Inflation fuels social unrest in Vietnam

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In the first four months of this year, workers in Vietnam staged more than 300 strikes in response to surging inflation. The consumer price index (CPI) hit a record high of 26.8 percent in June on a year-on-year basis. Housing and construction materials rose 23.7 percent. Overall food costs increased 74.3 percent, with a 45.6 percent jump in the price of rice, the staple food.

Fuel prices hit an all-time high on July 21 when the Hanoi government lifted them as much as 36 percent. The retail petrol price was raised by 31 percent, taking the cost of 92-octane to 19,000 dong ($US1.13) per litre, up from 14,500 dong. Diesel rose by 14.3 percent and fuel oil by 36.8 percent. The price hikes are expected to translate into higher costs of food, transport and housing.

The increase came less than two weeks after the regime pledged to keep fuel prices stable until the end of the year. Lacking large refineries, Vietnam relies almost entirely on imports of petroleum products, paying nearly $5.9 billion for imported oil in the first half of this year, or 69 percent more than the same period in 2007.

Especially hard hit are workers, most of whom are labouring at foreign-owned factories, which have rapidly expanded in Vietnam. Foreign investors are rushing to Vietnam for even lower wages and more brutal working conditions than the sweatshops in China.

Rising social hardships have led to a spate of strikes for higher pay and better working conditions in the garment, footwear, toy and electronic industries. In May, nearly 7,000 workers at a Taiwanese-owned shoe company in northern Vietnam struck, demanding an increase of $12 to their monthly wage of $56 and a reduction of long working hours. Most were required to work 13-hour shifts. The firm exports to Western corporate clients such as Timberland and Prada.

According to a report by UK-based *New Internationalist* magazine in June, one of the biggest strikes this year involved the Taiwanese-owned Ching Luh factory, which manufactures sneakers for Nike. In early April, 21,000 workers struck, demanding a 20 percent pay rise and better quality food in the factory canteen. The average monthly wage in this plant is just $59. When the state-controlled trade union brokered a 10 percent wage rise and a promise of better food, angry workers initially rejected the package and blocked the factory gates.

Nike admitted last December that there had been 10 strikes in its suppliers in Vietnam. Vietnamese government figures show that 85 percent of strikes have taken place in factories supplying multinational corporations. In Ho Chi Minh City, the number of strikes in export processing zones has risen by more than 400 percent over the past three years because of inflation.

In response, employers have threatened to pull out of the country. The *New Internationalist* noted: "Foreign investors began to complain after minimum wage was raised in 2006, even though it had stayed at $US42 per month for the previous 10 years. The strengthening of the Vietnamese dong against the greenback meant real-wage losses for most of that time, yet foreign employers still found the pay rise excessive and made threatening noises about curtailing future investment or moving out altogether."

Cheap and regimented labour is the major incentive for foreign investment coming to Vietnam, and the government is not about to jeopardise that. 1.2 million young people are entering the workforce each year, Hanoi has to create enough jobs to maintain social stability.

Like in China, the Vietnamese Communist Party government is a pro-capitalist, police-state regime that suppresses any independent struggles of the working class. State-run trade unions operate as a policing arm of the government, while union officials are on the company payroll. Independent unions are banned in Vietnam. According to the Vietnam General Labour Union, all of the more than 2,300 strikes since 1995 have been illegal under the country's Labour Law.

In order to intimidate workers, Hanoi has introduced laws to hold strikers liable for employers' losses incurred during "illegal" strikes. Local officials have also been given the power to order workers back to work, backed by the threat of police intervention.

For instance, four workers handing out leaflets during the strike in the Ching Luh shoe plant were arrested and interrogated. According to the overseas-based Committee to Protect Vietnamese Workers (CPVW), 20 strike leaders who opposed the union-negotiated deal were sacked. In December, four members of the banned United Workers and Farmers Organisation (UFWO) were arrested for posting a "reactionary" website that "spread distorted information to undermine the state".

Despite repressive measures, the struggles of workers have continued. CPVW general secretary Trung Doan said: "When my people talked to Ching Luh workers and their relatives, they heard angry words about low wages. This is typical, not just of Nike workers but all workers we talk to."

The living conditions of ordinary people are deteriorating. A UN affiliated humanitarian organisation, IRIN, interviewed Vietnamese workers in June about the impact of inflation. Factory workers in Hanoi earning $US60 a month could once feed a family. But now the salaries barely cover the expense of a single worker, even if they share a dormitory room, food and utilities with others. Dinh To Trinh, a worker at a Japanese-owned rubber factory, explained: "No matter how careful I am, at the end of the month, I have nothing left."

According to Prime Minister Nguyen Tan Dung's report to the National Assembly in May, the number of households going hungry has doubled compared to the previous year. In order to control inflation, Hanoi has temporarily capped rice exports. In March, Hanoi froze prices on 10 key commodities such as cement and electricity.

The caps on rice were reversed in June, however, and Hanoi is under heavy pressure from private businesses and state-owned enterprises alike—which are suffering losses—to drop the price freezes. Electricity of Vietnam, a state-owned utility, recorded losses of $124.7 million in the first half of the year. Pertolimex International Trading Joint Stock Co, a state-owned trading firm for agricultural and industrial commodities, reported a loss of more than $107 million.

In June, Prime Minister Nguyen went to the US and met former Federal Reserve Board chairman, Alan Greenspan, seeking advice on how to combat inflation. Greenspan told him to curb the spending of government and state-owned enterprises, while continuing to tighten the money supply.

The economic planning agency has adjusted the economic growth rate to just 7 percent this year—1.5 percent less than in 2007. The State Bank of Vietnam lifted interest rate from 12 percent to 14 percent on June 12 to absorb excessive liquidity. In order to curb aggressive bank lending, the reserve requirement ratio for commercial banks was increased from 5 percent to 12 percent on June 27.

However, Hanoi can no longer regulate an economy that is integrated into globalised production. Inflation is being driven by soaring worldwide energy and food prices. Despite being Asia's new export-led "tiger" economy, the country's trade deficit reached $15 billion in the first half of this year—compared to $12 billion for the whole 2007. The current account deficit is now at 10 percent of the gross domestic product. With just $20 billion in foreign currency reserves, Vietnam could face a balance of payment crisis at the end of this year.

The precarious economic situation has generated a panic demand for US dollars, pushing the dong down by 4.5 percent in black market deals following the fuel price hikes. As Hanoi maintains a de facto peg between the dong and the dollar, which trade in a narrow band, many people are turning to gold shops and money changers to illicitly buy dollars. The stock market has plunged more than 60 percent between January and June.

Although government officials cite growing foreign direct investment (FDI) as an indication of a "healthy" economy, the FDI is contributing to inflationary pressures. FDI into Vietnam reached $31.6 billion in the first half of 2008—compared to $20 billion for the whole of 2007. By comparison, China received $52.4 billion in the first six months of this year, even though its economy is 40 times larger.

On July 25, the Viet Nam News agency pointed to the fact that while most of the FDI in China has been quickly transformed into actual projects, the FDI in Vietnam has not, despite being welcomed by local officials. Standard Chartered Bank economist Tai Hui explained: "If all this money is disbursed, it's likely to exacerbate the overheating of the economy as foreign investors' projects will demand resources from all fronts—people, raw material and equipment. This would lead to either higher inflation or higher imports or possibly both."

Another economist, Le Dang Doanh, pointed to the opposite concern: "If we can't quickly disburse the FDI capital, the money will put pressure on us." Le warned that if the huge foreign capital were not transformed into projects or goods, it would enter circulation or the banking system, leading to higher inflation.

Far from presiding over a new miracle of capitalism, the Vietnamese regime's embrace of market relations has created explosive economic contradictions that are propelling the working class into struggle.