A race to the bottom?: On the influence of FDI on working conditions in the garment and footwear industry in two Southeast Asian countries

Donker, Danny

Leiden University

Faculty of Social Sciences

Institute of Political Science

Bachelor thesis

A race to the bottom?: On the influence of FDI on working conditions in the garment and footwear industry in two Southeast Asian countries

Abstract: As globalization furthers, developing states increasingly rely on the inflow of Foreign Direct Investment (FDI) for development. Consequently, scholarly debate has focused on the potential presence of a race to the bottom in labor standards. The race to the bottom thesis assumes as states compete to attract FDI, working conditions will decrease. Literature on the race to the bottom thesis is vast but has yielded mixed results. Traditionally, research has included both developed and developing states and focused on the economy as a whole. This paper transcends previous research by qualitatively studying the effects of FDI on working conditions in the garment and footwear industry in Cambodia and Vietnam. This paper not only focuses on the presence of a race to the bottom, but also what it looks like and what might be other factors of influence. Additionally, this research attempts to place the race to the bottom into the broader debate on neoliberal capitalist development. This paper has found that although macro-trends in the global economy indicate a race to the bottom, comparative research on Cambodia and Vietnam shows that compliance is generally high. However, cost-cutting measures are still observed in the composition of the labor force, contracts, and oppression of organized labor.

Danny Donker

S2211904

Political science: International Relations and Organizations

Supervisor: Dr. Neil Loughlin

Word count: 7897

Introduction

Perhaps one of the most significant economic consequences of globalization has been the increase in Foreign Direct Investment (FDI) and its importance to developing states. As states liberalize and capital becomes more mobile, multinational corporations have increasingly sought profitable outlets across borders. During the late 1980s, FDI outflows totaled $180 billion per year. This amount doubled during the 1990s, averaging about $1.45 trillion per year between 2010 and 2016 (Oatley, 2019). Attracting foreign capital can be beneficial for a host state for various reasons and has therefore formed a central tenant of development policy in Southeast Asia (SEA). Exposure to the global market has led Southeast Asian states to become the host of low-cost, labor-intensive manufacturing. As a consequence, SEA has become dependent on foreign capital for development. As FDI envelopes the economic strategy of states, an increasing concern among scholars arises that this competition for FDI can lead to a 'race to the bottom' (RTB) in labor standards as governments attempt to enhance a country's comparative advantage (Blanton & Blanton, 2012). Capital mobility enables multinational corporations to exploit lower labor standards in ways that bring harm to the host state's population (Oatley, 2019).

Evidence on the race to the bottom in labor standards is ambiguous, with literature pointing both towards the presence and absence of a race to the bottom. Although many scholars have analyzed the race to the bottom, most have done so economy-wide. This lack of differentiation leads to empirically weak results. This paper attempts to resolve this problem by taking a sector-specific approach. It argues that, instead of taking the economy as a whole, a distinction should be made between high-skilled and low-skilled labor. Furthermore, most studies are conducted quantitatively, not accounting for institutional and political contexts not captured by statistics. In attempting to answer the research question *"What is the influence of FDI on working conditions in the garment and footwear industry in Southeast Asia?"* This study will go beyond the traditional analysis of the RTB thesis by qualitatively analyzing and comparing labor standards in the garment and footwear industry in Cambodia and Vietnam, an industry that is labor-intensive and thus theoretically prone to the repression of costs. This paper also seeks to place the RTB in the literature on globalization and neoliberal development. This is because deregulation and the evolution of manufacturing in SEA are deeply linked to changes in the global economy with processes of creative destruction, the arrival of new and cheaper labor forces, or increasing automation and "reshoring" (Carroll, 2020). After considering the RTB

thesis, this paper provides broader reflections on manufacturing in the development trajectories of Cambodia and Vietnam.

This thesis is structured as follows. First, it begins with an overview of the literature on the race to the bottom and neoliberal development more broadly. Then, it lays out the methodology applied to this thesis. Finally, after the analysis, this thesis will reflect more broadly on the race to the bottom, enabling and mitigating factors and its place in neoliberal capitalist development. Then conclusions will be drawn.

1.0. Literature review

The race to the bottom thesis emerges as part of a broader debate on the impact of neoliberal policy in developing states. The application of neoliberal policy primarily involves market-oriented reforms and a fundamental transformation in systems of state power and governance (Robinson, Rodan & Hewison, 2005). The impact of neoliberalism's application has been the subject of scholarly debate and prone to criticism. A frequent critique of neoliberal capitalism entails the unfair distribution of gains. The advantage in commodities and cheap labor has made Southeast Asia reliable on FDI and trade for capital accumulation and susceptible to particular development patterns wherein a small elite has gained an overwhelming advantage (Carroll, 2020; Lee & Narjoko, 2015). Springer (2009) concurs with this argument that liberalization lends itself well for opportunities for elite groups with strong commercial interest to influence political development away from democratization. Springer demonstrates that neoliberal development in these instances can be counterproductive. Lawreniuk (2011) further develops this argument relating it to an observed turn to authoritarianism in SEA. Carroll (2020) is in line with this argument in saying that imposing development leads to illiberal policies. Robinson, Rodan & Hewison (2005) provide a more nuanced picture in stating that the regime type precedes neoliberal capitalism but that the top-down imposition of reforms has created opportunities for already oppressive states to further oppress the population to remain competitive in the global market.

Globalization has exacerbated competitive pressures. Imposing open market reforms on developing states has exposed states to global competition. Being dependent on foreign capital, SEA is vulnerable to market volatility. Furthermore, due to modes of production reliant on low-value-added manufacturing, SEA retains nominal rents from foreign investment. Due to this, SEA faces stagnating productivity and is labeled as stuck in the middle-income status (Lee & Narjoko, 2015)

To capture developmental outcomes from a political economy perspective, one needs to focus on the revolutions in and the ownership of the means of production (Carroll, 2020). As globalization furthers, capital has become increasingly volatile, resulting in competitive pressures on states. This forms the starting point of the race to the bottom thesis, resulting from neoliberal capitalist development in a globalized economy. This thesis attempts to contribute to the debate on the influence of neoliberal capitalism on the developing state by testing the race to the bottom thesis by looking at the societal costs of development and economic growth.

1.1. Determinants of FDI

Before focusing on the race to the bottom, one should look at why companies settle in the places they do, for this forms the starting point of the race to the bottom. Knowing the determinants of FDI tells us something about the policies host states might pursue to attract FDI.

Traditionally, motives for FDI have been based on the presence of resources, size of the national market, and efficiency of production (Oatley, 2019; Nunnenkamp, 2002). There appears to be relative consensus in the literature that market size is the most important determinant of FDI allocation. Brooks, Roland-Holst, and Zhai (2010); Tsai (1994); Schneider and Bruno (1985); Ramall and Zurbrueg (2006), all find market size, measured as real GDP, to be the main determinant for FDI allocation. The analyses account for developed as well as developing states, indicating that market size is a universal determinant of FDI. Despite the large amount of literature supporting market size as the most important determinant, its position is not uncontested. As liberalization occurs, motivations for FDI related to 'tariff-jumping' become obsolete. This leads to increased volatility of capital. The volatility of capital is perhaps best illustrated by the emergence of the Global Value Chain (GVC). The GVC involves the vertical disintegration of production (Millberg, 2013). As production becomes disintegrated, the importance of market size diminishes, as the company will be able to provide goods to the home market at a lower price.

Consequently, FDI allocation is based on efficiency gains: low-skilled work is performed where this is most efficient and cheap, as is high-skilled work. This allows firms to maximize profits. This occurrence is further elaborated upon by Nunnenkamp (2002), who states that although market size remains important, its importance, contrary to efficiency-based investment, has not grown. Furthermore, Brown, Deardorff, and Stern (2007) concur through their analysis which shows that when FDI is directed at the global value chain, the size of the host market becomes less important, as the company will be able to provide goods to the home market at a lower price. The disintegration of production is frequently referred to as 'vertical FDI'. It entails the geographical separation of production to exploit factor-cost differentials (Lankhuizen, 2014).

1.2. The race to the bottom thesis

The race to the bottom thesis focusses on these efficiency gains. Literature on the race to the bottom thesis is vast, but contradictory both in theory and empirics. Theoretical foundation relies on the pro-competitive effect of trade. As capital becomes more mobile, it flows easier

from state to state. States associate FDI with beneficial effects on their domestic economy. FDI inflow raises capital stock and provides states with technological and managerial transfers. The increased capital can lead to economic growth for the host state (Brown et al., 2007; Oatley, 2019; Jensen, 2008). States attempt to enhance their comparative advantage in providing a pool of low-cost labor to attract FDI (Blanton & Blanton, 2012). The competition for FDI involves policy aimed at making host states more attractive for investors. This is what leads to the RTB. Literature traditionally focuses on the effects on labor regulations, working conditions, unionization, wages, environmental protection, and social spending (Jensen, 2008; Garrett 1998; Busse, 2002; Brown et al., 2007). Through analysis on fourteen OECD states Garrett (1998) demonstrates that exposure to globalization does not create a downward pressure on social spending to increase capital inflow. Through a regression analysis on the determinants of FDI in OECD states, Jensen corroborates Garrett's criticism of the RTB thesis. Both Garrett and Jensen analyze developed countries, offering a one-sided argument that merely applies to the developed world. Kucera (2002) provides a more holistic picture by performing a cross-country analysis of 127 states on the influence of FDI inflow on labor standards. Kucera finds there to be no solid evidence to support the RTB thesis. If lower labor costs were the sole factor for FDI allocation, the RTB thesis would hold. However, Jensen (2008) points out that higher standards and substantial rights may lead to economic growth, attracting FDI. Busse (2002) empirically supports Jensen's argument in demonstrating that higher labor standards are associated with a higher inflow of FDI, accounting for both developing and developed countries.

Opposing the seemingly large body of literature rejecting the RTB thesis, Rudra (2008) points out that research has neglected to account for institutional differences among states. Domestic differences in institutions yield different policy reactions to international market expansion. Looking at low developed countries, Rudra finds that social security and welfare spending are more responsive to race to the bottom pressures in developing states. As a whole, developing states are more prone to the RTB than developed countries, per her analysis. The primary reason being the weak capacity of labor institutions in these countries. Blanton & Blanton further show that a decrease in labor rights is associated with an increase of FDI in developing states. However, there is significant variance across sectors. Thus no conclusive proof is offered. Furthermore, Zhao (1998) finds that FDI reduces wages and levels of unionization. This is in line with the findings of Rudra and Blanton & Blanton.

The theoretical ambiguity of the RTB relies on the sources of economic growth one considers. Proponents of the RTB assume that as policies are relaxed, production costs decrease. Lower production costs act as an attractor of FDI. Increased capital inflow leads to economic growth for the host states. Opponents of the RTB take a different approach. For opponents, economic growth precedes FDI. Stronger regulations may lead to economic growth, which in turn attracts FDI (Jensen, 2008). Theoretical disparities can be considered as a divergence between market-based FDI and efficiency-based FDI. Kucera (2002) argues that the market-size argument is irrelevant in the face of the RTB since it is a classic form of comparative advantage, not susceptible to short-run manipulation.

A resolution to the ambiguities of the RTB may be found through differentiation. Previous research has oftentimes taken the economy as a whole, not distinguishing between types of FDI or sectors into which FDI flows. Not distinguishing between industries and types of FDI yields unclear results. In a cross-country study, Oman (2000) finds that FDI competition is pervasive and intense, primarily aimed at fiscal and financial incentives. Oman includes both developed and developing states, potentially skewing the picture. Including both developed and developing states complicates matters. For in developed states, growth precedes FDI, but in developing states, FDI precedes growth. Inclusion of both developed and developing states, therefore, is insufficient to research the RTB. This requires differentiation. Similar to Blanton & Blanton, Olney (2013) distinguishes between types of FDI. By analyzing the hiring and firing cost index from the OECD, Olney finds that labor restriction is positively associated with FDI inflow. After differentiation, Olney finds that this effect is the strongest where it involves 'footloose FDI'.

Ambiguous results perhaps do not require a rejection of the RTB thesis but rather a refinement of it. This paper seeks to extend existing scholarship on the RTB thesis by answering the question: *"What is the influence of FDI on working conditions in the garment and footwear industry in Southeast Asia?"*. Contrary to previous research, this paper will not merely test for the presence of a RTB, but research what it looks like: In what areas is the RTB present, and in which not? Which factors enable or mitigate a RTB? And what is its position in relation to neoliberal capitalism? From the literature, it is apparent that lack of differentiation leads to empirically weak results. This paper attempts to move past that through taking a sector-specific approach, distinguishing between high-skilled and low-skilled labor. The incentive to cut labor costs is dependent on how intensely this factor is utilized in production. If production is labor-intensive, there is a significant incentive to cut costs.

To reiterate, the race to the bottom revolves around the pro-competitive effects of trade. As capital becomes more mobile, states seek to create healthy environments for investors to attract FDI. This competitive pressure induces a downward pressure on production costs. In labor-intensive industries such as the garment and footwear sector, this is hypothesized to be in wages, labor regulations, working conditions, and unionization.

2.0. Methodology

The aforementioned literature demonstrates the controversy about the race to the bottom thesis. This paper seeks to extend upon previous scholarship by focusing on the garment and footwear industry in Southeast Asia. Southeast Asia, having a large FDI inflow into garment and footwear, and consisting of many developing states, makes the perfect focus of this study. This paper relies on a comparative study between Cambodia and Vietnam to explain the effects of FDI on working conditions in the garment and footwear industry. Qualitative analysis helps to circumvent superficial measurements of indicators through accounting for institutional and national contexts. This paper will draw from data and reports taken from the International Labour Organization (ILO), the World Bank (WB), and several non-governmental organizations. The following sections will discuss the selection of cases and indicators.

2.1. Case selection

This research departs from previous scholarship in two important ways: Firstly, this research will be conducted in a qualitative manner. Secondly, this research will differentiate both in case selection and level of analysis. To achieve differentiation case-wise, this research will focus on developing states. In developing states, FDI precedes development as opposed to developed states. Attracting FDI is oftentimes part of their economic development plan. Therefore, this research will focus on developing states. To account for differentiation, this research analyses the garment and footwear industry. This industry is labor-intensive and thus theoretically prone to the RTB. The selected cases for this research are Cambodia and Vietnam. Both cases are representative of the approach this paper takes to the RTB. Both countries have a significant garment and footwear sector with a large influx of FDI. In 1996 80% of Cambodian exports were from the garment industry (Neak & Robertson, 2009). The garment sector in Vietnam is of similar significance: it employs 1.6 million people, accounting for more than 12% of the industrial workforce and 5% of the total labor force (Nhunh & Thuy, 2018). Given the size and importance of the industry, Cambodia and Vietnam make good cases. Cambodia ranks among the top 10 garment exporters, with Vietnam in fourth place (ILO, 2019). The inflow of FDI into the garment and footwear industry has been high in both Cambodia and Vietnam. This FDI is mainly concentrated in manufacturing, where garment and footwear remained significant (Bunthoeun, 2019). On the grounds of the level of development, Cambodia and Vietnam are both considered lower-middle-income states by the World Bank. On the Human Development Index (HDI) Cambodia ranks as number 144 out of 189 countries with a score of 0.594 out of 1.0. Vietnam ranks above Cambodia at place number 117, with a score of 0.704.

2.2. indicators

Wages

Previous research has included a wide array of variables to research the RTB thesis. Ubiquitous to most research has been the inclusion of wages. The theoretical expectations on wages diverge. On the one hand, an increase in wages is expected as FDI inflow increases. This argument focuses on the link between productivity and wages. Busse (2003); Rudra (2008), and Robertson et al. (2009) describe that as FDI flows in, it will increase the productivity of the workforce, which in turn leads to higher wages. On the other hand, some scholars expect a decrease in wages as a result of FDI. Blanton & Blanton (2012) state that production cost is largely dependent on working conditions and wages paid in the manufacturing industry, for it is a labor-intensive industry. Cost-saving will occur through lower wages. Busse (2003) describes that under efficiency-seeking FDI, transnational corporations frequently produce intermediary goods in low-wage countries. This form of FDI, also called 'vertical FDI,' will decrease as wages increase (Olney, 2013). Theoretical divergences leave the effects of wages unclear. Kucera (2002) potentially offers more insight through labeling wages as a measure of labor costs. In the manufacturing industry, production is labor-intensive. Remaining competitive depends on cutting those labor costs (Blanton & Blanton, 2012). Despite being a common indicator, wage rates are not unproblematic. Comparison is relatively difficult as wage rates differ among both states and industries. To avoid this issue, this paper will look at the living wage instead. The living wage exists of a maximum 48 hour workweek and should be sufficient to provide housing, education, and healthcare to the worker.

Core labour standards

A perhaps more inclusive indicator of working conditions from literature is labor rights and standards. Similar to wages, labor standards are contested. Conventional wisdom entails firms investing in countries with lower labor costs. Poorer working conditions together with wages are considered as means to lower labor costs. Kucera (2002) opposes the conventional view and states that higher standards and more substantial rights may lead to more economic growth, leading to more FDI. Blanton & Blanton (2012) take a similar stance and state that a robust labor rights regime can reduce uncertainty and transaction costs. Many authors focusing on working conditions include the core labor standards by the ILO in their analysis. Brown et al. (2007); Kucera (2002); Blanton & Blanton (2012); Rodrik (1996), and Busse (2002) each include this indicator in their analysis. The core labor standards were defined by the ILO in

1998 and include freedom of association and the right to organize, freedom from forced labor, elimination of child labor, and nondiscriminatory employment (Robertson et al., 2009). The main reason for doing so is that the core labor standards are almost universally accepted. Other standards such as safety in the workplace, minimum wage, and paid leave are more related to actual working and labor market conditions and are highly controversial (Busse, 2002). Conceptualizing working conditions as core labor standards can be problematic. Oftentimes, research has looked at *de jure* labor rights instead of *de facto* labor rights. This offers an incomplete picture. Davies & Vadlamanni (2011) recognize this problem and consequently analyze the enforcement of labor regulations rather than the legislation itself. This research will take a similar approach through qualitative analysis. This allows for the inclusion of anecdotal evidence and a thorough analysis of ILO reports on working conditions.

Unionization

Another important indicator is the levels of unionization. Unions are important as they affect other aspects of working conditions that are difficult to measure (Robertson et al., 2009). Although union strength is notoriously weak in Southeast Asia, they can have a significant influence in working conditions. Oka (2015) states that the presence of labor unions in factories can help reduce labor standard violations. Oka looks at factories subject to the global supply chain and finds that labor unions affect certain areas more than others. Labor unions appear to be least effective concerning safety and health issues. The potential effects of unionization in the face of FDI are contested. Union bargaining power remains weak as firms may threaten to relocate their plants if unions do not cooperate. The element of bargaining power is supported by Nunnenkamp (2002), who states that the high leverage of unions seems to discourage FDI. This argument is in line with the conventional wisdom that firms locate where union representation is weaker (Kucera, 2002). The presence of labor unions may lead to a demand for higher wages, which increases labor costs. Unions are often subject to anti-union discrimination and face limits on freedom to strike and threats of plants to relocate. With regard to these restrictions, union density appears as a somewhat superficial indicator, not properly reflecting actual circumstances. Union density is often considered non-comparable across states in the developing world, according to Rudra (2008). This is because certain regimes have compulsory membership to unions, thus exaggerating the effects of unionization on labor rights. This research acknowledges these conceptual issues and attempts to resolve them through qualitative analysis. Not merely looking at *de jure* rights but *de facto* influence. Furthermore,

worker contestation can occur outside of the unions. This research will take that into account and look beyond the union.

3.0. Analysis

The following section will use documents and reports from international organizations and various NGOs to analyze the aforementioned indicators per country qualitatively. This research attempts to understand the role of FDI in working conditions in Southeast Asia through the analysis. After the analysis, the cases of Cambodia and Vietnam will be compared in the discussion to uncover commonalities and divergences in observed data.

3.1. Cambodia

3.1.1. Foreign Direct Investment

In the last decade, Cambodia ranked among the countries that attracted the most FDI in relation to its size worldwide. FDI has primarily concentrated in the garment and footwear industry. In 2018 FDI in the garment and footwear industry saw an increase of 90% vis à vis the year before (World Bank, 2018). Cambodian growth can largely be attributed to export-oriented FDI. In 2019 the garment sector produced 84% of all value-added manufactured exports (World Bank, 2019). Cambodian exports have primarily been aimed at the US and EU markets (World Bank, 2018). Dependency on foreign capital for growth is a large vulnerability. Firstly, Cambodia is dependent on partners to export its manufacturing and is thus vulnerable to international shocks and influences. Cambodia is a signatory party to the EU Everything But Arms (EBA) agreement. The EBA was introduced in 2010 to promote economic growth in the world's least developed countries. It grants signatory parties tariff-free imports to the EU market. The underlying condition is that beneficiaries should uphold fundamental human and labor rights conventions. In September 2018, the EU revoked Cambodia's inclusion in the EBA (Lawreniuk, 2020). Suspension from the EBA potentially has severe consequences for the garment and

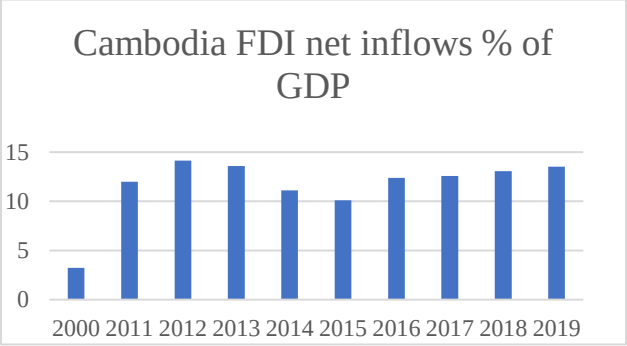

Figure 1. World Development Indicators (2021)

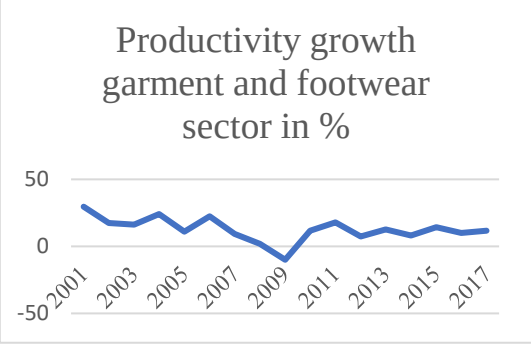

Figure 2. Cambodia National Institute of Statistics (2018)

manufacturing industry as 80% of exports to the EU are from the garment sector (World Bank, 2019). Secondly, the World Bank (2018) describes that FDI attraction in Cambodia primarily

revolves around low-cost and low-value manufacturing. As other states stand up as a provider of low-cost labor, Cambodia faces increasing competition from other states. In practice, the ILO (2016) observes a downward pressure on export prices in the garment sector. In the long run, this can have influences on wages and working conditions. Downward pressure on wages can be avoided if productivity is enhanced, however, data does not indicate increased productivity, but rather a decline (Cambodia National Institute of Statistics, 2018).

3.1.2. Wages

Wages in the garment and footwear industry in Cambodia have witnessed a considerable increase over the years. In 2013 the ILO (2018) reported the minimum wage to be 80 USD, having more than doubled in 2018 to 170 USD. However, looking at wages alone can potentially skew the picture. Clean Clothes (2019) focuses on the living wage rather than the minimum wage. The living wage should exist of a workweek no longer than 48 hours and provide housing, education, and healthcare. Clean Clothes estimates the living wage in Cambodia at 238 USD per month. This is significantly higher than the minimum wage received by garment and footwear workers. Despite not meeting the living wage demands, garment workers, on average, receive 67% more than the average worker in other industries (Robertson et al., 2009). One should note that this higher pay is partly due to longer hours worked in this sector: textile workers work 11.5% more hours than the average worker. This leads to higher pay. The presence of excessive overtime is further corroborated by the ILO Better Factories Cambodia (2018) program.

The increase of the minimum wage still does not meet living wages. It makes up 36% of the living wage for garment workers (Clean Clothes, 2019). Additionally, other factors may be at work indicating a race to the bottom, for example, flexibilization of the workforce. According to the Labour Force Survey of 2012, 53.22% of wage workers in Cambodia were temporary workers (Nguyen, Nguyen-Huu & Le, 2016). In addition, Arnold & Shih (2010) observe an increase in disputes over types of contracts being used. Flexible contracts are increasingly used to maintain or increase profits and to avoid the demands of organized labor. Another observed trend in the Cambodian garment and footwear industry is the feminization of the workforce. In 2010 about 85% of the workforce was female (Arnold & Shih, 2010). This occurrence is part of a wider trend in the Cambodian manufacturing sector. Women's wages are below men's wages and therefore are a source of comparative advantage. In 2011 women's wages were 27% below those of men (World Bank, 2018). Although these numbers have improved over the period 2011-2016, women's wages are still below men's.

3.1.3. Core Labour Standards

The compliance of working conditions is observed through the lens of the core labour standards outlined by the ILO. The core labour standards entail freedom of association, freedom from forced labor, elimination of child labor, and nondiscriminatory employment. Freedom of association will be left out of this section, for it will be discussed more in-depth in the section' unionization'. Furthermore, many reports focus on wages and contracts previously discussed and are therefore omitted from this section. In addition to the core labour standards, this research also includes occupational safety and health as a measurement of working conditions.

Child labour

In Cambodia, people are allowed to work from the age of 15. Children between the ages of 15-17 are not allowed to work overtime. In 2016 the CNV reported that child labour was present in 3% of the observed factories. The CNV underlines that observed non-compliance comes from registered factories. Non-compliance is potentially higher in unregistered factories. Better Factories Cambodia has found similar findings in 2018, where 10 out of 464 factories reported instances of child labor. Registering child labor is problematic. Firstly, due to the large usage of fake IDs. Secondly, due to reporting issues. Many breaches are not reported and therefore not detected by organizations overseeing child labour.

Forced labour

The CNV (2016) reports no instances of forced labor. Better factories Cambodia, however, does report instances of forced labor in 9 out of 464 observed factories.

Discrimination

Discriminatory hiring suffers from underreporting. Where it comes to light, non-compliance oftentimes involves discriminatory hiring and treatment of women: in 2015, 13% of the observed factories by the CNV report discriminatory hiring. Furthermore, only 54% of the factories in the garment sector managed to pay women some or all of their maternity benefits. The Human Rights Watch (HRW) (2015) reports that besides pregnancy-related discrimination a common occurrence is sexual harassment: In 2012, the ILO reported that 1 in 5 women reported that sexual harassment led to a threatening work environment. Discrimination further occurs in assigned jobs. Men and women are hired for different jobs. This indicates both sources of comparative advantage and a sexist attitude towards women's capacities. Another group that

suffers from discriminatory hiring is union members (CNV, 2016). Union members are often blacklisted among factories and barred from entry into the industry.

Occupational safety and health

The majority of non-compliance happens with occupational safety and health. Better Factories Cambodia (2018) reports that many areas remain a problem, with non-compliance rates clustering high and increasing over time. Many workplaces are poorly lit, hot, noisy, and lack proper ventilation (CNV, 2016). Prevalent issues have been factory collapses, mass fainting, and safe transport (CNV, 2018; Sopheana, 2011). Reports by the HRW (2015) reveal that 65% of the factories monitored by BFC violate heat level regulations between 2013-2014. Sopheana (2011), in his report, provides worker accounts linking the heat levels, odors from sanitation, and toxic fumes as a potential cause of the mass fainting. A severe problem with occupational safety and health remains underreporting. Factories have insufficient means to keep track. This goes paired with oftentimes worse conditions in unreported or subcontracted factories where oversight is low.

3.1.4. Freedom of Association and Collective Bargaining

Contrary to neighboring states China and Vietnam, Cambodia is characterized by a plurality in labor unions. Better Work (2020) reports on average 1.7 unions to be active per factory, with total membership being 60% of garment workers. Furthermore, the presence of unions appears to increase compliance with the law (Better Work, 2020). However, the presence of multiple labor unions should not be mistaken for influence. The CNV (2021) reports that the right to strike and freedom of association continue to be curtailed. On the factory level, employers attempt to curtail union membership by offering employees short-term contracts beyond the two-year maximum to fire them (Human Rights Watch, 2015). Since the 1990s trade unions have been a focal point of political contention in Cambodia. Cambodia's People Party (CPP), the ruling party, passed several laws in 2013 that would prolong the process of union registration, in doing so giving factory management time for retaliatory measures. In 2014 the CPP allowed for the Labor Ministry to suspend union registration without judicial overview. More recently, Cambodia took steps with the trade union law in 2016 to establish and enhance collective bargaining and freedom of association for workers (Cambodia Government, 2016).

Even under improved rights for unions, non-compliance takes increasingly place in the form of employers attempting to control or marginalize the role of unions in their factories (Better Factories, 2018). Non-compliance in 2018 doubled to 8% of the observed factories compared

to the year before. This indicates that de jure rights do not equal de facto rights. Despite favorable legislation, unions have relatively little influence. The general trend is that unions either rely on government patronage or international trade unions for financial and organizational support (CNV, 2021). Exercising influence outside of these channels is difficult for unions, especially if their actions are perceived as oppositional or confrontational towards the CPP (CNV, 2021). Where unions fall short, grassroots movements take their place. The 2013 protests form an example of this. Garment workers mobilized in autonomous protests to voice their grievances, outside of the influence of unions (Lawreniuk, 2013). The protests were oftentimes met with violence (The Guardian, 2013).

3.2.0. Vietnam

3.2.1. Foreign Direct Investment

For the past decade, Vietnam's garment and footwear industry has been characterized by tremendous growth. It ranks as one of the fastest-growing countries in the garment and footwear sector. Between 2011-2016, growth rates averaged 18% (World Bank, 2019). The figures below illustrate the large amounts of goods produced in the garment and footwear sector. Both indicate an increase in items produced. These high growth rates can be attributed to the large FDI influx Vietnam has been experiencing. In 2018 exports in the garment sector increased by 79% and in the footwear sector by 60% due to FDI (World Bank, 2019). Despite its strong export position in the global economy, Vietnam faces a challenge with FDI dependency. Furthermore, despite high FDI inflow, the garment and footwear industry is characterized by low levels of productivity. Reports on the garment and footwear industry oftentimes point towards low productivity as an obstacle.

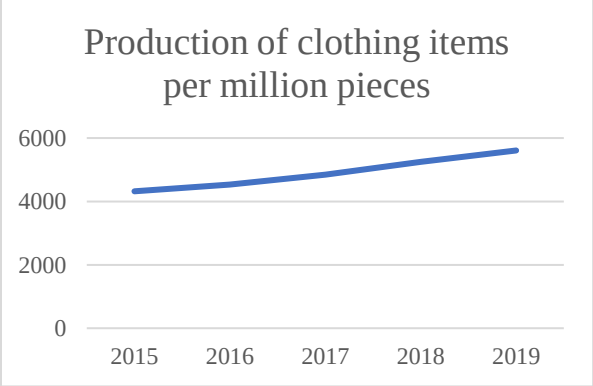

Figure 3. Vietnam General Statistics Office (2019)

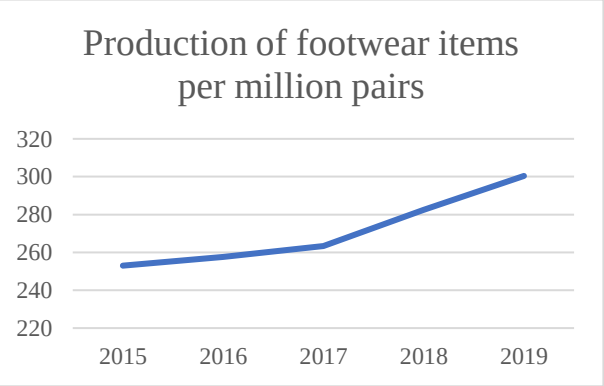

Figure 4. Vietnam General Statistics Office (2019)

Recent developments in trade somewhat appear to mitigate this negative outlook on Vietnam. With the ratification of the Europe-Vietnam Free Trade Agreement (EVFTA), the EU has

enhanced access to the Vietnamese market, leading to an increased FDI inflow. Similarly, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) provides all signatory parties with lower tariffs and better access to foreign markets. The European Chamber of Commerce (2019) underlines that the EVFTA will serve to integrate Vietnam into the global economy and enhance its economy in the process while promoting European values.

3.2.2. Wages

In Vietnam, wages are tied to a living wage as per the 2012 Labour Code (CNV, 2015). Despite wages being well above the world bank international poverty line, the minimum wage would still require a 25% increase to meet the living wage (Fair Labour Organization, 2019). To make up for this gap, workers oftentimes work overtime. The excessive amount of overtime is reported by several organizations to violate international standards. Better work Vietnam (2019) reports that 77% of observed factories do not comply with legal limits of work hours and overtime. The CNV (2015) reports that 36.1% of the workers exceed the 48-hour workweek limit. Despite widespread violations, overtime is generally paid accordingly (CNV, 2015). It is important to note that despite fast-growing wages, non-compliance with paying the minimum wage has been increasing since 2011 (Fair Wear Foundation, 2015 ; CNV, 2015).

At first, a race to the bottom does not seem to be present from wage data. However, taking into account the composition of the workforce shows a different side. Similar to Cambodia, a feminized workforce characterizes Vietnam: 81.6% of the garment workforce is female (CNV, 2015). In hiring women instead of men, firms attain comparative advantage exploiting the gender pay gap. The pay gap in Vietnam lies above that of Cambodia at 17%. Besides feminization, the composition of the workforce reveals other modes of comparative advantage: The Vietnamese workforce is young. Hiring young people means lower pay. One should note that other factors are at play in the workforce composition, but the ILO does state comparative advantage to be a factor in this occurrence (Better Work, 2019).

3.2.3. Core Labour Standards

Child labour

Laws on child labor in Vietnam are adequate and in line with international standards, but enforcement of laws is inconsistent (European Commission, 2019). Instances of child labor are primarily concentrated in the informal sector. Better Work Vietnam did not report any instance of child labor, but a survey on child labor found that 1.2% of child labor between the ages of 5-

11 occurs in the garment sector. Child labor primarily occurs due to a lack of reliable means to verify a worker's age, as false documentation is prevalent in Vietnam (worker rights consortium 2013; fair wear foundation, 2015; Better Work Vietnam, 2019).

Forced labour

In 2019 Vietnam had yet to ratify ILO Convention C105 on abolishing forced labor, but has expressed intent to do so. Vietnam has national legislation on forced labor, but enforcement of forced labor law is inconsistent. Reports on forced labor are sporadic. In 2014 the ILO found 3 instances of forced labour. In general no cases are found (CNV, 2015; better work Vietnam, 2019). Furthermore, forced work occurs in state-led rehabilitation centers where detainees perform manual labor against little or no compensation. This led the US in 2012 to add Vietnam to its list of products made with forced or child labor (Worker rights consortium, 2013).

Discrimination

Discrimination often is observed against women. This occurs in both hiring, promoting, and firing (European Commission, 2019). The 2012 labor code states that female employees have equal working rights, but this is not observed in practice. Employment of women is prohibited in 79 occupations (CNV, 2015). Factories oftentimes discriminate against pregnant women, with 3% requiring pregnancy tests or information on the use of contraceptives (Better Work Vietnam, 2019). Factories avoid paying maternity benefits by hiring women on a fixed-term contract of short duration. Contract renewals are refused for pregnant employees (worker rights consortium, 2013).

Occupational health and safety

Factories in Vietnam show many flaws in meeting health and safety requirements. Violations concentrate on providing unobstructed safety exits and providing safety gear (worker rights consortium, 2013; better work Vietnam, 2019). Despite laws being adequate, implementation and enforcement lack (European Commission, 2019). In 2014 a total of 6709 work-related accidents occurred with 630 dead. The garment and footwear sector accounted for 4.5% of these incidents with a 4.9% death toll. Apart from health and safety, workers report instances of verbal abuse and sexual assault (CNV, 2015; fair wear foundation, 2015).

3.2.4. Freedom of Association and Collective Bargaining

Trade union activity in Vietnam is determined by the Vietnam General Confederation of Labor (VGCL). Separate branches exist, but all fall under the VGCL (Benson & Zhu, 2008). The

constitution grants the protection of rights and legitimate interests of workers (Fair wear foundation, 2015). According to the labor code, trade union branches have the legal right to have a presence in all types of companies, both state-owned and privately or foreign-owned. Furthermore, employers are not allowed to hinder or discriminate against unions. Appearing positive on paper, a different reality emerges from reports on Vietnam. Better work (2019) does report that there is little hindrance for workers in joining unions and that there is a (simplistic) understanding of the rights and duties of workers. However, the structure of unions allows for corruption. The fair wear foundation (2015) reports that oftentimes union representatives are chosen among the higher ranks of employment, such as managers. This leads to employer domination of unions. Workers are not allowed to establish independent grassroot unions or NGOs as all unions are required to fall under the umbrella of the VGCL (worker rights consortium, 2013). Freedom of association is not allowed outside of the government union. The limited space for workers to show discontent within the union, leads to worker contestation outside of the state apparatus. The fair wear foundation (2015) reports 5000 strikes between 1995 and 2015. None of these strikes were legal or lead by the official union. 34% of these strikes emerged from the garment sector. Furthermore, unionization is far from even across sectors. In foreign-owned enterprises, levels of unionization are 33% (CNV, 2015) as opposed to 90% in state-owned enterprises (Benson & Zhu, 2008).

4.0. Discussion

After providing an analysis on the indicators relating to the race to the bottom, a thorough assessment is required to establish the presence of a race to the bottom in Cambodia and Vietnam. This section will assess similarities and differences to observe the presence of a pattern in line with the RTB. These findings will be compared to global trends. Then, factors of influence will be discussed, followed by relating the RTB thesis to neoliberal capitalism. It is important to place the observations on Cambodia and Vietnam in a global context to assess the RTB presence, or perhaps if observed occurrences are caused by other factors.

4.1. Race to the bottom in Cambodia and Vietnam

From the analysis follows that Cambodia and Vietnam to a large extent follow similar trajectories regarding the race to the bottom. In terms of wages, both countries have witnessed an increase in nominal wages but both do not meet the living wage. However, compared to other industries, garment workers have higher wages. Despite increasing wages, repression of labor costs occurs. This can be observed through the feminization of the workforce. In Cambodia 85% of the workforce is female. In Vietnam, this is 81.6%. Observed feminization of the workforce can serve as a comparative advantage for factories by exploiting the gender pay gap. Additionally, the workforce in Vietnam is relatively young, further repressing costs.

Analysis of core labour standards shows few instances of non-compliance. In both states, few instances of forced or child labor have been recorded and have decreased overtime. The occurrence of child labour should not be seen as indicating a race for the bottom, but as the result of poverty. Reports point towards factories possessing insufficient means to verify worker ages, and fake IDs are often used. This indicates that child labor originates on the family level, not the factory level. Non-compliance is higher for discrimination, primarily aimed at women. Factories avoid paying maternity leave by offering short-term contracts, which are annulled when employees become pregnant. Companies furthermore show a hiring bias towards women, exploiting the pay gap. Most violations are observed in occupational health and safety. In Cambodia, mass faintings have occurred over the years as a result of poor working conditions. Vietnam has experienced a broad range of workplace accidents due to substandard safety gear.

Although the union systems differ between Cambodia and Vietnam, one can observe similar patterns in attempts to suppress freedom of association and collective bargaining. In Cambodia, male workers, who are believed to be more likely to unionize, are offered short-term contracts which are annulled as unionization occurs. In Vietnam, union representatives are often elected

from within factory management, thus not representing workers. In recent years Cambodia has even further legislatively repressed labor and unions (Brown et al., 2007). Furthermore, non-compliance has increased in Cambodia over the past years. Thus indicating a discrepancy between de jure and de facto compliance.

4.2. Conditional trade deals

Apart from analyzed indicators, other variables emerge from the analysis. It is important to evaluate these variables, for they can significantly influence the context in which the RTB takes place. One of these variables is the presence of conditional trade deals. Cambodia is a signatory party to the Everything But Arms agreements, which provides the country with tariff-free exports to the EU market. The underlying condition is that Cambodia should uphold fundamental human and labor rights conventions (Lawreniuk, 2020).

To fully encapsulate the influence of trade deals such as the EBA, one should look at its effects on other countries. In 2017 the European Commission (EC) commenced enhanced engagement to facilitate Bangladesh to make progress on critical areas concerning 15 core human rights and labour rights conventions (2020). Since then, Bangladesh has made commitments to address ILO recommendations and has made amendments to its restrictive labor law. Vietnam is part of the EBA as well and additionally partakes in the EVFTA, aimed at enhancing its economy while simultaneously promoting European values in Vietnam. Comparing observations from Cambodia and Vietnam to Myanmar, which is not part of any conditional trade deals besides the ASEAN regional trade agreement (WTO, 2021), further corroborates the potential influence of conditional trade deals. A report by Action Labor Rights (2016) reveals there to be significant non-compliance with labor rights at almost 30% of observed factories. Additionally, 63% of the workers said that take-home pay was insufficient to live from. The higher levels of non-compliance in Myanmar compared to Cambodia and Vietnam could be explained by the lack of conditional trade deals providing an incentive to abide by labor laws. However, further research is required to establish a causal relationship.

The presence of these conditional trade deals potentially explains the general adherence to labor rights. If base conditions as measured per the indicators are met, Cambodia and Vietnam have market access. This serves as a mitigating factor in the RTB. Still facing pressures from other low-wage countries, Cambodia and Vietnam suppress labor costs in different ways while still adhering to the conditions of the trade deals in which the states partake.

4.3. Regime type

Another factor we might consider is regime type. Cambodia and Vietnam are authoritarian regimes. As described by Robertson et al. (2005), neoliberal reforms in oppressive regimes can create opportunities to suppress the population further to achieve competitiveness in the global market. Authoritarian regimes face fewer constraints in suppression, which may facilitate elites to engage in the RTB to capture rents from FDI. This would make authoritarian states more likely to utilize markets as means of entrenching power and enhancing wealth. Comparing Cambodia and Vietnam with semi-democracies and democracies such as Malaysia and Indonesia suggests regime type to be of no significant influence on engagement in the RTB: Reports on Indonesia show similar trends as observed in Cambodia and Vietnam. Wages have increased, but policy has been inadequate due to non-compliance. Violations oftentimes occurred in overtime (ILO, 2011; Fair Wear Foundation, 2019). In Indonesia, unionization is allowed, as is the right to strike and collective bargaining. However, the government has made attempts to curtail strikes and the influence of unions (Fair wear foundation, 2019). Similar developments are observed in Malaysia with regard to unions. Ethical trade (2019) reports that de jure rights are present in Malaysia, but violations of these rights occur frequently. Developments in both authoritarian and democratic states in SEA appear to be similar. Violations with regards to freedom of association and collective bargaining appear to be ubiquitous to both regime types. Further inquiry is necessary to assess the differences in gravity and frequency of violations between regime types.

5.0. Conclusion

This research has attempted to move beyond traditional scholarship on the race to the bottom by qualitatively assessing the influence of FDI on working conditions in Cambodia and Vietnam. Findings from the analysis indicate the complexity of arguments put forth and the interconnectedness of factors in the context of globalization. Macro trends in the global economy point to a race to the bottom between countries, through which countries compete to suppress labor costs through the composition of the workforce and tight control on union activity. As a result, many developing states find themselves in the middle-income trap, as economic activity involves low-value-added manufacturing and centers around low-skilled labor, limiting human capital to keep costs low.

However, Cambodia and Vietnam do show benefits associated with manufacturing; compared to other industries, workers in the garment and footwear industry on average earn more. Overtime regulations are exceeded but are on average paid accordingly. Furthermore, international attention to the garment and footwear sector has increased compliance with core labour standards. However, non-compliance is estimated to be much higher in industries not subject to international attention or subcontracted factories. This research argues that this may be attributed to international attention and incentives such as conditional trade deals. In order to confirm this hypothesis, further research should be conducted to rule out the influence of other factors. Furthermore, research should be conducted containing a larger amount of cases.

The top-down imposition of neoliberal capitalism in Southeast Asia has led to an emphasis on export-oriented growth as a mode of development. As a consequence, a two-sided reality has emerged: On the one side, economic growth, increased trade, and employment have been observed, but on the other side, growth has stagnated as states fail to transition beyond low-value-added manufacturing (Carroll, 2020). Forced liberalization has left developing states largely dependent on capital accumulation through FDI and trade. The race to the bottom thesis illustrates the complexities associated with neoliberal capitalism. This thesis argues that neoliberal development is not a one-size-fits-all policy. Therefore, future research should transcend beyond traditional economic indicators of development and turn to societal implications of neoliberal development instead.

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