enterprise union leaders being managers.³⁰ It is not surprising, therefore, that in a crisis like the COVID-19 pandemic, the enterprise unions have not been active in protecting workers' interests. According to the ILO Vietnam's assessment in June 2020, only 15.5 percent of employers consulted the enterprise union officials on their cost-cutting measures and only 4.11 percent of interviewed workers claimed that they were represented by the enterprise unions in negotiations with the employers during the COVID-19 adjustment (ILO Vietnam 2020). In our survey in September 2020, although all of the interviewed workers worked in unionised workplaces and eight out of ten workers expected trade unions to stand up for them and work with employers, only 15% chose to raise their disagreement with the cost-cutting measures via the union officials (Figure 19).

Figure 19: Channels for workers to raise their disagreement with cost-cutting measures



29. This issue has been widely discussed. See for instance: Clarke, Lee and Do (2007); Chan (2011); Tran (2013); Schweishelm and Do (2019)

30. Trinh (2013)

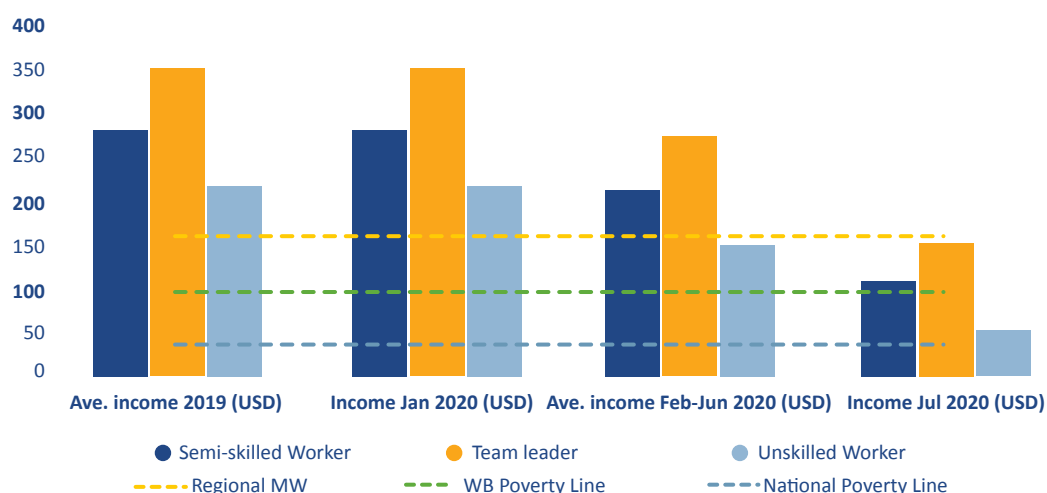
However, the good initiatives practised by a small number of provincial unions proved that the trade unions can go a long way in protecting workers' interests during crisis. The industrial zone union of Hai Phong negotiated with the local Korean Business Association for a three-step plan to sustain employment for workers. In the first step, the workers taking leave receive 70% of the basic salaries (ILO Vietnam 2020). In the second step, wages for workers are further reduced and in the final step, workers take unpaid leave but their jobs are secured.³¹ In another example, the union of Dong Nai province monitored the lay-offs by companies and intervened quickly to make sure that the employers could not use COVID-19 as an excuse to unfairly dismiss workers.

Behind the Disruption of Income and Employment

Falling back into poverty

The average income in the first 6 months of 2020 of apparel and footwear workers has declined sharply, an average decrease of 33% compared to the year 2019 (see Figure 20). Even for the workers who were lucky to retain their employment, their income was substantially affected as they had no overtime. The COVID-19 crisis has unveiled the insustainability of the current wage system in the apparel and footwear industries: workers receive low basic salaries and over-rely on overtime work to achieve a liveable income; during the crisis, as soon as their overtime payment is lost, they immediately face with the degradation of living standards.

Figure 20: Changes in income of different types of workers



31. Interview with the chairperson of Hai Phong IZ Union, April 2020

For the furloughed and laid-off workers, the income dropped by 50% and 59% respectively. It should be noted that by the time of survey, 65.8% of the laid-off workers had not found new jobs and 23.3% found informal, temporary jobs. As a result, **12% of those who had lost their jobs were living below the World Bank poverty line** (US\$3.2/day) and might hit the Vietnamese poverty line (US\$ 1.2/day) soon if no other source of income became available.

Figure 21: Comparison of average monthly incomes of apparel and footwear workers who were working and those lost their jobs, Jan-Jul 2020



Wage cuts have affected women more than men.

Women’s incomes have been more seriously affected than men’s income. Among those in work, women’s income dropped 27% in comparison to 19% for men, while for those who lost their jobs income reduction was 63% for women compared to 51% for men.

In response to income reduction, 93% of workers interviewed said they had to cut spending on basic expenses, mainly spending on food and other essential goods. There have not been public reports of hunger among the apparel and footwear workers although a recent study estimated that **around 2.4% of the apparel and footwear workers suffered from hunger** in the 2nd and 3rd quarter of 2020 (FES Vietnam 2020).

Burgeoning burden of debts

The pandemic has resulted in an increase of worker households in debt from 29% to 37%. Unfortunately, 13% of the surveyed worker households borrowed from loan sharks (black creditors). Among those in debt, 44.2% could not pay the debt and had to negotiate for loan extension. The local police reported a surge of workers selling their social insurance books for quick cash, which means they would not have any safety nets left.³²

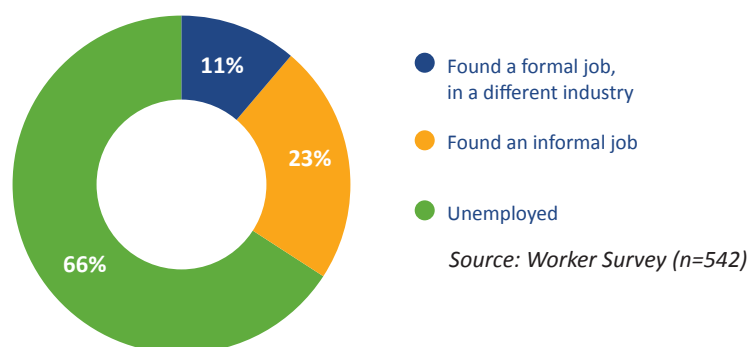
Box 4: Victim of loan sharks

*H., a 22-year-old female worker in a footwear company in Dong Nai made a loan of VND 45 million (USD 2,000) from the black creditors at the rate of over 1,000%/year to make ends meet during the pandemic. She was not able to pay back and eventually **committed suicide due to the black creditors' harassment**. According to the local police, around 2,000 workers in the company alone made loans from the black creditors – Kinhtedothi, 19 Dec. 2020*

Back to village or working informal?

In August 2020, only 11% of the workers who lost jobs in the apparel and footwear factories managed to find another formal jobs; 23% turned to informal work and 66% remained unemployed (Figure 22). As it is unlikely that the industries will recover to the pre-pandemic level in the first half of 2021, the trend of cost-cutting by the factories may continue. Among the workers who are still working in the industries, 90.7% were pessimistic of finding another job if they are dismissed. Nearly a third planned to return to their home villages in the rural areas while 25% would stick to the big cities, accepting informal jobs.

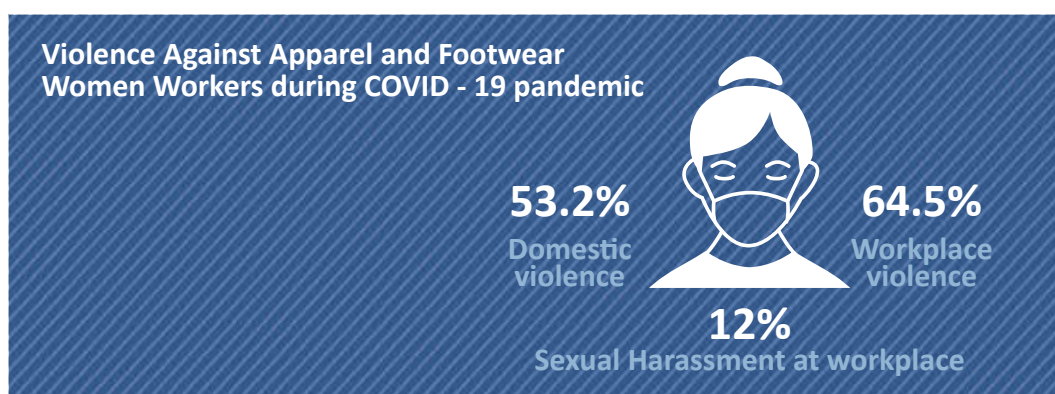
Figure 22: Employment Status of Workers Losing Jobs in the Apparel and Footwear Factories



32. http://congan.com.vn/doi-song/ro-tinh-trang-mua-ban-so-bao-hiem-xa-hoi-de-truc-loi_91191.html

Violence against women workers

Given the higher level of stress due to COVID-19, gender-based violence tends to increase, with women being at greater risk of violence than men. The study findings showed that, while 19.8% of female workers reported experiencing at least one form of violence (at home and at work) in the past 6 months, this figure for male workers was 11.9%. The rate of domestic violence against women during COVID-19 period almost doubles (53.2%) that in 2019 (31.6%).³³



Box 5: Losing job and stuck at home with a violent partner

Mrs. T was a garment worker at a private company, in the suburb of Hanoi. The company temporarily closed down during the COVID-19 outbreak; she lost her job and income. Mrs. T's husband, an electric worker, was also out of job during that time. To support the family, she tried to sell vegetables from her own garden. Meanwhile, her husband spent all of his money on gambling and forced her to give him more money. She refused so he fiercely quarreled and also beat her severely. She said: "While I was eating rice, he threw a bowl to my face that I had to get stitches." Another time, he put all the clothes and blankets around the house, filled with gasoline, and burned them. She had to call her husband's family members to come and rescue her and the children. The husband's family members, neighbors, the local women's union and local authorities had come to help her several times during such violent events. However, the situations got better within just only two weeks or a month, and still got back to the usual. She thought so many times to give up her life, and for once she was brought into an emergency room for taking sleeping pills to commit suicide. She wants a divorce to end her unhappy marriage, but she loves her children and is financially insecure, so she had to stay in the marriage.

33. National Study on Violence Against Women in Viet Nam 2019. <https://vietnam.unfpa.org/vi/publications/%C4%91i%E1%B%81u-traqu%E1%BB%91c-gia-v%E1%BB%81-b%E1%BA%A1o-l%E1%BB%B1c-%C4%91i%E1%BB%91i-v%E1%BB%9Bi-ph%E1%BB%A5-n%E1%BB%AF-%E1%BB%9Fvi%E1%BB%87t-nam-n%C4%83m-2019>

The employment and income pressures created by COVID-19 have caused a shift in the balance of power between workers and their employers which, alongside a lack of transparency to workers about business impacts and job vulnerabilities, has placed female workers in particular in a vulnerable position. Common forms of gender-based violence in the workplace are yelling and cursing by managers (64.5%). In particular, 12% of workers indicated an increase in sexual harassment against female workers, including dirty jokes about sensitive body parts and sexual teasing and solicitation of sexual favors, especially newcomers.

Box 6: Sexual Harassment at Work

"... I'm scared, he liked me, often came over, showed me how to do things and then made body contact, which was also annoying but I ignored it all and focused on my job. In April [of 2020], after a 2-week lockdown, my company was operating with 1/3 of its workers; he called me to inform that my contract was about to expire, in the coming July, named workers whose contract would not be renewed, and asked if I wish to renew my contract, with a smirk, or even voluntarily quit. I was scared of losing my job but more scared of such a pervert. I was haunted and couldn't sleep, he even sent a half-joking text message to ask for his visit to my place; I could not focus on my work and would be screened for mistakes the next day should I not return his text"- T., a 25-year-old garment worker in Dong Nai, a single mother of a 4-year-old daughter. She signed a 3-year contract with the company and by the time of contract renewal, the factory manager called her for a discussion and promised to help renew her contract if she agreed to be in a secret love affair with him; being too scared, she decided to leave her job.

-Interview conducted in August 2020, Dong Nai -

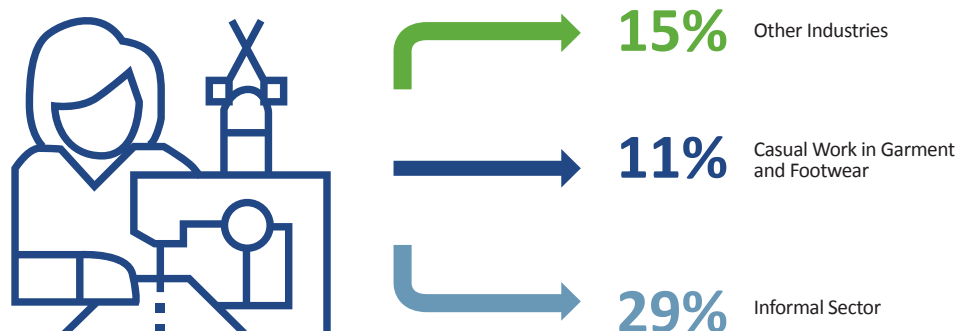
Prolonged anxiety and insecurity, coupled with gender-based violence, increase the workers' risk of mental health problems by 3.7 times, **which can be as high as 4.3 times among female workers**. At the same time, these factors also **reduce the productivity of workers by 31 - 54%**. Average productivity during the COVID-19 outbreak as self-assessed by workers is 73 percentage points.³⁴

Costs of Recovery

In the long run, the adjustments of the lead firms and suppliers due to the impacts of the pandemic will result in the restructuring of the apparel and footwear industries in Vietnam. The intensified cost pressures will make SMEs to shrink or close down. The

34. Productivity is self-assessed and scored by workers on a scale of 1-100 and converted to %

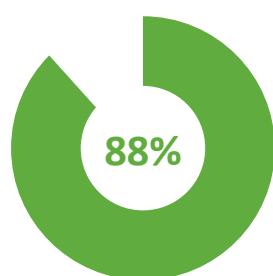
Mobility Trends of Apparel and Footwear Labour Post - COVID



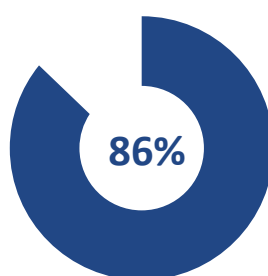
large-sized factories are unlikely to significantly increase their workforce due to automation. This means that the labour force of the industries will face with substantial downsizing. Based on our calculations, 15% of the apparel and footwear workforce will move to other manufacturing industries such as electronics, food processing, wood processing and handicrafts. The shift of apparel and footwear workers into informal jobs will also intensify. In particular, 11% of the existing workers tend to remain in the sector but switch to casual or part-time jobs or short-term informal agreement and 29% enter the informal labor market, among whom, 38% will return to their rural villages.

As the industries enter into a phase of restructuring, 87.8% of the interviewed workers want to communicate regularly with their employers on the situation of the companies and the responding measures that may affect them. Workers also listed job placement services (85.9%) and vocational training (31%) as the main forms of support they wish to receive in finding alternative sources of income.

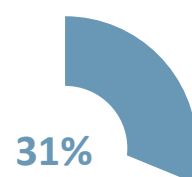
What workers need for recovery?



Regular Dialogue with Employers



Job Placement

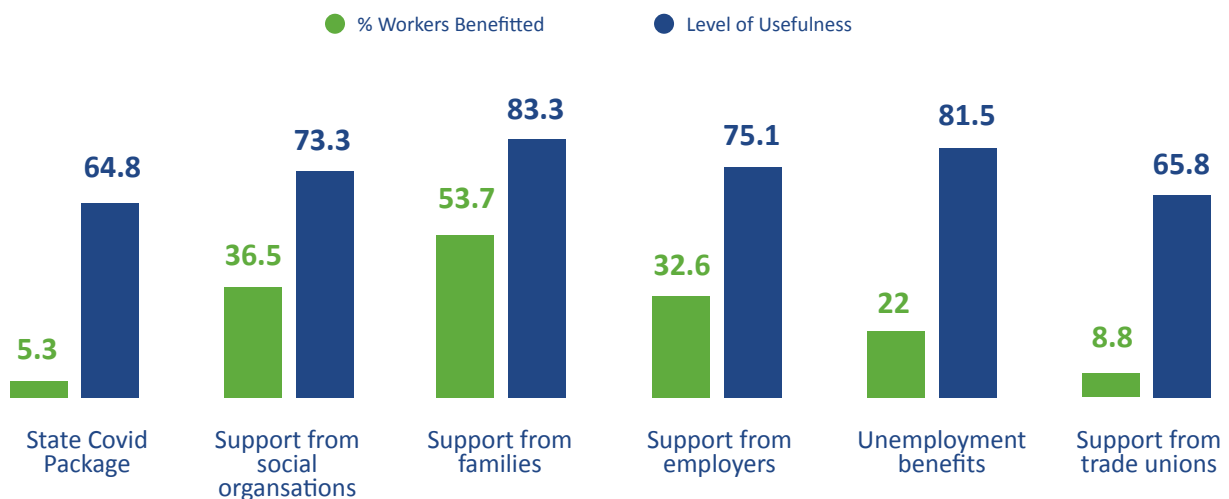


Vocational Training

What Works in the Crisis?

There are two types of support for workers during a crisis: (i) the structural safety nets such as their social networks (families and friends), unemployment benefits, other welfare benefits provided by the employers, and the trade unions' representation in negotiations with the employers and; (ii) the emergency support by the State, social organisations, and philanthropists. While the emergency support is important, it is often delayed and may not reach all the workers in need. In particular, the COVID-19 support schemes of the government have reached only 5.3% of the furloughed and laid-off workers in the survey (Figure 23).

Figure 23: Sources of Support Received by Workers during Pandemic and Level of Usefulness for Workers



Source: Worker Survey (n=1280)

The surveyed workers regarded structural support such as unemployment benefits (81.5%) and support from their own employers (75.1%) the most useful sources of support during the pandemic. As the crisis hit the workers, these structural safety nets have proven to be more accessible than the ad hoc support schemes: 32.6% of workers received support from employers and 22% of the laid-off workers got unemployment benefits.

One of the most important structural supports that has not worked effectively in the crisis is the trade unions. As discussed earlier, the trade unions play a crucial role in protecting workers' rights and interests during negotiations with employers on cost-cutting measures as well as handling workers' grievances during the crisis. Strengthening the unions, both at the enterprise and regional levels, therefore, will be necessary to minimize the negative impacts of a crisis on the rank-and-file workers.



Photo: Employment Relations Center - ERC

CHAPTER 4



Towards Re-defining Sustainability: Recommendations

A holistic approach to sustainability in GSCs

The focus of sustainability in the supply chains used to be narrowly placed on monitoring the suppliers' compliance with social, environmental and financial standards (UN Global Compact 2010; Anner 2015; Do 2019). The Covid-19 pandemic, at least in the case of the apparel and footwear industries in Vietnam, has proved that sustainability in the global supply chains depends on the practices of both the lead firms (brands) and the suppliers within the national context. When the brands manage to maintain regular dialogues with their suppliers (and sub-contractors) to share risks and figure out win-win solutions, the negative economic impacts on the suppliers and their workers have been minimised while facilitating the smooth recovery.

Moreover, as the industry restructures and diverges, the suppliers' compliance with labour and environmental standards depends on their success in economic upgrading. Without economic upgrading, the cost pressure throughout the global supply chains will result in the deterioration of worker rights and suppliers' cheating in social audits, which in turn will damage the brands' reputation. With the trend of mandatory due diligence in the supply chains, especially in Europe and the United States, the price squeezing in the supply chains may lead to the risks of legal violations for the brands. Instead of imposing their requirements on the suppliers, the brands, therefore, should support their producers to upgrade economically to keep costs down while ensuring their compliance with the sustainability standards.



As competition among the suppliers becomes fiercer during the pandemic, linking their sustainability performance with the allocation of purchasing orders is crucial to encourage further investment into sustainable development. If the brands regard compliance simply as an entry condition while allocating orders based on (lower) costs, the suppliers will be discouraged from going beyond compliance.

In the supplying countries, the producers not only need to comply with the national social and environmental standards but strive to do better to secure their position in the supply chains. This means that the factories should overcome the national systemic problems, which, in the case of Vietnam, include the shortage of effective worker representation and social dialogue. Economic upgrading also results in automation and changes in technology. Instead of laying off the redundant workers, it will be more sustainable for the factories to re-train them for the new jobs.

Recommendations for international brands³⁵

These recommendations are developed in close conjunction with the recommendations by the two research teams for the Vietnamese government, business associations, trade unions, and NGOs, which are included in the other reports. The following proposals not only apply to the brands that are sourcing directly from the producers in Vietnam but also to vendors. The subcontractors who supply via intermediaries are often the weakest part in the supply chain as they face with the heaviest cost pressure while having little support to upgrade economically and socially. Therefore, it is recommended that the retailers/brands work closely with their wholesalers and vendors to implement the proposed initiatives in the supply chains.

35. These recommendations not only apply to the brands sourcing directly from suppliers in Vietnam but also the brands sourcing via intermediaries, wholesalers and vendors.

Short-term recommendations

Maintaining regular dialogue with suppliers

- No unilateral cancellation of signed orders; discuss with suppliers the compensation for cancellation or postponement of completed orders
- Set up specific channels and rules on communication with the suppliers; a complaint channel for the suppliers should be included to allow for feedback and grievances from the supply chains
- Communicate closely and regularly with suppliers on orders, suppliers' situation, impacts on workers, and any other changes on both sides
- Collaborate with local business associations to develop guiding materials and provide trainings for SMEs on how to communicate with the buyers

Make sure suppliers consult workers before making any labour-related decisions and discrimination is not tolerated

- Collaborate with NGOs and trade unions to work out guidelines for factories on how to consult workers when applying cost-cutting measures
- Ask social auditors to work closely with the local unions and NGOs to ensure workers are treated fairly

Emergency support to workers in need

- Work with the suppliers to review the situation of the workers
 - Work with the suppliers, trade unions and NGOs to create an emergency fund for workers with severe difficulties (eg.: those with over 30% loss of income, single parents)
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Recommendations for long-term sustainable development in the GSCs

Linking purchasing to sustainability

- Incorporate risk-sharing provisions in contracts with suppliers to make sure that signed orders are not to be cancelled unilaterally
- Develop a transparent scoring system, including the scoring for sustainability performance, in allocating orders
- Include the cost of compliance in the order price with higher cost-sharing rate given to better-performing suppliers and expenses for improvement beyond minimum standards
- Identify country-specific obstacles to sustainability and work with local and international NGOs to figure out solutions
- Review regularly the purchasing practices to prevent negative impacts on suppliers' compliance with sustainability standards

Addressing issues of importance for women workers

- Develop a grievance channel for gender-specific issues (gender-based violence, health and safety, maternity etc.) both by the factories and the brands
- Organise trainings for suppliers on gender-specific issues
- Monitor the gender wage gap in the supply chains and incorporate solutions to improve women's wages in the sustainability policy
- Encourage women's voice by monitoring the rate of women participation in dialogues with employers, worker representatives, and ranks of management

Support suppliers' economic upgrading

- Provide information and guidelines for suppliers on latest technology, materials, products
- Provide loans to suppliers to adopt advanced (green) technologies
- Support suppliers with trainings on advanced skills (design, materials, merchandising, soft skills, among others) needed for economic upgrading
- Collaborate with the local business associations in supporting suppliers' economic upgrading

Engaging SMEs in the sustainable supply chains

- Work with local business associations to identify SME producers potential for joining the supply chain
 - Work with the local business associations and NGOs to create a virtual hub for SMEs to access sustainability standards, guidelines and trainings
 - Co-organise regular forum to meet with potential SME suppliers
 - Develop an SME fund to to provide technical, sustainability and financial support for the SMEs to join the supply chain
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Recommendations for Governments of Importing Countries

An increasing number of countries that are importing apparel and footwear products from Vietnam have already developed legislation on mandatory human rights due diligence (HRDD) in the supply chains (such as the Netherlands, France, the United Kingdom, Australia) or plan to do so (Germany, the European Union). Based on the findings from the research, we believe that the mandatory due diligence legislation should take into account the following issues:

- First, in line with the United Nation Guiding Principles on Business and Human rights, the legislation should cover all companies' operations,³³ including own activities, the operations of their subsidiaries and controlled undertakings, and their business relationships, including their whole supply and subcontracting chains, franchise and contract management.
- Second, to create a level playing field, the legislation should apply to both the companies that are registered in the country as well as those that are selling to the country
- Mandatory HRDD should aim for a due diligence system and procedures that encourage continuous improvements in the entire supply chain over mere compliance. Due diligence should not focus on merely compliance but on having a strategy and procedures in place to identify the root causes of problems, work towards remediation and aim at continuous improvement.
- In monitoring, it is important to take workers, trade unions or their legitimate representatives into account when companies define and implement their due diligence measures. Workers, trade unions or their legitimate representatives should be included in the definition and implementation of companies' due diligence initiatives
- To provide support to SMEs in Vietnam to join the sustainable supply chains.

33. https://www.ohchr.org/Documents/Issues/Business/Intro_Guiding_PrinciplesBusinessHR.pdf

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